PINNACLE BANKSHARES CORPORATION

2018 ANNUAL REPORT

BOARD OF DIRECTORS

Front Row: Connie C. Burnette, James E. Burton, IV, (Chairman), Aubrey H. Hall, III, A. Patricia Merryman

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

SENIOR MANAGEMENT

First Row: Vivian S. Brown, Aubrey H. Hall, III (President and CEO), Judith A. Clements
Second Row: Thomas R. Burnett, Jr., Tony J. Bowling, Bryan M. Lemley, Timothy W. Holt

PINNACLE BANKSHARES CORPORATION
AND SUBSIDIARY

Table of Contents

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
3321 Old Forest Road
Lynchburg, Virginia 24501
Telephone: (434) 385-4432

ODD FELLOWS ROAD OFFICE
3401 Odd Fellows Road
Lynchburg, Virginia 24501
Telephone: (434) 333-6801

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

Board of Directors of Pinnacle Bankshares Corporation and First National Bank

James E. Burton, IV	Chairman
Michael E. Watson	Vice Chairman
Elton W. Blackstock, Jr.	
Connie C. Burnette	
Judson H. Dalton	
Robert L. Finch, Jr.	
Aubrey H. Hall, III	
Thomas F. Hall	
Dr. Robert L. Johnson, II	
A. Patricia Merryman	
Carroll E. Shelton	
C. Bryan Stott	
James O. Watts IV, Esq.	

Officers of Pinnacle Bankshares Corporation

Aubrey H. Hall, III	President & Chief Executive Officer
Bryan M. Lemley	Secretary, Treasurer & Chief Financial Officer
Thomas R. Burnett, Jr.	Vice President

Senior Management of First National Bank

Aubrey H. Hall, III	President, Chief Executive Officer & Trust Officer
Bryan M. Lemley	Senior Vice President, Cashier & Chief Financial Officer
Timothy W. Holt	Senior Vice President & Chief Credit Officer
Judith A. Clements	Senior Vice President & Chief Human Resources Officer
Thomas R. Burnett, Jr.	Senior Vice President & Chief Lending Officer
Vivian S. Brown	Senior Vice President & Chief Retail Officer
Tony J. Bowling	Senior Vice President & Chief Operating Officer

PINNACLE BANKSHARES CORPORATION

Dear Shareholders:

It is my pleasure to report that Pinnacle Bankshares Corporation, the one-bank holding company for First National Bank, produced record high earnings in 2018, marking our tenth straight year of core net income improvement. For the year, Pinnacle experienced solid growth of loans, deposits and total assets, while capitalizing on higher asset yields, continued strong core funding and sound credit quality to enhance our performance. We are well positioned across the Lynchburg Region for continued growth and performing at a level that places us among the top community banks in Virginia.

For 2018, Pinnacle generated net income of $4,160,000, representing a $1,412,000 or 51% increase as compared to 2017, and equating to a .90% return on average assets. Higher net interest income was the primary driver of the improvement, which was the result of higher yields on interest earning assets and increased volume of loans and investments. Additionally, non-interest income increased as compared to the prior year, helping to offset higher non-interest expense associated with growth and increased provision for loan losses. The Company also benefitted from a lower corporate tax rate due to the Tax Cuts and Jobs Act of 2017. On a pre-tax basis, net income increased $732,000 or 17%, substantiating improved profitability from core operations.

Outstanding loans grew $18 million, or 5% in 2018, with the growth being primarily driven by strong performances from First National Bank's Dealer and Commercial Divisions. Deposits continued their upward trend, increasing $23.6 million, or 6%, during the year due to higher checking and savings balances. A steady stream of new deposit customers acquired from larger national banks and other competition has helped the Company maintain a low cost of funds, despite increased interest rates. In fact, the number of demand deposit accounts grew by 1,060, or almost 8% for the year. Total assets as of year-end 2018 were $470.6 million, an increase of 6% compared to the prior year-end, as the Company moves closer to the $500 million asset threshold.

Asset quality ratios are among the best in Pinnacle's history with most all measures considered to be very strong. As I have stated in the past, we have built a sound and diversified loan portfolio without an excessive concentration of non-owner occupied commercial real estate loans and very limited construction/acquisition & development loan exposure. While we remain optimistic regarding the future and underlying strength of the economy, our Company is positioned to withstand any future challenges that may occur.

We were pleased to have increased the cash dividend paid to Pinnacle's shareholders twice during 2018 for a total of $0.045 or 11.25%. Pinnacle's stock price as of December 31, 2018 was $27.45, which was down $2.05 or 6.9% as compared to December 31, 2017. Our stock price decline resulted in a -5% total return for 2018; however Pinnacle fared better than many banking peers as evidenced by the SNL U.S. Bank Index total return of -17% for the year. As of February 26, 2019, our stock closing price was $32.00.

With improved profitability and a disciplined dividend strategy, Pinnacle has been able to accrete capital at a rate that appropriately correlates with the Company's growth, thus improving capital ratios. As of year-end 2018, the Company's total risk-based capital ratio was 12.29% as compared to 11.69% as of the prior year-end. The Company and First National remain well capitalized per all regulatory definitions.

First National's new Odd Fellows Road Branch in Lynchburg completed its first full year of operation in 2018 and exceeded expectations regarding new deposit accounts and loan growth. Accessibility is somewhat challenged currently by phase two of the Odd Fellows Road corridor improvement project, however, we expect the situation to improve later this year with anticipated completion of the bridge replacement next to our facility in June.

We are excited that First National completed a restructuring of its Investments Division during 2018, which is now branded as First National Advisors. The restructure included successful recruitment of two experienced financial advisors and conversion to a more robust investments platform. Additionally, the Bank's Mortgage Division also converted to a new loan origination platform and added a new Mortgage Officer. These two lines of business are now positioned to better serve our client base and increase their contributions to Pinnacle's performance.

New for 2018, First National began offering ***Mobile Wallet***, which provides clients the ability to utilize their First National debit cards through Apple Pay, Samsung Pay or Google Pay apps on their mobile phones. With Mobile Wallet, card information is stored securely on the mobile device and not shared when making a purchase, reducing the risk of identity theft or a breach via skimmers. First National also officially entered the social media space in 2018 with the launching of its ***Facebook*** page. The Bank intends to be more interactive with clients and prospects alike through posting educational and community focused content. Please check us out at www.facebook.com/FirstNatBk.

Finally, we are pleased to announce that First National achieved an overall ranking of seventh out of the seventy banks headquartered in Virginia per Banks Street Partners' "***Rank the Banks***" report for the twelve months ending December 31, 2018. The overall ranking is based on performance as measured in the following categories: net interest margin, noninterest income, total overhead, asset quality and return on average equity. The overall ranking of seventh is well-deserved and a reflection of the hard work and dedication of First National's employees, our most valuable asset. The entire report can be viewed at www.bankstreetpartners.come under the Reports & Data tab.

In closing, we are very proud of Pinnacle Bankshares Corporation's achievements in 2018 and feel that we have positioned First National Bank as the premier community bank in Central Virginia. To hear more about our Company's performance and outlook, please join us for the Annual Meeting of Shareholders to be held at ***11:00 a.m., Tuesday, April 9, 2019 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. (Todd) Hall, III
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,				
	2018	**2017**	**2016**	**2015**	**2014**
Income Statement Data:					
Net interest income	$ 16,382	14,850	13,635	12,505	12,056
Provision for loan losses	607	260	87	129	91
Noninterest income	4,202	3,855	3,896	3,731	3,162
Noninterest expense	14,928	14,128	13,044	12,060	12,008
Income tax expense	889	1,569	1,396	1,306	970
Net income	4,160	2,748	3,004	2,740	2,149
Per Share Data:					
Basic net income	$ 2.71	1.80	1.97	1.80	1.42
Diluted net income	2.68	1.78	1.96	1.79	1.40
Cash dividends	0.445	0.40	0.38	0.34	0.32
Book value	27.34	25.37	24.01	22.88	21.60
Weighted-Average Shares Outstanding:					
Basic	1,537,380	1,528,164	1,524,271	1,519,159	1,512,661
Diluted	1,551,598	1,544,628	1,535,632	1,531,436	1,530,831
Balance Sheet Data:					
Assets	$ 470,611	443,925	440,104	371,261	362,188
Loans, net	372,482	354,829	338,423	303,199	280,449
Securities	49,826	44,217	27,569	27,148	29,277
Cash and cash equivalents	15,717	12,575	48,174	16,739	29,451
Deposits	425,278	401,685	399,743	332,403	325,204
Stockholders' equity	42,111	38,795	36,549	34,782	32,654
Performance Ratios:					
Return on average assets	0.90%	0.62%	0.76%	0.74%	0.60%
Return on average equity	10.33%	7.25%	8.38%	8.12%	6.59%
Dividend payout	16.44%	22.27%	19.34%	18.96%	22.48%
Asset Quality Ratios:					
Allowance for loan losses to total loans, net of unearned income and fees	0.90%	0.83%	0.85%	0.94%	1.08%
Net charge-offs to average loans, net of unearned income and fees	0.05%	0.05%	0.02%	0.11%	0.15%
Capital Ratios:					
Leverage	9.36%	9.15%	8.94%	9.68%	9.25%
Risk-based:					
Tier 1 capital	11.40%	10.88%	10.83%	11.37%	10.96%
Total capital	12.29%	11.69%	11.68%	12.32%	11.98%
Average equity to average assets	8.73%	8.56%	9.08%	9.17%	9.11%

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 in any forward-looking statements. 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; real estate values in our market area; general economic and financial market conditions; levels of unemployment in our market area; the legislative/regulatory climate, including regulatory initiatives with respect to financial institutions, products and services in accordance with the Dodd Frank Wall Street Reform Act (the “Dodd Frank Act”) and otherwise; the Consumer Financial Protection Bureau and its regulatory and enforcement activities; and the application of the Basel III capital standards to the Company and the Bank; 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; the impact of the Tax Cuts and Jobs Act of 2017 (the “Tax Act”); our continued successful implementation of the Lynchburg Market Plan; the successful restructuring of First National Advisors; demand for loan products; deposit flows; competition and demand for financial services in our market area; regulatory compliance costs; accounting principles, policies and guidelines; technological risks and developments and cyber threats, attacks or events; the successful integration of new members of First National Advisors and the Bank’s Mortgage Division; the successful integration of new division platforms; 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 events and, in many cases, are outside of our control. 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.

The Bank was organized in 1908 and currently maintains a total of nine 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 and the Odd Fellows Road Branch in the City of Lynchburg, the Forest Branch in Bedford County and the Amherst Branch in the Town of Amherst.

In 2014, the Bank developed a Lynchburg Market Plan in an effort to increase its presence and visibility in Central Virginia. The plan included 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. The Bank opened its newly renovated Timberlake Branch on May 18, 2016 and its newly relocated Old Forest Road Branch on July 6, 2016. The plan also included the construction of a new branch/Lynchburg headquarters building on Odd Fellows Road. The Bank opened its new Odd Fellows Road branch/Lynchburg headquarters on November 22, 2017. The Bank's Altavista Main Office will remain the Company's corporate headquarters. Renovations of the Altavista Main Office lobby were completed in the third quarter of 2017 and renovations to our loan operations area will be completed in 2019.

A total of one-hundred fifteen 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 LPL Financial LLC 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

Net Income

The Company had record net income of $4,160 for the year ended December 31, 2018, compared to net income of $2,748 for the year ended December 31, 2017, an increase of 51.38%. This increase was driven by a $1,532, or 10.32% increase in net interest income and a $347, or 9.00% increase in noninterest income. These increases were partially offset by an $800, or 5.66% increase in noninterest expense and a $347, or 133.46% increase in provision for loan losses. The increase in net income was also driven by a $680, or 43.34% decrease in income taxes due to the Tax Act signed into law on December 22, 2017. For 2018, the Company generated income before taxes of $5,049 as compared to 2017 income before taxes of $4,317, an increase of $732, or 16.96%.

Profitability as measured by the Company's return on average assets ("ROA") was 0.90% in 2018, compared to 0.62% in 2017. Return on average equity ("ROE") was 10.33% for 2018, compared to 7.25% for 2017.

In 2019, we expect net income growth due to growth of earning assets as well as the continued success of our Lynchburg Market Plan. We also expect higher net interest spreads leading to an increase in net interest income. Furthermore, we expect an increase in noninterest income in 2019 due to an increase in assets and increased volume from our Investments Division. Finally, we expect an increase in noninterest expense in 2019 due mainly to expected normal increases in salaries.

Net Interest Income. Net interest income was $16,382 for the year ended December 31, 2018, compared to $14,850 for the year ended December 31, 2017, and is attributable to interest income from loans, interest from correspondent banks and the Federal Reserve and securities exceeding the cost associated with interest paid on deposits and other borrowings. Growth of outstanding loans and investments has been the catalyst for the net interest income improvement.

The net interest spread increased to 3.70% for the year ended December 31, 2018 from 3.52% for the year ended December 31, 2017. Yield on earning assets was 4.27% and cost of funds was 0.57% for the year ended December 31, 2018 as compared to a yield on earning assets of 4.03% and a cost of funds of 0.51% for the year ended December 31, 2017. In 2018, the Company's yield on earning assets increased due to higher loan and investment yields. The net interest margin increased to 3.83% for the year ended December 31, 2018 from 3.63% for the year ended December 31, 2017 due also to the 24 basis point increase in yield on earning assets in 2018.

Provision for Loan Losses and Asset Quality. The provisions for loan losses for the years ended December 31, 2018 and 2017 were $607 and $260, respectively. The provision for loan losses increased in 2018, but has remained at a low level since 2013 as the Company continues to have strong asset quality. The provision for loan losses increased $347 in 2018 due to the 5.05% growth in total loans and the downgrade of two commercial loan relationships that occurred in the third quarter of 2018. These downgrades are expected to be short-term in nature with management not anticipating any losses associated with the relationships. Despite these downgrades, loan quality remained strong due to sound underwriting and credit management processes as total watch list loans decreased to $4,969 as of December 31, 2018 compared to $5,128 as of December 31, 2017.

Nonperforming assets (including nonaccrual loans, accruing loans more than 90 days past due, and foreclosed assets) increased to $1,546 or 0.33% of total assets as of December 31, 2018, as compared to $946 or 0.21% of total assets as of December 31, 2017. Nonperforming loans to total loans increased slightly to 0.24% as of year-end 2018 compared to 0.20% as of year-end 2017. The allowance for loan losses balance was 366.87% of nonperforming loans as of December 31, 2018 compared to 409.90% as of the end of 2017. The Company expects to maintain the quality of its loan portfolio in 2019.

Noninterest Income. 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, bank-owned life insurance income, and commissions and fees from investment, insurance, annuity and other bank products. Total noninterest income for the year ended December 31, 2018 increased $347, or 9.00%, to $4,202 from $3,855 in 2017 due mainly to an increase in interchange fees included in service charges on deposit accounts, which increased by $125, or 7.07% and, commissions and fees, which increased $104 or 21.67% as the Company received $262 in revenue resulting from its conversion to a new investments' platform, which was part of a complete restructuring of the Investments Division. The Division has been expanded to four employees and is now doing business as First National Advisors. In addition to the Investments Division revenue, the Bank benefitted in 2018 from increased interchange and ATM fees, merchant card processing fees and Enterprise Grant Zone income received in connection with its new Odd Fellows Road facility.

Noninterest Expense. Total noninterest expense for the year ended December 31, 2018 increased $800, or 5.66%, to $14,928 from $14,128 in 2017 as salaries and commissions increased by $212, or 2.74%, which included the earlier referenced Investments Division expansion. Occupancy expense increased $106, or 12.76% and furniture and equipment increased $179, or 24.52%. These increases were associated with our new Odd Fellows Road facility that opened in the fourth quarter of 2017. The Company also saw expected increases in 2018 in legal fees, dealer loan expenses, loan fees paid and core data processing fees due to increased transaction volume associated with our growth.

Income Tax Expense. In 2018, the Company benefitted from a lower corporate income tax rate as a result of the Tax Act with its corporate tax rate decreasing from 34% to 21% in 2018. Applicable income taxes on 2018 earnings amounted to $889, resulting in an effective tax rate of 17.61%, compared to $1,569, and an effective tax rate of 36.34% in 2017, as the Company revalued its net deferred tax assets in 2017 as required by the Tax Act. The resulting write-down of the net deferred tax assets resulted in an additional $279 expense in net income tax increasing the overall tax rate in 2017.

Assets

Total assets as of December 31, 2018 were $470,611, up 6.01% from $443,925 as of December 31, 2017. The principal components of the Company's assets at the end of the year were $15,717 in cash and cash equivalents, $49,826 in securities and $372,482 in net loans.

Investment Portfolio. Investment securities as of December 31, 2018 totaled $49,826, an increase of $5,609, or 12.69% from $44,217 as of December 31, 2017. Held-to-maturity investment securities decreased to $1,777 as of December 31, 2018 from $2,361 as of December 31, 2017, a decrease of $584, or 24.74%. Available-for-sale investments increased to $48,049 as of December 31, 2018 from $41,856 as of December 31, 2017, an increase of $6,193, or 14.80%. Investments increased as cash was invested mainly in municipal, agency and mortgage bonds in 2018.

Loan Portfolio. The Company's net loans were $372,482 as of December 31, 2018, an increase of $17,653, or 4.98%, from $354,829 as of December 31, 2017. Total loans were $376,066 as of December 31, 2018 compared to $358,000 as of December 31, 2017. This increase resulted from a $12,305 increase in real estate loans and an $8,772 increase in consumer loans, which was partially offset by a $3,011 decrease in commercial loans during 2018. The Company's ratio of net loans to total deposits was 88.38% as of December 31, 2018 compared to 89.07% as of December 31, 2017 as deposit growth exceeded net loan growth by $5,940.

Bank Premises and Equipment. Bank premises and equipment decreased $270, or 1.69% in 2018 due to expected depreciation expense exceeding purchases in 2018.

Liabilities

Total liabilities as of December 31, 2018 were $428,500, up 5.77% from $405,130 as of December 31, 2017.

Deposits. The increase in liabilities in 2018 was due to an increase in total deposits of $23,593, or 5.87%, to $425,278 as of December 31, 2018 from $401,685 as of December 31, 2017. Noninterest-bearing demand deposits increased $6,472, or 8.38% and represented 19.68% of total deposits as of December 31, 2018, compared to 19.22% as of December 31, 2017. Savings and NOW accounts increased $19,340, or 8.55% and represented 57.73% of total deposits as of December 31, 2018, compared to 56.30% as of December 31, 2017. Time deposits decreased $2,219 or 2.26% and represented 22.60% of total deposits as of December 31, 2018, compared to 24.48% as of December 31, 2017. The change in deposits during 2018 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.

Average deposits were $415,991 for the year ended December 31, 2018, an increase of $14,135, or 3.52% from $401,856 of average deposits for the year ended December 31, 2017. 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, 2018 or December 31, 2017.

Stockholders' Equity

Total stockholders' equity as of December 31, 2018 was $42,111, including $38,853 in retained earnings. As of December 31, 2017, stockholders' equity totaled $38,795, including $35,377 in retained earnings. The increase in stockholders' equity resulted mainly from the Company's net income of $4,160 partially offset by dividends of $684 paid to shareholders. Dividends paid to shareholders were $0.445 per share paid in 2018 as compared to the $0.40 per share paid in 2017.

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. CET1 capital for 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 was first applied on January 1, 2016, at 0.625% of risk weighted assets, increasing each year until fully implemented at 2.50% on January 1, 2019. Basel III was fully phased in on January 1, 2019 and now requires (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 1 capital 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 11.40% of December 31, 2018. The Total Risk-based Capital Ratio was 12.29% and the Company's Tier 1 Leverage Ratio was 9.36% as of December 31, 2018. For comparison, the Company's CET1 and Tier 1 Risk-based Capital Ratio was 10.88% of December 31, 2017. The Total Risk-based Capital Ratio was 11.69% and the Company's Tier 1 Leverage Ratio was 9.15% as of December 31, 2017.

The Company's financial position as of December 31, 2018 reflects liquidity and capital levels management believes to be 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.

PINNACLE BANKSHARES CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2018 and 2017
(In thousands of dollars, except share data)

Assets		**2018**		**2017**
Cash and cash equivalents:				
Cash and due from banks	$	15,717	$	12,575
Certificates of deposits		250		250
Securities:				
Available-for-sale, at fair value		48,049		41,856
Held-to-maturity, at amortized cost		1,777		2,361
Federal Reserve Bank stock, at cost		149		147
Federal Home Loan Bank stock, at cost		399		395
Loans, net		372,482		354,829
Bank premises and equipment, net		15,751		16,021
Accrued interest receivable		1,333		1,183
Bank owned life insurance		10,101		9,865
Goodwill		539		539
Other real estate owned		627		224
Other assets		3,437		3,680
Total assets	$	470,611	$	443,925
Liabilities and Stockholders' Equity				
Liabilities:				
Deposits:				
Demand	$	83,680	$	77,208
Savings and NOW accounts		245,493		226,153
Time		96,105		98,324
Total deposits		425,278		401,685
Note payable under line of credit		-		513
Accrued interest payable		168		141
Other liabilities		3,054		2,791
Total liabilities		428,500		405,130
Commitments, contingencies and other matters				
Stockholders' equity:				
Common stock, $3 par value. Authorized 3,000,000 shares, issued and outstanding 1,540,054 shares in 2018 and 1,529,033 shares in 2017		4,547		4,526
Capital surplus		1,333		1,176
Retained earnings		38,853		35,377
Accumulated other comprehensive loss, net		(2,622)		(2,284)
Total stockholders' equity		42,111		38,795
Total liabilities and stockholders' equity	$	470,611	$	443,925

See accompanying notes to consolidated financial statements.

PINNACLE BANKSHARES CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2018 and 2017
(In thousands of dollars, except per share data)

	2018	2017
Interest income:		
Interest and fees on loans	$ 16,876	$ 15,486
Interest on securities:		
U.S. Government agencies	717	490
States and political subdivisions (taxable)	88	83
States and political subdivisions (tax-exempt)	254	198
Other	334	252
Interest on federal funds sold	1	2
Total interest income	18,270	16,511
Interest expense:		
Interest on deposits:		
Savings and NOW accounts	660	594
Time	1,183	1,065
Interest on federal funds purchased	45	2
Total interest expense	1,888	1,661
Net interest income	16,382	14,850
Provision for loan losses and unfunded commitments	607	260
Net interest income after provision for loan losses	15,775	14,590
Noninterest income:		
Service charges on deposit accounts	1,894	1,769
Commissions and fees	584	480
Mortgage loan fees	438	478
Service charges on loan accounts	346	353
Other operating income	940	775
Total noninterest income	4,202	3,855
Noninterest expense:		
Salaries and employee benefits	7,952	7,740
Occupancy expense	937	831
Furniture and equipment expense	909	730
Office supplies and printing	174	195
Federal deposit insurance premiums	275	310
Capital stock tax	215	247
Advertising expense	183	189
Other operating expenses	4,283	3,886
Total noninterest expense	14,928	14,128
Income before income tax expense	5,049	4,317
Income tax expense	889	1,569
Net income	$ 4,160	$ 2,748
Basic net income per share	$ 2.71	$ 1.80
Diluted net income per share	$ 2.68	$ 1.78

See accompanying notes to consolidated financial statements.

PINNACLE BANKSHARES CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31, 2018 and 2017

(In thousands of dollars)

	2018	2017
Net income	$ 4,160	$ 2,748
Other comprehensive income (losses), net of related income taxes:		
Unrealized losses on availabile-for-sale securities		
Before tax	(319)	(165)
Income tax (benefit) expense	66	(10)
Changes in plan assets and benefit obligation of defined benefit pension plan		
Before tax	(107)	108
Income tax (benefit) expense	22	(345)
Total other comprehensive loss	(338)	(412)
Comprehensive income	$ 3,822	$ 2,336

See accompanying notes to consolidated financial statements.

PINNACLE BANKSHARES CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years ended December 31, 2018 and 2017

(In thousands of dollars, except share and per share data)

	Common Stock Shares	Common Stock Par Value	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances, December 31, 2016	1,522,351	$ 4,506	$ 1,050	$ 32,865	$ (1,872)	$ 36,549
Net income				2,748		2,748
Other comprehensive loss					(36)	(36)
Issuance of restricted stock and related expense	4,474	20	126			146
Stock options exercised	2,208					
Reclassification of the disproportionate tax effect from accumulated other comprehensive income (loss) to retained earnings				376	(376)	-
Cash dividends declared by Bankshares ($0.40 per share)				(612)		(612)
Balances, December 31, 2017	1,529,033	$ 4,526	$ 1,176	$ 35,377	$ (2,284)	$ 38,795
Net income				4,160		4,160
Other comprehensive loss					(338)	(338)
Issuance of restricted stock and related expense	7,794	21	157			178
Stock options exercised	3,227					
Cash dividends declared by Bankshares ($0.445 per share)				(684)		(684)
Balances, December 31, 2018	1,540,054	$ 4,547	$ 1,333	$ 38,853	$ (2,622)	$ 42,111

See accompanying notes to consolidated financial statements.

PINNACLE BANKSHARES CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2018 and 2017
(In thousands of dollars)

	2018	2017
Cash flows from operating activities:		
Net income	$ 4,160	$ 2,748
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of bank premises and equipment	684	518
Amortization of unearned fees, net	4	47
Net amortization of premiums and discounts on securities	348	329
Provision for loan losses	607	260
Provision for deferred income taxes	(208)	(332)
Stock based compensation expense	178	146
Increase in cash value of bank owned life insurance	(236)	(245)
Valuation loss on OREO	-	2
Net decrease (increase) in:		
Accrued interest receivable	(150)	(129)
Other assets	539	1,087
Net increase in:		
Accrued interest payable	27	6
Other liabilities	156	23
Net cash provided by operating activities	6,109	4,460
Cash flows from investing activities:		
Proceeds from maturities of certificates of deposits	-	245
Purchases of available-for-sale securities	(11,319)	(24,831)
Proceeds from maturities and calls of held-to-maturity securities	570	1,345
Proceeds from maturities and calls of available-for-sale securities	134	3,270
Proceeds from paydowns and maturities of available-for-sale mortgage-backed securities	4,339	3,074
Proceeds from the sale of of OREO	181	605
Purchase of Federal Reserve Stock	(2)	(1)
Purchase of Federal Home Loan Bank Stock	(4)	(62)
Purchase of BOLI	-	(3,000)
Net increase in loans made to customers	(18,264)	(16,713)
Additions to OREO	(584)	(189)
Purchases of bank premises and equipment	(414)	(4,844)
Net cash used in investing activities	(25,363)	(41,101)
Cash flows from financing activities:		
Net increase in demand, savings and NOW deposits	25,812	4,251
Net decrease in time deposits	(2,219)	(2,309)
Repayment of line of credit	(513)	(288)
Cash dividends paid	(684)	(612)
Net cash provided by financing activities	22,396	1,042
Net increase (decrease) in cash and cash equivalents	3,142	(35,599)
Cash and cash equivalents, beginning of year	12,575	48,174
Cash and cash equivalents, end of year	$ 15,717	$ 12,575
Supplemental disclosure of cash flows information		
Cash paid during the year for:		
Income taxes	$ 940	$ 1,600
Interest	1,861	1,655
Supplemental schedule of noncash investing and financing activities:		
Transfer from loans to foreclosed assets	$ 584	$ 188
Loans charged against the allowance for loan losses	454	570
Unrealized losses on available-for-sale securities	(319)	(165)
Defined benefit plan adjustment per ASC topic *Compensation-Retirement Benefits*	(107)	108

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies and Practices

Pinnacle Bankshares Corporation, a Virginia corporation ("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, and of such other subsidiaries as it may acquire or establish. Bankshares 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, 2018 and 2017. 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, 2018 and 2017, 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) Borrowings

As of December 31, 2018, the Company's available borrowing limit with the FHLB was approximately $114,906. The Company had $0 in borrowings from the FHLB outstanding at December 31, 2018 and 2017. The Company also has a $5,000 line of credit commitment of which $5,000 is currently available The line of credit is secured by the authorized capital stock of the Bank with a correspondent bank. The line of credit had $0 outstanding as of December 31, 2018 and $513 outstanding as of December 31, 2017.

(f) 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 usually 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.

(g) 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.

(h) 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.

(i) Bank Owned Life Insurance

The Company has purchased life insurance policies on certain key officers. 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.

(j) 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 2018, 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 factors that are both Company-specific and that affect the financial services industry-wide, and to evaluate the carrying value of goodwill.

(k) 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.

(l) 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.

(m) 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.

Accounting Standards Codification ("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.

(n) Advertising

The Company recognizes advertising expenses as incurred. Advertising expenses totaled $183 in 2018 compared to $189 in 2017.

(o) 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.

(p) 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 5,675 shares of restricted stock granted in 2018 compared to 4,700 shares of restricted stock granted in 2017. There were 24,125 stock options outstanding as of December 31, 2018 compared to 32,500 stock options outstanding as of December 31, 2017. 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.

(q) 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, 2018		Net income (numerator)	Shares (denominator)		Per share amount
Basic net income per share	$	4,160	1,537,380	$	2.71
Effect of dilutive stock options		—	14,218		
Diluted net income per share	$	4,160	1,551,598	$	2.68

Year ended December 31, 2017		Net income (numerator)	Shares (denominator)		Per share amount
Basic net income per share	$	2,748	1,528,164	$	1.80
Effect of dilutive stock options		—	16,464		
Diluted net income per share	$	2,748	1,544,628	$	1.78

(r) 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.

(s) 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.

(t) 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. As of December 31, 2018, all available-for-sale securities fell 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.

(u) ***Current Accounting Developments***

In January 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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. In January 2018, FASB issued ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* to clarify certain aspects of the guidance issued in ASU 2016-01. 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. The Company does not expect the adoption of this guidance to be material to the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "*Leases (Topic 842)*." The FASB issued this ASU to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet by lessees for those leases classified as operating leases under current U.S. GAAP and disclosing key information about leasing arrangements. The core principle is that a lessee should recognize the assets and liabilities that arise from leases. A lessee should recognize in its balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of twelve months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. In July 2019, FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements* to provide entities with additional guidance related to the transition method selected, as well as on separating components of a contract to the original information issued in ASU 2016-02. The amendments in this ASU are effective for private companies for fiscal years beginning after December 15, 2019, and interim periods beginning after December 15, 2020. Early application of this ASU is permitted for all entities. The Company is currently evaluating the impact of adopting the new guidance on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, "*Financial Instruments - Credit Losses (Topic 326):Measurement of Credit Losses on Financial Instruments*," which sets forth a "current expected credit loss" ("CECL") model requiring the Company to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost and applies to some off-balance sheet credit exposures. In November 2018, FASB issued ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses* to clarify that operating lease receivables are within the scope of ASC 842 rather than ASC Topic 326. ASU 2016-13 is effective for private companies for fiscal years beginning after December 15, 2020. Early application of this ASU is permitted for all entities. The Company is currently assessing the potential impact of this ASU and collecting loan data needed to measure the required calculation.

In January 2017, the FASB issued ASU 2017-04, "*Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.*" The amendments in the ASU are intended to simplify the subsequent quantitative measurement of goodwill by eliminating step two from the goodwill impairment test. Instead, an entity will perform only step one of its quantitative goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, and then recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. An entity will still have the option to perform a qualitative assessment for a reporting unit to determine if the quantitative step one impairment test is necessary. This amendment is effective for annual or interim goodwill impairment tests of private companies in fiscal years beginning after December 15, 2021. Entities should apply the amendment prospectively. Early adoption is permitted, including in an interim period, for impairment tests performed after January 1, 2017. The Company does not expect the adoption of this guidance to be material to the consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, "*Compensation - Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.*" This ASU was issued to improve the presentation of net periodic pension or benefit costs for employers that offer their employees defined benefit pension plans, postretirement benefit plans, or other types of benefits accounted for under Topic 715. The amendments prescribe where the amount of net benefit cost should be presented in an employer's income statement and require entities to disclose by line item the amount of net benefit cost that is included in the income statement or capitalized in assets. ASU 2017-07 is effective for public business entities that are SEC filers for annual periods beginning after December 15, 2017, and interim periods within those annual periods, for public entities that are not SEC filers for annual periods beginning after December 15, 2018 and for all other entities for annual periods beginning after December 15, 2019 with early adoption permitted. Retrospective application is required for the change in income statement presentation, while the change in capitalized benefit cost is to be applied prospectively. The Company does not expect the adoption of this guidance to be material to the consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-08, "*Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20) – Premium Amortization on Purchased Callable Debt Securities*." The update shortens the amortization period for certain callable debt securities held at a premium. Specifically, the update requires the premium to be amortized to the earliest call date. The update does not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. The amendments of this ASU are effective for public business entities that are SEC filers for annual periods beginning after December 15, 2018, and interim periods within those annual periods, for public entities that are not SEC filers for annual periods beginning after December 15, 2019 and for all other entities for annual periods beginning after December 15, 2020 with early adoption permitted. An entity should apply the amendments in this update on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Additionally, in the period of adoption, an entity should provide disclosures about a change in accounting principle. The Company does not expect the adoption of this guidance to be material to the consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, which is an update to Topic 718, "*Compensation - Stock Compensation*." The update provides guidance on determining which changes to the terms and conditions of share-based payment awards, including stock options, require an entity to apply modification accounting under Topic 718. The new standard is effective for all entities for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The amendments of this ASU should be applied prospectively to an award modified on or after the adoption date. The Company is evaluating the provisions of ASU 2017-09 but believes that its adoption will not have a material impact on the Company's consolidated financial statements.

In July 2017, FASB issued ASU 2017-11, "*Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception*." Companies that provide earnings per share (EPS) data will adjust their basic EPS calculation for the effect of the feature when triggered (i.e., when the exercise price of the related equity-linked financial instrument is adjusted downward because of the down round feature) and will also recognize the effect of the trigger within equity. Amendments in this ASU simplifies the accounting for certain financial instruments with down round features, a provision in an equity-linked financial instrument (or embedded feature) that provides a downward adjustment of the current exercise price based on the price of future equity offerings. For public business entities, the amendments of this ASU are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. The Company is evaluating the provisions of ASU 2017-11 but believes that its adoption will not have a material impact on the Company's consolidated financial statements.

In September 2017, FASB issued ASU 2017-13, "*Revenue Recognition (Topic 605), Revenue from Contracts with Customers (Topic 606), Leases (Topic 840), and Leases (Topic 842): Amendments to SEC Paragraphs Pursuant to the Staff Announcements at July 20, 2017 EITF Meeting and Rescission of Prior SEC Staff Announcements and Observe Comments."* The SEC Observer said that the SEC staff would not object if entities that are considered public business entities only because their financial statements or financial information is required to be included in another entity's SEC filing use the effective dates for private companies when they adopt ASC 606, *Revenue from Contracts with Customers*, and ASC 842, *Leases*. The Update also supersedes certain SEC paragraphs in the Codification related to previous SEC staff announcements and moves other paragraphs, upon adoption of ASC 606 or ASC 842. ASU 2017-13 is effective for public business entities that are SEC filers for annual periods beginning after December 15, 2017, and interim periods within those annual periods, and for all other entities for annual periods beginning after December 15, 2018 and interim periods within annual periods beginning after December 15, 2019. The Company is evaluating the provisions of ASU 2017-11 but believes that its adoption will not have a material impact on the Company's consolidated financial statements.

The Company early adopted ASU 2018-02, *"Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income"* ("ASU 2018-02"), which was issued by FASB in February 2018. ASU 2018-02 provides for the reclassification of the effect of re-measuring deferred tax balances related to items within accumulated other comprehensive income ("AOCI") to retained earnings resulting from the Tax Act. As a result, the Company reclassified $376 from AOCI to retained earnings as of and for the year ended December 31, 2017.

In May 2018, the FASB issued ASU 2018-06, *Codification Improvements to Topic 942, Financial Services-Depository and Lending to supersede the guidance in Subtopic 942-740, Financial Services—Depository and Lending—Income Taxes*, that is related to Circular 202 because that guidance has been rescinded by the OCC and no longer is relevant. The changes were effective when issued. The adoption of this ASU does not appear to be material to the Company's consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, *Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting," which expands the scope of Topic 718* to include all share-based payment transactions for acquiring goods and services from non-employees. The new guidance is effective for private companies for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, but no earlier than an entity's adoption of Topic 606. The Company does not expect the adoption of this guidance to be material to the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement.* The amendments in this ASU modify the disclosure requirements on fair value measurement in Topic 820, Fair Value Measurement, based on the ideas in the Concepts Statements, including the consideration of costs and benefits. The amendments in this ASU are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted upon issuance of this ASU. The Company is in the process of evaluating the impact of adopting this ASU.

In August 2018, the FASB issued ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract."* This ASU amends the *Intangibles—Goodwill and Other Topic of the Accounting Standards Codification* to align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This ASU will be effective for the Company for fiscal years beginning after December 15, 2020. Early adoption is permitted. The Company does not expect the adoption of this guidance to be material to the consolidated financial statements.

(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 $5,051 and $4,427 for the weeks including December 31, 2018 and 2017, respectively.

(3) Securities

The amortized costs, gross unrealized gains, gross unrealized losses and fair values for securities as of December 31, 2018 and 2017 are as follows:

		2018			
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	$	8,351	6	(130)	8,227
Obligations of states and political subdivisions		11,915	77	(233)	11,759
Mortgage-backed securities – government		28,611	10	(558)	28,063
Total available-for-sale	$	48,877	93	(921)	48,049

		2018			
Held-to-Maturity		**Amortized costs**	**Gross unrealized gains**	**Gross unrealized losses**	**Fair values**
Obligations of states and political subdivisions	$	1,777	26	—	1,803

		2017			
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	$	5,058	3	(91)	4,970
Obligations of states and political subdivisions		12,071	130	(157)	12,044
Mortgage-backed securities – government		25,236	9	(403)	24,842
Total available-for-sale	$	42,365	142	(651)	41,856

		2017			
Held-to-Maturity		**Amortized costs**	**Gross unrealized gains**	**Gross unrealized losses**	**Fair values**
Obligations of states and political subdivisions	$	2,361	52	—	2,413

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, 2018:

		Less than 12 months		More than 12 months		Total	
Description of Securities		**Fair value**	**Gross unrealized losses**	**Fair value**	**Gross unrealized losses**	**Gross Fair value**	**Gross unrealized losses**
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	$	2,982	6	4,645	124	7,627	130
Obligations of states and political subdivisions		—	—	8,168	233	8,168	233
Mortgage-backed securities-government		7,085	25	18,904	533	25,989	558
Total temporarily impaired securities	$	10,067	31	31,717	890	41,784	921

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, 2017:

		Less than 12 months		More than 12 months		Total	
Description of Securities		**Fair value**	**Gross unrealized losses**	**Fair value**	**Gross unrealized losses**	**Gross Fair value**	**Gross unrealized losses**
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	$	1,482	13	1,922	78	3,404	91
Obligations of states and political subdivisions		6,084	83	2,130	74	8,214	157
Mortgage-backed securities-government		16,883	187	7,770	216	24,653	403
Total temporarily impaired securities	$	24,449	283	11,822	368	36,271	651

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 2018, the securities included 11 bonds that had continuous losses for less than 12 months and 53 bonds that had continuous losses for more than 12 months. For 2017, the securities included 32 bonds that had continuous losses for less than 12 months and 20 bonds that had continuous losses for more than 12 There were no net realized gains or losses on securities sold in 2018 or 2017.

The amortized costs and fair values of available-for-sale and held-to-maturity securities as of December 31, 2018, 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.

	2018			
	Available-for-Sale		Held-to-Maturity	
	Amortized costs	Fair values	Amortized costs	Fair values
Due in one year or less	$ 2,546	2,546	773	781
Due after one year through five years	5,197	5,086	1,004	1,022
Due after five years through ten years	7,396	7,317	—	—
Due after ten years	5,127	5,037	—	—
	20,266	19,986	1,777	1,803
Mortgage-backed securities	28,611	28,063	—	—
Totals	$ 48,877	48,049	1,777	1,803

Securities with amortized costs of approximately \$8,593 and \$7,694 (fair values of \$8,475 and \$7,700, respectively) as of December 31, 2018 and 2017, respectively, were pledged as collateral for public deposits, loans and to the FRB for overdraft protection.

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

A summary of loans as of December 31, 2018 and 2017 follows:

	2018	2017
Real estate loans:		
Residential-mortgage	$ 122,760	121,255
Residential-construction	7,156	5,861
Commercial	97,027	87,522
Loans to individuals for household, family and other consumer expenditures	91,259	82,487
Commercial and industrial loans	57,864	60,875
Total loans, gross	376,066	358,000
Less unearned income and fees	(212)	(208)
Loans, net of unearned income and fees	375,854	357,792
Less allowance for loan losses	(3,372)	(2,963)
Loans, net	$ 372,482	354,829

In the normal course of business, the Bank has made loans to executive officers and directors. As of December 31, 2018 and 2017, loans to executive officers and directors totaled \$281 and \$359, respectively. During 2018, new loans made to executive officers and directors totaled \$60 and advances totaled \$16. There were no loans to companies in which executive officers and directors have an interest per Regulation O as of December 31, 2018 and 2017. 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 \$378,081 as of December 31, 2018 and \$356,748 as of December 31, 2017.

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, 2018

	Commercial	Commercial Real Estate	Consumer	Residential	Total
Allowance for Loan Losses:					
Beginning balance	$505	751	750	957	2,963
Charge-offs	(112)	-	(342)	-	(454)
Recoveries	-	2	248	13	263
Provision for (recovery of) loan losses	125	282	178	15	600
Ending Balance	$518	1,035	834	985	3,372
Allowance:					
Ending balance: individually evaluated for impairment	-	-	80	-	80
Ending balance: collectively evaluated for impairment	$518	1,035	754	985	3,292

	Commercial	Commercial Real Estate	Consumer	Residential	Total
Loans:					
Total loans ending balance	$57,864	97,027	91,259	129,916	376,066
Ending balance: individually evaluated for impairment	-	-	94	1,092	1,186
Ending balance: collectively evaluated for impairment	$57,864	97,027	91,165	128,824	374,880

Allowance for Loan Losses and Recorded Investment in Loans
For the Year Ended December 31, 2017

	Commercial	Commercial Real Estate	Consumer	Residential	Total
Allowance for Loan Losses:					
Beginning balance	$415	778	652	1,053	2,898
Charge-offs	(57)	(8)	(399)	(106)	(570)
Recoveries	13	6	261	101	381
Provision for (recovery of) loan losses	134	(25)	236	(91)	254
Ending Balance	$505	751	750	957	2,963
Allowance:					
Ending balance: individually evaluated for impairment	-	-	-	-	-
Ending balance: collectively evaluated for impairment	$505	751	750	957	2,963

	Commercial	Commercial Real Estate	Consumer	Residential	Total
Loans:					
Total loans ending balance	$60,875	87,522	82,487	127,116	358,000
Ending balance: individually evaluated for impairment	-	78	-	1,186	1,264
Ending balance: collectively evaluated for impairment	$60,875	87,444	82,487	125,930	356,736

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, 2018

Credit Exposure	Commercial	Commercial Real Estate	Consumer	Residential	Total
Pass	$57,254	95,365	91,087	128,231	371,937
Special Mention	395	1,263	-	622	2,280
Substandard	215	399	172	1,063	1,849
Doubtful	-	-	-	-	-
Total	$57,864	97,027	91,259	129,916	376,066

As of December 31, 2017

Credit Exposure	Commercial	Commercial Real Estate	Consumer	Residential	Total
Pass	$59,615	85,363	82,192	125,908	353,078
Special Mention	1,256	900	-	-	2,156
Substandard	4	1,259	295	1,208	2,766
Doubtful	-	-	-	-	-
Total	$60,875	87,522	82,487	127,116	358,000

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

Age Analysis of Past Due Loans
As of December 31, 2018

	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	$21	-	-	21	57,843	57,864	-
Commercial real estate	25	10	-	35	96,992	97,027	-
Consumer	208	16	94	318	90,941	91,259	80
Residential	246	42	825	1,113	128,803	129,916	-
Total	$500	68	919	1,487	374,579	376,066	-

Age Analysis of Past Due Loans
As of December 31, 2017

	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	$-	-	-	-	60,875	60,875	-
Commercial real estate	-	-	78	78	87,444	87,522	-
Consumer	81	-	-	81	82,406	82,487	-
Residential	35	198	645	878	126,238	127,116	-
Total	$116	198	723	1,037	356,963	358,000	-

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, 2018

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ -	-	-	-	-
Commercial real estate	-	-	-	39	-
Consumer	14	14	-	7	-
Residential	1,092	1,092	-	1,139	-
Total:					
Commercial	-	-	-	-	-
Commercial real estate	-	-	-	39	-
Consumer	94	94	80	74	6
Residential	$1,092	1,092	-	1,139	-
Total	$1,186	1,186	80	1,252	6

Impaired Loans
For the Year Ended December 31, 2017

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ -	-	-	-	-
Commercial real estate	78	78	-	85	-
Consumer	-	-	-	-	-
Residential	1,186	1,186	-	1,105	22
Total:					
Commercial	-	-	-	-	-
Commercial real estate	78	78	-	85	-
Consumer	-	-	-	-	-
Residential	$1,186	1,186	-	1,105	22
Total	$1,264	1,264	-	1,190	22

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

Loans in Nonaccrual Status
As of December 31, 2018 and 2017

	2018	2017
Commercial	$ -	-
Commercial real estate	-	78
Consumer	14	-
Residential	825	645
Total	$ 839	723

The Company had three restructured loans totaling $439 as of December 31, 2018 and had five restructured loans totaling $719 as of December 31, 2017. All of these restructured loans constituted troubled debt restructurings as of December 31, 2018 and 2017.

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, 2018 or December 31, 2017.

The following tables present troubled debt restructurings as of December 31, 2018 and 2017:

	December 31, 2018		
	Accrual Status	Non-Accrual Status	Total Troubled Debt Restructuring
Commercial	$ -	-	-
Commercial real estate	-	-	-
Consumer	-	-	-
Residential	267	172	439
Total	$267	172	439

	December 31, 2017		
	Accrual Status	Non-Accrual Status	Total Troubled Debt Restructuring
Commercial	$ -	-	-
Commercial real estate	-	-	-
Consumer	-	-	-
Residential	541	178	719
Total	$ 541	178	719

For 2018, there was no new troubled debt restructures. For 2017, there was one new troubled debt restructure that was considered a combination modification that had a pre-modification balance of $201 and a post modification balance of $201. No troubled debt restructures experienced payment defaults in 2018 or 2017.

(5) Bank Premises and Equipment

Bank premises and equipment, net were comprised of the following as of December 31, 2018 and 2017:

	2018	2017
Land improvements	$ 710	698
Buildings	15,174	14,945
Equipment, furniture and fixtures	6,511	6,309
Construction in progress	-	29
	22,395	21,981
Less accumulated depreciation	(9,195)	(8,511)
	13,200	13,470
Land	2,551	2,551
Bank premises and equipment, net	$ 15,751	16,021

(6) Deposits

A summary of deposits as of December 31, 2018 and 2017 follows:

	2018	2017
Noninterest-bearing demand deposits	$ 83,680	77,208
Interest-bearing:		
Savings and money market accounts	166,020	148,665
NOW accounts	79,473	77,488
Time deposits – under $250,000	85,506	92,242
Time deposits – $250,000 and over	10,599	6,082
Total interest-bearing deposits	341,598	324,477
Total deposits	$ 425,278	401,685

At December 31, 2018, the scheduled maturity of time deposits is as follows: $42,569 in 2019; $18,163 in 2020; $10,461 in 2021, $6,871 in 2022 and $18,041 in 2023.

In the normal course of business, the Bank has received deposits from executive officers and directors. As of December 31, 2018 and 2017, deposits from executive officers and directors were approximately $1,875 and $1,635, 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 $370,056 as of December 31, 2018 and $357,633 as of December 31, 2017.

(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 expenses amounted to approximately $392 and $718 in 2018 and 2017, respectively. The change in benefit obligation, change in plan assets and funded status of the pension plan as of December 31, 2018 and 2017 and pertinent assumptions are as follows:

Change in Benefit Obligation		**2018**	**2017**
Benefit obligation at beginning of year	$	9,184	8,949
Service cost		586	486
Interest cost		313	328
Actuarial income (loss)		(761)	970
Benefits paid		(724)	(1,584)
Settlement loss		—	34
Benefit obligation at end of year	$	8,598	9,183
Change in Plan Assets			
Fair value of plan assets at beginning of year		8,388	8,764
Actual return on plan assets		(362)	1,208
Employer contribution		—	—
Benefits paid		(723)	(1,584)
Projected fair value of plan assets at end of year	$	7,303	8,388
Funded Status at the End of the Year		(1,295)	(795)
Amounts Recognized in the Balance Sheet			
(Other liabilities) Other Assets, accrued pension		(1,295)	(795)
Amounts Recognized in Accumulated Other Comprehensive			
Income Net of Tax Effect			
Unrecognized actuarial loss		(2,489)	(2,382)
Income tax effect		523	502
Benefit obligation included in accumulated other comprehensive income	$	(1,966)	(1,880)
Funded Status			
Benefit obligation		(8,598)	(9,184)
Fair value of assets		7,303	8,388
Unrecognized net actuarial loss		2,489	2,382
Prepaid benefit cost included in the balance sheet	$	1,194	1,586

	Pension Benefits	
Weighted Average Assumptions as of December 31, 2018 and 2017 :	**2018**	**2017**
Discount rate	4.25%	3.50%
Expected long-term return on plan assets	7.25%	7.25%
Rate of compensation increase	3.00%	3.00%

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 $497.

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, 2018 and 2017 is summarized as follows:

	Pension Benefits	
	2018	2017
Service cost	$ 586	486
Interest cost	313	328
Expected return on plan assets	(591)	(582)
Net loss due to settlement	-	388
Recognized net actuarial loss	85	98
Net pension benefit cost	$ 393	718
Gross (gain) loss recognized in other comprehensive income	107	(108)
Total Recognized in Net Pension Benefit Cost and Other Comprehensive Income	$ 500	610

Projected Benefit Payments

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

2019	$ 44
2020	346
2021	1,515
2022	247
2023	921
2024-2028	2,621

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 42% fixed income and 58% 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, 2018 and 2017.

The following table presents the fair value of the assets, by asset category, as of December 31, 2018 and 2017.

		2018	2017
Mutual funds-fixed income	$	3,067	3,271
Mutual funds-equity		4,236	5,117
Total assets at fair value	$	7,303	8,388

The following table sets forth by level, within the fair value hierarchy, the assets carried at fair value as of December 31, 2018 and 2017.

	Assets at Fair Value as of December 31, 2018			
	Level 1	Level 2	Level 3	Total
Mutual funds-fixed income	$ 3,067	-	-	3,067
Mutual funds-equity	4,236	-	-	4,236
Total assets at fair value	$ 7,303	-	-	7,303

	Assets at Fair Value as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Mutual funds-fixed income	$ 3,271	-	-	3,271
Mutual funds-equity	5,117	-	-	5,117
Total assets at fair value	$ 8,388	-	-	8,388

Contributions

The Company expects to contribute $0 to its pension plan in 2019.

The Company also has a 401(k) plan under which the Company matches employee contributions to the plan. In 2018 and 2017, 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 $166 during the year ended December 31, 2018 and $156 during the year ended December 31, 2017.

(8) Income Taxes

Income tax expense attributable to income before income tax expense for the years ended December 31, 2018 and 2017 is summarized as follows:

		2018	2017
Current	$	1,098	1,901
Deferred		(209)	(332)
Total income tax expense	$	889	1,569

Reported income tax expense for the years ended December 31, 2018 and 2017 differed from the amounts computed by applying the U.S. Federal income tax rate of 21% for 2018 and 34% for 2017 to income before income tax expense as a result of the following:

		2018	2017
Computed at statutory Federal tax rate	$	1,060	1,468
Increase (reduction) in income tax expense resulting from:			
Tax-exempt interest		(78)	(108)
Disallowance of interest expense		3	4
Change in tax law		-	279
Other, net		(96)	(74)
Reported income tax expense	$	889	1,569

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31, 2018 and 2017 are as follows:

		2018	2017
Deferred tax assets:			
Loans, principally due to allowance for loan losses	$	647	506
Defined benefit plan valuation adjustments		523	502
Net unrealized losses on available-for-sale securities		174	108
Other		135	160
Total gross deferred tax assets		1,479	1,276
Deferred tax liabilities:			
Bank premises and equipment, due to differences in depreciation		(368)	(380)
Accrued pension, due to actual pension contributions in excess of accrual for financial reporting purposes		(251)	(333)
Other		(113)	(113)
Total gross deferred tax liabilities		(732)	(826)
Net deferred tax asset (liability), included in other assets	$	747	450

The Bank has determined that a valuation allowance for the gross deferred tax assets is not necessary as of December 31, 2018 and 2017, 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, 2018 and 2017. 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 2015 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:

		Contract amounts at December 31,	
		2018	2017
Commitments to extend credit	$	72,899	74,320
Standby letters of credit	$	4,373	4,804

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, 2018 the Company had $2,592 in outstanding mortgage rate lock commitments and $1,252 in outstanding mortgage rate lock commitments as of December 31, 2017.

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, 2018 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
2019	$168
2020	172
2021	164
2022	164
2023	164
Thereafter	796
Total	$1,628

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 $152 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, 2018 and 2017, dividends from the subsidiary Bank totaled $1,461 and $1,111, 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, 2018, retained net profits of the Bank that were free of such restriction approximated $8,034.

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, 2018 and December 31, 2017 are listed on the following page:

Regulatory Capital Ratios as of December 31, 2018	**Bankshares Consolidated**		**Bank**	
	Amount	**Ratio**	**Amount**	**Ratio**
Total Risk-Based Capital Ratio (to Risk Weighted Assets)	$47,651	12.29%	$46,551	12.04%
CET 1 Risk Based Capital Ratio (to Risk Weighted Assets)	$44,192	11.40%	$43,092	11.14%
Tier 1 Risk-Based Capital Ratio (to Risk Weighted Assets)	$44,192	11.40%	$43,092	11.14%
Tier 1 Leverage Capital Ratio (to Average Assets)	$44,192	9.36%	$43,092	9.15%

Regulatory Capital Ratios as of December 31, 2017	**Bankshares Consolidated**		**Bank**	
	Amount	**Ratio**	**Amount**	**Ratio**
Total Risk-Based Capital Ratio (to Risk Weighted Assets)	$43,582	11.69%	$43,069	11.59%
CET 1 Risk Based Capital Ratio (to Risk Weighted Assets)	$40,540	10.88%	$40,027	10.77%
Tier 1 Risk-Based Capital Ratio (to Risk Weighted Assets)	$40,540	10.88%	$40,027	10.77%
Tier 1 Leverage Capital Ratio (to Average Assets)	$40,540	9.15%	$40,027	9.06%

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 was first applied on January 1, 2016, at 0.625% of risk weighted assets, increasing each year until fully implemented at 2.50% on January 1, 2019. Basel III was fully phased in on January 1, 2019 and now requires (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 1 capital 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, 2018, 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.

(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, 2018 and 2017, 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. As of December 31, 2018, 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 was classified as Level 2 securities at December 31, 2018. As of December 31, 2018, the Company carried 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, 2018, 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, 2018 and December 31, 2017, 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, 2018 and December 31, 2017, 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, 2018

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	$48,049	$48,049	$-	$48,049	$-
Impaired loans (nonrecurring)	$1,186	$1,186	$-	$-	$1,186
Other Real Estate Owned (nonrecurring)	$627	$627	$-	$-	$627

Fair Value Measurements on December 31, 2017

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	$41,856	$41,856	$-	$41,856	$-
Impaired loans (nonrecurring)	$1,264	$1,264	$-	$-	$1,264
Other Real Estate Owned (nonrecurring)	$224	$224	$-	$-	$224

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, 2018:

	Level 3 Assets Year Ended December 31, 2018	
	Impaired Loans	Other Real Estate Owned
Balance, beginning of the year	$ 1,264	224
Purchases, sales, issuances, and settlements (net)	(78)	403
Balance, end of year	$ 1,186	627

There were no transfers between Level 1, Level 2 and Level 3 investments during the year ended December 31, 2018.

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, 2017:

	Level 3 Assets Year Ended December 31, 2017	
	Impaired Loans	Other Real Estate Owned
Balance, beginning of the year	$ 1,116	642
Purchases, sales, issuances, and settlements (net)	148	(418)
Balance, end of year	$ 1,264	224

There were no transfers between Level 1, Level 2 and Level 3 investments during the year ended December 31, 2017.

(14) Parent Company Financial Information

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

Condensed Balance Sheets

Assets		**December 31, 2018**	**2017**
Cash due from subsidiary	$	30	4
Investment in subsidiary, at equity		41,009	38,283
Other assets		1,113	1,062
Total assets	$	42,152	39,349
Liabilities and stockholders' equity			
Notes payable	$	-	513
Other liabilities		41	41
Total liabilities	$	41	554
Stockholders' equity			
Common stock of $3 par value, authorized 3,000,000 shares; issued and outstanding 1,540,054 shares in 2018 and 1,529,033 in 2017	$	4,547	4,526
Capital surplus		1,333	1,176
Retained earnings		38,853	35,377
Accumulated other comprehensive loss, net		(2,622)	(2,284)
Total stockholders' equity	**$**	42,111	38,795
Total liabilities and stockholders' equity	**$**	42,152	39,349

Condensed Statements of Income

		Years ended December 31, 2018	**2017**
Income:			
Dividends from subsidiary	$	1,461	1,111
Equity in undistributed net income of subsidiary		2,886	1,787
Total Income		4,347	2,898
Expenses:			
Other expenses		237	227
Income before income tax benefit		4,110	2,671
Applicable income tax benefit		50	77
Net income	$	4,160	2,748

Condensed Statements of Cash Flows

		Years ended December 31, 2018	2017
Cash flows from operating activities:			
Net income	$	4,160	2,748
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of subsidiary		(2,886)	(1,787)
Increase in other assets		(51)	(75)
Net cash provided by operating activities		1,223	886
Cash flows from financing activities			
Cash dividends paid		(684)	(612)
Repayment of line of credit		(513)	(288)
Net cash used in financing activities		(1,197)	(900)
Net increase (decrease) in cash from subsidiary		26	(14)
Cash due from subsidiary, beginning of year		4	18
Cash due from subsidiary, end of year	$	30	4

(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.

At December 31, 2018, options for 12,250 shares were exercisable at an exercise price of $9.00 per share and options for 11,875 shares were exercisable at an exercise price of $15.70 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, 2018, there were 102,768 shares available for grant under the 2014 Plan.

On May 1, 2018, 5,675 shares of restricted stock were granted to employees pursuant to the 2014 Plan. On May 1, 2017, 4,700 shares of restricted stock were granted to employees pursuant to the 2014 Plan. On May 1, 2016, 8,500 shares of restricted stock were granted to employees pursuant to 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 restricted stock grants will vest on the third anniversary of the grant date.

On January 9, 2019, 3,297 shares of restricted stock were granted to the Company's Directors in lieu of cash for 2018 director fees. On January 9, 2018, 3,831 shares of restricted stock were granted to the Company's Directors in lieu of cash for 2017 director fees. On January 10, 2017, 3,998 shares of restricted stock were granted to the Company's Directors in lieu of cash for 2016 director fees. On January 12, 2016, 3,818 shares of restricted stock were granted to the Company's Directors in lieu of cash for 2015 director fees. On January 13, 2015, 3,310 shares of restricted stock were granted to the Company's Directors as payment in lieu of cash for 2014 director fees.

At December 31, 2018, no options for shares were exercisable under the 2014 Plan.

The Company expensed $0 in 2018 and 2017 in compensation expense as a direct result of the issuance of the 24,125 incentive stock options with tandem stock appreciation rights in previous years and recognized $1 in compensation expense related to 4,375 unvested stock options in 2018 and $9 in 2017. 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 expensed $149 in 2018 in compensation expense as a direct result of the granting of 11,000 shares of restricted stock to employees in 2012, 10,000 shares of restricted stock to employees in 2013, 8,400 shares of restricted stock to employees in 2014, 6,250 shares of restricted stock to employees in 2015, 8,500 shares of restricted stock to employees in 2016, 4,700 shares of restricted stock to employees in 2017 and 5,675 shares of restricted stock to employees in 2018 and will expense $119 in 2019, $72 in 2020 and $19 in 2021 on such restricted stock.

Stock option activity during the years ended December 31, 2017 and 2016 is as follows:

	Number of Shares	**Weighted Average Exercise Price**
Balance as of December 31, 2016	37,000	$12.71
Forfeited	0	-
Exercised	4,500	13.77
Granted	0	-
Balance as of December 31, 2017	32,500	12.61
Forfeited	0	-
Exercised	8,375	13.50
Granted	0	-
Balance as of December 31, 2018	24,125	$12.30

The following table summarizes information about stock options outstanding as of December 31, 2018:

	Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding at 12/31/18	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number Exercisable at 12/31/2018	Weighted-Average Exercise Price
$ 9.00	12,250	2.4	$ 9.00	12,250	$ 9.00
15.70	11,875	5.1	15.70	11,875	15.70

The following table summarizes information about stock options outstanding at December 31, 2017:

	Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding at 12/31/17	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number Exercisable at 12/31/2017	Weighted-Average Exercise Price
$ 9.00	15,000	3.4	$ 9.00	15,000	$ 9.00
15.70	17,500	6.1	15.70	13,125	15.70

The aggregate intrinsic value of options outstanding was $366, of options exercisable was $366, and of options unvested and expected to vest was $0 as of December 31, 2018. The aggregate intrinsic value of options outstanding was $410, of options exercisable was $341, and of options unvested and expected to vest was $69 as of December 31, 2017. The total intrinsic value (market value on date of exercise less exercise price) of options exercised was $136 for the year ended December 31, 2018 and $61 for the year ended December 31, 2017.

(16) Subsequent Events

The Company has evaluated subsequent events for potential recognition and/or disclosure in the December 31, 2018 consolidated financial statements through March 1, 2019, 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, 2018. 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, 2018, 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

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, 2018 and 2017, 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, 2018 and 2017, 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

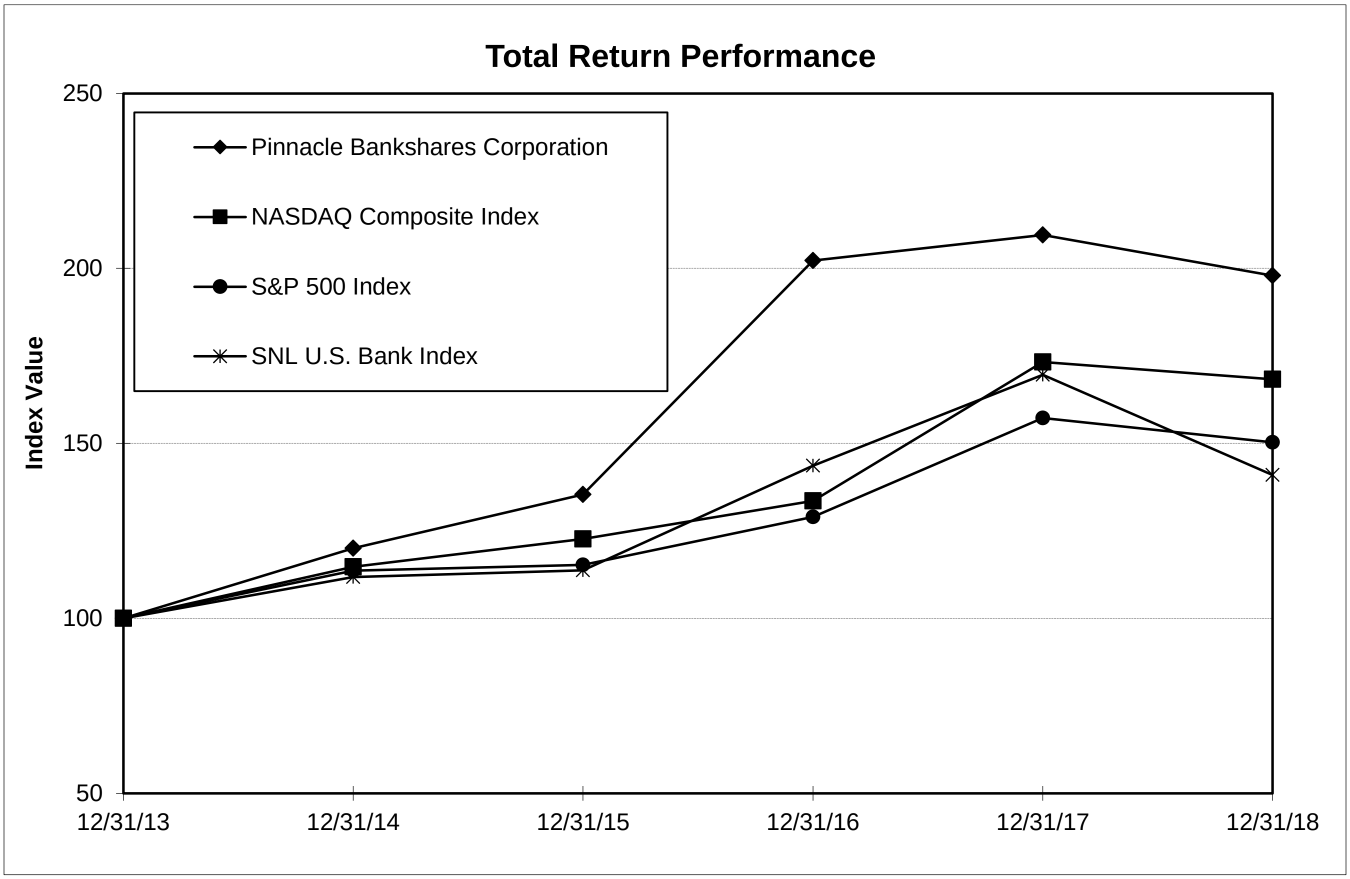
Raleigh, North Carolina
February 26, 2019

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 U.S. Bank Index. The graph assumes $100 invested on December 31, 2013 in Pinnacle Bankshares Corporation Common Stock and in each of the indices.

Pinnacle Bankshares Corporation



Index	**12/31/13**	**12/31/14**	**12/31/15**	**12/31/16**	**12/31/17**	**12/31/18**
Pinnacle Bankshares Corporation	100.00	120.04	135.41	202.28	209.52	197.90
NASDAQ Market Index	100.00	114.75	122.74	133.62	173.22	168.30
S&P 500	100.00	113.69	115.26	129.05	157.22	150.33
SNL U.S. Bank Index	100.00	111.79	113.69	143.65	169.64	140.98

Shareholder Information

Annual Meeting

The 2019 Annual Meeting of Shareholders will be held on April 9, 2019, 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.

	2018			2017		
	High	**Low**	**Dividends**	**High**	**Low**	**Dividends**
First Quarter	$34.50	$28.35	$0.11	$29.66	$28.00	$0.10
Second Quarter	$30.55	$27.50	$0.11	$28.99	$27.95	$0.10
Third Quarter	$33.00	$29.59	$0.11	$28.65	$27.12	$0.10
Fourth Quarter	$31.20	$26.60	$0.125	$30.80	$27.10	$0.10

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 2018 and 2017 and is not expected to have a material impact during 2019.

As of February 26, 2019, there were approximately 268 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

BRANCH LOCATIONS

Main Branch
622 Broad Street
Altavista, VA 24517

Odd Fellows Road Branch
3401 Odd Fellows Road
Lynchburg, VA 24501

Airport Branch
14580 Wards Road
Lynchburg, VA 24502

Amherst Branch
130 S. Main Street
Amherst, VA 24521

Forest Branch
14417 Forest Road
Forest, VA 24551

Old Forest Road Branch
3321 Old Forest Road
Lynchburg, VA 24501

Rustburg Branch
1033 Village Highway
Rustburg, VA 24588

Timberlake Branch
20865 Timberlake Road
Lynchburg, VA 24502

Vista Branch
1303 N. Main Street
Altavista, VA 24517

PINNACLE
BANKSHARES
CORPORATION

622 Broad Street
Post Office Box 29
Altavista, Virginia 24517
(434) 369-3000