

Reaching Your Goals And Ours With One Billion Dollars In Assets



 **ONE BILLION**
DOLLARS STRONG

2006 Annual Report

Service That Says Thanks A Billion



**Margaret "Pat" &
Robert Karsick**
Members since 1999

"We got a loan from Arrowhead Credit Union that helped us retire our debt and made a real difference in our lives."

"I'm grateful that as a member, part of my money goes back to help the community through Arrowhead Credit Union." - Sandy

"Arrowhead Credit Union's personal level of service makes the difference." - Donna



Sandy Windbigler
Member since 1985 &
Donna Call
Member since 2000



Alice Bengé
Member since 1979

"I consider Arrowhead Credit Union my own personal financial institution. I always get that extra level of service from the staff."

Fernando Gallardo
Member since 1966 &
Daughter Maria Gallardo
Member since 2004

"When I need a car loan, I always go to Arrowhead Credit Union. With their lower rates and great service, it's a better place to bank."





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

In 2006, Arrowhead Credit Union's assets passed one billion dollars, a milestone that has taken over a half century of devoted service to our members to achieve. As we look back, we realize and appreciate that Arrowhead Credit Union's growth has come one member at a time. Our membership now exceeds 160,000.

As a member owned financial cooperative, Arrowhead Credit Union believes that every member is important and recognizes that we must continually increase the value of membership. During 2006, we continued to reach out to members with expanded branching, more ATMs and enhanced online banking services. Through our continued growth, we have added convenience to our members lives while enhancing the communities that we serve.

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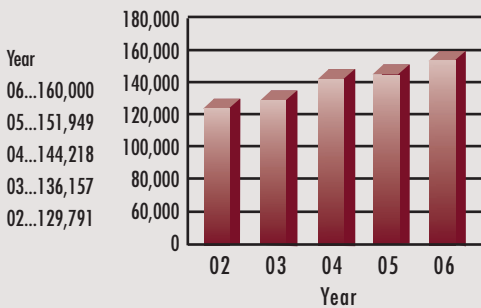
utstanding financial performance doesn't happen without support from members and the hard work and dedication of our employees—working smarter and more efficiently.

CONSOLIDATED SUMMARY

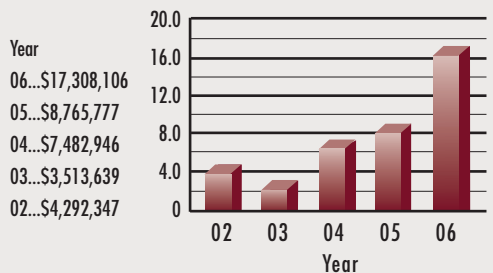
Net earnings for 2006 were \$17,308,106, nearly double our 2005 earnings of \$8,765,777. Arrowhead's return on assets (ROA) was 1.73% for 2006, while the ROA for credit unions nationally declined to below 0.90%. We attribute the improved earnings to expense reductions, growth, and strategies to manage margins more effectively. These strategies have allowed Arrowhead to improve our margins and continue to build our financial strength.

Total assets reached \$1,040,367,227 by year-end 2006, while share deposits reached \$877,600,481, an increase of \$47,276,070. Member loans, net of allowance for losses, totaled \$922,653,686, an increase of \$86,764,374, which means we were able to help nearly 19,000 members make their dreams a reality with a loan from Arrowhead Credit Union.

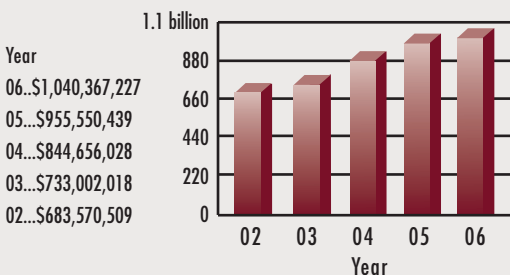
Arrowhead Credit Union Member Growth



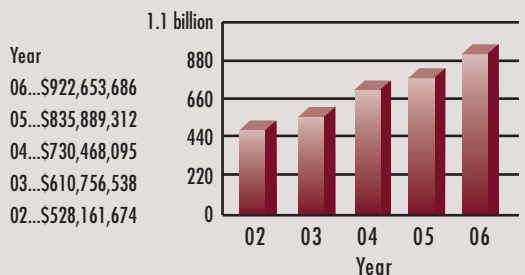
Arrowhead Consolidated Net Earnings \$ in millions



Arrowhead Credit Union Asset Growth \$ in millions



Arrowhead Credit Union Member Loan Growth \$ in millions



STATEMENT OF FINANCIAL CONDITION

Year ended December 31,

ASSETS	2006	2005
Loans to members, net of allowance for loan losses	\$922,653,686	\$835,889,312
Cash	55,211,639	53,001,561
Investments	26,392,721	25,836,413
Receivables	5,876,999	8,129,885
Prepaid expenses	1,194,624	1,701,050
Property and equipment accumulated depreciation	18,026,009	18,926,101
Other assets	11,011,549	12,066,117
Total Assets	\$1,040,367,227	\$955,550,439
LIABILITIES & EQUITY		
Accounts payable and accrued expenses	\$5,601,815	\$9,709,271
Other liabilities	71,291,137	46,287,314
	76,892,952	55,996,585
Members' shares	877,600,481	830,324,411
Regular reserves	1,372,089	1,372,089
Undivided earnings	84,501,705	67,857,354
Total Equity	\$963,474,275	\$899,553,854
Total Liabilities & Equity	\$1,040,367,227	\$955,550,439

STATEMENT OF INCOME

Year ended December 31,

	2006	2005
INTEREST INCOME		
Interest on loans	\$64,149,290	\$54,381,916
Interest on investments	151,733	(3,975,309)
Total Interest Income	64,301,023	50,406,607
INTEREST EXPENSE		
Dividends on share and savings accounts	10,398,954	5,317,315
Interest on borrowed funds	1,874,936	609,721
Total Interest Expense	12,273,890	5,927,036
Net Interest Income	52,027,133	44,479,570
Provision For Loan Losses	5,364,593	4,202,979
Net Interest Income (after provision for loan losses)	46,662,540	40,276,591
OTHER INCOME		
Fees and charges	15,789,020	15,131,477
Other non-interest income	11,707,877	11,663,446
Total Other Income	27,496,897	26,794,923
OPERATING EXPENSE		
Salaries and benefits	28,368,046	29,707,172
Occupancy expense	6,394,550	5,790,867
Office operations expense	12,290,922	12,362,307
Communications	2,310,140	2,369,703
Office supplies	708,325	853,873
Advertising and promotions	1,708,375	1,909,309
Other operating expense	5,772,472	5,737,708
Total Non-Interest Expense	57,552,830	58,730,940
Net Operating Income	16,606,607	8,340,575
NON-OPERATING GAIN (LOSS)	1,093,211	501,865
INCOME BEFORE INCOME TAXES	17,699,818	8,842,440
INCOME TAXES	391,712	76,662
NET INCOME	\$17,308,106	\$8,765,777

These financial statements include all subsidiary corporations of Arrowhead Credit Union. They have been adjusted for the effect of intercompany transactions.
2005 audited financials/2006 unaudited financials.

2006 ACCOMPLISHMENTS

Delivering superior value means more than offering the right products and services—it means anticipating our members’ needs with improvements that make life easier, keep information secure, and provide opportunities for financial education. Here are some of the many improvements that were made in 2006:

NEW RIVERSIDE BRANCH LOCATION –

We opened a full service branch in Riverside at Magnolia and La Sierra that is twice the size of the previous location with more teller windows, including one especially for merchants.



E-BRANCH ONLINE BANKING SECURITY – We added extra security features to our online banking login to help protect our members’ personal information.

ONLINE MEMBER EDUCATION CENTER – We added interactive guides to our website for practical money management skills.

SMALL BUSINESS ONLINE EDUCATION CENTER – Arrowhead recognizes that our business members lead fast-paced lives, which is why we added online resources, guidelines and checklists to help our business members with the everyday challenges from interviewing employees to developing a business plan.

FUNDS TRANSFER WITH E-BRANCH – We added a feature that allows our members to use e-Branch online banking to set up automatic transfers to and from other financial institutions making it easier than ever to access their money.

WORKSHOPS AND SEMINARS – We continue to offer workshops and seminars for consumer and small business members on budgeting, Medicare, understanding credit, and marketing a small business. Each and every one of our educational seminars is provided to our membership at no cost.

COMMITMENT TO COMMUNITY

What happens when you bring commitment, resources, and people together in your community? You get a change for the better. Our pledge to help the communities we serve continues. Our Board of Directors and employees are our strongest force in making that pledge a reality.

SHARE & CARE PROGRAM – This program recognizes our staff who give back to the community with their time and expertise. Arrowhead Credit Union staff volunteered hundreds of hours, truly making a difference in the communities we serve.

THE ARROWHEAD FOUNDATION – A non-profit trust, created by Arrowhead Credit Union, to provide educational scholarships. In 2006, the Foundation awarded 59 scholarships amounting to \$47,500 to area college bound students to help with the increasing cost of tuition and books.

JUVENILE DIABETES RESEARCH FOUNDATION – Together with our members, we raised over \$17,000 in “sneaker” sales at all branch locations. Thank you to our generous members and staff.

ARROWHEAD UNITED WAY – Employees raised over \$53,000 in support of the United Way organization. This money was raised through employee payroll contributions and creative employee fundraisers such as bake sales and raffles.

RIVERSIDE PUBLIC LIBRARY FOUNDATION – Arrowhead sponsored an adopt-a-book program to increase the Riverside libraries' book supplies and additionally sponsored the COMP Riverside program, which assists low-income households to purchase computers.

Whether it is literacy, health, or the arts—Arrowhead Credit Union recognizes the need and reaches out to help our communities become better places to live.

BILLION DOLLAR MOMENTUM

As we look forward to 2007, we are committed to continue the momentum that has been established over the last 57 years. Here are some of the enhancements we anticipate:

- During the first quarter we will complete construction of a large new electronic sign using the latest technology. The sign will be located along the 215 freeway between Mill and Second streets in the City of San Bernardino. The sign will be at the gateway of downtown San Bernardino and expands the visibility of Arrowhead Credit Union Park. The sign will be located adjacent to our proposed new Corporate Center development. The sign will provide an excellent method of communicating with members and the community.
- In May 2007, we will open a new full service branch in Hesperia that will be equipped with two drive up teller windows to allow our busy members to conduct their banking while never having to leave their vehicle, 6 teller stations inside for quick service and a full service merchant window.
- In the fourth quarter 2007, we will begin to build a full service branch in the Canyon Springs area of Riverside to better serve our members in the Riverside/Moreno Valley areas.
- We will continue to expand our network of free ATMs available to members not only nationwide—but worldwide.
- Ground breaking for Arrowhead Credit Union's new Corporate Center in downtown San Bernardino will take place at the end of the fourth quarter 2007. The development will enable Arrowhead Credit Union to gain operational efficiencies.



Arrowhead Credit Union will continue to move toward our goal—making membership in Arrowhead Credit Union so valued that every consumer and business wants to join and participate.

To our volunteer Board of Directors, management team, staff and our valued members—thanks a billion!

A handwritten signature in black ink that reads "Larry R. Sharp".

Larry R. Sharp
President/CEO

A handwritten signature in black ink that reads "Marie A. Alonzo".

Marie A. Alonzo
Chairman of the Board

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



James A. Ferguson
Director



Kathleen A. Finazzo
Director



Robert C. McNitt
Director



Grace L. Tobin
Director

SUPERVISORY COMMITTEE



Janet M. Contreras
Chairman



Sam Jackson
Member



Fred Shorett
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 Ezell
*Senior Vice President,
Corporate
Administration*



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

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he Arrowhead Family of Companies is always striving to offer top-line products and services to meet our members' needs and build their financial success.



OCTARR, LLC



Reconciliation Recap of Operations with Subsidiary Companies Year ended December 31,

	2006	2005
ARROWHEAD FINANCIAL GROUP, INC.		
Revenues	\$6,523,439	\$8,214,126
Expenses	8,144,396	13,185,195
Net Income (Loss)	(\$1,620,957)	(\$4,971,069)
<i>Arrowhead Trust Inc. financial information was combined with AFG for both years for reporting purposes. ATI merged with AFG in 2006.</i>		
MEMBERS BUSINESS SERVICES, LLC		
Revenues	\$2,158,573	\$1,733,210
Expenses	2,175,335	2,048,931
Net Income (Loss)	(\$16,763)	(\$315,721)
<i>Above represents the results of the entire company. Due to partial ownership Arrowhead Credit Union booked:</i>		
	(\$26,052)	(\$315,721)
OCTARR CU VENTURES, LLC		
Revenues	\$2,445,556	\$2,194,761
Expenses	2,799,403	2,479,475
Net Income (Loss)	(\$353,847)	(\$284,714)
<i>Above represents the results of the entire company. Due to partial ownership Arrowhead Credit Union booked:</i>		
	(\$177,491)	(\$142,357)
Arrowhead Credit Union Net Result	\$19,132,606	\$14,194,924
Subsidiary Net Results (Loss)	(1,824,500)	(5,429,147)
Consolidated Net Income	\$17,308,106	\$8,765,777

One Billion Dollars In Assets—

The Arrowhead Family of Companies continues to seek out opportunities to bring greater convenience and greater value to each and every member.

Progress means continued momentum.



A Cooperative Achievement



Accomplishments follow where dedication persists.



Together We've Reached Our Goals For 2006

Arrowhead Credit Union has 25 Inland Empire locations. Arrowhead members can also enjoy access to over 25,000 FREE ATMs and over 2,400 Service Center Locations.

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

e-Branch Home Banking & Free Bill Payment

Go to 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 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

ACU Financial Services

909-379-6607
www.acufs.com

Sawyer Cook Insurance

909-379-6701 or toll free 800-655-2814
License# 0207713
www.sawyercook.com

BOARD OF DIRECTORS

Marie A. Alonzo
Chairman

Martha R. Williams
Vice Chair/Director

Douglas W. Hallen
Treasurer/Director

Errol J. Mackzum
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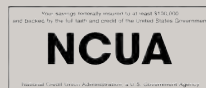
SUPERVISORY COMMITTEE

Janet M. Contreras
Chairman

Sam Jackson
Member

Fred Shorett
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.*



CU SERVICE CENTERS
The Member Friendly Financial Network