

February 9, 2024

Dear Fellow Shareholder:



Despite a very challenging operating environment, Paragon Financial Solutions had record core net income during 2023. Core net income improved to \$3.9 million during 2023 compared to \$3.7 million (excluding net income from the Paycheck Protection Program) during 2022. This record income was accomplished while investing in growth as we continue to build the bank.

Some exciting highlights of the investments in 2023 included:

- We rolled out a new website to showcase Paragon as a strong regional community bank.
- We established our new Capital Markets Group to run a government guaranteed loan pooling operation. This group will start small but has the potential to become a meaningful piece of our business as it grows.
- We relocated our Atlanta office to a new banking center in Buckhead and hired a traditional banking team to work alongside our Small Business Capital Group (government guaranteed lending). Doing this, we expect to leverage our team to grow our share of the Atlanta market.
- We implemented online personal account opening, touchless debit cards, Zelle®, and new interactive teller machines to enhance customer service and improve operating efficiency. These investments will enable us to keep pace with the industry while we maintain our community bank level of service.
- We completed the hiring of our Oxford team and opened a new state of the art banking center. With this move, we expect to accelerate our growth in the Oxford market.
- We hired additional experienced bankers to continue to grow Paragon Bank.

Other highlights of the fourth quarter of 2023 and of the year included:

#### Balance Sheet

- Gross loans increased to a record \$660.4 million on December 31, 2023, an increase of \$105 million, or 19%, for the year. During the fourth quarter of the year, loans increased \$32.6 million, or 20.8%, on an annualized basis. Loans increased in all four of Paragon's markets.
- As a result of Paragon's outstanding loan growth during 2023, total assets on December 31, 2023, were a record \$751.4 million.
- During the fourth quarter of 2023, core deposits grew \$21 million, or 17%, on an annualized basis. Core deposits grew \$50.1 million, or 11%, for the full year.
- Book value per share increased to \$12.08 on December 31, 2023. During 2023, the unrealized loss on Paragon's investment portfolio decreased from \$6.9 million to \$5.4 million. Book value at year-end, excluding the unrealized loss on the investment portfolio, would have been \$12.97.

#### Income Statement

- Due to Paragon's growth, total revenue was a record for the third consecutive year. Total revenue grew \$2.0 million, or 8.4%, during 2023.
- Many banks across the U.S. experienced margin compression during 2023 as increased rates on deposits and other interest-bearing liabilities have increased at a faster rate than rates on loans and investments. Paragon's net interest margin increased from 3.35% during the third quarter to 3.39% during the fourth quarter as the rate of increases on deposits has slowed from earlier in the year.



- There was very little change between fourth quarter noninterest income in 2023 and 2022. Full year noninterest income decreased \$556 thousand, or 20%. Decreases during the year included the write off of historic tax credit investments, plus reductions in mortgage income and SBA income. However, those decreases were partially offset by increases in service charge income, Business Manager fees, and gains on the sale of OREO (Other Real Estate Owned).
- Noninterest expenses have increased \$2.5 million, or 14%, during 2023. The increases in salaries and benefits are a result of hiring new producers and supporting team members as we have grown in the Memphis, Wilmington, Atlanta, and Oxford markets. The increase in occupancy is also related to new facilities in those markets. The increase in other expenses relates primarily to increases in regulatory assessments and data processing volumes because of Paragon's growth.

#### **Asset Quality**

- Paragon's asset quality remains very good. The ratio of nonperforming assets to total assets dropped from .13% on September 30, 2023, to .11% on December 31, 2023.
- Loan charge offs during 2023 of \$113 thousand were offset by loan recoveries of \$120 thousand.
- Due to outstanding loan growth, the ratio of the allowance for loan losses to gross loans decreased from 1.34% on September 30, 2023, to 1.26% on December 31, 2023. Excluding government guaranteed portions of loans, the ratio was 1.42% on December 31, 2023, compared to 1.52% on September 30, 2023.

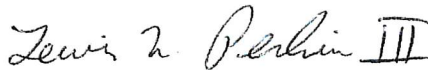
We are excited about the opportunities that exist for Paragon Bank as we enter 2024.

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