

February 3, 2021



Paragon Bank

Dear Fellow Shareholder:

Like most businesses, Paragon was greatly impacted by the global pandemic and the resulting recession during 2020. When the impact began to be felt locally, our attention focused on the well-being of our employees and customers. As a result, we implemented our Business Continuity Plan during the first quarter. That plan is designed to ensure the health and safety of Paragon's employees and customers and to ensure continued bank operations and customer service.

During the spring months we made approximately 800 Paycheck Protection (PPP) loans totaling \$94 million to businesses feeling the negative impact of COVID-19. We also deferred loan payments to assist many customers experiencing the fallout. Like many other banks, these 1% PPP loans and the Federal Reserve lowering interest rates caused our net interest margin to contract. The extra PPP loan volume caused our 2020 net interest income to be a record. The fees we earned on originating the PPP loans allowed us to increase our loan loss reserves in anticipation of losses by our customers during the pandemic. The low interest rates also spurred a tremendous amount of mortgage refinancing. Paragon's 2020 mortgage income topped \$1 million for the first time in our history.

Income before the provision for loan losses and income tax expense was a record for Paragon in 2020. While asset quality remained very good during the year, approximately \$1.9 million was added to the loan loss reserve. At December 31, 2020, the ratio of nonperforming assets to total assets was a very healthy .13%.

Other highlights of 2020 and the fourth quarter included:

Balance Sheet

- Aided by the Paycheck Protection Program (PPP) loans, gross loans increased \$59.7 million, or approximately 18%, during 2020. During the fourth quarter of 2020, gross loans decreased by \$34.3 million, or 8%. The decrease was a result of \$20.2 million in PPP loans forgiven, \$11.6 million in other loans paid off, and approximately \$4.0 million in SBA loans sold.
- During 2020 banks experienced a record surge in deposit balances. Paragon's total deposits increased 22.7%, or \$78.4 million, during 2020. Demand deposits increased \$28.4 million, or 30.7%, during the year.
- At year-end, Paragon Bank's regulatory capital levels were very strong. The total risk-based capital ratio was 17.20%, while the tier one capital ratio was 15.94%. The leverage ratio was 9.87%.
- At December 31, 2020, book value per share was \$11.09 compared to \$10.32 at December 31, 2019.

Income Statement

- Paragon's net interest margin increased from 3.14% in the third quarter of 2020, to 3.66% during the fourth quarter. The primary reason for the large increase was recognition of deferred loans fees on PPP loans forgiven during the quarter.
- Net interest income of \$4.4 million during the fourth quarter was 24% higher than the fourth quarter of 2019 and a record for quarterly net interest income. Net interest income for 2020 was \$15.2 million, an increase of approximately 8%, and also a record for Paragon.

- During the fourth quarter, noninterest income decreased approximately \$401 thousand from the third quarter. The largest decrease was in income from Paragon's Small Business Capital Group which had fewer sales of SBA loans.
- For 2020, mortgage banking income was an all-time high for Paragon. Mortgage banking income increased 90.9%, from \$582 thousand in 2019 to \$1.1 million in 2020.
- Noninterest expense for 2020 increased 2% over noninterest expense in 2019.

Asset Quality


- Nonperforming assets decreased from \$676 thousand to \$620 thousand during the fourth quarter of 2020. The ratio of nonperforming assets to total assets decreased from .14% to .13%. That is the lowest Paragon's ratio has been since the first quarter of 2007.
- Despite excellent asset quality, the provision for loan losses was \$941 thousand for the fourth quarter of 2020 compared to \$455 thousand for the fourth quarter of 2019. For the year 2020, the loan loss provision was approximately \$1.9 million compared to \$800 thousand during 2019.
- The ratio of the loan loss allowance to gross loans at December 31, 2020, was 1.45% compared to 1.15% at the end of 2019. The ratio of the loan loss allowance to gross loans excluding fully guaranteed loans at December 31, 2020, was 1.97%.
- When the COVID-19 global pandemic began, bank regulators encouraged banks to work with their customers to get through the difficult time. Many banks, including Paragon, deferred loan payments for customers. Paragon deferred payments on approximately \$60.6 million in non-government guaranteed loan balances. At the end of 2020, more than 97% of the loans deferred are current or have resumed making payments. Only \$1.6 million have had another deferral or are past due.

The Consolidated Appropriations Act, 2021 (The Act) passed by Congress and signed by the President in December 2020, had several provisions that may have a positive impact on Paragon's customers. The Act included additional loan payments for SBA customers and a 90% guarantee for new SBA loans with no fees. If you know someone who needs an SBA loan during this time, please have them call 404-419-1856 to talk to one of our SBA experts.

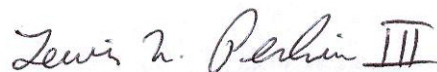
The Act also included a Paycheck Protection Program (PPP) Second Draw. Similar to the original PPP loans, these are loans that carry a 1% interest rate and can be forgiven. The Second Draw is available for qualifying businesses that have had a decrease in revenue of at least 25% comparing a quarter in 2020 to the same quarter in 2019. If you or someone you know wants to find out more about PPP Second Draw requirements, any Paragon Relationship Manager can help.

Thank you for your ownership and for your continued confidence in Paragon.

Respectfully,



Robert S. Shaw, Jr.
President and CEO



Lewis W. Perkins, III
Chief Financial Officer

Paragon Financial Solutions, Inc.
Consolidated Statements of Financial Condition

	December 31, 2020 (unaudited)	December 31, 2019
ASSETS		
Cash, cash equivalents & fed funds sold	\$ 20,634,548	\$ 10,456,358
Securities, available for sale	60,172,034	50,198,305
Loans, net	387,400,083	329,520,922
Restricted equity securities, at cost	1,396,800	1,262,200
Fixed assets	5,126,825	5,477,611
Other real estate owned	153,000	160,087
Other assets	9,217,897	7,138,972
Total assets	\$ 484,101,187	\$ 404,214,455
LIABILITIES AND SHAREHOLDERS' EQUITY		
Non-interest-bearing demand deposits	\$ 120,892,045	\$ 92,505,182
Interest-bearing deposits		
Interest-bearing checking	120,695,552	70,204,717
Savings and money market demand	115,082,744	90,190,896
Certificates of deposit	67,768,717	93,095,782
Total deposits	424,439,058	345,996,577
Repurchase agreements	3,205,766	2,280,850
Short-term borrowings	-	2,000,000
Accrued interest and other liabilities	7,124,232	7,011,220
Total liabilities	434,769,056	357,288,647
Total shareholders' equity	49,332,131	46,925,808
Total liabilities and shareholders' equity	\$ 484,101,187	\$ 404,214,455
Tangible Book Value Per Share	\$ 11.09	\$ 10.32

Paragon Financial Solutions, Inc.
Consolidated Statement of Operations (unaudited)

	Three Months Ended December 31,			
	2020	2019	\$ Change	% Change
Interest and dividend income:				
Loans, including fees	\$ 4,475,828	\$ 4,029,706	\$ 446,122	11.07%
Securities, available for sale	198,996	341,003	(142,007)	-41.64%
Federal funds sold and other	4,184	49,889	(45,705)	-91.61%
Total interest income	4,679,008	4,420,598	258,410	5.85%
Interest expense:				
Deposits	292,525	886,689	(594,164)	-67.01%
Securities sold under agreements to repurchase	1,443	4,700	(3,257)	-69.30%
Federal funds purchased and other borrowings	10,552	11,827	(1,275)	-10.78%
Total interest expense	304,520	903,216	(598,696)	-66.28%
Net interest income	4,374,488	3,517,382	857,106	24.37%
Provision for loan losses	941,000	455,000	486,000	106.81%
Net interest income after provision for loan losses	3,433,488	3,062,382	371,106	12.12%
Non-interest income	855,461	1,326,320	(470,859)	-35.50%
Non-interest expense				
Salaries and employee benefits	2,332,653	1,968,889	363,764	18.48%
Occupancy and equipment expense	483,455	450,405	33,050	7.34%
Other expenses	880,441	845,992	34,449	4.07%
Total operating expenses	3,696,549	3,265,286	431,263	13.21%
Income (loss) before income taxes	592,400	1,123,416	(531,016)	-47.27%
Income tax expense (benefit)	176,713	265,327	(88,614)	-33.40%
Net income (loss)	\$ 415,687	\$ 858,089	\$ (442,402)	-51.56%
Basic earnings per share	\$ 0.09	\$ 0.19	\$ (0.10)	

Paragon Financial Solutions, Inc.
Consolidated Statement of Operations (unaudited)

	Year Ended December 31,			
	2020	2019	\$ Change	% Change
Interest and dividend income:				
Loans, including fees	\$ 16,073,626	\$ 16,339,343	\$ (265,717)	-1.63%
Securities, available for sale	1,095,546	1,486,638	(391,092)	-26.31%
Federal funds sold and other	46,828	195,823	(148,995)	-76.09%
Total interest income	17,216,000	18,021,804	(805,804)	-4.47%
Interest expense:				
Deposits	1,922,587	3,753,722	(1,831,135)	-48.78%
Securities sold under agreements to repurchase	13,146	31,813	(18,667)	-58.68%
Federal funds purchased and other borrowings	90,813	118,009	(27,196)	-23.05%
Total interest expense	2,026,546	3,903,544	(1,876,998)	-48.08%
Net interest income	15,189,454	14,118,260	1,071,194	7.59%
Provision for loan losses	1,861,000	829,627	1,031,373	124.32%
Net interest income after provision for loan losses	13,328,454	13,288,633	39,821	0.30%
Non-interest income	4,242,769	4,543,647	(300,878)	-6.62%
Non-interest expense				
Salaries and employee benefits	8,620,871	8,461,065	159,806	1.89%
Occupancy and equipment expense	1,872,752	1,792,122	80,630	4.50%
Other expense	3,353,187	3,303,752	49,435	1.50%
Total operating expenses	13,846,810	13,556,939	289,871	2.14%
Income (loss) before income taxes	3,724,413	4,275,341	(550,928)	-12.89%
Income tax expense (benefit)	967,891	1,087,553	(119,662)	-11.00%
Net income (loss)	\$ 2,756,522	\$ 3,187,788	\$ (431,266)	-13.53%
Basic earnings per share	\$ 0.61	\$ 0.71	\$ (0.10)	