

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 September 30, 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**

(State or other jurisdiction of incorporation or organization)

**35-2056949**

(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: 3,371,362 shares of common stock were outstanding as of October 24, 2022.

FIRST CAPITAL, INC.

INDEX

<b><u>Part I Financial Information</u></b>	<b><u>Page</u></b>
<b><u>Item 1. Consolidated Financial Statements</u></b>	
<u>Consolidated Balance Sheets as of September 30, 2022 and December 31, 2021 (unaudited)</u>	<u>3</u>
<u>Consolidated Statements of Income for the three and nine months ended September 30, 2022 and 2021 (unaudited)</u>	<u>4</u>
<u>Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2022 and 2021 (unaudited)</u>	<u>5</u>
<u>Consolidated Statements of Changes in Stockholders' Equity for the three and nine months ended September 30, 2022 and 2021 (unaudited)</u>	<u>6</u>
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2022 and 2021 (unaudited)</u>	<u>7</u>
<u>Notes to Consolidated Financial Statements (unaudited)</u>	<u>8</u>
<b><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	<b><u>8-44</u></b>
<b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	<b><u>45-50</u></b>
<b><u>Item 4. Controls and Procedures</u></b>	<b><u>54</u></b>
<b><u>Part II Other Information</u></b>	
<b><u>Item 1. Legal Proceedings</u></b>	<b><u>55</u></b>
<b><u>Item 1A. Risk Factors</u></b>	<b><u>55</u></b>
<b><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	<b><u>55</u></b>
<b><u>Item 3. Defaults Upon Senior Securities</u></b>	<b><u>55</u></b>
<b><u>Item 4. Mine Safety Disclosures</u></b>	<b><u>55</u></b>
<b><u>Item 5. Other Information</u></b>	<b><u>55</u></b>
<b><u>Item 6. Exhibits</u></b>	<b><u>56</u></b>
<b><u>Signatures</u></b>	

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

	<u>September 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
<i>(In thousands)</i>		
<b>ASSETS</b>		
Cash and due from banks	\$ 19,985	\$ 23,497
Interest bearing deposits with banks	3,575	3,937
Federal funds sold	60,226	145,075
Total cash and cash equivalents	<u>83,786</u>	<u>172,509</u>
Interest-bearing time deposits	2,454	4,839
Securities available for sale, at fair value	455,279	447,335
Securities held to maturity	7,000	2,000
Loans, net	541,593	483,287
Loans held for sale	1,312	2,413
Federal Home Loan Bank and other stock, at cost	1,836	1,988
Foreclosed real estate	-	36
Premises and equipment	14,801	15,177
Accrued interest receivable	3,714	3,430
Cash value of life insurance	8,855	8,698
Goodwill	6,472	6,472
Core deposit intangible	416	526
Other assets	<u>19,333</u>	<u>7,893</u>
<b>Total Assets</b>	<u>\$ 1,146,851</u>	<u>\$ 1,156,603</u>
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing	\$ 266,006	\$ 242,685
Interest-bearing	797,093	792,877
Total deposits	<u>1,063,099</u>	<u>1,035,562</u>
Accrued interest payable	74	97
Accrued expenses and other liabilities	5,845	7,004
Total liabilities	<u>1,069,018</u>	<u>1,042,663</u>
<b>EQUITY</b>		
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 3,804,683 shares (3,805,533 in 2021); outstanding 3,371,362 shares (3,373,095 in 2021)	38	38
Additional paid-in capital	41,636	41,684
Retained earnings-substantially restricted	85,802	80,070
Unearned stock compensation	(633)	(1,033)
Accumulated other comprehensive income (loss)	(40,427)	1,734
Less treasury stock, at cost - 433,321 shares (432,438 in 2021)	(8,691)	(8,665)
Total First Capital, Inc. stockholders' equity	<u>77,725</u>	<u>113,828</u>
Noncontrolling interest in subsidiary	108	112
Total equity	<u>77,833</u>	<u>113,940</u>
<b>Total Liabilities and Equity</b>	<u>\$ 1,146,851</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 September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
<b>INTEREST INCOME</b>	<i>(In thousands, except per share data)</i>			
Loans, including fees	\$ 6,533	\$ 6,252	\$ 17,885	\$ 18,071
Securities:				
Taxable	1,241	718	3,189	1,858
Tax-exempt	829	683	2,350	1,988
Dividends	5	3	14	10
Other interest income	440	89	713	243
Total interest income	9,048	7,745	24,151	22,170
<b>INTEREST EXPENSE</b>				
Deposits	390	278	910	855
Total interest expense	390	278	910	855
Net interest income	8,658	7,467	23,241	21,315
Provision for loan losses	175	-	550	75
Net interest income after provision for loan losses	8,483	7,467	22,691	21,240
<b>NONINTEREST INCOME</b>				
Service charges on deposit accounts	618	514	1,670	1,348
ATM and debit card fees	1,059	1,009	3,132	3,027
Commission and fee income	160	103	400	272
Gain on sale of securities available for sale	-	-	-	7
Unrealized gain (loss) on equity securities	(229)	(67)	(265)	360
Gain on sale of loans	170	603	720	1,900
Increase in cash surrender value of life insurance	44	51	157	169
Other income	51	57	171	177
Total noninterest income	1,873	2,270	5,985	7,260
<b>NONINTEREST EXPENSE</b>				
Compensation and benefits	3,832	3,689	10,977	10,831
Occupancy and equipment	462	444	1,385	1,318
Data processing	1,047	875	2,909	2,551
Professional fees	152	287	620	874
Advertising	62	110	203	240
Other expenses	1,004	797	2,694	2,360
Total noninterest expense	6,559	6,202	18,788	18,174
Income before income taxes	3,797	3,535	9,888	10,326
Income tax expense	669	596	1,516	1,711
<b>Net Income</b>	3,128	2,939	8,372	8,615
Less: net income attributable to noncontrolling interest in subsidiary	3	3	10	10
<b>Net Income Attributable to First Capital, Inc.</b>	<u>\$ 3,125</u>	<u>\$ 2,936</u>	<u>\$ 8,362</u>	<u>\$ 8,605</u>
<b>Earnings per common share attributable to First Capital, Inc.:</b>				
Basic	\$ 0.93	\$ 0.88	\$ 2.49	\$ 2.57
Diluted	\$ 0.93	\$ 0.88	\$ 2.49	\$ 2.57
<b>Dividends per share</b>	<u>\$ 0.26</u>	<u>\$ 0.26</u>	<u>\$ 0.78</u>	<u>\$ 0.78</u>

See accompanying notes to consolidated financial statements.

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	<i>(In thousands)</i>			
<b>Net Income</b>	\$ 3,128	\$ 2,939	\$ 8,372	\$ 8,615
<b>OTHER COMPREHENSIVE LOSS</b>				
Unrealized losses on securities available for sale:				
Unrealized holding losses arising during the period	(13,243)	(251)	(54,783)	(3,292)
Income tax benefit	3,080	58	12,622	775
Net of tax amount	(10,163)	(193)	(42,161)	(2,517)
Less: reclassification adjustment for realized gains included in net income	-	-	-	(7)
Income tax expense	-	-	-	1
Net of tax amount	-	-	-	(6.00)
<b>Other Comprehensive Loss, net of tax</b>	(10,163)	(193)	(42,161)	(2,523)
<b>Comprehensive Income (Loss)</b>	(7,035)	2,746	(33,789)	6,092
Less: comprehensive income attributable to the noncontrolling interest in subsidiary	3	3	10	10
<b>Comprehensive Income (Loss) Attributable to First Capital, Inc.</b>	\$ (7,038)	\$ 2,743	\$ (33,799)	\$ 6,082

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)</i>	<b>Common Stock</b>	<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Unearned Stock Compensation</b>	<b>Treasury Stock</b>	<b>Noncontrolling Interest</b>	<b>Total</b>
Balances at July 1, 2022	\$ 38	\$ 41,684	\$ 83,553	\$ (30,264)	\$ (837)	\$ (8,665)	\$ 105	\$ 85,614
Net income	-	-	3,125	-	-	-	3	3,128
Other comprehensive loss	-	-	-	(10,163)	-	-	-	(10,163)
Cash dividends	-	-	(876)	-	-	-	-	(876)
Stock compensation expense	-	-	-	-	156	-	-	156
Purchase of treasury shares	-	-	-	-	-	(26)	-	(26)
Restricted stock grant forfeitures	-	(48)	-	-	48	-	-	-
<b>Balances at September 30, 2022</b>	<b>\$ 38</b>	<b>\$ 41,636</b>	<b>\$ 85,802</b>	<b>\$ (40,427)</b>	<b>\$ (633)</b>	<b>\$ (8,691)</b>	<b>\$ 108</b>	<b>\$ 77,833</b>
Balances at July 1, 2021	\$ 38	\$ 41,684	\$ 76,069	\$ 4,492	\$ (1,290)	\$ (8,580)	\$ 105	\$ 112,518
Net income	-	-	2,936	-	-	-	3	2,939
Other comprehensive loss	-	-	-	(193)	-	-	-	(193)
Cash dividends	-	-	(877)	-	-	-	-	(877)
Stock compensation expense	-	-	-	-	129	-	-	129
Purchase of treasury shares	-	-	-	-	-	(54)	-	(54)
<b>Balances at September 30, 2021</b>	<b>\$ 38</b>	<b>\$ 41,684</b>	<b>\$ 78,128</b>	<b>\$ 4,299</b>	<b>\$ (1,161)</b>	<b>\$ (8,634)</b>	<b>\$ 108</b>	<b>\$ 114,462</b>
Balances at January 1, 2022	\$ 38	\$ 41,684	\$ 80,070	\$ 1,734	\$ (1,033)	\$ (8,665)	\$ 112	\$ 113,940
Net income	-	-	8,362	-	-	-	10	8,372
Other comprehensive loss	-	-	-	(42,161)	-	-	-	(42,161)
Cash dividends	-	-	(2,630)	-	-	-	(14)	(2,644)
Stock compensation expense	-	-	-	-	352	-	-	352
Purchase of treasury shares	-	-	-	-	-	(26)	-	(26)
Restricted stock grant forfeitures	-	(48)	-	-	48	-	-	-
<b>Balances at September 30, 2022</b>	<b>\$ 38</b>	<b>\$ 41,636</b>	<b>\$ 85,802</b>	<b>\$ (40,427)</b>	<b>\$ (633)</b>	<b>\$ (8,691)</b>	<b>\$ 108</b>	<b>\$ 77,833</b>
Balances at January 1, 2021	\$ 38	\$ 41,684	\$ 72,155	\$ 6,822	\$ (1,520)	\$ (8,540)	\$ 112	\$ 110,751
Net income	-	-	8,605	-	-	-	10	8,615
Other comprehensive loss	-	-	-	(2,523)	-	-	-	(2,523)
Cash dividends	-	-	(2,632)	-	-	-	(14)	(2,646)
Stock compensation expense	-	-	-	-	359	-	-	359
Purchase of treasury shares	-	-	-	-	-	(94)	-	(94)
<b>Balances at September 30, 2021</b>	<b>\$ 38</b>	<b>\$ 41,684</b>	<b>\$ 78,128</b>	<b>\$ 4,299</b>	<b>\$ (1,161)</b>	<b>\$ (8,634)</b>	<b>\$ 108</b>	<b>\$ 114,462</b>

See accompanying notes to consolidated financial statements.



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

	<b>Nine Months Ended September 30,</b>	
	<b>2022</b>	<b>2021</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<i>(In thousands)</i>	
Net income	\$ 8,372	\$ 8,615
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	1,571	1,624
Depreciation and amortization expense	809	868
Deferred income taxes	(40)	179
Stock compensation expense	352	359
Increase in cash value of life insurance	(157)	(169)
Gain on sale of securities	-	(7)
Provision for loan losses	550	75
Proceeds from sales of loans	41,655	103,441
Loans originated for sale	(39,834)	(97,686)
Gain on sale of loans	(720)	(1,900)
Amortization of tax credit investment	266	266
Unrealized (gain) loss on equity securities	265	(360)
Net realized and unrealized gain on foreclosed real estate	(15)	-
(Increase) decrease in accrued interest receivable	(284)	230
Decrease in accrued interest payable	(23)	(52)
Net change in other assets/liabilities	(368)	218
<b>Net Cash Provided By Operating Activities</b>	<b>12,399</b>	<b>15,701</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net decrease in interest-bearing time deposits	2,385	1,550
Purchase of securities available for sale	(87,346)	(211,780)
Purchase of securities held to maturity	(5,000)	(2,000)
Proceeds from maturities of securities available for sale	5,361	42,003
Proceeds from sales of securities available for sale	-	1,798
Principal collected on mortgage-backed obligations	17,687	27,636
Net (increase) decrease in loans receivable	(58,844)	14,642
Investment in tax credit entity	-	(100)
Investment in technology fund	(100)	-
Proceeds from sale of foreclosed real estate	39	45
Proceeds from redemption of Federal Home Loan Bank stock	152	-
Purchase of premises and equipment	(323)	(176)
<b>Net Cash Used In Investing Activities</b>	<b>(125,989)</b>	<b>(126,382)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase in deposits	27,537	101,833
Purchase of treasury stock	-	(40)
Taxes paid on stock award shares for employees	(26)	(54)
Dividends paid	(2,644)	(2,646)
<b>Net Cash Provided By Financing Activities</b>	<b>24,867</b>	<b>99,093</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(88,723)</b>	<b>(11,588)</b>
Cash and cash equivalents at beginning of period	172,509	175,888
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 83,786</b>	<b>\$ 164,300</b>

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 September 30, 2022, and the results of operations for the three and nine months ended September 30, 2022 and 2021 and the cash flows for the nine months ended September 30, 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 has increased the targeted rate by 300 basis points through September 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 October 24, 2022, the Bank has received payoffs on \$62.3 million of PPP loans from the SBA and all deferred fees related to PPP loans had been recognized. For the three months ended September 30, 2022 and 2021, the Bank recognized \$7,000 and \$784,000, respectively, in PPP fees in interest income. For the nine months ended September 30, 2022 and 2021, the Bank recognized \$34,000 and \$1.7 million, respectively, in 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 September 30, 2022 and December 31, 2021 are summarized as follows:

<i>(In thousands)</i>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<b><u>September 30, 2022</u></b>				
Securities available for sale:				
Agency mortgage-backed securities	\$ 98,891	\$ -	\$ 12,182	\$ 86,709
Agency CMO	7,602	-	370	7,232
Other debt securities:				
Agency notes and bonds	150,716	-	13,369	137,347
Treasury notes and bonds	83,528	-	4,107	79,421
Municipal obligations	167,210	15	22,655	144,570
<b>Total securities available for sale</b>	<b>\$ 507,947</b>	<b>\$ 15</b>	<b>\$ 52,683</b>	<b>\$ 455,279</b>
Securities held to maturity:				
Other debt securities:				
Corporate notes	\$ 7,000	\$ -	\$ 1,382	\$ 5,618
<b>Total securities held to maturity</b>	<b>\$ 7,000</b>	<b>\$ -</b>	<b>\$ 1,382</b>	<b>\$ 5,618</b>
<b><u>December 31, 2021</u></b>				
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
<b>Total securities available for sale</b>	<b>\$ 445,220</b>	<b>\$ 5,912</b>	<b>\$ 3,797</b>	<b>\$ 447,335</b>
Securities held to maturity:				
Other debt securities:				
Corporate notes	\$ 2,000	\$ 4	\$ -	\$ 2,004
<b>Total securities held to maturity</b>	<b>\$ 2,000</b>	<b>\$ 4</b>	<b>\$ -</b>	<b>\$ 2,004</b>

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 September 30, 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	\$ 16,194	\$ 15,800	\$ -	\$ -
Due after one year through five years	237,878	220,169	-	-
Due after five years through ten years	43,996	40,360	2,000	1,608
Due after ten years	103,386	85,009	5,000	4,010
	401,454	361,338	7,000	5,618
Mortgage-backed securities and CMO	106,493	93,941	-	-
	\$ 507,947	\$ 455,279	\$ 7,000	\$ 5,618

Information pertaining to investment securities with gross unrealized losses at September 30, 2022, aggregated by investment category and the length of time that individual investment securities have been in a continuous position, follows.

(Dollars in thousands)

	Number of Investment Positions	Fair Value	Gross Unrealized Losses
<b>September 30, 2022:</b>			
Securities available for sale:			
Continuous loss position less than twelve months:			
Agency mortgage-backed securities	78	\$ 40,860	\$ 4,440
Agency CMO	26	7,232	370
Agency notes and bonds	20	39,992	1,724
Treasury notes and bonds	20	33,041	976
Municipal obligations	223	112,415	16,894
Total less than twelve months	367	233,540	24,404
Continuous loss position more than twelve months:			
Agency mortgage-backed securities	20	45,849	7,742
Agency notes and bonds	39	97,356	11,645
Treasury notes and bonds	11	46,379	3,131
Municipal obligations	43	23,500	5,761
Total more than twelve months	113	213,084	28,279
Total securities available for sale	480	\$ 446,624	\$ 52,683
Securities held to maturity:			
Continuous loss position less than twelve months:			
Corporate notes	4	\$ 5,618	\$ 1,382
Total less than twelve months	4	5,618	1,382
Total held to maturity	4	\$ 5,618	\$ 1,382

**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>			
<b>December 31, 2021:</b>			
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
<b>Total less than twelve months</b>	<b>122</b>	<b>247,386</b>	<b>3,341</b>
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
<b>Total more than twelve months</b>	<b>9</b>	<b>17,990</b>	<b>456</b>
<b>Total securities available for sale</b>	<b>131</b>	<b>\$ 265,376</b>	<b>\$ 3,797</b>

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 September 30, 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 10.6% 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 September 30, 2022, the corporate notes classified as held to maturity in a loss position had depreciated approximately 19.7% 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 September 30, 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 nine months ended September 30, 2021, the Company realized gross gains of \$12,000 and gross losses of \$5,000 on sales of available for sale securities. There were no sales of investment securities or time deposits during the three months ended September 30, 2021 nor the three and nine months ended September 30, 2022.

Certain debt securities available for sale were pledged to secure public fund deposits at September 30, 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 and nine months ended September 30, 2022, the Company recognized unrealized losses of \$229,000 and \$265,000, respectively, on this equity investment. During the three and nine months ended September 30, 2021, the Company recognized an unrealized loss of \$67,000 and an unrealized gain of \$360,000, respectively, on this equity investment. At September 30, 2022 and December 31, 2021, the equity investment had a fair value of \$1.6 million and \$1.9 million, respectively, 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 September 30, 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 September 30, 2022 and December 31, 2021 was \$780,000 and \$880,000, respectively, 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 or nine months ended September 30, 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**  
*(Unaudited)*

(3 – continued)

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.



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

(3 – continued)

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 September 30, 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.

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

(3 – continued)

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 September 30, 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 September 30, 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 \$89,000 and \$53,000, respectively.

Loans at September 30, 2022 and December 31, 2021 consisted of the following:

<i>(In thousands)</i>	<u>September 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
Real estate mortgage loans:		
Residential	\$ 153,659	\$ 130,603
Land	22,377	19,478
Construction	72,371	59,959
Commercial	161,296	137,915
Commercial business loans	54,760	51,787
Consumer loans:		
Home equity and second mortgage loans	58,596	54,453
Automobile loans	48,100	43,946
Loans secured by savings accounts	655	827
Unsecured loans	2,230	2,219
Other consumer loans	13,090	13,579
Gross loans	587,134	514,766
Less undisbursed portion of loans in process	(40,175)	(26,520)
Principal loan balance	546,959	488,246
Deferred loan origination fees and costs, net	1,200	1,124
Allowance for loan losses	(6,566)	(6,083)
Loans, net	\$ 541,593	\$ 483,287

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

(3 – continued)

The following table provides the components of the Company's recorded investment in loans at September 30, 2022:

	Residential Real Estate	Land	Construction	Commercial Real Estate	Commercial Business	Home Equity and Second Mortgage	Other Consumer	Total
	<i>(In thousands)</i>							
<b>Recorded Investment in Loans:</b>								
Principal loan balance	\$ 153,659	\$ 22,377	\$ 32,196	\$ 161,296	\$ 54,760	\$ 58,596	\$ 64,075	\$ 546,959
Accrued interest receivable	453	98	66	299	129	272	220	1,537
Net deferred loan origination fees and costs	107	14	(9)	(92)	(12)	1,192	-	1,200
Recorded investment in loans	<u>\$ 154,219</u>	<u>\$ 22,489</u>	<u>\$ 32,253</u>	<u>\$ 161,503</u>	<u>\$ 54,877</u>	<u>\$ 60,060</u>	<u>\$ 64,295</u>	<u>\$ 549,696</u>
<b>Recorded Investment in Loans as Evaluated for Impairment:</b>								
Individually evaluated for impairment	\$ 894	\$ 51	\$ -	\$ 566	\$ 147	\$ 315	\$ -	\$ 1,973
Collectively evaluated for impairment	153,036	22,438	32,253	160,932	54,730	59,745	64,295	547,429
Acquired with deteriorated credit quality	289	-	-	5	-	-	-	294
Ending balance	<u>\$ 154,219</u>	<u>\$ 22,489</u>	<u>\$ 32,253</u>	<u>\$ 161,503</u>	<u>\$ 54,877</u>	<u>\$ 60,060</u>	<u>\$ 64,295</u>	<u>\$ 549,696</u>

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

(3 – continued)

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>							
<b>Recorded Investment in Loans:</b>								
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>
<b>Recorded Investment in Loans as Evaluated for Impairment:</b>								
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>

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

(3 – continued)

An analysis of the allowance for loan losses as of September 30, 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>							
<b>Ending allowance balance attributable to loans:</b>								
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collectively evaluated for impairment	1,352	273	430	2,070	886	536	1,019	6,566
Acquired with deteriorated credit quality	-	-	-	-	-	-	-	-
<b>Ending balance</b>	<b>\$ 1,352</b>	<b>\$ 273</b>	<b>\$ 430</b>	<b>\$ 2,070</b>	<b>\$ 886</b>	<b>\$ 536</b>	<b>\$ 1,019</b>	<b>\$ 6,566</b>

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>							
<b>Ending allowance balance attributable to loans:</b>								
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
<b>Ending balance</b>	<b>\$ 1,174</b>	<b>\$ 234</b>	<b>\$ 403</b>	<b>\$ 1,884</b>	<b>\$ 873</b>	<b>\$ 527</b>	<b>\$ 988</b>	<b>\$ 6,083</b>

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

(3 – continued)

An analysis of the changes in the allowance for loan losses for the three and nine months ended September 30, 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>							
<b>Allowance for loan losses:</b>								
Changes in Allowance for Loan Losses for the three-months ended September 30, 2022								
Beginning balance	\$ 1,265	\$ 241	\$ 496	\$ 1,991	\$ 888	\$ 533	\$ 980	\$ 6,394
Provisions for loan losses	87	32	(66)	79	(2)	3	42	175
Charge-offs	-	-	-	-	-	-	(77)	(77)
Recoveries	-	-	-	-	-	-	74	74
Ending balance	<u>\$ 1,352</u>	<u>\$ 273</u>	<u>\$ 430</u>	<u>\$ 2,070</u>	<u>\$ 886</u>	<u>\$ 536</u>	<u>\$ 1,019</u>	<u>\$ 6,566</u>
Changes in Allowance for Loan Losses for the nine-months ended September 30, 2022								
Beginning balance	\$ 1,174	\$ 234	\$ 403	\$ 1,884	\$ 873	\$ 527	\$ 988	\$ 6,083
Provisions for loan losses	169	39	27	186	13	7	109	550
Charge-offs	(1)	-	-	-	(9)	-	(277)	(287)
Recoveries	10	-	-	-	9	2	199	220
Ending balance	<u>\$ 1,352</u>	<u>\$ 273</u>	<u>\$ 430</u>	<u>\$ 2,070</u>	<u>\$ 886</u>	<u>\$ 536</u>	<u>\$ 1,019</u>	<u>\$ 6,566</u>

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

(3 – continued)

An analysis of the changes in the allowance for loan losses for the three and nine months ended September 30, 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>								
<b>Allowance for loan losses:</b>								
Changes in Allowance for Loan Losses for the three-months ended September 30, 2021								
Beginning balance	\$ 1,216	\$ 215	\$ 389	\$ 2,357	\$ 784	\$ 625	\$ 1,051	\$ 6,637
Provisions for loan losses	20	(4)	14	(40)	(30)	20	20	-
Charge-offs	(26)	(6)	-	-	-	-	(109)	(141)
Recoveries	1	-	-	-	10	-	60	71
Ending balance	<u>\$ 1,211</u>	<u>\$ 205</u>	<u>\$ 403</u>	<u>\$ 2,317</u>	<u>\$ 764</u>	<u>\$ 645</u>	<u>\$ 1,022</u>	<u>\$ 6,567</u>
Changes in Allowance for Loan Losses for the nine-months ended September 30, 2021								
Beginning balance	\$ 1,239	\$ 209	\$ 292	\$ 2,358	\$ 843	\$ 617	\$ 1,067	\$ 6,625
Provisions for loan losses	-	5	111	(41)	(89)	37	52	75
Charge-offs	(29)	(9)	-	-	-	(10)	(280)	(328)
Recoveries	1	-	-	-	10	1	183	195
Ending balance	<u>\$ 1,211</u>	<u>\$ 205</u>	<u>\$ 403</u>	<u>\$ 2,317</u>	<u>\$ 764</u>	<u>\$ 645</u>	<u>\$ 1,022</u>	<u>\$ 6,567</u>

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

(3 – continued)

At September 30, 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 September 30, 2022, the Company's allowance for loan losses totaled \$6.6 million, of which \$6.2 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 September 30, 2022 and December 31, 2021.



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

(3 – continued)

The following table summarizes the Company's impaired loans as of September 30, 2022 and for the three months and nine months ended September 30, 2022. The Company did not recognize any interest income on impaired loans using the cash receipts method of accounting for the three or nine month periods ended September 30, 2022:

	At September 30, 2022			Three Months Ended September 30, 2022		Nine Months Ended September 30, 2022	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<b>Loans with no related allowance recorded:</b>							
Residential	\$ 894	\$ 1,053	\$ -	\$ 891	\$ 2	\$ 903	\$ 9
Land	51	51	-	51	-	76	-
Construction	-	-	-	-	-	-	-
Commercial real estate	566	585	-	573	6	612	20
Commercial business	147	147	-	153	2	162	7
Home equity and second mortgage	315	331	-	193	-	100	-
Other consumer	-	-	-	-	-	-	-
	<u>1,973</u>	<u>2,167</u>	<u>-</u>	<u>1,861</u>	<u>10</u>	<u>1,853</u>	<u>36</u>
<b>Loans with an allowance recorded:</b>							
Residential	-	-	-	15	-	14	-
Land	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-
Commercial real estate	-	-	-	-	-	-	-
Commercial business	-	-	-	-	-	-	-
Home equity and second mortgage	-	-	-	142	-	215	-
Other consumer	-	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>157</u>	<u>-</u>	<u>229</u>	<u>-</u>
<b>Total:</b>							
Residential	894	1,053	-	906	2	917	9
Land	51	51	-	51	-	76	-
Construction	-	-	-	-	-	-	-
Commercial real estate	566	585	-	573	6	612	20
Commercial business	147	147	-	153	2	162	7
Home equity and second mortgage	315	331	-	335	-	315	-
Other consumer	-	-	-	-	-	-	-
	<u>\$ 1,973</u>	<u>\$ 2,167</u>	<u>\$ -</u>	<u>\$ 2,018</u>	<u>\$ 10</u>	<u>\$ 2,082</u>	<u>\$ 36</u>

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

(3 – continued)

The following table summarizes the Company's impaired loans for the three months and nine months ended September 30, 2021. The Company did not recognize any interest income on impaired loans using the cash receipts method of accounting for the three or nine month periods ended September 30, 2021:

	<b>Three Months Ended September 30, 2021</b>		<b>Nine Months Ended September 30, 2021</b>	
	<b>Average Recorded Investment</b>	<b>Interest Income Recognized</b>	<b>Average Recorded Investment</b>	<b>Interest Income Recognized</b>
<b><u>Loans with no related allowance recorded:</u></b>				
Residential	\$ 1,503	\$ 6	\$ 1,653	\$ 18
Land	100	-	99	-
Construction	-	-	-	-
Commercial real estate	730	8	750	26
Commercial business	186	2	196	6
Home equity/2nd mortgage	63	-	136	1
Other consumer	-	-	-	-
	<u>2,582</u>	<u>16</u>	<u>2,834</u>	<u>51</u>
<b><u>Loans with an allowance recorded:</u></b>				
Residential	-	-	-	-
Land	26	-	13	-
Construction	-	-	-	-
Commercial real estate	-	-	-	-
Commercial business	-	-	-	-
Home equity/2nd mortgage	289	-	217	-
Other consumer	-	-	-	-
	<u>315</u>	<u>-</u>	<u>230</u>	<u>-</u>
<b><u>Total:</u></b>				
Residential	1,503	6	1,653	18
Land	126	-	112	-
Construction	-	-	-	-
Commercial real estate	730	8	750	26
Commercial business	186	2	196	6
Home equity/2nd mortgage	352	-	353	1
Other consumer	-	-	-	-
	<u>\$ 2,897</u>	<u>\$ 16</u>	<u>\$ 3,064</u>	<u>\$ 51</u>

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

(3 – continued)

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

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

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

(3 – continued)

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 September 30, 2022 and December 31, 2021:

	September 30, 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	\$ 783	\$ -	\$ 783	\$ 806	\$ -	\$ 806
Land	51	-	51	102	-	102
Construction	-	-	-	-	-	-
Commercial real estate	93	-	93	115	-	115
Commercial business	-	-	-	-	-	-
Home equity and second mortgage	315	-	315	304	-	304
Other consumer	-	-	-	-	3	3
<b>Total</b>	<b>\$ 1,242</b>	<b>\$ -</b>	<b>\$ 1,242</b>	<b>\$ 1,327</b>	<b>\$ 3</b>	<b>\$ 1,330</b>

The following table presents the aging of the recorded investment in loans at September 30, 2022:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due <i>(In thousands)</i>	Current	Purchased Credit Impaired Loans	Total Loans
	Residential	\$ 1,932	\$ 229	\$ 449	\$ 2,610	\$ 151,320	\$ 289
Land	109	-	51	160	22,329	-	22,489
Construction	-	-	-	-	32,253	-	32,253
Commercial real estate	1	-	-	1	161,497	5	161,503
Commercial business	197	185	-	382	54,495	-	54,877
Home equity and second mortgage	614	-	35	649	59,411	-	60,060
Other consumer	150	49	-	199	64,096	-	64,295
<b>Total</b>	<b>\$ 3,003</b>	<b>\$ 463</b>	<b>\$ 535</b>	<b>\$ 4,001</b>	<b>\$ 545,401</b>	<b>\$ 294</b>	<b>\$ 549,696</b>

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

(3 – continued)

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

	<b>30-59 Days</b>	<b>60-89 Days</b>	<b>90 Days or More</b>	<b>Total Past Due</b>	<b>Current</b>	<b>Purchased Credit Impaired Loans</b>	<b>Total Loans</b>
	<b>Past Due</b>	<b>Past Due</b>	<b>Past Due</b>	<b>Past Due</b>			
	<i>(In thousands)</i>						
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
<b>Total</b>	<b>\$ 1,574</b>	<b>\$ 223</b>	<b>\$ 606</b>	<b>\$ 2,403</b>	<b>\$ 488,146</b>	<b>\$ 281</b>	<b>\$ 490,830</b>

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**  
*(Unaudited)*

(3 – continued)

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>							
<b>September 30, 2022</b>								
Pass	\$ 152,872	\$ 22,318	\$ 32,253	\$ 159,321	\$ 54,238	\$ 59,745	\$ 64,295	\$ 545,042
Special Mention	-	60	-	920	460	-	-	1,440
Substandard	564	60	-	1,169	179	-	-	1,972
Doubtful	783	51	-	93	-	315	-	1,242
Loss	-	-	-	-	-	-	-	-
<b>Total</b>	<b>\$ 154,219</b>	<b>\$ 22,489</b>	<b>\$ 32,253</b>	<b>\$ 161,503</b>	<b>\$ 54,877</b>	<b>\$ 60,060</b>	<b>\$ 64,295</b>	<b>\$ 549,696</b>
<b>December 31, 2021</b>								
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	-	-	-	-	-	-	-	-
<b>Total</b>	<b>\$ 131,152</b>	<b>\$ 19,594</b>	<b>\$ 33,491</b>	<b>\$ 138,141</b>	<b>\$ 51,921</b>	<b>\$ 55,742</b>	<b>\$ 60,789</b>	<b>\$ 490,830</b>

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

(3 – continued)

The following table summarizes the Company's TDRs by accrual status as of September 30, 2022 and December 31, 2021:

	September 30, 2022			Related Allowance for Loan Losses <i>(In thousands)</i>	December 31, 2021			Related Allowance for Loan Losses
	Accruing	Nonaccrual	Total		Accruing	Nonaccrual	Total	
<b>Troubled debt restructurings:</b>								
Residential real estate	\$ 109	\$ 16	\$ 125	\$ -	\$ 216	\$ -	\$ 216	\$ -
Commercial real estate	472	-	472	-	585	-	585	-
Commercial business	147	-	147	-	174	-	174	-
Home equity and second mortgage	-	280	280	-	-	287	287	7
<b>Total</b>	<b>\$ 728</b>	<b>\$ 296</b>	<b>\$ 1,024</b>	<b>\$ -</b>	<b>\$ 975</b>	<b>\$ 287</b>	<b>\$ 1,262</b>	<b>\$ 7</b>

At September 30, 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 or nine months ended September 30, 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 and nine months ended September 30, 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 September 30, 2021 and the three or nine months ended September 30, 2022. During the nine months ended September 30, 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 \$7,000 was established during the nine months ended September 30, 2021. The current balance on the second mortgage loan described above is \$280,000 and there is no specific reserve.

*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 September 30, 2022 and December 31, 2021:

<i>(In thousands)</i>	<u>September 30,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
Residential real estate	\$ 289	\$ 270
Commercial real estate	5	11
Carrying amount	294	281
Allowance for loan losses	-	31
Carrying amount, net of allowance	<u>\$ 294</u>	<u>\$ 250</u>

The outstanding balance of PCI loans accounted for under ASC 310-30, including contractual principal, interest, fees and penalties was \$294,000 and \$339,000 at September 30, 2022 and December 31, 2021, respectively. The accretable yield at September 30, 2022 and December 31, 2021 was immaterial.



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

**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 September 30, 2022 and December 31, 2021, the balance of the Bank's investment was \$2.3 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 September 30, 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 the three month periods ended September 30, 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 September 30, 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. During the nine month periods ended September 30, 2022 and 2021, the Bank recognized amortization expense of \$266,000, which was included in income tax expense on the consolidated statements of income. Additionally, during the nine month periods ended September 30, 2022 and 2021, the Bank recognized tax credits and other tax benefits from its qualified affordable housing project investment of \$314,000 and \$317,000, respectively.

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

**5. Supplemental Disclosure for Earnings Per Share**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>09/30/2022</b>	<b>09/30/2021</b>	<b>09/30/2022</b>	<b>09/30/2021</b>
<i>(Dollars in thousands, except for share and per share data)</i>				
<b>Basic</b>				
Earnings:				
Net income attributable to First Capital, Inc.	\$ 3,125	\$ 2,936	\$ 8,362	\$ 8,605
Shares:				
Weighted average common shares outstanding	3,358,800	3,349,494	3,353,459	3,344,832
Net income attributable to First Capital, Inc. per common share, basic	\$ 0.93	\$ 0.88	\$ 2.49	\$ 2.57
<b>Diluted</b>				
Earnings:				
Net income attributable to First Capital, Inc.	\$ 3,125	\$ 2,936	\$ 8,362	\$ 8,605
Shares:				
Weighted average common shares outstanding	3,358,800	3,349,494	3,353,459	3,344,832
Add: Dilutive effect of restricted stock	-	-	-	1,441
Weighted average common shares outstanding, as adjusted	3,358,800	3,349,494	3,353,459	3,346,273
Net income attributable to First Capital, Inc. per common share, diluted	\$ 0.93	\$ 0.88	\$ 2.49	\$ 2.57

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 nine-month period ended September 30, 2021. Restricted shares totaling 12,550 were excluded from the calculation of diluted net income per share for the three-month and nine-month periods ended September 30, 2022. Restricted shares totaling 24,300 were excluded from the calculation of diluted net income per share for the three-month period ended September 30, 2021.

**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 September 30, 2022, 162,350 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 September 30, 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 and nine-month periods ended September 30, 2022 amounted to \$156,000 and \$352,000, respectively. Compensation expense related to restricted stock recognized for the three-month and nine-month periods ended September 30, 2021 amounted to \$129,000 and \$359,000, respectively. The total income tax benefit related to stock-based compensation was \$44,000 for the nine-month period ended September 30, 2022. The total income tax expense related to stock-based compensation was \$3,000 for the three-month period ended September 30, 2022. The total income tax benefit related to stock-based compensation was \$18,000 and \$73,000, respectively, for the three-month and nine-month periods ended September 30, 2021.

**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 September 30, 2022 and changes during the nine-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	8,950	51.85
Forfeited	850	56.76
Nonvested at September 30, 2022	12,550	\$ 57.07

There were 8,950 shares that vested during the nine-month period ended September 30, 2022 due to the retirement of an employee and normal vesting, and 8,350 restricted shares vested during the nine-month period ended September 30, 2021 due to normal vesting. The fair value of restricted shares that vested during the nine-month periods ended September 30, 2022 and 2021 was \$260,000 and \$371,000, respectively. At September 30, 2022, there was \$633,000 of unrecognized compensation expense related to nonvested restricted shares. The compensation expense is expected to be recognized over a weighted average period of 2.1 years.

**7. Supplemental Disclosures of Cash Flow Information**

	Nine Months Ended September 30,	
	2022	2021
	<i>(In thousands)</i>	
Cash payments for:		
Interest	\$ 933	\$ 907
Taxes (net of refunds received)	1,881	1,755
Noncash investing activities:		
Transfers from loans to real estate acquired through foreclosure	-	151

**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:

- Level 1: 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 September 30, 2022 and December 31, 2021. The Company had no liabilities measured at fair value as of September 30, 2022 or December 31, 2021.

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

(8 – continued)

<i>(In thousands)</i>	Carrying Value			
	Level 1	Level 2	Level 3	Total
<b>September 30, 2022</b>				
<i>Assets Measured on a Recurring Basis</i>				
Securities available for sale:				
Agency mortgage-backed securities	\$ -	\$ 86,709	\$ -	\$ 86,709
Agency CMO	-	7,232	-	7,232
Agency notes and bonds	-	137,347	-	137,347
Treasury notes and bonds	-	79,421	-	79,421
Municipal obligations	-	144,570	-	144,570
Total securities available for sale	\$ -	\$ 455,279	\$ -	\$ 455,279
Equity securities	\$ 1,616	\$ -	\$ -	1,616
<b>December 31, 2021</b>				
<i>Assets Measured on a Recurring Basis</i>				
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
<i>Assets Measured on a Nonrecurring Basis</i>				
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 3 in the fair value hierarchy.

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

(8 – continued)

At September 30, 2022, there were no discounts from appraised values of impaired loans. 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 of \$12,000 for the nine months ended September 30, 2021 for impaired loans. The Company recognized a reduction in provisions for loan losses of \$1,000 for the three months ended September 30, 2021 for impaired loans. The Company recognized a reduction in provisions for loan losses of \$3,000 and \$7,000 for the three months and nine months ended September 30, 2022, respectively, for impaired loans.

**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.

**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 September 30, 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 or nine months ended September 30, 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 September 30, 2022 and 2021. There were no transfers into or out of the Company's Level 3 financial assets for the three month periods ended September 30, 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>	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
			<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>September 30, 2022:</b>					
Financial assets:					
Cash and cash equivalents	\$ 83,786	\$ 83,786	\$ 83,786	\$ -	\$ -
Interest-bearing time deposits	2,454	2,357	-	2,357	-
Securities available for sale	455,279	455,279	-	455,279	-
Securities held to maturity	7,000	5,618	-	5,618	-
Loans held for sale	1,312	1,328	-	1,328	-
Loans, net	541,593	522,724	-	-	522,724
FHLB and other restricted stock	1,836	N/A	N/A	N/A	N/A
Accrued interest receivable	3,714	3,714	-	3,714	-
Equity securities (included in other assets)	1,616	1,616	1,616	-	-
Financial liabilities:					
Deposits	1,063,099	1,060,968	-	-	1,060,968
Accrued interest payable	74	74	-	74	-
<b>December 31, 2021:</b>					
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 September 30, 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 and nine months ended September 30, 2022 and 2021:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	<i>(In thousands)</i>			
Service charges on deposit accounts	\$ 618	\$ 514	\$ 1,670	\$ 1,348
ATM and debit card fees	1,059	1,009	3,132	3,027
Investment advisory income	160	103	400	272
Other	19	28	81	91
Revenue from contracts with customers	<u>1,856</u>	<u>1,654</u>	<u>5,283</u>	<u>4,738</u>
Net gains (losses) on loans and investments	(59)	536	455	2,267
Increase in cash value of life insurance	44	51	157	169
Other	32	29	90	86
Other noninterest income	17	616	702	2,522
Total noninterest income	<u>\$ 1,873</u>	<u>\$ 2,270</u>	<u>\$ 5,985</u>	<u>\$ 7,260</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)

In June 2022, the FASB issued ASU No. 2022-03, *Fair Value Measurements (Topic 820), Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*. The ASU clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. It also clarifies that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction. For public business entities, the ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. Early adoption is permitted and the amendments in the ASU should be applied prospectively with any adjustments from the adoption of the amendments recognized in earnings and disclosed on the date of adoption. The adoption of the ASU is not expected to have a material impact on the Company's financial position or results of operations.

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 nine months ended September 30, 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

**Financial Condition**

Total assets decreased \$9.8 million from \$1.16 billion at December 31, 2021 to \$1.15 billion at September 30, 2022, a decrease of 0.8%.

Net loans receivable (excluding loans held for sale) increased \$58.3 million from \$483.3 million at December 31, 2021 to \$541.6 million at September 30, 2022. Commercial real estate loans, residential mortgage loans and home equity and second mortgage loans increased \$23.4 million, \$23.1 million and \$4.1 million, respectively, during the nine months ended September 30, 2022.

Cash and cash equivalents decreased from \$172.5 million at December 31, 2021 to \$83.8 million at September 30, 2022 as management utilized excess liquidity to fund loan growth and investment purchases.

Securities available for sale increased \$8.0 million from \$447.3 million at December 31, 2021 to \$455.3 million at September 30, 2022. Purchases of \$87.3 million of securities classified as available for sale were made during the nine months ended September 30, 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 \$17.7 million and \$5.4 million, respectively, during the nine months ended September 30, 2022. There was also an unrealized loss of \$54.8 million on the securities available for sale portfolio during the period ended September 30, 2022 due primarily to increasing market interest rates during the period.

Total deposits increased from \$1.04 billion at December 31, 2021 to \$1.07 billion at September 30, 2022. Noninterest-bearing checking accounts and savings accounts increased \$23.3 million and \$20.2 million, respectively, during the nine months ended September 30, 2022 primarily due to new accounts and normal balance fluctuations, while interest-bearing checking accounts and time deposits decreased \$8.7 million and \$7.3 million, respectively, during the period.

Total stockholders' equity attributable to the Company decreased from \$113.8 million at December 31, 2021 to \$77.7 million at September 30, 2022, primarily due to a \$42.2 million net unrealized loss on available for sale securities partially offset by a \$5.7 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 nine-month periods ended September 30, 2022 and 2021.** Net income attributable to the Company was \$8.4 million (\$2.49 per diluted share) for the nine months ended September 30, 2022 compared to \$8.6 million (\$2.57 per diluted share) for the same time period in 2021. The decrease is primarily due to a decrease in noninterest income and an increase in noninterest expense partially offset by an increase in net interest income after the provision for loan losses.

**Net income for the three-month periods ended September 30, 2022 and 2021.** Net income attributable to the Company was \$3.1 million (\$0.93 per diluted share) for the three months ended September 30, 2022 compared to \$2.9 million (\$0.88 per diluted share) for the three months ended September 30, 2021.

PART I - ITEM 2

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

**Net interest income for the nine-month periods ended September 30, 2022 and 2021.** Net interest income increased \$1.9 million for the nine months ended September 30, 2022 compared to the same period in 2021 primarily due to increases in interest-earning assets.

Total interest income increased \$2.0 million for the nine months ended September 30, 2022 compared to the same period in 2021. For the nine months ended September 30, 2022, the average balance of interest-earning assets and their tax-equivalent yield were \$1.13 billion and 2.94%, respectively. During the same period in 2021, the average balance of those assets was \$1.01 billion and the tax-equivalent yield was 3.01%. Fees recognized from loans issued as part of the SBA PPP are included in interest income. These fees totaled \$34,000 during the nine months ended September 30, 2022 compared to \$1.7 million during the same period in 2021.

Total interest expense increased \$55,000 for the nine months ended September 30, 2022 compared to the same period in 2021. The average balance of interest-bearing liabilities increased from \$720.0 million for 2021 to \$804.4 million for 2022. The average rate paid on interest-bearing liabilities decreased from 0.16% to 0.15% when comparing the two periods. 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 2.85% for the nine months ended September 30, 2021 to 2.79% for the same period in 2022.

**Net interest income for the three-month periods ended September 30, 2022 and 2021.** Net interest income increased \$1.2 million for the three months ended September 30, 2022 compared to the same period in 2021 primarily due to increases in interest-earning assets and the interest rate spread.

Total interest income increased \$1.3 million for the three months ended September 30, 2022 compared to the same period in 2021. For the three months ended September 30, 2022, the average balance of interest-earning assets was \$1.13 billion compared to \$1.04 billion for the three months ended September 30, 2021. PPP fees recognized in interest income totaled \$7,000 during the quarter ended September 30, 2022 compared to \$784,000 during the same period in 2021. This was more than offset by the increase in short term interest rates by the Federal Open Market Committee during 2022 to increase the average tax-equivalent yield on interest-earning assets from 3.04% for the third quarter of 2021 to 3.27% for the third quarter of 2022.

Total interest expense increased \$112,000 for the three months ended September 30, 2022 compared to the three months ended September 30, 2021. The average balance of interest-bearing liabilities and the average rate paid on interest-bearing liabilities increased from \$744.7 million and 0.15%, respectively, to \$797.2 million and 0.20%, respectively, when comparing the two periods. As a result, the tax-equivalent interest rate spread increased from 2.89% for the three months ended September 30, 2021 to 3.07% for the three months ended September 30, 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 nine-month period ended September 30, 2021 to \$550,000 for the same period in 2022. No provision for loan losses was recorded for the three-month period ended September 30, 2021 compared to \$175,000 for the same period in 2022. The provision for loan losses was higher in 2022 compared to 2021 due to growth in the loan portfolio. The Bank recognized net charge-offs of \$67,000 for the nine months ended September 30, 2022 compared to \$133,000 during the same period in 2021.



PART I - ITEM 2

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

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 \$6.6 million at September 30, 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 September 30, 2022 and December 31, 2021, nonperforming loans amounted to \$1.2 million and \$1.3 million, respectively.

**Noninterest income for the nine-month periods ended September 30, 2022 and 2021.** Noninterest income for the nine months ended September 30, 2022 decreased \$1.3 million compared to the nine months ended September 30, 2021. The decrease was primarily due to a decrease in gains on loans sold of \$1.2 million when comparing the two periods as increased interest rates slowed lending in residential mortgages. In addition, the nine months ended September 30, 2022 included a \$265,000 unrealized loss on equity securities compared to a \$360,000 unrealized gain on equity securities during the same period in 2021. This was partially offset by a \$322,000 increase in service charges on deposit accounts when comparing the two periods.

**Noninterest income for the three-month periods ended September 30, 2022 and 2021.** Noninterest income for the quarter ended September 30, 2022 decreased \$397,000 as compared to the quarter ended September 30, 2021. Gains on loans sold decreased \$433,000 when comparing the two periods and the quarter ended September 30, 2022 included a \$229,000 unrealized loss on equity securities compared to a \$67,000 unrealized loss on equity securities during the quarter ended September 30, 2021.

**Noninterest expense for the nine-month periods ended September 30, 2022 and 2021.** Noninterest expense for the nine months ended September 30, 2022 increased \$614,000 compared to the same period in 2021. Data processing and other expenses increased \$358,000 and \$334,000, respectively, when comparing the two periods. This was partially offset by a \$254,000 decrease in professional fees due to a profitability study initiated in 2021.

PART I - ITEM 2

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

**Noninterest expense for the three-month periods ended September 30, 2022 and 2021.** Noninterest expense for the quarter ended September 30, 2022 increased \$357,000 compared to the quarter ended September 30, 2021. This was primarily due to increases in other expenses, data processing expense and compensation and benefits expense of \$207,000, \$172,000 and \$143,000, respectively, when comparing the two periods. This was partially offset by a \$135,000 decrease in professional fees.

**Income tax expense.** Income tax expense for the nine-month period ended September 30, 2022 was \$1.5 million, for an effective tax rate of 15.3%, compared to \$1.7 million, for an effective tax rate of 16.6%, for the same period in 2021. For the three-month period ended September 30, 2022, income tax expense and the effective tax rate were \$669,000 and 17.6%, respectively, compared to \$596,000 and 16.9%, respectively, 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 September 30, 2022, the Bank had cash and cash equivalents of \$82.9 million and securities available-for-sale with a fair value of \$453.4 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 \$1.6 million at September 30, 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 had opted into the CBLR framework as of June 30, 2022 and its CBLR was 8.69% as of that date. This was the second consecutive quarter to fall below the 9.00% minimum. As a result, the Bank elected out of the CBLR framework beginning with the quarter ending September 30, 2022 and has resumed calculating all required capital ratios in accordance with regulatory guidance. As of September 30, 2022, the Bank was in compliance with all regulatory capital requirements that were effective as of such date with Tier 1 capital to average assets, common equity Tier 1 capital to risk-weighted assets, Tier 1 capital to risk-weighted assets and total capital to risk-weighted assets ratios of 8.9%, 14.5%, 14.5% and 15.4%, respectively. The regulatory requirements at that date to be considered "well-capitalized" under applicable regulations were 5.0%, 6.5%, 8.0% and 10.0%, respectively. At September 30, 2022, the Bank was considered "well-capitalized" under applicable regulatory guidelines.

**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 September 30, 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 September 30, 2022 and December 31, 2021 financial information:

Immediate Change in the Level of Interest Rates	At September 30, 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	\$ 3,838	10.55%	\$ 885	3.19%
200bp	2,566	7.05	1,853	6.68
100bp	1,287	3.54	908	3.27
Static	-	-	-	-
(100)bp	(181)	(0.50)	(743)	(2.68)
(200)bp	(1,979)	(5.44)	(2,004)	(7.23)
(300)bp	(3,620)	(9.95)		

At September 30, 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 1.00% or 2.00% would decrease the Company’s net interest income over a one year horizon compared to a flat interest rate scenario. Due to increasing market rates during 2022, the Company also modeled an immediate and sustained decrease of 3.00% at September 30, 2022 which resulted in a decrease in the Company’s net interest income over a one year horizon compared to a flat interest rate scenario. During the nine months ended September 30, 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 September 30, 2022 and December 31, 2021 financial information:

Immediate Change in the Level of Interest Rates	At September 30, 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	\$ 307,986	\$ 24,729	8.73%	30.13%	455bp
200bp	304,680	21,423	7.56	29.03	345bp
100bp	297,029	13,772	4.86	27.55	197bp
Static	283,257	-	-	25.58	0bp
(100)bp	266,651	(16,606)	(5.86)	23.45	(213)bp
(200)bp	231,453	(51,804)	(18.29)	19.81	(577)bp
(300)bp	214,411	(68,846)	(24.31)	18.11	(747)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 September 30, 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. Due to increasing market rates during 2022, the Company also modeled a sudden and sustained 300 basis point decrease in prevailing interest rates as of September 30, 2022 which resulted in a decrease in its EVE. As previously mentioned in this report, during the nine months ended September 30, 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 September 30, 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**

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 through July 31, 2022	883	\$ 29.07	883	135,680
August 1 through August 31, 2022	-	N/A	-	135,680
September 1 through September 30, 2022	-	N/A	-	135,680
<b>Total</b>	<u>883</u>	<u>\$ 29.07</u>	<u>883</u>	

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.

**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. \(2\)](#)
- 10.1 [First Capital Annual Supplemental Bonus Plan](#)
- 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 November 14, 2022**

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

**Dated November 14, 2022**

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

**FIRST CAPITAL, INC.**  
**2022 ANNUAL SUPPLEMENTAL BONUS PLAN**

**(Effective January 1, 2022)**

1. **Purpose.** The purpose of the First Capital, Inc. 2022 Annual Supplemental Bonus Plan (the "**Plan**") is to provide compensation in addition to base salaries to senior and executive officers and outside directors of the Company in order to motivate such officers and directors to maximize the Company's profits and reward them for attainment of certain established financial and non-financial goals and objectives.

2. **Effective Date.** The Plan is effective as of January 1, 2022 (the "**Effective Date**"), and shall remain in effect until it has been terminated pursuant to Section 10(f).

3. **Administration.** The Plan will be administered by the Committee. The Committee may (a) adopt such rules and regulations as are appropriate for the proper administration of the Plan in a manner that provides active and effective oversight of the Plan, and (b) make such determinations and take such actions in connection with the Plan as it deems necessary. While the Committee may appoint individuals to act on its behalf in the administration of the Plan, it will have the sole, final and conclusive authority to administer, construe and interpret the Plan. The Committee's determinations and interpretations will be final and binding on all persons, including the Company, its shareholders and persons having any interests in Awards.

4. **Definitions.** The following terms shall have the corresponding meanings:

(a) "**Affiliate**" means any corporation or other entity controlled by the Company.

(b) "**Award**" means an award granted pursuant to the Plan, the payment of which shall be contingent on the attainment of Performance Goals with respect to a Performance Period, as determined by the Committee pursuant to Section 7(a).

(c) "**Board**" means the Board of Directors of the Company, as constituted from time to time.

(d) "**Change in Control**" means:

(i) the Company merges into or consolidates with another corporation, or merges another corporation into the Company, and, as a result, less than 50% of the combined voting power of the resulting corporation immediately after the merger or consolidation is held by persons who were shareholders of the Company immediately before the merger or consolidation;

(ii) a report on Schedule 13D or another form or schedule (other than Schedule 13G) is filed or is required to be filed under Section 13(d) or 14(d) of the Securities Exchange Act of 1934, if the schedule discloses that the filing person or persons acting in concert has or have become the beneficial owner (within the meaning of Rule 13d-3 of such Act), directly or indirectly, of 25% or more of a class of the Company's voting securities; *provided, however*, that this clause (ii) shall not apply to beneficial ownership of Company voting shares held by a trustee or other fiduciary holding securities under an employee benefit plan of the Company or by an entity of which the Company, directly or indirectly, beneficially owns 50% or more of its outstanding voting securities;

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(iii) during any period of two consecutive years, individuals who constitute the Board of Directors at the beginning of the two-year period cease for any reason to constitute at least a majority of the Board of Directors; provided, however, that for purposes of this clause (iii), each director who is first elected by the Board of Directors (or first nominated by the Board of Directors for election by the shareholders) by a vote of at least two-thirds of the directors who were directors at the beginning of the two-year period shall be deemed to have also been a director at the beginning of such period; or

(iv) the Company or an Affiliate sells to a third party all or substantially all of its assets, or consummation of an agreement for the sale or disposition by the Company of all or substantially all of the Company or Affiliate's assets.

(e) "**Code**" means the U.S. Internal Revenue Code of 1986, as amended from time to time, including any regulations or authoritative guidance promulgated thereunder and successor provisions thereto.

(f) "**Committee**" means the Compensation Committee or such other committee appointed by the Board to administer the Plan pursuant to Section 3.

(g) "**Company**" means First Capital, Inc., or any successor thereto.

(h) "**Disability**" means any illness or other physical or mental condition of a Participant that renders the Participant incapable of performing his or her customary and usual duties for the Company or an Affiliate, or any medically determinable illness or other physical or mental condition resulting from a bodily injury, disease or mental disorder which, in the judgment of the Committee, is permanent and continuous in nature. The Committee may require such medical or other evidence as it deems necessary to judge the nature and permanency of the Participant's condition.

(i) "**Participant**" means, as to any Performance Period, the senior and executive officers and outside directors of the Company or an Affiliate who are designated by the Committee to participate in the Plan for that Performance Period.

(j) "**Performance Goals**" means the goals and performance metrics selected by the Committee, in its discretion, to be applicable to a Participant for any Performance Period. Performance Goals may include a threshold level of performance below which no Award will be paid and levels of performance at which specified Award amounts will be paid and may also include a maximum level of performance above which no additional Award amount will be paid. The Committee may, in its discretion, determine the performance criteria on which Performance Goals will be based, including criteria expressed relative to a peer group of companies.

(k) "**Performance Period**" means the period for which performance is calculated, which unless otherwise indicated by the Committee, shall be the Plan Year.

(l) "**Plan**" means the First Capital, Inc. 2022 Annual Supplemental Bonus Plan, as amended from time to time.

(m) "**Plan Year**" means the 12-month period commencing each January 1 and ending on each subsequent December 31.

(n) "**Pro-Rated Award**" means an amount equal to the Award otherwise payable to the Participant for a Performance Period in which the Participant was actively employed by the Company or an Affiliate as a senior or executive officer or outside director for only a portion thereof, *multiplied* by a fraction, the numerator of which is the number of days the Participant was actively so employed by the Company or an Affiliate during the Performance Period and the denominator of which is the number of days in the Performance Period.

(o) "**Retirement**" means, with respect to a senior or executive officer, a Participant's termination of service on or after attaining age 65 for reasons other than death or Disability. "Retirement" shall not apply to any termination of service by an outside director.

#### 5. Eligibility and Participation.

(a) Eligibility. Senior and executive officers of the Company and its participating Affiliates are eligible to participate in the Plan.

(b) Participation. The Committee, in its discretion, shall designate the persons who shall be Participants for each Performance Period. Only eligible individuals who are designated by the Committee to participate in the Plan with respect to a particular Performance Period may participate in the Plan for that Performance Period. An individual who is designated as a Participant for a given Performance Period is not guaranteed or assured of being selected for participation in any subsequent Performance Period.

(c) New Hires; Newly Eligible Participants. A newly hired or newly eligible Participant will be eligible to receive a Pro-Rated Award.

(d) Leaves of Absence. If a Participant is on a leave of absence for a portion of a Performance Period, the Participant will be eligible to receive a Pro-Rated Award reflecting participation for the period during which the Participant was actively employed as a senior or executive officer or outside director and not any period when the Participant was on leave.

#### 6. Terms of Awards.

(a) Determination of Performance Goals and Performance Formula. Prior to, or reasonably promptly following the commencement of, each Performance Period, the Committee, in its sole discretion, shall establish in writing the Performance Goals for the Performance Period and shall prescribe a formula for determining the possible amount of an Award, including varying levels of Award depending on performance, and relative weight to be applied to performance criteria factoring into the determination of Performance Goals.

(b) Adjustments. The Committee may adjust or modify the calculation of a Performance Goal and related criteria and the weighting thereof for a Performance Period in its sole discretion.

7. Payment of Awards.

(a) Determination of Awards.

(i) Following the completion of each Performance Period, the Committee shall determine the extent to which the Performance Goals have been achieved. Subject to Section 7(a)(iii), if the minimum Performance Goals established by the Committee are not achieved, then no payment will be made.

(ii) To the extent that the Performance Goals are achieved, the Committee shall determine the amount of each Participant's Award.

(iii) In determining the amount of each Award, the Committee may reduce, eliminate or increase the amount of an Award if, in its sole discretion, such adjustment is appropriate.

(b) Form and Timing of Payment. Except as otherwise provided herein, as soon as practicable following the Committee's determination pursuant to Section 7(a) for the applicable Performance Period, each Participant shall receive a cash lump sum payment of their Award, less required withholding. In no event shall such payment be made later than 2 1/2 months following the end of the Performance Period.

(c) Employment Requirement. Except as otherwise provided in Section 8, no Award shall be paid to any Participant who is not actively employed by the Company or an Affiliate as a senior or executive officer or outside director on the last day of the Performance Period.

8. Termination of Employment.

(a) Employment Requirement. Except as otherwise provided in Section 8(b), if a Participant's employment as a senior or executive officer or outside director terminates for any reason prior to the last day of the Performance Period [the date that Awards are paid], all of the Participant's rights to an Award for the Performance Period shall be forfeited.

(b) [Death, Disability,] Retirement. If a Participant's employment as a senior or executive officer or outside director is terminated by reason of the Participant's [death, Disability or] Retirement during a Performance Period [or following a Performance Period but before the date that Awards are paid], the Participant or their beneficiary will be paid a Pro-Rated Award. In the case of a Participant's Disability, such employment termination shall be deemed to have occurred on the date that the Committee determines that the Participant is Disabled. Payment of such Pro-Rated Award will be made at the same time and in the same manner as Awards are paid to other Participants.

9. Change in Control. If a Change in Control occurs during a Performance Period, Awards under the Plan will be calculated based on the Company's performance as of the date of the Change in Control. Awards paid in connection with a Change in Control will be paid no later than 2 1/2 months following the date of the Change in Control.

10. General Provisions.

(a) Compliance with Legal Requirements. The Plan and the granting of Awards shall be subject to all applicable federal and state laws, rules and regulations, and to such approvals by any regulatory or governmental agency as may be required.

(b) Non-transferability. A person's rights and interests under the Plan, including any Award previously made to such person or any amounts payable under the Plan, may not be assigned, pledged or transferred, except in accordance with Section 10(i) in the event of the Participant's death.

(c) No Right to Employment. Nothing in the Plan or in any notice of Award shall confer upon any person the right to continue in the employment as a senior or executive officer or outside director of the Company or any Affiliate or affect the right of the Company or any Affiliate (or the shareholders thereof) to terminate such employment of any Participant.

(d) No Right to Award. Unless otherwise expressly set forth in an employment agreement signed by the Company or Affiliate, a Participant shall not have any right to any Award under the Plan until such Award has been paid to such Participant, and participation in the Plan in one Performance Period does not connote any right to become a Participant in the Plan in any future Performance Period.

(e) Withholding. The Company shall have the right to withhold from any Award, any federal, state or local income and payroll taxes required by law to be withheld and to take such other action as the Committee may deem advisable to enable the Company and Participants to satisfy obligations for the payment of withholding taxes and other tax obligations relating to an Award.

(f) Amendment or Termination of the Plan. The Board or the Committee may, at any time, amend, suspend or terminate the Plan in whole or in part. Notwithstanding the foregoing, no amendment shall adversely affect the rights of any Participant to Awards allocated prior to such amendment, suspension or termination.

(g) Unfunded Status. Nothing contained in the Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind or a fiduciary relationship between the Company and any Participant, beneficiary or legal representative or any other person. To the extent that a person acquires a right to receive payments under the Plan, such right shall be no greater than the right of an unsecured general creditor of the Company. All payments to be made hereunder shall be paid from the general funds of the Company and no special or separate fund shall be established and no segregation of assets shall be made to assure payment of such amounts except as expressly set forth in the Plan. The Plan is not intended to be subject to the Employee Retirement Income Security Act of 1974, as amended (ERISA).

(h) Governing Law. The Plan shall be construed, administered and enforced in accordance with the laws of the State of Indiana, without regard to conflicts of law principals.

(i) Beneficiaries. To the extent that the Committee permits beneficiary designations, any payment of Awards due under the Plan to a deceased Participant shall be paid to the beneficiary duly designated by the Participant in accordance with the procedures established by the Committee. If no such beneficiary has been designated or survives the Participant, payment shall be made by will or the laws of descent or distribution.

(j) Code Section 409A. It is intended that payments under the Plan qualify as short-term deferrals exempt from the requirements of Code Section 409A. In the event that any Award does not qualify for treatment as an exempt short-term deferral, it is intended that such amount will be paid in a manner that satisfies the requirements of Section 409A of the Code. The Plan shall be interpreted and construed accordingly.

(k) Headings. The section and paragraph headings in the Plan have been inserted for convenience of reference only and do not constitute a part of the Plan for purposes of interpretation or construction.

(l) Severability. In the event any provision of the Plan is held to be illegal or invalid for any reason, such illegality or invalidity will not affect the remaining parts of the Plan, and the Plan will be construed and endorsed as if such illegal or invalid provision had never been contained in the Plan.

(m) Non-exclusive. Nothing in the Plan shall limit the authority of the Company, the Board or the Committee to adopt such other compensation arrangements, as it may deem desirable for any Participant.

(n) Notices. Any notice or document required to be given to or filed with the Committee under this Plan will be properly given or filed if delivered or mailed, by certified mail, postage prepaid, to the Compensation Committee, First Capital, Inc. Board of Directors, 220 Federal Drive, P.O. Box 130, Corydon, Indiana, 47112.

(o) Successors. All obligations of the Company under the Plan with respect to Awards granted hereunder shall be binding upon any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation or otherwise, of all or substantially all of the assets of the Company.

(p) Clawback. All Awards are subject to the Company's Clawback Policy as in effect from time to time and, in accordance with such policy, may be subject to the requirement that the Awards be repaid to the Company after they have been distributed to the Participant. The action permitted to be taken by the Board under this Section is in addition to, and not in lieu of, any and all other rights of the Board and the Company under applicable law and shall apply notwithstanding anything to the contrary in the Plan.

*[Signature Page Follows]*



IN WITNESS WHEREOF, the Company has caused this First Capital, Inc. 2022 Annual Bonus Plan to be executed by its officers thereunder duly authorized, this 17<sup>th</sup> day of October, 2022, but effective as of January 1, 2022.

**FIRST CAPITAL, INC.**

By: /s/William W. Harrod

Printed: William W. Harrod

Title: President and CEO

ATTEST:

By: /s/Michael C. Frederick

Printed: Michael C. Frederick

Title: 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: November 14, 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: November 14, 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 September 30, 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:** November 14, 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 September 30, 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:** November 14, 2022

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