



May 3, 2018

Dear Shareholder:

The bank is alive with quite an assortment of productive developments, not the least of which are record breaking earnings- more on the earnings later.

Let's have a conversation on deposit interest rates. As the new year began we took a hard look at not only our methodology of changing deposit rates but also at the actions of our peers and competitors. Short term, risk free rates, such as US Treasury rates, LIBOR, and the Prime lending rate have been gradually moving up for about fifteen months; however, there has not been a corresponding movement in the interest rate banks were paying their depositors. Our team spent countless hours reviewing the historical relationships between these rates and deposit rates and came to a couple of conclusions:

- Deposit rate increases at banks were being depressed, consciously and unfairly, by most banks while other rates climbed. Consequently, bank income margins widened.
- This practice would eventually be discovered, and market forces would at some point cause a reversion to the means.
- Therefore, Pegasus Bank made the decision to change from the traditional methodology of setting deposit rates based on competitors' rates to indexing the rates of our interest checking and money market account rates to rates paid by risk free, US Treasury fund rates.

Furthermore, these account rates will be reviewed monthly and will be subject to adjustments to assure that deposit rates move in symphony with risk free rates.

While we think this is not only a prescient and defensible way to price deposits, it does come with an economic toll to our bottom line; however, this decision is consistent with providing fairness and value to our clients. Pegasus has no desire to pay the highest rates in the market for deposits, and there will always be banks and other institutions that need to pay higher rates; our goal is to provide a special banking experience with superior service and products at market prices.

By the time you receive this letter, you no doubt have learned that Mynan Feldman has joined the bank as Executive Vice President and will lead the expansion of our energy activities. If you attended the annual shareholders' meeting in March, I reported that the bank has forty energy customers that represent about 20% of the bank's deposit base—the math tells you that these relationships average seven figures. These fine customers found their way to Pegasus like so many of our customers—as a referral from a shareholder. However, the common theme is these companies were too small to enjoy a special, and deserved, banking experience at their large banks. All of these customers are mature, well capitalized, and successful. We intend to be the best banking solution for this segment of the oil and gas market.

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The Financial results for the quarter

The bank experienced nice growth with both total deposits and total assets increasing about \$60 million or 12% versus Q1 2017. The deposit growth was in the interest-bearing deposits accompanied by a \$12 million decrease in non-interest-bearing deposits. Loans increased \$17 million or 9%. Net income after tax was \$1,514,087 an increase of \$478,000, or 46% over the Q1 of 2017. Total income (margin plus non-interest income) increased \$636,000 or 16%; total expenses increased only \$248,000 or 10%. The Reserve for Loan Losses is a comfortable .92% of outstanding loans. Of the \$478,000 after tax income increase, approximately 25% is attributable to the lower Federal tax rate that became effective in 2018.

The Forest/Preston office is scheduled to open by the end of May, and staff recruiting and training are ongoing. The building will include two spectacular pieces of art: (1) a wall display of butterflies made from metal cans by the New York artist Paul Villinski, and (2) a stunning light fixture in the monument staircase created by Studio One Thousand in New York. We are planning an assortment of marketing and PR ideas and will keep you informed as the opening nears.

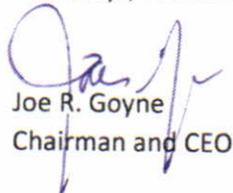
Looking forward....

Our current pipeline of new business is robust, and the north Texas economy continues to amaze. Even though the first quarter net income was gratifying, I would caution about drawing broader conclusions for the remainder of 2018. Our new Energy lending expansion, as well as the startup expenses of the Forest/Preston office, will punish earnings for an ephemeral period. However, both of these remarkable investments will also "put the yeast" into the bank's strategy, platforms, and future.

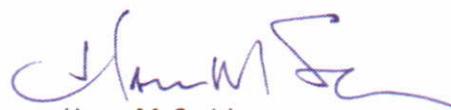
Not to be cavalier about the operations and investments to this point, but it is easy to oscillate between our success and the expression: "When things get too good, human beings behave awfully." Our fairway will continue to be the low risk and high-quality relationships.

More than ever, we appreciate your business, your support, and your referrals. I encourage you to think of prospects who are convenient to the Preston/Forest office and would benefit from the Pegasus Bank experience and pass their contact info to us.

As always, I remain your obedient servant,



Joe R. Goyne
Chairman and CEO



Harry M. Smith
President

JRG: me
Enclosure

PEGASUS BANK
MARCH 2018
(unaudited)

<u>Avg Balance Sheet</u>	<u>3/31/2018</u>	<u>3/31/2017</u>	<u>% Chg</u>
Cash & Equivalents	\$ 15,737,139	\$ 14,009,350	12%
Investments	197,515,225	180,477,770	9%
Gross Loans	320,518,750	284,097,455	13%
Loan Loss Reserve	(2,885,106)	(2,831,806)	<u>2%</u>
Net Loans	<u>\$ 317,633,644</u>	<u>\$ 281,265,649</u>	13%
Fixed Assets	15,689,631	12,147,890	29%
Other Assets	<u>3,231,667</u>	<u>2,709,860</u>	<u>19%</u>
Total Assets	<u>\$ 549,807,306</u>	<u>\$ 490,610,519</u>	12%
Non-Interest Deposits	165,039,834	177,376,132	-7%
Interest Bearing Deposits	<u>342,342,316</u>	<u>276,757,200</u>	<u>24%</u>
Total Deposits	\$ 507,382,150	\$ 454,133,332	12%
Other Liabilities	<u>1,363,286</u>	<u>772,973</u>	<u>76%</u>
Total Liabilities	\$ 508,745,436	\$ 454,906,305	12%
Equity Capital	<u>\$ 41,061,870</u>	<u>\$ 35,704,214</u>	<u>15%</u>
Total Liabilities and Equity	<u>\$ 549,807,306</u>	<u>\$ 490,610,519</u>	12%
<u>Ratios: (Monthend)</u>	<u>3/31/2018</u>	<u>3/31/2017</u>	
Loan to Deposit Ratio	63.31%	59.52%	
Tier 1 Capital to Assets	7.61%	7.03%	
Ln Loss Reserve to Loans	0.92%	1.01%	
Book Value per Share	\$9.70	\$8.50	
<u>Income Statement</u>	<u>3 mos. YTD 2018</u>	<u>3 mos. YTD 2017</u>	<u>YTD % Chg</u>
Interest Income - Invest.	\$ 883,360	\$ 557,916	58%
Interest Income - Loans	3,856,157	3,126,550	<u>23%</u>
Total Interest Income	<u>\$ 4,739,517</u>	<u>\$ 3,684,466</u>	29%
Interest Expense	372,354	143,871	<u>159%</u>
Total Interest Margin	<u>\$ 4,367,163</u>	<u>\$ 3,540,595</u>	23%
Non-Interest Income	\$ 257,269	\$ 448,067	-43%
Personnel Expense	1,602,832	1,519,047	6%
Occupancy Expense	299,732	225,812	33%
Other Expenses	741,481	651,499	<u>14%</u>
Total Expenses	<u>\$ 2,644,045</u>	<u>\$ 2,396,358</u>	10%
Loan Loss Provision	<u>\$ 70,000</u>	<u>\$ 40,000</u>	75%
Net Income Before Tax	\$ 1,910,387	\$ 1,552,304	23%
Income Tax	<u>396,300</u>	<u>515,339</u>	-23%
Net Income	<u>\$ 1,514,087</u>	<u>\$ 1,036,965</u>	46%