IRWIN FINANCIAL CORP
Form DEF 14A
April 16, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x
Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

Irwin Financial Corporation

(Name of Registrant as Specified In Its Charter)

Irwin Financial Corporation

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.
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1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

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1) Amount Previously Paid:

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April 16, 2007

NOTICE OF 2007 ANNUAL MEETING OF SHAREHOLDERS

To our Shareholders:

You are cordially invited to attend the 2007 Annual Meeting of Shareholders of Irwin Financial Corporation, to be held at the Yes Cinema, 280 Commons Mall, Columbus, Indiana, on Wednesday, May 9, 2007, at 4:00 p.m. Eastern Daylight Time, for the following purposes:

Proposals:

No. 1. to elect three Directors to serve on the Board until our 2010 annual meeting; and,

No. 2. to approve the Irwin Financial Corporation 2007 Performance Unit Plan and grants made under this Plan.

Other Items:

to hear such reports as may be presented; and,

to transact any other business that may properly come before the meeting or any adjournment of it.

Proposals 1 and 2 are described further in the proxy statement accompanying this Notice.

Registration of shareholders will start at 3:15 p.m. and the meeting will start at 4:00 p.m.

Your vote is important. Whether or not you plan to attend the meeting, I encourage you to date, sign, and mail the enclosed proxy in the postpaid envelope that is provided. If you are present at the meeting and desire to do so, you may revoke your proxy and vote in person.

Enclosed with this notice are our Annual Report to Shareholders for 2006, our Annual Report on Form 10-K and our proxy statement.

MATT SOUZA
Secretary

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PROXY STATEMENT OF IRWIN FINANCIAL CORPORATION

FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD MAY 9, 2007

GENERAL INFORMATION AND VOTING PROCEDURES

We are providing this proxy statement and the accompanying form of proxy (the proxy card) in connection with the solicitation by our Board of Directors of proxies to be used at our Annual Meeting of Shareholders on Wednesday, May 9, 2007. The meeting will be held at the Yes Cinema, 280 Commons Mall, Columbus, Indiana, at 4:00 p.m. Eastern Daylight Time, or any adjournment thereof. Please see the back cover for directions.

We will bear the costs of the solicitation of proxies. In addition to solicitation by mail, proxies may be solicited by our directors, officers and employees, at no additional compensation, by telephone, facsimile transmission, e-mail, and personal interviews or otherwise.

A shareholder who signs and returns a proxy card may revoke it at any time before it is exercised by giving notice of revocation to our Secretary. All shares represented by a proxy card, if it is executed and returned, will be voted as directed by the shareholder. If a shareholder executes and returns a proxy card, but makes no direction as to such shareholder s vote, the shares will be voted on each matter to come before the meeting in accordance with the recommendation of the Board of Directors.

Only shareholders of record at the close of business on March 23, 2007 (the record date), will be entitled to vote. On the record date, there were 29,527,712 common shares outstanding. Each common share is entitled to one vote on each matter to be voted on at the meeting.

Shareholders owning a majority of all the common shares outstanding must be present in person or represented by a proxy card in order to constitute a quorum for the transaction of business. Based on the number of common shares outstanding on the record date, 14,763,857 shares will be required at the meeting for a quorum.

Proxy cards returned by brokers with non-votes on any matter on behalf of shares held in street name because the beneficial owner has withheld voting instructions, and proxy cards returned with abstentions, will be treated as present for purposes of determining a quorum.

However, non-votes and abstentions will not be counted as voting on any matter for which a non-vote or abstention is indicated and will therefore not affect the outcome of those matters.

If you are a participant in the Irwin Financial Corporation Employees Savings Plan and/or the Irwin Mortgage Corporation Retirement and Profit Sharing Plan (the Plans), you have the right to direct Fidelity Management Trust Company (Fidelity), as Trustee of the Plans, regarding how to vote the shares of Irwin Financial Corporation attributable to your individual account under the Plans. Your instructions to Fidelity will be tabulated confidentially. If your voting directions are not received by May 4, 2007, the Trustee may vote the shares attributable to your account as specified by the applicable Plans.

More specific voting information accompanies the Proposals.

Our main offices are located at 500 Washington Street, Columbus, Indiana 47201. Our website is www.irwinfinancial.com.

This proxy statement will be mailed to shareholders on or about April 16, 2007.

SECURITIES OWNERSHIP AND REPORTING

Principal Holders of Irwin Financial Securities

Persons known by management to own beneficially more than 5% of our common shares, as of the record date, are listed below. All of the shares listed are beneficially owned through voting and investment power held solely by the reported owner, except as otherwise indicated.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
William I. Miller 500 Washington Street Columbus, Indiana 47201	11,275,295 (1)	38.10%
Dimensional Fund Advisors LP 1299 Ocean Avenue, 11th Floor Santa Monica, CA 90401	2,468,442 (2)	8.36%
Barclays Global Investors, NA 45 Fremont Street San Francisco, CA 94105	1,884,927 (3)	6.38%

(1) Amount and nature of beneficial ownership is as of the record date March 23, 2007. This includes 5,176,038 common shares, which William I. Miller beneficially owns as the trustee of the J. Irwin Miller Marital Trust II (Trust II). William I. Miller was appointed as the Trustee on April 25, 2006. Previously, Trust II also granted William I. Miller an irrevocable proxy to vote and an option to acquire, subject to certain conditions, 5,160,544 of these common shares. William I. Miller disclaims beneficial ownership of the securities held in this trust except to the extent of his potential remainder interest in this trust.

Also includes 5,160,592 common shares beneficially held through an irrevocable proxy granted by the IFC Trust under Trust Agreement dated June 29, 1990, Clementine M. Tangeman, Donor (the IFC Trust). On September 7, 2004 the IFC Trust appointed William I. Miller sole trustee, in substitution for his deceased father, J. Irwin Miller. The IFC Trust has granted William I. Miller an irrevocable proxy to vote such common shares, and an option to acquire such common shares, subject to certain conditions. The Estate of J. Irwin Miller is the sole beneficiary of the IFC Trust. William I. Miller disclaims beneficial ownership of the securities held in this trust except to the extent of his potential remainder interest in this trust.

Also includes (i) 22,812 common shares beneficially held through William I. Miller s role as the custodian of accounts benefiting his children, (ii) 14,625 common shares held by William I. Miller s spouse, Lynne M. Maguire, as trustee of the 1998 William I. Miller Annual Exclusion Trust (the Exclusion Trust), and (iii) 776,345 common shares beneficially held through employee stock options that are exercisable within 60 days of March 23, 2007. William I. Miller expressly disclaims beneficial ownership of the common shares held as custodian on behalf of his children and the common shares held through the Exclusion Trust.

(2) The number of shares indicated is determined as of December 31, 2006, pursuant to a 13G filing that Dimensional Fund Advisors LP made with the Securities and Exchange Commission on February 2, 2007.

(3) The number of shares indicated is determined as of December 31, 2006, pursuant to a 13G filing that Barclays Global Investors, NA (Barclays) made with the Securities and Exchange Commission on January 23, 2007. Barclays is the parent company of several subsidiaries reporting a total aggregate amount.

Securities Ownership of Directors and Management

The following information about the ownership of our common shares is given as of the record date, except as noted below, for each of our current directors and the Named Executive Officers, (as identified in the Summary Compensation Table for Fiscal Year 2006 below) individually, and all our current directors and executive officers as a group.

Name	Irrevocable Voting Proxy	Right to Acquire within 60 days of March 23, 2007	Restricted Stock	Total Number of Shares Beneficially Owned(1)	Percent of Class
Sally A. Dean (2)(3)		25,800	1,383	48,165	*
Gregory F. Ehlinger (4)		141,975	0	159,023	*
David W. Goodrich (3)		5,700	1,383	23,344	*
Robert H. Griffith (4)(7)		0	0	6,100	*
R. David Hoover (3)		10,357	2,808	18,252	*
Bradley J. Kime (4)		88,590	0	97,537	*
William H. Kling (2)(3)		9,925	3,527	34,693	*
Joseph LaLeggia (4)		19,000	0	22,513	*
Brenda J. Lauderback (3)		19,818	3,138	30,955	*
John C. McGinty, Jr. (3)		14,890	1,383	29,011	*
William I. Miller (3)(4)(5)	10,321,136	776,345	0	11,275,295	38.10%
Dayton H. Molendorp (3)(6)		0	0	0	*
Lance R. Odden (2)(3)		14,890	1,383	36,349	*
Thomas D. Washburn (4)		143,140	0	189,529	*
Marita Zuraitis (3)		750	5,211	6,394	*
Current Directors and Executive Officers as a Group (16 persons) (8)	10,321,136	1,391,785	20,216	12,141,653	41.03%

* Less than 1%

(1) Includes shares for which directors hold sole voting power but no investment power under our 1999 Outside Director Restricted Stock Compensation Plan and the Irwin Financial Corporation Amended and Restated 2001 Stock Plan (see Restricted Stock column) and shares which directors and executive officers have the right to acquire within 60 days of March 23, 2007. (The Total Number of Shares Beneficially Owned column may include shares not shown in other columns of this table.)

(2) Director Nominee

(3) Director

(4) Named Executive Officer

(5) See Footnote 1 to the table under Principal Holders of Irwin Financial Securities.

(6) Mr. Molendorp was appointed as a director by the Board of Directors on February 15, 2007 to fill the remainder of the term of Theodore M. Solso, who resigned on December 31, 2006.

(7) Shares owned by Mr. Griffith are based on ownership as of December 31, 2006.

(8) Shares owned by Mr. Griffith are not included in the total shares owned by Current Directors and Executive Officers as a Group because Mr. Griffith is no longer an Executive Officer.

Mr. LaLeggia has a currently exercisable option to purchase 45.02 shares of the common stock of Irwin Commercial Finance Corporation (ICF), an indirect subsidiary of the Corporation.

Based on the number of shares currently outstanding, if Mr. LaLeggia exercised his option, he would hold 4.5% of the outstanding shares of ICF common stock.

We believe stock ownership by directors helps align their interests with those of our shareholders. The Governance Committee of the Board of Directors has approved guidelines for director ownership of our common stock. The guidelines include: direct ownership of our common stock (excluding stock options) equal in value to at least five times the non-stock- option portion of the director annual retainer fee (or $150,000, based on the current non-stock-option retainer fee portion of $30,000); attainment of the minimum level of ownership within five years of adoption of the guidelines (for directors who were serving at the time the guidelines were adopted) or five years after joining the Board of Directors (for directors whose service began after the guidelines were adopted); and disclosure of the guidelines and director compliance in our annual proxy statement. Apart from the above, we have created no incentives, disincentives or facilitative programs in connection with the guidelines. All directors are in compliance with our director stock ownership guidelines. (*See also* the discussion under the section Director Compensation.)

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 (Exchange Act) requires our directors and executive officers, and persons who own more than 10% of a registered class of our equity securities, to file with the Securities and Exchange Commission (SEC) initial reports of ownership and reports of changes in ownership of our common shares and our other equity securities registered under the Exchange Act. The SEC requires our executive officers, directors, and greater than 10% shareholders to furnish us with copies of all Section 16(a) forms they file.

In connection with matters concerning the estate of J. Irwin Miller, we discovered that a Form 3 should have been filed at the time shares from the estate of Mrs. Clementine Tangeman were transferred to the IFC Trust in 1996. The IFC Trust filed a Form 3 in connection with this matter on July 14, 2006.

With the exception of the filing mentioned above, to our knowledge, based solely on a review of the copies of the reports we received and of written representations that no other reports were required, our executive officers, directors, and greater than 10% shareholders met all applicable Section 16(a) filing requirements for the fiscal year 2006.

CORPORATE GOVERNANCE

Proposal No. 1. Election of Directors

Three directors are to be elected to our Board of Directors at the Annual Meeting in 2007. The three nominees receiving the greatest number of votes at the meeting, either in person or by proxy, will be elected as directors for the ensuing three-year term, as indicated. Proxies granted for use at the Annual Meeting cannot be voted for more than three nominees. Directors who are standing for election at the Annual Meeting are sometimes referred to in this proxy statement as Director Nominees.

Our Board of Directors currently consists of ten members divided into three classes of directors who are elected to hold office for staggered terms of three years as provided in our by-laws.

Director Nominees Dean, Kling and Odden are currently serving three-year terms expiring in 2007.

ON THE RECOMMENDATION OF THE GOVERNANCE COMMITTEE OF OUR BOARD OF DIRECTORS, IT IS PROPOSED THAT DIRECTOR NOMINEES DEAN, KLING AND ODDEN BE ELECTED AT THE ANNUAL MEETING TO SERVE FOR THREE-YEAR TERMS.

Directors Hoover, Miller, and Molendorp are currently serving three-year terms that expire in 2008. Director Solso resigned from the Board effective December 31, 2006. Dayton H. Molendorp was appointed by the Board on February 15, 2007 to fill the remainder of the term of director Theodore M. Solso. Mr. Molendorp was recommended to the Governance Committee for service on our Board by a non-management director. Directors Goodrich, Lauderback, McGinty and Zuraitis are currently serving three-year terms that expire in 2009.

The persons named as Proxies on the proxy card will, unless otherwise indicated on the proxy card, vote the shares reflected on the proxy card for the election of the Director Nominees, whose biographies are included in the following table. Management has no reason to believe that any of the Director Nominees will be unable to serve. However, should a Director Nominee become unavailable for election, and unless the Board of Directors or the Executive Committee reduces the size of the Board to a number reflecting the number of nominees who are able and willing to serve, the persons named as proxies on the proxy card will vote for a substitute who will be designated by the Board of Directors or the Executive Committee upon recommendation of the Board s Governance Committee.

Any vacancy occurring in the Board of Directors caused by resignation, death or other incapacity, or increase in the number of directors may be filled by a majority vote of the remaining members of the Board of Directors. If a director ceases to serve before his or her term expires, the individual replacing the departing director shall be named to serve the remainder of the departing director s term. Until any such vacancy is filled, the existing directors shall constitute the Board of Directors. Shareholders will be notified of any increase in the number of directors and the name, address, principal occupation, and other pertinent information about any director named by the Board of Directors to fill any vacancy.

The following table sets forth, as of the record date: the name; year in which the Director Nominee or director was first elected as a director; for Director Nominees, the expiration of the term if elected at this year s annual meeting; for current directors, the expiration of the directors term; principal occupation for the past five years of each Director Nominee or director; the percentage of the total number of meetings of our Board of Directors and meetings of committees of our Board of which the director or Director Nominee is a member attended by each director or Director Nominee during 2006; all other directorships or other positions held by each director and Director Nominee in other corporations subject to the reporting requirements of the Exchange Act and in any investment company; and the age as of March 23, 2007 of each director and Director Nominee.

Director Nominees

Sally A. Dean*
(Director since 1995; expiration of current term 2007; if elected, expiration of term 2010)

Ms. Dean is a retired Senior Vice President of Dillon, Read & Co. Inc. (an investment bank, which is now part of UBS). She serves as Chairman of the Paideia School Endowment Board and is former President of the Board of Trustees, Randolph-Macon Woman s College. In 2006, Ms. Dean attended 97% of our Board and Committee meetings of which she is a member. Age 58.

William H. Kling*
(Director since 1992, expiration of current term 2007; if elected, expiration of term 2010)

Mr. Kling has been President and Chief Executive Officer of the American Public Media Group (APMG) since 2000. APMG is the parent company of American Public Media, Minnesota Public Radio, Southern California Public Radio and the Greenspring Company (a diversified media company). Mr. Kling became President of Minnesota Public Radio (a regional network of 38 public radio stations) in 1966, and a director in 1972. In 1987, he became the President of the Greenspring Company. He is a director of The Wenger Corporation, Comcast Cable of St. Paul and seven funds of the American Funds family of the Capital Group, including serving as the non-executive Chair of The New Economy Fund and Small Cap World Fund. He was elected a Regent of St. John s University in 2005. In 2006, Mr. Kling attended 100% of our Board and Committee meetings of which he is a member. Age 64.

Lance R. Odden*
(Director since 1991; expiration of current term 2007; if elected, expiration of term 2010)

Mr. Odden retired as Head Master of The Taft School (a private educational institution) in June 2001, having served in that capacity since 1972. Mr. Odden serves as an advisor to Warburg Pincus (private equity investors), and is a director of the Berkshire School (a co-educational boarding school). Mr. Odden is a Managing Director of New Providence Asset Management, LLC (an investment manager of charitable endowments). In 2006, Mr. Odden attended 100% of our Board and Committee meetings of which he is a member. Age 67.

Current Directors

David W. Goodrich*
(Director since 1986; expiration of term 2009)

Mr. Goodrich serves as a director of Clarian Health Partners, Inc. (a network of healthcare facilities and hospitals), OneAmerica Financial Partners, Inc. (a nationwide network of companies offering retirement plan and insurance products and services), and the National Wine and Spirits, Inc. (a distributor of wines and spirits). He served as the President and Chief Executive Officer of the Central Indiana Corporate Partnership (a not-for-profit organization of corporate CEOs and University Presidents) from 1999 through the end of 2005. Mr. Goodrich was President of the Indianapolis, Indiana, Colliers Turley Martin Tucker Company (a realty company) from May 1998 to July 1999 and from January 1986 to May 1998, President of the F.C. Tucker Company s Commercial Real Estate Services Division. He was a director of Indianapolis-based Citizens Gas and Coke Utility through December 2005. Mr. Goodrich is a member of the Indiana University Randall L. Tobias Center for Leadership Excellence (the Indiana University Tobias Center) Board of Overseers. Mr. Goodrich attended 100% of our Board and Committee meetings of which he is a member. Age 59.

R. David Hoover*
(Director since 2004; expiration of term 2008)

Mr. Hoover is Chairman, President and Chief Executive Officer of Ball Corporation (a beverage and food packaging and aerospace products and services company). In 2002, he was elected Chairman, and has been the President and CEO since 2001. Mr. Hoover joined Ball Corporation in 1970. Prior to his career with Ball, Mr. Hoover was a corporate financial analyst for Eli Lilly & Co. (a pharmaceutical company), Indianapolis. Mr. Hoover serves on the boards of Ball Corporation, Energizer Holdings, Inc. (a consumer/household goods and personal care products company), and Qwest Communications International, Inc. (a telecommunications provider). In 2006, Mr. Hoover attended 90.5% of our Board and Committee meetings of which he is a member. Age 61.

Brenda J. Lauderback*
(Director since 1996; expiration of term 2009)

Ms. Lauderback was President of the Retail and Wholesale Group of the Nine West Group, Inc. (a marketer of women s footwear, clothing and accessories) from May 1995 until January 1998. She is a director of Big Lots, Inc. (a close-out retail company), Denny s Corporation, (a full-service family restaurant chain), Select Comfort, Inc. (a bedding retail manufacturer), and Wolverine World Wide, Inc. (a manufacturer of casual and work-related footwear). In 2006, Ms. Lauderback attended 96% of our Board and Committee meetings of which she is a member. Age 56.

John C. McGinty, Jr.*
(Director since 1991; expiration of term 2009)

Mr. McGinty has been the President of Peregrine Associates, Inc. (a healthcare, governance, and leadership consulting firm) since 1997. He was a Managing Director of The Greeley Company (a healthcare leadership consulting, strategic planning, education, and publications firm) from 1997 to 2003, and currently serves as a Senior Consultant. Mr. McGinty was a part-time faculty member at Indiana University from 1997 to 2001. From 1986 to 1997, Mr. McGinty was President and Chief Executive Officer of Southeastern Indiana Health Management, Inc., and Columbus Regional Hospital. In 2006, Mr. McGinty attended 100% of our Board and Committee meetings of which he is a member. Age 57.

William I. Miller
(Director since 1985; expiration of term 2008)

Mr. Miller has been our Chairman and Chief Executive Officer of the Corporation since August 1990. He is a director of Cummins Inc. (a worldwide diesel engine manufacturer), and a director or trustee of three mutual funds in the American Family of Funds of the Capital Group (New Perspective Fund, Euro Pacific Growth Fund and New World Fund). He also serves as a trustee of Yale University and a director of the John D. and Catherine T. MacArthur Foundation (a private grantmaking foundation focused on human and community development). In 2006, Mr. Miller attended 100% of our Board meetings. Age 50.

Dayton H. Molendorp*
(Director since February 15, 2007; expiration of term 2008)

Dayton H. Molendorp is Chairman of the Board, President and CEO of American United Mutual Insurance Holding Company (AUMIHC), the parent of OneAmerica Financial Partners, Inc. (a nationwide network of companies and affiliates offering a wide variety of retirement plan and insurance products and services). He joined OneAmerica s partner company American United Life Insurance Company (AUL) in 1987 as Vice President of Individual Marketing Support and was later named Senior Vice President of Individual Operations. In 2003 he was named AUL Executive Vice President, and in 2004 he was named AUL President and CEO. Mr. Molendorp was appointed to his present position as Chairman of AUMIHC in February 2007.

Mr. Moldendorp serves as a board member of the Boys & Girls Club of Indianapolis, the Central Indiana Corporate Partnership, Indiana Chamber of Commerce, Indiana University

Tobias Center, LIMRA International (a worldwide association of insurance and financial services companies) and the Skyline Club. He serves on the Advisory Commission for Anderson University and on the Advisory Committee for the Youth for Christ organization (an inter-denominational, Christian youth ministry). Age 59.

Marita Zuraitis*
(Director since 2005, expiration of term 2009)

Ms. Zuraitis is President of The Hanover Insurance Group, Inc. s property and casualty insurance companies, Citizens Insurance Company of America and The Hanover Insurance Company. Prior to joining The Hanover Insurance Group, Ms. Zuraitis served as an Executive Vice President for the St. Paul Companies (a provider of insurance and surety products and risk management services) from 1998 to 2004, and as the President/CEO of its Commercial Lines Division from 2002 to 2004. She currently serves on the Board of Trustees for Worcester Academy (a private, co-educational boarding school). In 2006, Ms. Zuraitis attended 88% of the Board and Committee meetings of which she is a member. Age 46.

* All non-management directors are members of the Executive Committee.

There are no family relationships among any of the Director Nominees, directors or executive officers.

Director Independence

Our governance principles state that a substantial majority of the Board should consist of directors who are not employed by Irwin Financial and who satisfy the requirements of the New York Stock Exchange (NYSE) for being an independent director. The NYSE requires that independent directors not have material relationships with Irwin Financial, other than their directorship, that would impair their independence, as affirmatively determined by the Board in accordance with NYSE standards.

To assist in the Board s determinations, the directors completed questionnaires designed to identify relationships that could affect their independence. The Board reached its determinations by considering all relevant facts and circumstances surrounding a director s commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships, among others.

On the basis of the responses to the questionnaires, the Board determined that Directors Dean, Goodrich, Hoover, Kling, Lauderback, McGinty, Molendorp, Odden and Zuraitis are independent because they met the standards for independence set forth in our governance principles and by the NYSE. There were no known relationships going back for a period of three years between the Corporation and Ms. Dean or Mr. Odden, and they were therefore deemed independent. The Board affirmatively determined that the relationships between the Corporation and each of Directors Goodrich, Hoover, Kling, Lauderback, McGinty, Molendorp and Zuraitis described below would not impair their independence for the following reasons:

With respect to Mr. Goodrich, the Board considered Irwin Financial Corporation s payment of membership fees for the last three fiscal years to the Central Indiana Corporate Partnership (CICP), an alliance of Indiana business and research university leaders, and Mr. Goodrich s service as President and Chief Executive Officer of the CICP until retiring from that position at the end of 2005. (Mr. Miller, our Chairman and Chief Executive Officer, is currently an Executive Committee member of the CICP.) The Board also considered Mr. Goodrich s position as President of the CICP Partnership Foundation, a 501(c)(3) organization, until his retirement at the end of 2005, and the Foundation s working line of credit with Irwin Financial s

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subsidiary bank, which line was paid in full and closed in January 2005. (Mr. Miller served as a director and treasurer of the CICP Partnership Foundation until December 31, 2005.)

The Board also considered the contribution in 2004 by a subsidiary of Irwin Financial to an affiliate of Clarian Health Partners, Inc., a health system that includes four major hospitals in Indianapolis, where Mr. Goodrich serves as a director.

The Board also considered Mr. Goodrich s service in 2006 as a director of OneAmerica Financial Partners, Inc. (OneAmerica), a nationwide network of companies and affiliates that offer retirement plan and insurance products and services. In 2005 and 2006, Irwin Union Credit Insurance Company, a subsidiary of Irwin Financial, made payments to American United Life Insurance Company (AUL), a subsidiary of OneAmerica, pursuant to a reinsurance arrangement, which arrangement was cancelled in 2006. During 2006, OneAmerica Securities, Inc., a subsidiary of OneAmerica, paid commissions to our indirect subsidiary, Irwin Union Insurance (IUI), for placing insurance through OneAmerica s subsidiary, AUL.

The Board also considered Mr. Goodrich s service as a member of the Indiana University Tobias Center Board of Overseers (where Mr. Miller, our Chairman and Chief Executive Officer, also served as a member until September 30, 2006) and donations made to various Indiana University programs by Irwin Financial and its subsidiaries over the last three fiscal years. These donations included matches to employee contributions as well as other contributions. Donations to Indiana University programs were also made through the Irwin Financial Foundation. (The Irwin Financial Foundation is not a subsidiary of Irwin Financial Corporation; however, directors and officers of the Foundation, including Mr. Miller, are executive officers of Irwin Financial Corporation.)

The Board also considered several banking relationships Mr. Goodrich and family members have with our subsidiary bank, including credit card accounts and a line of credit.

In concluding that Mr. Goodrich is independent, the Board believed that Irwin Financial s decision to join the CICP had a valid business purpose; that the former relationship between our subsidiary bank and the CICP Partnership Foundation was conducted in the ordinary course of business; that the amount of Irwin Financial s contribution to the Clarian Health Partners affiliate was not material; that the amounts paid to AUL by a subsidiary of Irwin Financial were not material nor was the amount paid to Irwin Financial s indirect subsidiary in commissions by OneAmerica, and that these relationships were conducted in the ordinary course of the insurance business; that Mr. Goodrich s position on the Board of Overseers at the Indiana University Tobias Center was not materially related to the contributions, which were deemed immaterial, made to Indiana University by Irwin-related entities; and that the relationships established by Mr. Goodrich and his family with our subsidiary bank were conducted in the ordinary course of banking business and involved nonmaterial amounts. The Board therefore concluded that none of the above relationships would unduly influence Mr. Goodrich s judgment or prevent him from acting independently as a director of Irwin Financial.

With respect to Mr. Hoover, the Board considered Mr. Hoover s service on the Dean s Council of the Kelley School of Business of Indiana University. As it did for Mr. Goodrich, the Board considered donations made to Indiana University by Irwin Financial and its subsidiaries over the last three fiscal years. These donations included matches to employee contributions as well as other contributions. Donations to Indiana University programs were also made through the

Irwin Financial Foundation, which, though not a subsidiary of Irwin Financial, does receive the services of some of our executive officers.

The Board also considered that in 2006, at the request of the University of Denver, Irwin Financial Corporation made a contribution to be one of several sponsors of the University s Korbel Dinner, a benefit for the Graduate School of International Studies, at which Mr. Hoover was one of several honorees.

In considering these relationships, the Board determined that Mr. Hoover was independent because his position on the Dean s Council at Indiana University s Kelley School of Business was not materially related to the contributions, which were deemed immaterial, made to Indiana University by Irwin-related entities; nor did the Board believe that Mr. Hoover s independence as a director would be influenced by the amount contributed to the University of Denver, nor would Mr. Hoover s status as an honoree at the University s Korbel dinner materially influence his independent judgment as an Irwin Financial director.

With respect to Mr. Kling, the Board considered his former position as a director of The St. Paul Travelers Companies, Inc. (St. Paul Travelers) which ended effective May 3, 2005. In the last three fiscal years, IUI, one of our indirect subsidiaries, received agency commissions for placing insurance with St. Paul Travelers and St. Paul Guardian, and Irwin Financial paid premiums to St. Paul Travelers to obtain enterprise-wide excess layer Directors & Officers insurance coverage. IUI received an additional commission for placing the excess layer policy in 2004.

The Board deemed Mr. Kling to be independent. The Board determined that the indirect relationship between Mr. Kling s position as a former director of St. Paul Travelers, and the commissions received by Irwin from, and premiums paid by Irwin to, St. Paul Travelers were immaterial and done in the ordinary course of business and would not interfere with Mr. Kling s independent service as a director of Irwin Financial.

With respect to Ms. Lauderback, the Board considered a contribution Irwin Financial Corporation made in 2006 at Ms. Lauderback s request to the Maya Angelou Research Center on Minority Health. Ms. Lauderback does not serve in any capacity for the Research Center. The Board believed the contribution was immaterial and would not affect Ms. Lauderback s ability to exercise independent judgment as an Irwin Financial director and therefore deemed her independent.

With respect to Mr. McGinty, the Board considered the customer relationships he and family members have with our subsidiary bank: a mortgage loan originated in 2002 that the bank sold to an unrelated third party shortly after origination; insurance policies through our indirect subsidiary, IUI, as agent, resulting in agency commissions to IUI; investment advisory services; deposit accounts; and safe deposit box rental.

The Board also considered Mr. McGinty s service on the Board of Directors of the Volunteers in Medicine Institute since 2002 and donations Irwin Financial made in the last three fiscal years to the Volunteers in Medicine Institute through the Columbus Regional Hospital Foundation.

In considering these relationships, the Board concluded that none of the banking relationships, which were ordinary course transactions, nor the donations, were material, or would affect Mr. McGinty s ability to act independently as a director of Irwin Financial. The Board therefore deemed him independent.

With respect to Mr. Molendorp, the Board considered his position as Chairman, President and Chief Executive Officer of American United Mutual Insurance Holding Company, parent of OneAmerica, a nationwide network of companies and affiliates that offer retirement plan and insurance products and services. As it did for Mr. Goodrich, the Board considered that in 2005 and 2006, Irwin Union Credit Insurance Company, a subsidiary of Irwin Financial, made payments to AUL, a subsidiary of OneAmerica, pursuant to a reinsurance arrangement, which arrangement was cancelled in 2006. During 2006, OneAmerica Securities, Inc., a subsidiary of OneAmerica, paid commissions to our indirect subsidiary, IUI, for placing insurance through OneAmerica s subsidiary, AUL.

The Board also considered Mr. Molendorp s service as a director of the CICP, for which Mr. Miller, our Chairman and Chief Executive Officer, is currently an Executive Committee member, and to which, as described above for Mr. Goodrich, Irwin Financial Corporation has paid membership fees in each of the last three fiscal years.

The Board also considered Mr. Molendorp s service as a director of the Boys & Girls Club of Indianapolis since 2003 and the contributions by an indirect subsidiary of Irwin Financial to the Boys & Girls Club of Indianapolis in 2004, and contributions by the Irwin Financial Foundation to the Boys & Girls Club of Indianapolis in each of 2005 and 2006.

The Board also considered Mr. Molendorp s service as a member of the Board of Overseers of the Indiana University Tobias Center, and, as it did for Mr. Goodrich and Mr. Hoover, the Board considered donations made to Indiana University by Irwin Financial and its subsidiaries over the last three fiscal years. These donations included matches to employee contributions as well as other contributions. Donations to Indiana University programs were also made through the Irwin Financial Foundation, which, though not a subsidiary of Irwin Financial, does receive the services of some of our executive officers.

In considering these relationships, the Board deemed Mr. Molendorp independent. The Board noted that all of the transactions described above occurred before Mr. Molendorp joined our Board. Further, with respect to any continuing or future transactions, the Board believed the insurance commissions paid to IUI would not be material to Mr. Molendorp s position at OneAmerica, nor were the amounts material that were paid to AUL by a subsidiary of Irwin Financial or received by Irwin Financial s indirect subsidiary in commissions from OneAmerica, and these transactions were conducted in the ordinary course of the insurance business. The Board also concluded, as it had for Mr. Goodrich, that Irwin Financial s decision to join the CICP had a valid business purpose. The Board further concluded that Mr. Molendorp s position as director of the Boys & Girls Club of Indianapolis and his service on the Board of Overseers at the Indiana University Tobias Center were not materially related to the contributions received, which were deemed immaterial, from Irwin entities. The Board therefore concluded that none of the above relationships would unduly influence Mr. Molendorp s judgment nor prevent him from acting independently as a director of Irwin Financial.

With respect to Ms. Zuraitis, the Board deemed her independent. The Board considered her former position as an Executive Vice President of The St. Paul Companies from 1998 through April of 2004, and as President/CEO of St. Paul s Commercial Lines Division from 2002 through April of 2004. During Ms. Zuraitis tenure there, a subsidiary of Irwin Financial received commissions for insurance placed with The St. Paul Companies, and Irwin Financial purchased excess D&O insurance from The St. Paul Companies, but Ms. Zuraitis was not affiliated with Irwin Financial at that time. The Board does not consider her past relationship with The St. Paul Companies or St. Paul Travelers, or the commissions received from or premiums paid to the St. Paul Companies by Irwin, to be transactions in which Ms. Zuraitis had a material interest such as would affect her ability to perform independently the duties of director.

Our former director, Mr. Theodore Solso, resigned from the Board in 2006. Our Board determined in 2006 that Mr. Solso was independent and considered the following: charitable donations made and fees paid by Irwin Financial and its subsidiaries to organizations with which Mr. Solso is affiliated, and Mr. Solso s position as CEO of Cummins Inc., to which we pay fees for the use and maintenance of an aircraft in which Cummins Inc. owns the majority interest and in which we own a 12.5 percent interest.

Director Meetings

Our Board of Directors held eight meetings during 2006.

Standing Committees and Committee Membership

Our Board of Directors has established five standing committees: (1) the Audit Committee; (2) the Risk Management Committee; (3) the Compensation Committee; (4) the Governance Committee; and (5) the Executive Committee. We have appointed certain members of our Board to serve on these committees, as reflected in the following chart:

2007 Committee Memberships

	Audit Committee (1)	Risk Management Committee (1)	Compensation Committee	Governance Committee	Executive Committee
Sally A. Dean	X		X*		X
David W. Goodrich		X			X
R. David Hoover	X				X
William H. Kling				X	X
Brenda J. Lauderback	X		X		X
John C. McGinty	X *	X		X	X
William I. Miller					
Dayton H. Molendorp		X			X
Lance R. Odden		X	X	X *	X *
Marita Zuraitis	X	X *			X

* Indicates Committee Chair

(1) The Board of Directors acted upon the recommendation of the Governance Committee to reorganize the Audit and Risk Management Committee, effective January 1, 2007, into two separate Committees: the Audit Committee and the Risk Management Committee.

Audit Committee

The Audit Committee is composed of Mr. McGinty (Committee Chair), Ms. Dean, Mr. Hoover, Ms. Lauderback and Ms. Zuraitis. The Board of Directors has determined that each member of the Committee is independent for purposes of the NYSE listing standards, SEC regulations and the Sarbanes-Oxley Act of 2002, as applicable to all independent directors and to audit committee members specifically. Additionally, the Board of Directors has determined that each member of the Committee is financially literate as required by the NYSE listing standards, and that Mr. McGinty qualifies as an audit committee financial expert, as defined by the SEC, thereby also satisfying the financial or accounting management expertise requirement under the NYSE listing standards.

The Audit Committee, which held 13 meetings in 2006 (as the Audit and Risk Management Committee), operates under a written charter adopted by the Board of Directors, a copy of which can be found in the Corporate Governance section of the Corporation s website at *www.irwinfinancial.com. (See also* Appendix A to this proxy statement.) The Committee has primary responsibility for, among other things, engaging, overseeing, and compensating our independent auditors; reviewing and approving the independent auditors audit plan; reviewing the report of audit and the accompanying management letter, if any; reviewing and directing the work performed by our internal audit department; reviewing, either alone or in conjunction with the Risk Management Committee, the regulatory examination reports received by us and our subsidiaries; consulting with the independent and internal auditors about the adequacy of internal controls; establishing and maintaining a policy and procedures in connection with related person transactions between the Corporation and its executive officers and directors; and approving changes to and waivers, if any, from the Corporation s Code of Conduct for executive officers and directors. (*See also* Report of the Audit Committee and the discussion of Pre-approval of Services Rendered by Independent Auditors in this proxy statement.)

Risk Management Committee

The Risk Management Committee was established on January 1, 2007 upon the reorganization of our Audit and Risk Management Committee into two separate committees. The Risk Management Committee is composed of Ms. Zuraitis (Committee Chair), Mr. Goodrich, Mr. McGinty, Mr. Molendorp and Mr. Odden. The Board of Directors has determined that each member of the Committee is independent. The Risk Management Committee, operates under a written charter adopted by the Board of Directors, a copy of which can be found in the Corporate Governance section of the Corporation s website at *www.irwinfinancial.com.* The Committee has the primary responsibility for assisting the Boards of Directors of the Corporation and our principal subsidiaries in fulfilling their oversight responsibilities with respect to the existence, operation and effectiveness of the enterprise-wide risk management programs, policies and practices. Responsibilities include reviewing enterprise-wide risk management and compliance policies and programs for, and reports on, the Corporation and its subsidiaries; approving and adjusting risk limits subject to ratification by the Corporation and Bank boards; and consulting with management on the effectiveness of risk identification, measurement, and monitoring processes, and the adequacy of staffing and action plans, as needed.

Compensation Committee

The Compensation Committee discharges the responsibilities of our Board of Directors relating to the compensation of our Chief Executive Officer and our other executive officers. In addition, the Compensation Committee grants stock options and other stock incentives to our executive officers, and administers our incentive, compensation and executive benefit plans.

The current members of the Compensation Committee are Ms. Dean (Committee Chair), Ms. Lauderback and Mr. Odden. The board has determined that each of Ms. Dean, Ms. Lauderback and Mr. Odden is independent for purposes of the NYSE listing standards and SEC regulations. Our Compensation Committee held five meetings in 2006.

Our Board of Directors has adopted a charter for the Compensation Committee, a copy of which can be found in the Corporate Governance section of the Corporation s website at *www.irwinfinancial.com.*

The Committee has engaged Watson Wyatt Worldwide, which we refer to as Watson Wyatt, an external global human resources consulting firm, to conduct an annual review of our total compensation program for executive officers. Watson Wyatt provides data and analyses that serve as the basis for setting executive officer and director compensation levels and advises the Committee on compensation decisions. Watson Wyatt also advises the Committee on the structure of executive officer programs which includes the design of incentive plans and the forms and mix of compensation. In addition to advising the Committee, Watson Wyatt provides compensation consulting services to Irwin Financial and its subsidiaries that are reported back to the Compensation Committee.

The agenda for meetings of the Compensation Committee is proposed by the Committee s Chair with input from other Committee members and assistance from our Chief Executive Officer, Executive Vice President, Senior Vice President-Ethics and Secretary, and the Vice President-Human Resources. Compensation Committee meetings are regularly attended by our Chief Executive Officer, Executive Vice President, Senior Vice President and Chief Financial Officer and Senior Vice President-Ethics and Secretary, as well as the Watson Wyatt consultant. At each regularly scheduled meeting, the Committee meets in executive session without any of the members of management present. The Watson Wyatt consultant attends executive session as requested by the Committee. The Committee s Chair regularly reports the Committee s recommendations on executive compensation to our Board of Directors.

Our human resources department also supports the Committee in its duties. Along with the Chief Executive Officer, Executive Vice President, the Senior Vice President and Chief Financial Officer, the Senior Vice President-Ethics and Secretary, and other officers, the human resources department may be delegated authority by the Committee to fulfill certain administrative duties regarding Irwin Financial compensation programs. The Compensation Committee has the authority under its charter to retain, review fees for, and terminate advisors and consultants as it deems necessary to assist in the fulfillment of its responsibilities.

The Chief Executive Officer provides the Committee with his assessment of the performance of the Executive Vice President, the Senior Vice President and Chief Financial Officer, and the Senior Vice President-Ethics and Secretary, and his perspective in developing his recommendations for their compensation. The Executive Vice President and the Chief Executive Officer provide the Committee with their assessments of the performance of each of the line-of-business presidents and their perspectives in developing their recommendations for compensation of those individuals. The Committee discusses each Named Executive Officer in detail and the compensation recommendations of the Chief Executive Officer and the Executive Vice President, including how these recommendations compare against external market data. The Committee approves all compensation of executive officers.

The Compensation Committee establishes the Chief Executive Officer s compensation, taking into consideration the performance appraisal as conducted by the Governance Committee, described in the Governance Committee section below.

Governance Committee

The Governance Committee, which serves as a standing nominating committee of the Board of Directors, is composed of Mr. Odden (Lead Director and Committee Chair), Mr. Kling and

Mr. McGinty. The Board of Directors has determined that each member of the Governance Committee is independent for purposes of the NYSE listing standards and SEC regulations. The Committee, which held five meetings in 2006, operates under a written charter adopted by the Board of Directors, a copy of which can be found in the Corporate Governance section of the Corporation s website at *www.irwinfinancial.com.*

The Governance Committee makes recommendations to the Board of Directors regarding general qualifications for nominees as directors, mix of experience and skills on the Board, size of the Board and the terms of its members, director compensation, and the retirement policy for directors. In discharging its responsibility for screening and recommending candidates for election to the Board, the Governance Committee periodically evaluates the Board s effectiveness and composition, including matters such as the business and professional experience (including any requisite financial expertise or other special qualifications), background, age, current employment, community service and other board service of its members, as well as racial, ethnic and gender diversity of the Board as a whole. The Governance Committee considers a candidate s qualifications in light of these criteria, as well as its assessment of whether a candidate can make decisions on behalf of, or while representing, Irwin Financial that are aligned with our Guiding Philosophy, which is posted at *www.irwinfinancial.com.* The Committee will also consider a candidate s independent status in accordance with applicable regulations and listing standards, as well as any conflicts of interest the candidate may have in serving on the Board of Directors. The Governance Committee recommended that the three Director Nominees stand for election at the annual meeting this year.

The Governance Committee will consider director candidates recommended by security holders from time to time, provided that such a recommendation is accompanied by (i) a sufficiently detailed description of the candidate s background and qualifications to allow the Governance Committee to evaluate the candidate in light of the criteria described above, (ii) a document signed by the candidate indicating his or her willingness to serve if elected, and (iii) evidence of the nominating security holder s ownership of Irwin Financial stock. Any such recommendation and related documentation must be delivered in writing to Lance Odden, currently our Lead Director, in care of Irwin Financial Corporation, PO Box 929, Columbus, Indiana 47202.

The Governance Committee also reviews and makes recommendations to the Board of Directors regarding director compensation and manages the Chief Executive Officer s performance appraisal process that includes input from each of the independent directors. The Committee discusses the assessment of the Chief Executive Officer s performance in executive session (without the Chief Executive Officer present) with all other members of the Board, which includes all members of the Compensation Committee.

The Governance Committee has also approved guidelines for director ownership of the Corporation s common stock. *See* the discussion under the section Securities Ownership of Directors and Management.

Executive Committee

The Executive Committee consists of the non-management directors of our Board. Its purpose is to meet regularly in executive session without employee directors or management present. (Our Chairman and Chief Executive Officer is the only employee director currently on the Board.) The Committee meets at least four times per year in executive session without management for a general discussion of relevant subjects. Additional meetings of the Committee may be held from time to time as required. Lance Odden, who has been designated the Lead Director and appointed the Chair of the Executive Committee by the non-management directors, presides over such executive sessions and is responsible for communicating any concerns or conclusions expressed in these sessions to management. The Committee has the power to act on the Board of Directors behalf at such times as may be designated by the Board of Directors to conduct the business of the Board of Directors, subject to limitations imposed by law, our articles, our by-laws, or resolutions of our Board of Directors. The Committee held eight meetings in 2006.

COMPENSATION

Compensation Discussion and Analysis

Executive Compensation Program Objectives and Rewards

Our executive compensation program focuses on the total compensation of our Named Executive Officers listed in the Summary Compensation Table for Fiscal Year 2006 and seeks to provide competitive compensation that varies with our performance in achieving our financial and non-financial goals. Our compensation system balances the following goals:

- Attract, motivate and retain talented individuals as executives;
- Reward performance by Named Executive Officers at a level that is competitive for their positions and performance in the banking industry;
- Link a substantial portion of total compensation to be paid to Named Executive Officers to the performance of the Corporation; and
- Align the interests of Named Executive Officers with our shareholders through a balance of our short-term and long-term incentive compensation plans.

All of our compensation and benefits for Named Executive Officers described below have as a primary purpose our need to attract, retain and motivate the types of individuals who will be able to execute our business strategy while upholding our values in an ever changing competitive environment.

Executive Compensation Process

The Compensation Committee of the Board of Directors (the Committee) directs the design of and oversees our executive compensation programs. A discussion of the Committee s structure, roles and responsibilities and related matters can be found above under the section Compensation Committee. This disclosure includes a description of the role of Watson Wyatt in advising the Committee on various matters related to the Corporation s executive compensation program.

The Committee s practice generally is to manage total target compensation for Named Executive Officers annually to approximately the median of the competitive market. Through the range of opportunities provided in our short-term incentive plans and long-term incentive plans, (each discussed more fully below), actual payments may exceed median when our performance exceeds targeted objectives and fall below the median when performance is below target. An individual Named Executive Officer s total compensation in any given year

may be set above or below median depending on experience, recruiting needs and performance.

The Committee considers a variety of sources of market data to benchmark the competitiveness of our compensation packages. These include both compensation surveys and proxy statement data from peer companies. Watson Wyatt annually recommends to the Committee relevant compensation surveys, the peer group for benchmarking and their suggested weightings.

The Committee, after reviewing Watson Wyatt s recommendation and considering management s input, annually selects a peer company list for purposes of evaluating market competitiveness. Generally, the peer group data is viewed in the context of other data from publicly available financial company compensation surveys. We attempt to select peer group members that have attributes similar to those of Irwin Financial and that are of comparable asset size. In 2006, our peer group consisted of 20 banking and financial services companies. Most of these companies were regional banks spread throughout the United States. The median asset level of these 20 companies was approximately $7.5 billion. The range of asset levels for our peers was approximately $5.0 billion to $11.7 billion.

As noted above, our compensation system is designed in part to reward management for the performance of the Corporation and to align their interests with those of our shareholders. Performance measurements used tend to emphasize financial performance, but the Committee will also consider critical strategic or operational objectives. Although we attempt to calibrate total target cash compensation to approximately the median of the competitive market, we recognize that the market data may not be exact. As a result, the Committee must use its judgment in overseeing executive compensation.

Elements of Executive Compensation

For the year ended December 31, 2006, the principal components of compensation for Named Executive Officers were:

A. Base salary

B. Annual short-term bonus

C. Long-term incentives

D. Retirement and other benefits

E. Perquisites and other personal benefits appropriate to the managerial role and responsibility of the executive.

A significant percentage of total compensation for Named Executive Officers was allocated to incentives. This provides a link between their total compensation and the performance of the Corporation and its stock. We have no pre-established policy or target for the allocation between either cash and non-cash or short-term and long-term incentive compensation. Rather, the Committee annually reviews the market information presented by Watson Wyatt to determine the appropriate level and mix of incentive compensation.

Except for specific items addressed in the following discussion, the compensation policies and decision methodologies for each individual Named Executive Officer were similar in 2006.

A. Base Salary

The Committee believes a market-median base salary is important in achieving the goal of attracting and retaining qualified executives and compensating them for services rendered during the year. We determine base salary market median by analyzing data from publicly available compensation surveys and from proxy statement data of the selected peer companies. In the publicly available compensation surveys, we are able to look at salary data specific to our industry, our asset size, and our revenue size. We look at the 25th, 50th and 75th percentile for base salary in the external market, but our focus is on the median. Exceptions may exist when a higher level of base salary is required to attract or retain an especially qualified individual. To account for inexactness in measurement techniques, we consider a market competitive base salary range to be plus or minus ten percent around the weighted average of medians drawn from multiple market surveys. Watson Wyatt proposes the survey and peer company proxy statement data weightings, although the Committee reserves the right to adjust them.

In its review of base salaries for Named Executive Officers, the Committee considers the market data as described above, as well as the individual s performance. Base salaries are reviewed at least annually as part of the Corporation s performance review process or upon a promotion or other change in job responsibility.

B. Annual Short-Term Bonus

We provide annual bonuses under our short-term incentive plans. The annual short-term bonus is based on three main principles:

We seek to align compensation with the Corporation s strategic and tactical goals.

The annual bonus is calibrated to performance and to market standards.

Clarity of design and understanding is essential for the bonus to be motivating.

The annual bonus is the component that provides a variable current cash compensation reward for current performance meeting or exceeding certain targets established by the Committee. Each Named Executive Officer participating in the annual bonus plan has a target opportunity expressed as a percentage of base salary. Payments are calculated as a percentage of the target opportunity, depending on company performance. We believe that this method, when combined with properly selected performance targets and our long-term incentives, rewards managers for balancing current performance with the need to make investments in future performance and for managing risk.

We determine a market median total cash compensation (base salary plus short term bonus) by analyzing data from publicly available compensation surveys and proxy statement data from the selected peer companies. We also look at total cash compensation at the 25th and 75th percentiles from the data. The target payouts are generally set to provide total cash compensation comparable to the market median. The short term bonus plans have been designed, in conjunction with base salary, to attempt to pay approximately market median at median performance, and when practical, at the 75th percentile for top quartile performance, at the 25th percentile for bottom quartile performance, and at comparable points in between.

The 2006 target award opportunity for each Named Executive Officer was as follows:

Named Executive Officer	Target Award Expressed as % of Base Salary
William I. Miller	75%
Gregory F. Ehlinger	55%
Thomas D. Washburn	55%
Joseph R. LaLeggia	50%
Bradley J. Kime	55%

Line-of-business presidents receive the majority of their target annual bonus awards based upon the performance of their respective companies and the remainder based upon consolidated performance of the Corporation. Thus, they have financial incentives to achieve synergies between lines of business.

We believe that the best performance targets are those that are objectively and consistently measured as well as easily understood by plan participants. Our historic preference has been to use return on equity as the basis of performance targets. We believe that return on equity effectively measures how successfully management has invested shareholder s equity. This return can be compared to both the theoretical cost of equity based on financial models measuring the rate of an asset s return, such as the Capital Asset Pricing Model, and the returns of other financial services companies. Performance targets are based upon a variety of factors, including historical and expected industry performance, the estimated required rate of return by investors, and, in some instances, reasonable progress within a one-year time frame toward achieving targeted returns in the longer term. To the extent that actual performance differs from target, bonus payments increase or decrease from targeted amounts proportionately.

In 2006 the performance goal for the bonus plan of the parent company for the Named Executive Officers (Messrs. Miller, Washburn and Ehlinger) was based on the consolidated return on equity, excluding the results of the discontinued operations of Irwin Mortgage Corporation. The Committee excluded the results of the discontinued operations as it wished to provide incentive to management to focus on the strategic objectives of the planned divestiture without distraction of the potential impact on short-term results.

The 2006 short-term incentive for Mr. LaLeggia was based 80% on the performance of the commercial finance line of business, as measured by its return on equity, and 20% on the Corporation s consolidated return on equity.

In 2006 the short-term incentive for Mr. Kime was based 82% on the performance of the commercial banking line of business, and 18% on the Corporation s consolidated return on equity. Performance of the commercial banking business was measured by its return on equity, net income and net income growth from the prior year. In addition, the bonus plan included a modifier if asset credit quality fell below a required level. A multi-factor plan was used in order to create direct incentives to achieve specific financial objectives tied to the strategy of this line of business and its contribution to the consolidated performance of the Corporation.

Following the close of the year, the Committee determines the extent to which the performance criteria have been achieved and, if they have, the amount of the award earned. This determination is formulaic, although the Committee can exercise its discretion to reduce the amount of the award earned for the performance achieved.

Performance targets and the bonuses paid as a percent of target for the Named Executive Officers at the parent company and lines of business in 2006 were as follows:

	Parent Company Return on Equity (1)	Commercial Finance Return on Equity	Commercial Banking Factors of: Return on Equity	Net Income Growth %	Net Income Amount
Target Performance	10.8% (1)	13-15% (2)	15 %	10 %	$33.1 million
Bonuses paid Named Executive Officers as a % of target	31%	149%	87 % (3)	118 % (3)(4)	64% (3)(4)

(1) Excludes the income (loss) from discontinued operations.

(2) Target level return on equity performance is within the range of 13% to 15%.

(3) The blended percentage payout of target for all factors is 98%.

(4) The plan design provides a greater incentive for the percentage of net income growth than the net income dollar amount.

Amounts earned under our short-term incentive plans for 2006 are reported under the Non-Equity Incentive Plan Compensation column in the Summary Compensation Table for Fiscal Year 2006.

C. Long-Term Incentives

Long-term incentive plans encourage building the value of the Corporation over the long term and balance the short-term incentives provided by annual bonus plans.

The form of long-term incentives for parent company executives in 2006 was non-qualified stock option grants, and the form of incentives for line-of-business presidents was a combination of stock option grants and Performance Unit Plans.

For Named Executive Officers, the Committee consulted with Watson Wyatt which provided current and long-term incentive compensation market data from the financial services industry and the selected peer companies. The Committee also evaluated the expected value of each officer s grant to the Named Executive Officer s current base compensation. The value of each Named Executive Officer s grant was based upon the market median value of the data analyzed.

Equity Incentives

All Named Executive Officers received non-qualified stock option grants in 2006. The Committee believed that non-qualified stock options would provide the most effective incentive for management to improve the stock price, noting that options only deliver value to the grantee if the stock price improves.

All stock options granted in 2006 are subject to a vesting schedule where 25% of each grant vested on the date of the grant and 25% vests on the grant s anniversary date in each of the three years following the grant. If not exercised, the options expire in ten years (or earlier in the case of termination of employment). A summary of all outstanding stock options and additional terms and conditions is set forth in the Outstanding Equity Awards at 2006 Fiscal Year End table under the section Exercises and Holdings of Previously Awarded Equity.

Stock options are typically granted at a single point during the year, generally at the Committee s meeting during the second quarter of the year. The stock option exercise price is equal to the market price of our stock on the date that the options are granted. We do not backdate options or grant options retroactively. In addition, we do not coordinate stock option grants so that they are made before the announcement of favorable information. All grants to our executive officers subject to Form 4 reporting obligations require Committee approval. A summary of all the stock option grants made to our Named Executive Officers in 2006 is set forth in the table under the section Grants of Plan-Based Awards in 2006 Fiscal Year.

Line-of-Business Performance Unit Plans

Performance Unit Plans (PUPs) are in place for all three of the Corporation s ongoing lines of business. These plans serve to motivate line-of-business managers to increase the value of their respective segments over time. For 2006, line-of-business presidents received two-thirds of their annual long-term incentive grant from these plans. The remaining one-third of the long-term incentive for a line of business president was received in the form of options to acquire the Corporation s common stock.

The line-of-business PUPs all have the same fundamental design. The plans call for annual grants, each with a three-year term. The grants are similar to restricted stock in that grantees have rights to the full value of the performance unit, not just appreciation. The values of lines of business are determined through annual valuations. PUP grants vest depending on how the line of business achieves short-term incentive targets over the three-year grant period. If the line of business achieves short-term incentive targets or better, on average, over the three-year period, 100% of the grants will vest. If the line of business achieves threshold for payment or worse, on average, none of the grants will vest. Vesting is prorated between threshold and target. Payment is normally made in cash at the end of the three-year period.

The performance unit grants made to Messrs. LaLeggia and Kime in 2006 are set forth in the table under the section Grants of Plan-Based Awards in 2006 Fiscal Year.

D. Retirement and Other Benefits

Our employee benefit plans, including 401(k) savings plans, health, life, and disability insurance and other employee benefit programs, are an important component of our compensation system. We believe it is important to offer these benefits in order to remain competitive in recruiting and retaining talented employees. Named Executive Officers are eligible to participate in the same employee benefit plans offered to our general employee population. With the exception of the Irwin Financial Corporation Restated Supplemental Executive Retirement Plan (the SERP) and perquisites discussed below, we offer these benefits generally on the same terms to Named Executive Officers as to all other employees.

Internal Revenue Service limits reduce the benefits that an employee can earn under the basic formula of the Employees Pension Plan. As a result, the Corporation provides an additional benefit under the SERP. The SERP is provided to executive officers in order to make them whole for the benefits under the basic formula that could not be provided under the Employees Pension Plan due to these limits. The SERP is not funded and is a general obligation of the Corporation. *See* the section Post Employment Compensation for further discussion of the Irwin Financial Corporation Employees Pension Plan (the Employees Pension Plan).

E. Perquisites and Other Personal Benefits

The Corporation provides Named Executive Officers with perquisites and other personal benefits that the Corporation and the Committee believe are reasonable and consistent with the overall compensation program. These perquisites and other personal benefits better enable the Corporation to attract and retain talented employees for key positions. The Committee periodically reviews the levels of perquisites and other personal benefits provided to Named Executive Officers. Costs of the perquisites and other personal benefits for the Named Executive Officers in 2006 are included in the All Other Compensation table under the section Supplemental Annual Compensation Tables.

As discussed in more detail in the footnote to the All Other Compensation table, Mr. Miller is provided with use of non-commercial aircraft at the Corporation s expense for travel to meetings of boards of directors of certain nonprofit and for-profit entities on which Mr. Miller serves as a director or trustee. The Board has determined that Mr. Miller s service on these boards is an important part of the performance of his duties as Chairman and CEO and brings value to the Corporation through exposure to other executives and management systems and concepts in a manner that outweighs the cost of the travel expense. In 2006, these expenses totaled $68,786.

Employment Agreements, Separation from Service, Change in Control

The only Named Executive Officer currently employed by the Corporation who has an employment agreement is Mr. LaLeggia. The terms of this agreement are described in the section Potential Payments on Termination of Employment or Change in Control.

In 2006 we sold the assets of Irwin Mortgage Corporation and discontinued the operations of the mortgage banking line of business. In connection with this event, we entered into a transaction assistance and separation agreement with Mr. Griffith, which was approved by the Committee. A description of the payments made to Mr. Griffith in connection with the divestiture of our mortgage line of business is also set forth in the section Potential Payments on Termination of Employment or Change in Control.

Executive Stock Ownership

The Committee annually reviews the stock ownership level of each executive officer subject to Form 4 reporting. The Committee has not adopted formal stock ownership guidelines at this time because of Mr. Miller s controlling interest in the Corporation. The Corporation s Insider Trading Policy prohibits executive officers from margining Irwin Financial stock in the form of pledge to a broker as collateral.

Compensation Committee Report

The Compensation Committee of the Corporation has reviewed and discussed the Compensation Discussion and Analysis as required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this proxy statement.

Sally A. Dean (Committee Chair) *Brenda J. Lauderback* *Lance R. Odden*
William H. Kling (Committee member in 2006)

Executive Compensation and Related Information

Summary Compensation Table For Fiscal Year 2006

The following table summarizes the compensation of our Named Executive Officers for the 2006 fiscal year. The Named Executive Officers are (1) our Chief Executive Officer, (2) our Chief Financial Officer, and (3) the other three most highly compensated executive officers ranked by their total compensation in the table below (reduced by the amount under the Change in Pension Value and Nonqualified Deferred Compensation Earnings column). In addition, the former president of Irwin Mortgage Corporation who terminated employment with us on September 29, 2006 is included because his total compensation in 2006, including severance payments, exceeded that of certain other Named Executive Officers. Amounts other than salary are reported on an accrual basis.

ame and rincipal Position	Year	Salary ($) (1)	Option Awards ($) (2)	Non-Equity Incentive Plan Compensation ($) (3)(4)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) (5)(6)	All Other Compensation ($) (7)	Total ($)
illiam I. Miller hairman and Chief ecutive Officer	2006	$ 650,000	$ 548,395	$ 150,052	$ 174,739	$ 78,808	$ 1,601,994
regory F. Ehlinger nior Vice President d hief Financial Officer	2006	$ 312,333	$ 117,003	$ 53,495	$ 37,480	$ 7,689	$ 528,000
omas D. Washburn ecutive Vice President	2006	$ 338,333	$ 138,461	$ 58,405	$ 165,252	$ 14,275	$ 714,726
seph R. LaLeggia esident, Irwin ommercial Finance (8)	2006	$ 300,626	$ 36,284	$ 205,822	N/A	$ 57,226	$ 599,958
adley J. Kime esident, Irwin nion Bank	2006	$ 288,333	$ 32,511	$ 136,740	$ 81,557	$ 14,745	$ 553,886
obert H. Griffith rmer President, Irwin ortgage Corporation	2006	$ 221,250	$ 14,157	$ 825,216 (9)	$ 57,412 (10)	$ 963,220	$ 2,081,25

(1) Includes amounts directed by the Named Executive Officer to be contributed on a pre-tax basis to our tax qualified savings plans.

(2) Represents the compensation cost of stock options for financial reporting purposes for 2006, rather than the amount paid or realized by the Named Executive Officers. The total fair value of options granted in 2006 is

reported in the Grants of Plan-Based Awards in Fiscal Year 2006 table below. The value as of the grant date for stock options, as required by Statement of Financial Accounting Standards No. 123 (revised 2004) Share-Based Payment (FAS 123R), is spread over the number of months of service required for the grant to become non-forfeitable. In addition, expenses related to options granted before 2006 are included in this column as required under SEC proxy rules and FAS 123R. We determine fair value using the Black-Scholes method under FAS 123(R) with the assumptions and adjustments described in note 21 to the financial statements of our Report on Form 10-K for the Year Ended December 31, 2006 on page 100. The Named Executive Officers may never realize any value from the amounts reflected in this column.

(3) Represents the amount earned under our Short-Term Incentive Plans for 2006 with respect to Messrs. Miller, Ehlinger, Washburn, LaLeggia and Kime and paid in 2007.

(4) This column does not reflect awards granted to Named Executive Officers under our Performance Unit Plans that may be earned and become vested based on future financial performance. Awards granted in 2006 under these plans are set forth in the Grants of Plan-Based Awards in 2006 Fiscal Year table.

(5) Solely represents an estimate of the increase to the accumulated present value of the age 65 normal retirement benefits accrued by Messrs. Miller, Ehlinger, Washburn and Kime under our pension plans for 2006. Assumptions are further described in the Pension Benefits as of Fiscal Year End December 31, 2006 table under the section Post Employment Compensation. There can be no assurance that the amount shown above (and the related amount disclosed in footnote 6 below) will ever be realized by the Named Executive Officers.

(6) A significant portion of the benefits under our pension plans is payable on an unreduced basis beginning at age 62. The change in accumulated present value of the age 62 early retirement benefits accrued by Messrs. Miller, Ehlinger, Washburn and Kime under these plans for 2006 is $212,573, $45,633, $200,169 and $98,763, respectively.

(7) *See* the All Other Compensation table below for details regarding the amounts, including perquisites, reported in this column. The Named Executive Officers are also eligible to participate in our group life health, hospitalization, medical reimbursement, and relocation plans that are offered to other employees on a non-discriminatory basis.

(8) Mr. LaLeggia is paid in Canadian dollars. All components of Mr. LaLeggia s compensation have been converted to U.S. dollars at a rate of exchange where 1 USD = 1.1659 CAD.

(9) Represents the amount earned by Mr. Griffith under the Irwin Mortgage Corporation Long-Term Incentive Compensation Plan with respect to the three-year Plan Cycle period of January 1, 2003 to December 31, 2005, which vested January 1, 2006. Mr. Griffith had to be employed with Irwin Mortgage on January 1, 2006 to be eligible for payment under this plan. No other long-term incentive payments were made to Mr. Griffith with respect to this or any subsequent period.

(10) Represents the total amount of deferred interest (not just the amount above market rates) credited on Mr. Griffith s behalf under Irwin Mortgage Corporation s Short-Term and Long-Term Incentive Plans.

Supplemental Annual Compensation Tables

All Other Compensation

The following table summarizes in detail the total amount of compensation reflected in the All Other Compensation column of the Summary Compensation Table for Fiscal Year 2006 for each Named Executive Officer:

Name	Qualified Savings Plan (1)	Life Insurance (2)	Aircraft (3)	Other Taxable Benefits (4)	Auto Payments (5)	IMC Severance Payment (6)	Total
William I. Miller	$ 6,600	$ 2,622	$ 68,786	$ 800			$ 78,808
Gregory F. Ehlinger	$ 6,600	$ 689		$ 400			$ 7,689
Thomas D. Washburn	$ 6,600	$ 3,225		$ 4,450			