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

October 31, 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 discuss the Bank's performance for the third quarter of 2018 and key factors driving that performance.

Ted will review our financial results, Kris 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" 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 later today.

This week's earnings release included the following highlights for third quarter 2018:

- Net income of $98.5 million
- Net interest income of $120.1 million
- Advances at $68.3 billion
- Letters of credit at $21 billion
- And retained earnings at $1.3 billion

The Board declared dividends of 6.75 percent annualized on activity stock and 3.5 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 another quarter of solid performance. In a few minutes, Kris 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'm 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 $268.9 million for the first nine months of 2018, compared to $258.7 million in 2017. This increase was primarily driven by higher net interest income, partially offset by lower other noninterest income.

For the first nine months of 2018, net interest income was $346.7 million, an increase of $18.7 million compared to $328.0 million for 2017. The year-over-year increase was primarily due to higher interest rates.

The net interest margin increased 3 basis points.

Other noninterest income was $21.3 million in the first nine months of 2018, down $4.9 million compared to the first nine months of 2017. The decrease was primarily due to mark-to-market adjustments to derivatives and trading securities, which netted to a $1.6 million gain in 2018 compared to a $7.5 million gain in 2017.

These results allowed the Bank to set aside $30.0 million for affordable housing programs.

Financial Highlights – Statement of Income

(in millions)	Nine months ended Sept 30, 2018	2017	Over/ (Under)
Net interest income	$ 346.7	$ 328.0	$ 18.7
Provision for credit losses	2.8	-	2.8
Other noninterest income	21.3	26.2	(4.9)
Other expense	66.3	66.7	(0.4)
Income before assessment	298.9	287.5	11.4
Affordable Housing Program (AHP) assessment	30.0	28.8	1.2
Net income	$ 268.9	$ 258.7	$ 10.2
Net interest margin (bps)	49	46	3

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Please turn to the next slide.

Total average assets for 2018 were $95.8 billion, down $1.3 billion or 1 percent from 2017 primarily due to advance maturities. Average advances were $71.7 billion in 2018, a decrease of $1.6 billion or 2 percent from 2017.

At Sept. 30, 2018, total advances were $68.3 billion, down 8 percent from $74.3 billion at Dec. 31, 2017.

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

Retained earnings at Sept. 30, 2018, totaled $1.3 billion, an increase of $97 million from Dec. 31, 2017, reflecting earnings for the first nine months of 2018 less dividends paid.

Financial Highlights – Selected Balance Sheet

(in millions)	Nine months ended Sept 30, 2018	2017	Over/(Under) Amount	Percent
Average:				
Total assets	$ 95,787	$ 97,109	$ (1,322)	(1) %
Advances	71,663	73,237	(1,574)	(2)
Total investments	19,210	19,007	203	1

(in millions)	Sept 30, 2018	Dec 31, 2017	Over/(Under) Amount	Percent
Spot:				
Advances	$ 68,301	$ 74,280	$ (5,979)	(8) %
Capital stock	3,547	3,659	(112)	(3)
Retained earnings	1,255	1,158	97	8

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Please turn to slide 5.

This slide provides a summary of the Bank's capital requirements.

At Sept. 30, 2018, the Bank continues to be in full compliance with all regulatory ratios and permanent capital exceeds the risk-based requirement.

Also at Sept. 30, 2018, the ratio of Market Value of Equity to Capital Stock was 140.3 percent, up from 136.3 percent 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. I will now turn the call back to Winthrop.

Capital Requirements

(in millions)	Sept 30, 2018	Dec 31, 2017
Permanent capital	$ 4,826	$ 4,822
Excess permanent capital over RBC requirement	$ 3,601	$ 3,770
Regulatory capital ratio (4% minimum)	5.2%	4.8%
Leverage ratio (5% minimum)	7.7%	7.3%
Market value/capital stock (MV/CS)	140.3%	136.3%

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WINTHROP WATSON

Thanks, Ted. Through the first nine months of the year, we have demonstrated our ability to deliver value for our members. That's the reason we exist. And we appreciate the confidence you place in us as we work together for our collective success.

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 Kris Williams.

Kris . . .

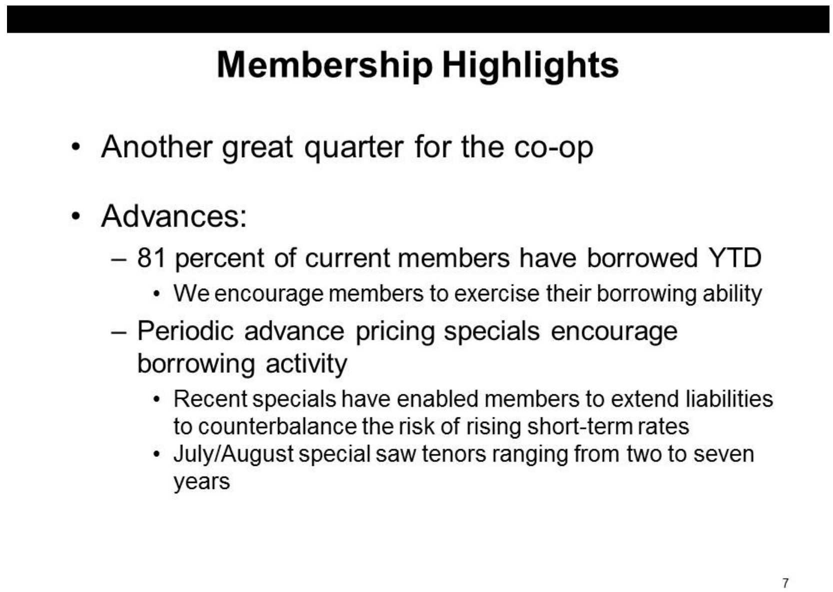
KRIS WILLIAMS

Thanks, Winthrop. It certainly was another great quarter for the co-op.

Advances: while both average and spot balances are down, as noted in Ted's slides, the Bank is still thriving. Your co-op is specifically designed to expand and contract as you need us. We are thrilled that 81 percent of our current members have borrowed on a year-to-date basis.

Periodically, we run advance specials, which are designed to encourage borrowing activity.

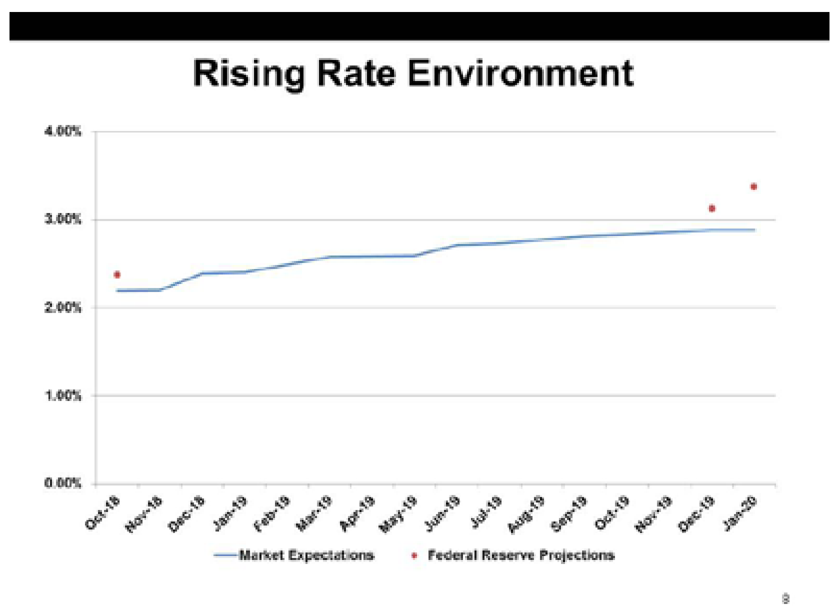
We saw such activity in July and August, with tenors ranging from two to seven years, and we also ran a special at the beginning of October that helped several of our members.



Turning to the next slide . . .

The Fed funds effective rate is up 100 basis points since last year. And, as the graph indicates, Fed funds futures and the Fed dot plot expect additional moves upward.

To help our members in this rising-rate environment, we developed a breakeven calculator discussed on the next slide.



This calculator was designed to determine when it is most efficient to roll overnight advances vs. term borrowings. You control the assumptions.

We've rolled out this calculator, and we've gotten great feedback from our members thus far.

Another key liquidity-management tool is our collateral stress test. We have the ability to stress your collateral values, and it's great for liquidity planning. I encourage you to contact your Business Development Managers to get more information on both.

New Member Liquidity Management Tools

- Breakeven Calculator:
  - Compares cost/benefit of rolling overnight advances against term borrowing
  - Member controls the inputs/assumptions
    - Advance term, rate, speed and timing of anticipated Effective Fed Funds rate hikes/cuts, etc.
- Collateral Stress Analysis:
  - Demonstrates impact to loan collateral lending value under a stress scenario
- More information is available through your Business Development Manager

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A few other member highlights include our letter of credit product, which is primarily used to secure public unit deposits above the FDIC limit. It has seen growth and increase in usage across the membership.

MPF, our Mortgage Partnership Finance Program, is also having a strong year. I wanted to note that we will purchase seasoned loans under certain conditions.

Membership Highlights

- Letters of Credit (LCs):
  - Up $2.4 billion from June 30
  - New user increase of 12 percent
- Mortgage Partnership Finance® (MPF®) Program:
  - $738 million in MPF fundings from our members through September 30
  - The Bank may purchase seasoned loans through the MPF Traditional Program
    - Up to 24 payments applied
    - Individual loans or pools

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And finally, let's take a look at our community dividend. Applications are in and being evaluated for our Affordable Housing Program. We expect award announcements on Dec. 13.

Additionally, our Home4Good, our new homeless grant program, is also in the evaluation phase, and awards should be announced in the fourth quarter.

Lastly, I'd like to thank you for your business, which drives the success of your co-op.

Now, back to Winthrop . . .

Membership Highlights

- Affordable Housing Program (AHP):
  - Submissions were due by August 9
  - 156 applications submitted and being assessed
  - Awards will be announced December 13
- Home4Good:
  - New Community Dividend
  - $7.05 million commitment in 2018 among the Bank and our three state housing finance agencies
  - 170 applications submitted and being evaluated
  - Awards will be announced in fourth quarter

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WINTHROP WATSON

Thanks, Kris. Your comments are a great illustration of the scope of activity and effort that drove our performance for the quarter, as well as our ongoing commitment to supporting the needs of our members.

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 a few more days. The election window closes next Monday, Nov. 5, 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 V. Weller
Chief Accounting Officer

Kris Williams
Chief Operating Officer

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