

THE VALUE OF VISION

January  
2024

# Financial Statements and Management's Discussion & Analysis





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## Management's Discussion and Analysis

### RESULTS OF OPERATIONS

Catalyst's net income for the one month ended January 31, 2024 and 2023 totaled \$4,626,338 and \$2,954,513, respectively. January operations resulted in an operating efficiency ratio (net fee income divided by operating expenses) for 2024 and 2023 of 66.2% and 68.7%, respectively. In December 2023, Catalyst called \$23,970,076 of outstanding perpetual contributed capital (PCC).

A summary of the unaudited results of Catalyst's operations for the one month ended January 31, 2024 and 2023 is included in the following table.

|                          | YTD Jan 2024 | YTD Jan 2023 |
|--------------------------|--------------|--------------|
| Net interest income      | \$6,146,009  | \$3,941,438  |
| Net fee income           | 3,518,724    | 3,313,522    |
| Operating expenses       | (5,316,281)  | (4,825,551)  |
| Non controlling interest | 277,886      | 165,104      |
| Net income               | \$4,626,338  | \$2,594,513  |

| <b>Key Information:</b>                     |                 |                 |
|---|-----------------|-----------------|
| Net operating expense                       | \$1,797,557     | \$1,512,029     |
| PCC   | \$167,791,012   | \$187,417,762   |
| Retained earnings                           | \$246,474,904   | \$192,678,473   |
|   |                 |                 |
| Operating efficiency ratio                  | 66.2%           | 68.7%           |
| Return on assets                            | 1.23%           | 0.81%           |
| Leverage / Tier 1 capital ratio             | 9.13%           | 9.85%           |
| Retained earnings ratio                     | 5.57%           | 5.12%           |
|   |                 |                 |
| Daily average net assets – 12 month rolling | \$4,428,454,559 | \$3,766,764,492 |
| Monthly average EBA balance transfer to FRB | \$3,451,021,916 | \$2,996,906,765 |

## CREDIT RISK

The weighted average life of assets is 1.161 years. All investment securities are classified as available-for-sale investments and have a weighted average life of 1.600 years. As of January 31, 2024, Catalyst's investments are comprised as follows:

|  | <b>Amortized Cost</b>  | <b>Estimated Fair Value</b> | <b>Net Unrealized (Loss)/Gain</b> |
|--|------------------------|-----------------------------|-----------------------------------|
| Asset-backed securities                      | \$1,713,024,194        | \$1,711,144,353             | (\$1,879,841)                     |
| Agency commercial mortgage-backed securities | 600,719,339            | 590,200,342                 | (10,518,997)                      |
| Agency mortgage-backed securities            | 75,128,239             | 73,273,732                  | (1,854,507)                       |
| U.S. Treasury securities                     | 42,034,277             | 41,122,972                  | (911,305)                         |
| Corporate debt obligations                   | 21,921,097             | 21,883,365                  | (37,732)                          |
| Federal agency securities                    | 789,005                | 794,039                     | 5,034                             |
| <b>Total</b>                                 | <b>\$2,453,616,151</b> | <b>\$2,438,418,803</b>      | <b>(\$15,197,348)</b>             |

Catalyst's asset-backed securities are collateralized by the following asset types as of January 31, 2024:

|                    | <b>Amortized Cost</b>  | <b>Estimated Fair Value</b> | <b>Net Unrealized Gain/(Loss)</b> |
|--------------------|------------------------|-----------------------------|-----------------------------------|
| Automobile         | \$626,579,909          | \$627,616,479               | \$1,036,570                       |
| Credit card        | 508,774,597            | 508,036,844                 | (737,753)                         |
| FFELP student loan | 338,225,015            | 335,781,874                 | (2,443,141)                       |
| Equipment          | 239,444,673            | 239,709,156                 | 264,483                           |
| <b>Total</b>       | <b>\$1,713,024,194</b> | <b>\$1,711,144,353</b>      | <b>(\$1,879,841)</b>              |

## INTEREST RATE RISK

Catalyst's primary method of monitoring interest rate risk is through the net economic value (NEV) test. The NEV test measures the dollar and percentage potential change in the fair value of Catalyst's capital (perpetual contributed capital and retained earnings) given a parallel, instantaneous, and permanent 300 basis point upward and downward change in the yield curve. The objective of the NEV test is to measure whether Catalyst has sufficient capital to absorb potential changes to the fair value of its balance sheet given large, sustained instantaneous interest rate shocks.

A summary of Catalyst's NEV test as of January 31, 2024 is as follows (in thousands):

|                 | Fair Value | Fair Value<br>+300 Basis Points | Fair Value<br>-300 Basis Points |
|-----------------|------------|---------------------------------|---------------------------------|
| NEV             | \$396,400  | \$316,100                       | \$483,800                       |
| % Change in NEV | -          | (20.3%)                         | 22.1%                           |

The percentage changes to Catalyst's NEV under either rate shock are under the 35 percent NCUA regulatory limit under Part I Expanded Authority.

## LIQUIDITY RISK

Liquidity risk pertains to whether Catalyst has sufficient short-term assets, marketable securities, and borrowing capacity to meet member credit unions' potential liquidity needs.

As of January 31, 2024, Catalyst has \$1,600,944,748 in cash and cash equivalents. In addition, Catalyst has access to a \$1,625,532,485 borrowing capacity at the Federal Reserve Bank (FRB) based on available collateral. Catalyst also has access to a \$322,206,286 advised line of credit (LOC) with Federal Home Loan Bank (FHLB) of Dallas, as well as a \$200,000,000 repurchase agreement LOC with J.P. Morgan Securities LLC, all of which are secured with qualified investment securities. Additionally, Catalyst has access to a \$30,000,000 unsecured Fed Funds LOC with JPMorgan Chase Bank as of January 31, 2024. Catalyst has \$180,000,000 outstanding advance as of January 31, 2024.

Catalyst continues to meet members' liquidity needs. Catalyst has outstanding loans of \$456,093,934 and additional uncommitted LOCs to members of \$11,193,932,488 as of January 31, 2024. All outstanding LOCs are collateralized by specific or general pledges of the members' assets.

## REGULATORY CAPITAL

Catalyst exceeded all of the regulatory capital requirements under section 704.3 of the NCUA Regulations as of January 31, 2024. The table below presents Catalyst's actual and required capital ratios as of January 31, 2024:

| Capital Ratio                   | Ratio         | Minimum level to be classified as adequately capitalized | Minimum level to be classified as well capitalized |
|---------------------------------|---------------|--|--|
| Retained earnings ratio         | <b>5.57%</b>  | N/A  | N/A  |
| Leverage / Tier 1 capital ratio | <b>9.13%</b>  | 4.00%  | 5.00%  |
| Tier 1 risk-based capital ratio | <b>30.93%</b> | 4.00%  | 6.00%  |
| Total risk-based capital ratio  | <b>30.93%</b> | 8.00%  | 10.00%   |

## Consolidated Statements of Financial Condition

(Unaudited)

| January 31,  | 2024            | 2023            |
|--|-----------------|-----------------|
| <b>Assets</b>  |                 |                 |
| Cash and cash equivalents  | \$1,600,944,748 | \$826,490,687   |
| Investments:   |                 |                 |
| Available-for-sale   | 2,438,418,803   | 1,590,923,205   |
| Other investments  | 43,695,642      | 44,415,965      |
| Loans, net of allowance of \$0 and \$13,669 as of January 31, 2024 and 2023, respectively    | 456,093,934     | 818,100,504     |
| Accrued receivables and other assets   | 47,161,609      | 42,016,158      |
| Property and equipment, net  | 14,268,558      | 13,484,658      |
| Goodwill and other intangible assets   | 6,833,386       | 7,243,386       |
| National Credit Union Share Insurance Fund (NCUSIF)  | 2,392,209       | 2,390,296       |
| Total assets   | \$4,609,808,889 | \$3,345,064,859 |
| <b>Liabilities</b>   |                 |                 |
| Members' shares and certificates   | \$4,001,909,638 | \$2,962,631,713 |
| Borrowed funds   | 180,000,000     | -               |
| Accrued expenses and other liabilities   | 20,620,335      | 19,320,918      |
| Total liabilities  | 4,202,529,973   | 2,981,952,631   |
| <b>Members' Equity</b>   |                 |                 |
| PCC  | 167,791,012     | 187,417,762     |
| Retained earnings  | 246,474,904     | 192,678,473     |
| Non controlling interest   | 8,351,536       | 10,808,136      |
| Accumulated other comprehensive loss   | (15,338,536)    | (27,792,143)    |
| Total members' equity  | 407,278,916     | 363,112,228     |
| Total liabilities and members' equity  | \$4,609,808,889 | \$3,345,064,859 |
| <i>The accompanying notes are an integral part of the consolidated financial statements.</i> |                 |                 |

## Consolidated Statements of Income

(Unaudited)

|  | For the month ended January 31, |                    |
|--|---------------------------------|--------------------|
|  | 2024                            | 2023               |
| <b>Interest income</b>   |                                 |                    |
| Available-for-sale investments   | \$10,224,790                    | \$4,683,504        |
| Federal Reserve Bank   | 7,420,890                       | 3,500,675          |
| Loans  | 2,262,960                       | 3,594,243          |
| Other  | 235,229                         | 166,919            |
| Total interest income  | 20,143,869                      | 11,945,341         |
| <b>Interest expense</b>  |                                 |                    |
| Members' shares and certificates   | 13,260,982                      | 7,303,754          |
| Borrowed funds   | 736,878                         | 700,149            |
| Total interest expense   | 13,997,860                      | 8,003,903          |
| Net interest income  | 6,146,009                       | 3,941,438          |
| <b>Net fee income</b>  |                                 |                    |
| Share draft and depository processing fees   | 2,001,976                       | 1,869,044          |
| Off-balance-sheet income   | 746,038                         | 714,945            |
| Other fee income   | 1,600,901                       | 1,602,665          |
| Outside processing and service costs   | (830,191)                       | (873,132)          |
| Total net fee income   | 3,518,724                       | 3,313,522          |
| <b>Operating expenses</b>  |                                 |                    |
| Compensation and benefits  | 3,937,739                       | 3,675,061          |
| Information technology   | 885,003                         | 736,996            |
| Professional fees  | 120,707                         | 118,592            |
| Office occupancy   | 117,427                         | 94,546             |
| Other operating expense  | 255,405                         | 200,356            |
| Total operating expenses   | 5,316,281                       | 4,825,551          |
| <b>Non controlling interest</b>  | 277,886                         | 165,104            |
| <b>Net income</b>  | <b>\$4,626,338</b>              | <b>\$2,594,513</b> |
| <i>The accompanying notes are an integral part of the consolidated financial statements.</i> |                                 |                    |



## Consolidated Statement of Comprehensive Income

(Unaudited)

| For the month ended January 31,  | 2024               |
|--|--------------------|
| <b>Net income</b>  | <b>\$4,626,338</b> |
| <b>Other comprehensive income</b>  |                    |
| Net unrealized holding gains on investments classified as available-for-sale                 | 1,157,811          |
| Net unrealized holding losses on derivatives designated as cash flow                         | (27,015)           |
| Total other comprehensive income   | 1,130,796          |
| <b>Comprehensive income</b>  | <b>\$5,757,134</b> |
| <i>The accompanying notes are an integral part of the consolidated financial statements.</i> |                    |

## Consolidated Statement of Members' Equity

(Unaudited)

For the month ended January 31, 2024

|  | Perpetual<br>Contributed<br>Capital | Retained<br>Earnings | Non<br>Controlling<br>Interest | Accumulated<br>Other<br>Comprehensive<br>Loss | Total                |
|--|-------------------------------------|----------------------|--------------------------------|---|----------------------|
| Balance at December 31, 2023   | \$167,790,512                       | \$244,718,980        | \$8,629,422                    | (\$16,469,332)                                | \$404,669,582        |
| Net income/ (loss)   |                                     | 4,626,338            | (277,886)                      |   | 4,348,452            |
| PCC issued   | 500                                 |                      |                                |   | 500                  |
| Dividends paid on PCC  |                                     | (2,870,414)          |                                |   | (2,870,414)          |
| Other comprehensive income   |                                     |                      |                                | 1,130,796                                     | 1,130,796            |
| Balance at January 31, 2024  | <b>\$167,791,012</b>                | <b>\$246,474,904</b> | <b>\$8,351,536</b>             | <b>(\$15,338,536)</b>                         | <b>\$407,278,916</b> |
| <i>The accompanying notes are an integral part of the consolidated financial statements.</i> |                                     |                      |                                |   |                      |

## Notes to Consolidated Financial Statements

### 1. Cash and Cash Equivalents

Cash on deposit and cash items in the process of collection from correspondent banks and the FRB are included in cash and cash equivalents in the consolidated statements of financial condition. As of January 31, 2024 cash and cash equivalents include \$19,354,540 in money market mutual fund investments.

### 2. Available-for-Sale Investments

The amortized cost and estimated fair value of available-for-sale investments as of January 31, 2024 are as follows:

|  | Amortized Cost  | Estimated Fair Value | Net Unrealized (Loss)/Gain |
|--|-----------------|----------------------|----------------------------|
| Asset-backed securities                      | \$1,713,024,194 | \$1,711,144,353      | (\$1,879,841)              |
| Agency commercial mortgage-backed securities | 600,719,339     | 590,200,342          | (10,518,997)               |
| Agency mortgage-backed securities            | 75,128,239      | 73,273,732           | (1,854,507)                |
| U.S. Treasury securities                     | 42,034,277      | 41,122,972           | (911,305)                  |
| Corporate debt obligations                   | 21,921,097      | 21,883,365           | (37,732)                   |
| Federal agency securities                    | 789,005         | 794,039              | 5,034                      |
| Total  | \$2,453,616,151 | \$2,438,418,803      | (\$15,197,348)             |

### 3. Other Investments

Other investments are comprised of the following as of January 31, 2024:

|   |              |
|---|--------------|
| Investments in credit union service organizations (CUSOs) | \$7,864,642  |
| Interest-bearing certificates of deposit                  | 31,321,000   |
| FHLB capital stock  | 2,510,000    |
| Other   | 2,000,000    |
| Total   | \$43,695,642 |

Investments in CUSOs includes equity method investments in CU Business Group, LLC and Primary Financial, LLC and investments carried at cost, less impairments, if any, which include investments in CO-OP, CURQL Fund I, LLP, Constellation Digital Partners, LLC, CU Investment Solutions, LLC, Members Development Company, LLC, and PSCU.

#### 4. Loans

The composition of loans is as follows as of January 31, 2024:

|                       |               |
|-----------------------|---------------|
| Open-end credit lines | \$147,907,679 |
| Term loans            | 308,034,876   |
| Loan participations   | 151,379       |
| Total                 | \$456,093,934 |

#### 5. Members' Shares and Certificates

Members' shares and certificates are summarized as follows as of January 31, 2024 are as follows:

|                       |                 |
|-----------------------|-----------------|
| Members' shares       | \$3,842,038,109 |
| Members' certificates | 159,871,529     |
| Total                 | \$4,001,909,638 |

Catalyst members transferred \$3,239,538,216 to the Excess Balance Account at the FRB as of January 31, 2024.

#### 6. U.S. Central Estate Settlement

On March 18, 2021, the NCUA announced an interim distribution representing a partial recovery to the capital holders of the U.S. Central Asset Management Estate (USC AME). Catalyst holds an interest in the USC AME related to claims from Georgia Corporate Federal Credit Union (Georgia) and First Corporate Federal Credit Union (FirstCorp). Details regarding recovery and distributions to date are presented in the table below:

|   |               |
|---|---------------|
| Distributions received from USC AME related to Georgia and FirstCorp                        | \$106,394,000 |
| Projected remaining amount  | 4,027,000     |
| Total expected recovery   | \$110,421,000 |
| 2022 Distributions to former members of Georgia and FirstCorp that are Catalyst PCC members | \$53,014,000  |
| 2022 Waiver of Catalyst service fees to all credit unions                                   | \$2,836,000   |