



November 7, 2017

Dear Shareholder:

Autumn in north Texas is a welcomed event: cooling temperatures and changing leaf colors and the approaching holidays. Fall also signals another year is coming to a close. As the 2017 story for Pegasus Bank continues, we are having another good year.

The third quarter ending September 30 was a record quarter that produced \$1,348,580 of after tax income. Year to date net income is \$3,610,135, which is 35% over year to date results in 2016. These results are driven by a 29% increase in total interest margin while maintaining an expense increase of only 12%. The balance sheet, however, needs improving. If you recall the last letter (Q2, 2017), I reported that total deposits and assets were inflated by over \$100 million of temporary deposits. These deposits have been redeployed so the balance sheet reflects a more realistic Pegasus Bank. Loans increased over last year only 3%, and deposits are up only 13% from last year. As I noted before, we originate a lot of loans, but our loans tend to be short term in duration. Writing about our obdurate loan growth unnecessarily seems redundant, but is a serious problem and needs attention. Our success lending for commercial real estate purposes is well known, but we are quite competent and have a strong appetite for lending to businesses such as manufacturing, distribution, and service companies. If you hear of an opportunity, please give us a call.

Until now we had bragging rights on zero loan losses since the bank's inception. During the last quarter we did experience our first loan loss of approximately \$500,000. However, even after absorbing this unpleasantness, our Reserve for Loan Loss account is still healthy and above our plan.

The most exciting non-financial event is that two wonderful bankers have joined our team. Charles Angel joins us as Vice Chairman along with Jami Skidmore Johnson as Vice President. Charlie and Jami are a well-known pair in Dallas banking and will bring a wealth of experience and contacts that will fit nicely in our Pegasus family.

I am also happy to announce the promotion of Kathy Touchstone to Chief Credit Officer. Also joining the bank is Abraham Monis George in the Compliance Department at Mockingbird and Chris Carter who will ultimately be at the Forest Office.

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The fall is also planning season for next year. In contemplating 2018 we are focusing on a few important ideas:

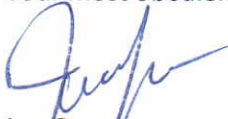
- The exciting opening of the Forest and Preston office in mid May. The search for an established team of bankers to join us and develop that market continues. Naturally, if you hear of bankers that you feel will fit our model and culture, please let me know.
- The importance and value of being a leader in mobile banking and online payments cannot be disputed or underestimated. We have a plan and a team working to make sure the bank stays not status quo but dynamic and out front with our remote banking channels.
- One would need to be purblind not to wonder if the real estate market in north Texas is overheated. Therefore, as real estate lending opportunities present themselves, we will use the utmost underwriting caution. Ultimately, this care could have consequences for our loan growth and profitability.

Each and every letter is a good opportunity to remind you to be careful to protect your personal information and identification. Enclosed is a pamphlet on cybersecurity titled "Protecting your assets;" please take a moment to read it.

Since Thanksgiving is around the corner, the holiday season is approaching. Remember that Pegasus Bank is your best source for **VISA Gift cards**; these cards can be personalized with a few days' notice, or the standard holiday version is in stock and immediately available at both Mockingbird and Knox. There is no fee for these cards from November 1 through December 31; should you desire a large quantity of gift cards, please call in advance.

As always, thank you for your business and continued support. From all of us at the bank, I wish you and your family the happiest of holidays and a wonderful 2018.

Your most obedient servant,



Joe Goyne
President

Enclosures

JRG:me

PEGASUS BANK
SEPTEMBER 2017
(unaudited)

Avg Balance Sheet	9/30/2017	9/30/2016	% Chg	
Cash & Equivalents	\$ 13,967,786	\$ 8,603,102	62%	
Investments	213,961,882	173,155,183	24%	
Gross Loans	290,121,385	280,714,398	3%	
Loan Loss Reserve	(2,753,102)	(2,679,833)	3%	
Net Loans	\$ 287,368,283	\$ 278,034,565	3%	
Fixed Assets	12,628,781	6,154,724	105%	
Other Assets	3,365,604	2,878,035	17%	
Total Assets	\$ 531,292,336	\$ 468,825,609	13%	
Non-Interest Deposits	168,141,928	182,119,114	-8%	
Interest Bearing Deposits	323,349,997	252,410,002	28%	
Total Deposits	\$ 491,491,925	\$ 434,529,116	13%	
Other Liabilities	1,341,338	957,392	40%	
Total Liabilities	\$ 492,833,263	\$ 435,486,508	13%	
Equity Capital	\$ 38,459,073	\$ 33,339,101	15%	
Total Liabilities and Equity	\$ 531,292,336	\$ 468,825,609	13%	
Ratios: (Monthend)	9/30/2017	9/30/2016		
Loan to Deposit Ratio	59.70%	66.11%		
Tier 1 Capital to Assets	7.21%	7.02%		
Ln Loss Reserve to Loans	0.94%	0.93%		
Book Value per Share	\$9.10	\$8.04		
Income Statement	3rd Qtr Ending 9/30/17	9 mos. YTD 2017	9 mos. YTD 2016	YTD % Chg
Interest Income - Invest.	\$ 1,160,085	\$ 2,847,737	\$ 1,034,195	175%
Interest Income - Loans	3,449,844	9,850,815	8,754,783	13%
Total Interest Income	\$ 4,609,929	\$ 12,698,552	\$ 9,788,978	30%
Interest Expense	218,552	579,472	394,007	47%
Total Interest Margin	\$ 4,391,377	\$ 12,119,080	\$ 9,394,971	29%
Non-Interest Income	\$ 304,890	\$ 1,248,819	\$ 1,480,979	-16%
Personnel Expense	1,511,660	4,599,935	4,239,894	8%
Occupancy Expense	262,410	699,087	781,106	-11%
Other Expenses	721,063	2,176,957	1,675,507	30%
Total Expenses	\$ 2,495,133	\$ 7,475,979	\$ 6,696,507	12%
Loan Loss Provision	\$ 175,000	\$ 475,000	\$ 170,000	179%
Net Income Before Tax	\$ 2,026,134	\$ 5,416,920	\$ 4,009,443	35%
Income Tax	677,554	1,806,785	1,328,037	
Net Income	\$ 1,348,580	\$ 3,610,135	\$ 2,681,406	35%