

## **IRWIN FINANCIAL CORPORATION**

### **Corporate Governance Principles**

*The Board of Directors (the "Board") of Irwin Financial Corporation (the "Company") believes that sound corporate governance practices provide an important framework to assist the Board in fulfilling its responsibilities. Accordingly, the Board has formally adopted corporate governance principles relating to its structure, functions and operations. The Board of Directors believes that a relationship with management based on mutual openness, candor and objectivity is central to the Board's ability to fulfill its responsibilities effectively, including its fiduciary duties, and to serve the interests of the stakeholders of Irwin Financial Corporation. The Board understands and is committed to providing direction to and independent oversight of management, acting to delegate, affirm, check and balance management's authority. However, the Board believes it is not in the best interests of the Corporation or its stakeholders to foster an adversarial relationship or an environment of distrust between the Board and management. In the development of policy and in its normal operations, the Board will work to build a relationship with management based on mutual respect, trust, trustworthiness, balance, and integrity. None of these principles is intended to preclude the Board from exercising its business judgment or from relying on the competence and integrity of management, if it believes it has good reason to do so. These principles, which are reviewed periodically by the Governance Committee of the Board, are set forth below.*

#### **I. Role of the Board**

The role of the Board, as a whole or through its various committees, is to oversee the business and affairs of the Company with a view toward creating superior value for the Company's stakeholders by:

- Adopting corporate governance principles and other policies that are consistent with the Company's Guiding Philosophy.
- Reviewing strategic direction and approving corporate strategies and policies.
- Advising senior management.
- Monitoring:
  - The performance of the Company.
  - The performance of senior management.
  - Communications and relationships with stakeholders.
  - The effectiveness of internal controls and risk management practices.
  - Compliance with laws, regulations and corporate policies.

In discharging its duties to act in the best interests of the Company, the Board will consider, among other pertinent factors, the effect of its actions on the Company's

stakeholder groups, including shareholders, customers, suppliers, communities, employees and the interests of society as represented by our regulators.

## **II. Board Structure**

*2.1 Size.* The Board will normally consist of between eight and twelve members. A size in this range makes the Board large enough to allow for a diversity of perspectives and backgrounds without being so large as to impede effective, open and candid discussion. The quality of the individuals serving as directors and the overall balance of the Board are more important than the precise number of members. These considerations could lead from time to time to a Board outside of this size range.

*2.2 Independence.* A substantial majority of the Board should consist of directors who are not employed by the Company and whose other relationships with the Company would not impair their independence, as affirmatively determined by the Board in accordance with requirements of the New York Stock Exchange on “independent” status. Without limiting the generality of the foregoing, the Company shall abide by the following requirements set forth in the New York Stock Exchange listing standards:

- A director who is an employee, or whose immediate family member is an executive officer, of the Company may not be determined to be “independent” until three years after the end of such employment relationship.
- A director who receives, or whose immediate family member receives, more than \$100,000 per year in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service), may not be determined to be “independent” until three years after he or she ceases to receive more than \$100,000 per year in such compensation.
- A director who is affiliated with or employed by, or whose immediate family member is affiliated with or employed in a professional capacity by, a present or former internal or external auditor of the Company may not be determined to be “independent” until three years after the end of the affiliation or the employment or auditing relationship.
- A director who is employed, or whose immediate family member is employed, as an executive officer of another company where any of the Company's present executives serve on that company's compensation committee may not be determined to be “independent” until three years after the end of such service or the employment relationship.
- A director who is an executive officer or an employee, or whose immediate family member is an executive officer, of a company that makes payments to, or receives payments from, the Company for property or services in an amount which, in any single fiscal year, exceeds the greater of \$1 million, or 2% of such other company's consolidated gross revenues, may not be

determined to be “independent” until three years after falling below such threshold.

The Company will disclose the “independence” determinations made by the Board with respect to independent directors in accordance with New York Stock Exchange listing standards and applicable regulatory requirements. The Board would not expect to have more than two employee directors except in unusual circumstances.

*2.3 Director Terms, Term Limits and Retirement Policy.* Directors are ordinarily elected for terms of three years. The Board has not established term limits for directors. The Board believes that long-term, experienced directors provide continuity of leadership, perspective and understanding of the complex lines of business of the Company. While term limits could help ensure that there are fresh ideas and viewpoints available to the Board, term limits have the disadvantage of losing the contribution of directors who have been able to develop, over a period of time, increasing insight into the Company and its operations, and who therefore provide an increasing contribution to the Board. The Board believes that the benefits of fresh perspectives can be gained by a balance of people from different age groups and with different lengths of service represented on the Board, without risking losing the benefits of experience from arbitrary term limits.

Directors who attain the age of 70 are not eligible for re-election at the next annual meeting following their 70<sup>th</sup> birthday. Exceptions to this policy may be made on a case-by-case basis by action of the Board. Changes in a Director’s employment status – through retirement, resignation, or dismissal – will trigger an automatic review by the Governance Committee of the appropriateness of continued service on the Board. If the person continues to serve, a follow-up review will take place two years after the date of the change in employment or retirement. Any director whose affiliated loans or other credits with any IFC company become non-performing are not eligible for re-election and will be asked to resign their Directorship immediately.

*2.4 Leadership.* The Board should remain free to configure leadership of the Board and the Company in the way that best serves the Company's interests at the time and, accordingly, has no fixed formal policy with respect to combining or separating the office of Chairman and the function of a chief executive officer.

*2.5 Director Orientation and Continuing Education.* The Company has a process to provide new members of the Board with a timely and thorough introduction to the Company. Each time a new director is appointed, the Board will review this process for improvement opportunities. This orientation process will include, among other things, (i) information on the Company's Guiding Philosophy, mission and current strategies, (ii) an introduction to the management teams at the Company and within its various lines of business, (iii) education about the Company's risk management processes and regulatory environment, and (iv) visits to the Company's offices. The Board will also look for opportunities to enhance its historical practices designed to provide directors with continuing education and updates from management or outside experts on important

issues related to the operations or corporate governance practices of the Company or its status as a publicly traded financial institution.

*2.6 Committees of the Board.* The Company currently has four standing committees: Executive, Audit and Risk Management, Governance, and Compensation. All Committees are composed entirely of non-management directors; however, a designated executive officer may, in certain cases, coordinate the work of a Committee at the direction of the Committee's Chair. The responsibilities of each Committee and its membership requirements are contained in the Company's By-laws and, if it has been approved by the Board, a written charter setting forth the purpose, membership and responsibilities of such Committee. The Company will comply with all New York Stock Exchange and regulatory requirements concerning the membership of certain Committees, including those with respect to independence and financial expertise. The Governance Committee reviews the committee structure of the Board and the membership of the various committees at least annually and makes recommendations for any changes to the Board.

Consistent with past practice, the Committee Chair, assisted by the Chairman and/or the executive officer responsible for supporting each Committee, will determine the frequency of meetings and the agenda for each meeting. The agenda and any background materials for Committee meetings will be circulated in advance whenever practical. The Committee Chairs will report to the full Board after each meeting, and minutes of the Committee meetings will be circulated to the full Board.

*2.7 Chairman of the Executive Committee.* The non-management directors will from time to time designate, and publicly disclose, the name of the director who will serve as the Chair of the Executive Committee, in accordance with the requirements of the New York Stock Exchange.

*2.8 Limitation on Audit Committee Memberships.* Because of the demanding role and responsibilities of members of the Company's Audit and Risk Management Committee, no director will be eligible for service on that Committee while he or she serves on the audit committee of more than two other public companies, unless the Board determines that such simultaneous service would not impair the ability of such director to serve effectively on the Company's Audit and Risk Management Committee.

### **III. Board Functions**

*3.1 Management Evaluation and Executive Compensation.* A key responsibility of the Board is to monitor the performance of senior management. Toward this end, the Board will, through its Governance Committee and its Compensation Committee, continue its past practice of annually evaluating the performance of the Chairman and, in consultation with the Chairman, the performance of other senior executive officers. The Compensation Committee will review and approve (as a committee or with the other independent directors) corporate goals and objectives relevant to the Chairman's compensation and evaluate his performance for compensation

purposes in light of those goals and objectives, using the results of a performance assessment process for the Chairman managed by the Governance Committee and completed by all of the independent directors. The Compensation Committee will also, in accordance with its charter, review and approve, and make recommendations to the Board with respect to, all compensation and benefits for the Company's executive officers as specified in its charter, and provide the Board with a thorough review of compensation matters for the other members of the Company's management as specified in its charter. The Company's executive compensation program will be designed and administered with the objectives of establishing clear and strong linkages to its business strategy and long-term goals, and of developing and motivating talented executives to work for the creation of value for the Company's stakeholders.

*3.2 Management Succession.* The Chairman, working with the Board as a whole, is responsible for developing and maintaining a process for succession planning with respect to the role of the Company's chief executive officer and other members of senior management, and for advising the Board with respect to this process. Continuing our historical practice, the Chairman will report at least annually to the Board on management succession planning and development for the chief executive officer function and senior management positions, including a discussion of assessments, leadership development plans and other relevant factors. The Chairman will also make available, on a continuing basis, his recommendation as to the Chairman's successor should he be unexpectedly disabled. The term "disability" shall mean that the affected senior officer has become unable, through physical or mental illness or other cause diagnosed by a licensed physician who has attended to the senior officer, to perform the essential function of his or her job with or without accommodation (as determined by the Governance Committee), for a period of three (3) consecutive months.

*3.3 Approval of Major Strategies; Oversight of Ethics Issues.* The Board will continue to review and approve the Company's one-year business plan annually, as well as its long-term strategic plan and financial goals. The Board will regularly monitor the Company's performance with respect to these plans and goals.

The Executive Committee will oversee efforts by management—through programs established and supported by the Ethics Office, the individual efforts of senior officers and other members of management, and other means—to foster and maintain a corporate culture throughout the Company that emphasizes business practices and decision-making based on its Guiding Philosophy. The Executive Committee will periodically consider requests or recommendations from management with respect to ethical decision-making matters that may have an overall cultural significance to the Company. In addition, the Board will periodically review the activities of the Audit and Risk Management Committee related to the administration of the Company's Code of Conduct (including without limitation the resolution of any reported violations thereof). Management will deliver to the Executive Committee an annual report on the ethical culture of the company.

*3.4 Board Assessment.* In order to provide for continuous improvement of its performance, the Board will maintain formal mechanisms to assess its contributions in governing the Company regularly, including contributions in specified categories such as fiduciary oversight; Board governance and process; strategic planning and business decisions; and oversight of financial matters. The use of surveys to query individual directors about their observations and recommendations will be encouraged. Results of the assessment, which will be coordinated by the Governance Committee, will also be used in evaluating skills and attributes desired in potential director candidates. The Board will meet in executive session to discuss these assessments. The purpose of this annual assessment is to increase the effectiveness of the Board as a whole, as well as its individual members. The Board will also, through its Governance Committee, monitor the annual self-assessments of its various committees.

*3.5 Selection of Board Members.* The Board as a whole is responsible for selecting candidates for director. The Governance Committee, with the active involvement of the Chairman, is responsible for screening and recommending candidates for election to the Board. In discharging this responsibility, 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, the Company that are aligned with the Company's Guiding Philosophy. 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 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 the his or her willingness to serve if elected, and (iii) evidence of the nominating security holder's ownership of the Company's stock. Any such recommendation and related documentation must be delivered in writing to the Company's Lead Director in care of the Company at its principal address.

*3.6 Responsibilities.* Each director should be able to commit the requisite time and attention necessary to fulfill the obligations of a director, including preparation and attendance at regularly scheduled Board and Committee meetings and participation in other matters necessary for good corporate governance. The Board welcomes, but does not require, directors to attend the Annual Meeting of Shareholders.

3.7 *Director Compensation.* The Governance Committee will be responsible for establishing the level of directors' fees and other matters relating to the compensation of members of the Board. With the assistance of management, the Governance Committee will periodically review director compensation in comparison with similarly-situated companies to ensure that such compensation is reasonable and competitive. Based on such a comparison, the Governance Committee may from time to time propose changes to director compensation to the full Board for consideration and approval.

3.8 *Communications with Stakeholders.* The Chairman is responsible for establishing effective communications with the Company's stakeholder groups (i.e., shareholders, customers, suppliers, governmental authorities, communities and employees). It is the policy of the Company that management should speak for the Company. This policy does not preclude stakeholders, either individually or as a group, from communicating directly with the directors, but it is suggested that any such communications be held through the Board's approved processes and that directors generally not act as spokespersons for the Company in these meetings. Any meetings between directors and stakeholder groups (other than employees) at which directors might reasonably be expected to be asked to speak for the company should only take place with the prior approval of the Board. In compliance with applicable regulatory requirements concerning the disclosure of the Company's processes for security holder communications with Board members, shareholders will be informed of their opportunity to correspond directly with the Lead Director, or with the non-management directors as a group, by writing to the Company's Lead Director in care of the Company at its principal address.

#### **IV. Board Operations**

4.1 *Frequency of Meetings.* The Board will meet as frequently as necessary to enable directors to discharge their responsibilities properly. Regular meetings of the Board are held four times per year, and special meetings will be held as required. The Board may also take action by unanimous written consent from time to time.

4.2 *Conduct of Meetings.* Board meetings will be conducted in a manner that ensures open communication, meaningful participation and timely resolution of issues. In connection with any matter in which an individual director has a personal interest, or where the potential for a conflict of interest otherwise exists, the Board will follow a recusal process pursuant to which the interested director will leave the meeting room during deliberations and a decision on the matter. The Board believes that the absence of the interested director from such deliberations promotes an atmosphere of open and candid discussion and reduces the possibility, and the appearance, that the affected director may exercise influence over the Board's decision on a matter. The minutes will record that the affected director leaves the meeting room during any such deliberations.

4.3 *Selection of Items for Board Agenda.* The Chairman and the President will generally establish the Board agenda for Board meetings, with the understanding that

certain items pertinent to the advisory and monitoring functions of the Board be brought to it periodically by the Chairman and President for review and/or decision. Consistent with past practice, the Chairman and President will annually submit to the Board a calendar of agenda items for each of the subsequent year's Board and Committee meetings to ensure appropriate coverage of issues throughout the year. Concurrently with this annual submission, management will present a set of financial and non-financial goals for the next fiscal year to the Board. In the process of analyzing, discussing and improving these goals, the Board will help to shape the meeting agenda items for the coming year. The calendar of agenda items may be modified at the request of the Board or by management as issues arise during the year.

The Board expects that meeting agenda items will include, on a regular basis, those items required for necessary corporate governance and a review of the Company's financial performance and business strategies. Agenda items that fall within the scope of responsibilities of a Committee of the Board may be reviewed in advance with the Chair of that Committee.

At each regular Board meeting, the calendar and anticipated agendas for future Board and Committee meetings will be confirmed and/or updated, extending to the end of the current year. At each such meeting, management will ask the non-management directors for their input on proposed future agenda items. Any member of the Board may request that an item be included on the agenda, and all directors are encouraged to suggest topics for the agenda, based upon any special interests they may have. Any such suggestions will be communicated by the Chair of the Executive Committee to the Chairman of the Board after each meeting of the Executive Committee (which is composed entirely of non-management directors and which meets in executive session at the conclusion of each regular Board meeting). The Chair of the Executive Committee (in his role as Lead Director) will follow up to ensure that adequate time is allotted at a subsequent meeting for those special agenda items that are suggested by directors.

*4.4 Board Material Distributed in Advance.* As has been the company's historical practice, information and materials that are important to the Board's understanding of the agenda items and business-related topics will be distributed sufficiently in advance of the meeting to permit prior review. It is desired that material be distributed, whenever feasible, one calendar week prior to the Board meeting. Financial reports, certain Committee minutes and other background materials may also be circulated in advance of the meeting. Management should structure material provided to the Board to ensure it is concise and to the point. Highly confidential or sensitive matters may be presented and discussed without prior distribution of background material. Management will use its best efforts to provide the Board with all information that the directors may reasonably request in order for them to make sound, informed business decisions on a timely basis.

*4.5 Board Presentations and Management Attendees.* Management presentations and participation are encouraged to allow directors to gain additional understanding and insight into the Company's businesses and related issues. Therefore, at the invitation of the Board, members of senior management may attend Board

meetings or portions thereof for the purpose of participating in discussions. Generally, presentations of matters to be considered by the Board will be made by the manager responsible for that area of the Company's operations. In addition, selected management representatives will function as liaisons for each of the Board committees for which they have subject matter expertise.

*4.6 Access to Management and Advisors; Special Counsel.* Board members will have complete and direct access to the Company's management. It is assumed that Board members will use judgment to be sure that contact with management is not distracting to the Company's day-to-day operations and that the Chairman is appropriately informed of such communications.

In the event the need arises for an independent investigation that is reasonably likely to implicate members of the Company's executive management, the Board will retain special counsel to conduct such an investigation. Such special counsel, which shall in no event be an individual or firm that the Company regularly uses as outside counsel or that derives a material amount of revenues from the Company, will be instructed to report directly to the Board, or to an appropriate committee of the Board formed for that purpose.

*4.7 Executive Sessions.* The Board will hold executive sessions at least four times per year without the Chairman or any other inside directors for a general discussion of relevant subjects. Additional executive sessions or meetings of non-management Directors may be held from time to time as required, provided, that, at least once per year, an executive session of the Executive Committee of the Board of Directors will be held at which only the Company's independent directors will be present. The Chair of the Executive Committee appointed by the non-management directors will preside over such executive sessions and be responsible for communicating any concerns or conclusions expressed in these sessions to management.

Approved by the Governance Committee January 31, 2007  
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