

Pinnacle Bankshares Corporation Announces Second Quarter 2015 Earnings

Altavista, VA, July 28, 2015 - Net income for Pinnacle Bankshares Corporation (OTCQX:PPBN), the one-bank holding company (the "Company") for First National Bank (the "Bank"), was \$580,000 or \$0.38 per basic and diluted share for the quarter ended June 30, 2015, and \$1,166,000 or \$0.77 per basic share and \$0.76 per diluted share for the six months ended June 30, 2015. Net income was \$459,000 or \$0.30 per basic and diluted share and \$1,081,000 or \$0.72 per basic share and \$0.71 per diluted share, respectively, for the same periods of 2014. Consolidated results for the quarter and six month periods are unaudited.

Net income generated during the second quarter of 2015 represents a 26% increase as compared to the second quarter of 2014. For the six months, net income increased 8% as compared to the same time period of the previous year. The increase in net income for both time periods was driven by higher noninterest income and lower noninterest expense.

Profitability as measured by the Company's return on average assets ("ROA") was 0.64% for the six months ended June 30, 2015, compared to 0.61% generated during the first six months of 2014. Correspondingly, return on average equity ("ROE") also increased for the six month period of 2015 to 7.02%, compared to 6.61% for the same time period of the prior year.

"We are pleased to report an increase in our profitability for both the second quarter and first half of 2015 as compared to the same time periods of 2014", stated Aubrey H. Hall, III, President and Chief Executive Officer for both the Company and the Bank. He further commented, "Strong noninterest income and controlled expenses have more than offset the slight decline in our net interest income caused by lower loan yields."

The Company produced \$5,948,000 in net interest income for the first half of 2015, which represents a 2% decrease as compared to the \$6,039,000 generated for the same time period of 2014. Interest income decreased \$250,000 or approximately 4%, which outpaced a decline in interest expense of \$159,000. The Company's net interest margin declined to 3.46% for the first half of 2015 as compared to 3.65% for the first half 2014 due mainly to lower yields on interest earning assets.

The provision for loan losses increased to \$106,000 in the first half of 2015 as compared to (\$13,000) in the first half of 2014 due to an increase in provision for overdraft losses and changes in the assessment of qualitative factors utilized to determine the Company's allowance for loan losses balance. Net charge-offs through the first six months of the year were \$129,000, representing a decrease of \$77,000 compared to same time period of the prior year.

Noninterest income for the first half of 2015 increased \$233,000 or approximately 15% to \$1,749,000 from \$1,516,000 for the first half of 2014. This increase was mainly driven by a \$108,000 increase in fees generated from the sale of mortgage loans and a \$51,000 increase in service charges and fees on deposit accounts. The Company also continues to benefit from strong non-sufficient fund and overdraft privilege fees as well as ATM card and Visa debit card revenue.

Noninterest expense for the first half of 2015 decreased \$104,000 or approximately 2% to \$5,887,000 from \$5,991,000 for the first half 2014. The decrease is primarily attributed to a \$109,000 decrease in other losses, a \$44,000 decrease in occupancy expense, a \$42,000 decrease in furniture and equipment, a \$39,000 decrease in legal fees and a \$29,000 decrease in office supplies. Decreases in other noninterest expense categories were also realized through continued efforts to be more efficient. These decreases were partially offset by a \$179,000 increase in salaries and benefits and a

\$69,000 increase in fees paid to the Bank's core system provider for data processing and new platforms. New positions and core system improvements have been part of the Company's on-going effort to develop appropriate infrastructure to support future growth.

Total assets as of June 30, 2015 were \$375,654,000, up approximately 4% from \$362,188,000 as of December 31, 2014. The principal components of the Company's assets as of June 30, 2015 were \$280,305,000 in total loans, \$42,338,000 in cash and cash equivalents and \$34,051,000 in securities. During the first half of 2015, total loans decreased approximately 1% or \$3,214,000 from \$283,519,000 as of December 31, 2014, while securities increased approximately 16% or \$4,774,000 from \$29,277,000. Loan volume declined in the first half of 2015 due to payoffs received early in the year on several large loans that were temporary in nature. The Bank is proactively seeking new lending opportunities and encouraged by loan growth of \$2,204,000 during the second quarter of 2015.

The allowance for loan losses was \$3,045,000 as of June 30, 2015, which represented 1.09% of total loans outstanding. In comparison, the allowance for loan losses was \$3,070,000 or 1.08% of total loans outstanding as of December 31, 2014. The slight decrease in the Company's allowance is reflective of lower loan volume experienced during the first half of 2015. Management views the allowance's current level as being sufficient to offset potential future losses associated with problem loans.

Total liabilities as of June 30, 2015 were \$341,987,000, up \$12,453,000 or 4% from \$329,534,000 as of December 31, 2014. Higher levels of demand deposit account balances drove the increase, which grew by \$14,366,000 or approximately 28%. The Company continues to focus on the expansion of core deposit relationships, which has helped lower the Company's cost of funds, decrease its dependency on time deposits and provide relationship expansion opportunities. The Company also experienced a 3% or \$5,002,000 increase in savings and Now accounts. These increases were partially offset by a 4% or \$6,686,000 decline in time deposits as compared to those respective balances as of December 31, 2014. The Company expects to utilize additional deposits by proactively seeking new loans, as referenced, and investing in securities with short maturities.

Total stockholders' equity as of June 30, 2015 was \$33,667,000 and consisted primarily of \$29,127,000 in retained earnings. In comparison, as of December 31, 2014, total stockholders' equity was \$32,654,000. The Company has continued to increase capital while also paying a cash dividend to shareholders in each of the last ten quarters. Both the Company and Bank remain "well capitalized" per all regulatory definitions.

In other news, at the July meeting of the Board of Directors, Elton W. Blackstock was elected as a Director to both the Pinnacle Bankshares Corporation and First National Bank Board of Directors. Mr. Blackstock is a native of Pittsylvania County and worked for over thirty years in the military, law enforcement and corrections before retiring in 2012 as Administrator of the Blue Ridge Regional Jail. He currently works as a consultant for correctional facilities, operates a beef cattle farm in Hurt, Virginia and serves on Pittsylvania County's Board of Supervisors. Mr. Blackstock will serve as a Class I Director for Pinnacle and will stand for election by shareholder vote at the 2016 Annual Meeting of Shareholders.

Finally, the Bank is on schedule with its Lynchburg Market Plan progress and intends to commence construction on its Timberlake Road Branch renovation and Old Forest Branch relocation projects in early September 2015.

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. First National Bank is in its 108th 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
(6/30/15, 3/31/2015 and 6/30/2014 results unaudited)
(In thousands, except ratios, share and per share data)

Income Statement Highlights	3 Months Ended <u>06/30/2015</u>	3 Months Ended <u>03/31/2015</u>	3 Months Ended <u>06/30/2014</u>
Interest Income	\$3,424	\$3,386	\$3,534
Interest Expense	426	436	503
Net Interest Income	2,998	2,950	3,031
Provision for Loan Losses	77	29	9
Noninterest Income	907	842	766
Noninterest Expense	2,983	2,904	3,132
Net Income	580	586	459
Earnings Per Share (Basic)	0.38	0.39	0.30
Earnings Per Share (Diluted)	0.38	0.38	0.30

Income Statement Highlights	6 Months Ended <u>06/30/2015</u>	Year Ended <u>12/31/2014</u>	6 Months Ended <u>06/30/2014</u>
Interest Income	\$6,810	\$14,035	\$7,060
Interest Expense	862	1,979	1,021
Net Interest Income	5,948	12,056	6,039
Provision for Loan Losses	106	91	(13)
Noninterest Income	1,749	3,162	1,516
Noninterest Expense	5,887	12,008	5,991
Net Income	1,166	2,149	1,081
Earnings Per Share (Basic)	0.77	1.42	0.72
Earnings Per Share (Diluted)	0.76	1.40	0.71

Balance Sheet Highlights	<u>06/30/2015</u>	<u>12/31/2014</u>	<u>06/30/2014</u>
Cash and Cash Equivalents	\$42,338	\$29,451	\$29,288
Total Loans	280,305	283,519	280,916
Total Securities	34,051	29,277	27,696
Total Assets	375,654	362,188	357,926
Total Deposits	337,886	325,204	320,440
Total Liabilities	341,987	329,534	324,764
Stockholders' Equity	33,667	32,654	33,162
Shares Outstanding	1,522,294	1,511,970	1,515,144

Ratios and Stock Price	<u>06/30/2015</u>	<u>12/31/2014</u>	<u>06/30/2014</u>
Gross Loan-to-Deposit Ratio	82.95%	87.18%	87.67%
Net Interest Margin (Year-to-date)	3.46%	3.60%	3.65%
Liquidity	18.70%	15.80%	14.83%
Efficiency Ratio	76.57%	78.80%	79.09%
Return on Average Assets (ROA)	0.64%	0.60%	0.61%
Return on Average Equity (ROE)	7.02%	6.59%	6.61%
Leverage Ratio (Bank)	9.28%	9.36%	9.44%
Tier 1 Capital Ratio (Bank)	11.99%	11.09%	11.19%
Total Capital Ratio (Bank)	13.07%	12.12%	12.27%
Stock Price	\$17.51	\$17.80	\$18.20
Book Value	\$22.12	\$21.60	\$21.89

Asset Quality Highlights	<u>06/30/2015</u>	<u>12/31/2014</u>	<u>06/30/2014</u>
Nonaccruing Loans	\$4,786	\$4,284	\$1,926
Loans 90 Days or More Past Due and Accruing	46	0	52
Total Nonperforming Loans (Impaired Loans)	4,832	4,284	1,978
Other Real Estate Owned (OREO) (Foreclosed Assets)	772	1,107	1,333
Total Nonperforming Assets	5,604	5,391	3,311
Nonperforming Loans to Total Loans	1.72%	1.51%	0.70%
Nonperforming Assets to Total Assets	1.49%	1.49%	0.93%
Allowance for Loan Losses	\$3,045	\$3,070	\$3,187
Allowance for Loan Losses to Total Loans	1.09%	1.08%	1.13%
Allowance for Loan Losses to Nonperforming Loans	63.02%	71.66%	161.12%

CONTACT: Pinnacle Bankshares Corporation, Bryan M. Lemley, 434-477-5882 or bryanlemley@1stnatbk.com