



February 22, 2017

Dear Shareholder:

A decade ago two hundred Dallas individuals invested \$17 million in what would become one of the last new bank charters in Texas. By the time Pegasus relocated to the Mockingbird office, the national and global economy was in a virulent spiral. Even though the first five or six years proved to be tumultuous with heightened risk, the Pegasus Board exercised prudent judgement and reached profitability within eighteen months. During this ten-year journey, the bank has yet to suffer a single loan loss, and the number of shareholders has increased to approximately three hundred.

Our Tenth year of operations was truly a remarkable year. A few noteworthy milestones:

- Record full-year earnings
- Total assets passed the \$500 million mark
- The bank's first \$1 million net income quarter

A deeper examination of the full year 2016 financial statement tells an encouraging story: net income after taxes was \$3,684,942, a 46% increase over 2015 earnings. Total assets increased approximately \$110 million to \$522 million, which represents a 28% increase. The balance sheet growth was driven by the \$110 million in deposit growth, a 29% increase over the prior year. Loan growth was somewhat obdurate but did experience a \$35 million increase. Liquidity remained high with over \$200 million in cash and investments--primarily deposits at the Federal Reserve Bank. I hope you will take time to review the details of the financial statement along with the attached historical graphs.

In the last shareholder letter I announced plans for the new office at Forest and Preston Road. The land has been purchased and we hope to break ground in April and take occupancy in early 2018. We have great expectations for this expanded footprint based on that market's powerful demographics.

Other accomplishments during 2016 include establishing our Community Development Corporation, Chrysler, LLC that owns single family residential property for lease to qualified tenants. This community investment has been quite successful and enables the bank to make a meaningful and responsible contribution to our community.

The bank has continued to invest in technology platforms. The wire transfer system was upgraded, and the bank became a member of SWIFT, enabling the bank to deliver an advanced service to our commercial customers. The mobile platform was improved with the addition of finger print recognition

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and the introduction of Apple pay. In December we introduced instant issue debit cards in the branches so that customers do not have any delays in receiving new or replacement debit cards.

The residential mortgage origination department for its first full year of operation closed approximately \$50 million in loans and contributed 5% to the bank's net income. Our products are competitive and the service exemplary.

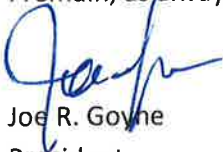
Forecasting is dangerous, and it should not be a substitute for shareholder expectations. North Texas continues its implausible employment and business growth therefore; as an investor you should expect that Pegasus' loan and deposit growth will perform nicely. However, it is wise to be circumspect about exogenous events such as interest rate increases and the influences from a fragile global economy.

During 2016, the bank make charitable contributions to forty-seven different organizations; the major beneficiaries include: the American Jewish Community, Friends of the Katy Trail, Childcare Group, Stemmons Corridor SCBA, the Arboretum, the Dallas Holocaust Museum, and, in partnership with the World Affairs Council and the American Jewish Community, the bank is the primary sponsor of the successful International Perspective Series.

Please mark your calendars and plan to attend the annual Shareholders' meeting at 4:00 p.m., Tuesday, March 28th, at the Double Tree Hotel at 3300 West Mockingbird Lane. The proxy will be mailed to you approximately three weeks prior to the meeting.

As always, thank you for your business and all that you do for Pegasus Bank. We would not be successful without your continued support.

I remain, as always, your most obedient servant,



Joe R. Goynes
President

Enclosures

JRG:me

PEGASUS BANK
DECEMBER 2016
(unaudited)

Avg Balance Sheet

	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>% Chg</u>
Cash & Equivalents	\$ 15,848,326	\$ 13,631,234	16%
Investments	195,285,598	116,732,073	67%
Gross Loans	305,338,850	271,468,763	12%
Loan Loss Reserve	(2,777,290)	(2,500,113)	<u>11%</u>
Net Loans	<u>\$ 302,561,560</u>	<u>\$ 268,968,650</u>	12%
Fixed Assets	6,108,410	6,353,515	-4%
Other Assets	2,863,237	2,626,886	<u>9%</u>
Total Assets	<u>\$ 522,667,131</u>	<u>\$ 408,312,358</u>	28%
Non-Interest Deposits	208,816,272	149,721,350	39%
Interest Bearing Deposits	279,086,655	228,157,421	<u>22%</u>
Total Deposits	<u>\$ 487,902,927</u>	<u>\$ 377,878,771</u>	29%
Other Liabilities	298,430	395,232	-24%
Total Liabilities	<u>\$ 488,201,357</u>	<u>\$ 378,274,003</u>	29%
Equity Capital	<u>\$ 34,465,774</u>	<u>\$ 30,038,355</u>	<u>15%</u>
Total Liabilities and Equity	<u>\$ 522,667,131</u>	<u>\$ 408,312,358</u>	28%

Ratios: (Monthend)

	<u>12/31/2016</u>	<u>12/31/2015</u>
Loan to Deposit Ratio	64.42%	73.87%
Tier 1 Capital to Assets	6.82%	7.55%
Ln Loss Reserve to Loans	0.92%	0.94%
Book Value per Share	\$8.27	\$7.45
Earnings Per Share (Full Yr)	\$0.88	\$0.62

Income Statement

	<u>4th Qtr Ending</u> <u>12/31/16</u>	<u>12 mos.</u> <u>YTD 2016</u>	<u>12 mos.</u> <u>YTD 2015</u>	<u>YTD</u> <u>% Chg</u>
Interest Income - Invest.	\$ 471,010	\$ 1,505,205	\$ 873,221	72%
Interest Income - Loans	3,198,080	11,952,863	10,207,877	<u>17%</u>
Total Interest Income	<u>\$ 3,669,090</u>	<u>\$ 13,458,068</u>	<u>\$ 11,081,098</u>	21%
Interest Expense	153,034	547,041	403,803	<u>35%</u>
Total Interest Margin	<u>\$ 3,516,056</u>	<u>\$ 12,911,027</u>	<u>\$ 10,677,295</u>	21%
Non-Interest Income	\$ 549,033	\$ 2,030,012	\$ 1,411,029	44%
Personnel Expense	1,523,028	5,762,922	4,732,718	22%
Occupancy Expense	258,121	1,039,227	982,682	6%
Other Expenses	684,753	2,360,260	2,051,319	<u>15%</u>
Total Expenses	<u>\$ 2,465,902</u>	<u>\$ 9,162,409</u>	<u>\$ 7,766,719</u>	18%
Loan Loss Provision	<u>\$ 97,500</u>	<u>\$ 267,500</u>	<u>\$ 538,000</u>	-50%
Net Income Before Tax	\$ 1,501,687	\$ 5,511,130	\$ 3,783,605	46%
Income Tax	498,151	1,826,188	1,266,063	
Net Income	<u>\$ 1,003,536</u>	<u>\$ 3,684,942</u>	<u>\$ 2,517,542</u>	46%

PEGASUS BANK SEVEN YEAR HISTORICAL FINANCIAL RESULTS

