



May 5, 2016

Dear Shareholder:

Amazing and impressive.... These are the best superlatives to describe the employees of Pegasus Bank. Never in forty-five plus years of banking have I been surrounded by such a group of talented employees so committed to achieve goals and who every day strive to do the right thing for the customer. Last year produced a banner year, and now 2016 looks to be even better. This level of performance doesn't happen spontaneously, so it is difficult to be excessively panegyric about the contributions of our staff.

For the first quarter of 2016 total assets increased \$56 million or 15% over the same period last year. Total loans increased almost \$46 million and total deposits increased 16% to \$382 million from \$331 million last year, a \$51 million increase. Non-interest deposits (checking accounts) continued to perform well, growing 10%, and still represent an envious level of 38% of total deposits. The loan to deposit ratio, an indicator of liquidity, remains at a modest level of 68%.

Net income for the quarter was up 53% over the first quarter of 2015 to \$797,000. Total income increased \$783,000 and total expenses increased \$382,000; the provision made to the Loan Loss Reserve, \$60,000, was slightly less than last year's provision. The Loan Loss Reserve at quarter end increased to \$2,589,000 and represented .99% of outstanding loans.

The Equity Capital account at quarter end is \$31,356,240 which is \$7.59 per share. A little explanation and reconciliation is required to explain events during the quarter. Since 2016 is the bank's ninth year of operation, all of the stock options issued in 2007 will shortly be expiring which necessitates those holders to exercise some or all of the options before they expire. One hundred thousand shares of options were exercised during the first quarter at a strike price of \$5.00 per share which added \$500,000 to the equity capital and increased the outstanding shares to 4,133,460 shares. The following are the details:

	<u>12/31/2015</u>	<u>Options exercised</u>	<u>Q1 earnings</u>	<u>3/31/2016</u>
Number shares	4,033,460	100,000		4,133,460
Equity Capital	\$ 30,038,355	\$500,000	\$797,004	\$ 31,356,240 (a)
Per share book value	\$7.44			\$7.59

(a) includes \$20,877 adjustment due to option amortization.

Remaining outstanding options granted: 385,500 shares  
 Remaining options not granted: 52,519 shares.

This chart may far exceed your appetite for the subject of options and dilution, but the disclosure and explanation is important.

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The current pipeline of new customer opportunities is healthy and the quality of the prospects is consistent with our current customer base. Even with the current level of oil prices, the Dallas area is surprisingly robust; however, economic slowdowns normally do not announce their arrivals, so we will continue to remain vigilant with lending and investment decisions.

The bank has many operational and service initiatives in some state of development, testing and delivery.

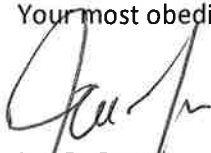
- The new and more secure Chip enabled PIN debit card has been rolled out to our employees for final testing, and we will start reissuing our VISA debit cards to customers this month.
- The new and more powerful online platform for commercial accounts is also in its final testing, and our staff will start discussing this new service with our commercial users this summer.
- There is an assortment of other products and services that will be added during 2016 including Apple Pay for iPad and iPhone users, instant issue debit cards that will allow our staff to issue new and replacement cards in the branch, and the bank's own SWIFT number that will allow incoming international wires to be processed more efficiently.

Fraud and cybercrime continues to be headline news. You can find safeguards and helpful hints on subjects such as ransomware, what to do about email hacking, and debit card and ATM safety on the home page of our website.

Finally, the enclosed flyer promotes the difference in costs of a commercial checking account at Pegasus compared to other banks in the market. Not only do we provide the best service, we can save commercial account holders a significant amount of fees.

As always, we appreciate your support and your business.

Your most obedient servant,



Joe R. Goyne  
President

JRG: me

Enclosures


**PEGASUS BANK**  
**MARCH 2016**  
**(unaudited)**

<u>Avg Balance Sheet</u>	<u>3/31/2016</u>	<u>3/31/2015</u>	<u>% Chg</u>
Cash & Equivalents	\$ 13,091,550	\$ 13,598,226	-4%
Investments	132,669,626	122,815,140	8%
Gross Loans	262,788,791	216,941,636	21%
Loan Loss Reserve	(2,589,145)	(2,032,113)	<u>27%</u>
Net Loans	<u>\$ 260,199,646</u>	<u>\$ 214,909,523</u>	21%
Fixed Assets	6,313,439	6,204,833	2%
Other Assets	2,744,793	2,215,949	<u>24%</u>
Total Assets	<u>\$ 415,019,054</u>	<u>\$ 359,743,671</u>	15%
Non-Interest Deposits	148,399,372	134,387,158	10%
Interest Bearing Deposits	<u>234,436,087</u>	<u>196,977,919</u>	<u>19%</u>
Total Deposits	\$ 382,835,459	\$ 331,365,077	16%
Other Liabilities	827,355	426,073	<u>94%</u>
Total Liabilities	<u>\$ 383,662,814</u>	<u>\$ 331,791,150</u>	16%
Equity Capital	<u>\$ 31,356,240</u>	<u>\$ 27,952,521</u>	<u>12%</u>
Total Liabilities and Equity	<u>\$ 415,019,054</u>	<u>\$ 359,743,671</u>	15%
<u>Ratios: (Monthend)</u>	<u>3/31/2016</u>	<u>3/31/2015</u>	
Loan to Deposit Ratio	68.63%	67.63%	
Tier 1 Capital to Assets	7.52%	7.69%	
Ln Loss Reserve to Loans	0.99%	0.92%	
Book Value per Share	\$7.59	\$6.94	
<u>Income Statement</u>	<u>3 mos. YTD 2016</u>	<u>3 mos. YTD 2015</u>	<u>YTD % Chg</u>
Interest Income - Invest.	\$ 299,003	\$ 265,279	13%
Interest Income - Loans	2,883,720	2,198,034	<u>31%</u>
Total Interest Income	<u>\$ 3,182,723</u>	<u>\$ 2,463,313</u>	29%
Interest Expense	128,122	90,249	<u>42%</u>
Total Interest Margin	<u>\$ 3,054,601</u>	<u>\$ 2,373,064</u>	29%
Non-Interest Income	\$ 368,013	\$ 266,617	38%
Personnel Expense	1,333,173	1,108,334	20%
Occupancy Expense	263,861	222,823	18%
Other Expenses	572,598	456,526	<u>25%</u>
Total Expenses	<u>\$ 2,169,632</u>	<u>\$ 1,787,683</u>	21%
Loan Loss Provision	<u>\$ 60,000</u>	<u>\$ 70,000</u>	
Net Income Before Tax	\$ 1,192,982	\$ 781,998	53%
Income Tax	395,978	262,472	
Net Income	<u>\$ 797,004</u>	<u>\$ 519,526</u>	53%

Why pay more for your  
commercial deposit account?



At Pegasus Bank, we believe in transFEEancy!

Service	Other Banks	 Pegasus BANK
Incoming Wire Fee	\$14.00 - \$16.00	\$0
Earnings Credit on Deposit Balances	As low as .25%	1%
Unused Line of Credit Fee	Yes (Routine)	No
Remote Deposit Capture	\$100.00/month	\$30.00/month



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