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, 2023

OR

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

For the transition period from_____________________ to__________________

Commission File No. 0-25023

First Capital, Inc.
(Exact name of registrant as specified in its charter)

Indiana	**35-2056949**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

220 Federal Drive NW, Corydon, Indiana 47112 1-812-738-2198
(Address of principal executive offices, zip code, telephone number)

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exhange 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 ☐	Accelerated filer ☐
Non-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: 3,350,660 shares of common stock were outstanding as of November 3, 2023.

FIRST CAPITAL, INC.

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

	September 30, 2023	December 31, 2022
	(In thousands)	
ASSETS		
Cash and due from banks	$ 18,027	$ 25,231
Interest bearing deposits with banks	1,222	3,820
Federal funds sold	12,181	37,247
Total cash and cash equivalents	31,430	66,298
Interest-bearing time deposits	4,165	3,677
Securities available for sale, at fair value (amortized cost $489,187 and $507,466, respectively)	440,080	460,819
Securities held to maturity, at amortized cost (fair value $4,472 and $5,311, respectively)	7,000	7,000
Loans held for sale	1,360	793
Loans, net of allowance for credit losses of $7,786 ($6,772 in 2022)	602,319	557,958
Federal Home Loan Bank and other stock, at cost	1,836	1,836
Premises and equipment	14,453	14,668
Accrued interest receivable	4,317	4,285
Cash value of life insurance	9,057	8,899
Goodwill	6,472	6,472
Core deposit intangible	269	379
Other assets	19,947	18,316
Total Assets	$ 1,142,705	$ 1,151,400
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 234,324	$ 254,842
Interest-bearing	783,167	805,554
Total deposits	1,017,491	1,060,396
Advances - Federal Home Loan Bank ("FHLB")	15,000	-
Borrowed funds - Bank Term Funding Program ("BTFP")	13,000	-
Accrued interest payable	1,506	123
Accrued expenses and other liabilities	6,446	5,611
Total liabilities	1,053,443	1,066,130
EQUITY		
Preferred stock of $.01 par value per share Authorized 1,000,000 shares; none issued	-	-
Common stock of $.01 par value per share Authorized 7,500,000 shares; issued 3,803,833 shares (3,804,683 in 2022); outstanding 3,350,660 (3,371,362 in 2022)	38	38
Additional paid-in capital	41,588	41,636
Retained earnings-substantially restricted	94,899	88,465
Unearned stock compensation	(303)	(549)
Accumulated other comprehensive loss	(37,852)	(35,741)
Less treasury stock, at cost - 453,173 shares (433,321 in 2022)	(9,216)	(8,691)
Total First Capital, Inc. stockholders' equity	89,154	85,158
Noncontrolling interest in subsidiary	108	112
Total equity	89,262	85,270
Total Liabilities and Equity	$ 1,142,705	$ 1,151,400

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,	
	2023	2022	2023	2022
INTEREST INCOME	*(In thousands, except per share data)*			
Loans, including fees	$ 8,573	$ 6,533	$ 24,282	$ 17,885
Securities:				
Taxable	1,426	1,241	4,074	3,189
Tax-exempt	825	829	2,559	2,350
Dividends	18	5	40	14
Federal funds sold and other interest income	337	440	1,011	713
Total interest income	11,179	9,048	31,966	24,151
INTEREST EXPENSE				
Deposits	2,429	390	5,578	910
Advances - FHLB	50	-	108	-
Borrowed funds - BTFP	163	-	240	-
Total interest expense	2,642	390	5,926	910
Net interest income	8,537	8,658	26,040	23,241
Provision for credit losses	290	175	833	550
Net interest income after provision for credit losses	8,247	8,483	25,207	22,691
NONINTEREST INCOME				
Service charges on deposit accounts	597	618	1,737	1,670
ATM and debit card fees	1,127	1,059	3,355	3,132
Commission and fee income	15	160	46	400
Gain on sale of securities	63	-	49	-
Unrealized loss on equity securities	(131)	(229)	(86)	(265)
Gain on sale of loans	127	170	317	720
Increase in cash surrender value of life insurance	47	44	158	157
Other income	102	51	225	171
Total noninterest income	1,947	1,873	5,801	5,985
NONINTEREST EXPENSE				
Compensation and benefits	3,731	3,832	11,322	10,977
Occupancy and equipment	435	462	1,328	1,385
Data processing	1,113	1,047	3,225	2,909
Professional fees	121	152	472	620
Advertising	62	62	239	203
Other expenses	1,019	1,004	2,962	2,694
Total noninterest expense	6,481	6,559	19,548	18,788
Income before income taxes	3,713	3,797	11,460	9,888
Income tax expense	572	669	1,770	1,516
Net Income	3,141	3,128	9,690	8,372
Less: net income attributable to noncontrolling interest in subsidiary	3	3	10	10
Net Income Attributable to First Capital, Inc.	$ 3,138	$ 3,125	$ 9,680	$ 8,362
Earnings per common share attributable to First Capital, Inc.:				
Basic	$ 0.94	$ 0.93	$ 2.89	$ 2.49
Diluted	$ 0.94	$ 0.93	$ 2.89	$ 2.49
Dividends per share	$ 0.27	$ 0.26	$ 0.81	$ 0.78

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(In thousands)			
Net Income	$ 3,141	$ 3,128	$ 9,690	$ 8,372
OTHER COMPREHENSIVE INCOME (LOSS)				
Unrealized losses on securities available for sale:				
Unrealized holding losses arising during the period	(6,784)	(13,243)	(2,568)	(54,783)
Income tax benefit	1,355	3,080	372	12,622
Net of tax amount	(5,429)	(10,163)	(2,196)	(42,161)
Less: reclassification adjustment for realized losses included in net income	94	-	108	-
Income tax benefit	(20)	-	(23)	-
Net of tax amount	74	-	85	-
Other Comprehensive Loss, net of tax	(5,355)	(10,163)	(2,111)	(42,161)
Comprehensive Income (Loss)	(2,214)	(7,035)	7,579	(33,789)
Less: comprehensive income attributable to the noncontrolling interest in subsidiary	3	3	10	10
Comprehensive Income (Loss) Attributable to First Capital, Inc.	$ (2,217)	$ (7,038)	$ 7,569	$ (33,799)

See accompanying notes to consolidated financial statements.

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

(In thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Unearned Stock Compensation	Treasury Stock	Noncontrolling Interest	Total
Balances at July 1, 2023	$ 38	$ 41,588	$ 92,666	$ (32,497)	$ (356)	$ (9,193)	$ 105	$ 92,351
Net income	-	-	3,138	-	-	-	3	3,141
Other comprehensive loss	-	-	-	(5,355)	-	-	-	(5,355)
Cash dividends	-	-	(905)	-	-	-	-	(905)
Stock compensation expense	-	-	-	-	53	-	-	53
Purchase of treasury shares	-	-	-	-	-	(23)	-	(23)
Balances at September 30, 2023	$ 38	$ 41,588	$ 94,899	$ (37,852)	$ (303)	$ (9,216)	$ 108	$ 89,262
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	-	-	-
Balances at September 30, 2022	$ 38	$ 41,636	$ 85,802	$ (40,427)	$ (633)	$ (8,691)	$ 108	$ 77,833
Balances at December 31, 2022	$ 38	$ 41,636	$ 88,465	$ (35,741)	$ (549)	$ (8,691)	$ 112	$ 85,270
Cumulative Effect of Change in Accounting Principles (See Note 2 - Recent Accounting Pronouncements)	-	-	(529)	-	-	-	-	(529)
Balances at January 1, 2023 (as adjusted)	38	41,636	87,936	(35,741)	(549)	(8,691)	112	84,741
Net income	-	-	9,680	-	-	-	10	9,690
Other comprehensive loss	-	-	-	(2,111)	-	-	-	(2,111)
Cash dividends	-	-	(2,717)	-	-	-	(14)	(2,731)
Stock compensation expense	-	-	-	-	198	-	-	198
Purchase of treasury shares	-	-	-	-	-	(525)	-	(525)
Restricted stock grant forfeitures	-	(48)	-	-	48	-	-	-

Balances at September 30, 2023	$ 38	$ 41,588	$ 94,899	$ (37,852)	$ (303)	$ (9,216)	$ 108	$ 89,262
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	-	-	-
Balances at September 30, 2022	$ 38	$ 41,636	$ 85,802	$ (40,427)	$ (633)	$ (8,691)	$ 108	$ 77,833

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES	*(In thousands)*	
Net income	$ 9,690	$ 8,372
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	1,210	1,571
Depreciation and amortization expense	767	809
Deferred income taxes	(264)	(40)
Stock compensation expense	198	352
Increase in cash value of life insurance	(158)	(157)
Gain on sale of securities	(49)	-
Provision for credit losses	833	550
Proceeds from sales of loans	23,799	41,655
Loans originated for sale	(24,049)	(39,834)
Gain on sale of loans	(317)	(720)
Amortization of tax credit investments	1,249	266
Unrealized loss on equity securities	86	265
Net realized and unrealized gain on foreclosed real estate	-	(15)
Increase in accrued interest receivable	(32)	(284)
Increase (decrease) in accrued interest payable	1,383	(23)
Net change in other assets/liabilities	(1,140)	(368)
Net Cash Provided By Operating Activities	13,206	12,399
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (increase) decrease in interest-bearing time deposits	(488)	2,385
Purchase of securities available for sale	(32,839)	(87,346)
Purchase of securities held to maturity	-	(5,000)
Proceeds from maturities of securities available for sale	17,630	5,361
Proceeds from sales of securities available for sale	20,202	-
Principal collected on mortgage-backed obligations	11,971	17,687
Proceeds from sale of equity securities	156	-
Net increase in loans receivable	(45,819)	(58,844)
Investment in tax credit entities	(148)	-
Investment in technology fund	(200)	(100)
Proceeds from sale of foreclosed real estate	64	39
Proceeds from redemption of Federal Home Loan Bank stock	-	152
Purchase of premises and equipment	(442)	(323)
Net Cash Used In Investing Activities	(29,913)	(125,989)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) increase in deposits	(42,905)	27,537
Net increase in FHLB advances	15,000	-
Increase in BTFP borrowed funds	13,000	-
Purchase of treasury stock	(502)	-
Taxes paid on stock award shares for employees	(23)	(26)
Dividends paid	(2,731)	(2,644)
Net Cash (Used In) Provided By Financing Activities	(18,161)	24,867
Net Decrease in Cash and Cash Equivalents	(34,868)	(88,723)
Cash and cash equivalents at beginning of period	66,298	172,509
Cash and Cash Equivalents at End of Period	$ 31,430	$ 83,786

See accompanying notes to consolidated financial statements.

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. Refer to Note 13 – *Captive Subsidiary* for detail regarding the status of the Captive. 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, 2023, and the results of operations for the three and nine months ended September 30, 2023 and 2022 and the cash flows for the nine months ended September 30, 2023 and 2022. 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, 2022 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.

2. Recent Accounting Pronouncements

Recently Adopted Accounting Guidance

In June 2016, the Financial Accounting Standards Board ("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.

(2 – continued)

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. The Company met the definition of a smaller reporting company as of that date and was not required to adopt the standard until January 1, 2023.

Effective January 1, 2023, the Company adopted ASU 2016-13, as amended, under the modified retrospective method. The adoption replaced the allowance for loan losses with the allowance for credit losses ("ACL") on loans on the Consolidated Balance Sheets and replaced the related provision for loan losses with the provision for credit losses on loans on the Consolidated Statements of Income. Upon adoption, the Company recorded an increase in the beginning ACL on loans of $561,000. In addition, the Company established an ACL related to unfunded loan commitments of $131,000 upon adoption of CECL. The use of the modified retrospective method of adoption resulted in the Company recording a $529,000 reduction (net of tax) in retained earnings as of January 1, 2023. Results for reporting periods after January 1, 2023 are presented under Accounting Standards Codification (“ASC”) 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP.

The Company expanded the loan portfolio segments used to determine the ACL on loans into eight loan segments as opposed to seven loan segments under the incurred loss methodology. The following table illustrates the impact of the segment expansion as of January 1, 2023.

(In thousands)	Amortized Cost at December 31, 2022	Segment Portfolio Reclassification	Amortized Cost at December 31, 2022 after Reclassificatio
Residential	$ 155,445	$ (155,445)	$
1-4 Family Residential Mortgage	-	116,392	116,39
Multifamily Residential	-	38,962	38,96
Home Equity and Second Mortgage	58,985	92	59,07
Commercial Real Estate	161,332	(62)	161,27
Construction	42,259	(42,259)	
Land	21,874	(21,874)	
1-4 Family Residential Construction	-	16,575	16,57
Other Construction, Development and Land	-	47,633	47,63
Commercial Business	60,806	7,248	68,05
Other Consumer	64,029	(7,262)	56,76
	$ 564,730	$ -	$ 564,73

Loans Held for Investment

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts, deferred loan fees and costs. The Company grants real estate mortgage, commercial business and consumer loans. 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. Accrued interest receivable on loans totaled $2.1 million at September 30, 2023 and was reported in accrued interest receivable on the consolidated balance sheets and is excluded from the estimate of credit losses.

(2 – continued)

ACL – Available For Sale ("AFS") Debt Securities

For AFS debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell, the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For AFS debt securities that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an ACL is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any decline in fair value that has not been recorded through an ACL is recognized in other comprehensive income, net of applicable taxes.

Changes in the ACL are recorded as a provision for (or recovery of) credit loss expense. Losses are charged against the ACL when management believes that uncollectibility of an AFS debt security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable on AFS debt securities totaled $2.1 million at September 30, 2023 and was reported in accrued interest receivable on the consolidated balance sheet and is excluded from the estimate of credit losses.

ACL – Held To Maturity Debt Securities

Management measures expected credit losses on held to maturity debt securities on a collective basis by major security type. Accrued interest receivable on held to maturity debt securities totaled $18,000 at September 30, 2023 and was reported in accrued interest receivable on the consolidated balance sheet and is excluded from the estimate of credit losses. The held to maturity securities portfolio includes subordinated debt obligations issued by other bank holding companies.

The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. At the time of adoption and as of September 30, 2023, the estimated reserve was immaterial.

ACL – Loans

The ACL is a valuation account that is deducted from an asset's amortized cost basis to present the net amount expected to be collected on the asset. Loans are charged off against the ACL when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged off and expected to be charged-off.

(2 – continued)

The Company utilizes a combination of the Open Pool/Snapshot and Weighted Average Remaining Maturity ("WARM") methods in determining expected future credit losses. The Open Pool/Snapshot method takes a snapshot of a loan portfolio at a point in time in history and tracks that loan portfolio's performance in the subsequent periods until its ultimate disposition. The WARM method uses average annual charge-off rates and the remaining life of the loan to estimate the ACL. For the Company's loan portfolios, the remaining contractual life for each loan is adjusted by the expected scheduled payments and estimated prepayments. The average annual charge-off rate is applied to the amortization adjusted remaining life of the loan to determine the unadjusted lifetime historical charge-off rate. The Company's expected loss estimate is anchored in historical credit loss experience, with an emphasis on all available portfolio data. The Company's historical look-back periods for the loan portfolio range from one to 10 years depending on the WARM of the given portfolio segment, and are updated on a quarterly basis.

The Company estimates the ACL on loans using relevant available information from internal and external sources relating to past events, current conditions, and reasonable and supportable forecasts. Historical loss experience provides the basis for the estimation of expected credit losses. Qualitative adjustments to historical loss information are made for losses reflected by peers, changes in underwriting standards, changes in economic conditions, changes in delinquency levels, collateral values and other factors.

Qualitative adjustments reflect management's overall estimate of the extent to which current expected credit losses on collectively evaluated loans will differ from historical loss experience. The analysis takes into consideration industry and collateral concentrations, acquired loan portfolio characteristics and other credit-related analytics as deemed appropriate.

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.

The ACL is measured on a collective (pooled) basis when similar risk characteristics exist. The Company's pools/segments are largely determined based on loan types as defined by Call Report instructions. The Company has identified and utilizes the following portfolio segments:

1–4 Family Residential Mortgage – 1–4 Family Residential Mortgage loans are primarily secured by 1-4 family residences that are owner-occupied and serve as the primary residence of the borrower. In addition, the Company typically has a senior (1st lien) position securing the collateral of loans in this portfolio. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by unemployment levels in the market area due to economic conditions. Repayment may also be impacted by changes in residential property values.

Home Equity and Second Mortgage – Home Equity and Second Mortgage loans and lines of credit are primarily secured by 1-4 family residences that are owner-occupied and serve as the primary residence of the borrower. However, the Company typically has a junior lien position securing the collateral of loans in this portfolio. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by unemployment levels in the market area due to economic conditions. Repayment may also be impacted by changes in residential property values. While secured by collateral similar to that of the 1–4 Family Residential Mortgage loans, loans within this segment are considered to carry elevated risk due to the Company's junior lien position on the underlying collateral property.

(2 – continued)

Multi-family Residential – Multi-family Residential loans are primarily secured by properties such as apartment complexes and other multi-tenant properties within the Company's market area. In some situations, the collateral may reside outside of the Company's typical market area. Repayment of these loans is often dependent on the successful operation and management of the properties and collection of associated rents. Repayment of such loans may be affected by adverse conditions in the real estate market or the economy.

1–4 Family Residential Construction – 1–4 Family Residential Construction loans are generally secured by 1-4 family residences that will be owner-occupied upon completion. Risks inherent in construction lending are related to the market value of the property held as collateral, the cost and timing of constructing or improving a property, movements in interest rates and the real estate market during the construction phase, and the ability of the borrower to obtain permanent financing. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by unemployment levels in the market area due to economic conditions. Repayment may also be impacted by changes in residential property values.

Other Construction, Development and Land – Other Construction, Development and Land loans include loans secured by multi-family properties, commercial projects, and vacant land. This portfolio includes both owner-occupied and speculative investment properties. Risks inherent in construction lending are related to the market value of the property held as collateral, the cost and timing of constructing or improving a property, the borrower's ability to use funds generated by a project to service a loan until a project is completed, movements in interest rates and the real estate market during the construction phase, and the ability of the borrower to obtain permanent financing.

Commercial Real Estate – Commercial Real Estate loans are comprised of loans secured by various types of collateral including warehouses, retail space, and mixed-use buildings, among others, located in the Company's primary lending area. Risks related to commercial real estate lending are related to the market value of the property taken as collateral, the underlying cash flows, and general economic condition of the local real estate market. Repayment of these loans is generally dependent on the ability of the borrower to attract tenants at lease rates that provide for adequate debt service and can be impacted by local economic conditions which impact vacancy rates. The Company generally obtains loan guarantees from financially capable parties for Commercial Real Estate loans. To a lesser degree, this segment also includes loans secured by farmland. The risks associated with loans secured by farmland are related to the market value of the property taken as collateral and the underlying cash flows from farming operations and general economic conditions.

Commercial Business – Commercial Business loans include lines of credit to businesses, term loans and letters of credit secured by business assets such as equipment, accounts receivable, inventory, or other assets excluding real estate. Loans in this portfolio may also be unsecured and are generally made to finance capital expenditures or fund operations. Commercial Business loans contain risks related to the value of the collateral securing the loan and the repayment is primarily dependent upon the financial success and viability of the borrower. As with Commercial Real Estate loans, the Company generally obtains loan guarantees from financially capable parties for Commercial Business loans.

(2 – continued)

Other Consumer – Other Consumer loans consist of loans secured by new and used automobiles and trucks, recreational vehicles such as boats and RVs, mobile homes and secured and unsecured loans to individuals. The risks associated with these loans are related to local economic conditions including the unemployment level. To a lesser degree, this segment also includes loans secured by lawn and farm equipment as well as farm output. The risks associated with these loans are related to local economic conditions including the unemployment level, as well as general economic conditions impacting crop prices and the supply chain.

Loans that do not share risk characteristics are evaluated on an individual basis. In addition, loans evaluated individually are not included in the collective evaluation. When the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date adjusted for selling costs.

ACL – Off-Balance Sheet Credit Exposures

The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The ACL on off-balance sheet credit exposures is included in other liabilities on the consolidated balance sheets and is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. Expected utilization rates based on Regulatory Credit Conversion Factors are compared to the current funded portion of the total commitment amount as a practical expedient for funded exposure at default.

In March 2022, the FASB issued ASU No. 2022-02, *Financial Instruments – Credit Losses (Topic 326), Troubled Debt Restructurings (*"*TDR*"*) 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. The Company adopted ASU 2022-02 in conjunction with ASU 2016-13 and applied it prospectively with no cumulative-effect adjustment to retained earnings being recorded.

Recently Issued but Not Adopted Accounting Guidance

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.

(2 – continued)

In March 2023, the FASB issued ASU No. 2023-02, *Investments – Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures using the Proportional Amortization Method*. The ASU allows entities to elect to account for qualifying tax equity investments using the proportional amortization method, regardless of the program giving rise to the related income tax credits. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the income tax credits and other income tax benefits received, and recognizes the net amortization and income tax credits and other income tax benefits in the income statement as a component of income tax expense. This also aligns the treatment of other tax equity investments with that allowed for low income housing tax credit ("LIHTC") investments. For public business entities, the ASU is effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted in any interim period. The Company already utilized the proportional amortization method for its LIHTC investment and early adopted ASU 2023-02 in conjunction with its initial investment in an investment tax credit producing solar property described in more detail in Note 6 – *Renewable Energy Tax Credit Investment*. The adoption of the ASU did not have a material impact on the Company's consolidated 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.

3. Investment Securities

Investment securities have been classified in the consolidated balance sheets according to management's intent. Investment securities at September 30, 2023 and December 31, 2022 are summarized as follows:

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2023				
Securities available for sale:				
Agency mortgage-backed securities	$ 84,385	$ -	$ 12,312	$ 72,073
Agency CMO	23,439	-	624	22,815
Other debt securities:				
Agency notes and bonds	147,195	-	12,203	134,992
Treasury notes and bonds	76,527	-	2,813	73,714
Municipal obligations	157,641	2	21,157	136,486
Total securities available for sale	$ 489,187	$ 2	$ 49,109	$ 440,080
Securities held to maturity:				
Other debt securities:				
Corporate notes	$ 7,000	$ -	$ 2,528	$ 4,472
Total securities held to maturity	$ 7,000	$ -	$ 2,528	$ 4,472
December 31, 2022				
Securities available for sale:				
Agency mortgage-backed securities	$ 95,056	$ -	$ 11,193	$ 83,863
Agency CMO	9,682	20	349	9,353
Other debt securities:				
Agency notes and bonds	151,143	-	13,162	137,981
Treasury notes and bonds	82,646	-	3,914	78,732
Municipal obligations	168,939	177	18,226	150,890
Total securities available for sale	$ 507,466	$ 197	$ 46,844	$ 460,819
Securities held to maturity:				
Other debt securities:				
Corporate notes	$ 7,000	$ -	$ 1,689	$ 5,311
Total securities held to maturity	$ 7,000	$ -	$ 1,689	$ 5,311

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 issued by other bank holding companies.

(3 – continued)

The amortized cost and fair value of debt securities as of September 30, 2023, 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	
(In thousands)	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 65,774	$ 64,401	$ -	$ -
Due after one year through five years	177,859	163,024	-	-
Due after five years through ten years	45,517	41,252	2,000	1,291
Due after ten years	92,213	76,515	5,000	3,181
	381,363	345,192	7,000	4,472
Mortgage-backed securities and CMO	107,824	94,888	-	-
	$ 489,187	$ 440,080	$ 7,000	$ 4,472

Information pertaining to investment securities with gross unrealized losses at September 30, 2023, aggregated by investment category and the length of time that individual investment securities have been in a continuous loss position, follows.

(Dollars in thousands)	**Number of Investment Positions**	**Fair Value**	**Gross Unrealized Losses**
September 30, 2023:			
Securities available for sale:			
Continuous loss position less than twelve months:			
Agency CMO	7	$ 17,601	$ 246
Agency notes and bonds	6	5,210	108
Muncipal obligations	124	58,212	4,680
Total less than twelve months	137	81,023	5,034
Continuous loss position more than twelve months:			
Agency mortgage-backed securities	97	72,073	12,312
Agency CMO	23	5,214	378
Agency notes and bonds	55	129,035	12,095
Treasury notes and bonds	27	73,714	2,813
Muncipal obligations	135	76,541	16,477
Total more than twelve months	337	356,577	44,075
Total securities available for sale	474	$ 437,600	$ 49,109
Securities held to maturity:			
Continuous loss position more than twelve months:			
Corporate notes	4	$ 4,472	$ 2,528
Total more than twelve months	4	4,472	2,528
Total held to maturity	4	$ 4,472	$ 2,528

(3 – continued)

Information pertaining to investment securities with gross unrealized losses at December 31, 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
December 31, 2022:					
Securities available for sale:					
Continuous loss position less than twelve months:					
Agency mortgage-backed securities	69	$	27,561	$	2,214
Agency CMO	23		6,287		336
Agency notes and bonds	15		35,079		1,314
Treasury notes and bonds	17		31,615		997
Muncipal obligations	154		81,218		5,960
Total less than twelve months	278		181,760		10,821
Continuous loss position more than twelve months:					
Agency mortgage-backed securities	28		56,303		8,979
Agency CMO	3		257		13
Agency notes and bonds	45		102,902		11,848
Treasury notes and bonds	13		47,117		2,917
Muncipal obligations	98		52,279		12,266
Total more than twelve months	187		258,858		36,023
Total securities available for sale	465	$	440,618	$	46,844
Securities held to maturity:					
Continuous loss position less than twelve months:					
Corporate notes	3	$	3,779	$	1,221
Total less than twelve months	3		3,779		1,221
Continuous loss position more than twelve months:					
Corporate notes	1		1,532		468
Total more than twelve months	1		1,532		468
Total securities held to maturity	4	$	5,311	$	1,689

The Company has not identified any specific available for sale securities in a loss position that it intends to sell in the near term and does not believe that it will be required to sell any such securities. The Company reviews its securities on a quarterly basis to assess declines in fair value for credit losses. Consideration is given to such factors as the credit rating of the borrower, market conditions such as current interest rates, any adverse conditions specific to the security, and delinquency status on contractual payments. At September 30, 2023, management concluded that in all instances, securities with fair values less than carrying value were due to market and other factors; thus, no credit loss provision was required.

In addition, management assesses held to maturity securities for credit losses on a quarterly basis. The assessment includes review of performance metrics, identification of delinquency and evaluation of market factors. Based on this analysis, management concludes the decline in fair value is due to changes in interest rates and other market factors. Accordingly, no credit loss provision was recorded in earnings for the three and nine months ended September 30, 2023.

(3 – continued)

At September 30, 2023, 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 10.1% 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, 2023, the corporate notes classified as held to maturity in a loss position had depreciated approximately 36.1% 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 credit loss is deemed to exist.

On January 1, 2023, the Company adopted ASU 2016-13, which replaced the legacy GAAP other-than-temporary impairment ("OTTI") model with a credit loss model. ASU 2016-13 requires an allowance on lifetime expected credit losses on held to maturity debt securities. As of January 1, 2023 and September 30, 2023, the Company estimated the expected credit losses to be immaterial based on the composition of the held to maturity securities portfolio.

While management does not anticipate any credit losses at September 30, 2023, additional deterioration in market and economic conditions may have an adverse impact on credit quality in the future.

During the three months ended September 30, 2023, the Company recognized gross gains of $1,000 and gross losses of $95,000 on sales of available for sale securities. During the nine months ended September 30, 2023 the Company recognized gross gains of $79,000 and gross losses of $187,000 on sales of available for sale securities and time deposits. There were no sales of available for sale securities or time deposits during the three and nine months ended September 30, 2022.

Certain debt securities available for sale were pledged to secure public fund deposits and advances through the Federal Reserve Bank's Bank Term Funding Program ("BTFP") at September 30, 2023 and December 31, 2022.

Equity Securities

In September 2018, the Company acquired 90,000 shares of common stock in another bank holding company, representing approximately 5% of the outstanding common stock of the entity, for a total investment of $1.9 million. During the three months ended September 30, 2023 and 2022, the Company recognized unrealized losses of $131,000 and $229,000, respectively, on this equity investment. During the nine months ended September 30, 2023 and 2022, the Company recognized unrealized losses of $86,000 and $265,000, respectively, on this equity investment. At September 30, 2023 and December 31, 2022, the equity investment had a fair value of $1.4 million and $1.5 million, respectively, and is included in other assets on the consolidated balance sheets.

(3 – continued)

In October 2021, the Company entered into an agreement to invest in a bank technology fund through a limited partnership. At September 30, 2023 and December 31, 2022, 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, 2023 and December 31, 2022 was $580,000 and $780,000, 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 and nine months ended September 30, 2023 or 2022.

In December 2015, the Company acquired Peoples Bancorp, Inc. of Bullitt County and its wholly-owned bank subsidiary, Peoples Bank of Bullitt County ("Peoples"), headquartered in Shepherdsville, Kentucky. Peoples owned Class B shares of VISA that were carried at an amortized costs basis of zero and were subsequently transferred to the Company. During the three and nine months ended September 30, 2023, the Company sold all the VISA Class B shares owned for a gross gain of $157,000. There were no such sales during the three and nine months ended September 30, 2022.

4. Loans and Allowance for Credit Losses

Additional information regarding the Company's loan and ACL on loan policies and loan portfolios follow:

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.

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.

(4 – continued)

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 ACL 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 collective (pooled) component of the ACL on loans as discussed below. Specific reserves are not considered charge-offs in management's analysis of the ACL on loans 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.

Refer to Note 2 *ACL – Loans* for additional information and accounting policies related to the ACL on loans.

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, past loan modifications, 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.

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 ACL 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, 2023 all of the Bank's loans evaluated on an individual basis were considered collateral dependent.

(4 – continued)

The Company held no foreclosed real estate at either September 30, 2023 or December 31, 2022. At September 30, 2023 and December 31, 2022, the amortized cost basis in loans secured by residential real estate properties for which formal foreclosure proceedings are in process was $276,000 and $104,000, respectively.

Loans at September 30, 2023 and December 31, 2022 consisted of the following:

(In thousands)	**September 30, 2023**	**December 31, 2022**
		(As reclassified)
1-4 Family Residential Mortgage	$ 132,662	$ 116,269
Home Equity and Second Mortgage	59,815	57,872
Multifamily Residential	40,168	38,973
1-4 Family Residential Construction	15,936	16,575
Other Construction, Development and Land	66,629	47,632
Commercial Real Estate	171,151	161,362
Commercial Business	65,905	68,066
Other Consumer	56,659	56,768
Principal loan balance	608,925	563,517
Deferred loan origination fees and costs, net	1,180	1,213
Allowance for credit losses	(7,786)	(6,772
Loans, net	$ 602,319	$ 557,958

(4 – continued)

The following table provides the components of the Company's amortized cost basis in loans at September 30, 2023:

	1-4 Family Residential Mortgage	Home Equity and Second Mortgage	Multifamily Residential	1-4 Family Residential Construction	Other Construction, Development and Land	Commercial Real Estate	Commercial Business	Other Consumer	Total
					(In thousands)				
Amortized Cost Basis in Loans:									
Principal loan balance	$ 132,662	$ 59,815	$ 40,168	$ 15,936	$ 66,629	$ 171,151	$ 65,905	$ 56,659	$608,92
Net deferred loan origination fees and costs	124	1,237	(16)	-	(40)	(114)	(11)	-	1,18
Amortized cost basis in loans	$ 132,786	$ 61,052	$ 40,152	$ 15,936	$ 66,589	$ 171,037	$ 65,894	$ 56,659	$610,10

(4 – continued)

An analysis of the changes in the ACL on loans for the three and nine months ended September 30, 2023 is as follows:

	1-4 Family Residential Mortgage	Home Equity and Second Mortgage	Multifamily Residential	1-4 Family Residential Construction	Other Construction, Development and Land	Commercial Real Estate	Commercial Business	Other Consumer	Total
					(In thousands)				
ACL on Loans:									
Changes in the ACL on Loans for the three months ended September 30, 2023									
Beginning balance	$ 1,469	$ 363	$ 614	$ 171	$ 460	$ 2,016	$ 1,564	$ 858	$7,515
Provision for credit losses	70	18	(112)	7	187	91	(219)	248	290
Charge-offs	-	(2)	-	-	-	-	-	(59)	(61)
Recoveries	6	2	-	-	-	-	-	34	42
Ending balance	$ 1,545	$ 381	$ 502	$ 178	$ 647	$ 2,107	$ 1,345	$ 1,081	$7,786
Changes in the ACL on Loans for the nine months ended September 30, 2023									
Beginning balance, prior to adoption of ASC 326	$ 1,036	$ 531	$ 346	$ 206	$ 587	$ 2,029	$ 1,156	$ 881	$6,772
Impact of adopting ASC 326	423	(26)	(3)	(9)	13	(130)	(142)	435	561
Provision for credit losses	96	(115)	159	(19)	47	208	511	(54)	833
Charge-offs	(31)	(11)	-	-	-	-	(188)	(341)	(571)
Recoveries	21	2	-	-	-	-	8	160	191
Ending balance	$ 1,545	$ 381	$ 502	$ 178	$ 647	$ 2,107	$ 1,345	$ 1,081	$7,786

Accrued interest on loans of $2.1 million at September 30, 2023, is included in accrued interest receivable on the consolidated balance sheets and is excluded from the estimate of credit losses.

(4 – continued)

Collateral dependent loans are loans for which the repayment is expected to be provided substantially through the operation or sale of the collateral and the borrower is experiencing financial difficulty. There have been no significant changes to the types of collateral securing the Company's collateral dependent loans. The following table presents the amortized cost basis of, and ACL allocation to, individually evaluated collateral-dependent loans by class of loans as of September 30, 2023:

	Real Estate	**Other**	**Total**	**ACL Allocation**
		(In thousands)		
1-4 Family Residential Mortgage	$ 1,705	$ -	$ 1,705	$ 1
Home Equity and Second Mortgage	587	-	587	
Multifamily Residential	-	-	-	
1-4 Family Residential Construction	-	-	-	
Other Construction, Development and Land	52	-	52	
Commercial Real Estate	1,068	-	1,068	
Commercial Business	-	153	153	
Other Consumer	-	-	-	
	$ 3,412	$ 153	$ 3,565	$ 1

(4 – continued)

Nonperforming loans consists of nonaccrual loans and loans past due and still accruing interest. The following table presents the amortized cost basis of loans on nonaccrual status and loans 90 days or more past due still accruing as of September 30, 2023:

	Nonaccrual Loans with No ACL	Nonaccrual Loans with An ACL	Total Nonaccrual	Loans 90+ Days Past Due Still Accruing	Total Nonperforming Loans
			(In thousands)		
1-4 Family Residential Mortgage	$ 1,088	$ 36	$ 1,124	$ -	$ 1,124
Home Equity and Second Mortgage	457	-	457	-	457
Multifamily Residential	-	-	-	-	-
1-4 Family Residential Construction	-	-	-	-	-
Other Construction, Development and Land	52	-	52	-	52
Commercial Real Estate	-	-	-	-	-
Commercial Business	-	-	-	-	-
Other Consumer	-	-	-	-	-
Total	$ 1,597	$ 36	$ 1,633	$ -	$ 1,633

No interest income was recognized on nonaccrual loans during the three and nine months ended September 30, 2023.

The following table presents the aging of the amortized cost basis in loans at September 30, 2023:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans
			(In thousands)			
1-4 Family Residential Mortgage	$ 1,466	$ 601	$ 510	$ 2,577	$ 130,209	$ 132,786
Home Equity and Second Mortgage	211	59	-	270	60,782	61,052
Multifamily Residential	-	-	-	-	40,152	40,152
1-4 Family Residential Construction	-	-	-	-	15,936	15,936
Other Construction, Development and Land	-	-	52	52	66,537	66,589
Commercial Real Estate	103	-	-	103	170,934	171,037
Commercial Business	-	-	-	-	65,894	65,894
Other Consumer	193	31	-	224	56,435	56,659
Total	$ 1,973	$ 691	$ 562	$ 3,226	$ 606,879	$ 610,105

(4 – continued)

Occasionally, the Company modifies loans to borrowers in financial distress. During the three and nine months ended September 30, 2023, no material loans to borrowers experiencing financial distress were modified. There were no loans to borrowers experiencing financial distress that were modified during the previous 12 months and which subsequently defaulted during the three and nine months ended September 30, 2023. There were no unfunded commitments associated with loans modified for borrowers experiencing financial distress as of September 30, 2023 and December 31, 2022.

There were no TDRs that were restructured during the three or nine months ended September 30, 2022. 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 or nine months ended September 30, 2022. There were no TDRs modified within the previous 12 months for which there was a subsequent payment default during the three or nine months ended September 30, 2022.

Credit Quality Indicators

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.

(4 – continued)

Based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Term Loans Amortized Cost Basis by Origination Year							
	2023	2022	2021	2020	2019	Prior	Revolving	Total
				(In thousands)				
1-4 Family Residential Mortgage								
Pass	$ 30,516	$ 32,048	$ 26,593	$ 7,275	$ 9,747	$ 24,902	$ -	$ 131,081
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	48	36	-	266	231	-	581
Doubtful	-	-	196	82	-	846	-	1,124
	$ 30,516	$ 32,096	$ 26,825	$ 7,357	$ 10,013	$ 25,979	$ -	$ 132,786
Current period gross write-offs	$ -	$ -	$ 2	$ -	$ -	$ 29	$ -	$ 31
Home Equity and Second Mortgage								
Pass	$ 4,046	$ 4,706	$ 549	$ 247	$ 189	$ 357	$ 50,372	$ 60,466
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	129	129
Doubtful	-	-	-	-	266	191	-	457
	$ 4,046	$ 4,706	$ 549	$ 247	$ 455	$ 548	$ 50,501	$ 61,052
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ 11	$ 11
Multifamily Residential								
Pass	$ 3,052	$ 10,567	$ 9,573	$ 8,007	$ 4,367	$ 4,586	$ -	$ 40,152
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
	$ 3,052	$ 10,567	$ 9,573	$ 8,007	$ 4,367	$ 4,586	$ -	$ 40,152
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

(4 – continued)

	Term Loans Amortized Cost Basis by Origination Year							
	2023	2022	2021	2020	2019	Prior	Revolving	Total
				(In thousands)				
1-4 Family Residential Construction								
Pass	$ 6,494	$ 6,777	$ 1,334	$ 1,073	$ -	$ 258	$ -	$ 15,936
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
	$ 6,494	$ 6,777	$ 1,334	$ 1,073	$ -	$ 258	$ -	$ 15,936
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other Construction, Development and Land								
Pass	$ 19,075	$ 32,255	$ 7,901	$ 2,718	$ 1,262	$ 3,277	$ -	$ 66,488
Special Mention	-	-	-	-	-	49	-	49
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	52	-	52
	$ 19,075	$ 32,255	$ 7,901	$ 2,718	$ 1,262	$ 3,378	$ -	$ 66,589
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial Real Estate								
Pass	$ 13,027	$ 40,958	$ 30,565	$ 21,288	$ 18,502	$ 41,503	$ 1,862	$ 167,705
Special Mention	829	-	-	399	422	64	549	2,263
Substandard	-	-	-	233	-	836	-	1,069
Doubtful	-	-	-	-	-	-	-	-
	$ 13,856	$ 40,958	$ 30,565	$ 21,920	$ 18,924	$ 42,403	$ 2,411	$ 171,037
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial Business								
Pass	$ 12,585	$ 15,709	$ 11,671	$ 5,979	$ 5,686	$ 3,803	$ 9,962	$ 65,395
Special Mention	-	28	18	51	163		87	347
Substandard	-	-	-	-	41	-	111	152
Doubtful	-	-	-	-	-	-	-	-
	$ 12,585	$ 15,737	$ 11,689	$ 6,030	$ 5,890	$ 3,803	$ 10,160	$ 65,894
Current period gross write-offs	$ -	$ 154	$ 2	$ 26	$ -	$ 6	$ -	$ 188

(4 – continued)

	Term Loans Amortized Cost Basis by Origination Year							
	2023	2022	2021	2020	2019	Prior	Revolving	Total
				(In thousands)				
Other Consumer								
Pass	$ 19,945	$ 15,764	$ 8,897	$ 3,125	$ 1,163	$ 5,623	$ 2,049	$ 56,566
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	93	93
Doubtful	-	-	-	-	-	-	-	-
	$ 19,945	$ 15,764	$ 8,897	$ 3,125	$ 1,163	$ 5,623	$ 2,142	$ 56,659
Current period gross write-offs	$ 11	$ 49	$ 96	$ 20	$ 24	$ 51	$ 90	$ 341
Total Loans								
Pass	$ 108,740	$ 158,784	$ 97,083	$ 49,712	$ 40,916	$ 84,309	$ 64,245	$ 603,789
Special Mention	829	28	18	450	585	113	636	2,659
Substandard	-	48	36	233	307	1,067	333	2,024
Doubtful	-	-	196	82	266	1,089	-	1,633
	$ 109,569	$ 158,860	$ 97,333	$ 50,477	$ 42,074	$ 86,578	$ 65,214	$ 610,105
Current period gross write-offs	$ 11	$ 203	$ 100	$ 46	$ 24	$ 86	$ 101	$ 571

(4 – continued)

Allowance for Loan Losses

Prior to the adoption of ASC 326 on January 1, 2023, the Company calculated the allowance for loan losses using the incurred loss methodology. The following tables are disclosures related to the allowance for loan losses in prior periods.

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
				(In thousands)				
Recorded Investment in Loans:								
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	$ 154,219	$ 22,489	$ 32,253	$ 161,503	$ 54,877	$ 60,060	$ 64,295	$ 549,696
Recorded Investment in Loans as Evaluated for Impairment:								
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	$ 154,219	$ 22,489	$ 32,253	$ 161,503	$ 54,877	$ 60,060	$ 64,295	$ 549,696

(4 – continued)

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

	Residential Real Estate	Land	Construction	Commercial Real Estate	Commercial Business	Home Equity and Second Mortgage	Other Consumer	Total
				(In thousands)				
Recorded Investment in Loans:								
Principal loan balance	$ 155,334	$ 21,860	$ 42,271	$ 161,425	$ 60,817	$ 57,781	$ 64,029	$ 563,517
Accrued interest receivable	493	123	105	343	170	348	236	1,818
Net deferred loan origination fees and costs	111	14	(12)	(93)	(11)	1,204	-	1,213
Recorded investment in loans	$ 155,938	$ 21,997	$ 42,364	$ 161,675	$ 60,976	$ 59,333	$ 64,265	$ 566,548
Recorded Investment in Loans as Evaluated for Impairment:								
Individually evaluated for impairment	$ 854	$ 51	$ -	$ 463	$ 195	$ 372	$ -	$ 1,935
Collectively evaluated for impairment	154,798	21,946	42,364	161,212	60,781	58,961	64,265	564,327
Acquired with deteriorated credit quality	286	-	-	-	-	-	-	286
Ending balance	$ 155,938	$ 21,997	$ 42,364	$ 161,675	$ 60,976	$ 59,333	$ 64,265	$ 566,548

(4 – 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
				(In thousands)				
Ending allowance balance attributable to loans:								
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	-	-	-	-	-	-	-	-
Ending balance	$ 1,352	$ 273	$ 430	$ 2,070	$ 886	$ 536	$ 1,019	$ 6,566

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

	Residential Real Estate	Land	Construction	Commercial Real Estate	Commercial Business	Home Equity and Second Mortgage	Other Consumer	Total
				(In thousands)				
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 155	$ -	$ -	$ 155
Collectively evaluated for impairment	1,383	265	526	2,031	891	530	991	6,617
Acquired with deteriorated credit quality	-	-	-	-	-	-	-	-
Ending balance	$ 1,383	$ 265	$ 526	$ 2,031	$ 1,046	$ 530	$ 991	$ 6,772

(4 – 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
				(In thousands)				
Allowance for loan losses:								
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	$ 1,352	$ 273	$ 430	$ 2,070	$ 886	$ 536	$ 1,019	$ 6,566
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	$ 1,352	$ 273	$ 430	$ 2,070	$ 886	$ 536	$ 1,019	$ 6,566

At September 30, 2022 and December 31, 2022, 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 the changes and trends in the following: Peer Data, Underwriting Standards, Economic Conditions, Past Due Loans, Collateral and Other Internal and External Factors.

(4 – continued)

The following table summarizes the Company's impaired loans as of September 30, 2022 and for the three 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 and nine month periods ended September, 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
				(In thousands)			
Loans with no related allowance recorded:							
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	-	-	-	-	-	-	-
	1,973	2,167	-	1,861	10	1,853	36
Loans with an allowance recorded:							
Residential	-	-	-	15	-	14	-
Land	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-
Commercial real estate	-	-	-	-	-	-	-
Commercial business	-	-	-	-	-	-	-
Home equity and second mortgage	-	-	-	142	-	215	-
Other consumer	-	-	-	-	-	-	-
	-	-	-	157	-	229	-
Total:							
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	-	-	-	-	-	-	-
	$ 1,973	$ 2,167	$ -	$ 2,018	$ 10	$ 2,082	$ 36

(4 – continued)

The following table summarizes the Company's impaired loans as of December 31, 2022:

	Recorded Investment	Unpaid Principal Balance	Related Allowance
		(In thousands)	
Loans with no related allowance recorded:			
Residential	$ 854	$ 996	$ -
Land	51	51	-
Construction	-	-	-
Commercial real estate	463	484	-
Commercial business	40	40	-
Home equity and second mortgage	372	389	-
Other consumer	-	-	-
	$ 1,780	$ 1,960	$ -
Loans with an allowance recorded:			
Residential	$ -	$ -	$ -
Land	-	-	-
Construction	-	-	-
Commercial real estate	-	-	-
Commercial business	155	155	155
Home equity and second mortgage	-	-	-
Other consumer	-	-	-
	$ 155	$ 155	$ 155
Total:			
Residential	$ 854	$ 996	$ -
Land	51	51	-
Construction	-	-	-
Commercial real estate	463	484	-
Commercial business	195	195	155
Home equity and second mortgage	372	389	-
Other consumer	-	-	-
	$ 1,935	$ 2,115	$ 155

(4 – continued)

The following table presents the recorded investment in nonperforming loans at December 31, 2022:

	December 31, 2022		
	Nonaccrual Loans	Loans 90+ Days Past Due Still Accruing *(In thousands)*	Total Nonperforming Loans
Residential	$ 744	$ 83	$ 827
Land	51	-	51
Construction	-	-	-
Commercial real estate	81	-	81
Commercial business	155	-	155
Home equity and second mortgage	372	-	372
Other consumer	-	4	4
Total	$ 1,403	$ 87	$ 1,490

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

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due *(In thousands)*	Current	Purchased Credit Impaired Loans	Total Loans
Residential	$ 2,229	$ 226	$ 543	$ 2,998	$ 152,654	$ 286	$ 155,938
Land	119	-	51	170	21,827	-	21,997
Construction	-	-	-	-	42,364	-	42,364
Commercial real estate	-	-	-	-	161,675	-	161,675
Commercial business	-	-	155	155	60,821	-	60,976
Home equity and second mortgage	206	278	93	577	58,756	-	59,333
Other consumer	211	72	4	287	63,978	-	64,265
Total	$ 2,765	$ 576	$ 846	$ 4,187	$ 562,075	$ 286	$ 566,548

(4 – continued)

The following table presents the recorded investment in loans by risk category as of December 31, 2022:

	Residential Real Estate	Land	Construction	Commercial Real Estate	Commercial Business	Home Equity and Second Mortgage	Other Consumer	Total
				(In thousands)				
Pass	$ 154,429	$ 21,827	$ 42,364	$ 159,842	$ 60,261	$ 58,937	$ 64,149	$ 561,809
Special Mention	-	60	-	679	388	-	116	1,243
Substandard	765	59	-	1,073	172	24	-	2,093
Doubtful	744	51	-	81	155	372	-	1,403
Loss	-	-	-	-	-	-	-	-
Total	$ 155,938	$ 21,997	$ 42,364	$ 161,675	$ 60,976	$ 59,333	$ 64,265	$ 566,548

(4 – continued)

Purchased Credit Deteriorated ("PCD") Loans

The Company has purchased groups of loans, some of which have experienced more than insignificant credit deterioration since origination. An ACL for PCD loans is determined using the same methodology as other loans held for investment. Upon adoption of ASC 326, the Company elected to maintain pools of loans that were previously accounted for as purchased credit impairment ("PCI") loans under ASC 310-30 and will continue to account for these pools as a unit of account. Loans are only removed from the existing pools if they are written off, paid off or sold. Upon adoption of ASC 326, the ACL was determined for each pool and added to the pool's carrying amount to establish a new amortized cost basis. The difference between the unpaid principal balance of the pool and the new amortized cost basis will be amortized into interest income over the remaining life of the pool. Changes to the ACL after adoption are recorded through the provision for credit losses. The carrying amount of PCD loans at September 30, 2023 and December 31, 2022 was $236,000 and $244,000, respectively. There was no ACL related to PCD loans at September 30, 2023 and December 31, 2022.

ACL on Off-Balance-Sheet Credit Exposures

The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The Company recorded an ACL for unfunded commitments of $131,000 in conjunction with the Company's adoption of ASU 2016-13 on January 1, 2023. The ACL for off-balance-sheet credit exposures is presented in accrued expenses and other liabilities on the consolidated balance sheets. Changes in the ACL for off-balance-sheet credit exposures are reflected in the provision for credit losses on the consolidated statements of income. There were no changes to the ACL for off-balance-sheet credit exposures during the three and nine months ended September 30, 2023.

5. 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, 2023 and December 31, 2022, the balance of the Bank's investment was $1.9 million and $2.2 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 $168,000 and $216,000 at September 30, 2023 and December 31, 2022, respectively, 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, 2023 and 2022, the Bank recognized amortization expense of $82,000 and $89,000, respectively, as a component of income tax expense on the consolidated statements of income. Additionally, during the three month periods ended September 30, 2023 and 2022, the Bank recognized income tax credits and other income tax benefits from its qualified affordable housing project investment of $100,000 and $105,000, respectively, which was included in income tax expense on the consolidated statements of income. During the nine month periods ended September 30, 2023 and 2022, the Bank recognized amortization expense of $252,000 and

(5 – continued)

$266,000, respectively, which was included as a component of income tax expense on the consolidated statements of income. Additionally, during the nine month periods ended September 30, 2023 and 2022, the Bank recognized income tax credits and other income tax benefits from its qualified affordable housing project investment of $308,000 and $314,000, respectively, which was included in income tax expense on the consolidated statements of income.

6. Renewable Energy Tax Credit Investment

On April 21, 2023, the Bank entered into an agreement to invest in investment tax credits generated by a solar energy producing facility through a limited liability company. At September 30, 2023, the balance of the Bank's investment was $1.0 million, and is reflected in other assets on the consolidated balance sheets. The unfunded commitment related to the solar energy tax credit investment was $1.9 million at September 30, 2023 and is reflected in other liabilities on the consolidated balance sheets. The Bank expects to fulfill the commitment as capital calls are made by December 31, 2023. In addition, in order to facilitate the loan to be obtained by the entity constructing the qualified solar energy producing facility, the Bank has obtained a $2.0 million standby letter of credit through the FHLB for the Bank's total committed investment. The letter of credit was issued June 2, 2023 and expires April 30, 2024.

The investment is accounted for using the proportional amortization method. During the three and nine month periods ended September 30, 2023, the Bank recognized amortization expense of $997,000 as a component of income tax expense on the consolidated statements of income. Additionally, during the three and nine month periods ended September 30, 2023, the Bank recognized income tax credits and other income tax benefits from its solar energy tax credit investment of $1.1 million, which was included in income tax expense on the consolidated statements of income.

7. Borrowed Funds

At September 30, 2023, the Company had $13.0 million in borrowings outstanding from the Federal Reserve and $15.0 million in short-term advances outstanding from the FHLB. The Company had no outstanding borrowings at December 31, 2022. The Company had no borrowings during the three and nine month periods ended September 30, 2022.

During the three and nine month periods ended September 30, 2023, the Company utilized a series of short-term fixed-rate bullet and variable rate advances from the FHLB in order to meet daily liquidity requirements and to fund growth in earning assets. The fixed-rate bullet advances had an average term of seven days.

(7 – continued)

The following table sets forth information on the short-term FHLB advances during the periods presented:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(Dollars in thousands)			
Variable-rate advances				
Maximum balance at any month end	$ 5,000	$ -	$ 5,000	$ -
Average balance	1,359	-	572	-
Period end balance	5,000	-	5,000	-
Weighted average interest rate (annualized):				
At end of period	5.73%	-	5.73%	-
During the period	6.09%	-	5.94%	-
Fixed-rate bullet advances				
Maximum balance at any month end	$ 10,000	$ -	$ 15,000	$ -
Average balance	1,956	-	2,050	-
Period end balance	10,000	-	10,000	-
Weighted average interest rate (annualized):				
At end of period	5.59%	-	5.59%	-
During the period	6.02%	-	5.40%	-

FHLB advances are secured under a blanket collateral agreement. At September 30, 2023, the carrying value of U.S. Treasury notes and mortgage loans pledged as security for FHLB advances was $42.4 million and $36.1 million, respectively.

On March 12, 2023, the Federal Reserve created the BTFP to make additional funding available to eligible depository institutions. The BTFP offers loans of up to one year in length to banks, savings associations, credit unions and other depository institutions which pledge collateral, such as U.S. Treasuries, U.S. agency notes and bonds and U.S. agency mortgage-backed securities. The collateral is valued at par, and advances under this program do not include any fees or prepayment penalties. With the introduction of the BTFP, the Company pledged as collateral U.S. agency notes and bonds and borrowed $13.0 million from the BTFP at a fixed rate of 4.99% for a one-year period on May 19, 2023. At September 30, 2023, the pledged securities had a par value of $48.9 million and a carrying value of $44.7 million.

8. Supplemental Disclosure for Earnings Per Share

(Dollars in thousands, except per share data)	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Basic				
Earnings:				
Net income attributable to First Capital, Inc.	$ 3,138	$ 3,125	$ 9,680	$ 8,362
Shares:				
Weighted average common shares outstanding	3,345,869	3,358,800	3,347,823	3,353,459
Net income attributable to First Capital, Inc. per common share, basic	$ 0.94	$ 0.93	$ 2.89	$ 2.49
Diluted				
Earnings:				
Net income attributable to First Capital, Inc.	$ 3,138	$ 3,125	$ 9,680	$ 8,362
Shares:				
Weighted average common shares outstanding	3,345,869	3,358,800	3,347,823	3,353,459
Add: Dilutive effect of restricted stock	-	-	-	-
Weighted average common shares outstanding, as adjusted	3,345,869	3,358,800	3,347,823	3,353,459
Net income attributable to First Capital, Inc. per common share, diluted	$ 0.94	$ 0.93	$ 2.89	$ 2.49

Nonvested restricted stock shares are not considered as outstanding for purposes of computing weighted average common shares outstanding. Restricted shares totaling 5,600 were excluded from the calculation of diluted net income per share because their effect would be anti-dilutive for the three month and nine month periods ended September 30, 2023. Restricted shares totaling 12,550 were excluded from the calculation of diluted net income per share because their effect would be anti-dilutive for the three month and nine month periods ended September 30, 2022.

9. 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.

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, 2023, 162,800 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, 2023, 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, 2023 amounted to $53,000 and $198,000, respectively. 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. The total income tax expense related to stock-based compensation was $17,000 and $3,000 for the three month periods ended September 30, 2023 and 2022, respectively. The total income tax benefit related to stock-based compensation was $17,000 and $44,000, respectively, for the nine month periods ended September 30, 2023 and 2022, respectively.

(9 – continued)

A summary of the Company's nonvested restricted shares under the Plan as of September 30, 2023 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, 2023	12,550	$ 57.07
Granted	-	-
Vested	6,100	51.12
Forfeited	850	56.76
Nonvested at September 30, 2023	5,600	$ 63.60

There were 6,100 shares that vested during the nine month period ended September 30, 2023 due to normal vesting, and 8,950 restricted shares vested during the nine month period ended September 30, 2022 due to the retirement of an employee and normal vesting. The fair value of restricted shares that vested during the nine month periods ended September 30, 2023 and 2022 was $188,000 and $260,000, respectively. At September 30, 2023, there was $303,000 of unrecognized compensation expense related to nonvested restricted shares. The compensation expense is expected to be recognized over a weighted average period of 1.6 years.

10. Supplemental Disclosures of Cash Flow Information

	Nine Months Ended September 30, 2023	2022
	(In thousands)	
Cash payments for:		
Interest	$ 4,543	$ 933
Taxes (net of refunds received)	1,806	1,881
Noncash investing activities:		
Transfers from loans to real estate acquired through foreclosure	$ 72	$ -

11. 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.

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.

(11 – continued)

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 below. The table below presents the balances of assets measured at fair value on a recurring and nonrecurring basis as of September 30, 2023 and December 31, 2022. The Company had no liabilities measured at fair value as of September 30, 2023 or December 31, 2022.

	Carrying Value			
(In thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
September 30, 2023				
Assets Measured on a Recurring Basis				
Securities available for sale:				
Agency mortgage-backed securities	$ -	$ 72,073	$ -	$ 72,073
Agency CMO	-	22,815	-	22,815
Agency notes and bonds	-	134,992	-	134,992
Treasury notes and bonds	-	73,714	-	73,714
Municipal obligations	-	136,486	-	136,486
Total securities available for sale	$ -	$ 440,080	$ -	$ 440,080
Equity securities	$ 1,381	$ -	$ -	1,381
Assets Measured on a Nonrecurring Basis				
Collateral dependent loans:				
1-4 Family Residential Mortgage	$ -	$ -	$ 27	$ 27
Total collateral dependent loans	$ -	$ -	$ 27	$ 27
December 31, 2022				
Assets Measured on a Recurring Basis				
Securities available for sale:				
Agency mortgage-backed securities	$ -	$ 83,863	$ -	$ 83,863
Agency CMO	-	9,353	-	9,353
Agency notes and bonds	-	137,981	-	137,981
Treasury notes and bonds	-	78,732	-	78,732
Municipal obligations	-	150,890	-	150,890
Total securities available for sale	$ -	$ 460,819	$ -	$ 460,819
Equity securities	$ 1,467	$ -	$ -	1,467

(11 – 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.

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 estimated based on specific prices of underlying contracts for sales to investors. These measurements are carried at Level 2 in the fair value hierarchy. At September 30, 2023 and December 31, 2022 , the Company did not have any loans held for sale measured at fair value on a nonrecurring basis.

Collateral Dependent Impaired Loans. Collateral dependent impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly. In accordance with accounting standards, only collateral dependent impaired loans for which a specific ACL has been established require classification in the fair value hierarchy. The fair value of collateral dependent impaired loans is classified as Level 3 in the fair value hierarchy.

Collateral dependent impaired loans with specific allocations of ACL are measured at the fair value of the 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, which are then discounted to reflect management's estimate of the fair value of the collateral given the current market conditions and the condition of the collateral.

(11 – continued)

At September 30, 2023, the significant unobservable inputs used in the fair value measurement of collateral dependent 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 30%. The Company recognized a $2,000 reduction in provisions for credit losses on collateral dependent impaired loans for the three months ended September 30, 2023. The Company recognized provisions for credit losses on collateral dependent impaired loans of $38,000 for the nine months ended September 30, 2023. The Company recognized a reduction in provisions for credit losses of $3,000 and $7,000 for collateral dependent impaired loans for the three and nine months ended September 30, 2022, respectively.

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, 2023 and 2022. There were no transfers into or out of the Company's Level 3 financial assets for the three month periods ended September 30, 2023 and 2022.

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:

(11 – continued)

(In thousands)	Carrying Value	Fair Value	Fair Value Measurements Using Level 1	Level 2	Level 3
September 30, 2023:					
Financial assets:					
Cash and cash equivalents	$ 31,430	$ 31,430	$ 31,430	$ -	$ -
Interest-bearing time deposits	4,165	4,119	-	4,119	-
Securities available for sale	440,080	440,080	-	440,080	-
Securities held to maturity	7,000	4,472	-	4,472	-
Loans held for sale	1,360	1,379	-	1,379	-
Loans, net	602,319	598,364	-	-	598,364
FHLB and other restricted stock	1,836	N/A	N/A	N/A	N/A
Accrued interest receivable	4,317	4,317	-	4,317	-
Equity securities (included in other assets)	1,381	1,381	1,381	-	-
Financial liabilities:					
Deposits	1,017,491	1,015,375	-	-	1,015,375
Borrowed funds	28,000	27,946		27,946	
Accrued interest payable	1,506	1,506	-	1,506	-
December 31, 2022:					
Financial assets:					
Cash and cash equivalents	$ 66,298	$ 66,298	$ 66,298	$ -	$ -
Interest-bearing time deposits	3,677	3,638	-	3,638	-
Securities available for sale	460,819	460,819	-	460,819	-
Securities held to maturity	7,000	5,311	-	5,311	-
Loans held for sale	793	803	-	803	-
Loans, net	557,958	554,634	-	-	554,634
FHLB and other restricted stock	1,836	N/A	N/A	N/A	N/A
Accrued interest receivable	4,285	4,285	-	4,285	-
Equity securities (included in other assets)	1,467	1,467	1,467	-	-
Financial liabilities:					
Deposits	1,060,396	1,058,122	-	-	1,058,122
Accrued interest payable	123	123	-	123	-

(11 – 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 securities and interest-bearing time deposits in other financial institutions 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, fixed-maturity certificates of deposit and borrowed funds 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, 2023 and December 31, 2022 represent an approximation of exit price, but an actual exit price may differ.

12. 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, 2023 and 2022:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(In thousands)			
Service charges on deposit accounts	$ 597	$ 618	$ 1,737	$ 1,670
ATM and debit card fees	1,127	1,059	3,355	3,132
Investment advisory income	15	160	46	400
Other	27	19	91	81
Revenue from contracts with customers	1,766	1,856	5,229	5,283
Net gain (loss) on loans and investments	59	(59)	280	455
Increase in cash value of life insurance	47	44	158	157
Other	75	32	134	90
Other noninterest income	181	17	572	702
Total noninterest income	$ 1,947	$ 1,873	$ 5,801	$ 5,985

(12 – 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.

13. Captive Subsidiary

As described in Note 1, the Company has a wholly-owned insurance subsidiary that previously provided 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 have been available or economically feasible in the insurance marketplace. On April 10, 2023, the IRS issued IR-2023-74 and proposed regulations that may result in the Captive being considered a listed transaction. As a result of the proposed regulations, management decided not to renew any of the outstanding insurance policies at the Captive when they matured in August 2023. The proposed regulations include the possibility of material tax expense to the consolidated group if finalized in their current form. However, the final regulations have not been published and as such management cannot reasonably estimate or determine the potential tax liability as of September 30, 2023. Management continues to evaluate the proposed regulations but believes that upon issuance of the final regulations, the ultimate outcome will be the winding down and final closure of the Captive in December 2023.

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, 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, 2022 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

The discussion and analysis of the Company's financial condition and results of operations are based upon the Company's consolidated financial statements that have been prepared in accordance with GAAP. The preparation of the Company's financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, income and expenses. These estimates are based upon historical experience and on various other assumptions that management believes are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The estimates and judgments that management believes involve the most complex and subjective estimates and judgments and have the most effect on the Company's reported financial position and results of operations are described as critical accounting policies in the Company's Annual Report on Form 10-K for the year ended December 31, 2022. The Company adopted ASU 2016-13 on January 1, 2023 and replaced the allowance for loan losses incurred loss model discussed in the Form 10-K for the year ended December 31, 2022 with the ACL CECL model. The adoption of ASU 2016-13 also impacted the Company’s accounting policies for available for sale and held to maturity debt securities. Refer to Notes 2, 3, and 4 for additional information and accounting policies related to the adoption of ASU 2016-13.

Comparison of Financial Condition at September 30, 2023 and December 31, 2022

Total assets decreased $8.7 million from $1.15 billion at December 31, 2022 to $1.14 billion at September 30, 2023, a decrease of 0.8%.

Net loans receivable (excluding loans held for sale) increased $44.3 million from $558.0 million at December 31, 2022 to $602.3 million at September 30, 2023. 1-4 family residential mortgage, other construction, development and land and commercial real estate loan increases of $16.4 million, $19.0 million and $9.8 million, respectively, were partially offset by decreases of $2.2 million in commercial business loans during the nine months ended September 30, 2023.

Cash and cash equivalents decreased from $66.3 million at December 31, 2022 to $31.4 million at September 30, 2023 as management utilized liquidity to fund loan growth and the Bank experienced net deposit outflows.

Securities available for sale decreased $20.7 million from $460.8 million at December 31, 2022 to $440.1 million at September 30, 2023. Purchases of $32.8 million of securities classified as available for sale were made during the nine months ended September 30, 2023 and consisted primarily of U.S. government agency CMOs, municipal bonds, and U.S. government agency notes and bonds. Principal payments and maturities of available for sale securities totaled $12.0 million and $17.6 million, respectively, during the nine months ended September 30, 2023. Securities classified as available for sale totaling $20.2 million were sold during the nine months ended September 30, 2023 and consisted primarily of municipal bonds and to a lesser degree U.S. government agency notes and bonds. There was also an unrealized loss of $2.6 million on the securities available for sale portfolio during the nine month period ended September 30, 2023 due primarily to increasing market interest rates during the period.

Total deposits decreased from $1.06 billion at December 31, 2022 to $1.02 billion at September 30, 2023. Noninterest-bearing checking accounts, interest-bearing checking accounts, and savings accounts decreased $20.5 million, $55.2 million and $36.3 million, respectively, during the nine months ended September 30, 2023, while time deposits increased $69.0 million during the period, including the issuance of $7.8 million in brokered deposits during the period. Deposit inflows and outflows are influenced by prevailing market interest rates, competition, local and national economic conditions, and fluctuations in our customers' own liquidity needs and may also be influenced by recent developments in the financial services industry. Significant competition for deposits driven by high interest rate alternatives for depositors is currently impacting deposit fluctuations and increasing our cost of deposits.

At September 30, 2023, the Company had $13.0 million in borrowings outstanding from the Federal Reserve Bank under the BTFP and $15.0 million in short-term advances outstanding from the FHLB. There were no borrowed funds outstanding at December 31, 2022. During the nine month period ended September 30, 2023, the Company utilized a series of short-term fixed-rate bullet and variable rate advances from the FHLB and the BTFP in order to meet daily liquidity requirements and to fund growth in earning assets.

Total stockholders' equity attributable to the Company increased from $85.2 million at December 31, 2022 to $89.2 million at September 30, 2023, due to a $6.4 million increase in retained net income partially offset by a $2.1 million net unrealized loss on available for sale securities. The net unrealized loss on available for sale securities during the period is primarily due to increases in market interest rates.

Results of Operations for the Three Month Periods Ended September 30, 2023 and 2022

Net income. Net income attributable to the Company was $3.1 million ($0.94 per diluted share) for the three months ended September 30, 2023 compared to $3.1 million ($0.93 per diluted share) for the three months ended September 30, 2022.

Net interest income. Net interest income after provision for credit losses decreased $236,000 for the three months ended September 30, 2023 as compared to the same period in 2022.

Total interest income increased $2.1 million when comparing the periods due to an increase in the average tax-equivalent yield on interest-earning assets from 3.27% for the third quarter of 2022 to 4.04% for the third quarter of 2023. The average balance of interest-earning assets was $1.13 billion for the third quarters of 2022 and 2023. The increase in the tax-equivalent yield was primarily due to an increase in the tax equivalent yield on loans to 5.75% for the third quarter of 2023 compared to 4.81% for the same period in 2022.

Total interest expense increased $2.3 million when comparing the periods due to an increase in the average cost of interest-bearing liabilities from 0.20% for the third quarter of 2022 to 1.30% for the third quarter of 2023, in addition to an increase in the average balance of interest-bearing liabilities from $797.2 million for the third quarter of 2022 to $813.2 million for the third quarter of 2023. The Company had average outstanding advances from the FHLB of $3.3 million with an average rate of 6.03% and average outstanding borrowings under the Federal Reserve Bank's BTFP of $13.0 million with an average rate of 5.02% during the quarter ended September 30, 2023. The Company's total average outstanding balance of borrowings during the quarter ended September 30, 2023 was $16.3 million with an average rate of 5.22%. There were no outstanding borrowed funds during 2022. As a result of the changes in interest-earning assets and interest-bearing liabilities, the tax-equivalent interest rate spread decreased from 3.07% for the quarter ended September 30, 2022 to 2.74% for the same period in 2023.

Provision for credit losses. Based on management's analysis of the ACL on loans and unfunded commitments, the provision for credit losses was $290,000 for the three month period ended September 30, 2023 compared to a $175,000 provision for loan losses for the same period in 2022 under the incurred loss model. The provision for credit losses was higher in 2023 compared to 2022 due to growth in the loan portfolio and an increase in net charge-offs. The Bank recognized net charge-offs of $19,000 and $3,000 for the quarters ended September 30, 2023 and 2022, respectively.

Noninterest income. Noninterest income increased $74,000 for the quarter ended September 30, 2023 as compared to the same period in 2022. The Company recognized a $98,000 decrease in unrealized losses on equity securities and increases of $68,000 and $51,000 in ATM and debit card fees and other income, respectively. In addition, the Company recognized a net $63,000 gain on sale of securities during the quarter ended September 30, 2023 compared to no such gain during the same period in 2022. These were partially offset by decreases in commission and fee income and gains on the sale of loans of $145,000 and $43,000, respectively, when comparing the two periods.

The $63,000 net gain on sale of securities was a result of the Company's regular evaluation of its entire securities portfolio. During the quarter ended September 30, 2023, the Company sold securities available for sale with a market value of $9.4 million and an amortized cost basis of $9.5 million resulting in a net loss of $94,000. The net loss was more than offset by the $157,000 gain on sale of the Company's VISA Class B stock in September 2023. The strategy for both sales was the enhancement of long-term earnings.

Noninterest expense. Noninterest expense decreased $78,000 for the quarter ended September 30, 2023 as compared to the same period in 2022, due primarily to decreases in compensation and benefits, occupancy and equipment expenses and professional fees of $101,000, $27,000 and $31,000, respectively. These were partially offset by a $66,000 increase in data processing expenses.

Income tax expense. Income tax expense decreased $97,000 for the third quarter of 2023 as compared to the third quarter of 2022 primarily due to increased benefits from tax credit entity investments during 2023. As a result, the effective tax rate for the quarter ended September 30, 2023 was 15.4% compared to 17.6% for the same period in 2022.

Results of Operations for the Nine Month Periods Ended September 30, 2023 and 2022

Net income. Net income attributable to the Company was $9.7 million ($2.89 per diluted share) for the nine months ended September 30, 2023 compared to $8.4 million ($2.49 per diluted share) for the nine months ended September 30, 2022.

Net interest income. Net interest income after provision for credit losses increased $2.5 million for the nine months ended September 30, 2023 compared to the same period in 2022.

Total interest income increased $7.8 million for the nine months ended September 30, 2023 compared to the same period in 2022 due to increases in the average tax-equivalent yield on interest-earning assets from 2.94% for the nine months ended September 30, 2022 to 3.89% for the nine months ended September 30, 2023. The increase in the tax-equivalent yield was primarily due to an increase in the tax equivalent yield on loans to 5.57% for the nine months ended September 30, 2023 compared to 4.58% for the same period in 2022.

Total interest expense increased $5.0 million for the nine months ended September 30, 2023 compared to the same period in 2022 as the average cost of interest-bearing liabilities increased from 0.15% for the nine months ended September 30, 2022 to 0.98% for the same period in 2023. The Company had average outstanding advances from the FHLB of $2.6 million with an average rate of 5.49% and average outstanding borrowings under the Federal Reserve Bank's BTFP of $6.4 million with an average rate of 5.03% during the nine months ended September 30, 2023. The Company's total average outstanding balance of borrowings during the nine months ended September 30, 2023 was $9.0 million with an average rate of 5.17%. There were no outstanding borrowed funds during 2022. As a result of the changes in interest-earning assets and interest-bearing liabilities, the tax-equivalent interest rate spread increased from 2.79% for the nine months ended September 30, 2022 to 2.91% for the nine months ended September 30, 2023.

Provision for credit losses. Based on management's analysis of the ACL on loans and unfunded commitments, the provision for credit losses was $833,000 for the nine month period ended September 30, 2023 compared to a $550,000 provision for loan losses for the same period in 2022 under the incurred loss model. The provision for credit losses was higher in 2023 compared to 2022 due to growth in the loan portfolio and an increase in net charge-offs. The Bank recognized net charge-offs of $380,000 for the nine months ended September 30, 2023 compared to $67,000 for the same period in 2022.

Upon adoption of ASU 2016-13 on January 1, 2023, the Bank recorded an increase in the beginning ACL on loans of $561,000, increasing the ACL on loans as a percentage of loans receivable to 1.29% as compared to 1.20% at December 31, 2022 prior to adoption.

Provisions for credit losses are charges to earnings to maintain the total ACL at a level considered adequate based on management's estimate of future credit losses. Although management uses the best information available, future adjustments to the ACL 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 ACL 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 ACL and that actual losses will not exceed the estimated amounts.

The methodology used in determining the ACL for loans 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 ACL on loans was $7.8 million at September 30, 2023 and the allowance for loan losses was $6.8 million at December 31, 2022. At September 30, 2023 and December 31, 2022, nonperforming loans amounted to $1.6 million and $1.5 million, respectively.

Noninterest income. Noninterest income decreased $184,000 for the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022 primarily due to decreases in gains on the sale of loans and commission and fee income of $403,000 and $354,000, respectively. These were partially offset by increases in ATM and debit card fees and service charges on deposit accounts of $223,000 and $67,000, respectively, in addition to a decrease of $179,000 in the unrealized loss on equity securities. In addition, the Company recognized a $49,000 gain on sale of securities during the nine months ended September 30, 2023 compared to no such gain during the same period in 2022.

The $49,000 net gain on sale of securities was a result of the Company's regular evaluation of its entire securities portfolio. During the nine months ended September 30, 2023, the Company selected and sold securities available for sale with a market value of $20.2 million and an amortized cost basis of $20.3 million resulting in a net loss of $108,000. The net loss was more than offset by the $157,000 gain on sale of the Company's VISA Class B stock in September 2023. The strategy for both sales was the enhancement of long-term earnings.

Noninterest expense. Noninterest expense increased $760,000 for the nine months ended September 30, 2023 as compared to the same period in 2022. This was primarily due to increases in compensation and benefits, data processing expenses, and other expenses of $345,000, $316,000 and $268,000, respectively, when comparing the two periods. The increase in other expenses was due primarily to an increase in FDIC insurance premiums of $129,000 and general inflationary costs across multiple expenses. The increases were partially offset by decreases of $148,000 and $57,000 in professional fees and occupancy and equipment expenses, respectively.

Income tax expense. Income tax expense increased $254,000 for the nine months ended September 30, 2023 as compared to the same period in 2022 resulting in an effective tax rate of 15.4% for the nine months ended September 30, 2023, compared to 15.3% for the same period in 2022.

Liquidity and Capital Resources

The Bank's primary sources of funds are customer deposits, proceeds from loan repayments, maturing securities and borrowings from the FHLB or Federal Reserve Bank. 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, 2023, the Bank had cash and cash equivalents of $31.4 million and securities available-for-sale with a fair value of $440.1 million. If the Bank requires funds beyond its ability to generate them internally, it has additional borrowing capacity with the FHLB, the Federal Reserve Bank's BTFP through the pledging of additional eligible collateral securities, collateral eligible for repurchase agreements and unsecured federal funds purchased lines of credit with other financial institutions.

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 $2.8 million at September 30, 2023.

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 September 30, 2023 and December 31, 2022 and its CBLR was 9.68% and 9.18% as of those dates, respectively. Management believes that the Bank met all capital adequacy requirements to which it was subject as of September 30, 2023. At both September 30, 2023 and December 31, 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, 2022. The Company adopted ASU 2016-13 effective January 1, 2023 which requires an ACL on off-balance sheet credit exposures. See Note 4 for additional information.

For the three months ended September 30, 2023, 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, 2023 and December 31, 2022 financial information:

Immediate Change in the Level of Interest Rates	At September 30, 2023 One Year Horizon Dollar Change	At September 30, 2023 One Year Horizon Percent Change	At December 31, 2022 One Year Horizon Dollar Change	At December 31, 2022 One Year Horizon Percent Change
	(Dollars in thousands)			
300bp	$ 173	0.51%	$ 4,012	11.28%
200bp	126	0.37	2,683	7.54
100bp	72	0.21	1,345	3.78
Static	-	-	-	-
(100)bp	207	0.61	2,945	8.28
(200)bp	380	1.12	1,117	3.14
(300)bp	484	1.43	(798)	(2.25)

At September 30, 2023 and December 31, 2022, the Company’s simulated exposure to an increase 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. At September 30, 2023, an immediate and sustained decrease 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 rates scenario. At December 31, 2022, an immediate and sustained decrease in rates of 1.00% or 2.00% would increase the Company’s net interest income over a one year horizon compared to a flat rates scenario, but an immediate and sustained decrease in rates of 3.00% would decrease the Company’s net interest income. During the nine months ended September 30, 2023, management evaluated and adjusted deposit rate betas in its scenarios to better reflect the increasing rate environment and increased competitive pressure for deposits.

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.

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, 2023 and December 31, 2022 financial information:

	At September 30, 2023				
Immediate Change	Economic Value of Equity			Economic Value of Equity as a Percent of Present Value of Assets	
in the Level of Interest Rates	Dollar Amount	Dollar Change	Percent Change	EVE Ratio	Change
	(Dollars in thousands)				
300bp	$ 231,045	$ 1,011	0.44%	22.44%	188bp
200bp	232,779	2,745	1.19	21.99	143bp
100bp	232,737	2,703	1.18	21.38	82bp
Static	230,034	-	-	20.56	0bp
(100)bp	222,486	(7,548)	(3.28)	19.35	(121)bp
(200)bp	210,039	(19,995)	(8.69)	17.78	(278)bp
(300)bp	191,296	(38,738)	(16.84)	15.77	(479)bp

	At December 31, 2022				
Immediate Change	Economic Value of Equity			Economic Value of Equity as a Percent of Present Value of Assets	
in the Level of Interest Rates	Dollar Amount	Dollar Change	Percent Change	EVE Ratio	Change
	(Dollars in thousands)				
300bp	$ 322,611	$ 25,242	8.49%	30.96%	464bp
200bp	319,861	22,492	7.56	29.87	355bp
100bp	311,941	14,572	4.90	28.36	204bp
Static	297,369	-	-	26.32	0bp
(100)bp	306,021	8,652	2.91	26.36	4bp
(200)bp	271,270	(26,099)	(8.78)	22.76	(356)bp
(300)bp	227,786	(69,583)	(23.40)	18.62	(770)bp

The tables indicate that at September 30, 2023 and December 31, 2022 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. At September 30, 2023, the Company would expect a decrease in its EVE in the event of a sudden and sustained 100, 200 or 300 basis point decrease in prevailing interest rates. At December 31, 2022, the Company would expect an increase in its EVE in the event of a sudden and sustained 100 basis point decrease in prevailing interest rates compared to decreases in the EVE in the event of sudden and sustained 200 or 300 basis point decreases in the prevailing interest rates. As previously mentioned in this report, during the nine months ended September 30, 2023, management evaluated and adjusted deposit rate betas in its scenarios to better reflect the increasing rate environment and increased competitive pressure for deposits.

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, 2023 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, 2022.

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, 2023	752	$ 30.80	752	115,828
August 1 through August 31, 2023	-	N/A	-	115,828
September 1 through September 30, 2023	-	N/A	-	115,828
Total	752	$ 30.80	752	

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)
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, 2023	**BY**: /s/Michael C. Frederick Michael C. Frederick President and CEO
Dated November 14, 2023	**BY:** /s/ Joshua P. Stevens Joshua P. Stevens Executive Vice President, CFO and Treasurer

Exhibit 31.1

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, 2023

/s/ Michael C. Frederick
Michael C. Frederick
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Joshua P. Stevens, 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, 2023

/s/ Joshua P. Stevens
Joshua P. Stevens
Executive Vice President, Chief Financial Officer and Treasurer

Exhibit 32.1

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, 2023, as filed with the Securities and Exchange Commission (the "Report"), I, Michael C. Frederick, 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, 2023

BY: /s/ Michael C. Frederick
Michael C. Frederick
President and Chief
Executive Officer
(Principal Executive Officer)

Exhibit 32.2

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, 2023, as filed with the Securities and Exchange Commission (the "Report"), I, Joshua P. Stevens, Executive 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, 2023	**BY**:	/s/ Joshua P. Stevens Joshua P. Stevens Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)