



CATALYST
Corporate Federal Credit Union

**September
2023**

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

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For more information, please contact:

Melissa Wardell, SVP/Chief Financial Officer at 214.703.7890 or mwardell@catalystcorp.org

Management's Discussion and Analysis

Results of Operations

Catalyst Corporate's net income for the nine months ended September 30, 2023 and 2022 totaled \$48,174,420 and \$48,451,402, respectively. September year-to-date operations resulted in an operating efficiency ratio (net fee income divided by operating expenses) for 2023 and 2022 of 69.2% and 76.9%, respectively.

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

	YTD Sept 2023	YTD Sept 2022
Net interest income	\$43,409,910	\$18,921,470
Recapture of loan losses	-	6,915
Net fee income	30,957,415	31,025,044
Operating expenses	(44,752,447)	(40,370,151)
April 2022 fee waiver	-	(2,835,941)
Other net gains	-	1,640,900
Other income	16,764,532	38,718,134
Non controlling interest	1,795,010	1,345,031
Net income	\$48,174,420	\$48,451,402

Key Information:		
Net operating expense	\$13,795,032	\$9,345,107
Perpetual contributed capital (PCC)	\$190,767,017	\$186,582,231
Retained earnings	\$233,295,622	\$186,715,130
Operating efficiency ratio	69.2%	76.9%
Return on assets	1.56%	1.65%
Leverage / Tier 1 capital ratio	10.04%	9.29%
Retained earnings ratio	5.65%	4.75%
Daily average net assets – 12 month rolling	\$4,126,352,228	\$3,929,737,726
Monthly average EBA balance transfer to FRB	\$2,745,110,574	\$3,648,591,601

Credit Risk

The weighted average life of assets is 1.061 years. All investment securities are classified as available-for-sale investments and have a weighted average life of 1.755 years. As of September 30, 2023, Catalyst Corporate's investments are comprised as follows:

	Amortized Cost	Estimated Fair Value	Net Unrealized (Loss) Gain
Asset-backed securities	\$1,326,108,839	\$1,318,358,431	(\$7,750,408)
Agency commercial mortgage-backed securities	603,403,607	583,655,752	(19,747,855)
U.S. Treasury securities	60,920,336	59,227,735	(1,692,601)
Agency mortgage-backed securities	81,886,997	77,531,868	(4,355,129)
Corporate debt obligations	36,764,912	36,555,408	(209,504)
Federal agency securities	951,794	955,962	4,168
Total	\$2,110,036,485	\$2,076,285,156	(\$33,751,329)

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

	Amortized Cost	Estimated Fair Value	Net Unrealized Loss
Automobile	\$474,078,533	\$473,276,918	(\$801,615)
Credit card	414,060,546	409,039,776	(5,020,770)
FFELP student loan	284,891,222	283,220,065	(1,671,157)
Equipment	153,078,538	152,821,672	(256,866)
Total	\$1,326,108,839	\$1,318,358,431	(\$7,750,408)

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 September 30, 2023 is as follows (in thousands):

	Fair Value	Fair Value +300 Basis Points	Fair Value -300 Basis Points
NEV	\$384,300	\$306,500	\$469,300
% Change in NEV	-	(20.2%)	22.1%

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 September 30, 2023, Catalyst Corporate has \$2,330,413,002 in cash and cash equivalents. In addition, Catalyst Corporate has access to a \$1,375,478,964 borrowing capacity at the Federal Reserve Bank based on available collateral. Catalyst Corporate also has access to a \$343,988,962 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 September 30, 2023. Catalyst Corporate has \$50,000,000 outstanding advance as of September 30, 2023.

Catalyst Corporate continues to meet members' liquidity needs. Catalyst Corporate has outstanding loans of \$405,351,802 and additional uncommitted LOCs to members of \$10,904,909,823 as of September 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 September 30, 2023. The table below presents Catalyst Corporate's actual and required capital ratios as of September 30, 2023:

Capital Ratio	Ratio	Minimum level to be classified as adequately capitalized	Minimum level to be classified as well capitalized
Retained earnings ratio	5.65%	N/A	N/A
Leverage / Tier 1 capital ratio	10.04%	4.00%	5.00%
Tier 1 risk-based capital ratio	34.05%	4.00%	6.00%
Total risk-based capital ratio	34.05%	8.00%	10.00%

Consolidated Statements of Financial Condition

(Unaudited)

September 30,	2023	2022
Assets		
Cash and cash equivalents	\$2,330,413,002	\$1,950,105,876
Investments:		
Available-for-sale	2,076,285,156	1,853,841,763
Central Liquidity Facility (CLF) capital stock	-	98,595,982
Other investments	44,658,643	20,274,822
Loans, net of allowance of \$12,223 and \$38,051 as of September 30, 2023 and 2022, respectively	405,351,802	617,396,009
Accrued receivables and other assets	49,176,540	39,633,564
Property and equipment, net	14,306,132	13,885,594
Goodwill and other intangible assets	6,970,053	7,380,053
National Credit Union Share Insurance Fund (NCUSIF)	2,354,026	2,443,766
Total assets	\$4,929,515,354	\$4,603,557,429
Liabilities		
Members' shares and certificates	\$4,458,405,165	\$4,234,151,918
Borrowed funds	50,000,000	-
Accrued expenses and other liabilities	22,535,114	19,464,904
Total liabilities	4,530,940,279	4,253,616,822
Members' Equity		
PCC	190,767,017	186,582,231
Retained earnings	233,295,622	186,715,130
Non controlling interest	9,178,230	11,778,858
Accumulated other comprehensive loss	(34,665,794)	(35,135,612)
Total members' equity	398,575,075	349,940,607
Total liabilities and members' equity	\$4,929,515,354	\$4,603,557,429

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

Consolidated Statements of Income

(Unaudited)

	For the nine months ended September 30,	
	2023	2022
Interest income		
Available-for-sale investments	\$52,420,899	\$18,194,775
Federal Reserve Bank	72,127,165	9,962,546
Loans	19,710,513	5,584,172
Other	1,859,761	1,058,539
Total interest income	146,118,338	34,800,032
Interest expense		
Members' shares and certificates	98,925,635	15,406,935
Borrowed funds	3,782,793	471,627
Total interest expense	102,708,428	15,878,562
Net interest income	43,409,910	18,921,470
Recapture of loan losses	-	6,915
Net interest income after recapture of loan losses	43,409,910	18,928,385
Net fee income		
Share draft and depository processing fees	16,783,809	15,615,818
Off-balance-sheet income	7,204,553	9,023,468
Other fee income	14,137,247	13,576,691
Outside processing and service costs	(7,168,194)	(7,190,933)
Total net fee income	30,957,415	31,025,044
Operating expenses		
Compensation and benefits	32,386,681	29,225,049
Information technology	7,275,933	6,408,361
Professional fees	1,379,999	1,496,714
Office occupancy	924,389	933,270
Other operating expense	2,785,445	2,306,757
Total operating expenses	44,752,447	40,370,151
April 2022 fee waiver	-	(2,835,941)
Other net gains	-	1,640,900
Other income	16,764,532	38,718,134
Non controlling interest	1,795,010	1,345,031
Net income	\$48,174,420	\$48,451,402
<i>The accompanying notes are an integral part of the consolidated financial statements.</i>		

Consolidated Statement of Comprehensive Income

(Unaudited)

For the nine months ended September 30,	2023
Net income	\$48,174,420
Other comprehensive income	
Net unrealized holding gains on investments classified as available-for-sale	52,963
Net unrealized holding losses on derivatives designated as cash flow hedges	(543,478)
Total other comprehensive loss	(490,515)
Comprehensive income	\$47,683,905
The accompanying notes are an integral part of the consolidated financial statements.	

Consolidated Statement of Members' Equity

(Unaudited)

For the nine months ended September 30, 2023

	Perpetual Contributed Capital	Retained Earnings	Non Controlling Interest	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2022	\$187,417,762	\$192,161,001	\$10,973,240	(\$34,175,279)	\$356,376,724
Net income (loss)		48,174,420	(1,795,010)		46,379,410
PCC issued	3,349,255				3,349,255
Dividends paid on PCC		(7,039,799)			(7,039,799)
Other comprehensive loss				(490,515)	(490,515)
Balance at September 30, 2023	\$190,767,017	\$233,295,622	\$9,178,230	(\$34,665,794)	\$398,575,075
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 September 30, 2023 are as follows:

	Amortized Cost	Estimated Fair Value	Net Unrealized (Loss) Gain
Asset-backed securities	\$1,326,108,839	\$1,318,358,431	(\$7,750,408)
Agency commercial mortgage-backed securities	603,403,607	583,655,752	(19,747,855)
U.S. Treasury securities	60,920,336	59,227,735	(1,692,601)
Agency mortgage-backed securities	81,886,997	77,531,868	(4,355,129)
Corporate debt obligations	36,764,912	36,555,408	(209,504)
Federal agency securities	951,794	955,962	4,168
Total	\$2,110,036,485	\$2,076,285,156	(\$33,751,329)

3. Other Investments

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

Investments in credit union service organizations (CUSOs)	\$7,624,543
Interest-bearing certificates of deposit	32,557,000
FHLB capital stock	2,477,100
Other	2,000,000
Total	\$44,658,643

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 September 30, 2023:

Open-end credit lines	\$68,834,843
Term loans	336,316,112
Loan participations, net of allowance	200,847
Total	\$405,351,802

5. Members' Shares and Certificates

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

Daily shares	\$4,255,856,409
Share certificates	202,548,756
Total	\$4,458,405,165

Catalyst Corporate members transferred \$3,506,097,296 to the Excess Balance Account at the Federal Reserve Bank as of September 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 \$110,494,000. In September 2023, Catalyst Corporate received approximately \$5,765,000. As such, as of September 2023, Catalyst Corporate has received six distributions since 2021 totaling approximately \$106,394,000 with the remaining \$4,100,000 projected to be received in 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.