



the Shield

of excellence

Paragon
NATIONAL BANK

Letter from Management

Dear Customers, Shareholders, and Other Friends,

While 2008 was an interesting and challenging year for all of us in the banking industry, Paragon National Bank entered 2009 both encouraged and cautiously optimistic. Let's start with a look back at 2008.

Because of the subprime meltdown and the subsequent build up of housing inventory, several of our large loans to local builders deteriorated during the fall of 2007. As 2008 began, the housing market was expected to improve during the annual spring selling season. The selling season came, and the anticipated pickup did not occur. As a result, in the second quarter of 2008 we aggressively reserved for additional deterioration in our residential construction loan portfolio. During the remainder of 2008, Paragon continued to identify loan problems as quickly as possible, establish appropriate reserves, and implement workout plans to achieve the best possible result.

We have a cooperative relationship with our regulator, the Comptroller of the Currency (OCC). In September we successfully negotiated a Formal Agreement with the OCC. This agreement formalized many of the actions we already had in place including:

- Continuing our program for maintenance of an adequate loan loss allowance
- Formulating written action plans to document our strategy for reducing the level of non-performing assets
- Diversifying our loan portfolio with more loans to small- to medium-sized businesses and to individuals
- Continuing our actions to ensure we maintain adequate sources of liquidity

Management believes we have successfully identified the loans that have been weakened by the overall deterioration in the economy and decline in value of our local real estate market. Additionally, we have taken a very conservative approach to valuing these loans and believe that our reserves will cover the potential losses.

Our efforts have already produced results. Paragon successfully reduced non-performing assets by approximately 15% during the fourth quarter. In addition to aggressively executing our action plans, we have reduced expenses in the bank by over \$1.9 million to help compensate for the lack of revenue on our non-performing assets. We continue to consider every opportunity for savings and search for any and all potential revenue streams.

We are pleased to report that during this unprecedented time, Paragon has remained resilient. At December 31, 2008:

- Our capital levels were extremely high with Total Risk-Based Capital at 12.76% and Tier 1 Capital at 11.50%. Both of these measures place Paragon at a much higher level than the level required to be considered "Well Capitalized" by our regulators. In addition, Paragon is among the most highly capitalized financial institutions located within Shelby County.

Grove Park Officially Open



Pictured is the Grove Park team (Gina Yauger, Leigh Barker, Debby Allen, Dorothy Cleaves, Nadine Goldin, and Kathy Bomar) cutting the ribbon at the open house as other employees and guests watch.

The weather was cold and rainy, but the atmosphere inside was warm as Paragon celebrated the grand opening of our newest banking center on January 27. Located at 4515 Poplar near Oak Court Mall, Grove Park sparkled as customers, shareholders, directors, employees, and other friends mingled and admired the facilities. In addition to being a full-service banking center with a drive-through, private banking, and mortgage lending, Grove Park also features an interactive children's banking center. Paragon Jr. is an ideal place for parents and teachers to bring children of any age to learn about money, banking, and saving.



Paragon Continues "Best Places to Work" Winning Tradition

In a feat accomplished by no other company in Memphis, Paragon National Bank has been chosen as the Best Place to Work in our size division (51-150 employees) by the *Memphis Business Journal* for the third consecutive year. In this year's competition, almost 100 Memphis-area companies were nominated in three different size divisions. Employees from nominated companies were asked to fill out anonymously an online survey, in which they ranked factors such as company loyalty, trust in leadership, and faith in the company's continued success. The finalists and winners were chosen solely from the survey results.

This award is especially important to Paragon because we believe that in an environment where employees feel valued and are happy, they provide superior customer service. As a result, satisfied customers remain with Paragon and provide the basis for a more profitable bank for our shareholders.

Third Annual Small Business Seminar Revisits the Kindness Revolution

Paragon National Bank and The Society of Entrepreneurs teamed up once again to host the Third Annual Small Business Seminar, where small business owners and employees are invited to hear an influential and accomplished speaker. This year's seminar took place on November 6 at the University of Memphis Holiday Inn. More than 80 local businesspeople attended.

This year, the 2006 speaker, Ed Horrell, returned to present new findings from his work as the leader of the Kindness Revolution. The revolution emphasizes treating customers with respect, empathy, and kindness in order to build customer retention. Since customer service is a top priority for the Paragon team as well as members of The Society of Entrepreneurs, the Kindness Revolution is always a relevant topic and is certainly even more relevant than usual in these challenging financial times.

For more information about Ed Horrell, visit www.edhorrell.com. For more information about The Society of Entrepreneurs, visit www.societyofentrepreneurs.com.



Paragon's Steve Maury, Josh Miller, and Jeff Gach chat with Society of Entrepreneurs member Gary Sheridan, owner of Travel Vacations (third from left).

(Letter continued from page 1)

- Our loan reserves are well built and more than sufficient to absorb the inherent losses in our loan portfolio. Our reserves to gross loans stood at 2.00%, or approximately 30% higher than the reserves maintained by our start-up bank peer group.
- Our liquidity position has remained stable while our cost to fund assets has steadily decreased.
- Our customer service levels remain superior

Paragon's strategic focus for 2009 includes maintaining our strong capital levels, reducing the level of non-performing assets, maintaining our diverse funding base, and further reducing expenses.

Many of you have inquired about Paragon's stock price. Stock prices of almost all financial institutions have decreased significantly during this time of economic turmoil. Paragon's stock price has also decreased significantly. Management believes our price has also suffered because of the lack of significant trading volumes. Our stock is traded so thinly that a single investor can cause our stock price to change significantly. We do not believe the current price is an indication of our true value. Our book value remains more than \$8.00 per share. When this economic cycle has passed, we believe our stock price will better reflect our real value.

We want to add a personal note of appreciation to our Board of Directors. As your representatives, these individuals have spent countless hours working with the challenges we have faced. They have provided valuable guidance as we have navigated through these unprecedented times.

Despite market conditions that are far from optimum, Paragon continues to be optimistic about our future. We are continuing to invest in our local economy by providing loans to well qualified borrowers while assisting those with investment or depository needs. Thank you for your continued confidence and support. We pledge our continued wholehearted commitment to our shareholders and customers and to a bright future for Paragon National Bank.

Robert Shaw
President & CEO

Michael Erhardt
Executive VP &
Chief Financial Officer

Andy Taylor
Executive VP &
Senior Credit Officer

Grove Park Banking Center Offers Paragon Jr. Children's Banking



Danielle Black, daughter of Paragon's Chondrea Black, takes advantage of Grove Park's new coin counter.

We invite you to bring your young children and grandchildren to Paragon Jr., our children's banking center at the new Grove Park location. Paragon Jr. is designed to teach children of all ages about saving money and banking. We use learning tools like an interactive computer program to teach them, then they can practice what they have learned on their own deposit slips and checks. Paragon Jr. also offers a coin counter that will be useful for children and adults alike. Bring your young ones by to open up their first savings account and start smart money management early!



Paragon Executive Named to MBJ's Top 40 Under 40



Michael enjoyed MBJ's Top 40 luncheon with his wife Lisa and son Logan.

Michael Erhardt, Chief Financial Officer and Executive Vice President, has been named by *Memphis Business Journal* as one of the "Top 40 Under 40" in the publication's 12th year of the award. Michael was chosen from a pool of over 150. The awards were based on professional accomplishments and community service.

"We're very proud to have a CFO like Michael," said Robert Shaw, Paragon's President. "He doesn't let his high-stress position keep him from getting involved in the community and at the bank."

Michael is the third member of Team Paragon to be honored by the *Memphis Business Journal's* Top 40 Under 40. In 2006, Treasury Management Sr. VP Kim Hall was named, and in 2007 the late Tanya Novarese, Paragon's Sr. VP of Commercial Real Estate Lending, was named.



Paragon Visits Hawkins Mill Elementary

Members of Team Paragon continue to visit Ms. Martin's third grade class at Hawkins Mill Elementary School for activities with the students. Pictured is Personal Banker Dave Biter, prepping students for a Valentine's Day activity, "Pin the arrow on the heart." We visit Hawkins Mill once each quarter: at the start of the school year, before the winter break, around Valentine's Day, and before the summer break. Employees are able to donate their time to Hawkins Mill and many other organizations in the community thanks to Paragon ACTS (Assisting the Community Through Service) program.



Paragon employees are very active in the community, and many give their time freely to civic organizations such as The Rotary Club. Commercial Lending VP Josh Miller (right) has served as the Germantown Rotary Club's treasurer. Here he is pictured with Rotary president Judy Conrad and their guest speaker for the day, Eric Bleier, coordinator of Memphis Grizzlies Charitable Foundation.



Paragon Co-Hosts Fraud Seminars



Paragon has teamed up with several companies throughout the past year to present fraud seminars to the companies' employees in our conference suite. Complete with lunch and an expert speaker from the FBI, these seminars benefit all involved. Pictured is the FBI's Howard Marshall at Paragon's first fraud seminar in 2008.

Paragon Executives Wait Tables for Memphis Child Advocacy Center

One annual event that Paragon very much enjoys is the Celebrity Chefs Gala, a fundraising dinner for the Memphis Child Advocacy Center, whose mission is to provide prevention, education, and intervention for children who are victims of sexual and severe physical abuse.

Companies are invited to buy tables for their employees and have their executives serve dinner. Paragon executives take it one step further and dress up in costumes,



Paragon President & CEO Robert Shaw and Senior VP of Treasury Management Kim Hall

and dress up in costumes, decorate their table, and "roast" the participants with some good-humored fun.

This was the fifth year Paragon executives have participated in this event. With President Robert Shaw and Sr. VP Kim Hall dressed as pirates, everyone at the table had a good laugh at their expense and helped to raise money for a good cause. Approximately \$208,000 was raised by this year's Chefs' Celebrity Gala.



Germantown Chamber Ambassadors

Two members of Team Paragon, Private Banker Janie Day and Business Development Associate Ashley Fairey, play a vital part in the Germantown community as Germantown Chamber Ambassadors. The ambassadors are an elite group of 30 Chamber members who have shown leadership in the past by participating on a Chamber committee for at least a year. They are called upon to attend Chamber events such as ribbon cuttings, galas, and expos, as well as monthly meetings. In addition, Janie Day is a member of the Germantown Chamber Board of Directors.



Paragon President & CEO Robert Shaw, along with several other members of the Paragon team, attended the March of Dimes' Signature Chefs Gala. Pictured with Robert are April Britt of FedEx and Dan O'Brien, from our advertising agency, inferno.

Team Paragon Has a Record Turnout for Race for the Cure



Every year since our opening, Paragon National Bank has had a team participate in the Susan G. Komen Race for the Cure, and each year the team has grown. Pictured is Team Paragon with their families and friends at the Saddle Creek Banking Center prior to the race.

This year, Team Paragon was eighty strong at Race for the Cure, held at Saddle Creek in Germantown. Paragon employees and their families and friends gathered at our Saddle Creek Banking Center for breakfast before participating in the race. It was the largest participation year yet, and Paragon National Bank raised more than \$1,500 for the cause. We plan to continue to support the fight against breast cancer each year by raising money via team participation.



Team Paragon Continues to Support Mid-South Food Bank



Fountain Place Banking Center employees Jay Spain, Marita Brooks, and Eleanor Strahl display their collection of food.

Paragon once again helped sponsor the Mid-South Food Bank's Student Food Drive, a campaign that included a month of collecting food for the less fortunate of Memphis. Paragon locations served as collection points for the citywide drive. A spectacular finale was held at the Food Bank featuring entertainment from the CBHS Pom Squad, the St. Benedict Cheerleaders, and the Booker T. Washington Drumline.

While the high school students rallied their 21 schools to gather cans, the Paragon banking centers challenged each other to collect food—from both employees and customers. At the end of the food drive, the Mid-South Food Bank received nearly 90,000 pounds of food.

Another Wish Granted by Team Paragon



Denarius celebrates his victory over Prize Fight Boxing's Shawn Porter. Shawn's father Ken, emcee Dave Biter, and Shawn's promoter Brian Young are also pictured.

Fourteen-year-old Denarius Price's wish was to go on a shopping spree—and that wish came true thanks to the dedicated team at Paragon National Bank.

One of Team Paragon's most beloved traditions is the granting of a wish for Make-a-Wish. Each year seems to top the year before, and this year was no exception. Team members set up various areas of Paragon's Fountain Place location for a Wii Tournament. Denarius was greeted upon arrival by host Dave Biter, who was decked out in a tux courtesy of Guy's Tuxedos. Dave guided Denarius from the '50s era concession stand on the first floor to the start of the Wii tournament.

The third floor hosted a Wii baseball game, the second floor hosted a Wii Guitar Hero game, and the Fountain Place Banking Center hosted a Wii car racing game. After winning each level of the tournament, Denarius received a prize: a trophy, a framed certificate, and a photo of himself in a racing Mustang on loan from Competition Cams.

The grand finale event was a Wii boxing match, hosted in the bank's conference suite, with very special guest, Prize Fight Boxing's Shawn Porter, a professional boxer and 2008 Olympian. Shawn was defeated by Denarius in the final round, clinching for Denarius the championship belt, provided by Title Boxing, and his grand prize, his shopping spree wish. Denarius not only won the Wii tournament, but he also won the hearts of Team Paragon!



Team Paragon at this year's wish granting.

FDIC Changes and How They Impact Your Money

As part of the Emergency Economic Stabilization Act that President George W. Bush signed into law on October 3, 2008, the Federal Deposit Insurance Corporation (FDIC) has increased deposit insurance coverage effective through December 2009. The basic limit on federal deposit insurance coverage went from \$100,000 to \$250,000 per depositor. The FDIC provides a free tool called the Electronic Deposit Insurance Estimator (EDIE) on its website. This easily navigated tool can be used to calculate your levels of coverage. Log on to www.fdic.gov/edie to get started. Consult the chart below for a quick look at your coverage but feel free to discuss your coverage levels and how they can be increased further with your relationship manager.

Basic FDIC Coverage Limits*

Single accounts (owned by one person)	\$250,000 per owner
Joint accounts (two or more persons)	\$250,000 per co-owner
IRAs and certain other retirement accounts	\$250,000 per owner
Trust accounts	\$250,000 per owner per beneficiary subject to specific limitations and requirements

Source: www.fdic.gov

* On January 1, 2010, the standard coverage limit will return to \$100,000 for all deposit categories except IRAs and certain retirement accounts, which will continue to be insured up to \$250,000 per owner.

Treasury Management Can Help

In this unique economic climate, effective cash management is essential to business survival. Many businesses today are handling workloads with fewer employees while combating increased fraud. Paragon's Treasury Management can help increase overall efficiencies.

To optimize receivables, Paragon's Lockbox service can streamline the time-demanding task of sorting mail to identify checks, preparing the deposit, and driving to the bank. Locally maintained, Paragon's Lockbox is designed to meet your company's unique processing needs. By having your customers mail their payments to a post office box managed on your behalf by Paragon, your company can reduce mail collection time and convert receivables into "usable" cash more quickly. Since Paragon will deposit your checks according to your instructions, this time-consuming and expensive task of deposit preparation can easily be transitioned to Paragon. Check images and remittance information are sent to you the same day. Your company benefits from both dual control and same-day credit.

If your preference is to receive your checks but you wish to eliminate out-of-office time spent driving to the bank, then Remote Deposit Capture is ideal for you. By simply using software and a check scanner, your company can scan and securely transmit deposits to Paragon. Deposits transmitted by 5:00 p.m. post to your account the same day. In addition to increased employee safety, companies benefit from reduced deposit delivery time, reduced administrative cost, and eliminated need to copy checks.

To combat fraud, Paragon's Positive Pay service allows your company to have daily control over checks presented for payment. Each day Paragon would match presented checks against an issue file provided by your company. If a check is presented for payment that differs from the company-provided information, Paragon stops the check and contacts you.

Another area of increased fraud is credit card transactions. Credit card fraud can come in two forms: a fraudulent charge or a fraudulent credit. When accepting credit cards, know your customer, answer all questions prompted by the credit card machine, and, whenever possible, secure the transaction with the customer's signature. The other area of growing credit card fraud is individuals using the company's credit card machine to issue credits to their personal credit cards. To prevent this fraud, place the credit card machine in a secure location and promptly review daily settlement reports.

In all cases, strong internal controls can aid in reducing company fraud. Among others, company policies should include dual control, segregation of duties, and payment limits. It is also strongly encouraged to daily review account activity via Paragon's Internet Banking.

Paragon's Treasury Management department would welcome the opportunity to visit with your company and customize a cash management program that best suits your needs. Please contact us today at 322.0745.

Four Reasons to Refinance

Making a sound decision on whether or not to refinance your mortgage loan depends on several factors, and it is crucial for borrowers to know the reasons why they want to refinance. Four common reasons people refinance their current mortgage are:

Your monthly payments are currently too high.

A drop in interest rates could mean big savings for you. If you have made your payments on time and have a good overall credit score, refinancing at a lower mortgage rate could lower your monthly payments, saving you money each month.

You have built up equity and need access to some cash.

If property values have increased since you took out your mortgage loan, you are sitting on a pile of money. Common reasons to pull out some cash on the equity of your home could include paying for your daughter's wedding, doing home improvement, taking a vacation, or paying college tuition.

Banks and lenders aren't very concerned about why you want the money; they simply want to see that you will be able to repay the loan and that it is secured by the equity in your home when the loan is made.

Your adjustable rate mortgage is about to roll to a high fixed rate.

People take out an ARM to get a lower rate and to qualify for a slightly more expensive home. After a number of years the ARM will be ready to settle into a fixed-rate loan, and depending on the fixed rate, you may be able to do better by refinancing. Your mortgage loan professional can help you make this decision.

You want to shorten the length of your loan.

This is commonly done when you want to go from a 30-year loan to a 15-year loan. For example, if your income has increased and you determine you want to stay in your home for many years to come, then this makes sense. Paying off your loan early gives you the peace of mind of knowing you own your home.

These are four good reasons that you may want to refinance your mortgage loan. The important things are to know why you want to refinance and to judge whether it is best for your situation.

Programs, rates, terms, and conditions are subject to change without notice. Applications are subject to credit approval.

New Hours at St. Francis Banking Center



Today with so many convenient ways to bank, the number of trips to the bank continues to fall. Internet banking, electronic payments, credit cards, and Remote Deposit Capture all provide the convenience of banking from your own office. As a result of these banking tools,

Paragon has modified our St. Francis banking hours. Kathy Bomar is now available for banking transactions from 8:30 a.m. until 10:30 a.m. on Tuesdays and Thursdays. Alex Thesmar will maintain dual offices: one at St. Francis and one at our Fountain Place banking center located at 5400 Poplar Avenue. As always, Alex is available to meet with you at your convenience. He can be reached by cell at 496.5714 or 322.0628.

Locations:

Paragon Place

Poplar at Massey
6300 Poplar Ave., Suite 117
Memphis, TN 38119

St. Francis

6005 Park Ave., Suite 111
Loewenberg Building
Memphis, TN 38119

Fountain Place

Poplar at Valleybrook
5400 Poplar Ave., Suite 150
Memphis, TN 38119

Saddle Creek

7600 Poplar Ave.
Germantown, TN 38138

Grove Park

4515 Poplar Ave.
Memphis, TN 38117

- Telephone:** 901.273.2900
- Branch Hours:** 8:30 am – 5:00 pm Mon-Thu
8:30 am – 6:00 pm Fri
(except St. Francis)
- ATM:** 24 Hours/7 days a week
Approximately 170 ATMs
- Paragon Direct:** 901.333.0260
24-Hour Voice Response Unit
- Online Banking:** bankparagon.com
- Mailing Address:** P.O. Box 2022
Memphis, TN 38101-2022



Paragon
NATIONAL BANK®

Local banking from locals.



In Loving Memory of Tanya Novarese

September 15, 1967 - December 5, 2008

In December 2008, we lost our very dear Tanya Novarese, Senior VP of Commercial Real Estate Lending. Tanya fought tirelessly and bravely against cancer for more than a year; her strong faith was a shining example of what is really important in this world. To all who knew her, Tanya was an exceptionally special person. We are so blessed to have had her in our lives. She is missed every day!



We remember Tanya giving back to the community through her own fight. She was part of Paragon's tent at the American Cancer Society's Relay for Life in April.



Future Paragon Customers



Madeline Kate Barden
Daughter of Lisa Barden,
Treasury Management



Gwenith Alise Layton
Granddaughter of Eleanor Strahl,
Fountain Place
Financial Services Associate



Wedding Bells



Sue and Patrick O'Hearn,
Paragon VP of Private
Banking/Mortgage Lender
October 18, 2008



Rich and Lindsey
Pietrowski, Former
Paragon Management
Associate
December 27, 2008



More Travel Opportunities with Sterling

Paragon's Sterling Banking program has more travel plans for this year! In March, a daytrip to Hot Springs to take in some horse races is planned. Then, just when the Memphis heat is at its worst in August, a cool cruise of breathtaking Alaska is scheduled. For more information and specific travel dates, contact Sterling Banker Rita Fiduccia at 901.322.0613.