PINNACLE BANKSHARES CORPORATION

2019 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

Timothy W. Holt, Tony J. Bowling, Vivian S. Brown, Judith A. Clements, Aubrey H. Hall, III (President and CEO), Bryan M. Lemley, Thomas R. Burnett, Jr. (not pictured)

PINNACLE BANKSHARES CORPORATION
AND SUBSIDIARY

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PINNACLE BANKSHARES CORPORATION
AND SUBSIDIARY

First National Bank Office Locations

ALTAVISTA

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

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

RUSTBURG

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

FOREST

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

GRAVES MILL OFFICE **(Future Branch)**
Projected opening in May of 2020
18077 Forest Road
Forest Virginia 24551

AMHERST

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

LYNCHBURG

DOWNTOWN OFFICE **(New Branch)**
800 Main Street
Lynchburg, Virginia 24504
Telephone: (434) 485-5999

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

CHARLOTTESVILLE

CHARLOTTESVILLE
LOAN PRODUCTION OFFICE **(New LPO)**
2208 Ivy Road
Charlottesville, Virginia 22903
Telephone: (434) 260-7200

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
Allison G. Daniels	Senior Vice President & Deputy Chief Operations Officer

COVID-19 Pandemic Foreword

As we distribute Pinnacle Bankshares Corporation's 2019 Annual Report, the United States and the World are in the midst of fighting through the coronavirus (COVID-19) pandemic. Shareholders, clients and employees of our Company are rightfully concerned about the health, safety and well-being of their families. The pandemic has had a negative impact on the financial markets and our economy with long-term consequences yet to be determined. Please know we have taken a number of proactive steps and preventive measures to minimize the impact of the pandemic on our Company, while continuing to provide critical financial functions and support our clients and communities depend on. Please visit our website at www.1stnatbk.com for further information.

Pinnacle was a strong organization going into this crisis with outstanding credit quality. Our earnings have been solid the last few years and we have grown our capital. Our loan growth has lagged behind other competitors because of our unwillingness to "relax" underwriting requirements and standards. Adherence to this mentality should serve us well as we move forward. This does not mean the Company will not face challenges as we navigate through the pandemic and its resulting impacts, the full extent of which will not be known for some time, but we believe we are well positioned to weather this storm.

Aubrey H. Hall, III "Todd"
President & Chief Executive Officer
Pinnacle Bankshares Corporation
First National Bank

Please see the Cautionary Statement Regarding Forward-Looking Statements on page 8 of Pinnacle Bankshares Corporation's 2019 Annual Report.

PINNACLE BANKSHARES CORPORATION

Dear Shareholders:

It is my pleasure to report to you that Pinnacle Bankshares Corporation, the one-bank holding company for First National Bank, produced record high earnings again in 2019, while surpassing $500 million in total assets and laying the foundation for future growth of our franchise. Our record performance was driven by increased revenue from net interest income and noninterest income sources combined with strong asset quality, which limited our provision for loan losses expense. These factors offset higher noninterest expense associated with Pinnacle's growth. We are one of the top performing community banks in Virginia and continue to diligently work towards strengthening our position in the Lynchburg region, expanding our geographical footprint and positioning our company for further enhanced long-term returns.

For 2019, Pinnacle generated net income of $4,396,000, representing a $236,000, or 6%, increase as compared to 2018 and equating to a 0.92% return on average assets. Higher net interest income was the primary catalyst for improvement, which increased $1,294,000, or 8%, due to increased loan volume and a net interest margin of 4.00%. Non-interest income increased $421,000, or 10%, primarily due to a 66% increase in fees generated from sales of mortgage loans originated through First National's Mortgage Division, which benefitted from a favorable interest rate environment. Provision for loan losses decreased $444,000 compared to the prior year due to lower criticized and classified loans and net loan charge-offs. Pinnacle experienced higher employee compensation and benefits expense, occupancy expense and core processing expense in 2019 due to growth with overall noninterest expense increasing $1,844,000, or 12%.

Balance Sheet growth for 2019 was generally consistent with the prior year as outstanding loans grew $17.5 million, or 5%, driven by strong performances from First National's Commercial and Dealer Divisions. Core funding has been key to controlling our cost of funds and we were pleased with deposit growth of $25 million, or 6%, during 2019 due to higher demand deposit balances. Demand deposit accounts grew by 956 accounts, or 6%, for the year with a continued stream of new clients coming to us from larger national banks. Total assets as of year-end 2019 were $500.5 million, an increase of 6% compared to the prior year-end, as Pinnacle surpassed the $500 million threshold.

Asset quality ratios continue to be among the best in Pinnacle's history with non-performing loans to total loans and non-performing assets to total assets at 0.29% and 0.36%, respectively, as of year-end 2019. We continue to maintain a strong credit culture focused on maintaining a sound and diversified loan portfolio without excessive concentrations of non-owner occupied commercial real estate loans or construction and development loans.

We were pleased to have increased the annual cash dividends paid per share to Pinnacle's shareholders $0.10, or 22%, during 2019 for a total of $0.545 per share. Pinnacle's stock price as of December 31, 2019 was $31.77, which increased $4.32, or 15.74%, compared to December 31, 2018. Our stock price improvement resulted in a 17.73% total return for 2019 compared to the SNL U.S. Bank Index total return of 33.12%. As a reminder, Pinnacle's stock fared better than many peer banks in 2018 whose stock price dropped significantly as a result of turbulent markets during the fourth quarter of that year.

The continuation of improved profitability and adherence to a disciplined dividend strategy have enabled Pinnacle to accrete capital and further improve its capital position to support growth. As of year-end 2019, Pinnacle's total risk-based capital ratio was 12.59% and its leverage ratio was 9.88% as compared to 12.29% and 9.36%, respectively, as of the prior year-end. Pinnacle and First National remain well capitalized per all regulatory definitions.

Looking towards the future, Pinnacle and First National made several strategic moves during 2019 and in the early part of 2020. First National Bank opened its tenth branch location on Main Street in Downtown Lynchburg, VA in May of 2019. This part of our market is viewed as the hub of regional commerce and has undergone significant redevelopment over the past fifteen years. We believe businesses and individuals will continue to migrate to downtown Lynchburg based on its convenient location within the Lynchburg region and the steady stream of commercial and residential options becoming available.

In September of 2019, we announced the successful recruitment of an experienced, local banker as our Market Leader for Charlottesville, VA, which was the first step in establishing a presence in the Charlottesville market. Since then we have opened a loan production office in a prior bank branch on Ivy Road and intend to build a client base in Charlottesville over the next few years as we move towards establishment of a full service presence.

On January 21, 2020, Pinnacle Bankshares Corporation and Virginia Bank Bankshares, Inc. announced the signing of a definitive agreement to combine in a strategic merger with Pinnacle being the surviving company. This partnership will create a footprint for Pinnacle stretching along the U.S. Highway 29 corridor from Danville to Charlottesville with seventeen branches and a loan production office based on current locations. The combined company would have approximately $720 million in total assets, $641 million in total deposits, and $543 million in total loans based upon reported amounts as of December 31, 2019. We are extremely excited about this merger, which will create a larger and stronger institution with a significantly higher lending limit, expanded product offerings and access to new markets. We anticipate such enhanced scale and efficiency will create meaningful opportunities to drive further growth, profitability and long-term value creation for employees, customers and shareholders. The merger is expected to be completed in the third quarter of 2020, subject to approval of both companies' shareholders, regulatory approvals and other customary closing conditions.

Finally, in late January of this year we announced First National Bank received regulatory approval to establish a new branch office at 18077 Forest Road, Forest, VA, which is a former SunTrust Bank facility. The location is at the intersection of Forest Road and Graves Mill Road in the Graves Mill Center. The branch is expected to open in the second quarter of this year after renovations and will be First National Bank's eleventh branch in the Central Virginia region, and its second branch in Bedford County.

As a result of the pending merger our Annual Meeting of Shareholders has been moved from its normal second Tuesday of April. Pinnacle currently anticipates convening an annual meeting of its shareholders during the summer of 2020, and at that meeting of shareholders will be asked to vote on matters relating to the pending merger in addition to typical annual meeting matters. Once the details are finalized, Pinnacle will provide additional information related to the 2020 annual meeting of shareholders.

In closing, we are very proud of Pinnacle Bankshares Corporation's 2019 performance and feel we have capitalized on opportunities to expand First National Bank's footprint and client base. As always, thank you for your support, confidence and the opportunity to serve your interests as President and Chief Executive Officer of Pinnacle Bankshares Corporation.

Sincerely,

Aubrey H. Hall, III

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

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

		Years ended December 31,				
		2019	2018	2017	2016	2015
Income Statement Data:						
Net interest income	$	17,676	16,382	14,850	13,635	12,505
Provision for loan losses		163	607	260	87	129
Noninterest income		4,623	4,202	3,855	3,896	3,731
Noninterest expense		16,772	14,928	14,128	13,044	12,060
Income tax expense		968	889	1,569	1,396	1,306
Net income		4,396	4,160	2,748	3,004	2,740
Per Share Data:						
Basic net income	$	2.84	2.71	1.80	1.97	1.80
Diluted net income		2.82	2.68	1.78	1.96	1.79
Cash dividends		0.545	0.45	0.40	0.38	0.34
Book value		29.29	27.34	25.37	24.01	22.88
Weighted-Average Shares Outstanding:						
Basic		1,549,129	1,537,380	1,528,164	1,524,271	1,519,159
Diluted		1,559,891	1,551,598	1,544,628	1,535,632	1,531,436
Balance Sheet Data:						
Assets	$	500,530	470,611	443,925	440,104	371,261
Loans, net		389,849	372,482	354,829	338,423	303,199
Securities		44,958	49,826	44,217	27,569	27,148
Cash and cash equivalents		32,903	15,717	12,575	48,174	16,739
Deposits		450,283	425,278	401,685	399,743	332,403
Stockholders’ equity		45,445	42,111	38,795	36,549	34,782
Performance Ratios:						
Return on average assets		0.92%	0.90%	0.62%	0.76%	0.74%
Return on average equity		9.86%	10.33%	7.25%	8.38%	8.12%
Dividend payout		19.22%	16.44%	22.27%	19.34%	18.96%
Asset Quality Ratios:						
Allowance for loan losses to total loans, net of unearned income and fees		0.88%	0.90%	0.83%	0.85%	0.94%
Net charge-offs to average loans, net of unearned income and fees		0.01%	0.05%	0.05%	0.02%	0.11%
Capital Ratios:						
Leverage		9.88%	9.36%	9.15%	8.94%	9.68%
Risk-based:						
Tier 1 capital		11.71%	11.40%	10.88%	10.83%	11.37%
Total capital		12.59%	12.29%	11.69%	11.68%	12.32%
Average equity to average assets		9.30%	8.73%	8.56%	9.08%	9.17%

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

Cautionary Statement Regarding Forward-Looking Statements

The discussion in this Annual Report 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, statements regarding 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 including our pending merger with Virginia Bank Bankshares, Inc.

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 Pinnacle and First National 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"); 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 effects of natural disasters, severe weather events, acts of war or terrorism, pandemics or epidemics (including the 2019 novel coronavirus, or "COVID-19"); climate change or other external events; and our ability to complete our pending merger with Virginia Bank Bankshares, Inc. and recognize the anticipated benefits of the merger on a timely basis or at all. 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, was organized in 1997 and is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended. Pinnacle is headquartered in Altavista, Virginia. Pinnacle conducts all of its business activities through the branch offices of its wholly-owned subsidiary bank, First National Bank. Pinnacle exists primarily for the purpose of holding the stock of its subsidiary, First National Bank, and of such other subsidiaries as Pinnacle may acquire or establish. Pinnacle's administrative offices are located at 622 Broad Street, Altavista, Virginia.

First National Bank was organized as a national bank in 1908 and commenced general banking operations in December of that year, providing services to commercial and agricultural businesses and individuals in the Altavista area. With an emphasis on personal service, First National 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. First National Bank also offers a full range of investment, insurance and annuity products through its association with LPL, Inc. and Banker's Insurance, LLC.

First National Bank serves a trade area consisting primarily of Campbell County, northern Pittsylvania County, Bedford County, Amherst County, the city of Lynchburg and the city of Charlottesville from facilities located in Campbell County, Bedford County, the town of Altavista, the town of Amherst, the village of Rustburg and the city of Lynchburg, and the city of Charlottesville, Virginia.

First National Bank has two wholly-owned subsidiaries. FNB Property Corp., which is a Virginia corporation, was formed to hold title to bank premises real estate. First Properties, Inc., also a Virginia corporation, was formed to hold title to other real estate owned. Four properties valued at $666 are being held in other real estate owned as of December 31, 2019.

A total of 117 full-time and 10 part-time staff members serve First National Bank's customers.

Results of Operations

<u>Net Income</u>

Pinnacle had record net income of $4,396 for the year ended December 31, 2019, compared to net income of $4,160 for the year ended December 31, 2018, an increase of 5.67%. This increase was driven by a $1,294, or 7.90% increase in net interest income, a $444 or 73.15% decrease in provision for loan losses and a $421, or 10.02% increase in noninterest income. These increases were partially offset by an $1,844, or 12.35% increase in noninterest expense and a $79, or 8.89% increase in income tax expense.

Profitability as measured by Pinnacle's return on average assets ("ROA") was 0.92% in 2019, compared to 0.90% in 2018. Return on average equity ("ROE") was 9.86% for 2019, compared to 10.33% for 2018.

In 2020, we expect to embark on a number of initiatives that will cause a decrease in net income, but will better position First National Bank for future growth of assets and earnings. We also expect lower net interest spreads leading to a decrease in net interest income. Furthermore, we do expect an increase in noninterest income in 2020 due to an increase in assets and increased volume from our Mortgage Division. Finally, we expect an increase in noninterest expense in 2020 due to expected normal increases in salaries and the execution of future strategic initiatives. We are carefully monitoring the COVID-19 coronavirus outbreak, but as of the date of this report we have limited insight into the extent to which our business may be impacted by this outbreak and its related effects during 2020.

Net Interest Income. Net interest income was $17,676 for the year ended December 31, 2019, compared to $16,382 for the year ended December 31, 2018, 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 higher yields have been the catalyst for the net interest income improvement.

The net interest spread increased to 3.82% for the year ended December 31, 2019 from 3.70% for the year ended December 31, 2018. Yield on earning assets was 4.58% and cost of funds was 0.76% for the year ended December 31, 2019 as compared to a yield on earning assets of 4.27% and a cost of funds of 0.57% for the year ended December 31, 2018. In 2019, Pinnacle's yield on earning assets increased due to higher loan and investment yields. The net interest margin increased to 4.00% for the year ended December 31, 2019 from 3.83% for the year ended December 31, 2018 due also to the 31 basis point increase in yield on earning assets in 2019.

Provision for Loan Losses and Asset Quality. The provisions for loan losses for the years ended December 31, 2019 and 2018 were $163 and $607, respectively. The provision for loan losses decreased in 2019, and has remained at a low level since 2013 as Pinnacle continues to have strong asset quality. The provision for loan losses decreased $444 in 2019 in spite of the 4.59% growth in total loans. Loan quality remained strong due to sound underwriting and credit management processes as total watch list loans decreased to $4,141 as of December 31, 2019 compared to $4,969 as of December 31, 2018.

Nonperforming assets (including nonaccrual loans, accruing loans more than 90 days past due, and foreclosed assets) increased to $1,801 or 0.36% of total assets as of December 31, 2019, as compared to $1,546 or 0.33% of total assets as of December 31, 2018. Nonperforming loans to total loans increased slightly to 0.29% as of year-end 2019 compared to 0.24% as of year-end 2018. The allowance for loan losses balance was 306.03% of nonperforming loans as of December 31, 2019 compared to 366.87% as of the end of 2018.

Noninterest Income. Pinnacle'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, 2019 increased $421, or 10.02%, to $4,623 from $4,202 in 2018 due mainly to an increase in mortgage loan fees, which increased by $287, or 65.53% and, services charges on loan accounts, which increased $80 or 23.12%. In addition, First National Bank benefitted in 2019 from increased service charges on deposit accounts and interchange and ATM fees. These increases were partially offset by a decrease in investment sales commissions, which decreased $49 or 8.39%.

Noninterest Expense. Total noninterest expense for the year ended December 31, 2019 increased $1,844, or 12.35%, to $16,772 from $14,928 in 2018 as salaries and benefits increased by $1,136, or 13.95%, which included salaries and benefits for new branch and loan production office staff, increased sales commissions and an 8% employee bonus. Occupancy expense increased $45, or 4.80% and furniture and equipment increased $170, or 18.70%. Pinnacle also saw expected increases in 2019 in office supplies, dealer loan expenses, telephone, loan fees paid, loan review, fees paid to Directors, advertising expenses and capital stock taxes. The increases were partially offset by a $144, or 52.36% decrease in FDIC premiums.

Income Tax Expense. Applicable income taxes on 2019 earnings amounted to $968, resulting in an effective tax rate of 18.05%, compared to $889, and an effective tax rate of 17.61% in 2018. The effective tax rate was higher due to lower amounts of tax free municipal investments.

Assets

Total assets as of December 31, 2019 were $500,530, up 6.36% from $470,611 as of December 31, 2018. The principal components of Pinnacle's assets at the end of the year were $32,903 in cash and cash equivalents, $44,958 in securities and $389,489 in net loans.

Investment Portfolio. Investment securities as of December 31, 2019 totaled $44,958, a decrease of $4,868, or 9.77% from $49,826 as of December 31, 2018. Held-to-maturity investment securities decreased to $1,764 as of December 31, 2019 from $1,777 as of December 31, 2018, a decrease of $13, or 0.73%. Available-for-sale investments decreased to $43,194 as of December 31, 2019 from $48,049 as of December 31, 2018, a decrease of $4,855, or 10.10%. Investments decreased as proceeds from investment maturities and paydowns were used to fund loans in 2019.

Loan Portfolio. Pinnacle's net loans were $389,849 as of December 31, 2019, an increase of $17,367, or 4.66%, from $372,482 as of December 31, 2018. Total loans were $393,520 as of December 31, 2019 compared to $376,066 as of December 31, 2018. This increase resulted from a $5,723 increase in real estate loans and an $8,059 increase in consumer loans and a $3,672 increase in commercial loans during 2019. Pinnacle's ratio of net loans to total deposits was 86.58% as of December 31, 2019 compared to 88.38% as of December 31, 2018 as deposit growth exceeded net loan growth by $7,638.

Bank Premises and Equipment. Bank premises and equipment decreased $205, or 1.30% in 2019 due to depreciation expense exceeding purchases in 2019.

Liabilities

Total liabilities as of December 31, 2019 were $455,085, up 6.20% from $428,500 as of December 31, 2018.

Deposits. The increase in liabilities in 2019 was due to an increase in total deposits of $25,005, or 5.88%, to $450,283 as of December 31, 2019 from $425,278 as of December 31, 2018. Noninterest-bearing demand deposits increased $26,739, or 31.95% and represented 24.52% of total deposits as of December 31, 2019, compared to 19.68% as of

December 31, 2018. Savings and NOW accounts decreased $552, or 0.22% and represented 54.40% of total deposits as of December 31, 2019, compared to 57.73% as of December 31, 2018. Time deposits decreased $1,182 or 1.23% and represented 21.08% of total deposits as of December 31, 2019, compared to 22.60% as of December 31, 2018. The change in deposits during 2019 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 Pinnacle's branch locations and competitive pricing of Pinnacle's products and services.

Average deposits were $432,371 for the year ended December 31, 2019, an increase of $16,390, or 3.94% from $415,991 of average deposits for the year ended December 31, 2018. Pinnacle's deposits are provided by individuals and businesses primarily located within the communities served. Pinnacle had no brokered deposits as of December 31, 2019 or December 31, 2018.

Stockholders' Equity

Total stockholders' equity as of December 31, 2019 was $45,445, including $42,404 in retained earnings. As of December 31, 2018, stockholders' equity totaled $42,111, including $38,853 in retained earnings. The increase in stockholders' equity resulted mainly from Pinnacle's net income of $4,396 partially offset by dividends of $845 paid to shareholders. Dividends paid to shareholders were $0.545 per share paid in 2019 as compared to the $0.445 per share paid in 2018.

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 Pinnacle and First National 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 Pinnacle and First National 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%. Pinnacle and First National 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.

Pinnacle's CET1 and Tier 1 Risk-based Capital Ratio was 11.71% of December 31, 2019. The Total Risk-based Capital Ratio was 12.59% and Pinnacle's Tier 1 Leverage Ratio was 9.88% as of December 31, 2019. For comparison, Pinnacle'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 Pinnacle's Tier 1 Leverage Ratio was 9.36% as of December 31, 2018.

Pinnacle's financial position as of December 31, 2019 reflects liquidity and capital levels management believes to be currently adequate to support anticipated funding needs and budgeted growth of Pinnacle. 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 Pinnacle'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, 2019 and 2018
(In thousands of dollars, except share data)

Assets	**2019**	**2018**
Cash and cash equivalents:		
Cash and due from banks	$ 32,903	$ 15,717
Certificates of deposits	250	250
Securities:		
Available-for-sale, at fair value	43,194	48,049
Held-to-maturity, at amortized cost	1,764	1,777
Federal Reserve Bank stock, at cost	154	149
Federal Home Loan Bank stock, at cost	423	399
Loans, net	389,849	372,482
Bank premises and equipment, net	15,546	15,751
Accrued interest receivable	1,277	1,333
Bank owned life insurance	10,335	10,101
Goodwill	539	539
Other real estate owned	666	627
Other assets	3,630	3,437
Total assets	$ 500,530	$ 470,611
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Demand	$ 110,419	$ 83,680
Savings and NOW accounts	244,941	245,493
Time	94,923	96,105
Total deposits	450,283	425,278
Accrued interest payable	205	168
Other liabilities	4,597	3,054
Total liabilities	455,085	428,500
Commitments, contingencies and other matters		
Stockholders' equity:		
Common stock, $3 par value. Authorized 3,000,000 shares, issued and outstanding 1,551,339 shares in 2019 and 1,540,054 shares in 2018	4,564	4,547
Capital surplus	1,461	1,333
Retained earnings	42,404	38,853
Accumulated other comprehensive loss, net	(2,984)	(2,622)
Total stockholders' equity	45,445	42,111
Total liabilities and stockholders' equity	$ 500,530	$ 470,611

See accompanying notes to consolidated financial statements.

PINNACLE BANKSHARES CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2019 and 2018
(In thousands of dollars, except per share data)

	2019	2018
Interest income:		
Interest and fees on loans	$ 18,730	$ 16,876
Interest on securities:		
U.S. Government agencies	832	717
States and political subdivisions (taxable)	69	88
States and political subdivisions (tax-exempt)	227	254
Other	379	334
Interest on federal funds sold	2	1
Total interest income	20,239	18,270
Interest expense:		
Interest on deposits:		
Savings and NOW accounts	1,112	660
Time	1,446	1,183
Interest on federal funds purchased	5	45
Total interest expense	2,563	1,888
Net interest income	17,676	16,382
Provision for loan losses and unfunded commitments	163	607
Net interest income after provision for loan losses	17,513	15,775
Noninterest income:		
Service charges on deposit accounts	1,941	1,894
Commissions and fees	535	584
Mortgage loan fees	725	438
Service charges on loan accounts	426	346
Other operating income	996	940
Total noninterest income	4,623	4,202
Noninterest expense:		
Salaries and employee benefits	9,281	8,145
Occupancy expense	982	937
Furniture and equipment expense	1,079	909
Office supplies and printing	205	174
Federal deposit insurance premiums	131	275
Capital stock tax	239	215
Advertising expense	198	183
Other operating expenses	4,657	4,090
Total noninterest expense	16,772	14,928
Income before income tax expense	5,364	5,049
Income tax expense	968	889
Net income	$ 4,396	$ 4,160
Basic net income per share	$ 2.84	$ 2.71
Diluted net income per share	$ 2.82	$ 2.68

See accompanying notes to consolidated financial statements.

PINNACLE BANKSHARES CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31, 2019 and 2018

(In thousands of dollars)

	2019	2018
Net income	$ 4,396	$ 4,160
Other comprehensive income (losses), net of related income taxes:		
Unrealized gains (losses) on availabile-for-sale securities		
Before tax	1,155	(319)
Income tax (expense) benefit	(241)	66
Changes in plan assets and benefit obligation of defined benefit pension plan		
Before tax	(1,615)	(107)
Income tax benefit	339	22
Total other comprehensive loss	(362)	(338)
Comprehensive income	$ 4,034	$ 3,822

See accompanying notes to consolidated financial statements.

PINNACLE BANKSHARES CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years ended December 31, 2019 and 2018

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

	Common Stock		Capital	Retained	Accumulated Other Comprehensive	
	Shares	Par Value	Surplus	Earnings	Income (Loss)	Total
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
Net income				4,396		4,396
Other comprehensive loss					(362)	(362)
Issuance of restricted stock and related expense	8,594	17	128			145
Stock options exercised	2,691					
Cash dividends declared by						
Bankshares ($0.545 per share)				(845)		(845)
Balances, December 31, 2019	1,551,339	$ 4,564	$ 1,461	$ 42,404	$ (2,984)	$ 45,445

See accompanying notes to consolidated financial statements.

PINNACLE BANKSHARES CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2019 and 2018
(In thousands of dollars)

	2019	2018
Cash flows from operating activities:		
Net income	$ 4,396	$ 4,160
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of bank premises and equipment	730	684
Amortization of unearned fees, net	12	4
Net amortization of premiums and discounts on securities	332	348
Provision for loan losses	157	607
Provision for deferred income taxes	(79)	(208)
Stock based compensation expense	145	178
Increase in cash value of bank owned life insurance	(234)	(236)
Valuation loss on OREO	7	-
Net decrease (increase) in:		
Accrued interest receivable	56	(150)
Other assets	(16)	539
Net increase (decrease) in:		
Accrued interest payable	37	27
Other liabilities	(72)	156
Net cash provided by operating activities	5,471	6,109
Cash flows from investing activities:		
Purchases of available-for-sale securities	(4,968)	(11,319)
Sales of availble-for-sale securities	1,887	-
Proceeds from maturities and calls of held-to-maturity securities	-	570
Proceeds from maturities and calls of available-for-sale securities	2,965	134
Proceeds from paydowns and maturities of available-for-sale mortgage-backed securities	5,807	4,339
Proceeds from the sale of of OREO	280	181
Purchase of Federal Reserve Stock	(5)	(2)
Purchase of Federal Home Loan Bank Stock	(24)	(4)
Net increase in loans made to customers	(17,862)	(18,848)
Purchases of bank premises and equipment	(825)	(414)
Disposals of bank premises and equipment	300	-
Net cash used in investing activities	(12,445)	(25,363)
Cash flows from financing activities:		
Net increase in demand, savings and NOW deposits	26,187	25,812
Net decrease in time deposits	(1,182)	(2,219)
Repayment of line of credit	-	(513)
Cash dividends paid	(845)	(684)
Net cash provided by financing activities	24,160	22,396
Net increase in cash and cash equivalents	17,186	3,142
Cash and cash equivalents, beginning of year	15,717	12,575
Cash and cash equivalents, end of year	$ 32,903	$ 15,717
Supplemental disclosure of cash flows information		
Cash paid during the year for:		
Income taxes	$ 1,480	$ 940
Interest	2,526	1,861
Supplemental schedule of noncash investing and financing activities:		
Transfer from loans to foreclosed assets	$ 326	$ 584
Loans charged against the allowance for loan losses	609	454
Unrealized gains (losses) on available-for-sale securities	1,155	(319)
Defined benefit plan adjustment per ASC topic *Compensation-Retirement Benefits*	(1,615)	(107)

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies and Practices

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

The accounting and reporting policies of Pinnacle 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 Pinnacle and First National 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, 2019 and 2018. 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

Pinnacle classifies its securities in three categories: (1) debt securities that Pinnacle has the positive intent and ability to hold to maturity are classified as "held-to-maturity securities" and reported at amortized cost; (2) debt 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 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, 2019 and 2018, Pinnacle 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. Pinnacle 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 Pinnacle intends to sell the security or it is likely that Pinnacle 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 Pinnacle does not intend to sell the security and it is not likely that Pinnacle 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"), Pinnacle 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 Pinnacle's capital and a percentage of qualifying assets.

In addition, Pinnacle is eligible to borrow from the FHLB with borrowings collateralized by qualifying assets, primarily residential mortgage loans, and Pinnacle'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, 2019, Pinnacle's available borrowing limit with the FHLB was approximately $117,198. Pinnacle had $0 in borrowings from the FHLB outstanding at December 31, 2019 and 2018. Pinnacle 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 First National Bank with a correspondent bank. The line of credit had $0 outstanding as of December 31, 2019 and December 31, 2018.

(f) Loans and Allowance for Loan Losses

Loans are stated at the amount of unpaid principal, reduced by unearned income and fees on loans, an allowance for loan losses, and net charge-offs. Interest 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 Pinnacle'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 Pinnacle'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 Pinnacle'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 Pinnacle's allowance for loan losses. Such agencies may require Pinnacle 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 Pinnacle usually continues to aggressively pursue collection. Pinnacle 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 Pinnacle 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, Pinnacle 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 Pinnacle are deferred and the net amount amortized as an adjustment of the related loan's yield. Pinnacle 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

Pinnacle 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

Pinnacle performs a goodwill impairment analysis on an annual basis as of December 31st. Additionally, Pinnacle performs a goodwill impairment evaluation on an interim basis when events or circumstances indicate impairment potentially exists. During 2019 and 2018, Pinnacle reviewed its goodwill for impairment and determined that goodwill is not impaired. Management will continue to monitor the relationship of Pinnacle's 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

Pinnacle'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

Pinnacle 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. Pinnacle'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) Revenue Recognition

Pinnacle recognizes revenue from contracts with customers. Noninterest revenue streams such as service charges on deposit accounts and commissions and fees are recognized in accordance with ASC Topic 606. Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans, securities and mortgage banking. In addition, certain noninterest income streams such as financial guarantees, derivatives, and certain credit card fees are outside the scope of the guidance. Noninterest revenue streams within the scope of Topic 606 are discussed below.

Service Charges on Deposit Accounts
Service charges on deposit accounts consist of monthly service fees, overdraft and nonsufficient funds fees, and VISA debit card interchange fees. Pinnacle's performance obligation for monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Payment for service charges on deposit accounts is primarily received immediately or at the end of each month through a direct charge to customers' accounts. Overdraft and nonsufficient funds fees and other deposit account related fees are transactional based, and therefore, Pinnacle's performance obligation is satisfied, and related revenue recognized, at a point in time when the service is delivered. Debit card fees are primarily comprised of interchange fee income. Interchange fees are earned whenever Pinnacle's debit cards are processed through the Visa network. Pinnacle's performance obligation for interchange fee income is satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month. Interchange income for vendors using terminals Pinnacle has sold and commissions from VISA related to the Pinnacle's principal status are also included in other operating income. Pinnacle's performance obligation is satisfied, and the related revenue recognized, when the commissions or fees are earned and are generally based on a percentage of activity.

Commissions and Fees
Commissions and fees consists of commissions received on investment product and insurance policies sales. For insurance sales, Pinnacle acts as an intermediary between the Pinnacle's customer and the insurance carrier. Pinnacle's performance obligation is satisfied upon the issuance of the insurance policy. Pinnacle retains a certain percentage of the policy premium for each policy sold. Investment commissions consists of recurring revenue streams such as commissions from sales of mutual funds and other investments. Commissions from the sale of investments are recognized on trade date, which is when Pinnacle has satisfied its performance obligation. Commissions and fees that total $535 on the income statement includes $173 in loan late fees that are out-of-scope of Topic 606.

Other Operating Income
Included in other operating income are various transaction based revenue streams such as wire transfer fees, foreign ATM fees, ACH origination fees, cashier check fees and miscellaneous services provided such as assistance with balancing a customer's checking account or making copies. Each of these fees are transactional based, and therefore, Pinnacle's performance obligation is satisfied, and related revenue recognized, at a point in time when the service is delivered.

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the year ended December 31, 2019 and 2018:

	Years Ended December 31, 2019	2018
Non-interest Income		
In-scope of Topic 606:		
Service charges on deposit accounts	$ 1,941	$ 1,894
Commissions and fees	362	403
Other operating income	657	605
Non-interest Income (in-scope of Topic 606)	$ 2,960	$ 2,902
Non-interest Income (out-of-scope of Topic 606)	1,663	1,300
	$ 4,623	$ 4,202

(o) Advertising

Pinnacle recognizes advertising expenses as incurred. Advertising expenses totaled $198 in 2019 compared to $183 in 2018.

(p) Income Taxes

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

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

(q) Stock Options and Restricted Stock

Pinnacle 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. Future levels of compensation cost recognized related to share-based compensation awards may be impacted by new awards and/or modification, repurchases and cancellations of existing awards after the adoption of this standard.

(r) Net Income per Share

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

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, 2019		Net income (numerator)	Shares (denominator)		Per share amount
Basic net income per share	$	4,396	1,549,129	$	2.84
Effect of dilutive stock options		—	10,763		
Diluted net income per share	$	4,396	1,559,892	$	2.82

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	$	2,748	1,551,598	$	2.68

(s) Consolidated Statements of Cash Flows

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

(t) Comprehensive Income

ASC Topic 220, *Comprehensive Income,* requires Pinnacle 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. Pinnacle's other comprehensive income consists of net income, and net unrealized gains (losses) on securities available-for-sale, net of income taxes, and adjustments relating to its defined benefit plan, net of income taxes.

(u) Fair Value Measurements

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

In accordance with *Fair Value Measurements and Disclosures*, Pinnacle 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 Pinnacle 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 and remained at Level 2 as of December 31, 2019. Valuation methodologies for the fair value hierarchy are as follows:

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

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

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

(v) Current Accounting Developments

For each of the accounting pronouncements that affect the Company, the Company elected to follow the rule that allows companies engaging in an initial public offering as an Emerging Growth Company to follow the private company implementation dates.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2014-09, *Revenue from Contracts with Customers*. The objective of ASU No. 2014-09 is to establish a single, comprehensive, five-step model for entities to use in accounting for revenue arising from contracts with customers that will supersede most of the existing revenue recognition guidance, including industry-specific guidance. The core principle of this standard is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 applies to all contracts with customers except those that are within the scope *of other topics in the FASB ASC. In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, which clarifies the implementation guidance on principal versus agent considerations. In June 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*, which relates to assessing collectability, presentation of sales taxes, noncash consideration and completed contracts and contract modifications in transition. In December 2016, the FASB issued 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*, which clarifies or corrects unintended application of the standard. Companies are permitted to adopt the ASUs as early as fiscal years beginning after December 15, 2016, but the adoption is required for private companies for fiscal years beginning after December 15, 2018. In September 2017, the FASB issued ASU 2017-13, *Revenue Recognition (Topic 605)," "Revenue from Contracts with Customers (Topic 606), Leases (Topic 840)," and Leases (Topic 842)*. These amendments provide additional clarification and implementation guidance on the previously issued ASU 2014-09. The Company adopted Topic 606 effective on January 1, 2019. The adoption of this guidance did not have a material impact to the consolidated financial statements but did result in expanded disclosures related to noninterest income and enhanced qualitative disclosures on the revenues within the scope of the new guidance. Refer to Note 1, Revenue Recognition, for further discussion on the Company's accounting policies for revenue sources within the scope of Topic 606.

In January 2016, the FASB 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 adoption of this guidance did not have an impact 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. In November 2019, FASB issued ASU 2019-10, *Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*, which clarified the amendments and delayed the effective dates of the previously issued ASU's. The amendments in this ASU are effective for private companies for fiscal years beginning after December 15, 2020, and interim periods beginning after December 15, 2021. 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. In November 2019, FASB issued ASU 2019-10, *Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*, which clarified the amendments and delayed the effective dates of the previously issued ASU's. ASU 2016-13 is effective for private companies for fiscal years beginning after December 15, 2022. 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 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 adopted this guidance effective after December 15, 2018. The other components of net periodic benefit cost are presented as a component of other non-interest expense. The adoption resulted in a reclassification of $70 and $193 for the twelve months ended December 31, 2019 and 2018, respectively, from salaries and employee benefits to other expenses.

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 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.

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 Cuts and Jobs Act of 2017. As a result, the Company reclassified $376 from AOCI to retained earnings as of and for the year ended December 31, 2018.

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 adoption of this guidance did not have a material impact to the consolidated financial statements.

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 ASC 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.

In April 2019, the FASB issued ASU 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments.* This ASU clarifies and improves areas of guidance related to the recently issued standards on credit losses, hedging, and recognition and measurement including improvements resulting from various TRG Meetings. The amendments are effective for private companies for fiscal years beginning after December 15, 2022. Early adoption is permitted. The Company is currently assessing the impact that ASU 2019-04 will have on its consolidated financial statements.

In May 2019, the FASB issued ASU 2019-05, *Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief.* The amendments in this ASU provide entities that have certain instruments within the scope of Subtopic 326-20 with an option to irrevocably elect the fair value option in Subtopic 825-10, applied on an instrument-by-instrument basis for eligible instruments, upon the adoption of Topic 326. The fair value option election does not apply to held-to-maturity debt securities. An entity that elects the fair value option should subsequently measure those instruments at fair value with changes in fair value flowing through earnings. The amendments are effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. The amendments should be applied on a modified-retrospective basis by means of a cumulative-effect adjustment to the opening balance of retained earnings balance in the balance sheet. Early adoption is permitted. The Company is currently assessing the impact that ASU 2019-05 will have on its consolidated financial statements.

(2) Restrictions on Cash

To comply with Federal Reserve regulations, Pinnacle is required to maintain certain average reserve balances. The daily average reserve requirements were approximately $5,892 and $5,051 for the weeks including December 31, 2019 and 2018, respectively.

(3) Securities

The amortized costs, gross unrealized gains, gross unrealized losses and fair values for securities as of December 31, 2019 and 2018 are as follows:

		2019			
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	$	5,986	30	(15)	6,001
Obligations of states and political subdivisions		8,897	370	-	9,267
Mortgage-backed securities – government		27,984	179	(237)	27,926
Total available-for-sale	$	42,867	579	(252)	43,194

		2019			
Held-to-Maturity		**Amortized costs**	**Gross unrealized gains**	**Gross unrealized losses**	**Fair values**
Obligations of states and political subdivisions	$	1,764	16	—	1,780

Available-for-Sale		2018 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

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

The following table shows the gross unrealized losses and fair value of Pinnacle'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, 2019:

		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	$	1,457	9	995	6	2,452	15
Obligations of states and political subdivisions		—	—	—	—	—	—
Mortgage-backed securities-government		9,482	80	11,175	157	20,657	237
Total	$	10,939	89	12,170	163	23,109	252

The following table shows the gross unrealized losses and fair value of Pinnacle'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

Pinnacle 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 Pinnacle's ability, if necessary, to hold the securities until maturity. For 2019, the securities included 15 bonds that had continuous losses for less than 12 months and 28 bonds that had continuous losses for more than 12 months. 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. There were $2 in net realized losses on securities sold in 2019 and no gains or losses in 2018.

The amortized costs and fair values of available-for-sale and held-to-maturity securities as of December 31, 2019, 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.

	2019			
	Available-for-Sale		Held-to-Maturity	
	Amortized costs	Fair values	Amortized costs	Fair values
Due in one year or less	$ 1,997	2,001	1,264	1,273
Due after one year through five years	3,128	3,171	500	507
Due after five years through ten years	8,453	8,784	—	—
Due after ten years	1,305	1,312	—	—
	14,883	15,268	1,764	1,780
Mortgage-backed securities	27,984	27,926	—	—
Totals	$ 42,867	43,194	1,764	1,780

Securities with amortized costs of approximately $7,456 and $8,593 (fair values of $7,464 and $8,475, respectively) as of December 31, 2019 and 2018, 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, 2019 and 2018 follows:

	2019	2018
Real estate loans:		
Residential-mortgage	$ 116,139	122,760
Residential-construction	6,250	7,156
Commercial	110,277	97,027
Loans to individuals for household, family and other consumer expenditures	99,318	91,259
Commercial and industrial loans	61,536	57,864
Total loans, gross	393,520	376,066
Less unearned income and fees	(199)	(212)
Loans, net of unearned income and fees	393,321	375,854
Less allowance for loan losses	(3,472)	(3,372)
Loans, net	$ 389,849	372,482

In the normal course of business, the First National Bank has made loans to executive officers and directors. As of December 31, 2019 and 2018, loans to executive officers and directors totaled $298 and $281, respectively. During 2019, new loans made to executive officers and directors totaled $65 and advances totaled $153. New loans made to companies in which executive officers and directors have an interest per Regulation O totaled $43 and advances totaled $43 in 2019. 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 $396,109 as of December 31, 2019 and $378,081 as of December 31, 2018.

The following table presents information on Pinnacle'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, 2019

	Commercial	Commercial Real Estate	Consumer	Residential	Total
Allowance for Loan Losses:					
Beginning balance	$518	1,035	834	985	3,372
Charge-offs	(3)	-	(538)	(68)	(609)
Recoveries	78	1	303	170	552
(Recovery of) provision for loan losses	(153)	51	338	(79)	157
Ending Balance	$440	1,087	937	1,008	3,472
Allowance:					
Ending balance: individually evaluated for impairment	-	-	-	-	-
Ending balance: collectively evaluated for impairment	$440	1,087	937	1,008	3,472

	Commercial	Commercial Real Estate	Consumer	Residential	Total
Loans:					
Total loans ending balance	$61,536	110,277	99,318	122,389	393,520
Ending balance: individually evaluated for impairment	-	149	124	985	1,258
Ending balance: collectively evaluated for impairment	$61,536	110,128	99,194	121,404	392,262

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 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

Pinnacle 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 Pinnacle 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 Pinnacle's credit quality indicators:

Credit Quality Indicators
As of December 31, 2019

Credit Exposure	Commercial	Commercial Real Estate	Consumer	Residential	Total
Pass	$61,308	109,249	99,226	120,731	390,514
Special Mention	72	147	-	479	698
Substandard	156	881	92	1,179	2,308
Doubtful	-	-	-	-	-
Total	$61,536	110,277	99,318	122,389	393,520

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

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

Age Analysis of Past Due Loans
As of December 31, 2019

	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	$-	-	-	-	61,536	61,536	-
Commercial real estate	-	-	149	149	110,128	110,277	-
Consumer	157	-	124	281	99,037	99,318	-
Residential	61	-	862	923	121,466	122,389	-
Total	$218	-	1,135	1,353	392,167	393,520	-

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	80

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

Impaired Loans
For the Year Ended December 31, 2019

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ -	-	-	-	-
Commercial real estate	149	149	-	75	-
Consumer	124	124	-	69	-
Residential	985	985	-	1,039	-
Total:					
Commercial	-	-	-	-	-
Commercial real estate	149	149	-	75	-
Consumer	124	124	-	69	-
Residential	$985	985	-	1,039	7
Total	$1,258	1,258	-	1,183	7

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

The following presents information on Pinnacle's nonaccrual loans:

Loans in Nonaccrual Status
As of December 31, 2019 and 2018

	2019	2018
Commercial	$ -	-
Commercial real estate	149	-
Consumer	124	14
Residential	862	825
Total	$ 1,135	839

Pinnacle had two restructured loans totaling $191 as of December 31, 2019 and had three restructured loans totaling $429 as of December 31, 2018. All of these restructured loans constituted troubled debt restructurings as of December 31, 2019 and 2018.

Pinnacle 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, 2019 or December 31, 2018.

The following tables present troubled debt restructurings as of December 31, 2019 and 2018:

	December 31, 2019		
	Accrual Status	Non-Accrual Status	Total Troubled Debt Restructuring
Commercial	$ -	-	-
Commercial real estate	-	-	-
Consumer	-	-	-
Residential	123	68	191
Total	$123	68	191

	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

For 2019 and 2018, Pinnacle had no new troubled debt restructures. No troubled debt restructures experienced payment defaults in 2019 or 2018.

(5) Bank Premises and Equipment

Bank premises and equipment, net were comprised of the following as of December 31, 2019 and 2018:

	2019	2018
Land improvements	$ 710	710
Buildings	14,983	15,174
Equipment, furniture and fixtures	7,151	6,511
Construction in progress	76	-
	22,920	22,395
Less accumulated depreciation	(9,925)	(9,195)
	12,995	13,200
Land	2,551	2,551
Bank premises and equipment, net	$ 15,546	15,751

(6) Deposits

A summary of deposits as of December 31, 2019 and 2018 follows:

		2019	2018
Noninterest-bearing demand deposits	$	110,419	83,680
Interest-bearing:			
Savings and money market accounts		161,279	166,020
NOW accounts		83,662	79,473
Time deposits – under $250,000		87,278	85,506
Time deposits – $250,000 and over		7,645	10,599
Total interest-bearing deposits		339,864	341,598
Total deposits	$	450,283	425,278

At December 31, 2019, the scheduled maturity of time deposits is as follows: $41,507 in 2020; $14,670 in 2021; $11,028 in 2022, $16,274 in 2023 and $11,443 in 2024.

In the normal course of business, the First National Bank has received deposits from executive officers and directors. As of December 31, 2019 and 2018, deposits from executive officers and directors were approximately $2,145 and $1,875, 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 $410,213 as of December 31, 2019 and $370,056 as of December 31, 2018.

(7) Employee Benefit Plans

First National 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 $500 and $392 in 2019 and 2018, respectively. The change in benefit obligation, change in plan assets and funded status of the pension plan as of December 31, 2019 and 2018 and pertinent assumptions are as follows:

Change in Benefit Obligation		2019	2018
Benefit obligation at beginning of year	$	8,598	9,184
Service cost		567	586
Interest cost		365	313
Actuarial income (loss)		2,542	(761)
Benefits paid		(116)	(724)
Settlement loss		—	—
Benefit obligation at end of year	$	11,956	8,598
Change in Plan Assets			
Fair value of plan assets at beginning of year		7,303	8,388
Actual return (loss) on plan assets		1,362	(362)
Employer contribution		—	—
Benefits paid		(116)	(723)
Projected fair value of plan assets at end of year	$	8,549	7,303
Funded Status at the End of the Year		(3,407)	(1,295)
Amounts Recognized in the Balance Sheet			
Other liabilities, accrued pension		(3,407)	(1,295)
Amounts Recognized in Accumulated Other Comprehensive Income Net of Tax Effect			
Unrecognized actuarial loss		(4,104)	(2,489)
Income tax effect		862	523
Benefit obligation included in accumulated other comprehensive income	$	(3,242)	(1,966)
Funded Status			
Benefit obligation		(11,956)	(8,598)
Fair value of assets		8,549	7,303
Unrecognized net actuarial loss		4,104	2,489
Prepaid benefit cost included in the balance sheet	$	697	1,194

Weighted Average Assumptions as of December 31, 2019 and 2018 :	Pension Benefits 2019	2018
Discount rate	3.25%	4.25%
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 $752.

Pinnacle 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, 2019 and 2018 is summarized as follows:

	Pension Benefits	
	2019	2018
Service cost	$ 567	586
Interest cost	365	313
Expected return on plan assets	(528)	(591)
Net loss due to settlement	-	-
Recognized net actuarial loss	93	85
Net pension benefit cost	$ 497	393
Gross (gain) loss recognized in other comprehensive income	1,615	107
Total Recognized in Net Pension Benefit Cost and Other Comprehensive Income	$ 2,112	500

Projected Benefit Payments

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

2020	$ 379
2021	1,586
2022	274
2023	1,073
2024	142
2025-2029	3,178

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 38% fixed income and 62% 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 Pinnacle 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, 2019 and 2018.

The following table presents the fair value of the assets, by asset category, as of December 31, 2019 and 2018.

		2019	2018
Mutual funds-fixed income	$	3,249	3,067
Mutual funds-equity		5,300	4,236
Total assets at fair value	$	8,549	7,303

The following table sets forth by level, within the fair value hierarchy, the assets carried at fair value as of December 31, 2019 and 2018.

	Assets at Fair Value as of December 31, 2019			
	Level 1	Level 2	Level 3	Total
Mutual funds-fixed income	$ 3,249	-	-	3,249
Mutual funds-equity	5,300	-	-	5,300
Total assets at fair value	$ 8,549	-	-	8,549

	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

Contributions

Pinnacle expects to contribute $0 to its pension plan in 2020.

Pinnacle also has a 401(k) plan under which Pinnacle matches employee contributions to the plan. In 2019 and 2018, Pinnacle 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 $195 during the year ended December 31, 2019 and $166 during the year ended December 31, 2018.

(8) Income Taxes

Income tax expense attributable to income before income tax expense for the years ended December 31, 2019 and 2018 is summarized as follows:

		2019	2018
Current	$	943	1,098
Deferred		25	(209)
Total income tax expense	$	968	889

Reported income tax expense for the years ended December 31, 2019 and 2018 differed from the amounts computed by applying the U.S. Federal income tax rate of 21% for 2019 and 2018 to income before income tax expense as a result of the following:

		2019	2018
Computed at statutory Federal tax rate	$	1,126	1,060
Increase (reduction) in income tax expense resulting from:			
Tax-exempt interest		(72)	(78)
Disallowance of interest expense		3	3
Other, net		(89)	(96)
Reported income tax expense	$	968	889

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, 2019 and 2018 are as follows:

		2019	2018
Deferred tax assets:			
Loans, principally due to allowance for loan losses	$	678	647
Defined benefit plan valuation adjustments		862	523
Net unrealized losses on available-for-sale securities		—	174
Other		114	135
Total gross deferred tax assets		1,654	1,479
Deferred tax liabilities:			
Bank premises and equipment, due to differences in depreciation		(403)	(368)
Accrued pension, due to actual pension contributions in excess of accrual for financial reporting purposes		(146)	(251)
Net unrealized gains on available-for-sale securities		(67)	
Other		(115)	(113)
Total gross deferred tax liabilities		(731)	(732)
Net deferred tax asset, included in other assets	$	923	747

First National Bank has determined that a valuation allowance for the gross deferred tax assets is not necessary as of December 31, 2019 and 2018, 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.

Pinnacle did not recognize any interest or penalties related to income tax during the years ended December 31, 2019 and 2018. Pinnacle 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 from 2016 and thereafter are subject to future examination by tax authorities.

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

Pinnacle 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 First National 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. Pinnacle'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. Pinnacle uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Pinnacle requires collateral to support financial instruments when it is deemed necessary. First National 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,	
		2019	2018
Commitments to extend credit	$	79,001	72,899
Standby letters of credit	$	5,074	4,373

In the ordinary course of business, Pinnacle may enter into mortgage rate lock commitments that are subsequently funded by Pinnacle. Pinnacle then sells the mortgage loan to a secondary market bank that had underwritten the mortgage loan before Pinnacle funded the loan. The secondary market bank pays a fee that was agreed upon on the lock commitment date to Pinnacle and buys the loan within five days of the initial funding by Pinnacle. Pinnacle had outstanding mortgage rate lock commitments of $2,590 and $2,592 as of December 31, 2019 and December 31, 2018 respectively.

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 First National 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 Pinnacle's standby letters of credit commitments as of December 31, 2019 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

Pinnacle leases premises and equipment under various operating lease agreements. Lease payments for all leases in 2019 were $191. 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
2020	$285
2021	307
2022	311
2023	314
2024	292
Thereafter	1,125
Total	$2,634

Pinnacle entered into a lease of the Amherst branch facility, with an entity in which a director of Pinnacle has a 50% ownership interest, in 2009. The original term of the lease is twenty years and may be renewed at the Pinnacle's option for two additional terms of five years each. The Pinnacle's current rental payment under the lease is $161 annually.

(11) Concentrations of Credit Risk and Contingencies

Pinnacle 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.

Pinnacle'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 Pinnacle'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 Pinnacle.

Pinnacle 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, Pinnacle may have cash and cash equivalents at a financial institution in excess of insured limits. Pinnacle 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 Pinnacle. 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 Pinnacle's consolidated financial condition or results of operations.

(12) Dividend Restrictions and Capital Requirements

Pinnacle's principal source of funds for dividend payments is dividends received from its subsidiary Bank. For the years ended December 31, 2019 and 2018, dividends from the subsidiary Bank totaled $973 and $1,461, respectively.

Substantially all of Pinnacle's 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 First National 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, 2019, retained net profits of First National Bank that were free of such restriction approximated $9,163.

Pinnacle and First National 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 Pinnacle's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, Pinnacle and First National 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. Pinnacle and First National 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, Pinnacle and First National Bank 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 1 or "CET 1" Risk-Based Capital Ratio, is now measured and monitored. Pinnacle and First National Bank's actual regulatory capital amounts and ratios as of December 31, 2019 and December 31, 2018 are listed on the following page:

Regulatory Capital Ratios as of December 31, 2019	Pinnacle Consolidated		First National Bank	
	Amount	Ratio	Amount	Ratio
Total Risk-Based Capital Ratio (to Risk Weighted Assets)	$51,455	12.60%	$50,331	12.36%
CET 1 Risk Based Capital Ratio (to Risk Weighted Assets)	$47,889	11.72%	$46,765	11.48%
Tier 1 Risk-Based Capital Ratio (to Risk Weighted Assets)	$47,889	11.72%	$46,765	11.48%
Tier 1 Leverage Capital Ratio (to Average Assets)	$47,889	9.88%	$46,765	9.67%

Regulatory Capital Ratios as of December 31, 2018	Pinnacle Consolidated		First National 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%

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, 2019, the most recent notification from Office of the Comptroller of the Currency categorized Pinnacle and First National 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 Pinnacle and the First National Bank's category.

(13) Disclosures about Fair Value of Financial Instruments

GAAP requires Pinnacle 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 Pinnacle'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, 2019 and 2018, 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 Pinnacle's entire holdings of a particular financial instrument. Because no market exists for a significant portion of Pinnacle'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, 2019, Pinnacle currently carried 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. Pinnacle'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. Pinnacle's entire available-for-sale securities portfolio was classified as Level 2 securities at December 31, 2019. As of December 31, 2019, Pinnacle carried no Level 3 securities for which fair value would be determined using unobservable inputs.

Loans

Pinnacle 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, 2019, 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, Pinnacle 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, Pinnacle records the impaired loan as a nonrecurring Level 3 asset. For substantially all of Pinnacle's impaired loans as of December 31, 2019 and December 31, 2018, the valuation methodology utilized by Pinnacle 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, Pinnacle 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, Pinnacle records the other real estate owned as a nonrecurring Level 3 asset. For substantially all of Pinnacle's other real estate owned as of December 31, 2019 and December 31, 2018, the valuation methodology utilized by Pinnacle 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, 2019

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	$43,194	$43,194	$-	$43,194	$-
Impaired loans (nonrecurring)	$1,258	$1,258	$-	$-	$1,258
Other Real Estate Owned (nonrecurring)	$666	$666	$-	$-	$666

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

The following table sets forth a summary of changes in the fair value of Pinnacle's nonrecurring Level 3 assets for the year ended December 31, 2019:

	Level 3 Assets Year Ended December 31, 2019	
	Impaired Loans	Other Real Estate Owned
Balance, beginning of the year	$ 1,186	627
Purchases, sales, issuances, and settlements (net)	72	39
Balance, end of year	$ 1,258	666

There were no transfers between Level 1, Level 2 and Level 3 investments during the year ended December 31, 2019.

The following table sets forth a summary of changes in the fair value of Pinnacle'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.

(14) Parent Company Financial Information

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

Condensed Balance Sheets

		December 31, 2019	December 31, 2018
Assets			
Cash due from subsidiary	$	31	30
Investment in subsidiary, at equity		44,320	41,009
Other assets		1,141	1,113
Total assets	$	45,492	42,152
Liabilities and stockholders' equity			
Notes payable	$	-	-
Other liabilities		47	41
Total liabilities	$	47	41
Stockholders' equity			
Common stock of $3 par value, authorized 3,000,000 shares; issued and outstanding 1,551,339 shares in 2019 and 1,540,054 in 2018	$	4,564	4,547
Capital surplus		1,461	1,333
Retained earnings		42,404	38,853
Accumulated other comprehensive loss, net		(2,984)	(2,622)
Total stockholders' equity	**$**	45,445	42,111
Total liabilities and stockholders' equity	**$**	45,492	42,152

Condensed Statements of Income

		Years ended December 31, 2019	Years ended December 31, 2018
Income:			
Dividends from subsidiary	$	973	1,461
Equity in undistributed net income of subsidiary		3,528	2,886
Total Income		4,501	4,347
Expenses:			
Other expenses		133	237
Income before income tax benefit		4,368	4,110
Applicable income tax benefit		28	50
Net income	$	4,396	4,160

Condensed Statements of Cash Flows

		Years ended December 31, 2019	2018
Cash flows from operating activities:			
Net income	$	4,396	4,160
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of subsidiary		(3,528)	(2,886)
Increase in other assets		(28)	(51)
Net cash provided by operating activities		840	1,223
Cash flows from financing activities			
Cash dividends paid		(845)	(684)
Repayment of line of credit		-	(513)
Increase in other liabilities		6	-
Net cash used in financing activities		(839)	(1,197)
Net increase (decrease) in cash from subsidiary		1	26
Cash due from subsidiary, beginning of year		30	4
Cash due from subsidiary, end of year	$	31	30

(15) Stock-based Compensation

Pinnacle's 2004 Incentive Stock Plan (the "2004 Plan"), pursuant to which Pinnacle'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 Pinnacle'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, 2019, options for 7,500 shares were exercisable at an exercise price of $9.00 per share and options for 10,875 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 Pinnacle'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 Pinnacle'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, 2019, there were 91,771 shares available for grant under the 2014 Plan.

On May 1, 2019, 7,700 shares of restricted stock were granted to employees pursuant to 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 Pinnacle's Directors in lieu of cash for 2018 director fees. On January 9, 2018, 3,831 shares of restricted stock were granted to Pinnacle's Directors in lieu of cash for 2017 director fees. On January 10, 2017, 3,998 shares of restricted stock were granted to Pinnacle's Directors in lieu of cash for 2016 director fees. On January 12, 2016, 3,818 shares of restricted stock were granted to Pinnacle's Directors in lieu of cash for 2015 director fees. On January 13, 2015, 3,310 shares of restricted stock were granted to Pinnacle's Directors as payment in lieu of cash for 2014 director fees.

At December 31, 2019, no options for shares were exercisable under the 2014 Plan.

Pinnacle expensed $0 in 2019 and 2018 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 $0 in compensation expense related to 4,375 unvested stock options in 2019 and $1 in 2018. 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 nine 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 nine years.

Pinnacle expensed $177 in 2019 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, 5,675 shares of restricted stock to employees in 2018 and 0 shares of restricted stock to employees in 2019 and will expense $156 in 2020, $104 in 2021 and $28 in 2022 on such restricted stock.

Stock option activity during the years ended December 31, 2019 and 2018 is as follows:

	Number of Shares	**Weighted Average Exercise Price**
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
Forfeited	0	-
Exercised	5,750	10.17
Granted	0	-
Balance as of December 31, 2019	18,375	$12.97

The following table summarizes information about stock options outstanding as of December 31, 2019:

	Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding at 12/31/19	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number Exercisable at 12/31/2019	Weighted-Average Exercise Price
$ 9.00	7,500	0.4	$ 9.00	7,500	$ 9.00
15.70	10,875	3.1	15.70	10,875	15.70

The following table summarizes information about stock options outstanding at 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 aggregate intrinsic value of options outstanding was $346, of options exercisable was $346, and of options unvested and expected to vest was $0 as of December 31, 2019. 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 total intrinsic value (market value on date of exercise less exercise price) of options exercised was $130 for the year ended December 31, 2019 and $136 for the year ended December 31, 2018.

(16) Subsequent Events

On January 14, 2020, 3,347 shares of restricted stock were granted to Pinnacle's Directors in lieu of cash for 2019 director fees.

On January 21, 2020, Pinnacle and Virginia Bank Bankshares, Inc. ("Virginia Bank") jointly announced the signing of a definitive agreement to combine in a strategic merger. The combined company would have over $700,000 in total assets.

Under the terms of the agreement, Virginia Bank shareholders will have the opportunity to elect to receive either $16.00 of cash (the "Cash Consideration") or 0.5000 shares of Pinnacle common stock (the "Stock Consideration") for each share of Virginia Bank common stock held, subject to the limitation that 70% of the shares will be exchanged for the Stock Consideration and 30% of the shares will be exchanged for the Cash Consideration. After the merger of Virginia Bank into Pinnacle, Pinnacle shareholders will own 71% of the combined company, and Virginia Bank shareholders will own approximately 29%.

Upon consummation of the transaction, Virginia Bank will merge into Pinnacle and Pinnacle will be the surviving holding company. Following the holding company merger, Virginia Bank and Trust Company will merge into First National Bank and First National Bank will be the surviving bank.

The transaction is expected to be completed in the third quarter of 2020, subject to approval of both companies' shareholders, regulatory approvals and other customary closing conditions.

Pinnacle has evaluated all other subsequent events for potential recognition and/or disclosure in the December 31, 2019 consolidated financial statements through March 23, 2020, the date the consolidated financial statements were available to be issued.

Management's Report on Internal Control over Financial Reporting.

Pinnacle'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 Pinnacle's internal control over financial reporting as of December 31, 2019. 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, 2019, Pinnacle's internal control over financial reporting was effective based on those criteria.

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

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
Pinnacle Bankshares Inc. and Subsidiaries
Altavista, Virginia

We have audited the accompanying consolidated balance sheets of Pinnacle Bankshares, Inc. and Subsidiaries (collectively, the "Company") as of December 31, 2019 and 2018, the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and their cash flows for each of the years in the two-year period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Cherry Bekaert LLP

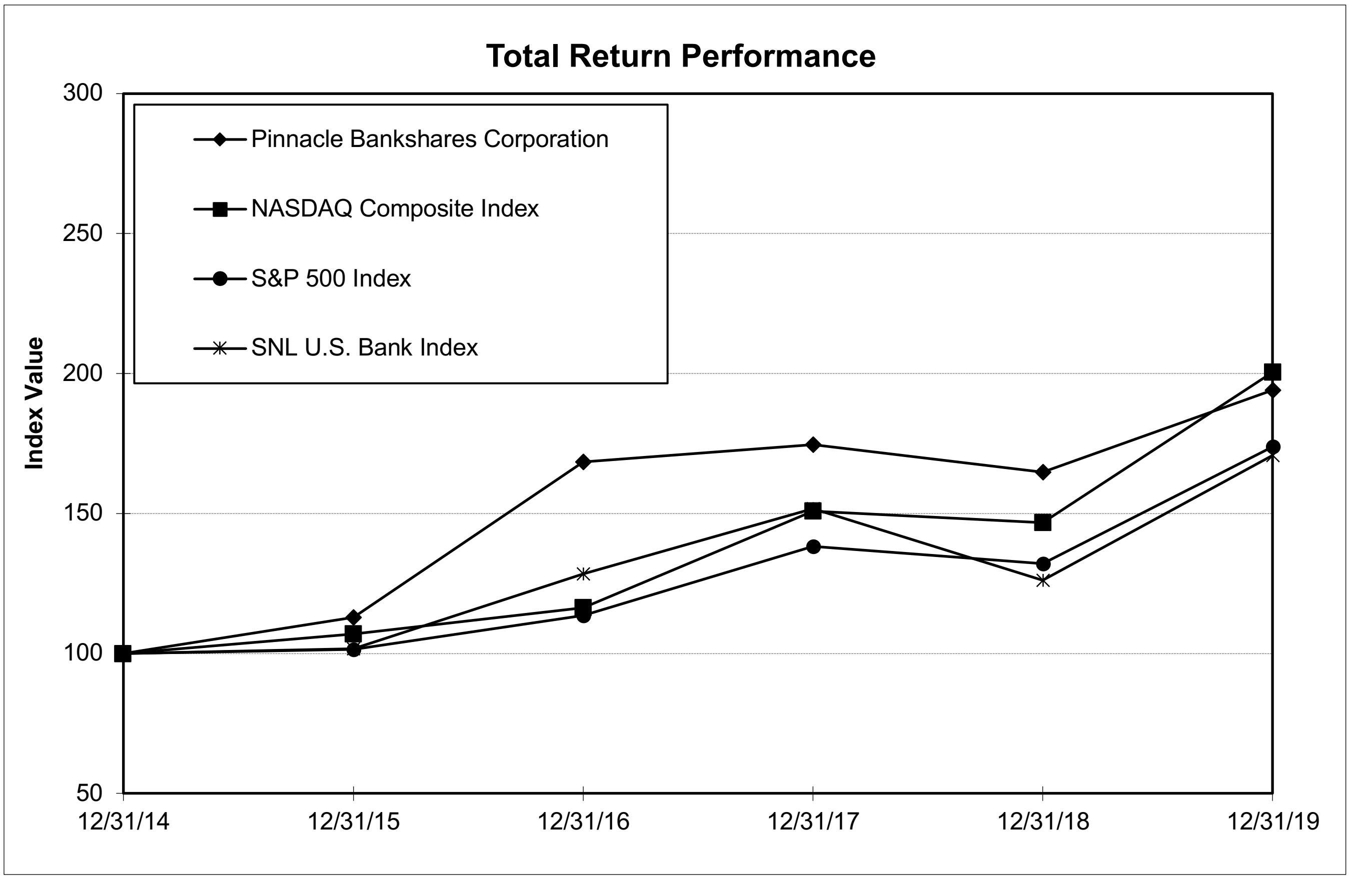
Raleigh, North Carolina
March 23, 2020
We have served as the Company's auditors since 2005.

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 from December 31, 2014 to December 31, 2019. The graph assumes $100 invested on December 31, 2014 in Pinnacle Bankshares Corporation Common Stock and in each of the indices.

Pinnacle Bankshares Corporation



Index	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18	12/31/19
Pinnacle Bankshares Corporation	100.00	112.80	168.51	174.54	164.86	194.09
NASDAQ Market Index	100.00	106.96	116.45	150.96	146.67	200.49
S&P 500	100.00	101.38	113.51	138.29	132.23	173.86
SNL U.S. Bank Index	100.00	101.71	128.51	151.75	126.12	170.79

Shareholder Information

Annual Meeting

The 2020 Annual Meeting of Shareholders, historically held in April, has been postponed in order to combine the matters to be voted on at the annual meeting with proposals related to the previously announced strategic merger of Virginia Bank Bankshares, Inc. into Pinnacle. Pinnacle currently anticipates convening an annual meeting of its shareholders during the summer of 2020. Once the details are finalized, Pinnacle will provide additional information related to the 2020 Annual Meeting of Shareholders.

Market for Common Equity and Related Stockholder Matters

Pinnacle'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 Pinnacle 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.

	2019			2018		
	High	**Low**	**Dividends**	**High**	**Low**	**Dividends**
First Quarter	$32.95	$27.45	$0.125	$34.50	$28.35	$0.11
Second Quarter	$35.00	$31.00	$0.14	$30.55	$27.50	$0.11
Third Quarter	$31.50	$30.00	$0.14	$33.00	$29.59	$0.11
Fourth Quarter	$32.00	$30.50	$0.14	$31.20	$26.60	$0.125

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. Pinnacle'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 First National 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 First National Bank's ability to declare dividends during 2019 and 2018 and is not expected to have a material impact during 2020.

As of March 20, 2020, there were approximately 254 shareholders of record of Pinnacle's Common Stock.

Requests for Information

Requests for information about Pinnacle 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

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