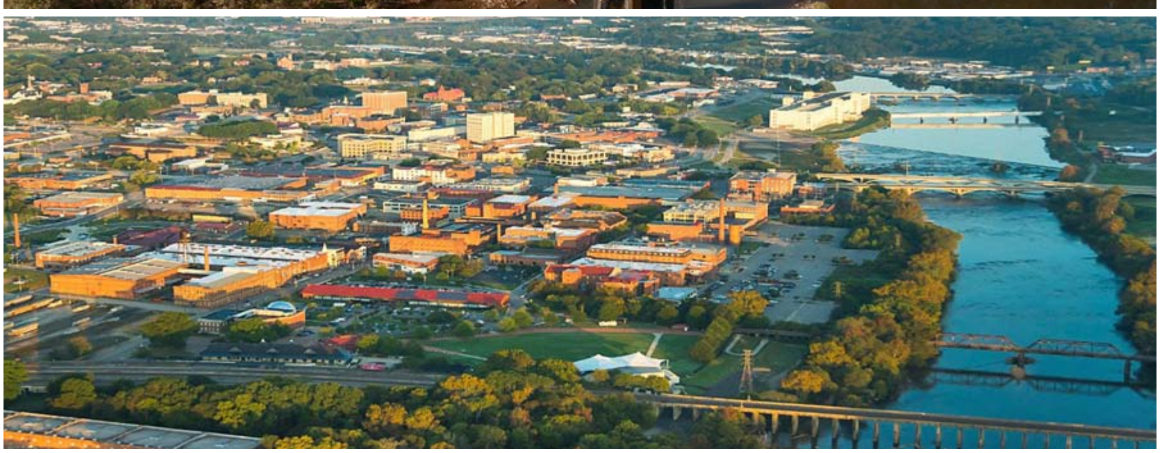
PINNACLE BANKSHARES CORPORATION



2021 ANNUAL REPORT

FIRST NATIONAL BANK

EST. 1908

Main Corporate Headquarters

Altavista
622 Broad Street
Altavista, Virginia 24517

Branch Locations

Amherst
130 South Main Street
Amherst, Virginia 24521

Brosville
10370 Martinsville Highway
Brosville, Virginia 24541

Charlottesville Ivy Road
2208 Ivy Road
Charlottesville, Virginia 22903

Chatham
55 North Main Street
Chatham, Virginia 24531

Danville Airport
1312 South Boston Road
Danville, Virginia 24540

Danville Main
336 Main Street,
Danville, Virginia 24541

Downtown Lynchburg
800 Main Street
Lynchburg, Virginia 24504

Forest
14417 Forest Road
Forest, Virginia 24551

Graves Mill
18077 Forest Road
Forest, Virginia 24521

Lynchburg Airport
14580 Wards Road
Lynchburg, Virginia 24502

Mt. Hermon
4080 Franklin Turnpike
Danville, Virginia 24540

Odd Fellows Road
3401 Odd Fellows Road
Lynchburg, Virginia 24501

Old Forest Road
3321 Old Forest Road
Lynchburg, Virginia 24501

Riverside
2600 Riverside Drive
Danville, Virginia 24540

Rustburg
1033 Village Highway
Rustburg, Virginia 24588

Timberlake
20865 Timberlake Road
Lynchburg, Virginia 24502

Vista
1303 Main Street
Altavista, Virginia 24517

DEAR SHAREHOLDERS,

I am pleased to report that Pinnacle Bankshares Corporation, the holding company for First National Bank, has completed another successful year and continues to make meaningful progress toward positioning for the future. Our net income performance improved in 2021 as compared to the prior year and we surpassed $1 billion in total assets. Additionally, we opened our new Graves Mill Branch in Forest and prepared to convert our Charlottesville Loan Production Office to a full-service branch. Most importantly, we completed the integration of Virginia Bank Bankshares, Inc. into our company, which has expanded our customer base and markets served. With the Virginia Bank merger now completely behind us, we are eager to capitalize on our larger size and scale to enhance revenue and returns.

For 2021, Pinnacle generated net income of $4,375,000, representing an increase of $1,314,000, or 43%, as compared to 2020. Return on average assets was 0.47% for the year, which is a decrease compared to 2020 due to an 18% increase in assets resulting from an influx of deposits. Our net income improvement was primarily driven by a $6.8 million, or 37%, increase in net interest income as our assets and customer base increased due to our merger with Virginia Bank. We also benefitted from our participation in Paycheck Protection Program ("PPP") loans, recognizing $1.4 million in interest income in 2021 through interest on PPP loan balances and deferred fees. These loans have had a positive impact on numerous business customers, providing needed assistance to navigate through the pandemic.

Our net interest margin fell further to 2.86% in 2021 compared to 3.34% in 2020 and 4.00% in 2019, due to the low interest rate environment and an accumulation of cash on our balance sheet. As I stated last year, we have operated in a relatively low interest rate environment since the financial crisis of 2008-2009, which makes core, low cost funding even more critical to our long-term success. Our cost to fund earning assets was 0.20% in 2021 and as of year-end we had the ninth lowest cost of funds within our forty bank Virginia community bank peer group.[1]

Noninterest income decreased $1.5 million, or 17%, to $7.2 million in 2021. The decrease was primarily due to a $2.7 million bargain purchase gain recorded in the fourth quarter of 2020 related to the Virginia Bank merger. Excluding this gain, noninterest income increased $1.2 million year-over-year due primarily to a $678,000 increase in ATM and Visa debit card interchange fees as a result of our expanded customer base and our renegotiated contract with our core system provider. We also benefitted from a $155,000 increase in fees derived from sales of mortgage loans and a $95,000 increase in commissions and fees associated with the sale of insurance and investment products as our Mortgage Division and FNB Advisors continue to successfully generate business

[1]*BankMeasure Performance and Comparison Report for First National Bank, End of Fourth Quarter 2021.*

Pinnacle Bankshares Corporation net income performance improved in 2021 as compared to the prior year and we surpassed $1 billion in total assets. Additionally, we opened our new Graves Mill Branch in Forest and prepared to convert our Charlottesville Loan Production Office to a full-service branch. Most importantly, we completed the integration of Virginia Bank Bankshares, Inc. into our company, which has expanded our customer base and markets served.

across our expanded footprint. Our Mortgage Division originated over $46 million in new loans during 2021 and FNB Advisors finished the year with just under $137 million in assets under management.

Noninterest expense increased $4.3 million, or 19%, in 2021, which is attributed to the growth of our company. Salaries and benefits increased $4.3 million, or 41%, due to our expanded branch network and staff. Severance packages were offered to prior Virginia Bank employees who chose not to stay with First National, resulting in additional expense. These departures also contributed to pension settlement accounting expense of $425,000 recognized in the fourth quarter. Pinnacle incurred $445,000 in merger-related expenses during 2021 that we do not expect to carry over into 2022.

Total assets grew $155 million, or 18%, during 2021 to over $1 billion as of December 31, 2021. This is a significant milestone for our company, as total assets have now doubled since December 31, 2019. During 2021, cash and cash equivalents increased $88 million, or 42%, to $299 million as of year-end due mainly to an influx of deposits. Our total loans decreased $12 million, or 2%, to $552 million as of year-end, due in part to payoffs associated with forgiven PPP loans, which decreased $25 million. As of December 31, 2021, we had $1.5 million in outstanding PPP loan balances compared to our high of $33 million as the program is now winding down. Credit quality is strong with non-performing loans to total loans of only 0.26% as of year-end and limited pandemic impact. Our investment portfolio increased $74 million, or 158%, during 2021 to $121 million as of year-end. We have attempted to prudently deploy available cash into securities to increase our interest income, while

taking a cautious approach due to the low interest rate environment. With yields on securities improving and the prospect for higher interest rates in the future, we anticipate stepping up our investment efforts.

Deposits grew $157 million, or 20%, during 2021 to $938 million as of year-end. Robust deposit growth has been experienced across the banking industry and is largely due to federal government stimulus in response to the pandemic, which is winding down as well. First National has also benefited from deposit relationships moved to the Bank from larger financial institutions. Demand deposits grew $91 million during 2021, which represent our lowest cost deposits as well as core banking relationships. As of the end of the fourth quarter, First National's demand deposits comprised 34% of our total deposits placing us just outside of the 75th percentile of our Virginia community bank peer group.[2]

Total stockholders' equity as of December 31, 2021 was $62.4 million and consisted primarily of $47.6 million in retained earnings. Pinnacle and First National remain "well capitalized" per all regulatory definitions. Our higher level of assets has resulted in First National Bank's tier 1 leverage ratio declining from 8.92% as of December 31, 2020 to 7.37% as of December 31, 2021. This decline is mitigated by the amount of cash on our balance sheet and a total risk-based capital ratio of 13.20%. We will monitor our tier 1 leverage ratio closely going forward as the Board and Management intend to maintain an appropriate cushion above 5%, which is the threshold for being considered well capitalized.

I am pleased Pinnacle provided a consistent quarterly cash dividend of $0.14 per share throughout 2021. This type of return on investment must be balanced with retaining an appropriate level of earnings, especially given our recent asset growth. Hopefully, continued improved profitability will accelerate capital growth in the future. Pinnacle's stock ended 2021 at a price of $24.70 per share, an improvement of $1.70, or 7.4%, compared to the price as of year-end 2020. Our stock price has been hindered over the past two years as compared to 2019 when we ended the year with a share price of $31.77 and experienced a high price of $35.00. This decrease in our stock price has been primarily caused by the merger and its associated expenses, which have had a short-term impact on profitability and earnings per share. Again, with the merger behind us, I am optimistic regarding continued improved performance, which should have a positive impact on our stock price. Additionally, I believe the merger will provide us the size and scale needed to reach new heights in the future.

Danville Main Branch, Danville, Virginia

[2]BankMeasure Performance and Comparison Report for First National Bank, End of Fourth Quarter 2021.

Graves Mill Branch, Forest, Virginia

Charlottesville Ivy Road Branch, Charlottesville, Virginia

In January of this year, we announced plans to permanently close our North Danville Branch located at 3300 North Main Street, Danville, VA 24540 on April 29, 2022. The closure is a business decision based on the close proximity of other branches in the market. All customer accounts currently assigned to this branch will be transferred to the Riverside Branch, the Danville Main Branch or the Mt. Hermon Branch, which are located nearby.

Additionally, we have converted our Loan Production Office in Charlottesville, VA to a full-service branch. The Branch opened for business on January 18, 2022 and is currently serving new and existing customers by taking care of all of their banking needs.

I would like to thank George W. Davis, III for his service to the Boards of Pinnacle Bankshares Corporation and First National Bank. Mr. Davis resigned from our Boards on November 5, 2021 to focus on his business and family. He previously served as a Director of Virginia Bank Bankshares, Inc. and Virginia Bank and Trust Company for four years and was instrumental in bringing our partnership to fruition. Mr. Davis brought valuable knowledge of the Danville Market and a strong business skill set to the Boards and we wish him well with his future endeavors.

Jerry Oakes, our Danville Market President, Judi Clements, our Chief Human Resources Officer, and Tim Burnett, our Chief Lending Officer, will all be retiring in 2022. These individuals have made significant contributions to our success and will be missed. A comprehensive succession plan is in place involving new and existing talent possessing the necessary expertise, aptitude and energy to guide our company.

As we move into 2022, the potential for higher interest rates and signs of increased loan demand are encouraging from our company's perspective; however, the impact of inflation created by unprecedented government stimulus will have to be monitored closely. We will have to offset PPP loan income and a possible downturn in mortgage volume due to higher interest rates and limited supply of homes for sale. Additionally, Russia's invasion of Ukraine could also have global repercussions that could negatively impact the economy; however, I am confident in the diversity of our revenue streams and strength of our credit quality.

Our Annual Meeting of Shareholders will be conducted on Tuesday, May 10, 2022, beginning at 11:00 a.m., at Virginia Technical Institute, located at 201 Ogden Road, Altavista, VA 24517. The meeting will be followed by a luncheon provided for those in attendance.

In closing, we are very proud of Pinnacle Bankshares Corporation's 2021 achievements and how our Company is positioned for the future. These are challenging, yet exciting times and I appreciate the hard work and dedication of all of our employees. They are truly the best in the business.

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, TMS

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

All forward-looking information in this letter should be read with, and is qualifies in its entirety by, the cautionary language regarding forward-looking statements contained our Annual Report for the year ended December 31, 2021 included elsewhere in this report.

PINNACLE BANKSHARES CORPORATION
AND SUBSIDIARY

Table of Contents

This page intentionally left blank.

Company Overview

Pinnacle's Business

Pinnacle Bankshares Corporation ("Pinnacle" or the "Company"), 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 (the "BHCA"). 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 (Altavista, Virginia) ("First National Bank" or the "Bank"). Pinnacle was primarily established 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 headquarters are located at 622 Broad Street, Altavista, Virginia. Pinnacle's website is *www.1stnatbk.com*. The information on our website is not part of, and is not incorporated into, this Annual Report.

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 as well as 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, online banking, mobile banking, remote deposit capture, 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 Financial, and Banker's Insurance, LLC.

First National Bank serves a trade area consisting primarily of all or portions of the Counties of Amherst, Bedford, Campbell and Pittsylvania, and the Cities of Charlottesville, Danville and Lynchburg. The Company has a total of eighteen branches with one in the Town of Amherst in Amherst County, two in Bedford County, two located in the Town of Altavista in Campbell County, three additional branches in Campbell County, three in Pittsylvania County, three in the City of Danville, three in the City of Lynchburg and one in the City of Charlottesville. One additional branch in the City of Danville, currently offering limited services, will be permanently closing on April 29, 2022.

First National Bank has two wholly-owned subsidiaries. FNB Property Corp., which is a Virginia corporation, formed to hold title to hold real estate for future bank premises. First Properties, Inc., also a Virginia corporation, was formed to hold title to other real estate owned.

Pinnacle's revenues are primarily derived from interest on and fees received in connection with, real estate and other loans, and from interest and dividends from investment securities. The principal sources of funds for Pinnacle's lending activities are its deposits, repayment of loans, maturity of investment securities, and borrowings from the Federal Home Loan Bank of Atlanta ("FHLB").

Pinnacle's operations are influenced by general economic conditions and by related monetary and fiscal policies of regulatory agencies, including the Board of Governors of the Federal Reserve System (the "Federal Reserve"). As a national banking association, the Bank is supervised and examined by the Office of the Comptroller of the Currency (the "OCC"). Interest rates on competing investments and general market rates of interest influence deposit flows and costs of funds. Lending activities are affected by the demand for financing of real estate and other types of loans, which in turn is affected by the interest rate environment and its impact on local demand and the availability of funds. The Bank faces strong competition in the attraction of deposits, its primary source of lendable funds, and in the origination of loans.

Competition

The banking business in central and southern Virginia is highly competitive with respect to both loans and deposits and has a number of major banks that have offices operating throughout the state and in Pinnacle's market area. Pinnacle actively competes for all types of deposits and loans with other banks and with nonbank financial institutions, including savings and loan associations, finance companies, credit unions, mortgage companies, insurance companies and other lending institutions.

Institutions such as brokerage firms, credit card companies and even retail establishments offer alternative investment vehicles such as money market funds as well as traditional banking services. Other entities (both public and private) seeking to raise capital through the issuance and sale of debt or equity securities also represent a source of competition for Pinnacle with respect to the acquisition of deposits. Among the advantages that the major banks have over Pinnacle is their ability to finance extensive advertising campaigns and to allocate their investment assets to regions of highest yield and demand over a more diverse geographic area. Although major banks have these competitive advantages over small community banks, Pinnacle actively emphasizes its competitive advantage by soliciting customers who prefer the personal service offered by a community bank.

Pinnacle is not dependent upon a single customer or industry, the loss of which would have a material adverse effect on Pinnacle's financial condition. Pinnacle is located in a market rich in industrial and retail diversification.

Pinnacle believes that its prompt response to lending requests is a key factor to Pinnacle's competitive position in its primary service area. In addition, local decision-making and the accessibility of senior management to customers also distinguish Pinnacle from other area financial institutions.

In order to compete with the other financial institutions in its primary service area, Pinnacle relies principally upon local promotional activities, personal contact by its officers, directors, employees and stockholders and its ability to offer specialized services to customers. Pinnacle's promotional activities emphasize the advantages of dealing with a local bank attuned to the particular needs of the community.

Common Stock and Dividends

Common Stock of Pinnacle is traded on the OTCQX under the symbol "PPBN." As of March 30, 2022, there were approximately 2,173,785 shares of Common Stock outstanding, which shares are held by approximately 513 active shareholders of record.

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.

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.

Information about the Effects of and Responses to COVID-19

The ongoing COVID-19 pandemic has and continues to impact Pinnacle and its customers, employees, communities and service providers; however, the ultimate severity of the COVID-19 pandemic, its duration and the extent of its impact on First National Bank's business, results of operations, financial condition, liquidity and prospects remains uncertain. We are hopeful that the disease is moving toward an endemic phase.

Pandemic Guidelines and Business Continuity. In response to the COVID-19 pandemic, Pinnacle and First National Bank placed an emphasis on delivering products and services through online and mobile banking, remote deposit capture, and digital communications with customers. This accelerated the migration of banking business to these banking channels and decreased in-person traffic in our branch lobbies. The long-term impact on in-person branch traffic has yet to be determined.

Pinnacle and First National Bank implemented pandemic guidelines to protect employees and promote business continuity while providing support to its customers and communities during the peaks of the pandemic. We have ceased adherence to many of these guidelines with the recent decline in COVID-19 cases across our market footprint, but may reimplement some or all of them depending on future developments in the COVID-19 pandemic.

Paycheck Protection Program ("PPP"). As a further part of Pinnacle's response to the COVID-19 pandemic, First National Bank participated in the PPP established pursuant to the Coronavirus Aid, Relief, and Economic Security Act (also known as the "CARES Act") and implemented by the U.S. Small Business Administration with support from the U.S. Department of the Treasury.

First National Bank has provided over $48 million in PPP loans to small businesses in its markets during the pandemic. Outstanding PPP loan balances were $1.5 million as of December 31, 2021.

Acquisition of Virginia Bank Bankshares, Inc.

On October 30, 2020, Pinnacle completed its merger (the "Merger") with Virginia Bank Bankshares, Inc. ("Virginia Bank"). The Merger was effected pursuant to the terms and conditions of the Agreement and Plan of Reorganization between Pinnacle and Virginia Bank, signed January 21, 2020 and as amended on June 9, 2020, and the related plan of merger (collectively, the "Merger Agreement"). Under the Merger Agreement, Virginia Bank shareholders had the opportunity to elect to receive either $16.00 of cash (the "Cash Consideration") or 0.54 shares of Pinnacle common stock (the "Stock Consideration") for each share of Virginia Bank common stock held, subject to the limitation that 60% of the shares would be exchanged for the Stock Consideration and 40% of the shares would be exchanged for the Cash Consideration.

For additional information about the Merger, see Note 2 to Pinnacle's condensed consolidated financial statements included in this Annual Report.

Employees

As of December 31, 2021, Pinnacle had 178 full-time and 12 part-time employees. Pinnacle's management believes that its employee relations are good.

Regulation and Supervision

General. Bank holding companies, banks and their affiliates are extensively regulated under both federal and state law. The following summary briefly describes significant provisions of currently applicable federal and state laws and certain regulations and the potential impact of such provisions. This summary is not complete and is qualified in its entirety by reference to the particular statutory or regulatory provisions or proposals. Because regulation of financial institutions changes regularly and is the subject of constant legislative and regulatory debate, we cannot forecast how federal and state regulation and supervision of financial institutions may change in the future and affect Pinnacle's and First National Bank's operations.

As a national bank, First National Bank is subject to regulation, supervision and regular examination by the OCC. The prior approval of the OCC or other appropriate bank regulatory authority is required for a national bank to merge with another bank or purchase the assets or assume the deposits of another bank. In reviewing applications seeking approval of merger and acquisition transactions, the bank regulatory authorities will consider, among other things, the competitive effect and public benefits of the transactions, the capital position of the constituent organizations and the combined organization, the risks to the stability of the U.S. banking or financial system, the applicant's performance record under the Community Reinvestment Act (the "CRA") and fair housing initiatives, the data security and cybersecurity infrastructure of the constituent organizations and the combined organization, and the effectiveness of the subject organizations in combating money laundering activities.

Each depositor's account with First National Bank is insured by the Federal Deposit Insurance Corporation (the "FDIC") to the maximum amount permitted by law.

First National Bank is also subject to certain regulations promulgated by the Federal Reserve and applicable provisions of Virginia law, insofar as they do not conflict with or are not preempted by federal banking law.

The regulations of the Federal Reserve, the OCC and the FDIC govern most aspects of Pinnacle's business, including deposit reserve requirements, investments, loans, certain check clearing activities, issuance of securities, payment of dividends, branching, and numerous other matters. Further, the federal bank regulatory agencies have adopted guidelines and released interpretive materials that establish operational and managerial standards to promote the safe and sound operation of banks and bank holding companies. These standards relate to the institution's key operating functions, including but not limited to internal controls, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, asset quality, earnings, compensation of management, information systems, data security and cybersecurity, and risk management. As a consequence of the extensive regulation of commercial banking activities in the United States, Pinnacle's business is particularly susceptible to changes in state and federal legislation and regulations, which may have the effect of increasing the cost of doing business, limiting permissible activities or increasing competition.

As a bank holding company, Pinnacle is subject to the BHCA, and regulation and supervision by the Federal Reserve. A bank holding company is required to obtain the approval of the Federal Reserve before making certain acquisitions or engaging in certain activities. Bank holding companies and their subsidiaries are also subject to restrictions on transactions with insiders and affiliates.

A bank holding company is required to obtain the approval of the Federal Reserve before it may acquire all or substantially all of the assets of any bank, and before it may acquire ownership or control of the voting shares of any bank if, after giving effect to the acquisition, the bank holding company would own or control more than 5.0% of the voting shares of such bank. The approval of the Federal Reserve is also required for the merger or consolidation of bank holding companies.

Pursuant to the BHCA, the Federal Reserve has the power to order any bank holding company or its subsidiaries to terminate any activity or to terminate its ownership or control of any subsidiary when the Federal Reserve has reasonable grounds to believe that continuation of such activity or ownership constitutes a serious risk to the financial soundness, safety or stability of any bank subsidiary of the bank holding company.

Pinnacle is required to file periodic reports with the Federal Reserve and provide any additional information the Federal Reserve may require. The Federal Reserve also has the authority to examine Pinnacle and its subsidiaries, as well as any arrangements between Pinnacle and its subsidiaries, with the cost of any such examinations to be borne by Pinnacle. Banking subsidiaries of bank holding companies are also subject to certain restrictions imposed by federal law in dealings with their holding companies and other affiliates.

Regulatory Reform. The financial crisis of 2008, including the downturn of global economic, financial and money markets and the threat of collapse of numerous financial institutions, and other events led to the adoption of numerous laws and regulations that apply to, and focus on, financial institutions. The most significant of these laws is the Dodd-Frank Act, which was enacted on July 21, 2010 and, in part, was intended to implement significant structural reforms to the financial services industry. The Dodd-Frank Act implemented far-reaching changes across the financial regulatory landscape, including changes that have significantly affected the business of all bank holding companies and banks, including Pinnacle and First National Bank. Some of the rules that have been proposed and, in some cases, adopted to comply with the Dodd-Frank Act's mandates are discussed further below.

In May 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act (the "EGRRCPA") was enacted to reduce the regulatory burden on certain banking organizations, including community banks, by modifying or eliminating certain federal regulatory requirements. While the EGRRCPA maintains most of the regulatory structure established by the Dodd-Frank Act, it amends certain aspects of the regulatory framework for small depository institutions with assets of less than $10 billion as well as for larger banks with assets above $50 billion. In addition, the EGRRCPA included regulatory relief for community banks regarding regulatory examination cycles, call reports, application of the Volcker Rule (proprietary trading prohibitions), mortgage disclosures, qualified mortgages, and risk weights for certain high-risk commercial real estate loans. However, federal banking regulators retain broad discretion to impose additional regulatory requirements on banking organizations based on safety and soundness and U.S. financial system stability considerations.

Pinnacle continues to experience ongoing regulatory reform. These regulatory changes could have a significant effect on how Pinnacle conducts its business. The specific implications of the Dodd-Frank Act, the EGRRCPA, and other potential regulatory reforms cannot yet be fully predicted and will depend to a large extent on the specific regulations that are to be adopted in the future. Certain aspects of the Dodd-Frank Act and the EGRRCPA are discussed in more detail below.

Capital Requirements and Prompt Corrective Action. The Federal Reserve, the OCC and the FDIC have adopted risk-based capital adequacy guidelines for bank holding companies and banks pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") and the Basel III Capital Accords. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Resources".

The federal banking agencies have broad powers to take prompt corrective action to resolve problems of insured depository institutions. Under the FDICIA, there are five capital categories applicable to bank holding companies and insured institutions, each with specific regulatory consequences. The extent of the agencies' powers depends on whether the institution in question is "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." These terms are defined under uniform regulations issued by each of the federal banking agencies. If the appropriate federal banking agency determines that an insured institution is in an unsafe or unsound condition, it may reclassify the institution to a lower capital category (other than critically undercapitalized) and require the submission of a plan to correct the unsafe or unsound condition.

Failure to meet statutorily mandated capital guidelines or more restrictive ratios separately established for a financial institution could subject Pinnacle and its subsidiaries to a variety of enforcement remedies, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on accepting or renewing brokered deposits, limitations on the rates of interest that the institution may pay on its deposits, and other restrictions on its business. In addition, an institution may not make a capital distribution, such as a dividend or other distribution that is in substance a distribution of capital to the owners of the institution if following such a distribution the institution would be undercapitalized. Thus, if the making of such dividend would cause First National Bank to become undercapitalized, it could not pay a dividend to Pinnacle.

Basel III Capital Framework. The federal bank regulatory agencies have adopted rules to implement the Basel III capital framework as outlined by the Basel Committee on Banking Supervision and standards for calculating risk-weighted assets and risk-based capital measurements (collectively, the "Basel III Capital Rules") that apply to banking institutions they supervise. For purposes of these capital rules, (i) common equity Tier 1 capital ("CET1") consists principally of common stock (including surplus) and retained earnings; (ii) Tier 1 capital consists principally of CET1 plus non-cumulative preferred stock and related surplus, and certain grandfathered cumulative preferred stock and trust preferred securities; and (iii) Tier 2 capital consists of other capital instruments, principally qualifying subordinated debt and preferred stock, and limited amounts of an institution's allowance for loan losses. Each regulatory capital classification is subject to certain adjustments and limitations, as implemented by the Basel III Capital Rules. The Basel III Capital Rules also establish risk weightings that are applied to many classes of assets held by community banks, including, importantly, applying higher risk weightings to certain commercial real estate loans.

The Basel III Capital Rules also include a requirement that banks maintain additional capital (the "capital conservation buffer"). As fully phased in, the Basel III Capital Rules require banks and bank holding companies to maintain (i) a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer (which is added to the 4.5% CET1 ratio, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7.0%), (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio, effectively resulting in a minimum Tier 1 capital ratio of 8.5%), (iii) a minimum ratio of total (that is, Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio, effectively resulting in a minimum total capital ratio of 10.5%) and (iv) a minimum leverage ratio of 4%, calculated as the ratio of Tier 1 capital to average total assets, subject to certain adjustments and limitations.

The Basel III Capital Rules provide deductions from and adjustments to regulatory capital measures, primarily to CET1, including deductions and adjustments that were not applied to reduce CET1 under historical regulatory capital rules. For example, mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in non-consolidated financial entities must be deducted from CET1 to the extent that any one such category exceeds 25.0% of CET1.

Small Bank Holding Company. The EGRRCPA also expanded the category of bank holding companies that may rely on the Federal Reserve Board's Small Bank Holding Company Policy Statement by raising the maximum amount of assets a qualifying bank holding company may have from $1 billion to $3 billion. In addition to meeting the asset threshold, a bank holding company must not engage in significant nonbanking activities, not conduct significant off-balance sheet activities, and not have a material amount of debt or equity securities outstanding and registered with the SEC (subject to certain exceptions). The Federal Reserve Board may, in its discretion, exclude any bank holding company from the application of the Small Bank Holding Company Policy Statement if such action is warranted for supervisory purposes.

In August 2018, the Federal Reserve Board issued an interim final rule to apply the Small Bank Holding Company Policy Statement to bank holding companies with consolidated total assets of less than $3 billion. The policy statement, which, among other things, exempts certain bank holding companies from minimum consolidated regulatory capital ratios that apply to other bank holding companies. As a result of the interim final rule, which was effective August 30, 2018, Pinnacle expects that it will be treated as a small bank holding company and will not be subject to regulatory capital requirements. The comment period on the interim final rule closed on October 29, 2018 and, to date, the Federal Reserve has not issued a final rule to replace the interim final rule. First National Bank remains subject to the regulatory capital requirements described above.

Limits on Dividends. Pinnacle is a legal entity that is separate and distinct from First National Bank. A significant portion of Pinnacle's revenues result from dividends paid to it by First National Bank. Both Pinnacle and First National Bank are subject to laws and regulations that limit the payment of dividends, including limits on the sources of dividends and requirements to maintain capital at or above regulatory minimums. Federal Reserve supervisory guidance indicates that the Federal Reserve may have safety and soundness concerns if a bank holding company pays dividends that exceed earnings for the period in which the dividend is being paid. Generally, dividends paid by First National Bank during a year may not exceed the sum of the bank's net income in that year and the bank's retained earnings of the immediately preceding two calendar years without prior approval of the OCC. Further, the Federal Deposit Insurance Act (the "FDIA") prohibits insured depository institutions such as First National Bank from making capital distributions, including paying dividends, if, after making such distribution, the institution would become undercapitalized as defined in the statute. The OCC may prevent First National Bank from paying a dividend if the OCC concludes such dividend would be an unsafe or unsound banking practice. We do not expect that any of these laws, regulations or policies will materially affect the ability of Pinnacle or First National Bank to pay dividends.

Insurance of Accounts, Assessments and Regulation by the FDIC. First National Bank's deposits are insured by the Deposit Insurance Fund (the "DIF") of the FDIC up to the standard maximum insurance amount for each deposit insurance ownership category. The basic limit on FDIC deposit insurance coverage is $250,000 per depositor. Under the FDIA, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations as an insured institution, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC, subject to administrative and potential judicial hearing and review processes.

Deposit Insurance Assessments. The DIF is funded by assessments on banks and other depository institutions calculated based on average consolidated total assets minus average tangible equity (defined as Tier 1 capital). As required by the Dodd-Frank Act, the FDIC has adopted a large-bank pricing assessment scheme, set a target "designated reserve ratio" (described in more detail below) of 2.0% for the DIF and, in lieu of dividends, provides for a lower assessment rate schedule when the reserve ratio reaches 2.0% and 2.5%. An institution's assessment rate is based on a statistical analysis of financial ratios that estimates the likelihood of failure over a three-year period, which considers the institution's weighted average capital adequacy, assets, management capability, earnings, liquidity, and sensitivity ("CAMELS") component rating, and is subject to further adjustments including those related to levels of unsecured debt and brokered deposits (not applicable to banks with less than $10 billion in assets). At December 31, 2021, total base assessment rates for institutions that have been insured for at least five years range from 1.5 to 30 basis points applying to banks with less than $10 billion in assets.

The Dodd-Frank Act transferred to the FDIC increased discretion with regard to managing the required amount of reserves for the DIF, or the "designated reserve ratio." The FDIA requires that the FDIC consider the appropriate level for the designated reserve ratio on at least an annual basis. As of December 31, 2021, the designated reserve ratio was 2.0% and the minimum designated reserve ratio was 1.35%. At December 31, 2021, the reserve ratio was 1.27%.

Certain Transactions by Insured Banks with their Affiliates. There are statutory restrictions related to the extent bank holding companies and their non-bank subsidiaries may borrow, obtain credit from or otherwise engage in "covered transactions" with their insured depository institution (i.e., banking) subsidiaries. In general, an "affiliate" of a bank includes the bank's parent holding company and any subsidiary thereof. However, an "affiliate" does not generally include the bank's operating subsidiaries. A bank (and its subsidiaries) may not lend money to, or engage in other covered transactions with, its non-bank affiliates if the aggregate amount of covered transactions outstanding involving the bank, plus the proposed transaction, exceeds the following limits: (a) in the case of any one such affiliate, the aggregate amount of covered transactions of the bank and its subsidiaries cannot exceed 10.0% of the bank's capital stock and surplus; and (b) in the case of all affiliates, the aggregate amount of covered transactions of the bank and its subsidiaries cannot exceed 20.0% of the bank's capital stock and surplus. "Covered transactions" are defined to include a loan or extension of credit to an affiliate, a purchase of or investment in securities issued by an affiliate, a purchase of assets from an affiliate, the acceptance of securities issued by an affiliate as collateral for a loan or extension of credit to any person or company, the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate, securities borrowing or lending transactions with an affiliate that creates a credit exposure to such affiliate, or a derivatives transaction with an affiliate that creates a credit exposure to such affiliate. Certain covered transactions are also subject to collateral security requirements.

Covered transactions as well as other types of transactions between a bank and a bank holding company must be on market terms, which means that the transaction must be conducted on terms and under circumstances that are substantially the same, or at least as favorable to the bank, as those prevailing at the time for comparable transactions with or involving non-affiliates or, in the absence of comparable transactions, that in good faith would be offered to or would apply to non-affiliates. Moreover, certain amendments to the BHCA provide that, to further competition, a bank holding company and its subsidiaries are prohibited from engaging in certain tying arrangements in connection with any extension of credit, lease or sale of property of any kind, or furnishing of any service.

Federal Home Loan Bank of Atlanta. First National Bank is a member of the Federal Home Loan Bank (the "FHLB") of Atlanta, which is one of 12 regional FHLBs that provide funding to their members for making housing loans as well as for affordable housing and community development loans. Each FHLB serves as a reserve, or central bank, for the members within its assigned region. Each FHLB makes loans to members in accordance with policies and procedures established by the Board of Directors of the FHLB. As a member, First National Bank must purchase and maintain stock in the FHLB. Additional information related to First National Bank's FHLB stock can be found in Note 1(d) to Pinnacle's consolidated financial statements attached hereto.

Community Reinvestment Act. Pinnacle is subject to the requirements of the CRA, which imposes on financial institutions an affirmative and ongoing obligation to meet the credit needs of their local communities, including low and moderate-income neighborhoods, consistent with the safe and sound operation of those institutions. A financial institution's efforts in meeting community credit needs are assessed based on specified factors. These factors also are considered in evaluating mergers, acquisitions and applications to open a branch or facility. At its last evaluation in 2021, First National Bank received a "Satisfactory" CRA rating.

Confidentiality and Required Disclosures of Consumer Information. Pinnacle is subject to various laws and regulations that address the privacy of nonpublic personal financial information of consumers. The Gramm-Leach-Bliley Act and certain regulations issued thereunder protect against the transfer and use by financial institutions of consumer nonpublic personal information. A financial institution must provide to its customers, at the beginning of the customer relationship and annually thereafter, the institution's policies and procedures regarding the handling of customers' nonpublic personal financial information. These privacy provisions generally prohibit a financial institution from providing a customer's personal financial information to unaffiliated third parties unless the institution discloses to the customer that the information may be so provided and the customer is given the opportunity to opt out of such disclosure.

Certain exceptions may apply to the requirement to deliver an annual privacy notice based on how a financial institution limits sharing of nonpublic personal information, and whether the institution's disclosure practices or policies have changed in certain ways since the last privacy notice that was delivered.

Pinnacle is also subject to various laws and regulations that attempt to combat money laundering and terrorist financing. The Bank Secrecy Act requires all financial institutions to, among other things, create a system of controls designed to prevent money laundering and the financing of terrorism, and imposes recordkeeping and reporting requirements. The USA Patriot Act facilitates information sharing among governmental entities and financial institutions for the purpose of combating terrorism and money laundering, and requires financial institutions to establish anti-money laundering programs. The Office of Foreign Assets Control ("OFAC"), which is a division of the U.S. Department of the Treasury, is responsible for helping to ensure that United States entities do not engage in transactions with "enemies" of the United States, as defined by various Executive Orders and Acts of Congress. If First National Bank finds a name of an "enemy" of the United States on any transaction, account or wire transfer that is on an OFAC list, it must freeze such account or place transferred funds into a blocked account, file a suspicious activity report with the Treasury and notify the Federal Bureau of Investigation.

Although these laws and programs impose compliance costs and create privacy obligations and, in some cases, reporting obligations, and compliance with all of the laws, programs, and privacy and reporting obligations may require significant resources of Pinnacle and First National Bank, these laws and programs do not materially affect First National Bank's products, services or other business activities.

Cybersecurity. The federal banking agencies have adopted guidelines for establishing information security standards and cybersecurity programs for implementing safeguards under the supervision of a financial institution's board of directors. These guidelines, along with related regulatory materials, increasingly focus on risk management and processes related to information technology and the use of third parties in the provision of financial products and services. The federal banking agencies expect financial institutions to establish lines of defense and ensure that their risk management processes also address the risk posed by compromised customer credentials, and also expect financial institutions to maintain sufficient business continuity planning processes to ensure rapid recovery, resumption and maintenance of the institution's operations after a cyber-attack. If Pinnacle or First National Bank fails to meet the expectations set forth in this regulatory guidance, Pinnacle or First National Bank could be subject to various regulatory actions and any remediation efforts may require significant resources of Pinnacle or First National Bank. In addition, all federal and state bank regulatory agencies continue to increase focus on cybersecurity programs and risks as part of regular supervisory exams and the federal bank regulators have adopted rules to require a banking organization to notify its primary regulator no later than 36 hours after the banking organization determines a material cyber event has occurred and impose other related obligations.

Consumer Laws and Regulations. Pinnacle is also subject to certain consumer laws and regulations that are designed to protect consumers in transactions with banks. While the list set forth herein is not exhaustive, these laws and regulations include the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act and the Fair Housing Act, among others. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions transact business with customers. Pinnacle must comply with the applicable provisions of these consumer protection laws and regulations as part of its ongoing customer relations.

The Consumer Financial Protection Bureau (the "CFPB") is the federal regulatory agency responsible for implementing, examining and enforcing compliance with federal consumer financial laws for institutions with more than $10 billion of assets and, to a lesser extent, smaller institutions. The CFPB supervises and regulates providers of consumer financial products and services and has rulemaking authority in connection with numerous federal consumer financial protection laws (for example, but not limited to, the Truth in Lending Act and the Real Estate Settlement Procedures Act). As a smaller institution (i.e., with assets of $10 billion or less), most consumer protection aspects of the Dodd-Frank Act will continue to be applied to Pinnacle by the Federal Reserve and to First National Bank by the OCC. However, the CFPB may include its own examiners in regulatory examinations by a smaller institution's prudential regulators and may require smaller institutions to comply with certain CFPB reporting requirements. In addition, regulatory positions taken by the CFPB and administrative and legal precedents established by CFPB enforcement activities, including in connection with supervision of larger bank holding companies and banks, could influence how the Federal Reserve and the OCC apply consumer protection laws and regulations to financial institutions that are not directly supervised by the CFPB. The precise effect of the CFPB's consumer protection activities on Pinnacle cannot be forecast.

Mortgage Banking Regulation. In connection with making mortgage loans, First National Bank is subject to rules and regulations that, among other things, establish standards for loan origination, prohibit discrimination, provide for inspections and appraisals of property, require credit reports on prospective borrowers, in some cases, restrict certain loan features and fix maximum interest rates and fees, require the disclosure of certain basic information to mortgagors concerning credit and settlement costs, limit payment for settlement services to the reasonable value of the services rendered and require the maintenance and disclosure of information regarding the disposition of mortgage applications based on race, gender, geographical distribution and income level. First National Bank's mortgage origination activities are subject to the Equal Credit Opportunity Act, Truth in Lending Act, Home Mortgage Disclosure Act, Real Estate Settlement Procedures Act, and Home Ownership Equity Protection Act, and the regulations promulgated under these acts, among other additional state and federal laws, regulations and rules.

First National Bank's mortgage origination activities are also subject to Regulation Z, which implements the Truth in Lending Act. Certain provisions of Regulation Z require mortgage lenders to make a reasonable and good faith determination, based on verified and documented information, that a consumer applying for a mortgage loan has a reasonable ability to repay the loan according to its terms. Alternatively, mortgage lenders can originate "qualified mortgages", which are generally defined as mortgage loans without negative amortization, interest-only payments, balloon payments, terms exceeding 30 years, and points and fees paid by a consumer equal to or less than 3.0% of the total loan amount. Under the EGRRCPA, most residential mortgages loans originated and held in portfolio by a bank with less than $10 billion in assets will be designated as "qualified mortgages." Higher-priced qualified mortgages (e.g., subprime loans) receive a rebuttable presumption of compliance with ability-to-repay rules, and other qualified mortgages (e.g., prime loans) are deemed to comply with the ability-to-repay rules.

Call Reports and Examination Cycle**.** All institutions, regardless of size, submit a quarterly call report that includes data used by federal banking agencies to monitor the condition, performance, and risk profile of individual institutions and the industry as a whole. The EGRRCPA contained provisions expanding the number of regulated institutions eligible to use streamlined call report forms. In June 2019, the federal banking agencies issued a final rule to permit insured depository institutions with total assets of less than $5 billion that do not engage in certain complex or international activities to file the most streamlined version of the quarterly call report.

In December 2018, consistent with the provisions of the EGRRCPA, the federal banking agencies jointly adopted final rules that permit banks with up to $3 billion in total assets, that received a composite CAMELS rating of "1" or "2," and that meet certain other criteria (including not having undergone any change in control during the previous 12-month period, and not being subject to a formal enforcement proceeding or order), to qualify for an 18-month on-site examination cycle.

Effect of Governmental Monetary Policies. As with other financial institutions, the earnings of Pinnacle and First National Bank are affected by general economic conditions as well as by the monetary policies of the Federal Reserve. Such policies, which include regulating the national supply of bank reserves and bank credit, can have a major effect upon the source and cost of funds and the rates of return earned on loans and investments. The Federal Reserve exerts a substantial influence on interest rates and credit conditions, primarily through establishing target rates for federal funds, open market operations in U.S. Government securities, varying the discount rate on member bank borrowings and setting cash reserve requirements against deposits. Changes in monetary policy, including changes in interest rates, will influence the origination of loans, the purchase of investments, the generation of deposits, and rates received on loans and investment securities and paid on deposits. Fluctuations in the Federal Reserve's monetary policies have had a significant impact on the operating results of Pinnacle and First National Bank and are expected to continue to do so in the future.

Future Regulation. From time to time, various legislative and regulatory initiatives are introduced in Congress and state legislatures, as well as by regulatory agencies. Such initiatives may include proposals to expand or contract the powers of bank holding companies and depository institutions or proposals to substantially change the financial institution regulatory system. Such legislation could change banking statutes and the operating environment of Pinnacle in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. Pinnacle cannot predict whether any such legislation will be enacted, and, if enacted, the effect that it, or any implementing regulations, would have on the financial condition or results of operations of Pinnacle. A change in statutes, regulations or regulatory policies applicable to Pinnacle or First National Bank could have a material effect on our business

First National Bank Full-Service Office Locations

Location	*Address*	*Phone*
Altavista Main Corporate Headquarters	622 Broad Street Altavista, Virginia 24517	(434) 369-3000
Amherst Branch	130 South Main Street Amherst, Virginia 24521	(434) 946-7814
Brosville Branch Office	10370 Martinsville Highway Brosville, Virginia 24541	(434) 483-6606
Charlottesville Ivy Road Branch	2208 Ivy Road Charlottesville, Virginia 22903	(434) 290-3498
Chatham Branch	55 North Main Street Chatham, Virginia 24531	(434) 483-6604
Danville Airport Branch	1312 South Boston Road Danville, Virginia 24540	(434) 483-6003
Danville Main Branch	336 Main Street, Danville, Virginia 24541	(434) 483-6600
Downtown Lynchburg Branch	800 Main Street Lynchburg, Virginia 24504	(434) 485-5999
Forest Branch	14417 Forest Road Forest, Virginia 24551	(434) 534-0451
Graves Mill Branch	18077 Forest Road Forest, Virginia 24521	(434) 473-6600
Lynchburg Airport Branch	14580 Wards Road Lynchburg, Virginia 24502	(434)-237-3788
Mt. Hermon Branch	4080 Franklin Turnpike Danville, Virginia 24540	(434) 483-6605
Odd Fellows Road Branch	3401 Odd Fellows Road Lynchburg, Virginia 24501	(434) 333-6801
Old Forest Road Branch	3321 Old Forest Road Lynchburg, Virginia 24501	(434) 385-4432
Riverside Branch	2600 Riverside Drive Danville, Virginia 24540	(434) 483-6601
Rustburg Branch	1033 Village Highway Rustburg, Virginia 24588	(434) 332-1742
Timberlake Branch	20865 Timberlake Road Lynchburg, Virginia 24502	(434) 237-7936
Vista Branch	1303 Main Street Altavista, Virginia 24517	(434) 369-3001

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

Executive Summary

Years Ended December 31, 2021 and 2020. Pinnacle generated net income of $4,375 for 2021 which represents a $1,313 or 42.88% increase as compared to net income of $3,062 for 2020. The increase as compared to the prior year, was primarily driven by higher net interest income as the Company's assets and customer base have increased due to its merger with Virginia Bank, which occurred in the fourth quarter of 2020. The increase was partially offset by an increase in noninterest expense, which was also associated with the merger.

Profitability as measured by Pinnacle's return on average assets ("ROA") was 0.47% for 2021, which is a 5 basis points decrease from the 0.52% produced in 2020. Return on average equity ("ROE") increased in 2021 to 7.31%, compared to 6.36% for the prior year.

Total assets as of December 31, 2021 were $1,015,863, up 18.05% from $860,514 as of December 31, 2020. The principal components of Pinnacle's assets as of December 31, 2021 were $552,236 in total gross loans, $120,709 in securities and $298,595 in cash and cash equivalents. During 2021, cash and cash equivalents increased $87,781, or 41.64%, from $210,814, as of December 31, 2020 due mainly to an influx of deposits. Total loans decreased $12,080, or 2.14%, from $564,316, as of December 31, 2020, due in part to the payoffs associated with forgiven PPP loans as outstanding PPP loan balances decreased $24,974. As of year-end, the Company had $1,481, in outstanding PPP loan balances. Securities increased $73,968, or 158.25%, from $46,741, as of December 31, 2020.

Total liabilities as of December 31, 2021 were $953,496, up $151,312, or 18.86%, from $802,184, as of December 31, 2020. The increase in liabilities was driven by overall deposit growth of $156,743, or 20.06%, consisting of a $91,175, or 36.47%, increase in demand deposits and a $71,146, or 17.45%, increase in savings and NOW accounts in 2021. These increases were partially offset by a $6,178, or 5.15% decrease in time deposits. First National Bank continues to experience strong deposit growth as a result of federal government stimulus in response to the pandemic, an overall "flight to safety" by depositors and relationships moved to the Bank from larger national financial institutions.

Total stockholders' equity as of December 31, 2021 was $62,367 and consisted primarily of $47,700 in retained earnings. In comparison, as of December 31, 2020, total stockholders' equity was $58,330. Both Pinnacle and First National Bank remain "well capitalized" per all regulatory definitions.

Overview of 2021

Total assets as of December 31, 2021 were $1,015,863, up 18.05% from $860,514 as of December 31, 2020. The principal components of Pinnacle's assets at the end of 2021 were $298,595 in cash and cash equivalents, $120,709 in securities and $548,076 in net loans. During 2021, net loans decreased $12,003, or 2.14%. Pinnacle's lending activities are a principal source of income. Loans decreased due in part to the payoffs associated with forgiven PPP loans as outstanding PPP loan balances decreased $24,974. As of year-end, the Company had $1,481 in outstanding PPP loan balances. Securities increased $73,968, or 158.25%, from $46,741 as of December 31, 2020.

Total liabilities as of December 31, 2021 were $953,496, up 18.86% from $802,184 as of December 31, 2020, primarily due to higher levels of deposits. Total deposits increased $156,743, or 20.06%, to $938,079 as of December 31, 2021 from $781,336 at December 31, 2020. Noninterest-bearing demand deposits increased $91,175, or 36.47%, and represented 36.37% of total deposits as of December 31, 2021, compared to 32.03% as of December 31, 2020. Savings and NOW accounts increased $71,746, or 17.45%, and represented 51.49% of total deposits as of December 31, 2021, compared to 52.63% as of December 31, 2020. Time deposits decreased $6,178 or 5.15% and represented 12.14% of total deposits as of December 31, 2021, compared to 15.37% as of December 31, 2020. Pinnacle had no brokered deposits as of December 31, 2021 and December 31, 2020.

Total stockholders' equity as of December 31, 2021 was $62,337, including $47,700 in retained earnings. At December 31, 2020, stockholders' equity totaled $58,330, including $44,509 in retained earnings. The increase in stockholders' equity resulted largely from net income of $4,375 less dividends paid to shareholders of $1,184. Dividends paid to shareholders were $0.56 per share paid in 2021 and 2020.

Pinnacle had net income of $4,375 in 2021, compared to net income of $3,062 in 2020, an increase of 42.88%, which was primarily driven by higher net interest income as the Company's assets and customer base have increased due to its merger with Virginia Bank, which occurred in the fourth quarter of 2020. This increase was partially offset by an increase in noninterest expense, which was also associated with the merger.

For the year ended December 31, 2021, Pinnacle produced $25,089 in net interest income, which represents a $6,820, or 37.33%, increase as compared to the $18,269 generated in 2020. Interest income increased $6,029, or 29.00%, primarily due to increased average loan and investment volume, while interest expense decreased $792, or 31.45%, due mainly to a decrease in the cost of deposits as a result of lower interest rates.

Pinnacle's provision for loan losses was $233 for 2021 representing a $19, or 7.54%, decrease as compared to $252 for 2020 as asset quality remained strong in 2021 and net loans decreased.

Noninterest income decreased $1,485, or 17.12%, in 2021 to $7,187 from $8,672 in 2020. The decrease is primarily due to the $2,694 bargain purchase gain recorded in the fourth quarter of 2020. For 2021, the Company experienced a $837 increase in service charges on deposit accounts, a $155 increase in fees on sales of mortgage loans, a $95 increase in commissions and fees derived mainly from investment and insurance sales, and a $65 increase in income derived from the Bank's investment in Bankers Insurance, LLC. Loan fee income derived from PPP loans was $109 in 2021 compared to $258 in 2020.

Noninterest expense increased $4,313, or 19.16%, in 2021 to $26,826 from $22,513 in 2020. The increase is primarily attributed to the growth of the Company and was driven by a $4,308 increase in salaries and benefits and a $933 increase in furniture, equipment and occupancy expenses. The Company also incurred $445 in merger-related expenses that Management does not expect to carry over to 2022.

Profitability as measured by Pinnacle's return on average assets ("ROA") was 0.47% for 2021, which is a 5 basis points decrease from the 0.52% produced in 2020. Correspondingly, return on average equity ("ROE") increased in 2021 to 7.31%, compared to 6.36% for the prior year.

Results of Operations, 2021

Net Interest Income. Net interest income represents the principal source of earnings for Pinnacle. Net interest income is the amount by which interest and fees generated from loans, securities and other interest-bearing assets exceed the interest expense associated with funding those assets. Changes in the amounts and mix of interest-bearing liabilities, as well as their respective yields and rates, have a significant impact on the level of net interest income. Changes in the interest rate environment and Pinnacle's cost of funds also effect net interest income.

The net interest spread decreased to 2.76% in 2021 from 3.15% in 2020. Net interest income was $25,089 in 2021, compared to $18,269 in 2020. In 2021, Pinnacle's asset yields decreased greater than its deposit rates causing Pinnacle's interest rate spread to decrease. Pinnacle's yield on interest-earning assets in 2021 was 74 basis points lower than in 2020 due to the influx of deposits that were invested in fed funds and repricing of existing assets in the lower interest rate environment. Pinnacle's cost of funds rate on interest-bearing liabilities in 2021 was 35 basis points lower compared to 2020.

Pinnacle's net interest margin also decreased to 2.86% in 2021 from 3.34% in 2020. Pinnacle's lower net interest margin in 2021 was due to higher average assets invested in fed funds and lower yields from investments as a result of the continued low interest rate environment in 2021. Pinnacle attempts to conserve net interest margin by product pricing strategies, such as attracting deposits with longer maturities when rates are relatively low and attracting deposits with shorter maturities when rates are relatively high, all depending on our funding needs. While there is no guarantee of how rates may change in 2022, Pinnacle will price products that are competitive in the market, allow for growth and strive to maintain the net interest margin as much as possible. Pinnacle also continues to seek new sources of noninterest income to combat the effects of volatility in the interest rate environment.

Provision for Loan Losses. The provisions for loan losses for years ended December 31, 2021 and 2020 were $233 and $252, respectively. The provision for loan losses decreased $19 during 2021 when compared to 2020 due to continued strong asset quality and a decrease in net loans. Pinnacle saw a slight increase in its nonperforming loans to total loans from 0.17% on December 31, 2020 to 0.26% on December 31, 2021. Nonperforming loans were $950 as of December 31, 2020 and $1,434 as of December 31, 2021. Pinnacle may see credit quality in its loan portfolio decrease slightly in 2022 due to impacts of the ongoing Pandemic and inflationary pressures. It continues to work to minimize its losses from nonaccrual and past due loans.

Noninterest Income. Total noninterest income for 2021 decreased $1,485, or 17.12%, to $7,187 from $8,672 in 2020. The decrease is primarily due to the $2,694 bargain purchase gain recorded in the fourth quarter of 2020 related to the merger with Virginia Bank. For 2021, the Company experienced a $837 increase in service charges on deposit accounts, a $155 increase in fees on sales of mortgage loans, a $95 increase in commissions and fees derived mainly from investment and insurance sales, and a $65 increase in income derived from the Bank's investment in Bankers Insurance, LLC. Loan fee income derived from PPP loans was $109 in 2021 compared to $258 in 2020.

Noninterest Expense. Total noninterest expense for 2021 increased $4,313, or 19.16%, to $26,826 from $22,513 in 2020. The increase is primarily attributed to the merger and growth of the Company and was driven by a $4,308 increase in salaries and benefits and a $933 increase in furniture, equipment and occupancy expenses. The Company also incurred $445 in merger-related expenses during 2021 that Management does not expect to carry over to 2022. Merger-related expenses in 2020 were $2,889.

Income Tax Expense. Income taxes on 2021 earnings amounted to $842, resulting in an effective tax rate of 16.14%, compared to $1,114, and an effective tax rate of 26.67% in 2020. The income tax rate decreased in 2021 due mainly to capitalized merger transaction costs from the merger with Virginia Bank that were incurred in 2020.

Investment Portfolio

Pinnacle's investment portfolio is used primarily for investment income and secondarily for liquidity purposes. Pinnacle invests funds not used for capital expenditures or lending purposes in securities of the U.S. Government and its agencies, mortgage-backed securities, taxable and tax-exempt municipal bonds, and certificates of deposit. Obligations of the U.S. Government and its agencies include treasury notes and callable or noncallable agency bonds. The mortgage-backed securities include mortgage-backed security pools that are diverse as to interest rates. Pinnacle has not invested in derivatives.

Investment securities as of December 31, 2021 totaled $120,709, an increase of $73,968, or 158.25%, from $46,741 as of December 31, 2020. Held-to-maturity investment securities decreased to $0 as of December 31, 2021 from $500 as of December 31, 2020. Available-for-sale investments increased to $120,709 as of December 31, 2021 from $46,241 as of December 31, 2020, an increase of $74,468, or 161.04%.

Loan Portfolio

Pinnacle's net loans were $548,076 as of December 31, 2021, a decrease of $12,003, or 2.14%, from $560,079 as of December 31, 2020. Loans decreased due in part to the payoffs associated with forgiven PPP loans as outstanding PPP loan balances decreased $24,974. As of year-end, the Company had $1,481 in outstanding PPP loan balances. Pinnacle's ratio of net loans to total deposits was 58.43% as of December 31, 2021 compared to 71.68% as of December 31, 2020.

Bank Premises and Equipment

Bank premises and equipment decreased $60, or 0.26%, in 2021 due mainly to no large fixed asset purchases and depreciation expense. Pinnacle was leasing the Downtown Lynchburg, Amherst and Charlottesville facilities and leasing land for the Riverside Branch as of December 31, 2021.

Deposits

The levels of demand deposits (including retail accounts) are influenced by such factors as customer service, service charges and the availability of banking services. No assurance can be given that Pinnacle will be able to maintain its current level of demand deposits. Competition from other banks, credit unions and thrift institutions as well as money market funds, some of which offer interest rates substantially higher than Pinnacle, makes it difficult for Pinnacle to maintain the current level of demand deposits. Management continually works to implement pricing and marketing strategies designed to control the cost of interest-bearing deposits and to maintain a stable deposit mix.

Average deposits were $851,054 for 2021, an increase of $320,051, or 60.27% compared to $531,003 in average deposits for 2020. As of December 31, 2021, total deposits were $938,079 representing an increase of $156,743, or 20.06%, from $781,336 in total deposits as of December 31, 2020. Pinnacle continues to experience strong deposit growth as a result of federal government stimulus in response to the pandemic, an overall “flight to safety” by depositors and relationships moved to the Bank from larger national financial institutions.

For 2021, average demand deposits were $279,955, or 32.90%, of average deposits. Average interest-bearing deposits were $571,099 for 2021, compared to the $338,354 in average interest-bearing deposits for 2020.

Financial Ratios

The following table presents certain financial ratios for periods indicated.

RETURN ON EQUITY AND ASSETS

	Year ended December 31, 2021	Year ended December 31, 2020	Year ended December 31, 2019
Return on average assets	0.47%	0.52%	0.92%
Return on average equity	7.31%	6.36%	9.86%
Dividend payout ratio	27.06%	31.06%	19.22%
Average equity to average assets	6.46%	8.21%	9.30%

Capital Resources

Total stockholders’ equity as of December 31, 2021 was $62,367, including $47,700 in retained earnings. As of December 31, 2020, stockholders’ equity totaled $58,330, including $43,509 in retained earnings. The increase in stockholders’ equity resulted mainly from a $3,191 increase in retained earnings and a $630 increase in accumulated other comprehensive income. Dividends paid to shareholders were $0.56 per share 2021 and in 2020.

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 First National Bank 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 exceeds all regulatory capital requirements that would apply under Basel III at December 31, 2021 if Pinnacle was not subject to the Federal Reserve's small bank holding company policy statement. Pinnacle's CET1 and Tier 1 Risk-based Capital Ratio was 11.30% and 10.63% as of December 31, 2021 and December 31, 2020, respectively. The Total Risk-based Capital Ratio was 11.96% and 11.27% as of December 31, 2021 and December 31, 2020, respectively. Pinnacle's Tier 1 Leverage Ratio was 6.65% and 8.01% as of December 31, 2021 and December 31, 2020, respectively. See Note 15 "Dividend Restrictions and Capital Requirements" to Pinnacle's audited consolidated financial statements, for additional information.

Pinnacle's financial position as of December 31, 2021 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.

Forward-Looking Statements

Certain statements in this Annual Report may constitute "forward-looking statements" within the meaning of federal securities laws. Forward-looking statements include, without limitation, projections, predictions, expectations, or beliefs about future events or results that are not statements of historical fact. Such statements may also include statements about future financial and operating results, Pinnacle's plans, objectives, expectations as well as certain other statements regarding the Merger. Such forward-looking statements are based on various assumptions as of the time they are made, and are inherently subject to known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from those expressed or implied by such forward-looking statements.

Forward-looking statements are often accompanied by words that convey projected future events or outcomes such as "expect," "believe," "estimate," "plan," "project," "predict," "anticipate," "intend," "will," "would," "should," "may," "view," "opportunity," "potential," "possible" "target" or words of similar meaning or other statements concerning opinions or judgment of Pinnacle or its management about future events. Although Pinnacle believes that its expectations with respect to forward-looking statements are based upon reasonable assumptions within the bounds of its existing knowledge of its business and operations, there can be no assurance that actual results, performance, or achievements of Pinnacle will not differ materially from any projected future results, performance, or achievements expressed or implied by such forward-looking statements.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in or implied by forward-looking statements or from historical performance:

- the businesses of Pinnacle and Virginia Bank may not be integrated successfully or such integration may be more difficult, time-consuming or costly than expected;
- expected revenue synergies and cost savings from the Merger may not be fully realized or realized within the expected time frame;
- the impact of the COVID-19 pandemic on Pinnacle and the U.S. and global financial markets and the responses of federal, state and local governments and private businesses in the United States to the pandemic;
- changes in general business, economic and market conditions;
- changes in fiscal and monetary policies, and laws and regulations;
- changes in interest rates, inflation rates, deposit flows, loan demand and real estate values;
- changes in consumer spending and saving habits that may occur as a result of the COVID-19 pandemic;

- changes in demand for financial services in Pinnacle's market areas;
- a deterioration in credit quality and/or a reduced demand for, or supply of, credit;
- increased information security risk, including cyber security risk, which may lead to potential business disruptions or financial losses;
- volatility in the securities markets generally or in the market price of Pinnacle common stock specifically; and
- other factors, which could cause actual results to differ materially from future results expressed or implied by such forward-looking statements.

These factors, and the risks and uncertainties discussed in more detail in this Annual Report should be considered in evaluating the forward-looking statements contained herein. All of the forward-looking statements made in this report are expressly qualified by the cautionary statements contained or referred to herein. The actual results or developments anticipated may not be realized or, even if substantially realized, they may not have the expected consequences to or effects on Pinnacle. Readers are cautioned not to rely too heavily on the forward-looking statements contained in this report. Forward-looking statements speak only as of the date they are made and Pinnacle undertakes any obligation to update, revise or clarify these forward-looking statements, whether as a result of new information, future events or otherwise.

PINNACLE BANKSHARES CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2021 and December 31, 2020
(In thousands of dollars, except share data)

	2021	2020
Assets		
Cash and cash equivalents:		
Cash and due from banks	$ 298,595	$ 210,814
Certificates of deposits	250	250
Securities:		
Available-for-sale, at fair value	120,709	46,241
Held-to-maturity, at amortized cost	—	500
Federal Reserve Bank stock, at cost	860	532
Federal Home Loan Bank stock, at cost	430	450
Loans, net	548,076	560,079
Bank premises and equipment, net	22,609	22,669
Accrued interest receivable	1,679	1,634
Bank owned life insurance	16,578	10,341
Goodwill	539	539
Core deposit intangible	1,413	1,573
Other real estate owned	—	519
Other assets	4,125	4,373
Total assets	$ 1,015,863	$ 860,514
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Demand	$ 341,202	$ 250,027
Savings and NOW accounts	482,994	411,248
Time	113,883	120,061
Total deposits	938,079	781,336
Subordinated notes payable	8,000	8,000
Other long-term borrowings	2,000	2,000
Accrued interest payable	152	238
Other liabilities	5,265	10,610
Total liabilities	953,496	802,184
Commitments, contingencies and other matters		
Stockholders' equity:		
Common stock, $3 par value. Authorized 3,000,000 shares, issued and outstanding 2,170,311 shares in 2021 and 2,158,379 shares in 2020	6,388	6,364
Capital surplus	11,480	11,288
Retained earnings	47,700	44,509
Accumulated other comprehensive loss, net	(3,201)	(3,831)
Total stockholders' equity	62,367	58,330
Total liabilities and stockholders' equity	$ 1,015,863	$ 860,514

See accompanying notes to consolidated financial statements.

PINNACLE BANKSHARES CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2021 and 2020
(In thousands of dollars, except per share data)

	2021	2020
Interest income:		
Interest and fees on loans	$ 25,204	$ 19,701
Interest on securities:		
U.S. Government agencies	694	640
States and political subdivisions (taxable)	353	58
States and political subdivisions (tax-exempt)	189	202
Other	377	187
Total interest income	26,817	20,788
Interest expense:		
Interest on deposits:		
Savings and NOW accounts	431	968
Time	1,297	1,551
Total interest expense	1,728	2,519
Net interest income	25,089	18,269
Provision for loan losses and unfunded commitments	233	252
Net interest income after provision for loan losses	24,856	18,017
Noninterest income:		
Service charges on deposit accounts	2,867	2,030
Commissions and fees	749	654
Mortgage loan fees	1,266	1,111
Service charges on loan accounts	710	676
Bargain purchase gain from merger with Virginia Bank	—	2,694
Other operating income	1,595	1,507
Total noninterest income	7,187	8,672
Noninterest expense:		
Salaries and employee benefits	14,756	10,448
Occupancy expense	1,573	1,178
Furniture and equipment expense	1,892	1,379
Office supplies and printing	339	229
Federal deposit insurance premiums	482	271
Capital stock tax	462	333
Advertising expense	217	193
Expenses from merger with Virginia Bank	445	2,889
Other operating expenses	6,660	5,593
Total noninterest expense	26,826	22,513
Income before income tax expense	5,217	4,176
Income tax expense	842	1,114
Net income	$ 4,375	$ 3,062
Basic net income per share	$ 2.02	$ 1.85
Diluted net income per share	$ 2.02	$ 1.84

See accompanying notes to consolidated financial statements.

PINNACLE BANKSHARES CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2021 and 2020
(In thousands of dollars)

	2021	2020
Net income	$ 4,375	$ 3,062
Other comprehensive income, net of related income taxes:		
Unrealized gains (losses) on available-for-sale securities		
Before tax	(2,051)	1,144
Income tax benefit (expense)	430	(240)
Changes in plan assets and benefit obligation of defined benefit pension plan		
Before tax	2,844	(2,218)
Income tax (expense) benefit	(593)	467
Total other comprehensive gain (loss)	630	(847)
Comprehensive income	$ 5,005	$ 2,215

See accompanying notes to consolidated financial statements.

PINNACLE BANKSHARES CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2021 and December 31, 2020
(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, 2019	1,551,339	$ 4,564	$ 1,461	$ 42,404	$ (2,984)	$ 45,445
Net income				3,062		3,062
Other comprehensive loss					(847)	(847)
Stock issued for merger	594,457	1,783	9,664			11,447
Issuance of restricted stock and related expense	8,607	17	163			180
Stock options exercised	3,976					
Cash dividends declared by Bankshares ($0.56 per share)				(957)		(957)
Balances, December 31, 2020	2,158,379	$ 6,364	$ 11,288	$ 44,509	$ (3,831)	$ 58,330
Net income				4,375		4,375
Other comprehensive gain					630	630
Issuance of restricted stock and related expense	11,932	24	192			216
Cash dividends declared by Bankshares ($0.56 per share)				(1,184)		(1,184)
Balances, December 31, 2021	2,170,311	$ 6,388	$ 11,480	$ 47,700	$ (3,201)	$ 62,367

See accompanying notes to consolidated financial statements.

PINNACLE BANKSHARES CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2021 and 2020
(In thousands of dollars)

	2021	2020
Cash flows from operating activities:		
Net income	$ 4,375	$ 3,062
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation of bank premises and equipment	1,084	857
Amortization of intangible assets	160	27
Amortization (accretion) of unearned fees, net	263	(562)
Net amortization of premiums and discounts on securities	490	307
Provision for loan losses	233	252
Provision for deferred income taxes	717	1,175
Stock based compensation expense	216	180
Increase in cash value of bank owned life insurance	(237)	(225)
Valuation loss on OREO	—	11
Bargain purchase gain from merger	—	(2,694)
Accretion of purchased credit-impaired loans	(840)	(212)
Net increase in:		
Accrued interest receivable	(45)	(357)
Other assets	(632)	(265)
Net (decrease) increase in:		
Accrued interest payable	(86)	(58)
Other liabilities	(2,501)	550
Net cash flows from operating activities	3,197	2,048
Cash flows from investing activities:		
Purchases of available-for-sale securities	(84,539)	(11,407)
Sales of available-for-sale securities	—	36,294
Proceeds from maturities and calls of held-to-maturity securities	500	1,260
Proceeds from maturities and calls of available-for-sale securities	536	2,050
Proceeds from paydowns and maturities of available-for-sale mortgage-backed securities	6,994	7,151
Proceeds from the sale of OREO	519	673
Purchase of Federal Reserve Stock	(328)	(378)
Sale (Purchase) of Federal Home Loan Bank Stock	20	(27)
Proceeds from bank owned life insurance	—	219
Purchase of bank owned life insurance	(6,000)	—
Net decrease (increase) in loans made to customers	12,347	(13,301)
Purchases of bank premises and equipment	(1,024)	(2,264)
Acquisition of business, net of cash acquired	—	27,867
Net cash used in investing activities	(70,975)	48,137
Cash flows from financing activities:		
Net increase in demand, savings and NOW deposits	162,921	93,546
Net decrease (increase) in time deposits	(6,178)	25,137
Proceeds of subordinated notes	—	8,000
Proceeds of long-term borrowings	—	2,000
Cash dividends paid	(1,184)	(957)
Net cash flows from financing activities	155,559	127,726
Net increase in cash and cash equivalents	87,781	177,911
Cash and cash equivalents, beginning of year	210,814	32,903
Cash and cash equivalents, end of year	$ 298,595	$ 210,814
Supplemental disclosure of cash flows information		
Cash paid during the year for:		
Income taxes	$ 810	$ 400
Interest	1,814	2,486
Supplemental schedule of noncash investing and financing activities:		
Transfer from loans to foreclosed assets	$ (519)	$ 537
Unrealized (losses) gains on available-for-sale securities	(2,051)	1,144
Defined benefit plan adjustment per ASC topic *Compensation-Retirement Benefits*	2,844	(2,218)

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies and Practices

The accounting and reporting policies of the Pinnacle Bankshares Corporation and its wholly-owned subsidiary ("Pinnacle" or the "Company") conform to generally accepted accounting principles in the United States of America ("GAAP") and general practices within the banking industry. As of December 31, 2021, 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.

Pinnacle entered into an agreement with Virginia Bank Bankshares, Inc. (or "Virginia Bank"), effective January 21, 2020 and as amended on June 9, 2020 (as amended, the "Merger Agreement"), pursuant to which Virginia Bank merged with and into Pinnacle (the "Merger") on October 30, 2020 with Pinnacle surviving the Merger. Under the Merger Agreement, Virginia Bank shareholders had the opportunity to elect to receive either 0.54 shares of Pinnacle common stock (the "Stock Consideration") or $16.00 of cash (the "Cash Consideration") for each share of Virginia Bank common stock held, subject to the limitation that 60% of the shares be exchanged for the Stock Consideration and 40% of the shares be exchanged for the Cash Consideration. See Note 2 for more information about the Merger.

Operating, Accounting and Reporting Considerations related to COVID-19 - The coronavirus (COVID-19) pandemic has negatively impacted the global economy, disrupted global supply chains and increased unemployment levels. The resulting temporary closure of many businesses and the implementation of social distancing and sheltering-in-place policies have impacted and may continue to impact many of Pinnacle's customers. While the full effects of the pandemic remain unknown, Pinnacle is committed to supporting its customers, employees and communities during this difficult time. Pinnacle has provided hardship relief assistance to customers, including the consideration of various loan payment deferral and fee waiver options, and encouraged customers to reach out for assistance to support their individual circumstances.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed by the President of the United States. Certain provisions within the CARES Act encourage financial institutions to practice prudent efforts to work with borrowers impacted by COVID-19. Under these provisions, which Pinnacle has applied, loan modifications deemed to be COVID-19-related are not considered a troubled debt restructuring ("TDR") if the loan was not more than 30 days past due as of December 31, 2019 and the deferral was executed between March 1, 2020 and the earlier of 60 days after the date of termination of the COVID-19 national emergency or December 31, 2020. In December 2020, this CARES Act provision was extended to loans modified between March 1, 2020 and the earlier of 60 days after the date of termination of the COVID-19 national emergency and January 1, 2022. The banking regulators issued similar guidance, which also clarified that a COVID-19- related modification would not meet the requirements under accounting principles generally accepted in the United States of America to be a TDR if the borrower was current on payments at the time the underlying loan modification program was implemented and if the modification is considered to be short-term. Pinnacle generally offered impacted borrowers loan payment deferrals of 90 days in duration. Pinnacle offered subsequent 90 day deferrals if requested by the borrower. Any deferred amounts were generally added by Pinnacle to the payoff balance of the loan at maturity. Most of the deferral requests occurred during the second quarter of 2020, and in the second half of 2020, most of those borrowers resumed payments. As of December 31, 2021, Pinnacle had remaining payment deferrals of $5.

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, 2021 and 2020. 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.

The outbreak of the novel coronavirus and the resulting COVID-19 Pandemic has caused a significant disruption in economic activity worldwide, and Pinnacle expects that it may have a significant impact on businesses and consumers in its market areas and on its results of operations. It is unknown how long these conditions will last and what the ultimate financial impact will be to Pinnacle.

(c) Business Combinations

Pinnacle accounts for business combinations using the acquisition method of accounting. The accounts of an acquired entity are included as of the date of acquisition, and any excess of purchase price over the fair value of the net assets acquired is capitalized as goodwill. Under this method, all identifiable assets acquired, including purchased loans, and liabilities assumed are recorded at fair value.

(d) 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, 2021 and 2020, 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.

(e) 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.

(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) Loans Acquired

Loans acquired through the completion of a transfer, including loans acquired in a business combination, that have evidence of deterioration of credit quality since origination and for which it is probable, at acquisition, that Pinnacle be unable to collect all contractually required payments receivable, are initially recorded at fair value (as determined by the present value of expected future cash flows) with no valuation allowance. Loans are evaluated individually to determine if there is evidence of deterioration of credit quality since origination. Loans where there is evidence of deterioration of credit quality since origination may be aggregated and accounted for as a pool of loans, if the loans being aggregated have common risk characteristics. The difference between the undiscounted cash flows expected at acquisition and the investment in the loan, or the "accretable yield," is recognized as interest income on a level-yield method over the life of the loan. The difference between the contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the nonaccretable difference. A subsequent decrease in the estimate of cash flows expected to be received on purchased credit-impaired loans generally results in the recognition of an allowance for loan losses. Increases in cash flows result in reversal of any nonaccretable difference (or allowance for loan losses to the extent any has been recorded) with a positive impact on interest income subsequently recognized. The measurement of cash flows involves assumptions and judgments for interest rates, prepayments, default rates, loss severity, and collateral values. All of these factors are inherently subjective and significant changes in the cash flow estimates over the life of the loan can result.

For purchased loans that are not deemed impaired at acquisition, discounts representing the principal losses expected over the life of the loan are a component of the initial fair value. Loans may be aggregated and accounted for as a pool of loans if the loans being aggregated have common risk characteristics. Subsequent to the purchase date, the methods utilized to estimate the required allowance for credit losses for these loans is similar to originated loans; however, Pinnacle records a provision for loan losses only when the required allowance exceeds any remaining discounts. The difference between the initial fair value at acquisition and the undiscounted expected cash flows is recorded in interest income over the life of the loans using a method that approximates the effective interest rate.

(h) 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.

(i) Bank Premises and Equipment

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

(j) Bank Owned Life Insurance

Pinnacle has purchased life insurance policies on certain current and past key employees and directors where the insurance policy benefits and ownership are retained by the employer. 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. Income from these policies and changes in the net cash surrender value are recorded within noninterest income within Other Operating Income.

(k) Goodwill and Other Intangible Assets

Business combinations are accounted for using the acquisition method of accounting. Identifiable intangible assets are recognized separately and are amortized over their estimated useful lives, which for Pinnacle has generally been ten years. Goodwill is recognized in business combinations to the extent that the price paid exceeds the fair value of the net assets acquired, including any identifiable intangible assets. Goodwill is not amortized is subject to fair value impairment tests on at least an annual basis.

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 2021 and 2020, 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.

(l) Other Real Estate Owned

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

(m) Impairment or Disposal of Long-Lived Assets

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.

(n) 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 for defined benefit 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. Accounting standards also requires a business entity to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions.

(o) 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 Accounting Standards Codification ("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 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 consist of commissions received on investment product and insurance policies sales. For insurance sales, Pinnacle acts as an intermediary between 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 $749 and $654 for 2021 and 2020, respectively, on the consolidated statement of income includes $167 and $202 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 2021 and 2020, respectively:

	Years Ended December 31, 2021	Years Ended December 31, 2020
Non-interest Income		
In-scope of Topic 606:		
Service charges on deposit accounts	$ 2,867	$ 2,030
Commissions and fees	582	452
Other operating income	1,074	816
Non-interest Income (in-scope of Topic 606)	$ 4,523	$ 3,298
Non-interest Income (out-of-scope of Topic 606)	2,664	5,374
	$ 7,187	$ 8,672

(p) 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, 2021	**Net income (numerator)**	**Shares (denominator)**	**Per share amount**
Basic net income per share	$ 4,375	2,166,474	$ 2.02
Effect of dilutive stock options	—	3,784	
Diluted net income per share	$ 4,375	2,170,258	$ 2.02

Year ended December 31, 2020	Net income (numerator)	Shares (denominator)	Per share amount
Basic net income per share	$ 3,062	1,659,093	$ 1.85
Effect of dilutive stock options	—	3,290	
Diluted net income per share	$ 3,062	1,662,383	$ 1.84

(q) 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.

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.

(r) 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, 2020, all available-for-sale securities fell into Level 2 fair value hierarchy and remained at Level 2 as of December 31, 2021. 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.

(s) Stock-based Compensation

Restricted stock awards compensation cost is based on the fair value of the award, which is the closing price of Pinnacle's common stock on the date of the grant. Restricted stock awards issued by Pinnacle typically have vesting periods with service conditions. Compensation cost is recognized as expense over the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period. Because of the insignificant amount of forfeitures Pinnacle has experienced, forfeitures are recognized as they occur.

(t) Loan Commitments and Related Financial Instruments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

(u) Current Accounting Developments

For each of the accounting pronouncements that affect Pinnacle, Pinnacle 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 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, 2021, and interim periods beginning after December 15, 2022. Early application of this ASU is permitted for all entities. Pinnacle 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 Pinnacle 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. Pinnacle 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 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 adoption of this guidance did not have an impact 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 adoption of this guidance did not have an impact to the consolidated financial statements.

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

In August 2018, the FASB amended the Compensation - Retirement Benefits – Defined Benefit Plans Topic of the Accounting Standards Codification to improve disclosure requirements for employers that sponsor defined benefit pension and other postretirement plans. The guidance removes disclosures that are no longer considered cost-beneficial, clarifies the specific requirements of disclosures, and adds disclosure requirements identified as relevant. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The adoption of this guidance did not have an impact 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 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. Pinnacle 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. Pinnacle is currently assessing the impact that ASU 2019-05 will have on its consolidated financial statements.

(2) Business Combinations

On October 30, 2020, Pinnacle completed its acquisition of Virginia Bank. Under the terms of the amended Merger Agreement, Virginia Bank shareholders had the opportunity to elect to receive either 0.5400 shares per share of Pinnacle common stock (the "Stock Consideration") or $16.00 in cash (the "Cash Consideration"), or for each share of Virginia Bank common stock held, subject to allocation and proration such that 60% of the Virginia Bank common shares would be exchanged for the Stock Consideration and 40% of the shares would be exchanged for the Cash Consideration.

Pinnacle accounted for the acquisition using the acquisition method of accounting in accordance with ASC 805, *"Business Combinations."* Under the acquisition method of accounting, the assets and liabilities of Virginia Bank were recorded at their respective acquisition date fair values. Determining the fair value of assets and liabilities, particularly related to the loan portfolio, is a complicated process involving significant judgment regarding methods and assumptions used to calculate the estimated fair values. The fair values are preliminary and subject to refinement for up to one year after the acquisition date as additional information relative to the acquisition date fair values becomes available. The fair value of the assets acquired was $241,595, including $156,944 in loans and $1,600 in core deposit intangible. Liabilities assumed were $215,706, of which $212,370 were deposits. As a result of the transaction, Pinnacle recognized a bargain purchase gain of $2,694 in conjunction with the transaction due primarily to the fair value of the net assets acquired being greater than the consideration paid. The amount of the bargain purchase gain represents the excess estimated fair value of the net assets acquired over the purchase price.

The following table provides the purchase price as of the acquisition date and the identifiable assets acquired and liabilities assumed at their fair value.

		As recorded by Pinnacle
Assets		
Cash and due from banks	$	39,615
Securities		36,294
Loans		156,944
Premises and equipment		5,716
Income earned not collected		511
Core deposit intangible		1,600
Other assets		915
Total assets acquired		241,595
Liabilities		
Deposits		212,370
Accrued interest payable		91
Other liabilities		3,245
Total liabilities assumed		215,706
Fair value of net assets acquired		25,889
Bargain purchase gain recorded	$	2,694
Purchase Price		
Pinnacle common shares issued		594,457
Purchase price per share of Pinnacle common stock	$	19.25
Common stock issued	$	11,447
Cash exchanged for Virginia Bank stock		11,748
Fair value of total consideration transferred	$	23,195

The following table presents certain pro forma information as if Virginia Bank had been acquired on January 1, 2019. These results combine the historical results of Virginia Bank in Pinnacle's Consolidated Statements of Income and, while certain adjustments were made for the estimated impact of certain fair value adjustments and other acquisition-related activity, they are not indicative of what would have occurred had the acquisition taken place on January 1, 2019. In particular, no adjustments have been made to eliminate the amount of Virginia Bank's provision for credit losses that would not have been necessary had the acquired loans been recorded at fair value as of January 1, 2019. Pro forma adjustments below include the net impact of accretion as well as the elimination of merger-related costs. Pinnacle expects to achieve further operating cost savings and other business synergies, including branch closures, as a result of the acquisition which are not reflected in the pro forma amounts below:

	For the year ended December 31, 2020
Total revenues	$35,063
Net income	4,958

Merger related expenses of $2,889 from the transaction were recorded in the Consolidated Statement of Income for the year ended December 31, 2020.

The loans acquired in the Virginia Bank merger were divided into loans with evidence of credit quality deterioration, which are accounted for under ASC 310-30 (purchased impaired), and loans that do not meet these criteria, which are accounted for under ASC 310-20 (purchased performing). As of October 30, 2020, the estimated fair value of the Virginia Bank purchased performing loans acquired was $140,974, the related gross contractual amount was $151,818, and the estimated contractual cash flows not expected to be collected were $785.

The following table presents the acquired impaired loans receivable at the acquisition date, as adjusted:

Contractual principal and interest at acquisition	$	19,940
Nonaccretable difference		2,484
Expected cash flow at acquisition		17,456
Accretable yield		1,112
Estimated fair value of loans acquired with a deterioration of credit quality	$	16,344

(3) Restrictions on Cash

To comply with Federal Reserve regulations, Pinnacle is required to maintain certain average reserve balances; however, due to the COVID-19 pandemic, the daily average reserve requirement for the week including December 31, 2021 and the week of December 31, 2020 was $0.

(4) Securities

The amortized costs, gross unrealized gains, gross unrealized losses and fair values for securities as of December 31, 2021 and 2020 are as follows:

	2021			
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	$ 19,957	41	(81)	19,917
Obligations of states and political subdivisions	37,875	602	(687)	37,790
Mortgage-backed securities – government	63,457	347	(802)	63,002
Total available-for-sale	$ 121,289	990	(1,570)	120,709

	2021			
Held-to-Maturity	**Amortized costs**	**Gross unrealized gains**	**Gross unrealized losses**	**Fair values**
Obligations of states and political subdivisions	$ —	—	—	—

	2020			
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	$ 1,701	95	—	1,796
Obligations of states and political subdivisions	11,584	791	(11)	12,364
Mortgage-backed securities – government	31,485	681	(85)	32,081
Total available-for-sale	$ 44,770	1,567	(96)	46,241

	2020			
Held-to-Maturity	**Amortized costs**	**Gross unrealized gains**	**Gross unrealized losses**	**Fair values**
Obligations of states and political subdivisions	$ 500	1	—	501

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, 2021:

	Less than 12 months		More than 12months		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	$ 16,194	81	—	—	—	—
Obligations of states and political subdivisions	24,559	643	966	44	24,559	643
Mortgage-backed securities-government	40,401	629	7,443	173	47,844	802
Total	$ 81,154	1,353	8,409	217	89,563	1,570

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. As of December 31, 2021, the securities included 46 bonds that had continuous losses for less than 12 months and 14 bonds that had continuous losses for more than 12 months. There were no realized gains and losses in 2021.

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, 2020:

	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	$ —	—	—	—	—	—
Obligations of states and political subdivisions	1,000	11	—	—	1,000	11
Mortgage-backed securities-government	4,417	27	7,386	58	11,803	85
Total	$ 5,417	38	7,386	58	12,803	96

For 2020, the securities included 6 bonds that had continuous losses for less than 12 months and 22 bonds that had continuous losses for more than 12 months. There were no realized gains or losses in 2020.

The amortized costs and fair values of available-for-sale and held-to-maturity securities as of December 31, 2021 and December 31, 2020, 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.

	2021			
	Available-for-Sale		**Held-to-Maturity**	
	Amortized costs	**Fair values**	**Amortized costs**	**Fair values**
Due in one year or less	$ —	—	—	—
Due after one year through five years	8,796	8,809	—	—
Due after five years through ten years	33,159	33,508	—	—
Due after ten years	15,877	15,390	—	—
	57,832	57,707	—	—
Mortgage-backed securities	63,457	63,002	—	—
Totals	$ 121,289	120,709	—	—

	December 31, 2020					
	Available-for-Sale			Held-to-Maturity		
	Amortized costs		Fair values	Amortized costs	Fair values	
Due in one year or less	$	—	—	500	501
Due after one year through five years		1,578	1,683	—	—
Due after five years through ten years		8,846	9,596	—	—
Due after ten years		2,861	2,881	—	—
		13,285	14,160	500	501
Mortgage-backed securities		31,485	32,081	—	—
Totals	$	44,770	46,241	500	501

Securities with amortized costs of approximately $36,437 (fair value of $36,587) as of December 31, 2021, were pledged as collateral for public deposits. Securities with amortized costs of approximately $7,301 (fair value of $7,451) as of December 31, 2020, were pledged as collateral for public deposits.

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

A summary of loans as of December 31, 2021 and December 31, 2020 follows:

		2021		2020
Real estate loans:				
Residential-mortgage	$	162,984	$	180,772
Residential-construction		11,075		8,100
Commercial		186,552		150,612
Loans to individuals for household, family and other consumer expenditures		101,733		119,598
Commercial and industrial loans		89,892		105,234
Total loans, gross		552,236		564,316
Less unearned income and fees		(497)		(759)
Loans, net of unearned income and fees		551,739		563,557
Less allowance for loan losses		(3,663)		(3,478)
Loans, net	$	548,076	$	560,079

Beginning in April 2020, Pinnacle originated loans under the Paycheck Protection Program (“PPP”) of the Small Business Administration (“SBA”). PPP loans are fully guaranteed by the SBA, and in some cases, borrowers may be eligible to obtain forgiveness of the loans, in which case loans would be repaid by the SBA. As repayment of the PPP loans is guaranteed by the SBA, Pinnacle does not recognize a reserve for PPP loans in its allowance for loan losses. Pinnacle received fees from the SBA of one percent to five percent of the principal amount of each loan originated under the PPP. Fees received from the SBA are recognized net of direct origination costs in interest income over the life of the related loans. Recognition of fees related to PPP loans is dependent upon the timing of ultimate repayment or forgiveness.

In the normal course of business, the First National Bank has made loans to executive officers and directors. As of December 31, 2021, loans and extensions of credit to executive officers and directors totaled $1,785 as compared to $1,369 as of December 31, 2020. During 2021, one new consumer loan was made to a director totaling $21 and one new commercial loan totaling $1,000 was made to a director’s business and secured by commercial real estate. 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 $562,680 as of December 31, 2021.

Loans in the amount of $34,213 were pledged as collateral for Pinnacle's available FHLB line of credit as of December 31, 2021.

The following table presents information on Pinnacle's allowance for loan losses and recorded investment in loans. The total allowance reflects management's estimate of loan losses inherent in the loan portfolio at the balance sheet date. While portions of the allowance are attributed to specific portfolio segments, the entire allowance is available to absorb credit losses inherent in the total loan portfolio. The allowance for loan losses for PPP loans guaranteed by SBA were separately evaluated by Pinnacle management. This analysis included the likelihood of loss was remote and therefore there no allowance for loan losses attributed to these loans.

Allowance for Loan Losses and Recorded Investment in Loans
For the Year Ended December 31, 2021

	Commercial	Commercial Real Estate	Consumer	Residential	Total
Allowance for Loan Losses:					
Beginning balance	$ 335	1,076	973	1,094	3,478
Charge-offs	(49)	(1)	(299)	(11)	(360)
Recoveries	30	—	260	46	336
(Recovery of) provision for loan losses	(5)	365	(141)	(10)	209
Ending Balance	$ 311	1,440	793	1,119	3,663
Allowance:					
Ending balance: individually evaluated for impairment	—	—	—	—	—
Ending balance: collectively evaluated for impairment	311	1,440	793	1,119	3,663
Ending balance: loans acquired with deteriorated credit quality	$ —	—	—	—	—

	Commercial	Commercial Real Estate	Consumer	Residential	Total
Loans:					
Total loans ending balance	$ 89,892	186,552	101,733	174,059	552,236
Ending balance: individually evaluated for impairment	295	771	42	1,422	2,530
Ending balance: collectively evaluated for impairment	88,558	180,825	101,621	167,004	538,008
Ending balance: loans acquired with deteriorated credit quality	1,039	4,956	70	5,633	11,698

Allowance for Loan Losses and Recorded Investment in Loans
For the Year Ended December 31, 2020

	Commercial	Commercial Real Estate	Consumer	Residential	Total
Allowance for Loan Losses:					
Beginning balance	$ 440	1,087	937	1,008	3,472
Charge-offs	(2)	—	(486)	(49)	(537)
Recoveries	1	—	288	11	300
(Recovery of) provision for loan losses	(104)	(11)	234	124	243
Ending Balance	$ 335	1,076	973	1,094	3,478
Allowance:					
Ending balance: individually evaluated for impairment	—	—	—	—	—
Ending balance: collectively evaluated for impairment	335	1,076	973	1,094	3,478

	Commercial	Commercial Real Estate	Consumer	Residential	Total
Loans:					
Total loans ending balance	$ 105,234	150,612	119,598	188,872	564,316
Ending balance: individually evaluated for impairment	22	1	50	2,591	2,664
Ending balance: collectively evaluated for impairment	(2,614)	(7,532)	(254)	(8,347)	(18,747)
Ending balance: loans acquired with deteriorated credit quality	2,592	7,531	204	5,756	16,083

Loans acquired in a transfer, including business combinations, where there is evidence of credit deterioration since origination and it is probable at the date of acquisition that we will not collect all contractually required principal and interest payments, are accounted for as purchased impaired loans. Purchased impaired loans are initially recorded at fair value, which includes estimated future credit losses expected to be incurred over the life of the loan. Accordingly, the historical allowance for credit losses related to these loans is not carried over.

Accounting for purchased impaired loans involves estimating fair value, at acquisition, using the principal and interest cash flows expected to be collected discounted at the prevailing market rate of interest. The excess of cash flows expected to be collected over the estimated fair value at acquisition date is referred to as the accretable yield and is recognized in interest income using an effective yield method over the remaining life of the loans. The difference between contractually required payments and the cash flows expected to be collected at acquisition, considering the impact of prepayments, is referred to as the nonaccretable difference. Any decreases in cash flows expected to be collected (other than due to decreases in interest rate indices and changes in prepayment assumptions) will be charged to the provision for loan losses, resulting in an increase to the allowance for loan losses.

The following table presents changes in the accretable yield for purchased impaired loans for the year ended December 31, 2021:

Accretable yield, beginning of year	$ 900
Additions	—
Accretion	(1,196)
Reclassification of nonaccretable difference due to improvement in expected cash flows	786
Other changes, net	769
Accretable yield, end of year	$ 1,259

At December 31, 2021, none of the purchased impaired loans were classified as nonperforming assets. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and expected cash flows, is being recognized on all purchased loans. Any decreases in cash flows expected to be collected (other than due to decreases in interest rate indices and changes in prepayment assumptions), will be charged to the provision for loan losses, resulting in an increase to the allowance for loan losses.

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, 2021

Credit Exposure	**Commercial**	**Commercial Real Estate**	**Consumer**	**Residential**	**Total**
Pass	$ 88,729	183,708	101,565	168,167	542,169
Special Mention	56	1,150	96	730	2,032
Substandard	1,107	1,694	72	5,162	8,035
Doubtful	—	—	—	—	—
Total	$ 89,892	186,552	101,733	174,059	552,236

Credit Quality Indicators
As of December 31, 2020

Credit Exposure	**Commercial**	**Commercial Real Estate**	**Consumer**	**Residential**	**Total**
Pass	$ 103,768	144,722	119,432	185,606	553,528
Special Mention	1,258	5,066	40	912	7,276
Substandard	208	824	126	2,354	3,512
Doubtful	—	—	—	—	—
Total	$ 105,234	150,612	119,598	188,872	564,316

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

Age Analysis of Past Due Loans
As of December 31, 2021

	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	—	295	316	89,576	89,892	—
Commercial real estate	—	—	—	—	186,552	186,552	—
Consumer	53	17	42	112	101,621	101,733	—
Residential	—	97	1,097	1,194	172,865	174,059	—
Total	$ 74	114	1,434	1,622	550,614	552,236	—

Age Analysis of Past Due Loans
As of December 31, 2020

	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	$ 26	163	3	192	105,042	105,234	22
Commercial real estate	19	34	94	147	150,465	150,612	1
Consumer	195	37	37	269	119,329	119,598	36
Residential	194	61	816	1,071	187,801	188,872	—
Total	$ 434	295	950	1,679	562,637	564,316	59

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

Impaired Loans
As of December 31, 2021

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ 295	295	—	159	—
Commercial real estate	771	771	—	386	49
Consumer	42	42	—	46	—
Residential	1,422	1,422	—	2,007	19
Total:					
Commercial	295	295	—	159	—
Commercial real estate	771	771	—	386	49
Consumer	42	42	—	46	—
Residential	$ 1,422	1,422	—	2,007	13
Total	$ 2,530	2,530	—	2,597	62

Impaired Loans
For the Year Ended December 31, 2020

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ 22	22	—	11	—
Commercial real estate	1	1	—	38	—
Consumer	50	50	—	60	—
Residential	2,591	2,591	—	744	26
Total:					
Commercial	22	22	—	11	—
Commercial real estate	1	1	—	38	—
Consumer	50	50	—	60	—
Residential	$ 2,591	2,591	—	744	26
Total	$ 2,664	2,664	—	852	26

The following table presents information on Pinnacle's nonaccrual loans:

Loans in Nonaccrual Status
As of December 31, 2021 and 2020

	2021	2020
Commercial	$ 295	$ —
Commercial real estate	—	94
Consumer	42	14
Residential	1,097	783
Total	$ 1,434	$ 891

Pinnacle had eight restructured loans totaling $1,714 as of December 31, 2021. All of these restructured loans constituted troubled debt restructurings as of December 31, 2021.

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, 2020. Section 4013 of the CARES Act, as amended by the Consolidated Appropriations Act, 2021, provides that a qualified loan modification is exempt by law from classification as a TDR as defined by GAAP, from the period beginning March 1, 2020 until the earlier January 1, 2022 or the date that is 60 days after the date on which the national emergency concerning the COVID-19 outbreak declared by the President of the United States under the National Emergencies Act terminates. Accordingly, we are offering short-term modifications made in response to COVID-19 to borrowers who are current and otherwise not past due. These include short-term, 180 days or less, modifications in the form of payment deferrals, fee waivers, extension of repayment terms, or other delays in payments that are insignificant. The loans that receive these short-term modifications are not included in Pinnacle's balances of restructured loans or troubled debt restructurings.

The following tables present troubled debt restructurings as of December 31, 2021 and December 31, 2020:

	December 31, 2021		
	Accrual Status	**Non-Accrual Status**	**Total Troubled Debt Restructuring**
Commercial	$ —	—	—
Commercial real estate	771	—	771
Consumer	—	—	—
Residential	325	485	810
Total	$ 1,096	485	1,581

	December 31, 2020		
	Accrual Status	**Non-Accrual Status**	**Total Troubled Debt Restructuring**
Commercial	$ —	—	—
Commercial real estate	—	—	—
Consumer	—	—	—
Residential	1,714	—	1,714
Total	$ 1,714	—	1,714

For 2021 and 2020, Pinnacle had no new troubled debt restructures and no troubled debt restructures experienced payment defaults.

(6) Bank Premises and Equipment

Bank premises and equipment, net was comprised of the following as of December 31, 2021 and 2020:

	2021	**2020**
Land improvements	$ 783	$ 783
Buildings	20,533	20,213
Equipment, furniture and fixtures	8,539	8,154
	29,855	29,150
Less accumulated depreciation	(11,802)	(10,782)
	18,053	18,368
Land	4,258	4,258
Construction in progress	298	43
Bank premises and equipment, net	$ 22,609	$ 22,669

(7) Goodwill and Other Intangible Assets

The following is a summary of the gross carrying amount and accumulated amortization of amortizable intangible assets as December 31, 2021 and December 31, 2020 and the carrying amount of unamortizable intangible assets as of the same dates.

	December 31, 2021		December 31, 2020	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable Intangible Assets:				
Core Deposit Intangible	$ 1,600	187	$ 1,600	27
Unamortizable Intangible Assets:				
Goodwill	$ 539		$ 539	

Amortization expense of all other intangible assets totaled $0 for the years ended December 31, 2021 and 2020, respectively.

The following table presents the estimated amortization expense schedule related to acquisition-related amortizable intangible assets for each of the five calendar years ending December 31, 2026 and the estimated amount amortizable thereafter. These estimates are subject to change in future periods to the extent management determines it is necessary to make adjustments to the carrying value or estimated useful lives of amortizable intangible assets.

	Estimated Amortization Expense
2022	$ 160
2023	160
2024	160
2025	160
2026	160
Thereafter	613
Total	$ 1,413

(8) Deposits

A summary of deposits as of December 31, 2021 and December 31, 2020:

	2021	**2020**
Noninterest-bearing demand deposits	$ 341,202	$ 250,027
Interest-bearing:		
Savings and money market accounts	332,959	289,067
NOW accounts	150,035	122,181
Time deposits – under $250,000	104,880	110,233
Time deposits – $250,000 and over	9,003	9,828
Total interest-bearing deposits	596,877	531,309
Total deposits	$ 938,079	$ 781,336

In the normal course of business, the First National Bank has received deposits from executive officers and directors. As of December 31, 2021 and December 31, 2020, deposits from executive officers and directors were approximately $40,941 and $17,113, 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 $816,747 as of December 31, 2021 and $737,423 as of December 31, 2020.

(9) Borrowings

As of December 31, 2021 and December 31, 2020, Pinnacle's available borrowing limit with the FHLB was approximately $214,945 and $143,080, respectively.

Pinnacle had $0 in borrowings from the FHLB outstanding at December 31, 2021. 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, 2021 and December 31, 2020.

Additionally, Pinnacle has liquidity borrowing capabilities with one correspondent bank totaling $13,000 with $0 outstanding as of December 31, 2021.

As of September 21, 2020 Pinnacle completed a private placement of $8,000 in fixed-to-floating rate subordinated notes due 2030 (the "Notes"). The Notes have been structured to qualify as Tier 2 capital under bank regulatory guidelines in the future. The proceeds from the sale of the Notes were utilized to fund a portion of the cash consideration paid by Pinnacle in connection with its merger with Virginia Bank and to provide optionality for various growth opportunities and for general corporate purposes. The Notes bear interest at 5.25% per annum, beginning September 18, 2020 to, but excluding September 30, 2025, payable quarterly in arrears. From September 30, 2025 to, but excluding September 30, 2030, or up to an early redemption date, the interest rate shall reset quarterly to an interest rate per annum equal to the then current three-month Secured Overnight Financing Rate ("SOFR") plus 513 basis points, payable quarterly in arrears. Beginning on September 30, 2025 through maturity, the Notes may be redeemed, at Pinnacle's option and subject to any required regulatory approval, on any scheduled interest payment date. The Notes will mature on September 30, 2030.

Pinnacle borrowed $2,000 under a fixed-to-floating rate promissory note due 2030 (the "Promissory Note") in the fourth quarter of 2020. The Promissory Note bears interest at 5.25% per annum, beginning December 18, 2020 to but excluding December 31, 2025, payable quarterly in arrears. From December 31, 2025 to but excluding December 31, 2030, or up to an early redemption date, the interest rate shall reset quarterly to an interest rate per annum equal to the then current three-month Secured Overnight Financing Rate ("SOFR") plus 515 basis points, payable quarterly in arrears. The Promissory Note will mature on December 31, 2030.

(10) 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 $1,576 and $843 in 2021 and 2020, respectively.

The components of net pension benefit cost under the plan for the year ended December 31, 2021 and 2020 is summarized as follows:

Change in Benefit Obligation	**2021**	**2020**
Benefit obligation at beginning of year	$ 22,692	$ 11,956
Service cost	1,385	871
Interest cost	538	412
Actuarial income (loss)	(573)	2,926
Benefits paid	(2,103)	(77)
Increase in obligation due to Virginia Bank merger	—	6,448
Increase in obligation due to plan amendment (1)	—	156
Settlement Gain	(1,053)	—
Benefit obligation at end of year	$ 20,886	$ 22,692
Change in Plan Assets		
Fair value of plan assets at beginning of year	11,988	8,549
Increase in fair value of assets due to Virginia Bank merger	—	2,194
Actual return on plan assets	1,634	1,322
Employer contribution	4,000	—
Benefits paid	(2,103)	(77)
Projected fair value of plan assets at end of year	15,519	11,988
Funded Status at the End of the Year	(5,367)	(10,704)
Amounts Recognized in the Balance Sheet		
Other liabilities, accrued pension	(5,367)	(10,704)
Amounts Recognized in Accumulated Other Comprehensive		
Income Net of Tax Effect		
Unrecognized actuarial loss	(3,332)	(6,166)
Prior service cost	(146)	(155)
Income tax effect	731	1327
Benefit obligation included in accumulated other comprehensive income	$ (2,747)	$ (4,994)
Funded Status		
Benefit obligation	(20,885)	(22,692)
Fair value of assets	$ 15,519	$ 11,988
Unrecognized net actuarial loss	3,332	6,166
Unrecognized prior service cost	146	155
Prepaid benefit cost included in the balance sheet	$ (1,888)	$ (4,383)

	Pension Benefits	
Weighted Average Assumptions as of December 31, 2021 and 2020:	**2021**	**2020**
Discount rate used for net periodic pension cost	2.50%	3.25%
Discount rate used for disclosure	2.60%	2.50%
Expected long-term return on plan assets used for net periodic pension cost	7.25%	7.25%
Rate of compensation increase for disclosure	3.00%	3.00%

(1) In 2020, Pinnacle added a Supplemental Death Benefit for employee participants that increased the benefit obligation by $156.

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 $862.

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, 2021 and 2020 is summarized as follows:

	Pension Benefits	
	2021	**2020**
Service cost	$ 1,385	$ 871
Interest cost	538	412
Expected return on plan assets	(1,074)	(631)
Amortization of Prior Service Cost	9	
Net loss due to settlement	—	—
Recognized net loss due to settlement	425	
Recognized net actuarial loss	222	173
Net pension benefit cost	$ 1,505	$ 825
Gross (gain) loss recognized in other comprehensive income	(2,844)	2,218
Total Recognized in Net Pension Benefit Cost and Other Comprehensive Income	$ (1,339)	$ 3,043

Projected Benefit Payments

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

2022	$ 2,631
2023	200
2024	228
2025	1,371
2026	1,227
2027-2031	4,500

Plan Asset Allocation

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

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

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

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

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

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although 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, 2021 and 2020.

The following table presents the fair value of the assets, by asset category, as of December 31, 2021 and 2020.

	2021	2020
Mutual funds-fixed income	$ 5,897	$ 4,675
Mutual funds-equity	9,622	7,313
Total assets at fair value	$ 15,519	$ 11,988

The following table sets forth by level, within the fair value hierarchy, the assets carried at fair value as of December 31, 2021 and 2020.

	Assets at Fair Value as of December 31, 2021			
	Level 1	Level 2	Level 3	Total
Mutual funds-fixed income	$ 5,897	—	—	5,897
Mutual funds-equity	9,622	—	—	9,622
Total assets at fair value	$ 15,519	—	—	15,519

	Assets at Fair Value as of December 31, 2020			
	Level 1	Level 2	Level 3	Total
Mutual funds-fixed income	$ 4,675	—	—	4,675
Mutual funds-equity	7,313	—	—	7,313
Total assets at fair value	$ 11,988	—	—	11,988

Contributions

Pinnacle contributed $4,000 to its pension plan on January 4, 2021.

Pinnacle also has a 401(k) plan under which Pinnacle matches employee contributions to the plan. In 2021 and 2020, 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 $273 during the year ended December 31, 2021 and $209 during the year ended December 31, 2020.

(11) Income Taxes

Income tax expense attributable to income before income tax expense for the years ended December 31, 2021 and 2020 is summarized as follows:

	2021	2020
Current	$ 1,559	$ (61)
Deferred	(717)	1,175
Total income tax expense	$ 842	$ 1,114

Reported income tax expense for the years ended December 31, 2021 and 2020 differed from the amounts computed by applying the U.S. Federal income tax rate of 21% for 2021 and 2020 to income before income tax expense as a result of the following:

	2021	2020
Computed at statutory Federal tax rate	$ 1,096	$ 877
Increase (reduction) in income tax expense resulting from:		
Tax-exempt interest	(85)	(68)
Disallowance of interest expense	2	3
Capitalized merger transaction expense	—	318
Other, net	(171)	(16)
Reported income tax expense	$ 842	$ 1,114

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, 2021 and 2020 are as follows:

	2021	2020
Deferred tax assets:		
Loans, principally due to allowance for loan losses	$ 692	$ 608
Defined benefit plan valuation adjustments	731	1,329
Accrued pension	303	—
Net unrealized losses on available-for-sale securities	122	—
Other	—	30
Total gross deferred tax assets	1,848	1,967
Deferred tax liabilities:		
Bank premises and equipment, due to differences in depreciation	(1,096)	(470)
Accrued pension, due to actual pension contributions in excess of accrual for financial reporting purposes	—	(536)
Purchase accounting for merger	—	(566)
Net unrealized gains on available-for-sale securities	—	(307)
Other	(231)	(115)
Total gross deferred tax liabilities	(1,327)	(1,994)
Net deferred tax asset (liability)	$ 521	$ (27)

First National Bank has determined that a valuation allowance for the gross deferred tax assets is not necessary as of December 31, 2021 and 2020, 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, 2021 and 2020. 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 2017 and thereafter are subject to future examination by tax authorities.

(12) 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,	
	2021	**2020**
Commitments to extend credit	$ 125,589	$ 109,413
Standby letters of credit	$ 6,943	$ 7,960

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.

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, 2021 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.

(13) Leases

Pinnacle leases premises and equipment under various operating lease agreements. Lease payments for all leases in 2021 were $349. 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
2022	$ 341
2023	325
2024	292
2025	272
2026	275
Thereafter	531
Total	$ 2,036

Pinnacle entered into a lease of the Amherst branch facility, with an entity in which a prior 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 $164 annually.

(14) 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, 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 Pinnacle's consolidated financial condition or results of operations.

(15) Dividend Restrictions and Capital Requirements

Pinnacle's principal source of funds for dividend payments is dividends received from its subsidiary Bank. For 2021 and 2020, dividends from the subsidiary Bank totaled $1,645 and $6,328 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.

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 the Basel III Capital Rules. 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, 2021 and 2020, are listed below. The disclosure below reflects Pinnacle's consolidated capital as determined under regulations that apply to bank holding companies that are not small bank holding companies and minimum capital requirements that would apply to Pinnacle if it were not subject to the Statement (as defined below):

Regulatory Capital Ratios as of December 31, 2021	**Pinnacle Consolidated**		**First National Bank**	
	Amount	**Ratio**	**Amount**	**Ratio**
Total Risk-Based Capital Ratio (to Risk Weighted Assets)	$ 67,835	11.96%	$ 75,756	13.20%
CET 1 Risk Based Capital Ratio (to Risk Weighted Assets)	$ 65,030	11.30%	$ 71,951	12.54%
Tier 1 Risk-Based Capital Ratio (to Risk Weighted Assets)	$ 65,030	11.30%	$ 71,951	12.54%
Tier 1 Leverage Capital Ratio (to Average Assets)	$ 65,030	6.65%	$ 71,951	7.37%

Regulatory Capital Ratios as of December 31, 2020	**Pinnacle Consolidated**		**First National Bank**	
	Amount	**Ratio**	**Amount**	**Ratio**
Total Risk-Based Capital Ratio (to Risk Weighted Assets)	$ 63,637	11.27%	$ 70,303	12.48%
CET 1 Risk Based Capital Ratio (to Risk Weighted Assets)	$ 60,049	10.63%	$ 66,715	11.84%
Tier 1 Risk-Based Capital Ratio (to Risk Weighted Assets)	$ 60,049	10.63%	$ 66,715	11.84%
Tier 1 Leverage Capital Ratio (to Average Assets)	$ 60,049	8.01%	$ 66,715	8.92%

The Basel III Capital Rules limit 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. Basel III 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%.

First National Bank was considered "well capitalized" as of December 31, 2021 and December 31, 2020.

In August 2018, the Board of Governors of the Federal Reserve System updated the Small Bank Holding Company Policy Statement (the "Statement"). The Statement among other things, exempts qualifying bank holding companies with consolidated assets of less than $3 billion from reporting consolidated regulatory capital ratios and from minimum regulatory capital requirements. Pinnacle expects that it will be treated as a small bank holding company and is not subject to regulatory capital requirements on a consolidated basis. At December 31, 2021, Pinnacle's regulatory capital ratios exceeded all minimum capital requirements that would have applied to Pinnacle if it were not a small bank holding company.

(16) 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.

(d) 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, 2021 and December 31, 2020, 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.

(e) 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, 2021 and December 31, 2020, 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, 2021 and December 31, 2020. As of December 31, 2021 and December 31, 2020, 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, 2021 and December 31, 2020, 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, 2021, 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, 2020, 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. There were no properties as of December 31, 2021.

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

	Fair Value Measurements on December 31, 2021				
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	$ 120,709	$ 120,709	$ —	$ 120,709	$ —
Impaired loans (nonrecurring)	$ 2,530	$ 2,530	$ —	$ —	$ 2,530

	Fair Value Measurements on December 31, 2020				
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	$ 46,241	$ 46,241	$ —	$ 46,241	$ —
Impaired loans (nonrecurring)	$ 2,664	$ 2,664	$ —	$ —	$ 2,664
Other Real Estate Owned (nonrecurring)	$ 519	$ 519	$ —	$ —	$ 519

The following table sets forth a summary of changes in the fair value of Pinnacle's nonrecurring Level 3 assets for the period ended December 31, 2021 and 2020:

	Level 3 Assets Year Ended December 31, 2021	
	Impaired Loans	**Other Real Estate Owned**
Balance, beginning of the year	$ 2,664	519
Purchases, sales, issuances, and settlements (net)	(134)	(519)
Balance, end of year	$ 2,530	0

	Level 3 Assets Year Ended December 31, 2020	
	Impaired Loans	Other Real Estate Owned
Balance, beginning of the year	$ 1,258	666
Purchases, sales, issuances, and settlements (net)	1,406	(147)
Balance, end of year	$ 2,664	519

(17) Parent Company Financial Information

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

Condensed Balance Sheets

	December 31,	
Assets	**2021**	**2020**
Cash due from subsidiary	$ 34	$ 1,863
Investment in subsidiary, at equity	70,698	64,996
Other assets	1,740	1,547
Total assets	$ 72,472	$ 68,406
Liabilities and stockholders' equity		
Notes payable	$ 10,000	$ 10,000
Other liabilities	105	76
Total liabilities	$ 10,105	$ 10,076
Stockholders' equity		
Common stock of $3 par value, authorized 3,000,000 shares; issued and outstanding 2,170,311 shares in 2021 and 2,158,379 in 2020	$ 6,388	$ 6,364
Capital surplus	11,480	11,288
Retained earnings	47,700	44,509
Accumulated other comprehensive loss, net	(3,201)	(3,831)
Total stockholders' equity	$ 62,367	$ 58,330
Total liabilities and stockholders' equity	$ 72,472	$ 68,406

Condensed Statements of Income

	Years ended December 31,	
	2021	**2020**
Income:		
Dividends from subsidiary	$ 1,645	$ 6,328
Equity in undistributed net income of subsidiary	2,812	(1,853)
Total Income	4,457	4,475
Expenses:		
Interest accrued on subordinated debt	412	129
Interest on long-term borrowings	103	4
Other expenses	409	1,656
Income before income tax benefit	3,533	2,686
Applicable income tax benefit	842	376
Net income	$ 4,375	$ 3,062

Condensed Statements of Cash Flows

	Years ended December 31, 2021	2020
Cash flows from operating activities:		
Net income	$ 4,375	$ 3,062
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed net income of subsidiary	(2,812)	1,853
Increase in other assets	(193)	(406)
Net cash flows from operating activities	1,370	4,509
Cash flows from investing activities:		
Acquisition of business, net of cash required	—	27,867
Increase in investment of subsidiary	(2,044)	(39,616)
Net cash used in investing activities	(2,044)	(11,749)
Cash flows from financing activities		
Cash dividends paid	(1,184)	(957)
Proceeds from subordinated debt	—	8,000
Proceeds from long-term borrowings	—	2,000
Increase in other liabilities	29	29
Net cash flows from financing activities	(1,155)	9,072
Net increase (decrease) in cash from subsidiary	(1,829)	1,832
Cash due from subsidiary, beginning of year	1,863	31
Cash due from subsidiary, end of year	$ 34	$ 1,863

(18) 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, 2021, options for 10,000 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, 2021, there were 81,324 shares available for grant under the 2014 Plan.

On May 1, 2021, 12,525 shares of restricted stock were granted to employees pursuant to the 2014 Plan and will vest on May 1, 2024. On August 1, 2020, 7,100 shares of restricted stock were granted to employees pursuant to the 2014 Plan and will vest on May 1, 2023.

On January 11, 2022, 3,474 shares of restricted stock were granted to Pinnacle's Directors in lieu of cash for 2021 director fees. On January 14, 2021, 1,218 shares of restricted stock were granted to Pinnacle's Directors in lieu of cash for 2020 director fees.

At December 31, 2021, no options for shares were exercisable under the 2014 Plan.

Pinnacle expensed $0 in 2021 and 2020 in compensation expense as a direct result of the issuance of the 24,000 incentive stock options with tandem stock appreciation rights in 2014. There were no unvested stock options in 2021.

Pinnacle expensed $233 in 2021 in compensation expense as a direct result of the granting of 5,675 shares of restricted stock to employees in 2018, 7,700 shares of restricted stock to employees in 2019, 7,100 shares of restricted stock to employees in 2020 and 12,525 shares of restricted stock to employees in 2021 and expects to expense $223 in 2022, $148 in 2023 and $74 in 2024 on such restricted stock.

Stock option activity during the years ended December 31, 2021 and 2020 is as follows:

	Number of Shares	Weighted Average Exercise Price
Balance as of December 31, 2019	18,375	$ 12.97
Forfeited	375	—
Exercised	8,000	9.42
Granted	—	—
Balance as of December 31, 2020	10,000	$ 12.97
Forfeited	—	—
Exercised	—	—
Granted	—	—
Balance as of December 31, 2021	10,000	$ 12.97

The following table summarizes information about stock options outstanding as of December 31, 2021:

	Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding at 12/31/21	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number Exercisable at 12/31/2021	Weighted-Average Exercise Price
$ 15.70	10,000	1.1	$ 15.70	10,000	$ 15.70

The following table summarizes information about stock options outstanding as of December 31, 2020:

	Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding at 12/31/20	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number Exercisable at 12/31/2020	Weighted-Average Exercise Price
$ 15.70	10,875	2.1	$ 15.70	10,875	$ 15.70

(19) Subsequent Events

Pinnacle has evaluated all other subsequent events for potential recognition and/or disclosure in the December 31, 2021 consolidated financial statements through March 30, 2022, 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 as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Management's internal control over financial reporting is a process designed under the supervision of Pinnacle's Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America.

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, 2021. 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, 2021, 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.

Cherry Bekaert LLP
CPAs & Advisors

Independent Auditor's Report

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

Opinion

We have audited the accompanying consolidated financial statements of Pinnacle Bankshares Corporation and Subsidiary (collectively, the "Company"), which comprise the consolidated balance sheet as of December 31, 2021, and the related statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Cherry Bekaert LLP

Raleigh, North Carolina
March 25, 2022

Report of Independent Registered Public Accounting Firm

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

Opinion on Financial Statements

We have audited the accompanying consolidated balance sheet of Pinnacle Bankshares Corporation and Subsidiary (collectively, the “Company”) as of December 31, 2020, the related consolidated statements of income, comprehensive income, changes in stockholders’ equity, and cash flows for the year ended December 31, 2020, 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, 2020, and the results of its operations and their cash flows for the year ended December 31, 2020, 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 audit. 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 audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit 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 audit, 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 audit 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 audit 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 audit provides a reasonable basis for our opinion.

Cherry Bekaert LLP

Raleigh, North Carolina
March 30, 2021
We have served as the Company’s auditors since 2005.

This page intentionally left blank.

BOARD OF DIRECTORS

James E. Burton, IV, Chairman
Donald W. Merricks, Vice-Chairman
Aubrey H. (Todd) Hall, III
Elton W. Blackstock
Connie C. Burnette
Judson H. Dalton
Robert L. Finch, Jr.
Dr. Robert L. Johnson, II
L. Frank King, Jr.
A. Patricia Merryman
Dr. Albert L. Payne
Carroll E. Shelton
C. Bryan Stott
Michael E. Watson
James O. Watts, IV, Esq.

EXECUTIVE OFFICERS

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

Bryan M. Lemley
Executive Vice President & Chief Financial Officer

Thomas R. Burnett, Jr.
Executive Vice President & Chief Lending Officer

Judi A. Clements
Executive Vice President & Chief Human Resources Officer

Vivian S. Brown
Executive Vice President & Chief Retail Officer

Allison G. Daniels
Senior Vice President & Chief Operating Officer

Michael D. Lyster
Senior Vice President & Chief Credit Officer

Jerry K. Oakes
Senior Vice President & Danville Market President

Krystal D. Harris
Senior Vice President & Director of Human Resources

CORPORATE INFORMATION

Corporate Headquarters
622 Broad Street
PO Box 29
Altavista, VA 24517
434-369-3000
www.1stnatbk.com

Investor Relations
Bryan M. Lemley
bryanlemley@1stnatbk.com
434-477-5882

Stock Transfer Agent
Computershare
312-588-4738
33 N. LaSalle St., Suite 1100
Chicago, IL 60602
Computershare.com/investor

Independent Auditors
Cherry Bekaert, LLP
200 South 10th Street, Suite 900
Richmond, VA 23219

2022 Annual Meeting of Shareholders
The Annual Meeting of Shareholders will be held at:
Virginia Technical Institute
201 Ogden Road
Altavista, VA 24517
11:00 AM Eastern Time
May 10, 2022

Only shareholders of record at the close of business on March 17, 2022, the record date, will be entitled to vote at the Annual Meeting.

We refer you to the 2022 Proxy Statement for further information.

Common Stock
OTCQX: PPBN

PINNACLE BANKSHARES CORPORATION

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