Pegasus
BANK
August 3, 2018

Dear Shareholder:

The bank had an impressive second quarter and first half; however, some explanation is necessary to properly clarify the noise in deposit growth compared to last year. Last year's letter (Q2, 2017) included the following statement:

Because Pegasus Bank has always been considered a safe haven for large depositors, over the last few months our depositors have placed over $100 million in temporary deposits in the bank. So instead of being a $671 million total asset bank as the bottom line suggests, adjusting for these temporary deposits, total assets are in reality about $550 million.

Therefore, using $550 million total assets as the adjusted level for the second quarter 2017 (June 30,2017) as the appropriate comparison number, the bank has increased assets $57 million, or 10% to $607 million as of June 30,2018. (Note: the attached financial statement reflects a decrease due to the higher temporary level last year). The drop in non-interest deposits is also related to this large deposit last year since a portion was in this category.

Loan growth continues to be a challenge, though the portfolio has increased $39 million or 13%. Even with this increase, the bank remains extremely liquid with a loan to deposit ratio of 59%. The bank has not experienced any loan losses during 2018 and adequate loan loss provisions have been expensed to maintain the Loan Loss Reserves at .90% of total loans. Total equity is now $42.7 million, a 16% increase from this period last year, resulting in a per share book value of $10.09.

The income statement is relatively straight forward. For the first six month of 2018 net income is $3,157,577, a 40% increase over the first six months of 2017. The components of the increase are:

1. Improvement in interest margin of 38%, of which 17% is due to volume (growth) and 21% is due to interest rate increases;
2. The lower tax rate contributed 23% of the increase;
3. Penalizing these increases in income was the drop in non-interest income and increase in expenses.

Non-interest income is down significantly due to reduced volume of residential mortgage originations.

Our energy initiative is going quite well. As you know Mynan Feldman joined us to head our Energy Department in May, and on June 30th Patrick Johnson joined the department as Senior Vice President. The early returns are quite positive; the quality and volume of prospective clients are exceeding our expectations. Many of the other local energy lenders have abandoned the smaller oil and gas companies and investors which opens a nice niche for Pegasus.

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In the first quarter shareholder letter (dated May 3) I expressed some thoughts on interest rate changes and specifically on the mystery of lack of movement in deposit rates. The bank's decision to change its pricing strategy is achieving its goals; those goals are: to ascertain that (1) depositors are enjoying the higher rates on their deposits as other market rates increase, (2) the bank is a leader in recognizing the reality of increased rates. Our deposit rates are adjusted monthly and are indexed to short term US Treasury rates. As a result of our attention to increasing market rates, our deposit base continues to grow nicely, while other banks that ignore this reality are struggling. This important and somewhat aggressive decision does impact our cost of funds, but in our judgement, this is the smart strategy. Our goal is not to pay the highest rates, but to be competitive with other quality, well managed banks in the market.

Another high value proposition unique to Pegasus Bank is our Treasury Management System and Commercial Checking Account, more specifically our commercial account analysis account for businesses. We routinely run cost simulations comparing our costs with competitors and have discovered savings in the area of 40% to 100%. The product and value are difficult to detail in a shareholder letter, but any member of our Treasury Management would be happy to discuss this service. The message, however, is that businesses that bank with Pegasus have a Treasury Management System that is rich in features and functionality resulting in a favorable price.

The Preston and Forest office is now open, and if you are in that vicinity, I hope you will stop in and say hello to the team. Several ideas are planned to elevate awareness of our presence and encourage families and businesses to move their banking to us. The first promotion is a throwback, but has some real value; we call it "the Bagel and Toaster promotion." We enclose the letter and two coupons: <u>one coupon for you to open a new account and one to pass on and incent a friend or colleague</u>. Corny, but it's a great Breville toaster and you can't beat H & H Bagels overnighted to you. You will be doing yourself and your friend a service.

As we enter the second half of 2018, the headwinds we encounter will not be inconsequential as we absorb the costs of the Forest office and the startup of the energy initiative. In the short term, the investments in the Forest office and the Energy Department will be dilutive, however, I am confident that both of these decisions will add decisive long-term value to the shareholder.

These results reflect the combination of proper strategy, a great team of employees and shareholders, and successful execution. Thanks so much for all that you do for the bank.

With best regards, your obedient servants,

Joe Goyne
Chairman and CEO

Harry Smith
President

Enclosures

PEGASUS BANK
JUNE 2018
(unaudited)

Avg Balance Sheet	6/30/2018	6/30/2017	% Chg
Cash & Equivalents	$ 16,236,584	$ 12,454,332	30%
Investments	247,267,388	358,913,229	-31%
Gross Loans	326,346,497	287,736,692	13%
Loan Loss Reserve	(2,988,585)	(2,913,000)	3%
Net Loans	$ 323,357,912	$ 284,823,692	14%
Fixed Assets	17,237,611	12,320,049	40%
Other Assets	3,149,770	3,055,326	3%
Total Assets	$ 607,249,265	$ 671,566,628	-10%
Non-Interest Deposits	179,209,403	206,538,383	-13%
Interest Bearing Deposits	383,854,344	427,397,519	-10%
Total Deposits	$ 563,063,747	$ 633,935,902	-11%
Other Liabilities	1,459,410	686,188	113%
Total Liabilities	$ 564,523,157	$ 634,622,090	-11%
Equity Capital	$ 42,726,108	$ 36,944,538	16%
Total Liabilities and Equity	$ 607,249,265	$ 671,566,628	-10%

Ratios:	6/30/2018	6/30/2017
Loan to Deposit Ratio	57.96%	45.39%
Tier 1 Capital to Assets	7.04%	5.50%
Ln Loss Reserve to Loans	0.92%	1.01%
Book Value per Share	$10.09	$8.79
Return on Avg Assets YTD	1.15%	0.81%
Return on Avg Equity YTD	15.45%	12.69%

Income Statement	2nd Qtr Ending 6/30/18	6 mos. YTD 2018	6 mos. YTD 2017	YTD % Chg
Interest Income - Invest.	$ 1,041,816	$ 1,925,176	$ 1,687,652	14%
Interest Income - Loans	4,195,720	8,051,877	6,400,971	26%
Total Interest Income	$ 5,237,536	$ 9,977,053	$ 8,088,623	23%
Interest Expense	600,326	972,680	360,920	170%
Total Interest Margin	$ 4,637,210	$ 9,004,373	$ 7,727,703	17%
Non-Interest Income	$ 268,908	$ 526,177	$ 943,929	-44%
Personnel Expense	1,692,650	3,295,482	3,088,275	7%
Occupancy Expense	296,018	595,750	436,678	36%
Other Expenses	756,881	1,498,362	1,455,899	3%
Total Expenses	$ 2,745,549	$ 5,389,594	$ 4,980,852	8%
Loan Loss Provision	$ 87,000	$ 157,000	$ 300,000	-48%
Net Income Before Tax	$ 2,073,569	$ 3,983,956	$ 3,390,780	17%
Income Tax	430,079	826,379	1,129,231	-27%
Net Income	$ 1,643,490	$ 3,157,577	$ 2,261,549	40%