FHLBank PITTSBURGH

Member Conference Call

Third Quarter 2020 Member Call – Nov. 3, 2020, at 9 a.m. Eastern

Winthrop Watson

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

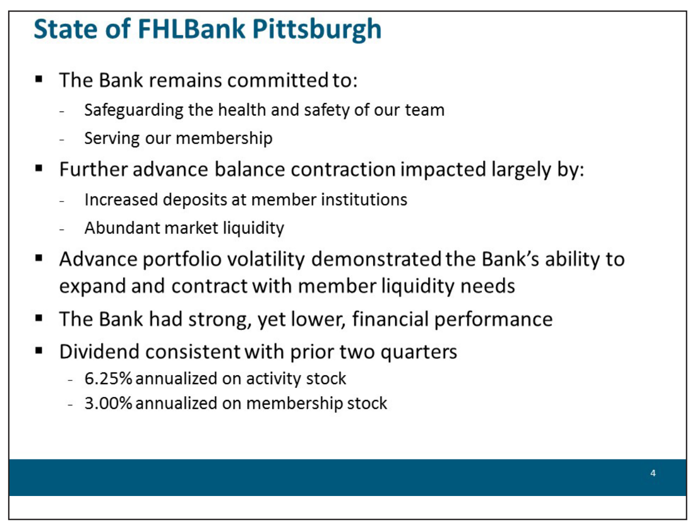
I'm accompanied today by Ted Weller, our Chief Accounting Officer, and Dave Paulson, our Chief Operating Officer. We will review the Bank's third quarter and January-through-September performance.

Our remarks today are accompanied by a slide presentation. If you are not able to access the 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 current business. These elements are subject 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 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 third quarter, nearly all Bank staff worked remote, though we opened our office for voluntary return following the Labor Day holiday.



Our two primary objectives continue to be the health and safety of our team, and serving our membership through access to liquidity and other Bank products. We have found success on both fronts in the third quarter. Although advance demand lessened in the third quarter – impacted by increased deposits at member institutions and general market liquidity – we stood ready to support the changing needs of our membership.

Advance portfolio volatility during the first nine months of the year demonstrated the Bank's ability to expand and contract with member liquidity needs. We saw this specifically with advances peaking at the early onset of the COVID-19 pandemic and contracting to a much lower level in the months following.

The Bank continued to have strong, despite lower, financial performance this quarter. This was impacted by a few performance drivers that Dave will discuss in more detail.

Our third-quarter dividend was paid last week, at the 6.25% and 3% annualized rates for activity and membership stock, respectively. This level was the same as the first and second quarters. With that, I'd like to turn the call over to Ted to review our financial performance.

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.

Financial Highlights – Statement of Income

(in millions)

	Nine months ended Sept 30, 2020	2019	Over/ (Under)
Net interest income	$ 282.7	$ 349.6	$ (66.9)
Provision for credit losses	5.6	1.8	3.8
Other noninterest income (loss)	(26.2)	(14.0)	(12.2)
Other expense	78.7	70.4	8.3
Income before assessment	172.2	263.4	(91.2)
Affordable Housing Program (AHP) assessment	18.6	27.4	(8.8)
Net income	$ 153.6	$ 236.0	$ (82.4)
Net interest margin (bps)	44	45	(1)

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The Bank recorded net income of $153.6 million in the first nine months of 2020 compared to $236 million in the first nine months of 2019. This decrease was primarily driven by lower net interest income and other non-interest income.

For the first nine months of 2020, net interest income was $282.7 million, a decrease of $66.9 million compared to $349.6 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 one basis point.

The provision for credit losses was $5.6 million for the first nine months of 2020, compared to $1.8 million in the first nine months of 2019. The increase was due to additional reserves on the Bank's mortgage loans held for portfolio and OTTI credit losses, which under the new "CECL" accounting standard are now recorded in the provision for credit losses.

Other non-interest income was a loss of $26.2 million in the first nine months of 2020, compared to a loss of $14 million in the same prior-year period. This $12.2 million increase in losses was driven primarily by mark-to-market adjustments to derivatives and trading securities, which netted to a $43.8 million loss in 2020 compared to a $31.9 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 $8.3 million to $78.7 million for the first nine months of 2020 compared to the first nine 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.

These results allowed the Bank to set aside $18.6 million for affordable housing programs.

Total average assets for the first nine months of 2020 were $86.8 billion, down $17.3 billion or 17% from 2019 due to lower average advances, partially offset by an increase in average investments.

Average advances were $54 billion in 2020, a decrease of $20.6 billion, or 28%, from 2019.

Average investments increased $2.6 billion or 11% primarily due to additional short-term liquidity balances.

At September 30, 2020, total advances were $35.8 billion, down 45% from $65.6 billion at December 31, 2019.

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

Retained earnings at September 30, 2020, totaled $1.4 billion, relatively unchanged from December 31, 2019.

Financial Highlights – Selected Balance Sheet

(in millions)

	Nine months ended Sept 30, 2020	2019	Over/(Under) Amount	Percent
Average:				
Total assets	$ 86,760	$ 104,106	$ (17,346)	(17) %
Advances	54,008	74,577	(20,569)	(28)
Total investments	26,406	23,812	2,594	11

(in millions)

	Sept 30, 2020	Dec 31, 2019	Over/(Under) Amount	Percent
Spot:				
Advances	$ 35,841	$ 65,610	$ (29,769)	(45) %
Capital stock	1,880	3,055	(1,175)	(38)
Retained earnings	1,351	1,326	25	2

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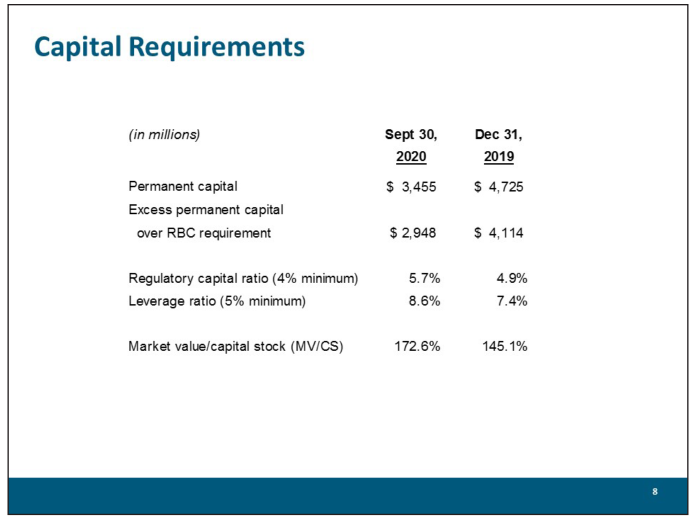
This slide provides a summary of the Bank's capital requirements.



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

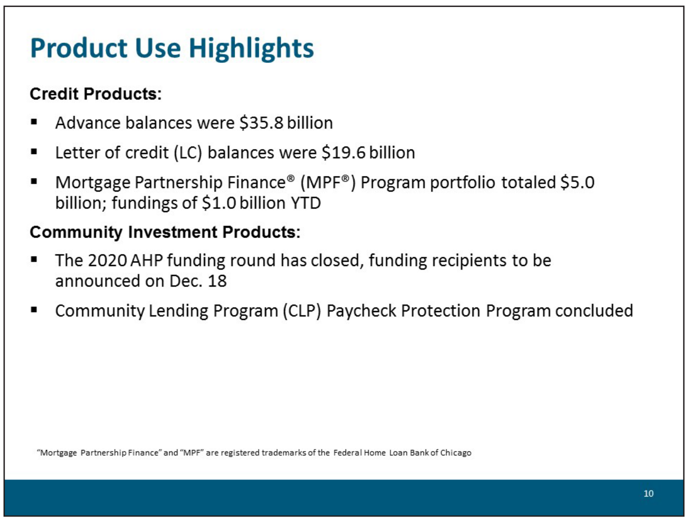
Also, at September 30, 2020, the ratio of Market Value of Equity to Capital Stock was 172.6%, up from 145.1% at year-end 2019. This increase was primarily due to a decrease in capital stock balances as a result of lower advances.

This concludes my portion of the presentation. Dave Paulson will now provide a business review.

David Paulson

Thank you, Ted.

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



As Winthrop noted, we saw volatility in our advance portfolio over the first nine months of the year. We ended the first three months at $78.1 billion, decreased to $49.6 billion at the end of June, and reached $35.8 billion to end the third quarter. This expansion and contraction demonstrate the Bank's ability to respond to member need.

Letter of credit, or LC, activity increased from $16.4 billion at the end of second quarter to $19.6 billion for third quarter. This increase follows the increase in municipal deposits at our member institutions and broader use of the product by our membership base.

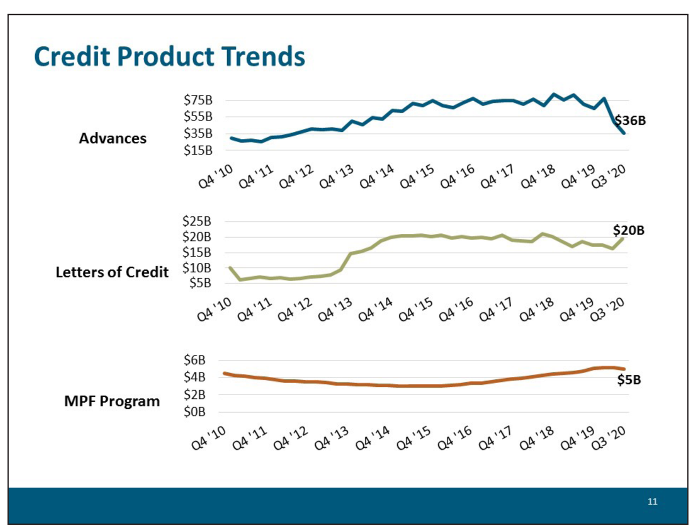
For the first nine months, MPF Program performance remained solid, and the portfolio sits at $5 billion. Program fundings for the first nine months were $1 billion.

With current market conditions, we anticipate accelerated mortgage portfolio paydowns for the remainder of the year.

For our community investment products, our funding round for the 2020 Affordable Housing Program, or AHP, closed in August. Our team is reviewing and scoring the applications. Funding recipients will be announced on December 18th.

As you may recall, we expanded our Community Lending Program, or CLP, to include funding for Paycheck Protection Program, or PPP, loans. That temporary program offering has concluded. However, the Bank continues to accept PPP loans as eligible collateral.

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

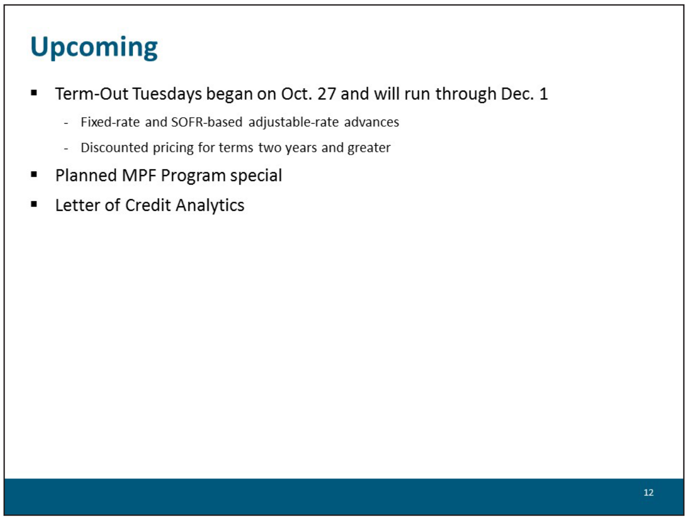


Advances continue to be the Bank's primary credit product and make up approximately 60% of our balance sheet.

As you'll note in the trend graph, advances continued to decline in the third quarter following a first quarter increase. Our advances are approaching levels we experienced in 2012.

LCs are most often used to secure public unit deposits, eliminating the need for members to pledge investment securities to support these deposits. LC volumes have been consistent over time and we experienced an increase from the prior quarter for the reasons I noted – timing and broader use.

The MPF Program offers members liquidity on their 30-year residential mortgages and represents just over 8% of our balance sheet. Volumes were stable for the first nine months.



We have a few new items of note.

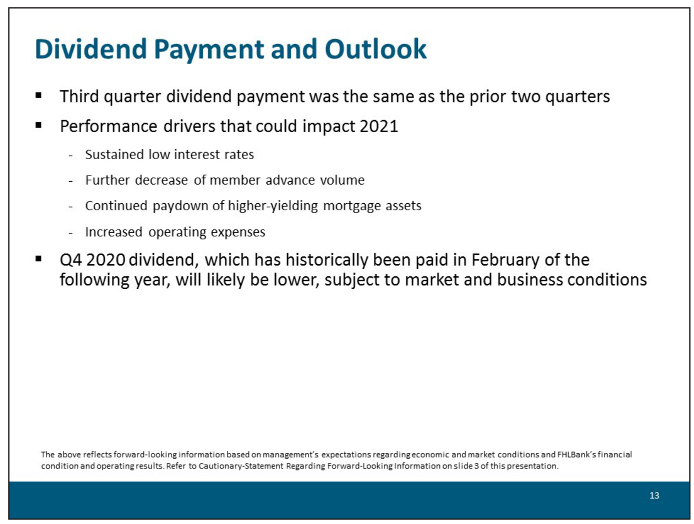
As you may have seen last week, our Term-Out Tuesday offering has returned.

Each Tuesday morning, from now through December 1st, members have the opportunity to execute long-term, fixed-rate and SOFR-based adjustable-rate advances.

We are also planning an MPF Program special for mid-November. That announcement, along with program details, will be available soon. Please be on the lookout for that member communication.

Finally, we recently began offering members a data-driven, customized analytical tool to illustrate the impact of using our LCs on three key metrics – liquidity ratio, pledged securities and net interest margin.

To request a customized impact analysis for your institution, please contact your Business Development Manager.



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

For this quarter, we were pleased to support the same level of dividend as the prior two quarters.

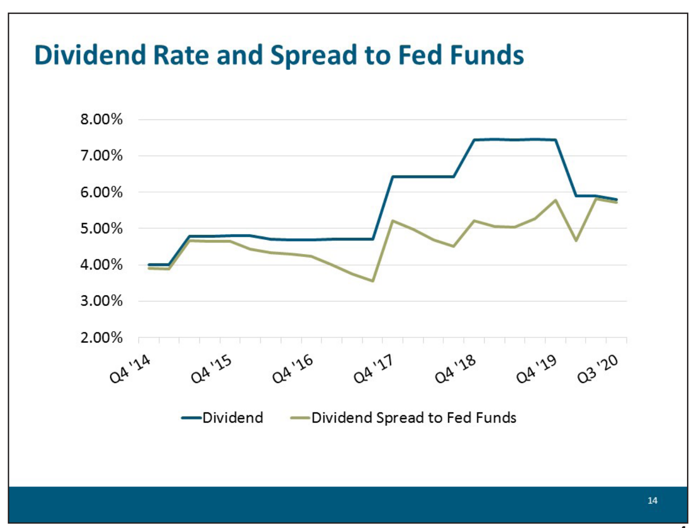
We continue to acknowledge and monitor the performance drivers that could impact our financial performance into 2021. These include:

- Sustained low interest rates,
- Further decreased member advance volume,
- Continued paydown of higher-yielding mortgage assets, and
- Increased operating expenses.

The combination of sustained lower interest rates, an evolving operating environment and lower net income will likely continue.

We will monitor the potential impact of the performance drivers throughout the remainder of this year and into 2021.

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



With respect to the performance drivers just mentioned and the dividend outlook, the next slide shows our dividend rate and dividend spread to fed funds over the last few years.

Please note the dividend spread to fed funds. These data points demonstrate 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.

I will turn the call back over to Winthrop for some final comments and to address any questions that you may have.

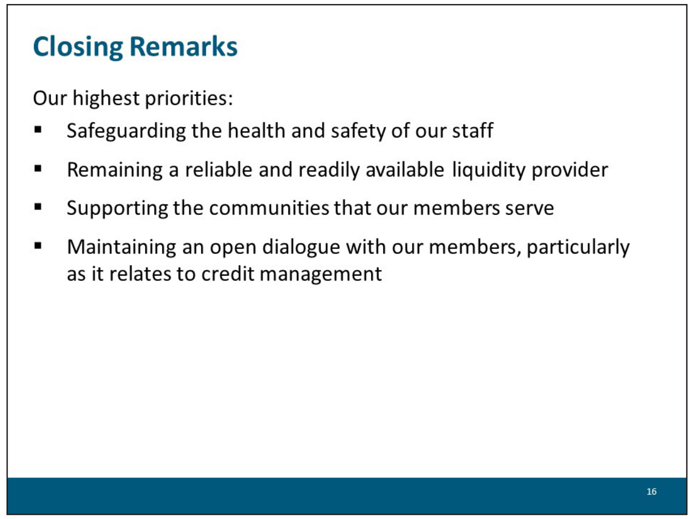
Winthrop Watson

Thank you, Dave.

Our priorities continue to be the health and safety of our staff and providing our members with on-demand liquidity.

Those priorities enable us to best serve our members and the communities that each of you serve.

Maintaining open dialogue with our members is central to the Bank, and we welcome your feedback at any time. Member engagement is also important as it relates to management of member credit, particularly in these unique times.



As a closing Election Day reminder, please note that the Federal Home Loan Bank of Pittsburgh will also be closing our Director Election this week on Thursday at 5 p.m. If you haven't done so already, please be sure to vote your shares.

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

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

In closing, on behalf of our entire organization, I would like to wish everyone a safe and happy holiday season. Stay well.

Winthrop Watson
President and
Chief Executive Officer

Ted Weller
Chief Accounting Officer

David Paulson
Chief Operating Officer

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