



August 7, 2023

Dear Fellow Shareholder:

We are pleased to report that net income for the second quarter of 2023 was \$1,018,369, an 18% increase over the second quarter of 2022. Year-to-date income through June 30, 2023, was \$2,521,968, a 79% increase over the first six months of 2022. Year-to-date return on equity was 10.15%, while year-to-date return on assets was .78%.

Other highlights of the second quarter and the first six months of 2023 included:

Balance Sheet

- During the second quarter, loans increased approximately \$30 million, or 21%, on an annualized basis. Loans grew in all four of Paragon's markets. For the first time in Paragon's history, total loans exceeded \$600 million. As a result of the loan growth, Paragon's total assets exceeded \$700 million for the first time in our history.
- Paragon's investment portfolio totaled \$66.3 million at the end of the second quarter, down from \$70.4 at the end of 2022. While an important component of Paragon's balance sheet, the portfolio comprises only 9.5% of total assets. The entire portfolio is classified as Available for Sale, which means unrealized gains and losses on the portfolio are recorded in equity each period.
- While we have seen a shift from demand deposits to our money market accounts, sweep products, and certificates of deposit, total deposits have increased \$35.7 million in the first half of 2023, or approximately 13% on an annualized basis. Additionally, the percentage of fully insured deposits has increased from 79% to 83%.
- During the first half of 2023, core deposits have increased \$11.8 million, or approximately 5% annualized, while brokered deposits have increased \$23.9 million during 2023.
- On May 1, Paragon Financial Solutions closed on a \$10 million bank-stock loan. The loan is structured as a revolving line of credit that can be drawn on as needed to infuse capital into Paragon Bank. As of June 30, 2023, \$2.5 million has been borrowed.

Income Statement

- Total revenue for the second quarter of 2023 was \$6.6 million, a record for any second quarter in Paragon's history. Total revenue for the second quarter was 17% higher than the second quarter of 2022 due to increased loan volumes.
- During the second quarter of 2023, like many banks, the cost of Paragon's deposits increased faster than the rates on loans and investments. As a result, Paragon's net interest margin decreased from 3.92% during the first quarter to 3.69% during the second quarter.
- Largely due to a slow-down in mortgage activity, noninterest has decreased approximately \$55 thousand compared to the first six months of 2022.
- Paragon has expanded the teams and facilities in all four markets, reflected in an increase of approximately \$1.3 million in year-to-date expenses. However, these initiatives have increased revenue by \$2.8 million during the same six months of 2023 over 2022.

Asset Quality

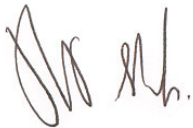
- The level of nonperforming assets decreased and the ratio of nonperforming assets to total assets decreased from .15% to .11%. Stress from rising interest rates is not causing a deterioration of asset quality at this time.
- Due to an increase in Paragon's loan volumes, the ratio of the allowance for loan losses decreased from 1.47% on March 31, 2023, to 1.40% on June 30, 2023. Excluding government guaranteed loans, the ratio decreased from 1.70% to 1.60%.

We are pleased to report that during the second quarter Paragon's Atlanta-based team members moved into our new banking center in the Buckhead area of Atlanta. The address is 293 Pharr Road NE. Once the construction is completed, we will schedule a grand opening.

Furthermore, please join us in Oxford, MS, on October 17, 2023, from 4 – 6 pm, for a ribbon cutting and grand opening of our new banking center there.

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