

News Release: IMMEDIATE RELEASE

For further information contact:

Suzie Singer, Corporate Communications	812.376.1917
Greg Ehlinger, Chief Financial Officer	812.379.7603
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## **IRWIN FINANCIAL CORPORATION ANNOUNCES SECOND QUARTER 2006 RESULTS**

- Earnings per Diluted Share from Continuing Operations of \$0.27
- Strong Results for Commercial Finance and Banking
- Stable Margins and Good Credit Quality

(Columbus, IN, August 2, 2006) Irwin Financial Corporation (NYSE:IFC), a bank holding company focusing on small business and consumer mortgage lending, today announced net income from continuing operations for the second quarter of 2006 of \$8.1 million or \$0.27 per diluted share. This compares with diluted earnings per share from continuing operations of \$0.29 and \$0.18, in the first quarter of 2006 and the second quarter of 2005, respectively. Return on equity from continuing operations was 6.0 percent, compared to 6.6 percent and 4.3 percent in the first quarter and year-earlier period, respectively.

The Corporation has announced its intention to seek the sale of its conventional mortgage business and as a result this segment is now reported as “Discontinued Operations.” The core mortgage production and servicing operations were profitable in the second quarter, but the total discontinued operations recorded an after-tax loss of \$5.2 million, reflecting certain costs related to the planned sale of the segment and mortgage servicing right (MSR) hedge losses. The MSR hedge losses are greater than the GAAP-based MSR impairment reversal as the segment continued to hedge the economic exposure, rather than the accounting value of its servicing portfolio in anticipation of a near-term sale of the asset. The results for mortgage banking compare with an after-tax loss of \$8.7 million in the year-earlier period. Including the discontinued operations, the Corporation recorded net income of \$2.9 million or \$0.09 per diluted share, compared to a \$3.4 million or \$0.12 per share consolidated loss in the year-earlier period.

“Our commercial finance and banking segments again recorded very solid earnings. While competitive conditions are making loan and deposit growth difficult for everyone, we continue to make solid gains in increasing our share of market. Their on-going success reinforces the decision made earlier this year to focus our resources and capital on the growth of these lines of business,” said Will Miller, Chairman of Irwin Financial. “By reallocating our resources to these segments, we believe we can create significant value.

“While our origination volumes and overall profitability in our home equity segment are still below our desired levels, we believe we are on the path to improved profitability. The results in the second quarter reflected a significant restructuring charge we took in April that included the cost of disposing of certain underperforming assets as we began to focus our marketing more specifically on the broker and correspondent channels. By June, the segment’s core earnings had reached a satisfactory level and we believe the new senior management team can sustain the recent improvements we have seen,” Miller continued.

“We are making clear progress on the sale of our conventional first mortgage segment and I hope we will be in a position to announce definitive plans shortly. I applaud my colleagues at the mortgage banking line of business for their continued focus on running the business well during this time. Absent the direct and indirect costs of the sales process, underlying results for the mortgage segment have significantly improved,” Miller concluded.

Financial highlights for continuing operations (commercial bank, commercial finance, and home equity lending) for the period include:

Consolidated Results

<i>\$ in millions, except EPS</i>	<b>2Q 2006</b>	<b>2Q 2005</b>	<b>Percent Change</b>	<b>1Q 2006</b>	<b>Percent Change</b>
<b>Net Interest Income After Provision for Losses</b>	\$56	\$47	20%	\$52	8%
<b>Non-Interest Income</b>	8	16	-51	13	-43
<b>Total Consolidated Net Revenues</b>	64	63	3	66	-2
<b>Non-Interest Expense</b>	51	53	-4	52	-3
<b>Net Income</b>	8	5	53	8	-5
<b>Earnings per Share (diluted)</b>	0.27	0.18	50	0.29	-7
<b>Loans and Leases</b>	4,910	4,063	21	4,706	4
<b>Mortgage Loans Held for Sale</b>	149	323	-54	466	-68
<b>Deposits</b>	3,868	3,841	1	4,074	-5
<b>Shareholders' Equity</b>	530	491	8	528	1
<b>Total Risk-Based Capital Ratio</b>	13.1%	13.8%		12.9%	
<b>Return on Average Equity</b>	6.0	4.3		6.6	

Consolidated net revenues from continuing operations decreased modestly on a sequential quarter basis, reflecting a decline in gain on sale of loans. Non-interest operating expenses decreased three percent on a sequential quarter basis.

The consolidated loan and lease portfolio was \$4.9 billion as of June 30, a \$0.2 billion or 19 percent annualized increase as compared to the end of the first quarter. This growth reflects increases in both commercial and consumer portfolios. Home equity mortgage loans held for sale totaled \$148 million, down from \$464 million at the end of the first quarter. Second quarter loan sales were undertaken to reduce the leverage of the consolidated balance sheet at the time of the IFC Capital Trust IV call and to dispose of loans which were unlikely to meet profitability targets.

Deposits totaled \$3.9 billion at June 30, 2006, down \$0.2 billion from March 31, 2006, as certain higher cost wholesale deposits ran off. Core deposit balances averaged \$2.5 billion during the quarter.

The Corporation had \$530 million or \$17.80 per share in common shareholders' equity as of June 30, 2006. At quarter end, Tier 1 Leverage Ratio and Total Risk-based Capital Ratio were 10.3 percent and 13.1 percent, respectively, compared to 10.5 percent and 12.9 percent as of March 31, 2006. During the quarter, the Corporation announced the call of \$15 million of trust preferred stock (IFC Capital Trust IV) and, due to the call, this capital is not included in quarter-end capital ratios. Pursuant to the call, these securities were redeemed in July.

Nonperforming assets (including other real estate owned of \$18 million) were \$61 million or 0.94 percent of total assets as of June 30, 2006, up from \$55 million or 0.80 percent of total assets at the end of March. The bulk of the increase relates to a single credit in the commercial banking segment, discussed in more detail below. The on-balance sheet allowance for loan and lease losses totaled \$67 million as of June 30, up \$3 million from the end of the first quarter. The ratio of on-balance sheet allowance for loan and lease losses to nonperforming loans and leases was 167 percent at June 30, compared to 177 percent at March 31.

The consolidated loan and lease loss provision totaled \$6.8 million, down \$2.4 million from the first quarter of 2006, driven by improved credit performance in the home equity segment. Quarterly net charge-offs totaled \$4.0 million, down from \$4.5 million during the first quarter. Thirty-day and greater delinquencies, the ratio of charge-offs to average loans and leases, and the allowance for loan and lease

losses to total loans and leases for principal credit-related portfolios are shown in the next table.

	<b>Commercial Banking</b>	<b>Home Equity Lending On- Balance Sheet (1)</b>	<b>Commercial Finance</b>
<b>June 30, 2006 Portfolio (in \$Billions)</b>	\$2.8	\$1.2	\$1.0
<b>30-Day and Greater Delinquencies</b>			
- <b>June 30, 2006</b>	0.31%	2.61%	0.42%
- <b>March 31, 2006</b>	0.10	1.90	0.47
- <b>December 31, 2005</b>	0.13	2.23	0.66
- <b>September 30, 2005</b>	0.12	2.01	0.59
- <b>June 30, 2005</b>	0.15	1.70	0.54
<b>Annualized Net Charge-offs</b>			
- <b>2Q06</b>	0.10%	0.68%	0.38%
- <b>1Q06</b>	0.09	0.84	0.35
- <b>4Q05</b>	0.16	0.26	0.47
- <b>3Q05</b>	0.09	0.36	0.58
- <b>2Q05</b>	0.13	0.43	0.88
<b>Allowance to Loans and Leases (1)</b>			
- <b>June 30, 2006</b>	0.94%	2.44%	1.29%
- <b>March 31, 2006</b>	0.92	2.49	1.31
- <b>December 31, 2005</b>	0.92	2.40	1.32
- <b>September 30, 2005</b>	0.93	2.89	1.37
- <b>June 30, 2005</b>	0.96	1.84	1.42

1. Home Equity on balance sheet Allowance to Loans and Leases relates to Loans Held for Investment portfolio only.

### Segment Results

Net income (loss) by line of business is shown below, with additional detail available in the segment summary tables at the end of this release and in the Corporation's Form 10Q for the period ended June 30, 2006.

<i>Net Income(loss) (\$ in millions)</i>	<b>2Q 2006</b>	<b>2Q 2005</b>	<b>Percent Change</b>	<b>1Q 2006</b>	<b>Percent Change</b>
<b>Commercial Banking</b>	\$7.9	\$5.6	40%	\$6.8	16%
<b>Commercial Finance</b>	2.9	1.4	105	2.9	0
<b>Home Equity</b>	(0.4)	(0.5)	29	1.0	NM
<b>Other Segments, Including Parent</b>	(2.3)	(1.2)	(92)	(2.2)	(5)
<b>Net Income From Continuing Operations</b>	8.1	5.3	53	8.5	(5)
<b>Loss From Discontinued Operations - Mortgage Banking</b>	(5.2)	(8.7)	40	(10.3)	53
<b>Consolidated Net Income (Loss)</b>	2.9	(3.4)	NM	(1.9)	NM

Commercial banking earned income of \$7.9 million, \$1.1 million and \$2.2 million increases over the first quarter of 2006 and the second quarter of 2005, respectively. The comparative improvements reflect increases in net interest income, principally from loan portfolio growth.

The commercial banking segment's loans grew at an annualized rate of five percent during the quarter and are up 13 percent on a year-over-year basis. Loans outstanding as of June 30, 2006 totaled \$2.8 billion. Net interest margin was 3.98 percent during the quarter, unchanged from the first quarter and up from 3.80 percent a year ago as excess liquidity that was used to purchase inter-company investments during 2005 has been redeployed into higher yielding loan assets in this segment. During the quarter, certain higher cost wholesale deposits ran off, which should improve net interest margin in the third quarter.

Credit quality continues to be positive for this segment, although as noted in the table above, thirty-day and greater delinquencies increased to 0.31 percent from 0.10 percent as of March 31. The segment had a \$7 million credit become delinquent and non-performing as of June 30. Management believes this credit will be successfully resolved in the near future and has not allocated a specific reserve for it. The commercial banking segment's loan and lease loss provision of \$1.3 million during the quarter compared favorably to net charge-offs of \$0.7 million.

The commercial finance line of business earned \$2.9 million in the second quarter of 2006, unchanged compared to the first quarter and a \$1.5 million increase as compared to the second quarter of 2005. Net income was a quarterly record for this segment. Loan and lease fundings totaled \$164 million during the quarter compared to \$110 million in the year earlier period.

The segment's loan and lease portfolio now totals slightly less than \$1.0 billion, representing a 37 percent increase over the past year. Net interest income totaled \$10.1 million, a \$0.4 million sequential quarter increase. Net interest margin decreased modestly to 4.50 percent, as compared to 4.67 percent in the prior quarter, primarily reflecting narrowing margins in the Canadian-based portion of the portfolio.

The loan and lease loss provision in this segment totaled \$1.8 million during the quarter, up from \$1.2 million during the prior quarter, reflecting an increase in loss coverage in the segment's US-based small ticket and franchise finance portfolios. Net charge-offs increased to \$0.9 million, as compared to \$0.7 million in the prior quarter and \$1.4 million a year earlier. The thirty-day and greater delinquency ratio in this segment declined to 0.42 percent at June 30, from 0.47 percent at March 31.

The home equity segment lost \$0.4 million during the second quarter, compared to net income of \$1.0 million during the first quarter and a loss of \$0.5 million during the second quarter of 2005. The loss in the current period was principally the result of two factors: i) \$3.9 million in severance and related charges to significantly reduce the segment's presence in retail loan originations and ii) a loss on the securitization of high credit quality, but low-coupon loans which had insufficient yield to provide adequate profitability if held to maturity. Partially offsetting these factors was improved servicing fee income due to incentive servicing fees which totaled \$4.3 million during the second quarter. Credit quality continues to meet management's expectations.

Loan originations totaled \$211 million in the second quarter, down from \$284 million in the first quarter, reflecting a reduction in retail channel originations following the restructuring of operations.

Thirty-day and greater delinquencies on the segment's on balance sheet portfolio increased to 2.61 percent from 1.90 percent at March 31 and 1.70 percent as of June 30, 2005. Loan loss provision totaled \$3.7 million, down from \$6.6 million in the first quarter which was elevated due to the acquisition of seasoned loans in conjunction with clean-up calls of previous asset-backed securitizations. Net charge-offs were approximately \$2.4 million during the second quarter, compared to \$3.2 during the first quarter.

The parent and other consolidating entities lost \$2.3 million during the second quarter, compared to losses of \$2.2 million in the first quarter of 2006 and \$1.2 million in the second quarter of 2005. The increased year-over-year loss related principally to increased interest expense due to reduced allocation of total consolidated capital to non-parent segments.

### Discontinued Operations – Conventional Mortgage Segment

In the first quarter of 2006, the Corporation announced that it intended to exit its mortgage banking line of business. Although final disposition plans have not been concluded, in conformity with SFAS 144 these operations are now being reported as “Discontinued Operations.”

Mortgage banking discontinued operations recorded a net loss of \$5.2 million, compared to a net loss of \$10.3 million and \$8.7 million in the first quarter of 2006 and second quarter of 2005, respectively.

Loan production of \$2.2 billion was unchanged as compared to originations in the first quarter. The ratio of gains on sale of loans to loans sold in the secondary market improved modestly to 0.75 percent, from 0.68 percent during the first quarter.

The segment had no bulk MSR sales in the quarter and its servicing portfolio totaled \$19.2 billion at June 30, up from \$18.4 billion at March 31, 2006. Thirty-day and greater delinquencies on the portfolio increased to 4.58 percent, from 4.02 percent at the end of March.

The loss in the current period reflects \$7.5 million of net MSR hedge losses in excess of accounting based impairment reversal and an increase in other expenses incurred related to the intention to sell the segment. The hedge structures employed during the first half of 2006, designed in the context of the decision to exit the segment, are intended to hedge the economic rather than accounting value of the portfolio in order to stabilize potential sale proceeds. On an economic basis, the hedges performed as expected during the second quarter, with the hedge losses slightly less than the modeled market value change in the servicing operation assets.

### About Irwin Financial

Irwin® Financial Corporation (<http://www.irwinfinancial.com>) is a bank holding company with a history tracing to 1871. The Corporation, through its principal lines of business provides a broad range of financial services to consumers and small businesses in selected markets in the United States and Canada.

### About Forward-Looking Statements

This press release contains forward-looking statements and estimates that are based on management’s expectations, estimates, projections, and assumptions. These statements and estimates include but are not limited to earnings estimates and projections of financial performance and profitability, and projections of business strategies and future activities. These statements involve inherent risks and uncertainties that are difficult to predict and are not guarantees of future performance. Words that convey our beliefs, views, expectations,

assumptions, estimates, forecasts, outlook and projections or similar language, or that indicate events we believe could, would, should, may or will occur (or might not occur) or are likely (or unlikely) to occur, and similar expressions, are intended to identify forward-looking statements, which may include, among other things:

- statements and assumptions relating to projected growth in our earnings, projected loan originations, net interest and margins, and the relative performance of our lines of business;
- statements and assumptions relating to projected trends or potential changes in our asset quality, loan delinquencies, charge-offs, reserves and asset valuations, including valuations of our servicing and residual portfolios and incentive servicing fees;
- statements about our estimated expenses;
- statements about the discontinued operations and efforts to sell our conventional mortgage banking segment; and
- any other statements that are not historical facts.

We qualify any forward-looking statements entirely by these cautionary factors.

Actual future results may differ materially from what is projected due to a variety of factors including: potential changes in direction, volatility and relative movement (basis risk) of interest rates, which may affect consumer demand for our products and the success of our interest rate risk management strategies; staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our work force; the relative profitability of our lending operations; the valuation and management of our residual, servicing and derivatives portfolios, including assumptions we embed in the valuation and short-term swings in the valuation of such portfolios due to a quarter-end movements in secondary market interest rates, which are inherently volatile; borrowers' refinancing opportunities, which may affect the prepayment assumptions used in our valuation estimates and which may affect loan demand; unanticipated deterioration in the credit quality of our loan and lease assets, including deterioration resulting from the effects of recent natural disasters; unanticipated deterioration or changes in estimates of the carrying value of our other assets, including securities; difficulties in delivering products to the secondary market as planned; difficulties in expanding our business and obtaining funding as needed; competition from other financial service providers for experienced managers as well as for customers; changes in the value of companies in which we invest; changes in variable compensation plans related to the performance and valuation of lines of business where we tie compensation systems to line of business performance; unanticipated outcomes in litigation; legislative or regulatory changes, including changes in tax laws or regulations, changes in the interpretation of regulatory capital rules, changes in consumer or commercial lending rules, disclosure rules or rules affecting corporate governance, and the availability of resources to address these rules; changes in applicable accounting policies or principles or their application to our businesses or final audit adjustments; additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods; the final outcome and implications of our intention to sell our conventional mortgage banking segment; or governmental changes in monetary or fiscal policies. We undertake no obligation to update publicly any of these statements in light of future events, except as required in subsequent reports we file with the Securities and Exchange Commission.

The Corporation will host a conference call to review results on Wednesday, August 2, at 1:00 p.m. EDT. Greg Ehlinger, Senior Vice President and CFO, Will Miller, CEO, and Jody Littrell, First Vice President and Controller, of Irwin Financial Corporation, will be the speakers on the call. The toll-free number for the call is (800) 640-9765; please tell the operator you would like to join the Irwin Financial call, confirmation #15342686. A replay of the call will be available on the Irwin Financial Corporation website at <http://www.irwinfinancial.com/ir-set.html>.