FHLBank PITTSBURGH

Full Year 2019 Member Conference Call

February 25, 2020, at 9 a.m. Eastern

Winthrop Watson

Good morning. This is Winthrop Watson, and I would like to thank you for joining our quarterly member call. Today I am joined by Ted Weller, our Chief Accounting Officer. Together, Ted and I will discuss the Bank's full-year 2019 performance and provide insight into 2020.

I will begin today's call by discussing our recent Board of Director and executive changes. Ted will then follow with the Bank's 2019 financial highlights. After that, I will review the key business drivers in 2019 and provide insight into our outlook for this year.

Agenda

- Board and executive changes
- 2019 financial highlights
- 2019 review
  - Business highlights
  - Historical trends
  - Dividends
- Outlook
  - Financial drivers
  - LIBOR transition
  - Collateral considerations
  - Important dates/events

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Finally, we'll open the line to any questions or comments that you may have.

Our remarks will be accompanied by slides. If you are unable to access our slides, please email "i-r (at) f-h-l-b (hyphen) p-g-h (dot) com" and we'll send 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.

Before we review our financial performance, I want to highlight a few recent Board and executive management changes. On our Board, long-time Board member Brad Ritchie was elected Chair, and Louise Herrle was elected Vice Chair.

Board and Executive Changes

- Board of Directors
  - Chair, Brad Ritchie
  - Vice Chair, Louise Herrle
- Executive
  - Chief Operating Officer, David Paulson
  - Chief Technology and Operations Officer, John Cassidy

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Brad is President of Summit Community Bank in Moorefield, West Virginia, and has served on our Board for over 9 years. He has been continually highly engaged and thoughtful in his contributions to the Board.

Louise served as the Treasurer for the Federal Home Loan Bank of Pittsburgh for several years prior to joining Freddie Mac. She served most recently as Managing Director, Capital Markets at Incapital LLC.

The Board and I are very pleased to have their leadership.

I would also like to thank former Chair, Pat Bond, and former Vice Chair, Lynda Messick, for their dedicated service to the Board over the last several years.

On our executive team, many of you know that Kris Williams left the Bank on January 3 after being named President and CEO of the Federal Home Loan Bank of Des Moines. I am thankful for Kris' contributions to the Bank over her 15-year tenure and will miss her tremendous energy and passion.

I look forward to working with Kris, in her new role, on Federal Home Loan Bank System initiatives.

Following Kris' departure, David Paulson was named Chief Operating Officer. Dave retains the responsibilities of his former Chief Financial Officer role, which he assumed in 2013, and takes on the added responsibility of the Bank's Membership teams, which include business development and strategy.

Dave joined the Bank in March 2010 as Director, Mortgage Finance and Balance Sheet Management, and has also served as the Bank's Managing Director of Capital Markets.

Additionally, John Cassidy was named Chief Technology and Operations Officer. John retains the responsibilities of his former Chief Information Officer role and gains oversight of the Bank's member services and operations teams.

John joined the Bank in 1999 and has managed all aspects of the Bank's information technology and cybersecurity through several roles, including Director of Business Solutions and IT Director.

I am thrilled to have both Dave and John serving in their respective capacities.

And now, to review our financial performance, I'd like to turn the call over to Ted.

Ted Weller

Thanks, Winthrop, and good morning. I am glad to be with you today to provide an overview of our 2019 financial results and the key drivers behind them.

Please note the disclaimer language contained on slide 6.

Moving to slide 7 –

The Bank recorded net income of $316.9 million for 2019 compared to $347.2 million in 2018.

Financial Highlights – Statement of Income

(in millions)

	Year ended December 31, 2019	Year ended December 31, 2018	Over/ (Under)
Net interest income	$ 453.8	$ 470.1	$ (16.3)
Provision for credit losses	1.3	3.1	(1.8)
Other noninterest income	3.0	11.0	(8.0)
Other expense	101.5	92.1	9.4
Income before assessment	354.0	385.9	(31.9)
Affordable Housing Program (AHP) assessment	37.1	38.7	(1.6)
Net income	$ 316.9	$ 347.2	$ (30.3)
Net interest margin (bps)	45	49	(4)

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This decrease was driven by lower net interest income, higher other expense, and lower other noninterest income.

Net interest income was $453.8 million, a decrease of $16.3 million compared to $470.1 million for 2018. The year-over-year decrease was primarily due to increased interest expense on mandatorily redeemable capital stock.

The net interest margin decreased 4 basis points.

Other expense increased $9.4 million to $101.5 million for 2019 compared to $92.1 million in 2018. The increase was primarily due to increases in compensation and benefits, higher technology-related costs, and higher fees paid to the FHFA and Office of Finance.

Other noninterest income was $3 million for 2019, down $8 million compared to 2018. The decrease was primarily due to mark-to-market adjustments to derivatives and trading securities, which netted to a $21.1 million loss in 2019 compared to a $14.2 million loss in 2018.

These results allowed the Bank to set aside $37.1 million for affordable housing programs.

As you'll see on the next slide –

Total average assets were $102.5 billion, up $5.8 billion, or 6 percent, due to a $5.3 billion, or 28 percent, increase in average investments.

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

Average advances were $72.2 billion in 2019, relatively unchanged from 2018.

At December 31, 2019, total advances were $65.4 billion, down 21 percent from $82.6 billion at December 31, 2018.

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

Retained earnings at December 31, 2019, totaled $1.3 billion, an increase of $50 million from December 31, 2018, reflecting earnings for 2019 less dividends paid.

Financial Highlights – Selected Balance Sheet

(in millions)

	Year Ended December 31,		Over/(Under)	
	2019	2018	Amount	Percent
Average:				
Total assets	$ 102,465	$ 96,618	$ 5,847	6 %
Advances	72,173	72,374	(201)	-
Total investments	24,546	19,233	5,313	28

(in millions)

	As of December 31,		Over/(Under)	
	2019	2018	Amount	Percent
Spot:				
Advances (par)	$ 65,439	$ 82,598	$ (17,159)	(21) %
Capital stock	3,055	4,027	(972)	(24)
Retained earnings	1,326	1,276	50	4

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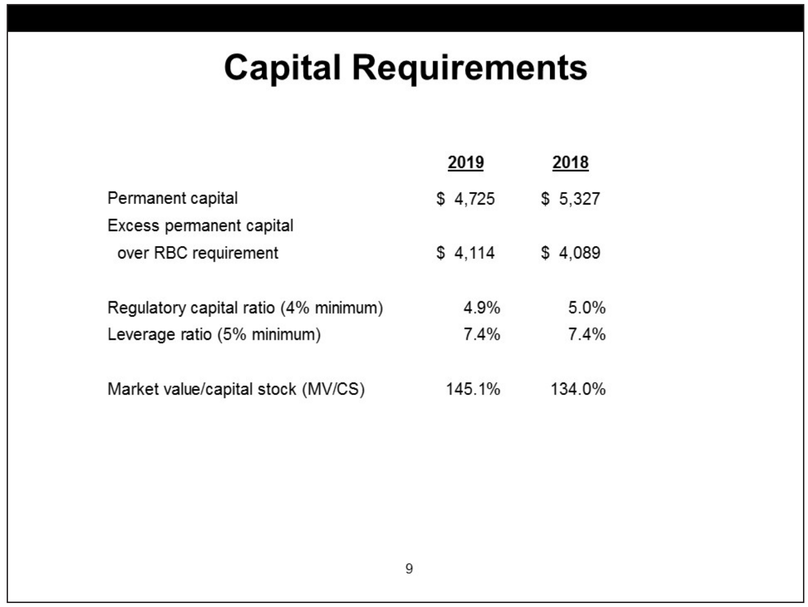
Moving on to slide 9 –

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

At December 31, 2019, the Bank continues to be in full compliance with all regulatory ratios, and permanent capital exceeds the risk-based requirement.

Also, at December 31, 2019, the ratio of Market Value of Equity to Capital Stock was 145.1 percent; up from 134 percent at year-end 2018. The increase was primarily due to the decrease in capital stock as a result of lower advances at year-end.

This concludes this portion of the presentation, and I'll now turn the call back over to Winthrop.



Winthrop Watson

Thank you, Ted.

These results demonstrate the solid, consistent performance that enables us to support our members and our mission.

Now, I want to highlight some of the key 2019 business accomplishments.

The Bank achieved its third-highest average advance balance of $72.2 billion. This is reflective of our members' reliance on the Bank as a consistent and stable source of funds.

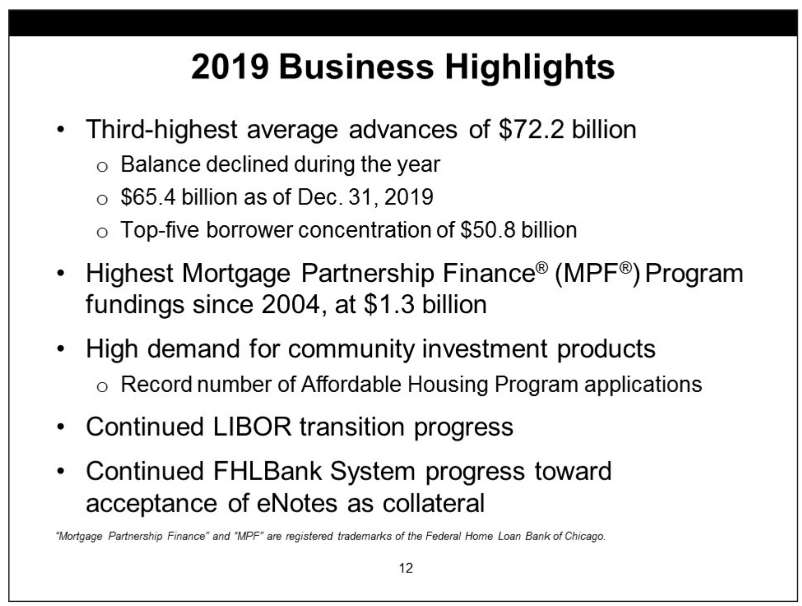
Advance balances declined throughout the year and settled at $65.4 billion at December 31. It is important to acknowledge that a significant portion of these advances were held by our top five borrowers, who had a total of $50.8 billion, or 78 percent, of total advances at year-end.

Our Mortgage Partnership Finance Program recorded its highest funding level since 2004, at $1.3 billion.

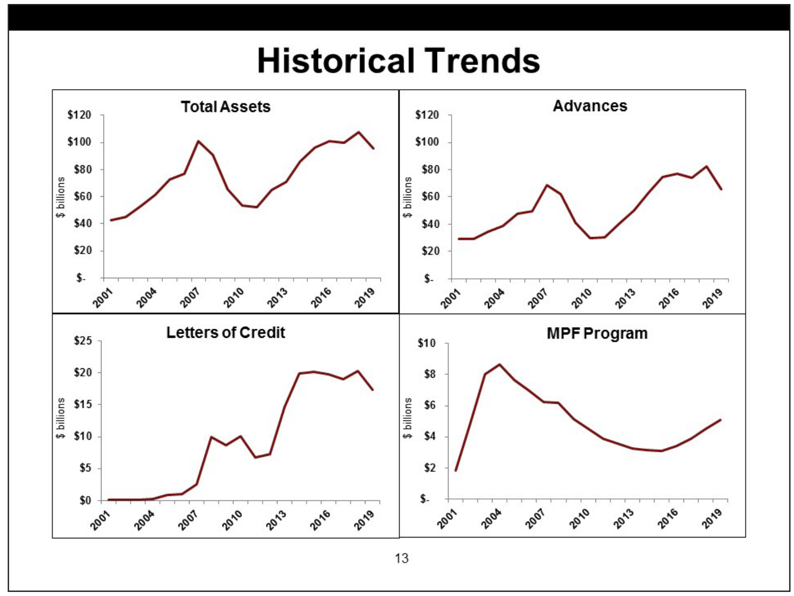
We experienced extremely high demand for our community investment products and logged a record number of Affordable Housing Program applications.

The Federal Home Loan Bank System and the Federal Home Loan Bank of Pittsburgh continue to support the transition away from LIBOR. The Pittsburgh Bank recorded our first SOFR-based advances during the year.

Additionally, the System also continues its collaborative work towards acceptance of eNotes as collateral. We will communicate more on that subject this year and hope to be able to accept eNotes as collateral before year-end.



On slide 13, which contains the historical trends for total assets, advances, letters of credit and the MPF Program, there are a few notable items that I would like to discuss.



Looking back, the Bank experienced significant growth in all product areas and in total assets through 2018.

Advances continue to be our primary product and make up approximately 75 percent of our balance sheet. In 2018, we recorded some of our highest advance levels ever, at more than $82 billion. That trend reversed in 2019, with balances declining to $65.4 billion at December 31.

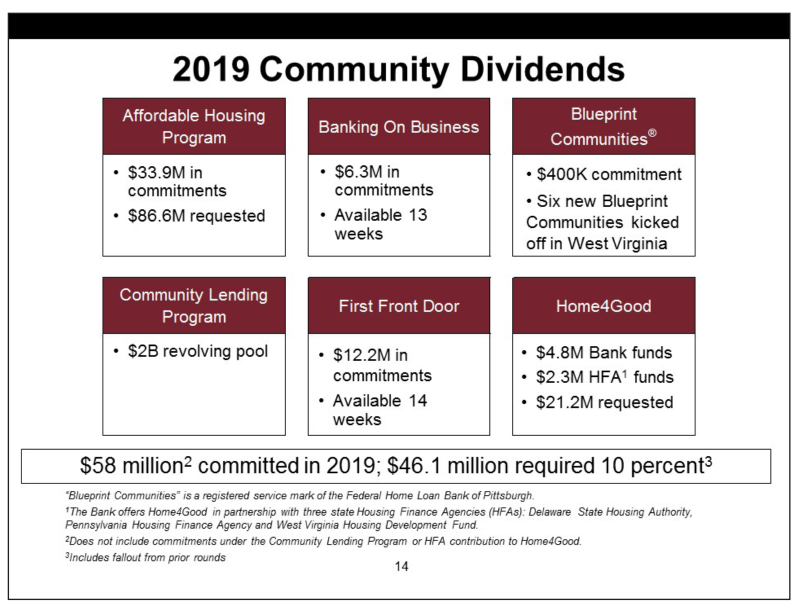
As you'll note in the trend graph, advances have been as low as $26 billion, as recently as September 2011. The volume of advances expands and contracts as our members have need.

An additional source of member activity is the MPF Program. MPF offers members liquidity on their 30-year residential mortgages. MPF represents about 5 percent of our balance sheet, and if managed effectively, it provides a consistent income stream that complements our advance activity. And we've seen steady growth in the MPF Program since 2015.

Our members can find value in yet another source of liquidity, our letters of credit. Letters of credit are used largely to secure public unit deposits and eliminate the need to pledge investment securities for these deposits.

If you have specific questions about any of these products, please leverage your Business Development Manager to help ensure that you are taking full advantage of the value of your membership.

In addition to the value derived from the Bank's credit products and services, we also recognize the importance of shareholder return. For us, that is delivered to members in two forms – cash dividends and community dividends.



For the full year 2019, the Bank paid members quarterly dividends of 7.75 percent annualized on activity stock and 4.5 percent annualized on membership stock.

Additionally, the Bank committed $58 million in the form of community dividends. $46.1 million of that was our regulatory-required 10 percent.

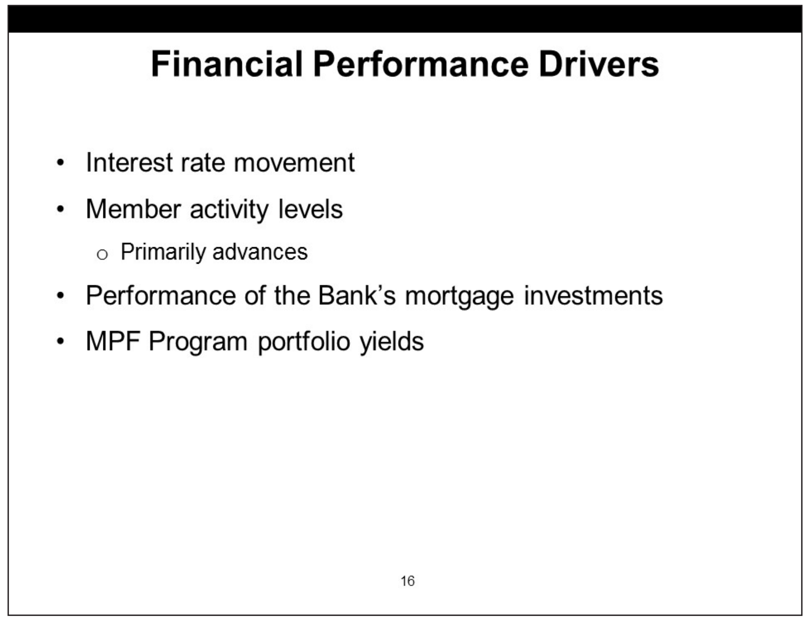
These dividends are distributed to members through grants and other assistance available through our community investment programs, which include:

- the Affordable Housing Program,
- Banking On Business,
- Blueprint Communities,
- the Community Lending Program,
- First Front Door and
- Home4Good.

That concludes the 2019 highlights. Now, I would like to spend some time talking about our outlook.

As you will see on slide 16, there are a handful of performance drivers that impact the Bank's overall performance in up and down environments. These include:

- Movement in interest rates, either up or down;
- Member activity, primarily advances or loans to our members;
- Performance of our own mortgage investment portfolio; and
- Yields from our MPF Program portfolio.

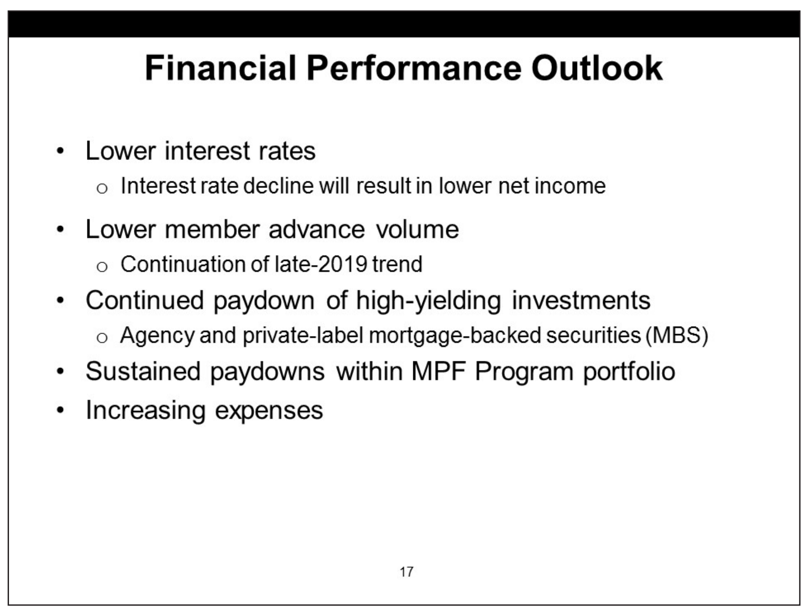


As we look forward, all these performance drivers will likely have the cumulative impact of lowering overall financial performance. The trend towards lower advance balances is anticipated to continue as Chase Bank has exited the co-op and the associated $8 billion of advances will all mature by year-end 2021.

The prevailing expectation of prolonged lower interest rates will negatively impact net income.

In addition, the continued paydown of the high-yielding mortgage-backed securities and MPF portfolios will weigh on financial performance.

We will also continue working to best manage our increasing expenses.



How will this outlook impact the dividend?

For 2020, we anticipate maintaining dividend levels similar to 2019 throughout the year. However, as always, this is subject to changing market and business conditions.

Going forward into 2021, lower interest rates and advance levels, along with mortgage paydowns, could contribute to, and I emphasize could contribute to:

- Strong, yet lower, financial performance,
- The potential for lower dividend capacity in 2021, and
- A lower Affordable Housing Program contribution.

Throughout the year, we will continue to assess the potential impact of these performance drivers and hope to provide a more directional update to you in a future earnings conference call.

Considering the variables that I just mentioned, we thought it would be helpful to show our dividend rate over time, as compared to the Fed Funds Rate. While the two have changed similarly over time, Fed Funds trended downward since third quarter 2019.

And, while there is not a one-to-one correlation between the two rates, the downward Fed Funds Rate's movement demonstrates that our current dividend rate remains very healthy in this current rate environment.

Dividend Outlook

- For 2020, we anticipate maintaining similar dividend levels, subject to market conditions
- Lower interest rates and advance levels, along with mortgage paydowns, could contribute to:
  - Strong, yet lower, financial performance
  - The potential for lower dividend capacity in 2021
  - Lower Affordable Housing Program contribution
- We will continue to assess potential impact of the performance drivers throughout the year; membership update will be provided during a future member conference call

The above reflects forward-looking information based on management's expectations regarding economic and market conditions and the Bank's financial condition and operating results. Refer to Cautionary-Statement Regarding Forward-Looking Information on slide 6 of this presentation.

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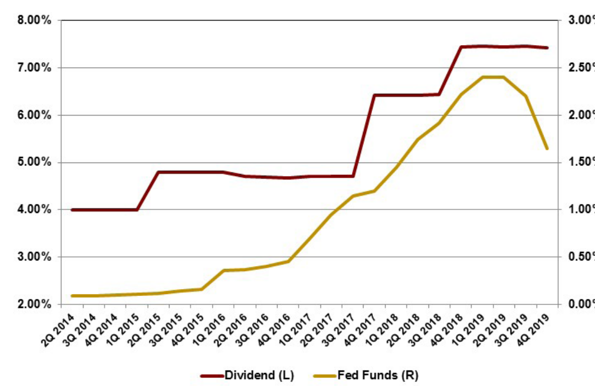
Dividend and Fed Funds Rate Comparison



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On slide 20, I would like to highlight our progress as it relates to the LIBOR transition.

The Federal Home Loan Bank System continues to participate in industry-wide efforts to facilitate an orderly transition to the Secured Overnight Financing Rate, or "SOFR."

As of January, the System has issued over $160 billion of debt indexed to SOFR.

The Pittsburgh Bank has been focused on:

- Ensuring operational preparedness,
- Offering SOFR-indexed advances to our members,
- Continuing to participate in the System SOFR-indexed debt issuance,

LIBOR Transition

- FHLBank System continues to participate in industry-wide efforts to facilitate an orderly transition to the Secured Overnight Financing Rate (SOFR)
  - Over $160 billion of debt indexed to SOFR issued[1]
- FHLBank Pittsburgh efforts focused on:
  - Participating in System's SOFR-indexed debt issuance
  - Ensuring operational preparedness, including fallback language
  - Offering SOFR-indexed advances
  - Managing our balance sheet
  - Assessing member collateral

[1]*FHLBanks Office of Finance Investor Presentation, January 2020*

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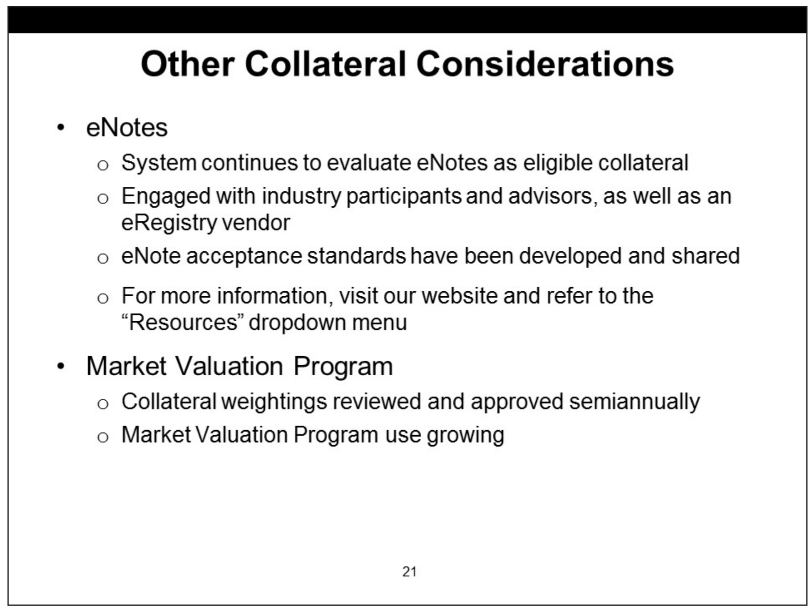
- Managing our own balance sheet as it relates to LIBOR exposure, and
- Assessing what our members hold in collateral that is linked to LIBOR.

As you may know, our regulator, the Federal Housing Finance Agency, has asked us to begin providing data related to members' LIBOR-linked holdings, beginning with the first quarter 2020 Qualifying Collateral Report process.

We recently published a collateral update that contains more information regarding these reporting requirements, and we will send another message to the membership closer to start of that process.

I wanted to provide an update on two key initiatives related to our collateral management – eNotes and our Market Valuation Program.



For eNotes, the entire Home Loan Bank System continues our collaborative effort to accept eNotes as collateral. We remain engaged with industry participants and advisors, as well as an eRegistry vendor.

We have published our eNote acceptance standards and hope to be positioned to accept eNotes as collateral by year-end. For more eNote information, visit our website and refer to the "Resources" dropdown menu.

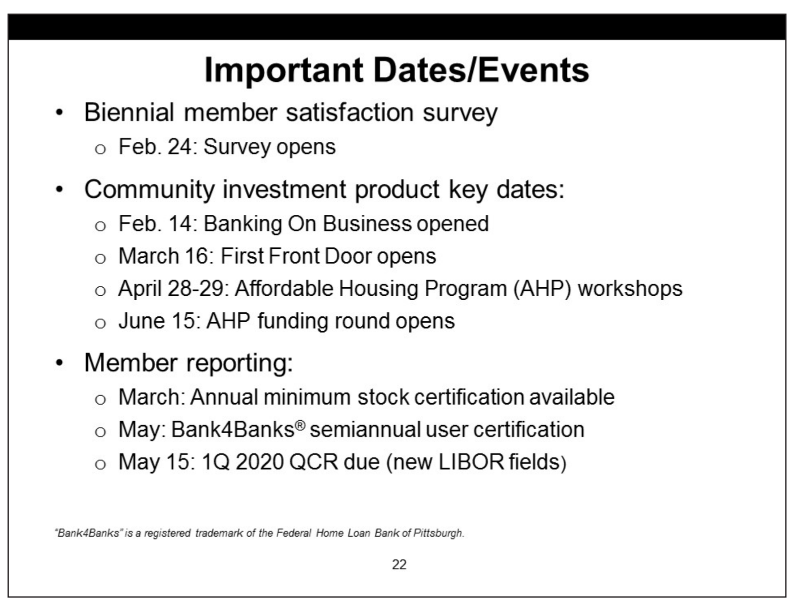
With respect to collateral valuation, the Bank reviews and approves our collateral lending values on a semiannual basis.

Through that process, we have noted increased use of our Market Valuation Program. Through this program, members could receive higher lending values on their loan collateral by simply providing us with some additional data fields.

Members who have chosen to participate in the program have seen, on average, a 16-percent increase in lending value. If you haven't talked to your Business Development Manager about the program, I would encourage you do to so.

Before we conclude today's call, I would like to remind you of some key dates and events for the year, which you will see on slide 22.

Later this week, you will be receiving an email from me regarding our biennial member satisfaction survey. The 8-minute survey will open on Monday, March 2. I encourage you to participate and look forward to your feedback.



There are also key dates relating to our community investment products and member reporting.

Looking out further in the year, we will be hosting six Member Regional Meetings in June.

Finally, we continue to modernize our transactional website, Bank4Banks. Our team has been focused on improving user experience and process efficiency to ensure that your online experience with the Bank exceeds expectations.

Before we open the line to questions, I'd like to spend a minute emphasizing the fundamental mission of our Bank and our core principles.

First, liquidity is, and remains, essential to our members. For many, the Federal Home Loan Banks are an essential source of liquidity. Our ability to serve you in all environments is paramount. It is incumbent on us to protect that access for all members.

Concurrently, we must preserve the par value of our stock and protect the low cost of our debt.

Following these principles and accomplishing these objectives requires an unwavering focus on delivering member value.

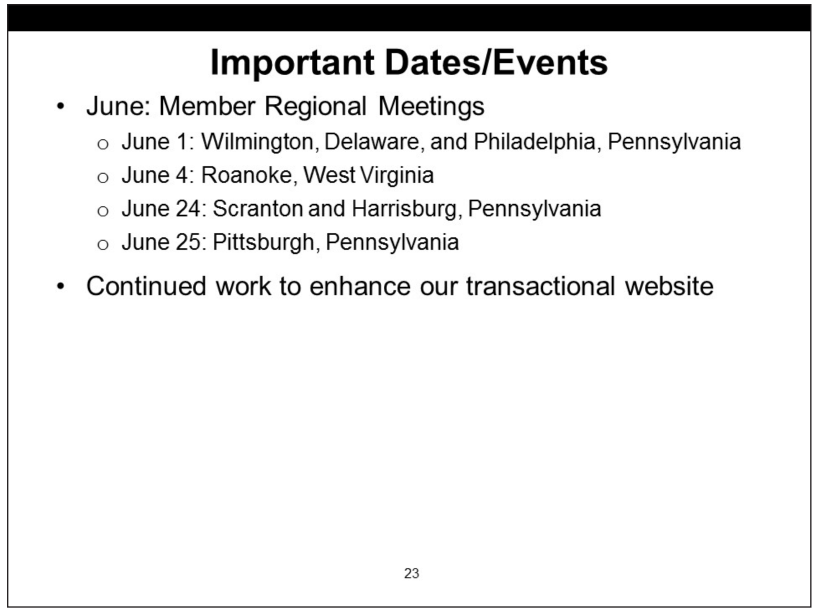
This value can be found in the liquidity, housing and community lending solutions our members use every day.

As you think about the value of your co-op, I encourage you to review the Request for Information issued yesterday by our regulator, the FHFA, seeking input regarding Federal Home Loan Bank membership. The request asks for feedback on what institution types should be eligible to join, and on the membership requirements for both new and existing members.

As you know, the strength and stability of the Federal Home Loan Banks flow from our cooperative structure, which is comprised of members of all sizes and types. Any changes to our membership must be carefully evaluated to consider the impact on our safe and sound business practices and cooperative business model.

The comment deadline for the information request is June 23, 2020. We are prepared to offer guidance and technical assistance to our members and stakeholders throughout the response process.

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



Winthrop Watson
President and
Chief Executive Officer

Edward Weller
Chief Accounting Officer

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, including, but not limited to, the possible discontinuance of the London Interbank Offered Rate (LIBOR) and the related effect on the Bank's LIBOR-based financial products, investments and contracts; political, legislative, regulatory, litigation, or judicial events or actions; risks related to mortgage-backed securities (MBS); changes in the assumptions used to estimate credit losses; changes in the Bank's capital structure; changes in the Bank's capital requirements; changes in expectations regarding the Bank's payment of dividends; 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.

This presentation is not intended as a full business or financial review and should be viewed in the context of all other information made available by the Bank in its filings with the Securities and Exchange Commission.

FHLBank
PITTSBURGH

601 Grant Street
Pittsburgh, PA 15219

www.fhlb-pgh.com