

Pinnacle Bankshares Corporation Announces Third Quarter 2016 Earnings

Altavista, VA, October 25, 2016 - Net income for Pinnacle Bankshares Corporation (OTCQX:PPBN), the one-bank holding company (the "Company") for First National Bank (the "Bank"), was \$913,000 or \$0.60 per basic and \$0.59 per diluted share for the quarter ended September 30, 2016, and \$2,270,000 or \$1.49 per basic share and \$1.47 per diluted share for the nine months ended September 30, 2016. Net income was \$567,000 or \$0.37 per basic and diluted share and \$1,733,000 or \$1.14 per basic share and \$1.13 per diluted share, respectively, for the same periods of 2015. Consolidated results for the quarter and nine month periods are unaudited.

Net income generated during the third quarter of 2016 represents a 61% increase as compared to the third quarter of 2015. The improvement was due to higher interest income driven by loan growth and an increase in noninterest income primarily resulting from a gain associated with the sale of our former Old Forest Road branch building. Excluding the gain on sale, third quarter 2016 net income was still up 29% as compared to the third quarter of 2015. On a year to date basis, net income through nine months increased 31% overall and 21% excluding the gain as compared to the same time period of the previous year.

Profitability as measured by the Company's return on average assets ("ROA") was 0.78% for the nine months ended September 30, 2016, which is a 15 basis points increase over the 0.63% generated during the first nine months of 2015. Return on average equity ("ROE") increased for the nine month period of 2016 to 8.48%, compared to 6.92% for the same time period of the prior year. Year to date ROA and ROE for 2016, excluding the gain, were 0.72% and 7.81%, respectively.

"We are extremely pleased with our financial results for both the third quarter and the first nine months of 2016," stated Aubrey H. Hall, III, President and Chief Executive Officer for both the Company and the Bank. He further commented, "Strong interest income driven by loan growth continues to be the catalyst for increased returns."

The Company produced \$10,114,000 in net interest income for the first nine months of 2016, which represents a \$1,032,000 or 11% increase as compared to the \$9,082,000 generated for the same time period of 2015. As stated, the improvement has been driven by loan growth as total loans have increased over \$32,000,000 during the nine month period. Consequently, interest income increased \$892,000 or approximately 9%, while interest expense declined \$140,000 or 11%. The Company's net interest margin increased to 3.74% for the first nine months of 2016 compared to 3.53% for the same time period of 2015 as yields on earning assets increased 14 basis points to 4.15% and cost to fund earning assets decreased 7 basis points to 0.41%.

The provision for loan losses was \$87,000 in the first nine months of 2016 as compared to \$130,000 for the first nine months of 2015. The allowance for loan losses was \$2,867,000 as of September 30, 2016, which represented 0.85% of total loans outstanding. In comparison, the allowance for loan losses was \$2,889,000 or 0.94% of total loans outstanding as of December 31, 2015. The slight decrease in the Company's allowance is reflective of stronger asset quality as nonperforming loans to total loans fell to 0.38% compared to 0.45% as of year-end 2015. Allowance coverage of nonperforming loans as of quarter end was 220%, which Management views as being sufficient to offset potential future losses associated with the loan portfolio.

Noninterest income for the first nine months of 2016 increased \$366,000 or approximately 14% to \$2,949,000 from \$2,583,000 for the same time period of 2015. This increase was driven by a \$266,000 gain recognized on the sale of our former Old Forest Road branch building in July of 2016. Also contributing to the increase was \$59,000 in income derived from the Bank's

investment in Bankers Insurance, LLC. Through the first nine months of 2016 the Company has experienced slight increases in investment and insurance commissions, loan fee income and interchange fees, which have been partially offset by declines in fees on mortgage sales and overdraft income.

Noninterest expense for the first nine months of 2016 increased \$660,000 or approximately 7% to \$9,658,000 from \$8,998,000 for the first nine months of 2015. The increase is primarily attributed to a \$432,000 increase in salaries and benefits mainly due to new positions associated with the Bank's Lynchburg Market Plan, which is intended to drive growth. Increases were also realized in occupancy expense, dealer loan expenses, loan review, cost of foreclosures and network fees. These increases were partially offset by decreases in FDIC insurance, postage and other losses.

Total assets as of September 30, 2016 were \$422,053,000, up approximately 14% from \$371,261,000 as of December 31, 2015. The principal components of the Company's assets as of September 30, 2016 were \$338,391,000 in total loans, \$37,711,000 in cash and cash equivalents and \$22,299,000 in securities. During the first nine months of 2016, total loans increased approximately 11% or \$32,303,000 from \$306,088,000 as of December 31, 2015 due to strong performances from the Bank's Commercial, Dealer (Indirect Automobile) and Retail Divisions. Securities decreased approximately 18% or \$4,849,000 from \$27,148,000 during the same time period.

Total liabilities as of September 30, 2016 were \$385,417,000, up \$48,938,000 or 15% from \$336,479,000 as of December 31, 2015. Savings and NOW account balances grew \$31,397,000 or approximately 18%, while demand account balances increased \$17,881,000 or approximately 30%. Time deposits were stable during the time period, declining by \$174,000 or less than 1%. The Company continues to focus on the expansion of core deposit relationships, including small business, and has been successful in attracting larger commercial depositors due to its electronic platforms and cash management expertise. The growth of core deposits has helped lower the Company's cost of funds, decrease its dependency on time deposits and provide relationship expansion opportunities.

Total stockholders' equity as of September 30, 2016 was \$36,636,000 and consisted primarily of \$32,283,000 in retained earnings. In comparison, as of December 31, 2015, total stockholders' equity was \$34,782,000. The Company has continued to increase capital while also paying a cash dividend to shareholders in each of the last sixteen quarters. Both the Company and Bank remain "well capitalized" per all regulatory definitions.

On a final note, First National is on schedule with its Lynchburg Market Plan. The Bank opened its newly renovated Timberlake Branch on May 18, 2016 and its newly relocated Old Forest Road Branch on July 6, 2016. Additionally, construction of the new Odd Fellows Road Branch/Lynchburg headquarters began in third quarter of 2016. The Lynchburg Market Plan is intended to increase the Bank's presence and visibility across Central Virginia in an effort to grow assets and enhance shareholder returns. "The success of our overall Strategic Plan is hinged on our ability to grow. Based on results thus far in 2016, our people are demonstrating that they are up to the challenge," commented Mr. Hall.

Various securities laws regulate the use of financial measures that are not prepared in accordance with GAAP. We believe these non-GAAP measures provide important supplemental information to investors. We use these measures, together with GAAP measures, for internal managerial purposes and as a means to evaluate period-to-period comparisons. However, we do not, and you should not, rely on non-GAAP financial measures alone as measures of our performance. We believe that non-GAAP financial measures reflect an additional way of viewing aspects of our operations that - when taken together with GAAP results as presented in this press release- provide a more complete understanding of factors and trends affecting our business. Because non-GAAP financial measures are not standardized, it may not be possible to compare these financial measures with other companies' non-GAAP financial measures, even if they have similar names.

This press release may contain "forward-looking statements" within the meaning of federal securities laws that involve significant risks and uncertainties. Any statements contained herein that are not historical facts are forward-looking and are based on current assumptions and analysis by the Company. These forward-looking statements may include, but are not limited to, statements regarding the credit quality of our asset portfolio in future periods, the expected losses of nonperforming loans in future periods, returns and capital accretion during future periods, the lowering of our cost of funds, the maintenance of our net interest margin, the continuation of improved returns, the cost savings related to the deregistration of our common stock, and future operating results and business performance. Although we believe our plans and expectations reflected in these forward-looking statements are reasonable, our ability to predict results or the actual effect of future plans or strategies is inherently uncertain, and we can give no assurance that these plans or expectations will be achieved. Factors that could cause actual results to differ materially from management's expectations include, but are not limited to, the effectiveness of management's efforts to improve asset quality, returns, net interest margin and collections and control operating expenses, management's efforts to minimize losses related to nonperforming loans, management's efforts to lower our cost of funds, changes in: interest rates, general economic and business conditions, declining collateral values, especially real estate, the real estate market, the legislative/regulatory climate, including the effect that the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and regulations adopted thereunder may have on us, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Board of Governors of the Federal Reserve System and any policies or programs implemented pursuant to the Emergency Economic Stabilization Act of 2008, the quality or composition of the loan or investment portfolios, demand for loan products, deposit flows and funding costs, competition, demand for financial services in our market area, actual savings related to the deregistration of our common stock and accounting principles, policies and guidelines. These risks and uncertainties should be considered in evaluating the forward-looking statements contained herein, and you should not place undue reliance on such statements, which reflect our views as of the date of this release.

Selected financial highlights are shown below.

Pinnacle Bankshares Corporation
Selected Financial Highlights
(9/30/16, 6/30/2016 and 9/30/2015 results unaudited)
(In thousands, except ratios, share and per share data)

Income Statement Highlights	3 Months Ended <u>09/30/2016</u>	3 Months Ended <u>06/30/2016</u>	3 Months Ended <u>09/30/2015</u>
Interest Income	\$3,866	\$3,735	\$3,522
Interest Expense	394	362	388
Net Interest Income	3,472	3,373	3,134
Provision for Loan Losses	62	(2)	24
Noninterest Income	1,218	893	835
Noninterest Expense	3,283	3,238	3,111
Net Income	913	711	567
Earnings Per Share (Basic)	0.60	0.47	0.37
Earnings Per Share (Diluted)	0.59	0.46	0.37

Income Statement Highlights	9 Months Ended <u>09/30/2016</u>	Year Ended <u>12/31/2015</u>	9 Months Ended <u>09/30/2015</u>
Interest Income	\$11,224	\$14,117	\$10,332
Interest Expense	1,110	1,612	1,250
Net Interest Income	10,114	12,505	9,082
Provision for Loan Losses	87	129	130
Noninterest Income	2,949	3,730	2,583
Noninterest Expense	9,658	12,083	8,998
Net Income	2,270	2,730	1,733
Earnings Per Share (Basic)	1.49	1.80	1.14
Earnings Per Share (Diluted)	1.47	1.79	1.13

Balance Sheet Highlights	<u>09/30/2016</u>	<u>12/31/2015</u>	<u>09/30/2015</u>
Cash and Cash Equivalents	\$37,711	\$17,724	\$28,727
Total Loans	338,391	306,088	292,891
Total Securities	22,299	27,148	33,314
Total Assets	422,053	371,261	374,899
Total Deposits	381,506	332,403	336,635
Total Liabilities	385,417	336,479	340,740
Stockholders' Equity	36,636	34,782	34,159
Shares Outstanding	1,523,794	1,520,221	1,520,221

Ratios and Stock Price	<u>09/30/2016</u>	<u>12/31/2015</u>	<u>09/30/2015</u>
Gross Loan-to-Deposit Ratio	88.70%	92.08%	87.01%
Net Interest Margin (Year-to-date)	3.74%	3.63%	3.53%
Liquidity	13.44%	11.42%	16.47%
Efficiency Ratio	74.26%	74.41%	77.12%
Return on Average Assets (ROA)	0.78%	0.74%	0.63%
Return on Average Equity (ROE)	8.48%	8.12%	6.92%
Leverage Ratio (Bank)	9.16%	9.75%	9.54%
Tier 1 Capital Ratio (Bank)	10.85%	11.44%	11.62%
Total Capital Ratio (Bank)	11.71%	12.39%	12.63%
Stock Price	\$20.44	\$19.70	\$17.70
Book Value	\$24.04	\$23.05	\$22.47

Asset Quality Highlights	<u>09/30/2016</u>	<u>12/31/2015</u>	<u>09/30/2015</u>
Nonaccruing Loans	\$1,301	\$1,387	\$2,843
Loans 90 Days or More Past Due and Accruing	0	0	0
Total Nonperforming Loans	1,301	1,387	2,843
Troubled Debt Restructures Accruing	348	1,469	1,035
Total Impaired Loans	1,649	2,856	3,878
Other Real Estate Owned (OREO) (Foreclosed Assets)	705	1,733	1,697
Total Nonperforming Assets	2,006	3,120	4,540
Nonperforming Loans to Total Loans	0.38%	0.45%	0.97%
Nonperforming Assets to Total Assets	0.48%	0.84%	1.21%
Allowance for Loan Losses	\$2,867	\$2,889	\$2,954
Allowance for Loan Losses to Total Loans	0.85%	0.94%	1.01%
Allowance for Loan Losses to Nonperforming Loans	220.37%	208.29%	103.90%

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