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Paragon Commercial Corporation (OTC QX - PBNC)

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Price: *	\$28.50	EPS **	2014A:	\$ 1.77	P/E	2014A:	16.1x
52 Wk. Range:	\$10.00 - \$28.50	(FY: DEC)	2015E:	\$ 2.50		2015E:	11.4x
Div/Div Yld:	\$0.00 / 0.0%		2016E:	\$ 2.82		2016E:	10.1x
Shrs/Mkt Cap:	4.6 mm / \$130 mm	Book Value:		\$ 20.59	Price/Book Value:		1.38x

* 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.

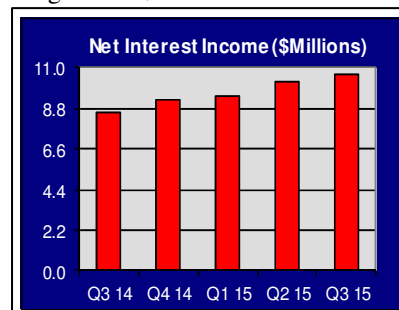
Background

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 \$1.4 billion in assets as of September 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”).

Third Quarter Earnings More than Doubled and Outperformed Projections

For the third quarter of 2015, Paragon Commercial Corporation reported excellent results in nearly every facet of its performance measures. Earnings more than doubled and outperformed projections by \$0.08 per share, loan growth was strong and asset quality continued to improve. Not surprisingly, the Company’s stock price reflected this excellent performance, as PBNC shares are up 26% since our report dated August 5, 2015.

Net income for the third quarter of 2015 was \$3.3 million, or \$0.73 per diluted share, which was up 117% from \$2.7 million, or \$0.34 per diluted share, in the year-ago quarter. The earnings growth was primarily driven by a 24% increase in net interest income, which grew to \$10.7 million in the third quarter of 2015 from \$8.6 million in the year-ago quarter. That improvement was both volume driven (average earning assets were up 21%), as well as rate driven (the net interest margin was 3.49% in 2015’s third quarter, versus 3.45% in the year-ago quarter.) As can be seen in the adjacent chart, net interest income growth has been quite solid throughout the past year. Noninterest income for the third quarter of 2015 totaled \$544,000, compared to a noninterest loss of \$380,000 in the year-ago quarter. Noninterest income in the third quarter of 2014 was impacted by a loss of \$0.7 million from the sale of foreclosed properties. Excluding that loss in the year-ago quarter as well as nonrecurring gains or losses in 2015’s third quarter, core noninterest income increased a solid 20% to



ASSETS: \$1.4 B

HQ: RALEIGH, NC

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3RD QUARTER HIGHLIGHTS:

EPS: \$0.73 vs. \$0.34

NET INTEREST INCOME WAS UP 24%

AVERAGE EARNING ASSETS INCREASED 21%

NONINTEREST INCOME GREW 20% EXCLUDING SECURITY GAINS AND OREO WRITE-DOWNS

**NONINTEREST EXPENSE
INCREASED 9%, REFLECTING
STAFF ADDITIONS**

FIRST HALF HIGHLIGHTS:

EPS: \$1.82 vs. \$1.16

**BALANCE SHEET GROWTH WAS
EXCELLENT**

**PARAGON HAS VERY
IMPRESSIVE PROFITABILITY
METRICS**

**A GOOD DEAL OF ITS HIGH
PROFITABILITY RELATES TO ITS
EFFICIENCY AND ITS ABILITY TO
SCALE IT OPERATION**

**ASSET QUALITY COMPARES
FAVORABLY AS WELL**

**THE SHARES TRADE AT A
DISCOUNT TO THE GROUP BASED
ON EARNINGS**

NPAs/ASSETS: 1.01%

**PARAGON HAS A VERY LOW
LEVEL OF NONACCRUING LOANS**

RESERVES/LOANS: 0.76%

**EPS:
2014A: \$ 1.77
2015E: \$ 2.50
2016E: \$ 2.82**

\$408,000 in the third quarter of 2015 from \$340,000 in the year-ago quarter. Noninterest expense was \$6.2 million in the third quarter of 2015, which was up 9% from \$5.7 million in the year-ago quarter, with the majority of the increase coming from personnel expense (see comments below about assets per employee). There was no provision for loan losses in either the current or year-ago quarter, reflecting the reduction in nonperforming assets as well as substantial net recoveries in the third quarter of 2015.

For the first nine months of 2015, Paragon Commercial Corporation reported net income of \$8.3 million, or \$1.82 per diluted share, which was up 57% from \$5.3 million, or \$1.16 per diluted share, in the year-ago period. Net interest income grew 22%, noninterest income (excluding security gains and OREO write-downs) increased 20% and noninterest expense increased 13% over this period. The provision for loan losses increased to \$0.8 million in the first nine months of 2015, which was up 39% from \$0.5 million in the year-ago period. Balance sheet growth over the past year was exceptional, with assets, gross loans and deposits growing 19%, 22% and 20%, respectively, over the past year.

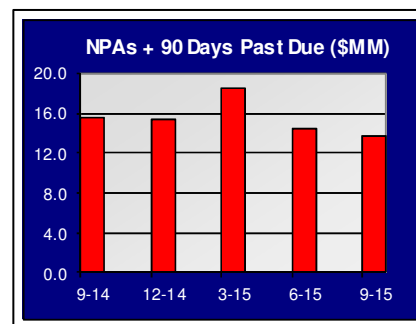
Paragon Commercial Corporation Continues to Outperform Peers

Paragon Commercial Corporation remains one of the best performing banks in North Carolina. We base that statement on a number of key performance measures. First, with its niche of being a business-based bank in attractive markets, it has been able to maintain strong loan growth in a period when many other banks are experiencing moderate to stagnant loan growth. Second, the Company's profitability measures (ROAA and ROAE) are well above the median ratios for the NC peer group median. A good deal of this has to do with scale and efficiency, which can be seen in the much higher assets per employee figures. Third, its ratio of NPAs to total assets is below that of the peer group, and NPAs continue to sequentially decline. Despite this superior performance and the fact that the stock continues to increase, the shares are trading at a discount to NC peers based on earnings. The price to book value was above the peer group median, though we would argue that that is consistent with Paragon's much higher ROAE.

PEER GROUP COMPARISON: PARAGON VS. NC PUBLIC BANKS						
	ROAA MRQ	ROAE MRQ	Assets Per Employee	NPAs/ Assets	Price/ EPS	Price/ Book Value
<i>PBNC</i>	0.99%	14.17%	\$10.4 mm	1.01%	11.7x	1.38x
<i>Peer Median</i>	0.75%	6.21%	\$4.7 mm	1.20%	16.9x	0.96x

Asset Quality Continues to Improve

Paragon continues to do an excellent job bringing down its level of problem assets. As of September 30, 2015, nonperforming assets declined to \$13.8 million, or 1.01% of assets, down from \$14.4 million, or 1.10% of total assets, at June 30, 2015 and \$15.5 million, or 1.36% of total assets, at September 30, 2014. Nearly all of the NPAs are OREO. Total nonaccruing loans were only 0.07% of total loans at September 30, 2015, which is quite low for a bank this size. The allowance for loan losses was \$7.6 million (0.76% of gross loans) at September 30, 2015, versus \$7.0 million (0.85% of gross loans) at the year-ago date



Projections Increased

We are increasing our 2015 earnings estimate to \$11.3 million, or \$2.50 per diluted share, up from our previous estimate of \$10.9 million, or \$2.45 per diluted share. We are projecting earnings of \$12.7 million, or \$2.82 per diluted share, for 2016. These projections could vary widely depending on changing conditions.

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