

Federal Home Loan Bank of Pittsburgh Second Quarter 2017 Member Conference Call

August 1, 2017 at 9 a.m. EST

WINTHROP WATSON

Good morning and thanks for attending our quarterly member call. I'm joined by our Controller, Jim Loutzenhiser, who's pinch-hitting for Ted Weller today. This morning we'll be discussing 2nd quarter 2017, which was another strong quarter for the Bank.

Jim will review our financial results, then I'll return to welcome any questions or comments. (stop)

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 later today.

Last week's earnings release included the following highlights for second quarter 2017:

- Net income of \$88 million
- Net interest income of \$110.4 million
- Advances of \$74.1 billion
- Letters of credit at \$19.5 billion
- And retained earnings at \$1.1 billion

The Board declared dividends of 5 percent annualized on activity stock and 2 percent annualized on membership stock. These dividends were paid on July 28.

It was an extremely strong quarter, highest in nine years. It's especially gratifying that our performance was driven by member activity, which of course is the key focus of our mission. Our average quarterly advances, at \$73 billion, were second only to last quarter's as the highest in the Bank's 85-year history. In addition, the Bank continues to experience favorable funding conditions that enhance financial performance.

To review our financial performance for the first half of 2017 in more detail, I'd like to turn the call over to our Controller Jim Loutzenhiser. Jim...

JIM LOUTZENHISER

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 \$174.8 million for the first six months of 2017 compared to \$123.5 million for the same period in 2016. This increase was primarily driven by higher net interest income.

Net interest income was \$218.7 million, an increase of \$43.7 million compared to \$175.0 million for the first six months of 2016.

The year-over-year increase was primarily due to improved funding costs and higher average advance balances. The net interest margin increased significantly, 7 basis points, primarily due to the improved funding costs.

All other income was \$19.7 million for the first six months of 2017, up \$30.2 million compared to the same period in 2016. The increase was primarily due to mark-to-market adjustments to derivatives and trading securities, which netted to a \$7.7 million gain in 2017 compared to a \$23.8 million loss in 2016.

Total other expense increased \$4.6 million for the first six months of 2017 compared to the first six months of 2016. The increase was primarily due to higher compensation and benefits related expenses.

These results allowed the Bank to set aside \$19.5 million for affordable housing programs.

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Total average assets for 2017 were \$96.7 billion, up 6% from 2016 due to growth in advances. Average advances were \$73.5 billion in 2017, an increase of \$5.4 billion or 8% from 2016.

At June 30, 2017, total advances were \$74.1 billion, a decrease of \$2.7 billion from the record \$76.8 billion at December 31, 2016.

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

Retained earnings at June 30, 2017 totaled \$1.1 billion, an increase of \$91 million from December 31, 2016, reflecting earnings for the first six months of 2017 less dividends paid.

Capital Requirements

<i>(in millions)</i>	June 30, <u>2017</u>	Dec 31, <u>2016</u>
Permanent capital	\$ 4,815	\$ 4,747
Excess permanent capital over RBC requirement	\$ 3,865	\$ 3,839
Regulatory capital ratio (4% minimum)	4.8%	4.7%
Leverage ratio (5% minimum)	7.2%	7.0%
Market value/capital stock (MV/CS)	133.4%	128.9%

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Financial Highlights – Selected Balance Sheet

<i>(in millions)</i>	Six months ended		Over/(Under)	
	June 30, <u>2017</u>	June 30, <u>2016</u>	Amount	Percent
<u>Average:</u>				
Total assets	\$ 96,721	\$ 91,650	\$ 5,071	6 %
Advances	73,472	68,029	5,443	8
Total investments	18,482	19,132	(650)	(3)

<i>(in millions)</i>	June 30, <u>2017</u>	Dec 31, <u>2016</u>	Over/(Under)	
			Amount	Percent
<u>Spot:</u>				
Advances	\$ 74,080	\$ 76,809	\$ (2,729)	(4) %
Capital stock	3,733	3,755	(22)	(1)
Retained earnings	1,077	986	91	9

Please turn to slide 5

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

At June 30, 2017, the Bank continues to be in full compliance with all regulatory ratios, and permanent capital exceeds the risk-based requirement.

Also at June 30, 2017, the ratio of Market Value of Equity to Capital Stock was 133.4%, up from 128.9% at year-end 2016 primarily due to interest rate changes and the increase in retained earnings.

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

WINTHROP

Thanks Jim. There's no question that the first half of 2017 has been tremendous for our cooperative. As always, we appreciate your business, which continues to fuel our success.

Speaking of your business, I'd like to remind you that Term-Out Tuesdays are back, due to member demand, every Tuesday through August 22.

Contact your relationship manager for additional details. Now may be a good time to consider extending liabilities

Before I open the lines for your questions, I'd like to comment briefly on two subjects of importance to you as shareholders.

First is the director election. As you may know, nominations closed last Friday, July 28th, and now the dates to keep in mind are October 6 and November 6.

October 6 is when the ballots are distributed and the election site opens, and November 6 is when the ballots are due back and the election site closes. We appreciate your continued interest in the composition of your Board of Directors.

The second topic is the dividend. In preparation for discussions later this year, we sent a 1-question survey to our membership. The question was whether you'd prefer a consistent dividend in the form of a stated percentage as now, or a target spread to a market rate, such as LIBOR.

I'd like to thank everyone who has already responded. Please note that the survey closes August 4, so if you haven't responded yet, there's still time. Reach out to your relationship manager if you have questions.

As a normal course of business, management and the Board review our capital and dividend structure from time to time. This information will be helpful in those discussions.

Finally, I'll close my remarks with the success of our first-time homebuyer program, First Front Door, which closed on July 3. Member utilization continued to grow as 54 members reserved a record \$9 million in funds for 1,901 first-time homebuyers, an all-time high. The First Front Door grants are profoundly important to these new homeowners – we can all take pride in these results.

We are now ready to take any questions you may have. Melinda, please open the lines.

WINTHROP

Melinda, it appears there are no questions remaining. I'd like to thank you for attending today's call and for your continuing business and support. Enjoy the rest of your day.

Financial Highlights – Statement of Income

<i>(in millions)</i>	Six months ended June 30,		Over/ (Under)
	2017	2016	
Net interest income	\$ 218.7	\$ 175.0	\$ 43.7
Provision (benefit) for credit losses	(0.1)	0.4	(0.5)
Realized gains from sales of AFS securities	-	12.7	(12.7)
All other income (loss)	19.7	(10.5)	30.2
Other expenses	44.2	39.6	4.6
Income before assessment	194.3	137.2	57.1
Affordable Housing Program (AHP) assessment	19.5	13.7	5.8
Net income	<u>\$ 174.8</u>	<u>\$ 123.5</u>	<u>\$ 51.3</u>
Net interest margin (bps)	46	39	7



Winthrop Watson
President and
Chief Executive Officer



Jim Loutzenhiser
Controller

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