

Strategic Partnership Between Pinnacle Bankshares Corporation and Virginia Bank Bankshares, Inc.

Investor Presentation

January 21, 2020

Compliance Disclosures



Important Information for Shareholders and Investors

This presentation shall not constitute an offer to sell, the solicitation of an offer to sell, or the solicitation of an offer to buy any securities or the solicitation of any vote or approval of the Pinnacle Bankshares Corporation ("PPBN") or Virginia Bank Bankshares, Inc. ("VABB") shareholders, nor shall there be any offer or sale of securities in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. No offer or sale of securities shall be made except by means of a prospectus meeting the requirements of the Securities Act of 1933, as amended. In connection with the proposed transaction, PPBN will file a registration statement on Form S-4 with the Securities and Exchange Commission (the "SEC"), which will contain the joint proxy statement of PPBN and VABB and a prospectus of PPBN. Shareholders of VABB and PPBN are encouraged to read the registration statement, including the joint proxy statement/prospectus that will be part of the registration statement, because it will contain important information about the proposed transaction, VABB, and PPBN. After the registration statement is filed with the SEC, the definitive joint proxy statement/prospectus and other relevant documents will be mailed to VABB and PPBN shareholders and will be available for free on the SEC's website (www.sec.gov). The joint proxy statement/prospectus will also be made available for free by contacting Bryan Lemley, PPBN's Chief Financial Officer, at (434)-477-5882 or Don Merricks, the Chief Executive Officer of VABB, at (434)-793-6411.

Participants in the Solicitation

PPBN, VABB and certain of their respective directors and executive officers may be deemed to be participants in the solicitation of proxies from VABB and PPBN shareholders in connection with the proposed merger. Information about the directors and executive officers of PPBN and VABB will be included in the joint proxy statement/prospectus when it becomes available. Additional information regarding certain interests of those persons and other persons who may be deemed participants in the transaction will also be included in the joint proxy statement/prospectus when it becomes available. You may obtain free copies of the joint proxy statement/prospectus as described in the preceding paragraph.

Legal Disclaimer



Forward-Looking Statements

Certain of the statements made in this investor presentation may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended. The words “expect,” “anticipate,” “intend,” “plan,” “believe,” “seek,” “estimate,” “Project,” “will,” “may,” and “potential,” and similar expressions, often accompany such forward-looking statements, but other statements not based on historical information may also be considered forward-looking, including statements about the benefits to PPBN and VABB of the proposed merger, PPBN’s and VABB’s future financial and operating results and their respective plans, objectives, and intentions. All forward-looking statements are subject to risks, uncertainties, and other factors that may cause the actual results, performance, or achievements of PPBN and VABB to differ materially from any results, performance, or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties, and other factors include, among others, (1) the risk that the cost savings and any revenue synergies from the proposed merger may not be realized or take longer than anticipated to be realized, (2) disruption from the proposed merger, with customer, supplier, or employee relationships, (3) the occurrence of any event, change, or other circumstances that could give rise to the termination of the merger agreement, (4) the failure to obtain necessary shareholder or regulatory approvals for the merger on a timely basis or at all, (5) the possibility that the amount of the costs, fees, expenses, and charges related to the merger may be greater than anticipated, including as a result of unexpected or unknown factors, events, or liabilities, (6) the failure of the conditions to the merger to be satisfied, (7) the risk of successful integration of the two companies’ businesses, including the risk that the integration of VABB’s operations with those of PPBN will be materially delayed or will be more costly or difficult than expected, (8) the risk of expansion into new geographic or product markets, (9) reputational risk and the reaction of the parties’ customers to the merger, (10) the risk of potential litigation or regulatory action related to the merger, (11) the dilution caused by PPBN’s issuance of additional shares of its common stock in the merger, and (12) general competitive, economic, political, and market conditions. PPBN and VABB disclaim any obligation to update or revise any forward-looking statements contained in this communication, which speak only as of the date hereof, whether as a result of new information, future events, or otherwise. Forward-looking statements speak only as of the date of the presentation. All of the forward-looking statements made in this presentation are expressly qualified by the cautionary statements contained herein. Readers are cautioned not to rely on the forward-looking statements contained in this presentation, as no assurance can be given that any of the events anticipated by the forward-looking statements will occur or, if any of them do occur, their ultimate impact on the results of operations or financial condition of PPBN or VABB. Additional information about the proposed merger and the factors that may impact the forward-looking statements may be found in the registration statement on Form S-4 that PPBN will file with the Securities and Exchange Commission, including under the heading “Risk Factors.”

Non-GAAP Financial Measures

This presentation contains certain financial information determined by methods other than in accordance with generally accepted accounting principles in the United States (“GAAP”). Such information includes non-GAAP presentations of net operating income, diluted earnings per share, efficiency ratio, tangible common equity, return on assets, tangible assets, and nonperforming assets excluding troubled debt restructurings. Reconciliations related to these non-GAAP financial measures are included in this presentation and all non-GAAP measures should be read along with such reconciliations. Management of PPBN and VABB believe that these non-GAAP financial measures provide additional useful information to investors and provide meaningful comparisons to the companies’ peers. Non-GAAP financial measures should not be considered as an alternative to any GAAP measure of performance or financial condition, and investors should consider comparable GAAP information when assessing the performance or financial condition of the companies. Non-GAAP financial measures have limitations as analytical tools, and investors should not consider them in isolation or as a substitute for analysis of the results or financial condition as reported under GAAP.

Creating a Central Virginia Partnership



PPBN's Strategic Rationale

- ▲ Maximizing future growth potential as a pro forma institution with over \$700mm in total assets
 - ▲ Provides an enhanced timeline to achieving greater than \$1B in total assets
- ▲ Expected to result in EPS accretion greater than 30% once fully integrated⁽¹⁾
- ▲ Addresses the long-term need to bring on more human capital in support of organic growth
- ▲ Maintains current corporate growth plans and solid capital positions
- ▲ Leverages VABB's strong core deposit base and enhances the market footprint

VABB's Strategic Rationale




- ✓ Similar culture with a focus on the communities they serve and the relationships they foster
- ✓ Provides additional products, services, and locations to VABB's customer base
- ✓ Increased scale and operational efficiencies from the combination of the two organizations
- ✓ Provides additional management expertise and upward mobility for VABB employees
- ✓ Provides optionality and liquidity to shareholders
- ✓ Increases the current legal lending limit
- ✓ Strong EPS accretion for VABB shareholders and pro forma board representation

The partnership provides operational expertise, greater market presence, and management depth to both parties looking to better service and expand upon their markets in Central Virginia




(1) Estimated financial impact is presented solely for illustrative purposes and is not a guarantee of future performance

Transaction Rationale




Strategically Compelling

-  Enhanced operating leverage across attractive markets in Central Virginia
-  Increased geographical presence, scale and profitability
-  Like-minded cultures with similar strategies, focused on serving customers and community




Market Enhancing

-  Pro forma footprint with a presence in four counties and two independent cities in Central Virginia
-  Top 5 deposit market share across Danville-Pittsylvania County and the Danville-Lynchburg MSA
-  Higher legal lending limit enhances the pro forma institution's ability to service larger credits

Financially⁽¹⁾ Attractive

-  Projected EPS accretion greater than 30% in 2021⁽²⁾ for both banks
-  Less than 4 years to earn back initial tangible book value dilution (crossover method)
-  Cash IRR > 25%

Mitigated Risks

-  Mutually strong regulatory standings with conservative credit cultures
-  Well equipped to handle any future capital needs with a \$6mm subordinated debt raise prior to closing
-  Leveraging PPBN's lending expertise while utilizing VABB's core funding strengths

(1) Estimated financial impact is presented solely for illustrative purposes and is not a guarantee of future performance

(2) Represents the first full year of EPS accretion excluding deal costs; takes into account the interest expense from issuing \$6mm of subordinated debt

Transaction Terms



Consideration per VABB share	70% of VABB shares will receive 0.50 shares of PPBN common stock (fixed) 30% of VABB shares will receive \$16.00 per share in cash (fixed)
Announced Transaction Value ⁽¹⁾	Calculated deal price per share of \$15.87 Aggregate transaction value of \$29.1 million ⁽²⁾
Board Representation	Board of Directors to consist of 13 PPBN / 5 VABB
Key VABB Management	Don Merricks to assist as SVP & Chief Integration Officer for First National Bank Jerry Oakes to become the Danville market President for First National Bank
Pro Forma Ownership	Current PPBN shareholders: 70.8% Current VABB shareholders: 29.2%
Required Approvals	Shareholder approvals for both PPBN and VABB Customary regulatory approvals
Expected Closing	Third Quarter of 2020
Office Closings	No closures expected
Estimated Transaction Multiples ⁽³⁾	Price / 2019E EPS: 15.1x Price / TBVPS: 119.3% TBVPS Impact: 10.6% initial dilution earned back in 3.9 years

(1) Based on PPBN's 10-trading day average closing price of \$31.615 as of 01/17/2020; no options are outstanding for VABB

(2) Based on an exchange ratio of 0.500x for the 70% stock portion and a price of \$16.00 / share for the 30% cash portion

(3) Based on VABB's unaudited financial statements as of 09/30/2019; TBVPS earn-back period calculated utilizing the crossover method; all metrics and earn-backs listed take into account the issuance of \$6mm of subordinated debt. Estimated financial impact is presented solely for illustrative purposes and is not a guarantee of future performance

Sources: Definitive Agreement; Company Documents

Key Transaction Assumptions

Expected Cost Savings	<ul style="list-style-type: none">~35.5% of VABB's annual non-interest expense⁽¹⁾<ul style="list-style-type: none">50% realized in 2020100% realized thereafter
Merger & Integration Costs	<ul style="list-style-type: none">Approximately \$4.3 million in combined pre-tax merger expenses
Purchase Accounting & Other Adjustments	<ul style="list-style-type: none">Total gross loan fair value mark of \$2.1 million (1.4% of VABB total loans)Core deposit intangible = 1.5% of non-time deposits, straight-line over 7 yearsOther marks: +\$100,000 to securities
Loan Participation Synergies	<ul style="list-style-type: none">Assumes \$134,000 of pre-tax synergies from loan participations brought back to the pro forma institution due to the increase in legal lending limit<ul style="list-style-type: none">50% realized in 2020100% realized thereafter
Capital Planning	<ul style="list-style-type: none">Subordinated debt: ~\$6mm to be issued by PPBN in conjunction with the transactionFollowing the closing of the merger, PPBN anticipates a quarterly dividend of \$0.32 per share through 2020, subject to Board approval and financial performance. Future dividends are expected to be consistent with a long-term strategic dividend payout ratio of 20%-40% of earnings.

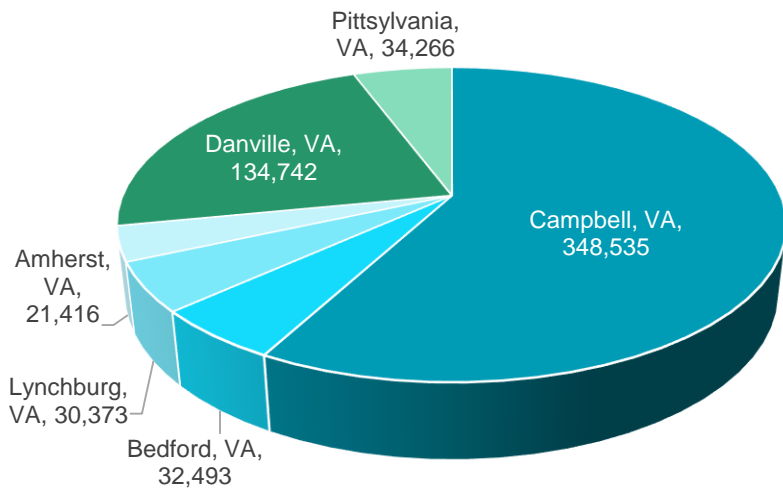
(1) Represents 26.5% of VABB's LTM Q3 2019 non-interest expense if factoring in the increase in the buyer's pro forma expenses as a result of the transaction.

Pro Forma Branch Presence and Highlights

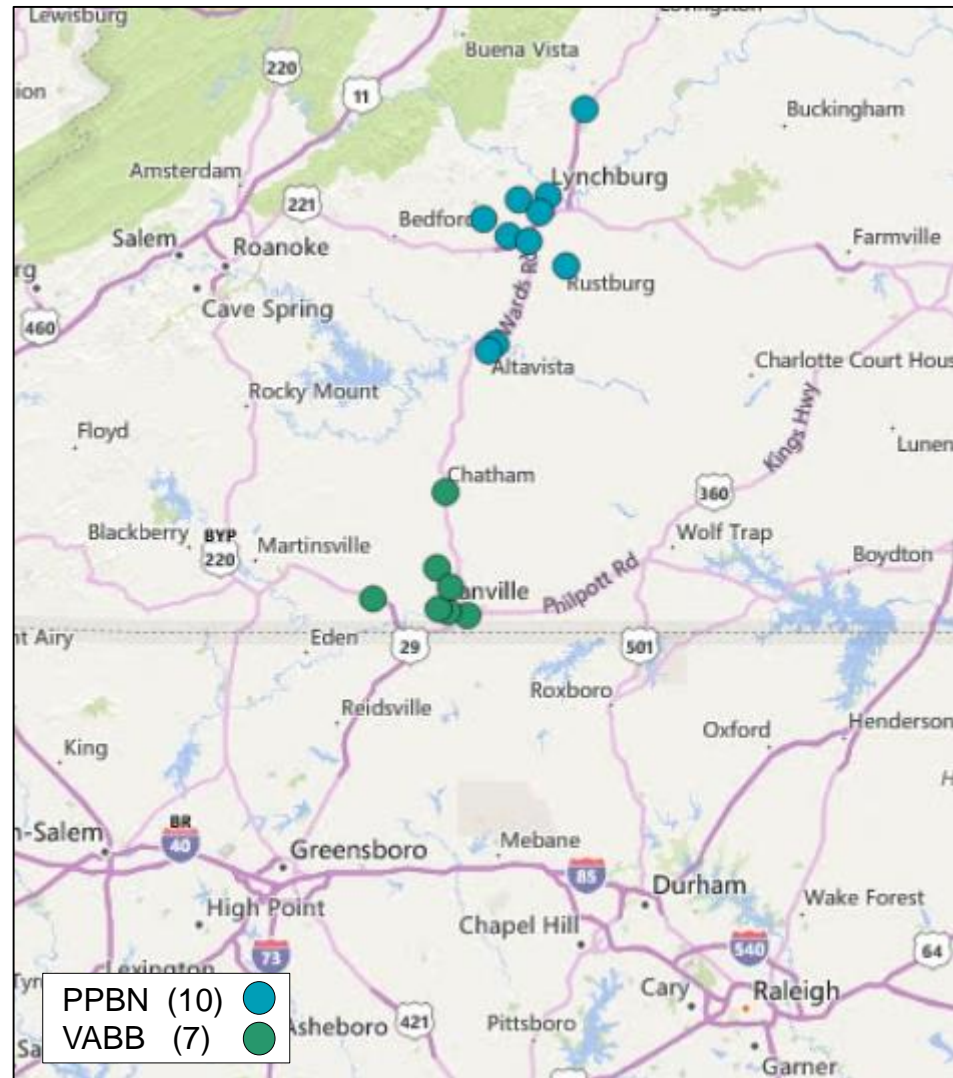
Pro Forma Highlights (as of 09/30/2019)⁽¹⁾

Assets (\$mm)	703.0
Loans (\$mm)	536.9
Deposits (\$mm)	624.5
Tangible Common Equity / Tangible Assets Ratio	8.5%
Branches	17
Loans / Deposits	86.0%

Pro Forma Deposits by County (as of 06/30/2019)⁽²⁾



Pro Forma Branch Map



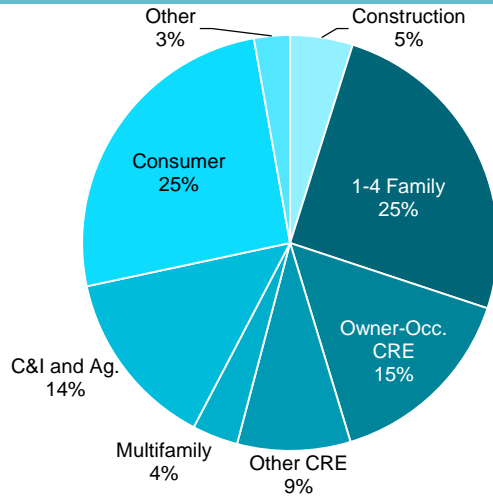
Source: S&P Global Market Intelligence

(1) Pro forma financials based on bank-level financials and do not assume any credit marks; pro forma TCE ratio estimated as of the closing of the transaction and is inclusive of any balance sheet marks and deal costs

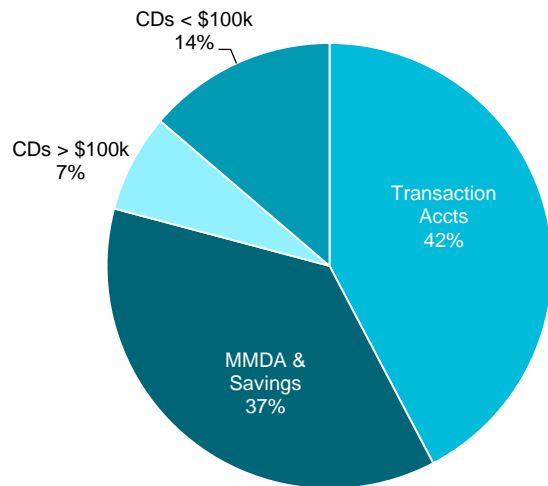
(2) Shown in (000s); data used based on the FDIC summary of deposits data as of 06/30/2019

Pro Forma Loan and Deposit Composition

PPBN

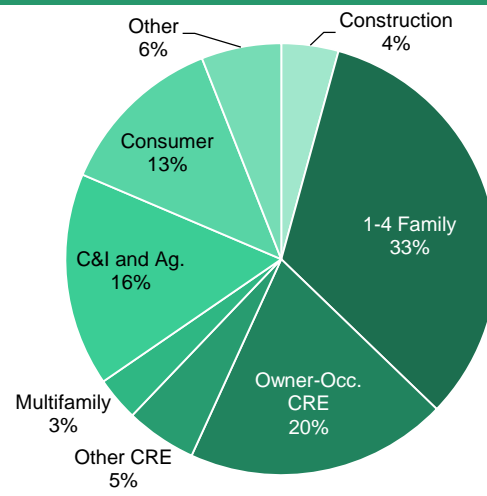


MRQ Loan Yield: 4.90%

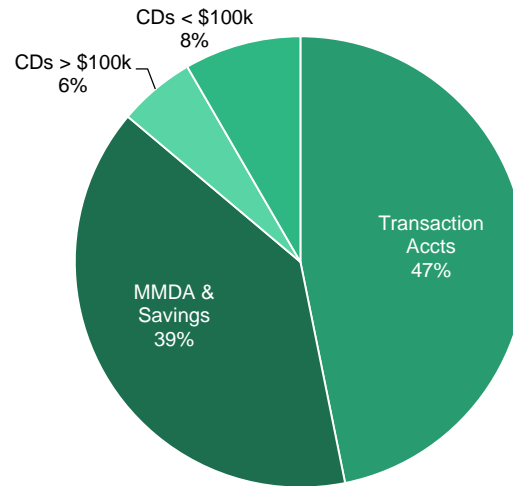


MRQ Cost of Funds: 0.66%

VABB

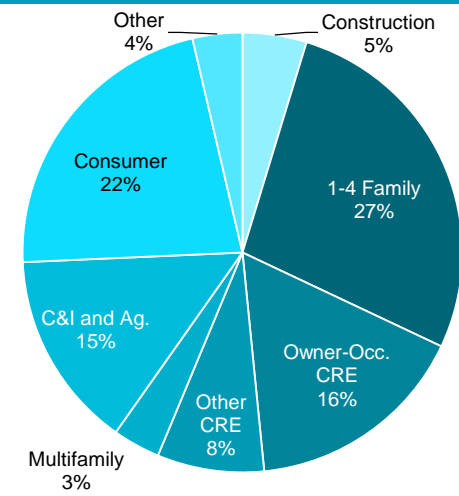


MRQ Loan Yield: 5.41%

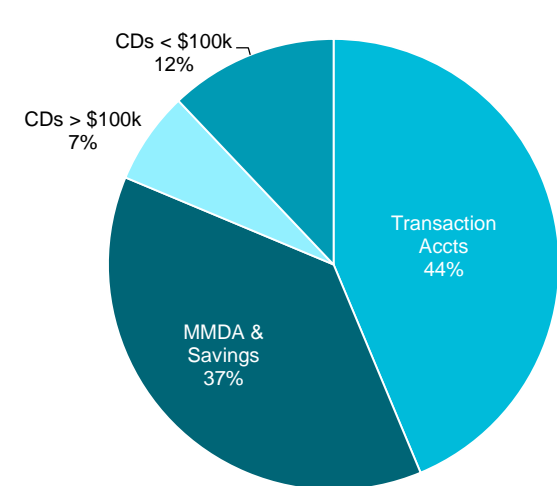


MRQ Cost of Funds: 0.25%

Pro Forma



MRQ Loan Yield: 5.04%



MRQ Cost of Funds: 0.53%

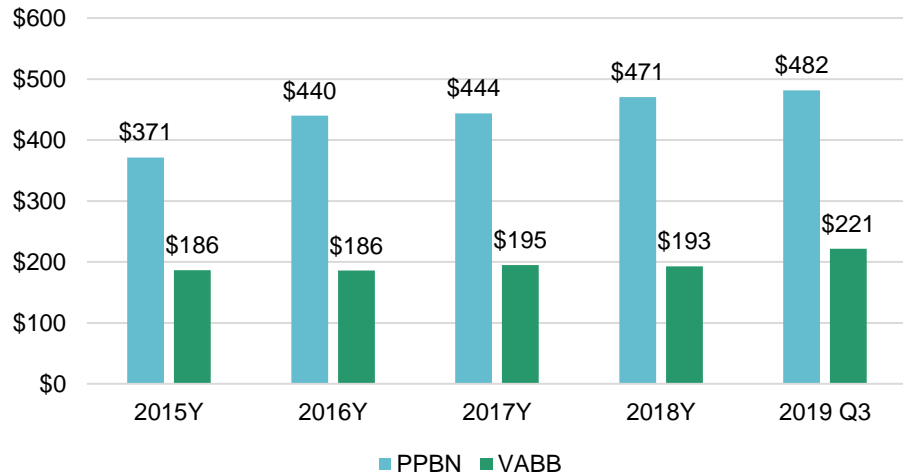
Source: S&P Global Market Intelligence; bank-level data as of 09/30/2019

Note: MRQ defined as the bank's most recently reported fiscal quarter

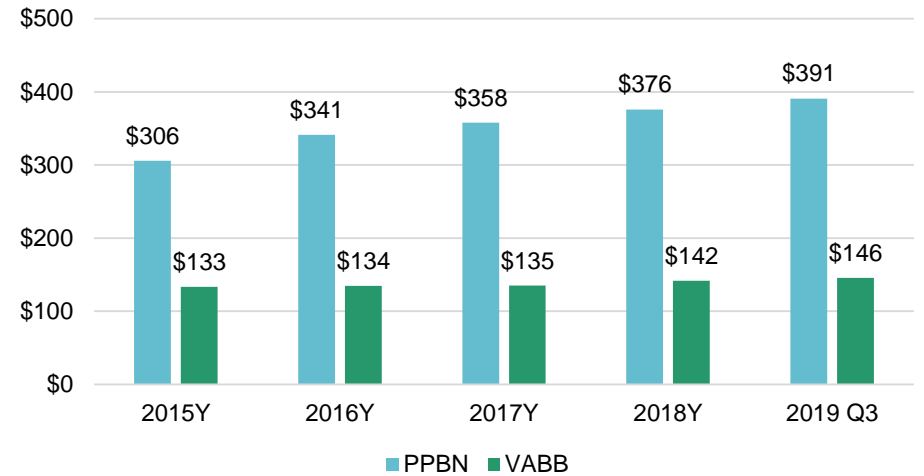
Balance Sheet Trends



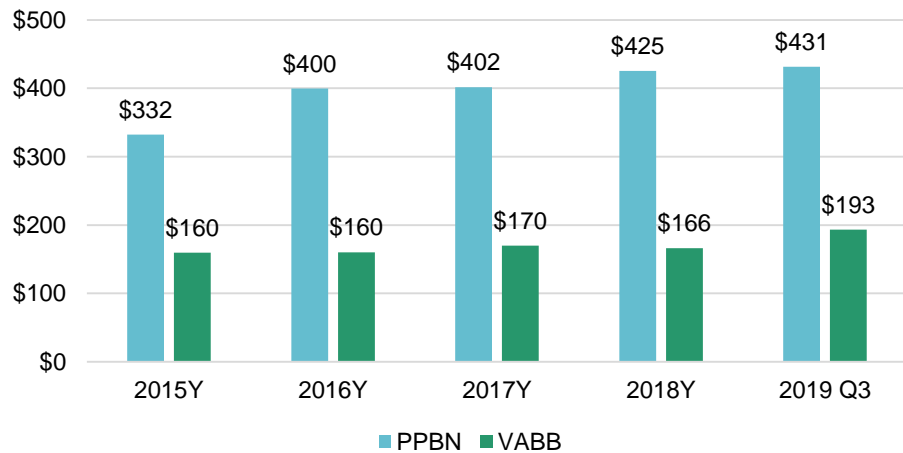
Total Assets (\$mm)



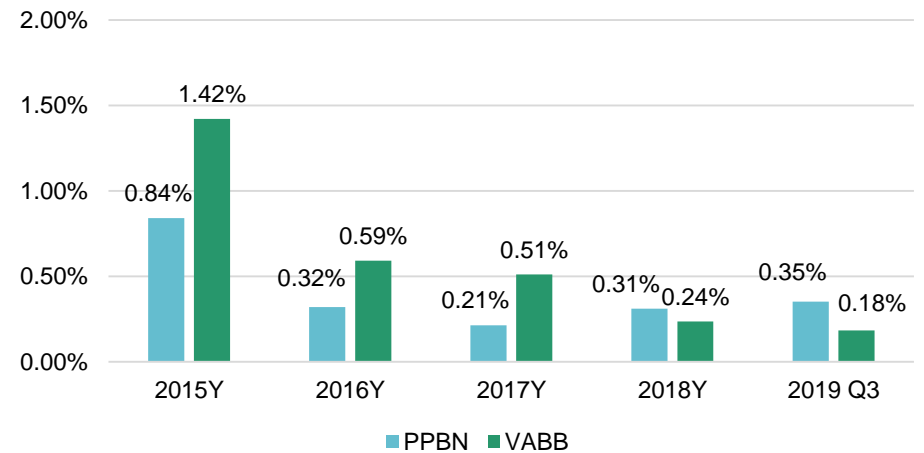
Total Loans (\$mm)



Total Deposits (\$mm)



NPAs Excluding TDRs / Assets

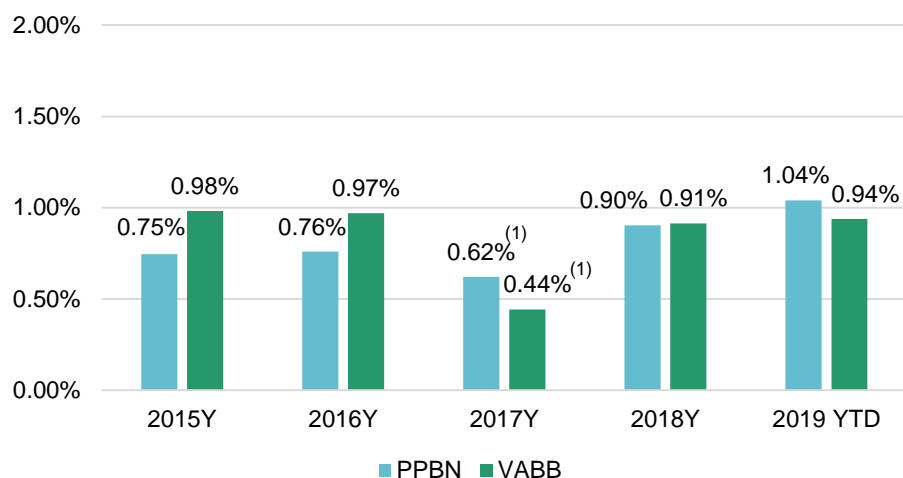


Source: S&P Global Market Intelligence; GAAP-level consolidated financial data as of 09/30/2019

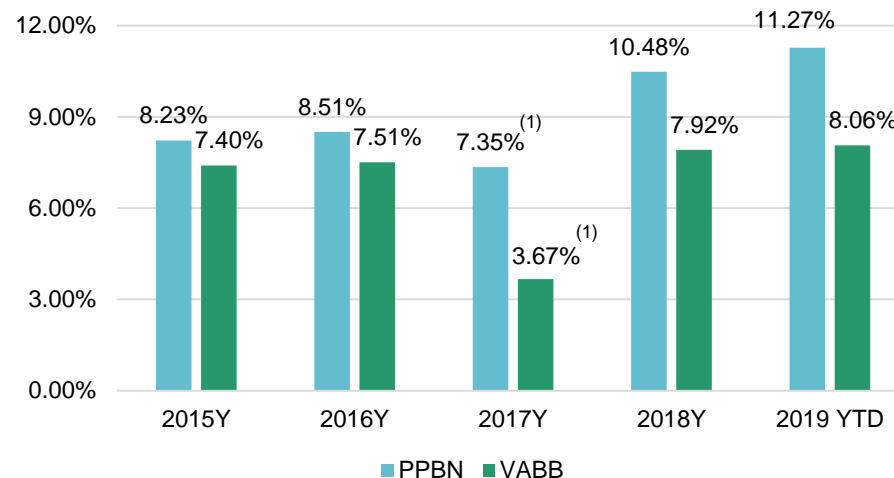
Performance Trends



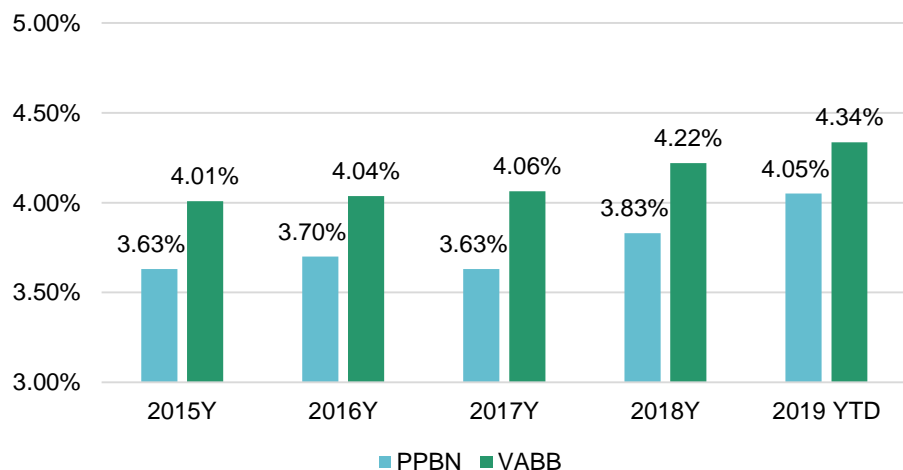
Return on Average Assets



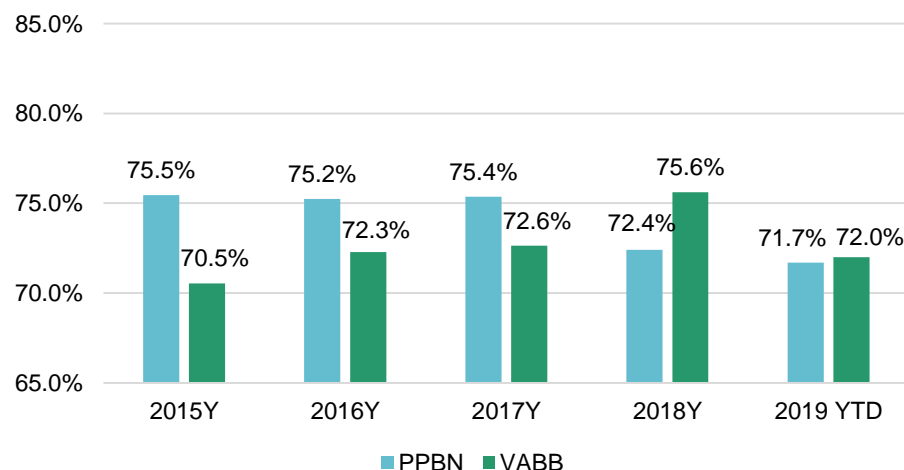
Return on Average Tangible Common Equity



Net Interest Margin



Efficiency Ratio



Source: S&P Global Market Intelligence; GAAP-level consolidated financial data as of 09/30/2019

Note: 2019 YTD represents the fiscal quarters from Q1 through Q3 of 2019

(1) Profitability metrics lower in 2017 due to DTA adjustments resulting from the change in corporate tax rate

Estimated Capital Ratios and Concentrations



Capital Ratios	PPBN Standalone⁽¹⁾	VABB Standalone⁽¹⁾	Pro Forma at Close⁽²⁾
TCE / TA	9.5%	11.0%	8.5%
Leverage Ratio	9.6%	11.6%	9.7%
CET 1 Ratio	11.6%	17.9%	12.6%
Tier 1 Ratio	11.6%	17.9%	12.6%
Total Risk-Based Ratio	12.5%	18.7%	13.2%

Concentration Ratios	PPBN Standalone⁽³⁾	VABB Standalone⁽³⁾	Pro Forma at Close⁽²⁾⁽³⁾
C&D / Total Capital	38%	23%	36%
CRE / Total Capital	135%	70%	124%

- Standalone and pro forma organizations to remain “Well Capitalized” in excellent regulatory standing with CRE exposure well below supervisory guidelines

Source: S&P Global Market Intelligence

(1) Consolidated capital ratios as of 09/30/2019

(2) Includes issuance of \$6mm of subordinated debt by PPBN prior to closing the merger

(3) Bank-level and pro forma concentration ratios as of 09/30/2019

I. Appendix

Non-GAAP Reconciliations – PPBN



	2015	2016	2017	2018	2019 YTD
Net Income (GAAP)	\$2,740	\$3,004	\$2,748	\$4,160	\$3,712
Securities (gains) losses and other	-	49	-	-	2
Revaluation of deferred tax asset due to tax rate change	-	-	279	-	-
Non-recurring revenue	280	210	-	-	-
Net Operating Income (Non-GAAP)	\$3,020	\$3,165	\$3,027	\$4,160	\$3,710
Diluted Earnings per Share (GAAP)	\$1.79	\$1.96	\$1.78	\$2.68	\$2.38
Securities (gains) losses and other	0.00	0.03	0.00	0.00	0.00
Revaluation of deferred tax asset due to tax rate change	0.00	0.00	0.18	0.00	0.00
Non-recurring revenue	0.18	0.14	0.00	0.00	0.00
Diluted Earnings per Share (Non-GAAP)	\$1.97	\$2.06	\$1.96	\$2.68	\$2.38
Efficiency Ratio (GAAP)	76.1%	75.8%	75.5%	72.5%	71.7%
Securities (gains) losses and other	0.0%	0.4%	0.0%	0.0%	0.0%
Non-recurring revenue	2.3%	1.6%	0.0%	0.0%	0.0%
Efficiency Ratio (Non-GAAP)	73.8%	73.8%	75.5%	72.5%	71.7%
Shareholders' Equity (GAAP)	\$34,782	\$36,549	\$38,795	\$42,111	\$46,301
Goodwill and intangibles	539	539	539	539	539
Tangible Common Equity (Non-GAAP)	\$34,243	\$36,010	\$38,256	\$41,572	\$45,762
Return on Average Assets (GAAP)	0.75%	0.76%	0.62%	0.90%	1.04% ⁽¹⁾
Securities (gains) losses and other	0.00%	0.01%	0.00%	0.00%	0.00%
Revaluation of deferred tax asset due to tax rate change	0.00%	0.00%	0.06%	0.00%	0.00%
Non-recurring revenue	0.08%	0.05%	0.00%	0.00%	0.00%
Return on Average Assets (Non-GAAP)	0.82%	0.80%	0.68%	0.90%	1.04%
Total Assets (GAAP)	\$371,261	\$440,104	\$443,925	\$470,611	\$481,627
Goodwill and intangibles	539	539	539	539	539
Tangible Assets (Non-GAAP)	\$370,722	\$439,565	\$443,386	\$470,072	\$481,088
Return on Average Equity (GAAP)	8.13%	8.38%	7.25%	10.34%	11.15% ⁽¹⁾
Securities (gains) losses and other	0.00%	0.14%	0.00%	0.00%	0.00%
Revaluation of deferred tax asset due to tax rate change	0.00%	0.00%	0.74%	0.00%	0.00%
Non-recurring revenue	0.83%	0.59%	0.00%	0.00%	0.00%
Effect of goodwill and intangibles	0.13%	0.13%	0.10%	0.13%	0.13%
Return on Average Tangible Common Equity (Non-GAAP)	9.08%	8.95%	8.09%	10.48%	11.28%

Source: S&P Market Intelligence; company filings

Note: All non-core items have been tax adjusted assuming a 21% tax rate

(1) Annualized figures

Non-GAAP Reconciliations – VABB



	2015	2016	2017	2018	2019 YTD
Net Income (GAAP)	\$1,773	\$1,805	\$858	\$1,776	\$1,441
Securities (gains) losses and other	100	158	-	-	-
Revaluation of deferred tax asset due to tax rate change	-	-	413	-	-
Net Operating Income (Non-GAAP)	\$1,673	\$1,647	\$1,271	\$1,776	\$1,441
Diluted Earnings per Share (GAAP)	\$0.97	\$0.98	\$0.47	\$0.97	\$0.79
Securities (gains) losses and other	0.05	0.09	0.00	0.00	0.00
Revaluation of deferred tax asset due to tax rate change	0.00	0.00	0.22	0.00	0.00
Diluted Earnings per Share (Non-GAAP)	\$0.91	\$0.90	\$0.69	\$0.97	\$0.79
Efficiency Ratio (GAAP)	70.5%	72.3%	72.6%	75.6%	72.0%
Securities (gains) losses and other	1.6%	2.5%	0.0%	0.0%	0.0%
Efficiency Ratio (Non-GAAP)	68.9%	69.8%	72.6%	75.6%	72.0%
Shareholders' Equity (GAAP)	\$23,897	\$23,446	\$22,743	\$23,283	\$24,405
Goodwill and intangibles	-	-	-	-	-
Tangible Common Equity (Non-GAAP)	\$23,897	\$23,446	\$22,743	\$23,283	\$24,405
Return on Average Assets (GAAP)	0.98%	0.97%	0.44%	0.91%	0.94% ⁽¹⁾
Securities (gains) losses and other	0.06%	0.08%	0.00%	0.00%	0.00%
Revaluation of deferred tax asset due to tax rate change	0.00%	0.00%	0.21%	0.00%	0.00%
Return on Average Assets (Non-GAAP)	0.93%	0.89%	0.66%	0.91%	0.94%
Total Assets (GAAP)	\$186,216	\$185,784	\$195,039	\$192,513	\$221,413
Goodwill and intangibles	-	-	-	-	-
Tangible Assets (Non-GAAP)	\$186,216	\$185,784	\$195,039	\$192,513	\$221,413
Return on Average Equity (GAAP)	7.40%	7.51%	3.67%	7.92%	8.06% ⁽¹⁾
Securities (gains) losses and other	0.42%	0.66%	0.00%	0.00%	0.00%
Revaluation of deferred tax asset due to tax rate change	0.00%	0.00%	1.77%	0.00%	0.00%
Effect of goodwill and intangibles	0.00%	0.00%	0.00%	0.00%	0.00%
Return on Average Tangible Common Equity (Non-GAAP)	6.99%	6.85%	5.44%	7.92%	8.06%

Source: S&P Market Intelligence; company filings

Note: All non-core items have been tax adjusted assuming a 21% tax rate

(1) Annualized figures

Investor Contacts



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