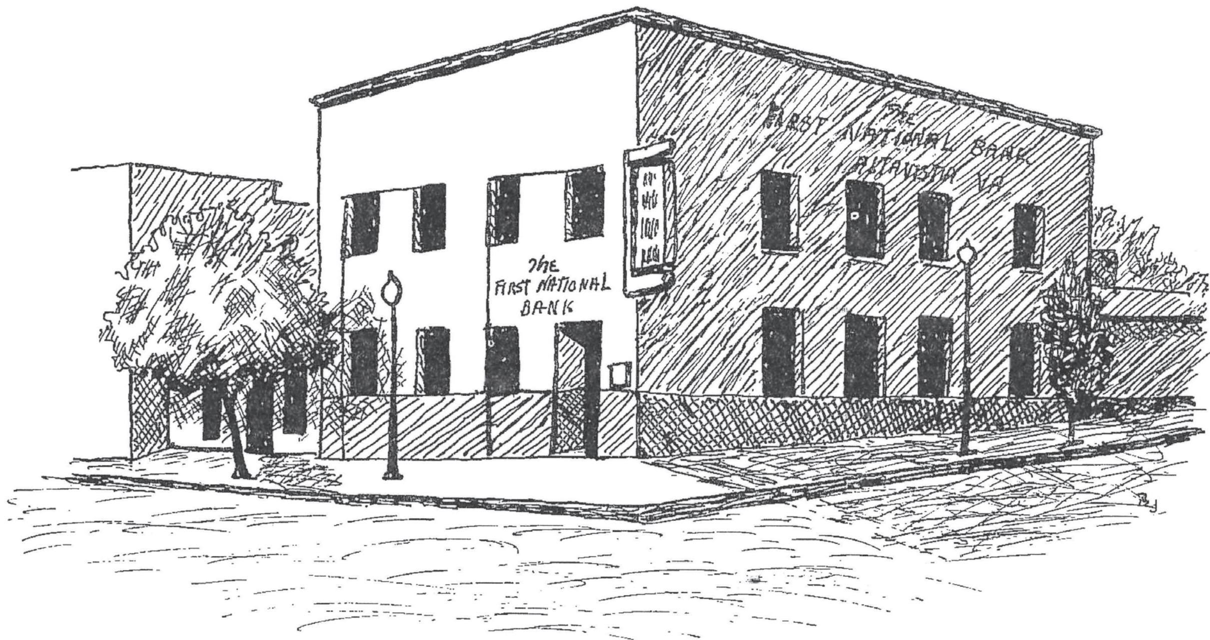
2022 ANNUAL REPORT



HERE TO **STAY**.

READY TO **SERVE**.

BOARD OF DIRECTORS

Front Row (Left to Right): A. Patricia Merryman, Donald W. Merricks *(Vice Chairman)*, James E. Burton, IV *(Chairman)*, Aubrey H. Hall, III, Michael E. Watson, Connie C. Burnette
Back Row (Left to Right): Dr. Robert L. Johnson, II, L. Frank King, Jr., C. Bryan Stott, Carroll E. Shelton, Judson H. Dalton, Robert Hurt, Robert L. Finch, Jr., Dr. Albert L. Payne, James O. Watts, IV, Elton W. Blackstock, Jr.

SENIOR MANAGEMENT

Front Row (Left to Right): Vivian S. Brown, Aubrey H. Hall, III (President & CEO), Krystal D. Harris
Back Row (Left to Right): Allison G. Daniels, Michael D. Lyster, Bryan M. Lemley, Shawn D. Stone, James M. Minear, Tracie A. Gallahan

DEAR SHAREHOLDERS,

March 15, 2023 — As I write this letter, financial markets continue to process and react to news regarding the failures of Silicon Valley Bank (CA) and Signature Bank (NY), and the decision by Silvergate Bank (CA) to wind-down its operations and liquidate. These banks had uniquely different characteristics than most traditional financial institutions, especially community banks, with focuses on the technology sector and cryptocurrency deposits, which led to heightened liquidity and funding risks in the current environment.

The United States Treasury, Federal Reserve Board, and Federal Deposit Insurance Corporation (FDIC) have taken actions to provide assurance to bank depositors and to the banking industry. Through the FDIC, customers of Silicon Valley Bank and Signature Bank were provided access to 100% of their deposits, even in excess of FDIC insurance limits, which in essence makes them whole. Additionally, the Federal Reserve established a Term Funding Program that provides liquidity to banks through pledging high-quality securities. This additional funding gives banks another option for meeting the needs of depositors, without requiring sales of investment securities at losses in unfavorable market conditions.

I am confident in the financial position of Pinnacle Bankshares Corporation and its solely owned subsidiary, First National Bank. First National is conservatively managed and well-capitalized per all regulatory definitions with a strong, diversified depositor base. We are also a nationally chartered bank that operates under the strict regulatory supervision of the Office of the Comptroller of the Currency. We have sustained a solid liquidity position through 2022 and the first two months of 2023 and the majority of our securities portfolio is relatively short-term. Additionally, I am pleased to report that our financial performance significantly improved last year.

For 2022, Pinnacle generated record high net income of $8.2 million. This represents a $3.9 million, or 88%, increase in net income as compared to 2021 and provided a 0.82% return on average assets for the year. Our previous record high net income was $4.4 million in 2019, just prior to a period of significant growth for our company over the course of 2020 and 2021. Since then, Pinnacle has doubled in size to nearly $1 billion in total assets primarily resulting from our acquisition of Virginia Bank Bankshares, Inc. and its wholly-owned subsidiary Virginia Bank & Trust Company, as well as our expansion into Charlottesville and opening of a new branch in Forest, VA. While it has taken some time to absorb the costs associated with these initiatives and begin realizing profitability enhancements, we are now benefiting from our increased scale and capacity.

The primary driver of Pinnacle's 2022 performance was higher net interest income, which increased $5.5 million, or 21%, as a result of increased loan and securities volume combined with higher asset yields. As a reminder, we had over $298 million in cash and cash equivalents on our balance sheet as of year-end 2021, which we worked diligently to deploy during 2022. For the year, our loan portfolio increased $80.6 million, or 15%, primarily driven by higher volume of commercial and dealer automobile loans, and our securities portfolio increased $130.4 million, or 108%, due mainly to the purchase of over $100 million in one to three year U.S. Treasury Notes in an effort to capitalize on our liquidity position and higher interest rates. The deployment of cash into loans and securities helped improve our net interest margin to 3.18% for 2022 as compared to 2.86% for the prior year.

For 2022, Pinnacle incurred $27.2 million in non-interest expense, an increase of 2% compared to 2021, which was well controlled given the high inflation and tight labor market

we experienced. Non-interest income totaled $7 million, which was a decrease of 2%, primarily resulting from lower sales of mortgage loans and a decrease in loan fee income. Mortgage loan production was negatively impacted by higher market interest rates and housing inventory shortages, while loan fees declined due to the Bank ceasing the origination of Paycheck Protection Program loans.

Credit quality remained strong during 2022 with Pinnacle's criticized and classified loans decreasing $6.7 million, or 65%, to $3.7 million as of year-end. Additionally, we experienced net recoveries of $51,000 for the year. As of December 31, 2022, we did not have any Other Real Estate Owned (OREO) and Non-Performing Loans-to-Total Loans and Non-Performing Assets-to-Total Assets were 0.27% and 0.17%, respectively. We have continued to emphasize credit quality due to the potential for a recession and concerns regarding the negative impact higher inflation and market interest rates may have on borrowers.

From a balance sheet perspective, Pinnacle finished 2022 with $970 million in total assets comprised primarily of $633 million in loans, $251 million in securities, and $36.5 million in cash and cash equivalents. Total liabilities were $913 million and were mainly comprised of $899 million in deposits, which decreased $38.8 million, or 4%, compared to the prior year-end. During 2020 and 2021 significant liquidity built up in the banking industry as a result of federal government stimulus in response to the COVID-19 pandemic. The winding down of this stimulus combined with the Federal Open Market Committee's actions to combat inflation have "tightened" the money supply, creating lower levels of bank deposits and increased deposit competition.

Stockholders' equity totaled $57 million as of December 31, 2022, which is a decrease of $5.4 million compared to year-end 2021. The decline is due to $15.3 million in unrealized losses on our securities portfolio resulting from the rising interest rate environment, which was partially offset by higher retained earnings. Correspondingly, Pinnacle's book value per share fell to $26.17 from $28.74 during the same time period. The unrealized losses on our securities portfolio are excluded for regulatory capital ratio calculation purposes with Pinnacle and First National Bank remaining well-capitalized per all regulatory definitions as mentioned earlier. As previously noted, a significant amount of our securities portfolio consists of short-term U.S. Treasury Notes, minimizing credit risk and providing repricing opportunities in the near future. These notes are also eligible to be pledged as part of the Federal Reserve's Term Funding Program that was announced in response to bank failures in March of 2023.

As of February 28, 2023, Pinnacle's share price was $20.73 based on the last trade. This price is reflective of a 5.5 multiple of last twelve months' earnings per share, which is below 25th percentile for our Virginia Community Bank Peer Group. I am hopeful that our 2022 performance will drive improvement in our share price, which has been negatively impacted by lower levels of profitability in 2020 and 2021. For 2022, Pinnacle paid $0.61 per share in cash dividends, an increase of $0.05 per share, or 9%, compared to the prior year. We also increased our quarterly cash dividend to $0.20 per share during the 1st quarter of 2023. Our Board remains committed to a disciplined dividend strategy, while also increasing capital through retained earnings to support the size of our institution and provide a cushion for future challenges, including a potential recession.

I would like to thank A. Patricia Merryman and Dr. Albert L. Payne for their service to the Boards of Pinnacle Bankshares Corporation and First National Bank. These individuals helped lead us through the significant growth of our company during very challenging times and will be retiring from the Boards effective as of our 2023 Annual Meeting of Shareholders. Their experience, guidance and support will be missed. Robert Hurt, Dean of Liberty University's School of Government and a former U.S. Congressman, was appointed to the Boards last year and is standing for election to the Pinnacle Board by our shareholders. Additionally, Vivian S. Brown, Vice President of Pinnacle and Executive Vice President & Chief Retail Officer of First National Bank, is standing for election to the Pinnacle Board. Vivian has made significant contributions to our success over the years and will be retiring as an employee of Pinnacle and First National on May 5, 2023 after thirty-five years in banking.

Congratulations to Tracie A. Gallahan, Senior Vice President & Chief Revenue Officer, Krystal D. Harris, Senior Vice President & Chief Human Resources Officer, Michael L. Lyster, Senior Vice President & Chief Credit Officer, James M. Minear, Senior Vice President & Chief Lending Officer (Northern Market), and Shawn D. Stone, Senior Vice President & Chief Lending

[1] Performance Trust Capital Partners – Virginia Bank Trading Date - $500mm-$5B in Assets as of February 28 2023.

Officer (Southern Market) who were part of a comprehensive management succession plan and promoted to their current roles during 2022. Tracie, Jim and Shawn are long-term First National employees with extensive banking experience and knowledge of the markets we serve. Michael joined First National in 2019 and initially led our expansion into Charlottesville. He is a career banker with over thirty years' experience, primarily in commercial lending. Krystal joined First National in 2021 after over a decade of human resources experience in the medical profession and has helped the Bank navigate through a very challenging jobs market, bringing important experience and value that help secure our position as a strong employer. Additionally, Melissa T. Campbell, another long-term and valued First National employee, will be succeeding Ms. Brown as our new Chief Retail Officer. I am excited to work with all of these high caliber individuals in their new roles.

Our Annual Meeting of Shareholders will be conducted on Tuesday, May 9, 2023, 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. I hope you will join us for an informative session regarding your investment and a celebration of First National Bank's 115th year of operation.

In closing, the growth initiatives executed during the past two years were challenging, especially while also dealing with the Pandemic; however, Pinnacle is beginning to realize the benefits. I am proud of our perseverance and believe all the hard work and efforts have positioned us for continued success. Pinnacle's Board and Management remain committed to further enhancing shareholder value and although economic conditions remain volatile, I am optimistic regarding our future.

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

Sincerely,

Aubrey H. Hall, III "Todd"
President & CEO

All forward-looking information in this letter should be read with, and is qualified in its entirety by, the cautionary language regarding forward-looking statements contained in this Annual Report for the year ended December 31, 2022.

OUR HISTORY

1908

The First National Bank of Altavista, at the corner of Broad & Seventh Streets, is formed with the Bank's charter granted on December 17, 1908.

FOR OVER 90 YEARS, First National Bank successfully operates and prospers within the Town of Altavista.

1999

First National Bank enters the Lynchburg Market by establishing the Lynchburg Airport branch in June of 1999.

IN 2017, THE LYNCHBURG Headquarters is established on Odd Fellows Road in 2017. The Bank currently has 11 branches across the greater Lynchburg area.

2019

First National Bank announces expansion into the Charlottesville Market. The Ivy Road Loan Production Office becomes a full service branch in 2022.

2020

First National Bank and Virginia Bank & Trust successfully merge on October 30, 2020. The Bank's expanded footprint now includes 6 branches in Danville and Pittsylvania County.

2023

First National Bank is celebrating its 115th anniversary with 18 branches across the Danville, Lynchburg and Charlottesville Markets. We are **HERE TO STAY & READY TO SERVE!**

PINNACLE BANKSHARES CORPORATION
AND SUBSIDIARY

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Pinnacle Bankshares Corporation

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 loans, 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 LLC, and Bankers Insurance, LLC.

First National Bank is a community banking organization serving central and southern Virginia. The Bank serves market areas 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 branch in ***Amherst County*** within the ***Town of Amherst***, two branches in ***Bedford County***; five branches in ***Campbell County***, including two within the ***Town of Altavista***, where the Bank was founded; one branch in the ***City of Charlottesville,*** three branches in the ***City of Danville;*** three branches in the ***City of Lynchburg***; and three branches in ***Pittsylvania County***, including one within the ***Town of Chatham***. First National Bank is celebrating its 115th year of operation.

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 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, 2023, there were approximately 2,184,033 shares of Common Stock outstanding, which shares are held by approximately 500 active shareholders of record.

Substantially all of Pinnacle's retained earnings consist of undistributed earnings of First National Bank, which are restricted by various regulations administered by federal banking regulatory agencies. Under applicable federal laws, the OCC 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.

Employees

As of December 31, 2022, Pinnacle had 178 full-time and 10 part-time employees. Pinnacle's management believes that its employee relations are good, although recent growth and the current jobs market have presented challenges.

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.

The OCC announced on October 6, 2022 that its supervisory strategies for 2023 will focus on: (a) strategic and operational planning; (b) credit risk management and allowance for credit losses; (c) operational resilience; (d) oversight of third parties and related concentrations; (e) Bank Secrecy Act/anti-money laundering and sanctions program compliance management; (f) interest rate risk and liquidity risk management; (g) consumer compliance and fair lending risk; (h) CRA performance; (i) new products and services, including those related to payments and fintech/digital assets; and (j) climate-related financial risk management. The OCC's 2023 supervisory plan provides the foundation for policy initiatives and supervisory strategies as applied to national banks, such as First National Bank, and OCC staff members use the plan to guide their priorities, planning, and resource allocations over the course of the coming fiscal year.

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 Wall Street Reform and Consumer Protection Act (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. In particular , the EGRRCPA amended certain provisions of the Dodd-Frank Act as well as statutes administered by the Federal Reserve, OCC and the FDIC. Certain provisions of the Dodd-Frank Act and changes thereto resulting from the enactment of EGRRCPA that may affect Pinnacle and First National Bank are discussed below in more detail.

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.

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 the "Equity" section within "Results of Operations" for more detail.

The federal bank regulatory 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 bank regulatory agencies. If the appropriate federal bank regulatory 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.

The capital ratios described above are the minimum levels that the federal bank regulatory agencies expect. Federal bank regulatory agencies have the discretion to require an institution to maintain higher capital levels based upon its concentrations of loans, the risk of its lending or other activities, the performance of its loan and investment portfolios and other factors. Failure to maintain such higher capital expectations imposed at the supervisory discretion of federal bank regulatory agencies could result in a lower composite regulatory rating, which would impact the institution's deposit insurance premiums and could affect its ability to borrow and costs of borrowing, and could result in additional or more severe enforcement actions. In respect of institutions with high concentrations of loans in areas deemed to be higher risk, or during periods of significant economic stress, regulators may require an institution to maintain a higher level of capital, and/or to maintain more stringent risk management measures, than those required by these regulations.

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 be registered with the Securities and Exchange Commission (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). On December 31, 2022, total base assessment rates for institutions that have been insured for at least five years range from 2.5 to 32 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. On October 18, 2022, the FDIC adopted a final rule to increase initial base deposit insurance assessment rate schedules uniformly by 2 bps, beginning in the first quarterly assessment period of 2023. This increase in assessment rate schedules is intended to increase the likelihood that the reserve ratio reaches 1.35% by the statutory deadline of September 30, 2028. The new assessment rate schedules will remain in effect unless and until the reserve ratio meets or exceeds 2%. Progressively lower assessment rate schedules will take effect when the reserve ratio reaches 2%, and again when it reaches 2.5%.

***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 are also considered in evaluating mergers, acquisitions and applications to open a branch or facility. At its last evaluation in 2022, First National Bank received a "Satisfactory" CRA rating.

On May 5, 2022, the federal bank regulatory agencies issued a joint proposal intended to strengthen and modernize their respective CRA regulations. The joint proposal outlines five objectives: (i) expand access to credit, investment, and basic banking services in low- and moderate-income communities; (ii) adapt to changes in the banking industry, including internet and mobile banking; (iii) provide greater clarity, consistency and transparency; (iv) tailor CRA evaluations and data collection by bank size and type; and (v) maintain a unified approach to CRA across the federal ban regulatory agencies. The public comment period closed on August 5, 2022 and, to date, no final rule has been issued. Pinnacle and First National Bank continue to monitor developments related to the joint proposal.

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 bank regulatory 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 bank regulatory 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 regulatory agencies 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.

If Pinnacle or First National Bank fail to meet regulatory expectations, each could be subject to various regulatory sanctions, including financial penalties and may be required to perform remediation efforts that demand significant resources. To date, neither Pinnacle nor First National Bank have experienced a significant compromise, significant data loss or any material financial losses related to cybersecurity attacks, but our respective systems (and those of our customers and third-party service providers) are under constant threat and it is possible that a significant event could occur in the future. Risks and exposures related to cybersecurity attacks are expected to remain high for the foreseeable future due to the rapidly evolving nature and sophistication of these threats, as well as due to the expanding use of Internet banking, mobile banking and other technology-based products and services by First National Bank and its customers.

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.

In particular, the CFPB has issued a proposed rule that would require banks and other lenders to collect and report data on small business loan applications, including applications from minority-owned and women-owned small businesses. As proposed, the rule would apply to any financial institution that has originated at least 25 covered credit transactions to small businesses (including loans, lines of credit, credit cards, and merchant cash advances) in each of the two preceding calendar years. The rule implements Section 1071 of the Dodd-Frank Act, which amended the Equal Credit Opportunity Act ("ECOA") to mandate this data collection and reporting, the purpose of which is the creation of a comprehensive database of small business credit applications within the United States. The public comment period closed on January 6, 2022 and, to date, no final rule has been issued by the CFPB. While Pinnacle and First National Bank continue to monitor the CFPB's rulemaking actions, the precise effect of the CFPB's consumer protection activities, including the proposed rule implementing Section 1071 of the Dodd-Frank Act, on Pinnacle and First National Bank cannot be forecast at this time.

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 bank regulatory 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 bank regulatory 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 bank regulatory 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 Station Branch	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 Road 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 N. Main Street Altavista, Virginia 24517	(434) 369-3001

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

Net Income. Pinnacle generated net income of $8,242 for 2022, which represents a $3,867, or 88.39%, increase as compared to net income of $4,375 for 2021. The increase, as compared to the prior year, was primarily driven by a significant increase in net interest income as Pinnacle utilized its cash to fund increases in its loan and securities portfolios. Pinnacle also benefited from the higher interest rate environment in 2022 that led to higher yields on earning assets as the Company was able to keep its cost of funds low due to its liquidity levels. The increase in net interest income was partially offset by lower noninterest income and higher noninterest expense. Noninterest income decreased in 2022 compared to last year due to lower sales of mortgage loans resulting from higher interest rates and lower loan fee income resulting from elimination of Paycheck Protection Program ("PPP") loan originations. Noninterest expense increased due to higher salaries and employee benefits along with higher core system expense.

Profitability. Profitability as measured by Pinnacle's return on average assets was 0.82% for 2022, which is a 35 basis points increase from the 0.47% produced in 2021. Return on average equity increased in 2022 to 14.62%, compared to 7.31% for the prior year.

The following table presents certain financial ratios for periods indicated.

RETURN ON AVERAGE EQUITY AND ASSETS

	Year ended December 31, 2022	Year ended December 31, 2021	Year ended December 31, 2020
Return on average assets	0.82%	0.47%	0.52%
Return on average equity	14.62%	7.31%	6.36%
Dividend payout ratio	16.11%	27.06%	31.06%
Average equity to average assets	5.64%	6.46%	8.21%

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 affect net interest income.

Pinnacle produced $30,440 in net interest income in 2022, which represents a $5,351, or 21.33%, increase as compared to the $25,089 generated in 2021 as the Company benefited from higher average earning assets. Interest income increased $4,971, or 18.54%, in 2022, due to increased average loan and investment volume and higher yields on earning assets, while interest expense decreased $380, or 21.93%, during the same period due to lower cost to fund earning assets, which was 0.14% for the year. It should be noted that interest expense increased $180, or approximately 53.10%, in the fourth quarter of 2022 as compared to the same period of 2021. Correspondingly, cost to fund earning assets increased 8 basis points to 0.22% in 2022, from 0.14%, due to increased interest rates paid on deposits that occurred during the fourth quarter of 2022.

The net interest spread increased to 3.10% in 2022 from 2.76% in 2021. In 2022, Pinnacle's asset yields increased while its deposit rates decreased causing a higher interest rate spread. Pinnacle's yield on interest-earning assets was 26 basis points higher in 2022 than in 2021 due to the deployment of excess funds into loans and securities and the repricing of existing assets in the higher interest rate environment. Pinnacle's cost of funds rate on interest-bearing liabilities was 8 basis points lower in 2022 compared to 2021.

Pinnacle's net interest margin also increased to 3.18% in 2022 from 2.86% in 2021. The higher net interest margin was due to higher average assets invested in loans and securities and higher yields from investments as a result of the higher interest rate environment in 2022. Pinnacle attempts to improve 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 2023, 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. Pinnacle's provision for loan losses was $190 for 2022 representing a $43, or 18.45%, decrease as compared to $233 for 2021. Asset quality remained strong in 2022 with the Company realizing $51 in net recoveries from charged off loans for the year as compared to incurring $24 in net charge offs for 2021. Pinnacle's nonperforming loans were $1,695 as of December 31, 2022, a slight increase as compared to $1,434 as of December 31, 2021. Correspondingly, the Company nonperforming loans to total loans ratio increased to 0.27% as of December 31, 2022 from 0.26% as of the prior year-end. Pinnacle may experience some credit quality deterioration in its loan portfolio in 2023 due to inflationary pressures and a possible recession. The Company continues to work to minimize its losses from nonaccrual and past due loans.

Noninterest Income. Noninterest income decreased $164, or 2.28%, in 2022 to $7,024 from $7,187 in 2021. The decrease is primarily due to a $641 decrease in income on sales of mortgage loans and a $209 decrease in service charges on loan accounts resulting partially from $109 in Paycheck Protection Program loan fees derived in 2021. These decreases were partially offset by a $646 increase in service charges on deposit accounts, which included a $392 increase in debit card interchange fees and $219 increase in overdraft fees. The decreases were also partially offset by a $108 increase in commissions and fees from investment products and insurance sales.

Noninterest Expense. Noninterest expense increased $411, or 1.53%, in 2022 to $27,237 from $26,826 in 2021. The increase is primarily attributed to a $606 increase in core system expenses due to higher levels of customer transactions, a $165 increase in dealer loan expenses due to a significant increase in volume, and a $114 increase in FDIC insurance premiums due to higher levels of average deposits. These increases were partially offset by a $445 decrease in merger related fees from the acquisition of Virginia Bank Bankshares, Inc. ("Virginia Bank") that included legal expenses and debit card fees. Also, partially offsetting the increases was a $179 decrease in furniture and equipment due mainly to lower expenses associated with repairs in 2022.

Income Tax Expense. Income taxes on 2022 earnings amounted to $1,794, resulting in an effective tax rate of 17.88%, compared to $842, and an effective tax rate of 16.14% in 2021. The income tax rate increased in 2022 due to higher net income and a higher percentage of taxable loans and investments.

Assets. Total assets as of December 31, 2022 were $969,931, down $45,932, or 4.52% from $1,015,863 as of December 31, 2021. The principal components of Pinnacle's assets as of December 31, 2022 were $36,521 in cash and cash equivalents, $632,896 in total gross loans and $251,114 in investment securities.

Cash and Cash Equivalents. Cash and cash equivalents as of December 31, 2022, totaled $36,521 which is a decrease of $262,074, or 87.77%, from $298,595, as of December 31, 2021, as funds were deployed into loans and securities while deposits decreased.

Securities. Pinnacle's securities portfolio is used primarily for investment income and secondarily for liquidity purposes. Pinnacle invests funds not used for lending purposes or capital expenditures 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.

Securities as of December 31, 2022, totaled $251,114, an increase of $130,405, or 108.03%, from $120,709 as of December 31, 2021 due primarily to the purchase of over $100,000 in one- to three-year U.S. Treasury notes during the first four months of 2022 as the Company sought to capitalize on its liquidity position and higher interest rates, while mitigating credit and interest rate risks. Held-to-maturity investment securities increased to $9,942 as of December 31, 2022 from $0 as of December 31, 2021. Available-for-sale investments increased to $241,172 as of December 31, 2022 from $120,709 as of December 31, 2021, an increase of $120,463, or 99.80%.

Loans. Total loans as of December 31, 2022, totaled $632,896 and increased $80,660, or 14.61%, from $552,236, as of December 31, 2021 with the increase driven by higher volumes of commercial and consumer automobile loans. Pinnacle's net loans were $628,471 as of December 31, 2022, an increase of $80,395, or 14.67%, from $548,076 as of December 31, 2021. Loans increased as Pinnacle used excess liquidity to meet new loan demand in 2022. Pinnacle's ratio of net loans to total deposits was 69.89% as of December 31, 2022 compared to 58.43% as of December 31, 2021.

Allowance for Loan Losses. The allowance for loan losses was $3,853 as of December 31, 2022, which represented 0.61% of total loans outstanding. In comparison, the allowance for loan losses was $3,663, or 0.66% of total loans outstanding as of December 31, 2021.

Bank Premises and Equipment. Bank premises and equipment decreased $867, or 3.83%, in 2022 due to the sale of one property, 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, 2022.

Liabilities. Total liabilities as of December 31, 2022 were $912,923, down $40,573, or 4.26%, from $953,496, as of December 31, 2021. The decrease in liabilities was driven by a decrease in total deposits. Significant liquidity built up in the banking industry during 2020 and 2021 as a result of federal government stimulus in response to the COVID-19 pandemic. The winding down of government stimulus combined with the Federal Open Market Committee's actions to combat inflation by raising interest rates have tightened the money supply, creating lower levels of bank deposits and increased deposit competition, which impacted Pinnacle's results of operations in 2022.

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, could make 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.

Total deposits decreased $38,7841, or 4.14%, to $899,238 as of December 31, 2022 from $938,079 at December 31, 2021. Noninterest-bearing demand deposits decreased $54,369, or 15.93%, and represented 31.90% of total deposits as of December 31, 2022, compared to 36.37% as of December 31, 2021. Savings and NOW accounts increased $29,023, or 6.01%, and represented 56.94% of total deposits as of December 31, 2022, compared to 51.49% as of December 31, 2021. Time deposits decreased $13,495 or 11.85% and represented 11.16% of total deposits as of December 31, 2022, compared to 12.16% as of December 31, 2021. Pinnacle had no brokered deposits as of December 31, 2022 and December 31, 2021.

Average deposits were $927,984 for 2022, an increase of $76,930, or 9.04% compared to $851,054 in average deposits for 2021. For 2022, average demand deposits were $313,830, or 33.82%, of average deposits. Average interest-bearing deposits were $614,154 for 2022, compared to the $571,099 in average interest-bearing deposits for 2021. Pinnacle experienced growth in deposits during the first half of 2022 followed by a decline in the second half of 2022 as federal government stimulus ceased, the money supply tightened, and competitors offered increased deposit rates. In response, Pinnacle increased its interest rates on deposits in the fourth quarter of 2022.

Equity. Total stockholders' equity as of December 31, 2022 was $57,008 and consisted primarily of $54,614 in retained earnings. In comparison, as of December 31, 2021, total stockholders' equity was $62,367. The $5,359 decrease in stockholders'

equity resulted from a $15,256 increase in Pinnacle's unrealized accumulated other comprehensive losses on its available for sale securities portfolio resulting from the rapid increase in interest rates in 2022, which is impacting bank balance sheets across the industry. This increase was partially offset by a $2,769 decrease in other accumulated losses on Pinnacle's pension plan which ended the year with a $21 unrealized gain. The decrease in stockholders' equity was also partially offset by net income of $8,242 less dividends paid to shareholders of $1,328. Dividends paid to shareholders were $0.61 per share paid in 2022 and $0.56 per share paid in 2021. Both Pinnacle and First National Bank remain "well capitalized" per all regulatory definitions.

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 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 exceeded all regulatory capital requirements that would apply under Basel III at December 31, 2022 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 10.94% and 11.30% as of December 31, 2022 and December 31, 2021, respectively. The Total Risk-based Capital Ratio was 11.55% and 11.96% as of December 31, 2022 and December 31, 2021, respectively. Pinnacle's Tier 1 Leverage Ratio was 7.34% and 6.65% as of December 31, 2022 and December 31, 2021, 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, 2022 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 ensure 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 and expectations. 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:

- expected revenue synergies and cost savings from the merger with Virginia Bank may not be fully realized or realized within the expected time frame;
- the potential effects 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 consumer spending and saving habits that may occur, including as a result of the COVID-19 pandemic and increased inflation;
- changes in general business, economic and market conditions;
- attracting, hiring, training, motivating and retaining qualified employees;
- 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 the quality or composition of the Company's loan portfolio and the value of the collateral securing loans;
- changes in macroeconomic trends and uncertainty, including the government closure of Silicon Valley Bank and liquidity concerns at other financial institutions, and the potential for local and/or global economic recession;
- changes in demand for financial services in Pinnacle's market areas;
- increased competition from both banks and non-banks 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, including in the value of securities in the Company's securities portfolio 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, 2022 and December 31, 2021
(In thousands of dollars, except share data)

	2022	2021
Assets		
Cash and cash equivalents:		
Cash and due from banks	$ 36,521	$ 298,595
Certificates of deposits	250	250
Securities:		
Available-for-sale, at fair value	241,172	120,709
Held-to-maturity, at amortized cost	9,942	—
Federal Reserve Bank stock, at cost	871	860
Federal Home Loan Bank stock, at cost	530	430
Loans, net of allowance for loan loss of $3,853 as of December 31, 2022 and $3,663 as of December 31, 2021	628,471	548,076
Bank premises and equipment, net	21,742	22,609
Accrued interest receivable	2,956	1,679
Bank owned life insurance	16,914	16,578
Goodwill	539	539
Core deposit intangible	1,253	1,413
Other assets	8,770	4,125
Total assets	$ 969,931	$ 1,015,863
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Demand	$ 286,833	$ 341,202
Savings and NOW accounts	512,017	482,994
Time	100,388	113,883
Total deposits	899,238	938,079
Subordinated notes payable	8,000	8,000
Other long-term borrowings	2,000	2,000
Accrued interest payable	160	152
Other liabilities	3,525	5,265
Total liabilities	912,923	953,496
Commitments, contingencies and other matters		
Stockholders' equity:		
Common stock, $3 par value. Authorized 3,000,000 shares, issued and outstanding 2,178,486 shares in 2022 and 2,170,311 shares in 2021	6,413	6,388
Capital surplus	11,669	11,480
Retained earnings	54,614	47,700
Accumulated other comprehensive loss, net	(15,688)	(3,201)
Total stockholders' equity	57,008	62,367
Total liabilities and stockholders' equity	$ 969,931	$ 1,015,863

See accompanying notes to consolidated financial statements.

PINNACLE BANKSHARES CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2022 and 2021
(In thousands of dollars, except per share data)

	2022	2021
Interest income:		
Interest and fees on loans	$ 25,930	$ 25,204
Interest on securities:		
U.S. Government agencies	3,759	694
States and political subdivisions (taxable)	539	353
States and political subdivisions (tax-exempt)	238	189
Other	1,322	377
Total interest income	31,788	26,817
Interest expense:		
Interest on deposits:		
Savings and NOW accounts	408	431
Time	940	1,297
Total interest expense	1,348	1,728
Net interest income	30,440	25,089
Provision for loan losses and unfunded commitments	190	233
Net interest income after provision for loan losses	30,250	24,856
Noninterest income:		
Service charges on deposit accounts	3,513	2,867
Commissions and fees	857	749
Mortgage loan fees	625	1,266
Service charges on loan accounts	501	710
Other operating income	1,527	1,595
Total noninterest income	7,023	7,187
Noninterest expense:		
Salaries and employee benefits	14,742	14,756
Occupancy expense	1,603	1,573
Furniture and equipment expense	1,713	1,892
Core system expense	2,630	2,024
Dealer loan expense	601	436
Office supplies and printing	276	339
Federal deposit insurance premiums	596	482
Capital stock tax	511	462
Advertising expense	218	217
Expenses from merger with Virginia Bank	—	445
Other operating expenses	4,347	4,200
Total noninterest expense	27,237	26,826
Income before income tax expense	10,036	5,217
Income tax expense	1,794	842
Net income	$ 8,242	$ 4,375
Basic net income per share	$ 3.78	$ 2.02
Diluted net income per share	$ 3.78	$ 2.02

See accompanying notes to consolidated financial statements.

PINNACLE BANKSHARES CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2022 and 2021
(In thousands of dollars)

	2022	2021
Net income	$ 8,242	$ 4,375
Other comprehensive income, net of related income taxes:		
Unrealized losses on available-for-sale securities		
Before tax	(19,311)	(2,051)
Income tax benefit	4,055	430
Changes in plan assets and benefit obligation of defined benefit pension plan		
Before tax	3,506	2,844
Income tax expense	(737)	(593)
Total other comprehensive (loss) gain	(12,487)	630
Comprehensive (loss) income	$ (4,245)	$ 5,005

See accompanying notes to consolidated financial statements.

PINNACLE BANKSHARES CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2022 and December 31, 2021
(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, 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
Net income				8,242		8,242
Other comprehensive loss					(12,487)	(12,487)
Issuance of restricted stock and related expense	8,175	25	189			214
Cash dividends declared by Bankshares ($0.61 per share)				(1,328)		(1,328)
Balances, December 31, 2022	2,178,486	$ 6,413	$ 11,669	$ 54,614	$ (15,688)	$ 57,008

See accompanying notes to consolidated financial statements.

PINNACLE BANKSHARES CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2022 and 2021
(In thousands of dollars)

	2022	2021
Cash flows from operating activities:		
Net income	$ 8,242	$ 4,375
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation of bank premises and equipment	1,082	1,084
Amortization of intangible assets	160	160
Amortization of unearned fees, net	74	263
Net amortization of premiums and discounts on securities	390	490
Provision for loan losses	190	233
Provision for deferred income taxes	91	717
Stock based compensation expense	214	216
Increase in cash value of bank owned life insurance	(336)	(237)
Accretion of purchased credit-impaired loans	(528)	(840)
Net increase in:		
Accrued interest receivable	(1,277)	(45)
Other assets	(1,417)	(632)
Net (decrease) increase in:		
Accrued interest payable	8	(86)
Other liabilities	1,766	(2,501)
Net cash flows from operating activities	8,659	3,197
Cash flows from investing activities:		
Purchases of available-for-sale securities	(152,850)	(84,539)
Purchases of held-to-maturity securities	(9,835)	—
Proceeds from maturities and calls of available-for-sale securities	450	536
Proceeds from maturities and calls of held-to-maturity securities	—	500
Proceeds from paydowns and maturities of available-for-sale mortgage-backed securities	12,128	6,994
Proceeds from the sale of OREO	—	519
Purchase of Federal Reserve Stock	(11)	(328)
Sale (Purchase) of Federal Home Loan Bank Stock	(100)	20
Purchase of bank owned life insurance	—	(6,000)
Net (increase) decrease in loans made to customers	(80,131)	12,347
Purchases of bank premises and equipment	(402)	(1,024)
Disposals of bank premises and equipment	187	—
Net cash used in investing activities	(230,564)	(70,975)
Cash flows from financing activities:		
Net (decrease) increase in demand, savings and NOW deposits	(25,346)	162,921
Net decrease in time deposits	(13,495)	(6,178)
Cash dividends paid	(1,328)	(1,184)
Net cash flows (used in) received from financing activities	(40,169)	155,559
Net (decrease) increase in cash and cash equivalents	(262,074)	87,781
Cash and cash equivalents, beginning of year	298,595	210,814
Cash and cash equivalents, end of year	$ 36,521	$ 298,595
Supplemental disclosure of cash flows information		
Cash paid during the year for:		
Income taxes	$ 1,325	$ 810
Interest	1,340	1,814
Supplemental schedule of noncash investing and financing activities:		
Transfer from loans to foreclosed assets	$ —	$ (519)
Unrealized losses on available-for-sale securities	(19,312)	(2,051)
Defined benefit plan adjustment per ASC topic *Compensation-Retirement Benefits*	3,506	2,844

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, 2022, the most recent notification from the OCC 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, 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 0.5400 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.

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, 2022 and 2021. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to the determination of the allowance for loan losses, payments/obligations under benefit and pensions plans, other real estate owned and fair value of investments.

(c) Securities

Pinnacle classifies its securities in three categories: (1) debt securities that Pinnacle has the positive intent and ability to hold to maturity are classified as “held-to-maturity securities” and reported at amortized cost; (2) debt securities that are bought and held principally for the purpose of selling them in the near term are classified as “trading securities” and reported at fair value, with unrealized gains and losses included in net income; and (3) debt securities not classified as either held-to-maturity securities or trading securities are classified as “available-for-sale securities” and reported at fair value, with unrealized gains and losses excluded from net income and reported in accumulated other comprehensive income, a separate component of stockholders’ equity, net of deferred taxes. Fair value is determined from quoted prices obtained and reviewed by management. Held-to-maturity securities are stated at cost, adjusted for amortization of premiums and accretion of discounts on a basis, which approximates the level yield method. As of December 31, 2022 and 2021, Pinnacle had no trading securities. Gains or losses on disposition are based on the net proceeds and adjusted carrying values of the securities called or sold, using the specific identification method on a trade date basis.

Management evaluates securities for other-than-temporary impairment (“OTTI”) on a least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Pinnacle assesses OTTI based upon whether it intends to sell a security or if it is likely that it would be required to sell the security before recovery of the amortized cost

basis of the investment, which may be maturity. For debt securities, if Pinnacle intends to sell the security or it is likely that Pinnacle will be required to sell the security before recovering its cost basis, the entire impairment loss would be recognized in earnings as an OTTI. If Pinnacle does not intend to sell the security and it is not likely that Pinnacle will be required to sell the security but we do not expect to recover the entire amortized cost basis of the security, only the portion of the impairment loss representing credit losses would be recognized in earnings. The credit loss on a security is measured as the difference between the amortized cost basis and the present value of the cash flows expected to be collected. Projected cash flows are discounted by the original or current effective interest rate depending on the nature of the security being measured for potential OTTI. The remaining impairment related to all other factors, the difference between the present value of the cash flows expected to be collected and fair value, is recognized as a charge to other comprehensive income ("OCI"). Impairment losses related to all other factors are presented as separate categories within OCI. For investment securities held to maturity, this amount is accreted over the remaining life of the debt security prospectively based on the amount and timing of future estimated cash flows. The accretion of the amount recorded in OCI increases the carrying value of the investment and does not affect earnings. If there is an indication of additional credit losses the security is re-evaluated according to the procedures described above.

(d) Restricted Equity Investments

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

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

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

(e) 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.

(f) 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.

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

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

(h) Bank Premises and Equipment

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

(i) Bank Owned Life Insurance

Pinnacle has purchased life insurance policies on certain 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.

(j) 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 and 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 2022 and 2021, Pinnacle reviewed its goodwill for impairment and determined that goodwill is not impaired. Management will continue to monitor the relationship of Pinnacle's market capitalization to both its book value and tangible book value, which management attributes to factors that are both Company-specific and that affect the financial services industry-wide, and to evaluate the carrying value of goodwill.

(k) Other Real Estate Owned

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

(l) Impairment or Disposal of Long-Lived Assets

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

(m) Pension Plan

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

Accounting Standards 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.

(n) Revenue Recognition

Pinnacle recognizes revenue from contracts with customers. Noninterest revenue streams such as service charges on deposit accounts and commissions and fees are recognized in accordance with 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 products and insurance policies sales. For insurance sales referred to Bankers Insurance LLC, Pinnacle retains a certain percentage of the policy premium for each policy sold. For investment products sales through LPL financial LLC, revenue to Pinnacle consists of advisory account fees, commissions from sales of mutual funds and other investments. Commissions and fees that total $857 and $749 for 2022 and 2021, respectively, on the consolidated statement of income include $172 and $167 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 2022 and 2021, respectively:

	Years Ended December 31,	
	2022	**2021**
Non-interest Income		
In-scope of Topic 606:		
Service charges on deposit accounts	$ 3,513	$ 2,867
Commissions and fees	685	582
Other operating income	987	1,074
Non-interest Income (in-scope of Topic 606)	$ 5,185	$ 4,523
Non-interest Income (out-of-scope of Topic 606)	1,839	2,664
	$ 7,024	$ 7,187

(o) 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, 2022	Net income (numerator)	Shares (denominator)	Per share amount
Basic net income per share	$ 8,242	2,177,680	$ 3.78
Effect of dilutive stock options	—	2,870	
Diluted net income per share	$ 8,242	2,180,550	$ 3.78
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

(p) 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.

(q) 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, 2021, all available-for-sale securities fell into Level 2 fair value hierarchy and remained at Level 2 as of December 31, 2022. 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 Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("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 has adopted the new guidance as of December 31, 2022 on its consolidated financial statements. See note **(13) Leases**.

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 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.

In March 2022, the FASB issued ASU 2022-02 *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures.* For creditors that have adopted CECL, the amendments in this ASU: (i) eliminate the previous recognition and measurement guidance for TDRs, (ii) require new disclosures for loan modifications when a borrower is experiencing financial difficulty (the "Modification Disclosures") and (iii) require disclosures of current period gross charge-offs by year of origination in the vintage disclosures (the "Gross Charge-off Vintage Disclosures"). The Modification Disclosures apply to the following modification types: principal forgiveness, interest rate reductions, other-than-insignificant payment delays, term extensions, or a combination thereof. Creditors will be required to disclose the following by loan class: (i) amounts and relative percentages of each modification type, (ii) the financial effect of each modification type, including the amount of principal forgiveness and reduction in weighted average interest rate, (iii) the performance of the loan in the 12 months following the modification and (iv) qualitative information discussing how the modifications factored into the determination of the Allowance for Credit Losses ("ACL"). Pinnacle adopted ASU 2022-02 as of January 1, 2023 and elected to apply the modified retrospective transition method for ACL recognition and measurement. As a result of adopting this ASU, Pinnacle does not expect a material change to its ACL related to loans previously modified as a TDR and, therefore, does not expect a material cumulative effect adjustment to retained earnings as of January 1, 2023. The Modification Disclosures and Gross Chargeoff Vintage Disclosures are required to be applied prospectively, beginning with Pinnacle's 2023 Annual Report.

(2) 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, 2022 and the week of December 31, 2021 was $0.

(3) Securities

The amortized costs, gross unrealized gains, gross unrealized losses and fair values for securities as of December 31, 2022 and 2021 are as follows:

	2022			
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	$ 149,447	—	(7,698)	141,749
Obligations of states and political subdivisions	40,620	2	(6,876)	33,746
Mortgage-backed securities – government	70,996	1	(5,320)	65,677
Total available-for-sale	$ 261,063	3	(19,894)	241,172

	2022			
Held-to-Maturity	**Amortized costs**	**Gross unrealized gains**	**Gross unrealized losses**	**Fair values**
U.S. Treasury securities and obligations of U.S. Government corporations and agencies	$ 9,942	—	(29)	9,913

	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

Pinnacle had no held-to-maturity securities as of December 31, 2021.

The following table shows the gross unrealized losses and fair value of Pinnacle's securities, aggregated by security category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2022:

	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	$ 112,363	3,728	39,299	3,999	151,662	7,727
Obligations of states and political subdivisions	10,589	521	21,839	6,354	11,110	6,875
Mortgage-backed securities-government	26,702	1,718	38,929	3,603	65,631	5,321
Total	$ 149,654	5,967	100,067	13,956	249,721	19,923

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, 2022, the securities included 60 bonds that had continuous losses for less than 12 months and 73 bonds that had continuous losses for more than 12 months. There were no realized gains and losses in 2022.

The following table shows the gross unrealized losses and fair value of Pinnacle's securities, aggregated by security 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 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	$ 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

For 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 or losses in 2021.

The amortized costs and fair values of available-for-sale and held-to-maturity securities as of December 31, 2022 and December 31, 2021, 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.

	2022			
	Available-for-Sale		Held-to-Maturity	
	Amortized costs	**Fair values**	**Amortized costs**	**Fair values**
Due in one year or less	$ 5,693	5,496	9,942	9,913
Due after one year through five years	131,994	126,307	—	—
Due after five years through ten years	38,916	33,690	—	—
Due after ten years	13,464	10,002	—	—
	190,067	175,495	9,942	9,913
Mortgage-backed securities	70,996	65,677	—	—
Totals	$ 261,063	241,172	9,942	9,913

	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	—	—

Securities with amortized costs of approximately $47,932 (fair value of $44,767) as of December 31, 2022, were pledged as collateral for public deposits. 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.

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

A summary of loans as of December 31, 2022 and December 31, 2021 follows:

	2022	2021
Real estate loans:		
Residential-mortgage	$ 170,534	$ 162,984
Residential-construction	11,281	11,075
Commercial	211,224	186,552
Loans to individuals for household, family and other consumer expenditures	136,338	101,733
Commercial and industrial loans	103,519	89,892
Total loans, gross	632,896	552,236
Less unearned income and fees	(572)	(497)
Loans, net of unearned income and fees	632,324	551,739
Less allowance for loan losses	(3,853)	(3,663)
Loans, net	$ 628,471	$ 548,076

Beginning in April 2020, Pinnacle originated loans under the PPP of the Small Business Administration ("SBA"). PPP loans were fully guaranteed by the SBA, and in some cases, borrowers were 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 did not recognize a reserve for PPP loans in its allowance for loan losses. Pinnacle received fees from the SBA of 1% to 5% of the principal amount of each loan originated under the PPP. Fees received from the SBA were recognized net of direct origination costs in interest income over the life of the related loans. Recognition of fees related to PPP loans was dependent upon the timing of ultimate repayment or forgiveness. As of December 2022, Pinnacle holds no PPP loans and all past PPP loans were forgiven and repaid by the SBA.

In the normal course of business, First National Bank has made loans to executive officers and directors. As of December 31, 2022, loans and extensions of credit to executive officers and directors totaled $1,165 as compared to $1,785 as of December 31, 2021. During 2022, one new consumer loan was made to an executive officer and director totaling $25. The loan was 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 and the Board, 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 $573,472 as of December 31, 2022.

Loans in the amount of $38,011 were pledged as collateral for Pinnacle's available FHLB line of credit as of December 31, 2022.

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, 2022

	Commercial	Commercial Real Estate	Consumer	Residential	Total
Allowance for Loan Losses:					
Beginning balance	$ 311	1,440	793	1,119	3,663
Charge-offs	(13)	—	(221)	(24)	(258)
Recoveries	9	—	284	16	309
(Recovery of) provision for loan losses	93	(51)	240	(143)	139
Ending Balance	$ 400	1,389	1,096	968	3,853
Allowance:					
Ending balance: individually evaluated for impairment	—	200	—	—	200
Ending balance: collectively evaluated for impairment	400	1,189	1,096	968	3,653
Ending balance: loans acquired with deteriorated credit quality	$ —	—	—	—	—

	Commercial	Commercial Real Estate	Consumer	Residential	Total
Loans:					
Total loans ending balance	$ 103,519	211,224	136,338	181,815	632,896
Ending balance: individually evaluated for impairment	18	780	15	745	1,558
Ending balance: collectively evaluated for impairment	103,341	206,740	136,311	178,304	624,696
Ending balance: loans acquired with deteriorated credit quality	160	3,704	12	2,766	6,642

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

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, 2022:

Accretable yield, beginning of year	$ 1,259
Additions	—
Accretion	(867)
Reclassification of nonaccretable difference due to improvement in expected cash flows	333
Other changes, net	122
Accretable yield, end of year	$ 847

At December 31, 2022, 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, which 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, 2022

Credit Exposure	Commercial	Commercial Real Estate	Consumer	Residential	Total
Pass	$ 103,012	210,128	136,164	180,502	629,806
Special Mention	—	299	45	684	1,028
Substandard	507	797	129	629	2,062
Doubtful	—	—	—	—	—
Total	$ 103,519	211,224	136,338	181,815	632,896

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

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

Age Analysis of Past Due Loans
As of December 31, 2022

	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	$ 74	—	95	169	103,350	103,519	—
Commercial real estate	100	—	717	817	210,407	211,224	—
Consumer	204	20	15	239	136,099	136,338	—
Residential	384	58	955	1,397	180,418	181,815	221
Total	$ 762	78	1,782	2,622	630,274	632,896	221

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	—

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

Impaired Loans
As of December 31, 2022

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ 95	95	—	195	—
Commercial real estate	740	740	—	756	36
Consumer	15	15	—	29	—
Residential	1,271	1,271	—	1,303	29
With related allowance recorded:					
Commercial	$ —	—	—	—	—
Commercial real estate	717	717	200	359	25
Consumer	—	—	—	—	—
Residential	—	—	—	—	—
Total:					
Commercial	95	95	—	195	—
Commercial real estate	1,457	1,457	200	1,115	61
Consumer	15	15	—	29	—
Residential	$ 1,271	1,271	—	1,303	29
Total	$ 2,838	2,838	—	2,642	90

Impaired Loans
For the Year Ended 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

The following presents information on Pinnacle's nonaccrual loans:

Loans in Nonaccrual Status
As of December 31, 2022 and 2021

	2022	2021
Commercial	$ 95	$ 295
Commercial real estate	717	—
Consumer	15	42
Residential	734	1,097
Total	$ 1,561	$ 1,434

Pinnacle had four restructured loans totaling $1,056 as of December 31, 2022. All of these restructured loans constituted troubled debt restructurings as of December 31, 2022.

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, 2022.

The following tables present troubled debt restructurings as of December 31, 2022 and December 31, 2021:

	December 31, 2022		
	Accrual Status	Non-Accrual Status	Total Troubled Debt Restructuring
Commercial	$ —	—	—
Commercial real estate	740	—	740
Consumer	—	—	—
Residential	316	—	316
Total	$ 1,056	—	1,056

	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

For 2022 and 2021, Pinnacle had no new troubled debt restructures and no troubled debt restructures experienced payment defaults.

(5) Bank Premises and Equipment

Bank premises and equipment, net was comprised of the following as of December 31, 2022 and 2021:

	2022	2021
Land improvements	$ 783	$ 783
Buildings	20,706	20,533
Equipment, furniture and fixtures	8,834	8,539
	30,323	29,855
Less accumulated depreciation	(12,884)	(11,802)
	17,439	18,053
Land	4,258	4,258
Construction in progress	45	298
Bank premises and equipment, net	$ 21,742	$ 22,609

(6) 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, 2022 and December 31, 2021 and the carrying amount of unamortizable intangible assets as of the same dates.

	December 31, 2022		December 31, 2021	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable Intangible Assets:				
Core Deposit Intangible	$ 1,600	347	$ 1,600	187
Unamortizable Intangible Assets:				
Goodwill	$ 539		$ 539	

Amortization expense of all other intangible assets totaled $0 for the years ended December 31, 2022 and 2021, 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, 2027 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
2023	$ 160
2024	160
2025	160
2026	160
2027	160
Thereafter	453
Total	$ 1,253

(7) Deposits

A summary of deposits as of December 31, 2022 and December 31, 2021:

	2022	**2021**
Noninterest-bearing demand deposits	$ 286,833	$ 341,202
Interest-bearing:		
Savings and money market accounts	355,927	332,959
NOW accounts	156,090	150,035
Time deposits – under $250,000	92,448	104,880
Time deposits – $250,000 and over	7,940	9,003
Total interest-bearing deposits	612,405	596,877
Total deposits	$ 899,238	$ 938,079

In the normal course of business, First National Bank has received deposits from executive officers and directors. As of December 31, 2022 and December 31, 2021, deposits from executive officers and directors were approximately $20,980 and $40,941, 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 $688,824 as of December 31, 2022 and $861,747 as of December 31, 2021.

(8) Borrowings

As of December 31, 2022 and December 31, 2021, Pinnacle's available borrowing limit with the FHLB was approximately $246,398 and $214,945, respectively.

Pinnacle had $0 in borrowings from the FHLB outstanding at December 31, 2022. Pinnacle also has a $7,000 line of credit commitment of which $7,000 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, 2022 and December 31, 2021.

Additionally, Pinnacle has liquidity borrowing capabilities with two correspondent banks totaling $28,000 with $0 outstanding as of December 31, 2022.

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 SOFR plus 515 basis points, payable quarterly in arrears. The Promissory Note will mature on December 31, 2030.

(9) 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 $1,122 and $1,576 in 2022 and 2021, respectively.

The components of net pension benefit cost under the plan for the year ended December 31, 2022 and 2021 is summarized as follows:

Change in Benefit Obligation		**2022**		**2021**
Benefit obligation at beginning of year	$	20,886	$	22,692
Service cost		1,298		1,385
Interest cost		509		538
Actuarial income		(7,285)		(573)
Benefits paid		(1,882)		(2,103)
Settlement Gain		(205)		(1,053)
Benefit obligation at end of year	$	13,321	$	20,886
Change in Plan Assets				
Fair value of plan assets at beginning of year		15,519		11,988
Actual return on plan assets		(3,285)		1,634
Employer contribution		2,000		4,000
Benefits paid		(1,882)		(2,103)
Projected fair value of plan assets at end of year		12,352		15,519
Funded Status at the End of the Year		(969)		(5,367)
Amounts Recognized in the Balance Sheet				
Other liabilities, accrued pension		(969)		(5,367)
Amounts Recognized in Accumulated Other Comprehensive Income Net of Tax Effect				
Unrecognized actuarial (gain)/loss		164		(3,332)
Prior service cost		(137)		(146)
Income tax effect		(6)		731
Benefit obligation included in accumulated other comprehensive income	$	21	$	(2,747)
Funded Status				
Benefit obligation		(13,321)		(20,885)
Fair value of assets	$	12,352	$	15,519
Unrecognized net actuarial (gain)/loss		(164)		3,332
Unrecognized prior service cost		137		146
Prepaid benefit cost included in the balance sheet	$	(996)	$	(1,888)

	Pension Benefits	
Weighted Average Assumptions as of December 31, 2022 and 2021 :	**2022**	**2021**
Discount rate used for net periodic pension cost	2.60%	2.50%
Discount rate used for disclosure	4.95%	2.60%
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%

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 $511.

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, 2022 and 2021 is summarized as follows:

	Pension Benefits	
	2022	**2021**
Service cost	$ 1,299	$ 1,385
Interest cost	509	538
Expected return on plan assets	(1,031)	(1,074)
Amortization of Prior Service Cost	9	9
Recognized net loss due to settlement	247	425
Recognized net actuarial loss	75	222
Net pension benefit cost	$ 1,108	$ 1,505
Gross gain recognized in other comprehensive income	(3,506)	(2,844)
Total Recognized in Net Pension Benefit Cost and Other Comprehensive Income	$ (2,398)	$ (1,339)

Projected Benefit Payments

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

2023	$ 1,349
2024	188
2025	1,333
2026	722
2027	682
2028-2032	3,482

Plan Asset Allocation

Plan assets are held in a pooled pension trust fund administered by the Virginia Bankers Association. The pooled pension trust fund is sufficiently diversified to maintain a reasonable level of risk without imprudently sacrificing return, with a targeted asset allocation of 38% fixed income and 62% equities. The Investment Manager selects investment fund managers with demonstrated experience and expertise, and funds with demonstrated historical performance, for the implementation of the pension plan's investment strategy. The Investment Manager will consider both actively and passively managed investment strategies and will allocate funds across the asset classes to develop an efficient investment structure.

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

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

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

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

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although Pinnacle believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement as of December 31, 2022 and 2021.

The following table presents the fair value of the assets, by asset category, as of December 31, 2022 and 2021.

	2022	2021
Mutual funds-fixed income	$ 4,694	$ 5,897
Mutual funds-equity	7,658	9,622
Total assets at fair value	$ 12,352	$ 15,519

The following table sets forth by level, within the fair value hierarchy, the assets carried at fair value as of December 31, 2022 and 2021.

	Assets at Fair Value as of December 31, 2022			
	Level 1	Level 2	Level 3	Total
Mutual funds-fixed income	$ 4,694	—	—	4,694
Mutual funds-equity	7,658	—	—	7,658
Total assets at fair value	$ 12,352	—	—	12,352

	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

Contributions

Pinnacle contributed $2,000 to its pension plan on December 30, 2022.

Pinnacle also has a 401(k) plan under which Pinnacle matches employee contributions to the plan. In 2022 and 2021, 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 $299 during the year ended December 31, 2022 and $273 during the year ended December 31, 2021.

(11) Income Taxes

Income tax expense attributable to income before income tax expense for the years ended December 31, 2022 and 2021 is summarized as follows:

	2022	2021
Current	$ 1,782	$ 1,559
Deferred	12	(717)
Total income tax expense	$ 1,794	$ 842

Reported income tax expense for the years ended December 31, 2022 and 2021 differed from the amounts computed by applying the U.S. Federal income tax rate of 21% for 2022 and 2021 to income before income tax expense as a result of the following:

	2022	2021
Computed at statutory Federal tax rate	$ 2,108	$ 1,096
Increase (reduction) in income tax expense		
resulting from:		
Tax-exempt interest	(108)	(85)
Disallowance of interest expense	2	2
Other, net	(208)	(171)
Reported income tax expense	$ 1,794	$ 842

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, 2022 and 2021 are as follows:

	2022	2021
Deferred tax assets:		
Loans, principally due to allowance for loan losses	$ 765	$ 692
Defined benefit plan valuation adjustments	—	731
Accrued pension	209	303
Net unrealized losses on available-for-sale securities	4,177	122
Total gross deferred tax assets	5,151	1,848
Deferred tax liabilities:		
Bank premises and equipment, due to differences in depreciation	(1,053)	(1,096)
Other	(370)	(231)
Total gross deferred tax liabilities	(1,423)	(1,327)
Net deferred tax asset	$ 3,728	$ 521

First National Bank has determined that a valuation allowance for the gross deferred tax assets is not necessary as of December 31, 2022 and 2021, 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, 2022 and 2021. 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 2018 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,	
	2022	**2021**
Commitments to extend credit	$ 123,304	$ 125,589
Standby letters of credit	$ 6,535	$ 6,943

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, 2022 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's leases are recorded under ASC Topic 842 "Leases." The right-of-use assets and lease liabilities are included in other assets and other liabilities, respectively, in the Consolidated Balance Sheets. Lease liabilities represent Pinnacle's obligation to make lease payments and are presented at each reporting date as the net present value of the remaining contractual cash flows. Cash flows are discounted at the Pinnacle's incremental borrowing rate in effect at the commencement date of the lease. Right-of-use assets represent Pinnacle's right to use the underlying asset for the lease term and are calculated as the sum of the lease liability and if applicable, prepaid rent, initial direct costs and any incentives received from the lessor. Pinnacle currently leases three of its operating locations under long-term leases (greater than 12 months). These locations are classified as operating leases. 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 lease agreements do not provide for residual value guarantees and have no restrictions or covenants that would impact dividends or require incurring additional financial obligations. Lease payments for all leases in 2022 were $311.

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 Pinnacle's option for two additional terms of five years each. Pinnacle's current rental payment under the lease is currently $164 annually.

The following table represents information about Pinnacle's leases.

		December 31, 2022
Short-term lease liability	$	276
Long-term lease liability	$	1,330
Right-of-use assets	$	1,606
Weighted average remaining lease term		5.79 years
Weighted average discount rate		1.53%

The following are future minimum lease payments as required under the agreements:

Year		Payments
2023	$	315
2024		292
2025		272
2026		274
2027		278
Thereafter		255
Total	$	1,686
Less: present value discount		(80)
Total lease liabilities	$	1,606

(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 2022 and 2021, dividends from the subsidiary Bank totaled $2,058 and $1,645, 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 bank regulatory 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, 2022 and 2021, 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, 2022	**Pinnacle Consolidated**		**First National Bank**	
	Amount	**Ratio**	**Amount**	**Ratio**
Total Risk-Based Capital Ratio (to Risk Weighted Assets)	$ 76,152	11.55%	$ 83,071	12.63%
CET 1 Risk Based Capital Ratio (to Risk Weighted Assets)	$ 72,157	10.94%	$ 79,076	12.03%
Tier 1 Risk-Based Capital Ratio (to Risk Weighted Assets)	$ 72,157	10.94%	$ 79,076	12.03%
Tier 1 Leverage Capital Ratio (to Average Assets)	$ 72,157	7.34%	$ 79,076	8.06%

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%

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, 2022 and December 31, 2021.

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, 2022, 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, 2022 and December 31, 2021, 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, 2022 and December 31, 2021, 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, 2022 and December 31, 2021. As of December 31, 2022 and December 31, 2021, 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, 2022 and December 31, 2021, 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, 2022, 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, 2022, 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 other real estate owned properties as of December 31, 2022.

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

	Fair Value Measurements on December 31, 2022				
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	$ 241,172	$ 241,172	$ —	$ 241,172	$ —
Impaired loans (nonrecurring)	$ 2,838	$ 2,838	$ —	$ —	$ 2,838

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)
	Fair Value Measurements on December 31, 2021				
Available-for-sale securities	$ 120,709	$ 120,709	$ —	$ 120,709	$ —
Impaired loans (nonrecurring)	$ 2,530	$ 2,530	$ —	$ —	$ 2,530

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, 2022 and 2021:

	Level 3 Assets Year Ended December 31, 2022	
	Impaired Loans	Other Real Estate Owned
Balance, beginning of the year	$ 2,530	—
Purchases, sales, issuances, and settlements (net)	308	—
Balance, end of year	$ 2,838	—

	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	—

(17) Parent Company Financial Information

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

Condensed Balance Sheets

Assets	December 31, 2022		December 31, 2021	
Cash due from subsidiary	$	32	$	34
Investment in subsidiary, at equity		65,174		70,698
Other assets		1,892		1,740
Total assets	$	67,098	$	72,472
Liabilities and stockholders' equity				
Notes payable	$	10,000	$	10,000
Other liabilities		90		105
Total liabilities	$	10,090	$	10,105
Stockholders' equity				
Common stock of $3 par value, authorized 3,000,000 shares; issued and outstanding 2,178,486 shares in 2022 and 2,170,311 in 2021	$	6,414	$	6,388
Capital surplus		11,668		11,480
Retained earnings		54,614		47,700
Accumulated other comprehensive loss, net		(15,688)		(3,201)
Total stockholders' equity	$	57,008	$	62,367
Total liabilities and stockholders' equity	$	67,098	$	72,472

Condensed Statements of Income

	Years ended December 31, 2022		Years ended December 31, 2021	
Income:				
Dividends from subsidiary	$	2,058	$	1,645
Equity in undistributed net income of subsidiary		5,107		2,812
Total Income		7,165		4,457
Expenses:				
Interest accrued on subordinated debt		420		412
Interest on long-term borrowings		105		103
Other expenses		192		409
Income before income tax benefit		6,448		3,533
Applicable income tax benefit		1,794		842
Net income	$	8,242	$	4,375

Condensed Statements of Cash Flows

	Years ended December 31,	
	2022	**2021**
Cash flows from operating activities:		
Net income	$ 8,242	$ 4,375
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed net income of subsidiary	(5,107)	(2,812)
Increase in other assets	(152)	(193)
Net cash flows from operating activities	2,983	1,370
Cash flows from investing activities:		
Increase in investment of subsidiary	(1,642)	(2,044)
Net cash used in investing activities	(1,642)	(2,044)
Cash flows from financing activities		
Cash dividends paid	(1,328)	(1,184)
(Decrease) Increase in other liabilities	(15)	29
Net cash flows used in financing activities	(1,343)	(1,155)
Net decrease in cash from subsidiary	(2)	(1,829)
Cash due from subsidiary, beginning of year	34	1,863
Cash due from subsidiary, end of year	$ 32	$ 34

(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.

As of December 31, 2022, options for 10,000 shares were exercisable at an exercise price of $15.70 per share under the 2004 Plan and expire on February 11, 2024.

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, 2022, there were 54,407 shares available for grant under the 2014 Plan.

On May 1, 2022, 9,700 shares of restricted stock were granted to employees pursuant to the 2014 Plan and will vest on May 1, 2025. 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 January 12, 2023, 5,547 shares of restricted stock were granted to Pinnacle's Directors in lieu of cash for 2022 director fees. On January 11, 2022, 3,474 shares of restricted stock were granted to Pinnacle's Directors in lieu of cash for 2021 director fees.

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

Pinnacle expensed $0 in 2022 and 2021 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 $183 in 2022 in compensation expense as a direct result of granting 7,700 shares of restricted stock to employees in 2019, 7,100 shares of restricted stock to employees in 2020, 12,525 shares of restricted stock to employees in 2021, and 9,700 shares of restricted stock to employees in 2022. Pinnacle expects to expense $186 in 2023, $108 in 2024 and $26 in 2025 on such restricted stock.

Stock option activity during the years ended December 31, 2022 and 2021 is as follows:

	Number of Shares	Weighted Average Exercise Price
Balance as of December 31, 2020	10,000	$ 12.97
Forfeited	—	—
Exercised	—	—
Granted	—	—
Balance as of December 31, 2021	10,000	$ 12.97
Forfeited	—	—
Exercised	—	—
Granted	—	—
Balance as of December 31, 2022	10,000	$ 12.97

The following table summarizes information about stock options outstanding as of December 31, 2022:

	Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding at 12/31/22	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number Exercisable at 12/31/2022	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, 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	2.1	$ 15.70	10,000	$ 15.70

(19) Subsequent Events

Pinnacle has evaluated all other subsequent events for potential recognition and/or disclosure in the December 31, 2022 consolidated financial statements through March 31, 2023, the date the consolidated financial statements were available to be issued.

Management's Report on Internal Control over Financial Reporting

Management Report

In this management report, the following subsidiary institutions of the Pinnacle Bankshares Corporation (the Company) that are subject to Part 363 are included in the statement of management's responsibilities; the report on management's assessment of compliance with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, State laws and regulations pertaining to dividend restrictions; and the report on management's assessment of internal control over financial reporting: First National Bank.

Statement of Management's Responsibilities

The management of Pinnacle Bankshares Corporation (the Company) is responsible for preparing the Company's annual consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; for establishing and maintaining an adequate internal control structure and procedures for financial reporting, including controls over the preparation of regulatory financial statements in accordance with instructions for the Parent Company Only Financial Statements for Small Bank Holding Companies (Form FR Y-9SP); and for complying with the Federal laws and regulations pertaining to insider loans and the federal and, if applicable, state laws and regulations pertaining to dividend restrictions.

Management's Assessment of Compliance with Designated Laws and Regulations

The management of the Company has assessed the Company's compliance with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, state laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2022. Based upon its assessment, management has concluded that the Company complied with the Federal laws and regulations pertaining to insider loans and the Federal and, if applicable, state laws and regulations pertaining to dividend restrictions during the fiscal year that ended on December 31, 2022.

Management's Assessment of Internal Control over Financial Reporting

The Company's internal control over financial reporting is a process effected by those charged with governance, management and other personnel, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, i.e., FR Y-9SP. The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and financial statements for regulatory reporting purposes, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

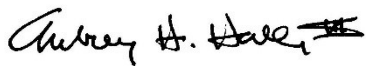
Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management is responsible for establishing and maintaining effective internal control over financial reporting including controls over the preparation of regulatory financial statements. Management assessed the effectiveness of the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the Parent Company Only Financial Statements for Small Bank Holding Companies (Form FR Y-9SP), as of December 31, 2022, based on the framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control—Integrated Framework in 2013*. Based upon its assessment, management has concluded that, as of December 31, 2022, the Company's internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the Parent Company Only Financial Statements for Small

Bank Holding Companies (Form FR Y-9SP), is effective based on the criteria established in *Internal Control—Integrated Framework issued in 2013*.

Management's assessment of the effectiveness of internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the Parent Company Only Financial Statements for Small Bank Holding Companies (Form FR Y-9SP), as of December 31, 2022, has been audited by Cherry Bekaert LLP, an independent public accounting firm, as stated in their report dated March 28, 2023.

Pinnacle Bankshares Corporation



Aubrey H. (Todd) Hall, III
President & Chief Executive Officer
March 28, 2023

Bryan M. Lemley
Secretary, Treasurer & Chief Financial Officer
March 28, 2023

Cherry Bekaert LLP
Your Guide Forward

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 sheets as of December 31, 2022 and 2021, and the related consolidated 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, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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 audits. 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 28, 2023

Independent Auditor's Report

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

Opinion on Internal Control over Financial Reporting

We have audited Pinnacle Bankshares Corporation and Subsidiary (collectively, the "Company") internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for *Part 363 Federal Deposit Insurance Act (FDI Act)*, as of December 31, 2022, based on criteria established in the *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). In our opinion, Pinnacle Bankshares Corporation and Subsidiary maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on COSO.

We also have audited, in accordance with auditing standards generally accepted in the United States of America ("GAAS"), the accompanying consolidated financial statements of Pinnacle Bankshares Corporation and Subsidiary, and our report dated March 28, 2023 expressed an unmodified opinion.

Basis for Opinion

We conducted our audit in accordance with GAAS. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of Internal Control over Financial Reporting* section of our report. We are required to be independent of Pinnacle Bankshares Corporation and Subsidiary 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 Internal Control over Financial Reporting

Management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Pinnacle Bankshares Corporation and Subsidiary's Management Report on Internal Control Over Financial Reporting.

Auditor's Responsibilities for the Audit of Internal Control over Financial Reporting

Our objectives are to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects and to issue an auditor's report that includes our opinion on internal control over financial reporting. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material weakness when it exists.

In performing an audit of internal control over financial reporting in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Obtain an understanding of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

Definition and Inherent Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the institution; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the institution are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Cherry Bekaert LLP

Richmond, Virginia
March 28, 2023

BOARD OF DIRECTORS

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Aubrey H. (Todd) Hall, III
President & Chief Executive Officer
Bryan M. Lemley
Secretary, Treasurer & Chief Financial Officer
Vivian S. Brown
Vice President

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Senior Vice President & Chief Credit Officer
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Senior Vice President & Chief Lending Officer (Southern Market)
James M. Minear
Senior Vice President & Chief Lending Officer (Northern Market)
Krystal D. Harris
Senior Vice President & Chief Human Resources Officer
Tracie A. Gallahan
Senior Vice President & Chief Revenue Officer

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Chicago, IL 60602
Computershare.com/investor

INDEPENDENT AUDITORS
Cherry Bekaert, LLP
200 South 10th Street, Suite 900
Richmond, VA 23219

ANNUAL MEETING OF SHAREHOLDERS
The Annual Meeting of Shareholders will be held at:
Virginia Technical Institute
201 Ogden Road
Altavista, VA 24517
11:00AM Eastern Time
May 9, 2023

Only shareholders of record at the close of business on March 16, 2023, the record date, will be entitled to vote at the Annual Meeting.

We refer you to the 2023 Proxy Statement for further information.

COMMON STOCK
OTCQX: PPBN

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