

May 11, 2017

Dear Shareholder:

I begin this quarterly report with a reminder of the reasons one would choose to bank with Pegasus Bank rather than with a large regional or national bank. I thought I had heard of all the preposterous schemes the large banks dream up to service charge their customers; but just as it appeared the giant banks had exhausted every opportunity, a new and innovative fee appeared, please follow:

A very good customer (by any banks' standard) of Pegasus, gave us instructions to wire transfer some funds to a large bank. The wiring instructions provided by our customer had one digit incorrect; therefore, the large bank receiving the wire, correctly, returned the funds to Pegasus for our customer's account—but not before deducting a \$45.00 "wire return charge." Really, I can't make this stuff up!

Why would anyone want to use a bank that charges wire return fees, incoming wire fees, wire advice fees, etc., etc.?

That is this quarter's marketing alert. The year 2017 has started well. Net income after tax for the quarter ending March 31 was \$1,036,965, a 30% increase over the first quarter of 2016. Linked quarter net income, that is, compared to the 4th quarter of 2016, showed a 1% increase even though the March quarter always has a fewer days of business. Total revenue (net margin and fees) increased \$566,000, or 16.5%, and expenses increased \$227,000, or 10%. Total assets increased to \$490 million, which is a \$75 million increase over the same period in 2016. Loans increased almost \$22 million, and deposits increased \$72 million over that period. However, when comparing the balance sheet for this quarter to the 4th quarter ending December 2016, you will note that loans, deposits, and total assets have decreased. A deep dive reveals that the bank had numerous customers holding large deposit balances during November and December that were disbursed once the New Year arrived; in other words, we were not quite as large a bank in December as we had thought.

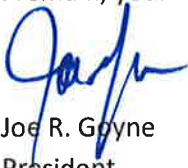
Loan quality remains to be the hallmark of our company as we continue to escape loan losses. The Federal Reserve's recent increases in the short term fed funds rate has delivered a slight improvement in the bank's interest margin to 3.10% for the quarter versus 2.94% in the 4th quarter last year.

We should be circumspect about drawing broader conclusions about the bank's recent and current success. Our challenge, and opportunity, for the next few years is a mirror of our history—discover ways to continue the growth of quality customers and quality loans. I recognize that our selected niche is both well-defined and narrow, however, the pool of prospects is vast. Once open, the Forest and Preston office will geographically frame our market leaving our greatest remaining challenge attracting experienced and motivated bankers. I continue to stress that in the market in which we play, if you win the talent game, you win the ball game.

If you are planning a big trip this summer don't forget to notify us so we can make the appropriate notations to prevent debit card transactions being blocked. Also, consider us for your foreign currency needs. We maintain at both branches an inventory of British Pounds, Euros, and Chinese Yuan; other currencies can be ordered and available for next day pick up.

Your continued support and referrals of prospective customers is vital.

I remain, your most obedient servant,

A handwritten signature in blue ink, appearing to read "Joe R. Goyne".

Joe R. Goyne
President

Enclosures

PEGASUS BANK
MARCH 2017
(unaudited)

<u>Avg Balance Sheet</u>	<u>3/31/2017</u>	<u>3/31/2016</u>	<u>% Chg</u>
Cash & Equivalents	\$ 14,009,350	\$ 13,091,550	7%
Investments	180,477,770	132,669,626	36%
Gross Loans	284,097,455	262,788,791	8%
Loan Loss Reserve	(2,831,806)	(2,589,145)	9%
Net Loans	\$ 281,265,649	\$ 260,199,646	8%
Fixed Assets	12,147,890	6,313,439	92%
Other Assets	2,709,860	2,744,793	-1%
Total Assets	\$ 490,610,519	\$ 415,019,054	18%
Non-Interest Deposits	177,376,132	148,399,372	20%
Interest Bearing Deposits	276,757,200	234,436,087	18%
Total Deposits	\$ 454,133,332	\$ 382,835,459	19%
Other Liabilities	772,973	827,355	-7%
Total Liabilities	\$ 454,906,305	\$ 383,662,814	19%
Equity Capital	\$ 35,704,214	\$ 31,356,240	14%
Total Liabilities and Equity	\$ 490,610,519	\$ 415,019,054	18%
<u>Ratios: (Monthend)</u>	<u>3/31/2017</u>	<u>3/31/2016</u>	
Loan to Deposit Ratio	59.52%	68.63%	
Tier 1 Capital to Assets	7.03%	7.52%	
Ln Loss Reserve to Loans	1.01%	0.99%	
Book Value per Share	\$8.50	\$7.59	
<u>Income Statement</u>	<u>3 mos. YTD 2017</u>	<u>3 mos. YTD 2016</u>	<u>YTD % Chg</u>
Interest Income - Invest.	\$ 557,916	\$ 299,003	87%
Interest Income - Loans	3,126,550	2,883,720	8%
Total Interest Income	\$ 3,684,466	\$ 3,182,723	16%
Interest Expense	143,871	128,122	12%
Total Interest Margin	\$ 3,540,595	\$ 3,054,601	16%
Non-Interest Income	\$ 448,067	\$ 368,013	22%
Personnel Expense	1,519,047	1,333,173	14%
Occupancy Expense	225,812	263,861	-14%
Other Expenses	651,499	572,598	14%
Total Expenses	\$ 2,396,358	\$ 2,169,632	10%
Loan Loss Provision	\$ 40,000	\$ 60,000	
Net Income Before Tax	\$ 1,552,304	\$ 1,192,982	30%
Income Tax	515,339	395,978	
Net Income	\$ 1,036,965	\$ 797,004	30%