IRWIN FINANCIAL CORP
Form 10-K
March 31, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal Year Ended December 31, 2008

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to .

Commission file number 0-6835

IRWIN FINANCIAL CORPORATION
(Exact name of Corporation as Specified in its Charter)

Indiana **(State or Other Jurisdiction of Incorporation or Organization)**	**35-1286807** **(I.R.S. Employer Identification No.)**
500 Washington Street Columbus, Indiana **(Address of Principal Executive Offices)**	**47201** **(Zip Code)**
(812) 376-1909 **(Corporation s Telephone Number, Including Area Code)**	**www.irwinfinancial.com** **(Web Site)**

Securities registered pursuant to Section 12(b) of the Act:

Title of Class:	**Common Stock***
Title of Class:	**8.70% Cumulative Trust Preferred Securities issued by IFC Capital Trust VI and the guarantee with respect thereto.**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes o No þ

Indicate by check mark whether the Corporation: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Corporation was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Corporation s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, computed by reference to the closing price for the registrant s common stock on the New York Stock Exchange on June 30, 2008, was approximately $50,374,107.

As of March 23, 2009, there were outstanding 29,976,042 common shares of the Corporation.

* Includes associated rights.

Documents Incorporated by Reference

Selected Portions of the Following Documents	Part of Form 10-K Into Which Incorporated
Definitive Proxy Statement for Annual Meeting Shareholders to be held May 29, 2009	**Part III**
Exhibit Index on Pages 139 through 142	

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About Forward-looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. We are including this statement for purposes of invoking these safe harbor provisions.

Forward-looking statements are based on management s expectations, estimates, projections, and assumptions. 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 will not or might not occur) or are likely (or unlikely) to occur, and similar expressions, are intended to identify forward-looking statements. These may include, among other things, statements and assumptions about:

our projected revenues, earnings or earnings per share, as well as management s short-term and long-term performance goals;

projected trends or potential changes in asset quality (particularly with regard to loans or other exposures including loan repurchase risk, in sectors in which we deal in real estate or residential mortgage lending), loan delinquencies, charge-offs, reserves, asset valuations, regulatory capital levels, or financial performance measures;

our plans and strategies, including the expected results or costs and impact of implementing or changing such plans and strategies;

transactions involved in our strategic restructuring and the expected timing for completion;

the expected effects on the Corporation s balance sheet, profitability, liquidity, and capital ratios of the strategic restructuring, our proposed shareholder rights offer, the possible exchange of trust preferred securities for common shares, and other elements of the completion of our capital plan;

potential litigation developments and the anticipated impact of potential outcomes of pending legal matters;

predictions about conditions in the national or regional economies, housing markets, industries associated with housing, mortgage markets, franchise restaurant finance or mortgage industry;

the anticipated effects on results of operations or financial condition from recent developments or events; and

any other projections or expressions that are not historical facts.

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

Actual future results may differ materially from our forward-looking statements and we qualify all forward-looking statements by various risks and uncertainties we face, as well as the assumptions underlying the statements, including, but not limited to, the following cautionary factors:

difficulties in completing our recapitalization plan, including the failure to raise sufficient private investment through our proposed rights offer or a possible exchange of trust preferred securities for common shares or by other means, the failure of a sufficient number of shareholders to participate in the rights offer or to exercise fully their rights, the failure to satisfy the conditions that require the standby purchasers to exercise fully their subscription privileges, the failure to receive assistance in substantially the form proposed to the U.S. Treasury and banking regulators, or the failure to obtain any necessary regulatory approvals;

difficulty in obtaining the desired treatment for the home equity restructuring transactions on our balance sheet;

difficulty in further reducing the company s home equity assets, including a failure to obtain any necessary regulatory approvals or third-party consents, higher than anticipated costs in removing the home equity assets if we are able to successfully negotiate a transaction, or unanticipated regulatory constraints;

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potential further deterioration or effects of general economic conditions, particularly in sectors relating to real estate and/or mortgage lending, small business lending, and franchise restaurants finance;

fluctuations in housing prices;

potential effects related to the Corporation s decision to suspend the payment of dividends on its common, preferred and trust preferred securities;

potential changes in direction, volatility and relative movement (basis risk) of interest rates, which may affect consumer and commercial demand for our products and the management and 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 and potential associated charges;

the relative profitability of our lending and deposit operations;

the valuation and management of our portfolios, including the use of external and internal modeling assumptions we embed in the valuation of those portfolios and short-term swings in the valuation of such portfolios;

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 or collectability of our loan and lease assets, including deterioration resulting from the effects of natural disasters;

difficulties in accurately estimating any future repurchases of residential mortgage, home equity, or other loans or leases due to alleged violations of representations and warranties we made when selling these loans and leases to the secondary market or in securitizations;

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 businesses and obtaining or retaining deposit or other funding sources as needed, including the loss of public fund deposits or any actions that may be taken by the state of Indiana and its political subdivisions;

competition from other financial service providers for experienced managers as well as for customers;

changes in the value of our lines of business, subsidiaries, or 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 lawsuits or outcomes in litigation;

legislative or regulatory changes, including changes in laws, rules or regulations that affect tax, consumer or commercial lending, corporate governance and disclosure requirements, and other laws, rules or regulations affecting the rights and responsibilities of our Corporation, or our state-chartered bank or federal savings bank subsidiary;

regulatory actions that impact our Corporation, bank or thrift, including the written agreement the Corporation and its state-chartered bank subsidiary, Irwin Union Bank and Trust Company, entered into with the Federal Reserve Bank of Chicago and the Indiana Department of Financial Institutions on October 10, 2008, and the supervisory agreement the Corporation s federal savings bank subsidiary, Irwin Union Bank, F.S.B., entered into with the Office of Thrift Supervision on the same day;

changes in the interpretation and application of regulatory capital or other rules;

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the availability of resources to address changes in laws, rules or regulations or to respond to regulatory actions;

changes in applicable accounting policies or principles or their application to our business or final audit adjustments, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods;

the final disposition of the remaining assets and obligations of lines of business we have exited or are exiting, including the mortgage banking segment, small ticket commercial leasing segment and home equity segment; or

governmental changes in monetary or fiscal policies.

In addition, our past results of operations do not necessarily indicate our future results. We discuss these and other uncertainties in *Section 1A, Risk Factors,* of this report. 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 (SEC).

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Explanatory Note

In this Form 10-K, we are restating our unaudited consolidated balance sheet as of September 30, 2008 and the related unaudited consolidated statement of income for the three-month and nine-month periods ended September 30, 2008 which appeared in our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2008 (the Third Quarter 10-Q), which was originally filed on November 10, 2008.

We do not plan to file an amendment to our Third Quarter 10-Q. You should not rely on any of the information in the previously filed Third Quarter 10-Q. For more detailed information about the restatement, please see Note 25, Summary of Quarterly Financial Information in the accompanying consolidated financial statements.

PART I

Item 1. *Business*

General

We are a bank holding company headquartered in Columbus, Indiana with $4.9 billion in assets at December 31, 2008. We focus primarily on providing small businesses and consumers with deposit, cash management services, credit, trust services and investment advice, as well as providing the ongoing servicing of those customer accounts. Through our direct and indirect subsidiaries, we currently operate three major lines of business: commercial banking, commercial finance, and home equity. In 2006, we sold the majority of our conforming conventional first mortgage banking business. We ceased production of new home equity loans as of September 30, 2008, but continue to service loans produced prior to that time. We are seeking to exit the home equity segment as well.

We conduct our commercial and consumer lending businesses through various operating subsidiaries. Our banking subsidiary, Irwin Union Bank and Trust Company, was organized in 1871. We formed the holding company in 1972. Our direct and indirect major subsidiaries include Irwin Union Bank and Trust Company, a commercial bank, which together with Irwin Union Bank, F.S.B., a federal savings bank, conducts our commercial banking activities; Irwin Commercial Finance Corporation, a commercial finance subsidiary; and Irwin Home Equity Corporation, a consumer home equity company. In 2006, we discontinued the majority of operations at Irwin Mortgage Corporation, our mortgage banking company and formerly one of our major subsidiaries.

Our strategy is to create competitive advantage within the banking industry by serving small businesses with personalized lending, leasing, deposit and advisory services as well as consumers in the neighborhoods surrounding our bank branches. We have two principal segments: commercial banking serving selected markets in the Midwest and Southwest, and franchise finance serving restaurant franchisees nationally. In addition, we have a specialized servicing platform that services a portfolio of home equity loans that is in run-off mode and which we are seeking to sell.

Our Internet address is *http://www.irwinfinancial.com.*

We make available free of charge through our Internet website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after we electronically file the material with, or furnish it to, the Securities and Exchange Commission (SEC). Unless otherwise indicated, our Internet website and the information contained or incorporated in it are not intended to be incorporated into this Annual Report on Form 10-K.

Major Lines of Business

Commercial Banking

Our commercial banking line of business provides credit, cash management and personal banking products primarily to small businesses and business owners. We offer commercial banking services through our banking subsidiaries, Irwin Union Bank and Trust Company, an Indiana state-chartered commercial bank, and Irwin Union Bank, F.S.B., a federal savings bank. The commercial banking line of business offers a full line of consumer,

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mortgage and commercial loans, as well as personal and commercial checking accounts, savings and time deposit accounts, personal and business loans, credit card services, money transfer services, financial counseling, property, casualty, life and health insurance agency services, trust services, securities brokerage and safe deposit facilities. This line of business operates through two charters:

> *Irwin Union Bank and Trust Company* organized in 1871, headquartered in Columbus, Indiana, is a full service Indiana state-chartered commercial bank with offices currently located throughout nine counties in central and southern Indiana, as well as in Grandville, Kalamazoo, Lansing and Traverse City, Michigan; Carson City and Las Vegas, Nevada; and Salt Lake City, Utah.
>
> *Irwin Union Bank, F.S.B.* is a full-service federal savings bank, with its home office in Columbus, Indiana, that began operations in December 2000. Currently we have offices located in Phoenix, Arizona; Costa Mesa and Sacramento, California; Louisville, Kentucky; Clayton, Missouri; Reno, Nevada; and Albuquerque, New Mexico. We closed offices in Florida and Ohio at the end of 2008, and closed the Wisconsin office in March 2009.

We discuss this line of business further in the Commercial Banking section of Management s Discussion and Analysis of Financial Condition and Results of Operation (MD&A) of this report.

Commercial Finance

Established in 1999, our commercial finance line of business provides equipment and leasehold improvement financing for franchisees (mainly in the quick service restaurant sector) in the United States. Loans to franchisees often include the financing of real estate as well as equipment. In 2008, we sold the majority of our small ticket leases associated with this line of business.

We discuss this line of business further in the Commercial Finance section of the MD&A of this report.

Home Equity

We established this line of business when we formed Irwin Home Equity Corporation as our subsidiary in 1994, headquartered in San Ramon, California. Irwin Home Equity became a subsidiary of Irwin Union Bank and Trust in 2001. Irwin Home Equity services first mortgages and home equity loans and lines of credit nationwide. In 2008, we ceased originating home equity loans. Prior to 2008, we had originated mortgage loans, principally second mortgage loans, to homeowners with limited or no equity in their homes. Although we ceased production of new home equity loans as of September 30, 2008, we continue to service loans produced prior to that time. We are seeking to exit the home equity segment as well.

We discuss this line of business further in the Home Equity section of the MD&A of this report.

Discontinuance of Mortgage Banking

We discontinued our mortgage banking line of business with the sale of the majority of the assets of Irwin Mortgage Corporation. We sold the production and most of the headquarters operations of this segment in September 2006. We sold the bulk of our portfolio of mortgage servicing rights to multiple buyers, transferring these assets in early January 2007. We sold our servicing platform in January 2007. Irwin Mortgage remains engaged in the mortgage reinsurance business through its subsidiary, Irwin Reinsurance Corporation, a Vermont Corporation. This segment was accounted for as discontinued operations prior to 2008. Due to its immateriality, in 2008 this former segment is reported in Parent and Other.

Customer Base

No single part of our lending business is dependent upon a single borrower or upon a very few borrowers nor would the loss of any one loan customer automatically have a materially adverse effect upon our business.

Our bank and thrift have a number of funding sources which are important to our operations, some of which (e.g., depositors) are customers of our institutions and for some of which (e.g., lenders) we are customers. In those instances where we have significant single relationships, on the funding side of the balance sheet, we examine

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certain relationship more intensively than others and have developed contingency plans for the loss of these significant customer relationships. For example, we are a member and customer of the Federal Home Loan Bank of Indianapolis. In addition, Irwin Union Bank and Trust takes deposits from municipalities in areas where we have branches. Although the majority of these deposits are insured through either the FDIC or a separate deposit insurance plan in Indiana, our ability to continue to access these municipal deposits is dependent upon our maintenance of capitalization appropriate for access to these funds in the state of Indiana. The loss of any one of these significant relationships would require changes to our funding program and may have an adverse effect on our operations. For more information about the risks related to our funding program, see the section in Item 1A (Risk Factors) below entitled Our operations may be adversely affected if we are unable to secure adequate funding; our use of wholesale funding sources exposes us to potential liquidity risk.

Competition

We compete nationally in the U.S. In commercial banking where our market focus is in selected markets in the Midwest and Western states, we compete against commercial banks, savings banks, credit unions and savings and loan associations, and with a number of non-bank companies including mortgage banks and brokers, insurance companies, securities firms, other finance companies, and real estate investment trusts.

Some of our competitors are not subject to the same degree of regulation as that imposed on bank holding companies, state banking organizations and federal saving banks. In addition, many larger banking organizations, mortgage companies, mortgage banks, insurance companies and securities firms have significantly greater resources than we do. As a result, some of our competitors have advantages over us in name recognition, cost of funds, operating costs, and market penetration.

Employees and Labor Relations

At January 31, 2009, we and our subsidiaries had a total of 853 employees, including full-time and part-time employees. We continue a commitment of equal employment opportunity for all job applicants and staff members, and management regards its relations with its employees as satisfactory.

Financial Information About Geographic Areas

We conducted part of our commercial finance line of business in Canadian markets until July of 2008, when we exited our Canadian leasing operations. Net revenues for the last three years in this line of business attributable to Canadian customers were $13 million in 2008, $18 million in 2007, and $16 million in 2006. The remainder of our revenues comes from customers and operations in the United States.

Supervision and Regulation

General

We and our subsidiaries are each extensively regulated under state and federal law. The following is a summary of certain statutes and regulations that apply to us and to our subsidiaries. These summaries are not complete, and you should refer to the statutes and regulations for more information. Also, these statutes and regulations may change in the future, and we cannot predict what effect these changes, if made, will have on our operations.

We and our bank subsidiaries are subject to the extensive regulatory framework applicable to bank holding companies and their subsidiaries, which means that we are subject to both state and federal examination on matters relating to safety and soundness, including risk management, asset quality and capital adequacy, as well as a broad range of other regulatory concerns including: insider and intercompany transactions, the adequacy of the reserve for loan losses, regulatory reporting, adequacy of systems of internal controls and limitations on permissible activities.

In addition, we are required to maintain a variety of processes and programs to address other regulatory requirements, including: community reinvestment provisions; protection of customer information; identification of suspicious activities, including possible money laundering; proper identification of customers when performing transactions; maintenance of information and site security; and other bank compliance provisions. In a number of instances board and/or management oversight is required as well as employee training on specific regulations.

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These regulatory requirements are intended primarily for the protection of depositors, the deposit insurance fund of the Federal Deposit Insurance Corporation (FDIC) and the banking system as a whole, and generally are not intended for the protection of stockholders or other investors. Regulatory agencies have a broad range of sanctions and enforcement powers if an institution fails to meet regulatory requirements, including civil money penalties, formal agreements, cease and desist orders and a regulatory takeover of our bank subsidiaries.

On October 10, 2008, our holding company and our state-chartered bank subsidiary, Irwin Union Bank and Trust Company, entered into a written agreement with the Federal Reserve Bank of Chicago and the Indiana Department of Financial Institutions. On the same day, our federal savings bank subsidiary, Irwin Union Bank, F.S.B., entered into a supervisory agreement with the Office of Thrift Supervision.

The written agreement for the holding company and Irwin Union Bank and Trust Company, which holds approximately $4.3 billion or 88 percent of our total assets as of December 31, 2008, includes the elements shown in the table below, which also provides a description of the status of our efforts to meet those requirements:

Agreement Elements	Our Status
Submit a plan to strengthen board oversight of the management and operations of the holding company and the bank.	We have submitted this plan to the FRBC and DFI and are acting on it.
Submit a report from an independent consultant regarding the assessment of the bank s management and, as appropriate, take steps to address the independent consultant s findings.	The report was submitted in November and is being acted upon.
Submit a written liquidity and funds management plan and a contingency plan that identifies available sources of liquidity and includes adverse scenario planning.	We have submitted this plan to the FRBC and DFI and are acting on it.
Submit a capital plan that will ensure our holding company and our bank maintain sufficient capital to comply with regulatory capital guidelines and address adversely affected assets, concentration of credit, adequacy of allowance for loan and leases losses and planned growth and anticipated levels of retained earnings.	We have submitted this plan to the FRBC and DFI and are acting on it. The previously announced shareholder rights offering, standby commitments, possible Trust Preferred Stock (TruPS) exchange offers, and proposed modification to the current capital programs developed under the Emergency Economic Stabiliza-tion Act of 2008 (EESA) are part of this plan.
Review and revise as necessary our allowance for loan and lease losses methodology to assure compliance with relevant supervisory guidance, submit a written program for the maintenance of an adequate allowance for loan and lease losses, and within 30 days from the receipt of any regulatory report of examination, charge off all assets classified loss.	We have reviewed our allowance methodology and submitted the required documentation. We have submitted to the regulators an allowance program and continue our practice of charging off loans on a timely basis as required by regulation.
Submit a three-year strategic plan and a 2009 plan and budget for our holding company and the bank.	We submitted the 2009 plan and 3-year strategic plan in the fourth quarter.

Do not declare or pay any dividend, make any distributions of interest or principal on subordinated debentures or trust preferred securities, or incur, increase, or guarantee any debt or repurchase stock without prior regulatory approval.	We suspended dividends earlier in the year and have no plans for further debt issuance, nor need to issue debt to support our on-going business plan.

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The supervisory agreement for Irwin Union Bank, F.S.B. (FSB), which holds approximately $0.6 billion or 12 percent of our total assets as of December 31, 2008, includes the elements shown in the table below, which also provides a description of the status of our efforts to meet those requirements:

Agreement Elements	Our Status
Maintain capital in the FSB of at least 9.0 percent Tier 1 (core) and 11.0 percent Total Capital; do not take on additional brokered deposits without prior regulatory approval.	At December 31, 2008, we met the requirement for total capital, but not for core capital due to holding excess liquidity. We have submitted a plan to the Office of Thrift Supervision to return to compliance with the core capital requirement and are acting on it. We have less than $100 million in brokered CDs in the FSB and a forward business plan that is not reliant on additional issuance.
Submit a revised business plan that defines strategies for preserving and enhancing the savings bank s capital, limits high-risk lending activities, identifies strategies designed to improve and sustain the savings bank s earnings, and identifies strategies to stress-test and adjust earnings forecasts based on continuing operating results, economic conditions and the credit quality of our loan portfolio.	We have submitted this plan to the OTS and are acting on it.
Do not increase total FSB assets more than the net interest credited on deposit liabilities during the prior quarter; do not make any more construction loans or land loans without prior regulatory approval.	We stopped making commercial construction and land loans in the third quarter through the FSB. We inadvertently violated, but then cured, the asset growth restriction during the fourth quarter. We have submitted a business plan to the OTS which manages our growth within the specified limits.
Restructure the management of the FSB so that it operates on an independent basis from Irwin Union Bank and Trust. Hire a full time President and Chief Executive Officer, Chief Credit Officer and Chief Financial Officer for the FSB and add at least two independent directors who are not management officials of our holding company or our bank.	We have submitted a plan to the OTS which addresses each of these points. The new executives and board members have been identified from senior managers and independent board members of the holding company. The executive officers have begun to act in their appointments on a provisional basis, pending OTS approval.
Do not have employment agreements or contracts with the FSB which contain severance provisions, golden parachute payments, and certain other prohibited payments without the prior approval of the OTS. In addition, do not enter into, renew or revise any third-party contracts for services outside the normal course of business without prior approval.	We have and will continue to adhere to these provisions.

We are also under the jurisdiction of the SEC and are subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, as administered by the

SEC. We are listed on the NYSE under the trading symbol IFC, and are subject to the rules of the NYSE for listed companies.

Bank Holding Company Regulation

We are registered as a bank holding company with the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956, as amended, and the related regulations, referred to as the BHC Act. We are subject to regulation, supervision and examination by the Federal Reserve, and as part of this process, we must file reports and additional information with the Federal Reserve.

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Minimum Capital Requirements

The Federal Reserve imposes capital requirements on us as a bank holding company. Under these requirements, capital is classified into two categories:

Tier 1 capital, or core capital, consists of

- common stockholders equity;
- qualifying noncumulative perpetual preferred stock;
- qualifying cumulative perpetual preferred stock and, subject to some limitations, our Trust Preferred securities; and
- minority interests in the common equity accounts of consolidated subsidiaries;

less

- Accumulated net gains (losses) on cash flow hedges and increase (decrease) recorded in accumulated other comprehensive income (AOCI) for defined benefit postretirement plans under FAS 158;
- goodwill;
- credit-enhancing interest-only strips (certain amounts only); and
- specified intangible assets.

Tier 2 capital, or supplementary capital, consists of

- allowance for loan and lease losses subject to limitations;
- perpetual preferred stock and related surplus;
- hybrid capital instruments including, to the extent not included in Tier 1 Capital, Trust Preferred securities;
- unrealized holding gains on equity securities;
- perpetual debt and mandatory convertible debt securities;
- term subordinated debt, including related surplus; and
- intermediate-term preferred stock, including related securities.

To be considered adequately capitalized, the Federal Reserve s capital adequacy guidelines require bank holding companies to maintain a minimum ratio of qualifying total capital to risk-weighted assets of 8 percent, at least 4 percent of which must be in the form of Tier 1 capital. Risk-weighted assets include assets and credit equivalent amounts of off-balance sheet items of bank holding companies that are assigned to one of several risk categories, based on the obligor or the nature of the collateral. The Federal Reserve has established a minimum Tier 1 leverage ratio, which is the ratio of Tier 1 capital to average assets (less goodwill and other specified intangible assets), of

4 percent. The Federal Reserve considers the Tier 1 leverage ratio in evaluating proposals presented by us to commence any new activity permitted under the BHC Act or to acquire another company.

As of December 31, 2008, the Corporation had regulatory capital below the Federal Reserve minimum levels to be considered adequately capitalized for the three categories listed above. At December 31, 2008, our ratio of total capital to risk weighted assets was 6.6 percent, our Tier 1 capital to risk weighted assets was 3.3 percent, and our Tier 1 leverage ratio was 3.1 percent. The Corporation has no debt covenants that are affected by these ratios, and therefore we do not expect the Corporation s Tier 1 ratio classifications to have an adverse liquidity impact on the Corporation. In light of Irwin Union Bank and Trust s and Irwin Union Bank, F.S.B. s capital ratios, we do not expect the Corporation s capital ratios to have an adverse effect on the liquidity or operations of the Irwin Union Bank and Trust or Irwin Union Bank, F.S.B. See the Banking and Thrift Regulation section for more on our bank subsidiaries capital ratios. We are in the process of a strategic restructuring that includes increasing capital and improving these capital ratios to levels in excess of these requirements. See Strategy section for further discussion.

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Expansion

Under the BHC Act and the Federal Bank Merger Act, we must obtain prior Federal Reserve approval for certain activities, such as the acquisition of more than 5 percent of the voting shares of any company, including a bank or bank holding company. In reviewing applications seeking approval of merger and acquisition transactions, the Federal Reserve will consider, among other things, the competitive effect and public benefits of the transactions, the capital position of the combined organization, the applicant s performance record under the Community Reinvestment Act (see the section on Community Reinvestment Act below), fair housing laws and the effectiveness of the subject organizations in combating money laundering activities.

The BHC Act permits a bank holding company to engage in activities that the Federal Reserve has determined to be so closely related to banking or managing or controlling banks as to be a proper incident to those banking activities, such as operating a mortgage bank or a savings association, conducting leasing and venture capital investment activities, performing trust company functions, or acting as an investment or financial advisor. See the section on Interstate Banking and Branching below.

Dividends

The Federal Reserve has policies on the payment of cash dividends by bank holding companies. The Federal Reserve believes that a bank holding company experiencing earnings weaknesses should not pay cash dividends (1) exceeding its net income or (2) which only could be funded in ways that would weaken a bank holding company s financial health, such as by borrowing. Also, the Federal Reserve possesses enforcement powers over bank holding companies and their non-bank subsidiaries to prevent or remedy unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to prohibit or limit the payment of dividends by banks (including dividends to bank holding companies) and bank holding companies. See discussion of Dividend Limitations below.

As a result of the written agreement with the Federal Reserve Bank of Chicago and the Indiana Department of Financial Institutions, the Corporation is not permitted to (1) declare or pay any dividend without the prior approval of the Federal Reserve and Indiana Department of Financial Institutions, or (2) make any distributions of interest or principal on subordinated debentures or trust preferred securities without the prior approval of the Federal Reserve and Indiana Department of Financial Institutions. See above under Supervision and Regulation, General for the requirements of this written agreement and the status of our efforts to meet those requirements. Prior to the issuance of this written agreement, on March 3, 2008, we announced that our Board of Directors had voted to defer dividend payments on the Corporation s trust preferred securities and to discontinue payment of dividends on its non-cumulative perpetual preferred and common stock. Mindful of regulatory policy and the current economic environment, the Board took these steps to maintain the capital strength of the Corporation at a time of elevated uncertainty in the economy.

The Federal Reserve expects us to act as a source of financial strength to our banking subsidiaries and to commit resources to support them. In implementing this policy, the Federal Reserve expects us to commit resources to support Irwin Union Bank and Trust, including in times when we otherwise would not consider ourselves able to do so.

Any capital loans by us to any of our bank subsidiaries are subordinate in right of payment to deposits and to certain other indebtedness of that bank subsidiary. In addition, the BHC Act provides that, in the event of a bank holding company s bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

Bank and Thrift Regulation

Indiana law subjects Irwin Union Bank and Trust and its subsidiaries to supervision and examination by the Indiana Department of Financial Institutions. Irwin Union Bank and Trust is a member of the Federal Reserve System and, along with its subsidiaries, is also subject to regulation, examination and supervision by the Federal Reserve. Each of the principal subsidiaries of Irwin Union Bank and Trust are routinely subject to examination.

Irwin Union Bank, F.S.B., a direct subsidiary of the bank holding company, is a federally chartered savings bank. Accordingly, it is subject to regulation, examination and supervision by the Office of Thrift Supervision (OTS).

Irwin Union Bank and Trust and Irwin Union Bank, F.S.B. are subject to Federal Deposit Insurance Corporation supervision and regulation because deposits at Irwin Union Bank and Trust and Irwin Union Bank, F.S.B. are insured by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation (FDIC). The maximum FDIC insurance amount has been temporarily increased to $250,000 per depositor for all accounts in the same title and capacity, including individual retirements accounts, certain eligible deferred compensation plans, and so-called Keogh plans or HR 10 plans. In February 2009, a bill was introduced in the U.S. House of Representatives that would make permanent the current maximum FDIC insurance coverage. It is unclear whether this bill will be enacted into law.

Irwin Union Bank and Trust and Irwin Union Bank, F.S.B. must file reports with the Federal Reserve and the OTS, respectively, and with the FDIC concerning their activities and financial condition. Also, before establishing branches or entering into certain transactions such as mergers with, or acquisitions of, other financial institutions, Irwin Union Bank and Trust must obtain regulatory approvals from the Indiana Department of Financial Institutions and the Federal Reserve, and Irwin Union Bank, F.S.B. must obtain approval from the OTS.

Capital Requirements

The Federal Reserve imposes requirements on state member banks such as Irwin Union Bank and Trust regarding the maintenance of adequate capital substantially identical to the capital regulations applicable to bank holding companies described in the section on *Bank Holding Company Regulation Minimum Capital Requirements.* While retaining the authority to set capital ratios for individual banks, these regulations prescribe minimum total risk-based capital, Tier 1 risk-based capital and leverage (Tier 1 capital divided by average total assets) ratios. The Federal Reserve requires banks to hold capital commensurate with the level and nature of all of the risks, including the volume and severity of problem loans, to which they are exposed.

As with the regulations applicable to bank holding companies, the Federal Reserve requires all state member banks to meet a minimum ratio of qualifying total capital to weighted risk assets of 8 percent, of which at least 4 percent should be in the form of Tier 1 capital. The minimum ratio of Tier 1 capital to average assets, or the leverage ratio, for banking institutions rated composite 1 under the uniform rating system of banks and not experiencing or anticipating significant growth is 3 percent. For all other institutions, the minimum ratio of Tier 1 capital to total assets is 4 percent.

Banking institutions with supervisory, financial, operational, or managerial weaknesses are expected to maintain capital ratios well above the minimum levels, as are institutions with high or inordinate levels of risk. Banks experiencing or anticipating significant growth are also expected to maintain capital, including tangible capital positions, well above the minimum levels. A majority of such institutions generally have operated at capital levels ranging from 1 to 2 percentage points above the stated minimums. Higher capital ratios could be required if warranted by the particular circumstances or risk profiles of individual banks. The standards set forth above specify minimum supervisory ratios based primarily on broad credit risk considerations. Banks, including ours, are generally expected to operate with capital positions above the minimum ratios.

Similarly the Office of Thrift Supervision (OTS) requires savings banks such as Irwin Union Bank, F.S.B., to maintain certain regulatory capital minimums. While retaining the authority to set capital ratios for individual savings banks, the OTS prescribes minimum total risk-based capital, Tier 1 risk-based capital and Core Capital (Tier 1 capital divided by adjusted total assets) ratios. The October 10, 2008 supervisory agreement with the OTS requires Irwin Union Bank, F.S.B. to maintain a minimum total risk-based capital ratio of 11 percent and a core capital ratio of 9 percent.

At December 31, 2008, Irwin Union Bank and Trust had a total risk-based capital ratio of 9.3 percent, a Tier 1 capital ratio of 7.3 percent, and a leverage ratio of 6.7 percent. The total risk-based capital ratio causes Irwin Union Bank and Trust to be categorized as adequately capitalized. At December 31, 2008, Irwin Union Bank, F.S.B. had a total risk-based capital ratio of 11.2 percent, a Tier 1 capital ratio of 9.9 percent, and a core capital ratio of

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8.2 percent. Because the supervisory agreement with the OTS requires Irwin Union Bank, F.S.B. to maintain a specific capital level, Irwin Union Bank, F.S.B. is considered adequately capitalized. The core capital ratio at Irwin Union Bank, F.S.B. fell below the 9 percent minimum requirement at December 31, 2008, due to the fact that we were carrying an excess of liquidity at year-end as a risk management strategy reflective of the environment for banks and thrifts. Subsequently, we developed and submitted to the OTS a plan to increase this ratio to a level that is back in excess of the required minimum. As a result of being classified as adequately capitalized, both Irwin Union Bank and Trust Company and Irwin Union Bank, F.S.B. are no longer able to accept brokered deposits without a waiver from the FDIC and are effectively subject to certain restrictions on the yield they may pay on deposits.

The risk-based capital guidelines also provide that an institution s exposure to declines in the economic value of the institution s capital due to changes in interest rates must be considered as a factor by the agencies in evaluating the capital adequacy of a bank or savings association. This assessment of interest rate risk management is incorporated into our banks overall risk management rating and used to determine management s effectiveness.

Prompt Corrective Action

Under current law, the federal banking agencies possess broad powers to take prompt corrective action in connection with depository institutions that do not meet minimum capital requirements. The Federal Deposit Insurance Act, as amended (FDIA), establishes five capital categories for insured depository institutions for this purpose: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. To be considered well-capitalized under these standards, an institution must maintain a total risk-based capital ratio of 10 percent or greater; a Tier 1 risk-based capital ratio of 6 percent or greater; a leverage capital ratio of 5 percent or greater; and not be subject to any order or written directive to meet and maintain a specific capital level for any capital measure. An adequately capitalized institution must have a Tier 1 capital ratio of at least 4 percent, a total capital ratio of at least 8 percent and a leverage ratio of at least 4 percent. Under these standards, federal savings banks must meet three minimum capital standards: an 8 percent risk-based capital ratio, a 4 percent leverage ratio (or 3 percent for those assigned a composite rating of 1), and a 1.5 percent tangible capital ratio. The FDIA also requires the bank regulatory agencies to implement systems for prompt corrective action for institutions that fail to meet minimum capital requirements within the five capital categories, with progressively more severe restrictions on operations, management and capital distributions according to the category in which an institution is placed. Failure to meet capital requirements can also cause an institution to be directed to raise additional capital.

Safety and Soundness Standards

The FDIA requires the federal bank regulatory agencies to prescribe standards, by regulations or guidelines, relating to internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, stock valuation and compensation, fees and benefits, and such other operational and managerial standards as the agencies deem appropriate. Guidelines adopted by the federal bank regulatory agencies establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, fees and benefits. In general, the guidelines require among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal stockholder.

Insurance of Deposit Accounts

As FDIC-insured institutions, Irwin Union Bank and Trust and Irwin Union Bank, F.S.B. are required to pay deposit insurance premiums based on the risk they pose to the Deposit Insurance Fund. As a result of the Federal Deposit

Insurance Reform Act of 2005 (FDI Reform Act), the FDIC adopted a revised risk-based assessment system to determine assessment rates to be paid by member institutions such as Irwin Union Bank and Trust and Irwin Union Bank, F.S.B. Under this revised assessment system, risk is defined and measured using an institution s supervisory ratings with certain other risk measures, including certain financial ratios. The annual rates for 2008 for institutions in risk category I range from 5 to 7 basis points; the rate for institutions in risk category II is 10 basis points; the rate for institutions in risk category III is 28 basis points; and the rate for category IV is 43 basis points. On December 16, 2008, however, the FDIC adopted a final rule, effective as of January 1, 2009, increasing risk-based assessment rates uniformly by seven basis points (on an annual basis) for the first quarter of 2009. In October 2008, the FDIC also proposed changes to take effect beginning in the second quarter of 2009 that would require institutions deemed to be higher risk to pay increased rates. The FDIC is currently evaluating alternatives for additional assessment for all depositories in an effort to formulaically replenish its insurance fund.

The FDIA, as amended by the FDI Reform Act, requires the FDIC to set a ratio of deposit insurance reserves to estimated insured deposits, the designated reserve ratio (DRR), for a particular year within a range of 1.15 percent to 1.50 percent. For 2009, the FDIC has set the DRR at 1.25 percent, which is unchanged from 2008 levels. Under the FDI Reform Act and the FDIC s revised premium assessment program, every FDIC-insured institution will pay some level of deposit insurance assessments regardless of the level of the DRR. We cannot predict whether, as a result of an adverse change in economic conditions or other reasons, the FDIC will be required in the future to increase deposit insurance assessments above current levels.

In addition to deposit insurance fund assessments, the FDIC assesses all insured deposits a special assessment to fund the repayment of debt obligations of the Financing Corporation (FICO). FICO is a government-sponsored entity that was formed to borrow the money necessary to carry out the closing and ultimate disposition of failed thrift institutions by the Resolution Trust Corporation. The FICO annual assessment rate for the fourth quarter of 2008 was 1.10 cents per $100 deposits and will rise to 1.14 cents per $100 of deposits for the first quarter of 2009.

Under the FDIA, insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Dividend Limitations

Under Indiana law, certain dividends require notice to, or approval by, the Indiana Department of Financial Institutions, and Irwin Union Bank and Trust may not pay dividends in an amount greater than its net profits then available, after deducting losses and bad debts.

In addition, as a state member bank, Irwin Union Bank and Trust may not, without the approval of the Federal Reserve, declare a dividend if the total of all dividends declared in a calendar year, including the proposed dividend, exceeds the total of its net income for that year, combined with its retained net income of the preceding two years, less any required transfers to the surplus account. As a result of our losses in 2007 and 2008, Irwin Union Bank and Trust cannot declare a dividend to us without regulatory approval until such time that current year earnings plus earnings from the last two years exceed dividends during the same periods. Our ability to pay dividends on our Trust Preferred, non-cumulative perpetual preferred, and common stock is dependent on our ability to dividend from Irwin Union Bank and Trust, for which prior approval would be necessary.

As a result of the written agreement with the Federal Reserve Bank of Chicago and the Indiana Department of Financial Institutions, Irwin Union Bank and Trust is not permitted to declare or pay any dividend without the prior approval of the Federal Reserve and Indiana Department of Financial Institutions. Mindful of regulatory policy and the current economic environment, the Board took steps such as reduced operating expenses, loan sales and reduced loans originations to maintain the capital strength of the Corporation at a time of elevated uncertainty in the economy. See the discussion above on *Dividends* in the section on *Bank Holding Company Regulation.*

In most cases, savings banks, such as Irwin Union Bank, F.S.B., are required either to apply to or to provide notice to the OTS regarding the payment of dividends. The savings association must seek approval if it does not qualify for expedited treatment under OTS regulations, or if the total amount of all capital distributions for the applicable calendar year exceeds net income for that year to date plus retained net income for the preceding two years, or the savings association would not be adequately capitalized following the dividend, or the proposed dividend would violate a prohibition in any statute, regulation or agreement with the OTS. In other circumstances, a simple notice is sufficient. At this time Irwin Union Bank, F.S.B. cannot declare a dividend to us without regulatory approval.

Our ability and the ability of Irwin Union Bank and Trust and Irwin Union Bank, F.S.B. to pay dividends also may be affected by the various capital requirements and the prompt corrective action standards described above under *Prompt Corrective Action*. Our rights and the rights of our shareholders and our creditors to participate in any distribution of the assets or earnings of our subsidiaries also is subject to the prior claims of creditors of our subsidiaries including the depositors of a bank subsidiary.

Interstate Banking and Branching

Under federal law, banks are permitted, if they are adequately or well-capitalized, in compliance with Community Reinvestment Act requirements and in compliance with state law requirements (such as age-of-bank limits and deposit caps), to merge with one another across state lines and to create a main bank with branches in separate states. After establishing branches in a state through an interstate merger transaction, a bank may establish and acquire additional branches at any location in the state where any bank involved in the interstate merger could have established or acquired branches under applicable federal and state law.

As a federally chartered savings bank, Irwin Union Bank, F.S.B. has greater flexibility in pursuing interstate branching than an Indiana state bank. Subject to certain exceptions, a federal savings association generally may establish or operate a branch in any state outside the state of its home office if the association meets certain statutory requirements.

Community Reinvestment

Under the Community Reinvestment Act (CRA), banking and thrift institutions have a continuing and affirmative obligation, consistent with their safe and sound operation, to help meet the credit needs of their entire communities, including low- and moderate-income neighborhoods. Institutions are rated on their performance in meeting the needs of their communities. Performance is tested in three areas: (a) lending, which evaluates the institution s record of making loans in its assessment areas; (b) investment, which evaluates the institution s record of investing in community development projects, affordable housing and programs benefiting low or moderate income individuals and business; and (c) service, which evaluates the institution s delivery of services through its branches, ATMs and other activities. The CRA requires each federal banking agency, in connection with its examination of a financial institution, to assess and assign one of four ratings to the institution s record of meeting the credit needs of its community and to take this record into account in evaluating certain applications by the institution, including applications for charters, branches and other deposit facilities, relocations, mergers, consolidations, acquisitions of assets or assumptions of liabilities, and savings and loan holding company acquisitions. Irwin Union Bank and Trust received a satisfactory rating, and Irwin Union Bank, F.S.B. received an outstanding rating, on their most recent CRA performance evaluations.

Brokered Deposits and Public Funds

Brokered deposits include funds obtained, directly or indirectly, by or through a deposit broker for deposit into one or more deposit accounts. Well-capitalized institutions are not subject to limitations on brokered deposits, while an adequately capitalized institution is able to accept, renew or rollover brokered deposits only with a waiver from the FDIC and is effectively subject to certain restrictions on the yield paid on deposits. Undercapitalized institutions are not permitted to accept brokered deposits. As a result of the supervisory agreement with the Office of Thrift Supervision, Irwin Union Bank, F.S.B. (which holds approximately 12% of our total assets) may not accept brokered deposits unless it receives the prior approval of the Federal Deposit Insurance Corporation. Although we have applied for approval, there is no guarantee that it will be obtained. Moreover, even if such an approval is granted, the supervisory agreement with the Office of Thrift Supervision would still impose limitations on Irwin Union Bank, F.S.B. s freedom to set rates for brokered deposits. In addition, as a result of Irwin Union Bank and Trust being an adequately capitalized institution, it also is no longer able to accept brokered deposits without a waiver from the FDIC and is effectively subject to certain restrictions on the yield it may pay on deposits.

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Another significant source of funding for Irwin Union Bank and Trust Company is public funds, the majority of which are in the State of Indiana. Indiana public funds are insured by the Indiana Public Deposit Insurance Fund and, in some cases, by the FDIC. Irwin Union Bank continues to be eligible to accept public funds in Indiana. Its ongoing eligibility depends upon continued progress on the Company s plans to improve the Banks capital ratios through the completion of transactions that would remove substantial home equity assets from our balance sheet and to raise additional capital. As with any bank, our Bank s primary regulators, the Federal Reserve Bank of Chicago and the Indiana Department of Financial Institutions, may declare the Bank undercapitalized at any time regardless of its current capital ratios. Such an occurrence would cause us to become ineligible to accept additional public funds in Indiana beyond those we already hold, which would continue to be insured to the extent provided by the Public Deposit Insurance Fund statute.

Safety and Soundness Standards

The FDIA requires the federal bank regulatory agencies to prescribe standards, by regulations or guidelines, relating to internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, stock valuation and compensation, fees and benefits, and such other operational and managerial standards as the agencies deem appropriate. Guidelines adopted by the federal bank regulatory agencies establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal stockholder.

In addition, the agencies adopted regulations that authorize, but do not require, an agency to order an institution that has been given notice by an agency that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, an institution fails to submit an acceptable compliance plan or fails in any material respect to implement an acceptable compliance plan, the agency must issue an order directing action to correct the deficiency and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the prompt corrective action provisions of FDIA. See Prompt Corrective Action above. If an institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties.

As discussed above, on October 10, 2008, our holding company and our state-chartered bank subsidiary, Irwin Union Bank and Trust entered into a written agreement with the Federal Reserve Bank of Chicago and the Indiana Department of Financial Institutions. On the same day, our federal savings bank subsidiary, Irwin Union Bank, F.S.B., entered into a supervisory agreement with the Office of Thrift Supervision. The requirements of these agreements and the status of our efforts to meet those requirements are described above under Supervision and Regulation, General. We believe that we have complied in all material aspects with all the requirements and restrictions in these agreements. An exception was that as of December 31, 2008, we were not in compliance with the requirement that the Core Capital (Tier 1 capital to adjusted total assets) of Irwin Union FSB be in excess of 9.0%. We are taking actions to remediate this non-compliance through the reduction of liquid assets and loans. We also inadvertently violated, but then cured, the asset growth restriction during the fourth quarter. We have submitted a business plan to the OTS which manages our growth within the specified limits. However, our regulators could revise the terms of the written and supervisory agreements to modify existing requirements or add new ones, or could take supervisory actions in addition to the written and supervisory agreements. The failure to comply with the terms of the written and supervisory agreements, or other regulatory requirements that could be imposed in the future, could result in significant enforcement actions against us of increasing severity, up to and including a regulatory takeover of our bank subsidiaries.

Depositor Preference

The FDIA provides that, in the event of the liquidation or other resolution of an insured depository institution, the claims of depositors of the institution, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors, including depositors whose deposits are payable only outside of the United States and the parent bank holding company, with respect to any extensions of credit they have made to such insured depository institution.

Cross-Guarantee Provisions

Each insured depository institution controlled (as defined in the BHC Act) by the same bank holding company can be held liable to the FDIC for any loss incurred, or reasonably expected to be incurred, by the FDIC due to the default of any other insured depository institution controlled by that holding company and for any assistance provided by the FDIC to any of those banks that is in danger of default. Such a cross-guarantee claim against a depository institution is generally superior in right of payment to claims of the holding company and its affiliates against that depository institution.

Transactions with Affiliates

There are various legal restrictions on the extent to which the Corporation and its non-bank subsidiaries may borrow or otherwise obtain funding from Irwin Union Bank and Trust. Under Sections 23A and 23B of the Federal Reserve Act and the Federal Reserve s Regulation. We (and our subsidiaries) may only engage in lending and other covered transactions with non-bank and non-savings bank affiliates to the following extent: (a) in the case of any single such affiliate, the aggregate amount of covered transactions of Irwin Union Bank and Trust and its subsidiaries may not exceed 10% of the capital stock and surplus of Irwin Union Bank and Trust; and (b) in the case of all affiliates, the aggregate amount of covered transactions of Irwin Union Bank and Trust and its subsidiaries may not exceed 20% of the capital stock and surplus of Irwin Union Bank and Trust. Covered transactions also are subject to certain collateralization requirements. Covered transactions are defined by statute to include a loan or extension of credit, as well as a purchase of securities issued by an affiliate, a purchase of assets (unless otherwise exempted by the Federal Reserve) from the affiliate, the acceptance of securities issued by the affiliate as collateral for a loan, and the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate. All Covered transactions, including certain additional transactions (such as transactions with a third party in which an affiliate has a financial interest), must be conducted on market terms.

The Home Owners Loan Act applies Sections 23A and 23B of the Federal Reserve Act and the Federal Reserve s Regulation W to every savings bank in the same manner and to the same extent as if the savings bank were a member bank of the Federal Reserve Board. As a result, all transactions between Irwin Union Bank, F.S.B. and the Corporation (or its non-bank subsidiaries) are subject to the same requirements and restrictions described above.

Anti-Money Laundering Laws

Irwin Union Bank and Trust and Irwin Union Bank, F.S.B. are subject to the Bank Secrecy Act and its implementing regulations and other anti-money laundering laws and regulations, including the USA PATRIOT Act of 2001. Among other things, these laws and regulations require Irwin Union Bank and Trust and Irwin Union Bank F.S.B. to take steps to prevent the use of each institution for facilitating the flow of illegal or illicit money, to report large currency transactions and to file suspicious activity reports. Each bank also is required to develop and implement a comprehensive anti-money laundering compliance program. Banks also must have in place appropriate know your customer policies and procedures. Violations of these requirements can result in substantial civil and criminal sanctions. In addition, provisions of the USA PATRIOT Act require the federal financial institution regulatory agencies to consider the effectiveness of a financial institution s anti-money laundering activities when reviewing bank mergers and bank holding company acquisitions.

Compliance with Consumer Protection Laws

The lending activities of Irwin Union Bank and Trust and its subsidiaries, Irwin Commercial Finance and Irwin Home Equity, are regulated by the Federal Reserve. Federal Reserve regulations and policies, such as restrictions on affiliate transactions and real estate lending policies relating to asset quality and prudent underwriting of loans,

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apply to our residential lending activities. The Indiana Department of Financial Institutions has comparable supervisory and examination authority over Irwin Commercial Finance and Irwin Home Equity due to their status as subsidiaries of Irwin Union Bank and Trust.

Our subsidiaries also are subject to federal and state consumer protection and fair lending statutes and regulations including the Equal Credit Opportunity Act, the Fair Housing Act, the Truth in Lending Act, the Truth in Savings Act, the Real Estate Settlement Procedures Act and the Home Mortgage Disclosure Act. In many instances, these acts contain specific requirements regarding the content and timing of disclosures and the manner in which we must process and execute transactions. Some of these rules provide consumers with rights and remedies, including the right to initiate private litigation. Specifically, these acts, among other things:

- require lenders to disclose credit terms in meaningful and consistent ways;
- prohibit discrimination against an applicant in any consumer or business credit transaction;
- prohibit discrimination in housing-related lending activities;
- require certain lenders to collect and report applicant and borrower data regarding loans for home purchases or improvement projects;
- require lenders to provide borrowers with information regarding the nature and cost of real estate settlements;
- prohibit certain lending practices and limit escrow account amounts with respect to real estate transactions; and
- prescribe possible penalties for violations of the requirements of consumer protection statutes and regulations.

In addition, banking subsidiaries are subject to a number of federal and state regulations that offer consumer protections to depositors, including account terms and disclosures, funds availability and electronic funds transfers.

As part of the home equity line of business, in conjunction with its subsidiary, Irwin Home Equity, Irwin Union Bank and Trust originated home equity loans through its branch in Carson City, Nevada. Irwin Union Bank and Trust used interest rates and loan terms in these home equity loans and lines of credit that were authorized by Nevada law, but might not be authorized by the laws of the states in which the borrowers were located. As a state member bank insured by the FDIC, Irwin Union Bank and Trust was authorized by Section 27 of the FDIA to charge interest at rates allowed by the laws of the state where the bank is located, including at a branch located in a state other than the Bank s home state, regardless of any inconsistent state law, and to apply these rates to loans to borrowers in other states. Irwin Union Bank and Trust relied on Section 27 of the FDIA and the FDIC opinion in conducting its home equity business described above. Any change in the FDIC s interpretation of Section 27 of the FDIA, or any successful challenge as to the permissibility of these activities, could result in loan modifications or repurchase risk.

Recently Adopted and Proposed Federal and State Laws and Regulations

Emergency Economic Stabilization Act of 2008

In October 2008, the U.S. Congress enacted the Emergency Economic Stabilization Act of 2008 (EESA). The primary feature of the EESA is the establishment of a troubled asset relief program (TARP), under which the U.S. Treasury Department (UST) was authorized to use up to $700 billion to purchase troubled assets, including mortgage-backed and other securities, from financial institutions and to make equity investments in banks (and possibly other financial institutions) through the Capital Purchase Program (CPP) for the purpose of stabilizing the financial markets. Until the change in administration, the UST focused on the CPP and did not engage in purchases of troubled assets.

On November 11, 2008, we submitted to the Federal Reserve Bank of Chicago our application for participation in the CPP. Although our application for participation in the CPP is still pending, we believe it is unlikely to be approved absent a change in policy. We have submitted to the Department of the Treasury and the banking agencies a proposed modification to the current capital programs developed under the EESA. Our proposal provides that depository institutions be eligible to receive capital from the UST if they are determined to be viable upon receipt of a combination of (i) such capital from the UST and (ii) a private sector investment that is at least equal to one-third of such capital. We believe this proposed modification would provide the following benefits: (i) significant savings to the FDIC, and ultimately taxpayers; (ii) encouraging private investment in the banking industry; (iii) increased lending throughout the country, particularly to small businesses and in areas outside of major urban centers; (iv) a reduction in bank failures, thereby increasing confidence in the banking system; (v) establishing an equitable approach for all banks regardless of size, thereby carrying out the anti-discrimination mandate of EESA and (vi) significantly contributing to the multi-front approach that federal agencies are taking to restore confidence and stability to our economy. We do not know, however, whether the UST will consider or adopt our proposed modification or whether it will be in the form we propose. Even if the modification is adopted, it is possible that we would not receive capital assistance.

If any investment made by the UST were to follow the terms of the CPP, the UST requires certain rights and preferences for the shares that we would issue to them in exchange for proceeds we would receive. The rights and preferences of the UST s shares would have an effect on the rights of shareholders. If and when we are accepted to participate in the CPP or its equivalent, the rights and preferences of the shares we issue to the UST would be established by our board of directors by resolution consistent with the investment criteria and terms prescribed by the UST. Based on the standard documentation for the CPP, we would anticipate that the effect on the rights of our shareholders would include: (i) restrictions on the payment of dividends to holders of our common shares, (ii) restrictions on the repurchase and redemption of our capital stock that ranks junior, or equal, to shares we issue to the UST, (iii) restrictions on distributions of assets to our shareholders upon a liquidation or dissolution of our holding company until the satisfaction of any liquidation preference granted to preferred shares issued in connection with the CPP or its equivalent and (iv) dilution of shareholders equity interest and voting power upon exercise of warrants granted to the UST.

The issuance to the UST of preferred shares and the exercise of the warrants for common shares would reduce our earnings per common share. Any reduction in the earnings per share could reduce our share price and thereby reduce the value of the shares held by our current shareholders. One of the covenants in connection with the CPP is that if a participant fails to pay the dividend to the UST on the preferred shares for six dividend periods, then the holder of the preferred shares would have the right to elect two directors. This right to elect directors would end when full dividends have been paid for four consecutive dividend periods. If this requirement is part of a UST investment in the Corporation, we would need to expand our current board of directors only if we were to fail to pay dividends in accordance with the requirements of the preferred shares. In addition, we would be obligated to file a registration statement under the Securities Act of 1933, as amended, as soon as practicable after issuing the preferred shares and warrants to the UST for resale of the preferred shares and common shares underlying the warrants. Under the terms of the CPP, these shares would not be subject to any contractual restrictions on transferability and the UST may transfer its shares to third parties at any time.

If and when we are accepted to participate in the CPP or its equivalent, we expect the UST would require us to agree to certain limits on executive compensation for our chief executive officer, chief financial officer, and our next three most highly compensated officers. Our holding company would have to agree, with respect to each such executive: (i) not to deduct for tax purposes executive compensation in excess of $500,000; (ii) not to make any golden parachute payment (as defined in the Internal Revenue Code); (iii) to implement a required clawback of any incentive compensation paid based on statements of earnings or other criteria that are later proven to be materially inaccurate; and (iv) to ensure that the incentive compensation does not encourage unnecessary and excessive risks that threaten our holding company s value. We do not believe that these limitations would require any modification of, or otherwise have any impact on, our current executive compensation plans or contracts; however, we expect that our executives would agree to accept any changes necessary to make existing agreements compliant with CPP requirements with respect to executive compensation. The restrictions could have a negative impact on our ability to recruit senior executives while the restrictions apply.

From time to time, various legislative and regulatory initiatives are introduced in Congress and state legislatures, as well as by regulatory agencies. Such initiatives may include proposals to expand or contract the powers of bank holding companies and depository institutions or proposals to substantially change the financial institution regulatory system. Such legislation could change banking statutes and the operating environment of the Corporation in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. We cannot predict whether any such legislation will be enacted, and, if enacted, the effect that it, or any implementing regulations, would have on the financial condition or results of operations of the Corporation. A change in statutes, regulations or regulatory policies applicable to the Corporation or any of its subsidiaries could have a material effect on the business of the Corporation.

Executive Officers

Our executive officers are elected annually by the Board of Directors and serve until their successors are qualified and elected. In addition to our Chief Executive Officer, Chairman and President, Mr. William I. Miller (52), who also serves as a director, our executive officers are listed below as of January 31, 2009.

Gregory F. Ehlinger (46) has been our Chief Financial Officer since August of 1999. He was a Senior Vice President from August 1999 to February 5, 2008. He has been one of our officers since August 1992.

Bradley J. Kime (48) has been President of our Commercial Banking line of business since May 2003 and President of Irwin Union Bank F.S.B. since December 2000. He has served in several officer positions since joining Irwin in 1986.

Jocelyn Martin-Leano (47) has served as President of our Home Equity line of business since July 1, 2006, having been Interim President for the six months prior to that. She has served in officer positions since joining Irwin in 1995.

John W. Rinaldi (61) was named President of the Commercial Finance line of business and one of our executive officers in October, 2008. He has been President of Irwin Franchise Capital Corporation since January 2002.

Matthew F. Souza (52) was named Chief Administrative Officer as of February 5, 2008. He was our Senior Vice President-Ethics from August 1999 to February 5, 2008, and has been our Secretary and an officer since 1986.

John Wilcox (52) was named to succeed Mr. Kime as President of Irwin Union Bank, F.S.B. in January 2009. From 2006 to the end of 2008, Mr. Wilcox served as the Senior Vice President, Regional Executive of IUB, Las Vegas, Nevada.

Item 1A. ***Risk Factors***

An investment in our securities involves a number of risks. We urge you to read all of the information contained in this Report on Form 10-K. In addition, we urge you to consider carefully the following factors in evaluating an investment in our common shares.

Risks Related to an Investment in Us

Our independent registered public accountants have expressed substantial doubt about our ability to continue as a going concern.

In their audit report for the year ended December 31, 2008, our independent registered public accountants have stated that certain matters raise substantial doubt about our ability to continue as a going concern. We have been significantly and negatively impacted by the events and conditions impacting the banking industry. We and the industry have been adversely affected by rising unemployment, declining real estate and financial asset prices, and rising delinquency and loss rates on loans. These in turn have caused significant losses, reduced our capital materially, and had other follow-on consequences. While it has not yet occurred, there is the potential for these events to impact our on-going access to liquidity sources. In addition, some of our on-going operations, particularly our ability to continue to access our traditional funding sources, are impacted by our regulatory capital ratios and regulatory standing. Should management be unable to execute on its plans, including restoring and maintaining its capital ratios at amounts that would result in its ratios being sufficient to be declared well capitalized, there could be a doubt on our ability to remain a going concern. Our audited financial statements were prepared under the assumption that we will continue our operations on a going concern basis, which contemplates the realization of assets and the discharge of liabilities in the normal course of business. Our financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern. If we cannot continue as a going concern, our shareholders will lose some or all of their investment in the Company.

The price of our common shares may fluctuate significantly, and this may make it difficult for shareholders to resell common shares they own at times or at prices they find attractive.

The price of our common shares on the NYSE constantly changes. We expect that the market price of our common shares will continue to fluctuate.

Our stock price may fluctuate as a result of a variety of factors, some of which are beyond our control. These factors include:

- quarterly variations in our operating results or the quality of our assets;
- operating results that vary from the expectations of management, securities analysts and investors;
- changes in expectations as to our future financial performance;
- announcements of innovations, new products, strategic developments, significant contracts, acquisitions and other material events by us or our competitors;
- the operating and securities price performance of other companies that investors believe are comparable to us;
- future sales of our equity or equity-related securities;
- our past and future dividend practice;
- our creditworthiness;
- interest rates;
- the credit, mortgage and housing markets, the markets for securities relating to mortgages or housing, and developments with respect to financial institutions generally;
- the market for similar securities; and
- economic, financial, geopolitical, regulatory, congressional or judicial events and actions that affect us or the financial markets.

Accordingly, our common shares may trade at a price lower than that at which they were purchased. In addition, in recent months, the stock market in general experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies and particularly those in the financial services and banking sector, including for reasons unrelated to their operating performance. These broad market fluctuations may persist, and could adversely affect our stock price, regardless of our operating results.

There may be future sales or other dilution of our equity, which may adversely affect the market price of our common shares.

We are not restricted from issuing additional common shares, including any securities that are convertible into or exchangeable for, or that represent the right to receive, common shares, as well as any common shares that may be issued pursuant to our shareholder rights plan. The market price of our common shares could decline as a result of sales of our common shares or the perception that such sales could occur. The market price of our common shares could also decline if we issue additional common shares in connection with an exchange of a portion of our trust preferred shares for our common shares or warrants associated with the receipt of an investment from the U.S. government. At this time, we are unable to determine whether we will complete these transactions or the number of shares that we will issue in connection with any exchange offer.

The trading volume in the Corporation s common shares is less than that of other larger financial services companies.

Although the Corporation s common shares are listed for trading on the NYSE, the trading volume in its common shares is less than that of other, larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of the Corporation s common shares at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which the Corporation has no control. Given the lower trading volume of the Corporation s common shares, significant sales of the Corporation s common shares, or the expectation of these sales, could cause the Corporation s share price to fall.

You may not receive dividends on the common shares.

Holders of our common shares are only entitled to receive such dividends as our board of directors may declare out of funds legally available for such payments. On March 3, 2008, we announced that our board of directors voted to suspend payment of dividends on our common, preferred and trust preferred securities. In addition, as a result of the written agreement that we and Irwin Union Bank and Trust Company entered into on October 10, 2008, with the Federal Reserve Bank of Chicago and the Indiana Department of Financial Institutions, we are not permitted to (1) declare or pay any dividend, or (2) make any distributions of interest or principal on subordinated debentures or trust preferred securities, without the prior written approval of these regulators. As a result we cannot declare a dividend on our common shares. Although we can seek to obtain a waiver of this prohibition, the Federal Reserve Bank of Chicago and the Indiana Department of Financial Institutions may choose not to grant such a waiver and we would not expect to be granted a waiver or be released from this obligation until our financial performance improves significantly. Therefore, we may not be able to resume payments of dividends in the future.

The issuance of additional series of our preferred shares could adversely affect holders of our common shares which may negatively impact shareholders investment.

Our board of directors is authorized to issue additional classes or series of preferred shares without any action on the part of the shareholders. The board of directors also has the power without shareholder approval, to set the terms of any such classes or series of preferred shares that may be issued, including voting rights, dividend rights, and preferences over our common shares with respect to dividends or upon our dissolution, winding-up and liquidation and other terms. If we issue additional preferred shares in the future that have a preference over our common shares with respect to the payment of dividends or upon our liquidation, dissolution, or winding up, or if we issue preferred shares with voting rights that dilute the voting power of our common shares, the rights of holders of our common shares or the market price of our common shares could be adversely affected.

We have regulatory restrictions on our ability to receive dividends from bank subsidiaries.

Our ability to pay dividends in the future depends predominantly on our ability to dividend from our state-chartered bank subsidiary, Irwin Union Bank and Trust Company, to our holding company, for which prior approval from our regulators and additional action by our board of directors will be necessary. As a result of the written agreement that we and Irwin Union Bank and Trust Company entered into on October 10, 2008, with the Federal Reserve Bank of Chicago and the Indiana Department of Financial Institutions, Irwin Union Bank and Trust Company, is not permitted to (1) declare or pay any dividend, or (2) make any distributions of interest or principal on subordinated debentures or trust preferred securities, without the prior written approval of these regulators. As a result, Irwin Union Bank and Trust Company cannot declare a dividend to us. Although Irwin Union Bank and Trust Company can seek to obtain a waiver of this prohibition, the Federal Reserve Bank of Chicago and the Indiana Department of Financial Institutions may choose not to grant such a waiver and we would not expect to be granted a waiver or be released from this obligation until our financial performance improves significantly. Therefore, Irwin Union Bank and Trust Company may not be able to resume payments of dividends to our holding company in the future.

Current levels of market volatility are unprecedented.

The capital and credit markets have been experiencing volatility and disruption for more than a year, and at times, the volatility and disruption has reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit capacity for certain issuers without apparent regard to those issuers underlying financial strength. If the current levels of market disruption and volatility continue or worsen, we could experience further adverse effects, which may be material, on our ability to access capital and on our results of operations.

Our shareholder rights plan, provisions in our restated articles of incorporation, our by-laws, and Indiana law may delay or prevent an acquisition of us by a third party.

Our board of directors has implemented a shareholder rights plan which, combined with Indiana law, and absent further action by our board, contains provisions which have certain anti-takeover effects. While the purpose of these plans is to strengthen the negotiating position of the board in the event of a hostile takeover attempt, the overall effects of the plan may be to render more difficult or discourage a merger, tender offer or proxy contest, the assumption of control by a holder of a larger block of our shares and the removal of incumbent directors and key management. If triggered, the rights will cause substantial dilution to a person or group that attempts to acquire us without approval of our board of directors, and under certain circumstances, the rights beneficially owned by the person or group may become void. The plan also may have the effect of limiting the participation of certain shareholders in transactions such as mergers or tender offers whether or not such transactions are favored by incumbent directors and key management. This could discourage proxy contests and may make it more difficult for shareholders to elect their own representatives as directors and take other corporate actions.

Our by-laws do not permit cumulative voting of shareholders in the election of directors, allowing the holders of a majority of our outstanding shares to control the election of all our directors. We have a staggered board, which means that only one-third of our board can be replaced by shareholders at any annual meeting. Directors may not be removed by shareholders. Our by-laws also provide that only our board of directors, and not our shareholders, may adopt, alter, amend and repeal our by-laws.

Indiana law provides several limitations that may discourage potential acquirers from purchasing our common shares. In particular, Indiana law prohibits business combinations with a person who acquires 10% or more of our common shares during the five-year period after the acquisition of 10% by that person or entity, unless the acquirer receives prior approval for the acquisition of the shares or business combination from our board of directors.

These and other provisions of Indiana law and our governing documents are intended to provide the board of directors with the negotiating leverage to achieve a more favorable outcome for our shareholders in the event of an offer for the company. However, these same anti-takeover provisions could have the effect of delaying, deferring or preventing a transaction or a change in control that might be in the best interest of our shareholders.

Risks Related to the Capital and Credit Markets

The current economic environment poses significant challenges for us and could adversely affect our financial condition and results of operations.

We are operating in a highly challenging and uncertain economic environment, including generally uncertain national conditions and local conditions in our markets. Financial institutions continue to be affected by sharp declines in the real estate market and constrained financial markets. While we are taking steps to decrease and limit our exposure to residential mortgage loans, home equity loans and lines of credit, and construction and land loans, we nonetheless retain significant direct exposure to the residential and commercial real estate markets as a result of our holdings of these types of loans, and we are affected by these events. Our commercial banking line of business has a substantial portfolio of construction and land development loans. Continued declines in real estate values, home sales volumes and financial stress on borrowers as a result of the uncertain economic environment, including job losses, could have an adverse effect on our borrowers or their customers, which could adversely affect our financial condition and results of operations. The decline in our financial performance over the last two years, and the reduction in capital ratios during 2008 have subjected us to increased regulatory scrutiny and restrictions in the current environment. In addition, the continuing national economic recession and further deterioration in local economic conditions in our markets could drive losses beyond that which is provided for in our allowance for loan losses and result in the following other consequences: loan delinquencies, problem assets, foreclosures and loan charge-offs may increase; continued deterioration of our capital ratios, demand for our products and services may decline; deposits may decrease, which would adversely impact our liquidity position; and collateral for our loans, especially real estate, may decline in value, in turn reducing customers borrowing power, and reducing the value of assets and collateral associated with our existing loans. If our capital ratios or liquidity position deteriorate, we potentially face regulatory action, including a takeover of Irwin Union Bank and Trust and Irwin Union Bank, F.S.B., which could affect our ability to continue as a going concern.

Our inability to participate in the UST s CPP (or its equivalent) could have negative adverse effects on our share price, the rights offer and our future growth prospects.

In response to the financial crises affecting the banking system and financial markets, on October 3, 2008, President Bush signed into law the EESA. The primary feature of the EESA is the establishment of a TARP, under which the UST was authorized to use up to $700 billion to purchase troubled assets, including mortgage-backed and other securities, from financial institutions and to make equity investments in banks (and possibly other financial institutions) through the CPP (and subsequently the Capital Assistance Program or CAP) for the purpose of stabilizing the financial markets. The standby commitments for our shareholder rights offering were entered into prior to the announcement of TARP. These standby commitments contained a condition that our capital plan be acceptable to our regulators. Subsequently, we applied for an investment under the CPP. Our standby investors now consider the approval of a TARP investment in us as the best indication of regulatory acceptance of our capital plan. Although our application for participation in the CPP is still pending, we believe it is unlikely to be approved absent a change in policy. We have submitted to the Department of the Treasury and the banking agencies a proposed modification to the current capital programs developed under the EESA. See the Recently Adopted and Proposed Federal and State Laws and Regulations section above. In the event our proposal to the Treasury is not accepted or we are not approved under a change in policy, we would not have the benefits provided by a significant increase in our capital, whereas certain of our competitors may have this capital available to support their activities. In addition, because of the extensive publicity of the CPP and certain market perceptions as to the financial health of institutions that are denied access to the CPP, the effect on our share price, our ability to raise capital, our future ability to grow organically, and our liquidity could be adversely affected.

More generally, we do not know what long-term impact the TARP, the CPP or the CAP will have generally on the financial markets, including the extreme levels of volatility currently being experienced. If the TARP, the CPP or the CAP does not have its intended beneficial effect on the participating financial institutions and the market more generally, the financial markets could be affected materially and adversely, which in turn could materially and adversely affect our business, financial condition and results of operations.

The EESA is relatively new legislation and, as such, is subject to change and evolving interpretation. The Obama Administration has already begun making changes in the TARP programs from the way they were originally administered under the Bush Administration. There can be no assurances as to the effects that such changes will have on the effectiveness of the EESA, or our ability to participate in any programs, or ultimately on our businesses, financial condition or results of operations.

If we participate in the CPP or its equivalent your ownership interest and voting power will be diluted and other rights of shareholders could be adversely affected.

Based on the standard documentation for the CPP, if we participate in the CPP or its equivalent, the effects on the rights of our shareholders will likely include: (i) restrictions on the payment of dividends to holders of our common shares and (ii) restrictions on distributions of assets to our shareholders upon a liquidation or dissolution of our holding company and until the satisfaction of any liquidation preference granted to preferred shares issued in connection with the CPP. In addition, shareholders would suffer dilution of their equity interest and voting power upon exercise of any warrants granted to the UST. See the Recently Adopted and Proposed Federal and State Laws and Regulations section above.

We may need to raise additional capital in the future and such capital may not be available when needed or at all.

We are attempting to raise additional capital to meet the goals of our Capital Plan. Our ability to raise additional capital, will depend on, among other things, initiatives such as the UST s CPP, conditions in the capital markets which are outside of our control, and our financial performance. The loss of confidence in financial

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institutions in general, or in the Corporation in particular (including as a result of our independent public accountants opinion that there is substantial doubt about the Corporation s ability to continue as a going concern) may impede our ability to raise capital.

We cannot assure you that such capital will be available to us. Any occurrence that may limit our access to the capital markets may adversely affect our ability to operate and as such, could have a materially adverse effect on our businesses, financial condition and results of operations.

Risks Related to Our Business

We may be adversely affected by a general deterioration in economic conditions.

The risks associated with our business become more acute in periods of a slowing economy or slow growth such as we experienced during 2008 and which has continued into 2009. Economic declines may be accompanied by a decrease in demand for consumer and commercial credit and declining real estate and other asset values. The credit quality of commercial loans and leases where the activities of the borrower or vendor are related to housing and other real estate markets may decline in periods of stress in these industries. Delinquencies, foreclosures, credit losses, and servicing costs generally increase during economic slowdowns or periods of slow growth such as the one we are presently experiencing.

Although we are in the process of exiting our home equity line of business, as described more fully in *Strategy* we continue to have exposure to losses so long as we hold a portfolio of loans. As such, a material decline in real estate values may reduce the ability of borrowers to use home equity to support borrowings and could increase the loan-to-value ratios of loans we have previously made, thereby weakening collateral coverage and increasing the possibility of a loss in the event of a default. A decline in real estate values could also materially lower runoff in our existing portfolio, effectively extending the average life of the loans in the portfolio (and therefore prolonging the period we are exposed to losses).

We may be adversely affected by interest rate changes.

We and our subsidiaries are subject to interest rate risk. Changes in interest rates will affect the value of loans, deposits and other interest-sensitive assets and liabilities on our balance sheet. Our income may be at risk because changes in interest rates also affect our net interest margin and the value of assets and derivatives that we sell from time to time or that are subject to either mark-to-market accounting or lower-of-cost-or-market accounting, such as loans held for sale, mortgage servicing rights and derivatives instruments.

Reductions in interest rates expose us to write-downs in the carrying value of the mortgage servicing assets we hold on our balance sheet. Some of these assets are marked to market value and others are recorded at the lower of their cost or market value and a valuation allowance is recorded for any impairment. Decreasing interest rates often lead to increased prepayments in the underlying loans, which requires that we write down the carrying value of these servicing assets. The change in value of these assets, if improperly hedged or mismanaged, could adversely affect our operating results in the period in which the impairment occurs.

Our lines of business mainly depend on earnings derived from net interest income. Net interest income is the difference between interest earned on loans and investments and the interest expense paid on other borrowings, including deposits at our banks and other funding liabilities we have. Our interest income and interest expense are affected by general economic conditions and by the policies of regulatory authorities, including the monetary policies of the Federal Reserve that cause our funding costs and yields on new or variable rate assets to change.

Although we take measures intended to manage the risks of operating in changing interest rate environments, we cannot eliminate interest rate sensitivity. Our goal is to ensure that interest rate sensitivity does not exceed prudent levels as determined by our board of directors in certain policies. Our risk management techniques include modeling interest rate scenarios, using financial hedging instruments, and match-funding certain loan assets. There are costs and risks associated with our risk management techniques, and these could be substantial.

Finally, to reduce the effect interest rates have on our businesses, we periodically invest in derivatives and other interest-sensitive instruments. While our intent in purchasing these instruments is to reduce our overall interest rate sensitivity, the performance of these instruments can, at times, cause volatility in our results either due to factors

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such as basis risk between the derivatives and the hedged item, timing of accounting recognition differences or other such factors.

Our operations may be adversely affected if we are unable to secure adequate funding; our use of wholesale funding sources exposes us to potential liquidity risk.

As a result of our restructuring, including our prior discontinuation of our mortgage banking line of business, we have had to seek alternative funding sources to contribute to our other lines of business, which sources in some cases are more expensive than those previously used.

Due to the sale of mortgage servicing rights and the loss of escrow deposits associated with those servicing rights in 2007, we have increased our reliance on wholesale funding, such as Federal Home Loan Bank borrowings, public funds, and brokered deposits in recent quarters. Because wholesale funding sources are affected by general capital market conditions, the availability of funding from wholesale lenders and depositors may be dependent on the confidence these parties have in commercial banking, franchise finance, and consumer finance businesses. While we have processes in place to monitor and mitigate these funding risks, the continued availability to us of these funding sources is uncertain, and we could be adversely impacted if our business segments become disfavored by wholesale lenders or large depositors. Because the supervisory agreement with the Office of Thrift Supervision requires Irwin Union Bank, F.S.B. (which held approximately 12 percent of our total assets as of December 31, 2008) to maintain a specific capital level, Irwin Union Bank, F.S.B. is considered adequately capitalized. Irwin Union Bank and Trust is also considered adequately capitalized as a result of its capital ratios as of December 31, 2008. As a result, neither Irwin Union Bank and Trust or Irwin Union Bank, F.S.B. is permitted to accept additional brokered deposits unless it receives the prior approval of the Federal Deposit Insurance Corporation. Although we have applied for approval for Irwin Union Bank, F.S.B. and intend to apply for approval for Irwin Union Bank and Trust, these approvals might not be granted. Therefore, Irwin Union Bank, F.S.B. and Irwin Union Bank and Trust may continue not to be able to accept brokered deposits in the future. Moreover, even if such an approval is granted, the supervisory agreement would still impose limitations on Irwin Union Bank, F.S.B. s freedom to set rates for brokered deposits.

Another significant source of funding for Irwin Union Bank and Trust Company is public funds, the majority of which are in the State of Indiana. Indiana public funds are insured by the Indiana Public Deposit Insurance Fund and in some cases by the FDIC. Irwin Union Bank continues to be eligible to accept public funds in Indiana. Its ongoing eligibility depends upon continued progress on the Company s plans to improve the Banks capital ratios through the completion of transactions that would remove substantial home equity assets from our balance sheet and to raise additional capital. As with any bank, our Bank s primary regulators, the Federal Reserve Bank of Chicago and the Indiana Department of Financial Institutions, may declare the Bank undercapitalized at any time regardless of its current capital ratios.

Such an occurrence would cause us to become ineligible to accept additional public funds in Indiana beyond those we already hold, which would continue to be insured to the extent provided by the Public Deposit Insurance Fund statute.

Our financial flexibility could be severely constrained if we are unable to renew our wholesale funding or if adequate financing is not available in the future at acceptable rates of interest. We may not have sufficient liquidity to continue to fund new loans or lease originations, and we may need to liquidate loans or other assets unexpectedly in order to repay obligations as they mature.

If there were an acceleration of the recording of losses on our home equity portfolio from our current expectations, it could have a material adverse effect on our results of operations and capital position.

As announced in July 2008, we agreed to securitize $268 million of home equity whole loans. The securitization is treated as a financing and, as such, the loans remain on our balance sheet. We will evaluate the performance of the loans on a regular basis. A number of factors, including, but not limited to, changes in regulatory or accounting interpretations, changes to our accounting policy, or contractual triggers, could cause us to accelerate the recognition of losses in a single period or a small number of successive periods. If that were to occur, it may have a material adverse affect on our results of operations and capital position for such periods.

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We have credit risk inherent in our asset portfolios.

In our businesses, some borrowers may not repay loans that we make to them. As all financial institutions do, we maintain an allowance for loan and lease losses and other reserves to absorb the level of losses that we think is probable in our portfolios. However, our allowance for loan and lease losses may not be sufficient to cover the loan and lease losses that we actually may incur. While we maintain a reserve at a level management believes is adequate, our charge-offs could exceed these reserves. If we experience defaults by borrowers in any of our businesses to a greater extent than anticipated, our earnings could be negatively impacted.

We review the adequacy of these reserves and the underlying estimates on a periodic basis and we make adjustments to the reserves when required. However, our actual losses could exceed our estimates and negatively impact our earnings. As part of our written agreement with the Federal Reserve Bank of Chicago and the Indiana Department of Financial Institutions, we and Irwin Union Bank and Trust Company agreed to review and revise as necessary our allowance for loan and lease losses methodology to assure compliance with relevant supervisory guidance and to maintain an acceptable program for the maintenance of an adequate allowance for loan and lease losses going forward. As a result of such review, we determined that the documentation supporting our loan and lease loss reserves methodology should be enhanced and we subsequently implemented these enhancements. Although these enhancements did not result in any changes to any of our previously-reported reserves, such reserves may change in the future as economic and borrower conditions change.

We hold in our portfolio a significant number of construction, land and home equity loans, which may pose more credit risk than other types of mortgage loans.

In light of current economic conditions, construction and land loans and home equity loans and lines of credit are considered more risky than other types of mortgage loans. Due to the disruptions in credit and housing markets, many of the developers to whom we lend experienced a dramatic decline in sales of new homes from their projects. As a result of this unprecedented market disruption, a material amount of our land and construction portfolio has or may become non-performing as developers are unable to build and sell homes in volumes large enough for orderly repayment of loans. At December 31, 2008, our $4.4 billion loan and lease portfolio included $0.5 billion (or about 10 percent) of real estate construction and land development (C&LD) loans. Included in the $0.5 billion of C&LD loans were $70 million (or about 15 percent) that were nonperforming. The highest concentration of these nonperforming loans is in the Phoenix and Las Vegas markets, which make up about 10 percent of our C&LD loan portfolio.

In addition, as home values decline, borrowers are increasingly defaulting on home equity lines of credit in the portfolio of these loans that we hold. At December 31, 2008, we held $1.1 billion of home equity loans and lines of credit in our portfolio (which represented 18 percent of our total loan portfolio). Included in the $1.1 billion of home equity loans and lines of credit were $53 million (or 5 percent) that were categorized as nonperforming.

Since May 1, 2008, we have limited our offering of construction and land development loans to an exception basis only. Between May 1, 2008 and December 31, 2008, we have originated only $20 million of these loans. Additionally, since August 21, 2008, we have ceased offering loans and lines of credit in our home equity line of business. Between August 21, 2008 and December 31, 2008, we funded $3 million in loans and lines of credit in our home equity line of business that were previously contracted for, but we have not originated any new loans in this segment since August 21, 2008. We believe we have established adequate reserves on our financial statements to cover the credit risk of these loan portfolios. However, losses could exceed our reserves, and ultimately result in a material level of charge-offs, which could adversely impact our results of operations, liquidity and capital.

We may be required to repurchase mortgage loans that we previously sold because of breaches of representation and warrants we made when selling the loans.

We retain limited credit exposure from the sale of mortgage loans. When we sell mortgage loans, we make industry standard representations and warranties to the transferee regarding the loans. These representations and warranties do not assure against credit risk associated with the transferred loans, but if individual mortgage loans are found not to have fully complied with the associated representations and warranties we have made to a transferee, we may be required to repurchase the loans from the transferee or we may make payments in lieu of curing alleged breaches of these representations and warranties. Given the significant delinquencies in higher combined-loan-to-value or loan-to-value products, we expect that claims for repurchases pursuant to contractual representation and warranties will increase. We have built a model to estimate a repurchase liability for losses that are probable and estimable based on expectations of paydowns, expected lives, default probabilities and losses given default derived from a combination of our historic experience and industry data. We have established a $10 million liability for what we consider as probable and reasonably estimable losses. However, losses attributable to repurchases could ultimately exceed our liability.

Certain of our consumer mortgage products were not sold by many financial institutions.

In the past, we originated high loan-to-value home equity loans not offered by many financial institutions. For this reason, the performance of some of our financial assets may be less predictable than those of other lenders. We may not have adequate experience in a variety of economic environments to predict accurately the losses from our remaining portfolios of these products.

We rely heavily on our management team and key personnel, and the unexpected loss of key managers and personnel, or significant changes in senior management, may affect our operations adversely.

Our overall financial performance depends heavily on the performance of key managers and personnel. Our past success was influenced strongly by our ability to attract and to retain senior management that is experienced in the niches within banking for which they are responsible. If we are not able to retain these key managers and personnel, we may not be able to run our operations as effectively.

Our ability to retain executive officers and the current management teams of each of our lines of business and our holding company continues to be important to implement our strategies successfully. As we complete our restructuring and have a more streamlined business model, it may be more difficult to retain some of our key managers. In our written agreement with the Federal Reserve Bank of Chicago and the Indiana Department of Financial Institutions, we agreed to engage an independent consultant to assess the Corporation s management and to take steps by December 9, 2008, to address the independent consultant s findings, including hiring additional or replacement officers, if necessary. A report prepared by the independent consultant was submitted to the regulators and we have taken steps to address the consultant s findings. The implementation of these steps is ongoing. The restrictions that the written agreements place on our ability to enter into and make payments pursuant to severance agreements may make it difficult to attract persons of high quality to fill management positions.

Ownership of our common shares is concentrated in persons affiliated with us.

Our Chairman and CEO, William I. Miller, currently has voting control, including common shares beneficially held through employee stock options that are exercisable within 60 days of January 31, 2009, of approximately 38 percent of our common shares. Together with Mr. Miller, directors and executive officers of Irwin beneficially own, including the right to acquire common stock through employee stock options that are exercisable within 60 days of January 31, 2009, approximately 42 percent of our common shares. These persons likely have the ability to substantially control the outcome of all shareholder votes and to direct our affairs and business. This voting power would enable them to cause actions to be taken that may prove to be inconsistent with the interests of non-affiliated shareholders.

Our future success depends on our ability to compete effectively in a highly competitive financial services industry.

The financial services industry, including commercial banking and franchise finance, is highly competitive. We and our operating subsidiaries encounter strong competition for deposits, loans and other financial services in all of the market areas in our lines of business. Our principal competitors include other commercial banks, savings banks, savings and loan associations, mutual funds, money market funds, finance companies, trust companies, insurers, leasing companies, credit unions, mortgage companies, real estate investment trusts (REITs), private issuers of debt obligations, and suppliers of other investment alternatives, such as securities firms. Many of our non-bank competitors are not subject to the same degree of regulation as we and our subsidiaries are and have advantages over us in providing certain services. Many of our competitors are significantly larger than we are and have greater access to capital and other resources, lower operating costs, and lower cost of funds. Also, our ability to compete effectively in our lines of business is dependent on our ability to adapt successfully to technological changes within the banking and financial services industry.

We have entered into written agreements with our regulators and our business is affected by the highly regulated environment in which we operate.

We and our subsidiaries are subject to extensive federal and state regulation and supervision. Our failure to comply with these requirements can lead to, among other remedies, administrative enforcement actions, termination or suspension of our licenses, rights of rescission for borrowers, class action lawsuits and regulatory takeover of our bank subsidiaries. Legislation and regulations have had, may continue to have or may have significant impact on the financial services industry. Legislative or regulatory changes could make regulatory compliance more difficult or expensive for us, causing us to change or limit some of our consumer loan products or the way we operate our different lines of business. Future changes could affect the profitability of some or all of our lines of business.

On October 10, 2008, we entered into written agreements with our regulators. Our holding company and our state-chartered bank subsidiary, Irwin Union Bank and Trust Company, entered into a written agreement with the Federal Reserve Bank of Chicago and the Indiana Department of Financial Institutions. Our federal savings bank subsidiary, Irwin Union Bank, F.S.B., entered into a supervisory agreement with the Office of Thrift Supervision. The Federal Reserve Bank of Chicago and the Indiana Department of Financial Institutions have extensive authority to require our holding company and the bank to correct practices that, during the course of their regular examination procedures, they identify as unlawful, unsafe, or unsound. The Office of Thrift Supervision has similar authority with respect to our savings bank. Accordingly, these regulators could revise the terms of the written agreements to modify existing requirements or add new ones, or could take supervisory actions in addition to the written agreements. The failure to comply with the terms of the written agreements, or other regulatory requirements that could be imposed in the future, could result in significant enforcement actions against us of increasing severity, up to and including a regulatory takeover of our bank subsidiaries.

The written agreement with the Federal Reserve Bank of Chicago and the Indiana Department of Financial Institutions requires, among other things, that we submit a capital plan that will ensure our holding company and Irwin Union Bank and Trust Company maintain sufficient capital to comply with regulatory capital guidelines and to address the volume of our adversely affected assets, concentration of credit, adequacy of our allowance for loan and lease losses, planned growth and anticipated levels of retained earnings. The supervisory agreement with the Office of Thrift Supervision requires, among other things, that Irwin Union Bank, F.S.B. maintain a Tier 1 core capital ratio of at least 9% and a Total Risk-Based Capital Ratio of at least 11%.

As a result of the written agreement with the Federal Reserve Bank of Chicago and the Indiana Department of Financial Institutions, we and Irwin Union Bank and Trust Company are not permitted to (1) declare or pay any dividend without the prior approval of these regulators, or (2) make any distributions of interest or principal on subordinated debentures or trust preferred securities, unless we obtain the prior written approval of these regulators. Therefore, we may not be able to resume payments of such dividends or distributions in the future.

In addition, like other registrants, we are subject to the requirements of the Sarbanes-Oxley Act of 2002. Failure to have in place adequate programs and procedures could cause us to have gaps in our internal control environment, putting our holding company and its shareholders at risk of loss.

These and other potential changes in government regulation or policies could increase our costs of doing business and could adversely affect our operations and the manner in which we conduct our business.

A deterioration in our regulatory capital position could adversely affect us.

The banking industry, in general, is heavily regulated. We and our subsidiaries are extensively regulated under state and federal law. Regulations of the Federal Reserve, the Indiana Department of Financial Institutions, the Office of Thrift Supervision and the Federal Deposit Insurance Corporation apply to us specifying capital ratio requirements to be considered in various levels of capital adequacy. In addition, these regulators reserve the right to reclassify institutions that meet these standards into a lower capital category at their own discretion based on safety and soundness considerations.

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At December 31, 2008, our holding company, Irwin Financial Corporation, had a total risk-based capital ratio of 6.6 percent, a Tier 1 capital ratio of 3.3 percent, and a leverage ratio of 3.1 percent, which are in the undercapitalized range under applicable regulatory capital standards. As a result, the parent company is considered undercapitalized. Irwin Financial Corporation has no debt covenants that are affected by these ratios and, therefore, we do not expect the Company s Total, Tier 1 and leverage ratio classifications to have an adverse liquidity impact on the Company.

Our state-chartered bank subsidiary, Irwin Union Bank and Trust Company, had a total risk-based capital ratio of 9.3 percent which is within the adequately capitalized range, and a Tier 1 capital ratio of 7.3 percent and a leverage ratio of 6.7 percent, which are in the well capitalized range under applicable regulatory capital standards. As a result, Irwin Union Bank and Trust Company is considered adequately capitalized. In addition, because the supervisory agreement with the Office of Thrift Supervision requires our federal savings bank subsidiary, Irwin Union Bank, F.S.B., to maintain a specific level of capital, Irwin Union Bank, F.S.B. is considered adequately capitalized, although as of December 31, 2008, Irwin Union Bank, F.S.B. had capital levels above the statutory standards for well capitalized. The existence of a capital requirement for the thrift in a supervisory agreement precludes our thrift from being considered well capitalized regardless of the amount of capital held.

Irwin Union Bank and Trust Company and Irwin Union Bank, F.S.B. are no longer permitted to accept brokered deposits unless they receive the prior approval of the Federal Deposit Insurance Corporation. Although we have applied for such approval for the savings bank and intend to for the bank, either might not be granted. Both the bank and savings bank are also effectively subject to certain restrictions on the yield they may pay on deposits. Both could be assessed higher premiums by the Federal Deposit Insurance Fund and required to pay its regulators increased assessment and application fees.

Irwin Union Bank and Trust continues to be eligible to accept public funds in Indiana. Indiana public funds are insured by the Indiana Public Deposit Insurance Fund. Irwin Union Bank and Trust s ongoing eligibility to accept Indiana public funds depends upon continued progress on the Company s plans to improve Irwin Union Bank and Trust s capital ratios through the completion of transactions that would remove substantial home equity assets from our balance sheet and to raise additional capital. If Irwin Union Bank and Trust were to be declared undercapitalized by one of its primary regulators, it would become ineligible to accept additional public funds in Indiana beyond those it already holds, which would continue to be insured to the extent provided by the Public Deposit Insurance Fund statute.

Moreover, if either Irwin Union Bank and Trust Company or Irwin Union Bank, F.S.B were to be considered an undercapitalized institution at some point in the future, either could be subject to certain prompt corrective action requirements, regulatory controls and restrictions, which become more extensive as an institution becomes more severely undercapitalized. If such actions were to be taken, it could adversely affect our business and we may have more limited access to funding.

Our bank regulators are monitoring closely our liquidity, capital adequacy and ability to continue to operate in a safe and sound manner.

As we pursue our capital raising plans, our bank regulators are monitoring liquidity and capital adequacy and evaluating the Corporation s and our depository subsidiaries ability to continue to operate in a safe and sound manner. Our bank regulators have extensive authority to require the Corporation and its depository subsidiaries to correct practices that, during the course of their regular examination procedures, they identify as unsafe or unsound. This authority can take a variety of forms, including additional orders or conditions with which we would be required to comply and the assumption of control of our depository subsidiaries to protect the interests of depositors insured by the FDIC.

Our strategic restructuring will decrease the diversification of our business and significantly increase our reliance on the performance of our commercial banking and franchise finance segments. If these segments do not perform as we anticipate, the decrease in diversification could have a material adverse effect on our results of operations.

We announced a restructuring through a series of transactions to refocus on small business and local community banking. The transactions included the exit from the small ticket leasing business in the U.S. and

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Canada, along with the sale of substantially all of the portfolio of loans and leases associated with these businesses. We also are in the process of exiting the home equity business through the sale or run-off of our home equity loan portfolio, as described more fully in *Strategy*, and the sale or managed reduction of the servicing platform as appropriate based on the run-off of loans.

Historically, our commercial banking and franchise finance segments were consistent and stable performers, but they have also experienced losses during the current stressed economic environment. We have taken significant loan loss provisions in our commercial banking segment. Our non-performing loans have risen over the past year and although we have provided for this decline in credit quality, if these trends worsen or if the commercial banking segment or franchise segments otherwise do not perform as we expect, our results of operations could be materially and adversely affected. We believe our strategic restructuring and focus on these businesses will ultimately improve our results, but we are no longer as diversified as we were prior to the restructuring and therefore do not have the same ability to offset negative trends or results in these segments. In addition, in order to better position ourselves to return to profitability, we have taken steps, and will take additional steps in connection with exiting the home equity business, to reduce the size and scope of our enterprise oversight group. This process involves execution risk and material downsizing risk, and may result in the unintended loss of key personnel.

The soundness of other financial institutions could adversely affect us.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. Many of these transactions expose us to credit risk in the event of default by our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due us. Such losses could materially and adversely affect our results of operations or earnings.

We are a defendant in class actions and other lawsuits that could subject us to material liability.

We and our subsidiaries have been named as defendants in lawsuits alleging, among other things, that we violated state and federal laws in the course of making loans and leases and breached agreements. Among the allegations are that we charged impermissible and excessive rates and fees, participated in fraudulent financing, are responsible for residential lead-based paint exposure, and breached contractual provisions. Some of these cases seek class action status, which generally involves a large number of plaintiffs and could result in potentially increased amounts of loss. At the present time, we are unable to quantify the amount of loss, if any, that we could suffer in these matters because the cases are in the early stages of litigation. We have not established reserves for all of these lawsuits due to either lack of probability of loss or inability to accurately estimate potential loss. However, if decided against us, the lawsuits have the potential to affect us materially.

Our business may be affected adversely by fraud.

We are inherently exposed to many types of operational risk, including those caused by the use of computer, internet and telecommunications systems. These may manifest themselves in the form of fraud by employees, by customers, other outside entities targeting us and/or our customers that use our internet banking, electronic banking or some other form of our telecommunications systems. Given the growing level of use of electronic, internet-based, and networked systems to conduct business directly or indirectly with our clients, certain fraud losses may not be avoidable regardless of the preventative and detection systems in place.

Item 1B. ***Unresolved Staff Comments***

Not applicable

Item 2. *Properties*

Our main office is located at 500 Washington Street, Columbus, Indiana, in space owned by Irwin Union Bank and Trust. The location and general character of our other materially important physical properties as of January 31, 2009 are as follows:

Irwin Union Bank and Trust

The main office is located in four buildings at 435, 500, 520 and 526 Washington Street, Columbus, Indiana. Irwin Union Realty Corporation, a wholly-owned subsidiary of Irwin Union Bank and Trust, owns these buildings and leases them to Irwin Union Bank and Trust. Additionally, either of Irwin Union Bank and Trust or Irwin Union Realty owns the branch properties at seven other locations in Bartholomew County, Indiana. These properties have no major encumbrances. Irwin Union Bank and Trust or Irwin Union Realty owns or leases nine other branch offices in Central and Southern Indiana, four offices in Michigan, two offices in Nevada, and one in Utah.

Irwin Union Bank, F.S.B.

The home office is located at 500 Washington Street, Columbus Indiana. Irwin Union Bank, F.S.B. has eight branch offices located in Arizona(2), California (2), Kentucky, Missouri, Nevada and New Mexico. All offices are leased.

Irwin Commercial Finance Corporation

The main office of Irwin Commercial Finance Corporation is located at 500 Washington Street, Columbus, Indiana. The main office of our franchise lending subsidiary, Irwin Franchise Capital Corporation, is located in Park Ridge, New Jersey and is leased. In addition, Irwin Franchise Capital owns the building that houses its telesales center in Columbus, Nebraska.

Irwin Home Equity

The main office is located at 12677 Alcosta Boulevard, Suite 500, San Ramon, California. Irwin Home Equity occupies one other office at this location and an office in Carson City, Nevada. All three offices are leased

Irwin Mortgage

The bulk of the remaining activities of this discontinued operation are conducted from an office located at 10500 Kincaid Drive, Fishers, Indiana, which is leased.

Item 3. *Legal Proceedings*

Litigation in Connection with Loans Purchased from Community Bank of Northern Virginia

Our subsidiary, Irwin Union Bank and Trust Company, is a defendant in several actions in connection with loans Irwin Union Bank purchased from Community Bank of Northern Virginia (Community).

Hobson v. Irwin Union Bank and Trust Company was filed on July 30, 2004 in the United States District Court for the Northern District of Alabama against Irwin Union Bank and Community. In a proposed Amended Complaint, the *Hobson* plaintiffs seek certification of both a plaintiffs   and a defendants   class, the plaintiffs   class to consist of all persons who obtained loans from Community and whose loans were purchased by Irwin Union Bank. *Hobson* alleges that defendants violated the Truth-in-Lending Act (TILA), the Home Ownership and Equity Protection Act (HOEPA), the Real Estate Settlement Procedures Act (RESPA) and the Racketeer Influenced and Corrupt Organizations Act (RICO). Irwin has moved to dismiss the *Hobson* claims as untimely and substantively defective. That motion is pending.

Kossler v. Community Bank of Northern Virginia was originally filed in July 2002 in the United States District Court for the Western District of Pennsylvania. Irwin Union Bank and Trust was added as a defendant in December 2004. The *Kossler* complaint seeks certification of a plaintiffs class and seeks to void mortgage loans acquired by Irwin Union Bank from Community as illegal contracts. Plaintiffs also seek recovery against Irwin and Community for alleged RESPA violations and for conversion. On September 9, 2005, the *Kossler* plaintiffs filed a Third Amended Class Action Complaint. On October 21, 2005, Irwin filed a renewed motion seeking to dismiss the *Kossler* action.

The plaintiffs in *Hobson* and *Kossler* claim that Community was allegedly engaged in a lending arrangement involving the use of its charter by certain third parties who charged high fees that were not representative of the services rendered and not properly disclosed as to the amount or recipient of the fees. The loans in question are allegedly high cost/high interest loans under Section 32 of HOEPA. Plaintiffs also allege illegal kickbacks and fee splitting. In *Hobson*, the plaintiffs allege that Irwin Union Bank was aware of Community s alleged arrangement when Irwin Union Bank purchased the loans and that Irwin participated in a RICO enterprise and conspiracy related to the loans. Because Irwin Union Bank bought the loans from Community, the *Hobson* plaintiffs are alleging that Irwin has assignee liability under HOEPA.

If the *Hobson* and *Kossler* plaintiffs are successful in establishing a class and prevailing at trial, possible RESPA remedies could include treble damages for each service for which there was an unearned fee, kickback or overvalued service. Other possible damages in *Hobson* could include TILA remedies, such as rescission, actual damages, statutory damages not to exceed the lesser of $500,000 or 1% of the net worth of the creditor, and attorneys fees and costs; possible HOEPA remedies could include the refunding of all closing costs, finance charges and fees paid by the borrower; RICO remedies could include treble plaintiffs actually proved damages. In addition, the *Hobson* plaintiffs are seeking unspecified punitive damages. Under TILA, HOEPA, RESPA and RICO, statutory remedies include recovery of attorneys fees and costs. Other possible damages in *Kossler* could include the refunding of all origination fees paid by the plaintiffs.

In response to a motion by Irwin, the Judicial Panel On Multidistrict Litigation consolidated *Hobson* with *Kossler* in the Western District of Pennsylvania for all pretrial proceedings. The Pennsylvania District Court had been handling another case seeking class action status, *Kessler v. RFC, et al.*, also involving Community and with facts similar to those alleged in the Irwin consolidated cases. The *Kessler* case had been settled, but the settlement was appealed and set aside on procedural grounds. Subsequently, the parties in *Kessler* filed a motion for approval of a modified settlement, which would provide additional relief to the settlement class. Irwin is not a party to the *Kessler* action, but the resolution of issues in *Kessler* may have an impact on the Irwin cases. The Pennsylvania District Court had effectively stayed action on the Irwin cases until issues in the *Kessler* case were resolved. On January 25, 2008, the Pennsylvania District Court approved and certified for settlement purposes the modified *Kessler* settlement, finding the proposed modified *Kessler* settlement to be fair and reasonable, and directed the parties to supply a proposed notice plan.

Irwin Union Bank and Trust Company is also a defendant, along with Community, in an individual action *(Chatfield v. Irwin Union Bank and Trust Company, et al.)* filed on September 9, 2004 in the Circuit Court of Frederick County, Maryland, later removed to the United States District Court for the District of Maryland, and subsequently consolidated with *Hobson* and *Kossler* in the United States District Court for the Western District of Pennsylvania. The lawsuit involves a mortgage loan Irwin Union Bank purchased from Community. The suit alleges that the plaintiffs did not receive disclosures required under HOEPA and TILA and that the loan violated Maryland law because plaintiffs were allegedly charged or contracted for a prepayment penalty fee. In October 2008, the parties agreed to settle this lawsuit for a nonmaterial amount. The settlement is subject to approval by the United States Bankruptcy Court for the District of Maryland.

Under the loan purchase agreements between Irwin and Community, Irwin has the right to demand repurchase of the mortgage loans and to seek indemnification from Community for the claims in these lawsuits. On September 17, 2004, Irwin made a demand for indemnification. Community denied this request as premature. On January 14, 2009, Irwin sued Community s successor, PNC Bank, National Association, for indemnification and its defense costs in an action for breach of contract, specific performance and declaratory relief in the United States District Court for the

Northern District of California. In March 2009, the parties expressed an intention to enter into an agreement to arbitrate their indemnification dispute.

The *Hobson* and *Kossler* lawsuits are still at a preliminary stage with motions to dismiss pending in each case. We have established an immaterial reserve for the Community litigation based upon SFAS 5 guidance and the advice of legal counsel.

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Litigation in Connection with Loans Purchased from Freedom Mortgage Corporation.

On January 22, 2008, our direct subsidiary, Irwin Union Bank and Trust Company, and our indirect subsidiary, Irwin Home Equity Corporation, filed suit against Freedom Mortgage Corporation in the United States District Court for the Northern District of California, *Irwin Union Bank, et al. v. Freedom Mortgage Corp.*, (the California Action) for breach of contract and negligence arising out of Freedom s refusal to repurchase certain mortgage loans that Irwin Union Bank and Irwin Home Equity had purchased from Freedom. The Irwin subsidiaries are seeking damages in excess of $8 million from Freedom.

In response, in March 2008, Freedom moved to compel arbitration of the claims asserted in the California Action and filed suit against us and our indirect subsidiary, Irwin Mortgage Corporation, in the United States District Court for the District of Delaware, *Freedom Mortgage Corporation v. Irwin Financial Corporation et al.*, (the Delaware Action). Freedom alleges that the Irwin repurchase demands in the California Action represent various breaches of the Asset Purchase Agreement dated as of August 7, 2007, which was entered into by Irwin Financial Corporation, Irwin Mortgage Corporation and Freedom Mortgage Corporation in connection with the sale to Freedom of the majority of Irwin Mortgage s loan origination assets. In the Delaware action, Freedom seeks damages in excess of $8 million and to compel Irwin to order its subsidiaries in the California Action to dismiss their claims.

In April 2008, the California district court stayed the California Action pending completion of arbitration. The arbitration remains pending. On March 23, 2009, the Delaware district court granted our motion to transfer the Delaware Action to the Northern District of California, and ordered that the Delaware case be closed. The California district judge previously stated on the record that she would not hear Freedom s claims in the Delaware Action until the arbitration is completed. We have not established any reserves for this litigation.

Homer v. Sharp

This lawsuit was filed by a mother and children on or about May 6, 2008 in the Circuit Court for Baltimore City, Maryland, against various defendants, including Irwin Mortgage Corporation and a former Irwin Mortgage employee, for injuries from exposure to lead-based paint. Irwin Mortgage and its former employee are the subject of three counts each of the 40-count complaint, which alleges, among other things, negligence and violations of the Maryland Lead Poisoning Prevention Act, unfair and deceptive trade practices in violation of the Maryland Consumer Protection Act, loss of an infant s services, incursion of medical expenses, and emotional distress and mental anguish. Plaintiffs seek damages of $5 million on each count. The counts against Irwin Mortgage and the former employee allege involvement with one of six properties named in the complaint. This case is in the early stages and we are unable at this time to form a reasonable estimate of the amount of potential loss, if any, that Irwin Mortgage could suffer. We have not established any reserves for this litigation.

EverBank v. Irwin Mortgage Corporation and Irwin Union Bank & Trust Company Demand for Arbitration

On March 25, 2009, Irwin Mortgage Corporation, our indirect subsidiary, and Irwin Union Bank and Trust Company, our direct subsidiary, received an arbitration demand (Demand) from EverBank for administration by the American Arbitration Association, claiming damages for alleged breach of an Agreement for Purchase and Sale of Servicing (the Agreement) under which Irwin Mortgage is alleged to have sold the servicing of certain mortgage loans to EverBank. The Demand also alleges that Irwin Union Bank and Trust is the guarantor of Irwin Mortgage s obligations under the Agreement, and that the Agreement was amended November 1, 2006 to include additional loans. According to the Demand, Irwin Mortgage and Irwin Union Bank and Trust allegedly breached certain warranties and covenants under the Agreement by failing to repurchase certain loans and failing to indemnify EverBank after EverBank had demanded repurchase. The Demand sets forth several claims based on legal theories of breach of warranty, breach of the covenant of good faith and fair dealing, promissory estoppel, specific performance and unjust enrichment, and requests damages, penalties, interest, attorneys fees, costs, and other appropriate relief to be granted by the arbitration panel. The Demand also states that, as a result of Irwin Mortgage s alleged failure to repurchase loans, EverBank has allegedly incurred and continues to incur damages that it claims could exceed $10,000,000. The Company has established a reserve it deems appropriate for

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resolution of all open repurchase issues with EverBank. Irwin Mortgage and Irwin Union Bank and Trust intend to vigorously defend this matter and to assert counter-claims of their own.

We and our subsidiaries are from time to time engaged in various matters of litigation, including the matters described above, other assertions of improper or fraudulent loan practices or lending violations, and other matters, and we have a number of unresolved claims pending. In addition, as part of the ordinary course of business, we and our subsidiaries are parties to litigation involving claims to the ownership of funds in particular accounts, the collection of delinquent accounts, challenges to security interests in collateral, and foreclosure interests, that is incidental to our regular business activities. While the ultimate liability with respect to these other litigation matters and claims cannot be determined at this time, we believe that damages, if any, and other amounts relating to pending matters are not likely to be material to our consolidated financial position or results of operations, except as described above. Reserves are established for these various matters of litigation, when appropriate under SFAS 5, based in part upon the advice of legal counsel.

Item 4. *Submission of Matters to a Vote of Security Holders*

a) We held a Special Meeting of Shareholders on November 3, 2008.

b) The shareholders voted on and approved the following proposal:

Matters	Shares For	Shares Against	Shares Abstained	Broker Non-Vote
Proposal No. 1. Approval of Amendment to Amend the Articles of Incorporation to increase the number of common shares, without par value, that the Corporation is authorized to issue from 40,000,000 shares to 200,000,00 shares and to increase the total number of shares that the Corporation is authorized to issue from 44,000,000 shares to 204,000,000 shares.	16,575,961	3,509,850	56,976	
Proposal No. 2. Approval, for purposes of the New York Stock Exchange Listing Standards, of the issuance of in excess of 20% of our outstanding common shares in connection with a possible exchange of a portion of the Corporation s trust preferred securities.	16,595,239	3,465,280	82,169	99

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PART II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities.***

Our stock is listed on the New York Stock Exchange under the symbol IFC. The following table sets forth certain information regarding trading in, and cash dividends paid with respect to, the shares of our common stock in each quarter of the two most recent calendar years. The approximate number of shareholders of record on March 23, 2009, was 1,895.

Stock Prices and Dividends:

	Price Range High	Price Range Low	Quarter End	Cash Dividends	Total Dividends For Year
2007					
First quarter	$ 22.95	$ 18.21	$ 18.64	$ 0.12	
Second quarter	18.74	14.63	14.97	0.12	
Third Quarter	15.75	9.32	11.02	0.12	
Fourth Quarter	12.21	7.21	7.35	0.12	$ 0.48
2008					
First quarter	$ 11.85	$ 4.33	$ 5.31	$	
Second quarter	6.88	2.62	2.69		
Third Quarter	5.19	2.25	3.95		
Fourth Quarter	4.00	1.16	1.29		$ 0.00

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Performance Graph

Set forth below is a stock performance graph and table based on cumulative total returns (price change plus reinvested dividends) for i) the common stock of Irwin Financial, ii) the Russell 2000 Index, iii) the Russell 2000 Financial Services Index, and, iv) the SNL Bank Index from January 1 to December 31 in each of the past five years. It assumes a $100 investment on January 1, 2004 in each of the Corporation s common stock, the Russell 2000, the Russell 2000 Financial Services and the SNL Bank indices and the reinvestment of dividends. In 2007 our comparison was to the Russell 2000 and Russell 2000 Financial Services indices, of which we were a member until June 27, 2008 due to the annual reconstitution of these indices. In 2008, we are adding the SNL Bank index, of which Irwin Financial Corporation s common stock is included.

Five-Year Cumulative Total Return at Year-End 2008

	2003	2004	2005	2006	2007	2008
Irwin Financial	100	92	70	76	26	5
Russell 2000	100	118	124	147	144	96
Russell 2000 Financial Services Sector	100	121	124	148	123	92
SNL BANK	100	112	114	133	103	56

* The Corporation is included in the SNL Bank Index.

* The Corporation was removed from the Russell 2000 and Russell 2000 Financial Indices due to the annual reconstitution of these Indices on June 27, 2008.

The Federal Reserve has policies on the payment of cash dividends by bank holding companies. The Federal Reserve believes that a bank holding company experiencing earnings weaknesses should not pay cash dividends (1) exceeding its net income or (2) which only could be funded in ways that would weaken a bank holding company s financial health, such as by borrowing. Also, the Federal Reserve possesses enforcement powers over bank holding companies and their non-bank subsidiaries to prevent or remedy unsafe or unsound practices or violations of applicable statutes and regulations. Among these powers is the ability to prohibit or limit the payment of dividends by banks (including dividends to bank holding companies) and bank holding companies.

On October 10, 2008, the Corporation and Irwin Union Bank and Trust Company entered into a written agreement with the Federal Reserve Bank of Chicago and the Indiana Department of Financial Institutions. As a result of the written agreement, the Corporation is not permitted to (1) declare or pay any dividend without the prior

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approval of the Federal Reserve and the Indiana Department of Financial Institutions, or (2) make any distributions of interest or principal on subordinated debentures or trust preferred securities without the prior approval of the Federal Reserve and Indiana Department of Financial Institutions. See above under Supervision and Regulation, General in Part I, Item 1 of this report for the requirements of this written agreement and the status of our efforts to meet those requirements.

Prior to the issuance of the written agreement, on March 3, 2008, we announced that our Board of Directors had voted to defer dividend payments on the Corporation s trust preferred securities and to discontinue payment of dividends on its non-cumulative perpetual preferred and common stock. Mindful of regulatory policy and the current economic environment, the Board took these steps to maintain the capital strength of the Corporation at a time of elevated uncertainty in the economy.

Under Indiana law, certain dividends require notice to, or approval by, the Indiana Department of Financial Institutions, and Irwin Union Bank and Trust may not pay dividends in an amount greater than its net profits then available, after deducting losses and bad debts. In addition, as a state member bank, Irwin Union Bank and Trust may not, without the approval of the Federal Reserve, declare a dividend if the total of all dividends declared in a calendar year, including the proposed dividend, exceeds the total of its net income for that year, combined with its retained net income of the preceding two years, less any required transfers to the surplus account. As a result of our losses in 2007 and 2008, Irwin Union Bank and Trust cannot declare a dividend to us without regulatory approval until such time that current year earnings plus earnings from the last two years exceed dividends during the same periods. Also, as a result of the October 10, 2008 written agreement referred to above, Irwin Union Bank and Trust, is not permitted to declare or pay any dividend without the prior approval of the Federal Reserve and the Indiana Department of Financial Institutions. Our ability to pay dividends on our trust preferred, non-cumulative perpetual preferred, and common stock is dependent on our ability to dividend from Irwin Union Bank and Trust, for which prior approval would be necessary.

In most cases, savings and loan associations, such as Irwin Union Bank, F.S.B., are required either to apply to or to provide notice to the OTS regarding the payment of dividends. The savings association must seek approval if it does not qualify for expedited treatment under OTS regulations, or if the total amount of all capital distributions for the applicable calendar year exceeds net income for that year to date plus retained net income for the preceding two years, or the savings association would not be adequately capitalized following the dividend, or the proposed dividend would violate a prohibition in any statute, regulation or agreement with the OTS. In other circumstances, a simple notice is sufficient. As a result of our losses in 2007 and 2008, Irwin Union Bank, F.S.B. cannot declare a dividend to us without regulatory approval until such time that current year earnings plus earnings from the last two years exceed dividends during the same periods.

The failure to pay dividends on our perpetual preferred securities for four consecutive dividend payment dates gives the holders of those securities the right to elect two directors to the Corporation s Board of Directors. By reason of the October 10, 2008 written agreement with the Federal Reserve Bank of Chicago referred to above, the service of such preferred securities directors is subject to notice provisions of certain federal banking laws and regulations.

The Board will reassess its dividend policy regularly, with an eye towards resuming the cash payment of the deferred dividends on trust preferred securities and recommencing dividends on the non-cumulative perpetual preferred and common stock once the level of uncertainty in the current market declines, the profitability of the Corporation supports such dividends, and our regulators permit the payments. Interest on the subordinated debt underlying the trust preferred securities will continue to accrue at its scheduled rate, and cash dividends will be paid to holders prior to the resumption of dividends on the non-cumulative perpetual preferred and common stock.

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Purchases of Subsidiary Stock:

During 2008, we completed a subsidiary stock repurchase transaction relating to the redemption of shares held by certain managers (not directors of Irwin Financial Corporation) in our subsidiary, Irwin Commercial Finance Corporation (ICF), which serves as the intermediate holding company for the subsidiaries in our commercial finance line of business. At the end of 2005, ICF granted options to purchase its common shares to Mr. Joseph LaLeggia (ICF s President), four other senior managers of ICF in Canada, and Mr. John Rinaldi, President of Irwin Franchise Capital Corporation, our franchise finance company within this line of business. These options immediately vested upon issuance and were accounted for under the guidance of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). The option exercise price was based on the fair market value opinion of an independent valuation firm at the date of grant. Since these options were granted with an exercise price equal to fair value at the date of grant, no compensation expense was recognized.

The options entitled these individuals to purchase approximately ten percent of ICF s outstanding common shares (on a fully diluted basis) for $23,158 per share until December 31, 2009, subject to earlier expiration upon termination of their employment. ICF retained a call right to purchase ICF common shares issuable upon the exercise of the options.

As a result of the disposition of the majority of our small-ticket leases in the U.S. and Canada in the third quarter of 2008, five of the holders of these options, including Mr. LaLeggia, ceased to be employees of ICF. In connection with the consummation of this sale transaction, each of these five holders exercised his ICF options, and ICF immediately redeemed the shares issued to them upon such exercise based on the updated estimated fair value at that date. The aggregate net redemption proceeds received by the five holders, net of the aggregate option exercise price paid by them, was approximately $2.5 million (U.S.).

We elected the Modified-Prospective transition method when we adopted FAS 123R on January 1, 2006. Therefore, any modifications or settlements to the ICF options on or after January 1, 2006 were accounted for in accordance with FAS 123R. As the payment did not exceed the fair value of the shares at the date of repurchase, we accounted for the exercise and redemption transaction related to these shares as an equity transaction.

Mr. Rinaldi, who continues to be one of our executive officers, was not impacted by the sale transaction and has retained his ICF options.

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Item 6. ***Selected Financial Data***

Five-Year Selected Financial Data

	At or For Year Ended December 31,				
	2008	2007	2006	2005	2004
	(Dollars in thousands except per share data)				
For the year:					
Interest Revenue	$ 418,818	$ 513,029	$ 482,128	$ 370,538	$ 294,386
Interest Expense	212,353	250,636	224,689	139,071	81,372
Net interest income	206,465	262,393	257,439	231,467	213,014
Provision for loan & lease losses	354,208	134,988	35,101	27,307	14,473
Net interest income after provision	(147,743)	127,405	222,338	204,160	198,541
Noninterest revenues	1,041	27,384	44,621	56,721	85,453
Net revenues	(146,702)	154,789	266,959	260,881	283,994
Noninterest expense	214,763	199,767	210,688	204,039	203,778
(Loss) income before income taxes	(361,465)	(44,978)	56,271	56,842	80,216
Provision for income taxes	(20,985)	(20,848)	18,870	20,595	31,492
Net (loss) income from continuing operations	(340,480)	(24,130)	37,401	36,247	48,724
(Loss) income from discontinued operations		(30,543)	(35,674)	(17,260)	19,721