



CATALYST
Corporate Federal Credit Union

**June
2023**

**Financial Statements
and Management's
Discussion & Analysis**

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Management's Discussion and Analysis

Results of Operations

Catalyst Corporate's net income for the six months ended June 30, 2023 and 2022 totaled \$30,600,213 and \$25,074,654, respectively. June year-to-date operations resulted in an operating efficiency ratio (net fee income divided by operating expenses) for 2023 and 2022 of 69.8% and 78.7%, respectively.

A summary of the unaudited results of Catalyst Corporate's operations for the six months ended June 30, 2023 and 2022 is included in the following table.

	YTD June 2023	YTD June 2022
Net interest income	\$27,322,748	\$10,431,723
Recapture of loan losses	-	6,915
Net fee income	20,562,182	20,842,058
Operating expenses	(29,439,552)	(26,480,666)
April 2022 fee waiver	-	(2,835,941)
Other net gains	-	1,640,900
Other income	10,999,780	20,642,325
Non controlling interest	1,155,055	827,340
Net income	\$30,600,213	\$25,074,654

Key Information:		
Net operating expense	\$8,877,370	\$5,638,608
Perpetual contributed capital (PCC)	\$189,262,012	\$186,580,840
Retained earnings	\$218,331,968	\$181,186,384
Operating efficiency ratio	69.8%	78.7%
Return on assets	1.55%	1.25%
Leverage / Tier 1 capital ratio	10.03%	8.92%
Retained earnings ratio	5.50%	4.49%
Daily average net assets – 12 month rolling	\$3,971,153,227	\$4,033,505,620
Monthly average EBA balance transfer to FRB	\$2,245,980,761	\$6,718,183,857

Credit Risk

The weighted average life of assets is 0.825 years. All investment securities are classified as available-for-sale investments and have a weighted average life of 1.702 years. As of June 30, 2023, Catalyst Corporate's investments are comprised as follows:

	Amortized Cost	Estimated Fair Value	Net Unrealized (Loss) Gain
Asset-backed securities	\$892,806,593	\$883,316,886	(\$9,489,707)
Agency commercial mortgage-backed securities	579,638,754	562,429,087	(17,209,667)
U.S. Treasury securities	81,275,444	79,200,101	(2,075,343)
Agency mortgage-backed securities	87,091,275	83,871,986	(3,219,289)
Corporate debt obligations	36,668,751	36,381,694	(287,057)
Federal agency securities	974,943	979,861	4,918
Total	\$1,678,455,760	\$1,646,179,615	(\$32,276,145)

Catalyst Corporate's asset-backed securities are collateralized by the following asset types as of June 30, 2023:

	Amortized Cost	Estimated Fair Value	Net Unrealized Loss
Credit card	\$370,751,568	\$365,611,692	(\$5,139,876)
Automobile	263,336,439	261,494,821	(1,841,618)
FFELP student loan	142,400,575	140,572,637	(1,827,938)
Equipment	116,318,011	115,637,736	(680,275)
Total	\$892,806,593	\$883,316,886	(\$9,489,707)

Interest Rate Risk

Catalyst Corporate'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 Corporate'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 Corporate 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 Corporate's NEV test as of June 30, 2023 is as follows (in thousands):

	Fair Value	Fair Value +300 Basis Points	Fair Value -300 Basis Points
NEV	\$370,400	\$301,600	\$448,200
% Change in NEV	-	(18.6%)	21.0%

The percentage changes to Catalyst Corporate'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 Corporate has sufficient short-term assets, marketable securities, and borrowing capacity to meet member credit unions' potential liquidity needs.

As of June 30, 2023, Catalyst Corporate has \$2,962,829,673 in cash and cash equivalents. In addition, Catalyst Corporate has access to a \$846,974,765 borrowing capacity at the Federal Reserve Bank based on available collateral. Catalyst Corporate also has access to a \$500,431,439 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 Corporate has access to a \$30,000,000 unsecured Fed Funds LOC with JPMorgan Chase Bank as of June 30, 2023. Catalyst Corporate has \$150,000,000 outstanding advance as of June 30, 2023.

Catalyst Corporate continues to meet members' liquidity needs. Catalyst Corporate has outstanding loans of \$309,093,635 and additional uncommitted LOCs to members of \$10,810,199,271 as of June 30, 2023. All outstanding LOCs are collateralized by specific or general pledges of the members' assets.

Regulatory Capital

Catalyst Corporate exceeded all of the regulatory capital requirements under section 704.3 of the NCUA Regulations as of June 30, 2023. The table below presents Catalyst Corporate's actual and required capital ratios as of June 30, 2023:

Capital Ratio	Ratio	Minimum level to be classified as adequately capitalized	Minimum level to be classified as well capitalized
Retained earnings ratio	5.50%	N/A	N/A
Leverage / Tier 1 capital ratio	10.03%	4.00%	5.00%
Tier 1 risk-based capital ratio	31.39%	4.00%	6.00%
Total risk-based capital ratio	31.40%	8.00%	10.00%

Consolidated Statements of Financial Condition

(Unaudited)

June 30,	2023	2022
Assets		
Cash and cash equivalents	\$2,962,829,673	\$898,048,766
Investments:		
Available-for-sale	1,646,179,615	1,948,852,531
Central Liquidity Facility (CLF) capital stock	-	99,955,549
Other investments	41,867,925	16,692,751
Loans, net of allowance of \$13,669 and \$38,048 as of June 30, 2023 and 2022, respectively	309,093,635	535,162,529
Accrued receivables and other assets	45,107,435	37,944,936
Property and equipment, net	14,230,132	13,836,862
Goodwill and other intangible assets	7,072,553	7,482,553
National Credit Union Share Insurance Fund (NCUSIF)	2,354,026	2,443,766
Total assets	\$5,028,734,994	\$3,560,420,243
Liabilities		
Members' shares and certificates	\$4,473,339,510	\$3,183,320,751
Borrowed funds	150,000,000	-
Accrued expenses and other liabilities	20,937,522	17,795,420
Total liabilities	4,644,277,032	3,201,116,171
Members' Equity		
PCC	189,262,012	186,580,840
Retained earnings	218,331,968	181,186,384
Non controlling interest	9,818,185	12,296,549
Accumulated other comprehensive loss	(32,954,203)	(20,759,701)
Total members' equity	384,457,962	359,304,072
Total liabilities and members' equity	\$5,028,734,994	\$3,560,420,243
<i>The accompanying notes are an integral part of the consolidated financial statements.</i>		

Consolidated Statements of Income

(Unaudited)

	For the six months ended June 30,	
	2023	2022
Interest income		
Available-for-sale investments	\$31,248,665	\$8,506,281
Federal Reserve Bank	46,197,325	3,744,092
Loans	14,221,337	1,742,296
Other	1,219,683	216,216
Total interest income	92,887,010	14,208,885
Interest expense		
Members' shares and certificates	\$63,347,058	3,777,162
Borrowed funds	2,217,204	-
Total interest expense	65,564,262	3,777,162
Net interest income	27,322,748	10,431,723
Recapture of loan losses	-	6,915
Net interest income after recapture of loan losses	27,322,748	10,438,638
Net fee income		
Share draft and depository processing fees	11,230,183	10,275,599
Off-balance-sheet income	4,772,921	6,238,535
Other fee income	9,253,464	8,965,921
Outside processing and service costs	(4,694,386)	(4,637,997)
Total net fee income	20,562,182	20,842,058
Operating expenses		
Compensation and benefits	21,438,803	19,107,767
Information technology	4,760,488	4,252,637
Professional fees	994,358	1,096,500
Office occupancy	612,931	600,749
Other operating expense	1,632,972	1,423,013
Total operating expenses	29,439,552	26,480,666
April 2022 fee waiver	-	(2,835,941)
Other net gains	-	1,640,900
Other income	10,999,780	20,642,325
Non controlling interest	1,155,055	827,340
Net income	\$30,600,213	\$25,074,654

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Comprehensive Income

(Unaudited)

For the six months ended June 30,	2023
Net income	\$30,600,213
Other comprehensive income	
Net unrealized holding gains on investments classified as available-for-sale	1,528,148
Net unrealized holding losses on derivatives designated as cash flow hedges	(307,072)
Total other comprehensive income	1,221,076
Comprehensive income	\$31,821,289
The accompanying notes are an integral part of the consolidated financial statements.	

Consolidated Statement of Members' Equity

(Unaudited)

For the six months ended June 30, 2023

	Perpetual Contributed Capital	Retained Earnings	Non Controlling Interest	Accumulated Other Comprehensive (Loss)/Income	Total
Balance at December 31, 2022	\$187,417,762	\$192,161,001	\$10,973,240	(\$34,175,279)	\$356,376,724
Net income (loss)		30,600,213	(1,155,055)		29,445,158
PCC issued	1,844,250				1,844,250
Dividends paid on PCC		(4,429,246)			(4,429,246)
Other comprehensive income				1,221,076	1,221,076
Balance at June 30, 2023	\$189,262,012	\$218,331,968	\$9,818,185	(\$32,954,203)	\$384,457,962
The accompanying notes are an integral part of the consolidated financial statements.					

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 Federal Reserve Bank are included in cash and cash equivalents in the consolidated statements of financial condition.

2. Available-for-Sale Investments

The amortized cost and estimated fair value of available-for-sale investments as of June 30, 2023 are as follows:

	Amortized Cost	Estimated Fair Value	Net Unrealized (Loss) Gain
Asset-backed securities	\$892,806,593	\$883,316,886	(\$9,489,707)
Agency commercial mortgage-backed securities	579,638,754	562,429,087	(17,209,667)
U.S. Treasury securities	81,275,444	79,200,101	(2,075,343)
Agency mortgage-backed securities	87,091,275	83,871,986	(3,219,289)
Corporate debt obligations	36,668,751	36,381,694	(287,057)
Federal agency securities	974,943	979,861	4,918
Total	\$1,678,455,760	\$1,646,179,615	(\$32,276,145)

3. Other Investments

Other investments are comprised of the following as of June 30, 2023:

Investments in credit union service organizations (CUSOs)	\$7,342,225
Interest-bearing certificates of deposit	30,077,000
FHLB capital stock	2,448,700
Other	2,000,000
Total	\$41,867,925

Investments in CUSOs includes equity method investments in Primary Financial, LLC and CU Business Group, 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 June 30, 2023:

Open-end credit lines	\$54,885,095
Term loans	253,954,341
Loan participations, net of allowance	254,199
Total	\$309,093,635

5. Members' Shares and Certificates

Members' shares and certificates are summarized as follows as of June 30, 2023:

Daily shares	\$4,232,243,565
Share certificates	241,095,945
Total	\$4,473,339,510

Catalyst Corporate members transferred \$2,837,871,382 to the Excess Balance Account at the Federal Reserve Bank as of June 30, 2023.

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 Corporate holds an interest in the USC AME related to claims from Georgia Corporate Federal Credit Union (Georgia Corporate) and First Corporate Federal Credit Union (First Corporate). The total expected recovery for Catalyst Corporate is approximately \$109,600,000. As of June 2023, Catalyst Corporate has received five distributions since 2021 totaling approximately \$100,629,000 with the remaining \$8,971,000 projected to be received in 2023 and 2024.

In 2022, a portion of the funds received from the USC AME was distributed to former member credit unions of Georgia Corporate and First Corporate that are capitalized PCC members of Catalyst Corporate. The amount distributed in 2022 totaled approximately \$53,014,000 and was equal to the capital that these member credit unions lost at either Georgia Corporate or First Corporate. Additionally, Catalyst waived one month of member services fees in 2022 totaling \$2,836,000.