



## Second Quarter 2020 Member Conference Call

August 4, 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.

This morning I am joined by Ted Weller, our Chief Accounting Officer, and Dave Paulson, our Chief Operating Officer. Together, we'll review the Bank's second quarter and first half performance. Mike Rizzo, the Bank's Chief Risk Officer, also joins us this morning to provide his outlook on member credit.

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

Please note that elements of this call are forward-looking, based on our view of 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 this information in that light.

Also note that a transcript of this call will be available tomorrow in the "Financial Performance" area of our website.

Like all of you, we continue to monitor and respond to the impact of COVID-19. For the entire second quarter, nearly all FHLBank staff worked remote.

We continue to seek ways to support our membership in these unprecedented times. Pandemic-related modifications to our business practices are intended to ease member burden. Changes that we've already made, and any future changes, will be posted to and archived in the "Coronavirus Updates" section of our website.

At the Bank our top two objectives continue to be the health and safety of our employees and members' access to liquidity. We've found success on both fronts in the second quarter and we enter the third quarter maintaining a strong liquidity position to satisfy member demand. Although demand lessened in the second quarter, we stand ready to support the changing needs of our membership.

Before I turn the line over to Ted, I want to acknowledge the Bank's strong, yet lower, financial performance. As

### Agenda

- State of FHLBank Pittsburgh  
*Winthrop Watson, President and CEO*
- Financial Review  
*Ted Weller, Chief Accounting Officer*
- Financial Outlook and Business Review  
*David Paulson, Chief Operating Officer*
- Member Credit Outlook  
*Mike Rizzo, Chief Risk Officer*
- Closing Remarks and Member Questions  
*Winthrop Watson*

2

### State of FHLBank Pittsburgh

- Continue to monitor and respond to COVID-19 impact
  - Nearly 100% of our staff continues to work remote
  - Modifications of our practices to ease member burden
  - Updates: [www.fhlp-gph.com/Coronavirus-Updates](http://www.fhlp-gph.com/Coronavirus-Updates)
- Reliable liquidity source focused on member business
  - Strong liquidity position
  - Lower advance volume
- Strong, yet lower, financial performance
- Stable dividend
  - 6.25% annualized on activity stock
  - 3.00% annualized on membership stock

4

our second quarter dividend was paid last week, you likely noted the 6.25 and 3 percent annualized dividend rates for activity and membership stock were the same as the first quarter.

These levels are reflective of current market and operating conditions. Ted and Dave will discuss the specific drivers impacting the Bank in greater detail.

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 financial results and the key drivers behind them.

The Bank recorded net income of \$96.2 million in the first six months of 2020 compared to \$165.7 million in the first six months of 2019. This decrease was primarily driven by lower net interest income and other non-interest income.

For the first six months of 2020, net interest income was \$198.5 million, a decrease of \$42 million compared to \$240.5 million for 2019. The year-over-year decrease was primarily due to lower interest rates and a decrease in outstanding average advance balances.

The net interest margin declined 5 basis points.

The provision for credit losses was \$4.4 million for the first six months of 2020, compared to \$1.4 million in the first six months of 2019. The increase was due to OTTI credit losses, which under the new "CECL" accounting standard now are recorded in the provision for credit losses, and additional reserves on the Bank's mortgage loans held for portfolio and Banking On Business program.

Other non-interest income was a loss of \$31.2 million in the first six months of 2020, compared to a loss of \$7.3 million in the same prior-year period. This \$23.9 million decrease was driven primarily by mark-to-market adjustments to derivatives and trading securities, which netted to a \$42.1 million loss in 2020 compared to a \$19.9 million loss in 2019. The higher mark-to-market net loss is a non-cash item that largely reflects the significant decline in interest rates in 2020.

Other expense increased \$7.7 million to \$54.9 million for the first six months of 2020 compared to the first six months of 2019. The increase was primarily due to a \$4.8 million voluntary contribution to the Home4Good homeless initiative, higher technology costs, and higher compensation and benefit-related expenses. The Bank made a \$3.0 million voluntary contribution to its defined benefit pension plan in the first half of 2020, compared to a \$2.0 million voluntary contribution in 2019.

### Financial Highlights – Statement of Income

<i>(in millions)</i>	Six months ended June 30,		Over/ (Under)
	2020	2019	
Net interest income	\$ 198.5	\$ 240.5	\$ (42.0)
Provision for credit losses	4.4	1.4	3.0
Other noninterest income (loss)	(31.2)	(7.3)	(23.9)
Other expense	54.9	47.2	7.7
Income before assessment	108.0	184.6	(76.6)
Affordable Housing Program (AHP) assessment	11.8	18.9	(7.1)
Net income	<u>\$ 96.2</u>	<u>\$ 165.7</u>	<u>\$ (69.5)</u>
Net interest margin (bps)	43	48	(5)

These results allowed the Bank to set aside \$11.8 million for affordable housing programs.

Total average assets for the first six months of 2020 were \$94.3 billion, down \$7.9 billion or 8% from 2019 due to lower average advances, partially offset by an increase in average investments.

Average advances were \$59.2 billion in 2020, a decrease of \$15.3 billion, or 20%, from 2019.

Average investments increased \$6.5 billion or 30% primarily due to additional short-term liquidity balances.

At June 30, 2020, total advances were \$49.6 billion, down 24% from \$65.6 billion at December 31, 2019.

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

Retained earnings at June 30, 2020, totaled \$1.3 billion, relatively unchanged from December 31, 2019.

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

At June 30, 2020, the Bank continues to be in full compliance with all regulatory ratios and permanent capital exceeds the risk-based requirement.

Also, at June 30, 2020, the ratio of Market Value of Equity to Capital Stock was 153.8%; up from 145.1% at year-end 2019. This increase was primarily due to the decrease in capital stock balances as a result of lower advances.

This concludes my portion of the presentation. Now, I'll turn it over to Dave Paulson for the financial outlook and business review.

## Dave Paulson

Thank you, Ted.

As Winthrop and Ted both noted, these results demonstrate the Bank's strong, yet lower, financial performance, which is very much in line with the current operating environment.

Each quarter, we review the drivers that can impact the Bank's overall performance. Those include fluctuations in interest rates and advance volume, paydowns of high-yielding investments and MPF® loans, as well as the potential for increased operating expenses.

For the second quarter, we experienced:

- Lower interest rates
- Decreased member advance demand
- Continued paydown of high-yielding investments
- Sustained paydowns within the MPF Program portfolio and
- Increased operating expenses

## Financial Highlights – Selected Balance Sheet

<i>(in millions)</i>	Six months ended June 30,		Over/(Under)	
	2020	2019	Amount	Percent
<b>Average:</b>				
Total assets	\$ 94,287	\$ 102,209	\$ (7,922)	(8) %
Advances	59,204	74,455	(15,251)	(20)
Total investments	28,681	22,141	6,540	30

<i>(in millions)</i>	June 30,	Dec 31,	Over/(Under)	
	2020	2019	Amount	Percent
<b>Spot:</b>				
Advances	\$ 49,614	\$ 65,610	\$ (15,996)	(24) %
Capital stock	2,371	3,055	(684)	(22)
Retained earnings	1,334	1,326	8	1

7

## Capital Requirements

<i>(in millions)</i>	June 30,	Dec 31,
	2020	2019
Permanent capital	\$ 4,009	\$ 4,725
Excess permanent capital over RBC requirement	\$ 3,448	\$ 4,114
Regulatory capital ratio (4% minimum)	5.1%	4.9%
Leverage ratio (5% minimum)	7.7%	7.4%
Market value/capital stock (MV/CS)	153.8%	145.1%

8

## Review of Financial Performance Drivers

- Lower interest rates
- Decreased member advance volume
- Continued paydown of high-yielding investments
- Sustained paydowns within the Mortgage Partnership Finance® (MPF®) Program portfolio
- Increased operating expenses

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

10

As reported last quarter, advance levels in March increased when the pandemic was first impacting the economy.

Advances declined during the second quarter as a result of government actions taken to stimulate the economy.

The Bank also operated in a lower interest rate environment and experienced a moderate increase in operating expenses.

Our high-yielding investments and MPF Program portfolio also continued to pay down.

Expected prolonged low interest rates will likely result in lower net income. Paydown of the high-yielding MBS and MPF Program portfolios could also weigh on financial performance. Given present economic and market conditions, the Bank will continue to prudently manage operating expenses.

The combination of sustained lower interest rates, the uncertain operating environment along with lower net income continues.

Lower net income also means a lesser Affordable Housing Program contribution that will impact the program in 2021.

Our desire is to maintain the current dividend through the October payment, subject to market conditions and the Bank's results of operations.

We continue to monitor the potential impact of performance drivers throughout the remainder of the year and communicate dividend expectations as necessary.

The fourth quarter 2020 dividend, which has historically been paid in February of the following year – 2021 in this instance – will likely be lower. All of this, of course, is subject to market and business conditions.

Considering the performance drivers that I mentioned earlier, and the dividend outlook, I thought it would be valuable to show our dividend rate and dividend spread to fed funds over the past few years.

I want to draw your attention to the dividend spread to fed funds. It shows that the current dividend rate is attractive to the level of interest rates as represented by fed funds. Consistent with the financial performance drivers mentioned earlier, the dividend spread to fed funds is likely to move lower.

Moving to a review of the Bank's business, I want to share some product highlights.

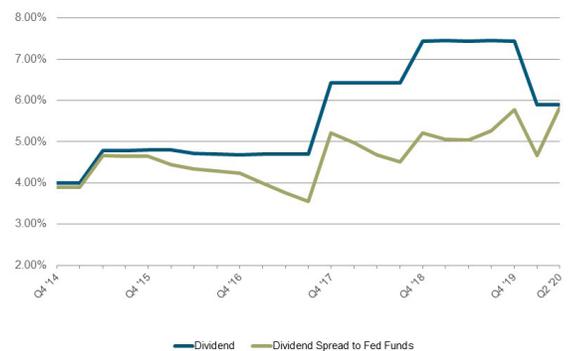
## Dividend Outlook

- The combination of sustained lower interest rates, an uncertain operating environment and lower net income has contributed to:
  - Strong, yet lower, financial performance
  - Same dividend as first quarter
  - Lower future Affordable Housing Program (AHP) contributions
- Our desire is to maintain this dividend level through the October payment, subject to market conditions and FHLBank's results of operation
- We will continue to assess the potential impact of performance drivers throughout the remainder of the year and communicate dividend expectations
- Q4 2020 dividend, which has historically been paid in February of the following year, will likely be lower, subject to market and business conditions

The above reflects forward-looking information based on management's expectations regarding economic and market conditions and FHLBank's financial condition and operating results. Refer to Cautionary Statement Regarding Forward-Looking Information on slide 3 of this presentation.

11

## Dividend Rate and Spread to Fed Funds



12

We saw a substantial increase in advance volume in March ending the quarter at \$78.1 billion, up 51% from February. Advance levels returned to expected levels and we ended June at \$49.6 billion.

This expansion and contraction demonstrate the Bank's ability to respond to member need.

Letter of credit activity remains stable at \$16.4 billion, a level comparable to the first quarter.

For the first six months, MPF Program performance remained solid and the portfolio sits at \$5.2 billion.

Program fundings for the first six months were \$714 million.

I'd like to spend a few minutes reviewing the status and key dates for our various community investment products:

- The Bank accelerated the disbursement of funds to organizations addressing homelessness through Home4Good - funds were disbursed to the Delaware, Pennsylvania and West Virginia housing agencies
- Our Affordable Housing Program funding round opened on June 15 and that round will close at 5 p.m. on Tuesday, August 11
- For the Community Lending Program, funding for PPP loans was extended through September 30
- As of last week, all the Banking On Business and First Front Door allocations have been exhausted.

We greatly appreciate that members have been taking advantage of our community investment products.

The next slide contains historical trends for advances, letters of credit and the MPF Program. There are a few items that I would like to highlight.

Advances continue to be the Bank's primary product and make up approximately 75% of our balance sheet.

As you'll note in the trend graph, advances declined in the second quarter following a first quarter increase. The level is more in line with what we anticipated for the year.

Letters of credit, or LCs, are most often used to secure public unit deposits, which eliminates the need for members to pledge investment securities to support these deposits. LC volumes have been consistent over time and we experienced nominal change from the first to second quarter with respect to volume.

The MPF Program offers members liquidity on their 30-year residential mortgages. MPF represents about 5% of our balance sheet and provides a consistent income stream that complements advances. Volumes were stable between first and second quarters.

## Product Use Highlights

### Credit Products:

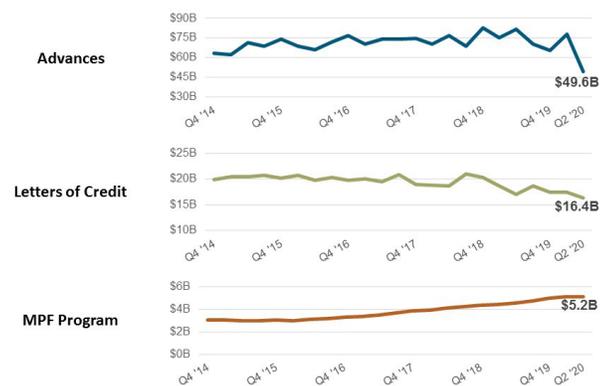
- Advance balances were \$49.6 billion
- Letter of credit (LC) balances were \$16.4 billion
- MPF Program portfolio totaled \$5.2 billion; fundings of \$714 million YTD

### Community Investment Products:

- AHP round opened June 15
- Home4Good funds disbursed to the Delaware, Pennsylvania and West Virginia housing finance agencies
- Community Lending Program (CLP) extended CLP-PPP through Sept. 30
- All of the Banking On Business (BOB) allocation has been reserved, and the round closed on July 29
- The First Front Door (FFD) per-member cap was removed, and the round closed on July 30

14

## Credit Product Trends



15

Every other year, the Bank administers our Member Satisfaction Survey. This year, the survey began in early March – just prior to the COVID-19 pandemic – and concluded in April. We were pleased with the response rate considering the operating environment.

Thank you to everyone who participated in the survey; we certainly appreciate your feedback.

I wanted to highlight a few of the survey themes:

Members indicated that the Bank’s overall performance, responsiveness and effectiveness of communications are all very good with higher than mean scores on each – most were at all-time high levels.

Respondents told us that their level of satisfaction is most influenced by our ability to answer their questions and ease of conducting business.

Members most value the Bank as a short- and long-term liquidity source. Respondents also highlighted the importance of face-to-face interactions with Bank staff, particularly their Business Development Managers. In this environment, we are leveraging phone calls and other tools to replace those in-person visits.

Members also offered suggestions for areas of focus. I’m pleased to say that we have been working on specific initiatives to address these items.

In the area of technology, the Bank continues our multi-year work to transform our secure, transactional website, Bank4Banks®. We look to roll out the improved version of the site in 2021.

Mike Rizzo will talk about eNotes in a few minutes.

Finally, with respect to operational efficiencies, we’ve been working to transform our signature card protocol and other processes within our operations team. We will keep you informed of those developments.

As I conclude my section of the presentation, I want to thank the membership for their continued use and support of the Bank. Each day, we are appreciative of our membership and strong relationships that we have built.

I will turn the call over to Mike Rizzo to discuss member credit outlook. Mike.

## Mike Rizzo

Thanks Dave. Hello all ..., I am the Bank's CRO and I'm going to offer my comments in the following four points.

The first one is mission. I think everyone knows we're here to support our members' liquidity needs at all times. These words are in our mission statement and are a core component to our risk appetite. Today, membership has significant available borrowing capacity. Recent numbers have been around 30% utilization. And among the blanket

## Member Satisfaction Survey Results

- **Key performance indicators**
  - Overall performance, responsiveness and effectiveness of communications are all 90% or greater – most are at all-time highs
- **Satisfaction drivers**
  - Answering questions without callbacks or transfers
  - Being easy to conduct business with
- **Service and communications**
  - Members most value FHLBank as a liquidity source
  - Face-to-face interaction with members is important
- **Member suggestions for improvement**
  - Technology, such as improving the Bank4Banks® website
  - Accepting eNotes
  - Operational efficiencies relating to product access

"Bank4Banks" is a registered trademark of the Federal Home Loan Bank of Pittsburgh.

lien members – which is the majority of our borrowers – only 2% are using more than 75% of their capacity.

The second point I want to make is on flexibility. We understand that our members and their borrowers may experience challenge in this economic environment.

We've expanded collateral eligibility, as a result, within our regulatory parameters to help with this borrowing capacity. We've included performing Troubled Debt Restructurings (TDRs), loans in forbearance, PPP loans.

We've also expanded MPF modification and forbearance eligibility. We've accelerated our implementation of eNotes as Dave mentioned earlier. We're going to focus on first-lien mortgages as an implementation, and we're currently targeting mid to late fourth quarter 2020 - exciting news.

The third point I want to cover is monitoring. We've obviously expanded our credit activities. All collateral verification reviews are now being performed remotely until further notice.

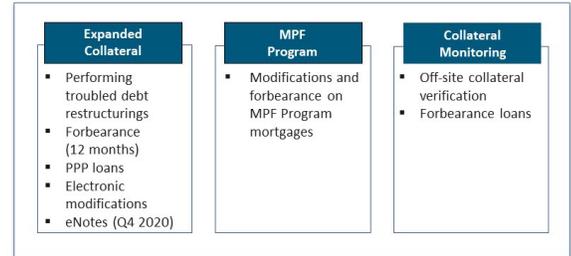
Through second quarter data, member credit ratings have held stable. However, we do expect to see deterioration, possibly as early as the third quarter. So, we've expanded our credit analysis. We're doing more stress testing of our member credit ratings. We're trying to understand the potential number of members that could slide onto our watch list. We're monitoring forbearance numbers within our collateral pools and stressing those against utilization levels.

Given the broad, remote work environment, we're also considering how and when collateral needs to be delivered. Also, the list of eligible custodians among other things.

The final point is on communication. Talk to us. Keep us informed on how things are going. Reach out to your Business Development Manager and/or my Credit Team. We've learned from the mortgage crisis over a decade ago that we want to be as transparent as possible with you. We don't like surprises, and we know that you don't like them either.

We've provided you our credit policies. These are designed to protect the franchise value of the Bank and the System.

## Actions Taken in COVID-19 Environment to Support Members



To date, member credit quality has remained stable – no material deterioration

18

## FHLBank Analysis of Member Credit Outlook

- Access to FHLBank liquidity is driven by:
  - Member collateral
  - FHLBank internal credit rating
- FHLBank monitors reliability of:
  - Collateral lending values
  - Credit rating models
  - Vendor performance
- As FHLBank analyzes crisis-level stress scenarios, prepare for increases in:
  - Utilization of borrowing capacity
  - Watch list count and exposure
  - Delivery of collateral
  - Collateral verification

19

## We Welcome Member Credit and Collateral Analysis Discussions

- Member financial stress anticipated in Q3 and Q4 2020 could impact member credit quality going forward
- FHLBank is transparent with members regarding our policies and practices
- Members can leverage the tools on Bank4Banks to understand the impact of financial performance on FHLBank internal credit rating
- Direct inquiries to your Business Development Manager or any member of FHLBank's credit team

20

These policies define access to borrowing capacity. First and foremost, it's dependent on the amount of eligible collateral. At this time, we do not plan to tighten our collateral policies given they're already based on stress. However, this can change if the environment becomes extreme.

Also, borrowing capacities depend on your internal credit rating. We provide your credit rating to you. We also provide you the rating model so you can run scenarios directly. Finally we're always willing to explain our policies and procedures if needed.

...those are my messages. At this point, I'm going to stop and turn back to Winthrop for his final comments - Winthrop.

## Winthrop Watson

Thank you, Mike.

Before we conclude today's call, I'd like to spend a minute on the Bank's highest priorities, which have not changed since our last call.

The health and safety of our staff remains our top priority and providing our members with reliable and readily available liquidity is a close second. With those as our top priorities, we can best serve our members and the communities that you serve.

Maintaining an open dialogue with our members is important, particularly as it relates to management of member credit.

The last page of this presentation contains the contact information for our team, please reach out to us, at any time.

I'd like to thank everyone for attending today's call and for your continued business and support.

Stay well and please keep in touch.

### Closing Remarks

Our highest priorities:

- The health and safety of our staff
- Remaining a reliable and readily available liquidity provider
- Continuing to assist our members in this dynamic and challenging environment
- Supporting the communities that our members serve
- Maintaining an open dialogue with our members, particularly as it relates to credit management

22

### Contact Information

#### Member Services (8 a.m. to 5 p.m., Monday through Friday)

800-288-3400, option 2  
member.services@fhlb-pgh.com

#### Leadership

**Winthrop Watson**  
winthrop.watson@fhlb-pgh.com

**Dave Paulson**  
david.paulson@fhlb-pgh.com

**Mike Rizzo**  
michael.rizzo@fhlb-pgh.com

**John Bendel**  
john.bendel@fhlb-pgh.com

**Mark Evanco**  
mark.evanco@fhlb-pgh.com

#### Business Development Managers

**Jeff Acquafondata** (MPF Program)  
jeffa@fhlb-pgh.com

**Fred Bañuelos** (Community Investment)  
fred.banuelos@fhlb-pgh.com

**Fred Duncan**  
fred.duncan@fhlb-pgh.com

**Bill McGettigan**  
william.mcgettigan@fhlb-pgh.com

**Vince Moyer**  
vincent.moye@fhlb-pgh.com

**Tom Westerlund**  
tom.westerlund@fhlb-pgh.com

24



**Winthrop Watson**  
President and  
Chief Executive Officer



**Edward Weller**  
Chief Accounting Officer



**Dave Paulson**  
Chief Operating Officer



**Michael Rizzo**  
Chief Risk 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 (FHLBank), 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. FHLBank 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 FHLBank’s LIBOR-based financial products, investments and contracts; the occurrence of man-made or natural disasters, epidemics, global pandemics, conflicts or terrorist attacks or other geopolitical events; 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 FHLBank’s capital structure; changes in FHLBank’s capital requirements; changes in expectations regarding FHLBank’s payment of dividends; membership changes; changes in the demand by FHLBank members for FHLBank advances; an increase in advances’ prepayments; competitive forces, including the availability of other sources of funding for FHLBank 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 FHLBank’s rating; the ability of FHLBank 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 FHLBank has joint and several liability; applicable FHLBank policy requirements for retained earnings and the ratio of the market value of equity to par value of capital stock; FHLBank’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, including, but not limited to, additional risk factors, made available by FHLBank in its filings with the Securities and Exchange Commission. Forward-looking statements speak only as of the date made and FHLBank has no obligation, and does not undertake publicly, to update, revise or correct any forward-looking statement for any reason. Information on FHLBank’s website found at [www.fhlb-pgh.com/Coronavirus-Updates](http://www.fhlb-pgh.com/Coronavirus-Updates) is not part of this presentation.

*“Mortgage Partnership Finance” and “MPF” are registered trademarks of the Federal Home Loan Bank of Chicago.*

*“Bank4Banks” is a registered trademark of the Federal Home Loan Bank of Pittsburgh.*



601 Grant Street  
Pittsburgh, PA 15219

[www.fhlb-pgh.com](http://www.fhlb-pgh.com)