

FIRST CAPITAL, INC. REPORTS EARNINGS FOR 2020

Corydon, Indiana—January 25, 2021. First Capital, Inc. (the “Company”) (NASDAQ: FCAP), the holding company for First Harrison Bank (the “Bank”), today reported net income of \$10.1 million, or \$3.02 per diluted share, for the year ended December 31, 2020, compared to net income of \$10.3 million, or \$3.09 per diluted share, for the year ended December 31, 2019. The decrease in net income is primarily due to a decrease in net interest income after provision for loan losses and partially offset by an increase in noninterest income.

Net interest income after provision for loan losses decreased \$2.4 million for 2020 as compared to 2019. Interest income decreased \$2.4 million when comparing the two periods, primarily due to a decrease in the average tax-equivalent yield on interest-earning assets from 4.28% in 2019 to 3.57% in 2020. This was partially offset by an increase in the average balance of interest-earning assets from \$760.8 million in 2019 to \$846.3 million in 2020. The decrease in the tax-equivalent yield was due to the Federal Open Market Committee (FOMC) lowering interest rates due to the COVID-19 pandemic and the Bank originating \$45.9 million in loans through the Small Business Administration’s Paycheck Protection Program (“PPP”) which carry a fixed rate of 1.00%. Interest expense decreased \$399,000 when comparing the periods as the average cost of interest-bearing liabilities decreased from 0.35% in 2019 to 0.25% in 2020. This was partially offset by an increase in the average balance of interest-bearing liabilities from \$567.6 million in 2019 to \$615.8 million in 2020. As a result of the changes in interest-earning assets and interest-bearing liabilities, the interest rate spread (tax equivalent basis) decreased from 3.93% for 2019 to 3.32% for 2020.

Based on management’s analysis of the allowance for loan losses, the provision for loan losses increased from \$1.4 million for 2019 to \$1.8 million for 2020. The increase in provision for loan losses primarily reflects changes to qualitative factors within the Bank’s allowance for loan losses calculation related to uncertainties surrounding COVID-19. The Bank recognized net charge-offs of \$429,000 for 2019 compared to \$237,000 for 2020.

Noninterest income increased \$1.7 million for 2020 as compared to 2019 primarily due to increases in gain on sale of loans sold and ATM and debit card fees of \$1.5 million and \$676,000, respectively. Included in gains on the sale of loans during 2020 was a \$214,000 gain on the sale of the Bank’s \$1.5 million credit card portfolio. Those changes were partially offset by a \$300,000 decrease in service charges on deposit accounts. In addition, noninterest income during 2020 included a \$194,000 unrealized loss on equity securities compared to a \$32,000 unrealized gain on equity securities during 2019.

Noninterest expenses decreased \$222,000 for 2020 compared to 2019 primarily due to decreases in data processing expense, net loss on foreclosed real estate and advertising expense of \$435,000, \$286,000 and \$200,000, respectively. This was partially offset by an increase in compensation and benefits expense of \$689,000 when comparing the two periods. A significant factor in the decrease in data processing expense during 2020 was the rollout of the Bank’s new digital platform in the fourth quarter of 2019 and the associated costs, including contract termination fees from the previous platform provider.

Income tax expense decreased \$295,000 for 2020 as compared to 2019 resulting in effective tax rate of 14.3% for 2020 compared to 16.1% for 2019. The decrease in the effective tax rate is primarily due to an increase in nontaxable income and a decrease in taxable income when comparing the two years.

The Company’s net income was \$2.9 million, or \$0.85 per diluted share, for the quarter ended December 31, 2020 compared to \$2.4 million, or \$0.72 per diluted share, for the quarter ended December 31, 2019. The increase in net income is primarily due to an increase in noninterest income and a decrease in noninterest expense.

Net interest income after provision for loan losses decreased \$181,000 for the quarter ended December 31, 2020 as compared to the same period in 2019. Interest income decreased \$598,000 when comparing the two periods, primarily due to a decrease in the average tax-equivalent yield on interest-earning assets from 4.19% for the quarter ended December 31, 2019 to 3.29% for the same period in 2020. This was partially offset by an increase in the average balance of interest-earning assets from \$772.6 million for the quarter ended December 31, 2019 to \$916.6 for the same period in 2020. Interest expense decreased \$192,000 as the average cost of interest-bearing liabilities decreased from 0.36% for the quarter ended December 31, 2019 to 0.19% for the same period in 2020. This was partially offset by an increase in the average balance of interest-bearing liabilities from \$570.6 million for the quarter ended December 31, 2019 to \$657.6 million for the same period in 2020. The provision for loan losses was \$225,000 for the quarter ended December 31, 2020 compared to \$450,000 for the quarter ended December 31, 2019.

Noninterest income increased \$387,000 for the quarter ended December 31, 2020 as compared to the same period in 2019, primarily due to increases in gains on the sale of loans and ATM and debit card fees of \$265,000 and \$215,000, respectively.

Those changes were partially offset by decreases in service charges on deposit accounts and commission and fee income of \$55,000 in each category.

Noninterest expenses decreased \$289,000 for the quarter ended December 31, 2020 as compared to the quarter ended December 31, 2019, primarily due to a decrease of \$189,000 in data processing expense. Costs and contract termination fees related to the Bank's new digital platform, as discussed above, totaled approximately \$126,000 during the fourth quarter of 2019.

Income tax expense increased \$45,000 for the quarter ended December 31, 2020 as compared to the same period in 2019. The effective tax rate for the quarter ended December 31, 2020 was 14.5% compared to 15.5% for the same period in 2019.

Total assets as of December 31, 2020 were \$1.02 billion compared to \$827.5 million at December 31, 2019. Cash and cash equivalents, net loans receivable and investment securities increased \$124.5 million, \$33.8 million and \$28.9 million, respectively, from December 31, 2019 to December 31, 2020. The loan growth was primarily due to the previously mentioned \$45.9 million in PPP loans originated, of which \$37.3 million remained outstanding at December 31, 2020. Deposits increased \$178.3 million from December 31, 2019 to \$900.5 million at December 31, 2020. Noninterest-bearing, interest-bearing demand deposits and savings accounts increased \$79.5 million, \$66.5 million and \$36.7 million, respectively, from December 31, 2019. Nonperforming assets (consisting of nonaccrual loans, accruing loans 90 days or more past due, troubled debt restructurings on accrual status, and foreclosed real estate) increased from \$3.1 million at December 31, 2019 to \$3.2 million at December 31, 2020. The Bank has assisted customers experiencing a COVID-19 related hardship by approving payment extensions on loans totaling \$68.1 million, primarily related to commercial real estate lending relationships. As of December 31, 2020, \$65.3 million of those loans remain outstanding and \$65.1 million have resumed normal payments.

At December 31, 2020, the Bank was considered well-capitalized under applicable federal regulatory capital guidelines.

The Bank currently has eighteen offices in the Indiana communities of Corydon, Edwardsville, Greenville, Floyds Knobs, Palmyra, New Albany, New Salisbury, Jeffersonville, Salem, Lanesville and Charlestown and the Kentucky communities of Shepherdsville, Mt. Washington and Lebanon Junction.

Access to First Harrison Bank accounts, including online banking and electronic bill payments, is available through the Bank's website at www.firstharrison.com. The Bank offers non-FDIC insured investments to complement its offering of traditional banking products and services through its business arrangement with LPL Financial LLC ("LPL"), member SIPC. For more information and financial data about the Company, please visit Investor Relations at the Bank's aforementioned website. The Bank can also be followed on Facebook.

Cautionary Note Regarding Forward-Looking Statements

This press release may contain certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can be identified by the use of the words "anticipate," "believe," "expect," "intend," "could" and "should," and other words of similar meaning. Forward-looking statements are not historical facts nor guarantees of future performance; rather, they are statements based on the Company's current beliefs, assumptions, and expectations regarding its business strategies and their intended results and its future performance.

Numerous risks and uncertainties could cause or contribute to the Company's actual results, performance and achievements to be materially different from those expressed or implied by these forward-looking statements. Factors that may cause or contribute to these differences include, without limitation, the severity, magnitude and duration of the COVID-19 pandemic, including impacts of the pandemic and of businesses' and governments' responses to the pandemic on our operations and personnel, and on commercial activity and demand across our and our customers' businesses, market, economic, operational, liquidity, credit and interest rate risks associated with the Company's business (including developments and volatility arising from the COVID-19 pandemic), general economic conditions, including changes in market interest rates and changes in monetary and fiscal policies of the federal government; competition; the ability of the Company to execute its business plan; legislative and regulatory changes; and other factors disclosed periodically in the Company's filings with the Securities and Exchange Commission.

Because of the risks and uncertainties inherent in forward-looking statements, readers are cautioned not to place undue reliance on them, whether included in this press release, the Company's reports, or made elsewhere from time to time

by the Company or on its behalf. These forward-looking statements are made only as of the date of this press release, and the Company assumes no obligation to update any forward-looking statements after the date of this press release.

Contact:

Chris Frederick
Chief Financial Officer
812-734-3464

FIRST CAPITAL, INC.
Consolidated Financial Highlights (Unaudited)

OPERATING DATA	Year Ended		Three Months Ended	
	December 31,		December 31,	
(Dollars in thousands, except per share data)	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Total interest income	\$ 29,647	\$ 32,054	\$ 7,359	\$ 7,957
Total interest expense	1,561	1,960	318	510
Net interest income	<u>28,086</u>	<u>30,094</u>	<u>7,041</u>	<u>7,447</u>
Provision for loan losses	1,801	1,425	225	450
Net interest income after provision for loan losses	<u>26,285</u>	<u>28,669</u>	<u>6,816</u>	<u>6,997</u>
Total non-interest income	8,599	6,926	2,207	1,820
Total non-interest expense	23,048	23,270	5,682	5,971
Income before income taxes	<u>11,836</u>	<u>12,325</u>	<u>3,341</u>	<u>2,846</u>
Income tax expense	1,692	1,987	485	440
Net income	<u>10,144</u>	<u>10,338</u>	<u>2,856</u>	<u>2,406</u>
Less net income attributable to the noncontrolling interest	13	13	3	3
Net income attributable to First Capital, Inc.	<u>\$ 10,131</u>	<u>\$ 10,325</u>	<u>\$ 2,853</u>	<u>\$ 2,403</u>
Net income per share attributable to				
First Capital, Inc. common shareholders:				
Basic	<u>\$ 3.03</u>	<u>\$ 3.10</u>	<u>\$ 0.85</u>	<u>\$ 0.72</u>
Diluted	<u>\$ 3.02</u>	<u>\$ 3.09</u>	<u>\$ 0.85</u>	<u>\$ 0.72</u>
Weighted average common shares outstanding:				
Basic	3,339,812	3,332,869	3,343,110	3,335,882
Diluted	3,349,277	3,344,072	3,350,786	3,347,888
OTHER FINANCIAL DATA				
Cash dividends per share	\$ 0.96	\$ 0.95	\$ 0.24	\$ 0.24
Return on average assets (annualized) (1)	1.12%	1.26%	1.17%	1.16%
Return on average equity (annualized) (1)	9.64%	11.13%	10.49%	9.83%
Net interest margin (tax-equivalent basis)	3.39%	4.02%	3.15%	3.92%
Interest rate spread (tax-equivalent basis)	3.32%	3.93%	3.10%	3.83%
Net overhead expense as a percentage of average assets (annualized) (1)	2.54%	2.85%	2.32%	2.88%
BALANCE SHEET INFORMATION				
		December 31,	December 31,	
		<u>2020</u>	<u>2019</u>	
Cash and cash equivalents	\$ 175,888	\$ 51,360		
Interest-bearing time deposits	6,396	6,490		
Investment securities	283,502	254,562		
Gross loans	506,956	471,555		
Allowance for loan losses	6,625	5,061		
Earning assets	947,123	766,148		
Total assets	1,017,551	827,496		
Deposits	900,461	722,177		
Stockholders' equity, net of noncontrolling interest	110,639	98,836		
Non-performing assets:				
Nonaccrual loans	1,406	1,765		
Accruing loans past due 90 days	59	13		
Foreclosed real estate	-	170		
Troubled debt restructurings on accrual status	1,732	1,166		
Regulatory capital ratios (Bank only):				
Community Bank Leverage Ratio (2)	9.37%	10.01%		

- (1) See reconciliation of GAAP and non-GAAP financial measures for additional information relating to the calculation of this item.
- (2) Effective March 31, 2020, the Bank opted in to the Community Bank Leverage Ratio (CBLR) framework. As such, the other regulatory ratios are no longer provided.

RECONCILIATION OF GAAP AND NON-GAAP FINANCIAL MEASURES (UNAUDITED):

This presentation contains financial information determined by methods other than in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Management uses these “non-GAAP” measures in its analysis of the Company’s performance. Management believes that these non-GAAP financial measures allow for better comparability with prior periods, as well as with peers in the industry who provide a similar presentation, and provide a further understanding of the Company’s ongoing operations. These disclosures should not be viewed as a substitute for operating results determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies. The following table summarizes the non-GAAP financial measures derived from amounts reported in the Company’s consolidated financial statements and reconciles those non-GAAP financial measures with the comparable GAAP financial measures.

	Three Months Ended	
	December 31,	
	<u>2020</u>	<u>2019</u>
Return on average assets before annualization	0.29%	0.29%
Annualization factor	4.00	4.00
Annualized return on average assets	<u>1.17%</u>	<u>1.16%</u>
Return on average equity before annualization	2.62%	2.46%
Annualization factor	4.00	4.00
Annualized return on average equity	<u>10.49%</u>	<u>9.83%</u>
Net overhead expense as a % of average assets before annualization	0.58%	0.72%
Annualization factor	4.00	4.00
Annualized net overhead expense as a % of average assets	<u>2.32%</u>	<u>2.88%</u>