

May 4, 2022

Dear Fellow Shareholder:

Paragon's financial results for the first quarter of 2022 reflect a reduction in Paycheck Protection Program (PPP) income of approximately 90% as that program winds down with the forgiveness of those loans. At the same time, the results show the beginning of growth we are experiencing because of strategic hiring during 2021 and the first quarter of 2022. Many of the new Paragon team members were impacted by bank mergers in their markets.

Paragon's net income for the first quarter of 2022 was \$546 thousand compared to \$880 thousand during the first quarter of 2021. Excluding the impact of PPP and strategic new hires, pretax income would have increased approximately \$290 thousand, or 46%. This increase in income was due to higher loan volumes and improvements in interest rates.

Other highlights of the first quarter of 2022 included:

#### **Balance Sheet**

- During the first quarter of 2022, gross loans increased from \$393.8 million to \$423.1 million. PPP loans decreased \$3.9 million while purchased loans decreased \$2.0 million. Loans in Paragon's four markets increased \$35.3 million, or 40.2%, on an annualized basis. The largest increases were in Memphis (\$16.6 million) and in Wilmington (\$15.2 million).
- The balance of Cash, Cash Equivalents, & Fed Funds Sold decreased from \$70.9 million at the end of 2021 to \$32.8 million on March 31, 2022, as these funds were deployed in loans. These funds are now in higher yielding assets, which should increase Paragon's interest income and net interest margin.
- Compared to the large increases during 2020 and 2021, Paragon's deposits increased only slightly during the first quarter of 2022. Total deposits increased \$4.6 million, or approximately 3.9% on an annualized basis.
- In January of 2021, Paragon's Board of Directors authorized a three-year \$5 million stock repurchase plan. The Board of Directors believes that Paragon's stock is an attractive investment at current valuations and offers an excellent means to build long-term value for shareholders. During the first quarter of 2022, one small repurchase was executed before the stock price rose above book value.
- On March 31, 2022, Paragon's book value was \$11.04, a decrease of \$.59 since December 31, 2021. While first-quarter earnings increased book value, that increase was offset by the increase in the unrealized loss on the investment securities. During the first quarter of 2022, the bond market experienced the worst bond rout in forty years. Bank portfolios changed from unrealized gains to unrealized losses averaging 5.4%. The good news is that Paragon does not have to recognize the losses in earnings. Since Paragon's portfolio has relatively short-term maturities, the losses should decline over the short term.

## Income Statement

- While PPP revenue was down \$1.1 million during the first quarter of 2022 compared to the first quarter of 2021, non-PPP revenue was a record for the first quarter of 2022. Non-PPP revenue of \$4.9 million was 13% higher than the first quarter of 2021 and 9% higher than the fourth quarter of 2021.
- Net interest margin for the first quarter decreased to 3.26% compared to 3.50% during the fourth quarter of 2021. Excluding the income from PPP loans, the net interest margin would have been 3.18% compared to 3.05% during the fourth quarter as cash continued to be converted to loans and securities.
- Noninterest income decreased \$238 thousand, or 22.6%, during the first quarter compared to the first quarter of 2021. The major reason for the decrease was a reduction in mortgage banking income. After record setting years in 2020 and 2021, mortgage banking income slowed down because of rising interest rates.
- Led by an increase in Salaries and Employee Benefits of \$781 thousand, first quarter noninterest expense increased 24% over the first quarter of 2021. Paragon has been able to hire seven new producers since the beginning of 2021, including our team in Wilmington, NC. Those new producers and a reduction in loan origination costs have caused the major increase in Salaries and Employee Benefits. We believe this investment in human capital will be of immense value to our bank and its shareholders.

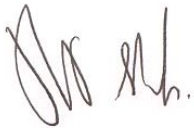
## Asset Quality

- The ratio of nonperforming assets (NPA's) to total assets increased from .10% on December 31, 2021, to .25% on March 31, 2022. Two past due loans caused the increase in NPA's during the first quarter. The larger of the two loans has been resolved. This ratio is still below industry averages and is an indication of good asset quality.
- The ratio of the allowance for loan losses to gross loans decreased from 1.80% on December 31, 2021, to 1.68% on March 31, 2022. Excluding government guaranteed loans, the ratio was 2.26% on December 31, 2021, compared to 2.04% on March 31, 2022. These ratios continue to be higher than Paragon's peer group.

To learn more about Paragon's first quarter financial results and the results from 2021, please join us for our Annual Meeting of Shareholders on Thursday, May 19, 2022, at 3:00 p.m., CDT. The meeting will be held at our main office located at 5400 Poplar Avenue, Memphis, Tennessee 38119. We will also livestream the meeting so that those of you who are not able to attend in person can attend virtually. To access the livestream of the annual meeting, please contact Lewis W. Perkins III at [Lewis.Perkins@bankparagon.com](mailto:Lewis.Perkins@bankparagon.com). Several days prior to the meeting, a link will be emailed to those participants who contacted Mr. Perkins desiring to access the livestream.

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