

Everything You Need Us To Be.

Grace L. Tobin, Board Director
53 years of service

Larry R. Sharp, President/CEO
25 years of service



THE ARROWHEAD
COMPANIES

YOUR FINANCIAL COOPERATIVE

2007 Annual Report

The Arrowhead Family of Companies' strong foundation is built upon the leadership and long term stability of our dedicated Board of Directors, management team and staff. When you pull it all together you have centuries of experience and a keen understanding of what it takes to make the right choices for the Credit Union, our members and employees, both now—and in the future.



W

We celebrate 53 years of service from one of Arrowhead Credit Union's founders and board member — **Grace L. Tobin**.

Grace's vast experience and commitment have helped Arrowhead Credit Union reach many milestones for over a half century. Grace was there from the humble beginnings and still remains a dedicated volunteer today.



“ We have stability and consistency with our Board of Directors. The Board is very active and knowledgeable about the Credit Union as they guide our management team. Grace has always been a great resource.

She knows the Credit Union and every aspect of its operations. **”**

Larry R. Sharp, President/CEO

W

We celebrate Arrowhead Credit Union President and CEO **Larry R. Sharp** for his 25 years of leading Arrowhead Credit Union in the right direction. His focus is always on the needs of our membership, staff and the community.



“ We live the philosophy to do all the good that you can, for all the people that you can, for all the times that you can. The Board of Directors, Arrowhead staff, and especially Larry Sharp live it everyday. ”

Marie A. Alonzo, Chairman of the Board



From left: Larry R. Sharp, Brooke Dvorak, Susan Conjurski, Carolyn Leonard, Cassie Miller, Molly Ramirez and Robin Bradford each celebrating 25 years of service or more with Arrowhead Credit Union.

Thank You
Larry R. Sharp for 25 years



We Are Experience

2007 was a year to test our experience as we navigated through a national economic downturn—but in the shadow of challenges we carefully planned to balance risk with return and sought out opportunities to:

- **Help our members and communities with affordable loans**
- **Expand our footprint to reach more people who need a credit union**
- **Educate people on safe borrowing and saving practices**

Our executive team predicted a tough economy and budgeted for greater loan losses, but with careful management of expenses and a continued eye toward creating efficiencies, we were able to narrow the gap.

Net earnings for 2007 were \$14,847,303, a \$2.5 million decrease from the previous year, but well above many of our competitor's results. The decrease in net earnings was primarily due to our increased cost of funds to attract deposits enabling us to continue to offer affordable loans to our members.

Member share deposits for 2007 were \$796,816,392, a decrease of nearly \$81 million dollars. This was reflective of the changing economy and lack of liquidity in the marketplace.

Member loans, net of allowance for losses, totaled \$954,938,787. Over 15,400 members received a loan in 2007 from Arrowhead Credit Union. Member growth reached a steady 161,867. Arrowhead Credit Union ended the year with a very strong ROA of 1.41%. This ratio illustrates our strength and puts us among the top performing credit unions in the country. Total assets reached \$1,063,552,142 by year end, an increase of over \$23 million dollars.

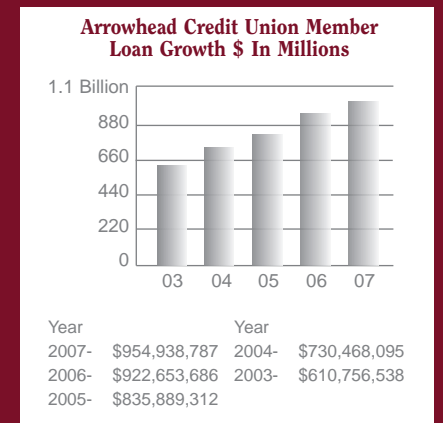
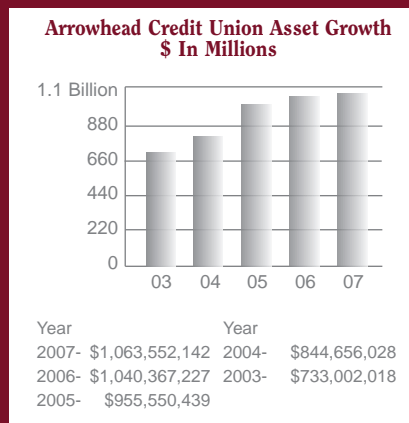
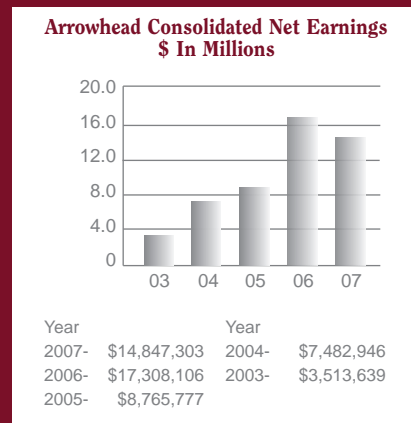
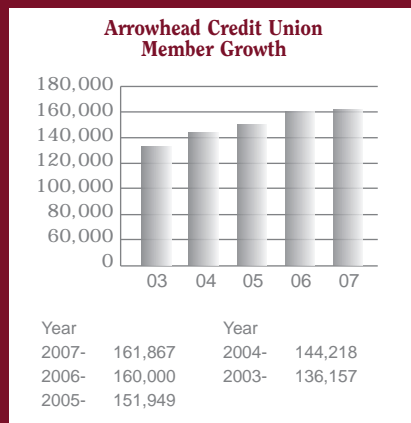


Larry R. Sharp
President/CEO

Marie A. Alonzo
Chairman of the Board

Attentive management of expenses and strong loan underwriting were fundamental factors in Arrowhead Credit Union ending 2007 in solid financial shape.

We outpaced the sweeping negative growth experienced by much of the financial industry—securing our strength and putting us in a good position to take advantage of opportunities in 2008.



Statement of Financial Condition

Year ended December 31,

ASSETS	2007	2006
Loans to members, net of allowance for loan losses	\$ 954,938,787	\$ 922,653,686
Cash	50,522,579	55,211,639
Investments	24,851,912	26,392,721
Receivables	5,719,224	5,876,999
Prepaid Expenses	1,868,896	1,194,624
Property and equipment, net of accumulated depreciation	17,519,226	18,026,009
Other assets	8,131,518	11,011,549

TOTAL ASSETS	\$ 1,063,552,142	\$ 1,040,367,227
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LIABILITIES & EQUITY	2007	2006
Accounts payable and accrued expenses	\$ 6,864,518	\$ 5,601,815
Other Liabilities	161,532,441	71,291,137
Total Liabilities	\$ 168,396,959	\$ 76,892,952
Members' Shares	796,816,392	877,600,481
Regular Reserve	1,372,089	1,372,089
Undivided Earnings	96,966,702	84,501,705
Total Equity	895,155,183	963,474,275

TOTAL LIABILITIES & EQUITY	\$ 1,063,552,142	\$ 1,040,367,227
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Statement of Income

Year ended December 31,

INTEREST INCOME	2007	2006
Interest and fees on loans	\$ 72,597,063	\$ 64,149,290
Interest on investments	1,166,396	151,733
Total Interest Income	\$ 73,763,459	\$ 64,301,023

INTEREST EXPENSE

Dividends on share and savings accounts	\$ 13,202,938	\$ 10,398,954
Interest on borrowed funds	4,993,672	1,874,936
Total Interest Expense	\$ 18,196,610	\$ 12,273,890
Net Interest Income	55,566,849	52,027,133

PROVISION FOR LOAN LOSSES		
Net Interest Income After Provision for Loan Losses	\$ 42,827,248	\$ 46,662,540

OTHER INCOME

Fees and charges	\$ 16,873,083	\$ 15,789,020
Other non-interest income	13,422,138	11,707,877
Total Other Income	\$ 30,295,221	\$ 27,496,897

OPERATING EXPENSE

Salaries and benefits	\$ 29,076,729	\$ 28,368,046
Occupancy expense	6,684,862	6,394,550
Office operations expense	12,027,593	12,290,922
Communications	2,028,782	2,310,140
Office supplies	1,149,162	708,325
Advertising and promotions	2,048,294	1,708,375
Other operating expense	5,866,585	5,772,472
Total non-interest expense	\$ 58,882,007	\$ 57,552,830

Net Operating Income	\$ 14,240,463	\$ 16,606,607
NON-OPERATING GAIN (LOSS)	663,604	1,093,211
INCOME BEFORE INCOME TAXES	14,904,067	17,699,818
INCOME TAXES	56,764	391,712

NET INCOME	\$ 14,847,303	\$ 17,308,106
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These financial statements include all subsidiary corporations of Arrowhead Credit Union. They have been adjusted for the effect of intercompany transactions. 2006 audited financials/ 2007 unaudited.

We Celebrate Success

Our 2007 accomplishments underscore our dedication and all out mission for the highest level of member service, value, financial education and dedicated employees. Our commitment is to be everything you need us to be.

New Hesperia Branch

Our high desert members asked for more access and we gave it to them. In May 2007, we opened our Hesperia branch. The new location has a drive up teller window for on-the-go convenience as well as a drive-up ATM and is open six days a week.

New Summit Branch

Our 27th location opened in December 2007 inside Stater Bros. Market in north Fontana. This branch has a new and improved design allowing a full branch experience with the convenience of a grocery store location. Business or personal—this branch can do it all.

New ATM & Debit Cards With No 21¢ Fee

Our members told us they didn't like the 21¢ ATM and Debit card transaction fee and we listened. In October 2007 we reissued every ATM and Debit card with enhanced security features and eliminated the 21¢ transaction fee— bringing our members more value and enhanced service.

Financial Education

Many good people got into bad loans from unscrupulous lenders and are suffering the effects of mismanaging their finances. We encouraged our members and people in the community to contact their lenders if they could not meet their loan commitments and to contact Arrowhead Credit Union for refinancing options and information. The Arrowhead Family of Companies is proud of our educational programs. We hold regular workshops on many topics including: budgeting, understanding your credit score, and smart borrowing.

HomeConnect

A new program was introduced that can save our members time, help them earn substantial cash rebates and help them buy and sell a home—at no additional charge. Through HomeConnect, a network of experienced real estate agents have agreed to provide members the very best in service, and rebate program users up to 25% of the agent's commission.

Member Satisfaction

Our members' feedback is the greatest tool we have to measure our service. In 2007, Arrowhead branch staff received scores that broke past records in member satisfaction. Our staff continually strives to create easy, efficient and meaningful member experiences.



Summit Branch Ribbon Cutting



Corona/Norco Branch Team Members



Arrowhead Fire Relief Donation



Arrowhead Foundation Scholarship Recipients Helena Mullins (left) and Keenia Gaines (right)

We Are A Community Partner

In 2007 Arrowhead Credit Union donated over \$375,000 with a focus on education and community well being.

The donations were big and small, reaching out to young and old. We gave not only money, but encouraged our staff to donate their valuable time and talents. Together we are improving people's lives.

Fire Relief

Arrowhead Credit Union made a corporate donation of \$20,000 to assist with fire relief efforts after wildfires swept over the Inland Empire in September 2007.

Arrowhead staff and members joined forces at our branch locations to raise thousands of dollars in additional donations. Everyone got into the act, including Rocky Raccoon, Arrowhead Credit Union's children's club mascot, who visited the evacuation center in downtown San Bernardino for thousands of displaced adults and children.



State Employee Payroll Assistance

Arrowhead Credit Union was recognized by the California Legislature for our efforts in aiding state employees affected by the 2007 budget stalemate. Arrowhead Credit Union has a long history of providing payroll advances to state employees who are directly affected during the State's yearly budget process.

Education

In 2007 the Arrowhead Foundation, Arrowhead Credit Union's non-profit 501 (c) (3), awarded a record amount of \$87,500 in scholarships to 118 well deserving college bound students at over 50 different Inland Empire high schools.

Family Fun

Arrowhead Credit Union through Arrowhead Credit Union Park made a continuous effort to reach out to youngsters and community groups to provide tickets to the Inland Empire 66ers games to enjoy one of America's favorite past times—baseball. We believe small moments make the difference.

Spreading The Word For Our Community Partners

Our digital marquee sign with the latest digital technology was erected on the 215 freeway in 2007. The sign allows us to promote not for profit organizations that could never afford such advertising otherwise. The sign also allows us to promote city and community events. With the future expansion of the 215 freeway the sign's visibility will increase our communication with our members and the community.

We Are Looking Ahead

We move confidently into 2008 with our goals and strategies aligned with our members, employees and the communities we serve.

We see tremendous opportunities for people to refinance business and consumer loans alike. Arrowhead has the right programs priced competitively for everything from real estate, auto and line of credit refinancing.

Our Board of Directors and senior management team guide our branching strategies. They are focused in their short and long term planning to ensure we give our members more access and keep Arrowhead Credit Union's momentum strong. We will convert our Murrieta home loan center into an express branch with two teller windows and expanded services to offer more convenience to the residents in that area in the second quarter of 2008. A new branch is planned for Upland in 2008 and another for Temecula in early 2009. Both of the new locations will serve the growing populations in these expanding communities.

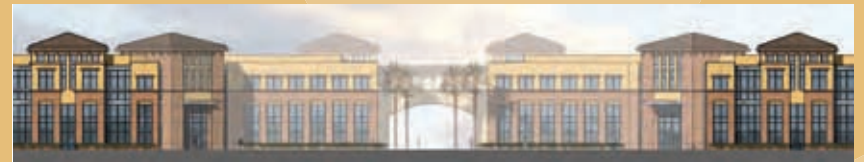


During first quarter, Arrowhead Credit Union, in a partnership with Intergy Corp. (a resource conservation firm), Southern California Edison and Southern California Gas Company, will have interactive kiosks in 16 locations. The kiosks will provide tips for saving energy, collecting rebates for energy efficiency programs, and providing incentives for

Arrowhead loans to help with energy efficient upgrades. These kiosks will help members make educated, energy-related decisions in order to reduce their energy costs and increase their home's comfort and value.

In early summer 2008, we will introduce online account opening through the Internet. Online account opening brings the ultimate in member convenience when opening just about any deposit account including Savings, Checking, Certificates and Money Market Accounts. Online account opening will additionally reduce paper, extend our reach and allow people who may not be near one of our 27 locations to easily open an account without the need to visit a branch.

Our new Corporate Center plans will gain momentum in late summer 2008 and construction should begin early 2009. The center is slated to be built on Mill Street just south of Arrowhead Credit Union Park in San Bernardino. The new center will consolidate the Arrowhead Family of Companies' administrative and support functions under one roof. Our goal is to construct the new corporate center



with a LEED Silver design, which promotes a whole-building approach to sustainability. The end result will not only help us provide a healthier environment for our employees and help save the planet, but help us save money too.

By looking at where we've been, our path is clear—to improve the lives of our members, employees, and the communities we serve with innovation, trust and care.

We are the Arrowhead Family of Companies and we are everything you need us to be.

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

Board of Directors



Marie A. Alonzo
Chairman



Martha R. Williams
Vice Chairman/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

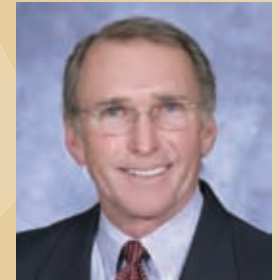
Supervisory Committee



Janet M. Contreras
Chairman



Marin B. Roberts
Member



Fred E. Shorett
Member

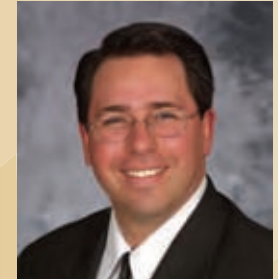
Senior Staff Members



Larry R. Sharp
President/CEO



Susan D. Conjurski
Executive Vice President/COO



Vaughn E. Book
Senior Vice President,
Operations & Technology



Maurice A. Calderon
Senior Vice President,
Minority Development



Diane P. Eazell
Senior Vice President,
Corporate Administration



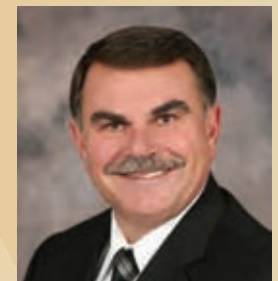
Ken D. Facer
Senior Vice President,
Risk Management



Daniel A. Marciante
Senior Vice President,
Chief Financial Officer



Robert R. Reed
Senior Vice President,
Sales & Service



Gene J. Shabinaw
Senior Vice President, Lending

The high road to
service is traveled with
integrity, compassion,
and understanding.

We Are A Financial Cooperative

The Arrowhead Family of Companies is a financial cooperative offering the highest level of convenience to our membership. The Arrowhead Family of Companies is focused on the alignment of traditional Credit Union services with investments, financial planning and insurance to enhance our members' experience, save our members money and just make life easier.



Darrel Olson
President/CEO
Arrowhead Financial Group, Inc.

Reconciliation Recap of Operations with Subsidiary Companies

Year ended December 31,

ARROWHEAD FINANCIAL GROUP, INC.	2007	2006
Revenues	\$ 7,528,917	\$ 6,523,439
Expenses	7,895,312	8,144,396
Net Income (Loss)	\$ (366,395)	\$ (1,620,957)



MEMBERS BUSINESS SERVICES, LLC		
Revenues	\$ 2,528,421	\$ 2,158,573
Expenses	2,373,498	2,175,335
Net Income (Loss)	\$ 154,923	\$ (16,763)



Above represents the results of the entire company. Due to partial ownership ACU booked	\$ 115,184	\$ (26,052)
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OCTARR CU VENTURES, LLC**		
Revenues	\$ 2,750,006	\$ 2,445,556
Expenses	3,232,758	2,799,403
Net Income (Loss)	\$ (482,752)	\$ (353,847)



Above represents the results of the entire company. Due to partial ownership ACU booked	\$ (241,376)	\$ (177,491)
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Arrowhead Credit Union Net Result	\$ 15,339,890	\$ 19,132,606
Subsidiary Net Results (Loss)	(492,587)	(1,824,500)
Consolidated Net Income	\$ 14,847,303	\$ 17,308,106

OCTARR, LLC

2006 Audited Financials/2007 Audited Financials



We Are Many People

Focusing On One Purpose

—Our Members

“Arrowhead Credit Union staff
are always helpful and friendly.”
Heather Rider with son Carl
Member since 1996



“Arrowhead Credit Union
gives me convenience.”
Todd Wolsten
Member since 2005

“I take advantage of Direct Deposit of my paycheck into my
Arrowhead Credit Union account. Arrowhead
deposits my money a day early. I love that.”
Yolanda Knox
Member since 2005



CONTACT THE ARROWHEAD COMPANIES:

Arrowhead Credit Union

909-383-7300 or toll free 800-743-7228
www.arrowheadcu.org

Arrowhead Investment Center, LLC*

909-379-6550 or toll free 800-735-9833
www.arrowheadinvestments.com

Arrowhead Integrity Planners

909-379-6607

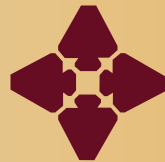
Sawyer Cook Insurance

909-379-6700 or toll free 800-655-2814
License# 0207713
www.sawyercook.com

ACU Financial Services

909-379-6606
www.acufs.com

*Securities are offered through Arrowhead Investment Center, LLC, a registered broker dealer (member FINRA/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.



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