



August 1, 2017

♪...summer sun, something's begun, but oh oh the
summer nights♪

Sandy and Danny, *Grease*, 1978

Dear Shareholder:

As I gather my thoughts for this letter, my first is the summer heat! Let's hope you are finding a way, or a place, to stay cool. Fortunately the temperature is not cooling the financial energy of the bank. An initial glance at the balance sheet section for the second quarter might raise a question: How did the bank grow \$233 million in deposits from the same period last year? Because Pegasus Bank has always been considered a safe haven for large depositors, over the last few months our depositors have placed about \$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.

Both the quarter ending June 2017 and the year-to-date results are quite gratifying. Net income after tax for the quarter was a record \$1,224,584, which represents an 18% increase over the sequential first quarter of 2017. Year-to-date net income is \$2,261,549, a 33% increase over the first six months of 2016. There are several contributors to this welcome performance: (1) the Prime interest rate has been increased twice since the first of the year resulting in an immediate and positive effect on the net interest margin; (2) the unexpected and temporary interest margin earned on the excess mentioned in the first paragraph; (3) an increase of Income due to the increase in volume in the residential mortgage department; (4) and disciplined expense control. On the expense side, please note the income statement also reflects a meaningful expense increase, 173%, in the Loan Loss Provision. This Provision increases our Loan Loss Reserve on the balance sheet and, while we have yet to experience a loan loss, we do not anticipate this apogee trend to continue; therefore, it is prudent to build the reserve while we have some "enjoyed income". With this current level of performance, the bank is earning approximately \$0.29 per share per quarter. The other financial statement items that are affected by the excess deposits are the important ratios such as the Tier 1 Capital to Asset ratio and the loan-to-deposit ratio.

The bank continues to struggle with loan growth, up only 7% from last year. Loan growth is the key to our continued success, so I hope if you learn of opportunities that fit our fairway you will encourage those prospective borrowers to contact us. Or, if you give me a call, one of our officers will contact them.

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We are currently scheduled to begin construction on the Forest and Preston office on August 7; the project should be complete and ready for occupancy by the end of April 2018.

There are some other interesting and exciting projects under way. This year we will begin exploring new ways of communicating with and delivering service to our customers, as well as, presenting the bank to prospective customers who are considering and researching for banking alternatives. This exciting and rapidly changing field includes broader use of social media for communication, developing instructional videos for our website, and promoting new payment channels. Stay tuned and feel free to send us your ideas.

The fraud and scam business is rampant. Both our research and experience indicates that the scam artists are quite effective when customers, businesses, and individuals fail to take common sense precautions. Much of this theft has only a small cyber or technology component; protecting your identity and assets has more to do with safeguarding your information and ascertaining the legitimacy of your contacts. The bank and its partners such as VISA employ advanced fraud detection systems that have proven effective and preventive, but we continue to remain concerned about our customers' use of best practices. Please stay alert.

As always, thank you for your support and your business.

Your most obedient servant,



Joe R. Goynes
President

JRG: me

Enclosures

PEGASUS BANK
JUNE 2017
(unaudited)

<u>Avg Balance Sheet</u>	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>% Chg</u>
Cash & Equivalents	\$ 12,454,332	\$ 11,535,849	8%
Investments	358,913,229	143,975,605	149%
Gross Loans	287,736,692	269,067,424	7%
Loan Loss Reserve	(2,913,000)	(2,639,167)	10%
Net Loans	<u>\$ 284,823,692</u>	<u>\$ 266,428,257</u>	7%
Fixed Assets	12,320,049	6,251,260	97%
Other Assets	3,055,326	2,906,026	5%
Total Assets	<u><u>\$ 671,566,628</u></u>	<u><u>\$ 431,096,997</u></u>	56%
Non-Interest Deposits	206,538,383	162,556,324	27%
Interest Bearing Deposits	427,397,519	235,346,101	82%
Total Deposits	<u>\$ 633,935,902</u>	<u>\$ 397,902,425</u>	59%
Other Liabilities	686,188	852,055	-19%
Total Liabilities	<u>\$ 634,622,090</u>	<u>\$ 398,754,480</u>	59%
Equity Capital	<u>\$ 36,944,538</u>	<u>\$ 32,342,517</u>	14%
Total Liabilities and Equity	<u><u>\$ 671,566,628</u></u>	<u><u>\$ 431,096,997</u></u>	56%

<u>Ratios: (Monthend)</u>	<u>6/30/2017</u>	<u>6/30/2016</u>
Loan to Deposit Ratio	47.14%	66.99%
Tier 1 Capital to Assets	5.73%	7.35%
Ln Loss Reserve to Loans	1.08%	0.98%
Book Value per Share	\$8.79	\$7.80

<u>Income Statement</u>	<u>2nd Qtr Ending 6/30/17</u>	<u>6 mos. YTD 2017</u>	<u>6 mos. YTD 2016</u>	<u>YTD % Chg</u>
Interest Income - Invest.	\$ 1,129,736	\$ 1,687,652	\$ 617,109	173%
Interest Income - Loans	3,274,421	6,400,971	5,789,738	11%
Total Interest Income	<u>\$ 4,404,157</u>	<u>\$ 8,088,623</u>	<u>\$ 6,406,847</u>	26%
Interest Expense	217,049	360,920	256,958	40%
Total Interest Margin	<u>\$ 4,187,108</u>	<u>\$ 7,727,703</u>	<u>\$ 6,149,889</u>	26%
Non-Interest Income	<u>\$ 495,862</u>	<u>\$ 1,043,929</u>	<u>\$ 920,746</u>	13%
Personnel Expense	1,569,228	3,088,275	2,773,771	11%
Occupancy Expense	210,866	536,678	527,329	2%
Other Expenses	804,400	1,455,899	1,109,142	31%
Total Expenses	<u>\$ 2,584,494</u>	<u>\$ 5,080,852</u>	<u>\$ 4,410,242</u>	15%
Loan Loss Provision	<u>\$ 260,000</u>	<u>\$ 300,000</u>	<u>\$ 110,000</u>	173%
Net Income Before Tax	<u>\$ 1,838,476</u>	<u>\$ 3,390,780</u>	<u>\$ 2,550,393</u>	33%
Income Tax	613,892	1,129,231	846,219	
Net Income	<u><u>\$ 1,224,584</u></u>	<u><u>\$ 2,261,549</u></u>	<u><u>\$ 1,704,174</u></u>	33%