

THE VALUE OF VISION

December  
2023

# 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 years ended December 31, 2023 and 2022 totaled \$62,384,936 and \$55,308,120, respectively. December year-to-date operations resulted in an operating efficiency ratio (net fee income divided by operating expenses) for 2023 and 2022 of 69.6% and 74.9%, 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 years ended December 31, 2023 and 2022 is included in the following table.

	YTD Dec 2023	YTD Dec 2022
Net interest income	\$61,341,801	\$29,733,658
Net fee income	41,440,626	40,775,916
Operating expenses	(59,505,841)	(54,455,343)
April 2022 fee waiver	-	(2,835,941)
Other net gains	-	1,640,900
Other income	16,764,532	38,718,134
Non controlling interest	2,343,818	1,730,796
Net income	\$62,384,936	\$55,308,120

Key Information:		
Net operating expense	\$18,065,215	\$13,679,427
PCC	\$167,790,512	\$187,417,762
Retained earnings	\$244,718,980	\$192,161,001
Operating efficiency ratio	69.6%	74.9%
Return on assets	1.44%	1.46%
Leverage / Tier 1 capital ratio	9.26%	9.75%
Retained earnings ratio	5.63%	5.06%
Daily average net assets – 12 month rolling	\$4,346,080,620	\$3,796,313,939
Monthly average EBA balance transfer to FRB	\$3,037,341,654	\$2,891,673,721

## CREDIT RISK

The weighted average life of assets is 1.068 years. All investment securities are classified as available-for-sale investments and have a weighted average life of 1.624 years. As of December 31, 2023, 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	\$1,624,702,348	\$1,621,774,192	(\$2,928,156)
Agency commercial mortgage-backed securities	596,654,800	586,148,519	(10,506,281)
Agency mortgage-backed securities	76,882,612	75,065,609	(1,817,003)
U.S. Treasury securities	49,222,581	48,208,776	(1,013,805)
Corporate debt obligations	21,872,276	21,778,034	(94,242)
Federal agency securities	795,678	800,006	4,328
<b>Total</b>	<b>\$2,370,130,295</b>	<b>\$2,353,775,136</b>	<b>(\$16,355,159)</b>

Catalyst's asset-backed securities are collateralized by the following asset types as of December 31, 2023:

	<b>Amortized Cost</b>	<b>Estimated Fair Value</b>	<b>Net Unrealized Gain/(Loss)</b>
Automobile	\$607,818,318	\$608,547,199	\$728,881
Credit card	486,505,483	485,157,712	(1,347,771)
FFELP student loan	327,997,334	325,468,051	(2,529,283)
Equipment	202,381,213	202,601,230	220,017
<b>Total</b>	<b>\$1,624,702,348</b>	<b>\$1,621,774,192</b>	<b>(\$2,928,156)</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 December 31, 2023 is as follows (in thousands):

	Fair Value	Fair Value +300 Basis Points	Fair Value -300 Basis Points
NEV	\$392,600	\$312,800	\$479,600
% 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 December 31, 2023, Catalyst has \$2,065,618,134 in cash and cash equivalents. In addition, Catalyst has access to a \$1,334,635,634 borrowing capacity at the Federal Reserve Bank (FRB) based on available collateral. Catalyst also has access to a \$327,299,304 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 December 31, 2023. Catalyst has \$180,000,000 outstanding advance as of December 31, 2023.

Catalyst continues to meet members' liquidity needs. Catalyst has outstanding loans of \$425,237,664 and additional uncommitted LOCs to members of \$11,305,768,769 as of December 31, 2023. 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 December 31, 2023. The table below presents Catalyst's actual and required capital ratios as of December 31, 2023:

Capital Ratio	Ratio	Minimum level to be classified as adequately capitalized	Minimum level to be classified as well capitalized
Retained earnings ratio	<b>5.63%</b>	N/A	N/A
Leverage / Tier 1 capital ratio	<b>9.26%</b>	4.00%	5.00%
Tier 1 risk-based capital ratio	<b>31.64%</b>	4.00%	6.00%
Total risk-based capital ratio	<b>31.64%</b>	8.00%	10.00%

## Consolidated Statements of Financial Condition

(Unaudited)

December 31,	2023	2022
<b>Assets</b>		
Cash and cash equivalents	\$2,065,618,134	\$1,504,720,925
Investments:		
Available-for-sale	2,353,775,136	1,702,886,593
Other investments	43,700,404	43,466,967
Loans, net of allowance of \$8,492 and \$14,620 as of December 31, 2023 and 2022, respectively	425,237,664	685,649,497
Accrued receivables and other assets	44,095,986	41,350,101
Property and equipment, net	14,447,553	13,694,311
Goodwill and other intangible assets	6,867,553	7,277,553
National Credit Union Share Insurance Fund (NCUSIF)	2,392,209	2,390,296
<b>Total assets</b>	<b>\$4,956,134,639</b>	<b>\$4,001,436,243</b>
<b>Liabilities</b>		
Members' shares and certificates	\$4,328,009,363	\$3,425,767,225
Borrowed funds	180,000,000	199,844,000
PCC redemption payable	23,970,076	-
Accrued expenses and other liabilities	19,485,618	19,448,294
<b>Total liabilities</b>	<b>4,551,465,057</b>	<b>3,645,059,519</b>
<b>Members' Equity</b>		
PCC	167,790,512	187,417,762
Retained earnings	244,718,980	192,161,001
Non controlling interest	8,629,422	10,973,240
Accumulated other comprehensive loss	(16,469,332)	(34,175,279)
<b>Total members' equity</b>	<b>404,669,582</b>	<b>356,376,724</b>
<b>Total liabilities and members' equity</b>	<b>\$4,956,134,639</b>	<b>\$4,001,436,243</b>
<i>The accompanying notes are an integral part of the consolidated financial statements.</i>		

## Consolidated Statements of Income

(Unaudited)

	For the years ended December 31,	
	2023	2022
<b>Interest income</b>		
Available-for-sale investments	\$80,471,391	\$31,175,488
Federal Reserve Bank	94,877,081	19,360,327
Loans	26,037,072	12,777,959
Other	2,529,462	2,228,583
Total interest income	203,915,006	65,542,357
<b>Interest expense</b>		
Members' shares and certificates	137,483,246	34,302,189
Borrowed funds	5,089,959	1,506,510
Total interest expense	142,573,205	35,808,699
Net interest income	61,341,801	29,733,658
<b>Net fee income</b>		
Share draft and depository processing fees	22,365,428	20,897,707
Off-balance-sheet income	9,760,003	11,467,505
Other fee income	19,059,812	17,945,621
Outside processing and service costs	(9,744,617)	(9,534,917)
Total net fee income	41,440,626	40,775,916
<b>Operating expenses</b>		
Compensation and benefits	43,050,119	39,502,582
Information technology	9,772,622	8,782,527
Professional fees	1,804,848	1,875,748
Office occupancy	1,211,379	1,235,404
Other operating expense	3,666,873	3,059,082
Total operating expenses	59,505,841	54,455,343
<b>April 2022 fee waiver</b>	-	(2,835,941)
<b>Other net gains</b>	-	1,640,900
<b>Other income</b>	16,764,532	38,718,134
<b>Non controlling interest</b>	2,343,818	1,730,796
<b>Net income</b>	<b>\$62,384,936</b>	<b>\$55,308,120</b>

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



## Consolidated Statement of Comprehensive Income

(Unaudited)

For the year ended December 31,	2023
<b>Net income</b>	<b>\$62,384,936</b>
<b>Other comprehensive income</b>	
Net unrealized holding gains on investments classified as available-for-sale	17,449,134
Net unrealized holding gains on derivatives designated as cash flow hedges	256,813
Total other comprehensive income	17,705,947
<b>Comprehensive income</b>	<b>\$80,090,883</b>
<i>The accompanying notes are an integral part of the consolidated financial statements.</i>	

## Consolidated Statement of Members' Equity

(Unaudited)

For the year ended December 31, 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)		<b>62,384,936</b>	<b>(2,343,818)</b>		<b>60,041,118</b>
PCC issued	<b>4,342,826</b>				<b>4,342,826</b>
PCC redemption	<b>(23,970,076)</b>				<b>(23,970,076)</b>
Dividends paid on PCC		<b>(9,826,957)</b>			<b>(9,826,957)</b>
Other comprehensive income				17,705,947	17,705,947
Balance at December 31, 2023	<b>\$167,790,512</b>	<b>\$244,718,980</b>	<b>\$8,629,422</b>	<b>(\$16,469,332)</b>	<b>\$404,669,582</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 December 31, 2023 cash and cash equivalents include \$25,058,958 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 December 31, 2023 are as follows:

	Amortized Cost	Estimated Fair Value	Net Unrealized (Loss)/Gain
Asset-backed securities	\$1,624,702,348	\$1,621,774,192	(\$2,928,156)
Agency commercial mortgage-backed securities	596,654,800	586,148,519	(10,506,281)
Agency mortgage-backed securities	76,882,612	75,065,609	(1,817,003)
U.S. Treasury securities	49,222,581	48,208,776	(1,013,805)
Corporate debt obligations	21,872,276	21,778,034	(94,242)
Federal agency securities	795,678	800,006	4,328
<b>Total</b>	<b>\$2,370,130,295</b>	<b>\$2,353,775,136</b>	<b>(\$16,355,159)</b>

### 3. Other Investments

Other investments are comprised of the following as of December 31, 2023:

Investments in credit union service organizations (CUSOs)	\$7,869,404
Interest-bearing certificates of deposit	31,321,000
FHLB capital stock	2,510,000
Other	2,000,000
<b>Total</b>	<b>\$43,700,404</b>

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 December 31, 2023:

Open-end credit lines	\$112,890,546
Term loans	312,188,284
Loan participations, net of allowance	158,834
Total	\$425,237,664

#### 5. Members' Shares and Certificates

Members' shares and certificates are summarized as follows as of December 31, 2023 are as follows:

Members' shares	\$4,158,997,253
Members' certificates	169,012,110
Total	\$4,328,009,363

Catalyst members transferred \$3,389,882,493 to the Excess Balance Account at the FRB as of December 31, 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 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 is approximately \$110,421,000. As of December 2023, Catalyst has received six distributions since 2021 totaling approximately \$106,394,000 with the remaining \$4,027,000 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. 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.