Pinnacle Bankshares Corporation Fourth Quarter and 2015 Earnings Report

Altavista, VA February 5, 2016 – Net income for Pinnacle Bankshares Corporation (OTCQX:PPBN), the one-bank holding company (the "Company") for First National Bank (the "Bank"), was $1,007,000 or $0.66 per basic and diluted share for the quarter ended December 31, 2015 and $2,740,000 or $1.80 per basic share and $1.79 per diluted share for the year ended December 31, 2015. In comparison, net income was $467,000 or $0.31 per basic and $.30 per diluted share and $2,149,000 or $1.42 per basic and $1.40 per diluted share, respectively, for the same periods of 2014. Consolidated results for the quarter and year are unaudited.

Net income generated during the fourth quarter of 2015 represents a 116% increase as compared to the same time period of 2014. The increase was due in part to recognition of $354,000 in pretax income resulting from the conversion to the equity method of accounting for the Bank's investment in Bankers Insurance, LLC. Exclusive of the accounting change the Company still experienced healthy improvement as fourth quarter net income was $773,000 or 66% higher than the same time period of the prior year. This increase was primarily driven by higher net interest income due to lower cost of funds, higher loan volume and the recapture of loan interest that was previously in nonaccrual status as problem loans exited the Bank.

For 2015 net income increased 28% as compared to 2014. The increase was 17% based on core net income of $2,506,000, which excludes the impact of the accounting change, and was mainly driven by a $449,000 or 4% increase in net interest income and a $214,000 or 7% increase in noninterest income primarily due to higher interchange fee income associated with check card usage, commissions from investment sales and fees derived from the sale of mortgage loans.

Profitability as measured by the Company's return on average assets ("ROA") was 0.74% for 2015, which is a 14 basis points increase as compared to the 0.60% produced for 2014. Correspondingly, return on average equity ("ROE") also increased in 2015 to 8.12% compared to 6.59% for the prior year. ROA and ROE in 2015, exclusive of the accounting change, were 0.68% and 7.44%, respectively.

"We are pleased to report increased core operating net income for the seventh straight year, which was driven by a decline in our cost of funds, loan growth and strengthened asset quality," stated Aubrey H. Hall, III, President and Chief Executive Officer for both the Company and the Bank. He further commented, "Future improvement will largely depend on asset growth, continued credit quality and the successful execution of our Lynchburg Market Plan."

For the fourth quarter of 2015 net interest income increased to $3,424,000 as compared to $3,025,000 for the same period in 2014. Interest income increased $291,000 due to higher loan volume and the recognition of $148,000 in interest income that was previously in nonaccrual status as the Bank received payoffs on several long term problem loans. Interest expense declined $108,000 or approximately 23% due to lower cost of funds. Correspondingly, net interest margin increased to 3.93% in the fourth quarter of 2015 compared to 3.54% in the fourth quarter of 2014.

On a year over year basis, the Company's net interest income grew $449,000 to $12,505,000 for 2015 as interest expense decreased $366,000 or approximately 18%, and interest income increased by $83,000 or less than 1%. Growth of demand deposits and other low cost deposits has been the catalyst for the net interest income improvement, which is a direct result of the Bank's focus on the expansion of core banking relationships. Net interest margin increased to 3.63% for the year ended December 31, 2015, from 3.60% for the year ended December 31, 2014.

Continued material improvement in asset quality kept the Company’s provision for loan losses relatively low at $129,000, which was only a $38,000 increase as compared to the $91,000 expensed in 2014 despite an 8% increase in outstanding loans. Nonperforming loans comprised of loans in nonaccrual status or past due greater than ninety days, decreased from $2,128,000 to $1,387,000 from December 31, 2014 to December 31, 2015. Impaired Loans comprised of nonperforming loans and accruing troubled debt restructures decreased from $4,284,000 to $2,856,000 during the same time period.

The allowance for loan losses was $2,889,000 as of December 31, 2015, which represented 0.94% 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 decrease in the Company’s allowance to total loans ratio is reflective of continued improvement in the Company’s asset quality as previously referenced. Nonperforming assets (including nonaccrual loans, accruing loans more than 90 days past due, and foreclosed assets) declined to $3,120,000 or 0.84% of total assets as of December 31, 2015, as compared to $3,235,000 or 0.89% of total assets as of December 31, 2014. Nonperforming loans to total loans decreased to 0.45% as of year-end 2015 compared to 0.75% as of year-end 2014. The allowance balance was 208% of nonperforming loans as of December 31, 2015 versus 144% as of the prior year end, which management views as being sufficient to offset potential future losses associated with problem loans.

For the fourth quarter of 2015, noninterest income increased $320,000 or 39% as compared to the same period of 2014 due to the change in accounting method previously referenced. On an annual basis, 2015’s noninterest income of $3,731,000 increased $569,000 or approximately 18% as compared to the prior year. This increase was mainly driven by the accounting change along with a 9% increase in interchange fees, a 12% increase in commissions from investment and insurance sales and a 10% increase in mortgage fees.

Noninterest expense for the fourth quarter of 2015 was $3,063,000, which declined $23,000 as compared to the $3,086,000 for the fourth quarter of 2014. Noninterest expense increased $53,000 or less than 1%, for the year. This increase was primarily due to a $411,000, or 7% increase in salaries and employee benefits as new positions were added to facilitate growth. This increase was almost entirely offset by decreases in numerous other noninterest expense categories, including an $180,000 decline in other losses associated with the liquidation of nonperforming assets.

Total assets as of December 31, 2015 were $371,261,000, up approximately 3% from $362,188,000 as of December 31, 2014. The principal components of the Company’s assets as of year-end 2015 were $306,088,000 in total loans, $17,724,000 in cash and cash equivalents and $27,148,000 in securities. During 2015, total loans increased approximately 8% or $22,569,000 from $283,519,000 as of December 31, 2014. Most of the loan growth occurred in the second half of 2015 and was driven by strong performances from the Bank’s Retail Branches and Dealer Division. Securities decreased approximately 7% or $2,129,000 from $29,277,000, which helped fund loan growth.

Total liabilities as of December 31, 2015 were $336,479,000, up approximately 2% or $6,945,000 from $329,534,000 as of December 31, 2014. Higher levels of deposits drove the increase, as demand deposits increased $8,094,000 or approximately 16% and savings and NOW accounts increased $10,882,000 or approximately 7%. The increases in demand, savings and NOW accounts were partially offset by a decrease in time deposits, which declined $11,777,000 or approximately 10% as compared to the balance as of December 31, 2014. The increase in checking and savings deposits reflects the continued focus on the expansion of core deposit relationships in 2015, which has helped lower the Company’s cost of funds, decreased its dependency on time deposits and continues to provide relationship expansion opportunities for the Bank.

Total stockholders' equity as of December 31, 2015 was $34,782,000, and consisted primarily of $30,442,000 in retained earnings. In comparison, as of December 31, 2014 total stockholders' equity was $32,654,000. The Company has continued to increase its capital while also paying a cash dividend to shareholders in each of the last thirteen quarters and funding a Share Repurchase Program aimed at potentially increasing trading volume in the Company's stock. Improved profitability and controlled growth have further strengthened the capital position of both the Company and Bank, which are considered "well capitalized" per all regulatory definitions.

As previously reported, First National Bank has developed a Lynchburg Market Plan in an effort to increase its presence and visibility in Central Virginia. The plan includes renovation and expansion of the Bank's Timberlake Road branch and relocation of its Old Forest Road branch to a new facility on Old Forest Road. Both of these projects are well under way and are expected to be completed by June of 2016. The plan also includes the construction of a new branch / Lynchburg headquarters building on Odd Fellows Road. Planning is under way for this new facility with construction expected to commence in 2016. Completion of the project will allow positions currently housed in the Wyndhurst Administrative Office to be moved to Odd Fellows Road and alleviate space shortages at several branches. First National Bank's Altavista Main Office will remain the Company's corporate headquarters.

Mr. Hall concluded, "From a financial performance, loan growth and asset quality perspective, 2015 signified a breakout year for First National Bank. Our Board, Management and team of dedicated financial professionals look forward to further improvement as we continue to set our sights on being recognized as the premiere community banking organization in Central Virginia."

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.

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Pinnacle Bankshares Corporation
Selected Financial Highlights
(12/31/2015 and quarterly results unaudited)
(In thousands, except ratios, share and per share data)

Income Statement Highlights	3 Months Ended 12/31/2015	3 Months Ended 9/30/2015	3 Months Ended 12/31/2014
Interest Income	$3,786	$3,522	$3,495
Interest Expense	362	388	470
Net Interest Income	3,424	3,134	3,025
Provision for Loan Losses	(1)	24	99
Noninterest Income	1,147	835	827
Noninterest Expense	3,063	3,111	3,086
Net Income	1,007	567	467
Earnings Per Share (Basic)	0.66	0.37	0.31
Earnings Per Share (Diluted)	0.66	0.37	0.30

Income Statement Highlights	Year Ended 12/31/2015	Year Ended 12/31/2014	Year Ended 12/31/2013
Interest Income	$14,118	$14,035	$14,899
Interest Expense	1,613	1,979	3,190
Net Interest Income	12,505	12,056	11,709
Provision for Loan Losses	129	91	143
Noninterest Income	3,731	3,162	4,554
Noninterest Expense	12,061	12,008	12,228
Net Income	2,740	2,149	2,651
Earnings Per Share (Basic)	1.80	1.42	1.75
Earnings Per Share (Diluted)	1.79	1.40	1.74

Balance Sheet Highlights	12/31/2015	12/31/2014	12/31/2013
Cash and Cash Equivalents	$17,724	$29,451	$35,457
Total Loans	306,088	283,519	277,758
Total Securities	27,148	29,277	29,125
Total Assets	371,261	362,188	358,601
Total Deposits	332,403	325,204	322,130
Total Liabilities	336,479	329,534	326,659
Stockholders' Equity	34,782	32,654	31,942
Shares Outstanding	1,520,221	1,511,970	1,515,007

Ratios and Stock Price	12/31/2015	12/31/2014	12/31/2013
Gross Loan-to-Deposit Ratio	92.08%	87.18%	86.23%
Net Interest Margin (Year-to-date)	3.63%	3.60%	3.47%
Liquidity	11.42%	15.80%	17.74%
Efficiency Ratio	74.41%	78.80%	75.20%
Return on Average Assets (ROA)	0.74%	0.60%	0.75%
Return on Average Equity (ROE)	8.12%	6.59%	8.96%
Leverage Ratio (Bank)	9.75%	9.36%	9.14%
Tier 1 Risk-based Capital Ratio (Bank)	11.44%	11.08%	11.17%
Total Capital Ratio (Bank)	12.39%	12.11%	12.36%
Stock Price	$19.70	$17.80	$15.10
Book Value	$23.05	$21.60	$21.08

Asset Quality Highlights	12/31/2015	12/31/2014	12/31/2013
Nonaccruing Loans	$1,387	$2,128	$2,586
Loans 90 Days or More Past Due and Accruing	0	0	0
Total Nonperforming Loans	1,387	2,128	2,586
Troubled Debt Restructures Accruing	1,469	2,156	2,523
Total Impaired Loans	2,856	4,284	5,109
Other Real Estate Owned (OREO) (Foreclosed Assets)	1,733	1,107	1,297
Total Nonperforming Assets	3,120	3,235	3,883
Nonperforming Loans to Total Loans	0.45%	0.75%	0.93%
Nonperforming Assets to Total Assets	0.84%	0.89%	1.08%
Allowance for Loan Losses	$2,889	$3,070	$3,409
Allowance for Loan Losses to Total Loans	0.94%	1.08%	1.23%
Allowance for Loan Losses to Nonperforming Loans	208.29%	144.27%	131.83%