Service delivery network strategy for Arrowhead Credit Union

Anne Louise Benjamin

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SERVICE DELIVERY NETWORK STRATEGY

FOR ARROWHEAD CREDIT UNION

A Project

Presented to the

Faculty of

California State University,

San Bernardino

In Partial Fulfillment

of the Requirements for the Degree

Master of Business Administration

by

Anne Louise Benjamin

March 2003
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FOR ARROWHEAD CREDIT UNION

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ABSTRACT

Delivery of Financial Services

Based on my research into the area of financial service delivery it has become obvious that convenience and simplicity are the keys to success in the future as far as delivering financial services to consumers.

How will this convenience and simplicity be accomplished?

How will the changes be made to the large institutions that have invested billions in existing delivery channels?

How quickly will the consumers adapt to new channels?

What will the financial impact be on the institutions that are on the forefront of the revolution?

What will the delivery channel be that has the largest impact on both the consumer and the individual institutions?

These are some of the questions that must be examined and discussed to conduct a complete review of the issue. In conclusion, I believe the answers will not be easy but they will be necessary to achieving true success for financial institutions of the future.
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CHAPTER ONE

SERVICE DELIVERY

Requirements for Financial Service Delivery

The banking and financial services industry is full of tradition. Its roots extend back to the earliest days when ancient civilizations began the most basic banking, trade, and commerce transactions. Unfortunately, the sweeping changes the financial industry has undergone in the last decade have made the ties of tradition into heavy, paralyzing chains that could threaten a bank's very existence. In order to compete today, banks must break these chains, especially when the discussion turns to retail delivery.

Over time, the concept of retail delivery has evolved and taken on many definitions, from branch automation to decision support. The problem with the ever-changing definitions is that they revolve around things, places, and computer equipment, while the most important element, the customer, and his or her needs are ignored. Where the focus was once on the banks needs, it must now be customer-centered, concentrated on giving the customer the best financial products and services with convenient, direct-access channels. Convenience and self-service are the latest factors driving change in the traditional physical bank paradigm. Banks that designed retail delivery channels
to meet their needs must now construct an industry blueprint for delivery that focuses on meeting the needs of the customer.

In the past, banks served a traditional role in the financial security of their customers. The bank's basic function was to provide customers with the safekeeping for their money, lending for major purchases, and interest on savings.

But as these financial institutions grew, so did the competition and customer expectations. Customers have become more knowledgeable, deregulation has blurred the lines of competition, and nontraditional competitors have emerged to offer attractive financial products and services. These new competitors include discount brokers, mutual fund providers, credit card firms, telecommunications companies, and even software houses offering consumer investment software that can give and computer-user "at-home" financial and investment resources.

Based on this revolution of changes, customer loyalty is vulnerable. Once-faithful bank customers are looking around at their choices and making decisions based on a quest for customer convenience.

There has been a tremendous change in consumer lifestyles over the years. There are more two-income families than ever before, and people are working more than one job. We have also become a 24-hour society. As our
lives become busier and more hectic, fast, efficient customer service is quickly becoming a round-the-clock necessity. To remain competitive, banks and financial institutions are channeling their energies and resources to meet ever-changing consumer schedules.

As consumers work harder and longer, they need more flexibility and service from their bank or financial institution. From the customers' viewpoint, a bank cannot be just an institution that accepts their deposits and provides lending services; customers need banks that recognize their needs and provide products and services to improve their investment positions and help them establish viable retirement portfolios.

Today, many financial institutions find themselves in a highly competitive banking world that threatens not just their bottom-line profitability, but in many cases their very existence. No longer is it enough to offer customer's great loan rates, lower fees, and numerous ATM's. Banks have to deliver these products and more with a higher emphasis on service and convenience. This requires a strategy that encompasses both new technology and a commitment to customer vision that breaks through traditional bank-customer relationships.

As the customer's everyday life gets more complex, banks have to strive to make the customer's financial life simpler. Thanks to deregulation and increased competition,
banks have become more responsive, taking aggressive and proactive approaches to delivering products and services that will continue to meet changing consumer needs. Today, the typical banking customer has many banking options and the key to capturing customer's business is developing a retail delivery strategy that delivers a variety of banking products and services conveniently.

Historically, customers have chosen their financial institution based largely on availability and location. Unable to have a 24-hour branch on every corner, financial institutions have looked to technology to help meet these demands. Thanks to innovative solutions, the concept of convenience has extended far beyond availability and location. There now exists the potential to offer an even wider menu of financial products and services to customers in an anytime-anyplace delivery method.

Convenience also has extended to transaction turnaround time. Rapid turnaround is becoming increasingly important in financial services. Consumer loans, mortgage applications, and fund transfers and transactions have seen their turnaround time shaved drastically, from days and weeks to hours and even minutes. Customers also are demanding that the processes associated with these financial transactions consume less of their own personal time. Banks have to walk a fine line between decreasing processing time.
while still giving customers the personal attention and service they deserve.

In order for a financial institution to be genuinely responsive to customers' needs, it must possess a high level of organizational adaptability. As change occurs, both with customers and within the financial marketplace, banks need to acquire organizational agility to effectively respond, adapt, and compete.

Types of Financial Service Delivery

The growth rate of information and communications technology has been astounding. In the last decade, satellites and fiber optics dramatically reduced the cost of bandwidth and greatly accelerated bandwidth speeds, thus opening new possibilities in high-speed digital communications. These changes translate into better, faster and cheaper information technology for both organizations and individuals.

Technology has already changed the way customers access their bank. Use of ATM's has ballooned; telephone access to account information is widely accepted and used; debit cards are here; and smart cards and E-cash are around the corner. These developments illustrate how technology provides new, lower cost options for service delivery that are independent of time and location.
Technological advances are altering the composition, competition, and the institutional structure of the financial services system. Organizations that can link electronically to consumers of financial services and retain the consumers' attention are likely to succeed in the future.

After examining trends in computer and Internet use it is evident that financial services companies must embrace opportunities to serve their customers through electronic delivery systems. These systems will enable the bank to retain an ever-growing number of customers who will be tempted to use alternative service providers. Furthermore, technological improvements will open the door to more customization of products to meet target market needs. In fact, technology can offer the possibility and the necessity of returning to one-on-one relationship with customers, a relationship that has become almost non-existent in large commercial banking organizations.

Traditional banks are severely challenged by new electronic delivery systems. One primary disadvantage of most banks is that electronic banking is much cheaper than a delivery system based on a physical location. Banks have too much brick, mortar, and money invested in branch banking. Another disadvantage is that non-banks are better equipped to organize customer data into useful information for recruiting and retaining new customer relationships.
Most banks have plenty of processing power, but their processing systems are old and out of date. Bank mergers only complicate the problem because now the combined organization may have two outdated data systems. However, large banks are investing heavily in technology and forming strategic alliances with technology firms to extend their customers' reach across the nation.

The real challenge at hand appears to be how to maintain current systems and serving current customers while moving rapidly into the future.
CHAPTER TWO
ECONOMIC OUTLOOK

Competitors

Non-traditional competitors, such as electronic brokerage houses, finance companies, insurance companies, car dealers, aggressive retailers, software providers, telecommunication companies, and mutual funds are increasingly dominating the financial services environment. Community banks are aggressively becoming much more "service" oriented, acting much more like credit unions, and in some cases outperforming credit unions, both in terms of account and service acquisition, account penetration, as well as efficiency and profitability.

Large banks will continue to drive the financial services market in terms of product offerings and electronic delivery availability. A recent example of this is the new Internet offering from Bank One, the nation's forth-largest bank. It is called WingspanBank.com, and for the first time, a major bank has established a distinct, nationally branded, nationwide web presence, taking the company well beyond the 14 mid-western and southwestern states where it has bank branches. This unit has been
established as an independent operating unit, outside of the services currently being sold by Bank One over the Internet.

Charles Schwab continues to aggressively capture additional brokerage and banking account relationships over the web. As of the end of 1998, Schwab's stock was trading above $95, when at the end of 1997 it was only trading at $15. Schwab has moved their Internet traffic from 1 million to over 42-million hits on their web page daily. Their on-line trading assets have moved from $23 billion to $145 billion, with over 54% of all trades conducted on-line. They were primarily responsible for recently forcing Merrill Lynch to offer Internet, self-directed, discount trading.

Mega-bank mergers and "Internet only" banks will continue to drive increased competition over the long term.

Consumer Trends

The number of households is projected to grow. Home ownership, which represents approximately 65.7 percent of Americans, is projected to grow at an active pace, and begin to slow down by the middle of 2000. Trends indicate that by 2005 the percentage could increase to as high as
75 percent. Currently, most Americans begin their home search using Real Estate brokers, but that will also change over the next decade.

The wealthiest households tend to be headed by married people aged 45-54, whose incomes average $63,300, in contrast, median household income for all stands at approximately $33,000.

Quality customer service is moving back to being the force in today's market, replacing price as the primary consumer motivator. More than 85 percent of Americans believe their money entitles them to a higher degree of service than they currently receive. With technology allowing a quantum leap in consumer choices, service will be one of the primary differentiators.

Consumer expenditures account for two-thirds of all spending in the U.S. One implication of this high spending rate is a low saving rate, which continues to drop. There are approximately 69 million living Baby Boomers born between the years 1946-1960. As this group ages, they will continue seeking more retirement security by investing a large portion of their growing incomes in the stock market and other uninsured investments. Boomers have demonstrated
far less institutional loyalty than their predecessors have.

Generation X, born between the years of 1961-1981, are the consumers moving into the primary borrowing stage of life. At ease with technology, they demand instantaneous service and access to products. In addition, they will shop around the country (via the Internet) for the best rates on loans, coupled with ease and simplicity of use. With almost no institutional loyalty, this is a generation that is much more likely to switch financial institutions regularly. They are much more likely to "invest" rather than save. Furthermore, this is a generation that is captivated by experience, having grown up with Star Wars, Nintendo, and MTV.

Today's successful marketing departments are repackaging products and services to offer an engaging "experience" for this wary generation. Although the older generations continue to enjoy (and demand) knowledgeable personal service, they are also moving rapidly to electronic access.

The fastest growing segment of computer buyers is between the ages of 50-59. This trend continues, as the concern for "security and safety" of electronic systems has
mitigated. Consumers are becoming increasingly demanding of quick, convenient, automated services, leading to the growing trend in "one-stop shopping" supermarkets, financial institutions, etc. In addition, they are demanding multiple access channels (e.g., home, shopping, work, and hotel) to meet their growing appetite for convenience.

Political/Regulations for Credit Unions

Due to the previous passage of banking legislation years ago allowing states to have reciprocal agreements for branch banking, competition will continue to increase. In addition, the current regulatory environment at the NCUA is creating the need to explore the option for Federal Credit Unions to look at a charter change to a State Charter, since many states do not currently contain the field of membership limitations that are contained in current NCUA regulation. In addition, many larger Federal Credit Unions are applying for large community charters, or looking to switching their charter from Federal to State.

Credit unions will need to continue to become even more politically active, both financially and in political events, to protect recent legislative gains, and "fix" some
of the functional deficiencies of HR 1151 that are now coming to light. Traditional competitors continue to take a position of actively opposing credit unions in legal action and legislative initiatives. This has led to real conflict, primarily between credit union associations and bankers associations such as the American Bankers Association (ABA). Although not on the "front burner," the issue of taxation for credit unions continues to be an issue banking associations are actively pushing and it still remains a small, but outside possibility by the Federal Government.

Consumer Forecasts for Credit Unions

Based on the recent Fed action, and the Fed's stated "neutral bias" for future interest rate action, the probability of long-term interest rate hikes remains low, with first mortgages, second mortgages, and home equity loans continuing their present growth.

Based on consumer trends, used-car and real estate lending will remain a strong and a growing market for credit unions, but new vehicle loans may continue to drop moderately.
Consumer bankruptcy will continue to grow. Filings in the past three years continue to grow. Electronic bill payment is growing by 50% per year and is the fastest growing type of consumer payment method. The volume is expected to grow from $21.6 billion currently to more than $189 billion in 2000. Card-based payments will represent more that 40% of all retail POS payments by the end of next year (2000).

Less than 25% of traditional financial transactions will be conducted in physical branches by 2001. In many larger credit unions, upwards of 90% of all current financial transactions are conducted electronically by members.
CHAPTER THREE

SUMMARY OF ISSUES

Delivery Strategy

Current Practices/Goals

• Increase market share
• Increase ACU profitability
• Enter new markets
• Improve member convenience
• Build brand recognition
• Partner with communities

Facts

Overall corporate goal is 8% market share in San Bernardino and Riverside Counties by 2010. ACU’s other strategic goals are not quantified.

Key Recommendations

• Define realistic strategic growth goals.
• Quantify all strategic goals, not just market share.
• Manage the relationship between ACU strategies, tactics, data sources, and tracking tools.
Evaluation

ACU’s overall goal of 8% market share in San Bernardino and Riverside Counties does not appear realistic. ACU’s statistics as of 6/30/01 showed a 4.0% share of San Bernardino County deposits ($474mm out of $17.1B), and just a 0.2% share of Riverside County deposits ($26mm out of $12.8B). San Bernardino County grew at 10% overall between 2000 and 2001. If the market continued to grow at the same annual rate until 2010, ACU would require an average annual deposit growth rate of 46% (to about $2.2B in deposits) to achieve its long-term objective. In Riverside County, the credit union’s goal seems totally unattainable without significant, rapid growth in the county, possibly through acquisition.

Other strategic goals should be quantified, if possible. For example, ACU profitability goals should be presented in absolute dollars, percent growth, ROE, or some other quantifiable measure. New market entry goals should be presented as number, size, and/or type of new markets entered, categorized by proximity to ACU’s current trade area.

As Arrowhead grows in size and complexity, tools that enable the credit union to manage against its overall
strategies become increasingly important. The Branch Expansion Tactic (Appendix A) provides a simple management tool that allows the credit union to align (1) corporate strategic goals, (2) specific tactics or initiatives, (3) available data/information sources, and (4) management tracking tools, which then provide additional information to support or adapt tactics and initiatives (symbolized by the arrow between the two columns). The resulting positive cycle will facilitate credit union-wide communication and enable ACU to identify occasions when one initiative supports multiple strategic goals; when one data source supports multiple tactics; and when one tracking mechanism receives data from multiple data sources.

The Branch Expansion Tactic (Appendix A) analyzes an in-market full-service branch expansion tactic. The tactic supports three ACU strategic goals and relies on numerous ACU data sources. The impact of adding a new branch will influence many tracking reports. These tools then provide ongoing feedback to determine how effectively the tactic is supporting the quantitative strategic goals of the credit union, and also enables ACU to prioritize future tactical initiatives.
Types of Branch Locations

Current Practices/Goals

• Community centers
  - Consumer/business banking services
  - Transaction location
  - Service center site
  - Existing market development

• Regional centers
  - Expanded business orientation
  - Private banking
  - Trust/investment

• Alternative sites
  - In-store
  - Multiple partners
  - Smaller locations
  - Less cost
  - New markets

• Business banking centers
  - Wealth management/private banking
  - Trust
  - Investment/insurance
Facts

Four categories of branch location are envisioned: community centers, regional centers, alternative sites, and business banking centers. Some criteria have been defined for each location, although precise, distinct definitions of each category have not been created.

Current sites have been categorized as community centers, regional centers, or alternative sites; no business banking centers yet exist. Possible future sites have been assigned to one of these categories, although the criteria by which these assignments were made was not provided.

Key Recommendations

• Define more specific criteria for each category of branch.
• Determine market acceptance of credit union business banking centers.

Evaluation

Arrowhead must develop more precise definitions of each category of branch. Definitions should include precise criteria for the type of market in which the branches will operate, and should provide corresponding
sizing, layout, component, staffing, capital investment, and service offering requirements for each category.
Before developing any business banking centers, ACU should perform primary market research to determine the appeal of credit unions in general (and ACU in particular) to business clients. If businesses disproportionately prefer to bank with commercial banks over credit unions, ACU is unlikely to attract significant business market share even if business-oriented locations are developed in areas densely populated with commercial customers.

Types of Automatic Teller Machine Locations

Current Practices/Goals

- ACU
  - On-premise
  - Government building
  - Hospital
  - Supermarket
  - College
  - Private corporation

- CO-OP
Facts

Arrowhead recently expanded its network of free ATMs to include CO-OP machines (83 in ACU’s San Bernardino and Riverside County market areas).

The credit union is currently working to expand its relationship with Stater Brothers due to the similar demographics of the two organizations.

Evaluation

Arrowhead should continue to build up the brand association value of its partnership with Stater Brothers. In cases where an investment in a complete supermarket branch may not be warranted, ACU can reinforce and strengthen the association between itself and its sole in-store partner by placing branded ATMs within or just outside of other Stater Brothers locations.

Branch and Automatic Teller Machine Expansion

Current Practices/Goals

• Convenience
  - “Where people go several times a week”
  - Less emphasis on where people live or work
• Location
  - Heavy retail
  - Freeway accessible
  - Growing (partners and community)
  - ATM placement influenced by SEGs

• Demographics
  - Income/population (growing)
  - Service center member base
  - Existing ACU members

• Competitors
  - Under-banked
  - Increase competition

Facts

ACU maintains a robust GIS database of demographic characteristics to prioritize branch and ATM placements. However, Arrowhead does not yet use this information to determine optimal branch or ATM sites.

Arrowhead maintains a close partnership with a local realtor, who helps to qualitatively evaluate potential sites, secure leases, and negotiate terms.
Key Recommendations

- Define a rigorous approach to location expansion that incorporates GIS into the planning phase.
- Identify ATM market coverage gaps by tracking specific competitors’ ATMs frequently used by ACU members.

Evaluation

ACU should use a consistent, rigorous, quantitative process for new location selection. The process should incorporate information about market potential and growth, current ACU household penetration and wallet share, competitive intensity, age and income segment priorities, presence of high-value destination points, and, if applicable to the particular location, key market segments, including Hispanics, SEGs and potential SEGs, and businesses. It should handle in-market expansion differently than out-market expansion. The Decision Support Tool (Appendix B) incorporates the various data sources to which ACU currently has access into a comprehensive planning process. The tool also lists additional data sources that would augment ACU’s planning process.
Other valuable data for determining ideal ATM site selections is the credit union's own ATM issuer file, which identifies specific competitors' ATMs that frequently service ACU members' transactions. Such information can provide another source of information for the GIS that can quickly identify gaps in ACU's current ATM (and branch) network, as well as members at greater risk of attrition. These files also contain a comprehensive list of competing machines in each of the credit union's key territories. The addresses, owners, and ACU activity for each machine should be stored, plotted, and tracked in ACU's GIS, if the issuer file contains such rich detail.

Use of Geographic Information Systems for Delivery Planning

Current Practices/Goals

- Current member service
  - Trade area development
  - Service coverage gaps
  - Service coverage overlaps/ cannibalization
  - Drive time analysis
  - Member distribution
• New market opportunities
  - Market potential
  - Population and income profiles
  - Hispanic market size
  - SEGs
  - Businesses
  - Competitors’ branches

• Current performance
  - Market penetration (HHs, deposits, loans)

• Transaction analysis

Facts

Arrowhead has invested in GIS software, staff, and data. It produces reports for each branch location to measure market potential and growth, Arrowhead penetration, competition, and presence of SEGs.

Arrowhead has defined non-overlapping trade areas for each branch based on a drive-time analysis.

Key Recommendations

• Define true trade areas for each branch and for ACU, and measure the impact of trade area overlap on ACU performance.
• Develop set of standard analyses that enables comparison of potential site alternatives, tailored to the type of market and the purpose of the site.

• Develop a methodology for weighting and aggregating multiple key statistics that indicate market attractiveness.

Evaluation

Arrowhead is better positioned than most of its peers and competitors to develop detailed market analyses because of its investment in GIS software, staff, and data.

Currently, however, Arrowhead only uses GIS after the fact to measure the performance of actual locations, when it should primarily use GIS to evaluate and prioritize potential sites, as mentioned earlier in this document.

Arrowhead’s definition of branch trade areas does not allow it to measure branch-specific penetration or to identify branch trade area overlap, which is a critical measure of market coverage. Overlapping trade areas do not necessarily cannibalize each other, particularly when the market is densely populated and growing. To a point, additional investment in areas already served by ACU branches will provide adequate returns by improving member
convenience (hence retention), and deepening market coverage (penetration, wallet share). Understanding the relationship between trade area overlap, operating expense, and market penetration requires a more accurate definition of trade areas based on the actual distribution of members relative to their primary branches.

To more consistently and concisely evaluate current and potential locations, GIS data should be part of a potential trade area "scorecard" that would provide a more complete comparison of potential expansion sites. ACU should develop comprehensive reports that present all relevant market statistics, a map of the branch's presumed trade area with major landmarks, retail establishments, competing branches, current members, qualitative comments from physical site visits, and even photographs of the surrounding market. Ideally, presumed trade areas would be based on an analysis of actual trade areas for current ACU branches. The different elements of the scorecard could be weighted to reflect the credit union's priorities for the new site, which would quickly enable Arrowhead to narrow thousands of potential locations to a select few.

Further, scorecards should vary depending on the characteristics of the expansion site. For example, a
scorecard for in-market site selection would emphasize current member concentration more so than out-of-market sites, while a scorecard for a new business-banking center would emphasize business density and working population more so than community banking centers.

Arrowhead should define a process to rank and aggregate the key variables it considers when evaluating a new market. This aggregate ranking will allow Arrowhead to become more specific with its placement decisions, according to its own priorities. For example, Arrowhead may weight average household income and net worth more heavily for a location that included a regional center, as compared to a standard community center location. On the other hand, Arrowhead may weight density of low- to moderate-income households or current ACU households, retail activity and daytime population more heavily for an in-store branch than a traditional branch.

Branch Financial Models

Current Practices/Goals

- Pro forma branch break-even analysis
  - Expenses
- Fee income, cost of funds, loan yield
- Loan and share growth projections

Facts

Arrowhead produces detailed pro forma financial projections for new sites that attempt to predict cash flows, loan and share growth, income and expenses, return on investment, and breakeven point.

Expense projections include real estate, equipment, salary and benefits, utilities, maintenance, taxes, telephone, armored car, courier, marketing, and cost of cash. Fee and spread income are approximate, and do not reflect the expected share of specific product types that generate different spread and fee income and different rates. Projected loan and share growth estimates are based primarily on management intuition. A number of revenue and expense estimates are directly driven by loan and share estimates in ACU’s branch financial model (see Appendix C and D).

Key Recommendations

• Base loan and deposit growth projections for de novo branches on current trade area growth and penetration patterns, as well as total market potential and growth.
Evaluation

ACU's pro forma branch financial projections are comprehensive in terms of the elements captured. Their accuracy could be improved with a more quantitative basis for estimating balance growth.

Refining loan and share growth projections will greatly improve the accuracy of the branch's financial performance projections, which influence site selection. ACU should tie growth estimates to financial product potential, market growth trends, historical ACU sales and penetration rates, strength of competitors, density of current members, retail environment, business population, presence of SEGs, branch size, and overlap of existing Arrowhead branch trade areas.

Automatic Teller Machine
Financial Models

Current Practices/Goals

• ATM profitability
  - Transactions by type and on-us vs. foreign
  - Foreign ATM transaction fees
  - Depreciation
  - Item processing
  - Deposit retrieval cost
- Cash replenishment cost
- Rent
- Cost of money
- Maintenance

- Machine downtime

Facts

Arrowhead is in the process of calculating the profitability of its ATMs.

Arrowhead tracks an estimate of foreign ATM transaction fee revenue for most machines (based on average fee income over a six month period). Arrowhead does not capture interchange income (but was working on it as of August 2002). It also does not accurately track monthly foreign transaction fee revenue, which would allow it to monitor fluctuations in profitability month to month, or foreign transaction fee revenue for every machine.

Arrowhead tracks several sources of ATM expense, including depreciation, item processing and deposit retrieval cost (for deposit-taking machines), cash replenishment cost, rent, cost of money, and maintenance. Other sources of ATM expense include switch fees, communication expense, status monitoring, and revenue sharing.
Quarterly reports are produced that summarize total transaction volume and mix (foreign vs. on-us), ACU member foreign activity, and system uptime. Several lists rank ATMs (high and low) by total transaction volume, deposits, and foreign transaction volume. These reports do not quantify the changes in volume or ranking per machine from quarter to quarter.

**Key Recommendations**

- Refine ATM profitability calculations and use results to optimize management of current and future network.

**Evaluation**

Although ATMs do not always have to generate positive profitability to be worth keeping in the network, determining the financial contribution of each machine provides a valuable measure of ATM placement success. Once ATM profitability is calculated, tracking reports should rank the profitability of each machine against the others and identify correlations between machine characteristics, transaction volume and mix, and machine profitability. Select analyses will improve the credit union's ability to respond to suggested off-premise ATM locations by providing benchmark data for each type of location. By combining benchmark data from transaction and
market analyses with a robust ATM profitability model, Arrowhead will quickly be able to determine whether the proposed location is likely to be profitable.

The current quarterly summary quantifies valuable transaction-related information, but should indicate fluctuations in transaction volume or relative ranking from quarter to quarter. These summaries should also contain profitability data, such as total network profitability, percent of profitable ATMs, highest and lowest collectors of fee and interchange income, and ATM profitability decile reports.

Use of Account and Member Profitability Data

Current Practices/Goals

- Member segmentation (segments A through E, based on balance, products, and estimates of cost and fees) - no true measure of account or member profitability

- Product profitability

- Branch profitability (direct net income before and after allocations)
Facts

Currently, Arrowhead develops an approximation of member profitability based on actual member balances and estimated account operating expenses and fees.

Key Recommendations

• Develop accurate account and member profitability database.

Evaluation

Although Arrowhead’s calculations provide high-level guidance regarding the profitability of certain product types and branches, they do not accurately capture the drivers of profitability within the member base, which can sharply differentiate the economic contribution of similar accounts.

For example, Arrowhead recognizes NSF fee income as a significant source of revenue. Lacking an account-level view of NSF activity, however, Arrowhead estimates average NSF fee income based on average balances. In reality, members may have the same modest average balance and transaction volumes, but some will be very profitable because they incur NSF fees, while others will be unprofitable because they manage their account balances. While one might logically expect lower balance members to
bounce more checks than higher balance members, consistently assuming significant NSF fee revenue when average balances are low may make the credit union’s free checking product appear more consistently profitable than it actually is. Further, the assumed relationship between low balances and high NSFs may be inaccurate, as some studies suggest that many consumers who habitually bounce checks are busy professionals whose account balance is generally high, but fluctuates dramatically month to month, or even day to day.

Many more members holding free checking accounts are unprofitable than this approach suggests. NSF fee revenue is generally concentrated in a small subset of the total member base. Transaction costs will be disproportionately high because members have no restrictions on channel usage. Member profitability will be below average because free checking account holders are less likely to purchase other Arrowhead products.

The lack of a refined member profitability database is the credit union’s most valuable disadvantage that must be addressed as part of its delivery channel strategy. Until it can accurately characterize the drivers of profitability, the behaviors exhibited by profitable and
unprofitable members, and channel usage patterns across its member base, Arrowhead will not be able to fully value its existing delivery network or accurately prioritize opportunities to expand it.

Use of Account and Member Transaction Data

Current Practices/Goals

• Transactions are tracked and managed separately by channel

• ACU’s MCIF does not integrate transaction data from disparate sources into a consolidated view

Facts

Currently, Arrowhead manages transaction data channel by channel. No account, member, or household view of cross-channel transaction activity is captured.

Key Recommendations

• Develop comprehensive view of member transaction preferences across all delivery channels.

Evaluation

Arrowhead should integrate its transaction data into a single, consolidated account-level view of channel usage. This integration could either be part of a larger effort to
build a view of account and member profitability, or an independent effort.

A key benefit of developing this database is the ability to analyze cross-channel usage. The credit union, like most financial institutions of its size, tracks delivery channel usage every month at a fine level of detail. However, it is unable to determine which members use branches in addition to self-service alternatives.

The information in this database can influence a range of tactics, including channel migration, branch reconfiguration, product design, and functionality enhancements.

Use of Branch Transaction Data

Current Practices/Goals

- Sales data
  - New accounts
  - Closed accounts
- Transaction data
  - Service center
- Branch transactions
Facts

ACU's monthly branch summary report only tracks total monthly and YTD branch transactions for each location. The report does not detail transaction types.

Key Recommendations

- Develop detailed branch transaction reports that capture transaction types at each branch.

Evaluation

Tracking more detailed transaction data would allow Arrowhead to identify branches servicing a disproportionate number of transactions that could be performed at self-service channels, i.e., "migratable" transactions. Using this information, Arrowhead could target specific branches for channel migration initiatives. Potential tactics include employing more roamers and instructing them to divert members from the teller line to an appropriate self-service option. In over-burdened branches, video screens could tout the benefits of alternate delivery channels and demonstrate how to use them. Pricing promotions could offer financial incentive to change behaviors.

In addition, comparing transaction volume and sales volume will enable ACU to categorize branches as "exporters" or "importers" of transactions. For example,
if a branch originated 1,000 accounts that performed a total of 4,000 branch transactions in a month, but the branch itself only serviced 3,000 branch transactions, it would be a net “exporter” of transactions - that is, the branch’s primary role is sales, not service. If, on the other hand, the same branch serviced 5,000 transactions, it would be a net “importer” of transactions - that is, its primary role is service, not sales. This simple segmentation scheme will allow ACU to identify the locations, markets, branch categories, and configurations that tend to generate more transactions than sales, and vice versa.

Use of Automatic Teller Machine Transaction Data

Current Practices/Goals
• Monthly reports summarizing activity for each ATM

Facts

Monthly ATM transactions are tracked for each machine and classified according to type of transaction and type of user (member or non-member). This information does not appear to influence decisions regarding the addition or removal of machines, upgrading, or replacement.
Month-to-month trends by machine are not tracked, nor is the change in the percentage of transactions conducted by members versus non-members. This history would allow Arrowhead to identify usage trends that guide decisions about ATM additions, removals, upgrades, or replacements.

Transactions are not linked back to individual members. Members could be segmented based on frequency of ATM transactions, diversity of ATM transactions, use of foreign ATMs, use of on- versus off-premise ATMs, and use of the branch. Analyzing this information would inform Arrowhead about the relationship between different types of ATMs, the appeal of certain functions, and cross-channel usage.

As of August, 2002, the credit union was changing ATM controllers, which was having an impact on the content of ATM transaction reports. Apparently, the replaced controller included shared branch transactions as well as ATM transactions. The new controller must contain clean transaction data to be of value to the credit union as a performance-tracking tool.

Key Recommendations

- Tie the role of each ATM to quantifiable metrics.
**Evaluation**

ATM transaction data can be viewed from numerous angles that would add more value to the analysis ACU currently provides. Most of these applications have been discussed earlier in this document (e.g., tracking member servicing expenses, segmenting by channel usage and preference, evaluating adoption of advanced functionality).

Metrics such as those identified by the ATM Network View for Arrowhead Credit Union (Illustrative) (Appendix E) will identify Arrowhead’s success at matching transaction behavior per machine against the machine’s intended role in the network. The tool compares total transaction volume against percent foreign activity. Machines intended to generate foreign transaction fee revenue will require a certain number of foreign transactions to break even financially, hence its breakeven line slopes down and to the right, i.e., to generate the same number of foreign transactions, the required percentage foreign decreases as total transaction volume increases. Conversely, machines intended to support migration, retention, or acquisition strategies must generate significant activity from current members.
The tool development is based on an actual ACU ATM transaction summary report from May 2002. It suggests that the ATMs at ESRI and government buildings are not generating enough volume to support either a member transaction-driven strategy or a foreign transaction-driven strategy. ATMs placed at hospitals and college campuses support a foreign transaction-driven strategy only. On-premise ATMs, especially external drive-up and walk-up/TTW machines, generate sufficient numbers of both on-us and foreign transactions to support both strategies. Of course, actual financial break-even correlations with transaction activity and mix can only be determined once a comprehensive view of ATM profitability has been completely developed.

Branch Configuration Criteria

Current Practices/Goals

- Willingness to test new technologies
- Automation
- Convenience
- Self-service
Facts

Arrowhead has demonstrated a willingness to experiment with new technologies to improve member service and branch profitability. It has implemented service desks, Remote Teller Systems, and Internet banking kiosks within its branches. In addition, its new Yucaipa branch is staffed with roaming employees ready to provide information, advice, and technology demonstrations. Configuration decisions are not tied to member preferences or market statistics.

Key Recommendations

- Tie configuration decisions directly to market and member-behavioral preferences and supportable capital budget for each new and current location.

Evaluation

ACU’s design for the new Yucaipa branch encourages self-service and features a variety of transaction options for members. However, component selection and numbers
should have been tied directly to expected penetration and member/market behavioral preferences.

In addition, the capital investment required to include advanced technology in branch locations must be justified. ACU should monitor the operating efficiency of branches that adopt new technology and determine the return on their capital investment.

Branch staffing is closely tied to configuration. The role of the branch and market in which the branch operates will largely determine the types of activity the credit union could expect to occur there.

Automatic Teller Machine Functionality

Current Practices/Goals

• Future functionality may include:
  - Stamp dispensing
  - Sporting event tickets
  - Mini-statements
  - Coupons (special offers)
  - Check cashing
  - Money orders/wire transfers
Facts

Arrowhead’s current strategic document lists various functions that could potentially be added to existing or new ATMs. However, no business case is made to support the introduction of specific new ATM functionality.

Key Recommendations

• Tie ATM functionality decisions to market need.

Evaluation

Arrowhead should perform additional primary research to estimate the demand for specific functions, and to try tying current behavior to demand for new functions. Newer installations should not necessarily employ the latest available functionality if sufficient market demand is not likely. As with ATMs in general, specific functions can be justified from the perspective of either direct profitability or enhanced member service. Functions that cannot be justified from either perspective should not be added.

Older machines should be reviewed within the context of their surrounding markets to identify opportunities to upgrade existing machines.
Final Site Selection/Lease Negotiation

Current Practices/Goals

• Works closely with local realtor

Facts

Arrowhead has a long-standing relationship with a local realtor, who works with the credit union in various roles when it is considering branch expansion opportunities.

Key Recommendations

• Refine the role of the realtor in site selection to developing qualitative evaluations of sites identified through ACU analysis.

Evaluation

A knowledgeable, committed local realtor is an invaluable asset when securing branch locations. Better data analysis will streamline interactions with the realtor, allowing him to focus his energy on securing the best possible site for the credit union, in the fastest time frame, at the best possible price.
Effort to Serve the Hispanic Market

Current Practices/Goals

- Strategic document
  - Sizes and defines local and national Hispanic market
  - Provides basic demographics
  - Discusses potential
  - Discusses Hispanic view of financial services
  - Points out low penetration rates
  - Discusses market needs and strategies to serve
  - Discusses hurdles to overcome and possible solutions
- Plots Hispanic distribution and density in GIS

Facts

Arrowhead tracks the distribution of Hispanics within its footprint, and has written strategic reports specifically about the Hispanic market opportunity.

Key Recommendations

- Proactively target the Hispanic market, including changes to products, marketing, and delivery channels

Evaluation

Arrowhead strategic documents suggest that it is aware of the vast potential opportunity within the Hispanic market, and has demonstrated a fair level of research and
analysis. Further, the credit union has obtained block group-level demographic data that portrays the distribution of Hispanics within its market. However, it does not use the information to determine marketing tactics for specific branches, nor does it factor Hispanic market density into its future branch placement plans.

The Inland Empire is nearly 38 percent Hispanic (39 in SB County, 36 in Riverside), even higher than the state of California’s 32 percent. The credit union’s current markets are typical of the Inland Empire: the share of Hispanics in these markets (including Chino Hills and Yucaipa) is 35 percent in SB County and 37 in Riverside, over 427,000 Hispanics altogether.

However, the fact that the credit union has many locations in heavily Hispanic communities does not imply that it has an active marketing effort tied to its delivery network. In order to better serve Hispanics, more Spanish language options should be available. Arrowhead’s web site does not have any pages available in Spanish. Its automated phone system offers the option of continuing in Spanish, but the option is presented in English about 20 seconds into the recorded message (many phone systems are presenting the option for Spanish in Spanish during the
first few seconds of the recording). Apparently some staffing decisions are based on the density of Hispanics in a market. Further, as a whole, the Hispanic community requires more education and information regarding the benefits of the financial products and services Arrowhead offers. In order to obtain more than its fair share of the Hispanic market, the credit union will need to integrate cultural knowledge about the local Hispanic community, delivery channel management, product design, targeted marketing, education, demographic data, and GIS data. As the credit union attempts to gain market share aggressively throughout the Inland Empire, it must gain disproportionate share of the fastest-growing segment of the population, or else it risks lagging even farther behind its market share goals.

Initially, Arrowhead can begin tracking behaviors that may help identify Hispanics within its member base. Currently, Arrowhead can track overall usage of the Spanish call center (either automated or live-body), Spanish options at the ATM, and use of Spanish-speaking tellers. Much of this analysis would require manual updates, which are fallible. ACU is working to upgrade its phone system to enable more detailed member behavior tracking. Detailed
usage analysis would allow Arrowhead to target Spanish-speaking members with Spanish-language advertisements and communications without inadvertently offending Hispanic members who primarily or exclusively communicate in English.

Integration of Special Employee Group-Related Data

Current Practices/Goals

- Sales
  - Four reps in charge of servicing existing SEGs and recruiting new SEGs
  - Basic account management using ACT! 2000

Facts

Although it is a community credit union, ACU targets new SEGs within its communities. The credit union has four full-time representatives on staff who service existing SEGs and recruit new ones.

Key Recommendations

- Integrate SEG data into the GIS.

Evaluation

Targeting SEGs has not been truly essential ever since ACU became a community credit union. However, this
seemingly redundant marketing approach is an effective way to target key segments within the overall population that would enhance the existing member base. SEG-specific acquisition campaigns may be able to generate significant sales volume in a short period of time.

Current and prospective SEG information should be closely tied to delivery network planning. Anecdotal evidence suggests that members from SEGs value the convenience of having an ACU branch near work. The influence may be bi-directional: new branch and ATM placement may be influenced by a high density of attractive, under-penetrated SEGs, then future SEG acquisition campaigns may be influenced by the presence (or promise) of a new branch in the vicinity.

To better manage the relationship between SEG acquisition and delivery network planning, the credit union will require at least two key changes. It will need to improve communication between the GIS and SEG management function areas. In addition, it will need to obtain more detailed profiles of current and potential SEGs, which may be performed by outsourcing to a small business list vendor such as InfoUSA.
Promotion of Other Channels at the Branch

Current Practices/Goals

- Electronic
  - E-Branch/Internet
  - PDAs
- RTS (encourages use of self-service technology)

Facts

Arrowhead has historically included a wide variety of self-service components within its branches, and has adopted new technology faster than most of its peers.

Evaluation

Arrowhead’s treatment of the branch as the center for both multi-channel use and education for self-service technologies encourages the use of these technologies away from the branch. For example, the planned branch in Yucaipa offers a knowledgeable “meeter-greeter” who can guide members to the appropriate location in the credit union as well as roaming employees who can demonstrate self-service technology. The branch includes several Remote Teller System stations, multiple ATMs, and multiple Internet banking kiosks. ACU’s commitment to self-service technology should encourage transaction migration.
However, ACU should develop simple tracking mechanisms that quantify the success of various migration initiatives, and should develop criteria to target specific branches for configurations that encourage migration. Currently, new branches tend to be more sophisticated than older branches simply because they are newer, not necessarily because the market demands the changes.

Promotion of Other Channels at the Automatic Teller Machine

Current Practices/Goals

- Stated goal to begin advertising “other local free ATM locations” on ATMs

Facts

Arrowhead intends to develop a notice for its branches and off-site ATMs letting members know where other free ATMs are located nearby, including both CO-OP and other ACU machines. These notices are intended to reinforce advertisements on the credit union’s website and in some of its direct mail to members. Some of the credit union’s newer ATMs are running full-motion video screens with its product advertising.
Evaluation

If done economically, placing a notice, at each Arrowhead ATM, advertising other nearby free machines is a good way to increase member awareness of the convenience the credit union's free ATM network provides. More importantly, distributing these notices at branches may relieve congestion at certain branches.

The credit union should also consider advertising its location-independent banking options, such as the automated phone center and web site, to guide members to the right channel for their needs. The advertisements could either be on-screen continuously, or else targeted to members when they perform specific transactions that could also be performed via other channels (e.g., transfers, balance inquiries, statements).

Member Household Segmentation

Current Practices/Goals

• Age/income segments
  - Fee driven
  - Credit driven
  - Middle market
  - Low income depositor
- Middle income depositor
- Upscale
- Other (unclassified)

• Profitability
  - Segments A through E, based on balance, products, and estimates of cost and fees

Facts

Arrowhead had defined six distinct segments of members based on age and income. Several of the segment names are misleading because they imply definitions based on actual behavior rather than average tendencies for a particular age and income group.

The credit union has not defined a segmentation scheme for its small business accounts, nor has it identified any relationship between small business accounts and the owners' consumer accounts.

Key Recommendations

• Define member/households segments based on actual member behavior.

Evaluation

Profitability-based segments should be based on actual member profitability figures, rather than estimates.
Similarly, behavior-based segments should be based on actual member behavior.

Until the credit union develops an MCIF or member profitability system capable of correlating actual behavior and profitability to member age and/or income, the benchmark approximations of behavioral preference will suffice. Age and income segments are valuable for forecasting the behavior and potential of a market, but difficult to capture at the account or member level (household income is typically only known if someone in the household has applied for a loan recently, and may change in hard-to-predict ways as household members’ employment status changes).

Competitive Analysis

Current Practices/Goals

- FDIC data
  - Growth by institution
  - Growth of branches against ACU branches by trade area
  - Market share by branch
- Primary research (if not ACU, who is primary FI?)
- GIS (plotting of competitor branches)
• Industry growth and ratio comparisons against unknown peer group
• Beginning to ask new members from which institution their funds are coming

Facts

Arrowhead produces competitive presence reports that compare its market share and growth trends against those of its competitors. FDIC data reports the bank branches within each branch’s trade area. Branches are studied based on the cities in which they are based.

Other FDIC-driven reports segment Inland Empire markets based on whether Arrowhead already has a presence, has immediate, near-term, or long-term plans to develop presence, or does not currently intend to develop a presence. Competitors within each market are listed and total and average branch deposits are calculated.

External research studies and research done by the credit union itself attempt to identify competitors through questions about primary financial institution. Through the research and interviews with non-members, a determination was made on who their primary financial institution was, their satisfaction with their primary financial
institution, and the reasons they have not joined the credit union. Arrowhead’s own research asks members to identify their primary financial institution (usually Arrowhead, but often another institution). Both surveys identify Bank of America, Wells Fargo, and Washington Mutual as ACU’s most formidable competitors.

Key Recommendations

• Develop branch-specific competitive analyses that track performance against immediate competitors.

Evaluation

Grouping area branches by city is a good initial approach to identifying banking “nodes,” or clusters of branches that compete in a single market. However, some larger cities may contain several nodes, and several small but adjacent cities may share a node.

ACU is gathering the correct data about their competitors, but does not analyze ACU’s strength against specific competitors. By combining market share trends and deposit source survey responses, the credit union will be better armed with knowledge about their competitive advantages and disadvantages when considering new markets. Also, an extra step of analysis would allow ACU to identify
which competitors were gaining and losing share in each market (or market node) over time.

Use of Primary Research

Current Practices/Goals

• Annual quality survey
  - Overall service score
  - Importance of teller and branch characteristics and ACU’s ratings against them
  - Member awareness/interest
  - Primary FI questions
  - Member loyalty

• Member Research, LLC report
  - What non-members value most in an FI
  - Primary FI (who is it and how satisfied is the member with it?)
  - Familiarity with subsidiaries
  - Impression of ACU
  - Knowledge of locations
  - Likelihood to move accounts and barriers to doing so
  - Interest in loans
  - Demographics (age, gender, home ownership, radio stations listened to, newspapers read)
• Employee survey
  - Importance vs. practice ratings of core values
  - Pay and benefits
  - Supervisor’s performance
  - Communication
  - Team orientation
• Transaction survey (administered at the time of random transactions)
• New member survey
• Account closure survey

Facts

Arrowhead sponsors or directly performs primary research on a number of subjects for members, non-members, and employees. The surveys cover overall satisfaction and service quality, primary FI information, and knowledge of and interest in delivery channels, products, and services.

A recent addition to the credit union’s new member survey captures the name of the institution the new member left to join Arrowhead CU.

Key Recommendations
• Tie primary research results directly to delivery strategy.
Evaluation

Primary research should be tied directly to ACU's corporate objectives. Two major strategic goals are to improve member convenience and build brand recognition. Research results be analyzed in order to let ACU quantifiably determine whether they have actually improved member convenience and/or built brand recognition among non-members.

By segmenting responses from the new member survey by geography, Arrowhead can identify the competitors against which it competes most effectively in its different markets. The credit union can use this information to prioritize markets where they are most likely to obtain new members.

In addition, ACU should integrate its member, transaction, product, and demographic data in order to develop targeted surveys for specific purposes. For example, member satisfaction surveys across a random sample of existing members tend to be unrevealing and difficult to interpret. On the other hand, tying member retention to member service incident reports will provide a superior indication of service effectiveness. Members frequently
claim to be satisfied until the day they take their business elsewhere.

Given the credit union's emphasis on self-service technology, they should also consider expanding their primary research to include information regarding members' obstacles to migrating routine transactions from the teller line to more self-service technologies. The responses from this survey can instruct Arrowhead about which tactics to employ in different branches to influence delivery channel selection.

Further, ACU could expand its new member survey to cover a wider range of topics, including the reasons why members left their current institution and the reasons they chose ACU.

The Role of the Automatic Teller Machine in Arrowhead Credit Union's Delivery Network

Current Practices/Goals

- Large off-premise network
- Free CO-OP machines for members
- Variety of locations
  - Branches
  - Government offices
- Hospitals
- Supermarkets
- College campuses
- Companies

• Many on-premise ATMs and other self-service alternatives offered at ACU branches

Facts

ACU has a large ATM network of about 60 machines, roughly half of which are off-premise. No specific strategy document exists that outlines the different potential strategic role of each machine, whether by functionality of machine (e.g., cash dispenser, full function), type of location (e.g., lobby, drive-up), or site of machine (e.g., college campus, government building).

ACU offers a variety of self-service alternatives within its branches, including ATMs, Remote Tellers, and Internet kiosks.

Key Recommendations

• Develop tactics to promote the migration of routine transactions from the teller line to self-service channels, including product pricing, education, branch
configuration, use of technology, and relationship profitability management.

- Define the role of each current and planned ATM within ACU’s overall delivery network.

Evaluation

ACU is well positioned to promote self-service alternatives to routine transactions. ACU branches make good use of available technology, ensuring that member service will be preserved or enhanced when self-service options are selected. ACU requires detailed analyses to determine its overall success at “migrating” routine transactions from the teller line to self-service channels.

In addition, the credit union would benefit from coordinated, multi-pronged initiatives to influence member behavior. Deposit product pricing could be modified to reduce the impact of serving channel “abusers” while protecting more moderate members. ACU should continue to educate its members at every available opportunity, including signage, brochures, video screens, and one-on-one intervention by the meeter-greeter. Further, the credit union’s website, ATM network, and automated phone line should reinforce messages promoted at branches. ACU does employ some best practices with its branch configurations,
positioning self-service alternatives and meeter-greeters as focal points rather than teller lines. Ultimately, ACU will require a detailed database of member behavior at all available channels in order to effectively manage channel migration.

Automatic Teller Machine Transaction Pricing

Current Practices/Goals

- Increased surcharge from $1.00 to $1.25 for foreign withdrawal

Facts

The surcharge increase went into effect in January 2002.

Evaluation

Research suggests that consumers are relatively price-inelastic regarding ATM surcharges, especially within market limits. Since $1.25 per foreign withdrawal still keeps the credit union within market limits, Arrowhead is unlikely to witness a significant decline in foreign ATM activity. However, actual usage and surcharge figures should be analyzed to better measure the impact of this (or future) pricing changes. Arrowhead should track the impact
of its pricing changes by comparing average surcharged transaction activity before and after the change, both in absolute transactions and dollars, and as a percentage of total transaction activity at the machine. If possible, the new member survey should attempt to gather information about the impact of the surcharge change on their decision to join the credit union.

Raising surcharges may also motivate certain non-members to become ACU members if they habitually use one of the credit union's ATMs.
CHAPTER FOUR

CONCLUSIONS AND RECOMMENDATIONS

Summary of Recommendations

1. Define realistic strategic growth goals.
2. Quantify all strategic goals, not just market share.
3. Manage the relationship between ACU strategies, tactics, data sources, and tracking tools.
4. Define more specific criteria for each category of branch.
5. Determine market acceptance of credit union business banking centers.
6. Define a rigorous approach to location expansion that incorporates GIS into the planning phase.
7. Identify ATM market coverage gaps by tracking specific competitors’ ATMs frequently used by ACU members.
8. Define true trade areas for each branch and for ACU, and measure the impact of trade area overlap on ACU performance.
9. Develop set of standard analyses that enables comparison of potential site alternatives, tailored to the type of market and the purpose of the site.
10. Develop a methodology for weighting and aggregating multiple key statistics that indicate market attractiveness.

11. Base loan and deposit growth projections for de novo branches on current trade area growth and penetration patterns, as well as total market potential and growth.

12. Refine ATM profitability calculations and use results to optimize management of current and future network.

13. Develop accurate account and member profitability database.

14. Develop comprehensive view of member transaction preferences across all delivery channels.

15. Develop detailed branch transaction reports that capture transaction types at each branch.

16. Tie the role of each ATM to quantifiable metrics.

17. Tie configuration decisions directly to market and member behavioral preferences and supportable capital budget for each new and current location.

18. Tie ATM functionality decisions to market need.

19. Refine the role of the realtor in site selection to developing qualitative evaluations of sites identified through ACU analysis.
20. Proactively target the Hispanic market, including changes to products, marketing, and delivery channels.

21. Integrate SEG data into the GIS.

22. Define member/households segments based on actual member behavior.

23. Develop branch-specific competitive analyses that track performance against immediate competitors.

24. Tie primary research results directly to delivery strategy.

25. Develop tactics to promote the migration of routine transactions from the teller line to self-service channels, including product pricing, education, branch configuration, use of technology, and relationship profitability management.

26. Define the role of each current and planned ATM within ACU’s overall delivery network.

Each recommendation addresses a “gap,” or variation from the ideal. “Practice” gaps are those that Arrowhead could address today, given its current capabilities, data, and systems. “Capability” gaps are those that Arrowhead could address with time and investment in new capabilities, data, and/or systems. Of the 26 recommendations identified in this study, only six (23 percent) address capability
gaps. In short, Arrowhead is well positioned to improve its delivery network planning processes in the immediate future. The priority of each Capability gap is identified with the number immediately following the word "Capability" in the second column.

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Type of gap addressed</th>
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23. Develop branch-specific competitive analyses that track performance against immediate competitors.

24. Tie primary research results directly to delivery strategy.

25. Develop tactics to promote the migration of routine transactions from the teller line to self-service channels, including product pricing, education, branch configuration, use of technology, and relationship profitability management.
26. Define the role of each current and planned ATM within ACU’s overall delivery network.

Practice Gap Prioritization

Theoretically, all practice gaps can be addressed immediately given ACU’s current capabilities, data, and systems. Realistically, however, the credit union will only have the resources to address some of the recommendations at once. The following chart prioritizes recommendations to address practice gaps based on both importance and complexity. In general, more important initiatives should be prioritized over less important ones; however, ACU may elect to launch less important yet simple initiatives. Not surprisingly, no recommended initiatives were of low importance and high complexity.

High Complexity

High Importance

6. Define a rigorous approach to location expansion that incorporates GIS into the planning phase.

8. Define true trade areas for each branch and for ACU, and measure the impact of trade area overlap on ACU performance.
9. Develop set of standard analyses that enables comparison of potential site alternatives, tailored to the type of market and the purpose of the site.

12. Refine ATM profitability calculations and use results to optimize management of current and future network.

25. Develop tactics to promote the migration of routine transactions from the teller line to self-service channels, including product pricing, education, branch configuration, use of technology, and relationship profitability management.

Medium Importance

4. Define more specific criteria for each category of branch.

11. Base loan and deposit growth projections for de novo branches on current trade area growth and penetration patterns, as well as total market potential and growth.

1. Define realistic strategic growth goals.

Low Importance

2. Quantify all strategic goals, not just market share.

23. Develop branch-specific competitive analyses that track performance against immediate competitors.
Medium Complexity

High Importance

10. Develop a methodology for weighting and aggregating multiple key statistics that indicate market attractiveness.

16. Tie the role of each ATM to quantifiable metrics.

20. Proactively target the Hispanic market, including changes to products, marketing, and delivery channels.

26. Define the role of each current and planned ATM with ACU’s overall delivery network.

Medium Importance

3. Manage the relationship between ACU strategies, tactics, data sources, and tracking tools.

5. Determine market acceptance of credit union business banking centers.

Low Importance

7. Identify ATM market coverage gaps by tracking specific competitors’ ATMs frequently used by ACU members.

24. Tie primary research results directly to delivery strategy.

Low Complexity

Medium Importance

21. Integrate SEG data into the GIS.
19. Refine the role of the realtor in site selection to developing qualitative evaluations of sites identified through ACU analysis.

**Glossary of Terms**

*Block group*: A census-defined geographic area composed of street block.

*Tract*: A census-defined geographic area composed of several block groups.

*Trade area*: A geography surrounding a branch or ATM within whose block groups reside the majority (70-85 percent) of the users of the branch or ATM.

*Trade area overlap*: The degree to which a single block group is served by multiple branches. One measure of trade area overlap is the number of branches whose trade areas contain the block group in question. Another measure is the number of trade areas shared by another trade area.

*In-Market*: Within the geographic boundaries defined by the credit union’s trade area.

*Out-Market*: Beyond the geographic boundaries defined by the credit union’s trade area.
Point: A particular address of interest, e.g., branches, ATMs, businesses, member households.
Penetration: The percentage of households residing within a defined geography that are ACU members.
Wallet share: The percentage of deposit, mortgage, investment, or non-mortgage loan balances within a defined geography held by ACU members.
Market potential for financial products and services: The total deposit, mortgage, investment, or non-mortgage loan balances available within a defined geography.
Node: A collection of branches competing for the same members within a tight geography.
Competitive intensity: The strength of competitors within a market. Highly competitive nodes grow at a faster rate than the county overall.
Value of destination points: High-value destination points receive moderate to high numbers of distinct and repeat exposures.
Market segmentation: An identifiable method of dividing a population into mutually exclusive, cumulatively exhaustive groups. For example, an age/income segmentation may divide a population into groups based on a combination of age range, e.g., 35-50, and annual household income range,
e.g., $50,000 to $75,000. Alternatively, a simple binary segmentation such as Hispanic/non-Hispanic or consumer/business may serve Arrowhead marketing purposes.

**ATM issuer file:** A reconciliation file containing details of ACU member transactions performed at competing ATMs. The file generally contains the member’s account number and/or card number, the amount and type of the transaction, and the street address and/or owner of the ATM.

**Self-Service/Self-Reliance Index:** A proprietary variable that estimates a population’s reliance on self-service channels, e.g., ATM, Internet, automated phone, direct deposit, debit card, for financial transactions.
APPENDIX A

BRANCH EXPANSION TACTIC
CU STRATEGIES

- Increase market share
- Increase ACU profitability
- Enter new markets
- Improve member convenience
- Build brand recognition
- Partner with communities

TACTICS

- New branch/ATM placement
- Branch (re)configuration
- Deposit product repricing/redesign
- Channel migration
- Cross-channel management
- Member and balance retention
- Profitable cross-sales
- Member acquisition
- Institution/branch acquisition
- Targeted segmentation
- Network upgrades/enhancements

Sample chart:
- New full-service branch placement
- In-market
- Plug gaps in existing network coverage
<table>
<thead>
<tr>
<th>DATA SOURCES</th>
<th>TRACKING</th>
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<tr>
<td>Market (GIS) data</td>
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<td>Primary member research</td>
<td>Household penetration</td>
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<td>Transaction files (branch, ATM, VRU, Internet, etc)</td>
<td>Branch trade area overlap and market coverage</td>
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<td>MCIF</td>
<td>Channel migration measurement</td>
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<td>Competitive assessments</td>
<td>Member, segment, and ATM/branch profitability</td>
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<td>Branch/GU financials</td>
<td>Member and balance retention measurement</td>
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<td>Fee and waiver data</td>
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<td>Regulatory reports</td>
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<td>Technology assessments</td>
<td>Technology adoption rates</td>
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<td>Industry research</td>
<td>Branch/teller efficiency ratios</td>
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APPENDIX B

DECISION SUPPORT TOOL
Arrowhead Credit Union

Decision Support Tool
For Location-Based Network Expansion

In-Market
(within boundaries defined by current trade area)

Delineate current markets by block group/tract/point:

- penetration and wallet share rates (moderate to low)
- market potential for financial products and services moderate to high; favorable growth
- competitive intensity (moderate)
- moderate to high value of nearby destination points (retail, employment, transportation)
- market segmentation aligned with ACU initiatives (e.g., age/income, Hispanic, small business)
- use of competitor ATMs by Arrowhead members

Quantify and rank in-market voids according to in-market criteria:

- develop penetration and share projections based on market sales/profitability potential and growth, and relationship between trade area overlap and penetration/wallet share
- develop facilities/component plan for each void based on member and market preferences (i.e., facilities composition must address target segment behavioral needs)
- characterize voids as business/consumer acquisition or access/convenience points

Current ACU Data Sources
- market potential and growth
- penetration rates
- wallet share rates per product
- competitive intensity (per node)
- age/income segmentation
- retail establishments
- Hispanic market
- small businesses/potential SEGs
- current SEGs
- ATM issuer file

Out-Market
(areas adjacent to or remote from current trade area)

Delineate new markets by block group/tract/point:

- penetration and wallet share rates (low to zero)
- market potential for financial products and services moderate to high; favorable growth
- competitive intensity
- moderate to high value of destination points
- market segmentation aligned with ACU initiatives

Quantify and rank out-market voids according to out-market criteria:

- develop penetration and share projections based on market sales/profitability potential and growth
- develop facilities/component plan for each void based on market channel preferences
categoryize facility: regional center, community center, business banking, alternative site, or ATM based on specific criteria
- develop financial analysis, including ROI model
APPENDIX C

PRO FORMA BREAK-EVEN ANALYSIS:
ASSUMPTIONS
## Arrowhead Credit Union

### Pro Forma Break-Even Analysis

#### Corona/Norco Final

**Scenario 1**

**ACU Only**

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<tr>
<th>Assumptions</th>
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### Arrowhead Credit Union

#### Pro Forma Break-Even Analysis

**Corona/Norco Final**

**Scenario 1**

**ACU Only**

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# Corona/Norco Final Scenario 1

**ACU Only**

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Arrowhead Credit Union

**Pro Forma Break-Even Analysis**

**Corona/Norco Final**

**Scenario I**

**ACU Only**

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<td>2,678</td>
<td>3,150</td>
<td>3,780</td>
<td>4,095</td>
<td>4,410</td>
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<td># of Shared Branching Transactions / Month</td>
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**Pro Forma Break-Even Analysis**

**Corona/Norco Final**

(Scenario 1)

*ACU Only*

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<td>Average Loan Balance</td>
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<td>Prov LL as % of Avg Loan Balance</td>
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<td>Average ATM Cash on Hand</td>
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**Arrowhead Credit Union**

**Pro Forma Break-Even Analysis**

**Corona/Norco Final**

**Scenario 1**

**ACU Only**

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<td>May-01</td>
<td>Jun-01</td>
<td>Jul-01</td>
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### Arrowhead Credit Union

**Pro Forma Break-Even Analysis**

**Corona/Norco Final**

**Scenario 1**

**ACU Only**

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<th>Mar-01</th>
<th>Apr-01</th>
<th>May-01</th>
<th>Jun-01</th>
<th>Jul-01</th>
<th>Aug-01</th>
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<td><strong>Armed Car Expense</strong></td>
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<td>0.030%</td>
<td>0.030%</td>
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### Arrowhead Credit Union

#### Pro Forma Break-Even Analysis

#### Corona/Norco Final

#### Scenario 1

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<td>May-01</td>
<td>Jun-01</td>
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<td>Fee Income (w/o Shared Branching Inc)</td>
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<td>Funds Sold Yield</td>
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<tr>
<td>Funds Purchased Cost</td>
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**Pro Forma Break-Even Analysis**

**Corona/Norco Final**

**Scenario 1**

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<td><strong>Average Share Balance</strong></td>
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<td><strong>Average ATM Cash on Hand</strong></td>
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### Arrowhead Credit Union

#### Pro Forma Break-Even Analysis

**Corona/Norco Final**

**Scenario I:**

**ACU Only**

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<tr>
<th>Assumptions</th>
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<td>Feb-02</td>
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<td>ATM Addition Depreciation / Mo</td>
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<tr>
<td>Employee Benefits as % of Salaries</td>
<td>20.00%</td>
<td>20.00%</td>
<td>20.00%</td>
<td>20.00%</td>
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<tr>
<td>Employee Benefits</td>
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<tr>
<td>Total Salaries &amp; Benefits</td>
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<td>Square Footage Occupied</td>
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<tr>
<td>Square Footage Sub-Leased</td>
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Square Footage Occupied: 4,750
Square Footage Sub-Leased: 0
### Arrowhead Credit Union

**Pro Forma Break-Even Analysis**

**Corona/Norco Final**

**Scenario 1**

**ACU Only**

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<thead>
<tr>
<th>Assumptions</th>
<th>Sep-01</th>
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<th>Dec-01</th>
<th>Jan-02</th>
<th>Feb-02</th>
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<td><strong>Total Square Footage</strong></td>
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<td><strong>Lease Exp / Sq Ft / Month</strong></td>
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<td><strong>Lease Expense</strong></td>
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<td><strong>Building Repairs &amp; Maint Expense</strong></td>
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<td><strong>Telephone Expense</strong></td>
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<td><strong>Armored Car Expense</strong></td>
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<td><strong>Courier Expense</strong></td>
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<td><strong>Marketing Expense</strong></td>
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<td><strong>Loan Servicing Exp as % of Loan Balances</strong></td>
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<td><strong>Loan Servicing Expense</strong></td>
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<td>2,174</td>
<td>2,268</td>
<td>2,363</td>
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## Arrowhead Credit Union

### Pro Forma Break-Even Analysis

**Corona/Norco Final**

**Scenario 1**

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<td>Month-Year</td>
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<td>Oct-01</td>
<td>Nov-01</td>
<td>Dec-01</td>
<td>Jan-02</td>
<td>Feb-02</td>
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<td>Other Expense</td>
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<td>Fee Income (w/o Shared Branching Inc)</td>
<td>6,615</td>
<td>6,930</td>
<td>7,245</td>
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<td># of Shared Branching Transactions / Month</td>
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<td>Avg Net Fee Income per Sh Br Transaction</td>
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<td>Loan Yield</td>
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<td>Funds Sold Yield</td>
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<td>Funds Purchased Cost</td>
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# Arrowhead Credit Union

## Pro Forma Break-Even Analysis

### Corona/Norco Final

#### Scenario 1

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<td>May-02</td>
<td>Jun-02</td>
<td>Jul-02</td>
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<td>Average Deposit per Member</td>
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<td>Average Share Balance</td>
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<td>90.00%</td>
<td>90.00%</td>
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<tr>
<td>Average ATM Cash on Hand</td>
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<td>150,000</td>
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<tr>
<td>Average Total Cash on Hand</td>
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<td>300,000</td>
<td>300,000</td>
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</table>

| Land Additions              |          |          |          |          |          |          |
| Land                       | 0        | 0        | 0        | 0        | 0        | 0        |
| Bldg or L.H. Imp Addition  |          |          |          |          |          |          |
| Bldg or L.H. Imp Addition Depreciation / Mo |          |          |          |          |          |          |
| Bldg or L.H. Imp Depreciation / Mo | 5,833    | 5,833    | 5,833    | 5,833    | 5,833    | 5,833    |
| NBV Bldg or L.H. Imp       | 256,173  | 250,340  | 244,507  | 238,674  | 232,841  | 227,008  |
| ATM Addition               |          |          |          |          |          |          |
### Pro Forma Break-Even Analysis

**Corona/Norco Final**

**Scenario I:**

**ACU Only**

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<thead>
<tr>
<th>Assumptions</th>
<th>19 (Mar-02)</th>
<th>20 (Apr-02)</th>
<th>21 (May-02)</th>
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<tr>
<td>ATM Addition Depreciation / Mo</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>ATM Depreciation / Mo</td>
<td>1,500</td>
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<td>1,500</td>
<td>1,500</td>
<td>1,500</td>
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<tr>
<td>NBV ATM's</td>
<td>61,500</td>
<td>60,000</td>
<td>58,500</td>
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<td>F&amp;E Addition</td>
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<td>F&amp;E Addition Depreciation / Mo</td>
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<tr>
<td>F&amp;E Depreciation / Mo</td>
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<td>6,250</td>
<td>6,250</td>
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<td>NBV F&amp;E</td>
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<td>Total NBV Fixed Assets</td>
<td>573,923</td>
<td>560,340</td>
<td>546,757</td>
<td>533,174</td>
<td>519,591</td>
<td>506,008</td>
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<td>15.00</td>
<td>15.00</td>
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<td>15.00</td>
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<tr>
<td>Salary Addition ($)</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
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<td>4.00%</td>
<td>4.00%</td>
<td>4.00%</td>
<td>4.00%</td>
<td>4.00%</td>
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<tr>
<td>Salary Expense</td>
<td>31,605</td>
<td>31,605</td>
<td>31,605</td>
<td>31,605</td>
<td>31,605</td>
<td>31,605</td>
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<td>20.00%</td>
<td>20.00%</td>
<td>20.00%</td>
<td>20.00%</td>
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<tr>
<td>Employee Benefits</td>
<td>6,321</td>
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<td>6,321</td>
<td>6,321</td>
<td>6,321</td>
<td>6,321</td>
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<tr>
<td>Total Salaries &amp; Benefits</td>
<td>37,926</td>
<td>37,926</td>
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<td>4,750</td>
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<td>Square Footage Sub-Leased</td>
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## Arrowhead Credit Union
### Pro Forma Break-Even Analysis
#### Corona/Norco Final
##### Scenario 1
##### ACU Only

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<td>4,750</td>
<td>4,750</td>
<td>4,750</td>
<td>4,750</td>
<td>4,750</td>
<td>4,750</td>
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### Arrowhead Credit Union

**Pro Forma Break-Even Analysis**

**Corona/Norco Final**

**Scenario 1**

**ACU Only**

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## Arrowhead Credit Union
### Pro Forma Break-Even Analysis
#### Corona/Norco Final

**Scenario 1**

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<td>Nov-02</td>
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**Land Additions**

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Arrowhead Credit Union

**Pro Forma Break-Even Analysis**

Corona/Norco Final

Scenario 1

*ACU Only*

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Arrowhead Credit Union

**Pro Forma Break-Even Analysis**

**Corona/Norco Final**

**Scenario I**

**ACU Only**

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<td>Nov-02</td>
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<td>Fee Income as % of Share Balances</td>
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<td>0.980</td>
<td>0.980</td>
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<td>3.50%</td>
<td>3.50%</td>
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<td>9.00%</td>
<td>9.00%</td>
<td>9.00%</td>
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<tr>
<td>Funds Sold Yield</td>
<td>5.00%</td>
<td>5.00%</td>
<td>5.00%</td>
<td>5.00%</td>
<td>5.00%</td>
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<tr>
<td>Funds Purchased Cost</td>
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### Arrowhead Credit Union

**Pro Forma Break-Even Analysis**

**Corona/Norco Final**

**Scenario 1**

**ACU Only**

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<thead>
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<th>Assumptions</th>
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<td>Mar-03</td>
<td>Apr-03</td>
<td>May-03</td>
<td>Jun-03</td>
<td>Jul-03</td>
<td>Aug-03</td>
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<td>Number of Members</td>
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<td>Average Deposit per Member</td>
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<td>Average Loan Balance</td>
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<td>0.15%</td>
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| Land Additions                   |        |        |        |        |        |        |
| Land                             | 0       | 0       | 0       | 0       | 0       | 0       |
| Bldg or L.H. Imp Addition        |        |        |        |        |        |        |
| Bldg or L.H. Imp Addition Depreciation / Mo |        |        |        |        |        |        |
| Bldg or L.H. Imp Depreciation / Mo | 5,833  | 5,833  | 5,833  | 5,833  | 5,833  | 5,833  |
| NBV Bldg or L.H. Imp             | 186,177 | 180,344 | 174,511 | 168,678 | 162,845 | 157,012 |

ATM Addition

---

NBV = Net Book Value

**NBV Bldg or L.H. Imp** represents the net book value of the building or land and buildings.
Arrowhead Credit Union  
**Pro Forma Break-Even Analysis**  
**Corona/Norco Final**  
**ACU Only**

### Assumptions

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<tr>
<th>Month-Year</th>
<th>Mar-03</th>
<th>Apr-03</th>
<th>May-03</th>
<th>Jun-03</th>
<th>Jul-03</th>
<th>Aug-03</th>
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### Arrowhead Credit Union

#### Pro Forma Break-Even Analysis

**Corona/Norco Final Scenario 1**

**ACU Only**

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<tr>
<th>Assumptions</th>
<th>31 Mar-03</th>
<th>32 Apr-03</th>
<th>33 May-03</th>
<th>34 Jun-03</th>
<th>35 Jul-03</th>
<th>36 Aug-03</th>
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<td>3,875</td>
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<td>4,064</td>
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Arrowhead Credit Union

**Pro Forma Break-Even Analysis**

**Corona/Norco Final**

**Scénario 1**

**ACU Only**

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<tr>
<th>Assumptions</th>
<th>31</th>
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<td><strong>Month-Year</strong></td>
<td>Mar-03</td>
<td>Apr-03</td>
<td>May-03</td>
<td>Jun-03</td>
<td>Jul-03</td>
<td>Aug-03</td>
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<td>0.090%</td>
<td>0.090%</td>
<td>0.090%</td>
<td>0.090%</td>
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<tr>
<td>Fee Income (w/o Shared Branching Inc)</td>
<td>12,285</td>
<td>12,600</td>
<td>12,915</td>
<td>13,230</td>
<td>13,545</td>
<td>13,860</td>
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<tr>
<td># of Shared Branching Transactions / Month</td>
<td>24,000</td>
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<td>24,000</td>
<td>24,000</td>
<td>24,000</td>
<td>24,000</td>
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<tr>
<td>Avg Net Fee Income per Sh Br Transaction</td>
<td>0.980%</td>
<td>0.980%</td>
<td>0.980%</td>
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<td>0.980%</td>
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<td>Shared Branching Income</td>
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<td>23,520</td>
<td>23,520</td>
<td>23,520</td>
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<tr>
<td>Cost of Funds</td>
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<td>3.50%</td>
<td>3.50%</td>
<td>3.50%</td>
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<tr>
<td>Loan Yield</td>
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<td>9.00%</td>
<td>9.00%</td>
<td>9.00%</td>
<td>9.00%</td>
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<td>Funds Sold Yield</td>
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<td>5.00%</td>
<td>5.00%</td>
<td>5.00%</td>
<td>5.00%</td>
<td>5.00%</td>
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<tr>
<td>Funds Purchased Cost</td>
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<td>5.00%</td>
<td>5.00%</td>
<td>5.00%</td>
<td>5.00%</td>
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**Pro Forma Break-Even Analysis**

**Corona/Norco Final**

**Scenario 1**

**ACU Only**

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<td>90.00%</td>
<td>90.00%</td>
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<td>90.00%</td>
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<td>Average ATM Cash on Hand</td>
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### Arrowhead Credit Union

**Pro Forma Break-Even Analysis**

**Corona/Norco Final**

**Scenario 1**

**ACU Only**

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Arrowhead Credit Union
Pro Forma Break-Even Analysis
Corona/Norco Final
Scenario 1
ACU Only

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Arrowhead Credit Union

Pro Forma Break-Even Analysis

Corona/Norco Final

Scenario 1

ACU Only

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Arrowhead Credit Union

Pro Forma Break-Even Analysis

Corona/Norco Final

Scenario 1

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**Pro Forma Break-Even Analysis**

**Corona/Norco Final Scenario, ACU Only**

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### Arrowhead Credit Union

**Pro Forma Break-Even Analysis**

**Corona/Norco Final**

**Scenario 1**

**ACU Only**

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<td>Dec-04</td>
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Arrowhead Credit Union

Pro Forma Break-Even Analysis

Corona/Norco Final

Scenario 1

ACU Only

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<td>Oct-04</td>
<td>Nov-04</td>
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Arrowhead Credit Union

**Pro Forma Break-Even Analysis**

**Corona/Norco Final**

**Scenario 1**

**ACU Only**

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### Pro Forma Break-Even Analysis

**Corona/Norco Final**

**Scenario I**

**ACU Only**

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Arrowhead Credit Union
Pro Forma Break-Even Analysis
Corona/Norco Final
Scenario 1
ACU Only

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### Arrowhead Credit Union

#### Pro Forma Break-Even Analysis

**Corona/Norco Final**

**Scenario I**

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**Arrowhead Credit Union**  
**Pro Forma Break-Even Analysis**  
**Corona/Norco Final**  
**Scenario 1**  
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<td>Fee Income as % of Share Balances</td>
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<td>0.090%</td>
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<td>Fee Income (w/o Shared Branching Inc)</td>
<td>19,845</td>
<td>20,160</td>
<td>20,475</td>
<td>20,790</td>
<td>21,105</td>
<td>21,420</td>
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<td>Avg Net Fee Income per Sh Br Transaction</td>
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<td>Cost of Funds</td>
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APPENDIX D

PRO FORMA BREAK-EVEN ANALYSIS:
STATEMENT OF OPERATIONS
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### Arrowhead Credit Union

**Pro Forma Break-Even Analysis**

**Corona/Norco Final**

**Scenario 1**

**ACU Only**

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<td>(38,543)</td>
<td>(35,986)</td>
<td>(33,728)</td>
<td>(31,471)</td>
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| Loan to Share Ratio | 90.00% | 90.00% | 90.00% | 90.00% | 90.00% | 90.00% | 90.00% |
| Number of Members | 750 | 850 | 1,000 | 1,200 | 1,300 | 1,400 | 1,500 |
| Number of FTE's | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 |
| Number of Members per FTE | 50 | 57 | 67 | 80 | 87 | 93 | 100 |
Arrowhead Credit Union  
Pro Forma Break-Even Analysis  
Corona/Norco Final  
Scenario 1  
ACU Only

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<td>May-01</td>
<td>Jun-01</td>
<td>Jul-01</td>
<td>Aug-01</td>
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### Statement of Operations

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<td>44,888</td>
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<tr>
<td>Total Interest Income</td>
<td>37,800</td>
<td>40,163</td>
<td>42,525</td>
<td>44,888</td>
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### Arrowhead Credit Union
### Pro Forma Break-Even Analysis
### Corona/Norco Final

#### Scenario 1

**ACU Only**

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#### Statement of Operations

**Loan Interest Income**

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<td>61,519</td>
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**Share Dividend Expense**

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**Net Margin Before Provision LL**

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**Provision for Loan Loss Expense**

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**Net Margin After Provision LL**

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<tbody>
<tr>
<td></td>
<td>17,334</td>
<td>18,406</td>
<td>19,477</td>
<td>20,549</td>
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**Fee Income (w/o Shared Branching Inc)**

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<table>
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<tr>
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<tbody>
<tr>
<td></td>
<td>6,615</td>
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<td>7,245</td>
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**Shared Branching Income**

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**Rental Income**

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<td>0</td>
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**Total Other Operating Income**

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</thead>
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**Total Salaries & Benefits**

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<tbody>
<tr>
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<td>37,926</td>
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**Lease Expense**

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**Utilities Expense**

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</thead>
<tbody>
<tr>
<td></td>
<td>1,553</td>
<td>1,558</td>
<td>1,562</td>
<td>1,567</td>
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<td>1,576</td>
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**Building Repairs & Maint Expense**

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**Secured Property Taxes Expense**

<p>| | | | | | | |</p>
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**Unsecured Property Taxes Expense**

<p>| | | | | | | |</p>
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**Telephone Expense**

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</thead>
<tbody>
<tr>
<td></td>
<td>1,553</td>
<td>1,558</td>
<td>1,562</td>
<td>1,567</td>
<td>1,572</td>
<td>1,576</td>
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### Arrowhead Credit Union

**Pro Forma Break-Even Analysis**

**Corona/Norco Final**

#### Scenario 1

**ACU Only**

<table>
<thead>
<tr>
<th>Period</th>
<th>13</th>
<th>14</th>
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<tbody>
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<td>Sep-01</td>
<td>Oct-01</td>
<td>Nov-01</td>
<td>Dec-01</td>
<td>Jan-02</td>
<td>Feb-02</td>
<td>Mar-02</td>
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<tr>
<td>Armored Car Expense</td>
<td>414</td>
<td>415</td>
<td>417</td>
<td>418</td>
<td>419</td>
<td>420</td>
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<tr>
<td>Courier Expense</td>
<td>518</td>
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<td>521</td>
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<td>524</td>
<td>525</td>
<td>527</td>
</tr>
<tr>
<td>Marketing Expense</td>
<td>1,200</td>
<td>1,200</td>
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<td>1,200</td>
<td>1,200</td>
<td>1,200</td>
<td>1,200</td>
</tr>
<tr>
<td>Loan Servicing Expense</td>
<td>1,985</td>
<td>2,079</td>
<td>2,174</td>
<td>2,268</td>
<td>2,363</td>
<td>2,457</td>
<td>2,552</td>
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<tr>
<td>Other Expense</td>
<td>1,500</td>
<td>1,500</td>
<td>1,500</td>
<td>1,500</td>
<td>1,500</td>
<td>1,500</td>
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<tr>
<td><strong>Total Operating Expense</strong></td>
<td>58,900</td>
<td>59,009</td>
<td>59,119</td>
<td>59,228</td>
<td>59,338</td>
<td>59,447</td>
<td>59,557</td>
</tr>
<tr>
<td>Net Income (Expense)</td>
<td>(21,231)</td>
<td>(19,953)</td>
<td>(17,697)</td>
<td>(15,439)</td>
<td>(13,183)</td>
<td>(10,925)</td>
<td>(8,669)</td>
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<tr>
<td>Accumulated Net Income (Expense)</td>
<td>(423,704)</td>
<td>(443,657)</td>
<td>(461,354)</td>
<td>(476,793)</td>
<td>(489,976)</td>
<td>(500,901)</td>
<td>(509,570)</td>
</tr>
<tr>
<td>Loan to Share Ratio</td>
<td>90.00%</td>
<td>90.00%</td>
<td>90.00%</td>
<td>90.00%</td>
<td>90.00%</td>
<td>90.00%</td>
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</tr>
<tr>
<td>Number of Members</td>
<td>2,100</td>
<td>2,200</td>
<td>2,300</td>
<td>2,400</td>
<td>2,500</td>
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<tr>
<td>Number of FTE's</td>
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<td>15.00</td>
<td>15.00</td>
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<tr>
<td>Number of Members per FTE</td>
<td>140</td>
<td>147</td>
<td>153</td>
<td>160</td>
<td>167</td>
<td>173</td>
<td>180</td>
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### Arrowhead Credit Union
### Pro Forma Break-Even Analysis
### Corona/Norco Final

**Scenario 1**

**ACU Only**

<table>
<thead>
<tr>
<th>Period</th>
<th>20</th>
<th>21</th>
<th>22</th>
<th>23</th>
<th>24</th>
</tr>
</thead>
<tbody>
<tr>
<td>Month-Year</td>
<td>Apr-02</td>
<td>May-02</td>
<td>Jun-02</td>
<td>Jul-02</td>
<td>Aug-02</td>
</tr>
<tr>
<td>Average Share Balance</td>
<td>9,800,000</td>
<td>10,150,000</td>
<td>10,300,000</td>
<td>10,850,000</td>
<td>11,200,000</td>
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<tr>
<td>Average Loan Balance</td>
<td>8,820,000</td>
<td>9,135,000</td>
<td>9,450,000</td>
<td>9,765,000</td>
<td>10,080,000</td>
</tr>
<tr>
<td>Average Total Cash on Hand</td>
<td>300,000</td>
<td>300,000</td>
<td>300,000</td>
<td>300,000</td>
<td>300,000</td>
</tr>
<tr>
<td>Total NBV Fixed Assets</td>
<td>560,340</td>
<td>546,757</td>
<td>533,174</td>
<td>519,591</td>
<td>506,008</td>
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<td>Net Funds Sold (Purchased)</td>
<td>119,660</td>
<td>168,243</td>
<td>216,826</td>
<td>265,409</td>
<td>313,992</td>
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<td>Fee Income (w/o Shared Branching Inc)</td>
<td>8,820</td>
<td>9,135</td>
<td>9,450</td>
<td>9,765</td>
<td>10,080</td>
</tr>
<tr>
<td>Rental Income</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total Other Operating Income</td>
<td>28,420</td>
<td>29,715</td>
<td>31,010</td>
<td>32,305</td>
<td>33,600</td>
</tr>
<tr>
<td>Total Salaries &amp; Benefits</td>
<td>37,926</td>
<td>37,926</td>
<td>37,926</td>
<td>37,926</td>
<td>37,926</td>
</tr>
<tr>
<td>Lease Expense</td>
<td>11,163</td>
<td>11,163</td>
<td>11,163</td>
<td>11,163</td>
<td>11,163</td>
</tr>
<tr>
<td>Utilities Expense</td>
<td>1,585</td>
<td>1,585</td>
<td>1,595</td>
<td>1,595</td>
<td>1,595</td>
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<tr>
<td>Building Repairs &amp; Maint Expense</td>
<td>1,057</td>
<td>1,060</td>
<td>1,063</td>
<td>1,066</td>
<td>1,069</td>
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<tr>
<td>Secured Property Taxes Expense</td>
<td>53</td>
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<td>53</td>
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<tr>
<td>Unsecured Property Taxes Expense</td>
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<td>1,590</td>
<td>1,595</td>
<td>1,599</td>
<td>1,604</td>
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</table>

**Statement of Operations**

- **Loan Interest Income**: 66,150, 68,513, 70,875, 73,238, 75,600
- **Value of Net Funds Sold**: 499, 701, 903, 1,106, 1,308
- **Total Interest Income**: 66,649, 69,214, 71,778, 74,343, 76,908
- **Share Dividend Expense**: 28,583, 29,604, 30,625, 31,646, 32,667
- **Value of Net Funds Purchased**: 0, 0, 0, 0, 0
- **Total Dividend & Interest Expense**: 28,583, 29,604, 30,625, 31,646, 32,667
- **Net Margin Before Provision LL**: 38,065, 39,609, 41,153, 42,698, 44,242
- **Provision for Loan Loss Expense**: 12,230, 13,703, 14,175, 14,648, 15,120
- **Net Margin After Provision LL**: 24,835, 25,906, 26,978, 28,050, 29,122
- **Fee Income (w/o Shared Branching Inc)**: 8,820, 9,135, 9,450, 9,765, 10,080
- **Shared Branching Income**: 19,600, 20,580, 21,560, 22,540, 23,520
- **Rental Income**: 0, 0, 0, 0, 0
- **Total Operating Income**: 38,420, 39,715, 41,010, 42,305, 43,600
- **Total Salaries & Benefits**: 37,926, 37,926, 37,926, 37,926, 37,926
- **Lease Expense**: 11,163, 11,163, 11,163, 11,163, 11,163
- **Utilities Expense**: 1,585, 1,585, 1,595, 1,595, 1,595
- **Building Repairs & Maint Expense**: 1,057, 1,060, 1,063, 1,066, 1,069
- **Secured Property Taxes Expense**: 53, 53, 53, 53, 53
- **Unsecured Property Taxes Expense**: 1,585, 1,590, 1,595, 1,599, 1,604
Arrowhead Credit Union
Pro Forma Break-Even Analysis
Corona/Norco Final
Scenario 1
ACU Only

<table>
<thead>
<tr>
<th>Period</th>
<th>20</th>
<th>21</th>
<th>22</th>
<th>23</th>
<th>24</th>
</tr>
</thead>
<tbody>
<tr>
<td>Month-Year</td>
<td>Apr-02</td>
<td>May-02</td>
<td>Jun-02</td>
<td>Jul-02</td>
<td>Aug-02</td>
</tr>
<tr>
<td>Armored Car Expense</td>
<td>423</td>
<td>424</td>
<td>425</td>
<td>426</td>
<td>428</td>
</tr>
<tr>
<td>Courier Expense</td>
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<td>535</td>
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<td>1,200</td>
<td>1,200</td>
<td>1,200</td>
<td>1,200</td>
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<tr>
<td>Loan Servicing Expense</td>
<td>2,646</td>
<td>2,741</td>
<td>2,835</td>
<td>2,930</td>
<td>3,024</td>
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<tr>
<td>Other Expense</td>
<td>1,500</td>
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<tr>
<td>Total Operating Expense</td>
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<td>59,776</td>
<td>59,886</td>
<td>59,996</td>
<td>60,343</td>
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<td>Net Income (Expense)</td>
<td>(6,411)</td>
<td>(4,155)</td>
<td>(1,898)</td>
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<tr>
<td>Accumulated Net Income (Expense)</td>
<td>(515,981)</td>
<td>(520,136)</td>
<td>(522,034)</td>
<td>(521,675)</td>
<td>(519,297)</td>
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<tr>
<td>Loan to Share Ratio</td>
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<td>Number of Members</td>
<td>2,800</td>
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<td>Number of Members per FTE</td>
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### Arrowhead Credit Union
### Pro Forma Break-Even Analysis
### Corona/Norco Final
#### Scenario 1

**ACU Only**

<table>
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<td>Oct-02</td>
<td>Nov-02</td>
<td>Dec-02</td>
<td>Jan-03</td>
<td>Feb-03</td>
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<tr>
<td>Average Share Balance</td>
<td>11,550,000</td>
<td>11,900,000</td>
<td>12,250,000</td>
<td>12,600,000</td>
<td>12,950,000</td>
<td>13,300,000</td>
<td>13,650,000</td>
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<tr>
<td>Average Loan Balance</td>
<td>10,395,000</td>
<td>10,710,000</td>
<td>11,025,000</td>
<td>11,340,000</td>
<td>11,655,000</td>
<td>11,970,000</td>
<td>12,285,000</td>
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<td>Average Total Cash on Hand</td>
<td>492,425</td>
<td>478,842</td>
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<td>424,510</td>
<td>410,927</td>
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<td>11,550,000</td>
<td>11,900,000</td>
<td>12,250,000</td>
<td>12,600,000</td>
<td>12,950,000</td>
<td>13,300,000</td>
<td>13,650,000</td>
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<td>Net Funds Sold (Purchased)</td>
<td>362,575</td>
<td>411,158</td>
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<td>508,324</td>
<td>556,907</td>
<td>605,490</td>
<td>654,073</td>
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#### Statement of Operations

<table>
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<tr>
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<th>26</th>
<th>27</th>
<th>28</th>
<th>29</th>
<th>30</th>
<th>31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Interest Income</td>
<td>77,963</td>
<td>80,325</td>
<td>82,688</td>
<td>85,050</td>
<td>87,413</td>
<td>89,775</td>
<td>92,138</td>
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<tr>
<td>Value of Net Funds Sold</td>
<td>1,511</td>
<td>1,713</td>
<td>1,916</td>
<td>2,118</td>
<td>2,320</td>
<td>2,523</td>
<td>2,725</td>
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<tr>
<td>Total Interest Income</td>
<td>79,473</td>
<td>82,038</td>
<td>84,603</td>
<td>87,168</td>
<td>89,733</td>
<td>92,298</td>
<td>94,863</td>
</tr>
<tr>
<td>Share Dividend Expense</td>
<td>33,688</td>
<td>34,708</td>
<td>35,729</td>
<td>36,750</td>
<td>37,771</td>
<td>38,792</td>
<td>39,813</td>
</tr>
<tr>
<td>Value of Net Funds Purchased</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Total Dividend &amp; Interest Expense</td>
<td>33,688</td>
<td>34,708</td>
<td>35,729</td>
<td>36,750</td>
<td>37,771</td>
<td>38,792</td>
<td>39,813</td>
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<td>Net Margin Before Provision LL</td>
<td>45,786</td>
<td>47,330</td>
<td>48,874</td>
<td>50,418</td>
<td>51,962</td>
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<td>55,050</td>
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<td>Provision for Loan Loss Expense</td>
<td>15,593</td>
<td>16,065</td>
<td>16,538</td>
<td>17,010</td>
<td>17,483</td>
<td>17,955</td>
<td>18,428</td>
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<td>Net Margin After Provision LL</td>
<td>30,193</td>
<td>31,265</td>
<td>32,336</td>
<td>33,408</td>
<td>33,479</td>
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<td>Fee Income (w/o Shared Branching Inc)</td>
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<td>10,710</td>
<td>11,025</td>
<td>11,340</td>
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<td>11,970</td>
<td>12,285</td>
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<td>Shared Branching Income</td>
<td>23,520</td>
<td>23,520</td>
<td>23,520</td>
<td>23,520</td>
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<td>Rental Income</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total Other Operating Income</td>
<td>33,915</td>
<td>34,230</td>
<td>34,545</td>
<td>34,860</td>
<td>35,175</td>
<td>35,490</td>
<td>35,805</td>
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<td>Total Salaries &amp; Benefits</td>
<td>38,052</td>
<td>38,052</td>
<td>38,052</td>
<td>38,052</td>
<td>38,052</td>
<td>38,052</td>
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<tr>
<td>Lease Expense</td>
<td>11,400</td>
<td>11,400</td>
<td>11,400</td>
<td>11,400</td>
<td>11,400</td>
<td>11,400</td>
<td>11,400</td>
</tr>
<tr>
<td>Utilities Expense</td>
<td>1,609</td>
<td>1,613</td>
<td>1,618</td>
<td>1,623</td>
<td>1,627</td>
<td>1,632</td>
<td>1,637</td>
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<td>1,076</td>
<td>1,079</td>
<td>1,082</td>
<td>1,085</td>
<td>1,088</td>
<td>1,091</td>
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<td>Unsecured Property Taxes Expense</td>
<td>54</td>
<td>54</td>
<td>54</td>
<td>54</td>
<td>54</td>
<td>54</td>
<td>55</td>
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<tr>
<td>Telephone Expense</td>
<td>1,609</td>
<td>1,613</td>
<td>1,618</td>
<td>1,623</td>
<td>1,627</td>
<td>1,632</td>
<td>1,637</td>
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### Arrowhead Credit Union

**Pro Forma Break-Even Analysis**

**Corona/Norco Final**

**Scenario 1**

**ACU Only**

<table>
<thead>
<tr>
<th>Period</th>
<th>25</th>
<th>26</th>
<th>27</th>
<th>28</th>
<th>29</th>
<th>30</th>
<th>31</th>
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<td>Oct-02</td>
<td>Nov-02</td>
<td>Dec-02</td>
<td>Jan-03</td>
<td>Feb-03</td>
<td>Mar-03</td>
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<td><strong>Armoried Car Expense</strong></td>
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<td>431</td>
<td>433</td>
<td>434</td>
<td>435</td>
<td>437</td>
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<tr>
<td><strong>Courier Expense</strong></td>
<td>536</td>
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<td>539</td>
<td>541</td>
<td>542</td>
<td>544</td>
<td>546</td>
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<tr>
<td><strong>Marketing Expense</strong></td>
<td>1,200</td>
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<td>1,200</td>
<td>1,200</td>
<td>1,200</td>
<td>1,200</td>
<td>1,200</td>
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<tr>
<td><strong>Loan Servicing Expense</strong></td>
<td>3,119</td>
<td>3,213</td>
<td>3,308</td>
<td>3,402</td>
<td>3,497</td>
<td>3,591</td>
<td>3,686</td>
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<tr>
<td><strong>Other Expense</strong></td>
<td>1,500</td>
<td>1,500</td>
<td>1,500</td>
<td>1,500</td>
<td>1,500</td>
<td>1,500</td>
<td>1,500</td>
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<tr>
<td><strong>Total Operating Expense</strong></td>
<td>60,579</td>
<td>60,689</td>
<td>60,799</td>
<td>60,909</td>
<td>61,019</td>
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**Net Income (Expense)**

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<th>27</th>
<th>28</th>
<th>29</th>
<th>30</th>
<th>31</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>3,528</td>
<td>4,806</td>
<td>6,082</td>
<td>7,359</td>
<td>8,635</td>
<td>9,912</td>
<td>11,187</td>
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</table>

**Accumulated Net Income (Expense)**

<table>
<thead>
<tr>
<th>Period</th>
<th>25</th>
<th>26</th>
<th>27</th>
<th>28</th>
<th>29</th>
<th>30</th>
<th>31</th>
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<tr>
<td></td>
<td>(515,768)</td>
<td>(510,963)</td>
<td>(504,881)</td>
<td>(497,522)</td>
<td>(488,888)</td>
<td>(478,976)</td>
<td>(467,789)</td>
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**Loan to Share Ratio**

<table>
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<tr>
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<th>27</th>
<th>28</th>
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<th>30</th>
<th>31</th>
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<tbody>
<tr>
<td></td>
<td>90.00%</td>
<td>90.00%</td>
<td>90.00%</td>
<td>90.00%</td>
<td>90.00%</td>
<td>90.00%</td>
<td>90.00%</td>
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</table>

**Number of Members**

<table>
<thead>
<tr>
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<th>25</th>
<th>26</th>
<th>27</th>
<th>28</th>
<th>29</th>
<th>30</th>
<th>31</th>
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<tbody>
<tr>
<td></td>
<td>3,300</td>
<td>3,400</td>
<td>3,500</td>
<td>3,600</td>
<td>3,700</td>
<td>3,800</td>
<td>3,900</td>
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**Number of FTE's**

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<td>15.00</td>
<td>15.00</td>
<td>15.00</td>
<td>15.00</td>
<td>15.00</td>
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</table>

**Number of Members per FTE**

<table>
<thead>
<tr>
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<th>26</th>
<th>27</th>
<th>28</th>
<th>29</th>
<th>30</th>
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<td></td>
<td>220</td>
<td>227</td>
<td>233</td>
<td>240</td>
<td>247</td>
<td>253</td>
<td>260</td>
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### Arrowhead Credit Union

**Pro Forma Break-Even Analysis**

**Corona/Norco Final**

**Scenario 1**

**ACU Only**

<table>
<thead>
<tr>
<th>Period</th>
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<th>33</th>
<th>34</th>
<th>35</th>
<th>36</th>
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<tbody>
<tr>
<td>Month-Year</td>
<td>Apr-03</td>
<td>May-03</td>
<td>Jun-03</td>
<td>Jul-03</td>
<td>Aug-03</td>
</tr>
</tbody>
</table>

#### Average Share Balance
- Apr-03: 14,000,000
- May-03: 14,350,000
- Jun-03: 14,700,000
- Jul-03: 15,050,000
- Aug-03: 15,400,000

#### Average Loan Balance
- Apr-03: 12,600,000
- May-03: 12,915,000
- Jun-03: 13,230,000
- Jul-03: 13,545,000
- Aug-03: 13,860,000

#### Average Total Cash on Hand
- Apr-03: 300,000
- May-03: 300,000
- Jun-03: 300,000
- Jul-03: 300,000
- Aug-03: 300,000

#### Total NBV Fixed Assets
- Apr-03: 397,344
- May-03: 383,761
- Jun-03: 370,178
- Jul-03: 356,595
- Aug-03: 343,012

#### Net Margin Before Provision LL
- Apr-03: 56,594
- May-03: 58,138
- Jun-03: 59,683
- Jul-03: 61,227
- Aug-03: 62,771

#### Provision for Loan Loss Expense
- Apr-03: 18,900
- May-03: 19,373
- Jun-03: 19,845
- Jul-03: 20,318
- Aug-03: 20,790

#### Net Margin After Provision LL
- Apr-03: 37,694
- May-03: 38,765
- Jun-03: 39,838
- Jul-03: 40,909
- Aug-03: 41,981

<table>
<thead>
<tr>
<th>Statement of Operations</th>
<th>32</th>
<th>33</th>
<th>34</th>
<th>35</th>
<th>36</th>
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<tbody>
<tr>
<td>Loan Interest Income</td>
<td>94,500</td>
<td>96,863</td>
<td>99,225</td>
<td>101,588</td>
<td>103,950</td>
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<td>Value of Net Funds Sold</td>
<td>2,928</td>
<td>3,130</td>
<td>3,333</td>
<td>3,535</td>
<td>3,737</td>
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<td>Total Interest Income</td>
<td>97,428</td>
<td>99,993</td>
<td>102,558</td>
<td>105,123</td>
<td>107,687</td>
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<td>Share Dividend Expense</td>
<td>40,833</td>
<td>41,854</td>
<td>42,875</td>
<td>43,896</td>
<td>44,917</td>
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<tr>
<td>Value of Net Funds Purchased</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total Dividend &amp; Interest Expense</td>
<td>40,833</td>
<td>41,854</td>
<td>42,875</td>
<td>43,896</td>
<td>44,917</td>
</tr>
<tr>
<td>Fee Income (w/o Shared Branching Inc)</td>
<td>12,600</td>
<td>12,915</td>
<td>13,230</td>
<td>13,545</td>
<td>13,860</td>
</tr>
<tr>
<td>Shared Branching Income</td>
<td>23,520</td>
<td>23,520</td>
<td>23,520</td>
<td>23,520</td>
<td>23,520</td>
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<tr>
<td>Rental Income</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total Other Operating Income</td>
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<td>36,435</td>
<td>36,750</td>
<td>37,065</td>
<td>37,380</td>
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<td>Total Salaries &amp; Benefits</td>
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<td>38,052</td>
<td>38,052</td>
<td>38,052</td>
<td>38,052</td>
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<tr>
<td>Lease Expense</td>
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<td>11,400</td>
<td>11,400</td>
<td>11,400</td>
<td>11,638</td>
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<tr>
<td>Utilities Expense</td>
<td>1,642</td>
<td>1,647</td>
<td>1,651</td>
<td>1,656</td>
<td>1,661</td>
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<tr>
<td>Building Repairs &amp; Maint Expense</td>
<td>1,094</td>
<td>1,098</td>
<td>1,101</td>
<td>1,104</td>
<td>1,107</td>
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<td>Secured Property Taxes Expense</td>
<td>0</td>
<td>0</td>
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<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Unsecured Property Taxes Expense</td>
<td>55</td>
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<td>55</td>
<td>55</td>
<td>55</td>
</tr>
<tr>
<td>Telephone Expense</td>
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<td>1,651</td>
<td>1,656</td>
<td>1,661</td>
</tr>
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</table>
Arrowhead Credit Union
Pro Forma Break-Even Analysis
Corona/Norco Final
Scenario 1
ACU Only

<table>
<thead>
<tr>
<th>Period</th>
<th>32</th>
<th>33</th>
<th>34</th>
<th>35</th>
<th>36</th>
</tr>
</thead>
<tbody>
<tr>
<td>Month-Year</td>
<td>Apr-03</td>
<td>May-03</td>
<td>Jun-03</td>
<td>Jul-03</td>
<td>Aug-03</td>
</tr>
<tr>
<td>Armored Car Expense</td>
<td>438</td>
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<td>440</td>
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<td>Courier Expense</td>
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<td>554</td>
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<td>Marketing Expense</td>
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<td>1,200</td>
<td>1,200</td>
<td>1,200</td>
<td>1,200</td>
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<td>Loan Servicing Expense</td>
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<td>4,158</td>
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<td>Other Expense</td>
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<td>1,500</td>
<td>1,500</td>
</tr>
<tr>
<td>Total Operating Expense</td>
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<td>61,460</td>
<td>61,571</td>
<td>61,681</td>
<td>62,030</td>
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<td>Net Income (Expense)</td>
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<td>15,017</td>
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<td>17,331</td>
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<td>Accumulated Net Income (Expense)</td>
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<td>(441,584)</td>
<td>(426,568)</td>
<td>(410,275)</td>
<td>(392,944)</td>
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<td>Loan to Share Ratio</td>
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<td>90.00%</td>
<td>90.00%</td>
<td>90.00%</td>
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<td>15.00</td>
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<td>273</td>
<td>280</td>
<td>287</td>
<td>293</td>
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Arrowhead Credit Union

Pro Forma Break-Even Analysis
Corona/Norco Final

Scenario 1
ACU Only

<table>
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<tr>
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<th>38</th>
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<tbody>
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<td>Oct-03</td>
<td>Nov-03</td>
<td>Dec-03</td>
<td>Jan-04</td>
<td>Feb-04</td>
<td>Mar-04</td>
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<td>Average Share Balance</td>
<td>15,750,000</td>
<td>16,100,000</td>
<td>16,450,000</td>
<td>16,800,000</td>
<td>17,150,000</td>
<td>17,500,000</td>
<td>17,850,000</td>
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<td>Average Loan Balance</td>
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<td>14,490,000</td>
<td>14,805,000</td>
<td>15,120,000</td>
<td>15,435,000</td>
<td>15,750,000</td>
<td>16,065,000</td>
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<td>Average Total Cash on Hand</td>
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<td>300,000</td>
<td>300,000</td>
<td>300,000</td>
<td>300,000</td>
<td>300,000</td>
<td>300,000</td>
</tr>
<tr>
<td>Total NBV Fixed Assets</td>
<td>329,429</td>
<td>315,846</td>
<td>302,263</td>
<td>288,680</td>
<td>275,097</td>
<td>261,514</td>
<td>247,931</td>
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<td>Net Funds Sold (Purchased)</td>
<td>945,571</td>
<td>994,154</td>
<td>1,042,737</td>
<td>1,091,320</td>
<td>1,139,903</td>
<td>1,188,486</td>
<td>1,237,069</td>
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</tbody>
</table>

Statement of Operations

| Loan Interest Income | 106,313 | 108,675 | 111,038 | 113,400 | 115,763 | 118,125 | 120,488 |
| Value of Net Funds Sold | 3,940 | 4,142 | 4,345 | 4,547 | 4,750 | 4,952 | 5,154 |
| Total Interest Income | 110,252 | 112,817 | 115,382 | 117,947 | 120,512 | 123,077 | 125,642 |
| Share Dividend Expense | 45,938 | 46,958 | 47,979 | 49,000 | 50,021 | 51,042 | 52,063 |
| Value of Net Funds Purchased | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Dividend & Interest Expense | 45,938 | 46,958 | 47,979 | 49,000 | 50,021 | 51,042 | 52,063 |
| Net Margin Before Provision LL | 64,315 | 65,859 | 67,403 | 68,947 | 70,491 | 72,035 | 73,579 |
| Provision for Loan Loss Expense | 21,263 | 21,735 | 22,208 | 22,680 | 23,153 | 23,625 | 24,098 |
| Net Margin After Provision LL | 43,052 | 44,124 | 45,195 | 46,267 | 47,338 | 48,410 | 49,481 |
| Fee Income (w/o Shared Branching Inc) | 14,175 | 14,490 | 14,805 | 15,120 | 15,435 | 15,750 | 16,065 |
| Shared Branching Income | 23,520 | 23,520 | 23,520 | 23,520 | 23,520 | 23,520 | 23,520 |
| Rental Income | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Other Operating Income | 37,695 | 38,010 | 38,325 | 38,640 | 38,955 | 39,270 | 39,585 |
| Total Salaries & Benefits | 38,179 | 38,179 | 38,179 | 38,179 | 38,179 | 38,179 | 38,179 |
| Lease Expense | 11,638 | 11,638 | 11,638 | 11,638 | 11,638 | 11,638 | 11,638 |
| Utilities Expense | 1,666 | 1,671 | 1,676 | 1,680 | 1,685 | 1,690 | 1,695 |
| Building Repairs & Maint Expense | 1,111 | 1,114 | 1,117 | 1,120 | 1,124 | 1,127 | 1,130 |
| Secured Property Taxes Expense | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Unsecured Property Taxes Expense | 56 | 56 | 56 | 56 | 56 | 56 | 57 |
| Telephone Expense | 1,666 | 1,671 | 1,676 | 1,680 | 1,685 | 1,690 | 1,695 |
**Arrowhead Credit Union**  
**Pro Forma Break-Even Analysis**  
**Corona/Norco Final**  
**Scenario 1**  
**ACU Only**

<table>
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<tr>
<th>Period</th>
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<td>Courier Expense</td>
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<td>4,631</td>
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<td>1,500</td>
<td>1,500</td>
<td>1,500</td>
<td>1,500</td>
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<tr>
<td>Net Income (Expense)</td>
<td>18,480</td>
<td>19,757</td>
<td>21,032</td>
<td>22,308</td>
<td>23,584</td>
<td>24,860</td>
<td>26,136</td>
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<td>Accumulated Net Income (Expense)</td>
<td>(374,464)</td>
<td>(354,707)</td>
<td>(333,675)</td>
<td>(311,367)</td>
<td>(287,783)</td>
<td>(262,923)</td>
<td>(236,787)</td>
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| Loan to Share Ratio | 90.00% | 90.00% | 90.00% | 90.00% | 90.00% | 90.00% | 90.00% |
| Number of Members | 4,500 | 4,600 | 4,700 | 4,800 | 4,900 | 5,000 | 5,100 |
| Number of FTE's | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 | 15.00 |
| Number of Members per FTE | 300 | 307 | 313 | 320 | 327 | 333 | 340 |
### Arrowhead Credit Union

**Pro Forma Break-Even Analysis**

**Corona/Norco Final**

### Scenarios

**ACU Only**

#### Average Share Balance

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<td>May-04</td>
<td>Jun-04</td>
<td>Jul-04</td>
<td>Aug-04</td>
<td>Sep-04</td>
<td>Oct-04</td>
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#### Average Loan Balance

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<th>46</th>
<th>47</th>
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<th>49</th>
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<td>May-04</td>
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<td>Jul-04</td>
<td>Aug-04</td>
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<td>Oct-04</td>
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<td>Average Loan Balance</td>
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<td>17,640,000</td>
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#### Average Total Cash on Hand

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<td>May-04</td>
<td>Jun-04</td>
<td>Jul-04</td>
<td>Aug-04</td>
<td>Sep-04</td>
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<td>Average Total Cash on Hand</td>
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#### Total NBV Fixed Assets

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<th>47</th>
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<th>49</th>
<th>50</th>
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<tbody>
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<td>Month-Year</td>
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<td>May-04</td>
<td>Jun-04</td>
<td>Jul-04</td>
<td>Aug-04</td>
<td>Sep-04</td>
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<td>220,765</td>
<td>207,182</td>
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<td>180,016</td>
<td>166,433</td>
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#### Statement of Operations

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<td>Loan Interest Income</td>
<td>122,850</td>
<td>125,213</td>
<td>127,575</td>
<td>129,938</td>
<td>132,300</td>
<td>134,663</td>
<td>137,025</td>
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<td>5,762</td>
<td>5,964</td>
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<td>130,772</td>
<td>133,337</td>
<td>135,902</td>
<td>138,467</td>
<td>141,032</td>
<td>143,596</td>
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<td>53,083</td>
<td>54,104</td>
<td>55,125</td>
<td>56,146</td>
<td>57,167</td>
<td>58,188</td>
<td>59,208</td>
</tr>
<tr>
<td>Value of Net Funds Purchased</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total Dividend &amp; Interest Expense</td>
<td>53,083</td>
<td>54,104</td>
<td>55,125</td>
<td>56,146</td>
<td>57,167</td>
<td>58,188</td>
<td>59,208</td>
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<td>75,124</td>
<td>76,668</td>
<td>78,212</td>
<td>79,756</td>
<td>81,300</td>
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<td>Fee Income (w/o Shared Branching Inc)</td>
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<td>16,695</td>
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<td>17,325</td>
<td>17,640</td>
<td>17,955</td>
<td>18,270</td>
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<tr>
<td>Shared Branching Income</td>
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<td>23,520</td>
<td>23,520</td>
<td>23,520</td>
<td>23,520</td>
<td>23,520</td>
<td>23,520</td>
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<tr>
<td>Total Other Operating Income</td>
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<td>11,875</td>
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<td>1,725</td>
<td>1,730</td>
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<td>Telephone Expense</td>
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<td>1,715</td>
<td>1,720</td>
<td>1,725</td>
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## Arrowhead Credit Union

### Pro Forma Break-Even Analysis

#### Corona/Norco Final

**Scenario 1**

**ACU Only**

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<tr>
<th>Period</th>
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<td>May-04</td>
<td>Jun-04</td>
<td>Jul-04</td>
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<td>Sep-04</td>
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<tr>
<td>Armored Car Expense</td>
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<td>457</td>
<td>459</td>
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<tr>
<td>Courier Expense</td>
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<td>573</td>
<td>575</td>
<td>577</td>
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<td>5,103</td>
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<td>63,722</td>
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<td>(150,725)</td>
<td>(119,486)</td>
<td>(87,209)</td>
<td>(53,784)</td>
<td>(19,082)</td>
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<td>90.00%</td>
<td>90.00%</td>
<td>90.00%</td>
<td>90.00%</td>
<td>90.00%</td>
<td>90.00%</td>
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<td>15.00</td>
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<td>367</td>
<td>373</td>
<td>380</td>
<td>387</td>
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### Arrowhead Credit Union

**Pro Forma Break-Even Analysis**

**Corona/Norco Final**

**Scenario 1**

*ACU Only*

<table>
<thead>
<tr>
<th>Period</th>
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<td>Feb-05</td>
<td>Mar-05</td>
<td>Apr-05</td>
<td>May-05</td>
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<td>300,000</td>
<td>300,000</td>
<td>300,000</td>
<td>300,000</td>
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#### Statement of Operations

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<td>0</td>
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<td>61,250</td>
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<td>63,292</td>
<td>64,313</td>
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<td>66,354</td>
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<td>29,768</td>
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<td>19,845</td>
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<td>11,875</td>
<td>11,875</td>
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<tr>
<td>Utilities Expense</td>
<td>1,735</td>
<td>1,740</td>
<td>1,745</td>
<td>1,750</td>
<td>1,755</td>
<td>1,761</td>
<td>1,766</td>
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<td>Building Repairs &amp; Maint Expense</td>
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<td>Secured Property Taxes Expense</td>
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<td>Unsecured Property Taxes Expense</td>
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<tr>
<td>Telephone Expense</td>
<td>1,735</td>
<td>1,740</td>
<td>1,745</td>
<td>1,750</td>
<td>1,755</td>
<td>1,761</td>
<td>1,766</td>
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### Arrowhead Credit Union
### Pro Forma Break-Even Analysis
### Corona/Norco Final
### Scenario 1
### ACU Only

<table>
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<tr>
<th>Period</th>
<th>51</th>
<th>52</th>
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<td>Nov-04</td>
<td>Dec-04</td>
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<td>Feb-05</td>
<td>Mar-05</td>
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<td>Armored Car Expense</td>
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<td>Courier Expense</td>
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<tr>
<td>Loan Servicing Expense</td>
<td>5,576</td>
<td>5,670</td>
<td>5,765</td>
<td>5,859</td>
<td>5,954</td>
<td>6,048</td>
<td>6,143</td>
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<td>Other Expense</td>
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<td>Total Operating Expense</td>
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<td>64,628</td>
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<th>55</th>
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<tbody>
<tr>
<td></td>
<td>Net Income (Expense)</td>
<td>35,976</td>
<td>37,252</td>
<td>38,527</td>
<td>39,803</td>
<td>41,078</td>
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<td>Accumulated Net Income (Expense)</td>
<td>16,894</td>
<td>54,146</td>
<td>92,673</td>
<td>132,476</td>
<td>173,553</td>
<td>215,907</td>
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</table>

<table>
<thead>
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<th>55</th>
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<th>57</th>
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<tr>
<td></td>
<td>Loan to Share Ratio</td>
<td>90.00%</td>
<td>90.00%</td>
<td>90.00%</td>
<td>90.00%</td>
<td>90.00%</td>
<td>90.00%</td>
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<tr>
<td></td>
<td>Number of Members</td>
<td>5,900</td>
<td>6,000</td>
<td>6,100</td>
<td>6,200</td>
<td>6,300</td>
<td>6,400</td>
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<tr>
<td></td>
<td>Number of FTE's</td>
<td>15.00</td>
<td>15.00</td>
<td>15.00</td>
<td>15.00</td>
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<tr>
<td></td>
<td>Number of Members per FTE</td>
<td>393</td>
<td>400</td>
<td>407</td>
<td>413</td>
<td>420</td>
<td>427</td>
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</tbody>
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### Arrowhead Credit Union

### Pro Forma Break-Even Analysis

**Corona/Norco Final**

**Scenario 1**

**ACU Only**

<table>
<thead>
<tr>
<th>Period</th>
<th>58</th>
<th>59</th>
<th>60</th>
</tr>
</thead>
<tbody>
<tr>
<td>Month-Year</td>
<td>Jun-05</td>
<td>Jul-05</td>
<td>Aug-05</td>
</tr>
<tr>
<td>Average Share Balance</td>
<td>23,100,000</td>
<td>23,450,000</td>
<td>23,800,000</td>
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<tr>
<td>Average Loan Balance</td>
<td>20,790,000</td>
<td>21,105,000</td>
<td>21,420,000</td>
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<tr>
<td>Average Total Cash on Hand</td>
<td>300,000</td>
<td>300,000</td>
<td>300,000</td>
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<tr>
<td>Total NBV Fixed Assets</td>
<td>44,186</td>
<td>30,603</td>
<td>17,020</td>
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<tr>
<td>Net Funds Sold (Purchased)</td>
<td>1,965,814</td>
<td>2,014,397</td>
<td>2,062,980</td>
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</tbody>
</table>

#### Statement of Operations

- **Loan Interest Income**: 155,925, 158,288, 160,650
- **Value of Net Funds Sold**: 8,191, 8,393, 8,596
- **Total Interest Income**: 164,116, 166,681, 169,246
- **Share Dividend Expense**: 67,375, 68,396, 69,417
- **Value of Net Funds Purchased**: 0, 0, 0
- **Total Dividend & Interest Expense**: 67,375, 68,396, 69,417
- **Net Margin Before Provision LL**: 96,741, 98,285, 99,829
- **Provision for Loan Loss Expense**: 31,185, 31,658, 32,130
- **Net Margin After Provision LL**: 65,556, 66,627, 67,699
- **Fee Income (w/o Shared Branching Inc)**: 20,790, 21,105, 21,420
- **Shared Branching Income**: 23,520, 23,520, 23,520
- **Rental Income**: 0, 0, 0
- **Total Other Operating Income**: 44,310, 44,625, 44,940
- **Total Salaries & Benefits**: 38,307, 38,307, 38,307
- **Lease Expense**: 11,875, 11,875, 11,875
- **Utilities Expense**: 1,771, 1,776, 1,781
- **Building Repairs & Maint Expense**: 1,181, 1,184, 1,187
- **Secured Property Taxes Expense**: 0, 0, 0
- **Unsecured Property Taxes Expense**: 59, 59, 59
- **Telephone Expense**: 1,771, 1,776, 1,781
Arrowhead Credit Union

Pro Forma Break-Even Analysis
Corona/Norco Final

Scenario 1

ACU Only

<table>
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<tr>
<th>Period</th>
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<th>59</th>
<th>60</th>
</tr>
</thead>
<tbody>
<tr>
<td>Month-Year</td>
<td>Jun-05</td>
<td>Jul-05</td>
<td>Aug-05</td>
</tr>
<tr>
<td>Armored Car Expense</td>
<td>472</td>
<td>474</td>
<td>475</td>
</tr>
<tr>
<td>Courier Expense</td>
<td>590</td>
<td>592</td>
<td>594</td>
</tr>
<tr>
<td>Marketing Expense</td>
<td>1,200</td>
<td>1,200</td>
<td>1,200</td>
</tr>
<tr>
<td>Loan Servicing Expense</td>
<td>6,237</td>
<td>6,332</td>
<td>6,426</td>
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<tr>
<td>Other Expense</td>
<td>1,500</td>
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<tr>
<td>Total Operating Expense</td>
<td>64,962</td>
<td>65,074</td>
<td>65,186</td>
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<tr>
<td>Net Income (Expense)</td>
<td>44,903</td>
<td>46,178</td>
<td>47,454</td>
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</table>

Accumulated Net Income (Expense) | 304,438 | 350,516 | 398,070 |

| Loan to Share Ratio | 90.00% | 90.00% | 90.00% |
| Number of Members | 6,600 | 6,700 | 6,800 |
| Number of FTE's | 15.00 | 15.00 | 15.00 |
| Number of Members per FTE | 440 | 447 | 453 |
APPENDIX E:

AUTOMATIC TELER MACHINE NETWORK VIEW FOR ARROWHEADCREDIT UNION (ILLUSTRATIVE)
ATM Network View for Arrowhead Credit Union (Illustrative)

Source: Arrowhead ATM transaction reports, May 2002
BIBLIOGRAPHY


Ferreri, Jack., Credit Union Branching, Credit Union Executive Society, 2001.


Hochgraf, Lisa., Delivery Dance, Credit Union Management, December 1999.


Santovec, Mary Lou., Grow with Bricks and Mortar, Credit Union Management, December 2000.

