

THE VALUE OF VISION

July
2024

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 catalystcorp.org/contact

Management's Discussion and Analysis

RESULTS OF OPERATIONS

Catalyst's net income for the seven months ended July 31, 2024 and 2023 totaled \$37,115,201 and \$34,515,502, respectively. July year-to-date operations resulted in an operating efficiency ratio (net fee income divided by operating expenses) for 2024 and 2023 of 69.9% and 69.7%, 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 seven months ended July 31, 2024 and 2023 is included in the following table.

	YTD July 2024	YTD July 2023
Net interest income	\$46,519,208	\$32,550,052
Net fee income	25,899,005	23,866,080
Operating expenses	(37,074,007)	(34,245,009)
Other income	-	10,999,780
Non controlling interest	1,770,995	1,344,599
Net income	\$37,115,201	\$34,515,502

Key Information:		
Net operating expense	\$11,175,002	\$10,378,929
PCC	\$168,316,012	\$190,016,017
Retained earnings	\$273,982,712	\$219,636,704
Operating efficiency ratio	69.9%	69.7%
Return on assets	1.32%	1.47%
Leverage / Tier 1 capital ratio	8.98%	9.90%
Retained earnings ratio	5.69%	5.43%
Daily average net assets – 12 month rolling	\$4,816,076,614	\$4,042,517,416
Monthly average EBA balance transfer to FRB	\$5,002,756,693	\$2,297,200,525

CREDIT RISK

The weighted average life of assets is 1.094 years. All investment securities are classified as available-for-sale investments and have a weighted average life of 1.364 years. As of July 31, 2024, Catalyst's investments are comprised as follows:

	Amortized Cost	Estimated Fair Value	Net Unrealized Gain/(Loss)
Asset-backed securities	\$2,091,911,210	\$2,092,131,745	\$220,535
Agency commercial mortgage-backed securities	618,195,423	609,020,363	(9,175,060)
Agency mortgage-backed securities	89,497,960	87,973,550	(1,524,410)
Commercial paper	49,355,909	49,382,500	26,591
Corporate debt obligations	34,660,618	34,752,757	92,139
U.S. Treasury securities	32,560,559	31,914,472	(646,087)
Federal agency securities	748,237	760,168	11,931
Total	\$2,916,929,916	\$2,905,935,555	(\$10,994,361)

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

	Amortized Cost	Estimated Fair Value	Net Unrealized Gain/(Loss)
Automobile	\$932,541,884	\$933,580,178	\$1,038,294
Credit card	557,235,419	556,273,718	(961,701)
FFELP student loan	323,752,800	323,866,606	113,806
Equipment	278,381,107	278,411,243	30,136
Total	\$2,091,911,210	\$2,092,131,745	\$220,535

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 July 31, 2024 is as follows (in thousands):

	Fair Value	Fair Value +300 Basis Points	Fair Value -300 Basis Points
NEV	\$429,000	\$344,800	\$519,700
% Change in NEV	-	(19.6%)	21.1%

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 July 31, 2024, Catalyst has \$1,472,262,131 in cash and cash equivalents. In addition, Catalyst has access to a \$1,585,949,877 borrowing capacity at the Federal Reserve Bank (FRB) based on available collateral. Catalyst also has access to a \$344,618,590 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 July 31, 2024.

Catalyst continues to meet members' liquidity needs. Catalyst has outstanding loans of \$318,547,103 and additional uncommitted LOCs to members of \$11,485,559,218 as of July 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 July 31, 2024. The table below presents Catalyst's actual and required capital ratios as of July 31, 2024:

Capital Ratio	Ratio	Minimum level to be classified as adequately capitalized	Minimum level to be classified as well capitalized
Retained earnings ratio	5.69%	N/A	N/A
Leverage / Tier 1 capital ratio	8.98%	4.00%	5.00%
Tier 1 risk-based capital ratio	24.90%	4.00%	6.00%
Total risk-based capital ratio	24.90%	8.00%	10.00%

Consolidated Statements of Financial Condition

(Unaudited)

As of July 31,	2024	2023
Assets		
Cash and cash equivalents	\$1,472,262,131	\$2,176,955,837
Investments:		
Available-for-sale	2,905,935,555	1,697,746,608
Other investments	39,818,567	43,859,647
Loans	318,547,103	359,979,073
Accrued receivables and other assets	49,951,828	43,120,295
Property and equipment, net	13,850,288	14,325,933
Goodwill and other intangible assets	6,628,386	7,038,386
National Credit Union Share Insurance Fund (NCUSIF)	2,338,721	2,354,026
Total assets	\$4,809,332,579	\$4,345,379,805
Liabilities		
Members' shares and certificates	\$4,334,857,350	\$3,786,323,810
Borrowed funds	-	150,000,000
Accrued expenses and other liabilities	33,762,905	21,293,074
Total liabilities	4,368,620,255	3,957,616,884
Members' Equity		
PCC	168,316,012	190,016,017
Retained earnings	273,982,712	219,636,704
Non controlling interest	9,557,185	9,628,641
Accumulated other comprehensive loss	(11,143,585)	(31,518,441)
Total members' equity	440,712,324	387,762,921
Total liabilities and members' equity	\$4,809,332,579	\$4,345,379,805

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

Consolidated Statements of Income

(Unaudited)

	For the seven months ended July 31,	
	2024	2023
Interest income		
Available-for-sale investments	\$80,294,316	\$37,376,435
Federal Reserve Bank	60,922,261	55,701,460
Loans	11,865,635	15,923,048
Other	1,503,751	1,433,161
Total interest income	154,585,963	110,434,104
Interest expense		
Members' shares and certificates	103,527,094	75,094,834
Borrowed funds	4,539,661	2,789,218
Total interest expense	108,066,755	77,884,052
Net interest income	46,519,208	32,550,052
Net fee income		
Share draft and depository processing fees	14,087,073	12,984,371
Off-balance-sheet income	6,151,617	5,548,822
Other fee income	11,578,443	10,779,667
Outside processing and service costs	(5,918,128)	(5,446,780)
Total net fee income	25,899,005	23,866,080
Operating expenses		
Compensation and benefits	26,740,020	24,972,185
Information technology	6,166,900	5,581,002
Professional fees	1,085,329	1,111,263
Office occupancy	718,807	714,333
Other operating expense	2,362,951	1,866,226
Total operating expenses	37,074,007	34,245,009
Other income	-	10,999,780
Non controlling interest	1,770,995	1,344,599
Net income	\$37,115,201	\$34,515,502
<i>The accompanying notes are an integral part of the consolidated financial statements.</i>		

Consolidated Statement of Comprehensive Income

(Unaudited)

For the seven months ended July 31,	2024
Net income	\$37,115,201
Other comprehensive gain	
Net unrealized holding gains on investments classified as available-for-sale	5,360,797
Net unrealized holding losses on derivatives designated as cash flow hedges	(35,050)
Total other comprehensive gain	5,325,747
Comprehensive income	\$42,440,948
<i>The accompanying notes are an integral part of the consolidated financial statements.</i>	

Consolidated Statement of Members' Equity

(Unaudited)

For the seven months ended July 31, 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)		37,115,201	(1,770,995)		35,344,206
Capital contributions - additional			2,698,758		2,698,758
PCC issued	525,500				525,500
Dividends paid on PCC		(7,851,469)			(7,851,469)
Other comprehensive gain				5,325,747	5,325,747
Balance at July 31, 2024	\$168,316,012	\$273,982,712	\$9,557,185	(\$11,143,585)	\$440,712,324
<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 July 31, 2024 cash and cash equivalents include \$1,415,167 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 July 31, 2024 are as follows:

	Amortized Cost	Estimated Fair Value	Net Unrealized Gain/(Loss)
Asset-backed securities	\$2,091,911,210	\$2,092,131,745	\$220,535
Agency commercial mortgage-backed securities	618,195,423	609,020,363	(9,175,060)
Agency mortgage-backed securities	89,497,960	87,973,550	(1,524,410)
Commercial paper	49,355,909	49,382,500	26,591
Corporate debt obligations	34,660,618	34,752,757	92,139
U.S. Treasury securities	32,560,559	31,914,472	(646,087)
Federal agency securities	748,237	760,168	11,931
Total	\$2,916,929,916	\$2,905,935,555	(\$10,994,361)

3. Other Investments

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

Investments in credit union service organizations (CUSOs)	\$7,982,967
Interest-bearing certificates of deposit	27,258,000
FHLB capital stock	2,577,600
Other	2,000,000
Total	\$39,818,567

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 July 31, 2024:

Open-end credit lines	\$41,989,165
Term loans	276,557,938
Total	\$318,547,103

5. Members' Shares and Certificates

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

Members' shares	\$4,217,361,064
Members' certificates	117,496,286
Total	\$4,334,857,350

Catalyst members transferred \$4,455,980,362 to the Excess Balance Account at the FRB as of July 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