

**Transcript of the Federal Home Loan Bank of Pittsburgh
First Quarter 2021 Member Conference Call
May 4, 2021, at 9 a.m. EDT**

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[Operator introduction of call and of Mr. Watson]

WINTHROP WATSON

Good morning everyone. This is Winthrop Watson and thank you for joining our quarterly member call.

Slide 2 contains the agenda for today's call including items that will be covered by Ted Weller, our Chief Accounting Officer, and Dave Paulson, our Chief Operating Officer. Together, we will discuss the Bank's first quarter performance.

On slide 3, please note that elements of this call are forward-looking, based on our view of prevailing housing, financial and other market conditions, and our business as we see it today. These elements can vary due to changes in the business environment and market conditions. Please interpret this presentation in that light.

Also note that a transcript of this call will be available tomorrow on our website.

On Slide 4, I'd like to cover the state of our institution, which remains solid in both our financial performance and capital position. The increase in deposits at our member institutions resulting from federal stimulus continues to significantly impact our advance balances, but Letters of Credit and the Mortgage Partnership Finance[®] Program remain stable.

Our first-quarter dividend was paid last week at 5.75% and 2.50% annualized rates for activity and membership stock, respectively. This level is consistent with the previous quarter and we will continue to monitor our financial performance in light of market and business conditions.

Later in the call, Dave will discuss in greater detail specific drivers impacting the Bank and future dividends.

To close out my opening comments, the Bank is committed to operational resilience and effective risk management. Our top priorities remain:

- serving our membership in a prudent and thoughtful manner and
- planning for our staff to return to the Bank in a safe manner.

With that, I will now turn the call over to Ted to review our financial performance.

TED WELLER

Thanks Winthrop, and good morning everyone.

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

On slide 6, you will note that the Bank recorded net income of \$38.1 million in the first quarter of 2021 compared to \$35.9 million for the same quarter in 2020.

For the first quarter of 2021, net interest income was \$58 million, a decrease of \$37.7 million compared to \$95.7 million for 2020. The year-over-year decrease was primarily due to lower interest rates and a decrease in outstanding average advance balances. Partially mitigating these factors, net prepayment fees on advances included in interest income totaled \$7.8 million in 2021 compared with \$0.5 million in the prior year's first quarter.

The provision for credit losses was a benefit of \$1.1 million for the first quarter of 2021, compared to a provision of \$3.4 million in the first quarter of 2020. The change was primarily due to improvements in the Bank's assumptions, including forecasted housing prices, which are used to estimate expected credit losses.

Other non-interest income was \$9.4 million in the first quarter of 2021, compared to a loss of \$31.3 million in the first quarter of 2020. This \$40.7 million increase was driven primarily by mark to market adjustments for derivatives and trading securities, which netted to a \$2.8 million gain in 2021 compared to a \$35 million loss in 2020. The mark to market activity is a non-cash item that largely reflects pandemic-related market volatility which was particularly significant in early 2020.

Other expense increased \$5.6 million in the first quarter of 2021, to \$26 million, compared to \$20.4 million in the first quarter of 2020. The primary drivers of this increase included a \$2.8 million voluntary contribution to the Bank's defined benefit pension plan in the first quarter of 2021, with no such contribution in the first quarter of 2020, and an increased mark to market impact on deferred compensation.

These results allowed the Bank to set aside \$4.4 million for affordable housing programs.

The Bank's business model is designed to protect the net interest spread earned by the Bank and withstand fluctuations in both the level of interest rates and volume of business. As a result, although the interest income and interest expense decreased, our net interest

margin increased 10 basis points to 51 in the first quarter 2021, compared to 41 in the first quarter 2020. This increase was primarily due to advance prepayment fees, lower funding costs, and a higher percentage of MBS and MPF® Program assets which have wider spreads.

On slide 7, total average assets for the first quarter of 2021 were \$46.9 billion, down \$47.1 billion, or 50%, from the first quarter of 2020 primarily due to lower average advances.

Average advances were \$22.4 billion in the first quarter of 2021, a decrease of \$37.2 billion, or 62%, from the same quarter in 2020.

The federal government liquidity programs continued to contribute to higher deposits at our members and decreased advance levels for the Bank. It's common for the Bank to experience fluctuations in our overall advance portfolio driven primarily by changes in member needs.

Average investments decreased \$9.5 billion, or 34%, due to a reduction in short-term liquidity balances and paydowns on Agency mortgage-backed securities.

Retained earnings at March 31, 2021, totaled \$1.4 billion, an increase of \$16 million from December 31, 2020, reflecting earnings for first quarter 2021 less dividends paid.

Slide 8 provides a summary of the Bank's capital requirements.

At March 31, 2021, the Bank continues to be in full compliance with all regulatory ratios and permanent capital exceeds the risk-based requirement.

Also, at March 31, 2021, the ratio of Market Value of Equity to Capital Stock was 206.3%; up from 188.2% at year-end 2020. This increase was primarily due to the decrease in capital stock balances resulting from lower advances.

This concludes my portion of the presentation. Dave Paulson will now provide our performance highlights and outlook.

DAVID PAULSON

Thank you, Ted.

Moving to slide 10, as Winthrop and Ted both noted, our results demonstrate the Bank's solid financial performance, which is consistent with the current operating environment.

As anticipated, advances were projected to decline from the 2020 year-end close of \$25 billion. We ended the first quarter with an advance balance of \$19.3 billion.

LC activity remained largely stable closing the quarter at \$19 billion.

MPF[®] Program performance remained steady, and the portfolio is close to \$5 billion, largely unchanged from previous quarter. Program fundings for the quarter were \$425 million.

As noted on our last call, our Affordable Housing Program contributions will be lower commensurate with lower Bank earnings.

Slide 11 shows historical trends for our advances, LCs and the MPF[®] Program.

Our advances and MPF[®] Program make up approximately 47% and 12% of our balance sheet, respectively. While advances declined as discussed, LCs and our MPF[®] Program balances remained stable.

We will continue to evaluate all products for opportunities to support member needs.

I would like to highlight a few performance drivers on Slide 12 that continue to impact our business.

The ongoing and anticipated impact of low advance volumes and low interest rates continues, combined with paydowns of high-yielding investments and in the MPF[®] portfolio.

The potential for these drivers to remain longer-term could likely cause a reduction in dividend levels next quarter. In addition, the Bank is considering a greater difference between the dividend levels anticipated to be paid on membership stock versus those

paid on activity stock. The payment of dividends, as always, is subject to market and business conditions.

We continue to assess the potential impact of all performance drivers on our business. We will keep you informed on future earnings calls.

Slide 13 shows the trendlines of both the Bank's historical dividend rate and the dividend spread to fed funds.

There is not a direct correlation between the two rates, however, the downward fed funds rate movement demonstrates that our current dividend rate remains healthy in this interest rate environment.

Let's move to Slide 14 for some important dates and milestones.

The Pittsburgh Bank, in line with the Federal Home Loan Bank System, continues our transition away from LIBOR toward alternative rates that currently include SOFR. We continue to offer floating-rate SOFR-based advances to our members.

Additionally, we have begun accepting residential eNotes as eligible collateral and continue to expand this capability. Our employees are working alongside members to inform them of the tools, technologies and related technical requirements to make this process as seamless and straightforward as possible. If you have not already done so, please visit the eNotes Resources page on our website. That page includes valuable information about eNotes in general as well as the acceptance criteria.

During the second quarter, we also opened our First Front Door round which offers closing cost and down-payment assistance for first-time homebuyers. In June, our next funding round for the Affordable Housing Program will open.

Please note that on May 17, our first quarter Qualifying Collateral Report or QCR will be due.

Lastly on this slide, we are finalizing steps to launch our new, secure internet banking website portal and related applications – specifically our Online Banking Application, which will replace Bank4Banks®.

On slide 15, I'd like to call out a few aspects of this new Online Banking Application.

This portal was the result of a multi-year effort, which included contextual inquiries and extensive collaboration across members and the Bank. We expect the online experience to be positive for current and future users.

Features of the new portal include:

- Expanded browser and device compatibility;
- Simplified transaction requests;
- Increased hours for certain transaction types including LCs and safekeeping;
- A newly designed landing page;
- Key information and quick links to commonly used functions; and
- Enhanced data availability and reporting capabilities.

We look forward to sharing more with you about the rollout in future emails, calls and presentations.

With that, let me turn the call back to Winthrop.

WINTHROP WATSON

Thank you, Dave.

Brad, let's open the lines for any questions or comments that our members may have.

Thank you Brad.

I'd like to thank everyone for attending today's call. On slide 17 we have included contact information for our leadership and business development teams. Please contact us at any time.

Enjoy the rest of your day and stay well.

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