Federal Home Loan Bank of Pittsburgh First Quarter 2018 Member Conference Call

May 1, 2018 at 9 a.m. ET

WINTHROP WATSON

Good morning and thanks for attending our quarterly member call. I'm joined by Kris Williams, our Chief Operating Officer, and Ted Weller, our Chief Accounting Officer. This morning we'll be talking about first quarter 2018, which was a strong quarter for the Bank.

Ted will discuss our financial results, then Kris will present information about Bank products and services that can help your business. And finally I'll return to welcome any questions or comments. Our remarks will be accompanied by slides. If you cannot access the slides, 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. Also note that a transcript of this call will be available on our website by tomorrow morning.

Last week's earnings release included the following highlights: net income of $78.9 million, advances of $70.3 billion, retained earnings of $1.2 billion and a set-aside of $8.8 million for affordable housing programs. The Board declared quarterly dividends of 6.75 percent annualized on activity stock and 3.50 percent annualized on membership stock. These dividends were paid on April 27.

First quarter was another good one for the Bank. We are pleased by our strong capitalization and solid, consistent performance, which enable us to achieve our mission every day. To review our financial performance in more detail, I'd like to turn the call over to Ted Weller, our Chief Accounting Officer. 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 2.

Moving to slide 3 of my presentation, the Bank recorded net income of $78.9 million in the first quarter of 2018 compared to $86.8 million in 2017. This decrease was primarily driven by lower other noninterest income, partially offset by lower other expenses. For the first quarter of 2018, net interest income was $109.6 million, an increase of $1.3 million compared to $108.3 million for the first quarter of 2017. The year-over-year increase was primarily due to higher interest rates.

Other noninterest income was $1.7 million in the first quarter of 2018, down $11 million compared to the first quarter of 2017. The decrease was primarily due to mark-to-market adjustments to derivatives and trading securities which netted to a $4.6 million loss in 2018 compared to a $6.7 million gain in 2017.

Other expenses decreased $3.3 million in the first quarter of 2018 compared to the first quarter of 2017. The decline was primarily due to lower compensation and benefits-related expenses. The net interest margin increased 1 basis point. These results allowed the Bank to set aside $8.8 million for affordable housing programs. Please turn to the next slide.

Financial Highlights – Statement of Income

(in millions)

	Three months ended March 31, 2018	2017	Over/ (Under)
Net interest income	$ 109.6	$ 108.3	$ 1.3
Provision for credit losses	2.4	-	2.4
Other noninterest income	1.7	12.7	(11.0)
Other expense	21.2	24.5	(3.3)
Income before assessment	87.7	96.5	(8.8)
Affordable Housing Program (AHP) assessment	8.8	9.7	(0.9)
Net income	$ 78.9	$ 86.8	$ (7.9)
Net interest margin (bps)	47	46	1

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Total average assets for 2018 were $95.7 billion, down $1.2 billion or 1% from 2017 primarily due to advance maturities. Average advances were $70.9 billion in 2018, a decrease of $3 billion or 4% from 2017. At March 31st, 2018, total advances were $70.3 billion, a decline of $4 billion from $74.3 billion at December 31, 2017. It's common for the Bank to experience variances in the overall advance portfolio driven primarily by changes in member needs. Retained earnings at March 31, 2018 totaled $1.2 billion, an increase of $22 million from December 31, 2017 reflecting earnings for the first quarter 2018 less dividends paid. Please turn to slide 5.

Financial Highlights – Selected Balance Sheet

(in millions)

	Three months ended March 31, 2018	2017	Over/(Under) Amount	Percent
Average:				
Total assets	$ 95,712	$ 96,917	$ (1,205)	(1) %
Advances	70,946	73,994	(3,048)	(4)
Total investments	19,979	18,171	1,808	10

(in millions)

	March 31, 2018	Dec 31, 2017	Over/(Under) Amount	Percent
Spot:				
Advances	$ 70,278	$ 74,280	$ (4,002)	(5) %
Capital stock	3,528	3,659	(131)	(4)
Retained earnings	1,180	1,158	22	2

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This slide provides a summary of the Bank's capital requirements. At March 31, 2018, the Bank continues to be in full compliance with all regulatory ratios, and permanent capital exceeds the risk-based requirement. Also at March 31, 2018 the ratio of Market Value of Equity to Capital Stock was 138.6%, up from 136.3% at year-end 2017. This increase was primarily due to the growth in retained earnings and the decline in capital stock balances as a result of lower advances. This concludes my presentation, and I'll now turn the call back to Winthrop.

Capital Requirements

(in millions)	March 31, 2018	Dec 31, 2017
Permanent capital	$ 4,713	$ 4,822
Excess permanent capital over RBC requirement	$ 3,391	$ 3,770
Regulatory capital ratio (4% minimum)	5.0%	4.8%
Leverage ratio (5% minimum)	7.6%	7.3%
Market value/capital stock (MV/CS)	138.6%	136.3%

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WINTHROP WATSON

Thanks Ted. As we've seen, our results were strong and we were pleased once again to pay dividends at 6.75% and 3.5%. We recognize that a predictable dividend is desirable to our membership, and we anticipate maintaining similar rates for dividends paid in 2018. At this time, I'd like to turn the call over to our Chief Operating Officer, Kris Williams. Kris…

KRIS WILLIAMS

Thanks Winthrop. As Ted just discussed, it was a strong quarter. Advances averaged nearly $71 billion and letters of credit ended the quarter at almost $19 billion. Your co-op is dependent on our members' business needs. The next slide is the member value proposition picture.

First Quarter Highlights

- A strong quarter for the co-op, built on member activity
- $71.0 billion average advances
- $18.8 billion LCs at 3/31/18
- Our business helps your business, and vice versa

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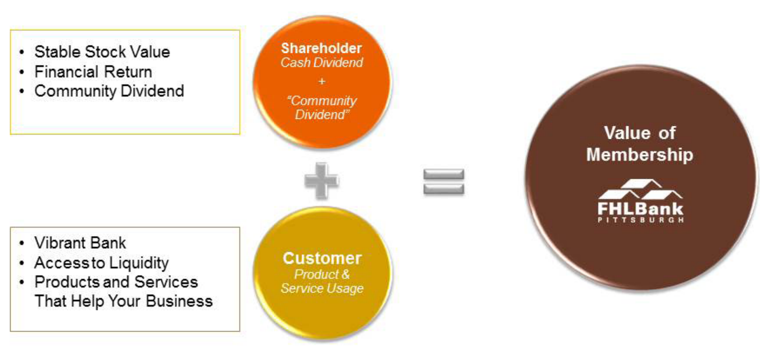
As a shareholder, dividends and stock value are important. And as a customer, products and services that help your business are key. Over the next couple of slides, we will take a quick look at one way to measure these attributes.

Membership Value Proposition



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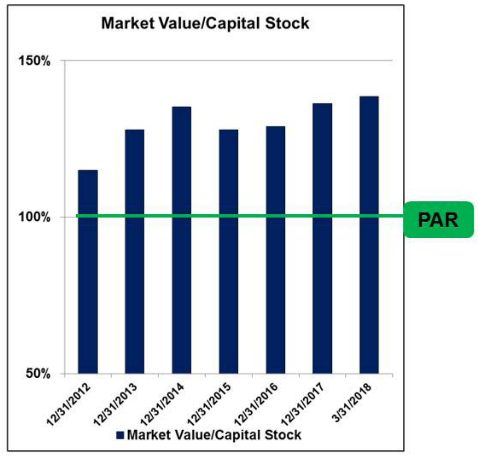
FHLBank stock value is par, and it trades at par, and we're focused on maintaining that par value. Market value has been above par since year-end 2011. Let's turn to the next page.

Stable Stock Value



- FHLBank stock always trades at par – our goal at all times is to maintain a market value above par
- When market value is above par and a new advance is executed, the purchase of capital stock at par reduces the total market value of the FHLBank's stock

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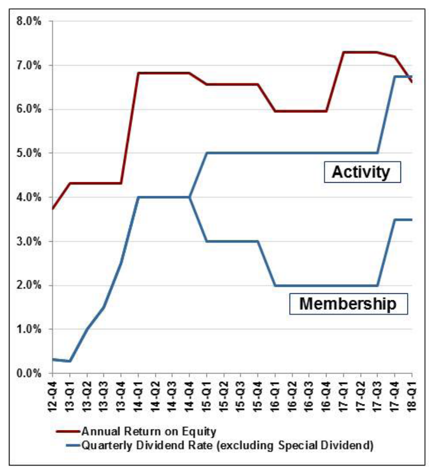
The red line is return on equity and it has been very strong for the last four years. It dipped slightly in first quarter of '18 as Ted discussed earlier. The dividend is the blue line. We know a reliable dividend is important and we hope you are pleased with our 2018 membership and activity cash dividend levels. The next page talks about the community dividends.

Financial Return



- Return on equity has improved over the past four years and remains at a strong level
- 2017, 2016 and 2015 results were generated from member activity, whereas 2014 benefited from litigation gains
- A reliable dividend is important to membership value
- We anticipate maintaining similar rates for dividends paid in 2018

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Community dividends are defined as: the funds allocated every year, the products that are available, the business advantages to our membership, the community needs that are served and the impact on people and communities in total. A few of our key products are highlighted on this slide. The First Front Door, our first-time homebuyer grant program, has $11.8 million available for 2018. There's been a lot of interest in this program this year and funds are going fast. The second one is Banking On Business, that's our small business product. We have $6 million available during 2018. And finally, the Affordable Housing Program opens June 18 with $30 million available.

Community Dividends

- First Front Door
  - Now open – $11.8 million available for 2018
  - Don't delay!
- Banking On Business
  - Now open – $6 million available for 2018
  - $600,000 initial cap per member until August 31, then lifted if funding remains available
- Affordable Housing Program
  - Opens June 18 – $30 million available for 2018

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And new for 2018 on the next slide is our Home4Good product. They are grants to combat homelessness. The Board committed $4.8 million in 2018 for this initiative. We are partnering with state housing finance agencies, and applications will be accepted through our members. More information will be available this summer. Now let’s transition to the customer value.

New Community Dividend in 2018: Home4Good

- Grants to combat homelessness
  - Those who are homeless
  - Those at risk for becoming homeless
- Board commitment: $4.8 million in 2018
- Partnering with state housing finance agencies
  - Applications through members
  - Coordination through Continuums of Care
- Look for it this summer!

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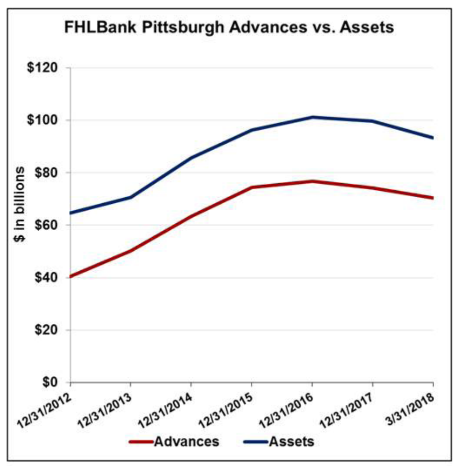
Vibrant bank is a key attribute. Vibrancy is driven by member activity. The graph shows advances because it’s our largest product and largest asset. The remaining products are on an upcoming slide. Advances have seen significant growth over the last several years; however, their on-going level are dependent on member needs and market forces, making advances volatile and hard to predict. The bottom line is, we expect advances to fluctuate both up and down.

Vibrant Bank



- FHLBank vibrancy is driven by member activity with the Bank
- Advances have seen significant growth
- The Mortgage Partnership Finance® (MPF ®) Program continues to grow year over year
- Increase in letter of credit users across the membership

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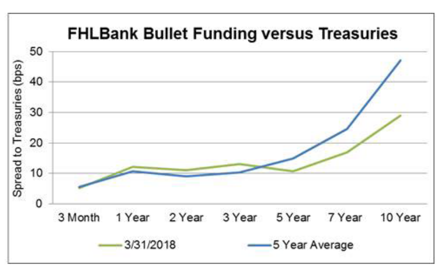
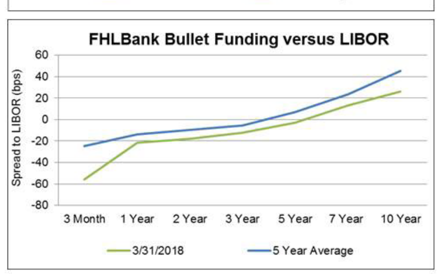
"Mortgage Partnership Finance" and "MPF" are registered trademarks of the Federal Home Loan Bank of Chicago

Let’s now talk about access to liquidity. Your access to liquidity is also an important part of member value and is dependent on our ability to issue debt in the capital markets at an attractive price. The two charts on this page show funding levels versus Treasuries and LIBOR. March 31, 2018 levels are in green and the 5-year average is in blue. The current levels are attractive for term borrowings.

Access to Liquidity





- Attractive advance pricing depends on the FHLBank’s ability to raise attractively priced funding in the capital markets
- Current FHLBank funding spreads versus Treasuries remain tight across the curve when compared to the longer term average of spreads and very attractive beyond 5 years.
  - The shape of the curve is favorable for term advances
- FHLBank floating-rate funding is currently pricing well relative to LIBOR

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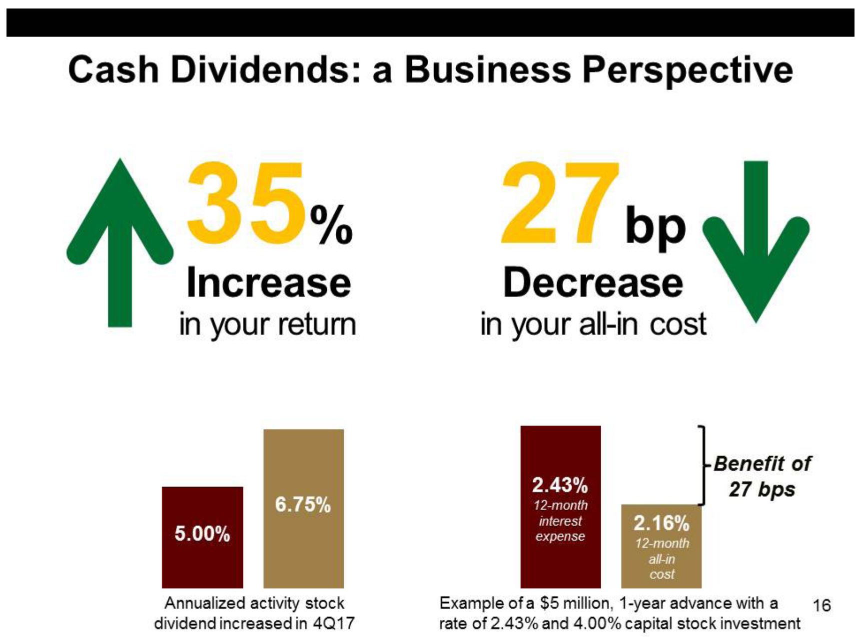
Now let’s go to the next slide. I wanted to spotlight our recent Term-Out Tuesday results. Twenty-three members took advantage of the special rates offered during February and March of 2018, with advance terms ranging from 18 months to five years. Also noted on this slide is our letter of credit product, which is a great alternative to pledging securities to secure public deposits.

And I will finish my presentation with a slide showing the impact of the activity dividend, which increased 35% over last year, which effectively drops the price of your advance by 27 basis points. That concludes my remarks, and I will now turn the call back over to Winthrop. Winthrop…



WINTHROP WATSON

Thanks Kris. Before I open the microphones for your questions, I'd like to mention a topic of importance to many of our members and stakeholders.

Our regulator, the Federal Housing Finance Agency, recently published proposed amendments to the regulation governing the Affordable Housing Program. These amendments offer benefits to AHP, to be sure, but they also pose challenges.

The main challenge is a change to the methodology used to award the AHP funds that would add complexity to our current method, which has been simple, transparent, and successful for 28 years. The practical result of this change would be: reduced flexibility to meet regional needs, less transparency in the selection process, and preferences for certain types of projects.

The FHFA has invited comments on the proposed amendments, and Chairman Watt personally informed me that the agency is open to hearing the issues and concerns raised. Therefore, we encourage you to do two things. First, learn how the proposed amendments could affect you and your community. John Bendel, our senior director of Community Investment, sent a letter about this to the community investment contacts at our member institutions, which includes a summary. I ask you to read it, and, if you have questions, feel free to reach out to John or anyone on his staff for help.

Second, make your voice heard. Please write to the FHFA to express your opinions. The comment period is open now through June 12. John's letter includes information on how to submit your letter online or by mail. If you need a copy of John's letter, please reach out to John, your relationship manager, or call my office and we'll direct you. You can also visit the AHP page of our website for information.

AHP is one of the most significant parts of your community dividend, and you have an important opportunity to influence its future. I encourage you to take advantage of it: your opinion matters.

Finally, I'd like to thank all who participated in our biennial member satisfaction survey. As we await the results, which are being compiled now, you can be certain we take your opinions seriously. I'd like to thank you for attending today's call and for your continuing business and support. Enjoy the rest of your day.

Winthrop Watson
President and
Chief Executive Officer

Edward V. Weller
Chief Accounting Officer

Kris Williams
Chief Operating Officer

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