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Paragon Commercial Corporation (OTC QX - PBNC)

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Price: *	\$26.90	EPS **	2014A:	\$ 1.77	P/E	2014A:	15.2x
52 Wk. Range:	\$16.00 - \$28.50	(FY: DEC)	2015A:	\$ 2.47		2015A:	10.9x
Div/Div Yld:	\$0.00 / 0.0%		2016E:	\$ 2.82		2016E:	9.5x
Shrs/Mkt Cap:	4.6 mm / \$123 mm	Book Value:		\$ 21.32	Price/Book Value:		1.26x

* Limited trading. Price is most recent of which Company is aware. ** 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 December 31, 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").

Fourth Quarter Earnings Were Better Than the Year-Ago Figures

Paragon Commercial Corporation reported fourth quarter earnings that were a nice improvement from the year ago figures. And while those results were slightly below our projections, the shortfall was mainly due to nonrecurring losses on the sale of securities and OREO in 2015's fourth quarter, neither of which we had modeled in our earnings estimates. Accordingly, from an operating standpoint, the results were actually pretty close to what we had anticipated. The Bank also continued to reduce its problem assets, and finished the year with the lowest level of NPAs to assets that it has had since September 2008. Balance sheet growth was strong as well, though loan growth moderated a touch in the fourth quarter of the year. But looking ahead, we expect overall loan growth to be strong in 2016, and the Company continues to add to its corporate team (through both employee and/or Board of Directors additions) as part of its effort to develop new banking relationships.

Net income for the fourth quarter of 2015 was \$3.0 million, or \$0.65 per diluted share, up 10% (8% on a per share basis) from \$2.7 million, or \$0.60 per diluted share, in the year-ago quarter. As was mentioned above, earnings in 2015's fourth quarter included losses on the sale of securities and OREO, the exclusion of which would have led to earnings that were roughly 17% ahead of last year's quarterly figures. As has been the case throughout the year, the biggest driver of the improved earnings was the growth in net interest income, which increased 16% to \$10.7 million in the fourth quarter of 2015 from \$9.3 million in the year-ago quarter. Margins have been holding fairly steady, so all of that improvement came from an expansion of average earning assets. Noninterest income for the fourth quarter of 2015 was down, though most of that was due to losses on the sale of real estate and securities, which tend to be quite variable and generally, nonrecurring. Excluding real estate and

ASSETS: \$1.3 B

HQ: RALEIGH, NC

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4TH QUARTER HIGHLIGHTS:

**OPERATING EARNINGS
REFLECTED GOOD
IMPROVEMENT OVER LAST
YEAR**

EPS: \$0.65 VS. \$0.60

**EARNINGS IN 2015'S FOURTH
QUARTER INCLUDED
NONRECURRING LOSSES OF
ROUGHLY \$313,000, VERSUS
ESSENTIALLY NONE IN THE
YEAR-AGO PERIOD**

**NET INTEREST INCOME WAS
UP 16%**

**NONINTEREST EXPENSE
INCREASED 13%**

FULL YEAR HIGHLIGHTS:

EPS: \$2.47 vs. \$1.77

**NET INTEREST INCOME GROWTH
WAS IMPRESSIVE**

**BALANCE SHEET GROWTH WAS
QUITE STRONG IN 2015 AND
CAME FROM ALL THREE OFFICES**

**THE CARY OFFICE HAS
ALREADY BUILT A LOAN
PORTFOLIO OF \$115 MILLION**

**PARAGON HAS ADDED SEVERAL
KEY INDIVIDUALS TO ITS TEAM**

NPAs/ASSETS: 0.46%

**NONACCRUING LOANS ARE
ONLY 0.05% OF LOANS**

RESERVES/LOANS: 0.75%

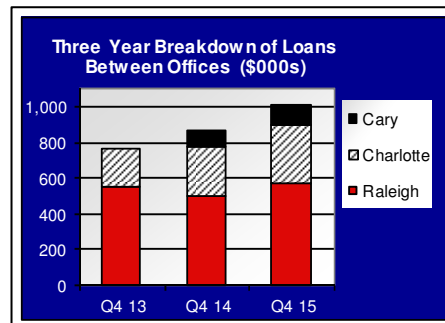
**EPS:
2014A: \$ 1.77
2015A: \$ 2.47
2016E: \$ 2.82**

security gains and losses, noninterest income totaled \$415,000 in 2015's fourth quarter, down from \$472,000 in the year-ago quarter. Finally, noninterest expense was \$6,300,000 in the fourth quarter of 2015, which was up 13% from \$5,553,000 in the year-ago quarter. There was no provision for loan losses in either the current or year-ago quarter.

For the full year 2015, Paragon Commercial Corporation reported net income of \$11,234,000, or \$2.47 per diluted share, which was up 41% (40% on an EPS basis) from \$7,959,000, or \$1.77 per diluted share, in 2014. Net interest income grew 20%, while noninterest income (excluding security gains and OREO write-downs) increased 10%, with most of that increase coming from mortgage banking revenues. Noninterest expense increased 13%, while the provision for loan losses increased to \$750,000 in 2015 from \$538,000 in 2014.

Balance Sheet Growth Has Been Strong; Loans Up 17% in the Past Year

As was stated earlier, balance sheet growth was strong in the past year, with assets increasing 12% from December 31, 2014 to December 31, 2015, and loans and deposits growing 17% and 11%, respectively, over the same period. Within Paragon Commercial Corporation's three offices in Raleigh, Charlotte and Cary, the most rapid growth has, not surprisingly, come from the smallest office (Cary), which was opened in late 2014 and had roughly \$115 million in loans at year-end 2015. Charlotte and Raleigh experienced solid growth in 2015 as well, as can be seen in the adjacent chart.

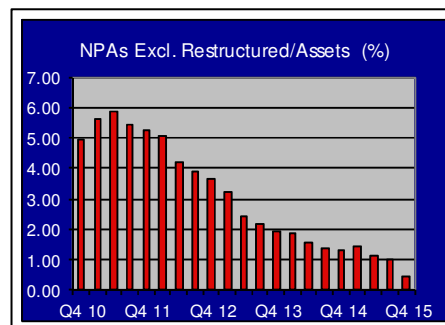


Paragon Commercial Corporation Continues to Add Key Members to its Team

One of the things Paragon Commercial Corporation has done a particularly good job of is to identify key strategic additions to their organization. It recently added several members to their corporate team, each of whom has excellent connections within their respective business communities. One of those individuals is Harvey Schmitt, the retired CEO of the Raleigh Chamber of Commerce, while two others are Rusty Page and Will Bishop, both of whom have long-standing and distinguished careers in banking and who will expand the banking team in Charlotte.

NPAs Dropped By Half in the Past Three Months

Asset quality continues to improve. As of December 31, 2015, nonperforming assets were \$6.0 million, or 0.46% of assets, down from \$13.8 million, or 1.01% of assets, at September 30, 2015 and \$15.2 million, or 1.31% of total assets, at December 31, 2014. The chart at the right helps to provide perspective on the extent of the asset quality improvement over the past several years. Total nonaccruing loans at December 31, 2015 were only 0.05% of total loans. The allowance for loan losses was \$7.6 million (0.75% of gross loans) at December 31, 2015, versus \$6.9 million (0.79% of gross loans) at the year-ago date.



Projections Maintained

Based on the most recent results, we are maintaining our 2016 earnings estimate of approximately \$12.9 million, or \$2.82 per diluted share, for 2016. These projections could vary widely depending on changing conditions.

ADDITIONAL INFORMATION UPON REQUEST

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