

Financial Statements and Management's Discussion and Analysis

December 2011

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Management's Discussion and Analysis

On September 6, 2011, the merger of Southwest Bridge Corporate Federal Credit Union (Southwest Bridge) into Georgia Corporate Federal Credit Union (Georgia) formed Catalyst Corporate Federal Credit Union (Catalyst). The Georgia charter is the surviving charter of the combined organization. The merger was accounted as a reverse acquisition under generally accepted accounting principles. This resulted in the use of Southwest Bridge historical financials and the fair valuation of Georgia.

Results of Operations & Comparison to Business Plan

Catalyst's net income for four months ended December 31, 2011 totaled \$1,934,287 as compared to the business plan projected net income of \$522,875.

A summary of the unaudited results of Catalyst operations for the four months ended December 31, 2011 as compared to the plan are included in the following table.

	Sept-Dec Actual	Sept-Dec Plan
Net interest income	\$2,414,716	\$2,165,079
Gain on investment securities	2,731	-
Gain on insurance contract	906	-
Net fee income	7,749,498	7,556,102
Operating expense	8,233,564	9,198,306
Net income	\$1,934,287	\$522,875

Key Information:

Net operating expense	\$484,066	\$1,642,204
Coverage ratio	94.1%	82.1%
Return on assets	0.29%	0.07%
Daily average net assets (Sept. 6-Dec. 31)	\$2,002,740,294	\$2,216,613,377
Perpetual contributed capital	\$96,171,698	\$91,350,061
Retained earnings	\$5,851,855	\$4,044,855
Interim leverage ratio	5.34%	4.60%
Retained earnings ratio	0.29%	0.18%

The successful implementation of the Federal Reserve Bank Excess Balance Account (EBA) program resulted in a higher than planned transfer of member credit union excess balances, which reduced daily average net assets (DANA) and positively impacted net interest income. Catalyst received approval as an EBA agent with the Federal Reserve Bank of Dallas on September 22, 2011. Prior to that time, Catalyst used Kansas Corporate Federal Credit Union (Kansas) as agent for the EBA program. The transition from Kansas was complete for all member participants on September 27, 2011. Once Catalyst became an EBA agent, 100% of the interest earned on the account is passed through to credit unions that purchased perpetual contributed capital. The successful implementation of the EBA program was a key component of the Catalyst business plan.

Management's Discussion and Analysis (cont'd)

Net fee income is higher than expected primarily due to timing difference of non-capitalized credit unions moving services away from Catalyst.

Operating expense is lower primarily due to lower than projected costs for occupancy, compensation, information technology, and sales and marketing events. Catalyst purchased the Plano facility in October. As part of the purchase agreement, Catalyst paid for the operating costs of the building versus the rent expenses for September and October. In addition, less retention expenses than anticipated result in lower compensation expenses. Information technology related expenses are also lower due to less than plan depreciation and data processing expenses. Marketing and sales events costs are lower primarily due to less economic forum expenses, as well as less league sponsorships and contributions, and advertising and promotional campaigns than anticipated.

Catalyst's coverage ratio for the four months ended December 31, 2011 is 94.1%. The lower occupancy, compensation, information technology, and events costs as well as higher than expected fee income due to timing difference of non-capitalized credit unions moving away from Catalyst contributed to the higher than planned coverage ratio of 82.1%.

Catalyst's interim leverage ratio and retained earnings ratio are also ahead of the plan projections.

Credit Risk

All investments are classified as available-for-sale investments. At December 31, 2011, \$166,338,513 of Catalyst's investments are agency securities and \$114,301,522 are asset-backed securities. Catalyst's asset-backed securities are collateralized by the following asset types: 56% by credit cards, 21% by auto, 21% by student loans, and 2% by equipment.

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, retained earnings and amortized and unamortized members' capital accounts) 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.

Management's Discussion and Analysis (cont'd)

A summary of Catalyst's NEV test at December 31, 2011 is as follows (in thousands):

	Fair Value	Fair Value +300 Basis Points	Fair Value -100 Basis Points ¹
NEV	\$133,000	\$114,200	\$140,700
% Change in NEV	-	(14.2%)	5.7%

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.

At December 31, 2011, Catalyst has \$1,119,236,226 in cash and overnight shares at the Federal Reserve Bank and U.S. Central Bridge Corporate Federal Credit Union (USC Bridge).

Catalyst continues to meet members' liquidity needs. Catalyst had outstanding loans to members of \$293,369,517 at December 31, 2011. Catalyst has additional uncommitted lines of credit to members of \$4,097,648,719 at December 31, 2011. All outstanding lines of credit are collateralized by specific or general pledges by members.

¹ Interest rates are adjusted down 100 basis points due to the low rate environment at December 31, 2011.

Catalyst Corporate Federal Credit Union

Consolidated Statement of Financial Condition

December 31, 2011

	Unaudited
Assets	
Cash and cash equivalents	\$1,068,976,068
Overnight shares in USC Bridge	50,260,158
Investments available-for-sale	280,640,035
Share certificates in USC Bridge	289,748,673
FHLB capital stock	6,245,000
Other investments – CUSOs	3,733,843
Loans to members	293,369,517
Fixed assets, net	10,687,468
Goodwill	953,342
Accrued receivables and other assets	12,063,475
Total assets	\$2,016,677,579
Liabilities	
Members' share accounts	\$1,535,840,646
Members' share certificates	363,624,603
Members' capital accounts	8,584,040
Accrued expenses and other liabilities	6,616,142
Total liabilities	1,914,665,431
Members' equity	
Perpetual contributed capital	96,171,698
Retained earnings	5,851,855
Accumulated other comprehensive income (loss)	(11,405)
Total members' equity	102,012,148
Total liabilities and members' equity	\$2,016,677,579

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

Catalyst Corporate Federal Credit Union

Consolidated Statement of Income

For the twelve months ended December 31, 2011

Unaudited	Current Month	Year-to-Date
Interest income		
Notes receivable	\$ -	\$10,898,504
Investments available-for-sale	139,364	439,152
Loans to members	944,832	12,256,154
Share certificates in USC Bridge	90,030	4,242,706
Other	225,421	11,237,895
Total interest income	1,399,647	39,074,411
Cost of funds		
Dividends on members' share accounts	105,373	9,990,626
Dividends on members' share certificates	640,330	13,757,776
Total cost of funds	745,703	23,748,402
Net interest income	653,944	15,326,009
Net fee income		
Share draft and depository processing fees	1,048,316	15,144,684
Other fee income	834,379	10,353,828
Outside processing and service costs	(26,354)	(2,025,270)
Net fee income	1,856,341	23,473,242
Operating expense		
Compensation and benefits	1,205,966	20,384,752
Information technology	363,414	4,427,232
Professional fees	106,357	1,718,847
Office occupancy	113,889	2,184,328
Other operating expense	168,351	1,686,515
Total operating expense	1,957,977	30,401,674
Net gain (loss) on investments		
Net gain (loss) on investment securities	2,731	2,731
Net gain (loss) on insurance contract	240	906
Total net gain (loss) on investments	2,971	3,637
Net income	\$555,279	\$8,401,214

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

Catalyst Corporate Federal Credit Union

Consolidated Statement of Retained Earnings

For the twelve months ended December 31, 2011

Unaudited	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income (Loss)
Balance at December 31, 2010	(\$2,502,860)	\$ -	
Net income: January – August 2011	6,466,927		\$6,466,927
Net income: September – December 2011	1,934,287		1,934,287
Dividends paid on perpetual contributed capital	(46,499)		
Other comprehensive income (loss)		(11,405)	(11,405)
Comprehensive income			\$8,389,809
Balance at December 31, 2011	\$5,851,855	(\$11,405)	

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

Notes to Financial Statements

1. Cash and Cash Equivalents

Cash and cash equivalents include pass-through reserves deposited with the Federal Reserve Bank of \$42,068,022 at December 31, 2011. Member credit unions' reserve balances are included in the members' share accounts in the consolidated statement of financial condition. 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 statement of financial condition.

2. Investments Available-for-Sale

The amortized cost and estimated fair value of investments available-for-sale at December 31, 2011 are as follows:

	Amortized Cost	Estimated Fair Value	Unrealized Gain (Loss)
Federal agency securities	\$29,345,004	\$29,338,341	(\$6,663)
Agency mortgage-backed securities	136,928,534	137,000,172	71,638
Asset-backed securities	114,377,902	114,301,522	(76,380)
Total	\$280,651,440	\$280,640,035	(\$11,405)

3. Other Investments - CUSOs

Other investments-CUSOs are comprised of the following investments at December 31, 2011:

Investment in Primary Financial	\$1,571,856
Investment in CO-OP	1,499,285
Investment in CU Business Group	562,702
Investment in CU Investment Solutions LLC	100,000
Total	\$3,733,843

Catalyst Strategic Solutions is a wholly-owned subsidiary of Catalyst. All significant intercompany balances and transactions have been eliminated in the Catalyst consolidated financial statements.

4. Loans to Members

Loans to members are comprised of the following loan types at December 31, 2011:

Term loans	\$264,573,150
Open-end credit lines	28,796,367
Total	\$293,369,517

Notes to Financial Statements (cont'd)

5. Members' Share Accounts

Members' share accounts are comprised of the following account types at December 31, 2011:

Cash management	\$1,124,440,496
Performance tiered	178,316,064
Standard tiered	6,680,745
Reg. D reserves	42,068,022
Other shares	184,335,319
Total	\$1,535,840,646

6. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) at December 31, 2011 consists of unrealized losses on investments available-for-sale totaling \$11,405.

7. Regulatory Capital

During 2010, the NCUA issued new regulations for corporate credit unions. These regulations began phasing in beginning October 2011. One of these new regulations is the interim leverage ratio. Calculation of this ratio is capital less CUSO investments (CUSOs) over daily average net assets. A corporate credit union's capital consists of perpetual contributed capital, retained earnings, unamortized members' capital accounts and 45% of unrealized gains on available-for-sale investments. New NCUA regulations define adequately and well-capitalized interim leverage ratios as 4% and 5%, respectively.

Catalyst's interim leverage ratio is as follows as of December 31, 2011:

	Amount	Ratio
<i>Interim leverage ratio:</i>		
Daily average net assets	\$2,002,740,294	
Capital:		
Perpetual contributed capital	96,171,698	
Retained earnings	5,851,855	
Members' capital accounts	8,584,040	
Unrealized gains on available-for-sale investments (45%)	-	
Total capital	\$110,607,593	
Less: Investment in CUSO	(3,733,843)	
Regulatory capital	\$106,873,750	5.34%

Notes to Financial Statements (cont'd)

Catalyst's retained earnings ratio at December 31, 2011 is 0.29%. The corporate rule, which went into effect October 20, 2011, requires corporate credit unions to achieve specific retained earnings ratio milestones. The milestones are: a corporate must have a 0.45% retained earnings ratio by October 21, 2013, a 1.00% retained earnings ratio by October 21, 2016, and have a 2.00% retained earnings ratio by October 21, 2020.