



PARAGON  
FINANCIAL SOLUTIONS

November 4, 2024

Dear Fellow Shareholder:

We are pleased to report that our expansion plans continue to produce favorable results across several of our business units. Due to outstanding loan growth and improving net interest margins, net income for the third quarter of 2024 was \$1.2 million, up 32% over the third quarter of 2023 and up 3% over the second quarter of 2024. The return on assets was .65% while the return on equity was 9.09%.

### **Balance Sheet**

- Gross loans increased \$58.8 million, or 34%, on an annualized basis during the third quarter of 2024. This increase was a result of the strategic initiatives Paragon has been executing over recent years. There was an increase in loan volumes in all of Paragon's markets.
- Since December 31, 2023, total deposits have increased \$39.6 million, or 8%, on an annualized basis. Core deposits, which exclude brokered deposits, have increased \$55.2 million, or 14%, on an annualized basis.
- As a result of earnings and a decrease in the unrealized loss on the bank's investment securities, Paragon's tangible book value per share increased from \$12.08 on December 31, 2023, to \$12.98 on September 30, 2024. The unrealized loss on the investment securities, net of tax, has decreased \$1.2 million during the first nine months of this year.
- Short-term borrowings are overnight borrowings from the Federal Home Loan Bank. These borrowings are used to fund loan growth until deposits are raised. The balance on short-term borrowings on September 30, 2024, was \$27 million higher than on December 31, 2023, but these balances have been higher and lower during the year depending on the need for funding.

### **Income Statement**

- Total revenue for the third quarter of 2024 was a record \$7.9 million. Through the first three quarters of 2024, total revenue of \$22.5 million was also a Paragon record.
- The net interest margin for the third quarter of 2024 was 3.66%, down from 3.87% during the second quarter. The second quarter net interest margin was positively impacted by the level of temporary non-interest-bearing deposits. The net interest margin has increased during four of the last five quarters. The rapid increase in the cost of deposits has moderated while the rate on earning assets has continued to increase.
- During the third quarter, noninterest income increased 20% over the second quarter of 2024. Excluding the recognition of historical tax credit activity of \$494 thousand during the third quarter of 2023, noninterest income increased 55% over noninterest income during the third quarter of 2023. This increase was a result of healthy increases in Small Business Administration loan income, mortgage banking income, and fee income.

- Third quarter noninterest expense was 17% higher than third quarter 2023. Through the nine months of 2024 noninterest expense was 19% higher than the first nine months of 2023. These increases were the result of Paragon's investments in both new team members and banking centers. These investments are yielding exceptional growth that will lead to improved profitability.

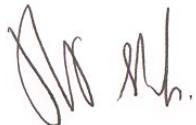
### **Asset Quality**

- The ratio of nonperforming assets to total assets increased from .15% on June 30, 2024, to .23% on September 30, 2024. This increase was primarily the result of downgrades to two relationships. The ratio remains under the healthy bank ratio of 1.0%.
- The ratio of the allowance for loan losses to gross loans was 1.11% on September 30, 2024. Excluding government-guaranteed loans, the ratio was 1.30%.

We are pleased to report that during the third quarter Paragon opened our Nashville area loan and deposit production office at 830 Crescent Centre Drive, Suite 460, in the Cool Springs area of Franklin, TN.

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

**Paragon Financial Solutions, Inc.**  
**Consolidated Statements of Financial Condition**

	<b>September 30, 2024 (unaudited)</b>	<b>December 31, 2023</b>
<b>ASSETS</b>		
Cash, cash equivalents & fed funds sold	\$ 10,713,270	\$ 12,198,290
Securities, available for sale	49,341,602	60,226,596
Loans, net	735,588,095	652,151,572
Restricted equity securities, at cost	2,266,600	1,829,900
Fixed assets	13,852,176	12,430,376
Other assets	12,686,989	12,627,643
<b>Total assets</b>	<b><u>\$ 824,448,732</u></b>	<b><u>\$ 751,464,377</u></b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Non-interest-bearing demand deposits	\$ 129,269,427	\$ 118,115,345
Interest-bearing deposits		
Interest-bearing checking	174,928,568	161,912,291
Savings and money market demand	176,454,818	161,827,778
Certificates of deposit	227,965,177	227,167,660
<b>Total deposits</b>	<b><u>708,617,990</u></b>	<b><u>669,023,074</u></b>
Repurchase agreements	2,270,340	2,369,122
Short-term borrowings	37,000,000	10,000,000
Revolving line of credit	6,070,000	6,070,000
Accrued interest and other liabilities	11,919,034	10,085,687
<b>Total liabilities</b>	<b><u>765,877,364</u></b>	<b><u>697,547,883</u></b>
<b>Total shareholders' equity</b>	<b><u>58,571,368</u></b>	<b><u>53,916,494</u></b>
<b>Total liabilities and shareholders' equity</b>	<b><u>\$ 824,448,732</u></b>	<b><u>\$ 751,464,377</u></b>
<b>Tangible Book Value Per Share</b>	<b>\$ 12.98</b>	<b>\$ 12.08</b>

**Paragon Financial Solutions, Inc.**

**Consolidated Statement of Operations (unaudited)**

	<b>Three Months Ended September 30,</b>			
	<b>2024</b>	<b>2023</b>	<b>\$ Change</b>	<b>% Change</b>
<b>Interest and dividend income:</b>				
Loans, including fees	\$ 12,584,449	\$ 9,816,733	\$ 2,767,716	28.19%
Securities, available for sale	314,906	321,131	(6,225)	-1.94%
Federal funds sold and other	47,048	57,654	(10,606)	-18.40%
<b>Total interest income</b>	<b>12,946,403</b>	<b>10,195,518</b>	<b>2,750,885</b>	<b>26.98%</b>
<b>Interest expense:</b>				
Deposits	5,504,420	4,126,995	1,377,425	33.38%
Securities sold under agreements to repurchase	18,616	20,444	(1,828)	-8.94%
Federal funds purchased and other borrowings	548,559	385,070	163,489	42.46%
<b>Total interest expense</b>	<b>6,071,595</b>	<b>4,532,509</b>	<b>1,539,086</b>	<b>33.96%</b>
<b>Net interest income</b>	<b>6,874,808</b>	<b>5,663,009</b>	<b>1,211,799</b>	<b>21.40%</b>
<b>Provision for loan losses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.00%</b>
<b>Net interest income after provision for loan losses</b>	<b>6,874,808</b>	<b>5,663,009</b>	<b>1,211,799</b>	<b>21.40%</b>
<b>Non-interest income</b>	<b>1,028,556</b>	<b>169,482</b>	<b>859,074</b>	<b>506.88%</b>
<b>Non-interest expense</b>				
Salaries and employee benefits	4,037,377	3,442,935	594,442	17.27%
Occupancy and equipment expense	894,741	676,195	218,546	32.32%
Other expenses	1,337,214	1,252,389	84,825	6.77%
<b>Total operating expenses</b>	<b>6,269,332</b>	<b>5,371,519</b>	<b>897,813</b>	<b>16.71%</b>
<b>Income (loss) before income taxes</b>	<b>1,634,032</b>	<b>460,972</b>	<b>1,173,060</b>	<b>254.48%</b>
<b>Income tax expense (benefit)</b>	<b>443,068</b>	<b>(442,673)</b>	<b>885,741</b>	<b>200.09%</b>
<b>Net income (loss)</b>	<b>\$ 1,190,964</b>	<b>\$ 903,645</b>	<b>\$ 287,319</b>	<b>31.80%</b>
<b>Basic earnings per share</b>	<b>\$ 0.26</b>	<b>\$ 0.20</b>	<b>\$ 0.06</b>	

**Paragon Financial Solutions, Inc.**

**Consolidated Statement of Operations (unaudited)**

	<b>Nine Months Ended September 30,</b>			
	<b>2024</b>	<b>2023</b>	<b>\$ Change</b>	<b>% Change</b>
<b>Interest and dividend income:</b>				
Loans, including fees	\$ 35,536,987	\$ 26,970,537	\$ 8,566,450	31.76%
Securities, available for sale	987,205	1,112,476	(125,271)	-11.26%
Federal funds sold and other	199,200	158,069	41,131	26.02%
<b>Total interest income</b>	<b>36,723,392</b>	<b>28,241,082</b>	<b>8,482,310</b>	<b>30.04%</b>
<b>Interest expense:</b>				
Deposits	15,620,989	9,763,379	5,857,610	60.00%
Securities sold under agreements to repurchase	62,828	67,972	(5,144)	-7.57%
Federal funds purchased and other borrowings	1,254,871	704,145	550,726	78.21%
<b>Total interest expense</b>	<b>16,938,688</b>	<b>10,535,496</b>	<b>6,403,192</b>	<b>60.78%</b>
<b>Net interest income</b>	<b>19,784,704</b>	<b>17,705,586</b>	<b>2,079,118</b>	<b>11.74%</b>
<b>Provision for loan losses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.00%</b>
<b>Net interest income after provision for loan losses</b>	<b>19,784,704</b>	<b>17,705,586</b>	<b>2,079,118</b>	<b>11.74%</b>
<b>Non-interest income</b>	<b>2,762,315</b>	<b>1,598,593</b>	<b>1,163,722</b>	<b>72.80%</b>
<b>Non-interest expense</b>				
Salaries and employee benefits	11,914,634	10,053,482	1,861,152	18.51%
Occupancy and equipment expense	2,516,928	1,877,847	639,081	34.03%
Other expense	3,939,657	3,505,336	434,321	12.39%
<b>Total operating expenses</b>	<b>18,371,219</b>	<b>15,436,665</b>	<b>2,934,554</b>	<b>19.01%</b>
<b>Income (loss) before income taxes</b>	<b>4,175,800</b>	<b>3,867,514</b>	<b>308,286</b>	<b>7.97%</b>
<b>Income tax expense (benefit)</b>	<b>1,142,384</b>	<b>441,901</b>	<b>700,483</b>	<b>158.52%</b>
<b>Net income (loss)</b>	<b>\$ 3,033,416</b>	<b>\$ 3,425,613</b>	<b>\$ (392,197)</b>	<b>-11.45%</b>
<b>Basic earnings per share</b>	<b>\$ 0.67</b>	<b>\$ 0.77</b>	<b>\$ (0.10)</b>	