



October 29, 2018

"and the sun took a step back, the leaves lulled themselves to sleep and autumn was awakened."

Raquel Franco

Dear Shareholder:

Autumn, what a beautiful season; by the time you get this letter I hope the rain has subsided and the colors begin to bring beauty to your life.

The bank continues to do well. The net income for the quarter was a record, \$1,715,731. Year-to-date income is \$4,873,304 which is a 35% increase over the first three quarters of 2017. Year-to-date Return on Equity (ROE) is a satisfying 15.49%; per share book value has increased to \$10.50.

The balance sheet is experiencing nice growth. Total assets increased to \$639 million, a 20% growth over last year. The loan portfolio has awakened and has increased 21% or approximately \$60 million. Deposits, in symphony, are up 21%; both non-interest deposit and time deposits contributed to the increase. Even with strong loan growth, we remain very liquid with a modest 59% loan to deposit ratio.

A logical question is how does Pegasus continue to grow its deposit base in this increasing rate environment. The answer, while not singular, is obvious.

- As discussed in previous shareholder letters, Harry Smith and Jenny Murphey performed yeoman's work studying the historical trends and relationship of market rates and deposit rates. This analysis resulted in increasing deposit rates well ahead of the competition. Our money market and interest checking account rates are now indexed to the national risk-free fund rates so that the rates paid will reflect market changes. Pegasus' rates are not the highest in town but are comfortably above midpoint. While we are circumspect about the 236% year-to-date increase in deposit interest expense versus last year, we judge the move to be fair for the customers and prudent for the bank.
- The bank has resurrected an old CD product, the *Wall Street* CD that is a variable rate CD that adjusts with LIBOR. We also have a new 15-month CD worth exploring. Please contact us for more details.
- Our commercial deposit account and Treasury Management system is effectively the sui generis in the market from both a product functionality and cost standpoint. New business customers are amazed with our capability and how it can improve their bottom line.
- And most important, our staff has PhD degrees in service on all of the above.

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Our foray into the Oil and Gas industry under the leadership of Mynan Feldman and Patrick Johnson is exceeding our expectations. This team provides a full suite of services and products including reserve-based, royalty and midstream loans along with a strong treasury and deposit platform.

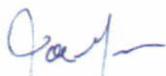
While I have been panegyric about our Treasury Management System, we are not slowing down. Over the next few months Jenny Murphey will be investing in additional sales and service training.

The bank continues to spend significant time and money on fraud detection and prevention. We continue to learn of businesses and individuals who let their guard down and become victims of various attacks. Please do not think that the targets of these attacks are only the uneducated or elderly—some of the cases involve the smartest and most savvy people. The bank wants not only to increase awareness of this but to provide takeaways that can be used to protect our customers. We have enclosed another newsletter to help you. **DO NOT THINK YOU CANNOT BE THE NEXT VICTIM!**

Thanksgiving is around the corner and 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 all locations: Forest Lane, Knox, and Mockingbird Lane. 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, we wish you and your family the happiest of holidays and a wonderful 2019.

Your most obedient servants,



Joe Goyne
Chairman and CEO



Harry Smith
President

Enclosures

JRG:me

PEGASUS BANK
SEPTEMBER 2018
(unaudited)

<u>Avg Balance Sheet</u>	<u>9/30/2018</u>	<u>9/30/2017</u>	<u>% Chg</u>
Cash & Equivalents	\$ 15,790,282	\$ 13,967,786	13%
Investments	254,986,199	213,961,882	19%
Gross Loans	350,329,405	290,121,385	21%
Loan Loss Reserve	(3,066,912)	(2,753,102)	11%
Net Loans	\$ 347,262,493	\$ 287,368,283	21%
Fixed Assets	18,288,476	12,628,781	45%
Other Assets	3,476,519	3,365,604	3%
Total Assets	\$ 639,803,969	\$ 531,292,336	20%
Non-Interest Deposits	183,301,735	168,141,928	9%
Interest Bearing Deposits	410,253,884	323,349,997	27%
Total Deposits	\$ 593,555,619	\$ 491,491,925	21%
Other Liabilities	1,778,552	1,341,338	33%
Total Liabilities	\$ 595,334,171	\$ 492,833,263	21%
Equity Capital	\$ 44,469,798	\$ 38,459,073	16%
Total Liabilities and Equity	\$ 639,803,969	\$ 531,292,336	20%

<u>Ratios:</u>	<u>9/30/2018</u>	<u>9/30/2017</u>
Loan to Deposit Ratio	59.02%	59.03%
Tier 1 Capital to Assets	6.95%	7.24%
Ln Loss Reserve to Loans	0.88%	0.95%
Book Value per Share	\$10.50	\$9.10
Return on Avg Assets YTD	1.13%	0.83%
Return on Avg Equity YTD	15.49%	13.19%

<u>Income Statement</u>	<u>3rd Qtr Ending 9/30/18</u>	<u>9 mos. YTD 2018</u>	<u>9 mos. YTD 2017</u>	<u>YTD % Chg</u>
Interest Income - Invest.	\$ 1,337,535	\$ 3,262,711	\$ 2,847,737	15%
Interest Income - Loans	4,488,273	12,540,150	9,850,815	27%
Total Interest Income	\$ 5,825,808	\$ 15,802,861	\$ 12,698,552	24%
Interest Expense	973,473	1,946,153	579,472	236%
Total Interest Margin	\$ 4,852,335	\$ 13,856,708	\$ 12,119,080	14%
Non-Interest Income	\$ 388,849	\$ 915,026	\$ 1,248,819	-27%
Personnel Expense	1,904,027	5,199,509	4,599,935	13%
Occupancy Expense	323,040	918,790	699,087	31%
Other Expenses	779,939	2,278,301	2,176,957	5%
Total Expenses	\$ 3,007,006	\$ 8,396,600	\$ 7,475,979	12%
Loan Loss Provision	\$ 70,000	\$ 227,000	\$ 475,000	-52%
Net Income Before Tax	\$ 2,164,178	\$ 6,148,134	\$ 5,416,920	13%
Income Tax	448,447	1,274,830	1,806,785	
Net Income	\$ 1,715,731	\$ 4,873,304	\$ 3,610,135	35%