

PARAGON  
FINANCIAL SOLUTIONS

**Annual Shareholder  
Meeting**

**May 20, 2021**

# Forward-Looking Statements

Certain statements in this presentation include "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, which statements generally can be identified by the use of forward-looking terminology, such as "may," "will," "expect," "estimate," "anticipate," "believe," "target," "plan," "project" or "continue" or the negatives thereof or other variations thereon or similar terminology, and are made on the basis of management's plans and current analyses of Paragon Financial Solutions (the "Company"), its business and the industry as a whole. These forward-looking statements are subject to risks and uncertainties, including, but not limited to, economic conditions in the markets in which The Company operates, the company's short operating history, possible borrower credit problems, potential loss of key executives and employees, competition, interest rate sensitivity and exposure to regulatory and legislative changes. The above factors, in some cases, have affected, and in the future could affect, the Company's financial performance and could cause actual results for the current fiscal year and beyond to differ materially from those expressed or implied in such forward-looking statements. The Company does not undertake to publicly update or revise its forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized.



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**PI**  **OT**



# COVID Impact

Implemented Paragon's Business Continuity Plan 3-16-2020

- Branch lobbies were open by appointment only
- Restricted vendor access
- Many employees began working from home
- Several employees were relocated within Paragon facilities to provide separation
- Restricted travel
- Began assessing potential impact on credit quality

# Era Reed Walls





# COVID Impacted Many Areas

- Conventional loans
- SBA loans
- PPP loans
- Investment securities
- Deposits
- Net interest margins
- Investment yields
- Loan fees
- Service charge income
- Mortgage income
- Noninterest expense
- Capital ratios

# Trifecta!



**3 years in a row!**



## 5 Paragon Bank



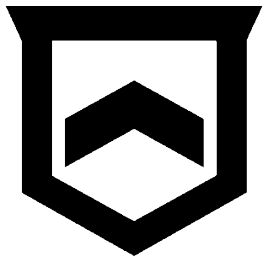
Memphis, Tenn.  
Assets: \$498 million  
Employees: 84  
CEO: Robert Shaw, Jr.  
[bankparagon.com](http://bankparagon.com)

**Special delivery:** During Paragon Bank's annual "employee appreciation week" in June, CEO Robert Shaw, Jr., personally drove to every local employee's home to deliver the gift and letter they would ordinarily receive in person. Shaw has also periodically invited employees to have lunch in a safe and socially distant manner as part of his efforts to stay in touch with his team.

"It is impossible to have 'too much communication' during a time of such great uncertainty," he said.

*Pictured: In September 2019, employees participate in a day of service with the Catholic Charities of West Tennessee. They assembled 1,000 food bags and 1,000 hygiene bags for those experiencing homelessness in our community.*



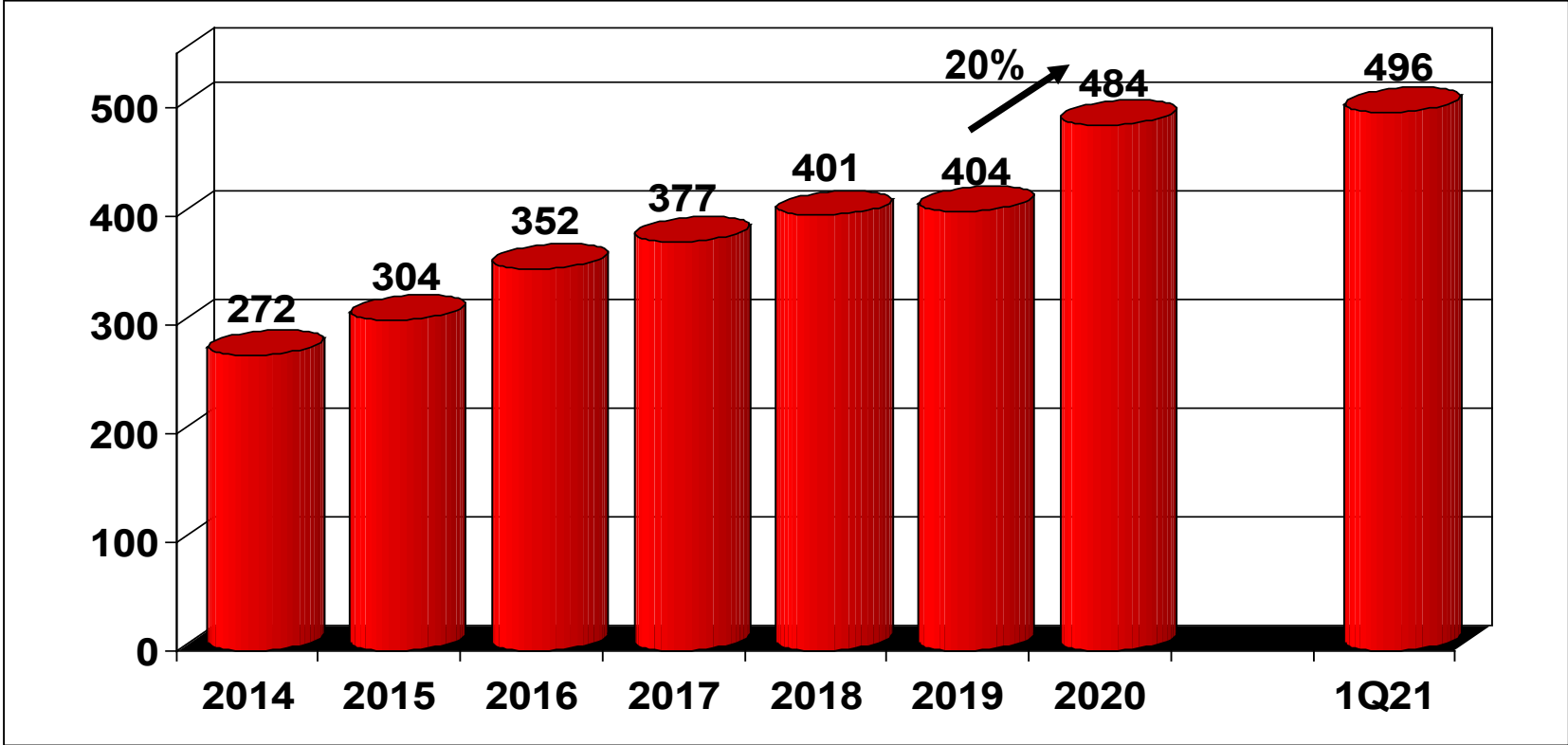


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# ASSET TRENDS

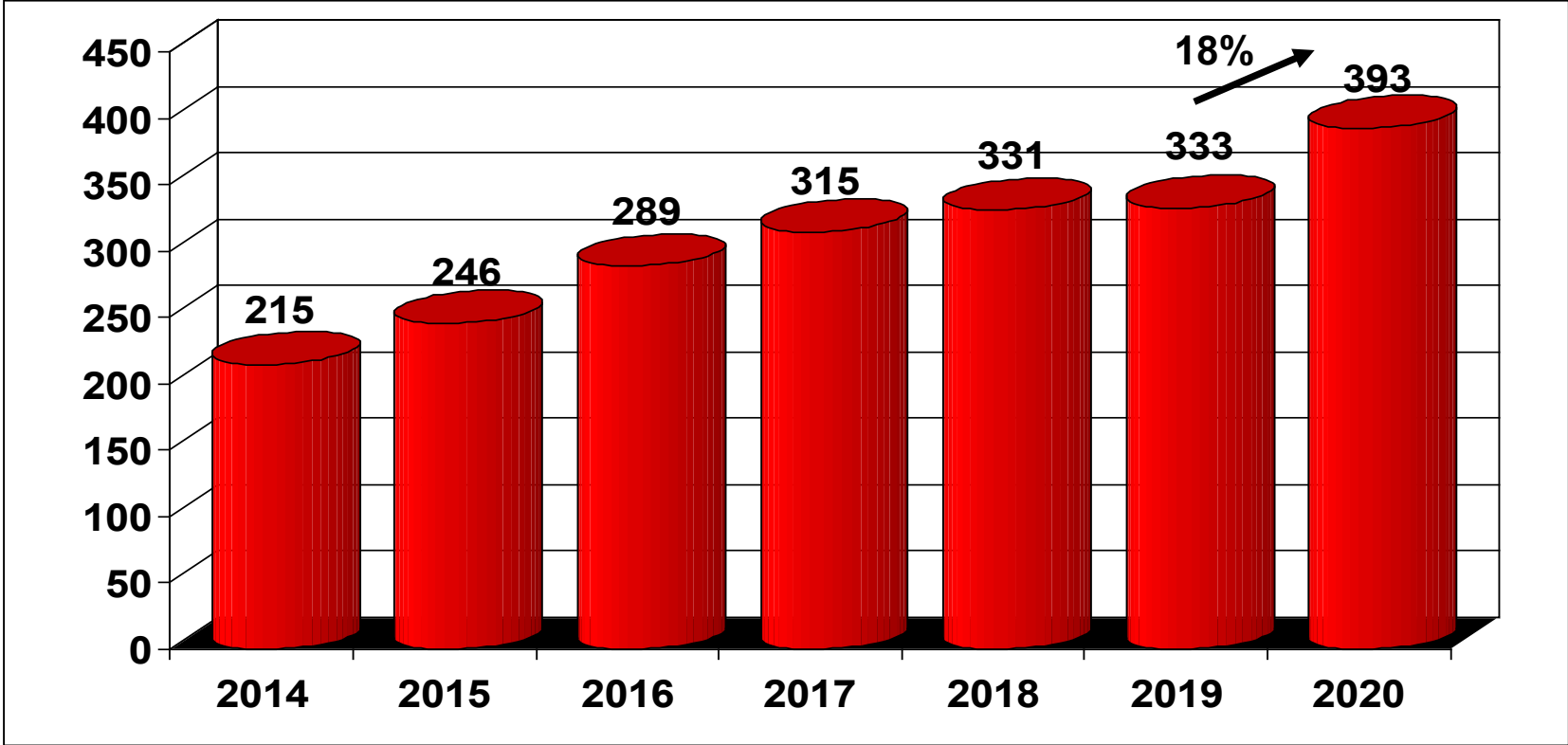
# Total Assets

(end of period in millions)



# Total Loans

(end of period in millions)





# Paycheck Protection Program (PPP) Loans

Number of loans	799
Volume of loans	94,092,000
Loan fees	3,827,378
Jobs impacted	9,696

**In a time of distancing, we worked closer together!**

- › **PPP loans carry a 1% interest rate and are forgivable**
- › **Fees are recognized over the life of the loan or at forgiveness**
- › **As of December 31, 2020, Paragon had processed 66 forgiveness applications totaling \$20.3 million**

# Paycheck Protection Program (PPP) Loans

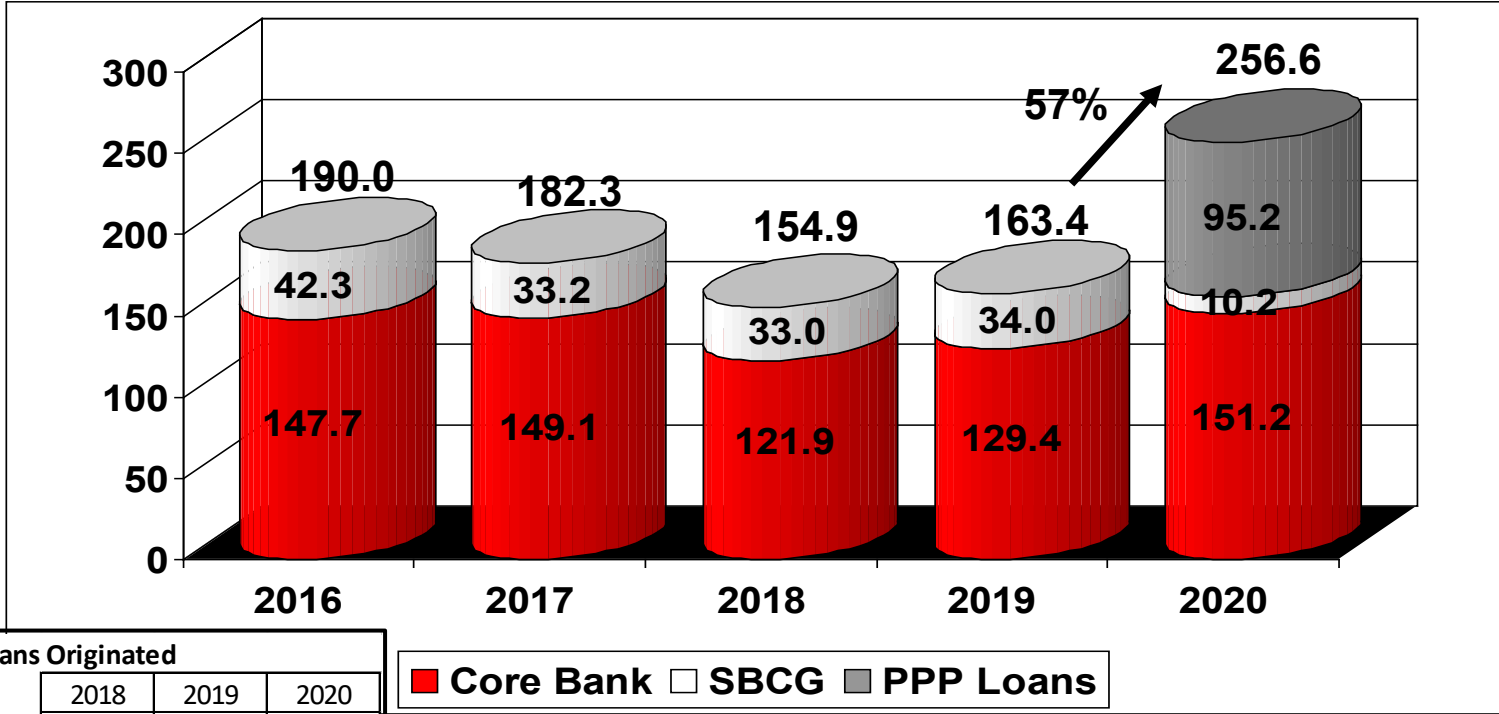


#	Institution	Total Loans	PPP Loan \$	Perc
1	Paragon Bank	416,282,000	93,451,000	22.45
2	Bank of Bartlett	300,082,000	63,132,000	21.04
3	Bank3	236,062,000	43,101,000	18.26
4	Tri-State Bank of Memphis	52,095,000	4,632,000	8.89
5	Triumph Bank	703,948,000	49,031,000	6.97
6	BankTennessee	280,613,000	18,682,000	6.66
7	Independent Bank	933,396,000	52,425,000	5.62
8	Landmark Community Bank	743,835,000	20,892,000	2.81
9	Financial Federal Bank	671,914,000	18,449,000	2.75
10	First Capital Bank	302,196,000	139,000	0.05

Source: BankRegData taken from Call Reports

# New Loan Volume Originated

(in millions)



	2018	2019	2020
Regular Loans	522	566	419
PPP Loans			799
Total Originated	522	566	1,218
			215.19%

■ Core Bank 
  SBCG 
  PPP Loans

# Total Loans

(end of period in thousands)



	12/31/2020	12/31/2019	\$ Difference	% Difference
Core Bank	260,196	275,565	(15,369)	-5.6%
Small Business Capital Group	42,686	42,533	153	0.4%
Purchased Loans	17,777	15,013	2,764	18.4%
Special Assets	205	247	(42)	-17.0%
Paycheck Protection Plan	72,243	0	72,243	0.0%
	-----	-----	-----	-----
	393,107	333,358	59,749	17.9%



# **The Consolidated Appropriations Act, 2021**

Passed by Congress and signed by the President  
- December 2020

- 90% guarantee for new SBA loans with no fees
- Paycheck Protection Program (PPP) Second Draw





# Paycheck Protection Program (PPP) Second Draw

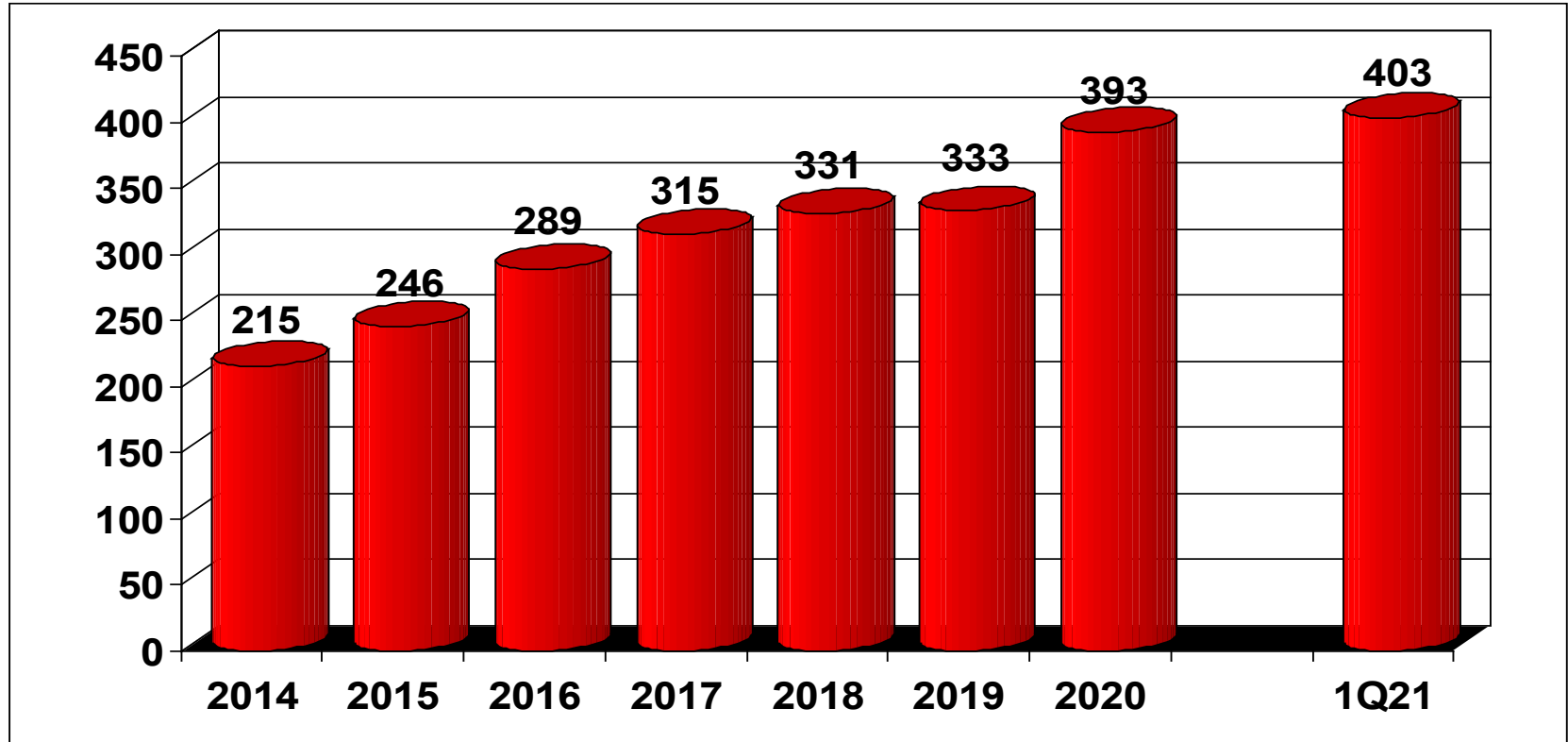
**March 31, 2021**

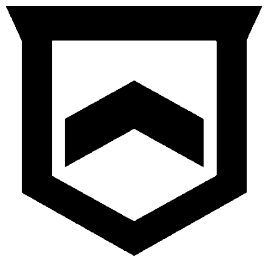
Number of loans	366
Volume of loans	38,364,400
Loan fees	1,867,943
Jobs impacted	1,841

- **At March 31, 2021, Paragon had \$2.1 million in unrecognized deferred first and second draw PPP fees.**

# Total Loans

(end of period in millions)



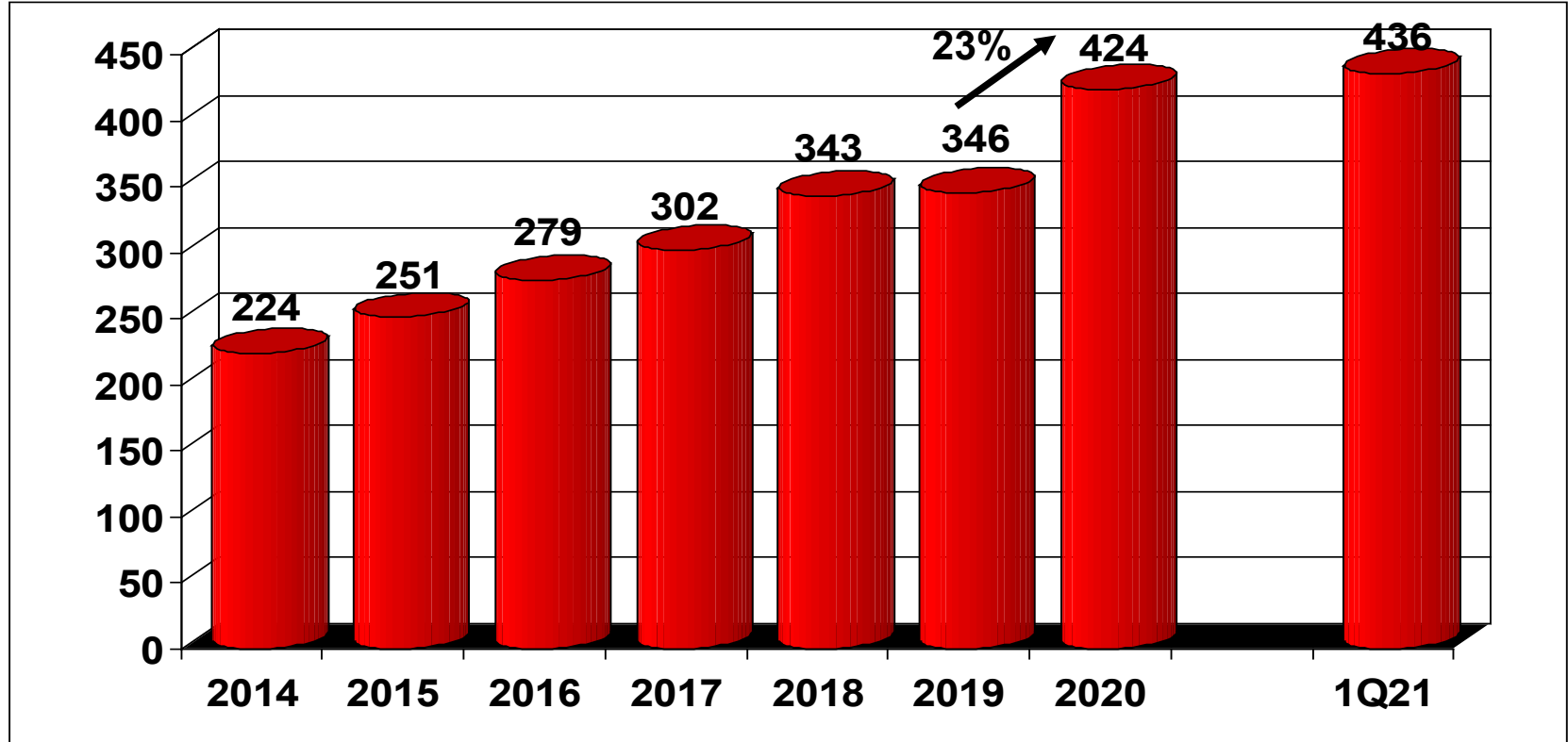


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# DEPOSIT TRENDS

# Total Deposits

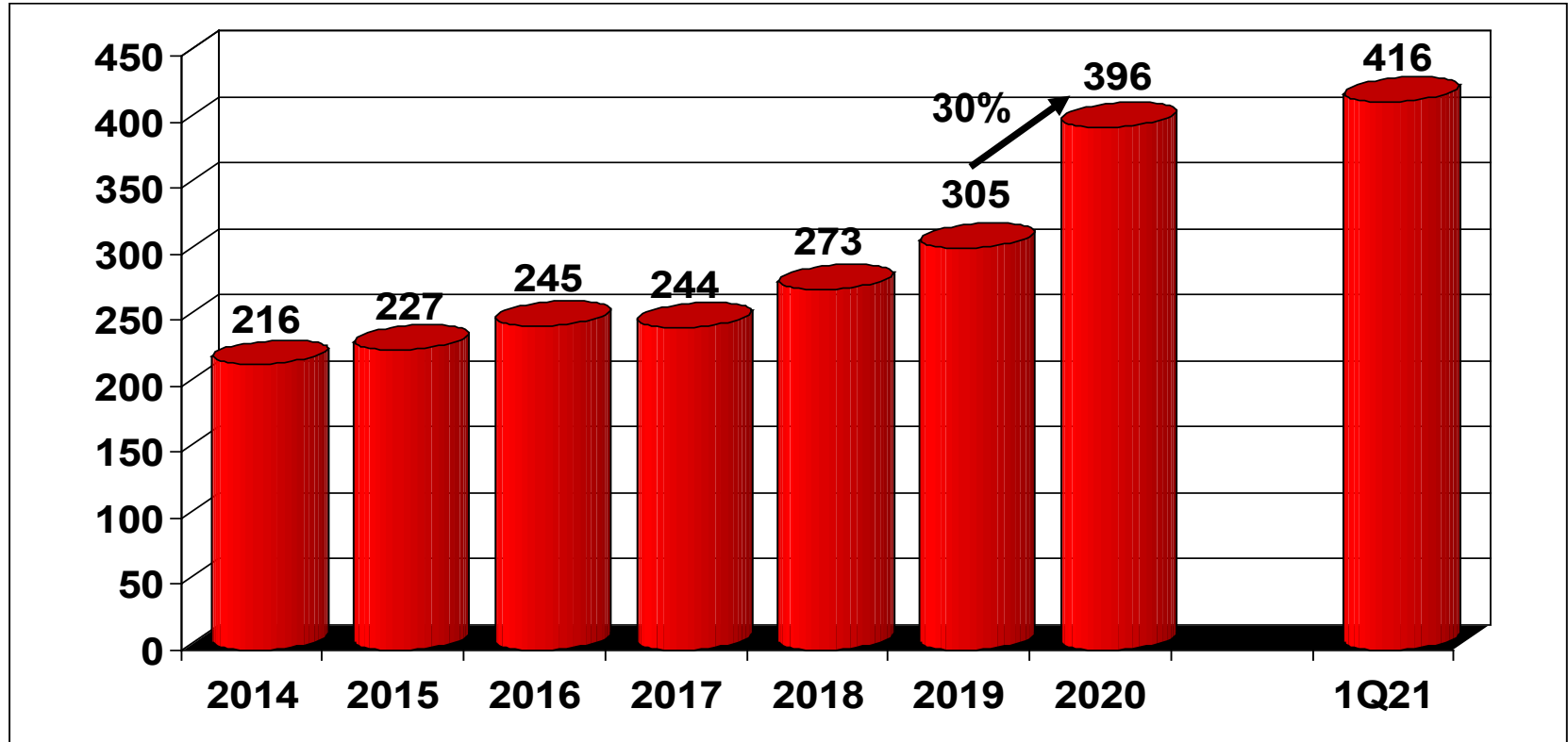
(end of period in millions)



Brokered Deposits	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020	3/31/2021
(in millions)	34.2	57.7	70.3	41.1	29.6	21.9

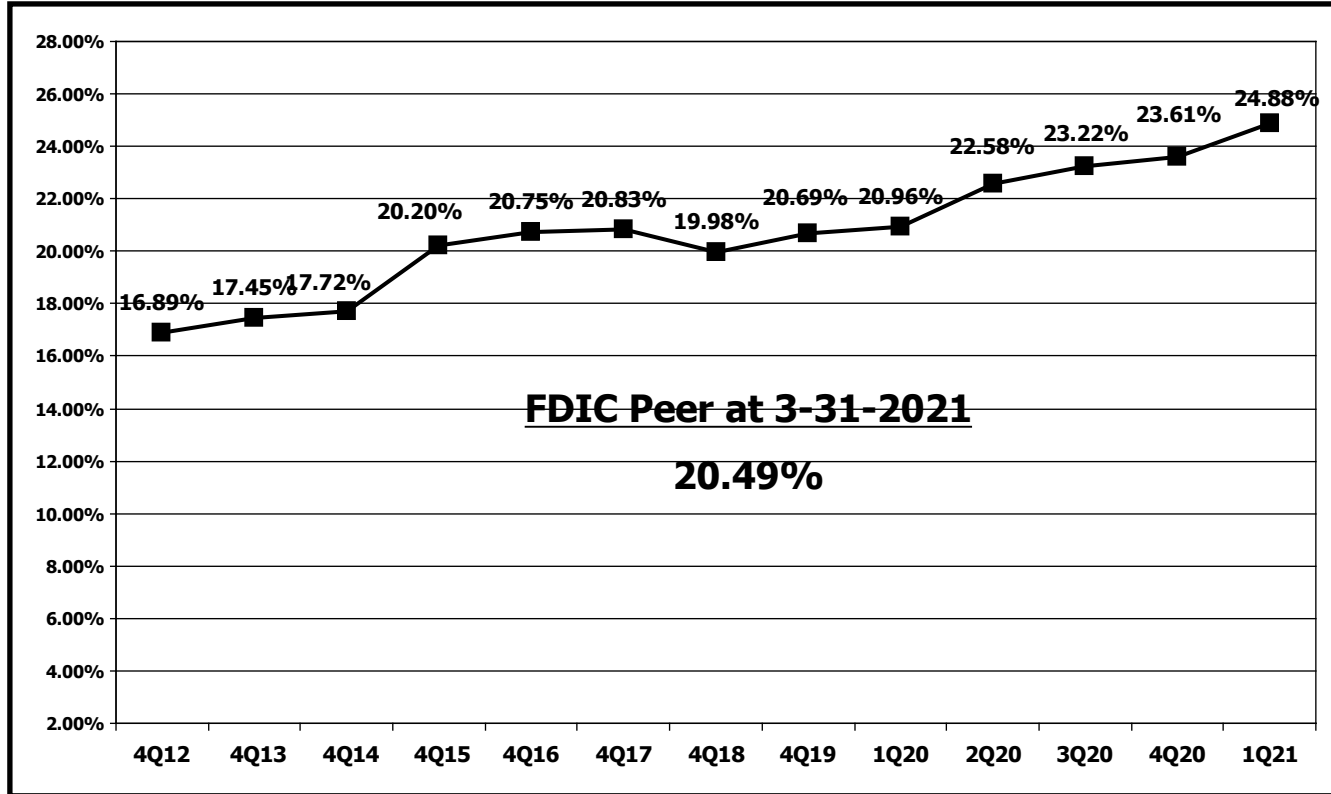
# Core Deposits

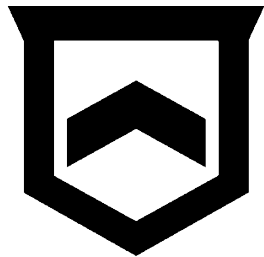
(end of period in millions)



# DDAs to Average Total Deposits

(end of period in millions)



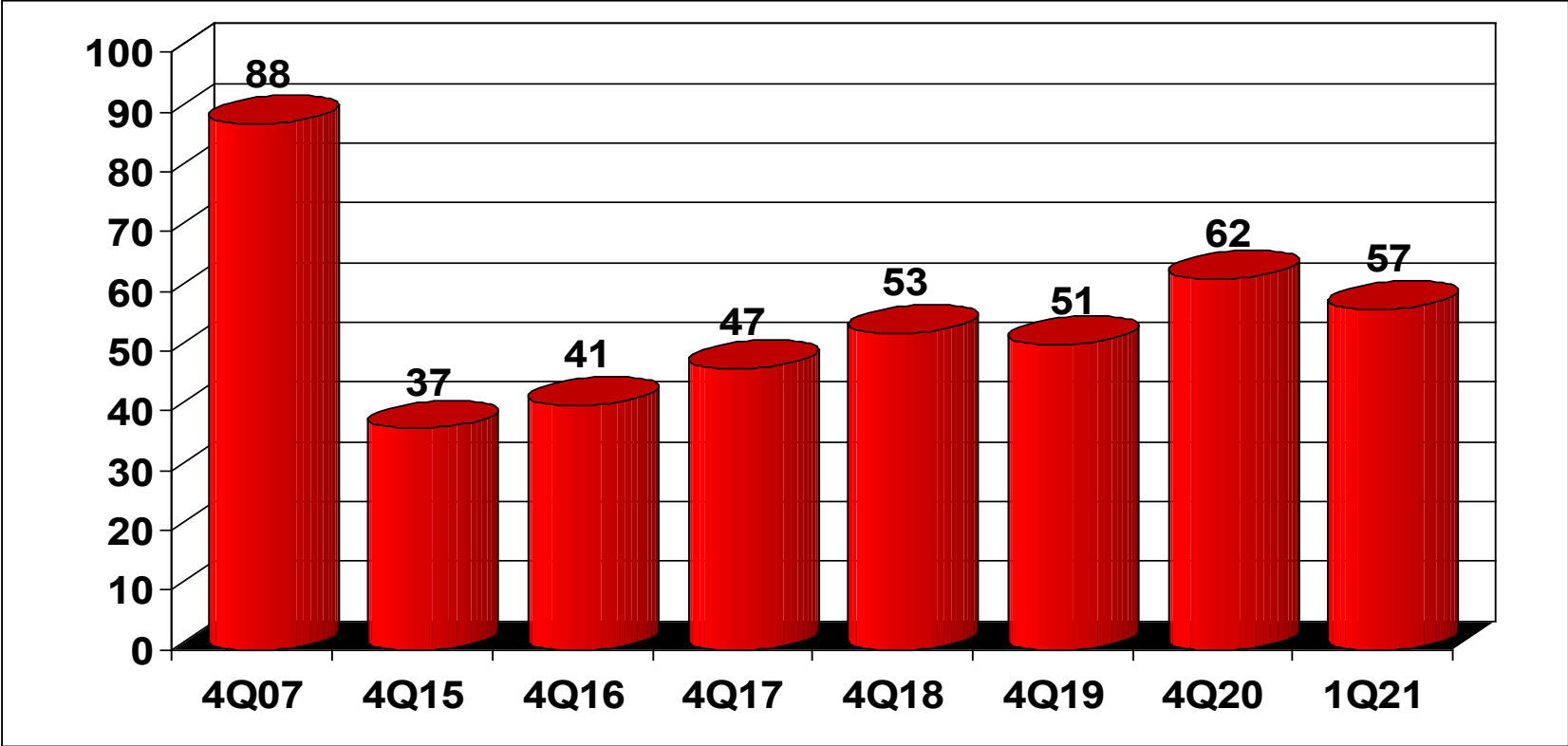


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# INVESTMENTS

# Total Investments

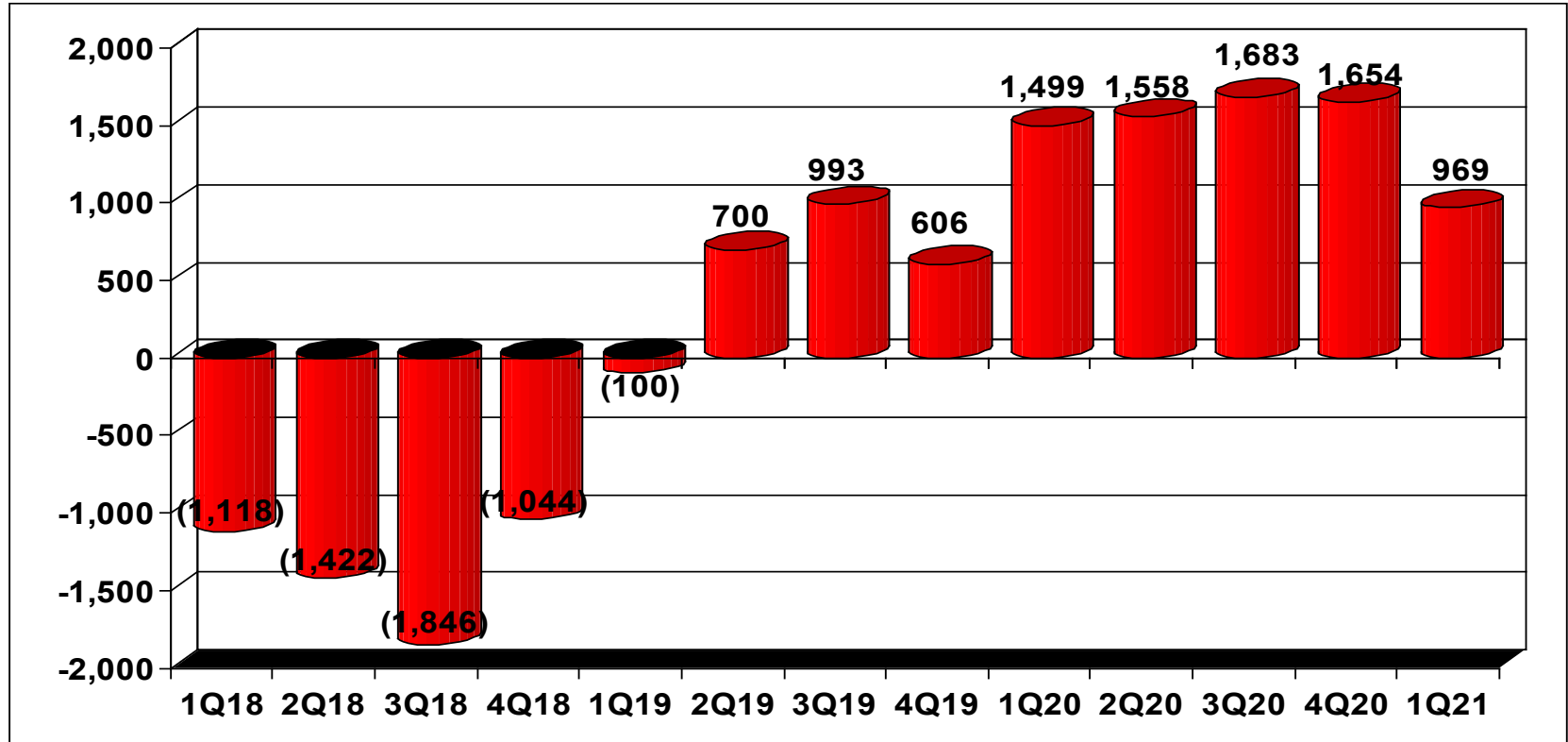
(end of period in millions)

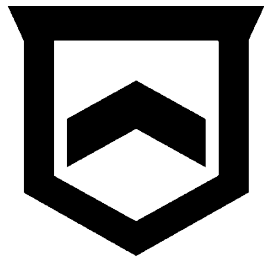




# Unrealized Gain/(Loss) on Investments

(in thousands)



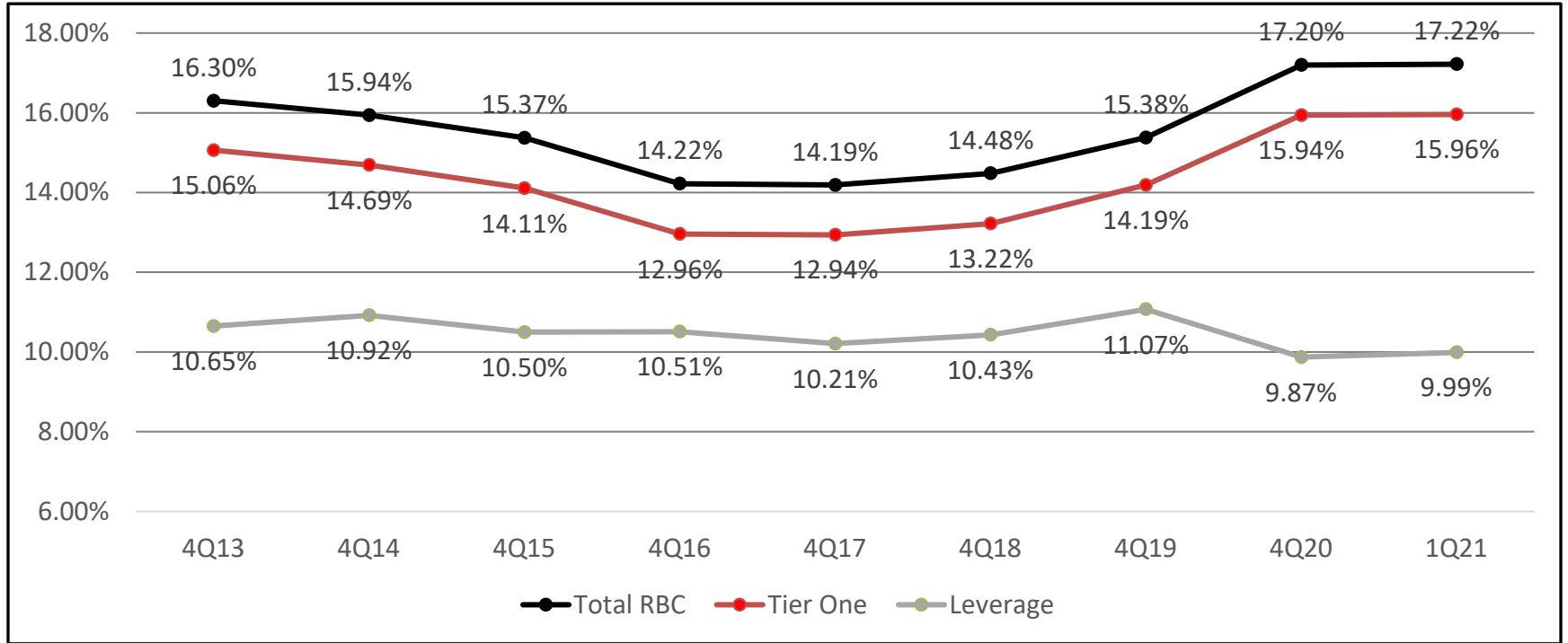


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# CAPITAL TRENDS



# Capital Ratios





2020  
TOP 200

Healthiest Banks

 **DepositAccounts**  
by lendingtree





- Capitalization
- Deposit growth
- Texas ratio

# Capital Ratios

## Memphis-Based Community Banks

December 31, 2020



	Total Risk-Based Capital	Tier 1 Capital	Leverage Ratio	
Financial Federal			11.54%	
First Capital			10.41%	**
Landmark	14.89%	14.00%	10.08%	
Paragon Bank	17.20%	15.94%	9.99%	
Triumph Bank	12.54%	11.29%	9.57%	
Bank of Fayette County			9.13%	**
Bank3			9.06%	**
BankTN	11.69%	10.43%	8.60%	**
Bank of Bartlett	16.66%	15.43%	7.95%	**

\*\* Capital includes Trust Preferred and Holding Company Loans



# Stock Repurchases

- Due to Paragon's strong capital position, the Board of Directors has authorized three stock repurchase programs over the last twelve months:
  - \$1 million – announced 6-3-2020
  - \$500 thousand – announced 11-4-2020
  - \$5 million – announced 2-2-2021 (3-year program)
- The Board of Directors believes that Paragon stock is an attractive investment at current valuations and offers an excellent means to build long-term value for our shareholders.





# Stock Repurchases

## Paragon Financial Solutions Shares Repurchased and Retired

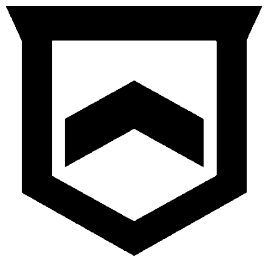
	Shares	Gross	Average	
Authorized	Repurchased	Repurchased	Price	
\$1,000,000	115,000	\$ 999,017.85	\$ 8.69	
\$500,000	55,000	\$ 476,017.85	\$ 8.65	
\$5,000,000	63,133	\$ 620,449.75	\$ 9.83	Thru 4/26/2021
	<u>233,133</u>	<u>\$ 2,095,485.45</u>	\$ 8.99	

# Stock Repurchases



## Paragon Bank Dividend to Holding Company

6/18/2020	\$	375,000
11/13/2020	\$	125,000
11/18/2020	\$	150,000
11/24/2020	\$	180,000
2/10/2021	\$	241,250
2/22/2021	\$	220,000
3/16/2021	\$	85,000
3/31/2021	\$	33,750
	\$	<u>1,410,000</u>

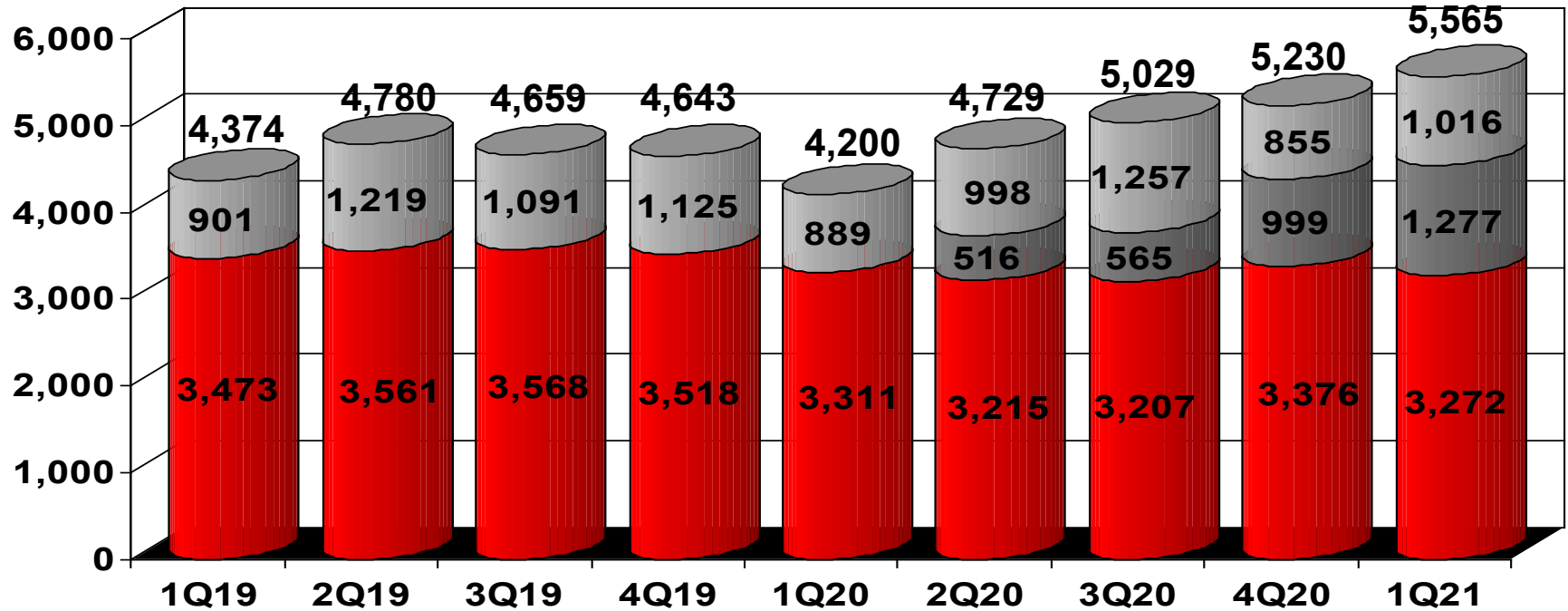


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# INCOME TRENDS

# Total Revenue

(in 000's)

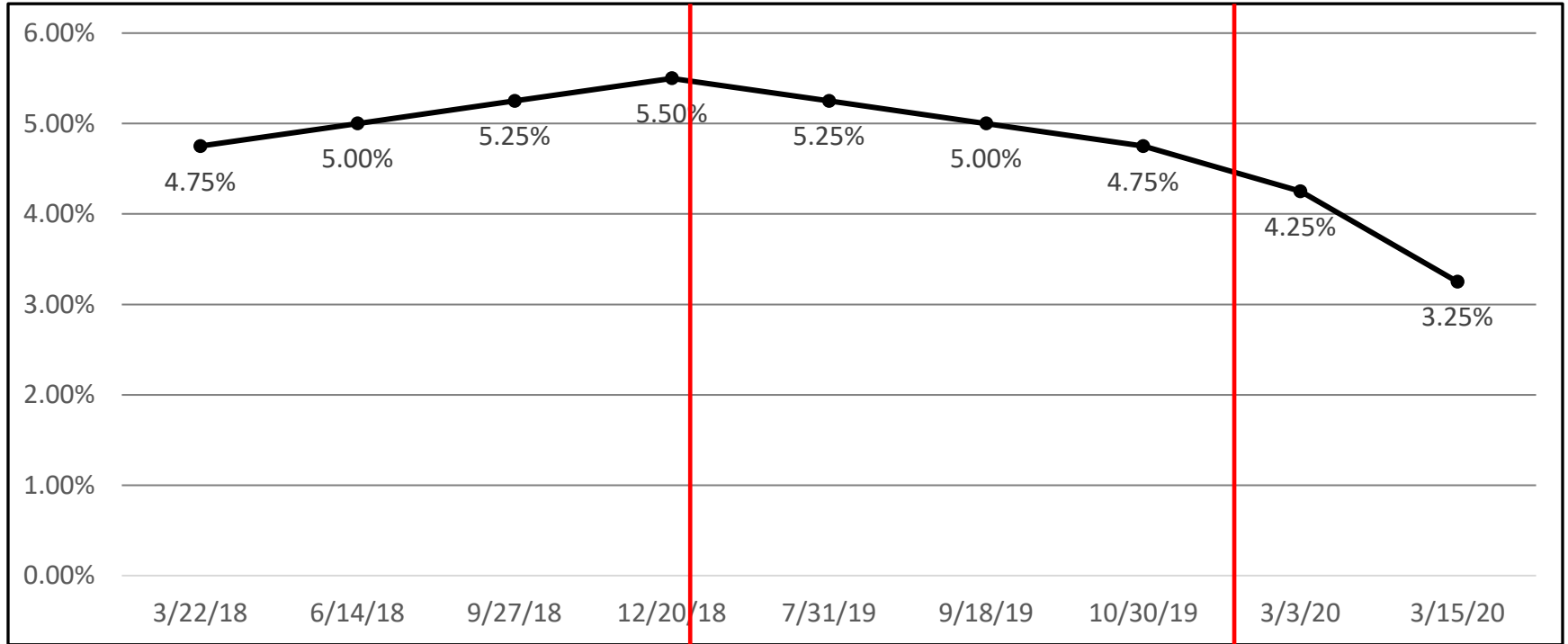


■ Net Interest Income ■ PPP Interest Income ■ Noninterest Income

excludes security gains and losses

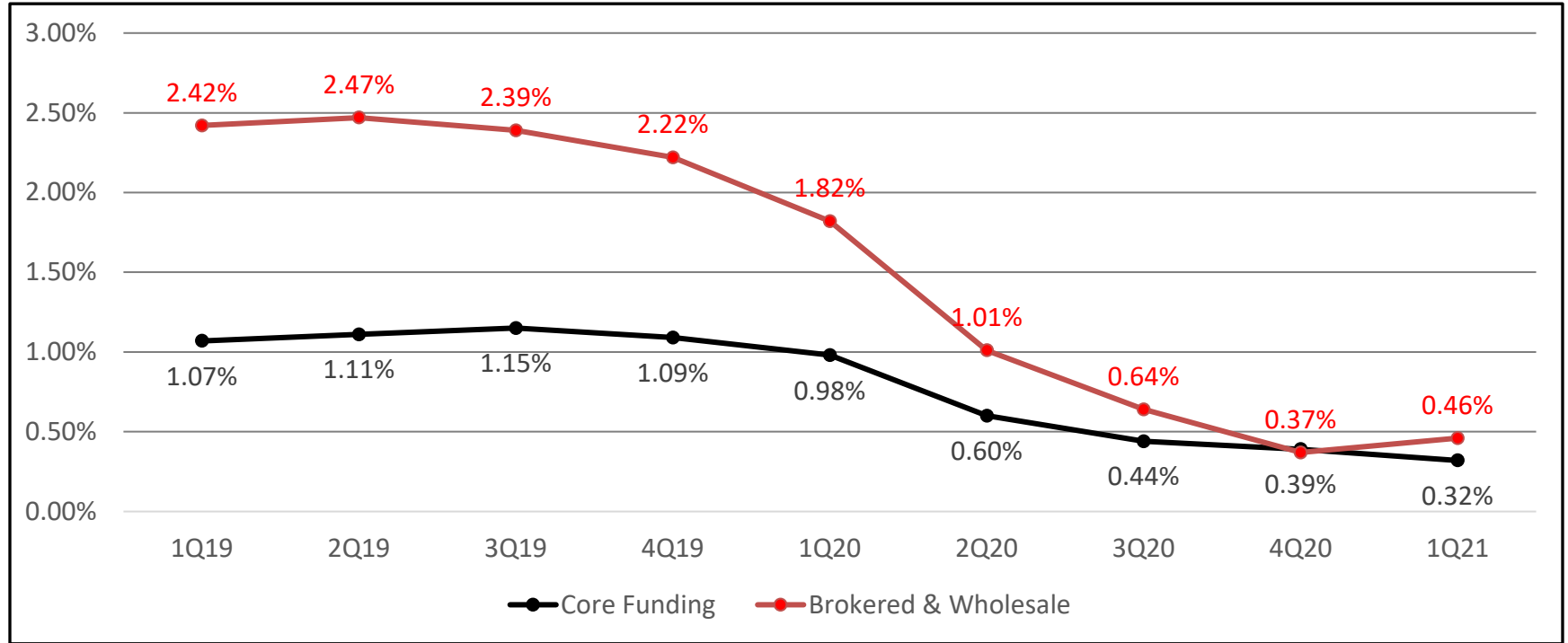


# Prime Rate



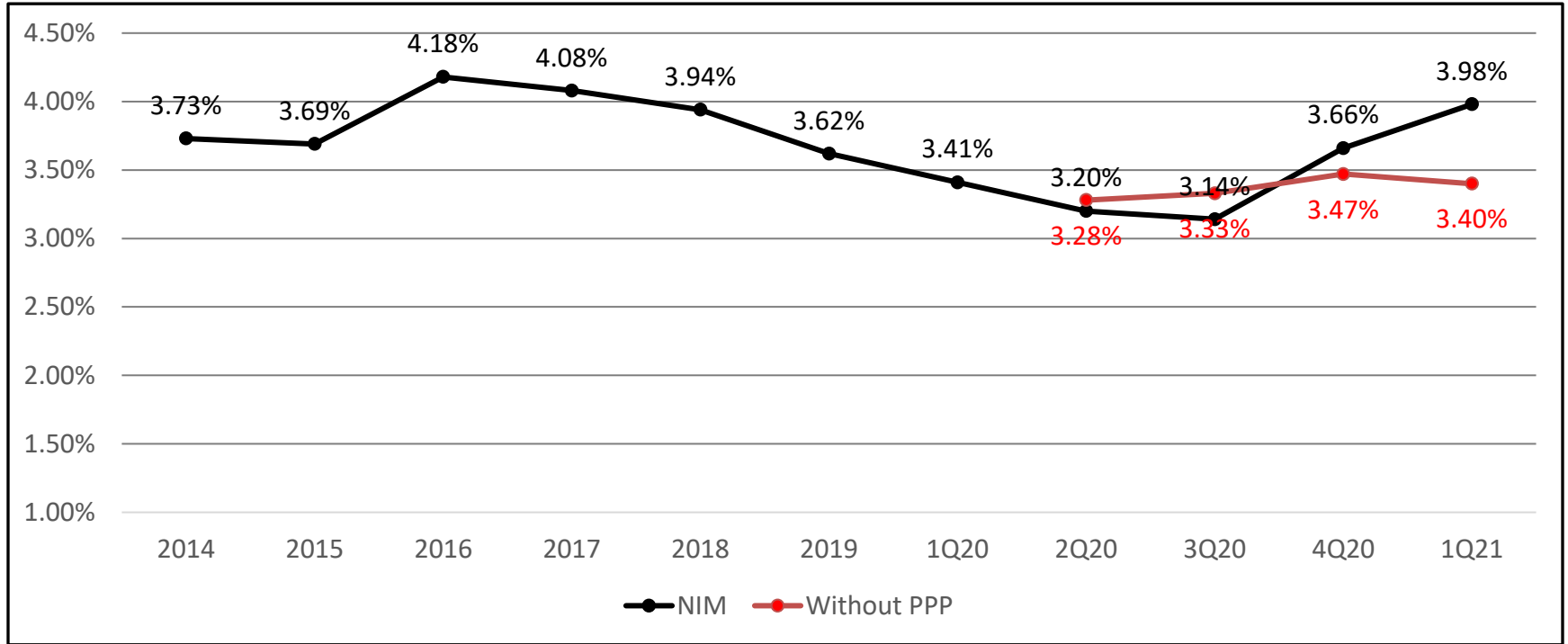


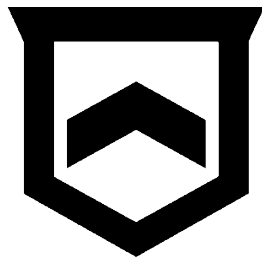
# Interest Expense





# Net Interest Margin





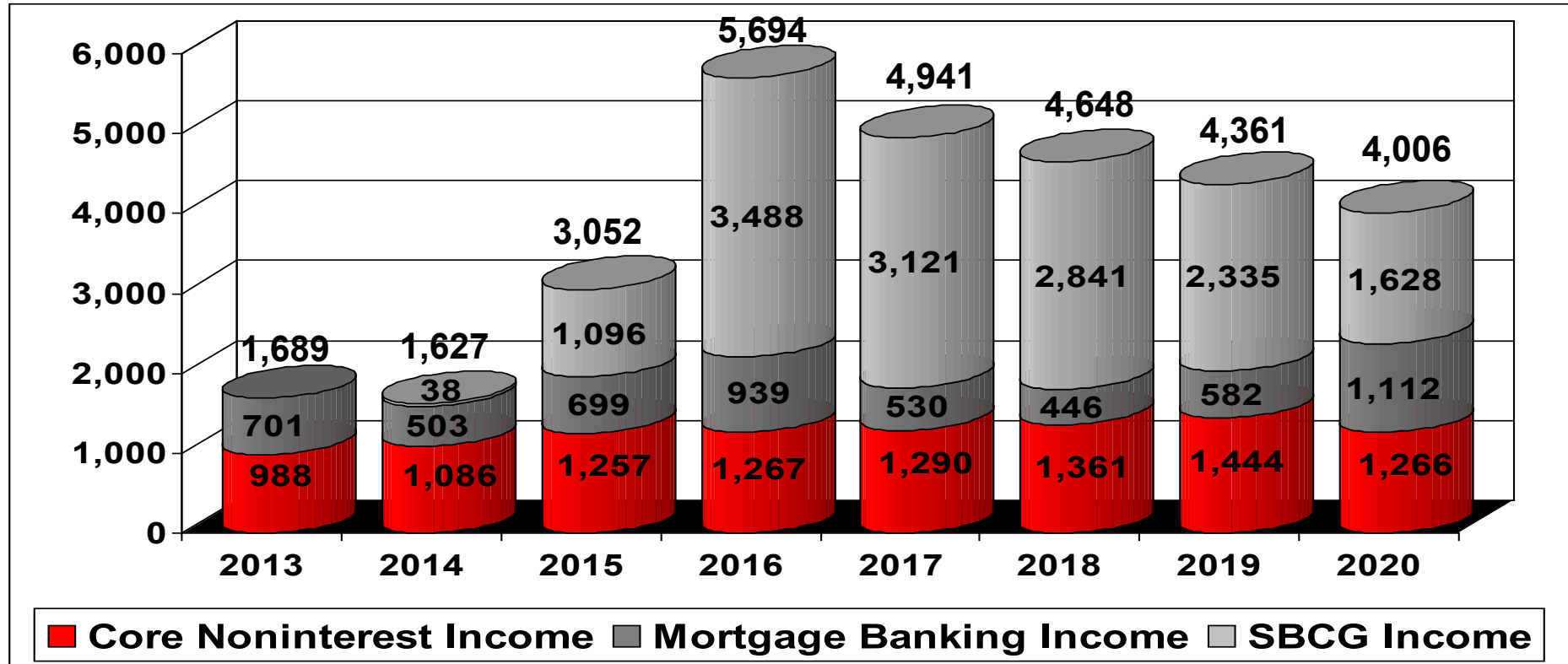
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# NONINTEREST INCOME TRENDS



# Total Noninterest Income

(in 000's)



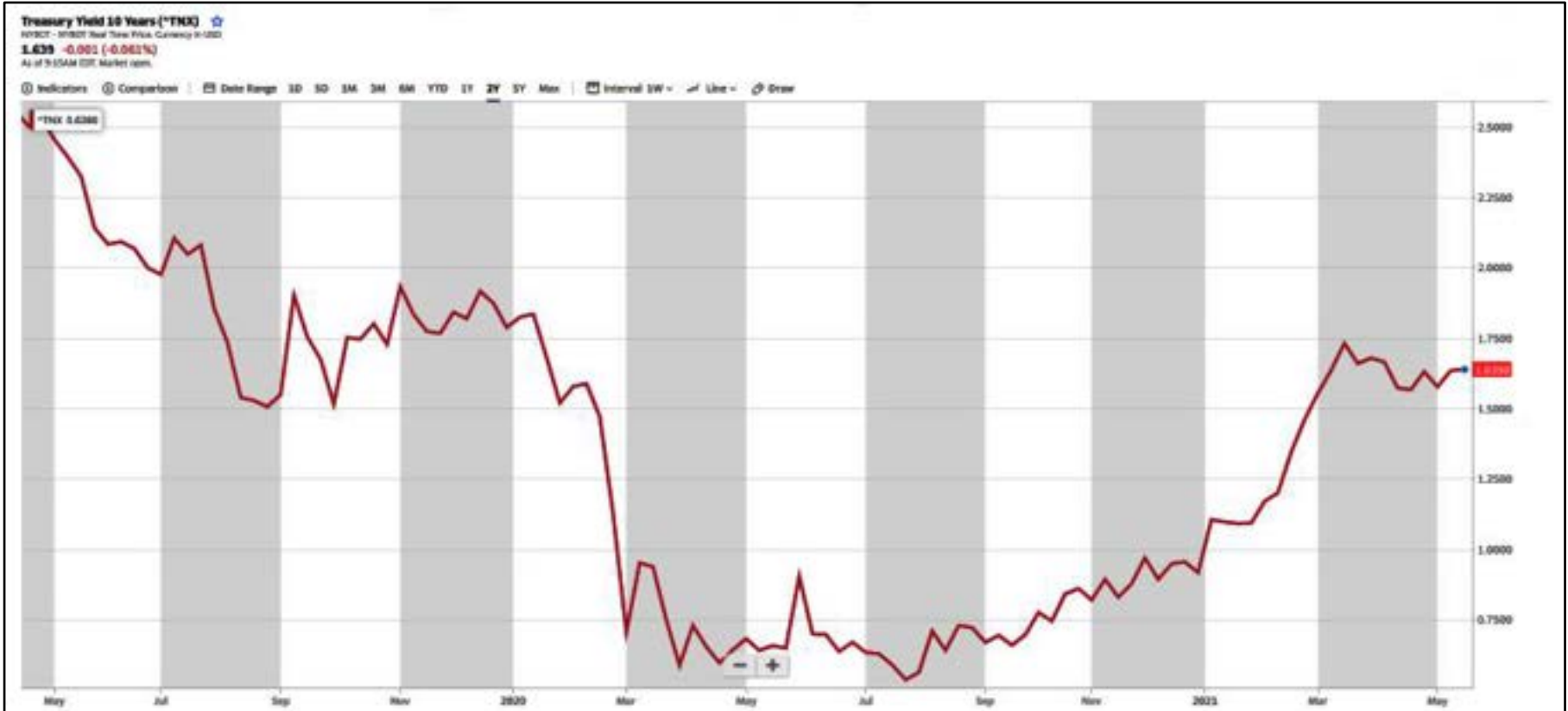
excludes security gains and losses

# Memphis MSA SBA Lenders



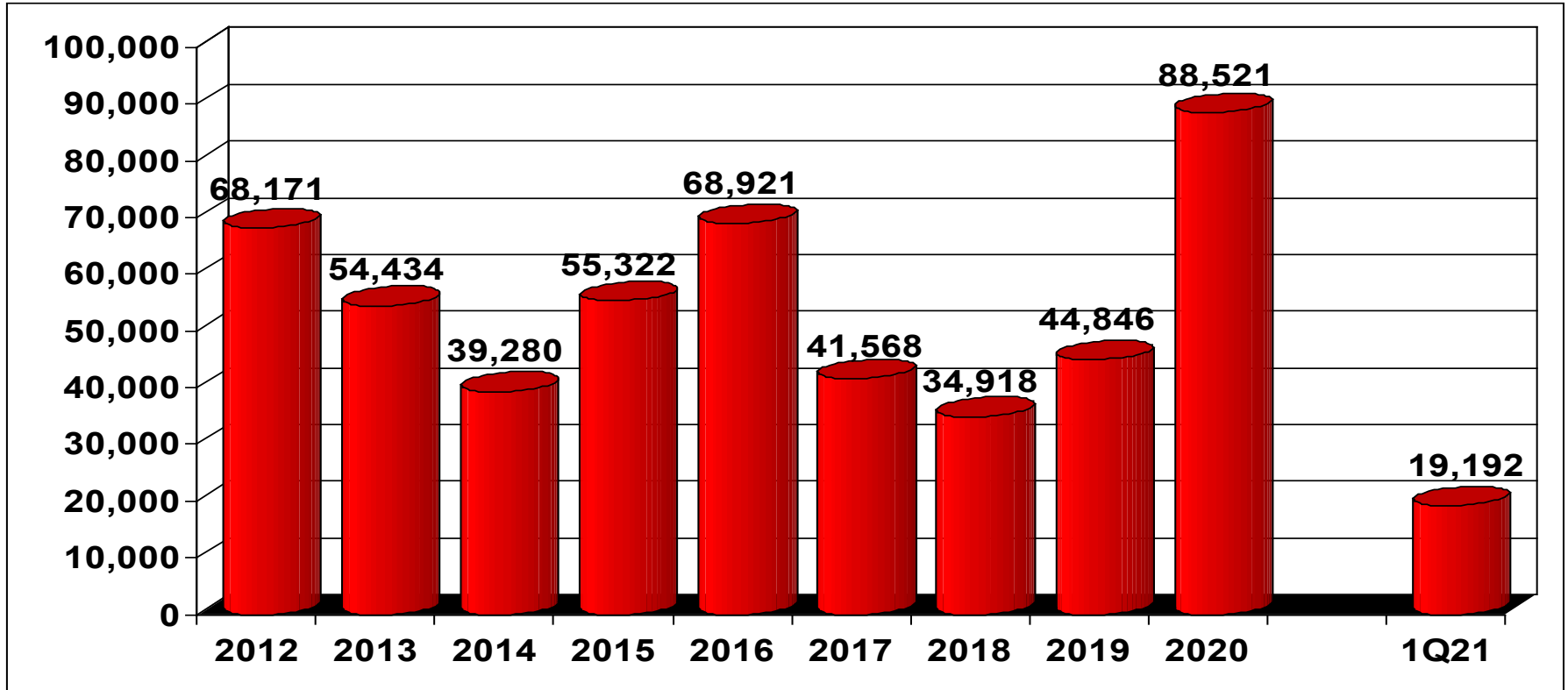
Bank	Year Ended 9-30-20		Year Ended 9-30-19		Year Ended 9-30-18	
	# of Loans	\$ of Loans	# of Loans	\$ of Loans	# of Loans	\$ of Loans
First Horizon Bank	63	69,835,000	16	22,096,500	16	18,101,800
Evolve Bank & Trust	33	24,698,900	24	16,309,400	34	28,399,800
Paragon Bank	21	23,445,000	27	24,672,000	38	30,109,700
Bank3	1	440,000	0	0	0	0
Triumph Bank	1	350,000	3	150,000	6	988,700
First Alliance Bank	0	0	4	2,284,200	4	1,855,000
Bank of Bartlett	0	0	1	420,000	1	125,000

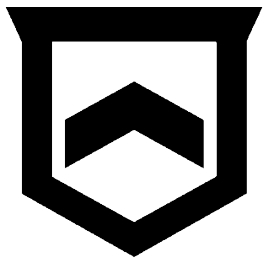
# 10 Year Treasury Yield



# Mortgage Loans Closed

(thousands)

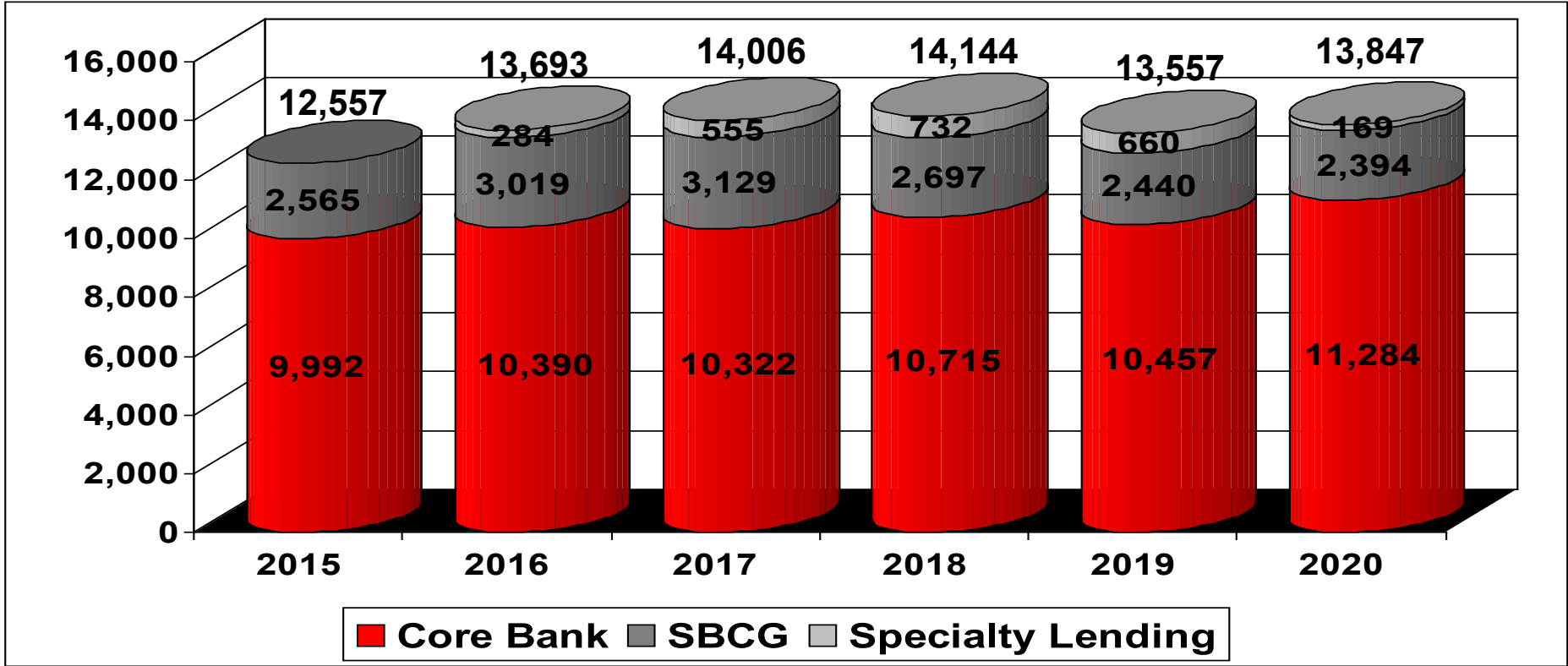




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# NONINTEREST EXPENSE TRENDS

# Noninterest Expense



# Noninterest Expense

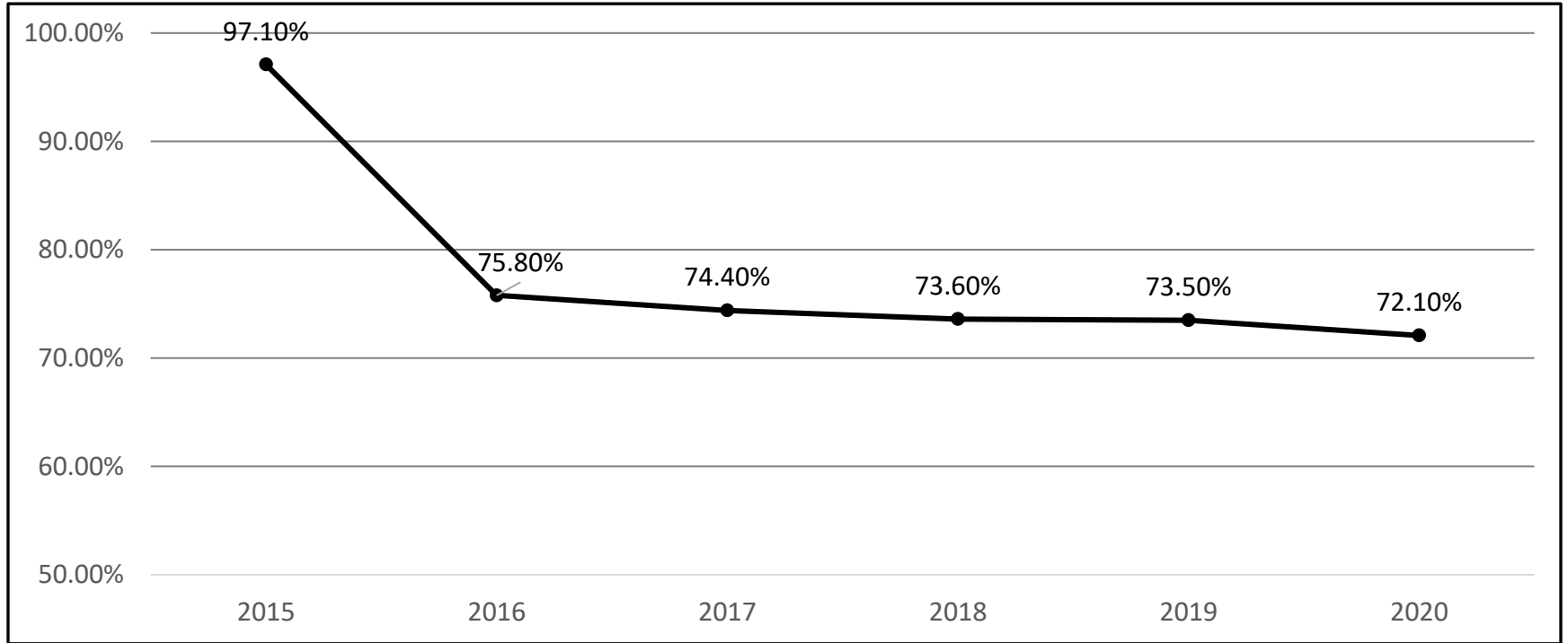


	Total Bank
1 Year Average	2.14%
2 Year Average	-1.05%
3 Year Average	-0.38%
4 Year Average	0.28%
5 Year Average	2.05%

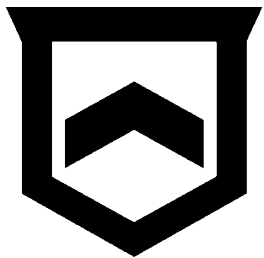
**Over the last 5 years, Paragon's expenses have increased an average of 2%, while revenue has increased an average of 10%**



# Efficiency Ratio







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# CREDIT QUALITY TRENDS

# Non-SBA Loan Deferrals

(end of period \$000)



	Number of Loans	Loan Balances	% of Total 3-31-21 Loans
Original Loans Deferred	169	60,617	15.04%
Loans Paid Off	(38)	(5,718)	
Lines or HELOCs w/ multiple payments	(9)	(4,686)	
Two or more P&I payments made & current	(117)	(48,753)	
February 2021 deferral	1	164	
	-----	-----	
Active Deferrals	6	1,624	
Current Balance	6	1,567	
<u>Active Deferral Detail:</u>			
No payments have been due - all RE secured	1	164	
Multiple deferrals - consumer RE	1	93	
Interest only payments	4	1,310	
	-----	-----	
	6	1,567	0.39%
Percent of Original Deferred Loans	3.55%	2.59%	

# SBA Loan Payments



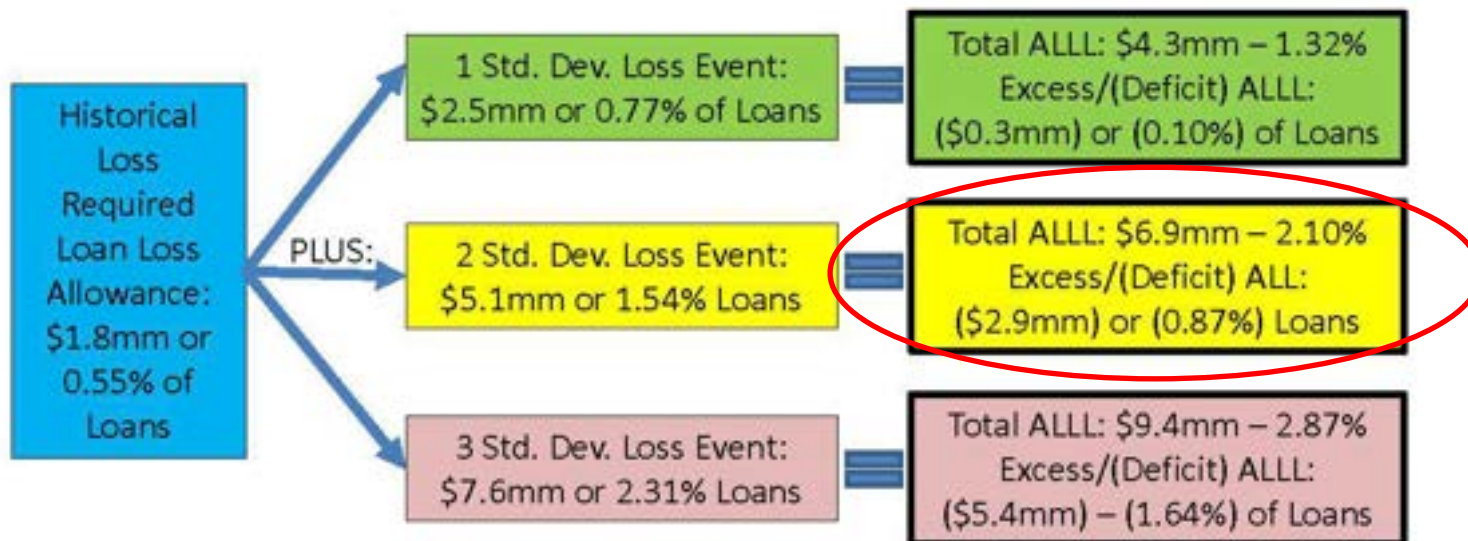
- **Coronavirus Aid, Relief, and Economic Security Act (CARES ACT) – March 2020**
  - SBA made 6 months of loan payments on SBA loans
- **The Consolidated Appropriations Act – December 2020**
  - SBA made additional payments up to \$9,000 per month
    - 5 months for restaurants and hospitality
    - 3 months for other businesses

# Loan Loss Allowance Levels



Paragon Bank's  
Historical Allowance For Loan Losses:  
\$1.8mm or 0.55%  
12/31/19: \$3.8mm or 1.17% of Loans

Paragon Bank's Allowance Build:  
3/31/20: \$4.0mm or 1.22% of Loans  
6/30/20: \$4.5mm or 1.08% of Loans  
1.39% of Loans, Excluding PPP Loans



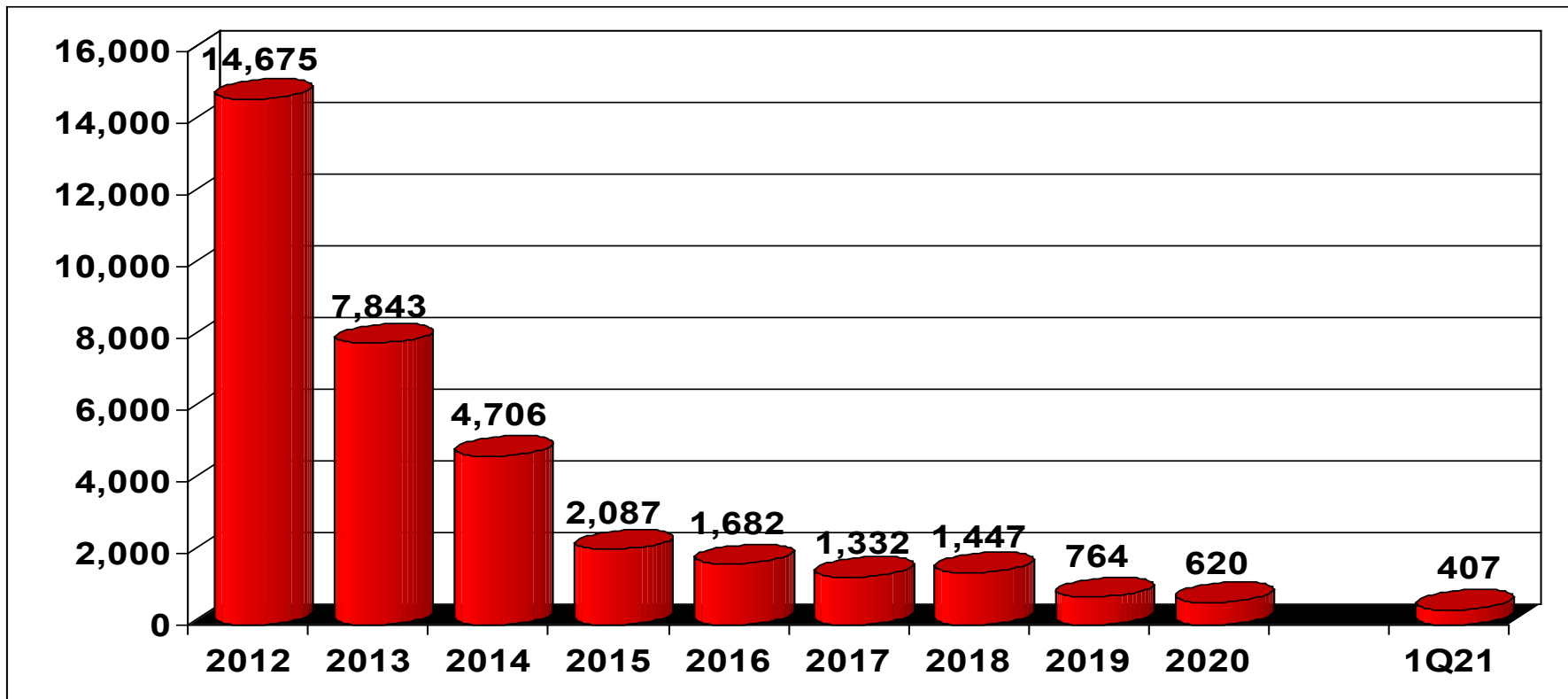
# Loan Loss Allowance



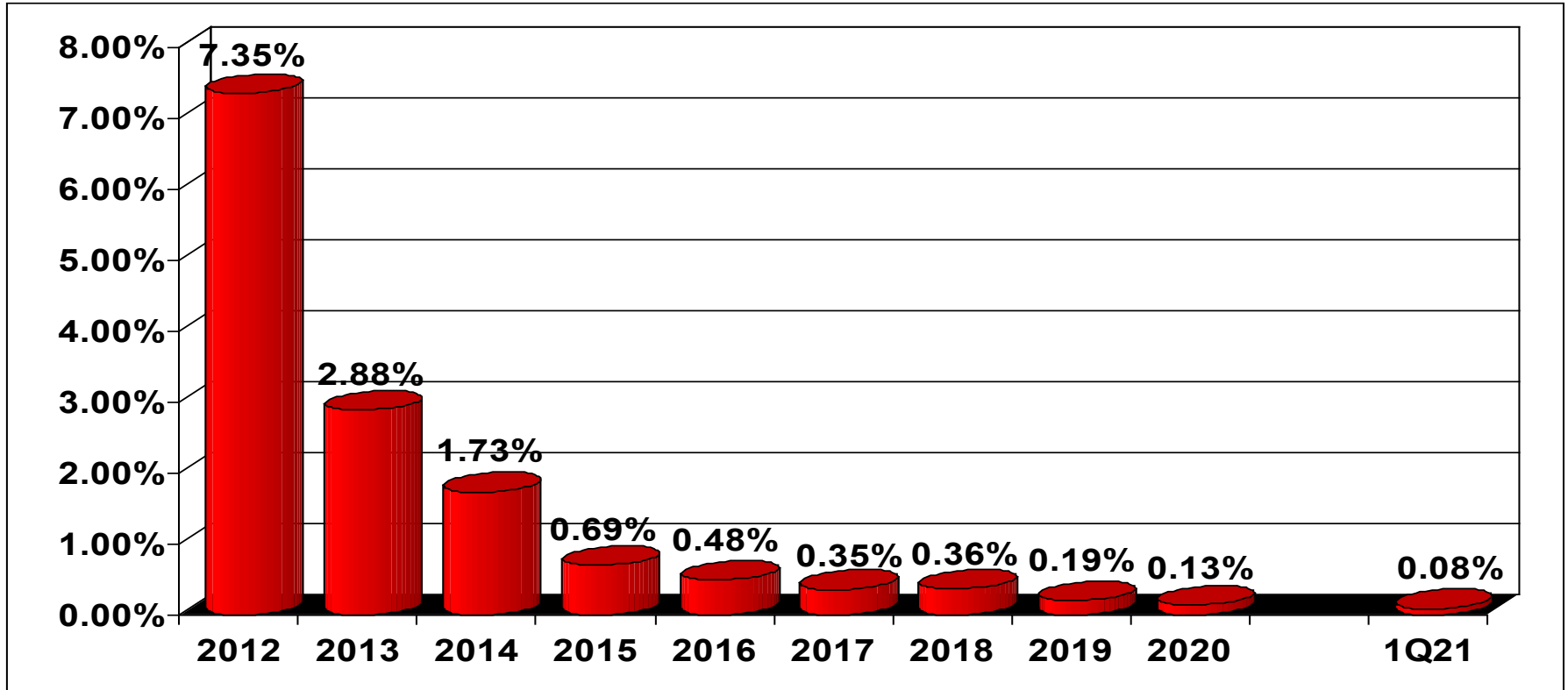
	<b>2020</b>	<b>Q1 2021</b>
PPP Fees Recognized	1,875,768	1,390,891
	<b>2020</b>	<b>Q1 2021</b>
Beginning Allowance	3,837,252	5,706,729
Provision	1,861,000	973,000
Net (Charge Offs)/Recoveries	8,477	197,532
	-----	-----
Ending Allowance	5,706,729	6,877,261

# Nonperforming Assets

(end of period \$000)

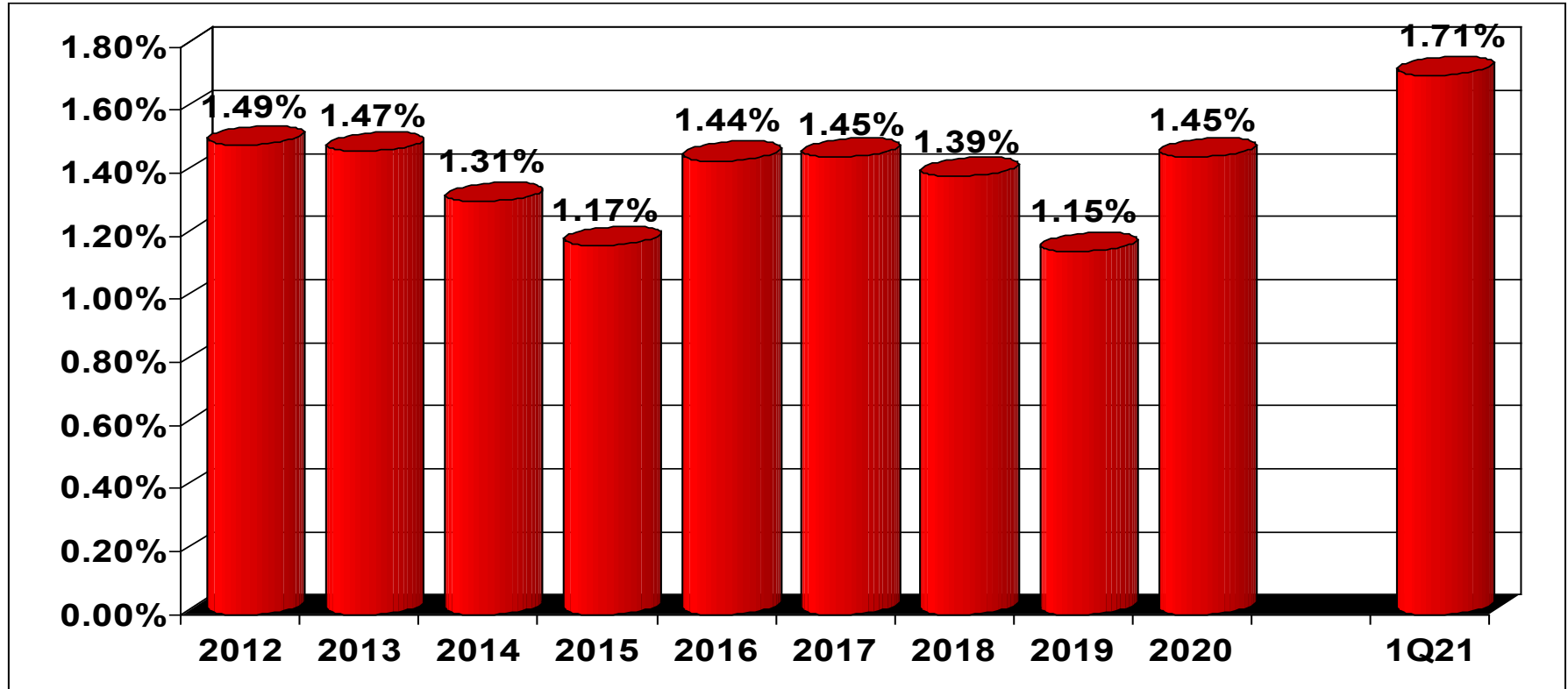


# Nonperforming Assets as a % of Total Assets



# Loan Loss Reserve to Gross Loans

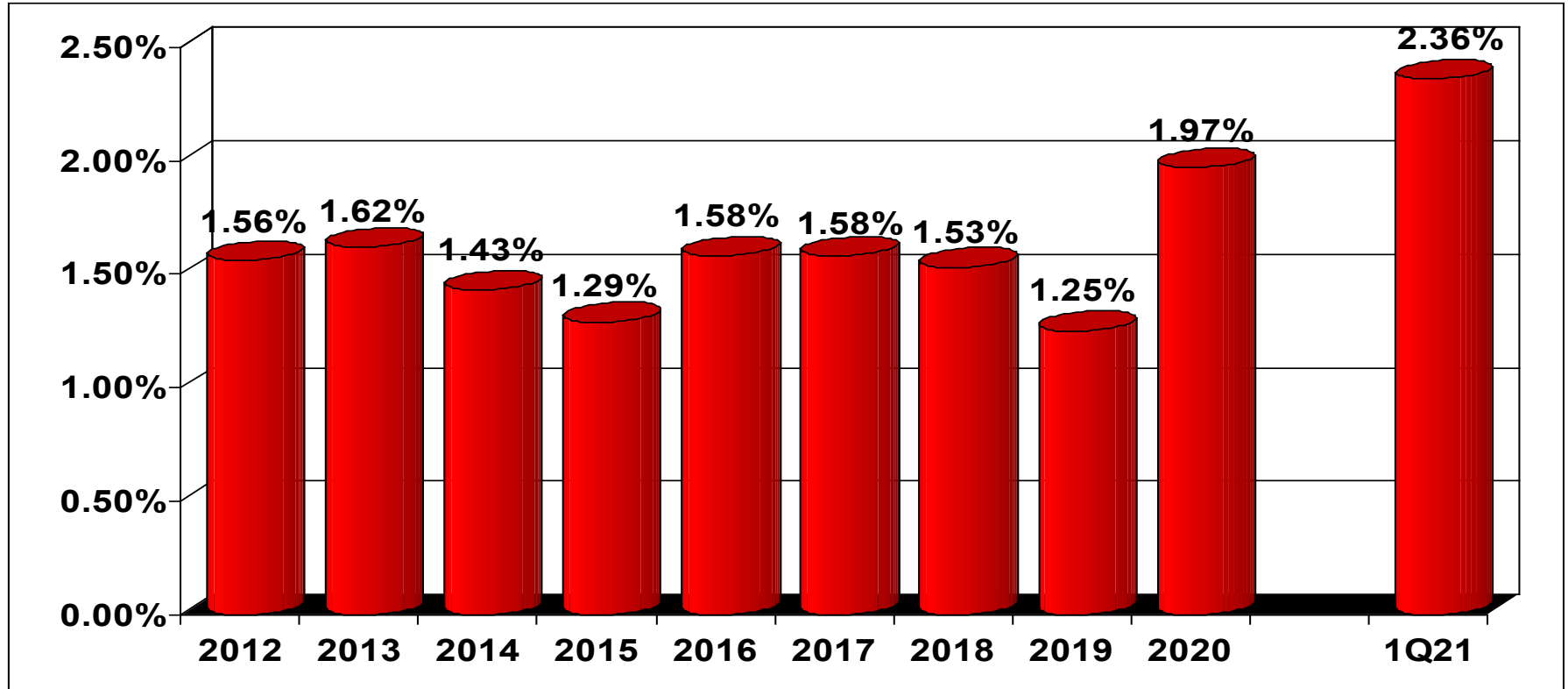
(end of period)

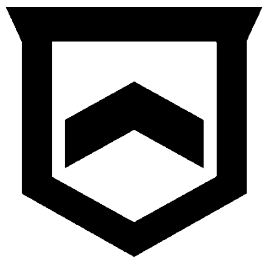




# Loan Loss Reserve to Gross Loans

(end of period – excluding fully government-guaranteed loans)

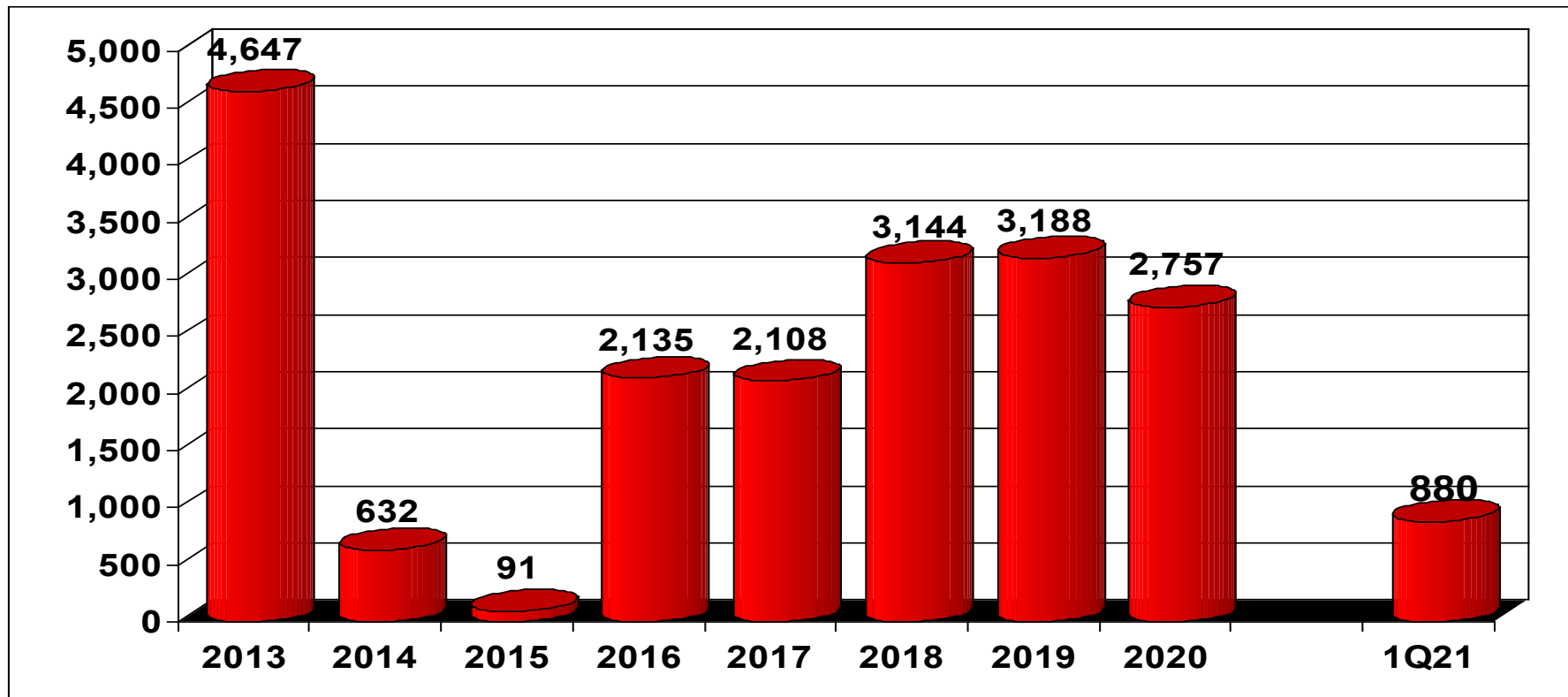




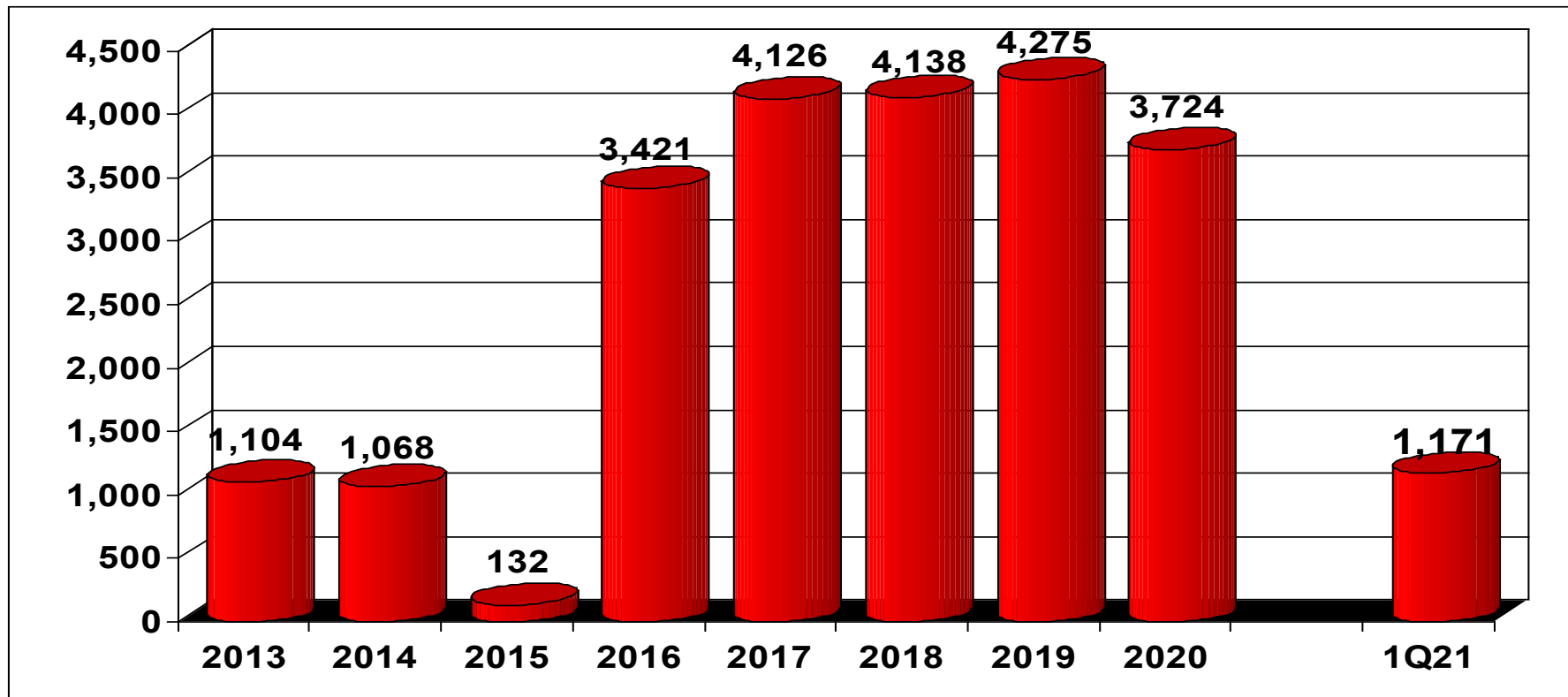
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# INCOME STATEMENT TRENDS

# Net Income

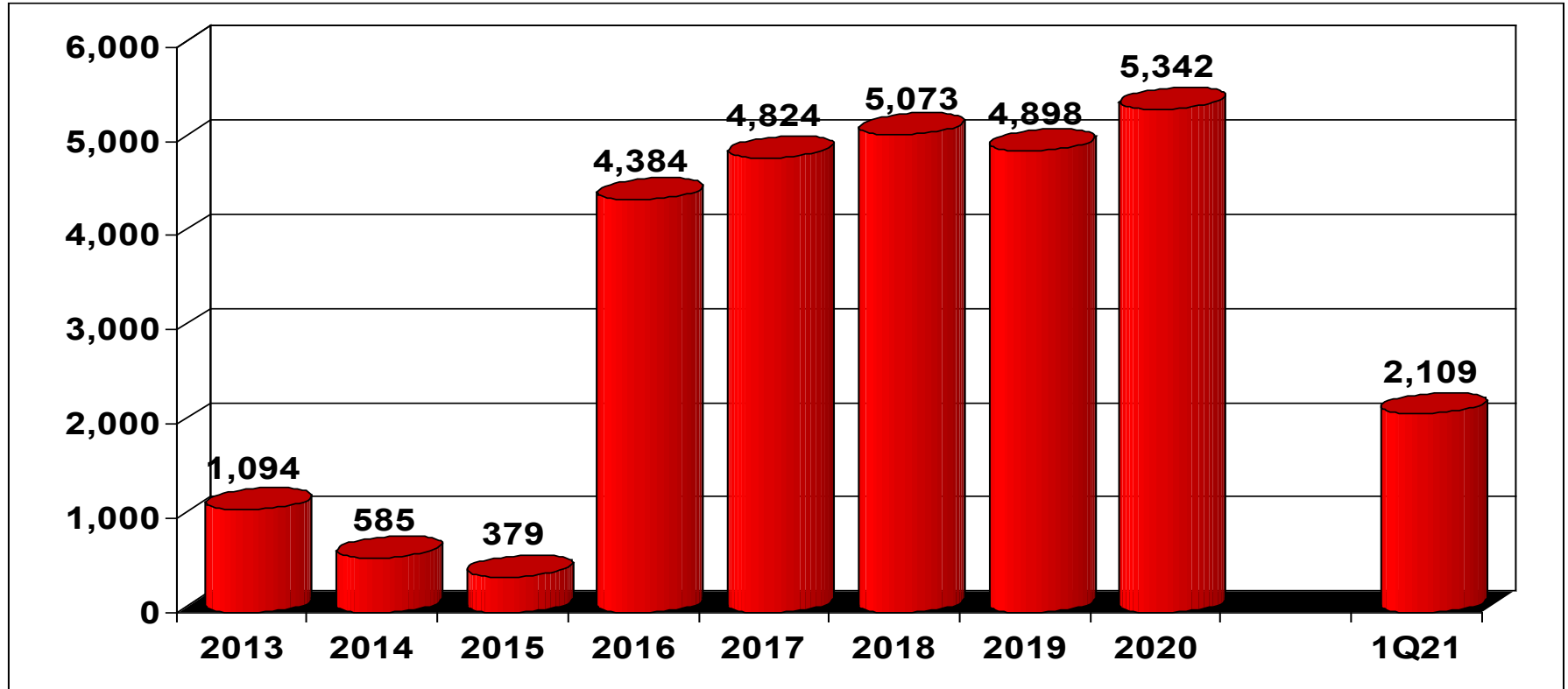


# Pre-Tax Net Income

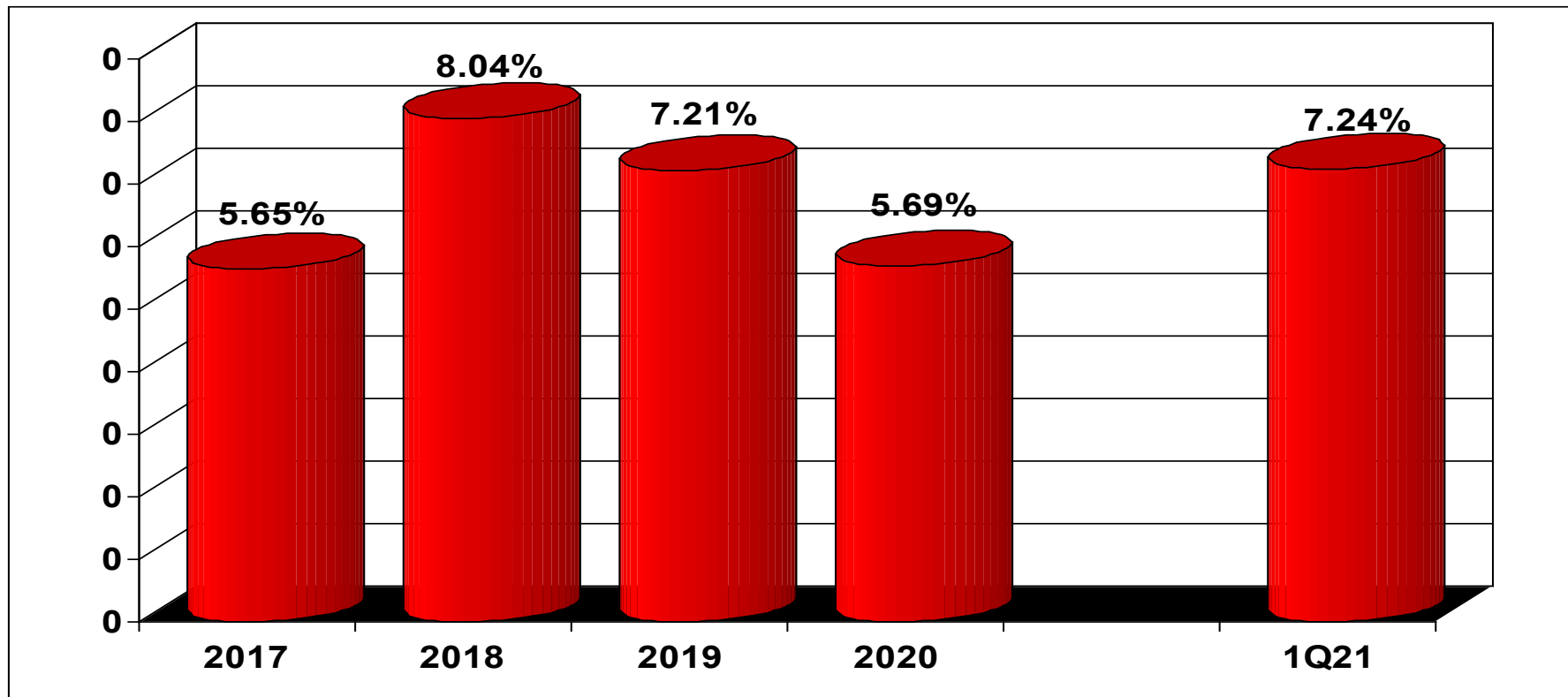


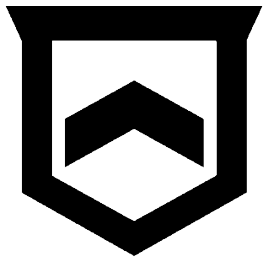
# Operating Income

(income before security g/l, provision, & taxes – in thousands)



# Return on Equity





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# STOCK TRENDS

# PGNN



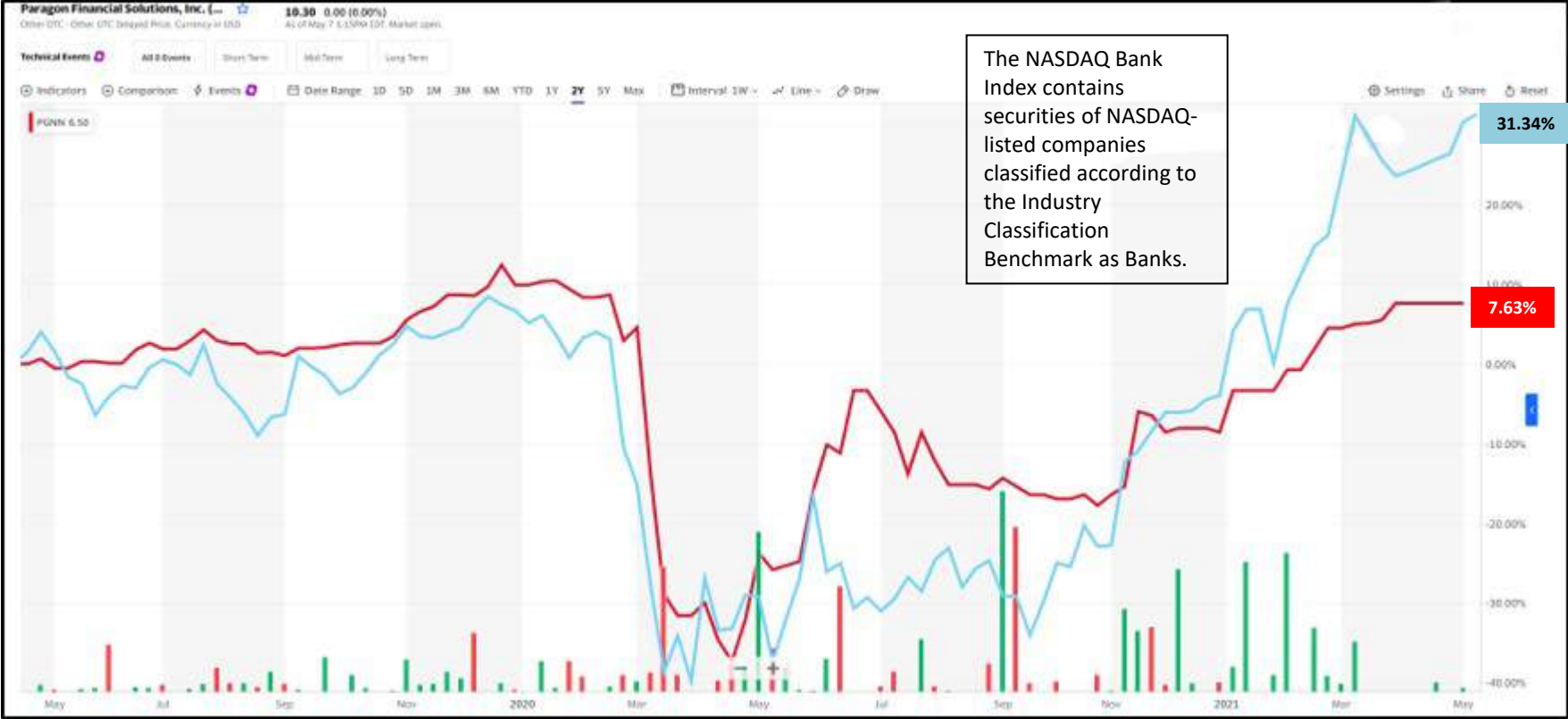


# PGNN v. KBW Bank Index



PGNN - KBW -

# PGNN v. NASDAQ Bank Index

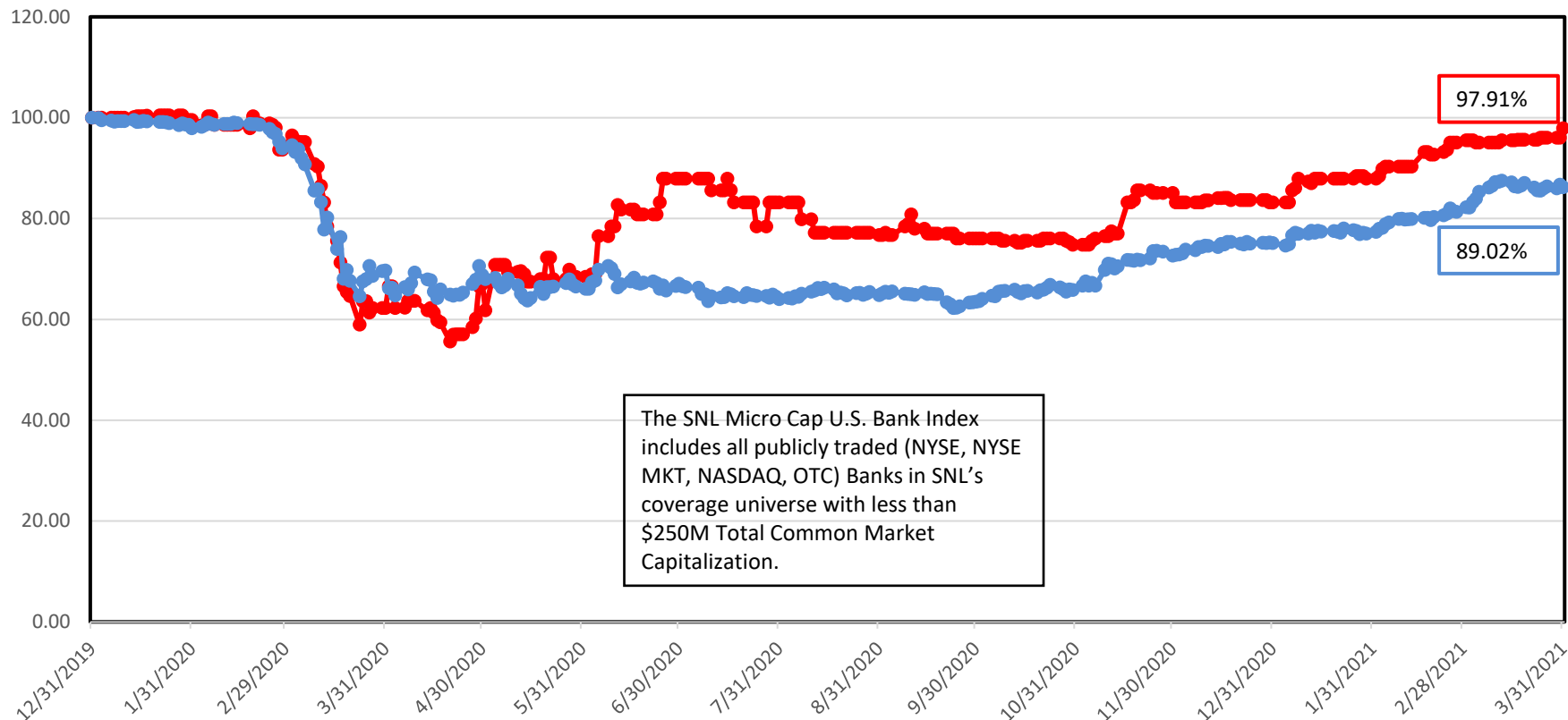


The NASDAQ Bank Index contains securities of NASDAQ-listed companies classified according to the Industry Classification Benchmark as Banks.

**PGNN** - **NASDAQ Index**

**People You Know, Solutions That Work**

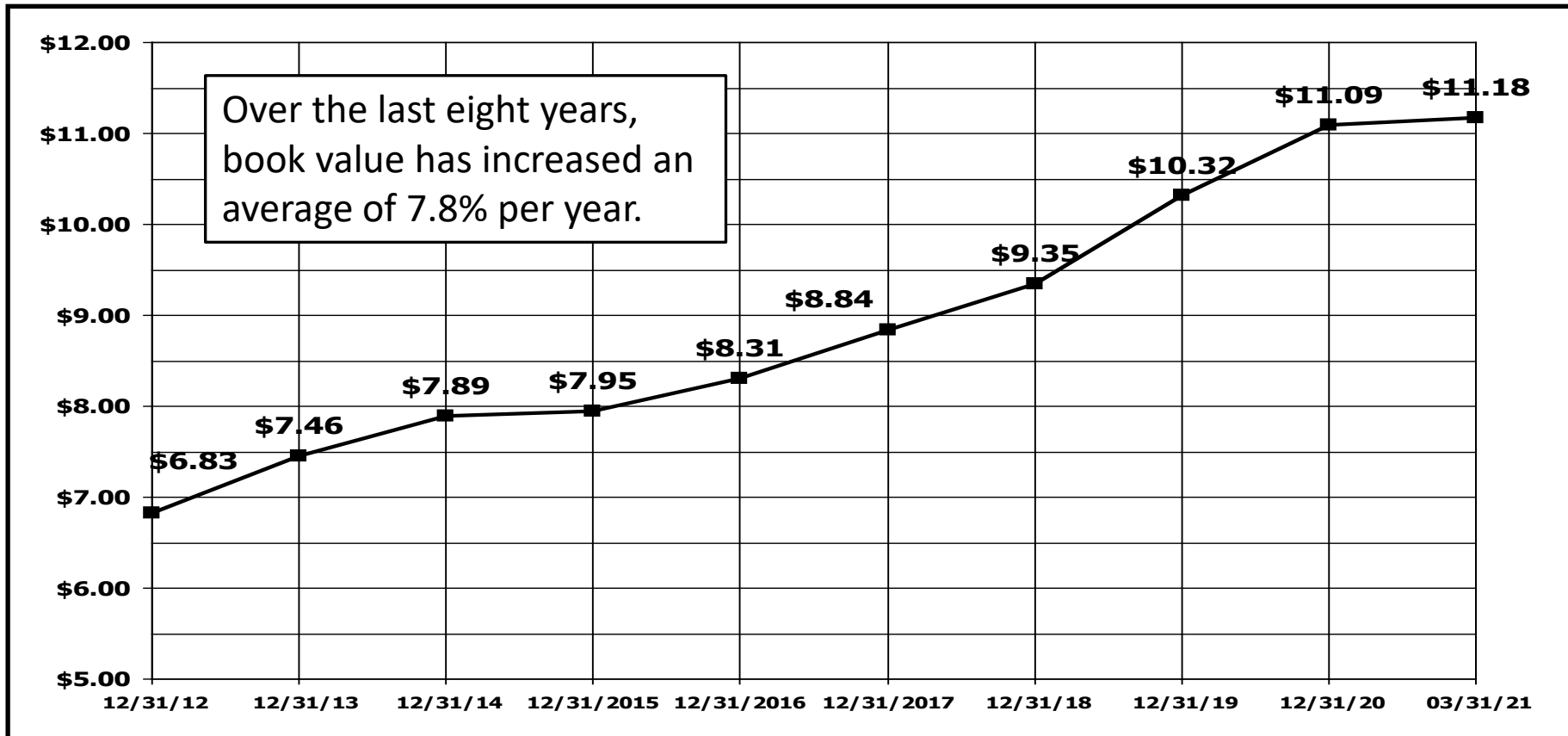
# PGNN v. SNL Micro Cap U.S. Bank Index

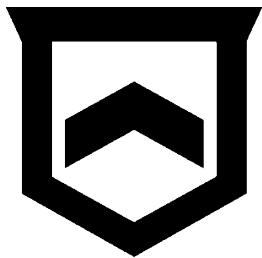


The SNL Micro Cap U.S. Bank Index includes all publicly traded (NYSE, NYSE MKT, NASDAQ, OTC) Banks in SNL's coverage universe with less than \$250M Total Common Market Capitalization.

PGNN - SNL Index -

# Period-End Book Value





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# SUMMARY & WRAP UP



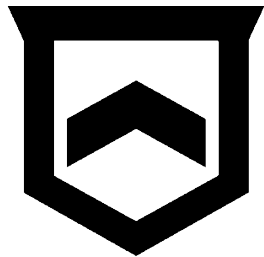
# 2020 Records

- **Loan Volumes**
- **Demand Deposits**
- **Total Assets**
- **Net Interest Income**
- **Mortgage Banking Income**
- **Operating Income**
- **Efficiency**
- **Lowest Level of NPA's/Total Assets Since First Quarter of 2007**



# **First Quarter 2021 Records**

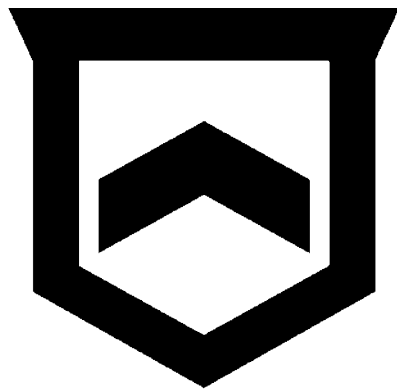
- **Net Income**
- **Net Interest Income**
- **Mortgage Banking Income**
- **Total Revenue**
- **Efficiency**
- **Operating Income**
- **Lowest Level of NPA's/Total Assets Since First Quarter of 2007**



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QUESTIONS





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**Annual Shareholder  
Meeting**

**May 20, 2021**