



# Paragon Bank

November 5, 2021

Dear Fellow Shareholder:

Paragon's net income for the third quarter of 2021 was \$1.2 million, which was 55.6% higher than the third quarter of 2020. For the first nine months of 2021, net income was \$3.3 million, which was 39.3% higher than the first nine months of 2020. Excluding the fourth quarter of 2013 when Paragon recognized the deferred tax asset, the third quarter was the most profitable quarter in Paragon's history. Pre-tax income for the first three quarters of 2021 of \$4.3 million exceeded pre-tax income for any previous full year in Paragon's history. Return on equity for the third quarter was 9.63%, while return on assets was .98%.

Other highlights of the third quarter and first nine months of 2021 included:

## Balance Sheet

- During the first three quarters of 2021, net loans decreased \$10.5 million, from \$387.4 million to \$376.9 million. Loans decreased because \$45.4 million in PPP (Paycheck Protection Program) loans were forgiven and paid off during this time. Regular, non-PPP loans increased \$36.4 million, which was an annualized growth rate of 15.1%.
- After a decrease in deposit balances during the second quarter, due primarily to customers paying income taxes, deposits increased \$18.6 million during the third quarter of this year. In the current low-rate environment, customers have moved deposits out of fixed-rate certificates of deposit into demand deposit accounts and interest-bearing checking deposit accounts until rates begin to rise again.
- Increases in deposit balances and pay offs of PPP loans have generated a lot of liquidity for Paragon. This liquidity has caused cash to increase from \$20.6 million to \$34.7 million. In addition, some of the liquidity was invested in securities, which increased from \$60.2 million to \$71.0 million. To help avoid large swings in the value of Investment securities, new purchases have been primarily in instruments with short-term expected lives.
- During the third quarter of 2021, an additional 88,500 shares of Paragon Financial Solutions stock were repurchased in accordance with a stock repurchase plan authorized by our Board of Directors in January of this year. Since its inception, 242,194 shares have been repurchased at an average price of \$10.40.
- At September 30, 2021, Paragon's book value was \$11.61, an increase of \$.52 since December 31, 2020.

## Income Statement

- Total revenue was \$5.3 million for the third quarter and was \$16.1 million year-to-date. Those are the highest revenue numbers for the third quarter and year-to-date through three quarters in Paragon's history.
- Net interest margin for the third quarter increased to 3.56% compared to 3.54% during the second quarter of this year. Excluding the income from PPP loans, the net interest margin would have been 3.16% because of an increase of almost \$23 million in low-yielding cash balances caused by a surge in deposits.
- Aided by the recognition of PPP fees, net interest income of \$4.3 million was 26.4% greater than during the third quarter of 2020. Year-to-date net interest income of \$12.9 million was 19.4% higher than the first nine months of 2020. As of September 30, 2021, Paragon had \$980 thousand in net unrecognized PPP fees.

- Noninterest income during the third quarter was approximately \$1 million. That total was approximately \$132k less than the second quarter of 2021 and \$236 thousand less than the third quarter of 2020. The variances relate primarily to less gains from the sale of SBA loans. During the third quarter, two SBA loans totaling approximately \$1.7 million dollars were held in the loan portfolio instead of selling to third parties. In the current low interest-rate environment, it is more profitable long-term for Paragon to hold these higher-yielding loans.
- 2021 year-to-date noninterest expense has increased 6.6% over the first nine months of 2020. This increase was caused by an increase in salaries and benefits of 11.3%. Salaries and benefits increased in large part because of three items: 1) new loan officers were hired in Commercial Lending, Mortgage Lending, and the Small Business Capital Group; 2) during 2020 a large number of salaries were deferred as loan origination costs as part of the PPP origination process; and 3) incentive pay has been higher due to an increase in revenue-generating business that has been originated.
- Through three quarters of 2021, Paragon's efficiency ratio has improved to 67.11% compared to 72.72% during 2020.
- Earnings per share for the third quarter of 2021 was \$.28 compared to \$.17 during the third quarter of 2020. Year-to-date earnings per share has increased from \$.51 in 2020 to \$.74 in 2021.

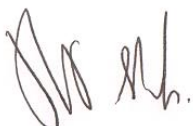
#### Asset Quality

- Nonperforming assets increased slightly during the 3<sup>rd</sup> quarter. The ratio of nonperforming assets increased from 0.08% to 0.10%. The increase was related to one loan that has paid off since quarter end.
- The ratio of the allowance for loan losses to gross loans has increased from 1.45% on December 31, 2020, to 1.87% on September 30, 2021. The ratio of the allowance for loan losses to gross loans, excluding government guaranteed loans, was 2.36% at the end of the third quarter. Paragon's allowance ratio is higher than our peer group. Also, since the pandemic began in 2020, Paragon has had net loan recoveries of approximately \$522.7 thousand.

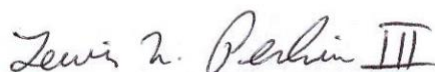
On September 21, 2021, Paragon hosted *Outlook 2021*, a free virtual event which reviewed the results of the Outlook Memphis Economic Study. This was the fourth year that Paragon has sponsored the survey. The report is designed as a tool to assist the business community by giving them insights into consumer sentiment in the Greater Memphis Area. The entire Outlook 2021 Memphis Economic Study can be downloaded at <https://bankparagon.com/outlook-2021/download>.

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**

	<b>September 30, 2021 (unaudited)</b>	<b>December 31, 2020</b>
<b>ASSETS</b>		
Cash, cash equivalents & fed funds sold	\$ 34,674,695	\$ 20,634,547
Securities, available for sale	70,965,055	60,172,034
Loans, net	376,921,954	387,400,082
Restricted equity securities, at cost	1,396,800	1,396,800
Fixed assets	4,448,087	5,126,825
Other real estate owned	153,000	153,000
Other assets	8,565,821	9,217,899
<b>Total assets</b>	<b>\$ 497,125,412</b>	<b>\$ 484,101,187</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Non-interest-bearing demand deposits	\$ 134,425,902	\$ 120,892,045
Interest-bearing deposits		
Interest-bearing checking	138,120,543	120,695,552
Savings and money market demand	115,615,258	115,082,745
Certificates of deposit	50,439,755	67,768,717
<b>Total deposits</b>	<b>438,601,458</b>	<b>424,439,059</b>
Repurchase agreements	2,615,670	3,205,766
Accrued interest and other liabilities	6,053,365	7,124,231
<b>Total liabilities</b>	<b>447,270,493</b>	<b>434,769,056</b>
<b>Total shareholders' equity</b>	<b>49,854,919</b>	<b>49,332,131</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 497,125,412</b>	<b>\$ 484,101,187</b>
<b>Tangible Book Value Per Share</b>	<b>\$ 11.61</b>	<b>\$ 11.09</b>

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

	<b>Three Months Ended September 30,</b>			
	<b>2021</b>	<b>2020</b>	<b>\$ Change</b>	<b>% Change</b>
<b>Interest and dividend income:</b>				
Loans, including fees	\$ 4,248,100	\$ 3,916,020	\$ 332,080	8.48%
Securities, available for sale	225,195	248,319	(23,124)	-9.31%
Federal funds sold and other	13,072	1,689	11,383	673.95%
<b>Total interest income</b>	<b>4,486,367</b>	<b>4,166,028</b>	<b>320,339</b>	<b>7.69%</b>
<b>Interest expense:</b>				
Deposits	204,715	371,004	(166,289)	-44.82%
Securities sold under agreements to repurchase	1,061	3,100	(2,039)	-65.77%
Federal funds purchased and other borrowings	1	19,673	(19,672)	-99.99%
<b>Total interest expense</b>	<b>205,777</b>	<b>393,777</b>	<b>(188,000)</b>	<b>-47.74%</b>
<b>Net interest income</b>	<b>4,280,590</b>	<b>3,772,251</b>	<b>508,339</b>	<b>13.48%</b>
<b>Provision for loan losses</b>	<b>-</b>	<b>388,000</b>	<b>(388,000)</b>	<b>-100.00%</b>
<b>Net interest income after provision for loan losses</b>	<b>4,280,590</b>	<b>3,384,251</b>	<b>896,339</b>	<b>26.49%</b>
<b>Non-interest income</b>	<b>1,021,153</b>	<b>1,256,750</b>	<b>(235,597)</b>	<b>-18.75%</b>
<b>Non-interest expense</b>				
Salaries and employee benefits	2,391,901	2,299,479	92,422	4.02%
Occupancy and equipment expense	465,579	476,817	(11,238)	-2.36%
Other expenses	821,946	826,316	(4,370)	-0.53%
<b>Total operating expenses</b>	<b>3,679,426</b>	<b>3,602,612</b>	<b>76,814</b>	<b>2.13%</b>
<b>Income (loss) before income taxes</b>	<b>1,622,317</b>	<b>1,038,389</b>	<b>583,928</b>	<b>56.23%</b>
<b>Income tax expense (benefit)</b>	<b>409,413</b>	<b>259,055</b>	<b>150,358</b>	<b>58.04%</b>
<b>Net income (loss)</b>	<b>\$ 1,212,904</b>	<b>\$ 779,334</b>	<b>\$ 433,570</b>	<b>55.63%</b>
<b>Basic earnings per share</b>	<b>\$ 0.28</b>	<b>\$ 0.17</b>	<b>\$ 0.11</b>	

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

	Nine Months Ended September 30,			
	2021	2020	\$ Change	% Change
<b>Interest and dividend income:</b>				
Loans, including fees	\$ 12,869,192	\$ 11,597,798	\$ 1,271,394	10.96%
Securities, available for sale	674,465	896,550	(222,085)	-24.77%
Federal funds sold and other	19,870	42,644	(22,774)	-53.40%
<b>Total interest income</b>	<b>13,563,527</b>	<b>12,536,992</b>	<b>1,026,535</b>	<b>8.19%</b>
<b>Interest expense:</b>				
Deposits	651,162	1,630,062	(978,900)	-60.05%
Securities sold under agreements to repurchase	3,558	11,703	(8,145)	-69.60%
Federal funds purchased and other borrowings	101	80,261	(80,160)	-99.87%
<b>Total interest expense</b>	<b>654,821</b>	<b>1,722,026</b>	<b>(1,067,205)</b>	<b>-61.97%</b>
<b>Net interest income</b>	<b>12,908,706</b>	<b>10,814,966</b>	<b>2,093,740</b>	<b>19.36%</b>
<b>Provision for loan losses</b>	<b>973,000</b>	<b>920,000</b>	<b>53,000</b>	<b>5.76%</b>
<b>Net interest income after provision for loan losses</b>	<b>11,935,706</b>	<b>9,894,966</b>	<b>2,040,740</b>	<b>20.62%</b>
<b>Non-interest income</b>	<b>3,224,553</b>	<b>3,387,308</b>	<b>(162,755)</b>	<b>-4.80%</b>
<b>Non-interest expense</b>				
Salaries and employee benefits	6,999,014	6,288,218	710,796	11.30%
Occupancy and equipment expense	1,419,392	1,389,297	30,095	2.17%
Other expense	2,399,514	2,472,746	(73,232)	-2.96%
<b>Total operating expenses</b>	<b>10,817,920</b>	<b>10,150,261</b>	<b>667,659</b>	<b>6.58%</b>
<b>Income (loss) before income taxes</b>	<b>4,342,339</b>	<b>3,132,013</b>	<b>1,210,326</b>	<b>38.64%</b>
<b>Income tax expense (benefit)</b>	<b>1,081,611</b>	<b>791,178</b>	<b>290,433</b>	<b>36.71%</b>
<b>Net income (loss)</b>	<b>\$ 3,260,728</b>	<b>\$ 2,340,835</b>	<b>\$ 919,893</b>	<b>39.30%</b>
<b>Basic earnings per share</b>	<b>\$ 0.74</b>	<b>\$ 0.51</b>	<b>\$ 0.23</b>	