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Paragon Commercial Corporation (No Formal Market)

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Price: *	\$10.00	EPS **	2013A:	\$ 1.11	P/E	2013A:	9.4x
52 Wk. Range:	\$7.20 - \$10.40	(FY: DEC)	2014E:	\$ 1.70		2014E:	6.1x
Div/Div Yld:	\$0.00 / 0.0%		2015E:	\$ 2.00		2015E:	5.2x
Shrs/Mkt Cap:	4.5 mm / \$45 mm	Book Value:		\$ 18.63	Price/Book Value:		0.56x

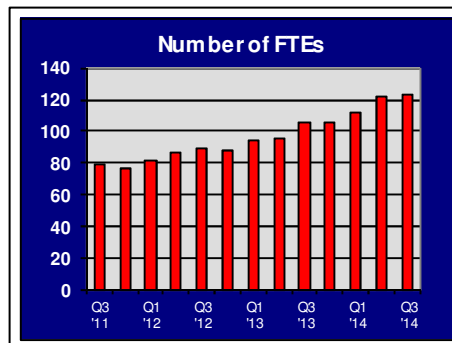
* Limited trading. Price is most recent of which Company is aware. Per share figures are adjusted for 125 for 1 stock split paid June 23, 2014 ** Diluted.

Background

Paragon Commercial Corporation (the “Company”) is a Raleigh, North Carolina-based commercial bank holding company for Paragon Bank (the “Bank”), a bank that began operations on May 10, 1999. With approximately \$1.1 billion in assets as of September 30, 2014, the Bank focuses on business banking and private banking. The Bank conducts operations through locations in Raleigh, NC, Charlotte, NC, Cary, NC and an operations center (Raleigh, NC). Paragon Commercial Corporation offers a broad array of products to commercial clients, business owners and other targeted private banking customers, either through its own products or through affiliated companies that have partnered with the Bank. Commercial and private banking products and services offered include check and statement imaging, business checking, money market investment accounts, certificates of deposit, letters of credit, online banking and business loans. Paragon also offers commercial insurance, retirement plans, leasing, and investment services, commercial real estate financing, residential mortgages and accounts receivable funding through the third party providers. The Bank also provides a variety of financial products and services exclusively to individuals who desire a comprehensive banking relationship, from premium checking, money market and certificate of deposit accounts to customized financing solutions for personal and business needs.

Third Quarter Results Were Better Than Implied by Year-Ago Comparisons

Paragon reported excellent results in the third quarter of 2014. Although earnings were actually below the year-ago figures, the shortfall was principally due to: 1) a credit for the provision for loan losses in the year-ago figures (versus no provision in 2014’s third quarter); 2) the fact that the year-ago numbers did not include an accrual for incentive compensation (while this year’s third quarter did), and 3) most significantly, the affects this year of a significant ramp up in personnel, reflecting Paragon’s robust growth strategy. This last factor – the addition of people – is one of the Bank’s most important recent initiatives, as it will be a major driver of its future growth momentum and the Company’s long-term performance. Paragon’s management has done a superior job of attracting lenders and other support personnel, as can be seen in the adjacent chart. Many of these new hires have extensive banking relationships that are now being introduced to the Paragon “customer experience.” While the hires have obviously had some short-term impacts on earnings, this investment in people is likely to pay dividends for many years to come and is an integral part of management’s goal of hitting a 1% ROAA and being in the top quartile of peers in key performance metrics. We would also note that despite the increase in FTE’s, Paragon has much higher assets per employee than any bank we follow.



ASSETS: \$1.1 B

HQ: RALEIGH, NC

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3RD QUARTER HIGHLIGHTS:

EPS: \$0.34 VS. \$0.49

NEGATIVE COMPARISON TO YEAR-AGO QUARTER WAS DUE TO SWINGS IN THE PROVISION AND THE IMPACT OF NEW HIRES

THE FUNDAMENTALS LOOKED QUITE STRONG IN THE QUARTER

NET INTEREST INCOME INCREASED 10%

In terms of specific results, net income was \$1,528,000, or \$0.34 per diluted share, in the third quarter of 2014, compared to \$2,186,000, or \$0.49 per diluted share, in the year-ago quarter. The most important earnings driver, net interest income, had a strong increase of 10% to \$8,628,000 in the third

**NET INTEREST MARGIN: 3.45%
VS. 3.42%; AVERAGE EARNING
ASSETS GREW 11%**

**THERE WAS NO PROVISION
VERSUS A CREDIT FOR LOAN
LOSSES IN THE YEAR-AGO
QUARTER**

**THE COMPANY CONTINUES TO
MAKE PROGRESS IN HAVING ITS
SHARES QUOTED ON THE OTC
BB**

quarter of 2014 from \$7,836,000 in the year-ago quarter, and on a linked quarter basis, it increased 5%. The growth in net interest income was due to increased margins (3.45% in 2014's third quarter, versus 3.42% in the year-ago quarter), as well as higher average earning assets (up 11%). Partially offsetting the strong showing in net interest income was the previously mentioned swing in the provision for loan losses, which was zero in the most recent quarter, versus a *credit* for loan losses of \$480,000 in the year-ago quarter. Noninterest income, excluding security gains/losses and losses on OREO, totaled \$340,000 in the third quarter of 2014, compared to \$560,000 in the year-ago quarter, while noninterest expense was up 20% to \$5,684,000 in the third quarter of 2014 from \$4,756,000 in the year-ago quarter. The majority of this increase in noninterest expense related to a 34% increase in salaries and employee benefits which was obviously related to the growth in full time equivalent employees ("FTEs"). Noninterest expense was also affected by the opening of an operations center in July and the opening of a Cary office at the end of September. One final point regarding the quarter was that the Company continued to make headway towards getting its stock quoted on the OTC Bulletin Board. We expect the shares to begin being quoted within the next few months.

NINE-MONTH HIGHLIGHTS:

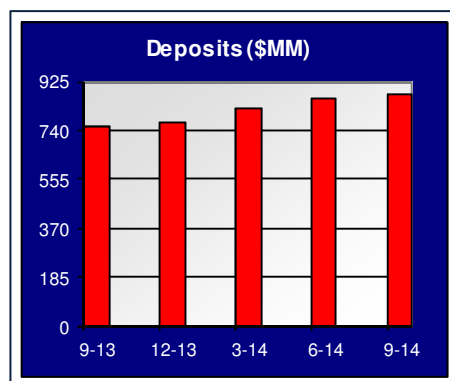
EPS: \$1.16 VS. \$0.80

EARNINGS INCREASED 48%

For the nine months ended September 30, 2014, Paragon reported net income of \$5,257,000, or \$1.16 per diluted share, which was up 48% from \$3,557,000, or \$0.80 per diluted share, in the year-ago period. The growth was led by net interest income, which increased 12% from the year-ago period, and higher noninterest income (which benefitted from lower losses on OREO write-downs). Noninterest expense increase 17% over the two periods.

Balance Sheet Growth Remains Excellent

Paragon reported excellent balance sheet growth over the past year that was led by deposits. From September 30, 2013 to September 30, 2014, net loans grew 10%, total assets were up 14% and deposits increased 17%. Also worthy of note is that core deposits (basically checking, money market and local CDs), increased 43% over the past year. We expect balance sheet growth to further benefit from the recent opening of the new office in Cary, NC. The office opened September 30, 2014, and as of October 25th, it had already booked nearly \$5 million in new loans. Cary has excellent demographics with a rapidly growing population and business base, and it benefits from its proximity to the Research Triangle Park. Paragon remains well capitalized to sustain this growth, with shareholders' equity of \$84.3 million, or 7.40% of total assets, at September 30, 2014.



TOTAL ASSETS GREW 14%

NET LOANS INCREASED 10%

DEPOSITS GREW 17%

EQUITY/ASSETS: 7.40%

NPAs Decreased 22% Over the Past Year

Paragon's level of nonperforming assets continued to trend downward at September 30, 2014. Total NPAs were \$17.0 million, or 1.49% of total assets, at September 30, 2014, down from \$17.4 million (1.57% of total assets) at June 30, 2014 and \$21.7 million (2.18% of total assets) at the year-ago date. NPAs consisted mainly of OREO, which was \$14.7 million, with the remainder being \$1.5 million in loans over 90 days past due and \$0.7 million in nonaccrual loans. The allowance for loan losses totaled \$7.0 million, or 0.85% of loans, at September 30, 2014, compared to \$7.6 million, or 1.02% of gross loans, at the year-ago date.

NPAs/ASSETS: 1.49%

RESERVES/LOANS: 0.85%

Projections

We are slightly lowering our earnings projection for 2014 to \$7.5 million, or \$1.70 per diluted share, compared to our previous estimate of \$7.8 million, or \$1.75 per diluted share. For the year 2015, we project net income of \$8.9 million, or \$2.00 per diluted share. These projections could vary widely depending on changing conditions.

EPS:
2013A: \$ 1.11
2014E: \$ 1.70
2015E: \$ 2.00

ADDITIONAL INFORMATION UPON REQUEST

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