



January 28, 2019

Dear Shareholder:

An investment in Pegasus Bank is a tale of two stories: a story of successful financial results and a story that describes a delightful banking experience. Regardless of which story dominates, there is ample evidence of achieving high marks in each area. A business or individual will not enjoy a better banking relationship and value proposition anywhere else in Dallas—hence, the question: “why bank anywhere else?”

During this past year our management team successfully implemented two initiatives that are already producing immediate results and building future value. First, the expansion of our footprint with the Preston/ Forest office will allow us to serve the Preston Hollow market; this office gives us badly needed space to add bankers in the future. Second, the addition of the energy team of Mynan Feldman and Patrick Johnson, both recognized as two of the best energy lenders in the state, have demonstrated that a community bank with this level of expertise can attract the highest quality of clients.

Net income for the 4<sup>th</sup> quarter 2018 was \$1,790,425, the largest quarterly net income in the history of the bank. The full year financial results exceeded expectations. Net income after tax was \$6.6 million; a \$2 million increase over full year 2017 represents a 45% increase. Admittedly, half of the net income gain was a result of the lower tax rate that became effective last January. Total assets increased \$60 million, an 11% increase to \$631 million; and loans increased \$45 million, a 14% increase over 2017. Total deposits increased \$55 million or 10%, while we continued to maintain a favorable, even enviable, deposit mix that is 37% non-interest-bearing deposits. There were no loan losses. Earnings per share were \$1.57 vs. \$1.09 last year and book value per share increased to \$10.93. Return on Average Assets was 1.13% and Return on Average Equity was 15.52%. Non-interest income dropped 24% due to disappointing results in mortgage origination. Please take a moment to review the attached graphs exhibiting the bank's financial history.

Early in 2018 we recognized that other institutions were somewhat purblind to the realities of rising interest rates, and Pegasus made the prescient decision to deviate from conventional wisdom on deposit interest rates. We observed that many of our competitors were delaying or refusing to raise deposit rates in spite of the obvious and inevitable market trends. The result was not only fair treatment for our customers but continued attraction of new customers at a time when other banks experienced deposit contraction. These actions led to actual deposit growth, and, by being proactive, the bank has realized a nice expansion in net interest margin from 3.45% in Q1 to 3.62% by year end.

The power of the internet's search engines is common knowledge, so it is not surprising that the first step a prospective customer makes is to reach for a phone or tablet and search our website for information “about Pegasus Bank.”

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Recognizing this, during 2018 we made major enhancements to our website that included videos and vignettes explaining the many reasons a business or individual would want to bank at Pegasus. If you have not already checked out the site, please take out your phone, Google Pegasus Bank, and enjoy the experience.

Another product enhancement during the year was additional functionality and security of our Treasury Management System (TMS) for our commercial depositors. This change will give current clients the option to convert to a new online platform over the next few months. With the new platform, our customers will continue to have a best in class TMS system that ensures our business customers can manage their balances, payments, and receipts efficiently and securely.

#### Looking to 2019...

This year our top four priorities are:

- Growing the Preston/Forest Office.
- Connecting with more Energy clients.
- Expanding the sales and service on TMS.
- Recruiting experienced bankers.

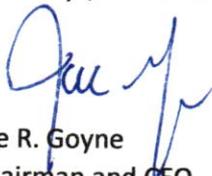
Priority #4 is critical to our continued success, and we would welcome any introduction to bankers you think highly of and feel would be a fit with the Pegasus culture.

With each year end letter, I have shared with you the bank's financial involvement with the community. In 2018 the bank made financial contributions to over thirty-five wonderful organizations. In addition, our staff was continuously active in mentoring and supporting groups. The major recipients of our financial involvement were: The Dallas Holocaust Museum, The Dallas Arboretum, AJC Dallas, Friends of the Katy Trail, Childcare Group, KidLinks, and The Dallas Historical Society. Also, the bank was again privileged to be the title sponsor of the International Perspectives Series of the World Affairs Council, and, through the Great Investors Big Ideas program, supported Victory Meadow Youth Development Foundation and the Michael J. Fox Foundation. This was also our first year to participate in the Cristo Rey Student Work program. We have four students working at our Mockingbird branch during the day to offset the cost of their education.

Please mark your calendar for the annual shareholders meeting to be held at 4:00 P. M., Tuesday, March 26<sup>th</sup>, at the Hilton DoubleTree on Mockingbird. Proxies will be mailed within the next thirty days.

It is difficult to overstate the importance to our continued success for every shareholder to recognize colleagues whose banking experience would be improved by moving to Pegasus. Thank you for your past referrals and keep a keen eye and open ear during 2019.

As always, we remain your obedient servants,



Joe R. Goyne  
Chairman and CEO



Harry Smith  
President

Enclosures