

IRWIN FINANCIAL CORPORATION  
 Form 10-Q/A  
 July 16, 2001

|   |                                   |
|---|-----------------------------------|
| UNITED STATES   |                                   |
| SECURITIES AND EXCHANGE COMMISSION  |                                   |
| Washington, D. C. 20549   |                                   |
| FORM 10-Q/A   |                                   |
| (Mark One)  |                                   |
| <input checked="" type="checkbox"/> QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 |                                   |
| For the quarterly period ended <u>March 31, 2001</u>  |                                   |
| OR  |                                   |
| <input type="checkbox"/> 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 <u>0-6835</u>  |                                   |
| <u>IRWIN FINANCIAL CORPORATION</u>  |                                   |
| (Exact name of registrant as specified in its charter)  |                                   |
| <u>INDIANA</u>  | <u>35-1286807</u>                 |
| (State or other jurisdiction of incorporation or organization)  | (IRS Employer Identification No.) |
| <u>500 Washington Street, Columbus, IN 47201</u>  |                                   |

|  |
|--|
| (Address of principal executive offices)   |
| (Zip Code)   |
|  |
| 812/376-1020   |
| _____  |
|  |
| Registrant's telephone number, including area code)  |
| (Former name, former address and former fiscal year  |
| if changed since last report)  |
|  |
| Indicate by check mark whether the registrant (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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. |
|  |
| Yes <input checked="" type="checkbox"/> No   |
|  |
| APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY  |
| PROCEEDINGS DURING THE PRECEDING FIVE YEARS  |
|  |
| Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.   |
|  |
| Yes No   |
|  |
| As of July 12, 2001 there were outstanding 21,194,748 common shares, no par value, of the Registrant.  |
|  |

**EXPLANATORY STATEMENT:**

This Form 10-Q/A is being filed to include an exhibit that was omitted from the initial Form 10-Q filing.

| Part I   |  |  |  |  |             |  |  |  |  |              |
|--|--|--|--|--|-------------|--|--|--|--|--------------|
| Item 1   |  |  |  |  |             |  |  |  |  |              |
| IRWIN FINANCIAL CORPORATION AND SUBSIDIARIES   |  |  |  |  |             |  |  |  |  |              |
| CONSOLIDATED BALANCE SHEET (Unaudited)   |  |  |  |  |             |  |  |  |  |              |
| (In thousands, except for shares)  |  |  |  |  |             |  |  |  |  |              |
|  |  |  |  |  | March 31,   |  |  |  |  | December 31, |
| Assets:  |  |  |  |  | 2001        |  |  |  |  | 2000         |
| Cash and cash equivalents  |  |  |  |  | \$ 119,388  |  |  |  |  | \$ 83,493    |
| Interest-bearing deposits with financial institutions                                |  |  |  |  | 61,783      |  |  |  |  | 36,400       |
| Trading assets   |  |  |  |  | 177,814     |  |  |  |  | 154,921      |
| Investment securities (Market value: \$32,222 in 2001 and \$37,163 in 2000) - Note 2 |  |  |  |  | 32,075      |  |  |  |  | 37,095       |
| Loans held for sale  |  |  |  |  | 851,484     |  |  |  |  | 579,788      |
| Loans and leases, net of unearned income - Note 3                                    |  |  |  |  | 1,317,161   |  |  |  |  | 1,234,922    |
| Less: Allowance for loan and lease losses - Note 4                                   |  |  |  |  | (13,622)    |  |  |  |  | (13,129)     |
|  |  |  |  |  | 1,303,539   |  |  |  |  | 1,221,793    |
| Servicing assets - Note 5  |  |  |  |  | 142,639     |  |  |  |  | 130,522      |
| Accounts receivable  |  |  |  |  | 67,597      |  |  |  |  | 69,224       |
| Accrued interest receivable  |  |  |  |  | 10,873      |  |  |  |  | 12,979       |
| Premises and equipment   |  |  |  |  | 31,004      |  |  |  |  | 29,409       |
| Other assets   |  |  |  |  | 68,173      |  |  |  |  | 66,805       |
| Total assets   |  |  |  |  | \$2,866,369 |  |  |  |  | \$2,422,429  |
| Liabilities and Shareholders' Equity:  |  |  |  |  |             |  |  |  |  |              |
| Deposits   |  |  |  |  |             |  |  |  |  |              |
| Noninterest-bearing  |  |  |  |  | \$ 411,838  |  |  |  |  | \$ 263,159   |
| Interest-bearing   |  |  |  |  | 686,745     |  |  |  |  | 517,127      |
| Certificates of deposit over \$100,000   |  |  |  |  | 721,421     |  |  |  |  | 663,044      |

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|  |  |  |  |  |             |  |             |  |  |
|--|--|--|--|--|-------------|--|-------------|--|--|
|  |  |  |  |  | 1,820,004   |  | 1,443,330   |  |  |
| Short-term borrowings-<br>Note 6   |  |  |  |  | 516,522     |  | 475,502     |  |  |
| Long-term debt- Note 7   |  |  |  |  | 29,619      |  | 29,608      |  |  |
| Other liabilities  |  |  |  |  | 154,869     |  | 136,897     |  |  |
| Company-obligated mandatorily<br>redeemable  |  |  |  |  |             |  |             |  |  |
| preferred securities of subsidiary trust- Note 8   |  |  |  |  | 147,139     |  | 147,167     |  |  |
| Total liabilities  |  |  |  |  | 2,668,153   |  | 2,232,504   |  |  |
|  |  |  |  |  |             |  |             |  |  |
| Commitments and contingencies -<br>Note 10   |  |  |  |  |             |  |             |  |  |
|  |  |  |  |  |             |  |             |  |  |
| Shareholders'<br>equity  |  |  |  |  |             |  |             |  |  |
| Preferred stock, no par value -<br>authorized  |  |  |  |  |             |  |             |  |  |
| 4,000,000 shares; issued 96,336 shares as of March 31, 2001<br>and   |  |  |  |  |             |  |             |  |  |
| December 31, 2000  |  |  |  |  | 1,386       |  | 1,386       |  |  |
| Common stock; no par value - authorized 40,000,000 shares;<br>issued 23,402,080 shares as of March 31, 2001 and December 31, 2000;<br>including 2,235,366 and 2,376,119 shares in treasury as of March 31,<br>2001 and December 31, 2000<br>respectively |  |  |  |  | 29,965      |  | 29,965      |  |  |
| Additional paid-in capital   |  |  |  |  | 4,065       |  | 4,331       |  |  |
| Minority interest  |  |  |  |  | 922         |  | 1,055       |  |  |
| Accumulated other comprehensive income net of deferred<br>income tax   |  |  |  |  |             |  |             |  |  |
| asset of (\$456) and (\$305) in 2001 and 2000, respectively.   |  |  |  |  | (1,176)     |  | (962)       |  |  |
| Retained<br>earnings   |  |  |  |  | 209,524     |  | 201,729     |  |  |
|  |  |  |  |  | 244,686     |  | 237,504     |  |  |
| Less treasury stock, at cost   |  |  |  |  | (46,470)    |  | (47,579)    |  |  |
| Total shareholders' equity   |  |  |  |  | 198,216     |  | 189,925     |  |  |
| Total liabilities and shareholders' equity   |  |  |  |  | \$2,866,369 |  | \$2,422,429 |  |  |
|  |  |  |  |  |             |  |             |  |  |
| The accompanying notes are an integral part of the consolidated financial statements.  |  |  |  |  |             |  |             |  |  |
|  |  |  |  |  |             |  |             |  |  |
|  |  |  |  |  |             |  |             |  |  |

| IRWIN FINANCIAL CORPORATION AND SUBSIDIARIES                  |  |  |  |                    |  |           |  |
|---|--|--|--|--------------------|--|-----------|--|
| CONSOLIDATED STATEMENT OF INCOME (Unaudited)                  |  |  |  |                    |  |           |  |
|   |  |  |  | Three Months Ended |  |           |  |
|   |  |  |  | March 31,          |  |           |  |
| (In thousands, except for per share)                          |  |  |  | 2001               |  | 2000      |  |
| Interest income:  |  |  |  |                    |  |           |  |
| Loans and leases  |  |  |  | \$ 29,250          |  | \$ 20,210 |  |
| Investment securities:  |  |  |  |                    |  |           |  |
| Taxable   |  |  |  | 1,243              |  | 929       |  |
| Tax-exempt  |  |  |  | 62                 |  | 63        |  |
| Loans held for sale   |  |  |  | 22,856             |  | 12,140    |  |
| Trading account   |  |  |  | 7,146              |  | 2,484     |  |
| Federal funds sold  |  |  |  | 33                 |  | 46        |  |
| Total interest income   |  |  |  | 60,590             |  | 35,872    |  |
| Interest expense:   |  |  |  |                    |  |           |  |
| Deposits  |  |  |  | 19,053             |  | 8,460     |  |
| Short-term borrowings   |  |  |  | 8,151              |  | 6,550     |  |
| Long-term debt  |  |  |  | 580                |  | 583       |  |
| Preferred securities distribution                             |  |  |  | 3,704              |  | 1,174     |  |
| Total interest expense  |  |  |  | 31,488             |  | 16,767    |  |
| Net interest income   |  |  |  | 29,102             |  | 19,105    |  |
| Provision for loan and lease losses - Note 4                  |  |  |  | 1,553              |  | 1,136     |  |
| Net interest income after provision for loan and lease losses |  |  |  | 27,549             |  | 17,969    |  |
| Other income:   |  |  |  |                    |  |           |  |
| Loan origination fees   |  |  |  | 13,703             |  | 10,088    |  |
| Gain from sale of loans                                       |  |  |  | 32,893             |  | 16,029    |  |
| Loan servicing fees   |  |  |  | 16,052             |  | 15,121    |  |
| Amortization and impairment of servicing assets               |  |  |  | 7,535              |  | 6,101     |  |
| Net loan administration income                                |  |  |  | 8,517              |  | 9,020     |  |

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|   |  |  |  |             |  |            |  |  |
|---|--|--|--|-------------|--|------------|--|--|
| Gain on sale of mortgage servicing assets   |  |  |  | 2,092       |  | 252        |  |  |
| Trading gains (losses)  |  |  |  | 3,238       |  | 3,389      |  |  |
| Other   |  |  |  | 1,608       |  | 11,360     |  |  |
| Total other income  |  |  |  | 62,051      |  | 50,138     |  |  |
| Other expense:  |  |  |  |             |  |            |  |  |
| Salaries  |  |  |  | 41,283      |  | 25,955     |  |  |
| Pension and other employee benefits   |  |  |  | 6,736       |  | 5,668      |  |  |
| Office expense  |  |  |  | 3,642       |  | 3,269      |  |  |
| Premises and equipment  |  |  |  | 7,428       |  | 6,057      |  |  |
| Marketing and development   |  |  |  | 1,529       |  | 4,778      |  |  |
| Other   |  |  |  | 14,207      |  | 8,209      |  |  |
| Total other expense   |  |  |  | 74,825      |  | 53,936     |  |  |
| Income before income taxes  |  |  |  | 14,775      |  | 14,171     |  |  |
| Provision for income taxes  |  |  |  | 5,779       |  | 5,689      |  |  |
| Income before cumulative effect of change in accounting principle                     |  |  |  | 8,996       |  | 8,482      |  |  |
| Cumulative effect of change in accounting principle, net of tax                       |  |  |  | 175         |  | -          |  |  |
| Net income  |  |  |  | \$ 9,171    |  | \$ 8,482   |  |  |
| Earnings per share of common stock available to shareholders:                         |  |  |  |             |  |            |  |  |
| Basic - Note 9  |  |  |  | \$ 0.44     |  | \$ 0.40    |  |  |
| Diluted - Note 9  |  |  |  | \$ 0.41     |  | \$ 0.40    |  |  |
| Dividends per share of common stock   |  |  |  | \$ 0.065    |  | \$ 0.06    |  |  |
| The accompanying notes are an integral part of the consolidated financial statements. |  |  |  |             |  |            |  |  |
| IRWIN FINANCIAL CORPORATION AND SUBSIDIARIES  |  |  |  |             |  |            |  |  |
| CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)                 |  |  |  |             |  |            |  |  |
| FOR THE THREE MONTHS ENDED MARCH 31, 2001 AND 2000                                    |  |  |  |             |  |            |  |  |
|   |  |  |  | Accumulated |  |            |  |  |
|   |  |  |  | Other       |  |            |  |  |
|   |  |  |  | Compre-     |  | Additional |  |  |

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|  |           | Retained   | hensive    | Preferred | Common   | Paid in  | Treasury   | Minority |
|--|-----------|------------|------------|-----------|----------|----------|------------|----------|
|  | Total     | Earnings   | Income     | Stock     | Stock    | Capital  | Stock      | Interest |
| Balance at January 1, 2001                   | \$189,925 | \$ 201,729 | \$ (962)   | \$ 1,386  | \$29,965 | \$ 4,331 | \$(47,579) | \$1,055  |
| Net income                                   | 9,171     | 9,171      |            |           |          |          |            |          |
| Unrealized gain on investment                |           |            |            |           |          |          |            |          |
| securities net of \$43 tax liability         | 63        |            | 63         |           |          |          |            |          |
| Foreign currency adjustment net of           |           |            |            |           |          |          |            |          |
| \$187 tax credit                             | (281)     |            | (281)      |           |          |          |            |          |
| Deferred compensation                        | 4         |            | 4          |           |          |          |            |          |
| Total comprehensive income                   | 8,957     |            |            |           |          |          |            |          |
| Cash dividends                               | (1,376)   | (1,376)    |            |           |          |          |            |          |
| Tax benefit on stock option exercises        | 1,590     |            |            |           |          | 1,590    |            |          |
| Treasury stock:                              |           |            |            |           |          |          |            |          |
| Purchase of 90,120 shares                    | (2,138)   |            |            |           |          |          | (2,138)    |          |
| Sales of 230,873 shares                      | 1,391     | -          |            |           |          | (1,856)  | 3,247      |          |
| Minority Interest                            | (133)     |            |            |           |          |          |            | (133)    |
| Balance March 31, 2001                       | \$198,216 | \$ 209,524 | \$ (1,176) | \$ 1,386  | \$29,965 | \$ 4,065 | \$(46,470) | \$ 922   |
| Balance at January 1, 2000                   | \$159,296 | \$ 171,101 | \$ (70)    | \$ -      | \$29,965 | \$ 4,250 | \$(45,950) | \$ -     |
| Net income                                   | 8,482     | 8,482      |            |           |          |          |            |          |
| Unrealized loss on investment                |           |            |            |           |          |          |            |          |
| securities net of \$27 tax credit            | (42)      |            | (42)       |           |          |          |            |          |
| Total comprehensive income                   | 8,440     |            |            |           |          |          |            |          |
| Cash dividends                               | (1,259)   | (1,259)    |            |           |          |          |            |          |
| Treasury stock:                              |           |            |            |           |          |          |            |          |
| Purchase of 198,253 shares                   | (3,052)   |            |            |           |          |          | (3,052)    |          |
| Sales of 29,169 shares                       | 444       |            |            |           |          | 137      | 307        |          |
| Issuance of 96,336 shares of preferred stock | 1,387     |            |            | 1,387     |          |          |            |          |
| Balance March 31, 2000                       | \$165,256 | \$ 178,324 | \$ (112)   | \$ 1,387  | \$29,965 | \$ 4,387 | \$(48,695) | \$ -     |
|  |           |            |            |           |          |          |            |          |
|  |           |            |            |           |          |          |            |          |

| IRWIN FINANCIAL CORPORATION AND SUBSIDIARIES                          |  |           |  |          |  |  |  |  |  |
|---|--|-----------|--|----------|--|--|--|--|--|
| CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)                      |  |           |  |          |  |  |  |  |  |
| For the three months ended March 31,                                  |  | 2001      |  | 2000     |  |  |  |  |  |
| (In thousands)  |  |           |  |          |  |  |  |  |  |
| Net income  |  | \$ -      |  | \$ 8,482 |  |  |  |  |  |
| Adjustments to reconcile net income to cash provided                  |  |           |  |          |  |  |  |  |  |
| by operating activities:  |  |           |  |          |  |  |  |  |  |
| Depreciation and amortization   |  | 2,550     |  | 2,098    |  |  |  |  |  |
| Amortization and impairment of servicing assets                       |  | 7,535     |  | 6,101    |  |  |  |  |  |
| Provision for loan and lease losses                                   |  | 1,553     |  | 1,136    |  |  |  |  |  |
| Amortization of premiums, less accretion of discounts                 |  | (1)       |  | (29)     |  |  |  |  |  |
| Increase in loans held for sale                                       |  | (271,696) |  | (32,405) |  |  |  |  |  |
| Gain on sale of mortgage servicing assets                             |  | (2,092)   |  | (252)    |  |  |  |  |  |
| Net increase in trading assets  |  | (22,893)  |  | (12,649) |  |  |  |  |  |
| Other, net  |  | 18,942    |  | (11,714) |  |  |  |  |  |
| Net cash used by operating activities                                 |  | (266,102) |  | (39,232) |  |  |  |  |  |
| Lending and investing activities:                                     |  |           |  |          |  |  |  |  |  |
| Proceeds from maturities/calls of investment securities:              |  |           |  |          |  |  |  |  |  |
| Held-to-maturity  |  | 3,270     |  | 543      |  |  |  |  |  |
| Available-for-sale  |  | 2,000     |  | 15       |  |  |  |  |  |
| Purchase of investment securities:                                    |  |           |  |          |  |  |  |  |  |
| Held-to-maturity  |  | (143)     |  | (1)      |  |  |  |  |  |
| Net increase in interest-bearing deposits with financial institutions |  | (25,383)  |  | (2,055)  |  |  |  |  |  |



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|   |            |           |  |  |  |  |
|---|------------|-----------|--|--|--|--|
| Net increase in loans, excluding sales  | (101,577)  | (98,875)  |  |  |  |  |
| Sale of loans   | 18,278     | 7,253     |  |  |  |  |
| Additions to mortgage servicing assets  | (19,903)   | (11,641)  |  |  |  |  |
| Proceeds from sale of mortgage servicing assets                                       | 2,343      | 1,491     |  |  |  |  |
| Other, net  | (3,132)    | (2,987)   |  |  |  |  |
| Net cash used by lending and investing activities                                     | (124,247)  | (106,257) |  |  |  |  |
| Financing activities:   |            |           |  |  |  |  |
| Net increase in deposits  | 376,674    | 136,385   |  |  |  |  |
| Net increase in short-term borrowings   | 41,020     | 23,411    |  |  |  |  |
| Repayments of long-term debt  | -          | (211)     |  |  |  |  |
| Issuance of preferred stock   | -          | 1,387     |  |  |  |  |
| Purchase of treasury stock  | (2,138)    | (3,052)   |  |  |  |  |
| Proceeds from sale of stock for employee benefit plans                                | 2,981      | 444       |  |  |  |  |
| Dividends paid  | (1,376)    | (1,259)   |  |  |  |  |
| Net cash provided by financing activities   | 417,161    | 157,105   |  |  |  |  |
| Effect of exchange rate changes on cash   | (88)       | -         |  |  |  |  |
| Net increase in cash and cash equivalents   | 26,724     | 11,616    |  |  |  |  |
| Cash and cash equivalents at beginning of period                                      | 83,493     | 47,215    |  |  |  |  |
| Cash and cash equivalents at end of period  | \$ 110,217 | \$ 58,831 |  |  |  |  |
| Supplemental disclosures of cash flow information:                                    |            |           |  |  |  |  |
| Cash paid during the period:  |            |           |  |  |  |  |
| Interest  | \$ (5,543) | \$ 15,777 |  |  |  |  |
| Income taxes  | \$ 740     | \$ 15     |  |  |  |  |
| The accompanying notes are an integral part of the consolidated financial statements. |            |           |  |  |  |  |
|   |            |           |  |  |  |  |
|   |            |           |  |  |  |  |
|   |            |           |  |  |  |  |

|  |  |  |  |  |  |  |  |  |  |
|--|--|--|--|--|--|--|--|--|--|
| NOTES TO THE FINANCIAL STATEMENTS<br>(Unaudited) |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |  |

|   |  |  |  |  |  |  |  |  |  |
|---|--|--|--|--|--|--|--|--|--|
| NOTE 1 - SIGNIFICANT<br>ACCOUNTING POLICIES |  |  |  |  |  |  |  |  |  |
|---|--|--|--|--|--|--|--|--|--|

|                               |  |  |  |  |  |  |  |  |  |
|-------------------------------|--|--|--|--|--|--|--|--|--|
| <b>Basis of Presentation:</b> |  |  |  |  |  |  |  |  |  |
|-------------------------------|--|--|--|--|--|--|--|--|--|

The interim financial data as of March 31, 2001 and for the three month periods ended March 31, 2001 and March 31, 2000 is unaudited; however, in the opinion of Management, the interim data includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods. The accompanying financial statements should be read in conjunction with the financial statements and related notes included with the Corporation's Annual Report on Form 10-K for the year ended December 31, 2000.

|                          |  |  |  |  |  |  |  |  |  |
|--------------------------|--|--|--|--|--|--|--|--|--|
| <b>Reclassifications</b> |  |  |  |  |  |  |  |  |  |
|--------------------------|--|--|--|--|--|--|--|--|--|

: Certain amounts in the 2000 consolidated financial statements have been reclassified to conform to the 2001 presentation.

|                         |  |  |  |  |  |  |  |  |  |
|-------------------------|--|--|--|--|--|--|--|--|--|
| <b>Foreign Currency</b> |  |  |  |  |  |  |  |  |  |
|-------------------------|--|--|--|--|--|--|--|--|--|

: Assets and liabilities denominated in Canadian dollars are translated into U. S. dollars at rates prevailing on the balance sheet date; income and expenses are translated at average rates of exchange for the period. Unrealized foreign currency translation gains and losses (net of related income taxes) are recorded in accumulated other comprehensive income in shareholders' equity.

|                             |  |  |  |  |  |  |  |  |  |
|-----------------------------|--|--|--|--|--|--|--|--|--|
| <b>Loans Held for Sale:</b> |  |  |  |  |  |  |  |  |  |
|-----------------------------|--|--|--|--|--|--|--|--|--|

Loans held for sale are stated at the lower of cost or market as of the balance sheet date.

|                     |  |  |  |  |  |  |  |  |  |
|---------------------|--|--|--|--|--|--|--|--|--|
| <b>Derivatives:</b> |  |  |  |  |  |  |  |  |  |
|---------------------|--|--|--|--|--|--|--|--|--|

On January 1, 2001, the Corporation adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." This standard obligates the Corporation to record all derivatives at fair value and permits the Corporation to designate derivative instruments as being used to hedge changes in fair value or changes in cash flows. Changes in the fair value of derivatives that offset changes in cash flows of a hedged item are recorded initially in other comprehensive income. Amounts recorded in other comprehensive income are subsequently reclassified into earnings during the same period the hedged item affects earnings. If a derivative qualifies as a fair value hedge, then changes in the fair value of the hedging derivative are recorded in earnings and are offset by changes in fair value attributable to the hedged risk of the hedged item. Any portion of the changes in the fair value of derivatives designated as a hedge that is deemed ineffective is recorded in earnings along with changes in the fair value of derivatives with no hedge designation.

The Corporation enters into forward contracts to protect it from interest rate fluctuations from the date of loan commitment until the loans are sold. However, the Corporation has not designated these transactions as hedges to qualify for hedge accounting treatment, and therefore, the Corporation is required to mark the derivatives to market every accounting period.

The initial application of SFAS No. 133 resulted in a cumulative change in accounting principle net of income taxes of \$175,000, did not have a significant impact on other comprehensive income, and had the following impact on the Company's assets and liabilities as of January 1, 2001 (in millions):

|  |  |        |  |  |
|--|--|--------|--|--|
|  | Increase in fair value of derivatives classified as assets ....    | \$ 1.3 |  |  |
|  | Increase in fair value of derivatives classified as liabilities... | \$ 1.0 |  |  |

The adoption of SFAS No. 133 resulted in the recognition of derivative-related assets, and derivative-related liabilities.

**Commitments to originate loans:**

The Company enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding (rate lock commitments). Rate lock commitments on loans that are intended to be sold are considered to be derivatives and are therefore recorded at fair value with changes in fair value recorded in earnings. For purposes of determining their fair value, the Company performs a net present value analysis of the anticipated cash flows associated with the rate lock commitments. Included in the net present value analysis are anticipated cash flows associated with the retained servicing of the loans. Rate lock commitments expose the Company to interest rate risk. The Company manages this risk by acquiring forward sales contracts.

**Hedges of loans held for sale:**

Loans held for sale expose the Company to interest rate risk. The Company manages the interest rate risk associated with loans held for sale by entering into forward sales agreements.

**Trading Assets**

: Trading assets are stated at fair value. Unrealized gains and losses are included in earnings. Included in trading assets are interest-only strips. When the Corporation sells receivables in securitizations of residential mortgage loans, it retains interest-only strips, one or more subordinated tranches, servicing rights, and in some cases a cash reserve account, all of which are retained interests in the securitized receivables. Gain or loss on the sale of the receivables depends in part on the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer. To obtain fair value, quoted market prices are used if available. However, quotes are generally not available for retained interests, so the Corporation generally estimates fair value based on the present value of expected cash flows using management's best estimates of the key assumptions that market participants would use - prepayment speeds, credit losses, forward yield curves, and discount rates commensurate with the risks involved. Adjustments to carrying values are recorded as trading gains or losses.

**Recent Accounting Developments**

: In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS No. 140, which replaces SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," provides accounting and reporting standards for securitizations and other transfers of assets. The Standard is based on the application of a financial components approach that focuses on control, and provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. The Standard requires disclosure of information about securitized assets, including principal outstanding of securitized and other managed assets, accounting policies, key assumptions related to the determination of the fair value of retained interests, delinquencies and credit losses. The accounting requirements of the Standard are effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001, and must be applied prospectively.

The disclosures related to securitization transactions are required for fiscal years ending after December 15, 2000, and comparative disclosures for prior periods are not required. The Corporation does not expect the impact of the accounting requirements of the Standard to be material to its financial position or results of operations in future periods.

**NOTE 2 - INVESTMENT SECURITIES**

The carrying amounts of investment securities, including net unrealized gain of \$96 thousand and loss of \$9 thousand on available-for-sale securities at March 31, 2001 and December 31, 2000, respectively, are summarized as follows:

|  |  |  |  |  | March 31   |  | December 31, |  |  |
|--|--|--|--|--|------------|--|--------------|--|--|
| (In thousands)   |  |  |  |  | 2001       |  | 2000         |  |  |
| Held-to-maturity, at amortized cost  |  |  |  |  |            |  |              |  |  |
| US Treasury and Government obligations   |  |  |  |  | \$ 18,623  |  | \$ 21,006    |  |  |
| Obligations of states and political subdivisions   |  |  |  |  | 4,472      |  | 4,586        |  |  |
| Mortgage-backed securities   |  |  |  |  | 1,920      |  | 2,059        |  |  |
| Corporate obligations  |  |  |  |  | 133        |  | --           |  |  |
| Total held-to-maturity   |  |  |  |  | 25,148     |  | 27,651       |  |  |
| Available-for-sale, at fair value  |  |  |  |  |            |  |              |  |  |
| US Treasury and Government obligations   |  |  |  |  | 3,052      |  | 4,993        |  |  |
| Mortgage-backed securities   |  |  |  |  | 3,139      |  | 3,093        |  |  |
| Other  |  |  |  |  | 736        |  | 1,358        |  |  |
| Total Available-for-sale   |  |  |  |  | 6,927      |  | 9,444        |  |  |
| Total investments  |  |  |  |  | \$ 32,075  |  | \$ 37,095    |  |  |
| <p>Securities which the Corporation has the positive intent and ability to hold until maturity are classified as "held-to-maturity" and are stated at cost adjusted for amortization of premium and accretion of discount. Securities that might be sold prior to maturity are classified as "available-for-sale" and are stated at fair value. Unrealized gains and losses on available-for-sale securities, net of the future tax impact, are reported as a separate component of shareholders' equity until realized.</p> |  |  |  |  |            |  |              |  |  |
| NOTE 3 - LOANS AND LEASES  |  |  |  |  |            |  |              |  |  |
| Loans and leases are summarized as follows:  |  |  |  |  |            |  |              |  |  |
|  |  |  |  |  | March 31,  |  | December 31, |  |  |
| (In thousands)   |  |  |  |  | 2001       |  | 2000         |  |  |
| Commercial, financial and agricultural   |  |  |  |  | \$ 742,276 |  | \$ 677,066   |  |  |
| Real estate-construction   |  |  |  |  | 221,030    |  | 220,485      |  |  |
|  |  |  |  |  | 135,706    |  | 122,301      |  |  |

|  |  |  |  |  |             |  |             |  |  |
|--|--|--|--|--|-------------|--|-------------|--|--|
| Real estate-mortgage   |  |  |  |  |             |  |             |  |  |
| Consumer   |  |  |  |  | 44,640      |  | 56,785      |  |  |
| Direct financing leases  |  |  |  |  |             |  |             |  |  |
| Domestic   |  |  |  |  | 135,081     |  | 116,867     |  |  |
| Canadian   |  |  |  |  | 73,538      |  | 72,864      |  |  |
| Unearned income  |  |  |  |  |             |  |             |  |  |
| Domestic   |  |  |  |  | (24,822)    |  | (21,570)    |  |  |
| Canadian   |  |  |  |  | (10,288)    |  | (9,876)     |  |  |
|  |  |  |  |  | \$1,317,161 |  | \$1,234,922 |  |  |
|  |  |  |  |  |             |  |             |  |  |
| NOTE 4 - ALLOWANCE FOR LOAN AND LEASE LOSSES   |  |  |  |  |             |  |             |  |  |
| Changes in the allowance for loan and lease losses are summarized as follows:  |  |  |  |  |             |  |             |  |  |
|  |  |  |  |  |             |  |             |  |  |
|  |  |  |  |  | March 31,   |  | March 31,   |  |  |
| (In thousands)   |  |  |  |  | 2001        |  | 2000        |  |  |
|  |  |  |  |  |             |  |             |  |  |
| Balance at beginning of period   |  |  |  |  | \$ 13,129   |  | \$ 8,555    |  |  |
|  |  |  |  |  |             |  |             |  |  |
| Provision for loan and lease losses  |  |  |  |  | 1,553       |  | 1,136       |  |  |
| Reduction due to sale of loans   |  |  |  |  | (6)         |  | -           |  |  |
| Foreign currency adjustment  |  |  |  |  | (44)        |  | -           |  |  |
| Recoveries   |  |  |  |  | 249         |  | 77          |  |  |
| Charge-offs  |  |  |  |  | (1,259)     |  | (354)       |  |  |
|  |  |  |  |  |             |  |             |  |  |
| Balance at end of period   |  |  |  |  | \$ 13,622   |  | \$ 9,414    |  |  |
|  |  |  |  |  |             |  |             |  |  |
|  |  |  |  |  |             |  |             |  |  |
| NOTE 5- SERVICING ASSETS   |  |  |  |  |             |  |             |  |  |
| Included on the consolidated balance sheet at March 31, 2001 and December 31, 2000 are \$142.6 million and \$130.5 million, respectively, of servicing assets. These amounts relate to the principal balances of loans serviced by the Corporation for investors. Although they are not generally held for sale, there is an active secondary market for servicing assets. The Corporation has periodically sold servicing assets. |  |  |  |  |             |  |             |  |  |
|  |  |  |  |  |             |  |             |  |  |
| Mortgage Servicing Asset:  |  |  |  |  |             |  |             |  |  |

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|   |  |  |  |  | March 31,  |  | December 31, |  |  |
|---|--|--|--|--|------------|--|--------------|--|--|
| (In thousands)  |  |  |  |  | 2001       |  | 2000         |  |  |
| Beginning Balance   |  |  |  |  | \$ 130,522 |  | \$ 138,500   |  |  |
| Additions   |  |  |  |  | 19,903     |  | 57,165       |  |  |
| Amortization and impairment   |  |  |  |  | (7,535)    |  | (39,529)     |  |  |
| Reduction for servicing sales   |  |  |  |  | (251)      |  | (25,614)     |  |  |
|   |  |  |  |  | \$ 142,639 |  | \$ 130,522   |  |  |
|   |  |  |  |  |            |  |              |  |  |
| <b>NOTE 6- SHORT-TERM BORROWINGS</b>  |  |  |  |  |            |  |              |  |  |
| Short-term borrowings are summarized as follows:  |  |  |  |  |            |  |              |  |  |
|   |  |  |  |  | March 31,  |  | December 31, |  |  |
| (In thousands)  |  |  |  |  | 2001       |  | 2000         |  |  |
| Federal funds and Federal Home Loan Bank borrowings   |  |  |  |  | \$ 103,000 |  | \$ 173,000   |  |  |
| Lines of credit and other   |  |  |  |  | 127,827    |  | 226,599      |  |  |
| Repurchase agreements and drafts payable related to   |  |  |  |  |            |  |              |  |  |
| mortgage loan closings  |  |  |  |  | 270,630    |  | 64,557       |  |  |
| Commercial paper  |  |  |  |  | 15,065     |  | 11,346       |  |  |
|   |  |  |  |  |            |  |              |  |  |
| Total   |  |  |  |  | \$ 516,522 |  | \$ 475,502   |  |  |
| Repurchase agreements at March 31, 2001 and December 31, 2000, include \$98.9 million and \$0.1 million respectively, in mortgage loans sold under agreements to repurchase which are used to fund mortgage loans sold prior to sale in the secondary market. These repurchase agreements are collateralized by mortgage loans held for sale.   |  |  |  |  |            |  |              |  |  |
| Drafts payable related to mortgage loan closings totaled \$171.7 million and \$64.5 million at March 31, 2001 and December 31, 2000, respectively. These borrowings are related to mortgage closings at the end of the period which have not been presented to banks for payment. When presented for payment these borrowings will be funded internally or by borrowing from the lines of credit. |  |  |  |  |            |  |              |  |  |
| The Corporation has lines of credit available to fund mortgage loans held for sale. Interest on the lines of credit is payable monthly at variable rates ranging from 5.7% to the lender's prime rate at March 31, 2001.  |  |  |  |  |            |  |              |  |  |
|   |  |  |  |  |            |  |              |  |  |
|   |  |  |  |  |            |  |              |  |  |
| <b>NOTE 7 -- LONG-TERM DEBT</b>   |  |  |  |  |            |  |              |  |  |

|  |  |  |           |           |           |  |             |           |
|--|--|--|-----------|-----------|-----------|--|-------------|-----------|
| Long-term debt at March 31, 2001 consists of a note payable of \$30.0 million with an interest rate of 7.58% that will mature on July 7, 2014. The note is shown on the balance sheet net of capitalized issuance costs.   |  |  |           |           |           |  |             |           |
| NOTE 8 -- COMPANY-OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES  |  |  |           |           |           |  |             |           |
| OF SUBSIDIARY TRUST  |  |  |           |           |           |  |             |           |
| In January 1997, the Corporation issued \$50.0 million of trust preferred securities through IFC Capital Trust I, a trust created and controlled by the Corporation. The securities were issued at \$25 per share with a cumulative dividend rate of 9.25% payable quarterly. They have an initial maturity of 30 years with a 19-year extension option. The securities are callable at par after five years from issuance, or immediately, in the event of an adverse tax development affecting the Corporation's classification of the securities for federal income tax purposes. They are not convertible into common stock of the Corporation. The securities are shown on the balance sheet net of capitalized issuance costs. The sole assets of IFC Capital Trust I are subordinated debentures of the Corporation with a principal balance of \$51.5 million, an interest rate of 9.25% and an initial maturity of 30 years with a 19-year extension option.  |  |  |           |           |           |  |             |           |
| In November 2000, the Corporation issued \$51.75 million of trust preferred securities through IFC Capital Trust II and \$51.75 million of convertible trust preferred securities through IFC Capital Trust III, trusts created and controlled by the Corporation. The securities were issued at \$25 per share with cumulative dividend rates of 10.5% and 8.75%, respectively, payable quarterly. They have an initial maturity of 30 years. The trust preferred securities of Capital Trust II are not convertible into common stock of the Corporation. The convertible trust preferred securities of Capital Trust III have an initial conversion ratio of 1.261 shares of common stock for each convertible preferred security (equivalent to an initial conversion price of \$19.825 per share of common stock). The securities are shown on the balance sheet net of capitalized issuance costs. The sole assets of IFC Capital Trust II and III are subordinated debentures of the Corporation with principal balances of \$53.35 million each, interest rates of 10.5% and 8.75%, respectively, and on initial maturity of 30 years. |  |  |           |           |           |  |             |           |
| NOTE 9 -- EARNINGS PER SHARE   |  |  |           |           |           |  |             |           |
| Earnings per share calculations are summarized as follows:   |  |  |           |           |           |  |             |           |
|  |  |  | Basic     | Effect of | Effect of |  | Effect of   | Diluted   |
|  |  |  | Earnings  | Stock     | Preferred |  | Convertible | Earnings  |
| (In thousands, except share data)  |  |  | Per Share | Options   | shares    |  | Shares      | Per Share |
| Three months ended March 31, 2001  |  |  |           |           |           |  |             |           |
| Net income before cumulative effect of change in accounting principle  |  |  | \$ 8,996  | \$ -      | \$ -      |  | \$ 700      | \$ 9,696  |
| Shares   |  |  | 21,065    | 333       | 96        |  | 2,610       | 24,104    |
| Per-Share amount   |  |  | \$ 0.43   | \$ 0.01   | \$ -      |  | \$ 0.02     | \$ 0.40   |
|  |  |  | \$ 175    |           |           |  |             | \$ 175    |

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|   |  |  |           |           |           |  |             |           |
|---|--|--|-----------|-----------|-----------|--|-------------|-----------|
| Cumulative effect of change in accounting principle   |  |  |           |           |           |  |             |           |
| Per-Share amount  |  |  | \$ 0.01   |           |           |  |             | \$ 0.01   |
| Net income  |  |  | \$ 9,171  |           |           |  |             | \$ 9,871  |
| Per-Share amount  |  |  | \$ 0.44   |           |           |  |             | \$ 0.41   |
|   |  |  |           |           |           |  |             |           |
|   |  |  | Basic     | Effect of | Effect of |  | Effect of   | Diluted   |
|   |  |  | Earnings  | Stock     | Preferred |  | Convertible | Earnings  |
|   |  |  | Per Share | Options   | shares    |  | Shares      | Per Share |
| Three months ended March 31, 2000   |  |  |           |           |           |  |             |           |
| Net income available to common shareholders   |  |  | \$ 8,482  | \$ -      | \$ -      |  | \$ -        | \$ 8,482  |
| Shares  |  |  | 21,058    | 189       | 30        |  | -           | 21,277    |
| Per-Share amount  |  |  | \$ 0.40   | \$ -      | \$ -      |  | \$ -        | \$ 0.40   |
|   |  |  |           |           |           |  |             |           |
|   |  |  |           |           |           |  |             |           |
| NOTE 10 -- CONTINGENCIES  |  |  |           |           |           |  |             |           |
| <p>In the normal course of business, Irwin Financial Corporation and its subsidiaries are subject to various claims and other pending and possible legal actions.</p>   |  |  |           |           |           |  |             |           |
| <p>Irwin Mortgage Corporation (IMC) is a defendant in a class action lawsuit relating to IMC's payment of broker fees to mortgage brokers. On June 15, 2001, IMC's appeal on the issue of class certification was denied by a panel of the United States Court of Appeals for the 11th Circuit. On July 11, 2001, IMC filed a motion for a rehearing before the Court of Appeals on the class certification issue. Although the Corporation has not yet formed a reasonable estimate of the amount of potential loss, if any, that the Corporation could suffer, it is expected that an adverse outcome in this litigation could have a material adverse effect on the Corporation's financial condition and results of operations.</p> |  |  |           |           |           |  |             |           |
| <p>Irwin Leasing Corporation (formerly Affiliated Capital Corp.), Irwin Equipment Finance Corporation and Irwin Financial Corporation (collectively, "the Irwin Companies") are defendants in an action relating to alleged misrepresentations made to obtain Medicare reimbursement for treatments performed with medical equipment financed by the Irwin Companies. The Irwin Companies filed a motion to dismiss on February 12, 2001 in the U.S. District Court for the Middle District of Pennsylvania. Because the case is in the early stages of litigation, the Corporation is unable at this time to form a reasonable estimate of the amount of potential loss, if any, that the Corporation could suffer.</p>                |  |  |           |           |           |  |             |           |
| <p>Irwin Union Bank and Trust Company and Irwin Home Equity Corporation (collectively "Irwin") are defendants in a lawsuit in the U.S. District Court for the District of Rhode Island, which seeks certification as a class action and alleges that Irwin's disclosures and closing procedure for certain home equity loans did not comply with the Truth in Lending Act. Because the case has only recently been filed, the Corporation has not formed a reasonable estimate of the amount of potential loss, if any, that the Corporation could suffer.</p>  |  |  |           |           |           |  |             |           |
|   |  |  |           |           |           |  |             |           |
|   |  |  |           |           |           |  |             |           |
|   |  |  |           |           |           |  |             |           |



| NOTE 11 -- INDUSTRY SEGMENT INFORMATION  |             |           |             |            |           |            |              |  |  |
|--|-------------|-----------|-------------|------------|-----------|------------|--------------|--|--|
| The Corporation has five principal segments that provide a broad range of financial services throughout the United States. The Home Equity Lending line of business originates and services home equity loans. The Mortgage Banking line of business originates, sells and services residential first mortgage loans. The Commercial Banking line of business provides commercial banking services. The Equipment Leasing line of business leases commercial equipment. The Venture Capital line of business invests in early-stage financial services-oriented technology companies. Other consists primarily of the parent company including eliminations. |             |           |             |            |           |            |              |  |  |
| The accounting policies of each segment are the same as those described in the "Summary of Significant Accounting Policies". Below is a summary of each segment's revenues, net income, and assets for 2001 and 2000:  |             |           |             |            |           |            |              |  |  |
|  | Home Equity | Mortgage  | Commercial  | Equipment  | Venture   |            |              |  |  |
| (In thousands)   | Lending     | Banking   | Banking     | Leasing    | Capital   | Other      | Consolidated |  |  |
| For the three months ended March 31, 2001  |             |           |             |            |           |            |              |  |  |
| Net interest income, net of provision  | \$ 15,137   | \$ 3,581  | \$ 9,566    | \$ 1,099   | \$ (140)  | \$(1,694)  | \$ 27,549    |  |  |
| Intersegment interest  | (528)       | (394)     | (57)        | (19)       | -         | 998        | -            |  |  |
| Other revenue  | 17,350      | 42,063    | 3,071       | 357        | (2,506)   | 1,716      | 62,051       |  |  |
| Intersegment revenues  | -           | -         | 52          | -          | 255       | (307)      | -            |  |  |
| Total net revenues   | 31,959      | 45,250    | 12,632      | 1,437      | (2,391)   | 713        | 89,600       |  |  |
| Other expense  | 26,162      | 34,540    | 9,646       | 2,130      | 113       | 2,234      | 74,825       |  |  |
| Intersegment expenses  | 150         | 352       | 668         | -          | -         | (1,170)    | -            |  |  |
| Income before taxes  | 5,647       | 10,358    | 2,318       | (693)      | (2,504)   | (351)      | 14,775       |  |  |
| Income taxes   | 2,259       | 4,200     | 917         | -          | (1,059)   | (538)      | 5,779        |  |  |
| Income before cumulative effect of change in   |             |           |             |            |           |            |              |  |  |
| accounting principle   | 3,388       | 6,158     | 1,401       | (693)      | (1,445)   | 187        | 8,996        |  |  |
| Cumulative effect of change in accounting principle, net of tax  | -           | 175       | -           | -          | -         | -          | 175          |  |  |
| Net income   | 3,388       | 6,333     | 1,401       | (693)      | (1,445)   | 187        | 9,171        |  |  |
|  |             | \$843,814 | \$1,291,731 | \$ 177,957 | \$ 13,041 | \$(83,019) | \$2,866,369  |  |  |

|   |            |           |             |            |           |           |             |  |  |
|---|------------|-----------|-------------|------------|-----------|-----------|-------------|--|--|
| Assets at March 31, 2001                  | \$ 622,845 |           |             |            |           |           |             |  |  |
|   |            |           |             |            |           |           |             |  |  |
|   |            |           |             |            |           |           |             |  |  |
| For the three months ended March 31, 2000 |            |           |             |            |           |           |             |  |  |
| Net interest income, net of provision     | \$ 5,545   | \$ 7,197  | \$ 8,556    | \$ (116)   | \$ (270)  | \$(2,943) | \$ 17,969   |  |  |
| Intersegment interest                     | (405)      | (966)     | -           | (7)        | (1)       | 1,379     | -           |  |  |
| Other revenue                             | 13,966     | 27,249    | 2,892       | 2          | 7,435     | (1,406)   | 50,138      |  |  |
| Intersegment revenues                     | -          | -         | 40          | -          | 100       | (140)     | -           |  |  |
| Total net revenues                        | 19,106     | 33,480    | 11,488      | (121)      | 7,264     | (3,110)   | 68,107      |  |  |
| Other expense                             | 14,588     | 28,858    | 7,765       | 794        | 89        | 1,842     | 53,936      |  |  |
| Intersegment expenses                     | 152        | 538       | 610         | -          | -         | (1,300)   | -           |  |  |
| Income before taxes                       | 4,366      | 4,084     | 3,113       | (915)      | 7,175     | (3,652)   | 14,171      |  |  |
| Income taxes                              | 1,746      | 1,601     | 1,207       | -          | 2,878     | (1,743)   | 5,689       |  |  |
| Net income                                | \$ 2,620   | \$ 2,483  | \$ 1,906    | \$ (915)   | \$ 4,297  | \$(1,909) | \$ 8,482    |  |  |
| Assets at December 31, 2000               | \$ 550,526 | \$523,920 | \$1,167,559 | \$ 159,773 | \$ 15,198 | \$ 5,453  | \$2,422,429 |  |  |

## Part I

## Item 2

## MANAGEMENT'S DISCUSSION AND ANALYSIS

## OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis should be read in conjunction with the accompanying consolidated financial statements and footnotes. This discussion contains forward-looking statements that are based on management's expectations, estimates, projections and assumptions. Words such as "expected," "assumptions," "estimate" and similar expressions are intended to identify forward-looking statements, which include, but are not limited to, projections of business strategies and future activities. These statements are not guarantees of future performance and involve uncertainties that are difficult to predict. Actual future results may differ materially from what is projected due to a variety of factors, including, but not limited to, unexpected changes in interest rates or in the economies served by

the Corporation, competition from other financial service providers, unanticipated difficulties in expanding the Corporation's businesses, such as higher than expected entry costs in new markets, availability of appropriate investment opportunities, fluctuations in the valuation of the Corporation's portfolios, legislative or regulatory changes, or governmental changes in monetary or fiscal policy.

### Overview

Net income for the first quarter ended March 31, 2001, was \$9.2 million, up 8.1% from the first quarter 2000 net income of \$8.5 million. Net income per share (diluted) was \$0.41 for the first quarter of 2001 as compared to \$0.40 for the same period in 2000; a 2.5% increase. Return on equity for the first quarter of 2001 was 19.48% compared to 21.07% in the first quarter of 2000.

### Lines of Business

Irwin Financial Corporation has five principal lines of business:

- Home equity lending (includes Irwin Home Equity Corporation and the related activities of Irwin Union Bank and Trust Company ("Irwin Union Bank"))
- Mortgage banking (includes Irwin Mortgage Corporation and the related activities of Irwin Union Bank)
- Commercial banking (includes Irwin Union Bank and Irwin Union Bank, F.S.B.)
- Equipment leasing (includes Irwin Business Finance, Onset Capital Corporation, and the related activities of Irwin Union Bank)
- Venture capital (includes Irwin Ventures LLC, and the related activities of Irwin Union Bank)

Listed below are the results by line of business for the quarter ended March 31, 2001, as compared to the same period in 2000 (shown in thousands):

|   | Three Months           |                |
|---|------------------------|----------------|
|   | <u>Ended March 31,</u> |                |
|   | <u>2001</u>            | <u>2000</u>    |
| Home equity lending                     | \$3,388                | \$2,620        |
| Mortgage banking                        | 6,333                  | 2,483          |
| Commercial banking                      | 1,401                  | 1,906          |
| Equipment leasing                       | (693)                  | (915)          |
| Venture capital                         | (1,445)                | 4,297          |
| Parent (includes consolidating entries) | 187                    | <u>(1,909)</u> |
|   | <u>\$9,171</u>         | <u>\$8,482</u> |

## Home Equity Lending

Selected Financial Data (shown in thousands):

|   | Three Months    |                |
|---|-----------------|----------------|
|   | Ended March 31, |                |
|   | <u>2001</u>     | <u>2000</u>    |
| Selected Income Statement Data:                 |                 |                |
| Net interest revenue-unsold loans and other     | \$7,449         | \$2,553        |
| I/O strip interest income                       | 7,160           | 2,587          |
| Loan origination fees                           | 2,122           | 2,574          |
| Gain from sale of loans                         | 12,551          | 6,383          |
| Loan servicing fees                             | 2,981           | 1,508          |
| Amortization and impairment of servicing assets | (555)           | (388)          |
| Trading gains/(losses)                          | (69)            | 3,389          |
| Other revenue                                   | <u>320</u>      | <u>500</u>     |
| Total net revenues                              | 31,959          | 19,106         |
|   |                 |                |
| Salaries and employee benefits                  | (16,613)        | (6,761)        |
| Other operating expenses                        | <u>(9,699)</u>  | <u>(7,979)</u> |
|   |                 |                |
| Income before tax                               | 5,647           | 4,366          |
| Income tax                                      | <u>(2,259)</u>  | <u>(1,746)</u> |
| Net Income                                      | <u>\$3,388</u>  | <u>\$2,620</u> |

March 31, December 31,

Other Selected Financial Data: 2001 2000

|   |           |           |
|---|-----------|-----------|
| Home equity loans and loans held for sale               | \$323,144 | \$334,218 |
| Interest-only strips                                    | 172,740   | 152,614   |
| Total managed portfolio                                 | 1,708,885 | 1,625,719 |
| Total managed portfolio including subserviced portfolio | 1,893,181 | 1,825,527 |

Irwin Home Equity, in combination with the related activities of Irwin Union Bank (together, the home equity line of business), originates and services home equity and first mortgage loans nationwide through direct mail and telemarketing, broker and correspondent channels, acquisition channels and Internet-based solicitations.

Net income for the home equity lending business was \$3.4 million during the first quarter of 2001. These results are compared to 2000 first quarter net income of \$2.6 million.

Net interest revenue-unsold loans and other was \$4.9 million higher in first quarter 2001 compared to first quarter 2000, representing a 191.8% increase. I/O strip interest income increased 176.8% to \$7.2 million for the first quarter 2001 compared to 2000. These increases are a result of increased loan production and sales during 2001 compared to 2000.

During the first quarter of 2001, home equity loan and line of credit originations totaled \$180.7 million, compared with \$97.2 million in originations in first quarter 2000. Loan acquisitions totaled \$0.1 million during the first quarter 2001 compared to \$99.3 million in home equity loans which were acquired from other prime credit, high loan-to-value lenders in 2000.

Gains from the securitization of loans totaled \$12.6 million in the first quarter of 2001, up 96.6% from the first quarter 2000. The company sold \$183.3 million of product in the first quarter of 2001, versus \$131.6 million during first quarter 2000. The gain from securitizations as a percentage of loans sold was 6.85% in the first quarter of 2001 versus 4.85% in the same period a year earlier, principally reflecting an improvement in the overall economics of the transaction. These improvements include a higher mix of loans originated with prepayment protection, a higher risk-adjusted interest rate on the underlying collateral, a lower relative acquisition cost structure due to continued expansion of new distribution channels, an ability to sell a portion of the residual interest at inception of the transaction, and otherwise improved excess spread. Furthermore, the results include a slight change in estimate resulting from the introduction of loss frequency curves which replaced previously utilized static loss assumptions. The introduction of loss frequency curves, which may result in a corresponding lower unrealized gain/loss over time, was made to conform valuations with the observed behavior of the loans.

Servicing Portfolio (in thousands):

March 31, 2001

December 31, 2000

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|   |             |             |
|---|-------------|-------------|
| Managed portfolio                                 | \$1,708,885 | \$1,625,719 |
| Delinquency ratio                                 | 4.32%       | 4.35%       |
| Managed portfolio including subserviced portfolio | 1,893,181   | 1,825,527   |
| Delinquency ratio                                 | 4.35%       | 4.31%       |

The home equity lending business services the loans it has securitized and collects an annual fee of up to 1% of the outstanding principal balance of the securitized loans. The managed portfolio included in the schedule above includes all loans being serviced by the home equity lending business for which the company retains risk of ownership. Also included in the table above is the portfolio of loans serviced by the company including loans for which the underlying residual interest has been sold to an independent third party. Net servicing fee income totaled \$2.4 million in the first quarter of 2001, up 116.6% from the same period in 2000. The increase is primarily due to growth in the servicing portfolio.

The securitization of loans into the secondary market results in the creation of a residual asset which we refer to as an interest-only strip. This interest-only strip is equal to the discounted future cash flows of the interest paid by borrowers less servicing fees, expected losses, third party fees and interest paid to investors. Interest-only strips are carried on the balance sheet as a trading asset and recorded at their estimated fair values determined using assumptions about the duration and performance of the securitized loans. At March 31, 2001, the weighted average assumptions used in the valuation of the interest-only strips were as follows:

| Product type                         | Unpaid Principal balance | Weighted avg. carrying speed (CPR) | Remaining weighted avg. life (years) | Weighted avg. annual loss rate |
|--------------------------------------|--------------------------|------------------------------------|--------------------------------------|--------------------------------|
| HELs (home equity loans)             | \$272,481                | 21.96%                             | 3.22                                 | 0.80%                          |
| HELOCs (home equity lines of credit) | 149,392                  | 26.56%                             | 2.93                                 | 0.90%                          |
| 125 HELs                             | 498,623                  | 16.20%                             | 4.03                                 | 2.09%                          |
| 125 LTV HELOCs                       | 77,274                   | 16.02%                             | 4.61                                 | 2.38%                          |
| First mortgages                      | 46,762                   | 10.80%                             | 8.44                                 | 0.25%                          |
| Other HELs and HELOCs                | 66,369                   | 24.37%                             | 2.63                                 | 6.23%                          |
| Purchased I/O strips                 | 273,127                  | 28.00%                             | 2.27                                 | 2.87%                          |

Included in income during the first quarter of 2001 was an unrealized trading loss of \$69 thousand recorded to adjust the carrying value of interest-only strips to their fair values. This loss compares with a \$3.4 million gain recorded in the first quarter of 2000. The decline in 2001 is primarily due to the declining interest rate environment and the refinement in loss estimates noted above.

Operating expenses were \$29.0 million in the first quarter of 2001, up 96.8% from 2000, reflecting the growth in the company's managed portfolio and growth in production. Salaries and employee benefits increased \$9.9 million compared to first quarter 2000 related to the growth of the line of business. Also, included in this increase is \$5.4 million in compensation to certain minority owners at the home equity lending line of business. Marketing and development costs at the home equity line of business declined \$3.2 million in the first quarter of 2001 compared to first quarter 2000 related primarily to decreased direct mailing costs as a result of product channel diversification.

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### Mortgage Banking

Selected Financial Data (shown in thousands):

|   | Three Months    |             |
|---|-----------------|-------------|
|   | Ended March 31, |             |
|   | <u>2001</u>     | <u>2000</u> |
| Selected Income Statement Data:                                       |                 |             |
| Loan origination fees   | \$11,443        | \$7,427     |
| Gain from sales of loans  | 18,113          | 10,832      |
| Loan servicing fees   | 12,570          | 13,379      |
| Amortization and impairment of servicing assets, net of hedging gains | (3,502)         | (5,612)     |
| Net interest income   | 3,210           | 6,274       |
| Provision for loan losses   | (23)            | (43)        |
| Gain on sale of servicing   | 2,092           | 252         |
| Other income  | <u>1,347</u>    | <u>971</u>  |
| Total net revenues  | 45,250          | 33,480      |
|   |                 |             |

|   |                    |                  |
|---|--------------------|------------------|
| Salaries and employee benefits                                    | (22,381)           | (17,872)         |
| Other operating expenses  | <u>(12,511)</u>    | <u>(11,523)</u>  |
|   |                    |                  |
| Income before tax   | 10,358             | 4,085            |
| Income tax  | <u>(4,200)</u>     | <u>(1,602)</u>   |
| Income before cumulative effect of change in accounting principle | 6,158              | 2,483            |
| Cumulative effect of change in accounting principle               | <u>175</u>         | <u>0</u>         |
| Net income  | <u>\$6,333</u>     | <u>\$2,483</u>   |
| Mortgage loan originations  | <u>\$1,891,203</u> | <u>\$862,316</u> |

March 31,                      December 31,  
2001                              2000

|                              |             |             |
|------------------------------|-------------|-------------|
| Servicing portfolio          | \$9,329,451 | \$9,196,513 |
| Mortgage loans held for sale | 529,915     | 249,580     |
| Mortgage servicing asset     | 133,023     | 121,555     |

Irwin Mortgage Corporation, in combination with the related activities of Irwin Union Bank, (together, the mortgage banking line of business) originates, purchases, sells, and services conventional and government agency backed (i.e., FHA and VA) residential mortgage loans throughout the United States.

Net income from mortgage banking for the first quarter was \$6.3 million, up 155.1% from the same period in 2000. This increase relates to increased production as a result of a declining interest rate environment. Mortgage loan interest rates were, on average, 140 basis points lower in the first quarter of 2001 compared to the same quarter in 2000.

As a result of the declining interest rate environment, mortgage loan originations of \$1.9 billion were 119.3% ahead of the first quarter of 2000. Refinanced loans accounted for 56.2% of first quarter production, compared with 13.9% in the same period a year ago. Higher production volume caused mortgage loan origination income to increase 54.1% in the first quarter to \$11.4 million. Because certain fees are not collected for loan refinancings, loan origination fees did not increase at the same rate as loan production during the first quarter of 2001.



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As a result of higher loan production in the first quarter of 2001, gains on the sales of loans increased 67.2% to \$18.1 million.

Net interest income during the first quarter of 2001 declined 48.8% compared to the same period in 2000 to \$3.2 million. Included in first quarter 2000 interest income was \$3.0 million related to interest earned pursuant to a refund of federal income taxes due the company relating to a prior period tax return. Excluding the impact of the tax refund in 2000, net interest income for the first quarter of 2001 was comparable to the same period in 2000.

Mortgage loan servicing fees totaled \$12.6 million for the first quarter of 2001, a decrease of \$0.8 million or 6.0%. The servicing portfolio totaled \$9.3 billion at March 31, 2001, an increase of 1.4% from December 31, 2000 and a decrease of 11.3% compared to March 31, 2000.

Mortgage servicing assets totaled \$133.0 million at March 31, 2001, up 9.4% from December 31, 2000. The mortgage banking line of business has followed a strategy to manage the interest rate risk associated with the servicing portfolio by selling servicing rights on those loans that are most likely to refinance as interest rates decline. During the first quarter of 2001, the line of business sold servicing rights to help manage its investment in the portfolio and to monetize existing gains in its servicing portfolio. The business recognized revenues of \$2.1 million in the first quarter of 2001 from these sales, up from \$0.3 million in the first quarter of 2000.

The amortization and impairment of servicing assets, net of hedging gains, of \$3.5 million in the first quarter of 2001 represents a decline of 37.6% compared to the same period in 2000. Included in the 2001 amount was a \$3.3 million trading gain on hedging activities related to the mortgage servicing assets. There were no trading gains or losses recorded in the first quarter of 2000. During the first quarter of 2001, the company restratified its mortgage servicing asset for impairment purposes, as a result of changing predominate risk characteristics of the portfolio. This restratification was driven by a change in portfolio mix and greater weighting towards government servicing.

Salaries and employee benefits increased 25.2% to \$22.4 million for the first quarter of 2001 reflecting the company's increased production during the period. Other operating expenses also increased 8.6% in the first quarter 2001 as a result of higher production.

The corporation adopted SFAS 133 on January 1, 2001. Adoption of this pronouncement resulted in a transition adjustment at the mortgage banking line of business of \$0.2 million, which was recorded as a cumulative effect of a change in accounting principle.

Commercial Banking

Selected Financial Data (shown in thousands):

|  | Three Months    |  |
|--|-----------------|--|
|  | Ended March 31, |  |
|  |                 |  |

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| Selected Income Statement Data: | <u>2001</u>    | <u>2000</u>    |
|---------------------------------|----------------|----------------|
| Net interest income             | \$10,309       | \$9,000        |
| Provision for loan losses       | (800)          | (444)          |
| Other income                    | 3,067          | 2,932          |
| Salaries and employee benefits  | (5,966)        | (5,093)        |
| Other operating expenses        | <u>(4,292)</u> | <u>(3,282)</u> |
| Income before tax               | 2,318          | 3,113          |
| Income tax                      | <u>(917)</u>   | <u>(1,207)</u> |
| Net income                      | <u>\$1,401</u> | <u>\$1,906</u> |

|                                       | March 31,   | December 31, |
|---------------------------------------|-------------|--------------|
| Selected Balance Sheet Data:          | <u>2001</u> | <u>2000</u>  |
| Securities and short-term investments | \$75,302    | \$27,286     |
| Loans and leases                      | 1,136,991   | 1,067,980    |
| Allowance for loan losses             | (9,628)     | (9,228)      |
| Deposits                              | 1,159,124   | 998,892      |

Commercial banking activities are conducted by Irwin Union Bank and Trust Company and Irwin Union Bank, F.S.B. (together, the "commercial bank"). In recent years, the commercial bank has implemented a growth plan that calls for expansion into new markets outside of its traditional markets in south-central Indiana using de novo offices staffed by senior commercial loan officers who have experience with other commercial banks. As a result, the commercial bank currently operates in nine counties in Indiana as well as Kalamazoo, Grandville (Grand Rapids), Lansing and Traverse City, Michigan; Brentwood (St. Louis), Missouri; Las Vegas and Carson City, Nevada; Phoenix, Arizona; and Salt Lake City, Utah.

Net income for the commercial bank decreased in the first quarter to \$1.4 million from \$1.9 million a year earlier. Net interest income improved 14.5% to \$10.3 million in the first quarter of 2001. This decrease in net income and the increase in net interest income relate primarily to the commercial bank's continued growth in new markets. The provision for loan losses increased 80.2% to \$0.8 million in the first quarter compared with a provision of \$0.4 million a year earlier. This increase is also a result of the company's growth.

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Following is an analysis of net interest income and net interest margin computed on a tax-equivalent basis:

| For the Three<br>Months Ended<br>March 31,<br><u>(In thousands)</u> | 2001                       |                 |                        | 2000                       |                 |                        |
|---|----------------------------|-----------------|------------------------|----------------------------|-----------------|------------------------|
|   | <u>Average<br/>Balance</u> | <u>Interest</u> | <u>Yield/<br/>Rate</u> | <u>Average<br/>Balance</u> | <u>Interest</u> | <u>Yield/<br/>Rate</u> |
| Interest-earning assets   | \$1,137,469                | \$24,833        | 8.85%                  | \$783,338                  | \$17,145        | 8.80%                  |
| Interest-bearing liabilities  | 1,034,484                  | 14,467          | 5.67%                  | 698,530                    | 8,090           | 4.66%                  |
| Net interest income   | *                          | <u>\$10,366</u> | *                      | *                          | <u>\$9,055</u>  | *                      |
| Net interest margin   | *                          | *               | <u>3.70%</u>           | *                          | *               | <u>4.65%</u>           |

Interest margins during 2001 have declined as shown above compared to 2000. Net interest margin was 3.70% for the first quarter 2001 compared to 4.65% in the same period a year earlier. The reduction in net interest margin is due to a combination of three factors. First, the expansion activities at the commercial bank have resulted in an increased use of wholesale deposit sources required to fund the growth in the loan portfolio. Secondly, in mid-2000 the parent company began allocating interest-bearing capital to the commercial bank. Last, the commercial bank was negatively impacted by repricing of approximately 40% of its commercial loan portfolio which is tied to the Prime rate in advance of corresponding declines in its funding base which is more closely tied to LIBOR and similar market-driven rate indices.

Other income in the first quarter was up 4.6% to \$3.1 million from \$2.9 million in the first quarter of 2000. Total operating expenses, including salaries and benefits, increased 22.5% from the first quarter of 2000 to \$10.3 million. The continued expansion of operations in new markets led to increased non-interest expense in 2001.

#### Equipment Leasing

During 1999, the Corporation formed a new leasing subsidiary, Irwin Business Finance. The company began lease originations in early 2000. On July 14, 2000, the Corporation completed its acquisition of a 78% ownership position in Onset Capital Corporation, a Canadian small-ticket equipment leasing company. Irwin Business Finance and Onset Capital Corporation, together with the related activities of Irwin Union Bank, form the leasing line of business.

During the first quarter of 2001, the leasing line of business incurred a pre-tax loss of \$0.7 million, compared to a pre-tax loss of \$0.9 million in the first quarter of 2000. These losses reflect expenses related to staffing, systems development and portfolio growth initiatives in excess of portfolio revenue. Total loan and lease receivables

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originated during the first quarter of 2001 were \$33.9 million, which more than doubled first quarter 2000 production of \$16.0 million. The total loan and lease portfolio totaled \$170.7 million at March 31, 2001.

Lease Portfolio (in thousands):

|                        | <u>March 31, 2001</u> | <u>December 31, 2000</u> |
|------------------------|-----------------------|--------------------------|
| Domestic Leases        | \$107,405             | \$91,946                 |
| Weighted average yield | 10.92%                | 10.84%                   |
| Delinquency ratio      | 1.36%                 | .66%                     |
| Canadian Leases        | 63,249                | 62,988                   |
| Weighted average yield | 12.46%                | 12.52%                   |
| Delinquency ratio      | 2.01%                 | 1.61%                    |

Venture Capital

Irwin Ventures LLC, is a venture capital company which makes minority investments in early-stage financial services-related businesses. During the first quarter of 2001 the venture capital line of business recorded a net loss of \$1.4 million which resulted principally from a valuation adjustment to one of its portfolio investments. This compares with net income of \$4.3 million in the first quarter of 2000 which was primarily the result of an upward valuation adjustment to the same portfolio company. Venture capital investments held by Irwin Ventures are carried at fair value with changes in fair value recognized in other income.

At March 31, 2001, the business had investments in the following companies:

| Company           | Public/Private | Investment At Cost | Carrying Value  |
|-------------------|----------------|--------------------|-----------------|
| LiveCapital.com   | Private        | \$1.94 million     | \$6.19 million  |
| Bremer Associates | Private        | \$1.98 million     | \$1.98 million  |
| DocuTouch         | Private        | \$1.67 million     | \$1.42 million  |
| Zoologic          | Private        | \$0.67 million     | \$0.67 million  |
| PayCycle          | Private        | \$0.95 million     | \$0.95 million  |
| Total             |                | \$7.21 million     | \$11.21 million |

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Parent Company (including consolidating entries)

For the quarter ended March 31, 2001, the parent company recorded net income of \$0.2 million compared with a net loss of \$1.9 million a year earlier. The parent company recorded \$0.3 million of income tax benefit related to Irwin Business Finance for the quarter ended March 31, 2001 and March 31, 2000. The parent company will continue to record tax benefits resulting from the operating losses of Irwin Business Finance until such time as Irwin Business Finance becomes profitable and utilizes all of its operating loss carryforwards.

Parent company operating results improved in 2001 versus 2000 as a result of allocations made by the parent company to its subsidiaries of \$2.3 million in interest expense related to interest-bearing capital obligations of the parent company. During the first quarter of 2000, these expenses were not allocated by the parent to the subsidiaries.

Consolidated Income Statement Analysis

Net interest income for the first quarter of 2001 totaled \$29.1 million, up \$10.0 million or 52.3% from the first quarter of 2000. The increase was due primarily to increased loans and interest-only strips outstanding at the home equity line of business which accounted for \$9.3 million of the \$10.0 million increase.

The loan and lease loss provision was \$1.6 million for the first quarter of 2001, as compared with \$1.1 million for the same period in 2000. The provision related primarily to the commercial bank and the equipment leasing lines of business. See the section on credit risk for additional information on the loan loss provision.

Noninterest income was up 23.8% to \$62.1 million in the first quarter of 2001. The first quarter increase was primarily a result of increased revenues at the mortgage line of business as a result of the lower interest rate environment which increased loan production activity. Included in the "other" component of noninterest income was the fair value adjustments made at the venture capital line of business in both the first quarter of 2000 and 2001.

Other expenses increased 38.7% in the first quarter of 2001 to \$74.8 million. This increase relates to increased production and implementation of growth strategies at each of the Corporation's lending and leasing lines of business.

The effective income tax rate for the Corporation was 39.1% during the first quarter of 2001. This is compared with 40.1% in the first quarter of 2000.

Consolidated Balance Sheet Analysis

Total assets of the Corporation at March 31, 2001, were \$2.9 billion, up from December 31, 2000 total assets of \$2.4 billion. The increase in total assets was due to growth in loans held for sale at the mortgage bank of \$0.3 billion and growth in loans at the commercial bank of \$0.1 billion. The increase in assets was accompanied by an increase in deposits at the commercial bank of \$0.3 billion. A portion of noninterest bearing deposits is associated with escrow accounts held on loans in the servicing portfolio of Irwin Mortgage. These escrow accounts totaled \$289.7 million at March 31, 2001, up from \$145.3 million at December 31, 2000.

Shareholders' equity grew to \$198.2 million as of March 31, 2001, an increase of 4.4% over year-end 2000 shareholders' equity of \$189.9 million. Shareholders' equity as of March 31, 2001 represented \$9.30 per common share, an increase of 3.7% compared to December 31, 2000. The Corporation's equity to assets ratio ended the quarter at 6.92% compared to 7.84% at the end of 2000.

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### Credit Risk

The assumption of credit risk is a key source of earnings for the home equity lending, commercial banking and equipment leasing lines of business. In addition, the mortgage banking business assumes some credit risk despite the fact that its mortgages are typically insured.

The credit risk in the loan portfolios of the home equity lending business and commercial bank have the most potential to have a significant effect on consolidated financial performance. These lines of business manage credit risk through the use of lending policies, credit analysis and approval procedures, periodic loan reviews, and personal contact with borrowers. Loans over a certain size are reviewed by a loan committee prior to approval.

An allowance for loan losses is established as an estimate of the probable credit losses on the loans held by the Corporation. A specific allowance is determined by evaluating those loans which are either substandard or have the potential to become substandard. In general, commercial loans, mortgage loans, and leases are evaluated individually to determine the appropriate allowance. Consumer loans, including home equity loans, are generally evaluated as a group. A specific allowance is set at a level which management considers sufficient to cover probable losses on these loans. A general allowance is determined by analyzing historical loss experience by loan type and then adjusting these loss factors for current conditions not reflected in prior experience. The allowance for loan losses is an estimate which is based on management's judgement combined with a quantitative process of evaluation and analysis. For interest-only strips, a loss estimate is embedded in the discounted residual value of the asset, and therefore there is no amount included in the allowance.

Loans and leases that are determined by management to be uncollectible are charged against the allowance. The allowance is increased by provisions against income and recoveries of loans and leases previously charged off. As of March 31, 2001, the allowance for loan and lease losses as a percentage of total loans and leases was 1.03% compared to 1.06% at December 31, 2000.

Net charge-offs in the first quarter of 2001 were \$1.0 million, compared to \$0.3 million in the first quarter of 2000. Higher net charge-offs in 2001 relate to the loan growth at the commercial bank and charge-offs at Onset Capital Corporation. Onset was acquired by Irwin in July 2000 and had an existing portfolio of leases.

Total nonperforming loans and leases at March 31, 2001 were \$7.3 million, relatively unchanged from year-end. Nonperforming loans and leases as a percent of total loans and leases were 0.56% at March 31, 2001, compared to 0.58% at the end of 2000. Other real estate owned totaled \$4.3 million at March 31, 2001, up from \$2.8 million at December 31, 2000, an increase primarily attributable to the home equity lending line of business. Total nonperforming assets were \$11.6 million, or 0.41% of total assets at March 31, 2001, as compared to \$10.1 million, or 0.42%, at year-end 2000.

|  | March 31,<br><u>2001</u> | December 31,<br><u>2000</u> |
|--|--------------------------|-----------------------------|
| <u>Nonperforming Assets</u>              |                          |                             |
| (In thousands)                           |                          |                             |
| Accruing loans past due 90 days or more: |                          |                             |
| Commercial                               | \$623                    | \$324                       |
| Consumer                                 | 278                      | 510                         |
| Leasing - domestic                       | -                        | <u>627</u>                  |
| Subtotal                                 | <u>901</u>               | <u>1,461</u>                |
| Nonaccrual loans:                        |                          |                             |
| Real estate mortgage                     | 2,398                    | 1,922                       |
| Commercial                               | 1,005                    | 752                         |
| Leasing - domestic                       | 1,105                    | 960                         |
| Leasing - Canadian                       | 1,165                    | 1,209                       |
| Consumer                                 | <u>746</u>               | <u>918</u>                  |
| Subtotal                                 | <u>6,419</u>             | <u>5,761</u>                |
| Total nonperforming loans and leases     | <u>7,320</u>             | <u>7,222</u>                |
| Other real estate owned                  | <u>4,321</u>             | <u>2,833</u>                |
| Total nonperforming assets               | <u>\$11,641</u>          | <u>\$10,055</u>             |
| Nonperforming assets to total assets     | <u>0.41%</u>             | <u>0.42%</u>                |
| <u>Capital Adequacy</u>                  |                          |                             |

The Corporation, Irwin Union Bank, and Irwin Union Bank, F.S.B. are subject to various regulatory capital requirements administered by federal banking agencies. Quantitative measures established by regulation to ensure capital adequacy require these bank subsidiaries and the Corporation to maintain minimum ratios of Total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and Tier I capital to average assets (as defined). Irwin Union Bank, F.S.B. is also required to maintain minimum ratios of core capital (as defined) to adjusted tangible assets and tangible capital (as defined) to tangible assets. The Corporation, Irwin Union Bank, and Irwin Union Bank, F.S.B, were all well capitalized at March 31, 2001. The Corporation's equity and risk-based capital ratios are as follows:

|                    | Ratio              |             |              |
|--------------------|--------------------|-------------|--------------|
|                    | Required to        |             |              |
|                    | be considered      |             |              |
|                    | Well-              | March 31,   | December 31, |
|                    | <u>Capitalized</u> | <u>2001</u> | <u>2000</u>  |
| Equity to Assets   | n/a                | 6.92%       | 7.84%        |
| Risk-Based Capital | 10.0%              | 12.59%      | 13.59%       |
| Tier I Capital     | 6.0%               | 8.40%       | 8.87%        |
| Tier I Leverage    | 5.0%               | 9.78%       | 12.41%       |

#### Derivative Financial Instruments

The Corporation utilizes certain derivative instruments which do not qualify for hedge accounting treatment under SFAS No. 133.

The Corporation economically hedges its interest rate risk on mortgage loans held for sale using mandatory commitments to sell the loans at a future date. Certain of the Corporation's interest-only strips are hedged using interest rate caps which had a fair value of \$0.1 million and a notional amount of \$21.1 million at March 31, 2001. Interest rate caps are classified as trading securities on the balance sheet and carried at their fair values. Adjustments to fair values are recorded as trading gains or losses on the income statement. In the first quarter of 2001, the Corporation recorded a \$0.1 million loss related to these derivative products. This compares to a gain of \$3.4 million in the first quarter of 2000.

The Corporation also engaged in economically hedging its mortgage servicing rights through the use of Eurodollar and U.S. Treasury futures contracts. For the first quarter, the Corporation experienced \$0.1 million of realized gains and \$3.2 million of unrealized gains on these economic hedges. The notional value of U.S. Treasury futures contracts



outstanding at March 31, 2001 was \$4.9 billion. The Corporation did not hold any US Treasury futures at March 31, 2001. The futures contracts were marked-to-market as trading securities with changes in value recorded in the income statement.

Onset Capital Corporation uses two interest rate swaps to reduce repricing risk associated with a funding source. The interest rate risk is created due to a repricing mismatch between the fixed-rate payment stream from leasing assets and floating rate funding. The notional amounts of the swaps were \$28.0 million and \$29.1 million as of March 31, 2001. The notional values of both interest rate swaps amortize on a schedule designed to approximate the principal pay down of the loan portfolio, and has a final maturity date of May 25, 2004. Onset can reduce the notional value of the swaps by up to 10% if prepayments on the loans are greater than originally anticipated.

The Corporation has foreign currency contracts to protect the value of intercompany loans made to Onset Capital against changes in the exchange rate. The Corporation had a notional amount of \$14.7 million in forward contracts outstanding as of March 31, 2001. Gains and losses associated with these contracts are included in other expense on the income statement.

### **Liquidity**

Liquidity is the availability of funds to meet the daily requirements of the Corporation's business. For financial institutions, demand for funds results principally from extensions of credit and withdrawal of deposits. Liquidity is provided by asset maturities or sales and through deposits and short-term borrowings.

The objectives of liquidity management are to ensure that funds will be available to meet current demands and that funds are available at a reasonable cost. Liquidity is managed by the parent company via daily interaction with the lines of business and periodic liquidity planning sessions.

Since loans are less marketable than securities, the ratio of total loans to total deposits is a traditional measure of liquidity for banks and bank holding companies. At March 31, 2001, the ratio of loans and loans held for sale to total deposits was 119.2%. The Corporation is comfortable with this relatively high level due to its position in mortgage loans held for sale. These loans carry an interest rate at or near current market rates for first and second lien mortgage loans. Since the Corporation securitizes and sells nearly all these mortgage loans within a 90-day period, our liquidity is significantly higher than the ratio would suggest by traditional standards. Excluding mortgage loans held for sale, the loan-to-deposit ratio is 72.4% at March 31, 2001.

Part I

Item 3

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

## **Interest Rate Risk**

Because assets are not perfectly match funded with like-term liabilities, the Corporation's earnings are affected by interest rate changes. Interest rate risk is measured by the sensitivity of both net interest income and fair value of net interest sensitive assets to changes in interest rates.

An asset/liability management committee at each of the Corporation's lines of business monitors the repricing structure of assets, liabilities and off balance sheet items and uses a financial simulation model to measure interest rate risk over multiple interest rate scenarios. The Corporate Asset/Liability Management Committee oversees the rate risk profile of the Corporation as a whole. Numerous factors are incorporated into the financial model including prepayment speeds, net interest margin, fee income and a comprehensive mark-to-market valuation process. Risk measures and assumptions are regularly reevaluated and modeling tools are enhanced as needed.

The commercial banking, home equity, and leasing lines of business assume interest rate risk in the pricing of their loans and leases, and manage this risk by adjusting the duration of their interest sensitive liabilities and through the use of off balance sheet hedging.

The mortgage banking business incurs interest rate risk by entering into commitments to extend loans to borrowers at a fixed rate for a limited period of time. Closed loans are held only temporarily until a pool is formed and sold. To mitigate the risk that interest rates will rise between loan origination and securitization, the mortgage bank buys commitments to deliver loans at a fixed price.

The mortgage and home equity lines of business are also exposed to the risk that rates will decline, increasing prepayment speeds on loans and decreasing the value of servicing assets and interest-only strips. As discussed in the line of business analysis section of this report, some offsets to these exposures exist in the form of a strong production operation, selective sales of servicing rights, match funded asset-backed securities sales and the use of financial instruments to hedge the economic performance of the assets.

The following tables reflect management's estimate of the present value of interest sensitive assets, liabilities, and off balance sheet items at March 31, 2001. In addition to showing the estimated fair market value at current rates, they also provide estimates of the fair market values of interest sensitive items based upon a hypothetical move both up and down 100 and 200 basis points in the entire yield curve.

The first table is an economic analysis showing the present value impact of changes in interest rates, assuming a comprehensive mark-to-market environment. The second table is an accounting analysis showing the same net present value impact, adjusted for expected accounting treatment. Neither analysis takes into account the book values of the non-interest sensitive assets and liabilities (such as cash, accounts receivable, and fixed assets), the values of which are not directly affected by interest rates.

The analyses are based on discounted cash flows over the remaining estimated lives of the financial instruments. The interest rate sensitivities apply to March 31, 2001 book of business only. The net asset value sensitivities do not necessarily represent the changes in the lines of business' net asset value that would actually occur under the given interest rate scenarios, as sensitivities do not reflect changes in value of the companies as a going concern nor consider potential rebalancing or other hedging actions that might be taken in the future under asset/liability management.

## **Economic Value Change Method**

## Present Value

At March 31, 2001

## Instantaneous Change in Interest Rates of:

| <u>(In Thousands)</u>                     | <u>-2%</u>         | <u>-1%</u>         | <u>Current</u>     | <u>+1%</u>         | <u>+2%</u>         |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|
| Interest Sensitive Assets                 |                    |                    |                    |                    |                    |
| Loans and Other Assets (1)                | \$1,595,971        | \$1,557,857        | \$1,520,664        | \$1,484,835        | \$1,450,440        |
| Loans Held for Sale                       | 718,136            | 713,212            | 707,726            | 701,981            | 696,018            |
| Mortgage Servicing Rights                 | 54,279             | 83,056             | 136,883            | 179,658            | 200,820            |
| Interest-Only Strips                      | <u>160,301</u>     | <u>166,781</u>     | <u>174,545</u>     | <u>182,972</u>     | <u>191,599</u>     |
| Total Interest Sensitive Assets           | <u>2,528,687</u>   | <u>2,520,906</u>   | <u>2,539,818</u>   | <u>2,549,446</u>   | <u>2,538,877</u>   |
| Interest Sensitive Liabilities            |                    |                    |                    |                    |                    |
| Deposits                                  | (1,120,943)        | (1,116,157)        | (1,111,455)        | (1,106,832)        | (1,102,289)        |
| Short Term Borrowings                     | (805,850)          | (803,067)          | (800,255)          | (797,620)          | (794,961)          |
| Long Term Debt                            | <u>(215,435)</u>   | <u>(206,751)</u>   | <u>(197,340)</u>   | <u>(186,482)</u>   | <u>(174,898)</u>   |
| Total Interest Sensitive Liabilities      | <u>(2,142,228)</u> | <u>(2,125,975)</u> | <u>(2,109,050)</u> | <u>(2,090,934)</u> | <u>(2,072,148)</u> |
| Net Market Value as of March 31, 2001 (1) | <u>\$386,459</u>   | <u>\$394,931</u>   | <u>\$430,768</u>   | <u>\$458,512</u>   | <u>\$466,729</u>   |

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|   |                   |                   |                  |                  |                  |
|---|-------------------|-------------------|------------------|------------------|------------------|
| Potential Change                            | <u>(\$44,309)</u> | <u>(\$35,837)</u> | <u>\$-</u>       | <u>\$27,744</u>  | <u>\$35,961</u>  |
| Net Market Value as of<br>December 31, 2000 | <u>\$303,443</u>  | <u>\$312,277</u>  | <u>\$338,895</u> | <u>\$353,270</u> | <u>\$348,506</u> |
| Potential Change                            | <u>(\$35,452)</u> | <u>(\$26,618)</u> | <u>\$-</u>       | <u>\$14,375</u>  | <u>\$9,611</u>   |

1. Approximately \$51.0 million of the increase in Net Market Value of interest sensitive items relative to December 31, 2000, is due to the re-categorizing of certain deposit assets from non interest sensitive assets to interest sensitive assets.

GAAP-Based Value Change Method

Present Value

At March 31, 2001

Instantaneous Change in Interest Rates of:

| <u>(In Thousands)</u>           | <u>-2%</u>     | <u>-1%</u>     | <u>Current</u>   | <u>+1%</u>       | <u>+2%</u>     |
|---------------------------------|----------------|----------------|------------------|------------------|----------------|
| Interest Sensitive Assets       |                |                |                  |                  |                |
| Loans and Other Assets (1)      | \$26,242       | \$14,493       | \$2,808          | \$(8,765)        | \$(20,168)     |
| Loans Held for Sale             | 707,726        | 707,726        | 707,726          | 701,981          | 696,018        |
| Mortgage Servicing Rights       | 56,719         | 85,404         | 128,673          | 129,278          | 131,107        |
| Interest-Only Strips            | <u>160,302</u> | <u>166,781</u> | <u>174,545</u>   | <u>182,972</u>   | <u>191,599</u> |
| Total Interest Sensitive Assets | <u>950,989</u> | <u>974,404</u> | <u>1,013,752</u> | <u>1,005,466</u> | <u>998,556</u> |

Interest Sensitive  
Liabilities

Deposits (1)

Short Term Borrowings (1)

Long Term Debt (1)

Total Interest Sensitive Liabilities  
(1)

|   |                   |                   |                    |                    |                   |
|---|-------------------|-------------------|--------------------|--------------------|-------------------|
| Net Market Value as of<br>March 31, 2001    | <u>\$950,989</u>  | <u>\$974,404</u>  | <u>\$1,013,752</u> | <u>\$1,005,466</u> | <u>\$998,556</u>  |
| Potential Change                            | <u>(\$62,763)</u> | <u>(\$39,348)</u> | <u>\$-</u>         | <u>(\$8,286)</u>   | <u>(\$15,196)</u> |
| Net Market Value as of<br>December 31, 2000 | <u>\$818,322</u>  | <u>\$837,172</u>  | <u>\$856,432</u>   | <u>\$859,801</u>   | <u>\$849,783</u>  |
| Potential Change                            | <u>(\$38,110)</u> | <u>(\$19,260)</u> | <u>\$-</u>         | <u>\$3,369</u>     | <u>(\$6,649)</u>  |

**(1) Value does not change in GAAP presentation.**

## Part II

## OTHER INFORMATION

## Item 1. Legal Proceedings

On May 9, 2001, Irwin Union Bank and Trust Company and Irwin Home Equity Corporation (collectively "Irwin") received notice that they were named as defendants in *Thompson v. Irwin Union Bank and Trust Company and Irwin Home Equity Corporation*, a lawsuit filed in the U.S. District Court for the District of Rhode Island. The suit alleges that Irwin's disclosures and closing procedure for certain home equity loans did not comply with certain provisions of the Truth in Lending Act. The suit also requests that the court certify a plaintiff class in this action. On June 18, Irwin filed a motion with the court to compel arbitration pursuant to the provisions in the home equity loan agreement. Because the case has only recently been filed, the Corporation has not formed a reasonable estimate of the amount of potential loss, if any, that the Corporation could suffer.

On June 15, 2001, a panel of the United States Court of Appeals for the 11<sup>th</sup> Circuit denied the appeal of Irwin Mortgage Corporation ("IMC") (formerly Inland Mortgage Corporation), and upheld the trial court's certification of a limited class of borrowers in *Culpepper, et. al v. Inland Mortgage Corporation*. This lawsuit was filed against IMC in April, 1996, in the United States District Court for the Northern District of Alabama. The suit alleges that IMC violated the Real Estate Settlement Procedures Act (RESPA) in connection with certain payments IMC made to mortgage brokers. The decision allowing the class certification to stand does not conclude the lawsuit or otherwise establish liability. On July 11, 2001, IMC filed a motion seeking a rehearing before the 11<sup>th</sup> Circuit Court of Appeals and will continue to vigorously defend this lawsuit. Although the Corporation is unable at this stage of the litigation to determine a reasonable estimate of potential losses, it is expected that an adverse outcome in this litigation could have a material adverse effect on the Corporation's financial condition and results of operations.

Item 5. Market for Corporation's Common Equity and Related Stockholder Matters

On January 2, 2001 the Corporation issued 2,898 shares of common stock pursuant to elections made by nine outside directors of the Corporation to receive board compensation under the 1999 Outside Director Restricted Stock Compensation Plan in lieu of cash fees.

All of these shares were issued in reliance on the private placement exemption from registration provided in section 4(2) of the Securities Act.

Item 6

(a) Exhibits to Form 10-Q/A

Number Assigned  
In Regulation S-K

Item 601

Description

|         |   |
|---------|---|
| (2)     | No Exhibit  |
| (3)     | Code of By-Laws of Irwin Financial Corporation as amended to date |
| (4)     | No Exhibit  |
| (10)(a) | Limited Liability Company Agreement of Irwin Ventures LLC         |

|                         |  |  |
|-------------------------|--|--|
| (10)(b)                 |  | Irwin Home Equity Corporation Shareholder Agreement  |
| (11)                    |  | Computation of earnings per share is included in the footnotes to the financial statements |
| (15)                    |  | No Exhibit   |
| (18)                    |  | No Exhibit   |
| (19)                    |  | No Exhibit   |
| (22)                    |  | No Exhibit   |
| (23)                    |  | No Exhibit   |
| (24)                    |  | No Exhibit   |
| (99)                    |  | No Exhibit   |
| (b) Reports on Form 8-K |  |  |

|       |                  |   |
|-------|------------------|---|
| 8-K   | January 2, 2001  | Attaching press release announcing Robert H. Griffith as President of IMC               |
| 8-K   | January 23, 2001 | Attaching press release announcing quarterly and annual earnings                        |
| 8-K/A | January 24, 2001 | Amendment to 1/23/01 8-K to correct misstatement  |
| 8-K   | March 1, 2001    | Attaching press release announcing action on dividend, directors' terms and rights plan |

8-K      March 2, 2001      Filed by Vedder Price with summary of Rights Plan and attaching  
Rights Agreement between IFC and IUBT

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

IRWIN FINANCIAL CORPORATION

By: /s/Gregory F. Ehlinger

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Gregory F. Ehlinger

Chief Financial Officer

By: /s/Jody A. Littrell

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Jody A. Littrell

Corporate Controller

(Chief Accounting Officer)