

THE VALUE OF VISION

August
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 eight months ended August 31, 2024 and 2023 totaled \$42,276,724 and \$38,166,390, respectively. August year-to-date operations resulted in an operating efficiency ratio (net fee income divided by operating expenses) for 2024 and 2023 of 70.3% and 69.1%, 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 eight months ended August 31, 2024 and 2023 is included in the following table.

	YTD Aug 2024	YTD Aug 2023
Net interest income	\$52,899,241	\$37,840,109
Net fee income	29,729,718	27,366,428
Operating expenses	(42,319,074)	(39,609,147)
Other income	-	10,999,780
Non controlling interest	1,966,839	1,569,220
Net income	\$42,276,724	\$38,166,390

Key Information:		
Net operating expense	\$12,589,356	\$12,242,719
PCC	\$168,316,012	\$190,766,017
Retained earnings	\$279,144,235	\$223,287,592
Operating efficiency ratio	70.3%	69.1%
Return on assets	1.30%	1.40%
Leverage / Tier 1 capital ratio	8.98%	9.90%
Retained earnings ratio	5.73%	5.47%
Daily average net assets – 12 month rolling	\$4,869,118,830	\$4,084,622,569
Monthly average EBA balance transfer to FRB	\$4,960,838,819	\$2,426,502,481

CREDIT RISK

The weighted average life of assets is 0.961 years. All investment securities are classified as available-for-sale investments and have a weighted average life of 1.333 years. As of August 31, 2024, Catalyst's investments are comprised as follows:

	Amortized Cost	Estimated Fair Value	Net Unrealized Gain/(Loss)
Asset-backed securities	\$2,096,323,394	\$2,098,703,924	\$2,380,530
Agency commercial mortgage-backed securities	621,083,932	615,743,133	(5,340,799)
Agency mortgage-backed securities	87,762,000	87,013,555	(748,445)
Corporate debt obligations	49,818,575	49,890,121	71,546
Commercial paper	49,588,882	49,629,500	40,618
U.S. Treasury securities	32,612,929	32,106,448	(506,481)
Federal agency securities	741,318	757,216	15,898
Total	\$2,937,931,030	\$2,933,843,897	(\$4,087,133)

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

	Amortized Cost	Estimated Fair Value	Net Unrealized Gain
Automobile	\$953,517,994	\$955,465,073	\$1,947,079
Credit card	558,518,745	558,590,673	71,928
FFELP student loan	323,591,611	323,651,488	59,877
Equipment	260,695,044	260,996,690	301,646
Total	\$2,096,323,394	\$2,098,703,924	\$2,380,530

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

	Fair Value	Fair Value +300 Basis Points	Fair Value -300 Basis Points
NEV	\$441,700	\$358,900	\$531,100
% Change in NEV	-	(18.8%)	20.2%

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 August 31, 2024, Catalyst has \$2,109,667,911 in cash and cash equivalents. In addition, Catalyst has access to a \$2,074,611,708 borrowing capacity at the Federal Reserve Bank (FRB) based on available collateral. Catalyst also has access to a \$373,236,778 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 August 31, 2024.

Catalyst continues to meet members' liquidity needs. Catalyst has outstanding loans of \$302,714,055 and additional uncommitted LOCs to members of \$11,596,528,224 as of August 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 August 31, 2024. The table below presents Catalyst's actual and required capital ratios as of August 31, 2024:

Capital Ratio	Ratio	Minimum level to be classified as adequately capitalized	Minimum level to be classified as well capitalized
Retained earnings ratio	5.73%	N/A	N/A
Leverage / Tier 1 capital ratio	8.98%	4.00%	5.00%
Tier 1 risk-based capital ratio	24.04%	4.00%	6.00%
Total risk-based capital ratio	24.04%	8.00%	10.00%

Consolidated Statements of Financial Condition

(Unaudited)

As of August 31,	2024	2023
Assets		
Cash and cash equivalents	\$2,109,667,911	\$1,790,173,638
Investments:		
Available-for-sale	2,933,843,897	1,911,151,654
Other investments	40,067,392	44,573,933
Loans	302,714,055	405,549,891
Accrued receivables and other assets	53,648,015	44,881,541
Property and equipment, net	14,015,761	14,441,028
Goodwill and other intangible assets	6,594,220	7,004,220
National Credit Union Share Insurance Fund (NCUSIF)	2,338,721	2,354,026
Total assets	\$5,462,889,972	\$4,220,129,931
Liabilities		
Members' shares and certificates	\$4,990,612,519	\$3,654,185,081
Borrowed funds	-	150,000,000
Accrued expenses and other liabilities	19,349,316	22,889,175
Total liabilities	5,009,961,835	3,827,074,256
Members' Equity		
PCC	168,316,012	190,766,017
Retained earnings	279,144,235	223,287,592
Non controlling interest	9,361,341	9,404,020
Accumulated other comprehensive loss	(3,893,451)	(30,401,954)
Total members' equity	452,928,137	393,055,675
Total liabilities and members' equity	\$5,462,889,972	\$4,220,129,931

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

Consolidated Statements of Income

(Unaudited)

	For the eight months ended August 31,	
	2024	2023
Interest income		
Available-for-sale investments	\$93,257,156	\$44,582,421
Federal Reserve Bank	67,788,261	64,148,789
Loans	13,312,604	17,831,042
Other	1,732,369	1,643,090
Total interest income	176,090,390	128,205,342
Interest expense		
Members' shares and certificates	118,651,488	87,004,002
Borrowed funds	4,539,661	3,361,231
Total interest expense	123,191,149	90,365,233
Net interest income	52,899,241	37,840,109
Net fee income		
Share draft and depository processing fees	16,081,768	14,916,972
Off-balance-sheet income	7,037,950	6,325,294
Other fee income	13,385,190	12,498,449
Outside processing and service costs	(6,775,190)	(6,374,287)
Total net fee income	29,729,718	27,366,428
Operating expenses		
Compensation and benefits	30,573,846	28,800,162
Information technology	7,051,837	6,421,769
Professional fees	1,237,278	1,270,069
Office occupancy	817,330	826,221
Other operating expense	2,638,783	2,290,926
Total operating expenses	42,319,074	39,609,147
Other income	-	10,999,780
Non controlling interest	1,966,839	1,569,220
Net income	\$42,276,724	\$38,166,390
<i>The accompanying notes are an integral part of the consolidated financial statements.</i>		

Consolidated Statement of Comprehensive Income

(Unaudited)

For the eight months ended August 31,	2024
Net income	\$42,276,724
Other comprehensive gain	
Net unrealized holding gains on investments classified as available-for-sale	12,268,025
Net unrealized holding gains on derivatives designated as cash flow hedges	307,856
Total other comprehensive gain	12,575,881
Comprehensive income	\$54,852,605
<i>The accompanying notes are an integral part of the consolidated financial statements.</i>	

Consolidated Statement of Members' Equity

(Unaudited)

For the eight months ended August 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)		42,276,724	(1,966,839)		40,309,885
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				12,575,881	12,575,881
Balance at August 31, 2024	\$168,316,012	\$279,144,235	\$9,361,341	(\$3,893,451)	\$452,928,137
<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 August 31, 2024 cash and cash equivalents include \$3,734,909 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 August 31, 2024 are as follows:

	Amortized Cost	Estimated Fair Value	Net Unrealized Gain/(Loss)
Asset-backed securities	\$2,096,323,394	\$2,098,703,924	\$2,380,530
Agency commercial mortgage-backed securities	621,083,932	615,743,133	(5,340,799)
Agency mortgage-backed securities	87,762,000	87,013,555	(748,445)
Corporate debt obligations	49,818,575	49,890,121	71,546
Commercial paper	49,588,882	49,629,500	40,618
U.S. Treasury securities	32,612,929	32,106,448	(506,481)
Federal agency securities	741,318	757,216	15,898
Total	\$2,937,931,030	\$2,933,843,897	(\$4,087,133)

3. Other Investments

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

Interest-bearing certificates of deposit	\$27,506,000
Investments in credit union service organizations (CUSOs)	7,983,792
FHLB capital stock	2,577,600
Other	2,000,000
Total	\$40,067,392

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 August 31, 2024:

Open-end credit lines	\$15,132,010
Term loans	287,582,045
Total	\$302,714,055

5. Members' Shares and Certificates

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

Members' shares	\$4,882,432,895
Members' certificates	108,179,624
Total	\$4,990,612,519

Catalyst members transferred \$5,475,018,515 to the Excess Balance Account at the FRB as of August 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