

PARAGON COMMERCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

December 31, 2015 and 2014

| ASSETS | December 31, 2015 | December 31, 2014 | Changes | % Change |
|---|----------------------------|----------------------------|--------------------------|---------------------|
| (In thousands) | (Unaudited) | | | |
| Cash and due from banks: | | | | |
| Interest-earning | \$ 30,993 | \$ 19,400 | \$ 11,593 | 59.8% |
| Non-interest-earning | 24,537 | 16,995 | 7,542 | 44.4% |
| Investment securities - available for sale, at fair value | 168,896 | 183,675 | (14,779) | -8.0% |
| Loans-net of unearned income and deferred fees | 1,016,156 | 868,405 | 147,751 | 17.0% |
| Allowance for loan losses | (7,641) | (6,869) | (772) | 11.2% |
| Net loans | <u>1,008,515</u> | <u>861,536</u> | <u>146,979</u> | <u>17.1%</u> |
| Premises and equipment, net | 16,433 | 17,071 | (638) | -3.7% |
| Bank owned life insurance | 28,274 | 27,421 | 853 | 3.1% |
| Federal Home Loan Bank stock, at cost | 8,061 | 7,006 | 1,055 | 15.1% |
| Interest Receivable | 3,795 | 3,636 | 159 | 4.4% |
| Deferred tax assets | 4,118 | 4,925 | (807) | -16.4% |
| Other real estate owned and repossessed property | 5,453 | 14,991 | (9,538) | -63.6% |
| Other assets | <u>6,836</u> | <u>8,599</u> | <u>(1,763)</u> | <u>-20.5%</u> |
| Total assets | <u>\$ 1,305,911</u> | <u>\$ 1,165,255</u> | <u>\$ 140,656</u> | <u>12.1%</u> |
| LIABILITIES | | | | |
| Deposits: | | | | |
| Demand, non-interest bearing | \$ 158,974 | \$ 118,895 | \$ 40,079 | 33.7% |
| Money market accounts and interest checking | 504,092 | 375,833 | 128,259 | 34.1% |
| Time deposits | <u>319,781</u> | <u>388,912</u> | <u>(69,131)</u> | <u>-17.8%</u> |
| Total deposits | <u>982,847</u> | <u>883,640</u> | <u>99,207</u> | <u>11.2%</u> |
| Repurchase agreements and federal funds purchased | 30,580 | 27,482 | 3,098 | 11.3% |
| Borrowings | 169,800 | 142,256 | 27,544 | 19.4% |
| Subordinated debentures | 18,558 | 18,558 | - | 0.0% |
| Other liabilities | <u>6,468</u> | <u>5,657</u> | <u>811</u> | <u>14.3%</u> |
| Total liabilities | <u>1,208,253</u> | <u>1,077,593</u> | <u>130,660</u> | <u>12.1%</u> |
| STOCKHOLDERS' EQUITY | | | | |
| Common stock, \$0.008 par value; 20,000,000 shares authorized; 4,581,334 and 4,530,000 issued and outstanding as of December, 31 2015 and December 31, 2014 | 37 | 36 | 1 | 2.8% |
| Additional paid-in-capital | 53,147 | 52,358 | 789 | 1.5% |
| Retained earnings | 45,360 | 34,126 | 11,234 | 32.9% |
| Accumulated other comprehensive income | <u>(886)</u> | <u>1,142</u> | <u>(2,028)</u> | <u>-177.6%</u> |
| Total stockholders' equity | <u>97,658</u> | <u>87,662</u> | <u>9,996</u> | <u>11.4%</u> |
| Total liabilities and stockholders' equity | <u>\$ 1,305,911</u> | <u>\$ 1,165,255</u> | <u>\$ 140,656</u> | <u>12.1%</u> |

PARAGON COMMERCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2015 and 2014

| | 2015 | 2014 | Changes | % Change |
|---|------------------|------------------|-----------------|---------------|
| (In thousands) | (Unaudited) | | | |
| Interest income: | | | | |
| Loans and loan fees | \$ 43,500 | \$ 37,999 | \$ 5,501 | 14.5% |
| Investment securities | 4,786 | 4,698 | 88 | 1.9% |
| Federal funds and other interest income | 149 | 86 | 63 | 73.3% |
| Total interest income | <u>48,435</u> | <u>42,783</u> | <u>5,652</u> | <u>13.2%</u> |
| Interest expense: | | | | |
| Interest-bearing checking and money markets | 2,756 | 2,144 | 612 | 28.5% |
| Time deposits | 3,313 | 5,371 | (2,058) | -38.3% |
| Borrowings and repurchase agreements | 1,315 | 1,163 | 152 | 13.1% |
| Total interest expense | <u>7,384</u> | <u>8,678</u> | <u>(1,294)</u> | <u>-14.9%</u> |
| Net interest income | <u>41,051</u> | <u>34,105</u> | <u>6,946</u> | <u>20.4%</u> |
| Provision for loan losses | 750 | 538 | 212 | 39.4% |
| Net interest income after provision for loan losses | <u>40,301</u> | <u>33,567</u> | <u>6,734</u> | <u>20.1%</u> |
| Noninterest income: | | | | |
| Mortgage banking revenues | 197 | 112 | 85 | 75.9% |
| Deposit service charges and other fees | 219 | 207 | 12 | 5.8% |
| Gain on sale of securities | 542 | 87 | 455 | 523.0% |
| Increase in cash surrender value of bank owned life insurance | 853 | 799 | 54 | 6.8% |
| Net loss on sale or write-down of other real estate | (759) | (903) | 144 | -15.9% |
| Other noninterest income | 402 | 402 | - | 0.0% |
| Total noninterest income | <u>1,454</u> | <u>704</u> | <u>750</u> | <u>106.5%</u> |
| Noninterest expenses: | | | | |
| Salaries and employee benefits | 13,331 | 11,826 | 1,505 | 12.7% |
| Occupancy | 1,547 | 999 | 548 | 54.9% |
| Unreimbursed loan costs and foreclosure related expenses | 874 | 496 | 378 | 76.2% |
| FDIC and other supervisory assessments | 939 | 932 | 7 | 0.8% |
| Data processing | 1,103 | 1,229 | (126) | -10.3% |
| Professional fees | 737 | 1,119 | (382) | -34.1% |
| Furniture, equipment and software | 1,878 | 1,340 | 538 | 40.1% |
| Directors fees and expenses | 921 | 977 | (56) | -5.7% |
| Other expenses | 3,430 | 2,991 | 439 | 14.7% |
| Total noninterest expenses | <u>24,760</u> | <u>21,909</u> | <u>2,851</u> | <u>13.0%</u> |
| Net income before tax expense | <u>16,995</u> | <u>12,362</u> | <u>4,633</u> | <u>37.5%</u> |
| Income tax expense | 5,761 | 4,403 | 1,358 | 30.8% |
| Net income | <u>\$ 11,234</u> | <u>\$ 7,959</u> | <u>\$ 3,275</u> | <u>41.1%</u> |
| Earnings per share - basic | <u>\$ 2.49</u> | <u>\$ 1.79</u> | <u>\$ 0.70</u> | <u>39.1%</u> |
| Earnings per share - diluted | <u>\$ 2.47</u> | <u>\$ 1.77</u> | <u>\$ 0.70</u> | <u>39.5%</u> |
| Weighted Average Shares: | | | | |
| Basic | <u>4,509,884</u> | <u>4,456,002</u> | <u>53,882</u> | <u>1.2%</u> |
| Fully Diluted | <u>4,547,906</u> | <u>4,495,013</u> | <u>52,893</u> | <u>1.2%</u> |

PARAGON COMMERCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Three Months Ended December 31, 2015 and 2014

| | 2015 | 2014 | Changes | % Change |
|---|------------------|------------------|----------------|---------------|
| (In thousands) | (Unaudited) | | | |
| Interest income: | | | | |
| Loans and loan fees | \$ 11,311 | \$ 9,896 | \$ 1,415 | 14.3% |
| Investment securities | 1,238 | 1,408 | (170) | -12.1% |
| Federal funds and other interest income | 45 | 23 | 22 | 95.7% |
| Total interest income | <u>12,594</u> | <u>11,327</u> | <u>1,267</u> | <u>11.2%</u> |
| Interest expense: | | | | |
| Interest-bearing checking and money markets | 769 | 582 | 187 | 32.1% |
| Time deposits | 704 | 1,211 | (507) | -41.9% |
| Borrowings and repurchase agreements | 391 | 268 | 123 | 45.9% |
| Total interest expense | <u>1,864</u> | <u>2,061</u> | <u>(197)</u> | <u>-9.6%</u> |
| Net interest income | <u>10,730</u> | <u>9,266</u> | <u>1,464</u> | <u>15.8%</u> |
| Provision for loan losses | - | - | - | n/a |
| Net interest income after provision for loan losses | <u>10,730</u> | <u>9,266</u> | <u>1,464</u> | <u>15.8%</u> |
| Noninterest income: | | | | |
| Mortgage banking revenues | 41 | 32 | 9 | 28.1% |
| Deposit service charges and other fees | 56 | 22 | 34 | 154.5% |
| Net loss on sale of securities | (26) | - | (26) | n/a |
| Increase in cash surrender value of bank owned life insurance | 221 | 206 | 15 | 7.3% |
| Net loss on sale or write-down of other real estate | (287) | (2) | (285) | 14250.0% |
| Other noninterest income | 97 | 212 | (115) | -54.2% |
| Total noninterest income | <u>102</u> | <u>470</u> | <u>(368)</u> | <u>-78.3%</u> |
| Noninterest expenses: | | | | |
| Salaries and employee benefits | 3,617 | 2,982 | 635 | 21.3% |
| Occupancy | 344 | 304 | 40 | 13.2% |
| Unreimbursed loan costs and foreclosure related expenses | 124 | 84 | 40 | 47.6% |
| FDIC and other supervisory assessments | 229 | 227 | 2 | 0.9% |
| Data processing | 257 | 330 | (73) | -22.1% |
| Professional fees | 123 | 210 | (87) | -41.4% |
| Furniture and equipment | 495 | 413 | 82 | 19.9% |
| Directors fees and expenses | 251 | 273 | (22) | -8.1% |
| Other expenses | 860 | 730 | 130 | 17.8% |
| Total noninterest expenses | <u>6,300</u> | <u>5,553</u> | <u>747</u> | <u>13.5%</u> |
| Net income before tax expense | <u>4,532</u> | <u>4,183</u> | <u>349</u> | <u>8.3%</u> |
| Income tax expense | <u>1,569</u> | <u>1,481</u> | <u>88</u> | <u>5.9%</u> |
| Net income | <u>\$ 2,963</u> | <u>\$ 2,702</u> | <u>\$ 261</u> | <u>9.7%</u> |
| Earnings per share - basic | <u>\$ 0.65</u> | <u>\$ 0.60</u> | <u>\$ 0.05</u> | <u>8.3%</u> |
| Earnings per share - diluted | <u>\$ 0.65</u> | <u>\$ 0.60</u> | <u>\$ 0.05</u> | <u>8.3%</u> |
| Weighted Average Shares: | | | | |
| Basic | <u>4,532,657</u> | <u>4,474,586</u> | <u>58,071</u> | <u>1.3%</u> |
| Fully Diluted | <u>4,567,023</u> | <u>4,514,400</u> | <u>52,623</u> | <u>1.2%</u> |

PARAGON COMMERCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2015 and 2014

| | 2015 | 2014 |
|---|-----------------------|-------------------|
| | <i>(In thousands)</i> | |
| Cash Flows From Operating Activities | | |
| Net income | \$ 11,234 | \$ 7,959 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,408 | 1,087 |
| Provision for loan losses | 750 | 538 |
| Net loss on sale or impairment of foreclosed assets | 759 | 903 |
| Increase in cash surrender of life insurance | (853) | (799) |
| Accretion of premiums/discounts on securities, net | (964) | (833) |
| Net gain on sale of securities | (544) | (87) |
| Net loss on disposition of premises and equipment | (4) | - |
| Deferred tax expense | 2,030 | 2,477 |
| Stock based compensation | 411 | 336 |
| Changes in assets and liabilities: | | |
| Accrued interest receivable and other assets | (361) | (7,212) |
| Accrued interest payable and other liabilities | 811 | 608 |
| Net cash provided by operating activities | <u>14,677</u> | <u>4,977</u> |
| Cash Flows From Investing Activities | | |
| Net (increase) decrease in Federal Home Loan Bank stock | (1,055) | (683) |
| Purchase of securities available for sale | (60,282) | (75,536) |
| Proceeds from maturities and paydowns of securities available for sale | 20,264 | 17,389 |
| Proceeds from sales of securities available for sale | 55,019 | 28,466 |
| Net increase in loans | (151,213) | (102,725) |
| Proceeds from sale of foreclosed real estate | 12,336 | 3,383 |
| Proceeds from sale of property and equipment | 24 | - |
| Additions to bank premises and equipment | (790) | (2,890) |
| Other investing activities, net | (73) | - |
| Net cash used in investing activities | <u>(125,770)</u> | <u>(132,596)</u> |
| Cash Flows From Financing Activities | | |
| Net increase in demand and money market deposit accounts | 168,338 | 133,626 |
| Net decrease in time deposits | (69,131) | (20,138) |
| Net increase (decrease) in repurchase agreements | 3,098 | (530) |
| Net increase in FHLB and other borrowings | 27,544 | 17,640 |
| Net decrease in subordinated debentures | - | (11,780) |
| Exercise of stock options | 177 | 59 |
| Issuance of common stock for Employee Stock Purchase Plan | 202 | - |
| Net cash provided by financing activities | <u>\$ 130,228</u> | <u>\$ 118,877</u> |
| Net change in cash and cash equivalents | <u>\$ 19,135</u> | <u>\$ (8,742)</u> |
| Cash and cash equivalents: | | |
| Beginning | 36,395 | 45,137 |
| Ending | <u>\$ 55,530</u> | <u>\$ 36,395</u> |