

**Pinnacle Bankshares Corporation Fourth Quarter and 2016  
Earnings Report**

**Altavista, VA February 3, 2017** - Net income for Pinnacle Bankshares Corporation (OTCQX: PPBN), the one-bank holding company (the "Company") for First National Bank (the "Bank"), was \$734,000 or \$0.48 per basic and diluted share for the quarter ended December 31, 2016 and \$3,004,000 or \$1.97 per basic share and \$1.96 per diluted share for the year ended December 31, 2016. In comparison, net income was \$1,007,000 or \$0.66 per basic and diluted share and \$2,740,000 or \$1.80 per basic and \$1.79 per diluted share, respectively, for the same periods of 2015. Consolidated results for the quarter and year are unaudited.

Net income generated during the fourth quarter of 2016 represents a \$273,000 or 27% decline as compared to the same time period of 2015, during which the Bank recognized \$354,000 in income resulting from the conversion to the equity method of accounting for its investment in Bankers Insurance, LLC. Core net income, exclusive of the accounting change, decreased from \$775,000 to \$734,000 or 6% primarily due to increased noninterest expenses that included payment of an employee bonus during December. The bonus was approved by the Board based on its assessment of the Company's financial performance during 2016, strategic progress and overall risk profile.

For 2016 net income increased 10% as compared to 2015 and included a \$266,000 gain derived from the sale of the Bank's prior Old Forest Road branch building. Core net income for 2016 was \$2,829,000, excluding the gain, which was a \$323,000 or 13% improvement over 2015's core net income of \$2,506,000, excluding the accounting change. The improvement was mainly driven by a 9% increase in net interest income due to higher loan volume.

Profitability as measured by the Company's return on average assets ("ROA") was 0.76% for 2016, which is a 2 basis points increase as compared to the 0.74% produced for 2015. Correspondingly, return on average equity ("ROE") also increased in 2016 to 8.36% compared to 8.12% for the prior year. ROA and ROE in 2016, exclusive of the gain on the property sale, were 0.71% and 7.88%, respectively. ROA and ROE in 2015, exclusive of the accounting change, were 0.68% and 7.44%, respectively.

"We are pleased to report the highest level of core net income in the history of Pinnacle Bankshares Corporation and First National Bank," stated Aubrey H. Hall, III. He further commented, "Our eighth straight year of core net income improvement was driven by loan growth, strong asset quality and thus far successful execution of our Lynchburg Market Plan."

For the fourth quarter of 2016 net interest income increased to \$3,521,000 as compared to \$3,424,000 for the same period of 2015. Interest income increased \$143,000 due to higher loan volume, while interest expense increased \$46,000 due to deposit growth. Net interest margin decreased to 3.53% in the fourth quarter of 2016 compared to 3.93% in the fourth quarter of 2015 as correspondent bank and fed fund balances increased \$36,819,000 due to higher levels of deposits.

On a year over year basis, the Company's net interest income grew \$1,130,000 to \$13,635,000 for 2016 as interest income increased by \$1,035,000 or 7% and interest expense decreased \$95,000 or approximately 6%. Loan growth has been the catalyst for the net interest income improvement. Net interest margin increased to 3.70% for the year ended December 31, 2016, from 3.63% for the year ended December 31, 2015 as yield on earning assets increased 2 basis points and cost to fund earnings assets declined 5 basis points.

Continued material improvement in asset quality resulted in no provision for loan losses during the fourth quarter and only \$87,000 for all of 2016, which was a \$42,000 decrease as compared to the \$129,000 expensed in 2015 despite an 11% increase in outstanding loans during the same time period. The allowance for loan losses was \$2,898,000 as of December 31, 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 low provision and the decrease in the Company's allowance to total loans ratio are reflective of the Company's strong asset quality as all major indicators moved in a positive direction during the year. Nonperforming loans comprised of loans in nonaccrual status or past due greater than ninety days, decreased 45% from \$1,387,000 to \$769,000 from December 31, 2015 to December 31, 2016. Impaired Loans comprised of nonperforming loans and accruing troubled debt restructures decreased 61% from \$2,856,000 to \$1,116,000. Nonperforming assets (including nonaccrual loans, accruing loans more than 90 days past due, and foreclosed assets) declined to \$1,411,000 or 0.32% of total assets as of December 31, 2016, as compared to \$3,120,000 or 0.84% of total assets as of December 31, 2015. Nonperforming loans to total loans decreased to 0.23% as of year-end 2016 compared to 0.45% as of year-end 2015. The allowance balance was 377% of nonperforming loans as of December 31, 2016 compared to 208% as of the end of 2015. This level of allowance is viewed as being sufficient to cushion the Bank from potential losses associated with problem loans.

During the fourth quarter of 2016 the Company generated \$946,000 in noninterest income, representing a decrease of \$201,000 or 18% as compared to the same period of 2015 when income from the accounting change was recognized. For the year noninterest income was \$3,896,000, an increase of \$165,000 or approximately 4% as compared to the prior year. This increase was mainly driven by the \$266,000 gain on sale of property, a \$62,000 gain on sale of investments, an 18% increase in fees derived from the origination and sale of mortgage loans, a 16% increase in service charges on loan accounts and a 5% increase in commissions and fees from investments and insurance sales. Net of the gain on sale of property and investments in 2016 and the accounting change in 2015, noninterest income increased \$191,000 year over year.

Noninterest expense for the fourth quarter of 2016 was \$3,379,000, which increased \$316,000 as compared to the \$3,063,000 for the fourth quarter of 2015. For 2016 noninterest expense was \$13,043,000, an increase of \$983,000 or 8% as compared to the prior year. This increase was primarily due to a \$692,000, or 11% increase in salaries and pension expenses and the employee bonus as previously mentioned. New positions added during 2015 to facilitate growth contributed to the increase in 2016; however, the Company does not anticipate the need for increasingly higher levels of personnel to meet foreseeable growth objectives. Increases were also experienced in occupancy expense due to renovated and new facilities, core system expenses, director fees and fees associated with the purchase of indirect automobile loans.

Total assets as of December 31, 2016 were \$440,104,000, up approximately 19% from \$371,261,000 as of December 31, 2015. The principal components of the Company's assets as of year-end 2016 were \$341,321,000 in total loans, \$48,174,000 in cash and cash equivalents and \$27,569,000 in securities. During 2016, total loans increased approximately 11% or \$35,233,000 from \$306,088,000 as of December 31, 2015. The loan growth occurred throughout the year and was driven by strong performances from the Bank's Commercial, Retail and Dealer Divisions.

Total liabilities as of December 31, 2016 were \$403,555,000, up approximately 20% or \$67,025,000 from \$336,479,000 as of December 31, 2015. Higher levels of deposits drove the increase, as demand deposits increased \$25,216,000 or approximately 43% and savings and NOW accounts increased \$43,568,000 or approximately 25%. The increases in demand, savings and NOW accounts were partially offset by a slight decrease in time deposits, which declined \$1,444,000 or approximately 1% as compared to the balance as of December 31, 2015. The Company continued to focus on the expansion of core deposit relationships during 2016, to include small business, and was successful in attracting larger commercial depositors due to its electronic platforms and cash management expertise. The growth of core deposits during recent years has

helped lower the Company's cost of funds, decrease its dependency on time deposits and provide relationship expansion opportunities for the Bank.

Total stockholders' equity as of December 31, 2016 was \$36,549,000, and consisted primarily of \$32,865,000 in retained earnings. In comparison, as of December 31, 2015 total stockholders' equity was \$34,782,000. The Company has continued to increase its capital while also paying a cash dividend to shareholders in each of the last seventeen quarters and funding a Share Repurchase Program aimed at potentially increasing trading volume in the Company's stock. The capital position of both the Company and Bank are considered "well capitalized" per all regulatory definitions.

First National continues to be 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 and is scheduled to be completed in September of 2017. 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.

Mr. Hall concluded, "Our strategic plan for 2016 and the ability to enhance performance hinged on growth and our team of dedicated financial professionals delivered. Looking forward, our Board and Management Team believe First National Bank is well positioned to achieve its objective of being recognized as the premiere community bank across Central Virginia."

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Pinnacle Bankshares Corporation is a locally managed community banking organization based in Central Virginia. The one-bank holding company of First National Bank serves an area consisting primarily of all or portions of the Counties of Campbell, Pittsylvania, Bedford, Amherst and the City of Lynchburg. The Company has a total of eight branches with two located in the Town of Altavista, where the Bank was founded. Other branch locations include Village Highway in Rustburg, Wards Road near the Lynchburg Regional Airport, Timberlake Road in Campbell County, South Main Street in the Town of Amherst, Old Forest Road in the City of Lynchburg and Forest Road in Bedford County. The new Odd Fellows Road Branch and Lynchburg Headquarters facility is on schedule to be completed in 2017 and increase the number of branches to nine. First National Bank is in its 109th year of operation.

*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**  
**(12/31/2016 and quarterly results unaudited)**  
**(In thousands, except ratios, share and per share data)**

	3 Months Ended <u>12/31/2016</u>	3 Months Ended <u>09/30/2016</u>	3 Months Ended <u>12/31/2015</u>
<b>Income Statement Highlights</b>			
Interest Income	\$3,929	\$3,866	\$3,786
Interest Expense	408	394	362
Net Interest Income	3,521	3,472	3,424
Provision for Loan Losses	0	62	(1)
Noninterest Income	946	1,218	1,147
Noninterest Expense	3,379	3,283	3,063
Net Income	734	913	1,007
Earnings Per Share (Basic)	0.48	0.60	0.66
Earnings Per Share (Diluted)	0.48	0.59	0.66
	Year Ended <u>12/31/2016</u>	Year Ended <u>12/31/2015</u>	Year Ended <u>12/31/2014</u>
<b>Income Statement Highlights</b>			
Interest Income	\$15,153	\$14,118	\$14,035
Interest Expense	1,518	1,613	1,979
Net Interest Income	13,635	12,505	12,056
Provision for Loan Losses	87	129	91
Noninterest Income	3,896	3,731	3,162
Noninterest Expense	13,043	12,061	12,008
Net Income	3,004	2,740	2,149
Earnings Per Share (Basic)	1.97	1.80	1.42
Earnings Per Share (Diluted)	1.96	1.79	1.40
	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2014</u>
<b>Balance Sheet Highlights</b>			
Cash and Cash Equivalents	\$48,174	\$17,724	\$29,451
Total Loans	341,321	306,088	283,519
Total Securities	27,569	27,148	29,277
Total Assets	440,104	371,261	362,188
Total Deposits	399,743	332,403	325,204
Total Liabilities	403,555	336,479	329,534
Stockholders' Equity	36,549	34,782	32,654
Shares Outstanding	1,522,351	1,520,221	1,511,970
	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2014</u>
<b>Ratios and Stock Price</b>			
Gross Loan-to-Deposit Ratio	85.39%	92.08%	87.18%
Net Interest Margin (Year-to-date)	3.70%	3.63%	3.60%
Liquidity	17.68%	11.42%	15.80%
Efficiency Ratio	74.66%	74.41%	78.80%
Return on Average Assets (ROA)	0.76%	0.74%	0.60%
Return on Average Equity (ROE)	8.36%	8.12%	6.59%
Leverage Ratio (Bank)	8.94%	9.75%	9.36%
Tier 1 Risk-based Capital Ratio (Bank)	10.81%	11.45%	11.08%
Total Capital Ratio (Bank)	11.67%	12.41%	12.11%
Stock Price	\$28.88	\$19.70	\$17.80
Book Value	\$24.01	\$23.05	\$21.60
	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2014</u>
<b>Asset Quality Highlights</b>			
Nonaccruing Loans	\$769	\$1,387	\$2,128
Loans 90 Days or More Past Due and Accruing	0	0	0
Total Nonperforming Loans	769	1,387	2,128
Troubled Debt Restructures Accruing	347	1,469	2,156
Total Impaired Loans	1,116	2,856	4,284
Other Real Estate Owned (OREO) (Foreclosed Assets)	642	1,733	1,107
Total Nonperforming Assets	1,411	3,120	3,235
Nonperforming Loans to Total Loans	0.23%	0.45%	0.75%
Nonperforming Assets to Total Assets	0.32%	0.84%	0.89%
Allowance for Loan Losses	\$2,898	\$2,889	\$3,070
Allowance for Loan Losses to Total Loans	0.85%	0.94%	1.08%
Allowance for Loan Losses to Nonperforming Loans	376.85%	208.29%	144.27%

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