

July 31, 2015

Dear Shareholders:

I am pleased to report that your company, Pinnacle Bankshares Corporation, the one bank holding company for First National Bank, generated net income of \$580,000 for the quarter ended June 30, 2015. This level of earnings represents a 26% increase as compared to net income generated for the same time period of 2014. On a year-to-date basis, net income increased 8% through the first six months of 2015 as compared to last year. The catalysts for our improved performance were higher levels of non-interest income, driven by increased sales of mortgage loans, and lower non-interest expense primarily attributed to a decline in other losses associated with the sale of real estate acquired through foreclosures. These factors helped offset a decline in our net interest margin, which was mainly due to lower yields on interest earning assets.

Loan growth has been a challenge with the Bank's loan portfolio as of June 30, 2015 declining \$3,214,000 compared to 2014's year-end balance. However, we are proactively seeking new loan opportunities and are encouraged by recent production generated by our Retail Branches and Dealer Division, which resulted in a \$2,204,000 increase in loans during the second quarter. Sustained loan growth will be needed as we move forward to further improve our bottom line as margin expansion will be challenging without an increase in interest rates.

Our provision for loan losses was \$106,000 through the first half of 2015 as compared to a slightly negative provision for the same time period of last year. This level of provision expense is more normalized and somewhat expected to maintain a sufficient allowance for loan losses. Non-performing loans to total loans were up to 1.72% as of June 30, 2015 compared to .70% as of June 30, 2014. Correspondingly, our allowance's coverage of non-performing loans has decreased to 63% from 161%. This uptick in "problem loans" is primarily due to the placement of several restructured loans where the borrowers are currently making interest only payments into nonaccrual status. The subject loans are well collateralized and have sound plans for repayment in place. Management does not expect future losses associated with these restructures and remains confident in the sufficiency of the allowance balance.

I am excited to announce that Elton W. Blackstock was elected to the Board of Directors for both Pinnacle Bankshares Corporation and First National Bank during the July board meetings. 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.

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Lastly, 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. We still anticipate starting construction on our Odd Fellows Road facility in 2016.

A copy of our 2015 Second Quarter Earnings Release, which includes selected unaudited financial highlights, is being provided for your review. The information is also posted on our website, www.1stnatbk.com, under the Investor Relations tab. Should you have any questions regarding the information provided, you may contact me at 434-369-3038 or our Chief Financial Officer, Bryan M. Lemley, at 434-477-5882.

As always, thank you for your support, confidence and continued interest in Pinnacle Bankshares Corporation and First National Bank.

Sincerely,

Aubrey H. Hall, III "Todd"
President & Chief Executive Officer

AHH, III/

Enclosure