

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2022

OR

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

For the transition period from _____ to _____

Commission File No. 0-25023

First Capital, Inc.

(Exact name of registrant as specified in its charter)

Indiana

35-2056949

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification Number)

220 Federal Drive NW, Corydon, Indiana 47112 1-812-738-2198

(Address of principal executive offices, zip code, telephone number)

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value \$0.01 per share	FCAP	The NASDAQ Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 3,373,095 shares of common stock were outstanding as of April 29, 2022.

FIRST CAPITAL, INC.

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PART I - FINANCIAL INFORMATION
FIRST CAPITAL, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	<u>March 31,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
<i>(In thousands)</i>		
ASSETS		
Cash and due from banks	\$ 33,122	\$ 23,497
Interest bearing deposits with banks	1,459	3,937
Federal funds sold	133,109	145,075
Total cash and cash equivalents	<u>167,690</u>	<u>172,509</u>
Interest-bearing time deposits	4,588	4,839
Securities available for sale, at fair value	438,168	447,335
Securities held to maturity	7,000	2,000
Loans, net	505,950	483,287
Loans held for sale	2,044	2,413
Federal Home Loan Bank and other stock, at cost	1,836	1,988
Foreclosed real estate	-	36
Premises and equipment	14,999	15,177
Accrued interest receivable	3,449	3,430
Cash value of life insurance	8,748	8,698
Goodwill	6,472	6,472
Core deposit intangible	489	526
Other assets	13,111	7,893
Total Assets	<u>\$ 1,174,544</u>	<u>\$ 1,156,603</u>
LIABILITIES		
Deposits:		
Noninterest-bearing	\$ 252,801	\$ 242,685
Interest-bearing	819,278	792,877
Total deposits	<u>1,072,079</u>	<u>1,035,562</u>
Accrued interest payable	75	97
Accrued expenses and other liabilities	5,870	7,004
Total liabilities	<u>1,078,024</u>	<u>1,042,663</u>
EQUITY		
Preferred stock of \$.01 par value per share Authorized 1,000,000 shares; none issued	-	-
Common stock of \$.01 par value per share Authorized 7,500,000 shares; issued 3,805,533 shares; outstanding 3,373,095 shares	38	38
Additional paid-in capital	41,684	41,684
Retained earnings-substantially restricted	81,720	80,070
Unearned stock compensation	(935)	(1,033)
Accumulated other comprehensive income	(17,437)	1,734
Less treasury stock, at cost - 432,438 shares	(8,665)	(8,665)
Total First Capital, Inc. stockholders' equity	<u>96,405</u>	<u>113,828</u>
Noncontrolling interest in subsidiary	115	112
Total equity	<u>96,520</u>	<u>113,940</u>
Total Liabilities and Equity	<u>\$ 1,174,544</u>	<u>\$ 1,156,603</u>

See accompanying notes to consolidated financial statements.

PART I - FINANCIAL INFORMATION
FIRST CAPITAL, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended	
	March 31,	
	2022	2021
	<i>(In thousands, except per share data)</i>	
INTEREST INCOME		
Loans, including fees	\$ 5,493	\$ 6,073
Securities:		
Taxable	887	508
Tax-exempt	741	634
Dividends	5	3
Other interest income	79	74
Total interest income	<u>7,205</u>	<u>7,292</u>
INTEREST EXPENSE		
Deposits	253	288
Total interest expense	<u>253</u>	<u>288</u>
Net interest income	6,952	7,004
Provision for loan losses	175	75
Net interest income after provision for loan losses	<u>6,777</u>	<u>6,929</u>
NONINTEREST INCOME		
Service charges and fees on deposit accounts	509	410
ATM and debit card fees	1,007	968
Commission and fee income	122	82
Gain on sale of securities available for sale	-	7
Unrealized gain on equity securities	63	234
Gain on sale of loans	335	636
Increase in cash value of life insurance	50	47
Other income	61	54
Total noninterest income	<u>2,147</u>	<u>2,438</u>
NONINTEREST EXPENSE		
Compensation and benefits	3,494	3,530
Occupancy and equipment	467	464
Data processing	869	809
Professional fees	290	239
Advertising	62	50
Other expenses	812	715
Total noninterest expense	<u>5,994</u>	<u>5,807</u>
Income before income taxes	2,930	3,560
Income tax expense	400	618
Net Income	<u>2,530</u>	<u>2,942</u>
Less: net income attributable to the noncontrolling interest in subsidiary	3	3
Net Income Attributable to First Capital, Inc.	<u>\$ 2,527</u>	<u>\$ 2,939</u>
Earnings per common share attributable to First Capital, Inc.:		
Basic	<u>\$ 0.75</u>	<u>\$ 0.88</u>
Diluted	<u>\$ 0.75</u>	<u>\$ 0.88</u>
Dividends per share on common shares	<u>\$ 0.26</u>	<u>\$ 0.26</u>

See accompanying notes to consolidated financial statements.

PART I - FINANCIAL INFORMATION
FIRST CAPITAL, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended March 31,	
	2022	2021
	<i>(In thousands)</i>	
Net Income	\$ 2,530	\$ 2,942
OTHER COMPREHENSIVE LOSS		
Unrealized losses on securities available for sale:		
Unrealized holding losses arising during the period	(24,914)	(3,880)
Income tax benefit	5,743	882
Net of tax amount	(19,171)	(2,998)
Less: reclassification adjustment for realized gains included in net income	-	(7)
Income tax expense	-	1
Net of tax amount	-	(6)
Other Comprehensive Loss, net of tax	(19,171)	(3,004)
Comprehensive Loss	(16,641)	(62)
Less: comprehensive income attributable to the noncontrolling interest in subsidiary	3	3
Comprehensive Loss Attributable to First Capital, Inc.	\$ (16,644)	\$ (65)

See accompanying notes to consolidated financial statements.

PART I - FINANCIAL INFORMATION
FIRST CAPITAL, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

<i>(In thousands, except share and per share data)</i>	Common	Additional	Retained	Accumulated	Unearned	Treasury	Noncontrolling	Total
	Stock	Paid-in	Earnings	Other	Stock	Stock	Interest	
		Capital		Comprehensive	Compensation			
				Income				
Balances at January 1, 2021	\$ 38	\$ 41,684	\$ 72,155	\$ 6,822	\$ (1,520)	\$ (8,540)	\$ 112	\$ 110,751
Net income	-	-	2,939	-	-	-	3	2,942
Other comprehensive loss	-	-	-	(3,004)	-	-	-	(3,004)
Cash dividends	-	-	(878)	-	-	-	-	(878)
Stock compensation expense	-	-	-	-	115	-	-	115
Purchase of 678 treasury shares	-	-	-	-	-	(40)	-	(40)
Balances at March 31, 2021	<u>\$ 38</u>	<u>\$ 41,684</u>	<u>\$ 74,216</u>	<u>\$ 3,818</u>	<u>\$ (1,405)</u>	<u>\$ (8,580)</u>	<u>\$ 115</u>	<u>\$ 109,886</u>
Balances at January 1, 2022	\$ 38	\$ 41,684	\$ 80,070	\$ 1,734	\$ (1,033)	\$ (8,665)	\$ 112	\$ 113,940
Net income	-	-	2,527	-	-	-	3	2,530
Other comprehensive loss	-	-	-	(19,171)	-	-	-	(19,171)
Cash dividends	-	-	(877)	-	-	-	-	(877)
Stock compensation expense	-	-	-	-	98	-	-	98
Balances at March 31, 2022	<u>\$ 38</u>	<u>\$ 41,684</u>	<u>\$ 81,720</u>	<u>\$ (17,437)</u>	<u>\$ (935)</u>	<u>\$ (8,665)</u>	<u>\$ 115</u>	<u>\$ 96,520</u>

See accompanying notes to consolidated financial statements.

PART I - FINANCIAL INFORMATION
FIRST CAPITAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended	
	March 31,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES	<i>(In thousands)</i>	
Net income	\$ 2,530	\$ 2,942
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Amortization of premiums and accretion of discounts on securities, net	570	520
Depreciation and amortization expense	274	292
Deferred income taxes	(106)	(2)
Stock compensation expense	98	115
Increase in cash value of life insurance	(50)	(47)
Gain on sale of securities	-	(7)
Provision for loan losses	175	75
Proceeds from sales of loans	18,262	38,178
Loans originated for sale	(17,558)	(33,932)
Gain on sale of loans	(335)	(636)
Amortization of tax credit investment	89	89
Unrealized gain on equity securities	(63)	(234)
Net realized and unrealized gain on foreclosed real estate	(15)	-
(Increase) decrease in accrued interest receivable	(19)	333
Decrease in accrued interest payable	(22)	(29)
Net change in other assets/liabilities	(528)	(97)
Net Cash Provided By Operating Activities	3,302	7,560
CASH FLOWS FROM INVESTING ACTIVITIES		
Net decrease in interest-bearing time deposits	251	200
Purchase of securities available for sale	(25,483)	(52,436)
Purchase of securities held to maturity	(5,000)	-
Proceeds from maturities of securities available for sale	2,501	5,500
Proceeds from sales of securities available for sale	-	1,798
Principal collected on mortgage-backed obligations	6,664	10,699
Net (increase) decrease in loans receivable	(22,826)	17,633
Proceeds from sale of foreclosed real estate	39	-
Proceeds from redemption of Federal Home Loan Bank stock	152	-
Purchase of premises and equipment	(59)	(29)
Net Cash Used In Investing Activities	(43,761)	(16,635)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	36,517	40,061
Purchase of treasury stock	-	(40)
Dividends paid	(877)	(878)
Net Cash Provided By Financing Activities	35,640	39,143
Net Increase (Decrease) in Cash and Cash Equivalents	(4,819)	30,068
Cash and cash equivalents at beginning of period	172,509	175,888
Cash and Cash Equivalents at End of Period	\$ 167,690	\$ 205,956

See accompanying notes to consolidated financial statements.

FIRST CAPITAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Presentation of Interim Information

First Capital, Inc. (“Company”) is the financial holding company for First Harrison Bank (“Bank”), an Indiana chartered commercial bank and wholly owned subsidiary. First Harrison Investments, Inc. and First Harrison Holdings, Inc. are wholly-owned Nevada corporate subsidiaries of the Bank that jointly own First Harrison, LLC, a Nevada limited liability corporation that holds and manages an investment portfolio. First Harrison REIT, Inc. (“REIT”) is a wholly-owned subsidiary of First Harrison Holdings, Inc. that holds a portion of the Bank’s real estate mortgage loan portfolio. FHB Risk Mitigation Services, Inc. (“Captive”) is a wholly-owned insurance subsidiary of the Company that provides property and casualty insurance coverage to the Company, the Bank and the Bank’s subsidiaries, and reinsurance to nine other third party insurance captives for which insurance may not be currently available or economically feasible in the insurance marketplace. Heritage Hill, LLC is a wholly-owned subsidiary of the Bank that is currently inactive.

In the opinion of management, the unaudited consolidated financial statements include all adjustments considered necessary to present fairly the financial position as of March 31, 2022, and the results of operations for the three months ended March 31, 2022 and 2021 and the cash flows for the three months ended March 31, 2022 and 2021. All of these adjustments are of a normal, recurring nature. Such adjustments are the only adjustments included in the unaudited consolidated financial statements. Interim results are not necessarily indicative of results for a full year or any other period.

The accompanying unaudited consolidated financial statements and notes have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial statements and are presented as permitted by the instructions to Form 10-Q. Accordingly, they do not contain certain information included in the Company’s annual audited consolidated financial statements and related footnotes for the year ended December 31, 2021 included in the Company’s Annual Report on Form 10-K.

The unaudited consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform with the current period presentation. The reclassifications had no effect on net income or stockholders’ equity.

COVID-19

On March 11, 2020, the World Health Organization declared the outbreak of the novel coronavirus (“COVID-19”) as a global pandemic, which continues to spread throughout the United States and around the world. The COVID-19 pandemic has adversely affected, and may continue to adversely affect economic activity globally, nationally and locally. COVID-19 and actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Company operates. Such events also may adversely affect business and consumer confidence, generally, and the Company and its customers, and their respective suppliers, vendors and processors, may be adversely affected.

FIRST CAPITAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1 – continued)

Due to the COVID-19 pandemic market interest rates initially declined significantly, as the Federal Open Market Committee (“FOMC”) reduced the targeted federal funds interest rate range by 150 basis points during the month of March 2020 to 0% to 0.25%. The FOMC increased the targeted rate by 25 basis points during March 2022. These changes in interest rates and other effects of the COVID-19 pandemic may adversely affect the Company's financial condition and results of operations in future periods. It is unknown how long the adverse conditions associated with the COVID-19 pandemic will last and what the financial impact will be to the Company. It is reasonably possible that estimates made in the financial statements could be materially and adversely impacted in the near term as a result of these conditions, including expected credit losses on loans.

On March 22, 2020, the federal banking agencies issued an “Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus”. This guidance encourages financial institutions to work prudently with borrowers that may be unable to meet their contractual obligations because of the effects of COVID-19. The guidance goes on to explain that in consultation with the Financial Accounting Standards Board (“FASB”) staff that the federal banking agencies concluded that short-term modifications (e.g., six months) made on a good faith basis to borrowers who were current as of the implementation date of a relief program are not troubled debt restructurings (“TDRs”). The Coronavirus Aid, Relief and Economic Security (“CARES”) Act was passed by Congress on March 27, 2020. The CARES Act also addressed COVID-19 related modifications and specified that COVID-19 related modifications on loans that were current as of December 31, 2019 are not TDRs. The Consolidated Appropriations Act of 2021 signed into law on December 27, 2020 further extended the relief from TDR accounting for qualified modifications to the earlier of January 1, 2022, or 60 days after the national emergency concerning COVID-19 terminates. The Bank applied this guidance related to payment deferrals and other COVID-19 related loan modifications made through December 31, 2021.

The CARES Act also included a total allocation of \$659 billion for loans to be issued by financial institutions through the Small Business Administration (“SBA”) as part of the Paycheck Protection Program (“PPP”). The Consolidation Appropriations Act previously mentioned included the Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act, which allocated an additional \$284 million in a second round of PPP loans. PPP loans are forgivable, in whole or in part, if the proceeds are used for eligible payroll costs and other permitted purposes in accordance with the requirements of the PPP. These loans carry a fixed rate of 1.00% and a term of two or five years, if not forgiven in whole or in part. Payments are deferred until the SBA remits the borrower's loan forgiveness amount to the lender or, if the borrow does not apply for loan forgiveness, 10 months after the end of the borrower's loan forgiveness covered period, and the loans are 100% guaranteed by the SBA. The SBA pays the originating bank a processing fee based on the size of the loan. The SBA began accepting submissions for these PPP loans on April 3, 2020 and the second round ended May 31, 2021. The Bank received SBA authorizations for PPP loans totaling approximately \$62.4 million, including \$16.5 million in second-draw loans originated in 2021. As of April 22, 2022, the Bank has received payoffs on \$61.6 million of PPP loans from the SBA and had \$9,000 remaining in deferred fees related to PPP loans. For the three months ended March 31, 2022 and 2021, the Bank recognized \$25,000 and \$625,000, respectively, of PPP fees in interest income.

FIRST CAPITAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

2. Investment Securities

Investment securities have been classified in the consolidated balance sheets according to management's intent. Investment securities at March 31, 2022 and December 31, 2021 are summarized as follows:

<i>(In thousands)</i>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2022				
Securities available for sale:				
Agency mortgage-backed securities	\$ 104,441	\$ 6	\$ 5,038	\$ 99,409
Agency CMO	6,344	3	64	6,283
Other debt securities:				
Agency notes and bonds	142,250	108	7,426	134,932
Treasury notes and bonds	50,767	-	2,001	48,766
Municipal obligations	157,165	745	9,132	148,778
Total securities available for sale	\$ 460,967	\$ 862	\$ 23,661	\$ 438,168
Securities held to maturity:				
Other debt securities:				
Corporate notes	\$ 7,000	\$ -	\$ 367	\$ 6,633
Total securities held to maturity	\$ 7,000	\$ -	\$ 367	\$ 6,633
December 31, 2021				
Securities available for sale:				
Agency mortgage-backed securities	\$ 102,767	\$ 604	\$ 635	\$ 102,736
Agency CMO	7,863	98	-	7,961
Other debt securities:				
Agency notes and bonds	130,641	489	2,034	129,096
Treasury notes and bonds	50,339	-	545	49,794
Municipal obligations	153,610	4,721	583	157,748
Total securities available for sale	\$ 445,220	\$ 5,912	\$ 3,797	\$ 447,335
Securities held to maturity:				
Other debt securities:				
Corporate notes	\$ 2,000	\$ 4	\$ -	\$ 2,004
Total securities held to maturity	\$ 2,000	\$ 4	\$ -	\$ 2,004

Agency notes and bonds, agency mortgage-backed securities and agency collateralized mortgage obligations ("CMO") include securities issued by the Government National Mortgage Association ("GNMA"), a U.S. government agency, and the Federal National Mortgage Association ("FNMA"), the Federal Home Loan Mortgage Corporation ("FHLMC"), the Federal Farm Credit Bank ("FFCB") and the Federal Home Loan Bank ("FHLB"), which are government-sponsored enterprises. Corporate notes classified as held to maturity include subordinated debt obligations issues by other bank holding companies.

FIRST CAPITAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(2 – continued)

The amortized cost and fair value of debt securities as of March 31, 2022, by contractual maturity, are shown below. Expected maturities of mortgage-backed securities and CMO may differ from contractual maturities because the mortgages underlying the obligations may be prepaid without penalty.

	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<i>(In thousands)</i>				
Due in one year or less	\$ 201	\$ 201	\$ -	\$ -
Due after one year through five years	200,587	191,701	-	-
Due after five years through ten years	52,276	50,378	2,000	1,894
Due after ten years	97,118	90,196	5,000	4,739
	350,182	332,476	7,000	6,633
Mortgage-backed securities and CMO	110,785	105,692	-	-
	\$ 460,967	\$ 438,168	\$ 7,000	\$ 6,633

Information pertaining to investment securities with gross unrealized losses at March 31, 2022, aggregated by investment category and the length of time that individual investment securities have been in a continuous position, follows.

	Number of Investment Positions	Fair Value	Gross Unrealized Losses
<i>(Dollars in thousands)</i>			
March 31, 2022:			
Securities available for sale:			
Continuous loss position less than twelve months:			
Agency mortgage-backed securities	93	\$ 93,083	\$ 4,596
Agency CMO	20	4,553	64
Agency notes and bonds	35	79,439	4,416
Treasury notes and bonds	14	48,766	2,001
Municipal obligations	169	97,740	8,096
Total less than twelve months	331	323,581	19,173
Continuous loss position more than twelve months:			
Agency mortgage-backed securities	4	5,607	442
Agency notes and bonds	15	41,339	3,010
Municipal obligations	11	6,434	1,036
Total more than twelve months	30	53,380	4,488
Total securities available for sale	361	\$ 376,961	\$ 23,661
Securities held to maturity:			
Continuous loss position less than twelve months:			
Corporate notes	4	\$ 6,633	\$ 367
Total less than twelve months	4	6,633	367
Total held to maturity	4	\$ 6,633	\$ 367

FIRST CAPITAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(2 – continued)

Information pertaining to investment securities with gross unrealized losses at December 31, 2021, aggregated by investment category and the length of time that individual investment securities have been in a continuous position, follows.

	Number of Investment Positions	Fair Value	Gross Unrealized Losses
<i>(Dollars in thousands)</i>			
December 31, 2021:			
Continuous loss position less than twelve months:			
Agency mortgage-backed securities	23	\$ 67,512	\$ 607
Agency notes and bonds	39	98,042	1,710
Treasury notes and bonds	11	49,190	545
Municipal obligations	49	32,642	479
Total less than twelve months	122	247,386	3,341
Continuous loss position more than twelve months:			
Agency mortgage-backed securities	1	1,357	28
Agency notes and bonds	4	13,676	324
Municipal obligations	4	2,957	104
Total more than twelve months	9	17,990	456
Total securities available for sale	131	\$ 265,376	\$ 3,797

Management evaluates securities for other-than-temporary impairment at least quarterly, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recover in fair value.

At March 31, 2022, the municipal obligations and U.S. government agency debt securities, including Treasury notes and bonds, agency notes and bonds, mortgage-backed securities and CMOs classified as available for sale and in a loss position had depreciated approximately 5.9% from the amortized cost basis. All of the U.S. government agency securities and municipal obligations are issued by U.S. government agencies, government-sponsored enterprises and municipal governments, or are secured by first mortgage loans and municipal project revenues. At March 31, 2022, the corporate notes classified as held to maturity in a loss position had depreciated approximately 5.2% from the amortized cost basis. These unrealized losses related principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government, its agencies or other governments, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As the Company has the ability to hold the debt securities until maturity, or the foreseeable future if classified as available for sale, no declines are deemed to be other-than-temporary.

While management does not anticipate any credit-related impairment losses at March 31, 2022, additional deterioration in market and economic conditions may have an adverse impact on credit quality in the future.

FIRST CAPITAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(2 – continued)

During the three months ended March 31, 2021, the Company realized gross gains of \$12,000 and gross losses of \$5,000 on sales of available for sale securities. During the three months ended March 31, 2022, the Company sold no securities.

Certain debt securities available for sale were pledged to secure public fund deposits and under a blanket collateral agreement with the FHLB at March 31, 2022 and December 31, 2021.

Equity Securities

In September 2018, the Company acquired 90,000 shares of common stock in another bank holding company, representing approximately 5% of the outstanding common stock of the entity, for a total investment of \$1.9 million. During the three months ended March 31, 2022 and 2021, the Company recognized unrealized gains of \$63,000 and \$234,000, respectively, on this equity investment. At March 31, 2022 and December 31, 2021, the equity investment had a fair value of \$1.9 million and is included in other assets on the consolidated balance sheets.

In October 2021, the Company entered into an agreement to invest in a bank technology fund through a limited partnership. At March 31, 2022 and December 31, 2021, the Company's investment in the limited partnership was \$1.0 million and is reflected in other assets on the consolidated balance sheets. The unfunded commitment related to the limited partnership investment at March 31, 2022 and December 31, 2021 was \$880,000 and is reflected in other liabilities on the consolidated balance sheets. The Company expects to fulfill the commitment as capital calls are made through 2026. The investment is accounted for as an equity security without a readily determinable fair value, and has been recorded at cost, less any impairment, and adjustments resulting from observable price changes. There were no impairments or adjustments on equity securities without readily determinable fair values during the three months ended March 31, 2022 or 2021.

3. Loans and Allowance for Loan Losses

The Company's loan and allowance for loan loss policies are as follows:

Loans are stated at unpaid principal balances, less net deferred loan fees and the allowance for loan losses. The Company originates real estate mortgage, commercial business and consumer loans. A substantial portion of the loan portfolio is represented by mortgage loans to customers in the Louisville, Kentucky metropolitan statistical area (MSA). The ability of the Company's customers to honor their loan agreements is largely dependent upon the real estate and general economic conditions in this area.

Loan origination and commitment fees, as well as certain direct costs of underwriting and closing loans, are deferred and amortized as a yield adjustment to interest income over the lives of the related loans using the interest method. Amortization of net deferred loan fees is discontinued when a loan is placed on nonaccrual status.

FIRST CAPITAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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The recognition of income on a loan is discontinued and previously accrued interest is reversed, when interest or principal payments become 90 days past due unless, in the opinion of management, the outstanding interest remains collectible. Past due status is determined based on contractual terms. Generally, by applying the cash receipts method, interest income is subsequently recognized only as received until the loan is returned to accrual status. The cash receipts method is used when the likelihood of further loss on the loan is remote. Otherwise, the Company applies the cost recovery method and applies all payments as a reduction of the unpaid principal balance until the loan qualifies for return to accrual status. Interest income on impaired loans is recognized using the cost recovery method, unless the likelihood of further loss on the loan is remote.

A loan is restored to accrual status when all principal and interest payments are brought current and the borrower has demonstrated the ability to make future payments of principal and interest as scheduled, which generally requires that the borrower demonstrate a period of performance of at least six consecutive months.

For portfolio segments other than consumer loans, the Company's practice is to charge-off any loan or portion of a loan when the loan is determined by management to be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorating or deteriorated financial condition, the depreciation of the underlying collateral, the loan's classification as a loss by regulatory examiners, or for other reasons. A partial charge-off is recorded on a loan when the uncollectibility of a portion of the loan has been confirmed, such as when a loan is discharged in bankruptcy, the collateral is liquidated, a loan is restructured at a reduced principal balance, or other identifiable events that lead management to determine the full principal balance of the loan will not be repaid. A specific reserve is recognized as a component of the allowance for estimated losses on loans individually evaluated for impairment. Partial charge-offs on nonperforming and impaired loans are included in the Company's historical loss experience used to estimate the general component of the allowance for loan losses as discussed below. Specific reserves are not considered charge-offs in management's analysis of the allowance for loan losses because they are estimates and the outcome of the loan relationship is undetermined.

Consumer loans not secured by real estate are typically charged off at 90 days past due, or earlier if deemed uncollectible, unless the loans are in the process of collection. Overdrafts are charged off after 45 days past due. Charge-offs are typically recorded on loans secured by real estate when the property is foreclosed upon.

The allowance for loan losses reflects management's judgment of probable loan losses inherent in the loan portfolio at the balance sheet date. Additions to the allowance for loan losses are made by the provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The Company uses a disciplined process and methodology to evaluate the allowance for loan losses on at least a quarterly basis that is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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The allowance consists of specific and general components. The specific component relates to loans that are individually evaluated for impairment or loans otherwise classified as doubtful, substandard, or special mention. For such loans that are also classified as impaired, an allowance is established when the underlying discounted collateral value (or present value of estimated future cash flows) of the impaired loan is lower than the carrying value of that loan.

The general component covers loans not considered to be impaired. Such loans are pooled by segment and losses are modeled using annualized historical loss experience adjusted for qualitative factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the prior five years. The Company's historical loss experience is then adjusted for qualitative factors that are reviewed on a quarterly basis based on the risks present for each portfolio segment. Management considers changes and trends in the following qualitative loss factors: underwriting standards, economic conditions, changes and trends in past due and classified loans, collateral valuations, loan concentrations and other internal and external factors.

Management also applies additional loss factor multiples to loans classified as watch, special mention and substandard that are not individually evaluated for impairment. The loss factor multiples for classified loans are based on management's assessment of historical trends regarding losses experienced on classified loans in prior periods. See below for additional discussion of the qualitative factors utilized in management's allowance for loan loss methodology at March 31, 2022 and December 31, 2021.

Management exercises significant judgment in evaluating the relevant historical loss experience and the qualitative factors. Management also monitors the differences between estimated and actual incurred loan losses for loans considered impaired in order to evaluate the effectiveness of the estimation process and make any changes in the methodology as necessary.

Management utilizes the following portfolio segments in its analysis of the allowance for loan losses: residential real estate, land, construction, commercial real estate, commercial business, home equity and second mortgage, and other consumer loans. Additional discussion of the portfolio segments and the risks associated with each segment can be found in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Values for collateral dependent loans are generally based on appraisals obtained from independent licensed real estate appraisers, with adjustments applied for estimated costs to sell the property, costs to complete unfinished or repair damaged property and other factors. New appraisals are generally obtained for all significant properties when a loan is identified as impaired, and a property is considered significant if the value of the property is estimated to exceed \$200,000. Subsequent appraisals are obtained as needed or if management believes there has been a significant change in the market value of the property. In instances where it is not deemed necessary to obtain a new appraisal, management bases its impairment and allowance for loan loss analysis on the original appraisal with adjustments for current conditions based on management's assessment of market factors and management's inspection of the property.

At March 31, 2022, the Company held no foreclosed real estate. At December 31, 2021, the balance of foreclosed real estate includes \$36,000 of residential real estate properties where physical possession had been obtained. At March 31, 2022 and December 31, 2021, the recorded investment in loans secured by residential real estate properties for which formal foreclosure proceedings are in process was \$77,000 and \$53,000, respectively.

Loans at March 31, 2022 and December 31, 2021 consisted of the following:

<i>(In thousands)</i>	<u>March 31,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
Real estate mortgage loans:		
Residential	\$ 137,762	\$ 130,603
Land	19,489	19,478
Construction	68,112	59,959
Commercial	148,492	137,915
Commercial business loans	58,031	51,787
Consumer loans:		
Home equity and second mortgage loans	55,893	54,453
Automobile loans	44,394	43,946
Loans secured by savings accounts	816	827
Unsecured loans	2,121	2,219
Other consumer loans	12,339	13,579
Gross loans	547,449	514,766
Less undisbursed portion of loans in process	(36,410)	(26,520)
Principal loan balance	511,039	488,246
Deferred loan origination fees and costs, net	1,156	1,124
Allowance for loan losses	(6,245)	(6,083)
Loans, net	\$ 505,950	\$ 483,287

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The following table provides the components of the Company's recorded investment in loans at March 31, 2022:

	Residential Real Estate	Land	Construction	Commercial Real Estate	Commercial Business	Home Equity and Second Mortgage	Other Consumer	Total
Recorded Investment in Loans:								
Principal loan balance	\$ 137,762	\$ 19,489	\$ 31,702	\$ 148,492	\$ 58,031	\$ 55,893	\$ 59,670	\$ 511,039
Accrued interest receivable	468	103	74	300	163	166	199	1,473
Net deferred loan origination fees and costs	99	13	(11)	(72)	(21)	1,148	-	1,156
Recorded investment in loans	<u>\$ 138,329</u>	<u>\$ 19,605</u>	<u>\$ 31,765</u>	<u>\$ 148,720</u>	<u>\$ 58,173</u>	<u>\$ 57,207</u>	<u>\$ 59,869</u>	<u>\$ 513,668</u>
Recorded Investment in Loans as Evaluated for Impairment:								
Individually evaluated for impairment	\$ 824	\$ 102	-	\$ 599	\$ 167	\$ 287	-	\$ 1,979
Collectively evaluated for impairment	137,236	19,503	31,765	148,113	58,006	56,920	59,869	511,412
Acquired with deteriorated credit quality	269	-	-	8	-	-	-	277
Ending balance	<u>\$ 138,329</u>	<u>\$ 19,605</u>	<u>\$ 31,765</u>	<u>\$ 148,720</u>	<u>\$ 58,173</u>	<u>\$ 57,207</u>	<u>\$ 59,869</u>	<u>\$ 513,668</u>

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The following table provides the components of the Company's recorded investment in loans at December 31, 2021:

	Residential Real Estate	Land	Construction	Commercial Real Estate	Commercial Business	Home Equity and Second Mortgage	Other Consumer	Total
	<i>(In thousands)</i>							
Recorded Investment in Loans:								
Principal loan balance	\$ 130,603	\$ 19,478	\$ 33,439	\$ 137,915	\$ 51,787	\$ 54,453	\$ 60,571	\$ 488,246
Accrued interest receivable	442	103	67	290	180	160	218	1,460
Net deferred loan origination fees and costs	107	13	(15)	(64)	(46)	1,129	-	1,124
Recorded investment in loans	<u>\$ 131,152</u>	<u>\$ 19,594</u>	<u>\$ 33,491</u>	<u>\$ 138,141</u>	<u>\$ 51,921</u>	<u>\$ 55,742</u>	<u>\$ 60,789</u>	<u>\$ 490,830</u>
Recorded Investment in Loans as Evaluated for Impairment:								
Individually evaluated for impairment	\$ 1,034	\$ 102	\$ -	\$ 702	\$ 174	\$ 303	\$ -	\$ 2,315
Collectively evaluated for impairment	129,848	19,492	33,491	137,428	51,747	55,439	60,789	488,234
Acquired with deteriorated credit quality	270	-	-	11	-	-	-	281
Ending balance	<u>\$ 131,152</u>	<u>\$ 19,594</u>	<u>\$ 33,491</u>	<u>\$ 138,141</u>	<u>\$ 51,921</u>	<u>\$ 55,742</u>	<u>\$ 60,789</u>	<u>\$ 490,830</u>

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An analysis of the allowance for loan losses as of March 31, 2022 is as follows:

	Residential Real Estate	Land	Construction	Commercial Real Estate	Commercial Business	Home Equity and Second Mortgage	Other Consumer	Total
	<i>(In thousands)</i>							
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	\$ 1	\$ -	\$ -	\$ -	\$ -	\$ 5	\$ -	\$ 6
Collectively evaluated for impairment	1,196	235	387	1,927	994	512	957	6,208
Acquired with deteriorated credit quality	31	-	-	-	-	-	-	31
Ending balance	<u>\$ 1,228</u>	<u>\$ 235</u>	<u>\$ 387</u>	<u>\$ 1,927</u>	<u>\$ 994</u>	<u>\$ 517</u>	<u>\$ 957</u>	<u>\$ 6,245</u>

An analysis of the allowance for loan losses as of December 31, 2021 is as follows:

	Residential Real Estate	Land	Construction	Commercial Real Estate	Commercial Business	Home Equity and Second Mortgage	Other Consumer	Total
	<i>(In thousands)</i>							
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7	\$ -	\$ 7
Collectively evaluated for impairment	1,143	234	403	1,884	873	520	988	6,045
Acquired with deteriorated credit quality	31	-	-	-	-	-	-	31
Ending balance	<u>\$ 1,174</u>	<u>\$ 234</u>	<u>\$ 403</u>	<u>\$ 1,884</u>	<u>\$ 873</u>	<u>\$ 527</u>	<u>\$ 988</u>	<u>\$ 6,083</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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An analysis of the changes in the allowance for loan losses for the three months ended March 31, 2022 is as follows:

	Residential Real Estate	Land	Construction	Commercial Real Estate	Commercial Business	Home Equity and Second Mortgage	Other Consumer	Total
	<i>(In thousands)</i>							
Allowance for loan losses:								
Beginning balance	\$ 1,174	\$ 234	\$ 403	\$ 1,884	\$ 873	\$ 527	\$ 988	\$ 6,083
Provisions for loan losses	49	1	(16)	43	121	(10)	(13)	175
Charge-offs	-	-	-	-	-	-	(74)	(74)
Recoveries	5	-	-	-	-	-	56	61
Ending balance	<u>\$ 1,228</u>	<u>\$ 235</u>	<u>\$ 387</u>	<u>\$ 1,927</u>	<u>\$ 994</u>	<u>\$ 517</u>	<u>\$ 957</u>	<u>\$ 6,245</u>

An analysis of the changes in the allowance for loan losses for the three months ended March 31, 2021 is as follows:

	Residential Real Estate	Land	Construction	Commercial Real Estate	Commercial Business	Home Equity and Second Mortgage	Other Consumer	Total
	<i>(In thousands)</i>							
Allowance for loan losses:								
Beginning balance	\$ 1,239	\$ 209	\$ 292	\$ 2,358	\$ 843	\$ 617	\$ 1,067	\$ 6,625
Provisions for loan losses	(14)	3	56	(3)	(27)	14	46	75
Charge-offs	(4)	(3)	-	-	-	(9)	(114)	(130)
Recoveries	-	-	-	-	-	-	58	58
Ending balance	<u>\$ 1,221</u>	<u>\$ 209</u>	<u>\$ 348</u>	<u>\$ 2,355</u>	<u>\$ 816</u>	<u>\$ 622</u>	<u>\$ 1,057</u>	<u>\$ 6,628</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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At March 31, 2022 and December 31, 2021, management applied qualitative factor adjustments to each portfolio segment as they determined that the historical loss experience was not indicative of the level of risk in the remaining balance of those portfolio segments. As part of their analysis of qualitative factors, management considers changes in underwriting standards, economic conditions, past due loan trends, collateral valuations, loan concentrations and other internal and external factors. During 2020, management adjusted the qualitative factors due to economic uncertainties related to COVID-19. During 2021, while there was still considerable uncertainty about how severely the COVID-19 pandemic has impacted the loan portfolio, management decreased the COVID-19 qualitative factor adjustments for each portfolio segment based on loan performance, unemployment rates, the level of cases, vaccination status and government guidelines.

Management also adjusts the historical loss factors for loans classified as watch, special mention and substandard that are not individually evaluated for impairment. The adjustments consider the increased likelihood of loss on classified loans based on the Company's separate historical experience for classified loans.

At March 31, 2022, the Company's allowance for loan losses totaled \$6.2 million, of which \$5.8 million related to qualitative factor adjustments. At December 31, 2021, the Company's allowance for loan losses totaled \$6.1 million, of which \$5.5 million related to qualitative factor adjustments. These changes were made to reflect management's estimates of inherent losses in the loan portfolio at March 31, 2022 and December 31, 2021.

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The following table summarizes the Company's impaired loans as of March 31, 2022 and for the three months ended March 31, 2022 and 2021. The Company did not recognize any interest income on impaired loans using the cash receipts method of accounting for the three-month periods ended March 31, 2022 and 2021:

	At March 31, 2022			Three Months Ended March 31, 2022		Three Months Ended March 31, 2021	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<i>(In thousands)</i>							
Loans with no related allowance recorded:							
Residential	\$ 796	\$ 926	\$ -	\$ 915	\$ 5	\$ 1,804	\$ 5
Land	102	104	-	102	-	99	-
Construction	-	-	-	-	-	-	-
Commercial real estate	599	616	-	651	6	770	9
Commercial business	167	166	-	171	2	206	2
Home equity and second mortgage	-	-	-	8	-	209	1
Other consumer	-	-	-	-	-	-	-
	<u>1,664</u>	<u>1,812</u>	<u>-</u>	<u>1,847</u>	<u>13</u>	<u>3,088</u>	<u>17</u>
Loans with an allowance recorded:							
Residential	28	28	1	14	-	-	-
Land	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-
Commercial real estate	-	-	-	-	-	-	-
Commercial business	-	-	-	-	-	-	-
Home equity and second mortgage	287	297	5	288	-	146	-
Other consumer	-	-	-	-	-	-	-
	<u>315</u>	<u>325</u>	<u>6</u>	<u>302</u>	<u>-</u>	<u>146</u>	<u>-</u>
Total:							
Residential	824	954	1	929	5	1,804	5
Land	102	104	-	102	-	99	-
Construction	-	-	-	-	-	-	-
Commercial real estate	599	616	-	651	6	770	9
Commercial business	167	166	-	171	2	206	2
Home equity and second mortgage	287	297	5	296	-	355	1
Other consumer	-	-	-	-	-	-	-
	<u>\$ 1,979</u>	<u>\$ 2,137</u>	<u>\$ 6</u>	<u>\$ 2,149</u>	<u>\$ 13</u>	<u>\$ 3,234</u>	<u>\$ 17</u>

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The following table summarizes the Company's impaired loans as of December 31, 2021:

	Recorded Investment	Unpaid Principal Balance	Related Allowance
		<i>(In thousands)</i>	
<u>Loans with no related allowance recorded:</u>			
Residential	\$ 1,034	\$ 1,163	\$ -
Land	102	104	-
Construction	-	-	-
Commercial real estate	702	716	-
Commercial business	174	174	-
Home equity and second mortgage	15	15	-
Other consumer	-	-	-
	<u>2,027</u>	<u>2,172</u>	<u>-</u>
<u>Loans with an allowance recorded:</u>			
Residential	-	-	-
Land	-	-	-
Construction	-	-	-
Commercial real estate	-	-	-
Commercial business	-	-	-
Home equity and second mortgage	288	296	7
Other consumer	-	-	-
	<u>288</u>	<u>296</u>	<u>7</u>
<u>Total:</u>			
Residential	1,034	1,163	-
Land	102	104	-
Construction	-	-	-
Commercial real estate	702	716	-
Commercial business	174	174	-
Home equity and second mortgage	303	311	7
Other consumer	-	-	-
	<u>\$ 2,315</u>	<u>\$ 2,468</u>	<u>\$ 7</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Nonperforming loans consists of nonaccrual loans and loans over 90 days past due and still accruing interest. The following table presents the recorded investment in nonperforming loans at March 31, 2022 and December 31, 2021:

	March 31, 2022			December 31, 2021		
	Nonaccrual Loans	Loans 90+ Days Past Due Still Accruing	Total Nonperforming Loans <i>(In thousands)</i>	Nonaccrual Loans	Loans 90+ Days Past Due Still Accruing	Total Nonperforming Loans
Residential	\$ 598	\$ 99	\$ 697	\$ 806	\$ -	\$ 806
Land	102	-	102	102	-	102
Construction	-	-	-	-	-	-
Commercial real estate	112	-	112	115	-	115
Commercial business	-	-	-	-	-	-
Home equity and second mortgage	287	-	287	304	-	304
Other consumer	-	-	-	-	3	3
Total	\$ 1,099	\$ 99	\$ 1,198	\$ 1,327	\$ 3	\$ 1,330

The following table presents the aging of the recorded investment in loans at March 31, 2022:

						Purchased	
	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due <i>(In thousands)</i>	Current	Credit Impaired Loans	Total Loans
Residential	\$ 1,601	\$ 48	\$ 516	\$ 2,165	\$ 135,895	\$ 269	\$ 138,329
Land	124	62	102	288	19,317	-	19,605
Construction	-	-	-	-	31,765	-	31,765
Commercial real estate	112	-	-	112	148,600	8	148,720
Commercial business	168	-	-	168	58,005	-	58,173
Home equity and second mortgage	637	-	-	637	56,570	-	57,207
Other consumer	153	28	-	181	59,688	-	59,869
Total	\$ 2,795	\$ 138	\$ 618	\$ 3,551	\$ 509,840	\$ 277	\$ 513,668

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The following table presents the aging of the recorded investment in loans at December 31, 2021:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due (In thousands)	Current	Purchased Credit Impaired Loans	Total Loans
Residential	\$ 1,186	\$ 158	\$ 501	\$ 1,845	\$ 129,037	\$ 270	\$ 131,152
Land	94	62	102	258	19,336	-	19,594
Construction	-	-	-	-	33,491	-	33,491
Commercial real estate	-	-	-	-	138,130	11	138,141
Commercial business	-	-	-	-	51,921	-	51,921
Home equity and second mortgage	165	-	-	165	55,577	-	55,742
Other consumer	129	3	3	135	60,654	-	60,789
Total	<u>\$ 1,574</u>	<u>\$ 223</u>	<u>\$ 606</u>	<u>\$ 2,403</u>	<u>\$ 488,146</u>	<u>\$ 281</u>	<u>\$ 490,830</u>

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, public information, historical payment experience, credit documentation, and current economic trends, among other factors. The Company classifies loans based on credit risk at least quarterly. The Company uses the following regulatory definitions for risk ratings:

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss: Loans classified as loss are considered uncollectible and of such little value that their continuance on the institution's books as an asset is not warranted.

Loans not meeting the criteria above that are analyzed individually as part of the described process are considered to be pass rated loans.

FIRST CAPITAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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The following table presents the recorded investment in loans by risk category as of the date indicated:

	Residential Real Estate	Land	Construction	Commercial Real Estate	Commercial Business	Home Equity and Second Mortgage	Other Consumer	Total
<i>(In thousands)</i>								
March 31, 2022								
Pass	\$ 137,026	\$ 19,380	\$ 31,765	\$ 146,216	\$ 57,591	\$ 56,920	\$ 59,869	\$ 508,767
Special Mention	-	61	-	1,193	345	-	-	1,599
Substandard	705	62	-	1,199	237	-	-	2,203
Doubtful	598	102	-	112	-	287	-	1,099
Loss	-	-	-	-	-	-	-	-
Total	\$ 138,329	\$ 19,605	\$ 31,765	\$ 148,720	\$ 58,173	\$ 57,207	\$ 59,869	\$ 513,668
December 31, 2021								
Pass	\$ 129,705	\$ 19,369	\$ 33,491	\$ 135,608	\$ 51,353	\$ 55,438	\$ 60,789	\$ 485,753
Special Mention	-	61	-	1,203	323	-	-	1,587
Substandard	641	62	-	1,215	245	-	-	2,163
Doubtful	806	102	-	115	-	304	-	1,327
Loss	-	-	-	-	-	-	-	-
Total	\$ 131,152	\$ 19,594	\$ 33,491	\$ 138,141	\$ 51,921	\$ 55,742	\$ 60,789	\$ 490,830

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(3 – continued)

The following table summarizes the Company's TDRs by accrual status as of March 31, 2022 and December 31, 2021:

	March 31, 2022			Related Allowance for Loan Losses <i>(In thousands)</i>	December 31, 2021			Related Allowance for Loan Losses
	Accruing	Nonaccrual	Total		Accruing	Nonaccrual	Total	
Troubled debt restructurings:								
Residential real estate	\$ 214	\$ -	\$ 214	\$ -	\$ 216	\$ -	\$ 216	\$ -
Commercial real estate	486	-	486	-	585	-	585	-
Commercial business	167	-	167	-	174	-	174	-
Home equity and second mortgage	-	286	286	5	-	287	287	7
Total	\$ 867	\$ 286	\$ 1,153	\$ 5	\$ 975	\$ 287	\$ 1,262	\$ 7

At March 31, 2022 and December 31, 2021, there were no commitments to lend additional funds to debtors whose loan terms have been modified in a TDR.

There were no TDRs that were restructured during the three months ended March 31, 2022 or 2021.

There were no principal charge-offs recorded as a result of TDRs and there was no specific allowance for loan losses related to TDRs modified during the three months ended March 31, 2022 or 2021.

FIRST CAPITAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(3 – continued)

There were no TDRs modified within the previous 12 months for which there was a subsequent payment default (defined as the loan becoming more than 90 days past due, being moved to nonaccrual status, or the collateral being foreclosed upon) during the three months ended March 31, 2022. During the three months ended March 31, 2021, there was one second mortgage loan TDR modified within the previous 12 months with a balance of \$290,000 that was moved to nonaccrual status. In the event that a TDR subsequently defaults, the Company evaluates the restructuring for possible impairment. As a result, the related allowance for loan losses may be increased or charge-offs may be taken to reduce the carrying amount of the loan. As a result of the payment default described above, a specific reserve of \$9,000 was established during the three months ended March 31, 2021. The current balance and specific reserve on the second mortgage loan described above is \$286,000 and \$5,000, respectively.

Purchased Credit Impaired (PCI) Loans

Purchased loans acquired in a business combination are recorded at estimated fair value on their purchase date with no carryover of the related allowance for loan and lease losses. Such loans are accounted for individually or aggregated into pools of loans based on common risk characteristics such as credit score, loan type and date of origination. In determining the estimated fair value of purchased loans or pools, management considers a number of factors including the remaining life, estimated prepayments, estimated loss ratios, estimated value of the underlying collateral, and net present value of cash flows expected to be received, among others. Purchased loans that have evidence of credit deterioration since origination for which it is deemed probable at the date of acquisition that the acquirer will not collect all contractually required principal and interest payments are accounted for in accordance with FASB Accounting Standards Codification (“ASC”) 310-30. The difference between contractually required payments and the cash flows expected to be collected at acquisition is referred to as the nonaccretable difference. The difference between the expected cash flows and the fair value at acquisition is recorded as interest income over the remaining life of the loan or pool of loans and is referred to as the accretable yield. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses. Subsequent increases in expected cash flows will result in a reversal of the provision for loan losses to the extent of prior charges and then an adjustment to accretable yield, which is recognized as future interest income.

The following table presents the carrying amount of PCI loans accounted for under ASC 310-30 at March 31, 2022 and December 31, 2021:

<i>(In thousands)</i>	March 31, 2022	December 31, 2021
Residential real estate	\$ 269	\$ 270
Commercial real estate	8	11
Carrying amount	277	281
Allowance for loan losses	31	31
Carrying amount, net of allowance	\$ 246	\$ 250

The outstanding balance of PCI loans accounted for under ASC 310-30, including contractual principal, interest, fees and penalties was \$337,000 and \$339,000 at March 31, 2022 and December 31, 2021, respectively.

FIRST CAPITAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(3 – continued)

There was a \$31,000 allowance for loan losses related to PCI loans at March 31, 2022 and December 31, 2021. There was a \$1,000 provision for loan losses related to PCI loans for the three-month period ended March 31, 2021. There was no provision for loan losses related to PCI loans for the three-month period ended March 31, 2022.

Accretable yield, or income expected to be collected, is as follows for the three month periods ended March 31, 2022 and 2021:

	2022	2021
Balance at beginning of period	\$ 266	\$ 316
New loans purchased	-	-
Accretion to income	(6)	(8)
Disposals and other adjustments	-	-
Reclassification from nonaccretable difference	(3)	(5)
Balance at end of period	\$ 257	\$ 303

4. Qualified Affordable Housing Project Investment

On January 19, 2018, the Bank entered into an agreement to invest in qualified affordable housing projects through a limited liability company. At March 31, 2022 and December 31, 2021, the balance of the Bank's investment was \$2.4 million and \$2.5 million, respectively, and is reflected in other assets on the consolidated balance sheets. The unfunded commitment related to the qualified affordable housing project investment was \$216,000 at March 31, 2022 and December 31, 2021 and is reflected in other liabilities on the consolidated balance sheets. The Bank expects to fulfill the commitment as capital calls are made through 2029.

The investment is accounted for using the proportional amortization method. During each of the three month periods ended March 31, 2022 and 2021, the Bank recognized amortization expense of \$89,000 which was included in income tax expense on the consolidated statements of income. Additionally, during the three month periods ended March 31, 2022 and 2021, the Bank recognized tax credits and other tax benefits from its qualified affordable housing project investment of \$105,000 and \$106,000, respectively.

FIRST CAPITAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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5. Supplemental Disclosure for Earnings Per Share

**Three Months Ended
March 31,**

2022 2021

(Dollars in thousands, except per share data)

Basic

Earnings:		
Net income attributable to First Capital, Inc.	\$ 2,527	\$ 2,939
Shares:		
Weighted average common shares outstanding	3,350,745	3,342,492
Net income attributable to First Capital, Inc. per common share, basic	\$ 0.75	\$ 0.88

Diluted

Earnings:		
Net income attributable to First Capital, Inc.	\$ 2,527	\$ 2,939
Shares:		
Weighted average common shares outstanding	3,350,745	3,342,492
Add: Dilutive effect of restricted stock	-	5,275
Weighted average common shares outstanding, as adjusted	3,350,745	3,347,767
Net income attributable to First Capital, Inc. per common share, diluted	\$ 0.75	\$ 0.88

Nonvested restricted stock shares are not considered as outstanding for purposes of computing weighted average common shares outstanding. No shares were excluded from the calculations of diluted net income per share because their effect would be anti-dilutive for the three-month period ended March 31, 2021. Restricted shares totaling 22,350 were excluded from the calculation of diluted net income per share for the three-month period March 31, 2022.

6. Stock-Based Compensation Plan

On May 20, 2009, the Company adopted the 2009 Equity Incentive Plan (the "2009 Plan") which terminated as of May 20, 2019. The 2009 Plan provided for the award of stock options, restricted stock, performance shares and stock appreciation rights. The aggregate number of shares of the Company's common stock available for issuance under the 2009 Plan could not exceed 223,000 shares and 176,150 shares were still available for issuance under the 2009 Plan at its termination.

FIRST CAPITAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(6 – continued)

On May 22, 2019, the Company adopted the 2019 Equity Incentive Plan (the “2019 Plan”). The 2019 Plan provides for the award of stock options, restricted stock, performance shares and stock appreciation rights. The aggregate number of shares of the Company’s common stock available for issuance under the 2019 Plan may not exceed 176,150 shares. If an award under the 2009 Plan is canceled, terminates, expires, is forfeited or lapses for any reason, any issued shares subject to the award shall not be available for issuance pursuant to awards subsequently granted under the 2019 Plan. Further, no additional participants, as that term is defined in the 2009 Plan, are eligible for grants of awards under the 2009 Plan. The Company generally issues new shares under the 2019 Plan from its authorized but unissued shares.

At March 31, 2022, 161,900 shares of the Company’s common stock were available for issuance under the 2019 Plan. The Company may grant both non-statutory and statutory stock options which may not have a term exceeding ten years. In the case of incentive stock options, the aggregate fair value of the stock (determined at the time the incentive stock option is granted) for which any optionee may be granted incentive options which are first exercisable during any calendar year shall not exceed \$100,000. Option prices may not be less than the fair market value of the underlying stock at the date of the grant. An award of a performance share is a grant of a right to receive shares of the Company’s common stock which is contingent upon the achievement of specific performance criteria or other objectives set at the grant date. Stock appreciation rights are equity or cash settled share-based compensation arrangements whereby the number of shares that will ultimately be issued or the cash payment is based upon the appreciation of the Company’s common stock. Awards granted under the 2019 Plan may be granted either alone, in addition to, or in tandem with, any other award granted under the 2019 Plan. The terms of the 2019 Plan also include provisions whereby all unearned options and restricted shares become immediately exercisable and fully vested upon a change in control.

The fair market value of stock options granted is estimated at the date of grant using an option pricing model. Expected volatilities are based on historical volatility of the Company's stock. The expected term of options granted represents the period of time that options are expected to be outstanding and is based on historical trends. The risk free rate for the expected life of the options is based on the U.S. Treasury yield curve in effect at the time of grant. As of March 31, 2022, no stock options had been granted under the Plans.

Compensation expense is measured based on the fair market value of the restricted stock at the grant date and is recognized ratably over the period during which the shares are earned (the vesting period). The Company accounts for any forfeitures when they occur, and any previously recognized compensation for an award is reversed in the period the award is forfeited. Compensation expense related to restricted stock recognized for the three-month periods ended March 31, 2022 and 2021 amounted to \$98,000 and \$115,000, respectively. The total income tax benefit related to stock-based compensation was \$23,000 and \$28,000 for the three-month periods ended March 31, 2022 and 2021, respectively.

FIRST CAPITAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(6 – continued)

A summary of the Company's nonvested restricted shares under the Plan as of March 31, 2022 and changes during the three-month period then ended is presented below.

	Number of Shares		Weighted Average Grant Date Fair Value
Nonvested at January 1, 2022	22,350	\$	54.96
Granted	-		-
Vested	-		-
Forfeited	-		-
Nonvested at March 31, 2022	22,350	\$	54.96

There were no restricted shares that vested during the three-month periods ended March 31, 2022 or 2021. At March 31, 2022, there was \$935,000 of unrecognized compensation expense related to nonvested restricted shares. The compensation expense is expected to be recognized over a weighted average period of 2.4 years.

7. Supplemental Disclosures of Cash Flow Information

	Three Months Ended March 31,	
	2022	2021
	<i>(In thousands)</i>	
Cash payments for:		
Interest	\$ 275	\$ 317
Taxes (net of refunds received)	-	-

8. Fair Value Measurements

FASB ASC Topic 820, *Fair Value Measurements*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC Topic 820 are described as follows:

- Level1: Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets. A quoted market price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

FIRST CAPITAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(8 – continued)

Level 2: Inputs to the valuation methodology include quoted market prices for similar assets or liabilities in active markets; quoted market prices for identical or similar assets or liabilities in markets that are not active; or inputs that are derived principally from or can be corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using discounted cash flow methodologies, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth on the following page. These valuation methodologies were applied to all of the Company's financial and nonfinancial assets carried at fair value or the lower of cost or fair value. The table below presents the balances of assets measured at fair value on a recurring and nonrecurring basis as of March 31, 2022 and December 31, 2021. The Company had no liabilities measured at fair value as of March 31, 2022 or December 31, 2021.

FIRST CAPITAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(8 – continued)

<i>(In thousands)</i>	Carrying Value			Total
	Level 1	Level 2	Level 3	
March 31, 2022				
Assets Measured on a Recurring Basis				
Securities available for sale:				
Agency mortgage-backed securities	\$ -	\$ 99,409	\$ -	\$ 99,409
Agency CMO	-	6,283	-	6,283
Agency notes and bonds	-	134,932	-	134,932
Treasury notes and bonds	-	48,766	-	48,766
Municipal obligations	-	148,778	-	148,778
Total securities available for sale	\$ -	\$ 438,168	\$ -	\$ 438,168
Equity securities	\$ 1,944	\$ -	\$ -	1,944
Assets Measured on a Nonrecurring Basis				
Impaired loans:				
Residential real estate	\$ -	\$ -	\$ 27	\$ 27
Home equity and second mortgage	-	-	282	282
Total impaired loans	\$ -	\$ -	\$ 309	\$ 309
December 31, 2021				
Assets Measured on a Recurring Basis				
Securities available for sale:				
Agency mortgage-backed securities	\$ -	\$ 102,736	\$ -	\$ 102,736
Agency CMO	-	7,961	-	7,961
Agency notes and bonds	-	129,096	-	129,096
Treasury notes and bonds	-	49,794	-	49,794
Municipal obligations	-	157,748	-	157,748
Total securities available for sale	\$ -	\$ 447,335	\$ -	\$ 447,335
Equity securities	\$ 1,881	\$ -	\$ -	1,881
Assets Measured on a Nonrecurring Basis				
Impaired loans:				
Home equity and second mortgage	\$ -	\$ -	\$ 281	\$ 281
Total impaired loans	\$ -	\$ -	\$ 281	\$ 281
Foreclosed real estate:				
Residential real estate	\$ -	\$ -	\$ 36	\$ 36
Total foreclosed real estate	\$ -	\$ -	\$ 36	\$ 36

FIRST CAPITAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(8 – continued)

Fair value is based upon quoted market prices, where available. If quoted market prices are not available, fair value is based on internally developed models or obtained from third parties that primarily use, as inputs, observable market-based parameters or a matrix pricing model that employs the Bond Market Association's standard calculations for cash flow and price/yield analysis and observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value, or the lower of cost or fair value. These adjustments may include unobservable parameters. Any such valuation adjustments have been applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Securities Available for Sale and Equity Securities. Securities classified as available for sale and equity securities are reported at fair value on a recurring basis. These securities are classified as Level 1 of the valuation hierarchy where quoted market prices from reputable third-party brokers are available in an active market. If quoted market prices are not available, the Company obtains fair value measurements from an independent pricing service. These securities are reported using Level 2 inputs and the fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, U.S. government and agency yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the security's terms and conditions, among other factors. For securities where quoted market prices, market prices of similar securities or prices from an independent third party pricing service are not available, fair values are calculated using discounted cash flows or other market indicators and are classified within Level 3 of the fair value hierarchy. Changes in fair value of securities available for sale are recorded in other comprehensive income, net of income tax effect. Changes in fair value of equity securities are recorded in noninterest income on the consolidated statements of income.

Impaired Loans. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly. In accordance with accounting standards, only impaired loans for which an allowance for loan loss has been established require classification in the fair value hierarchy.

The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on the fair value of collateral less estimated costs to sell. Collateral may be real estate and/or business assets, including equipment, inventory and/or accounts receivable. The fair value of the collateral is generally determined based on real estate appraisals or other independent evaluations by qualified professionals, adjusted for estimated costs to sell the property, costs to complete or repair the property and other factors to reflect management's estimate of the fair value of the collateral given the current market conditions and the condition of the collateral. The fair value of impaired loans is classified as Level 4 in the fair value hierarchy.

FIRST CAPITAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(8 – continued)

At March 31, 2022, the significant unobservable inputs used in the fair value measurement of impaired loans included a discount from appraised value for estimates of changes in market conditions, the condition of the collateral and estimated costs to sell the collateral ranging from 10% to 23%, with a weighted average discount of 11%. At December 31, 2021, the significant unobservable inputs used in the fair value measurement of impaired loans included a discount from appraised value for estimates of changes in market conditions, the condition of the collateral and estimated costs to sell the collateral of 10%. The Company recognized provisions for loan losses for impaired loans for the three months ended March 31, 2021 of \$9,000 and a reduction in provisions for loan losses for impaired loans for the three months ended March 31, 2022 of \$1,000.

Loans Held for Sale. Loans held for sale are carried at the lower of cost or market value. The portfolio is comprised of residential real estate loans and fair value is based on specific prices of underlying contracts for sales to investors. These measurements are classified as Level 2 when applicable.

Foreclosed Real Estate. Foreclosed real estate is reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly. The fair value of foreclosed real estate is classified as Level 3 in the fair value hierarchy.

Foreclosed real estate is reported at fair value less estimated costs to dispose of the property. The fair values are determined by real estate appraisals which are then discounted to reflect management's estimate of the fair value of the property given current market conditions and the condition of the collateral. At March 31, 2022, the Company had no foreclosed real estate. At December 31, 2021, the significant unobservable inputs used in the fair value measurement of foreclosed real estate included a discount from appraised value for estimates of changes in market conditions, the condition of collateral, and estimated costs to sell of 65%. There were no charges to write down foreclosed real estate recognized in income for the three months ended March 31, 2022 or 2021.

There have been no changes in the valuation techniques and related inputs used for assets measured at fair value on a recurring and nonrecurring basis during the three-month periods ended March 31, 2022 and 2021. There were no transfers into or out of the Company's Level 3 financial assets for the three-month periods ended March 31, 2022 and 2021.

GAAP requires disclosure of the fair value of financial assets and financial liabilities, whether or not recognized in the balance sheet. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company. The estimated fair values of the Company's financial instruments are as follows:

FIRST CAPITAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(8 – continued)

<i>(In thousands)</i>	Carrying Value	Fair Value	Fair Value Measurements Using		
			Level 1	Level 2	Level 3
March 31, 2022:					
Financial assets:					
Cash and cash equivalents	\$ 167,690	\$ 167,690	\$ 167,690	\$ -	\$ -
Interest-bearing time deposits	4,588	4,615	-	4,615	-
Securities available for sale	438,168	438,168	-	438,168	-
Securities held to maturity	7,000	6,633	-	6,633	-
Loans held for sale	2,044	2,081	-	2,081	-
Loans, net	505,950	499,994	-	-	499,994
FHLB and other restricted stock	1,836	N/A	N/A	N/A	N/A
Accrued interest receivable	3,449	3,449	-	3,449	-
Equity securities (included in other assets)	1,944	1,944	1,944	-	-
Financial liabilities:					
Deposits	1,072,079	1,071,035	-	-	1,071,035
Accrued interest payable	75	75	-	75	-
December 31, 2021:					
Financial assets:					
Cash and cash equivalents	\$ 172,509	\$ 172,509	\$ 172,509	\$ -	\$ -
Interest-bearing time deposits	4,839	4,965	-	4,965	-
Securities available for sale	447,335	447,335	-	447,335	-
Securities held to maturity	2,000	2,004	-	2,004	-
Loans held for sale	2,413	2,459	-	2,459	-
Loans, net	483,287	481,961	-	-	481,961
FHLB and other restricted stock	1,988	N/A	N/A	N/A	N/A
Accrued interest receivable	3,430	3,430	-	3,430	-
Equity securities (included in other assets)	1,881	1,881	1,881	-	-
Financial liabilities:					
Deposits	1,035,562	1,035,406	-	-	1,035,406
Accrued interest payable	97	97	-	97	-

FIRST CAPITAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(8 – continued)

The methods and assumptions used to estimate fair value are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents, accrued interest receivable and payable, demand deposits and other transactions accounts. The fair value of investment securities is based on quoted market prices (where available) or values obtained from an independent pricing service. The fair value of loans (excluding loans held for sale), interest-bearing time deposits in other financial institutions, and fixed-maturity certificates of deposit is based on discounted cash flows using current market rates applied to the estimated life and credit risk of the instrument. The fair value of loans held for sale is based on specific prices of underlying contracts for sales to investors. It is not practicable to determine the fair value of FHLB and other restricted stock due to restrictions placed on its transferability. The methods utilized to measure the fair value of financial instruments at March 31, 2022 and December 31, 2021 represent an approximation of exit price, but an actual exit price may differ.

9. Revenue from Contracts with Customers

Substantially all of the Company's revenue from contracts with customers in the scope of FASB ASC 606 is recognized within noninterest income. The following table presents the Company's sources of noninterest income for the three months ended March 31, 2022 and 2021:

	Three Months Ended	
	March 31,	
	2022	2021
	<i>(In thousands)</i>	
Service charges on deposit accounts	\$ 509	\$ 410
ATM and debit card fees	1,007	968
Investment advisory income	122	82
Other	32	32
Revenue from contracts with customers	<u>1,670</u>	<u>1,492</u>
Net gain on loans and investments	398	877
Increase in cash value of life insurance	50	47
Other	29	22
Other noninterest income	<u>477</u>	<u>946</u>
Total noninterest income	<u>\$ 2,147</u>	<u>\$ 2,438</u>

FIRST CAPITAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(9 – continued)

A description of the Company's revenue streams accounted for under FASB ASC 606 follows:

Service Charges on Deposit Accounts: The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as stop payment charges and statement rendering, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs.

ATM and Debit Card Fees: The Company earns ATM usage fees and interchange fees from debit cardholder transactions conducted through a payment network. ATM fees are recognized at the point in time the transaction occurs. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Investment Advisory Income: The Company earns trust, insurance commissions, brokerage commissions and annuities income from its contracts with customers to manage assets for investment, and/or to transact on their accounts. These fees are primarily earned over time as the Company provides the contracted services and are generally assessed based on the market value of assets under management. Fees that are transaction based, including trade execution services, are recognized at the point in time that the transaction is executed. Other related fees, which are based on a fixed fee schedule, are recognized when the services are rendered.

Other Income: Other income from contracts with customers includes safe deposit box fees and ACH origination fees. This revenue is recognized at the time the transaction is executed or over the period the Company satisfies the performance obligation.

FIRST CAPITAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

10. Recent Accounting Pronouncements

The following are summaries of recently issued or adopted accounting pronouncements that impact the accounting and reporting practices of the Company:

In June 2016, the FASB issued Accounting Standards Update (“ASU”) No. 2016-13, *Financial Instruments – Credit Losses (Topic 326)*. The update, commonly referred to as the current expected credit loss methodology (“CECL”), replaces the incurred loss methodology for recognizing credit losses under current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Under the new guidance, an entity will measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. The expected loss model will apply to loans and leases, unfunded lending commitments, held-to-maturity debt securities and other debt instruments measured at amortized cost. The impairment model for available-for-sale debt securities will require the recognition of credit losses through a valuation allowance when fair value is less than amortized cost, regardless of whether the impairment is considered to be other-than-temporary. For the Company, the amendments in the update were originally effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently assessing the impact the guidance will have upon adoption, but management expects its allowance for loan losses to increase through a one-time adjustment to retained earnings. However, until the evaluation is complete, the magnitude of the increase will be unknown. In planning for the implementation of ASU 2016-13, the Company has formed a CECL implementation team consisting of members of senior management that meets on a periodic basis and is currently evaluating software solutions, data requirements and loss methodologies.

In November 2019, the FASB issued ASU No. 2019-10 which delayed the effective date of ASU 2016-13 for smaller reporting companies (as defined by the SEC) and other non-SEC reporting entities to fiscal years beginning after December 15, 2022, including interim periods within those fiscal periods. Early adoption is permitted as of fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is a smaller reporting company as defined by the SEC, and currently does not intend to early adopt CECL.

In March 2022, the FASB issued ASU No. 2022-02, *Financial Instruments – Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures*. The ASU eliminates the current accounting guidance for TDRs by creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity must apply the loan refinancing and restructuring guidance to determine whether a modification results in a new loan or a continuation of an existing loan. For public business entities, the ASU also requires that an entity disclose current-period gross write-offs by year of origination for financing receivables and net investment in leases. For entities that have not yet adopted the amendments in ASU No. 2016-13, the effective dates for the amendments in the ASU are the same as the effective dates in ASU No. 2016-13. The amendments should generally be applied prospectively, although for the transition method related to the recognition and measurement of TDRs an entity has the option to apply a modified retrospective transition method, resulting in a cumulative-effect adjustment to retained earnings in the period of adoption. The Company is currently assessing the impact of the guidance, but its adoption is not expected to have a material impact on the Company’s financial position or results of operations.

FIRST CAPITAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(10 – continued)

The Company has determined that all other recently issued accounting pronouncements will not have a material impact on the Company's consolidated financial statements or do not apply to its operations.

**MANAGEMENT'S DISCUSSION AND
ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS
FIRST CAPITAL, INC.**

Safe Harbor Statement for Forward-Looking Statements

This Quarterly Report on Form 10-Q may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are not historical facts nor guarantees of future performance; rather they are statements based on the Company's current expectations regarding its business strategies and their intended results and its future performance. Forward-looking statements can be identified by use of the words "expects," "believes," "anticipates," "intends," "could," "should" and similar expressions. Forward-looking statements also include, but are not limited to, statements regarding estimated cost savings, plans and objectives for future operations, and the Company's business and growth strategies.

Numerous risks and uncertainties could cause or contribute to the Company's actual results, performance and achievements being materially different from those expressed or implied by the forward-looking statements. Factors that may cause or contribute to these differences include, without limitation, the severity, magnitude and duration of the COVID-19 pandemic, including impacts of the pandemic and of businesses' and governments' responses to the pandemic on our operations and personnel, and on commercial activity and demand across our and our customers' businesses, market, economic, operational, liquidity, credit and interest rate risks associated with the Company's business (including developments and volatility arising from the COVID-19 pandemic), general economic conditions, including changes in market interest rates and changes in monetary and fiscal policies of the federal government; the ability of the Company to execute its business plan; legislative and regulatory changes; the quality and composition of the loan and investment securities portfolio; loan demand; deposit flows; competition; and changes in accounting principles and guidelines. Additional factors that may affect our results are discussed in Part II of this Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2021 under "Item 1A. Risk Factors." These factors should be considered in evaluating the forward-looking statements and undue reliance should not be placed on such statements. These forward-looking statements are made only as of the date of this Quarterly Report on Form 10-Q and, except as required by applicable law or regulation, the Company assumes no obligation and disclaims any obligation to update any forward-looking statements.

Critical Accounting Policies

During the three months ended March 31, 2022, there was no significant change in the Company's critical accounting policies or the application of critical accounting policies as disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

PART I - ITEM 2

**MANAGEMENT'S DISCUSSION AND
ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS**

COVID-19 Update

The COVID-19 pandemic has placed significant health, economic and other major hardships throughout the communities we serve, the United States and the entire world. The Company has implemented a number of procedures in response to the pandemic to support the safety and well-being of our employees, customers and shareholders:

- Following the guidelines of the Center for Disease Control and local governments, we have updated our branch operating procedures. All our lobbies are now open with the exception of one supermarket location and the mask mandate has been lifted. This is subject to change due to changes in federal, state and local law (including, without limitation, governor orders) and/or bank policies. We have enhanced daily cleaning of our facilities and instruct and advise customers and employees maintain appropriate social distancing. We also actively encourage customers to utilize alternative channels such as our online and mobile banking platforms.
- We hold executive committee meetings as needed to address issues as the guidelines related to the pandemic and related programs change rapidly.
- We have expanded our use of technology to allow many of our back-office employees to work safely and productively from home. Many of our normally scheduled meetings, including Board of Director meetings and various committee meetings, are now held virtually instead of in-person.
- Certain industries are widely expected to be particularly impacted by COVID-19 and efforts to contain it. Those industries include travel, hospitality and entertainment. At March 31, 2022, the Company's commercial loan exposure to the hotel and restaurant industries was approximately \$13.9 million and \$11.0 million, respectively, representing approximately 4.9% of the total loan portfolio. Based on the evaluation at March 31, 2022, management believes the allowance for loan losses is adequate to cover estimated losses in the loan portfolio. However, as the pandemic continues, additional losses could be recognized.

Management continues to closely monitor the pandemic and will take additional action to respond to the pandemic as the situation continues to evolve.

Financial Condition

Total assets increased \$17.9 million from \$1.16 billion at December 31, 2021 to \$1.17 billion at March 31, 2022, an increase of 1.6%.

Net loans receivable (excluding loans held for sale) increased \$22.7 million from \$483.3 million at December 31, 2021 to \$506.0 million at March 31, 2022. Commercial real estate loans, residential mortgage loans and commercial business loans increased \$10.6 million, \$7.2 million and \$6.2 million, respectively, during the three months ended March 31, 2022. Construction loans decreased \$1.7 million during the same period.

Cash and cash equivalents decreased from \$172.5 million at December 31, 2021 to \$167.7 million at March 31, 2022.

PART I - ITEM 2

**MANAGEMENT'S DISCUSSION AND
ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS
FIRST CAPITAL, INC.**

Securities available for sale decreased \$9.1 million from \$447.3 million at December 31, 2021 to \$438.2 million at March 31, 2022. Purchases of \$25.5 million of securities classified as available for sale were made during the three months ended March 31, 2022 and consisted primarily of municipal bonds, U.S. government agency notes and bonds and mortgage-backed securities. Principal payments and maturities of available for sale securities totaled \$6.7 million and \$2.5 million, respectively, during the three months ended March 31, 2022. There was also an unrealized loss of \$24.9 million on the securities available for sale portfolio during the period ended March 31, 2022 due primarily to increasing market interest rates during the quarter.

Total deposits increased from \$1.04 billion at December 31, 2021 to \$1.07 billion at March 31, 2022. Savings accounts, interest-bearing checking accounts and noninterest-bearing checking accounts increased \$14.6 million, \$12.5 million and \$10.1 million, respectively, during the three months ended March 31, 2022 primarily due to new accounts and normal balance fluctuations, while time deposits decreased \$724,000 during the period.

Total stockholders' equity attributable to the Company decreased from \$113.8 million at December 31, 2021 to \$96.4 million at March 31, 2022, primarily due to a \$19.2 million net unrealized loss on available for sale securities partially offset by a \$1.7 million increase in retained net income. The net unrealized loss on available for sale securities during the period is primarily due to increases in market interest rates.

Results of Operations

Net income for the three-month periods ended March 31, 2022 and 2021. Net income attributable to the Company was \$2.5 million (\$0.75 per diluted share) for the three months ended March 31, 2022 compared to \$2.9 million (\$0.88 per diluted share) for the same period in 2021. The decrease in net income was primarily due to decreases in net interest income after provision for loans losses and noninterest income and an increase in noninterest expense.

Net interest income for the three-month periods ended March 31, 2022 and 2021. Net interest income decreased \$52,000 for the three months ended March 31, 2022 compared to the same period in 2021 due to a decrease in the interest rate spread that was partially offset by an increase in the average balance of interest-earning assets.

Total interest income decreased \$87,000 for the three months ended March 31, 2022 compared to the same period in 2021. For the three months ended March 31, 2022, the average balance of interest-earning assets and their tax-equivalent yield were \$1.10 billion and 2.68%, respectively. During the same period in 2021, the average balance of those assets was \$954.8 million and the tax-equivalent yield was 3.13%. Fees recognized from loans issued as part of the SBA PPP are included in interest income. The decrease in the tax-equivalent yield was primarily due to a decrease in PPP fees recognized, which totaled \$25,000 during the first quarter of 2022 as compared to \$625,000 for the same period in 2021. Total interest expense decreased \$35,000 for the three months ended March 31, 2022 compared to the same period in 2021. The average rate paid on interest-bearing liabilities decreased from 0.17% for the first quarter of 2021 to 0.13% for the first quarter of 2022 which more than offset the increase in the average balance of interest-bearing liabilities from \$684.7 million for 2021 to \$799.5 million for 2022.

PART I - ITEM 2

**MANAGEMENT'S DISCUSSION AND
ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS
FIRST CAPITAL, INC.**

As a result of the changes in interest-earning assets and interest-bearing liabilities, the interest rate spread on a tax-equivalent basis decreased from 2.96% for the three months ended March 31, 2021 to 2.55% for the same period in 2022.

Provision for loan losses. Based on management's analysis of the allowance for loan losses, the provision for loan losses increased from \$75,000 for the three-month period ended March 31, 2021 to \$175,000 for the same period in 2022. The increase was primarily due to the previously mentioned loan growth during 2022. The Bank recognized net charge-offs of \$13,000 for the three months ended March 31, 2022 compared to \$72,000 during the same period in 2021.

Provisions for loan losses are charges to earnings to maintain the total allowance for loan losses at a level considered adequate by management to provide for probable known and inherent loan losses based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specified impaired loans and economic conditions. Although management uses the best information available, future adjustments to the allowance may be necessary due to changes in economic, operating, regulatory and other conditions that may be beyond the Bank's control. While the Bank maintains the allowance for loan losses at a level that it considers adequate to provide for estimated losses, there can be no assurance that further additions will not be made to the allowance for loan losses and that actual losses will not exceed the estimated amounts.

The methodology used in determining the allowance for loan losses includes segmenting the loan portfolio by identifying risk characteristics common to groups of loans, determining and measuring impairment of individual loans based on the present value of expected future cash flows or the fair value of collateral, and determining and measuring impairment for groups of loans with similar characteristics by applying loss factors that consider the qualitative factors which may affect the loss rates.

The allowance for loan losses was \$6.2 million at March 31, 2022 and \$6.1 million at December 31, 2021. Management has deemed these amounts as adequate at each date based on its best estimate of probable known and inherent loan losses at each date. Management continues to monitor uncertainties surrounding the COVID-19 situation and may need to adjust future expectations as developments occur throughout the remainder of the year. At March 31, 2022, nonperforming loans amounted to \$1.2 million compared to \$1.3 million at December 31, 2021. Included in nonperforming loans at March 31, 2022 and December 31, 2021 were loans 90 days or more past due and still accruing interest of \$99,000 and \$3,000, respectively. These loans were accruing interest because the estimated value of the collateral and collection efforts are deemed sufficient to ensure full recovery. At March 31, 2022 and December 31, 2021, nonaccrual loans amounted to \$1.1 million and \$1.3 million, respectively.

Noninterest income for the three-month periods ended March 31, 2022 and 2021. Noninterest income for the quarter ended March 31, 2022 decreased \$291,000 compared to the quarter ended March 31, 2021. Gains on the sale of loans and unrealized gains on equity securities decreased \$301,000 and \$171,000, respectively, when comparing the two periods. This was partially offset by a \$99,000 increase in service charges on deposit accounts.

Noninterest expense for the three-month periods ended March 31, 2022 and 2021. Noninterest expense for the quarter ended March 31, 2022 increased \$187,000 compared to the quarter ended March 31, 2021. Other expenses, data processing expense and professional fees increased \$97,000, \$60,000 and \$51,000, respectively, when comparing the two periods.

PART I - ITEM 2

**MANAGEMENT'S DISCUSSION AND
ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS
FIRST CAPITAL, INC.**

Income tax expense. Income tax expense decreased \$218,000 for the first quarter of 2022 as compared to the first quarter of 2021 primarily due to a decrease in pre-tax income. As a result, the effective tax rate for the quarter ended March 31, 2022 was 13.7% as compared to 17.4% for the same period in 2021.

Liquidity and Capital Resources

The Bank's primary sources of funds are customer deposits, proceeds from loan repayments, maturing securities and FHLB advances. While loan repayments and maturities are a predictable source of funds, deposit flows and mortgage prepayments are greatly influenced by market interest rates, general economic conditions and competition. At March 31, 2022, the Bank had cash and cash equivalents of \$167.1 million and securities available-for-sale with a fair value of \$437.6 million. If the Bank requires funds beyond its ability to generate them internally, it has additional borrowing capacity with the FHLB of Indianapolis and additional collateral eligible for repurchase agreements.

The Bank's primary investing activity is the origination of one-to-four family mortgage loans and commercial real estate loans and, to a lesser extent, consumer, multi-family, commercial business and residential construction loans. The Bank also invests in U.S. Government and agency securities and mortgage-backed securities issued by U.S. Government agencies.

The Bank must maintain an adequate level of liquidity to ensure the availability of sufficient funds to support loan growth and deposit withdrawals, to satisfy financial commitments and to take advantage of investment opportunities. Historically, the Bank has been able to retain a significant amount of its deposits as they mature.

The Company is a separate legal entity from the Bank and must provide for its own liquidity. In addition to its operating expenses, the Company, on a stand-alone basis, is responsible for paying any dividends declared to its shareholders. The Board of Directors of the Company also has authorized the repurchase of shares of its common stock. The Company's primary source of income is dividends received from the Bank. The amount of dividends that the Bank may declare and pay to the Company in any calendar year, without the receipt of prior approval from the Indiana Department of Financial Institutions ("IDFI"), cannot exceed net income for that year to date plus retained net income (as defined under Indiana law) for the preceding two calendar years. On a stand-alone basis, the Company had liquid assets of \$1.9 million at March 31, 2022.

PART I - ITEM 2

**MANAGEMENT'S DISCUSSION AND
ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS
FIRST CAPITAL, INC.**

The Bank is required to maintain specific amounts of capital pursuant to regulatory requirements. Beginning in 2020, qualifying community banks with assets of less than \$10 billion are eligible to opt in to the Community Bank Leverage Ratio ("CBLR") framework. The CBLR is the ratio of a bank's tangible equity capital to average total consolidated assets. A qualifying community bank that exceeds this ratio will be deemed to be in compliance with all other capital and leverage requirements, including the capital requirements to be considered "well capitalized" under Prompt Corrective Action statutes. The federal banking agencies may consider a financial institution's risk profile when evaluating whether it qualifies as a community bank for purposes of the capital ratio requirement. The federal banking agencies must set the minimum capital for the new CBLR at not less than 8% and not more than 10%, and has set the minimum ratio at 9% effective January 1, 2022. A financial institution that falls below the minimum CBLR generally has a two quarter grace period to get back into compliance as long as it maintains a minimum CBLR of 8%. A financial institution can elect to be subject to or opt out of the CBLR framework at any time. As a qualified community bank, the Bank has opted into the CBLR framework as of March 31, 2022 and its CBLR was 8.73% as of that date. Despite falling below the 9% CBLR minimum, as of March 31, 2022 the Bank was considered "well-capitalized" under applicable regulatory guidelines. Should the Bank not increase its CBLR to at least 9% within the allotted two quarter grace period, it will elect out of the CBLR framework beginning with the quarter ending September 30, 2022 and resume calculating all required capital ratios in accordance with regulatory guidance.

Off-Balance Sheet Arrangements

In the normal course of operations, the Company engages in a variety of financial transactions that, in accordance with GAAP, are not recorded on the Company's financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are primarily used to manage customers' requests for funding and take the form of loan commitments and letters of credit. A further presentation of the Company's off-balance sheet arrangements is presented in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

For the three months ended March 31, 2022, the Company did not engage in any off-balance sheet transactions reasonably likely to have a material effect on the Company's financial condition, results of operations or cash flows.

PART I – ITEM 3

QUANTITATIVE AND QUALITATIVE DISCLOSURES
ABOUT MARKET RISK
FIRST CAPITAL, INC.

Qualitative Aspects of Market Risk. Market risk is the risk that the estimated fair value of the Company’s assets and liabilities will decline as a result of changes in interest rates or financial market volatility, or that the Company’s net income will be significantly reduced by interest rate changes.

The Company’s principal financial objective is to achieve long-term profitability while reducing its exposure to fluctuating market interest rates. The Company has sought to reduce the exposure of its earnings to changes in market interest rates by attempting to manage the mismatch between asset and liability maturities and interest rates. In order to reduce the exposure to interest rate fluctuations, the Company has developed strategies to manage its liquidity, shorten its effective maturities of certain interest-earning assets and decrease the interest rate sensitivity of its asset base. Management has sought to decrease the average maturity of its assets by emphasizing the origination of short-term commercial and consumer loans, all of which are retained by the Company for its portfolio. The Company relies on retail deposits as its primary source of funds. Management believes retail deposits, compared to brokered deposits, reduce the effects of interest rate fluctuations because they generally represent a more stable source of funds.

Quantitative Aspects of Market Risk. The Company does not maintain a trading account for any class of financial instrument nor does the Company engage in hedging activities or purchase high-risk derivative instruments. Furthermore, the Company is not subject to foreign currency exchange rate risk or commodity price risk.

Potential cash flows, sales, or replacement value of many of our assets and liabilities, especially those that earn or pay interest, are sensitive to changes in the general level of interest rates. This interest rate risk arises primarily from our normal business activities of gathering deposits, extending loans and investing in investment securities. Many factors affect the Company’s exposure to changes in interest rates, such as general economic and financial conditions, customer preferences, historical pricing relationships, and re-pricing characteristics of financial instruments. The Company’s earnings can also be affected by the monetary and fiscal policies of the U.S. Government and its agencies, particularly the Board of Governors of the Federal Reserve System.

An element in the Company’s ongoing process is to measure and monitor interest rate risk using a Net Interest Income at Risk simulation to model the interest rate sensitivity of the balance sheet and to quantify the impact of changing interest rates on the Company. The model quantifies the effects of various possible interest rate scenarios on projected net interest income over a one-year horizon. The model assumes a semi-static balance sheet and measures the impact on net interest income relative to a base case scenario of hypothetical changes in interest rates over twelve months and provides no effect given to any steps that management might take to counter the effect of the interest rate movements. The scenarios include prepayment assumptions, changes in the level of interest rates, the shape of the yield curve, and spreads between market interest rates in order to capture the impact from re-pricing, yield curve, option, and basis risks.

PART I – ITEM 3

QUANTITATIVE AND QUALITATIVE DISCLOSURES
ABOUT MARKET RISK
FIRST CAPITAL, INC.

Results of the Company’s simulation modeling, which assumes an immediate and sustained parallel shift in market interest rates, project that the Company’s net interest income could change as follows over a one-year horizon, relative to our base case scenario, based on March 31, 2022 and December 31, 2021 financial information:

Immediate Change in the Level of Interest Rates	At March 31, 2022		At December 31, 2021	
	One Year Horizon		One Year Horizon	
	Dollar Change	Percent Change	Dollar Change	Percent Change
	<i>(Dollars in thousands)</i>			
300bp	\$ 895	3.11%	\$ 885	3.19%
200bp	1,915	6.65	1,853	6.68
100bp	983	3.41	908	3.27
Static	-	-	-	-
(100)bp	212	0.74	(743)	(2.68)
(200)bp	(737)	(2.56)	(2,004)	(7.23)

At March 31, 2022 and December 31, 2021, the Company’s simulated exposure to a change in interest rates shows that an immediate and sustained increase in rates of 1.00%, 2.00% or 3.00% would increase the Company’s net interest income over a one year horizon compared to a flat interest rate scenario. Alternatively, an immediate and sustained decrease in rates of 2.00% would decrease the Company’s net interest income over a one year horizon compared to a flat interest rate scenario. At March 31, 2022, an immediate and sustained decrease in rates of 1.00% would increase the Company’s net interest income over a one year horizon while at December 31, 2021, the result would have been a decrease in net interest income. During the three months ended March 31, 2022, the Company updated deposit decay rates to levels indicated in a third-party study of customer accounts.

The Company also has longer term interest rate risk exposure, which may not be appropriately measured by Net Interest Income at Risk modeling. Therefore, the Company also uses an Economic Value of Equity (“EVE”) interest rate sensitivity analysis in order to evaluate the impact of its interest rate risk on earnings and capital. This is measured by computing the changes in net EVE for its cash flows from assets, liabilities and off-balance sheet items in the event of a range of assumed changes in market interest rates. EVE modeling involves discounting present values of all cash flows for on and off balance sheet items under different interest rate scenarios and provides no effect given to any steps that management might take to counter the effect of the interest rate movements. The discounted present value of all cash flows represents the Company’s EVE and is equal to the market value of assets minus the market value of liabilities, with adjustments made for off-balance sheet items. The amount of base case EVE and its sensitivity to shifts in interest rates provide a measure of the longer term re-pricing and option risk in the balance sheet.

PART I – ITEM 3

QUANTITATIVE AND QUALITATIVE DISCLOSURES
ABOUT MARKET RISK
FIRST CAPITAL, INC.

Results of the Company’s simulation modeling, which assumes an immediate and sustained parallel shift in market interest rates, project that the Company’s EVE could change as follows, relative to the Company’s base case scenario, based on March 31, 2022 and December 31, 2021 financial information:

Immediate Change in the Level of Interest Rates	At March 31, 2022				
	Economic Value of Equity			Economic Value of Equity as a	
	Dollar Amount	Dollar Change	Percent Change	Percent of Present Value of Assets EVE Ratio	Change
300bp	\$ 263,640	\$ 39,095	17.41%	24.58%	516bp
200bp	266,187	41,642	18.55	24.20	478bp
100bp	249,017	24,472	10.90	22.09	267bp
Static	224,545	-	-	19.42	0bp
(100)bp	195,144	(29,401)	(13.09)	16.43	(299)bp
(200)bp	145,514	(79,031)	(35.20)	11.91	(751)bp

Immediate Change in the Level of Interest Rates	At December 31, 2021				
	Economic Value of Equity			Economic Value of Equity as a	
	Dollar Amount	Dollar Change	Percent Change	Percent of Present Value of Assets EVE Ratio	Change
300bp	\$ 214,645	\$ 46,620	27.75%	20.18%	555bp
200bp	211,155	43,130	25.67	19.36	473bp
100bp	191,558	23,533	14.01	17.13	250bp
Static	168,025	-	-	14.63	0bp
(100)bp	136,411	(31,614)	(18.82)	11.57	(306)bp
(200)bp	97,661	(70,364)	(41.88)	8.11	(652)bp

The previous tables indicate that at March 31, 2022 and December 31, 2021 the Company would expect an increase in its EVE in the event of a sudden and sustained 100, 200 or 300 basis point increase in prevailing interest rates and a decrease in its EVE in the event of a sudden and sustained 100 or 200 basis point decrease in prevailing interest rates. As previously mentioned in this report, during the three months ended March 31, 2022, the Company updated deposit decay rates to levels indicated in a third-party study of customer accounts.

PART I – ITEM 3

**QUANTITATIVE AND QUALITATIVE DISCLOSURES
ABOUT MARKET RISK
FIRST CAPITAL, INC.**

The models are driven by expected behavior in various interest rate scenarios and many factors besides market interest rates affect the Company's net interest income and EVE. For this reason, the Company models many different combinations of interest rates and balance sheet assumptions to understand its overall sensitivity to market interest rate changes. Therefore, as with any method of measuring interest rate risk, certain shortcomings are inherent in the method of analysis presented in the foregoing tables and it is recognized that the model outputs are not guarantees of actual results. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable-rate mortgage loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, expected rates of prepayments on loans and early withdrawals from certificates of deposit could deviate significantly from those assumed in the modeling scenarios.

PART I - ITEM 4

**CONTROLS AND PROCEDURES
FIRST CAPITAL, INC.**

Controls and Procedures

The Company's management, including the Company's principal executive officer and principal financial officer, has evaluated the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the "Exchange Act"). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the SEC (1) is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

There have been no changes in the Company's internal control over financial reporting during the quarter ended March 31, 2022 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II
OTHER INFORMATION
FIRST CAPITAL, INC.**

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

There have been no material changes to the risk factors previously disclosed in the “Risk Factors” section of the Company’s Annual Report on Form 10-K for the year ended December 31, 2021.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On August 19, 2008, the board of directors authorized the repurchase of up to 240,467 shares of the Company’s outstanding common stock. The stock repurchase program will expire upon the purchase of the maximum number of shares authorized under the program, unless the board of directors terminates the program earlier. There were no shares purchased under the stock repurchase program during the quarter ended March 31, 2022. The maximum number of shares that may yet be purchased under the plan is 136,563.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

PART II
OTHER INFORMATION
FIRST CAPITAL, INC.

Item 6. Exhibits

3.1	Articles of Incorporation of First Capital, Inc. (1)
3.2	Fifth Amended and Restated Bylaws of First Capital, Inc. (2)
11.0	Statement Re: Computation of Per Share Earnings (incorporated by reference to Note 5 of the Unaudited Consolidated Financial Statements contained herein)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certification of Chief Executive Officer
32.2	Section 1350 Certification of Chief Financial Officer
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded with the Inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

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- (1) Incorporated by reference to Exhibit 3.1 filed with the Registration Statement on Form SB-2 on September 16, 1998, and any amendments thereto, Registration No. 333-63515, as amended by that Amendment to Articles of Incorporation provided as Exhibit 3.1 to the Report on Form 8-K files with the Securities and Exchange Commission on May 19, 2016.
- (2) Incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on June 18, 2013.

SIGNATURES

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

FIRST CAPITAL, INC.
(Registrant)

Dated May 16, 2022

BY: /s/William W. Harrod
William W. Harrod
President and CEO

Dated May 16, 2022

BY: /s/ Michael C. Frederick
Michael C. Frederick
Executive Vice President, CFO
and Treasurer

CERTIFICATION

I, William W. Harrod, certify that:

1. I have reviewed this quarterly report on Form 10-Q of First Capital, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and in preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 16, 2022

/s/ William W. Harrod
William W. Harrod
President and Chief Executive Officer

CERTIFICATION

I, Michael C. Frederick, certify that:

1. I have reviewed this quarterly report on Form 10-Q of First Capital, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and in preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 16, 2022

/s/ Michael C. Frederick

Michael C. Frederick

Executive Vice President, Chief Financial Officer and Treasurer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of First Capital, Inc. and Subsidiaries (the "Company") on Form 10-Q for the period ended March 31, 2022, as filed with the Securities and Exchange Commission (the "Report"), I, William W. Harrod, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

DATE: May 16, 2022

BY: /s/ William W. Harrod
William W. Harrod
President and Chief
Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of First Capital, Inc. and Subsidiaries (the "Company") on Form 10-Q for the period ended March 31, 2022, as filed with the Securities and Exchange Commission (the "Report"), I, Michael C. Frederick, Senior Vice President, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

DATE: May 16, 2022

BY: /s/ Michael C. Frederick
Michael C. Frederick
Executive Vice President, Chief
Financial Officer and Treasurer
(Principal Financial and Accounting
Officer)