

THE VALUE OF VISION

February
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 two months ended February 29, 2024 and February 28, 2023 totaled \$9,370,768 and \$5,306,365, respectively. February year-to-date operations resulted in an operating efficiency ratio (net fee income divided by operating expenses) for 2024 and 2023 of 65.0% and 68.5%, 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 two months ended February 29, 2024 and February 28, 2023 is included in the following table.

	YTD Feb 2024	YTD Feb 2023
Net interest income	\$12,512,692	\$7,947,798
Net fee income	6,955,243	6,433,827
Operating expenses	(10,695,579)	(9,390,541)
Non controlling interest	598,412	315,281
Net income	\$9,370,768	\$5,306,365

Key Information:		
Net operating expense	\$3,740,336	\$2,956,714
PCC	\$167,791,012	\$187,417,762
Retained earnings	\$251,219,334	\$195,390,325
Operating efficiency ratio	65.0%	68.5%
Return on assets	1.27%	0.87%
Leverage / Tier 1 capital ratio	9.09%	9.89%
Retained earnings ratio	5.58%	5.17%
Daily average net assets – 12 month rolling	\$4,498,674,893	\$3,777,201,073
Monthly average EBA balance transfer to FRB	\$3,957,009,174	\$2,608,058,431

CREDIT RISK

The weighted average life of assets is 1.000 years. All investment securities are classified as available-for-sale investments and have a weighted average life of 1.493 years. As of February 29, 2024, Catalyst's investments are comprised as follows:

	Amortized Cost	Estimated Fair Value	Net Unrealized (Loss)/Gain
Asset-backed securities	\$1,829,316,114	\$1,825,010,844	(\$4,305,270)
Agency commercial mortgage-backed securities	607,585,391	593,939,404	(13,645,987)
Agency mortgage-backed securities	84,636,021	81,901,164	(2,734,857)
U.S. Treasury securities	39,791,117	38,792,122	(998,995)
Corporate debt obligations	21,864,345	21,835,954	(28,391)
Federal agency securities	782,299	786,953	4,654
Total	\$2,583,975,287	\$2,562,266,441	(\$21,708,846)

Catalyst's asset-backed securities are collateralized by the following asset types as of February 29, 2024:

	Amortized Cost	Estimated Fair Value	Net Unrealized (Loss)/Gain
Credit card	\$648,198,592	\$645,960,954	(\$2,237,638)
Automobile	620,870,336	621,330,876	460,540
FFELP student loan	323,409,913	320,990,526	(2,419,387)
Equipment	236,837,273	236,728,488	(108,785)
Total	\$1,829,316,114	\$1,825,010,844	(\$4,305,270)

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 February 29, 2024 is as follows (in thousands):

	Fair Value	Fair Value +300 Basis Points	Fair Value -300 Basis Points
NEV	\$391,100	\$311,500	\$477,600
% 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 February 29, 2024, Catalyst has \$2,211,977,722 in cash and cash equivalents. In addition, Catalyst has access to a \$1,569,756,506 borrowing capacity at the Federal Reserve Bank (FRB) based on available collateral. Catalyst also has access to a \$345,114,105 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 February 29, 2024. Catalyst has \$180,000,000 outstanding advance as of February 29, 2024.

Catalyst continues to meet members' liquidity needs. Catalyst has outstanding loans of \$366,815,791 and additional uncommitted LOCs to members of \$11,248,330,403 as of February 29, 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 February 29, 2024. The table below presents Catalyst's actual and required capital ratios as of February 29, 2024:

Capital Ratio	Ratio	Minimum level to be classified as adequately capitalized	Minimum level to be classified as well capitalized
Retained earnings ratio	5.58%	N/A	N/A
Leverage / Tier 1 capital ratio	9.09%	4.00%	5.00%
Tier 1 risk-based capital ratio	30.14%	4.00%	6.00%
Total risk-based capital ratio	30.14%	8.00%	10.00%

Consolidated Statements of Financial Condition

(Unaudited)

As of	February 29, 2024	February 28, 2023
Assets		
Cash and cash equivalents	\$2,211,977,722	\$1,972,378,381
Investments:		
Available-for-sale	2,562,266,441	1,594,361,331
Other investments	43,695,961	46,132,603
Loans, net of allowance of \$0 and \$13,669 as of February 29, 2024 and 2023, respectively	366,815,791	708,295,187
Accrued receivables and other assets	50,190,776	42,663,638
Property and equipment, net	14,129,101	13,838,711
Goodwill and other intangible assets	6,799,220	7,209,220
National Credit Union Share Insurance Fund (NCUSIF)	2,392,209	2,390,296
Total assets	\$5,258,267,221	\$4,387,269,367
Liabilities		
Members' shares and certificates	\$4,648,622,667	\$3,930,789,059
Borrowed funds	180,000,000	-
Accrued expenses and other liabilities	23,846,100	96,009,974
Total liabilities	4,852,468,767	4,026,799,033
Members' Equity		
PCC	167,791,012	187,417,762
Retained earnings	251,219,334	195,390,325
Non controlling interest	9,031,010	10,657,959
Accumulated other comprehensive loss	(22,242,902)	(32,995,712)
Total members' equity	405,798,454	360,470,334
Total liabilities and members' equity	\$5,258,267,221	\$4,387,269,367
<i>The accompanying notes are an integral part of the consolidated financial statements.</i>		

Consolidated Statements of Income

(Unaudited)

	For the two months ended	
	February 29, 2024	February 28, 2023
Interest income		
Available-for-sale investments	\$20,841,500	\$9,118,388
Federal Reserve Bank	15,540,498	9,233,994
Loans	4,106,416	6,704,082
Other	450,459	308,398
Total interest income	40,938,873	25,364,862
Interest expense		
Members' shares and certificates	27,008,558	16,716,915
Borrowed funds	1,417,623	700,149
Total interest expense	28,426,181	17,417,064
Net interest income	12,512,692	7,947,798
Net fee income		
Share draft and depository processing fees	3,904,861	3,627,603
Off-balance-sheet income	1,553,517	1,441,697
Other fee income	3,193,685	3,036,927
Outside processing and service costs	(1,696,820)	(1,672,400)
Total net fee income	6,955,243	6,433,827
Operating expenses		
Compensation and benefits	7,693,919	7,015,706
Information technology	1,792,406	1,505,834
Professional fees	360,811	245,979
Office occupancy	215,083	194,045
Other operating expense	633,360	428,977
Total operating expenses	10,695,579	9,390,541
Non controlling interest	598,412	315,281
Net income	\$9,370,768	\$5,306,365
<i>The accompanying notes are an integral part of the consolidated financial statements.</i>		

Consolidated Statement of Comprehensive Income

(Unaudited)

For the two months ended February 29,	2024
Net income	\$9,370,768
Other comprehensive loss	
Net unrealized holding losses on investments classified as available-for-sale	(5,353,687)
Net unrealized holding losses on derivatives designated as cash flow hedges	(419,883)
Total other comprehensive loss	(5,773,570)
Comprehensive income	\$3,597,198
<i>The accompanying notes are an integral part of the consolidated financial statements.</i>	

Consolidated Statement of Members' Equity

(Unaudited)

For the two months ended February 29, 2024

	Perpetual Contributed Capital	Retained Earnings	Non Controlling Interest	Accumulated Other Comprehensive 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)		9,370,768	(598,412)		8,772,356
Capital contribution - additional			1,000,000		1,000,000
PCC issued	500				500
Dividends paid on PCC		(2,870,414)			(2,870,414)
Other comprehensive loss				(5,773,570)	(5,773,570)
Balance at February 29, 2024	\$167,791,012	\$251,219,334	\$9,031,010	(\$22,242,902)	\$405,798,454
<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 February 29, 2024 cash and cash equivalents include \$16,307,295 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 February 29, 2024 are as follows:

	Amortized Cost	Estimated Fair Value	Net Unrealized (Loss)/Gain
Asset-backed securities	\$1,829,316,114	\$1,825,010,844	(\$4,305,270)
Agency commercial mortgage-backed securities	607,585,391	593,939,404	(13,645,987)
Agency mortgage-backed securities	84,636,021	81,901,164	(2,734,857)
U.S. Treasury securities	39,791,117	38,792,122	(998,995)
Corporate debt obligations	21,864,345	21,835,954	(28,391)
Federal agency securities	782,299	786,953	4,654
Total	\$2,583,975,287	\$2,562,266,441	(\$21,708,846)

3. Other Investments

Other investments are comprised of the following as of February 29, 2024:

Investments in credit union service organizations (CUSOs)	\$7,864,961
Interest-bearing certificates of deposit	31,321,000
FHLB capital stock	2,510,000
Other	2,000,000
Total	\$43,695,961

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 PSCU/CO-OP, CURQL Fund I, LLP, Constellation Digital Partners, LLC, CU Investment Solutions, LLC, and Members Development Company, LLC.

4. Loans

The composition of loans is as follows as of February 29, 2024:

Open-end credit lines	\$62,114,015
Term loans	304,701,776
Total	\$366,815,791

5. Members' Shares and Certificates

Members' shares and certificates are summarized as follows as of February 29, 2024 are as follows:

Members' shares	\$4,488,244,606
Members' certificates	160,378,061
Total	\$4,648,622,667

Catalyst members transferred \$4,440,463,042 to the Excess Balance Account at the FRB as of February 29, 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