



May 2, 2023

Dear Fellow Shareholder:

As a result of strong loan growth and a solid net interest margin, Paragon had record profits for the third consecutive quarter. Net income for the first quarter of 2023 was \$1.5 million, an increase of 17% over the fourth quarter of 2022 and an increase of 176% over the first quarter of 2022. For the first quarter of 2023, return on equity was 12.33%, while return on assets was .93%.

Other highlights of the first quarter of 2023 included:

Balance Sheet

- Gross loans increased approximately \$17 million, or 12%, on an annualized basis.
- Because of a decrease in demand for office space as more people work remotely, there is a concern that banks with loans on office buildings could have credit problems. At the end of the first quarter, Paragon had 14 loans on office buildings with total balances of \$13.9 million. Office building loans are less than 3% of Paragon's total loan portfolio. The office building loans in Paragon's portfolio have good loans-to-values and strong guarantors. Paragon does not expect problems with these loans even with a decrease in demand for commercial office space.
- Paragon's investment portfolio totaled \$69.4 million at the end of the first quarter. While a key component of Paragon's balance sheet, the portfolio comprises only 10.4% of total assets. The entire portfolio is classified at Available for Sale, which means unrealized gains and losses on the portfolio are recorded in equity each period. The average life of the portfolio is 4.6 years. The unrealized loss on the portfolio, net of income taxes, decreased \$750 thousand, to \$4.3 million, during the first quarter, which is approximately 8% of capital.
- The need for Paragon to sell investment securities and recognize a loss is low because Paragon has numerous sources of liquidity. These sources are tested frequently to ensure that they are available. On March 31, 2023, Paragon had \$240.3 million in liquidity sources excluding Paragon's investment securities.
- During the quarter, core deposits increased \$17 million, or 15%, on an annualized basis. At the same time, Paragon's ratio of insured deposits increased from 79% to 80%. As a result of Paragon's core deposit growth during the first quarter, brokered deposits and short-term borrowings decreased \$32 million.

Income Statement

- Total revenue for the first quarter of 2023 was a record for the fourth consecutive quarter. Total revenue grew from \$5 million in the 1st quarter of 2022 to \$6.9 million during the 1st quarter of 2023. Total revenue for the first quarter of 2023 is 37% higher than the first quarter of 2022. This increase was due to the strong loan growth for the quarter and the related increasing loan rates.
- Net interest margin decreased to 3.92% for the first quarter of 2023 compared to 4.10% for the fourth quarter of 2022. The fourth quarter of 2022 was .10% higher because additional income was recognized on state tax credits during the quarter. The remaining reduction was due to rising rates on deposits.

- Noninterest income was approximately the same during the first quarters of 2022 and 2023. Reductions in mortgage banking income and in Paragon’s Small Business Administration (SBA) business were offset by an increase in Business Manager income and a gain on the sale of foreclosed property.
- Noninterest expense increased 13.63%, or \$584 thousand, over the first quarter of 2022. A large portion of the increases were related to strategic initiatives that increased revenue 37% over the first quarter of 2022. In addition, regulatory assessments increased \$140 thousand due to Paragon’s growth.


Asset Quality

- The ratio of nonperforming assets to total assets increased slightly from .11% to .15%, but asset quality remains very good.
- New accounting standards required banks Paragon’s size to adopt a new method of calculating the allowance for loan losses as of January 1, 2023. The new method, Current Expected Credit Loss (CECL) is forward-looking as opposed to the previous backward-looking method. Upon adoption the adjustment does not flow through the income statement but is an increase in the allowance and a decrease in shareholders’ equity. The adjustment increased the ratio of the allowance for loan losses from 1.25% on December 31, 2022, to 1.47% on March 31, 2023. Excluding government guaranteed loans, the ratio increased from 1.45% to 1.70%. The CECL adjustment caused book value to decrease by \$0.25 per share during the first quarter, however, book value overall increased \$0.27 per share due to earnings and the decrease in the unrealized loss on investment securities.

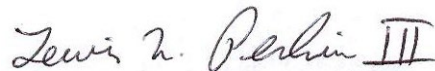
To learn more about Paragon’s first quarter financial results and the results from 2022, please join us for our Annual Meeting of Shareholders on Thursday, May 18, 2023, at 3:00 p.m., CDT. The meeting will be held at our main office located at 5400 Poplar Avenue, Memphis, Tennessee 38119. We will also 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. Several days prior to the meeting, a link will be emailed to those participants who have 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