Federal Home Loan Bank of Pittsburgh Third Quarter 2019 Member Conference Call

October 31, 2019, at 9 a.m. ET

WINTHROP WATSON

Good morning and thank you for attending our quarterly member call. I'm joined by Ted Weller, our Chief Accounting Officer, and Mark Evanco, our Senior Director of Business Development and Strategy. This morning we'll discuss the Bank's performance for the 3rd quarter of 2019 and key factors driving that performance.

Ted will review our financial results, Mark will discuss a variety of topics relevant to the membership, and we'll open the lines for any questions or comments you may have.

Our remarks will be accompanied by slides. If you cannot access the slides for any reason, please email "IR at f-h-l-b hyphen p-g-h dot com" right now and we'll forward them to you.

As always, please note that elements of this call are forward-looking, based on our view of broad housing, financial and other market conditions, and our business as we see it today. These elements can change due to changes in our business environment or in market conditions. Please interpret them in that light.

Please note that a transcript of this call will be available on our website later today.

This week's earnings release included the following highlights for third quarter 2019: net income of $70.3 million, net interest income of $109.1 million, advances at $70.3 billion, letters of credit at $18.6 billion, and retained earnings at $1.3 billion.

The Board declared dividends of 7.75 percent annualized on activity stock and 4.5 percent annualized on membership stock. These dividends were paid on Oct. 30.

The fundamentals of our business remain strong and have enabled us to deliver solid performance for the third quarter and first nine months of the year. In a few minutes, Mark will discuss several key efforts and initiatives that impacted our performance, but first, Ted will review the financial results in more detail. Ted . . .

TED WELLER

Thanks, Winthrop, and good morning. I am glad to be with you today to provide an overview of our financial results and the key drivers behind them.

Please note the disclaimer language contained on slide 4.

Moving to slide 5 of the presentation, the Bank recorded net income of $236.0 million for the first nine months of 2019 compared to $268.9 million in 2018. This decrease was primarily driven by lower other noninterest income.

Financial Highlights – Statement of Income

(in millions)

	Nine months ended Sept 30, 2019	Nine months ended Sept 30, 2018	Over/ (Under)
Net interest income	$ 349.6	$ 346.7	$ 2.9
Provision for credit losses	1.8	2.8	(1.0)
Other noninterest income (loss)	(14.0)	21.3	(35.3)
Other expense	70.4	66.3	4.1
Income before assessment	263.4	298.9	(35.5)
Affordable Housing Program (AHP) assessment	27.4	30.0	(2.6)
Net income	$ 236.0	$ 268.9	$ (32.9)
Net interest margin (bps)	45	49	(4)

Other noninterest income was a loss of $14.0 million in the first nine months of 2019, down $35.3 million compared to the first nine months of 2018. The decrease was primarily due to mark-to-market adjustments to derivatives and trading securities, which netted to a $31.9 million loss in 2019 compared to a $1.6 million gain in 2018.

For the first nine months of 2019, net interest income was $349.6 million, an increase of $2.9 million compared to $346.7 million for 2018. The year-over-year increase was primarily due to an increase in outstanding average advance balances and higher interest rates.

The net interest margin declined 4 basis points.

Other expense increased $4.1 million to $70.4 million for the first nine months of 2019 compared to the first nine months of 2018. The increase was primarily due to higher fees paid to the FHFA and Office of Finance, technology-related costs and contractual service fees.

These results allowed the Bank to set aside $27.4 million for affordable housing programs.

Please turn to the next slide.

Total average assets were $104.1 billion, up $8.3 billion or 9 percent due to a $4.6 billion or 24 percent increase in average investments and a $2.9 billion or 4 percent increase in average advances.

The 24 percent increase in average investments was primarily due to additional short-term liquidity balances.

At Sept. 30, 2019, total advances were $70.3 billion, down 15 percent from $82.5 billion at Dec. 31, 2018.

It is common for the Bank to experience fluctuation in the overall advance portfolio driven primarily by changes in member needs.

Retained earnings at Sept. 30, 2019, totaled $1.3 billion, an increase of $33 million from December 31, 2018, reflecting earnings for the first nine months of 2019 less dividends paid.

Please turn to slide 7. This slide provides a summary of the Bank's capital requirements.

At Sept. 30, 2019, the Bank continues to be in full compliance with all regulatory ratios, and permanent capital exceeds the risk-based requirement.

Also at Sept. 30, 2019, the ratio of Market Value of Equity to Capital Stock was 138.6 percent, up slightly from 134.0 percent at year-end 2018. The increase was primarily due to the growth in retained earnings and the decline in capital stock as a result of lower advances.

This concludes my presentation, and I will now turn the call back to Winthrop.

Financial Highlights – Selected Balance Sheet

(in millions)	Nine months ended Sept 30, 2019	2018	Over/(Under) Amount	Percent
Average:				
Total assets	$ 104,106	$ 95,787	$ 8,319	9 %
Advances	74,577	71,663	2,914	4
Total investments	23,812	19,211	4,601	24

(in millions)	Sept 30, 2019	Dec 31, 2018	Over/(Under) Amount	Percent
Spot:				
Advances	$ 70,326	$ 82,476	$ (12,150)	(15) %
Capital stock	3,373	4,027	(654)	(16)
Retained earnings	1,309	1,276	33	3

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Capital Requirements

(in millions)	Sept 30, 2019	Dec 31, 2018
Permanent capital	$ 5,025	$ 5,327
Excess permanent capital over RBC requirement	$ 4,227	$ 4,089
Regulatory capital ratio (4% minimum)	4.9%	5.0%
Leverage ratio (5% minimum)	7.3%	7.4%
Market value/capital stock (MV/CS)	138.6%	134.0%

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WINTHROP WATSON:

Thanks, Ted. Through the first nine months of the year, we have continued to demonstrate our ability to deliver value for our members. That value is created through member activity.

To talk more about the drivers of our performance and the issues affecting our business and our members, I'd like to turn the call over to Mark Evanco. Mark . . .

MARK EVANCO:

Thank you, Winthrop. Well, it continues to be a great quarter and great year for the co-op.

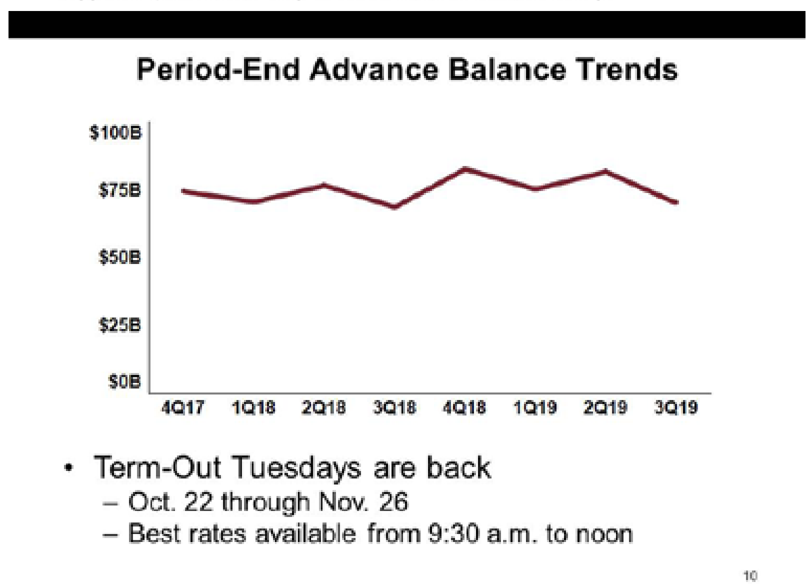
As you can see on slide 9, we have a very healthy $74.6 billion in average advances year-to-date through September. Roughly 80 percent of members have taken out an advance this year. We encourage members to exercise their borrowing abilities annually to make sure they can execute an advance quickly and efficiently if need be.

Letters of credit ended the third quarter at $18.6 billion and are near their peak as funds to municipalities typically surge this time of year.

The MPF program is also having a very strong year, with $753 million in fundings as of Sept. 30. Lower rates have led to an increased amount of new mortgage loans, both on the purchased side and the refinanced side.

Moving to slide 10, the co-op is designed to expand and contract as our members need us. Our capital structure allows us to meet your needs despite the quarterly volatility.

Periodically, we run advance specials designed to encourage borrowing activity. On Oct. 22, we introduced our latest Term-Out Tuesday special, with some very attractive rates. There are four weeks left in the special, and we encourage our members to take a look at these rates.



Slide 11 details some of our community investment programs, which are community grant and financing products funded by the Bank's cooperative activity. These products support revitalization in your communities.

This year, 165 Affordable Housing Program projects were submitted during the 2019 funding round. Approximately $34 million in funding is available, and the awarded projects will be announced on Dec. 19.

Our Home4Good product helps those who are homeless or at the risk of becoming homeless by channeling dollars to local service providers that are best positioned to help. More than $7 million in funding will be available through 2019, partnering with our state housing finance agencies. Nearly 200 applications were submitted, and we are currently in the process of evaluating each of those submissions. These awards will be announced later this year.

Moving to slide 12, the Bank has committed significant time and resources toward the transition from LIBOR to SOFR. We continue to offer floating rate SOFR advances, as well as those SOFR advances with return features.

The Federal Home Loan Bank System is the largest issuer of SOFR debt and we remain uniquely positioned to help shape the market for SOFR-indexed debt. Simultaneously, we are fully committed to supporting our members throughout the course of this transition.

Last month the Federal Housing Finance Agency issued a supervisory letter to all Federal Home Loan Banks. This letter requires that by March 31, 2020, the FHLBanks stop entering into new LIBOR-indexed instruments, including advances, with maturities beyond Dec. 31, 2021. Note, there may be some limited exceptions that may apply for risk-mitigation purposes.

The FHFA also directed the FHLBanks to update their pledged collateral certification reporting requirements by March 31, 2020.

We will continue to provide you with ongoing updates as new information becomes available.

Related, I would encourage you to visit the LIBOR Transition section of our website for additional information, reference materials and links to external resources.

Finally, on slide 13, the Bank periodically reviews its capital structure. Several years ago, we conducted a member-wide survey that focused on our dividend structure, and we did hear from many of you.

This year, we're taking an even deeper look at dividend levels, advance rates and a variety of other factors. How we manage our capital directly impacts our financial performance, our regulatory standing, our dividends and the value we deliver to our members.

We're currently gathering feedback through Advisory Board discussions, one-on-one outreach and through other insights we have received from our members. If you have thoughts you'd like to share, please don't hesitate to reach out to your Business Development Manager or to me directly.

Community Investment

- Affordable Housing Program (AHP):
  - 165 projects were submitted
  - Awards will be announced in December
- Home4Good:
  - $7 million commitment in 2019 among the Bank and three state housing finance agencies
  - Nearly 200 applications were submitted and are being evaluated
  - Awards will be announced in November and December

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LIBOR/SOFR Update

- Standard and returnable SOFR advances are available
- Over $150 billion in SOFR-indexed debt issued by FHLBank System
- Federal Housing Finance Agency (FHFA) Supervisory Letter, by Mar. 31, 2020:
  - No new LIBOR-indexed advances maturing after Dec. 31, 2021
  - Members can likely anticipate additional LIBOR-indexed collateral reporting requirements, along with our regular quarterly certification

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Capital Management

- FHLBank capital structure is different than a typical financial institution
- Capital management impacts:
  - Financial performance
  - Regulatory standing
  - Dividends
  - Value transfer to our members
- Member feedback

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As always, we appreciate your willingness to share your perspectives and truly appreciate your ongoing partnership and the confidence you continue to place in our co-op.

With that, I'll turn the call back to Winthrop . . .

WINTHROP WATSON:

Thanks, Mark. The third quarter was a continuation of the solid performance of our cooperative. As we look ahead to the remainder of the year and beyond, we are committed to supporting the needs of our members and the vitality of the communities our members serve.

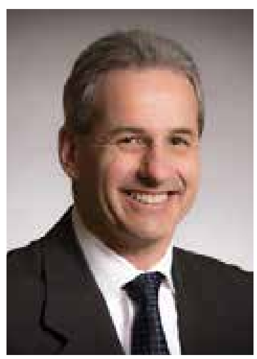
We'll open up the lines to your questions in just a moment, but before we do, I'd like to remind all members that the director election is currently open, but only for another week. The election window closes next Friday, Nov. 8, at 5 p.m.

This is your cooperative, and the director election is your opportunity to participate in its governance. If your institution hasn't voted yet, please be sure you do. Call your Business Development Manager if you have any questions or need instructions.

I'd like to thank everyone for attending today's call and for our members' continuing business and support. Please enjoy the rest of your day.

Winthrop Watson
President and
Chief Executive Officer

Edward Weller
Chief Accounting Officer



Mark Evanco
Senior Director,
Business Development and Strategy

Statements contained in this document, including statements describing the objectives, projections, estimates, or predictions of the future of the Federal Home Loan Bank of Pittsburgh (the Bank), may be "forward-looking statements." These statements may use forward-looking terms, such as "anticipates," "believes," "could," "estimates," "may," "should," "will," or their negatives or other variations on these terms. The Bank cautions that, by their nature, forward-looking statements involve risk or uncertainty and that actual results could differ materially from those expressed or implied in these forward-looking statements or could affect the extent to which a particular objective, projection, estimate, or prediction is realized. These forward-looking statements involve risks and uncertainties including, but not limited to, the following: economic and market conditions, including, but not limited to, real estate, credit and mortgage markets; volatility of market prices, rates, and indices related to financial instruments; political, legislative, regulatory, litigation, or judicial events or actions; changes in assumptions used in the other-than-temporary impairment (OTTI) process; risks related to mortgage-backed securities; changes in the assumptions used in the allowance for credit losses; changes in the Bank's capital structure; changes in the Bank's capital requirements; membership changes; changes in the demand by Bank members for Bank advances; an increase in advances' prepayments; competitive forces, including the availability of other sources of funding for Bank members; changes in investor demand for consolidated obligations and/or the terms of interest rate exchange agreements and similar agreements; changes in the Federal Home Loan Bank (FHLBank) System's debt rating or the Bank's rating; the ability of the Bank to introduce new products and services to meet market demand and to manage successfully the risks associated with new products and services; the ability of each of the other FHLBanks to repay the principal and interest on consolidated obligations for which it is the primary obligor and with respect to which the Bank has joint and several liability; applicable Bank policy requirements for retained earnings and the ratio of the market value of equity to par value of capital stock; the Bank's ability to maintain adequate capital levels (including meeting applicable regulatory capital requirements); business and capital plan adjustments and amendments; technology and cyber-security risks; and timing and volume of market activity. These uncertainties may cause our actual future results to be materially different than those expressed in our forward-looking statements. FHLBank Pittsburgh does not undertake to update any forward-looking statements made in this announcement.

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