

August 6, 2021



# Paragon Bank

Dear Fellow Shareholder:

Paragon's net income for the second quarter of 2021 was \$1.2 million, which was 33% higher than the first quarter of 2021 and 36% higher than the second quarter of 2020. Return on assets and return on equity for the second quarter were .98% and 9.51% respectively. The first six months of 2021 was the most profitable six months period in Paragon's history with net income of \$2.0 million. Net income for the first six months of 2021 was up 31% over the first six months of 2020.

During the second quarter Paragon completed making Paycheck Protection Program (PPP) Second Draw loans. During 2021 Paragon made 425 PPP Second Draw loans totaling \$42.3 million in loan volumes and generating \$2.1 million in gross fees paid by the SBA (Small Business Administration). The total number of PPP loans made in 2020 and 2021 was 1,224 totaling \$136.3 million. Combined fees were \$5.9 million. Paragon had \$1.7 million (net of deferred loan costs) in unrecognized PPP fees as of June 30, 2021. These fees will be recognized over the life of the loans but are fully recognized when a loan is fully forgiven by the SBA.

Other highlights of the second quarter and first six months of 2021 included:

## Balance Sheet

- Gross loans decreased slightly during the first half of 2021. However, gross loans, excluding PPP loans, increased \$22.5 million, or 14%, on an annualized basis. <sup>[1]</sup><sub>[SEP]</sub>
- After a record increase in deposits of 22.7% during 2020, deposits have decreased approximately 1% during the first six months of 2021. Interest-bearing account checking balances have increased as proceeds from PPP Second Draw loans have been deposited in them. Other more interest-rate-sensitive deposits like certificates of deposit have decreased as customers have looked for alternative investments. <sup>[1]</sup><sub>[SEP]</sub>
- In January, the Board of Directors of Paragon Financial Solutions, believing that our stock is an attractive investment at current valuations and offers an excellent means to build long-term value for our shareholders, authorized a three-year \$5 million stock repurchase program. During the second quarter 92,061 shares were repurchased at an average price of \$10.48. Through the first six months of 2021, 153,694 shares have been repurchased at an average price of \$10.21. <sup>[1]</sup><sub>[SEP]</sub>
- Book value per share increased to \$11.40 on June 30, 2021. It increased \$.22 during the second quarter and has increased \$.31 since the beginning of 2021. <sup>[1]</sup><sub>[SEP]</sub>

## Income Statement

- Total revenue was a record for the first six months of 2021. For the first six months of 2021, revenue totaled \$10.8 million, an increase of 20.9% over the first half of 2020. This increase was led by a 32% increase in mortgage banking revenue and a 17% increase in SBA loan sales gains.
- Paragon's net interest income exceeded \$4 million for the third consecutive quarter. Net interest income of \$4.08 million during the second quarter was 9.3% higher than the same quarter in 2020. Year-to-date net interest income, which was a record, was 22.5% higher than the same period in 2020, increasing \$1.58 million to \$8.63 million. <sup>[1]</sup><sub>[SEP]</sub>
- Net interest margin decreased from 3.98% in the first quarter of 2021 to 3.54% in the second

quarter as a result of less fee recognition on forgiven PPP loans. Excluding PPP fees, net interest margin would have been 3.39%, which was the same as the prior quarter. [SEP]

- Noninterest expense for the first six months of 2021 increased 9.02% over 2020, which was a lower percentage increase than the increase in total revenue, noted above. The increased noninterest expense related to several items within salaries including less deferred loan origination costs on fewer PPP Second Draw loans originated and increased incentive pay related to higher revenues.
- The faster increase in total revenue versus the increase in noninterest expense from the first half of 2020 to the first half of 2021, produced a record low year-to-date efficiency ratio of 66.04% in 2021.

### Asset Quality

- Nonperforming assets remained relatively flat during the 2nd quarter. On June 30, the ratio of nonperforming assets to total assets remained the same as the end of the first quarter, 0.08%. That is the lowest ratio of nonperforming assets since the first quarter of 2007.
- During the second quarter, loan recoveries totaling approximately \$277 thousand increased the loan loss allowance to \$7.2 million. The ratio of the allowance for loan losses to gross loans excluding government guaranteed loans increased from 2.36% to 2.40%.
- 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 \$61.4 million in loan balances. At the end of the second quarter, more than 98% of those loans deferred were current or were making payments.

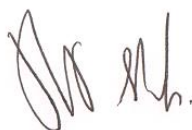
In June Paragon introduced enhancements to the Paragon Bank Mobile Banking app. These enhancements put you in control of your Debit Card Alerts and other advanced card controls. With Advanced Card Controls, you can now:

- Get alerts when your card is used
- Turn your card on and turn it off if it lost, stolen, or being misused
- Set dollar limits to keep spending in check
- Prevent transactions that don't match your settings

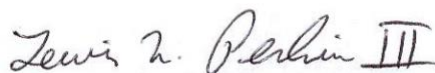
To learn more about Debit Card Alerts, please visit <https://bankparagon.com/cardalerts> or contact a Paragon Team Member.

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

Respectfully,



Robert S. Shaw, Jr.  
Chief Executive Officer



Lewis W. Perkins, III  
Chief Financial Officer

**Paragon Financial Solutions, Inc.**  
**Consolidated Statements of Financial Condition**

	<b>June 30, 2021</b> <b>(unaudited)</b>	<b>December 31,</b> <b>2020</b>
<b>ASSETS</b>		
Cash, cash equivalents & fed funds sold	\$ 24,844,402	\$ 20,634,547
Securities, available for sale	55,131,347	60,172,034
Loans, net	384,515,747	387,400,082
Restricted equity securities, at cost	1,396,800	1,396,800
Fixed assets	4,656,618	5,126,825
Other real estate owned	153,000	153,000
Other assets	8,442,563	9,217,899
<b>Total assets</b>	<b>\$ 479,140,477</b>	<b>\$ 484,101,187</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Non-interest-bearing demand deposits	\$ 120,394,394	\$ 120,892,045
Interest-bearing deposits		
Interest-bearing checking	137,377,004	120,695,552
Savings and money market demand	110,099,279	115,082,745
Certificates of deposit	52,116,460	67,768,717
<b>Total deposits</b>	<b>419,987,137</b>	<b>424,439,059</b>
Repurchase agreements	3,192,440	3,205,766
Accrued interest and other liabilities	6,415,964	7,124,231
<b>Total liabilities</b>	<b>429,595,541</b>	<b>434,769,056</b>
<b>Total shareholders' equity</b>	<b>49,544,936</b>	<b>49,332,131</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 479,140,477</b>	<b>\$ 484,101,187</b>
<b>Tangible Book Value Per Share</b>	<b>\$ 11.40</b>	<b>\$ 11.09</b>

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

	Three Months Ended June 30,			
	2021	2020	\$ Change	% Change
<b>Interest and dividend income:</b>				
Loans, including fees	\$ 4,056,754	\$ 3,966,899	\$ 89,855	2.27%
Securities, available for sale	221,498	311,250	(89,752)	-28.84%
Federal funds sold and other	3,309	2,209	1,100	49.80%
<b>Total interest income</b>	<u>4,281,561</u>	<u>4,280,358</u>	<u>1,203</u>	<u>0.03%</u>
<b>Interest expense:</b>				
Deposits	201,019	521,780	(320,761)	-61.47%
Securities sold under agreements to repurchase	1,324	2,901	(1,577)	-54.36%
Federal funds purchased and other borrowings	100	24,351	(24,251)	-99.59%
<b>Total interest expense</b>	<u>202,443</u>	<u>549,032</u>	<u>(346,589)</u>	<u>-63.13%</u>
<b>Net interest income</b>	4,079,118	3,731,326	347,792	9.32%
<b>Provision for loan losses</b>	<u>-</u>	<u>452,000</u>	<u>(452,000)</u>	<u>-100.00%</u>
<b>Net interest income after provision for loan losses</b>	4,079,118	3,279,326	799,792	24.39%
<b>Non-interest income</b>	1,152,967	997,796	155,171	15.55%
<b>Non-interest expense</b>				
Salaries and employee benefits	2,402,334	1,844,756	557,578	30.23%
Occupancy and equipment expense	479,610	456,943	22,667	4.96%
Other expenses	800,795	824,312	(23,517)	-2.85%
<b>Total operating expenses</b>	<u>3,682,739</u>	<u>3,126,011</u>	<u>556,728</u>	<u>17.81%</u>
<b>Income (loss) before income taxes</b>	1,549,346	1,151,111	398,235	34.60%
<b>Income tax expense (benefit)</b>	<u>381,826</u>	<u>292,118</u>	<u>89,708</u>	<u>30.71%</u>
<b>Net income (loss)</b>	<u>\$ 1,167,520</u>	<u>\$ 858,993</u>	<u>\$ 308,527</u>	<u>35.92%</u>
<b>Basic earnings per share</b>	<b>\$ 0.27</b>	<b>\$ 0.19</b>	<b>\$ 0.08</b>	

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

	<b>Six Months Ended June 30,</b>			
	<b>2021</b>	<b>2020</b>	<b>\$ Change</b>	<b>% Change</b>
<b>Interest and dividend income:</b>				
Loans, including fees	\$ 8,621,092	\$ 7,681,778	\$ 939,314	12.23%
Securities, available for sale	449,270	648,231	(198,961)	-30.69%
Federal funds sold and other	6,798	40,955	(34,157)	-83.40%
<b>Total interest income</b>	<b>9,077,160</b>	<b>8,370,964</b>	<b>706,196</b>	<b>8.44%</b>
<b>Interest expense:</b>				
Deposits	446,447	1,259,058	(812,611)	-64.54%
Securities sold under agreements to repurchase	2,497	8,603	(6,106)	-70.98%
Federal funds purchased and other borrowings	100	60,588	(60,488)	-99.83%
<b>Total interest expense</b>	<b>449,044</b>	<b>1,328,249</b>	<b>(879,205)</b>	<b>-66.19%</b>
<b>Net interest income</b>	<b>8,628,116</b>	<b>7,042,715</b>	<b>1,585,401</b>	<b>22.51%</b>
<b>Provision for loan losses</b>	<b>973,000</b>	<b>532,000</b>	<b>441,000</b>	<b>82.89%</b>
<b>Net interest income after provision for loan losses</b>	<b>7,655,116</b>	<b>6,510,715</b>	<b>1,144,401</b>	<b>17.58%</b>
<b>Non-interest income</b>	<b>2,203,400</b>	<b>2,130,558</b>	<b>72,842</b>	<b>3.42%</b>
<b>Non-interest expense</b>				
Salaries and employee benefits	4,607,113	3,988,739	618,374	15.50%
Occupancy and equipment expense	953,813	912,480	41,333	4.53%
Other expense	1,577,568	1,646,430	(68,862)	-4.18%
<b>Total operating expenses</b>	<b>7,138,494</b>	<b>6,547,649</b>	<b>590,845</b>	<b>9.02%</b>
<b>Income (loss) before income taxes</b>	<b>2,720,022</b>	<b>2,093,624</b>	<b>626,398</b>	<b>29.92%</b>
<b>Income tax expense (benefit)</b>	<b>672,198</b>	<b>532,123</b>	<b>140,075</b>	<b>26.32%</b>
<b>Net income (loss)</b>	<b>\$ 2,047,824</b>	<b>\$ 1,561,501</b>	<b>\$ 486,323</b>	<b>31.14%</b>
<b>Basic earnings per share</b>	<b>\$ 0.47</b>	<b>\$ 0.34</b>	<b>\$ 0.13</b>	