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Paragon Commercial Corporation (OTC Pink - PBNC)

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January 27, 2015

Price: *	\$16.00	EPS **	2013A:	\$ 1.11	P/E	2013A:	14.4x
52 Wk. Range:	\$10.00 - \$16.00	(FY: DEC)	2014A:	\$ 1.77		2014A:	9.0x
Div/Div Yld:	\$0.00 / 0.0%		2015E:	\$ 2.25		2015E:	7.1x
Shrs/Mkt Cap:	4.5 mm / \$72 mm	Book Value:		\$ 19.35	Price/Book Value:		0.83x

* 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 \$1.2 billion in assets as of December 31, 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. The shares are quoted on the OTC Pink marketplace under the symbol “PBNC”).

Fourth Quarter Earnings Nearly Doubled and Reached a Record Level

In the fourth quarter of 2014, Paragon Commercial Corporation achieved record earnings, capping off a year that also represented an all-time high in terms of profitability. Fourth quarter EPS essentially doubled and surpassed our projections by \$0.10, and was supported by excellent revenue growth, margin improvement and solid cost containment. Moreover, double-digit balance sheet growth and improvement in asset quality lead us to conclude that the longer term outlook is similarly favorable. Finally, Paragon’s shares recently began being quoted on OTC Pink marketplace, which should improve liquidity and the ability to track the value of the stock. The valuation (at least in terms of the most recent Bid price of \$16 per share), is well above the previous recorded trades.

Net income for the fourth quarter of 2014 was \$2.7 million, or \$0.60 per diluted share, which was up 98% from \$1.4 million, or \$0.31 per diluted share, in the year-ago quarter. Total revenues increased 22% from the year-ago quarter, with net interest income, the leading driver behind the higher earnings, up 17% to \$9.3 million in the fourth quarter of 2014 from \$7.9 million in the year-ago quarter. Net interest income also had strong linked quarter growth of 7%. The net interest income growth was attributable to both improvement in margins and growth in average earning assets, both of which have benefitted from Paragon’s impressive loan growth. The margin grew 15 basis points to 3.53% in 2014’s fourth quarter from 3.38% in the year-ago quarter, while average earning assets were up about 15% over this period. Noninterest income also had strong growth, and excluding nonrecurring gains and losses, was up 34% to \$472,000 in the fourth quarter of 2014 from \$352,000 in the year-ago quarter. The other area where Paragon made significant headway was in expense control, as noninterest expense decreased 10% from the year-ago quarter and 2% on a linked quarter basis, due to

ASSETS: \$1.2 B

HQ: RALEIGH, NC

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4TH QUARTER HIGHLIGHTS:

EPS: \$0.60 vs. \$0.31

EPS WERE \$0.10 AHEAD OF ESTIMATES

NET INTEREST INCOME GREW 17%

MARGINS INCREASED 15 BASIS POINTS AND AVERAGE EARNING ASSETS WERE UP 15%

NONINTEREST EXPENSE DECLINED 10% FROM THE YEAR-AGO QUARTER AND 2% ON A LINKED QUARTER BASIS

reduced salaries and employee benefit costs and lower problem loan related costs. We would also note that there was no provision for loan losses in 2014's fourth quarter, versus a credit for loan losses of \$601,000 in the year-ago quarter. Pretax income before the provision and security and OREO gains/losses increased 203%.

Paragon's profitability and efficiency measures were quite impressive in the most recent quarter. The Company's ROAA increased to 0.93% in the fourth quarter of 2014 (nearly reaching management's goal of 1%), from 0.54% in the year-ago quarter and versus 0.60% for the typical NC bank, while its

ROAE improved to 12.47% from 7.04%, and versus 6.69% for the NC bank median. And while the margin was below the peer median, it improved markedly from the year-ago quarter. The efficiency ratio also improved to 57% from 78% in the year-ago quarter and was much better than the peer group median of 79%. Finally, we would note that the Company's asset quality is superior to other NC banks, as it had an NPA/assets ratio of 1.30% at December 31, 2014, compared to 1.98% for the NC bank median.

PERFORMANCE RATIOS IMPROVED SIGNIFICANTLY

ALL OF THESE, WITH THE
EXCEPTION OF THE MARGIN,
WERE BETTER THAN THE
TYPICAL NC BANK

PROFITABILITY IMPROVEMENT AND PEER GROUP COMPARISONS (%)			
	Paragon		NC Peer
	Q4 13	Q4 14	Group Median
ROAA	0.54	0.93	0.60
ROAE	7.04	12.47	6.69
Net Int. Mrgn.	3.38	3.53	3.76
Eff. Ratio	77.9	57.0	79.0
NPA's/Assets	1.95	1.30	1.98

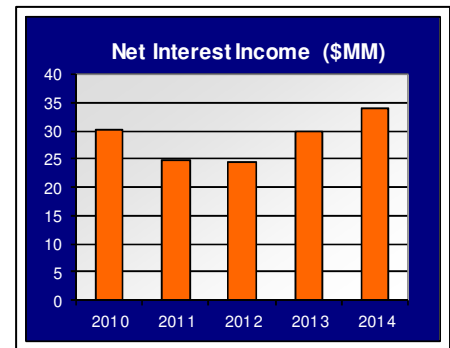
TWELVE-MONTH HIGHLIGHTS:

EPS: \$1.77 vs. \$1.11

EARNINGS INCREASED 62%

BALANCE SHEET GROWTH
REMAINS QUITE STRONG AS
WELL

Full year results were likewise excellent, with net income increasing 62% to \$8.0 million, or \$1.77 per diluted share, in 2014, from \$4.9 million, or \$1.11 per diluted share, in 2013. Net interest income increased 13%, noninterest income (excluding security and OREO security gains/losses) decreased 11% and noninterest expense was up 9% from the year-ago period. As can be from the adjacent chart, net interest income growth has been advancing rapidly over the past few years, especially since 2012. That momentum has partly come from strong balance sheet growth. From December 31, 2013 to December 31, 2014, assets and net loans were up 13% and deposits increased 15%. The loan growth is particularly notable in that it came despite about \$150 million in loan payoffs and other reductions over the past year.



Paragon Commercial Corporation Listed on OTC Market

Shortly after the end of the fourth quarter of 2014, Paragon Commercial Corporation's shares began being quoted on the OTC Market under the symbol PBNC with an opening bid from the market maker Raymond James of \$16.00 per share. We view this as a positive development for the Company, as it should lead to better access to capital, higher visibility and marketability of the shares.

PARAGON SHARES BEGAN BEING
QUOTED ON OTC MARKET ON
JANUARY 27, 2015

NPAs Declined 25% from Year-Ago Date, Reached Lowest in Many Years

At the end of 2014, Paragon's level of nonperforming assets dropped to the lowest they have been in about six years. NPAs totaled \$15.2 million, or 1.30% of total assets, at December 31, 2014, which was down 25% from \$20.2 million (1.95% of total assets) at the year-ago date and down 2% from \$15.5 million, or 1.36% of total assets, at September 30, 2014. The allowance for loan losses was \$6.9 million, or 0.79% of loans, at December 31, 2014, compared to \$6.9 million, or 0.90% of gross loans, at the year-ago date.

NPAs/ASSETS: 1.30%

RESERVES/LOANS: 0.79%

Projections Increased

Partly due to the excellent fourth quarter results, we are increasing our earnings projections for 2015 to \$10.0 million, or \$2.25 per diluted share, up from our previous projections of \$8.9 million, or \$2.00 per diluted share.

EPS:
2013A: \$ 1.11
2014A: \$ 1.77
2015E: \$ 2.25

ADDITIONAL INFORMATION UPON REQUEST

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