



PINNACLE BANKSHARES CORPORATION



BOARD OF DIRECTORS



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

SENIOR MANAGEMENT



Front Row: Vivian S. Brown, Aubrey H. Hall, III (President and CEO), Judith A. Clements
Back Row: Thomas R. Burnett, Jr., Tony J. Bowling, Bryan M. Lemley, William J. Sydnor, II

On the cover: Branch locations Old Forest Road and Timberlake. Projects expected to be completed by July of 2016.

**PINNACLE BANKSHARES CORPORATION
AND SUBSIDIARY**

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**PINNACLE BANKSHARES CORPORATION
AND SUBSIDIARY**

First National Bank Office Locations

ALTAVISTA

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

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

LYNCHBURG

AIRPORT OFFICE
14580 Wards Road
Lynchburg, Virginia 24502
Telephone: (434) 237-3788

TIMBERLAKE OFFICE
20865 Timberlake Road
Lynchburg, Virginia 24502
Telephone: (434) 237-7936

OLD FOREST ROAD OFFICE

3309 Old Forest Road
Lynchburg, Virginia 24501
Telephone: (434) 385-4432

FOREST

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

AMHERST

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

RUSTBURG

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

**PINNACLE BANKSHARES CORPORATION
AND SUBSIDIARY**

Officers of Pinnacle Bankshares Corporation

Aubrey H. Hall, III
Bryan M. Lemley
William J. Sydnor, II

President & Chief Executive Officer
Secretary, Treasurer & Chief Financial Officer
Vice President

Officers and Managers of First National Bank

Aubrey H. Hall, III
Bryan M. Lemley
William J. Sydnor, II
Judith A. Clements
Thomas R. Burnett, Jr.
Vivian S. Brown
Tony J. Bowling
Lucy H. Johnson
Pamela R. Adams
James M. Minear
Shawn D. Stone
Daniel R. Wheeler
George D. Vaughan, IV
Penelope P. Wallace
Tracie A. Gallahan
John E. Tucker
Lisa M. Landrum
Tarry R. Pribble
Vicki G. Greer
Melissa T. Campbell
Jeffrey S. Walker
Janet H. Whitehead
M. Amanda Ramsey
Andria C. Smith
Kathleen P. Morgan
Arin L. Brown
AnnMarie W. King
Patricia D. Canada
Christine A. Hunt
Dianna C. Hamlett
Romonda F. Davis
Allison G. Daniels
Ann L. Dalton
Cathy C. Simms
Monica L. Woody
Tammie W. Griffin
Cheria B. Taylor
Nickolas R. Gillan
Scott W. Martin
Alison N. Ayers
LaDonna S. Davis
Sophie M. Lovell
Brandy M. Marcum
Helen J. Rasnake
Jean W. Clay
Jennifer T. Edgell
Kenneth M. Selmer
Shirley B. Brooks
Brandi N. Evans
Robert L. Warren
Courtney M. Woody
John Kovack
Robert A. Sears, Jr.
Ruby C. Smith

President, Chief Executive Officer & Trust Officer
Senior Vice President, Cashier & Chief Financial Officer
Senior Vice President & Chief Credit Officer
Senior Vice President & Director of Human Resources
Senior Vice President & Chief Lending Officer
Senior Vice President & Branch Administration Officer
Senior Vice President & Chief Operating Officer
Senior Vice President & Data Processing Manager
Vice President & Loan Operations Manager
Vice President & Commercial Officer
Vice President & Mortgage Division Manager
Vice President & Investment Consultant
Vice President & Dealer Finance Officer
Vice President & Collections and Recovery Manager
Vice President & Financial Analyst
Assistant Vice President & Branch Operations Manager
Assistant Vice President & Branch Manager (Main)
Assistant Vice President & Branch Manager (Airport)
Assistant Vice President & Branch Manager (Amherst)
Assistant Vice President & Branch Manager (Rustburg)
Assistant Vice President & Branch Manager (Forest)
Assistant Vice President & Branch Manager (Vista)
Assistant Vice President & Branch Manager (Timberlake)
Assistant Vice President & Branch Manager (Old Forest Road)
Assistant Vice President & Internal Auditor
Assistant Vice President, Compliance & Bank Secrecy Act Officer
Assistant Vice President & E-Commerce Sales Representative
Assistant Vice President & Loan Quality Control Officer
Assistant Vice President & Real Estate Loan Portfolio Manager
Assistant Vice President & Dealer Finance Officer
Human Resources Manager
E-commerce Sales Representative
Retail Business Development Officer (Main)
Retail Business Development Officer (Timberlake)
Retail Business Development Officer (Airport)
Retail Business Development Officer (Rustburg)
Retail Business Development Officer (Vista)
Retail Business Development Officer (Airport)
Retail Business Development Officer (Forest)
Retail Business Development Officer (Amherst)
Retail Business Development Officer (Main)
Bank Officer & Credit Analyst
Bank Officer & Credit Analyst
Collections Officer
Collections Officer
Bank Officer & Construction Loan Administrator
Bank Officer & Mortgage Loan Originator
Network Administrator
Facilities Manager
Customer Support Manager



DEAR SHAREHOLDERS,

I am pleased to report to you that Pinnacle Bankshares Corporation, the one-bank holding company for First National Bank, increased core operating net income in 2015 for the seventh straight year and improved your returns in terms of annual cash dividends and share price appreciation. Your Company also made significant progress in executing growth plans aimed at expanding First National's presence across Central Virginia. These achievements combined with strengthened asset quality and better efficiency demonstrate our commitment to enhancing the value of your investment over the long term.

For 2015 Pinnacle generated net income of \$2,740,000, which included \$234,000 of after tax income resulting from our conversion to the equity method of accounting for First National Bank's investment in Bankers Insurance, LLC. The change aligns us with other community bank owners of the full service, independent insurance agency. Future returns are expected from commissions on insurance referrals provided by the Bank and growth of the agency across Virginia and North Carolina.

Core net income, excluding the accounting change, was \$2,506,000 in 2015, which was a 17% increase as compared to 2014. Profitability as commonly measured by return on average assets and return on average equity improved to 0.68% and 7.44%, respectively, net of the change. Net interest income growth of \$449,000 was the catalyst for improvement, which was primarily driven by a decline in our cost of funds as the Bank experienced further growth of demand deposits and other transaction accounts. Additionally, noninterest income increased \$215,000, net of the accounting change, due to increased interchange fees derived from check card usage and a rebound in income generated from our Investment and Mortgage Divisions prior to related expenses.

The provision for loan losses was \$129,000 for the year, an increase of only \$38,000 compared to 2014, as improved credit quality helped to offset material loan growth experienced during the second half of 2015. In fact, nonperforming loans (loans in nonaccrual status or past due greater than ninety days) were less than 0.50% of total loans as of year-end due in part to payoffs received on several long term problem credits. Our allowance for loans losses was \$2,889,000 as of December 31, 2015, which represented 0.94% of total loans outstanding. The allowance balance was 208% of nonperforming loans as of year-end, which we believe provides appropriate reserves for potential future losses associated with our loan portfolio.

Noninterest expense was well controlled, increasing only \$53,000 during 2015 despite higher salaries and employee benefits as a result of adding several new sales positions associated with First National's expansion in Lynchburg. Two new Commercial Officers along with an additional E-Commerce Officer have been brought on board in an effort to boost loan production and further increase business deposits through utilization of electronic delivery channels, including merchant bankcard services and remote deposit capture.

Pinnacle's total assets as of December 31, 2015 were \$371,261,000, an increase of \$9,073,000 or 3% as compared to the end of the prior year. While overall asset growth was modest, loan growth for the year was more robust with total loans increasing \$22,569,000 or 8% to \$306,088,000. The growth was led by strong performances from the Bank's Retail Branch Network and Dealer (Indirect-Auto) Division. Additionally, volume was boosted from several non-organic sources including loan participations, medical loans purchased from Bankers Healthcare Group and municipal funding. The increased loan volume, which occurred primarily during the second half of the year, combined with only a slight decline in the Bank's investment portfolio to \$27,148,000 resulted in better utilization of available funds and an \$83,000 increase in interest income despite declining asset yields.

Total liabilities, consisting primarily of deposits, were \$336,479,000 as of year-end, which was an increase of approximately 2%. Demand deposits, savings and NOW accounts (interest checking) grew \$18,976,000 or 9% during 2015 to \$230,326,000 and reflect our continued focus on the expansion of core deposit relationships, which

have driven the Company's lower cost of funds. This increase was partially offset by a decrease in time deposits of \$11,777,000 or approximately 10%. While we have intentionally grown our checking accounts to become less time deposit dependent, we would like to maintain our current deposit base composition of approximately 18% demand accounts, 52% savings and NOW accounts and 30% time deposits.

Stockholders' equity as of December 31, 2015 was \$34,782,000, representing an increase of \$2,128,000 or 7% as compared to the prior year end. Pinnacle and First National Bank remain "well capitalized" per all current regulatory definitions and meet applicable Basel III capital standards. Capital requirements to support future growth are anticipated to be generated internally through increased retained earnings resulting from improved profitability.

Operating banks of all sizes requires constant attention to ever changing technology. We continue to expand our electronic product lineup and have been pleased with the growth of online bill pay and mobile banking users since the adoption of new platforms in 2014. Always remaining mindful of protecting our clients, First National Bank has implemented a comprehensive cyber security program based on guidelines establish by federal agencies.

Your Board and Management Team are extremely pleased that a return has been paid to you in the form of a cash dividend over the last fourteen quarters and that the amount of annual cash dividends paid increased 6% from \$0.32 per share in 2014 to \$0.34 per share in 2015. We are also encouraged by the increase in the trading price of Pinnacle's stock, which ended the year up 11% at \$19.70. While the trading price of our stock continues to improve, we believe that it still does not fully reflect the true value of your Company. For this reason the Company remains willing to utilize its Share Repurchase Program when appropriate to potentially increase trading volume in our stock and provide liquidity in the market.

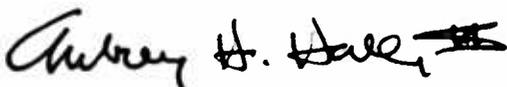
First National Bank's Lynchburg Market Plan, which is intended to increase the Bank's presence and visibility across Central Virginia, is well under way with construction commencing during 2015 on the renovation and expansion of the Timberlake Road Branch and the relocation of the Old Forest Road Branch to a new facility on the same corridor. These projects are now expected to be completed by July of 2016. The plan also includes the construction of a new branch / Lynchburg headquarters building on Odd Fellows Road. Planning is under way for this new facility with construction expected to commence in mid-2016. Completion of the project will allow positions currently housed in the Bank's Wyndhurst Administrative Office to be moved to Odd Fellows Road and alleviate space shortages at several branches. First National Bank's Altavista Main Office will remain the Company's corporate headquarters with the functions performed there remaining in place.

In closing, 2015 signified a breakout year for your Company from a financial performance, loan growth and asset quality perspective. Our Board, Management and team of dedicated financial professionals look forward to further improvement as we continue to set our sights on being recognized as the premier community banking organization in Central Virginia.

To hear more about the performance and direction of Pinnacle Bankshares Corporation, please plan to attend our **Annual Meeting of Shareholders** to be held at **11:00 a.m., Tuesday, April 12, 2016** in the Fellowship Hall of Altavista Presbyterian Church, located at 707 Broad Street, Altavista, Virginia. We are hopeful that you will be able to join us for this occasion.

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

Sincerely,



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

**PINNACLE BANKSHARES CORPORATION
AND SUBSIDIARY**

Selected Consolidated Financial Information
(In thousands, except ratios, share and per share data)

	Years ended December 31,				
	2015	2014	2013	2012	2011
Income Statement Data:					
Net interest income	\$ 12,505	12,056	11,709	11,601	12,091
Provision for loan losses	129	91	143	1,177	2,227
Noninterest income	3,730	3,162	4,554	3,443	3,253
Noninterest expense	12,060	12,008	12,228	11,910	11,544
Income tax expense	1,306	970	1,241	619	510
Net income	2,740	2,149	2,651	1,338	1,063
Per Share Data:					
Basic net income	\$ 1.80	1.42	1.75	0.89	0.71
Diluted net income	1.79	1.40	1.74	0.89	0.71
Cash dividends	0.34	0.32	0.23	0.05	0.00
Book value	22.88	21.60	21.08	18.63	18.01
Weighted-Average Shares Outstanding:					
Basic	1,519,159	1,512,661	1,512,545	1,503,952	1,496,260
Diluted	1,531,436	1,530,831	1,523,105	1,503,952	1,496,260
Balance Sheet Data:					
Assets	\$ 371,261	362,188	358,601	348,694	342,484
Loans, net	303,199	280,449	274,349	273,672	267,123
Securities	27,148	29,277	29,125	22,206	24,769
Cash and cash equivalents	16,739	29,451	35,457	35,790	37,547
Deposits	332,403	325,204	322,130	315,157	310,393
Stockholders' equity	34,782	32,654	31,942	28,089	26,947
Performance Ratios:					
Return on average assets	0.74%	0.60%	0.75%	0.39%	0.31%
Return on average equity	8.12%	6.59%	8.96%	4.83%	3.95%
Dividend payout	18.96%	22.48%	12.86%	5.61%	0.00%
Asset Quality Ratios:					
Allowance for loan losses to total loans, net of unearned income and fees	0.94%	1.08%	1.23%	1.31%	1.48%
Net charge-offs to average loans, net of unearned income and fees	0.11%	0.15%	0.12%	0.57%	0.84%
Capital Ratios:					
Leverage	9.68%	9.25%	8.88%	8.49%	8.12%
Risk-based:					
Tier 1 capital	11.37%	10.96%	10.84%	10.15%	9.99%
Total capital	12.32%	11.98%	12.03%	11.39%	11.24%
Average equity to average assets	9.17%	9.11%	8.33%	8.04%	7.93%

Results of Operations

(in thousands, except ratios, share and per share data)

Cautionary Statement Regarding Forward-Looking Statements

The following discussion is qualified in its entirety by the more detailed information and the consolidated financial statements and accompanying notes appearing elsewhere in this Annual Report. In addition to the historical information contained herein, this Annual Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements, which are not statements of historical fact and are based on certain assumptions and describe future plans, strategies, and expectations of management, are generally identifiable by use of words such as “believe,” “expect,” “intend,” “anticipate,” “estimate,” “project,” “may,” “will” or similar expressions. These forward-looking statements may include, but are not limited to, anticipated future financial performance, impairment of goodwill, funding sources including cash generated by banking operations, loan portfolio composition, trends in asset quality and strategies to address nonperforming assets and nonaccrual loans, adequacy of the allowance for loan losses and future provisions for loan losses, securities portfolio composition and future performance, interest rate environments, deposit insurance assessments, and strategic business initiatives.

Although we believe our plans, intentions and expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these plans, intentions, or expectations will be achieved. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain, and actual results, performance or achievements could differ materially from those contemplated. Factors that could have a material adverse effect on our operations and future prospects include, but are not limited to, changes in: the effectiveness of management’s efforts to maintain asset quality and control operating expenses; the quality, composition and growth of the loan and investment portfolios; interest rates; decrease in net interest margin; declining collateral values, especially in the real estate market; general economic conditions, including stagnation in general business and economic conditions and in the financial markets; unemployment levels; the legislative/regulatory climate, including the impact of any policies or programs implemented pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (“the Dodd-Frank Act”) or other laws; monetary and fiscal policies of the U.S. government, including policies of the U.S. Treasury and the Board of Governors of the Federal Reserve System; demand for loan products; deposit flows; competition; demand for financial services in our market area; regulatory compliance costs; accounting principles, policies and guidelines; and an increase in shareholders that would require the Company to be subject to the reporting obligations of the Securities Exchange Act of 1934, as amended. These risks and uncertainties should be considered in evaluating forward-looking statements contained herein. We base our forward-looking statements on management’s beliefs and assumptions based on information available as of the date of this report. You should not place undue reliance on such statements, because the assumptions, beliefs, expectations and projections about future events on which they are based may, and often do, differ materially from actual results. We undertake no obligation to update any forward-looking statement to reflect developments occurring after the statement is made.

Company Overview

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

First National Bank was organized in 1908 and currently maintains a total of eight offices to serve its customers. The Main Office and Vista Branch are located in the Town of Altavista, the Airport Branch, Timberlake Branch and Rustburg Branch in Campbell County, the Old Forest Road Branch in the City of Lynchburg, the Forest Branch in Bedford County and the Amherst Branch in the Town of Amherst. The Bank also maintains an administrative and training facility in the Wyndhurst section of the City of Lynchburg.