IRWIN FINANCIAL CORP
Form 10-Q
May 09, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2006

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

For the transition period from __________ to __________.
Commission File Number: 0-6835
IRWIN FINANCIAL CORPORATION
(Exact Name of Corporation as Specified in its Charter)

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

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.
R Yes £ No
Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):
Large accelerated filer £ Accelerated filer R Non-accelerated filer £
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
£ Yes R No
As of May 5, 2006, there were outstanding 29,744,965 common shares, no par value, of the Registrant.

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PART I. FINANCIAL INFORMATION.
Item 1. Financial Statements.

IRWIN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Unaudited)

	March 31, 2006	December 31, 2005
	(Dollars in thousands)	
Assets:		
Cash and cash equivalents	$ 143,942	$ 155,486
Interest-bearing deposits with financial institutions	51,813	43,150
Residual interests	14,397	22,116
Investment securities- held-to-maturity (Fair value: $4,407 at March 31, 2006 and $4,460 at December 31, 2005)	4,430	4,475
Investment securities- available-for-sale	99,863	100,296
Loans held for sale	465,812	513,554
Loans and leases, net of unearned income Note 3	4,705,850	4,477,943
Less: Allowance for loan and lease losses Note 4	(63,923)	(59,223)
	4,641,927	4,418,720
Servicing assets Note 5	35,575	34,445
Accounts receivable	6,941	9,741
Accrued interest receivable	21,695	21,924
Premises and equipment	30,922	29,721
Other assets	65,748	62,394
Assets held for sale Note 2	1,212,617	1,230,502
Total assets	$ 6,795,682	$ 6,646,524
Liabilities and Shareholders Equity:		
Deposits		
Noninterest-bearing	$ 797,348	$ 754,778
Interest-bearing	1,934,030	1,921,369
Certificates of deposit over $100,000	1,343,122	1,222,846
	4,074,500	3,898,993
Short-term borrowings Note 6	743,160	997,444
Collateralized debt Note 7	914,320	668,984
Other long-term debt Note 8	249,363	270,160
Other liabilities	286,646	298,609
Total liabilities	6,267,989	6,134,190
Commitments and contingencies Note 13		
Shareholders equity		
Preferred stock, no par value authorized 4,000,000 shares; none issued		
	113,249	112,000

Common stock, no par value authorized 40,000,000 shares; issued 29,714,995 shares as of March 31, 2006 and 29,612,080 as of December 31, 2005, 993,643, shares in treasury as of December 31, 2005		
Deferred compensation		(759)
Accumulated other comprehensive income, net of deferred income tax benefit of $12 thousand at March 31, 2006 and liability of $71 thousand as of December 31, 2005	3,170	3,448
Retained earnings	411,274	418,784
	527,693	533,473
Less treasury stock, at cost		(21,139)
Total shareholders equity	527,693	512,334
Total liabilities and shareholders equity	$ 6,795,682	$ 6,646,524

The accompanying notes are an integral part of the consolidated financial statements.

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IRWIN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	For the Three Months Ended March 31,	
	2006	2005
	(Dollars in thousands, except per share)	
Interest income:		
Loans and leases	$ 97,886	$ 65,326
Loans held for sale	11,406	8,215
Residual interests	523	2,340
Investment securities	1,327	1,230
Federal funds sold	26	49
Total interest income	111,168	77,160
Interest expense:		
Deposits	29,680	14,674
Short-term borrowings	4,106	1,431
Collateralized debt	11,111	4,315
Other long-term debt	4,991	4,250
Total interest expense	49,888	24,670
Net interest income	61,280	52,490
Provision for loan and lease losses Note 4	9,193	3,480
Net interest income after provision for loan and lease losses	52,087	49,010
Other income:		
Loan servicing fees	8,108	9,318
Amortization of servicing assets Note 5	(6,476)	(6,108)
Recovery (impairment) of servicing assets Note 5	574	(89)
Net loan administration income	2,206	3,121
Gain from sales of loans	2,768	9,551
Trading gains	227	480
Derivative gains, net	2,768	102
Other	5,493	4,925
	13,462	18,179
Other expense:		
Salaries	26,531	28,994
Pension and other employee benefits	7,773	7,378
Office expense	2,094	1,989
Premises and equipment	4,995	5,770

Marketing and development		668	1,329
Professional fees		2,374	3,410
Other		7,904	6,568
		52,339	55,438
Income before income taxes from continuing operations		13,210	11,751
Provision for income taxes		4,734	4,519
Net income from continuing operations		8,476	7,232
Loss from discontinued operations, net of $6,883 and $6,125 income tax benefit, respectively	Note 2	(10,334)	(9,777)
Net loss		$ (1,858)	$ (2,545)
Earnings per share from continuing operations:	**Note 10**		
Basic		$ 0.29	$ 0.25
Diluted		$ 0.29	$ 0.25
Earnings per share:	**Note 10**		
Basic		$ (0.06)	$ (0.09)
Diluted		$ (0.07)	$ (0.09)
Dividends per share		$ 0.11	$ 0.10

The accompanying notes are an integral part of the consolidated financial statements.

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IRWIN FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (Unaudited)
For the Three Months Ended March 31, 2006, and 2005

			Accumulated Other Comprehensive Income							
				Unrealized Gain/Loss		Minimum		Additional Paid in		
	Total	Retained Earnings	Foreign Currency	Securities	Derivatives	SERP Liability	Deferred Compensation	Capital	Common Stock	Treasury Stock
	(Dollars in thousands)									
Balance at January 1, 2006	$ 512,334	$ 418,784	$ 3,341	$ (373)	$ 754	$ (274)	$ (759)	$	$ 112,000	$ (21,139)
Net loss	(1,858)	(1,858)								
Unrealized loss on investment securities net of $79 tax benefit	(119)			(119)						
Unrealized loss on derivative net of $4 tax benefit	(6)				(6)					
Foreign currency adjustment	(153)		(153)							
Other comprehensive income	(278)									
Total comprehensive income	(2,136)									
Deferred compensation	(10)	(769)					759			
Cash dividends	(3,268)	(3,268)								
Tax benefit on stock option exercises	319							319		
Stock option expense	253							253		
Stock:										
Purchase of 48,303 shares	(950)									(950)
Sales/conversion of 1,144,861 shares Note 8	21,151	(1,615)						(572)	1,249	22,089
Balance at March 31, 2006	$ 527,693	$ 411,274	$ 3,188	$ (492)	$ 748	$ (274)	$	$	$ 113,249	$

Balance at January 1, 2005	$ 501,185	$ 412,027	$ 2,648	$ 60	$	$ (254)	$ (660)	$ 383	$ 112,000	$ (25,019)
Net loss	(2,545)	(2,545)								
Unrealized loss on investment securities net of $198 tax benefit	(297)			(297)						
Foreign currency adjustment	(121)		(121)							
Other comprehensive income	(418)									
Total comprehensive income	(2,963)									
Deferred compensation	(19)						(19)			
Cash dividends	(2,851)	(2,851)								
Tax benefit on stock option exercises	499							499		
Treasury stock: Purchase of 37,139 shares	(908)									(908)
Sales of 103,791 shares	1,278	(225)						(882)		2,385
Balance at March 31, 2005	$ 496,221	$ 406,406	$ 2,527	$ (237)	$	$ (254)	$ (679)	$	$ 112,000	$ (23,542)

The accompanying notes are an integral part of the consolidated financial statements.

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CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	For the Three Months Ended March 31,	
	2006	2005
	(Dollars in thousands)	
Income from continuing operations, net of taxes	$ 8,476	$ 7,232
Loss from discontinued operations, net of taxes	(10,334)	(9,777)
Net income	(1,858)	(2,545)
Adjustments to reconcile net income to cash provided (used) by operating activities:		
Depreciation, amortization, and accretion, net	1,486	3,109
Amortization and impairment of servicing assets	15,562	(5,081)
Provision for loan and lease losses	9,240	3,291
Gain on sale of mortgage servicing assets		(1,185)
Gain from sales of loans and loans held for sale	(18,117)	(34,525)
Originations and purchases of loans held for sale	(2,565,909)	(3,287,612)
Proceeds from sales and repayments of loans held for sale	2,622,218	3,134,320
Proceeds from sale of mortgage servicing assets		10,171
Net decrease in residuals	8,383	4,519
Net decrease (increase) in accounts receivable	30,036	(3,510)
Other, net	(28,801)	(31,231)
Net cash provided (used) by operating activities	72,240	(210,279)
Lending and investing activities:		
Proceeds from maturities/calls of investment securities:		
Held-to-maturity	45	1,293
Available-for-sale	913	
Purchase of investment securities:		
Available-for-sale	(692)	(1,480)
Net increase in interest-bearing deposits	(14,035)	(21,273)
Net increase in loans, excluding sales	(353,095)	(57,467)
Proceeds from sale of loans	122,635	18,400
Other, net	(2,729)	(1,234)
Net cash used by lending and investing activities	(246,958)	(61,761)
Financing activities:		
Net increase in deposits	175,507	375,152
Net decrease in short-term borrowings	(254,284)	(12,577)
Proceeds from issuance of long term debt	31,500	
Repayments of long-term debt	(32,112)	(3)
Proceeds from issuance of collateralized borrowings	335,384	35,448
Repayments of collateralized borrowings	(90,068)	(67,347)
Tax benefit on stock option exercises	319	
Purchase of treasury stock for employee benefit plans	(950)	(908)

Proceeds from sale of stock for employee benefit plans			1,220		1,278
Dividends paid			(3,268)		(2,851)
Net cash provided by financing activities			163,248		328,192
Effect of exchange rate changes on cash			(74)		484
Net (decrease) increase in cash and cash equivalents			(11,544)		56,636
Cash and cash equivalents at beginning of period			155,486		97,101
Cash and cash equivalents at end of period		$	143,942	$	153,737
Supplemental disclosures of cash flow information:					
Cash flow during the period:					
Interest paid		$	54,685	$	26,436
Income taxes paid		$	4,103	$	2,456
Noncash transactions:					
Liability for loans held for sale eligible for repurchase	Note 1	$	1,150	$	1,766
Other real estate owned		$	2,103	$	5,177
Conversion of trust preferred to common stock		$	20,184	$	

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Summary of Significant Accounting Policies

Consolidation: Irwin Financial Corporation and its subsidiaries (the Corporation) provide financial services throughout the United States (U.S.) and Canada. We are engaged in commercial banking, commercial finance, home equity lending and mortgage banking. Our direct and indirect subsidiaries include, Irwin Union Bank and Trust Company, Irwin Union Bank, F.S.B., Irwin Commercial Finance Corporation, Irwin Home Equity Corporation and Irwin Mortgage Corporation. Intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, the financial statements reflect all material adjustments necessary for a fair presentation. The Corporation does not meet the criteria as primary beneficiary for our wholly-owned trusts holding our company-obligated mandatorily redeemable preferred securities established by Financial Accounting Standards Board (FASB) Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities. As a result, these trusts are not consolidated.

In the first quarter of 2006, the Corporation announced that we were examining our strategic alternatives for the mortgage banking line of business, including the possible sale of Irwin Mortgage. We have since narrowed our focus to exiting this segment and are pursuing a sale of the business. As a result, effective the first quarter of 2006, the financial statements and footnotes within this report have been reformatted to conform to the presentation required in Statement of Financial Accounting Standard (SFAS) 144, Accounting for the Impairment or Disposal of Long-Lived Assets for discontinued operations. Prior period results were reclassified to conform to this change in presentation. The balance sheet assets related to this line of business are being reported as assets held for sale. See Note 2 for additional information.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents Defined: For purposes of the statement of cash flows, we consider cash and due from banks to be cash equivalents.

Residual Interests: Residual interests are stated at fair value. Unrealized gains and losses are included in earnings. To obtain fair value of residual interests, quoted market prices are used if available. However, quotes are generally not available for residual interests, so we estimate fair value based on the present value of expected cash flows using estimates of the key assumptions - prepayment speeds, credit losses, forward yield curves, and discount rates commensurate with the risks involved that management believes market participants would use to value similar assets. Adjustments to carrying values are recorded as trading gains or losses.

Allowance for Loan and Lease Losses: The allowance for loan and lease losses is an estimate based on management s judgment applying the principles of SFAS 5, Accounting for Contingencies, SFAS 114, Accounting by Creditors for Impairment of a Loan, and SFAS 118, Accounting by Creditors for Impairment of a Loan Income Recognition and Disclosures. The allowance is maintained at a level we believe is adequate to absorb probable losses inherent in the loan and lease portfolio. We perform an assessment of the adequacy of the allowance on a quarterly basis.

Within the allowance, there are specific and expected loss components. The specific loss component is assessed for loans we believe to be impaired in accordance with SFAS 114. We have defined impairment as nonaccrual loans. For loans determined to be impaired, we measure the level of impairment by comparing the loan s carrying value to fair value using one of the following fair value measurement techniques: present value of expected future cash flows, observable market price, or fair value of the associated collateral. An allowance is established when the fair value implies a value that is lower than the carrying value of that loan. In addition to establishing allowance levels for specifically identified impaired loans, management determines an allowance for all other loans in the portfolio for which historical experience indicates that certain losses exist. These loans are segregated by major product type, and in some instances, by aging, with an estimated loss ratio applied against each product type and aging category. The loss ratio is generally based upon historic loss experience for each loan type as adjusted for certain environmental factors management believes to be relevant.

Servicing Assets: When we securitize or sell loans, we periodically retain the right to service the underlying loans sold. A portion of the cost basis of loans sold is allocated to this servicing asset based on its fair value relative to the loans sold and the servicing asset combined. We use internal valuation models that calculate the present value of future cash flows to determine the fair value of the servicing assets. These models are supplemented and calibrated to market prices using inputs from independent servicing brokers and industry surveys. In using this valuation method, we incorporate assumptions that we believe market participants would use in estimating future net servicing income, which include estimates of the cost of servicing per loan, the discount rate, float value, an inflation rate, ancillary income per loan, prepayment speeds, and default rates. Servicing assets are amortized over the estimated lives of the related loans in proportion to estimated net servicing income.

In determining servicing value impairment, the servicing portfolio is stratified into its predominant risk characteristics, principally by interest rate and product type. Each stratum is valued using market prices under comparable servicing sale contracts when available, or alternatively, using the same model as was used to originally determine the fair value at origination using current market assumptions. The calculated value is then compared with the book value of each stratum to determine the required reserve for impairment. The impairment reserve fluctuates as interest rates change and, therefore, no reasonable estimate can be made as to future increases or declines in impaired reserve levels. We also compare actual cash collections to projected cash collections and adjust our models as appropriate. In addition, we periodically have independent valuations performed on the portfolio. Other than temporary impairment is recorded to reflect our view that the originally recorded value of certain servicing rights and subsequent impairment associated with those rights is unlikely to be recovered in market value. There is no related direct impact on net income as this other than temporary impairment affects only balance sheet accounts. However, a write-down will result in a reduction of amortization expense and reduced recovery of impairment in future periods.

Incentive Servicing Fees: For whole loan sales of certain home equity loans, in addition to our normal servicing fee, we have the right to an incentive servicing fee (ISF) that will provide cash payments to us if a pre-established return for the certificate holders and certain structure-specific loan credit and servicing performance metrics are met. These ISF arrangements are accounted for in accordance with SFAS 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. When ISF agreements are entered into simultaneously with the whole loan sales, the fair value of the ISFs is estimated and considered when determining the initial gain or loss on sale. That allocated fair value of the ISF is periodically evaluated for impairment and amortized in accordance with SFAS 140. Consistent with the treatment of all of the Corporation s servicing assets, ISFs are accounted for on a lower of cost or market (LOCOM) basis. Therefore, if the fair value of the ISFs in subsequent periods exceeds cost basis, then revenue is recognized as pre-established performance metrics are met and cash is due. When ISF agreements are entered into subsequent to the whole loan sale, these assets are assigned a zero value and revenue is recognized as pre-established performance metrics are met and cash is due.

Income Taxes: A consolidated tax return is filed for all eligible entities. In accordance with SFAS 109, deferred income taxes are computed using the liability method, which establishes a deferred tax asset or liability based on temporary differences between the tax basis of an asset or liability and the basis recorded in the financial statements.

Recent Accounting Developments: In December 2004, the FASB issued SFAS 123(R), Share-Based Payment, which revises SFAS 123, Accounting for Stock-Based Compensation. SFAS 123(R) supercedes APB Opinion 25, Accounting for Stock Issued to Employees, and amends SFAS 95, Statement of Cash Flows. This Statement requires that a public entity measure the cost of equity-based service awards based on the grant date fair value of the award. All share-based payments to employees, including grants of employee stock options, are required to be recognized in the income statement based on their fair value. We adopted this Statement on January 1, 2006. See Note 11 for further discussion.

In March 2006, the FASB issued SFAS 156, Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140. This statement requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. The statement permits, but does not require, the subsequent measurement of classes of servicing assets and servicing liabilities at fair value, to better align with the use of derivatives used to mitigate the inherent risks of these assets and liabilities. Offsetting changes in fair value are recognized through income. This statement is effective as of January 1, 2007. We have not yet determined which, if any, of our classes of servicing rights will be accounted for on a fair value basis for changes in fair value subsequent to the initial capitalization.

Reclassifications: Certain amounts in the 2005 consolidated financial statements have been reclassified to conform to the 2006 presentation. These changes had no impact on previously reported net income or shareholders equity.

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Note 2 Discontinued Operations

On January 25, 2006, we announced that we were examining our strategic alternatives for the mortgage banking line of business, including the possible sale of Irwin Mortgage. We have since narrowed our focus to exiting this segment and are pursuing a sale of the business. As a result, we have presented this segment as discontinued operations in accordance with SFAS 144 for all periods presented in these financial statements. These assets have been reported as assets held for sale on the balance sheets. The income (loss), net of tax, of this segment has been reported below net income from continuing operations on the income statements. Income from discontinued operations and assets held for sale are presented below:

	For the Three Months Ended March 31, 2006	For the Three Months Ended March 31, 2005
	(Dollars in thousands, except per share)	
Net revenues	$ 9,193	$ 25,774
Noninterest expense	(26,410)	(41,676)
Loss before income taxes	(17,217)	(15,902)
Income taxes	6,883	6,125
Net loss from discontinued operations	$ (10,334)	$ (9,777)

	March 31, 2006	December 31, 2005
	(Dollars in thousands, except per share)	
Loans held for sale	$ 766,502	$ 779,966
Loans, net of allowance for loan loss	19,046	20,359
Net servicing asset	266,955	261,309
Accounts receivable	74,656	101,891
Other assets	85,458	66,977
Assets held for sale	$ 1,212,617	$ 1,230,502

The amounts in the table above do not perfectly correspond with the amounts in our segment reporting of the mortgage banking line of business. On the income statement accounts, the 2005 mortgage banking segment results include a management fee charged by the parent to the mortgage business totaling $0.5 million net of tax. Under Emerging Issues Task Force statement number 87-24 (EITF 87-24), corporate overhead charges must be reclassified out of the discontinued operations presentation. As a result of EITF 87-24, there were no management fee charges to the mortgage bank during 2006. In addition, the assets held for sale category above does not agree with the mortgage bank s total assets under segment reporting as certain assets will not or cannot be included in the future sale, including Federal Home Loan Bank of Indianapolis (FHLBI) stock, FHLBI lender risk account and cash.

Note 3 Loans and Leases

Loans and leases are summarized as follows:

	March 31,	December 31,

	2006	2005
	(Dollars in thousands)	
Commercial, financial and agricultural	$ 2,118,143	$ 2,016,228
Real estate-construction	368,509	379,831
Real estate-mortgage	1,335,664	1,232,958
Consumer	27,462	31,718
Commercial financing		
Franchise financing	491,847	462,413
Domestic leasing	255,871	237,968
Canadian leasing	320,246	313,581
Unearned income		
Franchise financing	(137,353)	(125,474)
Domestic leasing	(35,911)	(33,267)
Canadian leasing	(38,628)	(38,013)
Total	$ 4,705,850	$ 4,477,943

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Note 4 Allowance for Loan and Lease Losses

Changes in the allowance for loan and lease losses are summarized below:

	March 31, 2006	December 31, 2005
	(Dollars in thousands)	
Balance at beginning of year	$ 59,223	$ 43,441
Provision for loan and lease losses	9,193	27,307
Charge-offs	(7,257)	(20,201)
Recoveries	2,757	8,960
Reduction due to reclassification or sale of loans	(123)	(403)
Foreign currency adjustment	130	119
Balance at end of period	$ 63,923	$ 59,223

Note 5 Servicing Assets

Included on the consolidated balance sheet at March 31, 2006 and December 31, 2005 are $304 million and $296 million, respectively, of capitalized servicing assets. These amounts relate to the mortgage and home equity loans we service for investors. Changes in our capitalized servicing assets, net of valuation allowance, are shown below:

	March 31, 2006	December 31, 2005
	(Dollars in thousands)	
Beginning balance	$ 295,754	$ 367,032
Additions	22,338	74,731
Amortization	(19,876)	(100,322)
Recovery of impairment	4,314	19,625
Reduction for servicing sales		(65,312)
	302,530	295,754
Less servicing asset from discontinued operations	266,955	261,309
Mortgage servicing asset from continuing operations	$ 35,575	$ 34,445

We have established a valuation allowance to record servicing assets at their fair market value. Changes in the allowance are summarized below:

	March 31, 2006	December 31, 2005
Balance at beginning of year	$ 27,243	$ 54,134
Recovery of impairment	(4,314)	(19,625)
Reclass for sales of servicing and clean up calls	(13)	(154)
Other than temporary impairment [(1)]		(7,112)

Balance at end of period		22,916		27,243
Less valuation allowance from discontinued operations		22,351		26,091
Valuation allowance from continuing operations	$	565	$	1,152

(1) Other than temporary impairment was recorded to reflect our view that the originally recorded value of certain servicing rights and subsequent impairment associated with those rights is unlikely to be recovered in market value. There was no related direct impact on net income as this other than temporary impairment affected only balance sheet accounts. However, the write-down will result in a reduction of amortization expense and potentially reduced recovery of impairment in future periods.

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Note 6 Short-Term Borrowings

Short-term borrowings are summarized as follows:

	March 31, 2006	December 31, 2005
	(Dollars in thousands)	
Federal Home Loan Bank borrowings	$ 271,780	$ 641,785
Drafts payable related to mortgage loan closings	72,651	64,278
Lines of credit and other	125,429	1,081
Federal funds	273,300	290,300
Total	$ 743,160	$ 997,444
Weighted average interest rate	4.20%	3.05%

Federal Home Loan Bank borrowings are collateralized by loans and loans held for sale.

Drafts payable related to mortgage loan closings are related to mortgage closings that have not been presented to the banks for payment. When presented for payment, these borrowings will be funded internally or by borrowing from the lines of credit.

We also have lines of credit available to fund loan originations and operations with variable rates ranging from 5.5% to 6.8% at March 31, 2006.

Note 7 Collateralized Debt

We pledge or sell loans structured as secured financings at our home equity and commercial finance lines of business. Sale treatment is precluded on these transactions because we fail the true-sale requirements of SFAS 140 as we maintain effective control over the loans and leases securitized. This type of structure results in cash being received, debt being recorded, and the establishment of an allowance for credit losses. The notes associated with these transactions are collateralized by $1.0 billion in home equity loans, home equity lines of credit, and leases. The principal and interest on these debt securities are paid using the cash flows from the underlying loans and leases. Accordingly, the timing of the principal payments on these debt securities is dependent on the payments received on the underlying collateral. The interest rates on the bonds are at a fixed and floating rate.

Collateralized debt is summarized as follows:

	Maturity	Weighted Average Interest Rate at March 31, 2006	March 31, 2006	December 31, 2005
			(Dollars in thousands)	
Commercial finance line of business				
Domestic asset backed note	5/2010	4.5	$ 11,075	$ 13,600
Canadian asset backed notes:				
Note 1	revolving	5.1	37,282	32,385
Note 2	4/2010	3.9	154,500	155,544
Note 3	10/2009	4.5	12,965	14,839
Home equity line of business				
2004-1 asset backed notes:				
Variable rate senior note	12/2024-12/2034	4.9	105,588	132,692
Variable rate subordinate note	12/2034	5.8	24,775	24,775
2005-1 asset backed notes:				
Variable rate senior note	6/2025-6/2035	4.8	113,116	138,244
Fixed rate senior note	6/2035	5.0	94,129	94,129
Variable rate subordinate note	6/2035	6.4	10,785	10,785
Fixed rate subordinate note	6/2035	5.6	52,127	52,127
Unamortized premium/discount			(120)	(136)
2006-1 asset backed notes:				
Variable rate senior note	9/2035	4.8	177,300	
Fixed rate senior note	9/2035	5.5	96,561	
Fixed rate lockout senior note	9/2035	5.6	24,264	
Unamortized premium/discount			(27)	
Total			$914,320	$668,984

Note 8 Long-term Debt

Other long-term debt totaled $249 million at March 31, 2006, compared to $270 million for December 31, 2005. The reduction in long-term debt relates to our call of the convertible trust preferred securities issued by IFC Capital Trust III, on March 6, 2006. As a result of the call, 39% of the preferred shareholders converted to 1,013,938 shares of IFC common stock and 61% redeemed for cash. On March 31, 2006, we issued $30.1 million of Capital Trust IX preferred securities to replace the redeemed shares. We had obligations represented by subordinated debentures at March 31, 2006 totaling $213 million with our wholly-owned trusts that were created for the purpose of issuing trust preferred securities. The subordinated debentures were the sole assets of the trusts at March 31, 2006. In accordance with FASB Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities (revised December 2003), we deconsolidated the wholly-owned trusts that issued the trust preferred securities. As a result, these securities are not consolidated on our balance sheet. Instead, the subordinated debentures held by the trusts are disclosed on the balance sheet as other long-term debt.

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Note 9 Employee Retirement Plans

Components of net periodic cost of pension benefit:

	For the Three Months Ended March 31,	
	2006	2005
	(Dollars in thousands)	
Service cost	$ 995	$ 681
Interest cost	487	416
Expected return on plan assets	(603)	(446)
Amortization of prior service cost	9	9
Amortization of actuarial loss	260	164
Net periodic benefit cost	$ 1,148	$ 824

As of March 31, 2006, we have not made any contributions to our pension plan in the current year and currently do not expect to contribute to this plan in 2006.

Note 10 Earnings Per Share

Earnings per share calculations are summarized as follows:

	Basic Earnings Per Share	Effect of Stock Options	Diluted Earnings Per Share
	(Dollars in thousands, except per share amounts)		
Period ended March 31, 2006			
Net income available to common shareholders:			
From Continuing Operations	$ 8,476	$ (70)	$ 8,406
From Discontinued Operations	(10,334)		(10,334)
Total Net Income for All Operations	(1,858)	(70)	(1,928)
Shares	28,939	208	29,147
Per-share from Continuing Operations	$ 0.29	$	$ 0.29
Per-share amount for All Operations	$ (0.06)	$ (0.01)	$ (0.07)
Period ended March 31, 2005			
Net income available to common shareholders:			
From Continuing Operations	$ 7,232	$	$ 7,232
From Discontinued Operations	(9,777)		(9,777)
Total Net Income for All Operations	(2,545)		(2,545)
Shares	28,462	329	28,791
Per-share from Continuing Operations	$ 0.25	$	$ 0.25

Per-share amount for All Operations	$ (0.09)	$	$ (0.09)

At March 31, 2006 and 2005, 1,660,179 and 943,792 shares, respectively, related to stock options that were not included in the dilutive earnings per share calculation because they had exercise prices above the stock price as of the respective dates. Also, the effect of convertible shares was not included in these calculations for both periods because they were antidilutive.

Note 11 Equity Based Compensation

In the first quarter of 2006, we adopted SFAS 123(R), Share-Based Payment, applying the modified prospective method. This statement requires all equity-based payments to employees, including grants of employee stock options, to be recognized as expense in the consolidated statement of income based on the grant date fair value of the award. Under the modified prospective method, we are required to record equity-based compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards outstanding as of the date of adoption. Prior year financial statements are not restated. The fair values of stock options granted were determined using a Black-Scholes options-pricing model.

We have an employee stock purchase plan for all qualified employees. The plan provides for employees to purchase common stock through payroll deduction at approximately 85% of the current market value. During the quarter ended March 31, 2006, $31 thousand was expensed related to this plan.

We have a restricted stock plan to compensate our Directors and employees with our common stock. The number of shares issued under this plan is based on the current market value of our common stock on date of issue. During the quarter ended March 31, 2006, $120 thousand was expensed related to this plan. At March 31, 2006, there was $0.7 million of total unrecognized compensation expense to be recognized over a weighted average period of 4 years related to unvested stock options. Activity in restricted stock is summarized as follows:

	2006		
	Number of Shares		Weighted average grant date fair value
Unvested at the beginning of the year	41,726	$	22.45
Awarded	6,537		20.65
Vested			
Forfeited	(515)		25.84
Unvested at the end of the period	47,748		22.17

We have two stock option plans (established in 1997 and 1992) that provide for the issuance of 2,840,000 shares of non-qualified and incentive stock options. In addition, the 2001 stock plan provides for the issuance of 4,000,000 of non-qualified and incentive stock options, stock appreciation rights, restricted stock, and phantom stock units. An additional 2,000,000 of stock appreciation rights may be granted under this plan. For all plans, the exercise price of each option, which has a ten-year life and will vest at 25% at grant and 25% at each anniversary date thereafter, is equal to the market price of our stock on the grant date. Compensation expense for these options is recognized on a straight-line basis over the vesting period. Outstanding stock options have been considered as common stock equivalents in the computation of diluted earnings per share. During the quarter ended March 31, 2006, $253 thousand was expensed related to these plans. At March 31, 2006, there was $1.4 million of total unrecognized compensation expense to be recognized over a weighted average period of two years related to unvested stock options. We received $1.4 million in proceeds related to stock options exercised during the quarter ended March 31, 2006. We realized a tax benefit of $319 thousand related to these options.

We calculated the fair value of each option award on the date of grant using the Black-Scholes option pricing model using certain key assumptions. The weighted-average fair value of each option granted during the three months ended March 31, 2006 and 2005 was $7.29 and $6.93, respectively. The total intrinsic value of options exercised during the three months ended March 31, 2006 and 2005 was $0.8 million and $1.2 million, respectively. Expected life is estimated based on historical experience of employees exercise behavior. Expected volatility is primarily based on historical volatility levels. The risk-free rate is based on the U.S. Treasury rate with a maturity date corresponding to the options expected life. The following assumptions were used for each respective period:

	For the Three Months Ended March 31,	
	2006	2005
Risk-free interest rates	4.36%	3.94%

Dividend yield	1.87	1.75
Expected volatility	35	35
Expected lives (in years)	6	6

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The following table summarizes all stock option transactions under Company Plans during the first quarter of 2006:

	2006			
	Number of Shares	Weighted average exercise price	Weighted average remaining contractual term	Aggregate Intrinsic Value as of 3/31/2006
Outstanding at the beginning of the year	2,441,771	$20.55		
Granted	8,200	21.42		
Exercised	(109,460)	12.53		
Cancelled				
Forfeited	(8,701)	20.46		
Expired	(3,590)	24.60		
Outstanding at the end of the period	2,328,220	20.92	6.26	$ 2,096,013
Exercisable at the end of the period	2,044,479	20.95	5.87	$ 2,096,013

The following table illustrates the impact of equity-based compensation on reported amounts:

	For the Three Months Ended March 31, 2006	
	As Reported	Impact of Equity-Based Compensation
	(Dollars in thousands)	
Net income from Continuing Operations before taxes	$13,210	$ (384)
Net income from Continuing Operations	8,476	(230)
Net loss before taxes	(4,007)	(403)
Net loss	(1,858)	(242)
Basic earnings (loss) per share		
From Continuing Operations	0.29	(0.01)
From All Operations	(0.06)	(0.01)
Diluted earnings (loss) per share		
From Continuing Operations	0.29	(0.01)
From All Operations	(0.07)	(0.01)

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In 2005 and in prior years, we used the intrinsic value method to account for our plans under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. Therefore, except for costs related to restricted shares, we recognized no stock-based employee compensation cost in net income for any period prior to 2006, as all options granted under our plans had an exercise price equal to the market value of the underlying common stock on the date of grant. Below is the pro forma earnings per share calculation as if we had applied the fair value recognition provisions of SFAS 123 Account for Stock-based Compensations to stock-based employee compensation in the prior period:

		For the Three Months Ended March 31, 2005 (Dollars in thousands)
Net income from continuing operations as reported	$	7,232
Equity based compensation expense included in net earnings, net of tax		81
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects		(612)
Net income from continuing operations pro forma		6,701
Net loss from discontinued operations		(9,777)
Pro forma net loss	$	(3,076)
Basic earnings per share from continuing operations		
As reported	$	0.25
Pro forma	$	0.24
Basic loss per share		
As reported	$	(0.09)
Pro forma	$	(0.11)
Diluted earnings per share continuing operations		
As reported	$	0.25
Pro forma	$	0.23
Diluted loss per share		
As reported	$	(0.09)
Pro forma	$	(0.11)

Note 12 Industry Segment Information

We have four principal business segments that provide a broad range of financial services. The commercial banking line of business provides commercial banking services. The commercial finance line of business originates leases and loans against commercial equipment and real estate. The home equity lending line of business originates, purchases, sells and services home equity loans. The mortgage banking line of business, which we plan on discontinuing, originates, sells, and services residential first mortgage loans. Our other segment primarily includes the parent company, our private equity portfolio, and eliminations.

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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 three months ended March 31, 2006, and 2005:

	Commercial Banking	Commercial Finance	Home Equity Lending	Mortgage Banking	Other	Consolidated	Discontinued Operations	Consolidated Continuing Operations
				(Dollars in thousands)				
For the Three Months Ended March 31, 2006								
Net interest income	$ 26,511	$ 8,910	$ 26,837	$ 12,132	$ (15,069)	$ 59,321	$ 7,234	$ 52,087
Intersegment interest	1,875	(382)	(9,721)	(4,898)	13,126			
Other revenue	4,186	2,149	7,387	1,529	170	15,421	1,959	13,462
Intersegment revenues	82			430	(512)			
Total net revenues	32,654	10,677	24,503	9,193	(2,285)	74,742	9,193	65,549
Other expense	20,787	5,672	21,854	26,354	4,082	78,749	26,410	52,339
Intersegment expenses	684	265	917	56	(1,922)			
Income (loss) before taxes	11,183	4,740	1,732	(17,217)	(4,445)	(4,007)	(17,217)	13,210
Income taxes	4,421	1,849	698	(6,883)	(2,234)	(2,149)	(6,883)	4,734
Net income (loss)	$ 6,762	$ 2,891	$ 1,034	$ (10,334)	$ (2,211)	$ (1,858)	$(10,334)	$ 8,476
Assets at March 31, 2006	$3,189,066	$875,405	$1,651,316	$1,280,237	$(199,182)	$6,796,842		
For the Three Months Ended March 31,								

2005								
Net interest income	$ 24,392	$ 5,937	$ 25,011	$ 9,806	$ (8,224)	$ 56,922	$ 7,912	$49,010
Intersegment interest	(832)	(435)	(4,949)	(1,894)	8,110			
Other revenue	4,315	1,908	12,524	17,838	(544)	36,041	17,862	18,179
Intersegment revenues	66			24	(90)			
Total net revenues	27,941	7,410	32,586	25,774	(748)	92,963	25,774	67,189
Other expense	18,326	5,993	28,440	41,637	2,718	97,114	41,676	55,438
Intersegment expenses	429	193	727	841	(2,190)			
Income (loss) before taxes	9,186	1,224	3,419	(16,704)	(1,276)	(4,151)	(15,902)	11,751
Income taxes	3,717	528	1,374	(6,446)	(779)	(1,606)	(6,125)	4,519
Net income (loss)	$ 5,469	$ 696	$ 2,045	$ (10,258)	$ (497)	$ (2,545)	$ (9,777)	$ 7,232
Assets at March 31, 2005	$2,894,662	$657,679	$1,055,478	$1,368,894	$(424,932)	$5,551,781		

(1) The amounts in the table above do not perfectly correspond with the amounts in our line of business reporting of the mortgage banking line of business for 2005. On the income statement accounts, the 2005 mortgage banking segment results include a management fee charged by the

parent to the mortgage banking business totaling $0.5 million, net of tax. Under Emerging Issues Task Force statement number 87-24 (EITF 87-24), corporate overhead charges must be reclassified out of the discontinued operations presentation. As a result of EITF 87-24, there were no management fee charges to the mortgage bank during 2006. In addition, the assets held for sale category above does not agree with the mortgage bank s total assets under segment reporting as certain assets will not or cannot be included in the future sale including Federal Home Loan Bank of Indianapolis (FHLBI) stock, FHLBI lender risk account and cash.

Note 13 Commitments and Contingencies

Culpepper v. Inland Mortgage Corporation

On February 7, 2006, the United States District Court for the Northern District of Alabama dismissed this case, originally filed in April 1996, by granting the motions of Irwin Mortgage Corporation, our indirect subsidiary (formerly Inland Mortgage Corporation), to decertify the class and for summary judgment, and by denying the plaintiffs motion for summary judgment. The plaintiffs have filed a notice of appeal with the Court of Appeals for the 11th Circuit.

During the ten years this case has been pending, the plaintiffs obtained class action status for their complaint alleging Irwin Mortgage violated the federal Real Estate Settlement Procedures Act (RESPA) relating to Irwin Mortgage s payment of broker fees to mortgage brokers. In June 2001, the Court of Appeals for the 11th Circuit upheld the district court s certification of the class. However, in October 2001, the Department of Housing and Urban Development (HUD) issued a policy statement that explicitly

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disagreed with the 11th Circuit s interpretation of RESPA in upholding class certification. Subsequent to the HUD policy statement, the 11th Circuit decided a RESPA case similar to ours, concluding the trial court had abused its discretion in certifying the class. The 11th Circuit expressly recognized it was, in effect, overruling its previous decision upholding class certification in our case.

If the plaintiffs prevail on appeal and in a subsequent trial on the merits, Irwin Mortgage could be liable for RESPA damages that could be material to our financial position. However, Irwin Mortgage believes the 11th Circuit s RESPA ruling in the case similar to ours would support a decision in our case affirming the trial court in favor of Irwin Mortgage. We therefore have not established any reserves for this case.

Silke v. Irwin Mortgage Corporation

In April 2003, our indirect subsidiary, Irwin Mortgage Corporation, was named as a defendant in a class action lawsuit filed in the Marion County, Indiana, Superior Court. The complaint alleges that Irwin Mortgage charged a document preparation fee in violation of Indiana law for services performed by clerical personnel in completing legal documents related to mortgage loans. Irwin Mortgage filed an answer on June 11, 2003 and a motion for summary judgment on October 27, 2003. On June 18, 2004, the court certified a plaintiff class consisting of Indiana borrowers who were allegedly charged the fee by Irwin Mortgage any time after April 14, 1997. This date was later clarified by stipulation of the parties to be April 17, 1997. In November 2004, the court heard arguments on Irwin Mortgage s motion for summary judgment and plaintiffs motion seeking to send out class notice. On February 23, 2006, the Court ordered that class notice be mailed. We are unable at this time to form a reasonable estimate of the amount of potential loss, if any, that Irwin Mortgage could suffer. We have not established any reserves for this case.

Cohens v. Inland Mortgage Corporation

In October 2003, our indirect subsidiary, Irwin Mortgage Corporation (formerly Inland Mortgage Corporation), was named as a defendant, along with others, in an action filed in the Supreme Court of New York, County of Kings. The plaintiffs, a mother and two children, allege they were injured from lead contamination while living in premises allegedly owned by the defendants. The suit seeks approximately $41 million in damages and alleges negligence, breach of implied warranty of habitability and fitness for intended use, loss of services and the cost of medical treatment. On June 15, 2005, Irwin Mortgage filed an answer and cross-claims seeking dismissal of the complaint. We are unable at this time to form a reasonable estimate of the amount of potential loss, if any, that Irwin Mortgage could suffer. We have not established any reserves for this case.

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

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

Hobson v. Irwin Union Bank and Trust Company was filed on July 30, 2004 in the United States District Court for the Northern District of Alabama. As amended on August 30, 2004, the *Hobson* complaint, seeks certification of both a plaintiffs and a defendants class, the plaintiffs class to consist of all persons who obtained loans from Community and whose loans were purchased by Irwin Union Bank. *Hobson* alleges that defendants violated the Truth-in-Lending Act (TILA), the Home Ownership and Equity Protection Act (HOEPA), the Real Estate Settlement Procedures Act (RESPA) and the Racketeer Influenced and Corrupt Organizations Act (RICO). On October 12, 2004, Irwin filed a motion to dismiss the *Hobson* claims as untimely filed and substantively defective.

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

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

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

Irwin Union Bank and Trust Company is also a defendant, along with Community, in two individual actions *(Chatfield v. Irwin Union Bank and Trust Company, et al.* and *Ransom v. Irwin Union Bank and Trust Company, et al.)* filed on June 9, 2004 in the Circuit Court of Frederick County, Maryland, involving mortgage loans Irwin Union Bank purchased from Community. On July 16, 2004, both of these lawsuits were removed to the United States District Court for the District of Maryland. The complaints allege that the plaintiffs did not receive disclosures required under HOEPA and TILA. The lawsuits also allege violations of Maryland law because the plaintiffs were allegedly charged or contracted for a prepayment penalty fee. Irwin believes the plaintiffs received the required disclosures and that Community, a Virginia-chartered bank, was permitted to charge prepayment fees to Maryland borrowers.

Under the loan purchase agreements between Irwin and Community, Irwin has the right to demand repurchase of the mortgage loans and to seek indemnification from Community for the claims in these lawsuits. On September 17, 2004, Irwin made a demand for indemnification and a defense to *Hobson, Chatfield* and *Ransom.* Community denied this request as premature.

In response to a motion by Irwin, the Judicial Panel On Multidistrict Litigation consolidated *Hobson, Chatfield* and *Ransom* with *Kossler* in the Western District of Pennsylvania for all pretrial proceedings. We have established a reserve for the Community litigation based upon SFAS 5 guidance and the advice of legal counsel.

Litigation Related to NorVergence, Inc.

Irwin Commercial Finance Corporation, Equipment Finance (Equipment Finance) (formerly known as Irwin Business Finance), our indirect subsidiary, is involved on a national basis in equipment leasing finance and maintains a diverse portfolio of leases, including leases in the telecommunications field. A portion of Equipment Finance s telecommunications portfolio involves leases of equipment acquired from NorVergence, Inc., a New Jersey-based telecommunications company. After assigning leases to Equipment Finance and other lenders, NorVergence became a debtor in a Chapter 7 bankruptcy, which is currently pending in the United States Bankruptcy Court in New Jersey. The sudden failure of NorVergence left many of its customers without telecommunications service.

Complaints by former NorVergence customers led to investigations by the attorneys general of several states and the filing of lawsuits against lessors, including Equipment Finance. *Exquisite Caterers, LLC et al. v. Popular Leasing et al.* is a lawsuit filed in the Superior Court of New Jersey, Monmouth County, which was amended to include Equipment Finance and others on September 1, 2004. The *Exquisite Caterers* plaintiffs seek certification of a class of persons who leased network computer equipment from NorVergence, whose leases were assigned to defendants. The complaint alleges that NorVergence misrepresented the services and equipment provided, that the lessees were defrauded and the lease agreements should not be enforced. The action alleges violations of, among other things, the New Jersey Consumer Fraud Act; the New Jersey Truth-in-Consumer Contract, Warranty, and Notice Act; the FTC Holder Rule; the FTC Act; and breach of contract and implied warranties. The plaintiffs seek compensatory, statutory and punitive damages, and injunctive relief, including rescission of the leases and cessation of collections. On June 16, 2005, the judge in the *Exquisite Caterers* lawsuit denied plaintiffs alternative motions for certification of either a nationwide class or a class of New Jersey residents only. Plaintiffs then filed a motion for reconsideration of the order denying certification of a class limited to New Jersey residents. At a hearing on September 14, 2005, the judge granted plaintiffs motion for reconsideration and certified a class limited to New Jersey residents. Equipment Finance has fewer than ten lessees who may qualify as members of the New Jersey class certified in the *Exquisite Caterers* lawsuit. As a result of settlement discussions with the class comprised of Equipment Finance s New Jersey NorVergence lessees, Equipment Finance and these lessees have reached an agreement in principle, subject to court approval, that would offer these New Jersey class members a substantial discount on their lease obligations in exchange for dismissal of Equipment Finance from the *Exquisite Caterers* lawsuit.

In connection with investigations by various state attorneys general, Equipment Finance and other lenders were asked to produce information about their relationships with NorVergence and to refrain from enforcing NorVergence leases. Equipment Finance has been pursuing discussions with most of the states in which it has customers who executed agreements with NorVergence and has discontinued collection activities while discussions are in progress. Equipment Finance has now executed agreements with: the Attorney General of California, providing for recovery of 15% of outstanding balances on California leases as of July 15, 2004, and with the Attorney General of Florida, entitling Equipment Finance to lease payments through January 31, 2005. In November of 2005, Equipment Finance extended the benefits of the California settlement to NorVergence customers residing in Texas. Equipment Finance recently executed an agreement with a multi-state group of attorneys general. The multi-state agreement requires that NorVergence lessees be offered the opportunity to pay Equipment Finance all amounts due on their leases through July 15, 2004, plus 15% of the then-outstanding balance in full satisfaction of their lease obligations.

Our agreements with state attorneys general, recent favorable court rulings and the agreement in principle to settle the New Jersey class action have significantly reduced the risk that damages might be awarded against Equipment Finance in NorVergence-related litigation, leading us to consider the NorVergence matters as nonmaterial. We have established loss reserves for customer reimbursements required under agreements already closed with various states attorneys general. We have not established reserves in connection with NorVergence-related litigation.

Putkowski v. Irwin Home Equity Corporation and Irwin Union Bank and Trust Company

On August 12, 2005, our indirect subsidiary, Irwin Home Equity Corporation, and our direct subsidiary, Irwin Union Bank and Trust Company (collectively, Irwin), were named as defendants in litigation seeking class action status in the United States District Court for the Northern District of California for alleged violations of the Fair Credit Reporting Act. In response to Irwin s motion to dismiss filed on October 18, 2005, the court dismissed the plaintiffs complaint with prejudice on March 23, 2006. Plaintiffs filed an appeal in the U.S. Court of Appeals for the 9th Circuit on April 13, 2006. We have not established any reserves for this case.

White v. Irwin Union Bank and Trust Company and Irwin Home Equity Corporation

On January 5, 2006, our direct subsidiary, Irwin Union Bank and Trust Company, and our indirect subsidiary, Irwin Home Equity Corporation, (collectively, Irwin) were named as defendants in litigation in the Circuit Court for Baltimore City, Maryland. The plaintiffs allege that Irwin charged or caused plaintiffs to pay certain fees, costs and other charges that were excessive or illegal under Maryland law in connection with loans made to plaintiffs by Irwin. The plaintiffs seek certification of a class consisting of Maryland residents who received mortgage loans from Irwin secured by real property in the State of Maryland and who claim injury due to Irwin s lending practices. The plaintiffs are seeking damages under the Maryland Mortgage Lending Laws and the Maryland Consumer Protection Act for, among other things, relief from further interest payments on their loans, reimbursement of interest, charges, fees and costs already paid, including prepayment penalties paid by the class, and damages of three times the amount of all allegedly excessive or illegal charges paid, plus attorneys fees, expenses and costs. In the alternative, the plaintiffs seek arbitration as provided for in their mortgage notes. On February 17, 2006, Irwin filed a notice of removal and removed the case from state to federal court. On March 17th, 2006 the plaintiffs filed a motion to remand the action back to state court. At this stage of the litigation, we are unable to form a reasonable estimate of the amount of potential loss, if any, that Irwin could suffer and have not established any reserves for this case.

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

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

About Forward-looking Statements

You should read the following discussion in conjunction with our consolidated financial statements, footnotes, and tables. This discussion and other sections of this report contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and are including this statement for purposes of invoking these safe harbor provisions.

Forward-looking statements are based on management s expectations, estimates, projections, and assumptions. These statements involve inherent risks and uncertainties that are difficult to predict and are not guarantees of future performance. In addition, our past

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results of operations do not necessarily indicate our future results. Words that convey our beliefs, views, expectations, assumptions, estimates, forecasts, outlook and projections or similar language, or that indicate events we believe could, would, should, may or will occur (or might not occur) or are likely (or unlikely) to occur, and similar expressions, are intended to identify forward-looking statements. These may include, among other things, statements and assumptions about:

- our projected revenues, earnings or earnings per share, as well as management s short-term and long-term performance goals;
- projected trends or potential changes in our asset quality, loan delinquencies, charge-offs, reserves, asset valuations, capital ratios or financial performance measures;
- our plans and strategies, including the expected results or impact of implementing such plans and strategies;
- potential litigation developments and the anticipated impact of potential outcomes of pending legal matters;
- the anticipated effects on results of operations or financial condition from recent developments or events; and
- any other projections or expressions that are not historical facts.

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

Actual future results may differ materially from what is projected due to a variety of factors, including, but not limited to:

- potential changes in direction, volatility and relative movement (basis risk) of interest rates, which may affect consumer demand for our products and the management and success of our interest rate risk management strategies;
- staffing fluctuations in response to product demand;
- the relative profitability of our lending operations;
- the valuation and management of our residual, servicing and derivative portfolios, including assumptions we embed in the valuation and short-term swings in valuation of such portfolios due to quarter-end movements in secondary market interest rates, which are inherently volatile;
- borrowers refinancing opportunities, which may affect the prepayment assumptions used in our valuation estimates and which may affect loan demand;
- unanticipated deterioration in the credit quality of our loan and lease assets, including deterioration resulting from the effects of recent natural disasters;
- unanticipated deterioration or changes in estimates of the carrying value of our other assets, including securities;
- difficulties in delivering products to the secondary market as planned;
- difficulties in expanding our businesses and obtaining funding sources as needed;
- competition from other financial service providers for experienced managers as well as for customers;
- changes in the value of companies in which we invest;

changes in variable compensation plans related to the performance and valuation of lines of business where we tie compensation systems to line-of-business performance;

unanticipated outcomes in litigation;

legislative or regulatory changes, including changes in tax laws or regulations, changes in the interpretation of regulatory capital rules, changes in consumer or commercial lending rules, disclosure rules, or rules affecting corporate governance, and the availability of resources to address these rules;

changes in applicable accounting policies or principles or their application to our business or final audit adjustments;

additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods;

the final outcome and implications of our consideration of strategic alternatives, including sale or discontinuance of operations for our conventional mortgage banking segment; or

governmental changes in monetary or fiscal policies.

We undertake no obligation to update publicly any of these statements in light of future events, except as required in subsequent reports we file with the Securities and Exchange Commission (SEC).

Strategy

Our strategy is to position the Corporation as an interrelated group of specialized financial services companies serving niche markets of consumers and small businesses while optimizing the productivity of our capital. Our operational objectives are premised on simultaneously achieving three goals: creditworthiness, profitability and growth. We believe we must continually balance these goals in order to deliver long-term value to all of our stakeholders. We have developed a four-part strategy to meet these goals:

Identify market niches. We focus on product or market *niches in financial services* where our understanding of customer needs and ability to meet them creates added value that permits us not to have to compete primarily on price. We don t believe it is necessary to be the largest or leading market share company in any of our product lines, but we do believe it is important that we are viewed as a preferred provider in niche segments of those product offerings.

Hire exceptional management with niche expertise. We enter niches only when we have attracted senior managers who have proven track records in the niche for which they are responsible. Our structure allows the senior managers of each line of business to focus their efforts on understanding their customers and meeting the needs of the markets they serve. This structure also promotes accountability among managers of each enterprise. We attempt to create a mix of short-term and long-term incentives that provide these managers with the incentive to achieve *creditworthy, profitable growth* over the long term.

Diversify capital and earnings risk. We *diversify* our *revenues* and allocate our *capital* across complementary lines of business and across different regions as a key part of our risk management. For example, our commercial bank has a different profile of customers in the Midwest and Western states. These economies have performed differently over the past five years due to differences in local economies. These differences have affected demand and credit quality of our products. In addition, our home equity segment lends to consumers on a national basis, building a diversified portfolio where demand and credit quality fluctuate depending, in part, on local market conditions. Our customers businesses and needs are cyclical, but when combined in an appropriate mix, we believe they provide sources of diversification and opportunities for growth in a variety of economic conditions.

Reinvest in new opportunities. We *reinvest* on an ongoing basis in the development of new and existing opportunities. As a result of our attention to long-term value creation, we believe it is important at times to dampen short-term earnings growth by investing for future return. We are biased toward seeking new growth through organic expansion of existing lines of business. At times we will initiate a new line through a start-up, with highly qualified managers we select to focus on a single line of business. Over the past ten years, we have made only a few acquisitions. Those have typically not been in competitive bidding situations.

Consistent with this strategy and in light of the changing environment for conventional first mortgage loans, we announced in January 2006 that we were examining our strategic alternatives for this line of business, including the possible sale of Irwin Mortgage (IMC). We have since narrowed our focus to exiting this segment and are pursuing a sale of the business. Over the past several years, we have been monitoring changes in the environment for mortgage banking that began to raise questions about the best strategic approach for the Corporation. These changes are influenced primarily by the increasing commoditization of conventional first mortgages. As margins have shrunk, the environment has required ever larger scale in production to be more price-competitive and to afford additional capital investments in technology. The relative size of IMC to the rest of the Corporation has made it increasingly difficult for us as a parent company to support growth at IMC to gain scale advantages. In addition, the volatility of the value of mortgage servicing rights as well as production has increased, as interest rates have traded in a narrow range now for a prolonged period of time. Our intent is to find a new home for Irwin Mortgage and its employees so that we can redeploy our capital to our other three lines of business, each of which we believe continues to represent a good fit with our corporate strategy.

We believe long-term growth and profitability will result from our endeavors to pursue consumer and commercial lending niches through our bank holding company structure, our experienced management, our diverse product and geographic markets, and our willingness and ability to align the compensation structure of each of our lines of business with the interests of our stakeholders.

Critical Accounting Policies

Accounting estimates are an integral part of our financial statements and are based upon our current judgments. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ from our current judgments or that our use of different assumptions could result in materially different estimates. Our Annual Report on Form 10-K for the year ended 2005 provides a description of the critical accounting policies we apply to material financial statement items, all of which require the use of accounting estimates and/or judgment.

Consolidated Overview

As discussed below, the financial statements, footnotes, schedules and discussion within this report have been reformatted to conform to the presentation required for discontinued operations pursuant to our planned sale of our mortgage banking line of business.

	For the Three Months Ended March 31,		
	2006	**2005**	**% Change**
Net income from continuing operations(thousands)	$ 8,476	$ 7,232	17.2%
Net income (thousands)	(1,858)	(2,545)	27.0
Basic earnings per share from continuing operations	0.29	0.25	16.0
Basic earnings per share	(0.06)	(0.09)	33.3
Diluted earnings per share from continuing operations	0.29	0.25	16.0
Diluted earnings per share	(0.07)	(0.09)	22.2
Return on average equity from continuing operations	6.6%	5.8%	
Return on average assets from continuing operations	0.5%	0.5%	

Consolidated Income Statement Analysis

Net Income From Continuing Operations

We recorded net income from continuing operations of $8.5 million for the three months ended March 31, 2006, up 17% from net income from continuing operations of $7.2 million for the three months ended March 31, 2005. Net income per share from continuing operations (diluted) was $0.29 for the quarter ended March 31, 2006, compared to $0.25 for the first quarter of 2005. Return on equity from continuing operations was 6.6% for the three months ended March 31, 2006 and 5.8% for the same period in 2005.

Net Interest Income From Continuing Operations

Net interest income from continuing operations for the three months ended March 31, 2006 totaled $61 million, up 17% from the first quarter 2005 net interest income of $52 million. Net interest margin for the three months ended March 31, 2006 was 4.58% compared to 5.17% for the same period in 2005. The decline in consolidated net interest margin relates to our increasing cost of funds which have risen at a faster pace than our yields on loans. We attribute the tighter margins principally due to the decline in funding from low-cost escrow deposits as a percentage of mortgage loans held for sale.

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The following table shows our daily average consolidated balance sheet for continuing and discontinued operations, interest rates and interest differential at the dates indicated:

	For the Three Months Ended March 31,					
	2006			2005		
	Average Balance	Interest	Annualized Yield/ Rate	Average Balance	Interest	Annualized Yield/ Rate
	(Dollars in thousands)					
Assets						
Interest-earning assets:						
Interest-bearing deposits with financial institutions	$ 78,254	$ 617	3.20%	$ 64,886	$ 278	1.74%
Federal funds sold	2,774	26	3.80%	8,143	49	2.44%
Residual interests	18,797	664	14.33%	53,201	2,340	17.84%
Investment securities[(1)]	107,016	868	3.29%	108,054	1,437	5.39%
Loans held for sale	1,236,739	25,228	8.27%	1,013,964	18,571	7.43%
Loans and leases, net of unearned income [(2)]	4,628,111	98,095	8.60%	3,474,331	65,491	7.64%
Total interest earning assets	6,071,691	$ 125,498	8.38%	4,722,579	$ 88,166	7.57%
Noninterest-earning assets:						
Cash and due from banks	106,670			102,426		
Premises and equipment, net	31,485			30,003		
Other assets	516,073			602,884		
Less allowance for loan and lease losses	(61,960)			(44,955)		
Total assets	$ 6,663,959			$ 5,412,937		
Liabilities and Shareholders Equity						
Interest-bearing liabilities:						
Money market checking	$ 428,978	$ 2,489	2.35%	$ 469,674	$ 2,120	1.83%
Money market savings	1,143,100	10,771	3.82%	1,113,345	5,499	2.00%
Regular savings	137,560	548	1.62%	61,728	210	1.38%
Time deposits	1,529,061	15,874	4.21%	923,920	6,845	3.00%
Short-term borrowings	718,464	10,156	5.73%	290,668	3,108	4.34%
Collateralized debt	892,633	11,111	5.05%	520,738	4,315	3.36%
Other long-term debt	264,723	5,988	9.17%	270,171	5,856	8.79%
Total interest-bearing liabilities	$ 5,114,519	$ 56,937	4.51%	$ 3,650,244	$ 27,953	3.11%
Noninterest-bearing liabilities:						
Demand deposits	744,113			966,653		

Other liabilities	286,812			292,407		
Shareholders equity	518,515			503,633		
Total liabilities and shareholders equity	$ 6,663,959			$ 5,412,937		
Net interest income		$ 68,561			$ 60,213	
Net interest income to average interest earning assets			4.58%			5.17%
Net interest income from discontinued operations		7,281			7,723	
Net interest income from continuing operations		$ 61,280			$ 52,490	

(1) We do not show interest income on a tax equivalent basis because it is immaterial.

(2) For purposes of these computations, nonaccrual loans are included in daily average loan amounts outstanding.

Provision for Loan and Lease Losses From Continuing Operations

The consolidated provision for loan and lease losses for the three months ended March 31, 2006 was $9.2 million, compared to $3.5 million for the same period in 2005. More information on this subject is contained in the section on credit risk.

Noninterest Income From Continuing Operations

Noninterest income during the first quarter of 2006 totaled $13 million, compared to $18 million for the first three months of 2005. The decrease in 2006 versus 2005 related primarily to the home equity line of business where gains from sale of loans declined to $2 million in the first quarter of 2006 compared to $8 million during the same period in 2005. Details related to these fluctuations are discussed later in the home equity lending section of this document.

Noninterest Expense From Continuing Operations

Noninterest expenses for the three months ended March 31, 2006 totaled $52 million, compared to $55 million for the same period in 2005. This decline is primarily due to decreases in the home equity line of business variable compensation costs. Details related to these fluctuations are discussed later in the home equity lending section of this document.

Income Tax Provision From Continuing Operations

Income tax provision for the three month ended March 31, 2006 totaled $4.7 million, compared to tax provision of $4.5 million during the same period in 2005. Our effective tax rate was 36% during the first quarter of 2006.

Consolidated Balance Sheet Analysis

Total assets at March 31, 2006 were $6.8 billion, up 2% from December 31, 2005. Average assets for the first quarter of 2006 were $6.7 billion, up 11% from the average assets for the year 2005. The growth in the consolidated average balance sheet reflects increases in portfolio loans and leases at the commercial banking, commercial finance and home equity lines of business. At March 31, 2006 and 2005 $1.2 billion of assets from our mortgage banking segment were reclassified to assets held for sale on our balance sheets, pending the planned sale of this segment.

Investment Securities

The following table shows the composition of our investment securities at the dates indicated:

	March 31, 2006	December 31, 2005
	(Dollars in thousands)	
U.S. Treasury and government obligations	$	$
Obligations of states and political subdivisions	3,544	3,544
Mortgage-backed securities	27,719	28,331
Other	73,030	72,896
Total	$ 104,293	$ 104,771

Included within the other category is $70 million of FHLBI and Federal Reserve Bank stock at March 31, 2006 and December 31, 2005, for which there is no readily determinable market value.

Loans Held For Sale

Loans held for sale totaled $466 million at March 31, 2006, a decrease from a balance of $514 million at December 31, 2005. The reduction occurred primarily at our home equity line of business where mortgage loans held for sale declined by $49 million due to the net effect of decreased production, whole loan sales and runoff.

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Loans and Leases

Our commercial loans and leases are originated throughout the United States and Canada. At March 31, 2006, 94% of our loan and lease portfolio was associated with our U.S. operations. We also extend credit to consumers throughout the United States through mortgages, installment loans and revolving credit arrangements. Loans by major category for the periods presented were as follows:

	March 31, 2006	December 31, 2005
	(Dollars in thousands)	
Commercial, financial and agricultural	$ 2,118,143	$ 2,016,228
Real estate-construction	368,509	379,831
Real estate-mortgage	1,335,664	1,232,958
Consumer	27,462	31,718
Commercial financing		
Franchise financing	491,847	462,413
Domestic leasing	255,871	237,968
Canadian leasing	320,246	313,581
Unearned income		
Franchise financing	(137,353)	(125,474)
Domestic leasing	(35,911)	(33,267)
Canadian leasing	(38,628)	(38,013)
Total	$ 4,705,850	$ 4,477,943

Allowance for Loan and Lease Losses

Changes in the allowance for loan and lease losses are summarized below:

	March 31, 2006	December 31, 2005
	(Dollars in thousands)	
Balance at beginning of year	$ 59,223	$ 43,441
Provision for loan and lease losses	9,193	27,307
Charge-offs	(7,257)	(20,201)
Recoveries	2,757	8,960
Reduction due to reclassification or sale of loans	(123)	(403)
Foreign currency adjustment	130	119
Balance at end of period	$ 63,923	$ 59,223

Assets Held for Sale

At March 31, 2006 and 2005, $1.2 billion of assets from our mortgage banking segment were reclassified to assets held for sale on our balance sheet, pending the planned sale of this segment. This reclassification includes all assets that we intend to sell and does not include certain assets which we will not or cannot include in the sale such as FHLBI stock, FHLBI lender risk account, and cash.

Deposits

Total deposits for the first quarter of 2006 averaged $4.0 billion compared to deposits for the year 2005 that averaged $3.9 billion. Demand deposits for the first quarter of 2006 averaged $744 million, a 25% decrease over the average balance for the year 2005. A significant portion of demand deposits is related to deposits at Irwin Union Bank and Trust Company, which are associated with escrow accounts held on loans in the servicing portfolio at the mortgage banking line of business. At March 31, 2006, these escrow accounts were $0.4 billion relatively unchanged from December 31, 2005.

Irwin Union Bank and Trust utilizes institutional broker-sourced deposits as funding from time to time to supplement deposits solicited through branches and other wholesale funding sources. At March 31, 2006, institutional broker-sourced deposits totaled $0.6 billion, unchanged from December 31, 2005.

Short-Term Borrowings

Short-term borrowings during the first quarter of 2006 averaged $718 million compared to an average of $421 million for the year 2005. Short-term borrowings declined to $743 million at March 31, 2006 compared to $997 million at December 31, 2005. The decrease in short-term borrowings at the end of the first quarter relative to year-end relates to a $0.3 billion securitized financing at the home equity lending line of business during the first quarter. Proceeds from this financing were used to pay down short-term borrowings.

Federal Home Loan Bank borrowings averaged $335 million for the quarter ended March 31, 2006, with an average rate of 4.62% and the balance at March 31, 2006 was $272 million at an interest rate of 4.73%. The maximum outstanding during any month end during 2006 was $367 million. Federal Funds borrowings averaged $278 million for the quarter ended March 31, 2006, with an average rate of 4.13%. The balance at March 31, 2006 was $273 million at an interest rate of 4.58%. The maximum outstanding during any month end during 2006 was $280 million.

Federal Home Loan Bank borrowings averaged $199 million for the quarter ended December 31, 2005, with an average rate of 3.56%. The balance at December 31, 2005 was $642 million at an interest rate of 4.39%. The maximum outstanding during any month end during 2005 was $642 million. Federal Funds borrowings averaged $126 million for the quarter ended December 31, 2006, with an average rate of 1.95%. The balance at December 31, 2005 was $290 million at an interest rate of 3.94%. The maximum outstanding at any month end during 2005 was $290 million.

Collateralized and Other Long-Term Debt

Collateralized borrowings totaled $914 million at March 31, 2006, compared to $669 million at December 31, 2005. The increased debt relates to the securitized financing during the first quarter at our home equity lending line of business. The bulk of these borrowings have resulted from securitization structures that result in loans remaining as assets and debt borrowings being recorded on the balance sheet. The securitization debt represents match-term funding for these loans and leases.

Other long-term debt totaled $249 million at March 31, 2006, compared to $270 million for December 31, 2005. The reduction in long-term debt relates to our call of the convertible trust preferred securities issued by IFC Capital Trust III on March 6, 2006. As a result of the call, 39% of the preferred shareholders converted to 1,013,938 shares of IFC common stock and 61% redeemed for cash. On March 31, 2006, we issued $31.5 million of Capital Trust IX preferred securities to replace the redeemed shares. We had obligations represented by subordinated debentures at March 31, 2006 totaling $213 million with our wholly-owned trusts that were created for the purpose of issuing trust preferred securities. The subordinated debentures were the sole assets of the trusts at March 31, 2006. In accordance with FASB Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities (revised December 2003), we deconsolidated the wholly-owned trusts that issued the trust preferred securities. As a result, these securities are not consolidated on our balance sheet. Instead, the subordinated debentures held by the trusts are disclosed on the balance sheet as other long-term debt.

Capital

Shareholders equity averaged $519 million during the first quarter of 2006, up 8% compared to the average for the year 2005. Shareholders equity balance of $528 million at March 31, 2006 represented $17.76 per common share, compared to $17.90 at December 31, 2005. We paid $3.3 million in dividends in the first quarter of 2006, reflecting an increase of $0.01 per share compared to a year ago. As mentioned above, on March 9, 2006 1,013,938 shares of our common stock were issued upon conversion of trust preferred securities issued by IFC Capital Trust III. These additional shares added $20.2 million to our equity base during the quarter.

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The following table sets forth our capital and regulatory capital ratios at the dates indicated:

	March 31, 2006	December 31, 2005
	(Dollars in thousands)	
Tier 1 capital	$ 699,523	$ 675,316
Tier 2 capital	132,596	154,128
Total risk-based capital	$ 832,119	$ 829,444
Risk-weighted assets	$ 6,443,860	$ 6,317,797
Risk-based ratios:		
Tier 1 capital	10.9%	10.7%
Total capital	12.9	13.1
Tier 1 leverage ratio	10.5	10.3
Ending shareholders equity to assets	7.8	