

Annual Report 2000

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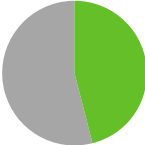

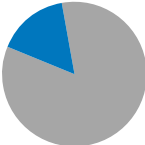
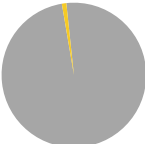
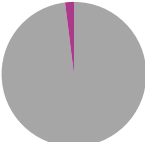
Five-Year Selected Financial Data

Irwin Financial Corporation (www.irwinfinancial.com) is an interrelated group of specialized financial services companies. The Corporation, through its five major subsidiaries — Irwin Home Equity Corporation, Irwin Mortgage Corporation, Irwin Union Bank and Trust Company, Irwin Business Finance, and Irwin Ventures — provides a broad range of consumer and commercial financial services in selected markets in North America.

<i>(In thousands)</i>	2000	1999	1998	1997	1996
For the year					
Net revenues	\$ 297,304	\$ 266,748	\$ 272,063	\$ 200,996	\$ 181,117
Other operating expense	237,962	214,111	221,206	158,818	143,829
Net income	35,666	33,156	30,503	\$24,444	22,428
Return on average equity	20.83%	21.51%	22.84%	19.80%	20.58%
Return on average assets	1.76	2.01	1.85	1.94	1.95
Dividend payout ratio	14.13	12.93	11.39	12.74	12.15
Per share*					
Net income — Basic	\$ 1.70	\$ 1.54	\$ 1.40	\$ 1.10	\$ 0.99
Net income — Diluted	1.67	1.51	1.38	1.08	0.98
Cash dividends	0.24	0.20	0.16	0.14	0.12
Book value	8.97	7.55	6.70	5.82	5.23
Market value at December 31,	21.19	17.81	27.20	20.94	12.38
At year end					
Assets	\$ 2,422,429	\$ 1,680,847	\$ 1,946,179	\$ 1,496,794	\$ 1,300,122
Deposits	1,443,330	870,318	1,009,211	719,596	640,153
Mortgage loans held for sale	579,788	508,997	936,788	528,739	446,898
Loans and leases, net	1,221,793	724,869	547,103	602,281	526,175
Long-term debt	29,608	29,784	2,839	7,096	17,659
Company-obligated mandatorily redeemable preferred securities of subsidiary trusts	147,167	48,071	47,999	47,927	0
Shareholders' equity	189,925	159,296	145,233	127,983	118,903
Owned first mortgage servicing portfolio	9,196,513	10,488,112	11,242,470	10,713,549	10,810,988
Managed home equity portfolio	1,822,856	842,403	581,241	358,166	230,450
Equity to assets ratio	7.84%	9.48%	7.46%	8.55%	9.15%
Risk-based capital ratio	13.60	13.50	12.25	14.85	12.88
Leverage ratio (Tier one)	12.44	12.77	10.51	12.06	9.84
Averages					
Assets	\$ 2,022,980	\$ 1,651,010	\$ 1,650,384	\$ 1,262,714	\$ 1,151,535
Equity	171,196	154,143	133,563	123,483	108,970
Shares outstanding*—Basic	20,973	21,530	21,732	22,326	22,716
Shares outstanding*—Diluted	21,593	21,886	22,139	22,722	23,030

*Adjusted for stock splits

Irwin Financial at a Glance
... an interrelated group of specialized financial services companies...

	Lines of Business	Percentage of Consolidated Net Revenues
Mortgage Banking	Irwin Mortgage originates and services agency conforming residential first mortgage loans nationwide.	 46%
Home Equity Lending	Irwin Home Equity originates and services prime-quality, high loan-to-value home equity loans nationwide.*	 35%
Commercial Banking	Irwin Union Bank and Trust, founded in 1871, provides commercial banking services to small businesses in the Midwest and West.	 16%
Equipment Leasing	Irwin Business Finance, which commenced operations in 2000, funds and services small-ticket commercial leases throughout the U.S. and Canada.*	 1%
Venture Capital	Irwin Ventures, a 1999 start-up, invests private equity in early-stage companies.	 2%

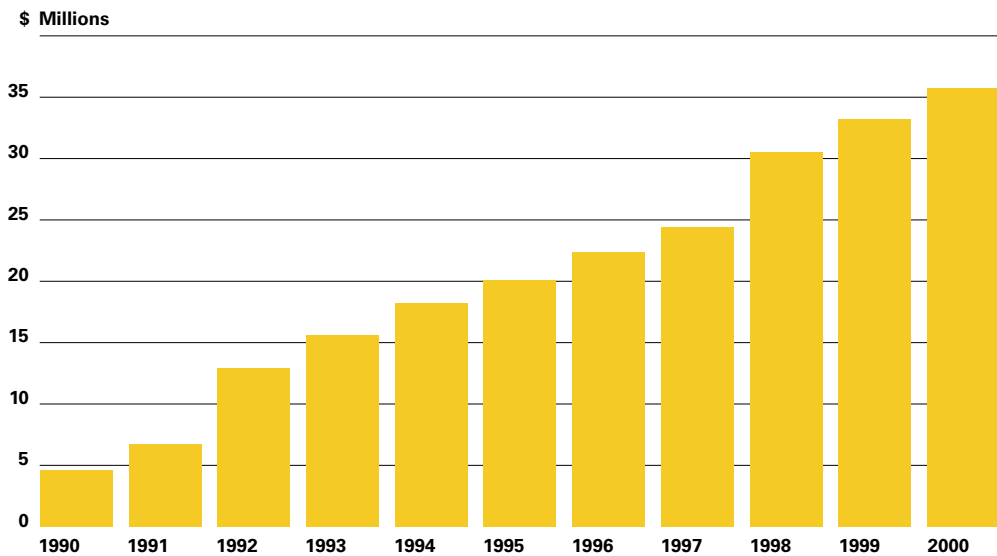
*The home equity and equipment leasing lines of business operate in conjunction with Irwin Union Bank.

Strategy	Environment	2000 Highlights
<ul style="list-style-type: none"> ● Emphasis on borrowers and brokers with special needs, through loan production systems using retail, wholesale, direct, and Internet channels 	<ul style="list-style-type: none"> ● Higher interest rates led to decreased loan originations ● Price competition lowered margins on originations 	<ul style="list-style-type: none"> ● Net income of \$13.0 million, a decrease of 39% from 1999 ● Loan originations totaled \$4.1 billion, down 30% from 1999
<ul style="list-style-type: none"> ● Identify high-quality, active users of consumer debt through targeted direct mail, telemarketing, wholesale, and Internet channels ● Use proprietary credit models to identify high credit quality homeowners ● Achieve high funding and utilization rates for each customer relationship 	<ul style="list-style-type: none"> ● Limited competition in the high loan-to-value market provided strong origination opportunities ● Higher interest rates led to lower portfolio attrition and attractiveness of second mortgage products relative to first mortgage loans ● Increased regulatory scrutiny of high loan-to-value lenders 	<ul style="list-style-type: none"> ● Pre-tax earnings of \$30.8 million, up from \$15.0 million in 1999 ● Originated and acquired \$1.2 billion in loans and lines of credit, an increase of \$0.8 billion over 1999 ● Managed portfolio increased \$1.0 billion to \$1.8 billion
<ul style="list-style-type: none"> ● Provide customers with highly personalized, flexible service through high-caliber local management and staff ● Use back office technology to overcome geographic distance ● Focus expansion on serving the commercial and private banking needs of small businesses 	<ul style="list-style-type: none"> ● Continued industry disruption due to poorly managed consolidations ● Strong economic activity in primary markets 	<ul style="list-style-type: none"> ● Net income totaled \$7.1 million, down \$0.2 million from 1999, reflecting expansion costs ● Loan portfolio increased 48% to \$1.1 billion
<ul style="list-style-type: none"> ● Target leases and loans for small and mid-size equipment in a variety of product lines ● Use e-commerce to source leases through a network of brokers and vendors 	<ul style="list-style-type: none"> ● Strong growth in equipment acquisitions by small businesses ● Continued industry consolidation; withdrawal of under-capitalized companies 	<ul style="list-style-type: none"> ● First-year lease volume of \$113 million ● Equipment leasing line acquired 78% of Canadian small-ticket lessor, Onset Capital ● Loss of \$2.6 million pre-tax, reflecting start-up phase
<ul style="list-style-type: none"> ● Target early-stage companies using technology to change the delivery of financial services ● Be a “partner-of-choice” to larger-scale venture funds which are seeking co-investor expertise in financial services 	<ul style="list-style-type: none"> ● “Dot com” shakeout led to more attractive valuations for new opportunities ● Increased focus on immediately marketable uses of new technologies 	<ul style="list-style-type: none"> ● Net income of \$2.7 million resulting from unrealized portfolio gains ● Portfolio grew to five companies applying innovative technologies to financial services

We are pleased to report that in the year 2000, Irwin Financial achieved double-digit growth in revenues and earnings per share and earned a return on equity in excess of 20%, while simultaneously absorbing the expense of substantial investments for future growth. Irwin Financial accomplished this while facing a number of challenges, including a rising interest rate environment for most of the year, and a softening economy towards the end of the year.

- Net income totaled \$35.7 million or \$1.67 per share compared with 1999 earnings of \$33.2 million or \$1.51 per share, an increase in earnings per share of 10.6%. Over the past five and ten years, our earnings per share have grown at rates of 14% and 23%, respectively.

Net Income



- Our performance in 2000 marks the eleventh consecutive year of record earnings for the Corporation.
- Revenues for 2000 totaled \$297.3 million, an 11.5% increase compared with 1999 revenues of \$266.7 million.
- Return on average equity was 20.83% in 2000 and the return on average assets was 1.76%. This marks the ninth straight year that our return on equity has been at or above 20%, placing us in the top 10% of all publicly traded bank holding companies on this measure in each of those nine years.

**Creditworthy
Profitable Growth**

As stated in our Guiding Philosophy, Irwin Financial's purpose is to create superior value for our stakeholders. For shareholders, we create value through the combination of a rising stock price and dividend payments. While short-term changes in our stock price are largely outside our control, we believe we will create superior value for our shareholders over the long run by delivering three things consistently and simultaneously: creditworthiness, profitability and growth.

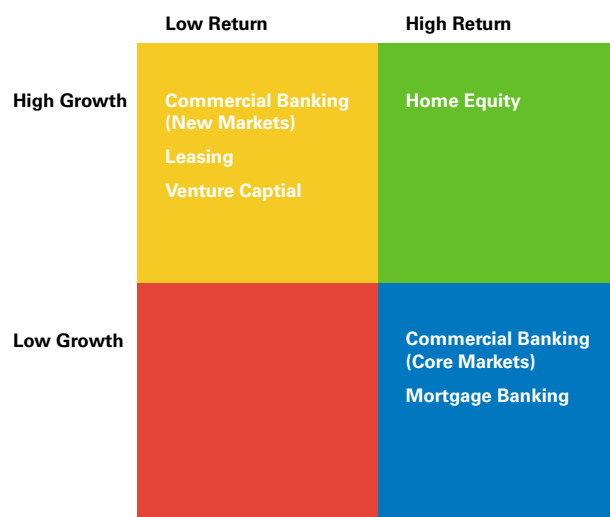
Maintaining our credit processes and standards is essential in all economic environments, good as well as bad. If the economy goes into recession in 2001, as some predict, our nonperforming assets will rise. The real test of our credit disciplines will be whether we can continue to contain credit losses within the parameters of the pricing models we use to ensure we earn target rates of return on our loans and leases.

At the same time, we must also proactively manage the tension that exists between profitability and growth. On the one hand, too great an emphasis on short-term profitability can lead a corporation to fail to invest in enough growth opportunities to sustain that profitability over time. On the other hand, pouring great resources into profitless growth, as many "dot com" companies demonstrated in 2000, can also lead to disappointing and unsustainable results. Our challenge is to find the right balance.

For these reasons, one of Irwin Financial's key objectives is to deliver a consistent record of **creditworthy profitable growth** over the long run. Our choice of the lines of business in which we compete is influenced by the degree to which these businesses fit together as a whole to further this objective. For instance, in the past four years, we have seen positive consolidated results due in large part to the inverse correlation of earnings from our home equity and mortgage banking companies, even though each has individually operated in difficult environments within that time period.

Classic portfolio theory suggests one should invest in a number of companies or lines of business in different stages of maturity and manage them to optimize the whole. For Irwin Financial, the schematic on the next page represents our sense of the current positioning of our lines of business relative to growth and profitability.

Line of Business
Lifecycle



We seek to avoid lines of business that would fall into the lower left-hand quadrant of low growth and low returns. When we find ourselves headed there with no clear path to improve growth or profitability, we will exit the line of business as we did with our certificate of deposit brokerage and medical equipment leasing businesses in the mid-90s.

We will accept lower rates of return for a period of time if they represent investments in high growth opportunities, as shown in the upper left-hand quadrant in the chart. Our investments in new commercial banking markets, leasing and venture capital represent our commitment to investing now, for growth in the future. We expect these businesses to provide low to moderate net income in current periods, but strong revenue growth as they build systems and sales infrastructure to support high returns on equity in the future.

- In 2000, the commercial banking line of business substantially expanded the number of markets in which it serves the small business community. Its credit and commercial cash management products are successfully filling a vacuum left by poor execution in mergers among national and global banking competitors. The start-up expenses of the new markets opened in the last two years had a net drag on consolidated income of \$0.03 per share in 2000.
- Irwin Business Finance, our equipment leasing company, commenced operations in 2000. The equipment leasing line of business acquired a majority interest in Onset Capital in July. We believe that the \$0.07 per share net reduction in 2000 earnings from these start-ups will pay dividends in years to come.

The ideal position for a line of business is to be in the upper right-hand quadrant of the chart, where we simultaneously achieve high returns and high rates of growth. Our home equity company, a start-up in 1994, is currently in this quadrant. IHE's results in 2000 reflected investments we made several years ago—much like those we are making today in the businesses in the upper left-hand quadrant of the chart. Competitive pressures typically limit the length of time a business can simultaneously achieve high growth and high returns. Over time, growth slows or returns shrink. Given our strategic focus on return on capital, should we need to choose between the two, our natural bias is to maintain returns and to seek growth from nurturing companies in the upper left quadrant.

Finally, lines of business in the lower right-hand quadrant are those earning good rates of return, but no longer growing rapidly. These can still be attractive businesses, but we need to reallocate the capital committed to them or find opportunities to increase their growth rates in order to achieve our value creation objectives over the long run. Growth in our mortgage banking and south-central Indiana commercial banking markets has slowed, so our attention has turned to managing for profitability and seeking ways to reinvigorate growth.

- The rising interest rate environment in 2000 was most difficult for our mortgage banking line of business. As recently as 1998, Irwin Mortgage earned \$28.9 million and contributed nearly 75% of consolidated revenues. That year represented an all-time record for loan originations at Irwin Mortgage and the industry as a whole, due to low long-term interest rates. In 2000, rates were 1.18% higher on average than in 1998. As a result, Irwin Mortgage's production declined over the two-year period by over 50%. Irwin Mortgage's net income also declined over the same period to \$13.0 million in 2000. We have undertaken a major re-engineering effort on the production side of the business to reduce the cost impact of this severe cyclical inherent in the business.

Over time, we hope to build a continuous cycle of starting or acquiring lines of business in the upper left quadrant and enabling them to move to the upper right. When they move to the lower right due to industry changes, product maturation, or competition, we work with management to reposition them back to the upper half of the grid. Through this cycle, we plan to achieve our objective of sustainable **creditworthy profitable growth**.

We look forward to reporting our progress in managing this mix to you in the future.

2000 Results by Line of Business

Mortgage Banking

The Corporation's net income is produced by its five principal lines of business and the parent company.

Rising interest rates throughout the majority of 2000 led to lower levels of loan originations and net income at Irwin Mortgage. Net income totaled \$13.0 million in 2000, a decrease of \$10.1 million or 44% compared with 1999. Mortgage loan originations totaled \$4.1 billion, down \$1.8 billion or 30% from a year earlier. Refinanced loans accounted for 16.4% of originations in 2000, compared with 28.6% a year earlier.

As mentioned above, the company turned its attention to significant cost control in 2000. Its principal initiative was the development and rollout of a revised loan processing system, which could substantially reduce costs. Piloted in the Midwest, this re-engineered system is currently being introduced nationally through three additional regional offices. When completed, the company's loan origination offices will focus on the sales activities of identifying and sourcing loans from potential customers, while these four regional processing offices will become the company experts in processing and preparing the loans for closing and sale in the secondary market. This initiative uses the latest in e-commerce enabled technologies combined with a clean sheet of paper approach to design the most efficient work flows.

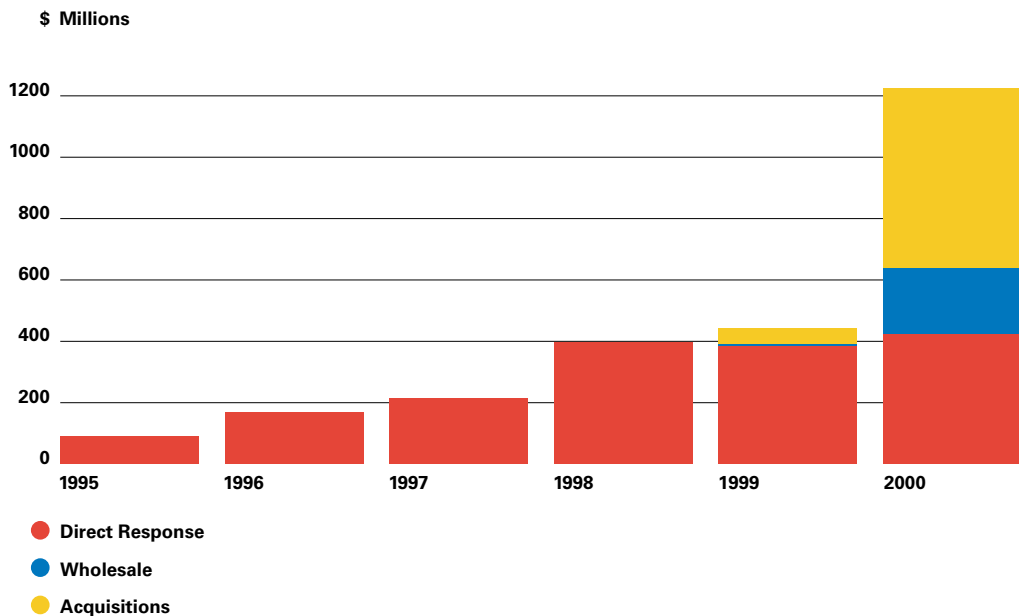
In contrast to the rise in mortgage interest rates throughout most of 2000, signs of economic slowing in the fourth quarter led to significantly lower rates at year-end. The valuation of the mortgage loan servicing portfolio is performed, in large part, on the basis of anticipated future rates as of period-end. During the fourth quarter, actual and anticipated reductions in mortgage interest rates caused a reduction in the value of the servicing portfolio, resulting in amortization and impairment charges net of hedging of \$37.5 million in 2000, compared with \$24.6 million a year earlier. The business sold servicing rights in 2000 to manage its investment in and to monetize existing gains in its servicing portfolio. For the year, the business recognized revenues of \$27.5 million from these sales, a year-over-year increase of 206%. Reflecting the decision to sell selected portions of the portfolio, the business's owned mortgage servicing portfolio totaled \$9.2 billion as of December 31, 2000, a year-over-year decrease of 12%. The economic value of the business's on-balance sheet servicing portfolio totaled \$139.5 million as of December 31, 2000, compared with \$180.5 million a year earlier.

Our ability to offset the negative effects of a slow production environment in 2000 by realizing the benefits of the servicing portfolio illustrate the advantage we see in pursuing a balance in the growth of mortgage production and servicing. Should interest rates stay low in 2001, we expect to use the strength in production to rebuild the servicing portfolio, which has declined due in large part to sales used to support our investment in the production operation.

Home Equity Lending

The Corporation's home equity lending business earned \$30.8 million pre-tax (\$18.5 million after-tax) in 2000, compared with \$15.0 million pre-tax (\$12.6 million after-tax) in 1999, a 105% increase, as it continued to expand in its niche of prime credit quality, high loan-to-value second mortgage loans. The increase reflects the growth of the business's managed portfolio, which totaled \$1.8 billion at year-end, compared with \$0.8 billion a year earlier. Loan and line of credit originations (including acquisitions) totaled \$1.2 billion in 2000, an increase of \$0.8 billion compared with 1999.

Home Equity Originations



Irwin Home Equity has developed a reputation in the secondary markets for its ability to target underserved niches, while managing credit quality through selective screening of prospective customers. This ability to design, test, and roll out new products—while closely monitoring performance and making adjustments where necessary—has enabled IHE to differentiate itself from competitors. As shown above, the company continues to expand in new channels. Delivery channels, which did not exist as recently as 1998, accounted for 66%

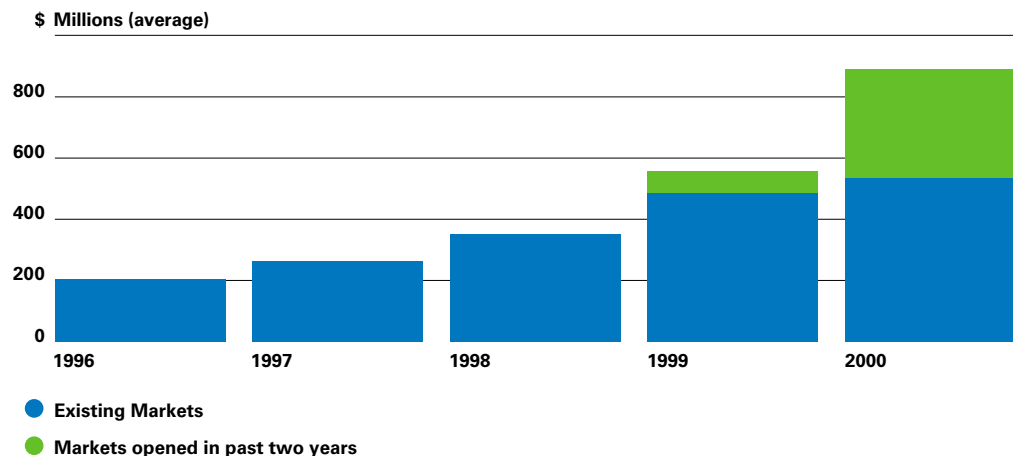
of originations in 2000. In 1999 and 2000, the company leveraged its credit screening criteria by seeking out pools of seasoned portfolios originated by competitors seeking to reduce their presence in the high loan-to-value market. While these acquisitions need to be done selectively and on an as-available basis, the company believes it has unique modeling capabilities to find high quality pools at attractive prices.

As we enter 2001, there is growing evidence of slowing in the national economy. The home equity portfolio is likely to be negatively affected by this slowdown. We believe we are prepared operationally and financially to address rising delinquencies. The business has experienced an increase in its 30-day and greater delinquency ratio, which totaled 4.27% as of year-end 2000, compared with 2.70% a year earlier. This increase reflects portfolio seasoning and changes in portfolio product mix, as well as general economic conditions and the company's testing of new products. While this delinquency rate is in line with management's expectations, we will continue to pay close attention to the performance of the portfolio.

Commercial Banking

Reflecting its success in penetrating new geographic markets for its credit and cash management services aimed at small businesses and their owners, the commercial banking line of business experienced strong growth in 2000. Five new banking offices were opened in markets in Midwestern and Western states during 2000. The line of business's loan portfolio grew \$0.4 billion to \$1.1 billion, a 48% year-over-year increase. Net income for commercial banking was \$7.1 million in 2000, a decrease of 3% compared with \$7.3 million in 1999. The reduction in net income reflects market expansion costs preceding portfolio interest income from the new markets.

Commercial Loan Portfolio Growth



Normally we would be concerned about such rapid loan growth in the late stages of an economic cycle. We believe this rapid expansion of the portfolio is consistent with creditworthy, profitable growth in the long term because we are following a three-part methodology in our expansion strategy:

1. The company identifies high-growth, economically diversified metropolitan markets.
2. From these, we select cities where bank merger and acquisition activity has disrupted long-standing relationships between small business owners and commercial lending officers.
3. We then open offices only when we can recruit seasoned *local* lending officers to join Irwin Union, and we base their future compensation on the combination of portfolio growth *and* credit quality. As an example of this strategy, the Bank's 61 commercial loan officers have an average of 16 years of experience in the small business market.

The net interest margin for the commercial banking line of business was 4.25% in 2000, compared with 4.82% a year earlier. This reduction reflects an increased use of wholesale deposit sources required to fund the growth in the loan portfolio, notwithstanding an \$80.1 million or 14.3% year-over-year increase in core deposits. To help address this decline, we applied for and received a charter to start a savings bank, Irwin Union Bank, F.S.B., which will improve our deposit gathering activities in the new markets.

Credit quality remained strong as the line of business's net charge-offs totaled \$1.1 million during 2000 or 0.13% of average loans, compared with \$1.0 million or 0.16% of average loans in 1999.

Equipment Leasing

The Corporation's small-ticket leasing line of business, Irwin Business Finance, incurred a pre-tax loss of \$2.6 million in 2000 compared with a pretax loss of \$0.8 million a year earlier. This loss was in line with management's expectations given the start-up phase of the company's development. The domestic leasing business, which began funding leases in January 2000, reached breakeven on a monthly basis by the end of the fourth quarter of 2000. During the year, the line of business completed an acquisition of a 78% ownership interest in Onset Capital Corporation, a Canadian small-ticket equipment leasing company. The combined entities originated \$113.3 million in leases in 2000 and had a portfolio at year-end of \$154.9 million, including \$60.8 million acquired as part of the Onset acquisition.

Venture Capital

Irwin Ventures earned net income of \$2.7 million in 2000, a \$2.1 million increase compared with 1999. Despite the sharp reduction in values of technology segment companies, Irwin Ventures continues to see opportunities in emerging technologies applied to the financial services sector. As such, it invested in three new portfolio companies in 2000 and a fourth early in 2001, bringing the portfolio to five companies.

Our interactions with these companies have proven invaluable in helping us keep Irwin Financial in the forefront of technological changes which will affect our niches in financial services in coming years. At the same time, these companies offer unique opportunities in their own right and we look forward to participating in their progress.

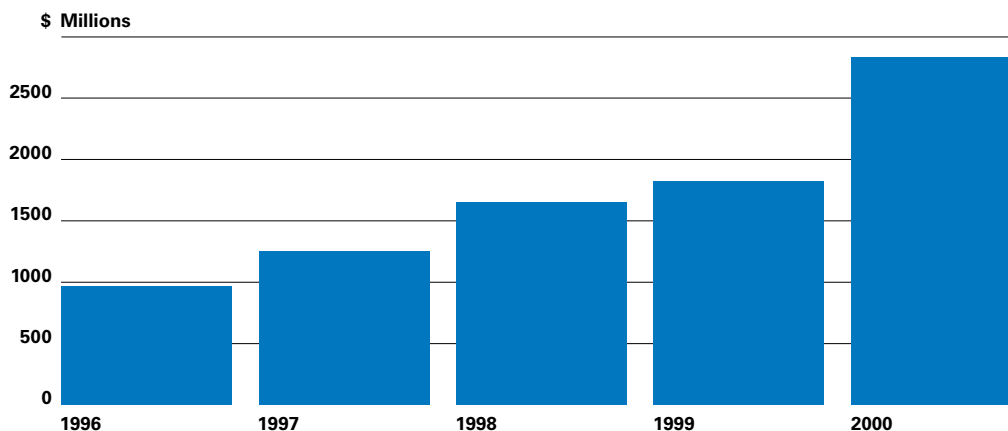
Parent Company/ Other

The parent company and other consolidating entities lost \$3.1 million in 2000, compared to a loss of \$9.7 million a year earlier. These results principally reflect operating expenses of the parent and, in 2000, the allocation to subsidiaries of \$5.4 million in interest expense related to coupon-bearing capital obligations of the parent company. Additionally, in 2000, the parent company recorded \$2.7 million of additional expense reflecting the 10% minority ownership interest of certain senior executives at its home equity line of business.

Balance Sheet

The Corporation's assets totaled \$2.4 billion as of December 31, 2000, a \$0.7 billion increase from a year earlier. The Corporation's loan portfolio totaled \$1.2 billion as of December 31, 2000, an increase of \$0.5 billion or 68%. Risk-based assets (reflecting asset risk we have on- and off-balance sheet) totaled \$2.8 billion, a 55% year-over-year increase, largely reflecting portfolio loan growth and off-balance sheet activities in the home equity line of business.

Risk-based Assets



After enjoying rapid growth in the early 1990s in mortgage banking—a business with a high ratio of revenues to assets—our recent growth at Irwin Home Equity and Irwin Union Bank has significantly increased our assets. While we internally allocate capital based on a balance of expected return and relative risks among the lines of business, our capital requirements at the Corporate level are largely governed by regulators and capital markets which base their capital standards principally on the nature of the assets we retain. In this approach, mortgage loans held for sale are assigned a low level of capital, while home equity loans, commercial loans, and leases have capital requirements which are about double those for the mortgage banking line of business.

This growth has required a substantial increase in our capital. The Corporation had \$189.9 million or \$8.97 per share in common shareholders' equity as of December 31, 2000, a per share increase of 18.8% compared to 1999. To supplement this equity capital, during the fourth quarter of 2000, the Corporation raised \$51.75 million of 10.50%, 30-year trust preferred stock and \$51.75 million of 8.75%, 30-year convertible trust preferred stock to strengthen its capital base.

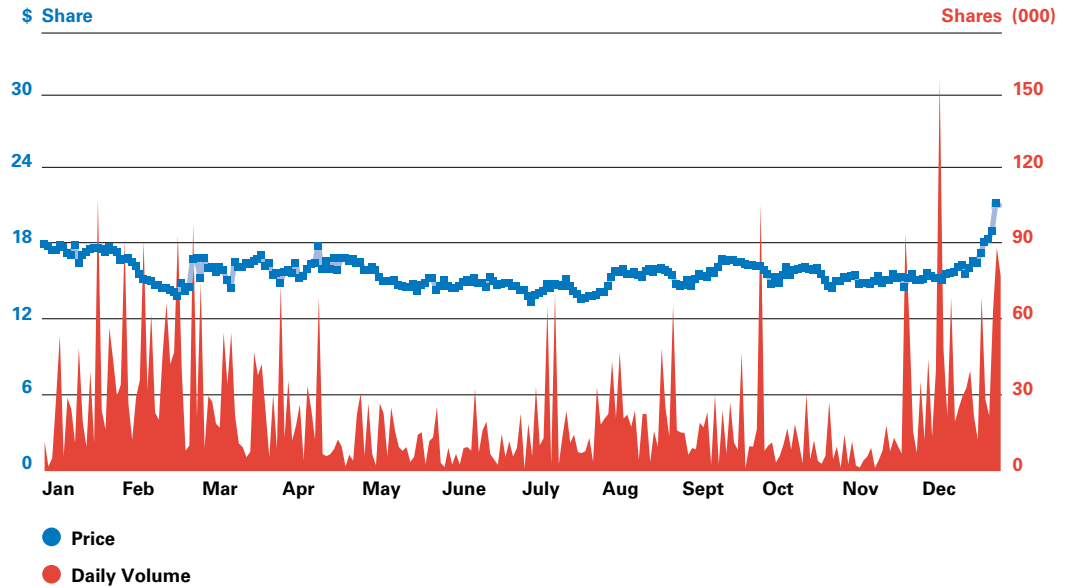
Nonperforming assets (including other real estate owned of \$2.8 million) were \$10.1 million or 0.42% of total assets as of December 31, 2000, up from \$8.1 million or 0.48% of total assets a year earlier, reflecting portfolio growth. The Corporation's allowance for loan losses totaled \$13.1 million as of December 31, 2000, compared with \$8.6 million a year earlier. The ratio of allowance for loan losses to total loans was 1.06%, compared with 1.17% a year earlier, reflective of the growth of the Corporation's loan and lease portfolio. This ratio has declined in recent periods, reflecting a number of factors including the relative age of our portfolios and the low historic loss rates on our assets, as well as external pressure—not specific to Irwin Financial—from the SEC to reduce unallocated portions of loan loss reserves. In setting our reserves, we attempt to balance each of these factors.

2000 Stock Activity

In 1999, when our stock price declined 34.5%, despite then record net income, we expressed disappointment with the negative change in our share price. Nonetheless, we noted the opinion that our principal responsibility is to produce outstanding operating results and that, over time, our stock price will reflect the underlying performance of the company.

In 2000, our common stock began the year at \$17.8125, traded as low as \$13.25, and closed at \$21.1875 per share at year-end. The total return in 2000 to shareholders, including dividends, was 20.7%.

2000 Common Stock Price and Volume



Due to the dramatic increase we have had in assets over the past two years and the need to add to our capital base, we were largely inactive in share repurchases during 2000 after January.

**The People of
Irwin Financial**

On page 21, you will find a discussion of our Guiding Philosophy, which describes our beliefs and guides our approach to business decision-making. The Core Values which form the base of that philosophy are grounded, not in the numbers of loans we make, nor in the level of our profits in any given period, but instead in the human interactions we have with our stakeholders.

We believe the principal differentiating factor in creating superior value for all our stakeholders is found in hiring and retaining exceptional employees. Without the commitment of our 2,412 employees to the ideas embodied in our Core Values, the financial results we discuss throughout this report would be impossible. To them, we add our thanks.

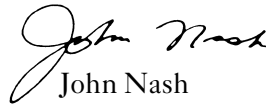
We would like to give special recognition this year to the accomplishments of those of our colleagues who work behind the scenes. Their contributions are essential to Irwin Financial's success, even though their efforts may not always be visible to the public. They are the employees you speak with on the phone, or who process your loan payment, or who confirm your appraisal. These women and men have created and constantly seek to improve the processes which have enabled the tremendous growth we have had in recent years. As one of our senior commercial loan officers observed recently, "We would not be able to close and retain the account relationships we have without support staff who value commitment to service and demonstrate their dedication to service on a daily basis to each of my customers." We couldn't have said it better.

Annual Meeting

We invite all shareholders to attend our Annual Meeting to be held at 4:00 pm on April 26, 2001. Our meeting will be held at the Holiday Inn Conference Center in Columbus, Indiana which is located on the northeast corner of the intersection of Interstate 65 and State Route 46. The meeting slides and audio of the presentations will also be available through the investor relations portion of our website at www.irwinfinancial.com. We hope you can join us.



Will Miller
Chairman



John Nash
President

The Guiding Philosophy, Mission, and Strategy of the Irwin Financial Corporation

Guiding Philosophy: What We Believe

Our Guiding Philosophy is our system of fundamental beliefs and principles about business. Our statement of corporate philosophy attempts to capture the essence of these principles in a single sentence:

We believe the purpose of our business is to create superior value for all of our stakeholders through a dedication to service, treating others as we would want to be treated, a long-term orientation, and the pursuit of the highest standards.

Throughout the Corporation, we use a collection of statements concerning what we believe about people, business, organizations and life—which we call our Core Values and Beliefs—to explain the six central concepts of this philosophy and to influence our decision-making. These are not rules which always apply to every situation. Rather, they are principles which are often helpful in deciding what course of action is most consistent with our corporate values.

Sometimes we face dilemmas when two or more of these principles are in conflict. In these cases, it is important to remember that principled decision-making in the real world always requires judgment. The following is a very brief summary of our Core Values and Beliefs.

- Our purpose is to **create superior value**, which means meeting the evolving needs of people, both individually and in groups, better than other organizations like us.
- We must do this **for all our stakeholders** (customers, employees, shareholders, suppliers, communities, and society as a whole) in an appropriate balance and while improving the tradeoffs between and among our stakeholders' interests over time.
- We value **a dedication to service** as shown by the characteristics of placing service to others above self-interest and of demonstrating a genuine customer focus.
- We believe in **treating others as we would want to be treated** by showing respect for all individuals, remembering the importance of our people in everything we do, and having fun as we work.
- Our **long-term orientation** causes us to embrace change rather than fear it, to commit ourselves to lifelong learning, and to balance self-confidence with humility.
- We pursue the **highest standards** in everything we do, including a commitment to honesty and integrity, honorable competition, management by fact, taking responsibility and being accountable, continuous improvement, and planning.

**Mission:
What We Want
To Be**

In the context of our Guiding Philosophy, we have developed a mission statement for Irwin Financial as a whole:

Irwin Financial's mission is to be the best financial services company, through ethics and excellence, today and tomorrow.

It is important to note how our Mission aligns with our Guiding Philosophy. We think ethical decision-making and excellent performance must exist hand-in-hand in order for our business to create value for our stakeholders, in an appropriate balance, over the long term.

Neither our statement of corporate philosophy nor our mission statement accurately describes present reality. We do not pretend that everyone in our Corporation behaves consistently with all these values all the time or that we have achieved our Mission. As an organization of human beings, we are certainly not perfect. Nonetheless, believing in principles, having high aspirations, and critically assessing our behavior against both remains important. These are our beliefs about how we ought to behave, how we intend to behave, and what we aspire to be. They act as important standards to which we hold ourselves when assessing our own performance.

**Strategy:
What We Want
To Do**

Strategy is the sum of our decisions about what we will do to achieve our Mission given the environment in which we operate. Much more so than Guiding Philosophy or Mission, strategy is influenced by external factors.

Our strategy is to position the Corporation as an interrelated group of specialized financial services companies which serve selected markets and optimize the productivity of our capital base.

The four principal components of our strategy are explained in further detail below:

● **An interrelated group . . .**

We organize our activities into lines of business, each of which has its own management team, income statement, balance sheet, and equity base. We set individual performance targets, normally on the basis of return on equity over time. Our structure allows the senior management of each line of business to focus their efforts on understanding their customers and meeting

the needs of the markets they serve. We believe this approach promotes creativity, responsiveness, motivation, and accountability among the managers of each enterprise. At the same time, the parent company works actively to add value to these lines of business through directly influencing these management teams, exploiting interrelationships, providing certain central services, and making decisions to enter, exit, or restructure lines of business.

● **... of specialized financial services companies . . .**

The provision of financial services to consumer and commercial customers is the principal set of skills uniting all the activities of Irwin Financial. The core competencies of the people of Irwin Financial are in financial services. All diversification opportunities are tested to ensure we are expanding into areas where our skills are compatible with the requirements for success and where we believe the parent company can add value.

We conceive of each of our lines of business as a specialized financial services company. We have five such lines of business:

- First mortgage loan production and servicing;
- Direct-response home equity lending to targeted customer segments ;
- Commercial banking in selected markets with an expansion focus on providing financial services to small businesses;
- Small-ticket equipment finance; and
- Venture capital investing in early stage developers of technology for financial services.

● **... which serve selected markets . . .**

The ability to focus on defensible market segments where a sustainable competitive advantage can be created is another important concept in our strategy. We enter markets where we believe we have or can establish a sustainable competitive advantage based upon a dedication to customer service, responsive decision-making, and product innovation—often in competition with large financial institutions and other providers competing on the basis of price and economies of scale. In the strategic plans of each operating company, we follow a discipline of defining, as clearly as possible, the market served and the basis on which we differentiate our service and product offerings to that market.

● **... and optimize the productivity of our capital base.**

As a bank holding company, Irwin Financial is strictly regulated with a focus on various ratios of equity to assets, primarily for each of our two banks, Irwin Union Bank and Irwin Union Bank, F.S.B., as well as for the Corporation as a whole. As such, the size of our shareholders' equity limits the amount of assets we can carry on our balance sheets if we are to maintain an adequate cushion above the minimum regulatory capital standards.

Accordingly, our strategy seeks to balance growth between:

- Businesses that require us to carry assets on our balance sheet (and are, therefore, capital-intensive), and
- Businesses that produce additional revenues and profits without adding proportionately to asset size (less capital-intensive opportunities).

We call this approach "optimizing the productivity of our capital," because we believe it can produce a larger stream of revenues and profits from a given capital base than a strategy focused principally on asset growth.

The result of this strategy is that Irwin Financial has a much larger proportion of its revenues derived from fee income (71% in 2000) and a lower proportion from net interest margin (29% in 2000) than other bank holding companies with assets of comparable size.

We expect our strategy will position Irwin Financial Corporation to prosper in the competitive environment for financial services in the 21st century. The environment in which we compete changes constantly. Customer needs and expectations evolve in new directions. Former competitors disappear and new ones emerge. The regulatory, economic, and political climates in which we operate vary with time. Therefore, strategy must be a dynamic process. We review our strategic direction annually to refine or change it, if necessary. In this way, we hope to remain flexible enough to continue to prosper and grow for decades to come.

Tools to Maintain Our Long-Term Orientation

As previously announced, on March 1, 2001, the Board of Directors of Irwin Financial took two actions to align our governance system with our philosophy of managing the Corporation to create superior value for all our stakeholders over the long term. First, the Board lengthened the terms Directors serve to three years, with one-third of the Board standing for election each year in the future. Second, the Board implemented a shareholder rights plan giving the Board broader ability to negotiate with potential buyers of large blocks of Irwin Financial shares in the future, should the need ever arise. While not uncontroversial, both a staggered board and a shareholder rights plan have proven effective in increasing shareholder value in certain circumstances. Both are present in approximately half of publicly-traded companies.

The Board did not take either action because of issues Irwin Financial faces today. Due to its concentrated ownership, Irwin Financial is not presently subject to the excessive short-term pressures that can be brought to bear on public corporations at times. This could change in the future, so it is best to be prepared.

Recent growth at Irwin Financial has been in our more capital-intensive lines of business. To fund growth, the Corporation must continually consider how much capital will be required and what form such capital should take. Certain forms of capital may have a dilutive effect on shareholders. We would support our growth with additional capital if we believe the returns we could earn would create value for shareholders.

We believe our ability to manage for the long term is a source of competitive advantage. We will not want to give it up if our ownership profile changes. For this reason, the Board considered it wise to put in place a staggered board and a shareholder rights plan now, before they are needed. In that way, anyone wishing to invest in us and benefit from the growth and value creation we hope to sustain will do so understanding our commitment to maintain a long-term orientation.

These governance improvements are intended to ensure that, in the event of an unsolicited attempt to change control of Irwin Financial, all shareholders have the opportunity to receive full and fair value for their shares. The shareholder rights plan is designed to prevent abusive or coercive takeover strategies by affording the Board the time and opportunity to evaluate any takeover bid and its alternatives. A shareholder rights plan has the effect of encouraging any bidder to negotiate the terms of a bid with the Board.

Some institutional investors (although not all) are critical of staggered boards and shareholder rights plans. The most common criticisms are that they are tools for entrenching a board and a management team, making both less accountable to shareholders for their performance. The presumption is that entrenchment of management and boards will thwart hostile takeovers of under-performing companies in a manner that will destroy shareholder value.

In 1985, the Delaware Supreme Court ruled that shareholder rights plans can be a legitimate action taken by a board of directors to protect its shareholders from unfair acquisition tactics. A leading proxy solicitation firm, Georgeson & Co., conducted a study of hostile takeover attempts from 1992 to 1996. This study shows that companies with shareholder rights plans:

- Were no less likely to receive a hostile takeover offer,
- Were no more likely to remain independent if they did receive a hostile offer, and
- Received an average premium on sale 24% higher than the premiums realized by companies without a shareholder rights plan.

This is strong evidence that, by increasing the bargaining power of the board of directors in such situations, shareholder rights plans can create additional value for shareholders.

The initial implementation of a shareholder rights plan will not alter the financial condition of the Company and will not interfere with the day-to-day operations of the Company or its business plans. Nor will it change the way in which shares of the Company's stock are currently traded.

At Irwin Financial, we remain committed to creating superior value for our shareholders and our other stakeholders over the long run. As fellow shareholders, the interests of your management and Board of Directors are aligned with yours. We believe the recently enacted staggered board and shareholder rights plan appropriately align the governance system of the Corporation with this commitment and our Guiding Philosophy. If you would like more detail about either, please contact us.

Corporate and Subsidiary Locations

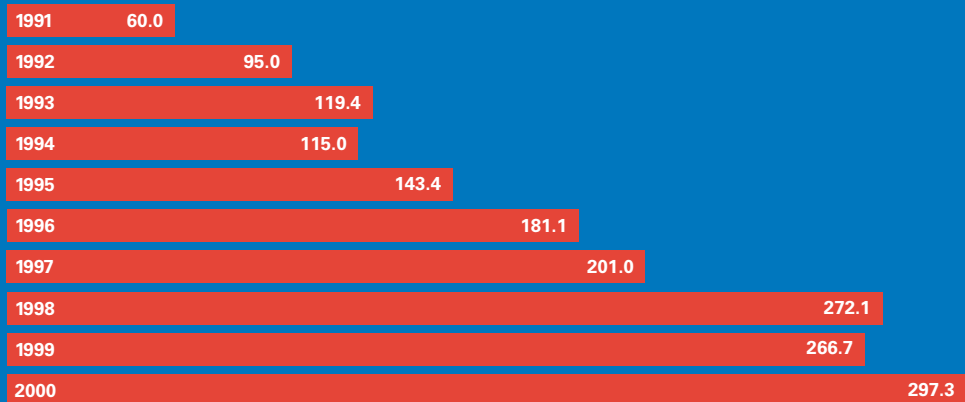


Irwin Financial Corporation serves customers throughout North America from 114 offices located in 34 states and provinces in the United States and Canada.

Ten-Year Performance

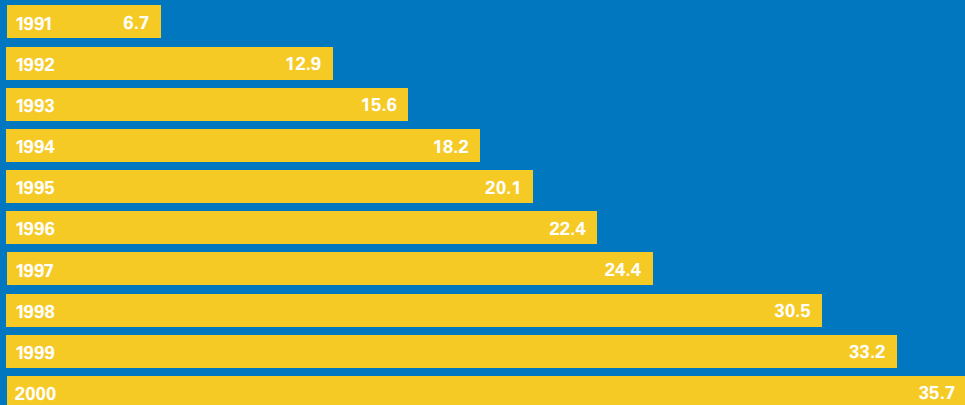
Total Net Revenues

\$ Millions



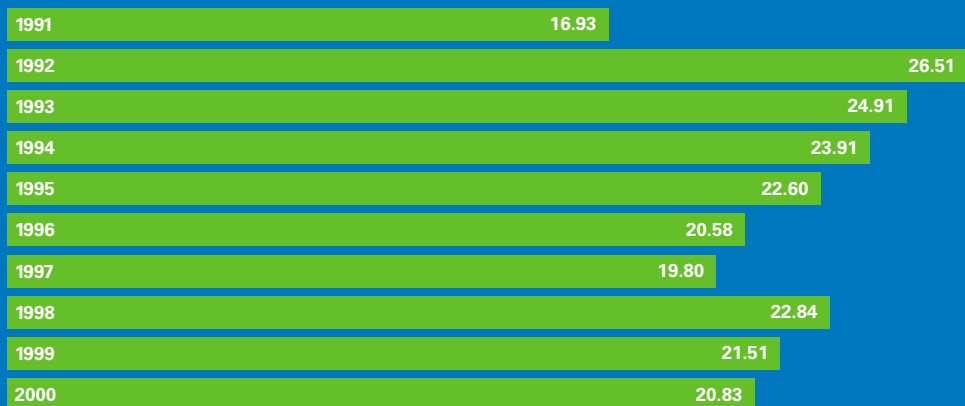
Net Income

\$ Millions



Return on Average Equity

Percent



Directors

Sally Abrams Dean

Retired Senior Vice President
Dillon, Read & Co. Inc.

David W. Goodrich

President and Chief Executive Officer
Central Indiana Corporate Partnership

John T. Hackett

Managing General Partner
CID Equity Partners, L.P.

William H. Kling

President and Chief Executive Officer
American Public Media Group

Brenda J. Lauderback

Former President
Wholesale Group
Nine West Group, Inc.

John C. McGinty, Jr.

President
Peregrine Associates, Inc.

William I. Miller

Chairman
Irwin Financial Corporation

John A. Nash

President
Irwin Financial Corporation

Lance R. Odden

President and Headmaster
The Taft School

Theodore M. Solso

Chairman and Chief Executive Officer
Cummins, Inc.

Irwin Miller

Honorary Chairman

Senior Officers

William I. Miller

Chairman

John A. Nash

President

Thomas D. Washburn

Executive Vice President

Gregory F. Ehlinger

Senior Vice President and
Chief Financial Officer

Matthew F. Souza

Senior Vice President,
Ethics and Secretary

Jose M. Gonzalez

Vice President, Internal Audit

Theresa L. Hall

Vice President, Human Resources

Jody A. Littrell

Vice President, Controller

Ellen Z. Mufson

Vice President, Legal

Brett R. Vanderkolk

Vice President, Treasurer

Lines of Business Senior Officers

Irwin Mortgage

Robert H. Griffith President

Rick L. McGuire Vice Chairman

Les Acree Senior Vice President,
Wholesale Production

Kenneth R. Block Senior Vice President,
Retail Production

Mark E. Braden Senior Vice President and
Chief Information Officer

Katrina J. Crubaugh Senior Vice President,
Human Resources

William M. Meyer Senior Vice President,
Loan Administration

Timothy L. Murphy Senior Vice President
and Chief Financial Officer

Erik J. Sorensen Senior Vice President,
Secondary Marketing and Loan Control

Irwin Home Equity Corporation

Elena Delgado President

Spencer Carlsen Senior Vice President,
Wholesale and Correspondent Loan
Production

Edwin K. Corbin Senior Vice President,
Business Development and
Chief Financial Officer

J. Christopher Huseby Senior Vice
President, Direct to Consumer/Retail

Jocelyn Martin-Leano Senior Vice President,
Loan Servicing and Asset Resolution

James L. Carney Vice President, Credit Risk
Management and Central Processing

Pamela Chan Vice President,
Marketing Services

Gary Iorfido Lead Counsel and
Vice President, Legal and Compliance

Sunita Liggin Vice President,
Human Resources

William Packer Chief Information Officer
and Vice President, Information Services
and e-Commerce Projects

Octavio Ricart Vice President and Controller

Mary Rottman Vice President and Treasurer

Irwin Union Bank and Trust

Claude E. Davis President

Bradley J. Kime Executive Vice President
and Chief Operating Officer

Mark D. Higgins Executive Vice President
and Chief Credit Officer

Marie S. Ameis Senior Vice President
and Chief Financial Officer

Clare W. Moore Senior Vice President
and Human Resources Director

Timothy P. Robinson Senior Vice President,
Investments and Insurance

Joan Tupin-Crites Vice President,
General Counsel

Irwin Business Finance

Michael E. Taft President

United States

Laurie A. Bakke Senior Vice President,
Operations

Dana E. Tillson Senior Vice President,
Sales, Marketing and IT

Claude D. Elmore Vice President,
Broker Division

Ted F. Murphy Vice President, Controller

International Operations—Onset Capital

Joseph R. La Leggia President

Mark L. Cannon Senior Vice President,
Sales and Marketing

G. Robert Murphy Senior Vice President,
Credit and Operations

Michele M. Monteith Vice President,
Prairies Manager

Robert L. Mormina Vice President,
Eastern Region

Luigi Spizzirri Vice President,
Central Region

Irwin Ventures

Thomas D. Washburn President

David S. Meyercord Senior Vice President,
Investments

Forward-Looking Statements

This report contains forward-looking statements that are based on management's expectations, estimates, projections and assumptions. Words such as "expects," "anticipates," "intends," "are likely," "estimates," "outlook," "assumption," and similar expressions are intended to identify forward-looking statements, which include but are not limited to projections of business strategies and future activities. These statements are not guarantees of future performance and involve uncertainties that are difficult to predict. Actual future results may differ materially from what is projected due to a variety of factors, including, but not limited to, unexpected changes in interest rates or in the economies served by the Corporation, competition from other financial service providers, unanticipated difficulties in expanding the Corporation's businesses, availability of appropriate investment opportunities, fluctuations in the valuation of our portfolios, legislative or regulatory changes, or governmental changes in monetary or fiscal policies. Readers should also refer to the Corporation's Annual Report on Form 10-K.

Capital Securities

Common Stock NASDAQ:IRWN
Transfer Agent Fifth Third Bank
Contact Information 800-837-2755

Trust Preferred Securities

IFC Capital Trust I NASDAQ:IRWNP
Transfer Agent State Street Bank and Trust Company
Contact Information 800-531-0368

IFC Capital Trust II NASDAQ:IRWNO
Transfer Agent Wilmington Trust
Contact Information 800-441-7120

Convertible Trust Preferred Securities

IFC Capital Trust III NASDAQ:IRWNN
Transfer Agent Wilmington Trust
Contact Information 800-441-7120

Form 10-K

Copies of the Corporation's Annual Report on Form 10-K filed with the Securities and Exchange Commission may be accessed electronically through the Internet at: www.irwinfinancial.com or contact:

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