



August 1, 2024

Dear Fellow Shareholder:

We are pleased to report that many of our new initiatives are yielding positive results. Second quarter net income of \$1.2 million was 69% higher than the first quarter of 2024 and 14% higher than the second quarter of 2023. The improvement in net income was the result of higher loan and deposit volumes and an increase in Paragon's net interest margin.

Other highlights of the second quarter and the first six months of 2024 included:

Balance Sheet

- During the second quarter, total loans increased to \$685 million, a record for Paragon. Loans increased \$11 million, or approximately 7%, on an annualized basis.
- Driven by strong loan and deposit growth, total assets were \$774 million on June 30, a record for Paragon.
- Core deposits, which exclude brokered deposits, have increased \$58 million since the beginning of the year, which is an annualized growth rate of 23%. The growth in core deposits allowed us to decrease the amount of brokered deposits in the second quarter by \$63 million. Since June 30, some of these new deposit balances have been invested in the stock market.
- Book value increased from \$12.08 on December 31, 2023, to \$12.47 on June 30, 2024. This increase is a result of Paragon's earnings and a decrease in the unrealized loss on Paragon's investment securities.

Income Statement

- The yield on loans increased during the second quarter while the rate on deposits decreased. The result was an increase in the net interest margin from 3.41% during the first quarter to 3.87% during the second quarter.
- Total quarterly revenue of \$7.9 million was also a Paragon record.
- Driven by gains on the sale of government-guaranteed loans and mortgage loans, second quarter noninterest income increased \$236 thousand, or 38%, more than the second quarter of 2023. Gains on the sale of government-guaranteed loans and mortgage loans have also increased year-to-date noninterest income 21%, or \$305 thousand.
- Noninterest expenses increased 19% more than the second quarter of 2023 and for the first six months of 2024 they have increased 20%. These increases are largely a result of new team members and facilities in Atlanta, Oxford, Jackson, and Nashville and the associated growth in loans and deposits. Over time we expect these new team members and locations, along with team members in Wilmington and Memphis, to increase the size and efficiency of Paragon Bank.



Asset Quality

- Paragon's asset quality remains very good. The ratio of nonperforming assets to total assets remained the same at .15% on June 30, 2024.
- The ratio of the allowance for loan losses to gross loans decreased from 1.23% on March 31, 2024, to 1.21% on June 30, 2024. Excluding government guaranteed portions of loans, the ratio was 1.37% on June 30, 2024, compared to 1.39% on March 31, 2024.

During the second quarter our Capital Markets Team became fully operational and began purchasing the guaranteed portion of SBA loans from other banks and started forming a loan pool that will be sold into the secondary market. Paragon Bank is one of about a dozen institutions approved by the U.S. Small Business Administration as an SBA Pool Assembler in the 7(a) Loan Guarantee Program. We look forward to this division becoming a meaningful piece of Paragon Bank.

During the second quarter, we were pleased to add an experienced team in the Nashville, Tennessee, market. As you are probably aware, Nashville is experiencing a tremendous amount of growth. We acted on an excellent opportunity to be a part of that growth. Our new team, led by veteran banker and Nashville Market President Keith Fuller, will be in a temporary office while we look for a permanent location.

Finally, during the second quarter Paragon launched a new and improved online banking and mobile app called *Banno*. Now customers will be able to access their account balances, transactions, eStatements, Zelle® person-to-person payments, business cash management tools, and more with a fresh updated look.

Thank you for your ownership and for your continued confidence in Paragon.

Respectfully,

A handwritten signature in black ink, appearing to read "RS Shaw, Jr." with a stylized flourish at the end.

Robert S. Shaw, Jr.
President and CEO

A handwritten signature in black ink, appearing to read "Lewis W. Perkins III" with a stylized flourish at the end.

Lewis W. Perkins, III
Chief Financial Officer