2023 ANNUAL REPORT

BOARD OF DIRECTORS

Front Row (Left to Right): Vivian S. Brown, 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): L. Frank King, Jr., C. Bryan Stott, Carroll E. Shelton, Judson H. Dalton, Robert Hurt, Robert L. Finch, Jr., James O. Watts, IV, Elton W. Blackstock, Jr. (Not Pictured: Dr. Robert L. Johnson, II)

SENIOR MANAGEMENT

Front Row (Left to Right): Melissa T. Campbell, Aubrey H. Hall, III (President & CEO), Allison G. Daniels

Back Row (Left to Right): Tracie A. Gallahan, Jennifer T. Edgell, Bryan M. Lemley, Shawn D. Stone, James M. Minear, Krystal D. Harris

DEAR SHAREHOLDERS,

I am pleased to report that Pinnacle Bankshares Corporation, the one bank holding company for First National Bank, completed another successful year in 2023, generating record high net income while materially enhancing franchise value and shareholder returns. I am proud of our performance especially considering the challenges faced by the banking industry last year due to rapidly rising interest rates, the resulting liquidity crisis, and several bank failures. Through this volatility we were able to grow deposits, expand our net interest margin, and strengthen our capital position, which all contributed to improved profitability and a higher stock price. Most importantly, we maintained the trust of our depositors and the confidence of our investors. As a result of our efforts, First National achieved the # 3 overall performance ranking per the Performance Trust Rank-the-Banks Virginia Report as of December 31, 2023.

Pinnacle's net income for 2023 was $9.76 million, which represents a $1.5 million, or 18%, increase as compared to 2022 and a return on average assets of 1.00% for the year. The primary driver of this performance was higher net interest income, which increased $2.7 million to $33.2 million, with higher asset yields offsetting rising cost of funds. Our ability to grow deposits and remain core funded helped keep our cost of funds below 1% at 0.92% for the year and expand our net interest margin to 3.52%.

Noninterest income increased $941,000, or 13%, to $8 million in 2023 and benefitted from Bank Owned Life Insurance (BOLI) proceeds totaling $1,363,000 received during the year as well as an increase in interchange fees derived from debit card usage, merchant card fees, and insurance and investment product sales commissions. First National has regularly invested in BOLI since 2012 to further enhance noninterest income and help fund the cost of employee benefits. The BOLI proceeds more than offset declines in fees generated from the sale of mortgage loans and loan fee income. Mortgage loan originations and overall loan volume were negatively impacted in 2023 by rising interest rates, housing inventory shortages, and concerns regarding a potential recession.

Improved revenue surpassed higher operating costs as noninterest expense increased $2 million, or 8%, to $29.3 million mainly due to increased salaries and employee benefits as well as core operating system expenses. Salaries and benefits increased $862,000 year-over-year as a result of pay improvement initiatives and new incentive plans intended to ensure First National remains competitive in a continued tight labor market for top talent. Core operating expenses increased $748,000 mainly due to a one-time charge of $402,000 from our core system provider, Fiserv, related to contract renewal credits and billings. Additionally, we also experienced higher occupancy and legal expenses as well as audit and accounting fees due to our larger size and complexity.

As a result of our efforts, First National achieved the #3 overall performance ranking per the Performance Trust Rank-the-Banks Virginia Report as of December 31, 2023.

Credit quality remained strong during 2023 with Pinnacle's criticized and classified loans decreasing $1.6 million, or 34%, to $3 million as of year-end. Additionally, we experienced low net charge-offs of $34,000 for the year as compared to net recoveries of $51,000 in 2022. As of December 31, 2023, 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 0.24% and 0.15%, respectively. We have continued to emphasize credit quality due to concerns regarding the negative impact higher inflation and market interest rates may have on borrowers.

From a balance sheet perspective, Pinnacle finished 2023 with $1.02 billion in total assets comprised primarily of $641 million in loans, $234 million in securities, and $87.6 million in cash and cash equivalents. Total loans increased $8.5 million, or 1%, during 2023 after increasing 15% the prior year. We experienced a decline in loan volume through the first half of the year as demand was negatively impacted by higher interest rates and concerns about the economy, however, volume rebounded during the second half of the year to include 3% growth in the fourth quarter. Our securities portfolio declined $17.5 million, or 7%, during the year and remains relatively short-term in nature with 60% invested in U.S. Treasury issues having an average maturity of 1.29 years and $53 million maturing during the first quarter of 2024. Our cash position as of December 31, 2023 increased $51.1 million as compared to the prior year-end due to reduced loan growth, a decline in securities, and deposit growth, which has put us in a strong liquidity position.

Total liabilities were $948 million as of December 31, 2023 and were mainly comprised of $932 million in deposits, which increased $33.2 million, or 4%, for the year. Our total number of deposit accounts increased 6% year-over-year as we benefitted from our strong reputation for extraordinary customer service and closures of large national bank branches in markets served.

Stockholders' equity totaled $68.4 million as of December 31, 2023, which is an increase of $11.4 million, or 20%, compared to the prior year-end. Correspondingly, our tangible book value per share improved $5.56, or 22%, to $30.38 over the same time period. The improvement has been driven by increased profitability, a decrease in unrealized losses associated with our securities portfolio, and an increase in the value of pension assets. Pinnacle and First National Bank remain "well capitalized" per all regulatory definitions.

Pinnacle's stock price ended 2023 at $24.01 per share, an increase of $4.81, or 25%, compared to year-end 2022. For 2023, Pinnacle paid $0.85 per share in cash dividends, an increase of $0.24 per share, or 39%, compared to the prior year, as a result of our improved profitability and capital position. Total return for 2023 was 30.19%, which outpaced the S&P U.S. BMI Banks

Index's total return of 9.09%[1] and placed us amongst the top fifty performing OTC Markets Group Inc. OTCQX companies in 2024.[2] Based on the last trade through February 29, 2024, Pinnacle's stock price was $29.33 per share or 97% of year-end tangible book value.

I would like to thank L. Frank King, Jr., Carroll E. Shelton, and C. Bryan Stott for their service to the Boards of Pinnacle Bankshares Corporation and First National Bank. Mr. King is the prior President and Chief Executive Office of Virginia Bank and Trust Company and has been instrumental in our expansion efforts across Danville and Pittsylvania County. Mr. Shelton has served our organization as an employee and/or director for over fifty years, providing a strong source of institutional knowledge and support. Mr. Stott has provided financial services industry expertise to the Board and has served on numerous Board committees, including as Chairman of the Compensation Committee. These individuals helped lead us through the significant growth of our company and will be retiring from the Boards effective as of our 2024 Annual Meeting of Shareholders. Their experience, guidance, and support will be missed.

We are excited that Ramsey W. Yeatts, owner and principal broker of Ramsey Yeatts & Associates, Realtors, is standing for election to the Pinnacle Board. Mr. Yeatts has lived and worked in the Pittsylvania County / Danville area all of his life and has over thirty years of experience in banking and real estate. His depth of knowledge of our Southern Market will serve the company well as the area continues to transform and provide new opportunities.

Our Annual Meeting of Shareholders will be conducted on Tuesday, May 14, 2024, 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 Pinnacle's continued progress.

In closing, Pinnacle has produced record high net income each of the past two years and significantly improved profitability and shareholder returns. We are experiencing the benefits of our larger size and scale along with diversification of markets served, yet we remain committed to a community bank model focused on our customers and employees, which is critical to success. I continue to be excited about our future and our ability to capitalize on opportunities and expand our relationships across the Central and Southern Virginia markets.

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.

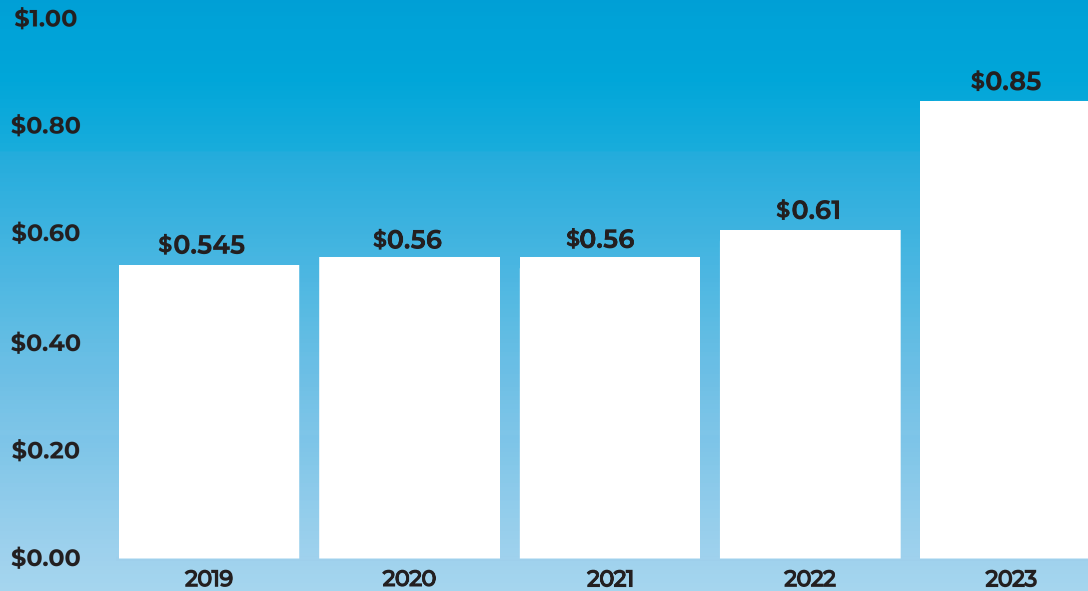
Sincerely,

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

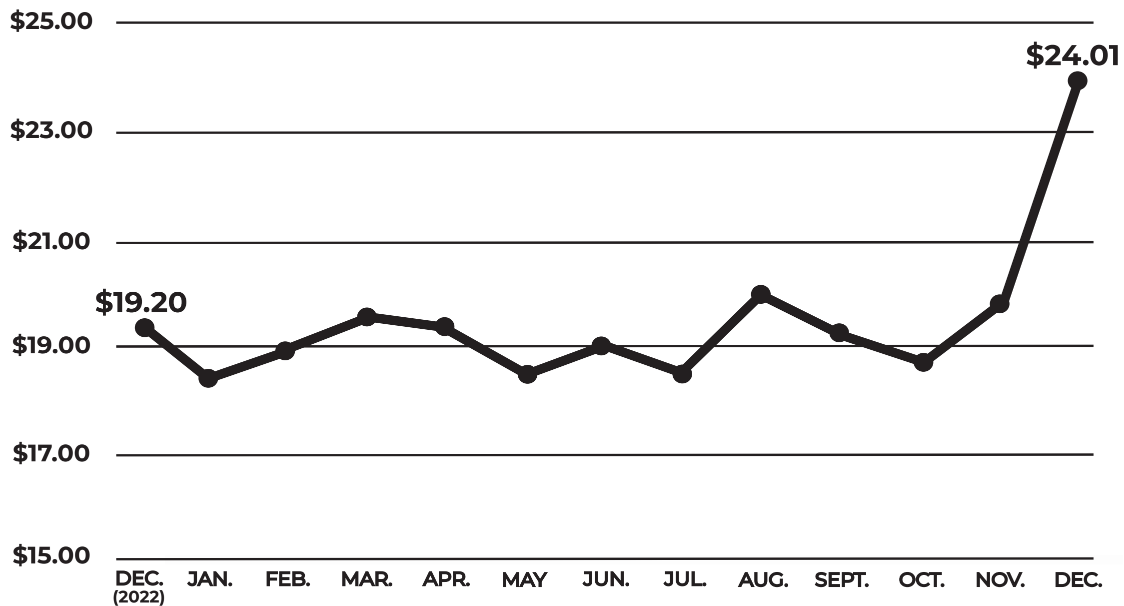
[1]S&P Global / S&P Capital IQ
[2]OTC Markets Group Announces the 2024 OTCQX Best 50 – Press Release dated January 18, 2024

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, 2023.

DIVIDENDS PER SHARE



SHARE PRICE IN 2023



PINNACLE BANKSHARES CORPORATION
AND SUBSIDIARY

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Pinnacle Bankshares Corporation

Company Overview

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 and 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. Information about the Company is available under the Investor Relation tab on First National Bank's website at www.1stnatbk.com. Information on our website is not part of, and is not incorporated into, this Annual Report.

With an emphasis on personal service and commitment to a community banking business model, 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 116th 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. Pinnacle also derives noninterest revenue from a variety of sources including, but not limited to, service charges on deposit and loan accounts, commissions and fees from the sales of investment and insurance products, mortgage loan fees and bank owned life insurance ("BOLI") proceeds. The principal sources of funds for Pinnacle's lending activities are its deposits, repayment of loans, maturity of investment securities, available lines of credit from correspondent banks, borrowings from the Federal Home Loan Bank of Atlanta ("FHLB") and access to the Federal Reserve discount window if needed.

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 local economic conditions, 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 deposits and loans with a number of larger banks as well as other community banks operating in Pinnacle's market area. Pinnacle actively competes for all types of deposits and loans with other banks and nonbank financial institutions, including savings and loan associations, finance

companies, credit unions, mortgage companies, insurance companies, financial technology 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 larger banks have over Pinnacle is their ability to finance extensive advertising campaigns, to offer a wider range of products and services based on the scale of their operations, and to allocate their investment assets to regions of highest yield and demand over a more diverse geographic area. Although larger banks have these competitive advantages over 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. The markets Pinnacle serves benefit from both industrial and retail diversification.

Pinnacle believes that its prompt response to lending requests is a key factor to Pinnacle's competitive position in markets served. 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 markets served, Pinnacle relies upon local promotional activities, personal contact by its directors, officers and employees and its ability to offer specialized services to customers. Pinnacle's promotional activities emphasize the advantages of dealing with a community bank.

Common Stock and Dividends.

Common Stock of Pinnacle is traded on the OTCQX under the symbol "PPBN." As of March 30, 2024, there were approximately 2,205,666 shares of Common Stock outstanding, which shares are held by approximately 483 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, 2023, Pinnacle had 175 full-time and 8 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 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 September 28, 2023 that its supervisory strategies for 2024 will focus on: (a) asset and liability management; (b) credit; (c) allowance for credit losses; (d) cybersecurity; (e) operations; (f) distributed ledger technology related activities; (g) change management; (h) payments; (i) Bank Secrecy Act/anti-money laundering/countering the financing of terrorism and Office of Foreign Assets Control ("OFAC"); (j) consumer compliance; (k) community reinvestment act; (l) fair lending; and (m) climate-related financial risks. The OCC's 2024 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 Environment. Banking and other financial services statutes, regulations and policies are continually under review by the U.S. Congress, state legislatures and federal and state regulatory agencies. The scope of the laws and regulations, and the

intensity of the supervision to which the Corporation and its subsidiaries are subject, have increased in recent years, initially in response to the 2008 financial crisis, and more recently in light of other factors, including continued turmoil and stress in the financial markets, technological factors, market changes, and increased scrutiny of proposed bank mergers and acquisitions by federal and state bank regulators. Regulatory enforcement and fines have also increased across the banking and financial services sector.

Pinnacle continues to experience ongoing regulatory reform and these regulatory changes could have a significant effect on how Pinnacle and First National Bank conduct business. The specific impacts of regulatory reforms, including but not limited to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd Frank Act), which was enacted in 2010, or the Economic Growth, Regulatory Relief and Consumer Protection Act (the EGRRCPA), which was enacted in 2018, cannot yet be fully predicted and will depend to a large extent on the specific regulations that are likely 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 credit 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.

In July 2023 , the Federal Reserve Board and the FDIC issued proposed rules to implement the final components of the Basel III agreement, often known as the "Basel III endgame." These proposed rules contain provisions that apply to banks with $100 billion or more in total assets and that will significantly alter how those banks calculate risk-based assets. These proposed rules do not apply to holding companies or banks with less than $100 billion in assets, such as Pinnacle or First National Bank, but the final impacts of these rules cannot yet be predicted. The comment window for these proposed rules closed on November 30, 2023.

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. Bank holding companies with less than $3 billion in assets may rely on the Federal Reserve Board's Small Bank Holding Company Policy Statement. 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. Management is aware of no existing circumstances that could result in termination of the Bank's deposit insurance.

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, 2023, 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%.

In November 2023, the FDIC issued a final rule to implement a special DIF assessment following the FDIC's use of the "systemic risk" exception to the least-cost resolution test in connection with the failures and resolutions of Silicon Valley Bank and Signature Bank. Banks with less than $5 billion of uninsured deposits, such as First National Bank, are exempt from this special assessment.

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 2023, First National Bank received a "Satisfactory" CRA rating.

On October 24, 2023, the federal bank regulatory agencies jointly issued a final rule to modernize CRA regulations consistent with the following key goals: (1) to encourage banks to expand access to credit, investment, and banking services in low to moderate incoming communities; (2) to adapt to changes in the banking industry, including internet and mobile banking and the growth of non-branch delivery systems; (3) to provide greater clarity and consistency in the application of the CRA regulations, including adoption of a new metrics-based approach to evaluating bank retail lending and community development financing; and (4) to tailor CRA evaluations and data collection to bank size and type, recognizing that differences in bank size and business models may impact CRA evaluations and qualifying activities. Most of the final CRA rule's requirements will be applicable beginning January 1, 2026, with certain requirements, including the data reporting requirements, applicable as of January 1, 2027. First National Bank is evaluating the expected impact of the modified CRA regulations, but currently does not anticipate any material impact to its business, operations or financial condition due to the modified CRA regulations.

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 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. 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.

While Pinnacle and First National Bank continue to monitor the CFPB's rulemaking actions, the precise effect of the CFPB's consumer protection activities 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 record high net income of $9,762 for 2023, which represents a $1,520, or 18.44%, increase as compared to net income of $8,242 for 2022. The increase in net income for 2023 was driven by higher net interest income and higher noninterest income partially offset by higher noninterest expense. Pinnacle benefited from the higher interest rate environment in 2023 that led to higher yields on earning assets, which offset an increase in its cost of funds. Noninterest income increased in 2023 compared to 2022 due to an increase in bank-owned life insurance ("BOLI") returns. The increase in noninterest expense was due mainly to higher salary and benefits, core operating system expense and occupancy expenses.

Profitability. Profitability as measured by Pinnacle's return on average assets was 1.00% for 2023, which is an 18 basis points increase from the 0.82% produced in 2022. Return on average equity increased in 2023 to 15.69%, compared to 14.62% for the prior year.

The following table presents certain financial ratios for periods indicated.

RETURN ON AVERAGE ASSETS AND EQUITY

	Year ended December 31, 2023	Year ended December 31, 2022	Year ended December 31, 2021
Return on average assets	1.00 %	0.82%	0.47%
Return on average equity	15.69 %	14.62%	7.31%
Dividend payout ratio	19.10 %	16.11%	27.06%
Average equity to average assets	6.35 %	5.64%	6.46%

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 composition 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 $33,172 in net interest income in 2023, which represents a $2,732, or 8.98%, increase as compared to the $30,440 generated in 2022 as the Company benefited from higher yields on average earning assets. Interest income increased $10,100, or 31.77%, in 2023, due to higher yields on earning assets, which was 4.44% in 2023 compared to 3.32% in 2022. Interest expense increased $7,368, or 546.59%, during the same period due to higher cost to fund earning assets, which was 0.92% for 2023 compared to 0.14% in 2022.

The net interest spread decreased to 3.05% in 2023 from 3.10% in 2022. In 2023, Pinnacle's cost of interest-bearing deposits increased more than the increase in asset yields causing a lower interest rate spread. Pinnacle's cost of interest-bearing deposits was 128 basis points higher in 2023 than in 2022 due to a higher interest rate environment.

Pinnacle's net interest margin increased to 3.52% in 2023 from 3.18% in 2022. The higher net interest margin was due to higher yields from loans and investments as a result of the higher interest rate environment in 2023. Upward loan and investment repricing and loans made at higher rates in 2023 led to an increase in asset yields partially offset by the increase in time deposits at increased offered rates which increased the cost to fund earning assets. 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 2024, 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 Credit Losses. Pinnacle’s provision for credit losses was $70 for 2023 representing a $120, or 63.16%, decrease as compared to $190 for 2022. Asset quality remained very strong in 2023 with the Company experiencing only $34 in net chargeoffs for the year as compared to incurring $51 in net recoveries from charged off loans for 2022. Pinnacle's nonperforming loans were $1,557 as of December 31, 2023, a decrease compared to $1,695 as of December 31, 2022. Correspondingly, the Company's nonperforming loans-to-total loans ratio decreased to 0.24% as of December 31, 2023 from 0.27% as of the prior year-end. Pinnacle could experience some credit quality deterioration in its loan portfolio in 2024 due to the impact of inflationary pressures and the higher interest rate environment on borrowers. The Company continues to work to minimize its losses from its loan portfolio by practicing conservative and diligent loan underwriting practices.

Noninterest Income. Noninterest income increased $941, or 13.40%, in 2023 to $7,964 from $7,023 in 2022. The increase is primarily due to a $1,431 increase in BOLI returns, a $61 increase in merchant card fees and a $38 increase in insurance and investment sales commissions. These increases were partially offset by a $402 decrease in fees generated from sales of mortgage loans, a $107 decrease in service charges on loan accounts and a $66 decrease in income derived from ownership in Bankers Insurance, LLC.

Noninterest Expense. Noninterest expense increased $2,043, or 7.50%, in 2023 to $29,280 from $27,237 in 2022. The increase is primarily attributed to an $862 increase in salaries and employee benefits, a $748 increase in core operating system expenses that included a one-time charge of $402, a $243 increase in occupancy expenses, a $165 increase in legal expenses, and a $79 increase in audit and accounting fees.

Income Tax Expense. Income taxes on 2023 earnings amounted to $2,024, resulting in an effective tax rate of 17.17%, compared to $1,794, and an effective tax rate of 17.88% in 2022. The income tax rate decreased in 2023 due to $1,364 in nontaxable BOLI benefit proceeds.

Assets. Total assets as of December 31, 2023 were $1,016,528, up $46,597, or 4.80% from $969,931 as of December 31, 2022. The principal components of Pinnacle’s assets as of December 31, 2023 were $87,589 in cash and cash equivalents, $641,437 in total gross loans and $233,579 in investment securities.

Cash and Cash Equivalents. Cash and cash equivalents as of December 31, 2023, totaled $87,589 which is an increase of $51,068, or 139.83%, from $36,521, as of December 31, 2022 This increase was driven by an influx of deposits, occurring mainly in December of 2023, combining with maturing securities, which resulted in Pinnacle's strong liquidity position.

Securities. Pinnacle’s investment 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.

Investment securities as of December 31, 2023, totaled $233,579, a decrease of $17,535, or 6.98%, from $251,114 as of December 31, 2022 due primarily to $16,127 in maturities and no purchases during 2023 as the Company sought to preserve its liquidity position and benefit from higher rates on Federal funds sold. Available-for-sale investments decreased to $233,579 as of December 31, 2023 from $241,172 as of December 31, 2022, a decrease of $7,593, or 3.15%. Held-to-maturity investment securities decreased to $0 as of December 31, 2023 from $9,942 as of December 31, 2022.

Loans. Total loans as of December 31, 2023, totaled $641,437, an increase of $8,541, or 1.35%, from $632,896, as of December 31, 2022 with the increase driven by higher volumes of commercial and consumer automobile loans. Pinnacle’s net loans were $636,288 as of December 31, 2023, an increase of $7,817, or 1.24%, from $628,471 as of December 31, 2022. Loan demand was challenging in 2023 due to higher interest rates, housing inventory shortages, and inflation. Pinnacle’s ratio of net loans to total deposits was 68.24% as of December 31, 2023 compared to 69.89% as of December 31, 2022.

Allowance for Credit Losses. The allowance for credit losses was $4,511 as of December 31, 2023, which represented 0.70% of total loans outstanding. In comparison, the allowance for credit losses was $3,853, or 0.61% of total loans outstanding as of December 31, 2022. Pinnacle's ASC 326 current expected credit loss ("CECL") adjustment was $561 ($443 net of tax) as of January 1, 2023.

Bank Premises and Equipment. Bank premises and equipment decreased $245, or 1.13%, in 2023 due to depreciation expense being offset partially by improvements made to several branches. Pinnacle was leasing the Downtown Lynchburg, Amherst and Charlottesville facilities and leasing land for the Riverside Branch in Danville as of December 31, 2023.

Liabilities. Total liabilities as of December 31, 2023 were $948,123, up $35,200, or 3.86%, from $912,923, as of December 31, 2022. The increase in liabilities was driven by an increase in total deposits which mainly occurred in December of 2023.

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 and nonbank financial institutions, such as credit unions, 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 composition.

Total deposits increased $33,206, or 3.69%, to $932,444 as of December 31, 2023 from $899,238 at December 31, 2022. Noninterest-bearing demand deposits decreased $17,331, or 6.04%, and represented 28.90% of total deposits as of December 31, 2023, compared to 31.90% as of December 31, 2022. Savings and NOW accounts decreased $15,749, or 3.08%, and represented 53.22% of total deposits as of December 31, 2023, compared to 56.49% as of December 31, 2022. Time deposits increased $66,286 or 66.03% and represented 17.87% of total deposits as of December 31, 2023, compared to 11.16% as of December 31, 2022 as a result of customers preferring time deposit accounts due to an increase in interest rates offered. Pinnacle had no brokered deposits as of December 31, 2023 and December 31, 2022.

Average deposits were $905,683 for 2023, a decrease of $22,301, or 2.40% compared to $927,984 in average deposits for 2022. For 2023, average demand deposits were $281,108, or 31.04% of average deposits compared to $313,830, or 33.82% of average deposits in 2022. Average interest-bearing deposits were $624,575, or 68.96% of average deposits for 2023 compared to $614,154 or 66.18% of average deposits, in 2022. Deposit growth was minimal through the first three quarters of 2023. Pinnacle experienced much of its deposit growth in the last two months of 2023, which was primarily driven by deposits of public entities.

Equity. Total stockholders' equity as of December 31, 2023 was $68,405 and consisted primarily of $62,069 in retained earnings. In comparison, as of December 31, 2022, total stockholders' equity was $57,008. The $11,397 increase in stockholders' equity resulted primarily from net income of $9,762 less dividends paid to shareholders of $1,864 and a $3,911 decrease in Pinnacle's unrealized accumulated other comprehensive losses on its available for sale securities portfolio as values improved in the second half of 2023; partially offset by a $297 increase in unrealized accumulated other comprehensive losses on its pension plan assets. Dividends paid to shareholders were $0.85 per share paid in 2023 up from $0.61 per share paid in 2022. 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, 2023 if Pinnacle was not subject to the Federal Reserve's small bank holding company policy statement. Pinnacle's CET1 and Tier 1 Risk-based Capital Ratio was 11.91% and 10.94% as of December 31, 2023 and December 31, 2022, respectively. The Total Risk-based Capital Ratio was 12.60% and 11.55% as of December 31, 2023 and December 31, 2022, respectively. Pinnacle's Tier 1 Leverage Ratio was 8.10% and 7.34% as of December 31, 2023 and December 31, 2022, respectively. See Note 14 "Dividend Restrictions and Capital Requirements" to Pinnacle's audited consolidated financial statements, for additional information.

Pinnacle's financial position as of December 31, 2023 reflects liquidity and capital levels management believes to be currently adequate to support anticipated funding needs and budgeted growth. 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, assumptions, 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, operating performance, market and industry conditions, absolute levels of and changes to interest rates, and Pinnacle's plans, objectives, initiatives, 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:

- changes in interest rates, inflation rates, deposit flows, loan demand and real estate values;
- changes in consumer spending and saving habits that may occur, including as a result of 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 the quality or composition of the Company's loan portfolio and the value of the collateral securing loans;
- changes in macroeconomic trends and uncertainty 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;
- the introduction of new lines of business or new products and services;
- changes in accounting principles, standards, rules, and interpretations, and the related impact on our financial statements;
- an increase in liquidity risk, including as driven by changed in depositor behavior and preferences and changes in the amounts and sources of secondary liquidity that is available to Pinnacle and First National Bank;
- volatility in the securities markets generally, including in the value of securities in the Pinnacle'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, 2023 and December 31, 2022
(In thousands of dollars, except share data)

	2023	2022
Assets		
Cash and cash equivalents:		
Cash and due from banks	$ 87,589	$ 36,521
Certificates of deposits	250	250
Securities:		
Available-for-sale, at fair value	233,579	241,172
Held-to-maturity, at amortized cost	—	9,942
Federal Reserve Bank stock, at cost	880	871
Federal Home Loan Bank stock, at cost	701	530
Loans, net of allowance for credit loss of $4,511 as of December 31, 2023 and $3,853 as of December 31, 2022	636,288	628,471
Bank premises and equipment, net	21,497	21,742
Accrued interest receivable	3,255	2,956
Bank owned life insurance	17,540	16,914
Goodwill	539	539
Core deposit intangible	1,093	1,253
Other assets	13,317	8,770
Total assets	$ 1,016,528	$ 969,931
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Demand	$ 269,502	$ 286,833
Savings and NOW accounts	496,268	512,017
Time	166,674	100,388
Total deposits	932,444	899,238
Subordinated notes payable	8,000	8,000
Other long-term borrowings	2,000	2,000
Accrued interest payable	860	160
Other liabilities	4,819	3,525
Total liabilities	948,123	912,923
Commitments, contingencies and other matters		
Stockholders' equity:		
Common stock, $3 par value. Authorized 3,000,000 shares, issued and outstanding 2,198,158 shares in 2023 and 2,178,486 shares in 2022	6,460	6,413
Capital surplus	11,951	11,669
Retained earnings	62,069	54,614
Accumulated other comprehensive loss, net	(12,075)	(15,688)
Total stockholders' equity	68,405	57,008
Total liabilities and stockholders' equity	$ 1,016,528	$ 969,931

See accompanying notes to consolidated financial statements.

PINNACLE BANKSHARES CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2023 and 2022
(In thousands of dollars, except per share data)

	2023	2022
Interest income:		
Interest and fees on loans	$ 32,412	$ 25,930
Interest on securities:		
U.S. Government agencies	5,567	3,759
States and political subdivisions (taxable)	535	539
States and political subdivisions (tax-exempt)	265	238
Other	3,109	1,322
Total interest income	41,888	31,788
Interest expense:		
Interest on deposits:		
Savings and NOW accounts	4,772	408
Time	3,944	940
Total interest expense	8,716	1,348
Net interest income	33,172	30,440
Provision for credit losses and unfunded commitments	70	190
Net interest income after provision for credit losses	33,102	30,250
Noninterest income:		
Service charges on deposit accounts	3,508	3,513
Commissions and fees	914	857
Mortgage loan fees	223	625
Service charges on loan accounts	393	501
Other operating income	2,926	1,527
Total noninterest income	7,964	7,023
Noninterest expense:		
Salaries and employee benefits	15,604	14,742
Occupancy expense	1,663	1,603
Furniture and equipment expense	1,896	1,713
Core system expense	3,378	2,630
Dealer loan expense	483	601
Office supplies and printing	339	276
Federal deposit insurance premiums	606	596
Capital stock tax	507	511
Advertising expense	274	218
Other operating expenses	4,530	4,347
Total noninterest expense	29,280	27,237
Income before income tax expense	11,786	10,036
Income tax expense	2,024	1,794
Net income	$ 9,762	$ 8,242
Basic net income per share	$ 4.45	$ 3.78
Diluted net income per share	$ 4.45	$ 3.78

See accompanying notes to consolidated financial statements.

PINNACLE BANKSHARES CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2023 and 2022
(In thousands of dollars)

	2023	2022
Net income	$ 9,762	$ 8,242
Other comprehensive income, net of related income taxes:		
Unrealized gains (losses) on available-for-sale securities		
Before tax	4,949	(19,311)
Income tax (expense) benefit	(1,039)	4,055
Changes in plan assets and benefit obligation of defined benefit pension plan		
Before tax	(376)	3,506
Income tax (expense) benefit	79	(737)
Total other comprehensive gain (loss)	3,613	(12,487)
Comprehensive income (loss)	$ 13,375	$ (4,245)

See accompanying notes to consolidated financial statements.

PINNACLE BANKSHARES CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2023 and December 31, 2022
(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, 2021	2,170,311	$ 6,388	$ 11,480	$ 47,700	$ (3,201)	$ 62,367
Net income				8,242		8,242
Other comprehensive gain					(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
Net income				9,762		9,762
Cumulative effect of adoption of ASC 326				(443)		(443)
Other comprehensive loss					3,613	3,613
Issuance of restricted stock and related expense	19,672	47	282			329
Cash dividends declared by Bankshares ($0.85 per share)				(1,864)		(1,864)
Balances, December 31, 2023	2,198,158	$ 6,460	$ 11,951	$ 62,069	$ (12,075)	$ 68,405

See accompanying notes to consolidated financial statements.

PINNACLE BANKSHARES CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Net income	$ 9,762	$ 8,242
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation of bank premises and equipment	1,077	1,082
Amortization of intangible assets	159	160
Amortization of unearned fees, net	66	74
Net (accretion) amortization of premiums and discounts on securities	(76)	390
Provision for credit losses (includes $561 for ASC 326)	641	190
Cumulative effect of adoption of ASC 326	(443)	—
Provision for deferred income taxes	(365)	91
Stock based compensation expense	329	214
Increase in cash value of bank owned life insurance	(376)	(336)
Accretion of purchased credit-impaired loans	(1,250)	(528)
Net increase in:		
Accrued interest receivable	(299)	(1,277)
Other assets	(6,533)	(1,417)
Net increase in:		
Accrued interest payable	700	8
Other liabilities	919	1,766
Net cash flows from operating activities	4,311	8,659
Cash flows from investing activities:		
Purchases of available-for-sale securities	—	(152,850)
Purchases of held-to-maturity securities	—	(9,835)
Proceeds from maturities and calls of available-for-sale securities	6,127	450
Proceeds from maturities and calls of held-to-maturity securities	10,000	—
Proceeds from paydowns and maturities of available-for-sale mortgage-backed securities	6,433	12,128
Purchase of Federal Reserve Stock	(9)	(11)
Purchase of Federal Home Loan Bank Stock	(171)	(100)
Purchase of bank owned life insurance	(1,000)	—
Proceeds from bank owned life insurance	2,141	—
Net increase in loans made to customers	(7,274)	(80,131)
Purchases of bank premises and equipment	(832)	(402)
Disposals of bank premises and equipment	—	187
Net cash from (used in) investing activities	15,415	(230,564)
Cash flows from financing activities:		
Net decrease in demand, savings and NOW deposits	(33,080)	(25,346)
Net increase (decrease) in time deposits	66,286	(13,495)
Cash dividends paid	(1,864)	(1,328)
Net cash flows from (used in) financing activities	31,342	(40,169)
Net increase (decrease) in cash and cash equivalents	51,068	(262,074)
Cash and cash equivalents, beginning of year	36,521	298,595
Cash and cash equivalents, end of year	$ 87,589	$ 36,521
Supplemental disclosure of cash flows information		
Cash paid during the year for:		
Income taxes (net of refunds received)	$ 2,740	$ 1,325
Interest	8,016	1,340
Supplemental schedule of noncash investing and financing activities:		
Unrealized gains (losses) on available-for-sale securities	4,949	(19,312)
Defined benefit plan adjustment per ASC topic *Compensation-Retirement Benefits*	(376)	3,506

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, 2023, 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.

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, 2023 and 2022. 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 credit 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, 2023 and 2022, 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.

Allowance for Credit Losses - Securities: Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type. The Company had no held-to maturity securities as of December 31, 2023.

For available-for-sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If the Company intends to sell the security or it is more likely than not that the Company will be required to sell the security before recovering its cost basis, the entire impairment loss would be recognized in earnings. If the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the

extent to which fair value is less than amortized costs, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. Projected cash flows are discounted by the current effective interest rate. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. 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 accumulated other comprehensive income.

Changes in the allowance for credit losses are recorded as provision for (or recapture of) credit losses. Losses are charged against the allowance when management believes the non-collectability of an available-for-sale or held-to-maturity security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

(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) Provision and Allowance for Credit Losses - Loans

The methodology for determining the allowance for credit losses - loans is considered a critical accounting estimate by management because of the high degree of judgment involved, the subjectivity of the assumptions used, and the potential for changes in the economic environment that could result in changes to the amount of the recorded allowance for credit losses - loans. Among the material estimates required to establish the allowance for credit losses - loans are: a reasonable and supportable forecast; a reasonable and supportable forecast period and reversion period; value of collateral; strength of guarantors; the amount and timing of future cash flows for loans individually evaluated; and determination of the qualitative loss factors. All of these estimates are susceptible to significant change. The allowance for credit losses - loans is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loans. The Bank has elected to exclude accrued interest receivable from the amortized cost basis in their estimate of the allowance for credit losses - loans. The provision for credit losses reflects the amount required to maintain the allowance for credit losses - loans at an appropriate level based upon management's evaluation of the adequacy of collective and individual loss reserves. The Company has established systematic methodologies for the determination of the adequacy of the Company's allowance for credit losses - loans. The methodologies are set forth in a formal policy and take into consideration the need for a valuation allowance for loans evaluated on a collective (pool) basis which have similar risk characteristics as well as allowances that are tied to individual loans that do not share risk characteristics.

The Company increases its allowance for credit losses - loans by charging the provision for credit losses. Losses related to specific assets are applied as a reduction of the carrying value of the assets and charged against the allowance for credit loss reserve when management believes the uncollectability of a loan balance is confirmed. Recoveries on previously charged off loans are credited to the allowance for credit losses-loans.

Management estimates the allowance for credit losses - loans using relevant information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. The allowance for credit losses - loans is maintained at a level sufficient to provide for expected credit losses over the life of the loan based on evaluating historical credit loss experience and adjusting historical loss information for differences in the specific risk characteristics in the current loan portfolio. These factors include, among others, changes in the size and composition of the loan portfolio, differences in underwriting standards, delinquency rates, actual loss experience and current economic conditions.

The allowance for credit losses - loans is measured on a collective (pool) basis when similar risk characteristics exist. In estimating the component of the allowance for credit losses for loans that share common risk characteristics, loans are pooled based on loan type and areas of risk concentration. For loans evaluated collectively, the allowance for credit losses is calculated using life of loan historical losses adjusted for economic forecasts and current conditions.

Management uses the roll-rate method often referred to as "migration analysis" to calculate the allowance for credit losses - loans. Roll rates are determined by predicting credit losses by segmentation of the loan portfolio. An assessment of the roll rate is made (the percentage of balances of the number of accounts which move from one delinquency stage to the next). Once a roll rate is determined for each segment, it is applied to the balance in each category to estimate the amount that will migrate to the next category. The total migrations across all categories are aggregated to determine the estimate of credit losses.

For loans evaluated collectively, management uses qualitative factors such as changes in lending policies and procedures, changes in national and local economic conditions, changes in the concentrations of credit, changes in experience of lenders and the loan department, and other factors as may apply in its allowance for credit loss calculation. Each qualitative factor is evaluated and applied to each segment of loan in Pinnacle's portfolio and a percentage of each loan is reserved as allowance. Loans are charged against the allowance for credit losses when management believes the principal is uncollectible.

Loans that do not share risk characteristics with other loans in the portfolio are individually evaluated for impairment and are not included in the collective evaluation. Factors involved in determining whether a loan should be individually evaluated include, but are not limited to, the financial condition of the borrower and the value of the underlying collateral. Expected credit losses for loans evaluated individually are measured based on the present value of expected future cash flows discounted at the loan's original effective interest rate or when the Bank determines that foreclosure is probable, the expected credit loss is measured based on the fair value of the collateral as of the reporting date, less estimated selling costs, as applicable. As a practical expedient, the Bank measures the expected credit loss for a loan using the fair value of the collateral, if repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulty based on the Bank's assessment as of the reporting date.

In both cases, if the fair value of the collateral is less than the amortized cost basis of the loan, the Bank will recognize an allowance as the difference between the fair value of the collateral, less costs to sell (if applicable) at the reporting date and the amortized cost basis of the loan. If the fair value of the collateral exceeds the amortized cost basis of the loan, any expected recovery added to the amortized cost basis will be limited to the amount previously charged-off. Subsequent changes in the expected credit losses for loans evaluated individually are included within the provision for credit losses in the same manner in which the expected credit loss initially was recognized or as a reduction in the provision that would otherwise be reported.

While management uses available information to recognize losses on loans, future additions to the allowance for credit 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 credit losses. Such agencies may require Pinnacle to recognize additions to the allowance for credit 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.

An allowance for credit losses - unfunded loan commitments is maintained at a level that, in the opinion of management, is adequate to absorb expected credit losses associated with the contractual life of the Bank's commitments to lend funds under existing agreements such as letters or lines of credit. The Bank uses a methodology for determining the allowance for credit losses-unfunded loan commitments that applies the same segmentation and loss rate to each pool as the funded exposure adjusted for probability of funding. Draws on unfunded loan commitments that are considered uncollectible at the time funds are advanced are charged to the allowance for credit losses on off-balance sheet exposures. Changes in the allowance for credit losses-unfunded loan commitments are recognized as provision for (or recapture of) credit loss expense and added to the allowance for credit losses - unfunded loan commitments, which is included in other liabilities in the Consolidated Balance Sheets.

(f) ***Loans Acquired***

Loans acquired in business combinations are recorded at their fair value at the acquisition date. Establishing the fair value of acquired loans involves a significant amount of judgment, including determining the credit discount based upon historical data adjusted for current economic conditions and other factors. If any of these assumptions are inaccurate actual credit losses could vary significantly from the credit discount used to calculate the fair value of the acquired loans. Acquired loans are evaluated upon acquisition and classified as either purchased credit-deteriorated or purchased non-credit-deteriorated. Purchased credit-deteriorated (PCD) loans have experienced more than insignificant credit deterioration since origination. For PCD loans, an allowance for credit losses is determined at the acquisition date using the same methodology as other loans. The initial allowance for credit losses determined on a collective basis is allocated to individual loans. The loan's fair value is grossed up for the allowance for credit losses and becomes its initial amortized cost basis.

The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Subsequent changes to the allowance for credit losses are recorded through a provision for credit losses.

For purchased non-credit-deteriorated loans, the difference between the fair value and unpaid principal balance of the loan at the acquisition date is amortized or accreted to interest income over the life of the loan. While credit discounts are included in the determination of the fair value for non-credit-deteriorated loans, since these discounts are expected to be accreted over the life of the loans, they cannot be used to offset the allowance for credit losses that must be recorded at the acquisition date. As a result, an allowance for credit losses is determined at the acquisition date using the same methodology as other loans and is recognized as a provision for credit losses. Any subsequent deterioration (improvement) in credit quality is recognized by recording (recapturing) a provision for credit losses.

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

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

(h) Bank Premises and Equipment

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

(i) Bank Owned Life Insurance

Pinnacle has purchased life insurance policies on certain 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 2023 and 2022, 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 credit 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 require 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 require 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 $914 and $857 for 2023 and 2022, respectively, on the consolidated statements of income includes $190 and $172 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 2023 and 2022, respectively:

	Years Ended December 31,	
	2023	2022
Non-interest Income		
In-scope of Topic 606:		
Service charges on deposit accounts	$ 3,508	$ 3,513
Commissions and fees	724	685
Other operating income	1,030	987
Non-interest Income (in-scope of Topic 606)	$ 5,262	$ 5,185
Non-interest Income (out-of-scope of Topic 606)	2,702	1,839
	$ 7,964	$ 7,024

(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, 2023	Net income (numerator)	Shares (denominator)	Per share amount
Basic net income per share	$ 9,762	2,192,839	$ 4.45
Effect of dilutive stock options	—	1,923	
Diluted net income per share	$ 9,762	2,194,762	$ 4.45
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

(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, 2022, all available-for-sale securities fell into Level 2 fair value hierarchy and remained at Level 2 as of December 31, 2023. 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 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. ASU 2019-04 did not have a material impact on Pinnacle's 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. ASU 2019-05 did not have a material impact on Pinnacle's 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 did not experience any material change to its ACL related to loans previously modified as a TDR and, therefore, did not experience a material cumulative effect adjustment to retained earnings as of December 31, 2023.

On January 1, 2023, Pinnacle adopted ASU 2016-13 F*inancial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASC 326)*. This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. CECL requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable supportable forecasts and generally applies to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities, and some off-balance sheet credit exposures such as unfunded commitments to extend credit. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses.

In addition, CECL made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities if management does not intend to sell and does not believe that it is more likely than not they will be required to sell.

Pinnacle adopted ASC 326 and all related subsequent amendments thereto effective January 1, 2023, using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. The transition adjustment of the adoption of CECL included an increase in the allowance for credit losses on loans of $561 ($443 net of deferred income taxes), which is presented as a reduction to net loans outstanding, and no increase in the allowance for credit losses on unfunded loan commitments, which is recorded within Other Liabilities. Pinnacle recorded a net decrease to retained earnings of $443 as of January 1, 2023, for the cumulative effect of adopting CECL, which reflects the transition adjustments noted above, net of the applicable deferred tax assets recorded. Results for reporting periods beginning after January 1, 2023, are presented under CECL while prior period amounts continue to be reported in accordance with previously applicable accounting standards ("Incurred Loss").

Pinnacle adopted ASC 326 using the prospective transition approach for PCD assets that were previously classified as purchased credit impaired ("PCI") under ASC 310-30. In accordance with the standard, management did not reassess whether PCI assets met the criteria of PCD assets as of the date of adoption. On January 1, 2023, the amortized cost basis of PCD assets were adjusted to reflect the addition of $41 to establish the allowance for credit losses. The remaining interest-related discount of approximately $1,940 began being accrued into interest income at the effective interest rate as of January 1, 2023.

Regarding PCD assets, the Company elected to disaggregate the former PCI pools and no longer considers these pools to be the unit of account; contractually delinquent PCD loans will be reported as nonaccrual loans using the same criteria as other loans.

Pinnacle adopted ASC 326 using the prospective transition approach for debt securities for which other-than-temporary impairment had been recognized prior to January 1, 2023. As of December 31, 2022, the Company did not have any other-than-temporarily impaired investment securities. Therefore, upon adoption of ASC 326, the Company determined that an allowance for credit losses on available-for-sale securities was not deemed material.

(2) Restrictions on Cash

Per Federal Reserve regulations, the average reserve requirement for the week including December 31, 2023 and the week of December 31, 2022 has been $0.

(3) Securities

The amortized costs, gross unrealized gains, gross unrealized losses and fair values for securities as of December 31, 2023 and 2022 are as follows:

	2023			
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	$ 144,641	—	(4,674)	139,967
Obligations of states and political subdivisions	39,712	12	(5,384)	34,340
Mortgage-backed securities – government	64,169	—	(4,897)	59,272
Total available-for-sale	$ 248,522	12	(14,955)	233,579

Pinnacle had no held-to-maturity securities as of December 31, 2023.

	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

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, 2023:

	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	$ —	—	139,967	4,674	139,967	4,674
Obligations of states and political subdivisions	2,760	23	30,377	5,361	33,137	5,384
Mortgage-backed securities-government	2,193	41	57,057	4,856	59,250	4,897
Total	$ 4,953	64	227,401	14,891	232,354	14,955

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, 2023, the securities included 6 bonds that had continuous losses for less than 12 months and 122 bonds that had continuous losses for more than 12 months. There were no realized gains and losses in 2023.

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	32,428	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

For 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 or losses in 2022.

The amortized costs and fair values of available-for-sale and held-to-maturity securities as of December 31, 2023 and December 31, 2022, 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.

	2023			
	Available-for-Sale		Held-to-Maturity	
	Amortized costs	Fair values	Amortized costs	Fair values
Due in one year or less	$ 56,602	56,142	—	—
Due after one year through five years	97,132	92,483	—	—
Due after five years through ten years	23,677	20,250	—	—
Due after ten years	6,942	5,432	—	—
	184,353	174,307	—	—
Mortgage-backed securities	64,169	59,272	—	—
Totals	$ 248,522	233,579	—	—

	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

Securities with amortized costs of approximately $66,647 (fair value of $63,924) as of December 31, 2023, were pledged as collateral for public deposits. Also, securities with amortized costs of approximately $38,134 (fair value of $36,213) as of December 31, 2023 were pledged as collateral for the Federal Reserve's term funding program. 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 and no securities were pledged for the Federal Reserve's term funding program.

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

A summary of loans as of December 31, 2023 and December 31, 2022 follows:

	2023	2022
Real estate loans:		
Residential-mortgage	$ 175,888	$ 170,534
Residential-construction	10,810	11,281
Commercial	219,885	211,224
Loans to individuals for household, family and other consumer expenditures	132,844	136,338
Commercial and industrial loans	102,010	103,519
Total loans, gross	641,437	632,896
Less unearned income and fees	(638)	(572)
Loans, net of unearned income and fees	640,799	632,324
Less allowance for credit losses	(4,511)	(3,853)
Loans, net	$ 636,288	$ 628,471

In the normal course of business, First National Bank has made loans to executive officers and directors. As of December 31, 2023, loans and extensions of credit to executive officers and directors totaled $586 as compared to $1,165 as of December 31, 2022. During 2023, one new consumer loan for $30 was made to a director. 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 $579,056 as of December 31, 2023 and $573,472 as of December 31, 2022.

Loans in the amount of $38,674 were pledged as collateral for Pinnacle's available FHLB line of credit as of December 31, 2023.

The following section presents information on Pinnacle's allowance for credit losses and recorded investment in loans. The total allowance reflects management's estimate of credit 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 following table summarizes the activity related to allowance for credit losses under the CECL methodology.

Allowance for Credit Losses and Recorded Investment in Loans
For the Year Ended December 31, 2023

		Commercial	Commercial Real Estate	Consumer	Residential	Total
Allowance for Credit Losses:						
Beginning balance	$	400	1,389	1,096	968	3,853
Adjustment to allowance for adoption of ASU 2016-13	$	(81)	783	(477)	376	601
Charge-offs		(12)	—	(273)	(29)	(314)
Recoveries		13	—	259	8	280
(Recovery of) provision for credit losses		624	(602)	219	(150)	91
Ending Balance	$	944	1,570	824	1,173	4,511
Allowance:						
Ending balance: individually evaluated		373	35	—	—	408
Ending balance: collectively evaluated		571	1,535	824	1,173	4,103
Ending balance: loans acquired with deteriorated credit quality	$	—	—	—	—	—

		Commercial	Commercial Real Estate	Consumer	Residential	Total
Loans:						
Total loans ending balance	$	102,010	219,885	132,844	186,698	641,437
Ending balance: individually evaluated		421	535	12	1,319	2,287
Ending balance: collectively evaluated		101,584	218,986	132,819	185,071	638,460
Ending balance: loans acquired with deteriorated credit quality		5	364	13	308	690

Prior to the adoption of ASC 326 on January 1, 2023, the Company calculated the allowance for loan losses under the incurred loss methodology. The following tables are disclosures related to the allowance for loan losses in prior periods.

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

The allowance for credit losses - unfunded loan commitments, included in Other liabilities on the Consolidated Balance Sheets, totaled $122 as of December 31, 2023 and was $142 as of December 31, 2022.

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 or 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, 2023

Credit Exposure	Commercial	Commercial Real Estate	Consumer	Residential	Total
Pass	$ 101,637	219,837	132,707	185,766	639,947
Special Mention	—	—	23	597	620
Substandard	373	48	114	335	870
Doubtful	—	—	—	—	—
Total	$ 102,010	219,885	132,844	186,698	641,437

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

The following table presents the Company's recorded investment in loans by credit quality indicators by year of origination as of December 31, 2023:

	Loans by Year of Origination						
	2019	**2020**	**2021**	**2022**	**2023**	**Prior**	**Total**
Total Recorded Investment	$ 37,600	64,612	118,476	178,069	136,645	106,035	641,437
Total Current period gross chargeoff	—	—	—	—	—	—	—
Commercial							
Pass	3,283	8,300	27,079	26,909	19,778	16,288	101,637
Special Mention	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	373	373
Total	3,283	8,300	27,079	26,909	19,778	16,661	102,010
Current period gross chargeoff	—	9	—	—	3	—	12
Commercial Real Estate							
Pass	12,372	24,605	48,250	58,014	28,344	48,252	219,837
Special Mention	—	—	—	—	—	—	—
Substandard	—	—	—	48	—	—	48
Total	12,372	24,605	48,250	58,062	28,344	48,252	219,885
Current period gross chargeoff	—	—	—	—	—	—	—
Consumer							
Pass	4,988	11,663	12,685	52,579	44,221	6,571	132,707
Special Mention	8	—	15	—	—	—	23
Substandard	—	—	—	111	—	3	114
Total	4,996	11,663	12,700	52,690	44,221	6,574	132,844
Current period gross chargeoff	9	14	80	118	15	37	273
Residential							
Pass	16,751	19,976	30,447	40,408	44,302	33,882	185,766
Special Mention	198					399	597
Substandard	—	68	—	—	—	267	335
Total	16,949	20,044	30,447	40,408	44,302	34,548	186,698
Current period gross chargeoff	—	—	—	—	1	28	29

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

Age Analysis of Past Due Loans
As of December 31, 2023

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Non-accrual with no Allowance	Total Non-accrual	Recorded Investment 90 Days and Accruing
Commercial	$ 1	—	—	1	102,009	102,010	—	—	—
Commercial real estate	28	—	—	28	219,857	219,885	—	535	—
Consumer	72	—	—	72	132,772	132,844	12	12	—
Residential	88	84	—	172	186,526	186,698	1,010	1,010	—
Total	$ 189	84	—	273	641,164	641,437	1,022	1,557	—

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	Non-accrual with no Allowance	Total Non-accrual	Recorded Investment 90 Days and Accruing
Commercial	$ 74	—	—	74	103,445	103,519	95	95	—
Commercial real estate	100	—	—	100	211,124	211,224	—	717	—
Consumer	204	20	—	224	136,114	136,338	15	15	—
Residential	384	58	221	663	181,152	181,815	734	734	221
Total	$ 762	78	221	1,061	631,835	632,896	844	1,561	221

The Company did not modify any loans for borrowers experiencing financial difficulty during 2023. Accordingly, the Company did not have any loans made to borrowers experiencing financial difficulty that were modified during 2023 that subsequently defaulted. A default on a modified loan is defined as being past due 90 days or being out of compliance with the modification agreement. The following table presents information on Pinnacle's individually evaluated loans and their related allowance for credit losses:

Individually Evaluated Loans
As of December 31, 2023

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ 48	48	—	290	—
Commercial real estate	—	—	—	370	4
Consumer	12	12	—	14	1
Residential	1,319	1,319	—	1,295	39
With related allowance recorded:					
Commercial	$ 373	373	373	187	37
Commercial real estate	535	535	35	626	—
Consumer	—	—	—	—	—
Residential	—	—	—	—	—
Total:					
Commercial	421	421	373	477	37
Commercial real estate	535	535	35	996	4
Consumer	12	12	—	14	1
Residential	$ 1,319	$ 1,319	—	1,295	39
Total	$ 2,287	2,287	408	2,782	81

Impaired Loans
For the Year Ended 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	200	2,642	90

The following presents information on Pinnacle's nonaccrual loans:

Loans in Nonaccrual Status
As of December 31, 2023 and 2022

	2023	2022
Commercial	$ —	$ 95
Commercial real estate	535	717
Consumer	12	15
Residential	1,010	734
Total	$ 1,557	$ 1,561

Pinnacle had three loan modifications totaling $357 as of December 31, 2023.

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 loan modifications that were outstanding as of December 31, 2023.

The following tables present loan modifications as of December 31, 2023 and troubled debt restructures as of December 31, 2022:

	December 31, 2023		
	Accrual Status	Non-Accrual Status	Loan Modifications
Commercial	$ —	—	—
Commercial real estate	48	—	48
Consumer	—	—	—
Residential	309	—	309
Total	$ 357	—	357

	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

For 2023, Pinnacle had no new loan modifications and no loans with modifications that experienced payment defaults.

(5) Bank Premises and Equipment

Bank premises and equipment, net was comprised of the following as of December 31, 2023 and 2022:

	2023	2022
Land improvements	$ 783	$ 783
Buildings	20,847	20,706
Equipment, furniture and fixtures	9,254	8,834
	30,884	30,323
Less accumulated depreciation	(13,962)	(12,884)
	16,922	17,439
Land	4,258	4,258
Construction in progress	317	45
Bank premises and equipment, net	$ 21,497	$ 21,742

(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, 2023 and December 31, 2022 and the carrying amount of unamortizable intangible assets as of the same dates.

	December 31, 2023		December 31, 2022	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable Intangible Assets:				
Core Deposit Intangible	$ 1,600	507	$ 1,600	347
Unamortizable Intangible Assets:				
Goodwill	$ 539		$ 539	

Amortization expense of all other intangible assets totaled $0 for the years ended December 31, 2023 and 2022, 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, 2028 and the estimated amount amortizable thereafter. These estimates are subject to change in future periods to the extent management determines it is necessary to adjust the carrying value or estimated useful lives of amortizable intangible assets.

	Estimated Amortization Expense
2024	$ 160
2025	160
2026	160
2027	160
2028	160
Thereafter	293
Total	$ 1,093

(7) Deposits

A summary of deposits as of December 31, 2023 and December 31, 2022:

	2023	2022
Noninterest-bearing demand deposits	$ 269,502	$ 286,833
Interest-bearing:		
Savings and money market accounts	358,452	355,927
NOW accounts	137,816	156,090
Time deposits – under $250,000	145,512	92,448
Time deposits – $250,000 and over	21,162	7,940
Total interest-bearing deposits	662,942	612,405
Total deposits	$ 932,444	$ 899,238

In the normal course of business, First National Bank has received deposits from executive officers and directors. As of December 31, 2023 and December 31, 2022, deposits from executive officers and directors were approximately $17,750 and $20,980, 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 $757,115 as of December 31, 2023 and $688,824 as of December 31, 2022.

(8) Borrowings

As of December 31, 2023 and December 31, 2022, Pinnacle's available borrowing limit with the FHLB was approximately $245,712 and $246,398, respectively. Pinnacle had $0 in borrowings from the FHLB outstanding at December 31, 2023. Additionally, Pinnacle has liquidity borrowing capabilities with three correspondent banks totaling $48,000 with $0 outstanding as of December 31, 2023.

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 $550 and $1,122 in 2023 and 2022, respectively.

The components of net pension benefit cost under the plan for the year ended December 31, 2023 and 2022 is summarized as follows:

Change in Benefit Obligation	**2023**	**2022**
Benefit obligation at beginning of year	$ 13,321	$ 20,886
Service cost	723	1,298
Interest cost	626	509
Actuarial income	1,098	(7,285)
Benefits paid	(1,014)	(1,882)
Settlement Gain	—	(205)
Benefit obligation at end of year	$ 14,754	$ 13,321
Change in Plan Assets		
Fair value of plan assets at beginning of year	12,352	15,519
Actual return on plan assets	1,560	(3,285)
Employer contribution	—	2,000
Benefits paid	(1,014)	(1,882)
Projected fair value of plan assets at end of year	12,898	12,352
Funded Status at the End of the Year	(1,856)	(969)
Amounts Recognized in the Balance Sheet		
Other liabilities, accrued pension	(1,856)	(969)
Amounts Recognized in Accumulated Other Comprehensive Income Net of Tax Effect		
Unrecognized actuarial (loss)/gain	(221)	164
Prior service cost	(128)	(137)
Income tax effect	74	(6)
Benefit obligation included in accumulated other comprehensive income	$ (275)	$ 21
Funded Status		
Benefit obligation	(14,754)	(13,321)
Fair value of assets	$ 12,898	$ 12,352
Unrecognized net actuarial gain/(loss)	220	(164)
Unrecognized prior service cost	128	137
Funded Status at December 31	$ (1,508)	$ (996)

	Pension Benefits	
Weighted Average Assumptions as of December 31, 2023 and 2022 :	**2023**	**2022**
Discount rate used for net periodic pension cost	4.95%	2.60%
Discount rate used for disclosure	4.75%	4.95%
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 $548.

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, 2023 and 2022 is summarized as follows:

	Pension Benefits	
	2023	**2022**
Service cost	$ 723	$ 1,299
Interest cost	626	509
Expected return on plan assets	(847)	(1,031)
Amortization of Prior Service Cost	9	9
Recognized net loss due to settlement	—	247
Recognized net actuarial loss	—	75
Net pension benefit cost	$ 511	$ 1,108
Gross gain recognized in other comprehensive income	376	(3,506)
Total Recognized in Net Pension Benefit Cost and Other Comprehensive Income	$ 887	$ (2,398)

Projected Benefit Payments

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

2024	$ 1,031
2025	928
2026	748
2027	436
2028	550
2029-2033	$ 4,403

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, 2023 and 2022.

The following table presents the fair value of the assets, by asset category, as of December 31, 2023 and 2022.

	2023	2022
Mutual funds-fixed income	$ 5,159	$ 4,694
Mutual funds-equity	7,739	7,658
Total assets at fair value	$ 12,898	$ 12,352

The following table sets forth by level, within the fair value hierarchy, the assets carried at fair value as of December 31, 2023 and 2022.

	Assets at Fair Value as of December 31, 2023			
	Level 1	Level 2	Level 3	Total
Mutual funds-fixed income	$ 5,159	—	—	5,159
Mutual funds-equity	7,739	—	—	7,739
Total assets at fair value	$ 12,898	—	—	12,898

	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

Contributions

Pinnacle contributed $1,000 to its pension plan on January 17, 2024 and $2,000 on December 30, 2022.

Pinnacle also has a 401(k) plan under which Pinnacle matches employee contributions to the plan. In 2023 and 2022, 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 $318 during the year ended December 31, 2023 and $299 during the year ended December 31, 2022.

(10) Income Taxes

Income tax expense attributable to income before income tax expense for the years ended December 31, 2023 and 2022 is summarized as follows:

	2023	2022
Current	$ 2,293	$ 1,782
Deferred	(269)	12
Total income tax expense	$ 2,024	$ 1,794

Reported income tax expense for the years ended December 31, 2023 and 2022 differed from the amounts computed by applying the U.S. Federal income tax rate of 21% for 2023 and 2022 to income before income tax expense as a result of the following:

	2023	2022
Computed at statutory Federal tax rate	$ 2,475	$ 2,108
Increase (reduction) in income tax expense resulting from:		
Tax-exempt interest	(111)	(108)
Disallowance of interest expense	13	2
Other, net	(353)	(208)
Reported income tax expense	$ 2,024	$ 1,794

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, 2023 and 2022 are as follows:

	2023	2022
Deferred tax assets:		
Loans, principally due to allowance for credit losses	$ 947	$ 765
Defined benefit plan valuation adjustments	73	—
Accrued pension	317	209
Net unrealized losses on available-for-sale securities	3,138	4,177
Other	189	108
Total gross deferred tax assets	4,664	5,259
Deferred tax liabilities:		
Bank premises and equipment, due to differences in depreciation	(1,347)	(1,053)
Defined benefit plan valuation adjustments	—	(5)
Other	(236)	(473)
Total gross deferred tax liabilities	(1,583)	(1,531)
Net deferred tax asset	$ 3,081	$ 3,728

First National Bank has determined that a valuation allowance for the gross deferred tax assets is not necessary as of December 31, 2023 and 2022, 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, 2023 and 2022. 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 2019 and thereafter are subject to future examination by tax authorities.

(11) 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,	
	2023	**2022**
Commitments to extend credit	$ 126,518	$ 123,304
Standby letters of credit	$ 6,072	$ 6,535

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. Each client's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the client. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, and income producing commercial

properties. The Company's allowance for credit losses - unfunded loan commitments was $122 and $142, at December 31, 2023 and 2022, respectively.

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, 2023 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.

(12) 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 expense for all leases in 2023 was $379.

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 $178 annually.

The following table represents information about Pinnacle's leases.

		December 31, 2023
Short-term lease liability (included in Other liabilities on Consolidated Balance Sheets)	$	274
Long-term lease liability (included in Other liabilities on Consolidated Balance Sheets)	$	1,046
Right-of-use assets (included in Other assets on Consolidated Balance Sheets)	$	1,291
Weighted average remaining lease term		4.97 years
Weighted average discount rate		1.54%

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

Year		Payments
2024	$	292
2025		272
2026		275
2027		278
2028		148
Thereafter		106
Total	$	1,371
Less: present value discount		(51)
Total lease liabilities	$	1,320

(13) Concentrations of Credit Risk and Contingencies

Pinnacle grants commercial, residential and consumer loans to customers primarily in the central and southern regions of Virginia. As a whole, the portfolio is affected by general economic conditions in the central and southern regions of Virginia.

Pinnacle's commercial and real estate loan portfolios are diversified, with no significant concentrations of credit other than the geographic focus on the central and southern regions of Virginia. 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 are 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.

(14) Dividend Restrictions and Capital Requirements

Pinnacle's principal source of funds for dividend payments is dividends received from its subsidiary Bank. For 2023 and 2022, dividends from the subsidiary Bank totaled $2,653 and $2,058, 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, 2023 and 20221, 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, 2023	**Pinnacle Consolidated**		**First National Bank**	
	Amount	**Ratio**	**Amount**	**Ratio**
Total Risk-Based Capital Ratio (to Risk Weighted Assets)	$ 84,572	12.60%	$ 91,494	13.67%
CET 1 Risk Based Capital Ratio (to Risk Weighted Assets)	$ 79,939	11.91%	$ 86,861	12.98%
Tier 1 Risk-Based Capital Ratio (to Risk Weighted Assets)	$ 79,939	11.91%	$ 86,861	12.98%
Tier 1 Leverage Capital Ratio (to Average Assets)	$ 79,939	8.10%	$ 86,861	8.82%

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%

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, 2023 and December 31, 2022.

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 will not be subject to regulatory capital requirements on a consolidated basis. At December 31, 2023,

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.

(15) 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, 2023 and December 31, 2022, 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, 2023 and December 31, 2022, 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, 2023 and December 31, 2022. As of December 31, 2023 and December 31, 2022, Pinnacle carried no Level 3 securities for which fair value would be determined using unobservable inputs.

Loans

For 2023, Pinnacle did not record loans at fair value on a recurring basis. However, from time to time, loans are individually evaluated and a specific allowance for credit losses may be 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 individually evaluated. 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. Loans individually evaluated 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, 2023, substantially all loans individually evaluated were evaluated based on the fair value of the collateral.

For 2022, loans for which it was probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement was considered impaired. Once a loan was identified as individually impaired, management measured impairment in accordance with ASC Topic 360, *Impairment of a Loan.* The fair value of impaired loans was 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 represented loans at which fair value of the expected repayments or collateral exceeded the recorded investments in such loans. As of December 31, 2022, 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 required classification in the fair value hierarchy. When the fair value of the collateral was based on an observable market price or a current appraised value, Pinnacle recorded the impaired loan as a nonrecurring Level 2 asset. When an appraised value was not available or management determined the fair value of the collateral was further impaired below the appraised value and there was no observable market price, Pinnacle recorded 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. There were no other real estate owned properties as of December 31, 2023.

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

	Fair Value Measurements on December 31, 2023				
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	$ 233,579	$ 233,579	$ —	$ 233,579	$ —
Individually evaluated loans	$ 2,287	$ 2,287	$ —	$ —	$ 2,287

	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

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, 2023 and 2022:

	Level 3 Assets Year Ended December 31, 2023	
	Individually evaluated loans	Other Real Estate Owned
Balance, beginning of the year	$ 2,838	—
Purchases, sales, issuances, and settlements (net)	(551)	—
Balance, end of year	$ 2,287	—

	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	—

(16) Parent Company Financial Information

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

Condensed Balance Sheets

	December 31,	
Assets	**2023**	**2022**
Cash due from subsidiary	$ 41	$ 32
Investment in subsidiary, at equity	76,413	65,174
Other assets	2,067	1,892
Total assets	$ 78,521	$ 67,098
Liabilities and stockholders' equity		
Notes payable	$ 10,000	$ 10,000
Other liabilities	116	90
Total liabilities	$ 10,116	$ 10,090
Stockholders' equity		
Common stock of $3 par value, authorized 3,000,000 shares; issued and outstanding 2,198,158 shares in 2023 and 2,178,486 in 2022	$ 6,460	$ 6,414
Capital surplus	11,951	11,668
Retained earnings	62,069	54,614
Accumulated other comprehensive loss, net	(12,075)	(15,688)
Total stockholders' equity	$ 68,405	$ 57,008
Total liabilities and stockholders' equity	$ 78,521	$ 67,098

Condensed Statements of Income

	Years ended December 31,	
	2023	2022
Income:		
Dividends from subsidiary	$ 2,652	$ 2,058
Equity in undistributed net income of subsidiary	5,915	5,107
Total Income	8,567	7,165
Expenses:		
Interest accrued on subordinated debt	420	420
Interest on long-term borrowings	105	105
Other expenses	304	192
Income before income tax benefit	7,738	6,448
Applicable income tax benefit	2,024	1,794
Net income	$ 9,762	$ 8,242

Condensed Statements of Cash Flows

	Years ended December 31,	
	2023	2022
Cash flows from operating activities:		
Net income	$ 9,762	$ 8,242
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effect of adoption of ASC 326	(443)	—
Equity in undistributed net income of subsidiary	(5,915)	(5,107)
Increase in other assets	(175)	(152)
Net cash flows from operating activities	3,229	2,983
Cash flows from investing activities:		
Increase in investment of subsidiary	(1,382)	(1,642)
Net cash used in investing activities	(1,382)	(1,642)
Cash flows from financing activities		
Cash dividends paid	(1,864)	(1,328)
Increase (decrease) in other liabilities	26	(15)
Net cash flows used in financing activities	(1,838)	(1,343)
Net increase (decrease) in cash from subsidiary	9	(2)
Cash due from subsidiary, beginning of year	32	34
Cash due from subsidiary, end of year	$ 41	$ 32

(17) 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, 2023, options for 8,000 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, 2023, there were 32,810 shares available for grant under the 2014 Plan.

On May 1, 2023, 16,000 shares of restricted stock were granted to employees pursuant to the 2014 Plan. 15,500 of the shares granted will vest on May 1, 2026 and 500 of the shares granted were forfeited due termination of employment. On May 1, 2022, 9,700 shares of restricted stock were granted to employees pursuant to the 2014 Plan. 8,200 of the shares granted will vest on May 1, 2025, 1,000 of the shares granted vested in 2023 due to a retirement and 500 of the shares granted were forfeited due to termination of employment.

On January 9, 2024, 3,538 shares of restricted stock were granted to Pinnacle's Directors in lieu of cash for 2023 director fees. On January 12, 2023, 5,547 shares of restricted stock were granted to Pinnacle's Directors in lieu of cash for 2022 director fees.

As of December 31, 2022, no options for shares were exercisable under the 2014 Plan.

Pinnacle expensed $0 in 2023 and 2022 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 2023.

Pinnacle expensed $238 in 2023 in compensation expense as a direct result of granting 7,100 shares of restricted stock to employees in 2020, 12,525 shares of restricted stock to employees in 2021, 9,700 shares of restricted stock to employees in 2022, and 16,000 shares of restricted stock to employees in 2023. Pinnacle expects to expense $236 in 2024, $152 in 2025 and $69 in 2026 on such restricted stock.

Stock option activity during the years ended December 31, 2023 and 2022 is as follows:

	Number of Shares	Weighted Average Exercise Price
Balance as of December 31, 2021	10,000	$ 15.70
Forfeited	—	—
Exercised	—	—
Granted	—	—
Balance as of December 31, 2022	10,000	$ 15.70
Forfeited	—	—
Exercised	2,000	$ 22.29
Granted	—	—
Balance as of December 31, 2023	8,000	$ 15.70

The following table summarizes information about stock options outstanding as of December 31, 2023:

	Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding at 12/31/23	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number Exercisable at 12/31/2023	Weighted-Average Exercise Price
$ 15.70	8,000	0.1	$ 15.70	8,000	$ 15.70

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

(18) Subsequent Events

Pinnacle has evaluated all other subsequent events for potential recognition and/or disclosure in the December 31, 2023 consolidated financial statements through March 31, 2024, 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, 2023. 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, 2023.

Management's Assessment of Internal Control over Financial Reporting

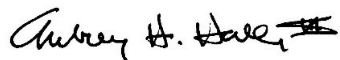
The Company's internal control over financial reporting is a process effected by those charged with governance, management and other personnel, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of reliable financial statements in accordance 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, 2023, 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, 2023, 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, 2023, has been audited by Cherry Bekaert LLP, an independent public accounting firm, as stated in their report dated March 14, 2024.

Pinnacle Bankshares Corporation



Aubrey H. (Todd) Hall, III
President and Chief Executive Officer
March 14, 2024

Bryan M. Lemley
Secretary, Treasurer & Chief Financial Officer
March 14, 2024

Cherry Bekaert
Your Guide Forward

Report of Independent Auditor

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, 2023 and 2022 and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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, 2023 and 2022, 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.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for credit losses on financial instruments as of January 1, 2023, due to the adoption of Accounting Standards Update 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended. Our opinion is not modified with respect to this matter.

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 audits.

Cherry Bekaert LLP

Rockville, Maryland
March 14, 2024

Cherry Bekaert
Your Guide Forward

Report of Independent Auditor

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

Opinion on Internal Control over Financial Reporting

We have audited Pinnacle Bankshares Corporation and Subsidiary's (collectively, the "Company") internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the instructions for the *Part 363 Federal Deposit Insurance Act (FDI Act)*, as of December 31, 2023, 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 December31, 2023, 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 14, 2024 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 the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for 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 the Company'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

An institution'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. An institution'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 institution'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

Rockville, Maryland
March 14, 2024

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James O. Watts, IV, Esq.

EXECUTIVE OFFICERS OF PINNACLE BANKSHARES CORPORATION

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

Bryan M. Lemley, Secretary
Treasurer & Chief Financial Officer

SENIOR MANAGEMENT OF FIRST NATIONAL BANK

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

Bryan M. Lemley
Executive Vice President & Chief Financial Officer

Melissa T. Campbell
Senior Vice President & Chief Retail Officer

Allison G. Daniels
Senior Vice President & Chief Operating Officer

Jennifer T. Edgell
Senior Vice President & Chief Credit Officer

Tracie A. Gallahan
Senior Vice President and Chief Revenue Officer

Krystal D. Harris
Senior Vice President & Chief Human Resources Officer

James M. Minear
Senior Vice President and Chief Lending Officer (Northern Market)

Shawn D. Stone
Senior Vice President and Chief Lending Officer (Southern Market)

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Edison, NJ 08837
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
11:00 AM Eastern Time
May 14, 2024

Only shareholders of record at the close of business on March 21, 2024, the record date, will be entitled to vote at the Annual Meeting.

We refer you to the 2024 Proxy Statement for further information.

Common Stock
OTCQX: PPBN

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