PINNACLE BANKSHARES
CORPORATION

2015 ANNUAL REPORT

BOARD OF DIRECTORS

Front Row: C. Bryan Stott, James E. Burton, IV, (Chairman), Aubrey H. Hall, III, A. Patricia Merryman
Back Row: Robert L. Johnson, II, Robert L. Finch, Jr., Michael E. Watson, Thomas F. Hall, Judson H. Dalton, Carroll E. Shelton, James O. Watts, IV, Esq., Elton W. Blackstock, Jr.

SENIOR MANAGEMENT

Front Row: Vivian S. Brown, Aubrey H. Hall, III (President and CEO), Judith A. Clements
Back Row: Thomas R. Burnett, Jr., Tony J. Bowling, Bryan M. Lemley, William J. Sydnor, II

On the cover: Branch locations Old Forest Road and Timberlake. Projects expected to be completed by July of 2016.

PINNACLE BANKSHARES CORPORATION
AND SUBSIDIARY

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PINNACLE BANKSHARES CORPORATION
AND SUBSIDIARY

First National Bank Office Locations

ALTAVISTA

MAIN OFFICE
622 Broad Street
Altavista, Virginia 24517
Telephone: (434) 369-3000

VISTA OFFICE
1303 Main Street
Altavista, Virginia 24517
Telephone: (434) 369-3001

LYNCHBURG

AIRPORT OFFICE
14580 Wards Road
Lynchburg, Virginia 24502
Telephone: (434) 237-3788

TIMBERLAKE OFFICE
20865 Timberlake Road
Lynchburg, Virginia 24502
Telephone: (434) 237-7936

OLD FOREST ROAD OFFICE
3309 Old Forest Road
Lynchburg, Virginia 24501
Telephone: (434) 385-4432

FOREST

FOREST OFFICE
14417 Forest Road
Forest, Virginia 24551
Telephone: (434) 534-0451

AMHERST

AMHERST OFFICE
130 South Main Street
Amherst, Virginia 24521
Telephone: (434) 946-7814

RUSTBURG

RUSTBURG OFFICE
1033 Village Highway
Rustburg, Virginia 24588
Telephone: (434) 332-1742

PINNACLE BANKSHARES CORPORATION
AND SUBSIDIARY

Officers of Pinnacle Bankshares Corporation

Aubrey H. Hall, III	President & Chief Executive Officer
Bryan M. Lemley	Secretary, Treasurer & Chief Financial Officer
William J. Sydnor, II	Vice President

Officers and Managers of First National Bank

Aubrey H. Hall, III	President, Chief Executive Officer & Trust Officer
Bryan M. Lemley	Senior Vice President, Cashier & Chief Financial Officer
William J. Sydnor, II	Senior Vice President & Chief Credit Officer
Judith A. Clements	Senior Vice President & Director of Human Resources
Thomas R. Burnett, Jr.	Senior Vice President & Chief Lending Officer
Vivian S. Brown	Senior Vice President & Branch Administration Officer
Tony J. Bowling	Senior Vice President & Chief Operating Officer
Lucy H. Johnson	Senior Vice President & Data Processing Manager
Pamela R. Adams	Vice President & Loan Operations Manager
James M. Minear	Vice President & Commercial Officer
Shawn D. Stone	Vice President & Commercial Officer
Daniel R. Wheeler	Vice President & Commercial Officer
George D. Vaughan, IV	Vice President & Commercial Officer
Penelope P. Wallace	Vice President & Commercial Officer
Tracie A. Gallahan	Vice President & Mortgage Division Manager
John E. Tucker	Vice President & Investment Consultant
Lisa M. Landrum	Vice President & Dealer Finance Officer
Tarry R. Pribble	Vice President & Collections and Recovery Manager
Vicki G. Greer	Vice President & Financial Analyst
Melissa T. Campbell	Assistant Vice President & Branch Operations Manager
Jeffrey S. Walker	Assistant Vice President & Branch Manager (Main)
Janet H. Whitehead	Assistant Vice President & Branch Manager (Airport)
M. Amanda Ramsey	Assistant Vice President & Branch Manager (Amherst)
Andria C. Smith	Assistant Vice President & Branch Manager (Rustburg)
Kathleen P. Morgan	Assistant Vice President & Branch Manager (Forest)
Arin L. Brown	Assistant Vice President & Branch Manager (Vista)
AnnMarie W. King	Assistant Vice President & Branch Manager (Timberlake)
Patricia D. Canada	Assistant Vice President & Branch Manager (Old Forest Road)
Christine A. Hunt	Assistant Vice President & Internal Auditor
Dianna C. Hamlett	Assistant Vice President, Compliance & Bank Secrecy Act Officer
Romonda F. Davis	Assistant Vice President & E-Commerce Sales Representative
Allison G. Daniels	Assistant Vice President & Loan Quality Control Officer
Ann L. Dalton	Assistant Vice President & Real Estate Loan Portfolio Manager
Cathy C. Simms	Assistant Vice President & Dealer Finance Officer
Monica L. Woody	Human Resources Manager
Tammie W. Griffin	E-commerce Sales Representative
Cheria B. Taylor	Retail Business Development Officer (Main)
Nickolas R. Gillan	Retail Business Development Officer (Timberlake)
Scott W. Martin	Retail Business Development Officer (Airport)
Alison N. Ayers	Retail Business Development Officer (Rustburg)
LaDonna S. Davis	Retail Business Development Officer (Vista)
Sophie M. Lovell	Retail Business Development Officer (Airport)
Brandy M. Marcum	Retail Business Development Officer (Forest)
Helen J. Rasnake	Retail Business Development Officer (Amherst)
Jean W. Clay	Retail Business Development Officer (Main)
Jennifer T. Edgell	Bank Officer & Credit Analyst
Kenneth M. Selmer	Bank Officer & Credit Analyst
Shirley B. Brooks	Collections Officer
Brandi N. Evans	Collections Officer
Robert L. Warren	Bank Officer & Construction Loan Administrator
Courtney M. Woody	Bank Officer & Mortgage Loan Originator
John Kovack	Network Administrator
Robert A. Sears, Jr.	Facilities Manager
Ruby C. Smith	Customer Support Manager

DEAR SHAREHOLDERS,

I am pleased to report to you that Pinnacle Bankshares Corporation, the one-bank holding company for First National Bank, increased core operating net income in 2015 for the seventh straight year and improved your returns in terms of annual cash dividends and share price appreciation. Your Company also made significant progress in executing growth plans aimed at expanding First National's presence across Central Virginia. These achievements combined with strengthened asset quality and better efficiency demonstrate our commitment to enhancing the value of your investment over the long term.

For 2015 Pinnacle generated net income of $2,740,000, which included $234,000 of after tax income resulting from our conversion to the equity method of accounting for First National Bank's investment in Bankers Insurance, LLC. The change aligns us with other community bank owners of the full service, independent insurance agency. Future returns are expected from commissions on insurance referrals provided by the Bank and growth of the agency across Virginia and North Carolina.

Core net income, excluding the accounting change, was $2,506,000 in 2015, which was a 17% increase as compared to 2014. Profitability as commonly measured by return on average assets and return on average equity improved to 0.68% and 7.44%, respectively, net of the change. Net interest income growth of $449,000 was the catalyst for improvement, which was primarily driven by a decline in our cost of funds as the Bank experienced further growth of demand deposits and other transaction accounts. Additionally, noninterest income increased $215,000, net of the accounting change, due to increased interchange fees derived from check card usage and a rebound in income generated from our Investment and Mortgage Divisions prior to related expenses.

The provision for loan losses was $129,000 for the year, an increase of only $38,000 compared to 2014, as improved credit quality helped to offset material loan growth experienced during the second half of 2015. In fact, nonperforming loans (loans in nonaccrual status or past due greater than ninety days) were less than 0.50% of total loans as of year-end due in part to payoffs received on several long term problem credits. Our allowance for loans losses was $2,889,000 as of December 31, 2015, which represented 0.94% of total loans outstanding. The allowance balance was 208% of nonperforming loans as of year-end, which we believe provides appropriate reserves for potential future losses associated with our loan portfolio.

Noninterest expense was well controlled, increasing only $53,000 during 2015 despite higher salaries and employee benefits as a result of adding several new sales positions associated with First National's expansion in Lynchburg. Two new Commercial Officers along with an additional E-Commerce Officer have been brought on board in an effort to boost loan production and further increase business deposits through utilization of electronic delivery channels, including merchant bankcard services and remote deposit capture.

Pinnacle's total assets as of December 31, 2015 were $371,261,000, an increase of $9,073,000 or 3% as compared to the end of the prior year. While overall asset growth was modest, loan growth for the year was more robust with total loans increasing $22,569,000 or 8% to $306,088,000. The growth was led by strong performances from the Bank's Retail Branch Network and Dealer (Indirect-Auto) Division. Additionally, volume was boosted from several non-organic sources including loan participations, medical loans purchased from Bankers Healthcare Group and municipal funding. The increased loan volume, which occurred primarily during the second half of the year, combined with only a slight decline in the Bank's investment portfolio to $27,148,000 resulted in better utilization of available funds and an $83,000 increase in interest income despite declining asset yields.

Total liabilities, consisting primarily of deposits, were $336,479,000 as of year-end, which was an increase of approximately 2%. Demand deposits, savings and NOW accounts (interest checking) grew $18,976,000 or 9% during 2015 to $230,326,000 and reflect our continued focus on the expansion of core deposit relationships, which have driven the Company's lower cost of funds. This increase was partially offset by a decrease in time deposits of $11,777,000 or approximately 10%. While we have intentionally grown our checking accounts to become less time deposit dependent, we would like to maintain our current deposit base composition of approximately 18% demand accounts, 52% savings and NOW accounts and 30% time deposits.

Stockholders' equity as of December 31, 2015 was $34,782,000, representing an increase of $2,128,000 or 7% as compared to the prior year end. Pinnacle and First National Bank remain "well capitalized" per all current regulatory definitions and meet applicable Basel III capital standards. Capital requirements to support future growth are anticipated to be generated internally through increased retained earnings resulting from improved profitability.

Operating banks of all sizes requires constant attention to ever changing technology. We continue to expand our electronic product lineup and have been pleased with the growth of online bill pay and mobile banking users since the adoption of new platforms in 2014. Always remaining mindful of protecting our clients, First National Bank has implemented a comprehensive cyber security program based on guidelines establish by federal agencies.

Your Board and Management Team are extremely pleased that a return has been paid to you in the form of a cash dividend over the last fourteen quarters and that the amount of annual cash dividends paid increased 6% from $0.32 per share in 2014 to $0.34 per share in 2015. We are also encouraged by the increase in the trading price of Pinnacle's stock, which ended the year up 11% at $19.70. While the trading price of our stock continues to improve, we believe that it still does not fully reflect the true value of your Company. For this reason the Company remains willing to utilize its Share Repurchase Program when appropriate to potentially increase trading volume in our stock and provide liquidity in the market.

First National Bank's Lynchburg Market Plan, which is intended to increase the Bank's presence and visibility across Central Virginia, is well under way with construction commencing during 2015 on the renovation and expansion of the Timberlake Road Branch and the relocation of the Old Forest Road Branch to a new facility on the same corridor. These projects are now expected to be completed by July 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 mid-2016. Completion of the project will allow positions currently housed in the Bank's 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 with the functions performed there remaining in place.

In closing, 2015 signified a breakout year for your Company from a financial performance, loan growth and asset quality perspective. 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 premier community banking organization in Central Virginia.

To hear more about the performance and direction of Pinnacle Bankshares Corporation, please plan to attend our **Annual Meeting of Shareholders** to be held at **11:00 a.m., Tuesday, April 12, 2016** in the Fellowship Hall of Altavista Presbyterian Church, located at 707 Broad Street, Altavista, Virginia. We are hopeful that you will be able to join us for this occasion.

As always, thank you for your support, confidence and the opportunity to serve your interests as President and Chief Executive Officer of Pinnacle Bankshares Corporation.

Sincerely,

Aubrey H. Hall, III

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

PINNACLE BANKSHARES CORPORATION
AND SUBSIDIARY
Selected Consolidated Financial Information
(In thousands, except ratios, share and per share data)

	Years ended December 31,				
	2015	**2014**	**2013**	**2012**	**2011**
Income Statement Data:					
Net interest income	$ 12,505	12,056	11,709	11,601	12,091
Provision for loan losses	129	91	143	1,177	2,227
Noninterest income	3,730	3,162	4,554	3,443	3,253
Noninterest expense	12,060	12,008	12,228	11,910	11,544
Income tax expense	1,306	970	1,241	619	510
Net income	2,740	2,149	2,651	1,338	1,063
Per Share Data:					
Basic net income	$ 1.80	1.42	1.75	0.89	0.71
Diluted net income	1.79	1.40	1.74	0.89	0.71
Cash dividends	0.34	0.32	0.23	0.05	0.00
Book value	22.88	21.60	21.08	18.63	18.01
Weighted-Average Shares Outstanding:					
Basic	1,519,159	1,512,661	1,512,545	1,503,952	1,496,260
Diluted	1,531,436	1,530,831	1,523,105	1,503,952	1,496,260
Balance Sheet Data:					
Assets	$ 371,261	362,188	358,601	348,694	342,484
Loans, net	303,199	280,449	274,349	273,672	267,123
Securities	27,148	29,277	29,125	22,206	24,769
Cash and cash equivalents	16,739	29,451	35,457	35,790	37,547
Deposits	332,403	325,204	322,130	315,157	310,393
Stockholders' equity	34,782	32,654	31,942	28,089	26,947
Performance Ratios:					
Return on average assets	0.74%	0.60%	0.75%	0.39%	0.31%
Return on average equity	8.12%	6.59%	8.96%	4.83%	3.95%
Dividend payout	18.96%	22.48%	12.86%	5.61%	0.00%
Asset Quality Ratios:					
Allowance for loan losses to total loans, net of unearned income and fees	0.94%	1.08%	1.23%	1.31%	1.48%
Net charge-offs to average loans, net of unearned income and fees	0.11%	0.15%	0.12%	0.57%	0.84%
Capital Ratios:					
Leverage	9.68%	9.25%	8.88%	8.49%	8.12%
Risk-based:					
Tier 1 capital	11.37%	10.96%	10.84%	10.15%	9.99%
Total capital	12.32%	11.98%	12.03%	11.39%	11.24%
Average equity to average assets	9.17%	9.11%	8.33%	8.04%	7.93%

Results of Operations
(in thousands, except ratios, share and per share data)

Cautionary Statement Regarding Forward-Looking Statements

The following discussion is qualified in its entirety by the more detailed information and the consolidated financial statements and accompanying notes appearing elsewhere in this Annual Report. In addition to the historical information contained herein, this Annual Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements, which are not statements of historical fact and are based on certain assumptions and describe future plans, strategies, and expectations of management, are generally identifiable by use of words such as “believe,” “expect,” “intend,” “anticipate,” “estimate,” “project,” “may,” “will” or similar expressions. These forward-looking statements may include, but are not limited to, anticipated future financial performance, impairment of goodwill, funding sources including cash generated by banking operations, loan portfolio composition, trends in asset quality and strategies to address nonperforming assets and nonaccrual loans, adequacy of the allowance for loan losses and future provisions for loan losses, securities portfolio composition and future performance, interest rate environments, deposit insurance assessments, and strategic business initiatives.

Although we believe our plans, intentions and expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these plans, intentions, or expectations will be achieved. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain, and actual results, performance or achievements could differ materially from those contemplated. Factors that could have a material adverse effect on our operations and future prospects include, but are not limited to, changes in: the effectiveness of management’s efforts to maintain asset quality and control operating expenses; the quality, composition and growth of the loan and investment portfolios; interest rates; decrease in net interest margin; declining collateral values, especially in the real estate market; general economic conditions, including stagnation in general business and economic conditions and in the financial markets; unemployment levels; the legislative/regulatory climate, including the impact of any policies or programs implemented pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (“the Dodd-Frank Act”) or other laws; 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; demand for loan products; deposit flows; competition; demand for financial services in our market area; regulatory compliance costs; accounting principles, policies and guidelines; and an increase in shareholders that would require the Company to be subject to the reporting obligations of the Securities Exchange Act of 1934, as amended. These risks and uncertainties should be considered in evaluating forward-looking statements contained herein. We base our forward-looking statements on management's beliefs and assumptions based on information available as of the date of this report. You should not place undue reliance on such statements, because the assumptions, beliefs, expectations and projections about future events on which they are based may, and often do, differ materially from actual results. We undertake no obligation to update any forward-looking statement to reflect developments occurring after the statement is made.

Company Overview

Pinnacle Bankshares Corporation, a Virginia corporation (the “Company” or “Bankshares”), was organized in 1997 and is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended. Bankshares is headquartered in Altavista, Virginia. Bankshares conducts all of its business activities through the branch offices of its wholly owned subsidiary bank, First National Bank (the “Bank”). Bankshares exists primarily for the purpose of holding the stock of its subsidiary, the Bank, and of such other subsidiaries as it may acquire or establish.

First National Bank was organized in 1908 and currently maintains a total of eight offices to serve its customers. The Main Office and Vista Branch are located in the Town of Altavista, the Airport Branch, Timberlake Branch and Rustburg Branch in Campbell County, the Old Forest Road Branch in the City of Lynchburg, the Forest Branch in Bedford County and the Amherst Branch in the Town of Amherst. The Bank also maintains an administrative and training facility in the Wyndhurst section of the City of Lynchburg.

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 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 July 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 and training facility 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.

A total of one-hundred ten full and part-time staff members serve the Bank's customers.

With an emphasis on personal service, the Bank today offers a broad range of commercial and retail banking products and services including checking, savings and time deposits, individual retirement accounts, merchant bankcard processing, residential and commercial mortgages, home equity loans, consumer installment loans, agricultural loans, investment loans, small business loans, commercial lines of credit and letters of credit. The Bank also offers a full range of investment, insurance and annuity products through its association with Infinex Investments, Inc. and Banker's Insurance, LLC. The Bank has two wholly-owned subsidiaries: FNB Property Corp., which holds title to future Bank premises real estate as needed; and First Properties, Inc., which holds title to other real estate owned acquired through foreclosures.

Results of Operations

The Company had net income of $2,740 for the year ended December 31, 2015, compared to net income of $2,149 for the year ended December 31, 2014, an increase of 27.50%. This increase in net income was driven mainly by a $449, or 3.72% increase in net interest income and a $569 or 17.99% increase in noninterest income. These positive factors that contributed to the increase in net income were partially offset by a $53, or 0.44% increase in noninterest expense and a $38 or 41.76% increase in provision for loan losses.

Net interest income increased as net interest margin grew from 3.60% in 2014 to 3.63% in 2015. Noninterest income increased mainly due to the recognition of $354 in Bankers Insurance income as the Company adopted the equity method of accounting for the investment in the limited liability corporation that had previously been accounted for under the cost method as an investment. See note 1(e) "Change in Accounting Method" of the "Notes to Consolidated Financial Statements for additional information. The Company also saw increases in service charges, commissions, mortgage loan fees, interchange fees and other recoveries. Noninterest expense increased as salaries and commissions increased by $301 and defined benefit plan expense increased by $117 to $128 in 2015. The defined benefit plan expense is expected to increase to $200 in 2016. Provision for loan losses increased due to an increase in loan volume.

We expect continued gains in net income for 2016 due to loan growth and the December 2015 interest rate increase as well as the continued success of our Lynchburg Market Plan. The Company is well positioned if interest rates continue to increase in 2016, which we would expect to result in a further increase in net interest margin. We expect an increase in noninterest income in 2016 with additional sales staff. Finally, we expect an increase in noninterest expense in 2016 due to additional personnel and an increase in our defined benefit plan expense as referenced previously.

Profitability as measured by the Company's return on average assets ("ROA") was 0.74% in 2015, compared to 0.60% in 2014. Return on average equity ("ROE"), was 8.12% for 2015, compared to 6.59% for 2014.

Total assets as of December 31, 2015 were $371,261, up 2.51% from $362,188 as of December 31, 2014. The principal components of the Company's assets at the end of the year were $16,739 in cash and cash equivalents, $27,148 in securities and $303,199 in net loans. During the year ended December 31, 2015, gross loans increased 7.96% or $22,568. The Company's lending activities are a principal source of income.

Total liabilities as of December 31, 2015 were $336,479, up 2.11% from $329,534 as of December 31, 2014, due to an increase in total deposits of $7,199 or 2.21%, to $332,403 as of December 31, 2015 from $325,204 as of December 31, 2014. Noninterest-bearing demand deposits increased $8,094 or 15.93% and represented

17.72% of total deposits as of December 31, 2015, compared to 15.62% as of December 31, 2014. Savings and NOW accounts increased $10,882 or 6.78% and represented 51.57% of total deposits as of December 31, 2015, compared to 49.37% as of December 31, 2014. Time deposits decreased $11,777 or 10.34% and represented 30.71% of total deposits as of December 31, 2015, compared to 35.01% as of December 31, 2014. The Company's deposits are provided by individuals and businesses primarily located within the communities served. The Company had no brokered deposits as of December 31, 2015 and December 31, 2014.

Total stockholders' equity as of December 31, 2015 was $34,782, including $30,442 in retained earnings. As of December 31, 2014, stockholders' equity totaled $32,654, including $28,219 in retained earnings. The increase in stockholders' equity resulted mainly from the Company's net income of $2,740 partially offset by dividends of $517 paid to shareholders.

Net Interest Income. The net interest spread increased to 3.50% for the year ended December 31, 2015 from 3.47% for the year ended December 31, 2014. Yield on earning assets was 4.09% and cost of funds was 0.59% for the year ended December 31, 2015 as compared to a yield on earning assets of 4.19% and a cost of funds of 0.72% for the year ended December 31, 2014. The net interest margin increased to 3.63% for the year ended December 31, 2015 from 3.60% for the year ended December 31, 2014 as the cost to fund earning assets was 0.46% for the year ended December 31, 2015 as compared to the cost to fund earning assets of 0.59% for the year ended December 31, 2014. Net interest income was $12,505 for the year ended December 31, 2015, compared to $12,056 for the year ended December 31, 2014, and is attributable to interest income from loans, federal funds sold and securities exceeding the cost associated with interest paid on deposits and other borrowings. In 2015, the Company's deposits repriced at lower rates more rapidly than its loans in the low interest rate environment, and the Company's higher-cost time deposits declined while lower-cost demand, savings and NOW deposits grew, causing the Company's interest rate spread to increase.

Provision for Loan Losses. The provisions for loan losses for the years ended December 31, 2015 and 2014 were $129 and $91, respectively. The provision for loan losses increased slightly in 2015 but has remained at a low level since 2013, as the Company continues to strengthen its asset quality. The provision for loan losses increased $38 from 2014 to 2015 due to loan volume growth as criticized and classified loans declined due to the continued success of an aggressive asset quality improvement plan implemented in 2011. The Company expects to maintain the quality of its loan portfolio in 2016.

Noninterest Income. Total noninterest income for the year ended December 31, 2015 increased $569, or 17.99%, to $3,731 from $3,162 in 2014 mainly due to $354 in income from Bankers Insurance recognized using the equity method in 2015. See Note 1(e) "Change in Accounting Method" of the "Notes to Consolidated Financial Statements" for additional information. The Company's principal sources of noninterest income are service charges and fees on deposit accounts, particularly transaction accounts, interchange fees from debit cards, fees on sales of mortgage loans, and commissions and fees from investment, insurance, annuity and other bank products. Noninterest income exclusive of equity method income increased $214, or 6.77% to $3,376. The increase in 2015 is primarily attributable to a $44 or 2.70% increase in service charge on deposit accounts, a $46 or 12.20% increase in commissions and fees, a $38 or 9.69% increase in mortgage loan fees and an $87 or 16.63% increase in other operating income as recoveries from nonperforming problem assets increased by $39.

Noninterest Expense. Total noninterest expense for the year ended December 31, 2015 increased $53, or 0.44%, to $12,061 from $12,008 in 2014. The increase in noninterest expense is primarily due to a $411, or 6.85%, increase in salary and employee benefits as salaries and commissions increased $301 or 6.14% and defined benefit plan expense increased $117 to $128 in 2015 from $11 in 2014 These increases were partially offset by a $63 or 8.32% decrease in occupancy expense, a $92 or 11.59% decrease in furniture and equipment, a $23 or 10.70% decrease in office supplies and printing, a $25 or 10.08% decrease in capital stock tax, a $13 or 6.37% decrease in advertising expense and $162 or 4.56% decrease in other operating expenses. Other operating expenses declined due to a $180 decrease in losses on sales of nonperforming assets.

Income Tax Expense. Applicable income taxes on 2015 earnings amounted to $1,306, resulting in an effective tax rate of 32.28% compared to $970, and an effective tax rate of 31.10%, in 2014.

Investment Portfolio

Investment securities as of December 31, 2015 totaled $27,148, a decrease of $2,129, or 7.27% from $29,277 as of December 31, 2014. Investment securities held-to-maturity decreased to $5,073 as of December 31, 2015 from $5,680 as of December 31, 2014, a decrease of $607 or 10.69%. Available-for sale investments decreased to $22,075 as of December 31, 2015 from $23,597 as of December 31, 2014, a decrease of $1,522 or 6.45%. Investments decreased in 2015 as funds from pay downs and maturing and called bonds were used to fund loan growth.

Loan Portfolio

The Company's net loans were $303,199 as of December 31, 2015, an increase of $22,750, or 8.11%, from $280,449 as of December 31, 2014. This increase resulted from a $14,741 increase in commercial loans, a $6,982 increase consumer loans and an $875 increase in real estate loan originations during 2015. The Company's ratio of net loans to total deposits was 91.21% as of December 31, 2015 compared to 86.24% as of December 31, 2014.

Bank Premises and Equipment

Bank premises and equipment increased $338, or 4.01% in 2015 due in part to the renovations in progress of our Timberlake Branch and the construction in progress of our new Old Forest Road Branch. The projects are expected to be completed by July 2016. The Company plans to start the construction of its Odd Fellows Road location in mid-2016 which will house its Lynchburg headquarters and branch office. The Odd Fellows Road office will not replace our Altavista headquarters, but will relocate our administrative and training facility currently leased in the Wyndhurst section of Lynchburg.

Deposits

Average deposits were $331,013 for the year ended December 31, 2015, an increase of $9,859 or 3.07% from $321,154 of average deposits for the year ended December 31, 2014. As of December 31, 2015, total deposits were $332,403 representing an increase of $7,199, or 2.21%, from $325,204 in total deposits as of December 31, 2014. The change in deposits during 2015 was primarily due to increased deposit balances in previously existing deposit accounts, new deposit accounts opened as a result of new banking relationships, growth at the Company's branch locations and competitive pricing of the Company's products and services.

Capital Resources

The Company's financial position as of December 31, 2015 reflects liquidity and capital levels currently adequate to support anticipated funding needs and budgeted growth of the Company. Capital ratios are in excess of required regulatory minimums for a "well-capitalized" institution. The assessment of capital adequacy depends on a number of factors such as asset quality, liquidity, earnings performance, and changing competitive conditions and economic forces. The adequacy of the Company's capital is reviewed by management on an ongoing basis. Management seeks to maintain a capital structure that will assure an adequate level of capital to support anticipated asset growth and to absorb potential losses.

In July 2013, the Federal Reserve Board approved and published the final Basel III Capital Rules establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee's December 2010 framework ("Basel III") for strengthening international capital standards as well as certain provisions of the Dodd Frank Act. The Basel III Capital Rules, among other things, (i) introduce a new capital measure called "Common Equity Tier 1" ("CET1"), (ii) specify that Tier 1 capital consists of CET1 and "Additional Tier 1 Capital" instruments meeting specified requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expand the scope of the deductions from and adjustments to capital as compared to existing regulations. The Basel III Capital Rules were effective for Bankshares and the Bank on January 1, 2015 (subject to a phase in period for certain components). CET1 capital for the Bankshares and the Bank consists of common stock, related paid in capital, and retained earnings. In connection with the adoption of the Basel III Capital Rules, we elected to opt out of the requirement to include most components of accumulated other comprehensive income in CET1. CET1 for Bankshares and the Bank is reduced by goodwill and other intangible assets, net of associated deferred tax liabilities and subject to transition provisions.

Basel III limits capital distributions and certain discretionary bonus payments if the banking organization does not hold a “capital conservation buffer” consisting of 2.50% of CET1 capital, Tier 1 capital and total capital to risk weighted assets in addition to the amount necessary to meet minimum risk-based capital requirements. The capital conservation buffer will be phased in beginning January 1, 2016, at 0.625% of risk weighted assets, increasing each year until fully implemented at 2.50% on January 1, 2019. When fully phased in on January 1, 2019, Basel III will require (i) a minimum ratio of CET1 capital to risk weighted assets of at least 4.50%, plus a 2.50% capital conservation buffer, (ii) a minimum ratio of Tier 1capital to risk weighted assets of at least 6.00%, plus the capital conservation buffer, (iii) a minimum ratio of total capital to risk weighted assets of at least 8.00%, plus the capital conservation buffer and (iv) a minimum leverage ratio of 4.00%. Bankshares and the Bank continue to be well capitalized under the Basel III rules. See Note 12 “Dividend Restrictions and Capital Requirements” of the “Notes to Consolidated Financial Statements” for additional information.

The Company’s CET1 and Tier 1 Risk-based Capital Ratio was 11.45% of December 31, 2015. The Total Risk-based Capital Ratio was 12.41% and the Company’s Tier 1 Leverage Ratio was 9.68% as of December 31, 2015.

Stockholders’ equity was $34,782 as of December 31, 2015 compared to $32,654 as of December 31, 2014. Dividends paid to shareholders were $0.34 per share paid in 2015 as compared to the $0.32 per share paid in 2014.

PINNACLE BANKSHARES CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2015 and 2014
(In thousands of dollars, except share data)
(Audited)

Assets		2015		2014
Cash and cash equivalents (note 2):				
Cash and due from banks	$	16,739	$	28,466
Certificates of deposits		985		985
Securities (note 3):				
Available-for-sale, at fair value		22,075		23,597
Held-to-maturity, at amortized cost		5,073		5,680
Federal Reserve Bank stock, at cost (note 1(d))		144		144
Federal Home Loan Bank stock, at cost (note 1(d))		325		322
Loans, net (notes 4, 9 and 11)		303,199		280,449
Bank premises and equipment, net (note 5)		8,770		8,432
Accrued interest receivable		962		887
Bank owned life insurance		6,459		6,288
Goodwill		539		539
Other real estate owned		1,733		1,107
Other assets (notes 7 and 8)		4,258		5,292
Total assets	$	371,261	$	362,188
Liabilities and Stockholders' Equity				
Liabilities:				
Deposits (note 6):				
Demand	$	58,895	$	50,801
Savings and NOW accounts		171,431		160,549
Time		102,077		113,854
Total deposits		332,403		325,204
Note payable under line of credit (note 1(f))		1,091		1,368
Accrued interest payable		121		169
Other liabilities (note 7)		2,864		2,793
Total liabilities		336,479		329,534
Stockholders' equity (notes 7, 12 and 15):				
Common stock, $3 par value. Authorized 3,000,000 shares, issued and outstanding 1,520,221 shares in 2015 and 1,511,970 shares in 2014		4,508		4,497
Capital surplus		1,065		1,004
Retained earnings		30,442		28,219
Accumulated other comprehensive loss, net		(1,233)		(1,066)
Total stockholders' equity		34,782		32,654
Commitments, contingencies and other matters (notes 9, 10 and 11)				
Total liabilities and stockholders' equity	$	371,261	$	362,188

See accompanying notes to consolidated financial statements.

PINNACLE BANKSHARES CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2015 and 2014
(In thousands of dollars, except per share data)
(Audited)

	2015	2014
Interest income:		
Interest and fees on loans	$ 13,530	$ 13,463
Interest on securities:		
U.S. Government agencies	309	267
States and political subdivisions (taxable)	73	79
States and political subdivisions (tax-exempt)	107	122
Other	96	100
Interest on federal funds sold	3	4
Total interest income	14,118	14,035
Interest expense:		
Interest on deposits:		
Savings and NOW accounts	440	441
Time - under $100,000	794	1,024
Time - $100,000 and over	379	514
Total interest expense	1,613	1,979
Net interest income	12,505	12,056
Provision for loan losses and unfunded commitments (note 4)	129	91
Net interest income after provision for loan losses	12,376	11,965
Noninterest income:		
Service charges on deposit accounts	1,671	1,627
Commissions and fees	423	377
Mortgage loan fees	430	392
Service charges on loan accounts	249	249
Other operating income	958	517
Total noninterest income	3,731	3,162
Noninterest expense:		
Salaries and employee benefits (note 7)	6,412	6,001
Occupancy expense	694	757
Furniture and equipment expense	702	794
Office supplies and printing	192	215
Federal deposit insurance premiums	255	235
Capital stock tax	223	248
Advertising expense	191	204
Other operating expenses	3,392	3,554
Total noninterest expense	12,061	12,008
Income before income tax expense	4,046	3,119
Income tax expense (note 8)	1,306	970
Net income	$ 2,740	$ 2,149
Basic net income per share (note 1(r))	$ 1.80	$ 1.42
Diluted net income per share (note1(r))	$ 1.79	$ 1.40

See accompanying notes to consolidated financial statements.

PINNACLE BANKSHARES CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2015 and 2014
(In thousands of dollars)
(Audited)

	2015	2014
Net income	$ 2,740	$ 2,149
Other comprehensive income (losses), net of related income taxes:		
Unrealized gains on availabile-for-sale securities		
Before tax	133	88
Income tax expense	(45)	(30)
Changes in plan assets and benefit obligation of defined benefit pension plan		
Before tax	(386)	(1,469)
Income tax expense	131	499
Total other comprehensive loss	(167)	(912)
Comprehensive income	$ 2,573	$ 1,237

See accompanying notes to consolidated financial statements.

PINNACLE BANKSHARES CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years ended December 31, 2015 and 2014
(In thousands of dollars, except share and per share data)
(Audited)

	Common Stock		Capital	Retained	Accumulated Other Comprehensive	
	Shares	Par Value	Surplus	Earnings	Income (Loss)	Total
Balances, December 31, 2013 (As Restated)	1,515,007	$ 4,507	$ 1,035	$ 26,554	$ (154)	$ 31,942
Net income				2,149		2,149
Other Comprehensive Loss					(912)	(912)
Issuance of restricted stock and related expense	8,400	26	138			164
Stock options exercised	628					
Repurchased stock	(12,065)	(36)	(169)			(205)
Cash dividends declared by Bankshares ($0.32 per share)				(484)		(484)
Balances, December 31, 2014	1,511,970	$ 4,497	$ 1,004	$ 28,219	$ (1,066)	$ 32,654
Net income				2,740		2,740
Other Comprehensive Loss					(167)	(167)
Issuance of restricted stock and related expense	5,971	18	98			116
Stock options exercised	4,680					
Repurchased stock	(2,400)	(7)	(37)			(44)
Cash dividends declared by Bankshares ($0.34 per share)				(517)		(517)
Balances, December 31, 2015	1,520,221	$ 4,508	$ 1,065	$ 30,442	$ (1,233)	$ 34,782

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2015 and 2014
(In thousands of dollars)
(Audited)

	2015	2014
Cash flows from operating activities:		
Net income	$ 2,740	$ 2,149
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of bank premises and equipment	409	458
Accretion of unearned fees, net	29	30
Net amortization of premiums and discounts on securities	57	50
Provision for loan losses	129	91
Provision for deferred income taxes	57	56
Stock based compensation expense	116	164
Increase in cash value of bank owned life insurance	(171)	(175)
Valuation loss on OREO	43	235
Net decrease (increase) in:		
Accrued interest receivable	(75)	91
Other assets	1,063	(340)
Net increase (decrease) in:		
Accrued interest payable	(48)	(54)
Other liabilities	(315)	128
Net cash provided by operating activities	4,034	2,883
Cash flows from investing activities:		
Purchases of available-for-sale securities	(13,504)	(4,450)
Proceeds from maturities and calls of held-to-maturity securities	570	-
Proceeds from maturities and calls of available-for-sale securities	14,849	4,067
Proceeds from paydowns and maturities of available-for-sale mortgage-backed securities	290	161
Proceeds from the sale of OREO	1,003	222
Purchase of Federal Reserve Stock	(3)	(2)
Sale of Federal Home Loan Bank stock	-	96
Net increase in loans made to customers	(24,524)	(6,512)
Purchases of bank premises and equipment	(747)	(1,594)
Purchase of bank owned life insurance	-	(3,000)
Additions to foreclosed assets	(56)	(3)
Net cash used in investing activities	(22,122)	(11,012)
Cash flows from financing activities:		
Net increase in demand, savings and NOW deposits	18,976	9,678
Net decrease in time deposits	(11,777)	(6,604)
Repurchase of common stock	(44)	(205)
Repayment of line of credit	(277)	(262)
Cash dividends paid	(517)	(484)
Net cash provided by financing activities	6,361	2,123
Net decrease in cash and cash equivalents	(11,727)	(6,006)
Cash and cash equivalents, beginning of year	28,466	34,472
Cash and cash equivalents, end of year	$ 16,739	$ 28,466
Supplemental disclosure of cash flows information		
Cash paid during the year for:		
Income taxes	$ 875	$ 990
Interest	1,661	2,033
Supplemental schedule of noncash investing and financing activities:		
Transfer from loans to foreclosed assets	$ 1,616	$ 263
Loans charged against the allowance for loan losses	639	630
Unrealized gains on available-for-sale securities	133	88
Defined benefit plan adjustment per ASC topic *Compensation-Retirement Benefits*	(386)	(1,469)

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies and Practices

Pinnacle Bankshares Corporation, a Virginia corporation (the "Company" or "Bankshares"), was organized in 1997 and is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended. Bankshares is headquartered in Altavista, Virginia. Bankshares conducts all of its business activities through the branch offices of its wholly owned subsidiary bank, First National Bank (the Bank). Bankshares exists primarily for the purpose of holding the stock of its subsidiary, (the "Bank"), and of such other subsidiaries as it may acquire or establish. The Company has a single reportable segment for purposes of segment reporting.

The accounting and reporting policies of Bankshares and its wholly owned subsidiary (collectively, the "Company"), conform to generally accepted accounting principles in the United States of America ("GAAP") and general practices within the banking industry. The following is a summary of the more significant accounting policies and practices:

(a) Consolidation

The consolidated financial statements include the accounts of Bankshares and the Bank. All material intercompany balances and transactions have been eliminated.

(b) Use of Estimates

In preparing the consolidated financial statements in accordance with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the consolidated balance sheets and revenues and expenses for the years ended December 31, 2015 and 2014. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for loan losses, payments/obligations under benefit and pensions plans, other real estate owned and fair value of investments.

(c) Securities

The Company classifies its securities in three categories: (1) debt securities that the Company has the positive intent and ability to hold to maturity are classified as "held-to-maturity securities" and reported at amortized cost; (2) debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as "trading securities" and reported at fair value, with unrealized gains and losses included in net income; and (3) debt and equity securities not classified as either held-to-maturity securities or trading securities are classified as "available-for-sale securities" and reported at fair value, with unrealized gains and losses excluded from net income and reported in accumulated other comprehensive income, a separate component of stockholders' equity, net of deferred taxes. Fair value is determined from quoted prices obtained and reviewed by management. Held-to-maturity securities are stated at cost, adjusted for amortization of premiums and accretion of discounts on a basis, which approximates the level yield method. As of December 31, 2015 and 2014, the Company does not maintain trading securities. Gains or losses on disposition are based on the net proceeds and adjusted carrying values of the securities called or sold, using the specific identification method on a trade date basis.

Management evaluates securities for other-than-temporary impairment ("OTTI") on a least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. The Company assesses OTTI based upon whether it intends to sell a security or if it is likely that it would be required to sell the security before recovery of the amortized cost basis of the investment, which may be maturity. For debt securities, if the Company intends to sell the security or it is likely that the Company will be required to sell the security before recovering its cost basis, the entire impairment loss would be recognized in earnings as an OTTI. If the Company does not intend to sell the security and it is not likely that the Company will be required to sell the security but we do not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Projected cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for potential OTTI. The remaining impairment related to all other factors, the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to other comprehensive income ("OCI"). Impairment losses related to all other factors are presented as separate categories within OCI. For investment securities held to maturity, this amount is accreted over the remaining life of the debt security prospectively based on the amount and timing of future estimated cash flows. The accretion of the amount recorded in OCI increases the carrying value of the investment and does not affect earnings. If there is an indication of additional credit losses the security is re-evaluated according to the procedures described above.

(d) Restricted Equity Investments

As a member of the Federal Reserve Bank ("FRB") and the Federal Home Loan Bank of Atlanta ("FHLB"), the Company is required to maintain certain minimum investments in the common stock of the FRB and FHLB, which are carried at cost. Required levels of investment are based upon the Company's capital and a percentage of qualifying assets.

In addition, the Company is eligible to borrow from the FHLB with borrowings collateralized by qualifying assets, primarily residential mortgage loans, and the Company's capital stock investment in the FHLB.

Management's determination of whether these investments are impaired is based on its assessment of the ultimate recoverability of cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of cost is influenced by criteria such as (1) the significance of any decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, (3) the impact of legislative and regulatory changes on institutions and, accordingly, the customer base of the FHLB, and (4) the liquidity position of the FHLB.

(e) Change in Accounting Method

During the year ended December 31, 2015, the Company elected to adopt the equity method of accounting for an investment in a limited liability corporation that had previously been accounted for as a cost method investment. During the year ended December 31, 2015, the Company determined that it had the ability to exercise significant influence over the investee, as the Company's president was elected to the board of directors of the limited liability corporation. In conjunction with the change in accounting method, the Company has reported a $354 gain on the investment in noninterest income for the year ended December 31, 2015.

(f) Borrowings

As of December 31, 2015, the Company's available borrowing limit with the FHLB was approximately $48,637. The Company had $0 in borrowings from the FHLB outstanding at December 31, 2015 and 2014. The Company also has a $3,000 line of credit commitment with no outstanding balance secured by the authorized capital stock of the Bank with a correspondent bank. The Company has a term loan with the same correspondent bank with $1,091 outstanding as of December 31, 2015 and $1,368 outstanding as of December 31, 2014 with a 5.00% interest rate that matures on June 30, 2017.

(g) *Loans and Allowance for Loan Losses*

Loans are stated at the amount of unpaid principal, reduced by unearned income and fees on loans, and an allowance for loan losses. Income is recognized over the terms of the loans using methods that approximate the level yield method. The allowance for loan losses is a cumulative valuation allowance consisting of an annual provision for loan losses, plus any amounts recovered on loans previously charged off, minus loans charged off. The provision for loan losses charged to operations is the amount necessary in management's judgment to maintain the allowance for loan losses at a level it believes adequate to absorb probable losses inherent in the loan portfolio. Management determines the adequacy of the allowance based upon reviews of individual credits, recent loss experience, delinquencies, current economic conditions, the risk characteristics of the various categories of loans and other pertinent factors. Management uses historical loss data by loan type as well as current economic factors in its calculation of allowance for loan loss.

Management also uses qualitative factors such as changes in lending policies and procedures, changes in national and local economies, changes in the nature and volume of the loan portfolio, changes in experience of lenders and the loan department, changes in volume and severity of past due and classified loans, changes in quality of the Company's loan review system, the existence and effect of concentrations of credit and external factors such as competition and regulation in its allowance for loan loss calculation. Each qualitative factor is evaluated and applied to each type of loan in the Company's portfolio and a percentage of each loan is reserved as allowance. A percentage of each loan type is also reserved according to the loan type's historical loss data. Larger percentages of allowance are taken as the risk for a loan is determined to be greater. Loans are charged against the allowance for loan losses when management believes the principal is uncollectible.

While management uses available information to recognize losses on loans, future additions to the allowance for loan losses may be necessary based on changes in economic conditions or the Company's recent loss experience. It is reasonably possible that management's estimate of loan losses and the related allowance may change materially in the near term. However, the amount of change that is reasonably possible cannot be estimated. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance for loan losses based on their judgments about information available to them at the time of their examinations.

Loans are charged against the allowance when, in management's opinion, they are deemed doubtful, although the Company continues to aggressively pursue collection. The Company considers a number of factors to determine the need for and timing of charge-offs including the following: whenever any commercial loan becomes past due for 120 days for any scheduled principal or interest payment and collection is considered unlikely; whenever foreclosure on real estate collateral or liquidation of other collateral does not result in full payment of the obligation and the deficiency or some portion thereof is deemed uncollectible, the uncollectible portion shall be charged-off; whenever any installment loan becomes past due for 120 days and collection is considered unlikely; whenever any repossessed vehicle remains unsold for 60 days after repossession; whenever a bankruptcy notice is received on any installment loan and review of the facts results in an assessment that all or most of the balance will not be collected, the loan will be placed in non-accrual status; whenever a bankruptcy notice is received on a small, unsecured, revolving installment account; and whenever any other small, unsecured, revolving installment account becomes past due for 180 days.

Loans are generally placed in non-accrual status when the collection of principal and interest is 90 days or more past due, unless the obligation relates to a consumer or residential real estate loan or is both well-secured and in the process of collection. All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Generally, loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured, which usually requires a minimum of six months of sustained repayment performance.

Impaired loans are required to be presented in the financial statements at net realizable value of the expected future cash flows or at the fair value of the loan's collateral. Homogeneous loans such as real estate mortgage loans, individual consumer loans and home equity loans are evaluated collectively for impairment. Management, considering current information and events regarding the borrower's ability to repay their obligations, considers a loan to be impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impairment losses are included in the allowance for loan losses through a charge to the provision for loan losses. Cash receipts on impaired loans receivable are applied first to reduce interest on such loans to the extent of interest contractually due and any remaining amounts are applied to principal.

Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported at the fair value of the collateral less cost to sell. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

(h) Loan Origination and Commitment Fees and Certain Related Direct Costs

Loan origination and commitment fees and certain direct loan origination costs charged by the Company are deferred and the net amount amortized as an adjustment of the related loan's yield. The Company amortizes these net amounts over the contractual life of the related loans or, in the case of demand loans, over the estimated life. Fees related to standby letters of credit are recognized over the commitment period.

(i) Bank Premises and Equipment

Bank premises and equipment are stated at cost, net of accumulated depreciation. Depreciation is computed by the straight-line and declining-balance methods over the estimated useful lives of the assets. Depreciable lives include 15 years for land improvements, 39 years for buildings, and 3 to 7 years for equipment, furniture and fixtures. The cost of assets retired and sold and the related accumulated depreciation are eliminated from the accounts and the resulting gains or losses are included in determining net income. Expenditures for maintenance and repairs are charged to expense as incurred, and improvements and betterments are capitalized.

(j) Bank Owned Life Insurance

The Company has purchased life insurance policies on certain key members of management. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

(k) Goodwill

The Company performs a goodwill impairment analysis on an annual basis as of December 31st. Additionally, the Company performs a goodwill impairment evaluation on an interim basis when events or circumstances indicate impairment potentially exists. During 2015, the Company reviewed its goodwill for impairment and determined that goodwill is not impaired. Management will continue to monitor the relationship of Bankshares' market capitalization to both its book value and tangible book value, which management attributes to both financial services industry-wide and Company-specific factors, and to evaluate the carrying value of goodwill.

(l) Other Real Estate Owned

Foreclosed properties consist of properties acquired through foreclosure or deed in lieu of foreclosure. At time of foreclosure, the properties are recorded at the fair value less costs to sell. Subsequently, these properties are carried at the lower of cost or fair value less estimated costs to sell. Losses from the acquisition of property in full or partial satisfaction of loans are charged against the allowance for loan losses. Subsequent write-downs, if any, are charged to expense. Gains and losses on the sales of foreclosed properties are included in determining net income in the year of the sale.

(m) Impairment or Disposal of Long-Lived Assets

The Company's long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used, such as bank premises and equipment, is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of, such as foreclosed properties, are reported at the lower of the carrying amount or fair value less costs to sell.

(n) Pension Plan

The Company maintains a noncontributory defined benefit pension plan, which covers substantially all of its employees. The net periodic pension expense includes a service cost component, interest on the projected benefit obligation, a component reflecting the actual return on plan assets, the effect of deferring and amortizing certain actuarial gains and losses, and the amortization of any unrecognized net transition obligation on a straight-line basis over the average remaining service period of employees expected to receive benefits under the plan. The Company's funding policy is to make annual contributions in amounts necessary to satisfy the Internal Revenue Service's funding standards, to the extent that they are tax deductible.

ASC Topic 715*, Defined Benefit Pension Plans* requires a business entity to recognize the overfunded or underfunded status of a single-employer defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in comprehensive income in the year in which the changes occur. Defined Benefit Pension Plans also requires a business entity to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions.

(o) Advertising

The Company recognizes advertising expenses as incurred.

(p) Income Taxes

Income taxes are accounted for under the asset and liability method, whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in net income in the period that includes the enactment date.

Deferred taxes are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

(q) Stock Options and Restricted Stock

The Company accounts for its stock based compensation plan by recognizing expense for options and restricted stock granted equal to the grant date fair value of the unvested amounts over their remaining vesting periods. There were 6,250 shares of restricted stock granted in 2015 compared to 8,400 shares of restricted stock granted in 2014. There were 43,000 stock options outstanding as of December 31, 2015 compared to 58,000 stock options outstanding as of December 31, 2014. Future levels of compensation cost recognized related to share-based compensation awards may be impacted by new awards and/or modification, repurchases and cancellations of existing awards after the adoption of this standard.

(r) Net Income per Share

Basic net income per share excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock that are not anti-dilutive were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company.

The following is a reconciliation of the numerators and denominators of the basic and diluted net income per share computations for the periods indicated:

Year ended December 31, 2015		**Net income (numerator)**	**Shares (denominator)**		**Per share amount**
Basic net income per share	$	2,740	1,519,159	$	1.80
Effect of dilutive stock options		—	12,277		
Diluted net income per share	$	2,740	1,531,436	$	1.79

Year ended December 31, 2014		**Net income (numerator)**	**Shares (denominator)**		**Per share amount**
Basic net income per share	$	2,149	1,512,661	$	1.42
Effect of dilutive stock options		—	18,170		
Diluted net income per share	$	2,149	1,530,831	$	1.40

(s) Consolidated Statements of Cash Flows

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand, amounts due from banks (with original maturities of three months or less), and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

(t) Comprehensive Income

ASC Topic 220 *Comprehensive Income,* requires the Company to classify items of "Other Comprehensive Income" (such as net unrealized gains (losses) on available-for-sale securities) by their nature in a financial statement and present the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. The Company's other comprehensive income consists of net income, and net unrealized gains (losses) on securities available-for-sale, net of income taxes, and adjustments relating to its defined benefit plan, net of income taxes.

(u) Fair Value Measurements

ASC Topic 820, *Fair Value Measurements and Disclosures* establishes a framework for using fair value. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date.

In accordance with *Fair Value Measurements and Disclosures*, the Company groups its financial assets and financial liabilities in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. The most significant instruments that the Company measures at fair value are available-for-sale securities. All available-for-sale securities fall into Level 2 fair value hierarchy. Valuation methodologies for the fair value hierarchy are as follows:

Level 1 – Valuations are based on quoted prices for identical assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.

Level 2 – Valuations for assets and liabilities are obtained from readily available pricing sources via independent providers for market transactions involving similar assets or liabilities, model-based valuation techniques, or other observable inputs.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and are not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining fair value assigned to such assets and liabilities.

(v) Current Accounting Developments

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "*Revenue Recognition (Topic 606): Revenue from Contracts with Customers."* ASU 2014-09 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU 2014-09 will replace most existing revenue recognition guidance in GAAP when it becomes effective. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting. In August 2015, the FASB issued ASU 2015-14, *"Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date,"* which deferred the effective date of ASU 2014-09 to annual and interim periods beginning after December 15, 2017. Early application is not permitted.

In June 2014, the FASB issued ASU 2014-12, "*Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period."* ASU 2014-12 will be effective for annual and interim periods beginning after December 15, 2015. ASU 2014-12 applies to all reporting entities that grant their employees share-based payments in which the terms of the award provide for a performance target that affects vesting could be achieved after the requisite service period. That is the case when an employee is eligible to retire or otherwise terminate employment before the end of the period in which a performance target (for example, an initial public offering or a profitability target) could be achieved and still be eligible to vest in the award if and when the performance target is achieved. We do not currently have outstanding performance-based awards and, as a result, ASU 2014-12 would not impact our financial statements and its related disclosures.

In January 2015, the FASB issued ASU 2015-01, *"Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the*

Concept of Extraordinary Items," which eliminates the concept of extraordinary items from U.S. GAAP as part of its simplification initiative. Under ASU 2015-01, an entity will no longer separate out an extraordinary item from the results of ordinary operations and separately present this extraordinary item on its income statement, nor will related income tax and earnings-per-share data applicable to an extraordinary item need to be disclosed. Despite these simplifications, ASU 2015-01 does not affect disclosure guidance for events or transactions that are unusual in nature or infrequent in their occurrence. ASU 2015-01 is effective for annual periods beginning after December 15, 2015, and interim periods within those annual periods. The Company does not expect the effect of ASU 2015-01 to have a material impact on its financial statements and related disclosures.

In February 2015, the FASB issued ASU 2015-02, *"Consolidation (Topic 810): Amendments to the Consolidation Analysis,"* which changes the way reporting enterprises evaluate whether (a) they should consolidate limited partnerships and similar entities, (b) fees paid to a decision maker or service provider are variable interests in a variable interest entity (VIE), and (c) variable interests in a VIE held by related parties of the reporting enterprise require the reporting enterprise to consolidate the VIE. It also eliminates the VIE consolidation model based on majority exposure to variability that applied to certain investment companies and similar entities. ASU 2015-2 is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. The Company does not expect the effect of ASU 2015-02 to have a material impact on its financial statements and related disclosures.

In April 2015, the FASB issued ASU 2015-03, "*Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*" to modify the presentation of debt issuance costs. Prior to ASU 2015-03, issuance costs were presented as an asset on the statement of financial position, which the FASB concluded was inconsistent with both IFRS as well as FASB Concept Statement No. 6. This ASU requires that issuance costs be presented as a direct deduction of debt balances on the statement of financial position, similar to the presentation of debt discounts. ASU 2015-03 is effective for public companies for years beginning after December 15, 2015, and interim periods within those fiscal periods. For all other entities, ASU 2015-03 is effective for years beginning after December 15, 2015 and interim periods within annual periods beginning after December 15, 2016, while early adoption is permitted for financial statements that have not already been issued. Additionally, the provisions should be applied on a retrospective basis as a change in accounting principle. ASU 2015-03 will not have an impact on the Company's financial statements and related disclosures.

Subsequent to the issuance of ASU 2015-03, the Securities and Exchange ("SEC") staff made an announcement regarding the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements, which were not addressed in ASU 2015-03. In August 2015, the FASB codified the SEC announcement in the issuance of ASU 2015-15, "*Interest - Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements.*" Per ASU 2015-15, for debt issuance costs related to line-of-credit arrangements, the SEC would not object to an entity deferring and presenting such costs as an asset and subsequently amortizing the costs ratably over the term of the line-of-credit arrangement, regardless of whether there were any outstanding borrowings on the line-of-credit arrangement. The SEC Staff guidance is effective upon adoption of ASU 2015-03. ASU 2015-15 will not have an impact on the Company's financial statements and related disclosures.

In April 2015, the FASB issued ASU 2015-05, "*Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement.*" Under ASU 2015-05, a customer should determine whether the arrangement includes a software license. If so, the customer should account for the software license component in a manner consistent with the accounting for other software licenses. If the arrangement does not include a software license, the arrangement should be accounted for as a service contract. The provisions of ASU 2015-05 must be applied by public entities to annual periods beginning after December 15, 2015 as well as interim periods within those annual periods. The Company does not expect the effect of ASU 2015-05 to have a material impact on its financial statements and related disclosures.

In May 2015, the FASB issued ASU 2015-08, "*Business Combinations, Pushdown Accounting (Topic 805): Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115*" which revised the requirement for recognition and disclosure of a new basis of accounting (or pushdown accounting) for certain business combination situations. The Company does not expect ASU 2015-08 to have any impact on its financial statements and related disclosures.

In September 2015, the FASB issued ASU 2015-16, *"Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments,"* which eliminates the requirement for an acquirer to retrospectively adjust the financial statements for measurement-period adjustments that occur in periods after a business combination is consummated. ASU 2015-16 will be effective for annual and interim periods beginning after December 15, 2015. Early adoption is permitted. The Company does not expect ASU 2015-16 to have any impact on its financial statements and related disclosures.

The FASB has issued ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes,* which changes how deferred taxes are classified on organizations' balance sheets. ASU 2015-17 eliminates the current requirement for organizations to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, organizations will be required to classify all deferred tax assets and liabilities as noncurrent. The amendments apply to all organizations that present a classified balance sheet. For private companies, the amendments are effective for financial statements issued for annual periods beginning after December 15, 2017.

The FASB has issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* The new guidance is intended to improve the recognition and measurement of financial instruments. ASU 2016-01 affects public and private companies, not-for-profit organizations, and employee benefit plans that hold financial assets or owe financial liabilities. The new guidance makes targeted improvements to existing U.S. GAAP by 1) requiring equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; 2) requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; 3) eliminating the requirement to disclose the fair value of financial instruments measured at amortized cost for organizations that are not public business entities; and 4) requiring a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The new guidance is effective for private companies for fiscal years beginning after December 15, 2018, and for interim periods within fiscal years beginning after December 15, 2019.

(2) Restrictions on Cash

To comply with Federal Reserve regulations, the Company is required to maintain certain average reserve balances. The daily average reserve requirements were approximately $3,043 and $3,258 for the weeks including December 31, 2015 and 2014, respectively.

(3) Securities

The amortized costs, gross unrealized gains, gross unrealized losses and fair values for securities as of December 31, 2015 and 2014 are as follows:

		2015			
Available-for-Sale		**Amortized costs**	**Gross unrealized gains**	**Gross unrealized losses**	**Fair values**
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	$	18,677	84	(43)	18,718
Obligations of states and political subdivisions		1,741	117	—	1,858
Mortgage-backed securities – government		1,486	22	(9)	1,499
Total available-for-sale	$	21,904	223	(52)	22,075

		2015			
Held-to-Maturity		**Amortized costs**	**Gross unrealized gains**	**Gross unrealized losses**	**Fair values**
Obligations of states and political subdivisions	$	5,073	121	—	5,194

		2014			
Available-for-Sale		**Amortized costs**	**Gross unrealized gains**	**Gross unrealized losses**	**Fair values**
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	$	20,538	62	(181)	20,419
Obligations of states and political subdivisions		1,746	126	—	1,872
Mortgage-backed securities – government		1,275	32	(1)	1,306
Total available-for-sale	$	23,559	220	(182)	23,597

		2014			
Held-to-Maturity		**Amortized costs**	**Gross unrealized gains**	**Gross unrealized losses**	**Fair values**
Obligations of states and political subdivisions	$	5,680	148	(6)	5,822

The following table shows the gross unrealized losses and fair value of the Company’s investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2015:

		Less than 12 months		**Total**	
Description of Securities		**Fair value**	**Gross unrealized losses**	**Fair value**	**Gross unrealized losses**
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	$	11,867	43	11,867	43
Mortgage-backed securities-government		1,219	9	482	1
Total temporarily impaired securities	$	13,086	52	13,086	52

There were no securities that have been in a continuous unrealized loss position for over 12 months as of December 31, 2015.

The following table shows the gross unrealized losses and fair value of the Company's investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2014:

	Less than 12 months		Total	
Description of Securities	**Fair value**	**Gross unrealized losses**	**Fair value**	**Gross unrealized losses**
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	$ 3,462	25	3,462	25
Mortage-backed securities-government	482	1	482	1
Total temporarily impaired securities	$ 3,944	26	3,944	26

	More than 12 months		Total	
Description of Securities	**Fair value**	**Gross unrealized losses**	**Fair value**	**Gross unrealized losses**
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	$ 16,156	162	16,156	162
Total temporarily impaired securities	$ 16,156	162	16,156	162

The Company does not consider the unrealized losses other-than-temporary losses based on the volatility of the securities market price involved, the credit quality of the securities, and the Company's ability, if necessary, to hold the securities until maturity. For 2015, the securities include 16 bonds that have continuous losses for less than 12 months and no bonds that have continuous losses for more than 12 months. For 2014, the securities include 4 bonds that had continuous losses for less than 12 months and 19 bonds that had continuous losses for more than 12 months. There were no gross realized gains or losses on securities sold in 2015 and 2014.

The amortized costs and fair values of available-for-sale and held-to-maturity securities as of December 31, 2015, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	2015			
	Available-for-Sale		**Held-to-Maturity**	
	Amortized costs	**Fair values**	**Amortized costs**	**Fair values**
Due in one year or less	$ 2,311	2,310	1,308	1,319
Due after one year through five years	16,646	16,730	3,765	3,875
Due after five years through ten years	1,461	1,537	—	—
	20,418	20,577	5,073	5,194
Mortgage-backed securities	1,486	1,498	—	—
Totals	$ 21,904	22,075	5,073	5,194

Securities with amortized costs of approximately $5,807 and $4,312 (fair values of $5,925 and $4,404, respectively) as of December 31, 2015 and 2014, respectively, were pledged as collateral for public deposits and to the FRB for overdraft protection.

(4) Loans, Allowance for Loan Losses and Credit Quality

A summary of loans as of December 31, 2015 and 2014 follows:

		2015	2014
Real estate loans:			
Residential-mortgage	$	106,474	108,128
Residential-construction		6,468	8,927
Commercial		86,013	81,025
Loans to individuals for household, family and other consumer expenditures		60,854	53,872
Commercial and industrial loans		46,376	31,635
Total loans, gross		306,185	283,587
Less unearned income and fees		(97)	(68)
Loans, net of unearned income and fees		306,088	283,519
Less allowance for loan losses		(2,889)	(3,070)
Loans, net	$	303,199	280,449

In the normal course of business, the Bank has made loans to executive officers and directors. As of December 31, 2015 and 2014, loans to executive officers and directors totaled $210 and $197, respectively. During 2015, new loans made to executive officers and directors totaled $144, advances totaled $76 and repayments amounted to approximately $203. There were no loans to companies in which executive officers and directors have an interest as of December 31, 2015 and 2014. All such loans were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated persons, and, in the opinion of management, do not involve more than normal risk of collectability or present other unfavorable features.

The fair value of loans, net of unearned income and fees, was $307,151 as of December 31, 2015 and $287,399 as of December 31, 2014.

The following table presents information on the Company's allowance for loan losses and recorded investment in loans:

Allowance for Loan Losses and Recorded Investment in Loans

For the Year Ended December 31, 2015

	Commercial	Commercial Real Estate	Consumer	Residential	Total
Allowance for Loan Losses:					
Beginning balance	$264	$795	$520	$1,491	$3,070
Charge-offs	(20)	(13)	(434)	(172)	(639)
Recoveries	29	7	215	88	339
Provision for loan losses	39	(94)	322	(148)	119
Ending Balance	$312	$695	$623	$1,259	$2,889
Allowance:					
Ending balance: individually evaluated for impairment	$-	$-	$-	$-	$-
Ending balance: collectively evaluated for impairment	$314	676	650	1,249	2,889

	Commercial	Commercial Real Estate	Consumer	Residential	Total
Loans:					
Total loans ending balance	$46,376	86,013	60,854	112,942	306,185
Ending balance: individually evaluated for impairment	$12	984	25	1,835	2,856
Ending balance: collectively evaluated for impairment	$46,364	85,029	60,829	111,107	303,329

For the Year Ended December 31, 2014

	Commercial	Commercial Real Estate	Consumer	Residential	Total
Allowance for Loan Losses:					
Beginning balance	$211	$1,697	$434	$1,067	$3,409
Charge-offs	(23)	(97)	(374)	(136)	(630)
Recoveries	5	2	189	8	204
Provision for loan losses	71	(807)	271	552	87
Ending Balance	$264	$795	$520	$1,491	$3,070
Allowance:					
Ending balance individually evaluated for impairment	$-	$-	$-	$-	$-
Ending balance: collectively evaluated for impairment	$264	795	520	1,491	3,070
Loans:					
Total loans ending balance	$31,635	81,025	53,872	117,055	283,587
Ending balance: individually evaluated for impairment	$-	2,125	4	2,155	4,284
Ending balance: collectively evaluated for impairment	$31,635	78,900	53,868	114,900	279,303

The Company utilizes a risk rating matrix to assign a risk grade to each of its loans. A description of the general characteristics of the risk grades is as follows:

Pass – These loans have minimal and acceptable credit risk.

Special Mention – These loans have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan at some future date.

Substandard – These loans are inadequately protected by the net worth or paying capacity of the obligor or collateral pledged, if any. Loans classified as substandard must have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. A substandard loan is characterized by the distinct probability that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful – These loans have all of the weakness inherent in one classified as substandard with the added characteristic that the weaknesses make collection liquidation in full, on the basis of the currently existing facts, conditions and values, highly questionable and improbable.

The following table illustrates the Company's credit quality indicators:

Credit Quality Indicators
As of December 31, 2015

Credit Exposure	**Commercial**	**Commercial Real Estate**	**Consumer**	**Residential**	**Total**
Pass	$46,360	$84,205	$60,432	$111,605	$302,602
Special Mention	-	1,492	-	2	1,494
Substandard	16	316	422	1,335	2,089
Doubtful	-	-	-	-	-
Total	$46,376	86,013	60,854	112,942	306,185

As of December 31, 2014

Credit Exposure	**Commercial**	**Commercial Real Estate**	**Consumer**	**Residential**	**Total**
Pass	$30,844	$77,824	$53,454	$113,846	$275,968
Special Mention	450	1,352	76	1,641	3,519
Substandard	341	1,849	342	1,568	4,100
Doubtful	-	-	-	-	-
Total	$31,635	81,025	53,872	117,055	283,587

The following table represents an age analysis of the Company's past due loans:

Age Analysis of Past Due Loans
As of December 31, 2015

	30-59 Days Past Due	**60-89 Days Past Due**	**Greater Than 90 Days**	**Total Past Due**	**Current**	**Total Loans**	**Recorded Investment 90 Days and Accruing**
Commercial	$-	-	12	12	46,364	46,376	-
Commercial real estate	-	111	-	111	85,902	86,013	-
Consumer	211	22	25	258	60,596	60,854	-
Residential	276	-	1,350	1,626	111,316	112,942	-
Total	$487	133	1,387	2,007	304,178	306,185	-

Age Analysis of Past Due Loans
As of December 31, 2014

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment 90 Days and Accruing
Commercial	$27	-	-	27	31,608	31,635	-
Commercial real estate	-	-	2,125	2,125	87,827	89,952	-
Consumer	53	41	4	98	53,774	53,872	-
Residential	123	124	2,155	2,402	105,726	108,128	-
Total	$203	165	4,284	4,652	278,935	283,587	-

As of December 31, 2015 and 2014, the recorded investment in loans for which impairment has been identified totaled approximately $2,856 and $4,284, respectively, with no corresponding valuation allowances for either year. The average recorded investment in impaired loans receivable during 2015 and 2014 was approximately $3,571 and $3,436, respectively. Interest income recognized on a cash basis on impaired loans during 2015 and 2014 was approximately $21 and $64, respectively.

The following table presents information on the Company's impaired loans and their related allowance for loan losses:

Impaired Loans

For the Year Ended December 31, 2015

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ 12	12	-	6	-
Commercial real estate	984	984	-	1,555	-
Consumer	25	25	-	15	1
Residential	1,835	1,835	-	1,995	20
Total:					
Commercial	12	12	-	6	-
Commercial real estate	984	984	-	1,555	-
Consumer	25	25	-	15	1
Residential	$1,835	1,835	-	1,995	20
Total	$2,856	2,856	-	3,571	21

For the Year Ended December 31, 2014

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ -	-	-	33	-
Commercial real estate	2,125	2,125	-	1,528	9
Consumer	4	4	-	59	-
Residential	2,155	2,155	-	1,816	55
Total:					
Commercial	-	-	-	33	-
Commercial real estate	2,125	2,125	-	1,528	9
Consumer	4	4	-	59	-
Residential	$2,155	2,155	-	1,816	55
Total	$4,284	4,284	-	3,436	64

The following presents information on the Company's nonaccrual loans:

Loans in Nonaccrual Status
As of December 31, 2015 and 2014

	2015	2014
Commercial	$12	$-
Commercial real estate	-	678
Consumer	25	4
Residential	1,350	1,446
Total	$1,387	$2,128

The Company had six restructured loans totaling $1,895 as of December 31, 2015 and had eight restructured loans totaling $2,608 as of December 31, 2014. All of these restructured loans constituted troubled debt restructurings as of December 31, 2015 and 2014.

The Company offers a variety of modifications to borrowers. The modification categories offered can generally be described in the following categories.

Rate Modification is a modification in which the interest rate is changed.

Term Modification is a modification in which the maturity date, timing of payments or frequency of payments is changed.

Interest Only Modification is a modification in which the loan is converted to interest only payments for a period of time.

Payment Modification is a modification in which the dollar amount of the payment is changed, other than an interest only modification described above.

Combination Modification is any other type of modification, including the restructuring of two or more loan terms through the use of multiple categories above.

There were no additional commitments to extend credit related to these troubled debt restructurings that were outstanding as of December 31, 2015 or December 31, 2014.

The following tables present troubled debt restructurings as of December 31, 2015 and 2014:

	December 31, 2015		
	Accrual Status	**Non-Accrual Status**	**Total Modifications**
Commercial	$ -	-	-
Commercial real estate	984	-	984
Consumer	-	-	-
Residential	485	426	911
Total	$ 1,469	426	1,895

	December 31, 2014		
	Accrual Status	**Non-Accrual Status**	**Total Modifications**
Commercial	$ -	-	-
Commercial real estate	1,448	26	1,474
Consumer	-	-	-
Residential	708	426	1,134
Total	$ 2,156	452	2,608

For 2015, there was one commercial real estate loan that was considered a combination modification that had a pre-modification balance of $970 and a post modification balance of $990. There were also two residential loans that were considered combination modifications that had a pre-modification balance of $310 and a post modification balance of $323. For loans modified and classified as troubled debt restructurings, one experienced a payment default and is currently listed as other real estate owned at $1,075. During 2014, there were two commercial real estate loans that were considered combination modifications that had a pre-modification balance of $138 and a post modification balance of $138. There were also two residential loans that were considered combination modifications that had a pre-modification balance of $387 and a post modification balance of $390 in 2015. For loans modified and classified as troubled debt restructurings in 2014, none experienced payment defaults.

(5) Bank Premises and Equipment

Bank premises and equipment, net were comprised of the following as of December 31, 2015 and 2014:

		2015	2014
Land improvements	$	571	571
Buildings		7,289	7,270
Equipment, furniture and fixtures		5,294	5,214
Construction in progress		648	—
		13,802	13,055
Less accumulated depreciation		(7,664)	(7,255)
		6,138	5,800
Land		2,632	2,632
Bank premises and equipment, net	$	8,770	8,432

(6) Deposits

A summary of deposits as of December 31, 2015 and 2014 follows:

		2015	2014
Noninterest-bearing demand deposits	$	58,895	50,801
Interest-bearing:			
Savings and money market accounts		95,650	89,127
NOW accounts		75,781	71,422
Time deposits – under $100,000		70,766	77,697
Time deposits – $100,000 and over		31,311	36,157
Total interest-bearing deposits		273,508	274,403
Total deposits	$	332,403	325,204

At December 31, 2015, the scheduled maturity of time deposits is as follows: $37,050 in 2016; $7,864 in 2017; $24,404 in 2018, $16,004 in 2019 and $16,755 in 2020.

In the normal course of business, the Bank has received deposits from executive officers and directors. As of December 31, 2015 and 2014, deposits from executive officers and directors were approximately $1,547 and $906, respectively. All such deposits were received in the ordinary course of business on substantially the same terms and conditions, including interest rates, as those prevailing at the same time for comparable transactions with unrelated persons.

The fair value of deposits was $330,676 as of December 31, 2015 and $323,888 as of December 31, 2014.

(7) Employee Benefit Plans

The Bank maintains a noncontributory defined benefit pension plan that covers substantially all of its employees. Benefits are computed based on employees' average final compensation and years of credited service. Pension expense amounted to approximately $128 and $11 in 2015 and 2014, respectively. The change in benefit obligation, change in plan assets and funded status of the pension plan as of December 31, 2015 and 2014 and pertinent assumptions are as follows:

Change in Benefit Obligation		2015	2014
Benefit obligation at beginning of year	$	8,029	6,506
Service cost		446	361
Interest cost		307	314
Actuarial income (loss)		(249)	1,239
Benefits paid		(641)	(391)
Settlement Loss		—	—
Benefit obligation at end of year	$	7,892	8,029
Change in Plan Assets			
Fair value of plan assets at beginning of year		8,828	8,786
Actual return on plan assets		(9)	433
Employer contribution		180	—
Benefits paid		(642)	(391)
Projected fair value of plan assets at end of year	$	8,357	8,828
Funded Status at the End of the Year		465	799
Amounts Recognized in the Balance Sheet			
Other liabilities, accrued pension		465	799
Amounts Recognized in Accumulated Other Comprehensive Income Net of Tax Effect			
Unrecognized net actuarial loss		1,345	1,090
Benefit obligation included in accumulated other comprehensive income	$	1,345	1,090
Funded Status			
Benefit obligation		(7,892)	(8,029)
Fair value of assets		8,358	8,828
Unrecognized net actuarial loss		2,038	1,653
Prepaid benefit cost included in the balance sheet	$	2,504	2,452

	Pension Benefits	
Weighted Average Assumptions as of December 31, 2015 and 2014 :	**2015**	**2014**
Discount rate	4.25%	4.00%
Expected long-term return on plan assets	7.75%	7.75%
Rate of compensation increase	3.00%	3.00%

Pension Benefits

		2015	2014
Net (gain)/loss	$	255	970
Prior service cost		-	-
Amortization of prior service cost		-	-
Net obligation at transition		-	-
Amortization of net obligation at transition		-	-
Total recognized in other comprehensive income	$	255	970
Total Recognized in Net Periodic Benefit Cost and Other Comprehensive Income	$	514	1,480

The estimated portion of prior service cost and net transition obligation included in accumulated other comprehensive income that will be recognized as a component of net periodic pension cost over the next fiscal year is $199.

The Company selects the expected long-term rate-of-return-on-assets assumption in consultation with its investment advisors and actuary. This rate is intended to reflect the average rate of return expected to be earned on the funds invested or to be invested to provide plan benefits. Historical performance is reviewed especially with respect to real rates of return (net of inflation) for the major asset classes held or anticipated to be held by the trust, and for the trust itself. Undue weight is not given to recent experience, which may not continue over the measurement period, and higher significance is placed on current forecasts of future long-term economic conditions.

Because assets are held in a qualified trust, anticipated returns are not reduced for taxes. Further, solely for this purpose, the plan is assumed to continue in force and not terminate during the period during which assets are invested. However, consideration is given to the potential impact of current and future investment policy, cash flow into and out of the trust, and expenses (both investment and non-investment) typically paid from plan assets (to the extent such expenses are not explicitly estimated within periodic cost).

The components of net pension benefit cost under the plan for the years ended December 31, 2015 and 2014 is summarized as follows:

		Pension Benefits	
		2015	2014
Service cost	$	446	360
Interest cost		308	314
Expected return on plan assets		(672)	(663)
Recognized net (gain)/loss due to settlement		—	—
Net amortization		—	—
Recognized net actuarial loss		46	—
Net pension benefit cost	$	128	11

Projected Benefit Payments

The projected benefit payments under the plan are summarized as follows for the years ending December 31:

2016	$ 405
2017	1,061
2018	324
2019	34
2020	311
2021-2025	3,449

Plan Asset Allocation

Plan assets are held in a pooled pension trust fund administered by the Virginia Bankers Association. The pooled pension trust fund is sufficiently diversified to maintain a reasonable level of risk without imprudently sacrificing return, with a targeted asset allocation of 39% fixed income and 61% equities. The Investment Manager selects investment fund managers with demonstrated experience and expertise, and funds with demonstrated historical performance, for the implementation of the pension plan’s investment strategy. The Investment Manager will consider both actively and passively managed investment strategies and will allocate funds across the asset classes to develop an efficient investment structure.

It is the responsibility of the Virginia Bankers Association to administer the investments of the pooled pension trust fund within reasonable costs, being careful to avoid sacrificing quality. These costs include, but are not limited to, management and custodial fees, consulting fees, transaction costs and other administrative costs.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Following is a description of the valuation methodologies used for assets measured at fair value.

Mutual funds-fixed income and equity funds: Valued at the net asset value of shares held at year-end.

Cash and equivalents: Valued at cost which approximates fair value.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement as of December 31, 2015 and 2014.

The following table presents the fair value of the assets, by asset category, as of December 31, 2014 and 2013.

		2015	2014
Mutual funds-fixed income	$	3,260	2,207
Mutual funds-equity		5,098	6,621
Total assets at fair value	$	8,358	8,828

The following table sets forth by level, within the fair value hierarchy, the assets carried at fair value as of December 31, 2015 and 2014.

	Assets at Fair Value as of December 31, 2015			
	Level 1	Level 2	Level 3	Total
Mutual funds-fixed income	$ 3,260	-	-	3,260
Mutual funds-equity	5,098	-	-	5,098
Total assets at fair value	$ 8,358	-	-	8,358

	Assets at Fair Value as of December 31, 2014			
	Level 1	Level 2	Level 3	Total
Mutual funds-fixed income	$ 2,207	-	-	2,207
Mutual funds-equity	6,621	-	-	6,621
Total assets at fair value	$ 8,828	-	-	8,828

Contributions

The Company expects to contribute $0 to its pension plan in 2016.

The Company also has a 401(k) plan under which the Company matches employee contributions to the plan. In 2015 and 2014, the Company matched 100% of the first 1% of salary deferral and 50% of the next 5% of salary deferral to the 401(k) plan. The amount expensed for the 401(k) plan was $124 during the year ended December 31, 2015 and $109 during the year ended December 31, 2014.

(8) Income Taxes

Income tax expense attributable to income before income tax expense for the years ended December 31, 2015 and 2014 is summarized as follows:

		2015	2014
Current	$	1,249	914
Deferred		57	56
Total income tax expense	$	1,306	970

Reported income tax expense for the years ended December 31, 2015 and 2014 differed from the amounts computed by applying the U.S. Federal income tax rate of 34% to income before income tax expense as a result of the following:

		2015	2014
Computed at statutory Federal tax rate	$	1,376	1,060
Increase (reduction) in income tax expense resulting from:			
Tax-exempt interest		(42)	(41)
Disallowance of interest expense		1	2
Other, net		(29)	(51)
Reported income tax expense	$	1,306	970

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31, 2015 and 2014 are as follows:

		2015	2014
Deferred tax assets:			
Loans, principally due to allowance for loan losses	$	590	585
Defined benefit plan valuation adjustments		693	562
Loans, due to unearned fees, net		4	8
Other		171	250
Total gross deferred tax assets		1,458	1,405
Deferred tax liabilities:			
Bank premises and equipment, due to differences in depreciation		(457)	(514)
Accrued pension, due to actual pension contributions in excess of accrual for financial reporting purposes		(852)	(833)
Net unrealized gains on available-for-sale securities		(58)	(13)
Other		(192)	(176)
Total gross deferred tax liabilities		(1,559)	(1,536)
Net deferred tax liability, included in other liabilities	$	(101)	(131)

The Bank has determined that a valuation allowance for the gross deferred tax assets is not necessary as of December 31, 2015 and 2014, since realization of the entire gross deferred tax assets can be supported by the amounts of taxes paid during the carry back periods available under current tax laws.

The Company did not recognize any interest or penalties related to income tax during the years ended December 31, 2015 and 2014. The Company does not have an accrual for uncertain tax positions as deductions taken and benefits accrued are based on widely understood administrative practices and procedures and are based on clear and unambiguous tax law. Tax returns for all years 2012 and thereafter are subject to future examination by tax authorities.

(9) Financial Instruments with Off-Balance-Sheet Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include mortgage sale lock commitments, commitments to extend credit and standby letters of credit. These instruments may involve, to varying degrees, credit risk in excess of the amount recognized in the balance sheets. The contract amounts of these instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

Credit risk is defined as the possibility of sustaining a loss because the other parties to a financial instrument fail to perform in accordance with the terms of the contract. The Company's maximum exposure to credit loss under commitments to extend credit and standby letters of credit is represented by the contractual amount of these instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

The Company requires collateral to support financial instruments when it is deemed necessary. The Bank evaluates such customers' creditworthiness on a case-by-case basis. The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the counterparty.

Collateral may include deposits held in financial institutions, U.S. Treasury securities, other marketable securities, real estate, accounts receivable, inventory, and property, plant and equipment.

Financial instruments whose contract amounts represent credit risk:

		December 31, 2015	December 31, 2014
Commitments to extend credit	$	73,122	61,953
Standby letters of credit	$	3,677	3,575

In the ordinary course of business, the Company may enter into mortgage rate lock commitments that are subsequently funded by the Company. The Company then sells the mortgage loan to a secondary market bank that had underwritten the mortgage loan before the Company funded the loan. The secondary market bank pays a fee that was agreed upon on the lock commitment date to the Company and buys the loan within five days of the initial funding by the Company. As of December 31, 2015 the Company had $265 in outstanding mortgage rate lock commitments and no outstanding mortgage rate lock commitments as of December 31, 2014.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements, including bond financing and similar transactions. Unless renewed, substantially all of the Company's standby letters of credit commitments as of December 31, 2015 will expire within one year. Management does not anticipate any material losses as a result of these transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

(10) Leases

The Company leases premises and equipment under various operating lease agreements. Generally, operating leases provide for one or more renewal options on the same basis as current rental terms. Certain leases require increased rentals under cost-of-living escalation clauses. The following are future minimum lease payments as required under the agreements:

Year	Payments
2016	$154
2017	152
2018	152
2019	152
2020	160
Thereafter	1,289
Total	$2,059

The Company entered into a lease of the Amherst branch facility, with an entity in which a director of the Company has a 50% ownership interest, in 2009. The original term of the lease is twenty years and may be renewed at the Company's option for two additional terms of five years each. The Company's current rental payment under the lease is $141 annually.

(11) Concentrations of Credit Risk and Contingencies

The Company grants commercial, residential and consumer loans to customers primarily in the central Virginia area. As a whole, the portfolio is affected by general economic conditions in the central Virginia region.

The Company's commercial and real estate loan portfolios are diversified, with no significant concentrations of credit other than the geographic focus on the central Virginia region. The installment loan portfolio consists of consumer loans primarily for automobiles and other personal property. Overall, the Company's loan portfolio is diversified and is not concentrated within a single industry or group of industries, the loss of any one or more of which would generate a materially adverse impact on the business of the Company.

The Company has established operating policies relating to the credit process and collateral in loan originations. Loans to purchase real and personal property are generally collateralized by the related property. Credit approval is primarily based on the creditworthiness of the borrower, the ability to repay and the value of the collateral pledged.

At times, the Company may have cash and cash equivalents at a financial institution in excess of insured limits. The Company places its cash and cash equivalents with high credit quality financial institutions whose credit rating and financial condition is monitored by management to minimize credit risk.

In the ordinary course of business, various claims and lawsuits are brought by and against the Company. In the opinion of management, there is no pending or threatened proceeding in which an adverse decision could result in a material adverse change in the Company's consolidated financial condition or results of operations.

(12) Dividend Restrictions and Capital Requirements

Bankshares' principal source of funds for dividend payments is dividends received from its subsidiary Bank. For the years ended December 31, 2015 and 2014, dividends from the subsidiary Bank totaled $993 and $1,016, respectively.

Substantially all of Bankshares' retained earnings consist of undistributed earnings of its subsidiary Bank, which are restricted by various regulations administered by federal banking regulatory agencies. Under applicable federal laws, the Comptroller of the Currency restricts, without prior approval, the total dividend payments of the Bank in any calendar year to the net profits of that year, as defined, combined with the retained net profits for the two preceding years. As of December 31, 2015, retained net profits of the Bank that were free of such restriction approximated $6,466

Bankshares and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on Bankshares' consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, Bankshares and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Bankshares and the Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Beginning January 1, 2015, banks became subject to new Basel III Capital Rules. As a result, certain items in the risk-based capital calculation have changed. In addition, a new ratio, Common Equity Tier 1or "CET 1" Risk-Based Capital Ratio, is now measured and monitored. For Bankshares and the Bank and given its capital structure, the Common Equity Tier 1 Risk-Based Capital Ratio and the Tier 1 Risk-Based Capital Ratio are identical. Bankshares and the Bank's actual regulatory capital amounts and ratios as of December 31, 2015 are listed on the following page:

Regulatory Capital Ratios as of December 31, 2015	**Bankshares consolidated**		**Bank**	
	Amount	**Ratio**	**Amount**	**Ratio**
Total Risk-Based Capital Ratio (to Risk Weighted Assets)	$38,440	12.32%	$38,602	12.41%
CET 1 Risk Based Capital Ratio (to Risk Weighted Assets)	$35,475	11.37%	$35,637	11.45%
Tier 1 Risk-Based Capital Ratio (to Risk Weighted Assets)	$35,475	11.37%	$35,637	11.45%
Tier 1 Leverage Capital Ratio (to Average Assets)	$35,475	9.68%	$35,637	9.75%

Basel III limits capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of 2.50% of CET1 capital, Tier 1 capital and total capital to risk weighted assets in addition to the amount necessary to meet minimum risk-based capital requirements. The capital conservation buffer will be phased in beginning January 1, 2016, at 0.625% of risk weighted assets, increasing each year until fully implemented at 2.50% on January 1, 2019. When fully phased in on January 1, 2019, Basel III will require (i) a minimum ratio of CET1 capital to risk weighted assets of at least 4.50%, plus a 2.50% capital conservation buffer, (ii) a minimum ratio of Tier 1capital to risk weighted assets of at least 6.00%, plus the capital conservation buffer, (iii) a minimum ratio of total capital to risk weighted assets of at least 8.00%, plus the 2.50% capital conservation buffer and (iv) a minimum leverage ratio of 4.00%.

As of December 31, 2015, the most recent notification from Office of the Comptroller of the Currency categorized Bankshares and the Bank as "well capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed Bankshares and the Bank's category.

Bankshares and the Bank's actual capital amounts and ratios as of December 31, 2014 using the former capital measurements before the implementation of Basel III are presented in the table below.

	Actual		For Capital Adequacy Purposes		To Be "Well Capitalized" Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2014:						
Total Capital						
(to Risk Weighted Assets):						
Bankshares consolidated	$ 36,521	11.98%	$ 24,379	8.0%	$ N/A	N/A
Bank	36,828	12.12%	24,310	8.0%	30,387	10.0%
Tier 1 Capital						
(to Risk Weighted Assets):						
Bankshares consolidated	33,385	10.96%	12,189	4.0%	N/A	N/A
Bank	33,692	11.09%	12,155	4.0%	18,232	6.0%
Tier 1 Capital (Leverage)						
(to Average Assets):						
Bankshares consolidated	33,385	9.25%	14,434	4.0%	N/A	N/A
Bank	33,692	9.36%	14,399	4.0%	17,999	5.0%

(13) Disclosures about Fair Value of Financial Instruments

Generally accepted accounting principles require the Company to disclose estimated fair values of its financial instruments.

The following methods and assumptions were used to estimate the approximate fair value of each class of financial instrument for which it is practicable to estimate that value.

(a) Securities

The fair value of securities is estimated based on bid prices as quoted on national exchanges or bid quotations received from securities dealers. The fair value of certain state and municipal securities is not readily available through market sources other than dealer quotations; so fair value estimates are based on quoted market prices of similar instruments, adjusted for differences between the quoted instruments and the instruments being valued.

(b) Loans

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial, real estate - residential, real estate - commercial, loans to individuals and other loans. Each loan category is further segmented into fixed and adjustable rate interest terms.

The fair value of fixed rate loans is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk inherent in the loan as well as estimates for prepayments. The estimate of maturity is based on the Company's historical experience with repayments for each loan classification, modified, as required, by an estimate of the effect of current economic and lending conditions.

(c) Deposits

The fair value of demand deposits, NOW accounts, and savings deposits is the amount payable on demand. The fair value of fixed maturity time deposits, certificates of deposit is estimated by discounting scheduled cash flows through the estimated maturity using the rates currently offered for deposits or borrowings of similar remaining maturities.

(f) Commitments to Extend Credit and Standby Letters of Credit

The only amounts recorded for commitments to extend credit and standby letters of credit are the deferred fees arising from these unrecognized financial instruments. These deferred fees are not deemed significant as of December 31, 2015 and 2014, and as such, the related fair values have not been estimated.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on and off-balance sheet financial instruments without attempting to estimate the value of anticipated funding needs and the value of assets and liabilities that are not considered financial instruments. Significant assets that are not considered financial assets include deferred tax assets and premises and equipment and other real estate owned. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

(g) Fair Value Methodologies

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

Available-for-Sale Securities

Available-for-sale securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available, and would in such case be included as a Level 1 asset. The Company currently carries no Level 1 securities. If quoted prices are not available, valuations are obtained from readily available pricing sources from independent providers for market transactions involving similar assets or liabilities. The Company's principal market for these securities is the secondary institutional markets, and valuations are based on observable market data in those markets. These would be classified as Level 2 assets. The Company's entire available-for-sale securities portfolio is classified as Level 2 securities. The

Company currently carries no Level 3 securities for which fair value would be determined using unobservable inputs.

Loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and a specific allowance for loan losses is established for that loan. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with ASC Topic 360, "*Impairment of a Loan.*" The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of a similar debt, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans at which fair value of the expected repayments or collateral exceed the recorded investments in such loans. As of December 31, 2015, substantially all of the impaired loans were evaluated based on the fair value of the collateral. In accordance with "*Impairment of a Loan*," impaired loans where an allowance is established based on the fair value of the collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the impaired loan as a nonrecurring Level 2 asset. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as a nonrecurring Level 3 asset. For substantially all of the Company's impaired loans as of December 31, 2015 and December 31, 2014, the valuation methodology utilized by the Company was collateral based measurements such as a real estate appraisal and the primary unobservable input was adjustments for differences between the comparable real estate sales. The discount to reflect current market conditions and ultimately collectability ranged from 0% to 25% for each of the respective periods.

Other Real Estate Owned

Other real estate owned is adjusted to fair value less estimated selling costs upon transfer of the loans to foreclosed assets. Subsequently, other real estate owned is carried at the lower of carrying value or fair value less estimated selling costs. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on observable market price or a current appraised value, the Company records the foreclosed asset as a nonrecurring Level 2 asset. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the other real estate owned as a nonrecurring Level 3 asset. For substantially all of the Company's other real estate owned as of December 31, 2015 and December 31, 2014, the valuation methodology utilized by the Company was collateral based measurements such as a real estate appraisal and the primary unobservable input was adjustments for differences between the comparable real estate sales. The discount to reflect current market conditions ranged from 0% to 25% for each of the respective periods.

The following tables present information about certain assets and liabilities measured at fair value:

Fair Value Measurements on December 31, 2015

Description	Total Carrying Amount in The Consolidated Balance Sheet	Assets/Liabilities Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities	$22,075	$22,075	$-	$22,075	$-
Impaired loans (nonrecurring)	$2,856	$2,856	$-	$-	$2,856
Other Real Estate Owned (nonrecurring)	$1,733	$1,733	$-	$-	$1,733

Fair Value Measurements on December 31, 2014

Description	Total Carrying Amount in The Consolidated Balance Sheet	Assets/Liabilities Measured at Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities	$23,597	$23,597	$-	$23,597	$ -
Impaired loans (nonrecurring)	$4,284	$4,284	$-	$-	$4,284
Other Real Estate Owned (nonrecurring)	$1,107	$1,107	$-	$-	$1,107

The following table sets forth a summary of changes in the fair value of the Company's nonrecurring Level 3 assets for the year ended December 31, 2015:

		Level 3 Assets Year Ended December 31, 2015	
		Impaired Loans	Other Real Estate Owned
Balance, beginning of the year	$	4,284	1,107
Purchases, sales, issuances, and settlements (net)		(1,428)	626
Balance, end of year	$	2,856	1,733

There were no transfers between Level 1 and Level 2 investments during the year ended December 31, 2015.

The following table sets forth a summary of changes in the fair value of the Company's nonrecurring Level 3 assets for the year ended December 31, 2014:

		Level 3 Assets Year Ended December 31, 2014	
		Impaired Loans	Other Real Estate Owned
Balance, beginning of the year	$	2,586	1,297
Purchases, sales, issuances, and settlements (net)		1,698	(190)
Balance, end of year	$	4,284	1,107

There were no transfers between Level 1 and Level 2 investments during the year ended December 31, 2014.

(14) Parent Company Financial Information

Condensed financial information of Bankshares ("Parent") is presented below:

Condensed Balance Sheets

Assets		December 31, 2015	2014
Cash due from subsidiary	$	22	16
Investment in subsidiary, at equity		34,946	33,165
Other assets		929	865
Total assets	$	35,897	34,046
Liabilities and stockholders' equity			
Notes payable	$	1,091	1,367
Other liabilities		24	25
Total liabilities	$	1,115	1,392
Stockholders' equity			
Common stock of $3 par value, authorized 3,000,000 shares; issued and outstanding 1,520,221 shares in 2015 and 1,511,970 in 2014	$	4,508	4,497
Capital surplus		1,065	1,004
Retained earnings		30,442	28,219
Accumulated other comprehensive income (loss), net		(1,233)	(1,066)
Total stockholders' equity	**$**	34,782	32,654
Total liabilities and stockholders' equity	**$**	35,897	34,046

Condensed Statements of Income

		Years ended December 31, 2015	2014
Income:			
Dividends from subsidiary	$	992	1,016
Equity in undistributed net income of subsidiary		1,874	1,302
Total Income		2,866	2,318
Expenses:			
Other expenses		191	257
Income before income tax benefit		2,675	2.061
Applicable income tax benefit		65	88
Net income	$	2,740	2,149

Condensed Statements of Cash Flows

		Years ended December 31, 2015	2014
Cash flows from operating activities:			
Net income	$	2,740	2,149
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of subsidiary		(1,874)	(1,302)
Increase in other assets		(64)	(89)
Net cash provided by operating activities		802	758
Cash flows from financing activities			
Cash dividends paid		(517)	(484)
Repayment of line of credit		(278)	(264)
Increase (decrease) in other liabilities		(1)	1
Net cash used in financing activities		(796)	(747)
Net increase in cash due from subsidiary		6	11
Cash due from subsidiary, beginning of year		16	5
Cash due from subsidiary, end of year	$	22	16

(15) Stock-based Compensation

The Company's 2004 Incentive Stock Plan (the "2004 Plan"), pursuant to which the Company's Board of Directors may grant stock options and other equity-based awards to officers and key employees, was approved by shareholders on April 13, 2004 and became effective as of May 1, 2004. The 2004 Plan authorized grants of up to 100,000 shares of the Company's authorized, but unissued common stock. All stock options were granted with an exercise price equal to the stock's fair market value at the date of the grant. As of December 31, 2014, the 2004 Plan has expired and no additional awards may be granted under this plan.

Stock options granted under the 2004 Plan generally have 10-year terms, vest at the rate of 25% per year, and become fully exercisable four years from the date of grant.

Under the 2004 Plan during 2014, 23,500 options for shares were granted, and in 2013 no stock options were granted. On May 1, 2013, 10,000 shares, of restricted stock were granted to employees. The 2013 grants will vest on the third anniversary of the grant date.

At December 31, 2015, options for 20,500 shares were exercisable at an exercise price of $9.00 per share and options for 5,750 shares were exercisable at an exercise price of $18.10 per share under the 2004 Plan.

On April 8, 2014, shareholders approved the 2014 Incentive Stock Plan (the "2014 Plan"), pursuant to which the Company's Board of Directors may grant stock options and other equity-based awards to officers and key employees. The 2014 Plan authorizes grants of up to 150,000 shares of the Company's authorized, but unissued common stock. All stock options are granted with an exercise price equal to the stock's fair market value at the date of the grant. As of December 31, 2015, there were 128,222 shares available for grant under the 2014 Plan.

On May 1, 2015, 6,250 shares of restricted stock were granted to employees pursuant to the 2014 Plan. On May 1, 2014, 8,400 shares of restricted stock were granted to employees pursuant to the 2014 Plan. The 2014 restricted stock grants will vest on the third anniversary of the grant date.

At December 31, 2015, no options for shares were exercisable under the 2014 Plan.

The Company expensed $0 in 2015 and $3 in 2014 in compensation expense as a direct result of the issuance of the 34,750 incentive stock options with tandem stock appreciation rights in previous years and recognized $37 in compensation expense related to 23,125 unvested stock options. For the 2004 Plan stock options granted May 1, 2010, the fair value of $3.96 per share of each option grant is estimated on the grant date using the Black-Scholes option-pricing model with the following weighted average assumptions used: dividend yield of 2.065%, expected volatility of 45.61%, a risk-free interest rate of 4.63%, and expected lives of 9 years. For the 2004 Plan stock options granted February 11, 2014, the fair value of $5.45 per share of each option grant is estimated on the grant date using the Black-Scholes option-pricing model with the following weighted average assumptions used: dividend yield of 4.00%, expected volatility of 44.70%, a risk-free interest rate of 2.69%, and expected lives of 9 years.

The Company also expensed $116 in 2015 in compensation expense as a direct result of the granting of 11,000 shares of restricted stock in 2012, 10,000 shares of restricted stock in 2013, 8,400 shares of restricted stock in 2014 and 6,250 shares of restricted stock in 2015 and will recognize $102 in 2016 and $70 in 2017 and $12 in 2018 on such restricted stock.

Stock option activity during the years ended December 31, 2015 and 2014 is as follows:

	Number of Shares	**Weighted Average Exercise Price**
Balance as of December 31, 2013	37,000	$9.00
Forfeited	250	$9.00
Exercised	2,000	$9.00
Granted	23,500	$18.10
Balance as of December 31, 2014	58,250	$12.67
Forfeited	375	18.10
Exercised	15,000	9.00
Granted	0	-
Balance as of December 31, 2015	42,875	13.91

The following table summarizes information about stock options outstanding as of December 31, 2015:

	Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding at 12/31/15	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number Exercisable at 12/31/2015	Weighted-Average Exercise Price
$ 9.00	19,750	5.4	$ 9.00	19,750	$ 9.00
18.10	23,125	8.4	18.10	5,750	18.10

The aggregate intrinsic value of options outstanding was $223, of options exercisable was $206, and of options unvested and expected to vest was $17 as of December 31, 2015. The aggregate intrinsic value of restricted stock granted was $119 for 2015 and $150 for 2014. The total intrinsic value (market value on date of exercise less exercise price) of options exercised was $127 for the year ended December 31, 2015 and $19 for the year ended December 31, 2014.

The following table summarizes information about stock options outstanding at December 31, 2014:

	Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding at 12/31/14	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number Exercisable at 12/31/2014	Weighted-Average Exercise Price
$ 9.00	34,750	5.4	$ 9.00	34,750	$ 9.00
18.10	23,500	9.4	18.10	-	-

(16) Share Repurchase Program

On November 12, 2013, the Board of Directors adopted a resolution authorizing the repurchase of up to $500 worth of shares of the Company’s common stock. The Board of Directors extended this resolution on May 13, 2014, November 11, 2014, May 12, 2015 and December 8, 2015. Purchases are made, as conditions warrant, from time to time in the open market. The current resolution expires June 30, 2016 and the timing of future purchases will depend on market conditions. As of December 31, 2015, the Company repurchased 14,465 shares of its common stock under the stock repurchase program and expensed $249 for these repurchases. The timing and amount of future repurchases will depend upon the market price for our common stock, securities laws restricting repurchases, asset growth, earnings, and our capital plan.

(17) Subsequent Events

The Company has evaluated subsequent events for potential recognition and/or disclosure in the December 31, 2015 consolidated financial statements through March 5, 2016, the date the consolidated financial statements were available to be issued.

Management’s Report on Internal Control over Financial Reporting.

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2015. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in *Internal Control – Integrated Framework*. Based on this assessment, our management concluded that, as of December 31, 2015, the Company’s internal control over financial reporting was effective based on those criteria.

This annual report does not include an attestation report of the Company's independent auditor regarding internal control over financial reporting.

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

To the Board of Directors and Stockholders
of Pinnacle Bankshares Corporation
Altavista, Virginia

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Pinnacle Bankshares Corporation and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pinnacle Bankshares Corporation and Subsidiary as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Cherry Bekaert LLP

Raleigh, North Carolina
March 2, 2016

IN MEMORIAM

Jo Ann H. Betterton

January 30, 1963 – September 12, 2015

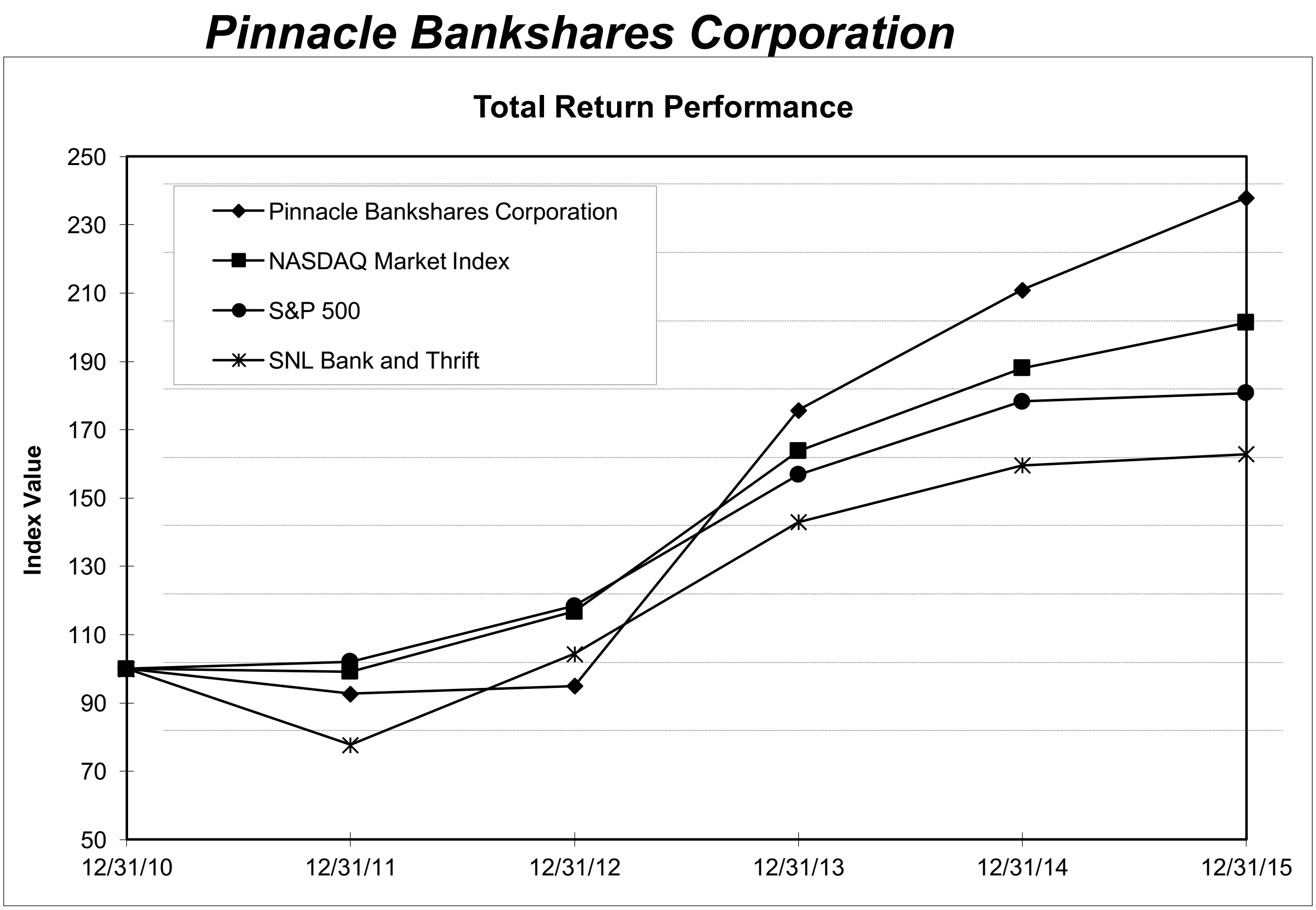
Joined First National Bank on August12, 2002

Loan Operations Specialist II

Shareholder Information

PERFORMANCE GRAPH

The graph below compares total returns assuming reinvestment of dividends of Pinnacle Bankshares Corporation Common Stock, the NASDAQ Market Index, and S&P 500 and the SNL Bank and Thrift Index. The graph assumes $100 invested on January 1, 2010 in Pinnacle Bankshares Corporation Common Stock and in each of the indices.



	Period Ending					
Index	**12/31/10**	**12/31/11**	**12/31/12**	**12/31/13**	**12/31/14**	**12/31/15**
Pinnacle Bankshares Corporation	100.00	92.73	94.99	175.73	210.95	237.96
NASDAQ Market Index	100.00	99.21	116.82	163.75	188.03	201.40
S&P 500	100.00	102.11	118.45	156.82	178.28	180.75
SNL Bank and Thrift	100.00	77.76	104.42	142.97	159.60	162.83

Shareholder Information

Annual Meeting

The 2016 Annual Meeting of Shareholders will be held on April 12, 2016, at 11:00 a.m. at the Fellowship Hall of Altavista Presbyterian Church, located at 707 Broad Street, Altavista, Virginia.

Market for Common Equity and Related Stockholder Matters

The Company's Common Stock is quoted on the OTC Bulletin Board. The following table presents the high and low bid prices per share of the Common Stock, as reported on the OTCQX marketplace, and dividend information of the Company for the quarters presented. The high and low bid prices of the Common Stock presented below reflect inter-dealer prices and do not include retail markups, markdowns or commissions, and may not represent actual transactions.

	2015			2014		
	High	Low	Dividends	High	Low	Dividends
First Quarter	$17.82	$17.51	$0.085	$17.00	$15.10	$0.075
Second Quarter	$17.70	$17.41	$0.085	$18.50	$17.00	$0.075
Third Quarter	$17.99	$17.41	$0.085	$18.40	$17.51	$0.085
Fourth Quarter	$19.70	$17.65	$0.085	$18.05	$17.52	$0.085

Each share of Common Stock is entitled to participate equally in dividends, which are payable as and when determined by the Board of Directors after consideration of the earnings, general economic conditions, the financial condition of the business and other factors as might be appropriate. The Company's ability to pay dividends is dependent upon its receipt of dividends from its subsidiary. Prior approval from the Comptroller of the Currency is required if the total of all dividends declared by a national bank, including the proposed dividend, in any calendar year will exceed the sum of the bank's net profits for that year and its retained net profits for the preceding two calendar years, less any required transfers to surplus. This limitation has not had a material impact on the Bank's ability to declare dividends during 2015 and 2014 and is not expected to have a material impact during 2016.

As of March 1, 2016, there were approximately 311 shareholders of record of Bankshares' Common Stock.

Requests for Information

Requests for information about the Company should be directed to Bryan M. Lemley, Secretary, Treasurer and Chief Financial Officer, P.O. Box 29, Altavista, Virginia 24517, telephone (434) 369-3000.

Shareholders seeking information regarding lost certificates and dividends should contact Computershare Inc. in College Station, Texas, telephone (800) 368-5948. Please submit address changes in writing to:

Shareholder correspondence should be mailed to:
Computershare Shareholder Services
P.O. Box 30170
College Station, TX 77842-3170

Overnight correspondence should be mailed to:
Computershare Shareholder Services
211 Quality Circle, Suite 210
College Station TX 77845

PINNACLE BANKSHARES CORPORATION

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