



making life easier



ANNUAL REPORT 2005

# ARROWHEAD CREDIT UNION

## BOARD OF DIRECTORS



**Marie A. Alonzo**  
Chairman



**Martha R. Williams**  
Vice Chair/Director



**Douglas W. Hallen**  
Treasurer/Director



**Errol J. Mackzum**  
Secretary/Director



**Henry C. De La O**  
Director



**Grace L. Tobin**  
Director



**Kathleen A. Finazzo**  
Director

## SUPERVISORY COMMITTEE



**Janet M. Contreras**  
Chairman



**Fred Shorett**  
Member



**Sam Jackson**  
Member

## SENIOR STAFF MEMBERS



**Larry R. Sharp**  
President/CEO



**Susan Conjurski**  
Executive Vice  
President/COO



**Vaughn Book**  
Senior Vice President,  
Operations &  
Technology



**Maurice Calderon**  
Senior Vice President,  
Minority Development



**Diane Eazell**  
Senior Vice President,  
Corporate  
Administration



**Ken Facer**  
Senior Vice President,  
Risk Management

# When it comes to financial service, the Arrowhead Companies really stand out.

Our products and services offer money-saving features from free checking, savings, access to 25,000 ATM locations, insurance, investments, business services, tax planning and preparation—to just about every kind of loan to make your dreams come true.



## The Arrowhead Companies— making life easier.

Wherever you are in life, the Arrowhead Family of Companies is here for you—with a style of service and an array of financial products that offer the answers you are looking for. We are a true financial cooperative that's owned by you, the member.



**OCTARR, LLC**

**Reconciliation Recap of Operations with Subsidiary Companies**

Year ended December 31,

**2005**

*Arrowhead Financial Group includes:  
Arrowhead Investment Center, LLC  
Sawyer Cook Insurance  
Integrity Planners, Inc.*

**ARROWHEAD FINANCIAL GROUP, INC.**

Revenues	\$6,645,277
Expenses	10,125,345
<b>Net Income (Loss)</b>	<b>(\$3,480,068)</b>

**ARROWHEAD TRUST, INC.**

Revenues	\$1,568,849
Expenses	3,059,850
<b>Net Income (Loss)</b>	<b>(\$1,491,001)</b>

**MEMBERS BUSINESS SERVICES, LLC**

Revenues	\$1,733,210
Expenses	2,048,931
<b>Net Income (Loss)</b>	<b>(\$315,721)</b>

**OCTARR CU VENTURES, LLC\*\***

Revenues	\$1,097,381
Expenses	1,239,738
<b>Net Income (Loss)</b>	<b>(\$142,357)</b>

\*\*These figures represent the 50% ownership share for ACU

Arrowhead Credit Union Net Result	\$14,194,924
Subsidiary Net Results (Loss)	(5,429,147)

**Consolidated Net Income** **\$8,765,777**



**Thomas Barbour**  
CEO,  
Arrowhead Investment  
Center, LLC



**Darrel Olson**  
CEO,  
Sawyer Cook Insurance



**Dr. Mo Vaziri, Ph.D.**  
CEO,  
Integrity Planners, Inc.



**Kathryn Gonzales**  
CEO,  
Members Business Services, LLC

As we look back over the past 57 years we are proud of the value, service and convenience we've given to our growing membership. Arrowhead Credit Union was created out of the principle that people could join together to form a financial cooperative. Credit Unions are not for profit, not for charity, but for service and a means to help individuals achieve a better financial future for themselves and their community.

In 2006, we will surpass \$1 billion in assets by the end of the second quarter. While we look forward to this achievement and our increasing financial strength, we know that this milestone will be reached one valued member at a time.

## CONSOLIDATED SUMMARY

In 2005, the net earnings coming from Arrowhead Credit Union and our subsidiary companies' operations was \$8,765,777 which was \$1,282,831 better than 2004 earnings and a return on assets (ROA) of .97%. Total Credit Union assets reached \$955,550,439, a growth of \$110,894,411 or 13.24%. Total share deposits reached \$830,324,411, an increase of \$71,111,076 or 9.37%. The largest growth occurred in member loans, which reached \$835,889,312, a growth of \$105,421,217 or 14.43%. Member loan growth was strong throughout 2005, providing an additional \$8,089,113 in gross loan income, which was the largest factor in increased earnings.

Our subsidiary companies' gross sales and commissions totaled \$11,069,917, an increase of \$452,001 or 4.26% over 2004 sales. Net earnings from Credit Union operations remained strong at \$14,194,924, while subsidiary companies collectively posted a loss of (\$5,429,147) from 2005 operations. The largest portion of subsidiary company losses resulted from the reorganization of the businesses and goodwill valuation changes. An appraisal of Sawyer Cook Insurance's goodwill resulted in a reduction in the goodwill value for the amount of \$1,479,108.

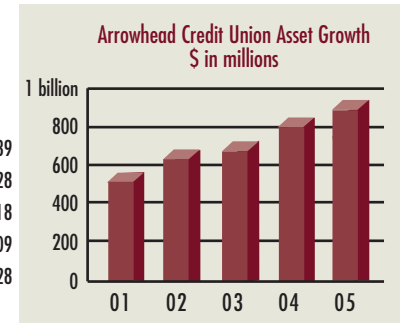
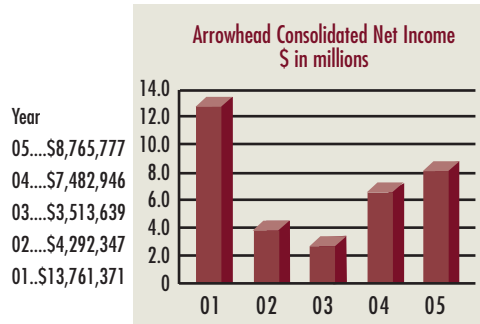
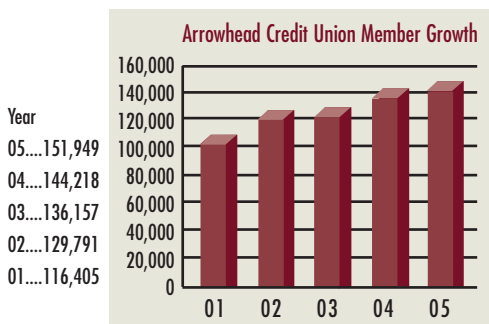
Arrowhead Credit Union's board of directors took action in 2004 to have Arrowhead Trust, Inc. depart from the trust business. Arrowhead Trust has spent most of 2005 divesting

itself out of the trust business. In 2006, the Arrowhead Credit Union board intends to consolidate selected subsidiary company operations.

In an effort to expand free ATM locations throughout Southern California, OCTARR, a limited liability corporation, was formed as a partnership between Orange County Teachers Federal Credit Union and Arrowhead Credit Union. OCTARR began operation in 2004 and currently operates 71 automated teller machines in selected Stater Bros. Markets. OCTARR's gross income was \$1,097,381 for a net loss of (\$142,357). This represents Arrowhead Credit Union's 50% ownership in OCTARR, LCC.

## ARROWHEAD CREDIT UNION - (UNCONSOLIDATED)

Gross earnings for Arrowhead Credit Union were \$81,839,196 (unconsolidated) and net income amounted to \$14,194,924 - a return on assets (ROA) of 1.57%. Lending operations funded 19,057 new loans during the year for a total of \$419,228,487. Growth in new members was 8,906 or 6.17%, bringing Arrowhead's total membership to 151,949. Arrowhead Credit Union continues to be "well capitalized" based upon the standards established by our Federal Insurer, the National Credit Union Administration (NCUA).



## 2005 ACCOMPLISHMENTS

Many significant changes were made in the past year that improved our operations, products, services, and delivery systems:

- ◆ As part of our commitment to stay up-to-date with current technology, a major data processing system upgrade was completed in July 2005. This upgrade provided our members with a new and more robust eBranch Internet banking system that allows the payment of multiple bills on one screen and account alerts to help keep finances on track. The new processing system also allows our staff to process transactions quicker and more efficiently. Upgrading to a new system enables Arrowhead to keep pace with changes in the financial industry as our members' needs evolve.
- ◆ Arrowhead approved the move and expansion of a new branch in the city of Riverside to replace our current branch on Magnolia Avenue. The new, larger location will be at Magnolia and La Sierra cross streets and is scheduled to open in the third quarter of 2006.
- ◆ Two new branches opened in the cities of Apple Valley and Wildomar. The new branches will allow us to deliver our products and services more conveniently to our existing members in those areas, and to reach out to our potential member base.
- ◆ Our Board of Directors approved the purchase of 8.2 acres from the City of San Bernardino for the development of a new Operations Center. Construction of the new Center should begin in the first quarter of 2007 and will enable Arrowhead Credit Union to reduce long-term property costs and gain operational efficiencies.
- ◆ Our first off-site Home Loan Center opened in the city of Murrieta. The center will increase our ability to serve the Southwest Valley communities.

These enhancements provide the products, services, and competitive advantage to serve our members' needs.

## COMMUNITY INVOLVEMENT

Arrowhead takes a comprehensive approach to supporting the communities we serve by utilizing strong partnerships with community organizations, encouraging employee volunteerism, and providing corporate sponsorships.

In the aftermath of the gulf coast hurricane disasters, Arrowhead, our members, and employees together raised \$66,000 in relief funds. In addition to the financial support, Arrowhead was able to assist the Red Cross by allowing them to utilize our facilities and staff to count money for the local chapter, easing the heavy load the Red Cross endured during the height of the disaster. Many concerned Arrowhead employees also donated a portion of the value from their accrued vacation time to the American Red Cross.

Education fuels our future. The Arrowhead Foundation is a non-profit trust started by Arrowhead Credit Union, which began in 1999 to provide educational scholarships to college bound high school seniors in the communities we serve. In 2005, the Arrowhead Foundation awarded 51 scholarships for a total of \$40,000.



Larry R. Sharp, *President/CEO*  
Marie A. Alonzo, *Chairman of the Board*

We are proud of the programs built through our partnerships with organizations such as California State University San Bernardino, Loma Linda University Children's Hospital, the Humane Society of San Bernardino Valley, and the Juvenile Diabetes Research Foundation. In total, \$535,000 was donated to more than 140 community organizations, events, and sponsorships in 2005. Our shared principles connect our organization, employees, and the communities we serve together to build a brighter future for everyone.

## LOOKING AHEAD TO 2006

Member convenience will continue to be the key driver for Arrowhead to deliver expanding product and service opportunities for our members.

- ◆ Our free home banking system, eBranch, will offer the option to transfer money to and from other financial institutions and continue to offer cutting edge features.
- ◆ Relocation of our Riverside Branch to a facility twice its current size with two ATMs, a night deposit box, and additional teller stations for added convenience.
- ◆ Our focus will continue to be strengthening member relationships by providing the best solutions for each financial stage of life.

2006 will be a year to position the Arrowhead Family of Companies for future growth along with the accelerating economy within our region.

Our greatest asset is our membership. Providing products and services to make our members' lives easier is our continuous mission. This past year's success was achieved with clear strategies, the core strength of our members, and the collaborative efforts of our dedicated volunteers and staff.

Thank you.



Larry R. Sharp  
*President/CEO*



Marie A. Alonzo  
*Chairman of the Board*

## STATEMENT OF FINANCIAL CONDITION

Year ended December 31,

ASSETS	2005	2004
Loans to members, net of allowance for loan losses	\$835,889,312	\$724,875,860
Cash	53,001,561	25,033,468
Investments	25,836,413	18,061,827
Receivables	8,129,885	2,613,161
Prepaid expenses	1,701,050	2,302,449
Property and equipment accumulated depreciation	18,926,101	30,022,904
Other assets	12,066,117	41,746,359
<b>Total Assets</b>	<b>\$955,550,439</b>	<b>\$844,656,028</b>
<b>LIABILITIES &amp; EQUITY</b>		
Accounts payable and accrued expenses	\$9,709,271	24,787,180
Other liabilities	46,287,314	0
	55,996,585	24,787,180
Members' shares	830,324,411	759,213,335
Regular reserves	1,372,089	13,639,784
Undivided earnings	67,857,354	47,015,729
<b>Total Equity</b>	<b>\$899,553,854</b>	<b>\$819,868,848</b>
<b>Total Liabilities &amp; Equity</b>	<b>\$955,550,439</b>	<b>\$844,656,028</b>

## STATEMENT OF INCOME

Year ended December 31,

	2005	2004
<b>INTEREST INCOME</b>		
Interest on loans	\$54,381,916	\$46,292,803
Interest on investments	(3,975,309)	835,196
<b>Total Interest Income</b>	<b>50,406,607</b>	<b>47,127,999</b>
<b>INTEREST EXPENSE</b>		
Dividends on share and savings accounts	5,317,315	4,071,813
Interest on borrowed funds	609,721	79,349
<b>Total Interest Expense</b>	<b>5,927,036</b>	<b>4,151,162</b>
Net Interest Income	44,479,570	42,976,837
Provision For Loan Losses	4,202,979	4,842,931
Net Interest Income (after provision for loan losses)	40,276,591	38,133,906
<b>OTHER INCOME</b>		
Fees and charges	15,131,477	17,135,257
Other non-interest income	11,663,446	17,090,045
<b>Total Other Income</b>	<b>26,794,923</b>	<b>34,225,302</b>
<b>OPERATING EXPENSE</b>		
Salaries and benefits	29,707,172	35,270,018
Occupancy expense	5,790,867	5,327,231
Office operations expense	12,362,307	16,669,736
Communications	2,369,703	2,053,102
Office supplies	853,873	935,185
Advertising and promotions	1,909,309	1,969,260
Other operating expense	5,737,708	2,885,315
<b>Total non-interest expense</b>	<b>58,730,940</b>	<b>65,109,847</b>
Net Operating Income	8,340,575	7,249,361
<b>NON-OPERATING GAIN (LOSS)</b>	<b>501,865</b>	<b>233,585</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>8,842,440</b>	<b>7,482,946</b>
<b>INCOME TAXES</b>	<b>76,662</b>	<b>0</b>
<b>NET INCOME</b>	<b>\$8,765,777</b>	<b>\$7,482,946</b>

These financial statements include all subsidiary corporations of Arrowhead Credit Union. They have been adjusted for intercompany transactions. 2004 audited financials/2005 unaudited financials.

**Arrowhead Credit Union has 25 Inland Empire locations. Arrowhead members can also enjoy access to over 25,000 FREE ATMs and over 2,100 Service Center Locations.**

**Use these convenient services and access your account 24-hours a day, 7-days a week:**

**eBranch Home Banking & Free Bill Payment**  
Go to [www.arrowheadcu.org](http://www.arrowheadcu.org)  
Contact our Call Center for an e-code today.

**CU Hear**  
Call 909-881-1627 to access your accounts by phone.  
Contact our Call Center for an e-code today.

**Online Loan Application**  
Go to [www.arrowheadcu.org](http://www.arrowheadcu.org) and click on loans.

**Call Center**  
909-383-7300 or toll free 800-743-7228  
M-F 8AM to 7PM · Sat 9AM to 5PM

**Arrowhead Credit Union Mailing Address**  
P.O. Box 735  
San Bernardino, CA 92402

**Contact the Arrowhead Companies:**

**Arrowhead Investment Center, LLC\***  
909-379-6550 or toll free 800-735-9833  
[www.arrowheadinvestments.com](http://www.arrowheadinvestments.com)

**Integrity Planners, Inc\***  
909-982-0607  
[www.integrityplanners.com](http://www.integrityplanners.com)

**Sawyer Cook Insurance**  
909-379-6701 or toll free 800-655-2814  
License# 0207713  
[www.sawyercook.com](http://www.sawyercook.com)

## BOARD OF DIRECTORS

**Marie A. Alonzo**  
Chairman

**Martha R. Williams**  
Vice Chair/Director

**Douglas W. Hallen**  
Treasurer/Director

**Errol J. Mackzum**  
Secretary/Director

**Henry C. De La O**  
Director

**Grace L. Tobin**  
Director

**Kathleen A. Finazzo**  
Director

## SUPERVISORY COMMITTEE

**Janet M. Contreras**  
Chairman

**Fred Shorett**  
Member

**Sam Jackson**  
Member

*\*Securities are offered through Arrowhead Investment Center, LLC, Member NASD/SIPC, and are not insured by NCUA or any other credit union insurance, are not deposits or obligations of the credit union, are not guaranteed by the credit union, and are subject to risks, including the possible loss of principal.*

