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Paragon Commercial Corporation (OTC QX - PBNC)

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Price: *	\$22.65	EPS **	2013A:	\$ 1.11	P/E	2013A:	20.4x
52 Wk. Range:	\$10.00 - \$25.00	(FY: DEC)	2014A:	\$ 1.77		2014A:	12.8x
Div/Div Yld:	\$0.00 / 0.0%		2015E:	\$ 2.45		2015E:	9.1x
Shrs/Mkt Cap:	4.6 mm / \$103 mm	Book Value:		\$ 20.02	Price/Book Value:		1.13x

* 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 \$1.3 billion in assets as of June 30, 2015, 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 QX marketplace under the symbol "PBNC").

EPS for the Second Quarter of 2015 Grew 20%, Beat Projections by \$0.05 Per Share

Paragon Commercial Corporation reported outstanding results in the second quarter of 2015. Earnings were a good deal better than we had expected, almost all of which was due to strong growth in net interest income, which was driven principally by underlying earning assets growth. We continue to be impressed with the consistency and rate of growth in the loan portfolio, which reflects expanding portfolios in each of the Company's three locations (Raleigh, Charlotte and most recently, Cary, NC). Profitability measures, such as ROAE have been quite impressive as well, which is allowing the capital base to expand to support the rapid asset growth. Finally, asset quality has been improving, which has allowed the provision for loan losses to remain low. We do believe the rapid loan growth is likely to lead to increases in the provision for loan losses going forward, although we expect those increases to be more than offset by higher net interest income.

Net income in the second quarter of 2015 totaled \$2,650,000, or \$0.59 per diluted share, up from \$2,177,000, or \$0.49 per diluted share, in the year-ago quarter. As was mentioned above, most of the strength was due to net interest income, which increased 25% to \$10,213,000 in 2015's second quarter from \$8,203,000 in the year-ago quarter. Average earning assets increased 23%, while margins were 3.50% in the second quarter of 2015, versus from 3.47% in the year-ago quarter. (It is worth noting that many of the banks we follow have seen compression in margins, so we were actually pleased with the increase in margins over this period). Noninterest income, excluding securities gains and losses on the sale/write-down of OREO, grew 24% to \$450,000 in the second quarter of 2015 from \$364,000 in the year-ago quarter, with a nice increase in mortgage banking revenues, which were \$75,000 in the second quarter of 2015, up from \$25,000 in the year-ago quarter. Noninterest expense was up 17%

ASSETS: \$1.3 B

HQ: RALEIGH, NC

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2ND QUARTER HIGHLIGHTS:

EPS: \$0.59 vs. \$0.49

**NET INTEREST INCOME GREW
25%**

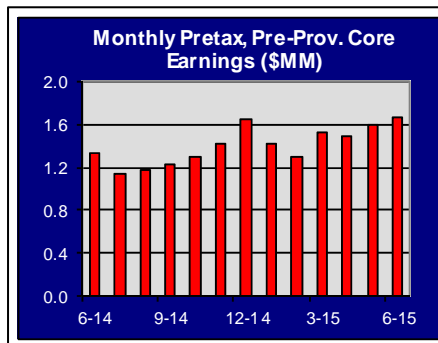
**AVERAGE EARNING ASSETS
INCREASED AN IMPRESSIVE
23%**

**NONINTEREST INCOME
INCREASED 24% EXCLUDING
SECURITY GAINS AND OREO
WRITE-DOWNS**

NONINTEREST EXPENSE GREW 17%

PRETAX, PRE-PROVISION CORE INCOME (BEFORE GAINS AND OREO) HAS BEEN ACCELERATING

to \$6,400,000 in 2015's second quarter from \$5,466,000 in the year-ago quarter, reflecting Paragon's opening of the Cary office and other key employee additions. Finally, the provision for loan losses was \$179,000 in 2015's second quarter, versus none in the year-ago quarter. As can be seen from the adjacent chart, pretax, pre-provision core earnings (before security losses and OREO write-downs) has been accelerating in the past several months, and it increased 26% over the past year.



For the first half of 2015, Paragon Commercial Corporation earned \$4,958,000, or \$1.10 per diluted share, which was up 31% from \$3,729,000, or \$0.84 per diluted share, in the year-ago period. Net interest income increased 21%, noninterest income (excluding security gains and OREO write-downs) grew 20% and noninterest expense was up 15% over this period. The provision for loan losses totaled \$750,000 for the first six months of 2015, which was up 39% from \$538,000 in the year-ago period.

FIRST HALF HIGHLIGHTS:

EPS: \$1.10 vs. \$0.84

NET INTEREST INCOME GREW 21%

Balance Sheet Growth Is Excellent and Has Been in the 19% to 24% Range Over the Past Year

There are few areas in which we have been more impressed than balance sheet growth, particularly given how elusive growth has been at many North Carolina commercial banks. From June 30, 2014 to June 30, 2015, Paragon's net loans grew 24%, in spite of the fact that the Company has sold \$16 million in loans this year. Total assets and deposits were up 19% over this period. What makes the loan growth all the more impressive is the fact that Also notable was the growth in the Company's local funding over the past year, as can be seen from the chart to the left. Local funding consisted principally of customer deposits, and grew 34% over the past year. Moreover, local deposits accounted for roughly 77% of total deposits at June 30, 2015, up from 68% of total deposits at the year-ago date. And within the local deposit mix, noninterest bearing deposits grew from 12% of total deposits to 16% of total deposits over the same time period. At June 30, 2015, the Company remained well capitalized, with shareholders' equity of \$91 million, or 6.94% of total assets, compared to \$83 million, or 7.46% of total assets, at the year-ago date. All of Paragon's regulatory capital ratios exceeded the "well capitalized" minimums.

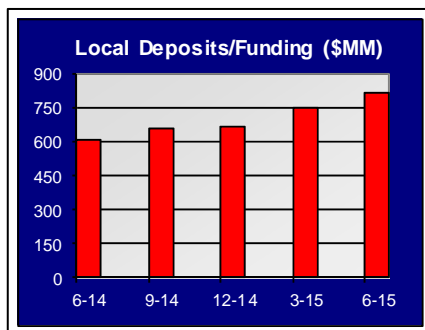
FROM JUNE 30, 2014 TO JUNE 30, 2015:

NET LOANS GREW 24%

TOTAL ASSETS AND DEPOSITS INCREASED 19%

LOCAL FUNDING INCREASED 34% OVER THE PAST YEAR

EQUITY/ASSETS: 6.94%



NPAs WERE DOWN 22% FROM 3/31/15 AND 17% FROM THE YEAR-AGO DATE

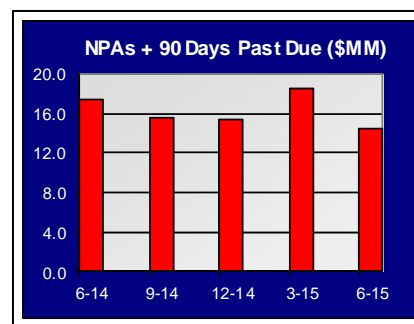
NPAs/ASSETS: 1.10%

NONACCRUING LOANS TO TOTAL LOANS WERE ONLY 0.08%

RESERVES/LOANS: 0.76%

NPAs Decreased 17% from the Year-Ago Date

Paragon's nonperforming assets declined at June 30, 2015 to \$14.4 million, or 1.10% of total assets, down 22% from \$18.5 million, or 1.46% of total assets, at March 31, 2015, and down 17% from \$17.4 million, or 1.57% of total assets, at the year-ago date. Nearly all of the NPAs are OREO. Amazingly (for a bank this size and age), total nonaccruing loans were only 0.08% of total loans at June 30, 2015. The allowance for loan losses was \$7.6 million (0.76% of gross loans) at June 30, 2015, versus \$7.0 million (0.87% of gross loans) at the year-ago date



EPS:
2013A: \$ 1.11
2014A: \$ 1.77
2015E: \$ 2.45

Projections Increased

We are increasing our 2015 earnings estimate to \$10.9 million, or \$2.45 per diluted share, up from our previous estimate of \$10.0 million, or \$2.25 per diluted share. We will publish our 2016 earnings estimate in our next report. These projections could vary widely depending on changing conditions.

ADDITIONAL INFORMATION UPON REQUEST

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