

November 4, 2022



Dear Fellow Shareholder:

The third quarter of 2022 was the most profitable in Paragon's history as a result of increased loan volumes and an improved net interest margin. Net income for the third quarter of \$1.3 million was 46% higher than the second quarter of 2022 and 3% higher than the third quarter of 2021. Excluding Paycheck Protection Program (PPP) income recognized, net income for the third quarter of 2022 was 97% higher than the third quarter of 2021. Return on equity for the third quarter was 10.22% while return on assets for the same period was .86%.

Through the first three quarters of 2022, Paragon's net income was \$2.7 million compared to \$3.3 million during the first three quarters of 2021. During the first three quarters of 2021, Paragon recognized \$2.1 million in PPP income compared to \$300 thousand during 2022. Excluding PPP income, 2022 net income was 42% higher in 2022 compared to 2021.

Other highlights of the third quarter of 2022 and the first nine months of 2022 included:

Balance Sheet

- Driven by strong loan growth, total assets surpassed \$600 million at the end of the third quarter for the first time in Paragon's history. Total assets have increased \$62 million or 15% on an annualized basis during the first three quarters of 2022.
- Gross loan balances have increased approximately \$115 million, or 39%, on an annualized basis during 2022. All four of Paragon's markets have experienced double-digit growth, with Wilmington, NC, leading the increases with more than \$70 million in loan growth during 2022.
- Cash, cash equivalents, and fed funds sold have decreased from \$70.9 million at December 31, 2021, to \$8.2 million at September 30, 2022. In anticipation of loan growth, Paragon held extra cash and short-term investments instead of investing in longer-term securities. That cash has now been deployed into loans.
- Accounting standards require banks to adjust the value of their investment portfolios to fair market value. The offsetting adjustment for the change is made to shareholders' equity. The current rapidly rising interest rate environment has caused banks to experience record unrealized losses on their investment portfolios. Like most other banks, Paragon has a large unrealized loss on our investment portfolio. This \$5.8 million loss has decreased book value by \$1.40 per share during 2022 despite net income for the year of \$2.7 million. Paragon does not expect to realize these losses in income because the losses will be recovered as interest rates drop or as the investments mature.
- During the first nine months of 2022, core deposits decreased \$15.6 million or 3%. This decrease was primarily because temporary deposits were withdrawn and invested in the market.
- Short-term borrowings have increased to \$42 million during 2022. The primary reason for these borrowings is to fund Paragon's loan growth.

Income Statement

- Total revenue was a record for the second consecutive quarter. It grew from \$5.7 million in the second quarter to \$6.3 million in the third quarter, a 12% increase. The increase was due to an increase in net interest income caused by large loan growth and increases in loan interest due to increased interest rates on floating rate loans.

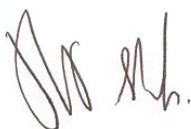
- The net interest margin for the third quarter of 2022 was 4.01% compared to 3.69% in the second quarter. The improvement was due to increases in the prime rate, decreased excess cash, and increased loan volume.
- Noninterest income for the first nine months of 2022 was \$2.1 million compared to \$3.2 million during the first nine months of 2021. This decrease of \$1.1 million was primarily related to decreases in revenue from Paragon's Small Business Administration (SBA) business and from mortgage banking. Paragon is holding more SBA loans to recognize the higher yields on the loans over time instead of selling them for a one-time fee. Had we sold these loans, they would have generated approximately \$750 thousand. We expect income from these loans to exceed that amount over the next two years. Mortgage banking income has decreased because the increase in interest rates has slowed mortgage activity. Mortgage rates are currently at a twenty-year high.
- Noninterest expense has increased \$2.6 million, or 24%, during 2022. However, excluding PPP loan deferral expense in 2021 and Wilmington, NC, startup activity, the increase was \$1.2 million, or 11%. This remaining increase in noninterest expense relates to new income-producing team members and their support personnel in the Memphis market.

Asset Quality

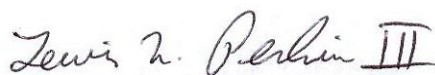
- Paragon's asset quality remains very good. The ratio of nonperforming assets to total assets decreased slightly from .12% on June 30, 2022, to .11% on September 30, 2022.
- The ratio of the allowance for loan losses to gross loans decreased from 1.46% on June 30, 2022, to 1.36% on September 30, 2022. Excluding government guaranteed loans, the ratio was 1.60% on September 30, 2022, compared to 1.74% on June 30, 2022. These decreases were the result of Paragon's loan growth.

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