

AVAILABLE ON THE WEB AT [WWW.EQUITYRESEARCH.COM](http://www.equityresearch.com)

Paragon Commercial Corporation (OTC QX - PBNC)

5003 Falls of Neuse Road

Raleigh
North Carolina
27609

919-876-8868 ph
919-876-8839 fax

www.equityresearch.com

John A. (Buddy) Howard, CFA
April 13, 2015

Price: *	\$23.25	EPS **	2013A:	\$ 1.11	P/E	2013A:	20.7x
52 Wk. Range:	\$8.65 - \$23.75	(FY: DEC)	2014A:	\$ 1.77		2014A:	13.0x
Div/Div Yld:	\$0.00 / 0.0%		2015E:	\$ 2.25		2015E:	10.2x
Shrs/Mkt Cap:	4.5 mm / \$104 mm	Book Value:		\$ 19.84	Price/Book Value:		1.16x

* 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.

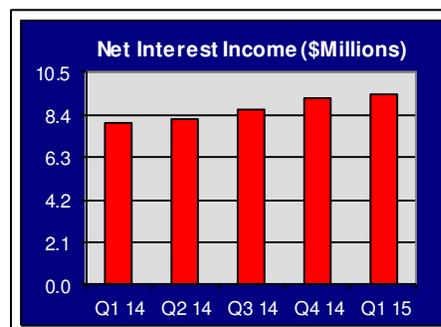
Background

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 March 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”).

First Quarter Earnings Increased 49%

Paragon Commercial Corporation reported excellent first quarter results. Earnings were up sharply, the balance sheet and loan portfolio expanded significantly, thanks in part to the robust loan growth spread across all three locations, and asset quality remained good. Profitability measures such as annualized return on average equity remain quite high, and are likely to support a higher valuation in our view. Despite the fact that the shares have already had a nice run up, we still see upside in the stock. In fact, the share price (the stock recently began trading on the OTCQX Market) has doubled on a year-to-date basis.

Net income for the first quarter of 2015 was \$2.3 million, or \$0.51 per diluted share, which was up 49% from \$1.6 million, or \$0.35 per diluted share, in the year-ago quarter. (We had projected EPS of \$0.53, so the results were in line with our earnings model.) The primary driver behind the earnings growth was net interest income, which increased 18% to \$9.5 million in 2015’s first quarter, from \$8.0 million in the year-ago quarter. This growth was mainly due to the expansion in average earning assets, which was up 18% in 2015’s first quarter from the year-ago quarter. Margins have been holding fairly steady and, in our view, are likely to remain relatively unchanged for the next several quarters. Noninterest income, excluding securities gains and losses on the sale/write-down of OREO, had a solid increase of 16% to \$398,000 in the first quarter of 2015 from \$344,000 in the year-ago quarter.



ASSETS: \$1.3 B

HQ: RALEIGH, NC

CONTACT:
BOB C. HATLEY
(919) 788-7770

1ST QUARTER HIGHLIGHTS:

EPS: \$0.51 vs. \$0.35

**AVERAGE EARNING ASSETS
GREW 18%**

**NET INTEREST INCOME WAS
UP 18%**

**NONINTEREST INCOME,
EXCLUDING SECURITY GAINS
AND OREO LOSSES,
INCREASED 16%**

**NONINTEREST EXPENSE
GROWTH REFLECTED THE
ADDITION OF THE CARY
LOCATION**

Noninterest expense increased 13% to \$5.9 million in the first quarter of 2015 from \$5.2 million in the year-ago quarter, mainly due to the Company's expansion over the past year, which included the opening of the Cary facility and an Operations Center. Finally, the provision for loan losses totaled \$0.6 million in the first quarter of 2015, which was up 6% from \$0.5 million in the year-ago quarter.

Paragon's Key Performance Metrics Remain Quite Impressive

Paragon has some of the most impressive efficiency metrics within the banking industry. In the first quarter of 2015, the Company's efficiency ratio was 59.9%, versus roughly 72% for NC banks, while its assets per employee was roughly \$9.7 million at the end of 2015's first quarter, versus a median of roughly \$4.4 million for the typical North Carolina publicly traded bank. This efficiency is also evident in the returns on assets and equity. For the first quarter of 2015, annualized ROAA increased to 0.77% from 0.60% in the year-ago quarter, while annualized ROAE increased to 10.38% from 7.83%.

**KEY EFFICIENCY METRICS
REMAIN IMPRESSIVE**

ROAA: 0.77%

ROAE: 10.38%

Net Loans Increased 21% Over the Past Year

Balance sheet growth has been excellent and bolsters our confidence in strong earnings gains over the next few years. From March 31, 2014 to March 31, 2015, net loans grew 21%, while deposits increased 15% and total assets grew 19%. Within the deposit growth, of particular note was that

**FROM MARCH 31, 2014 TO
MARCH 31, 2015:**

NET LOANS GREW 21%

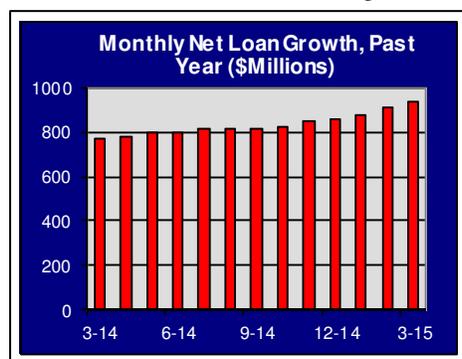
DEPOSITS INCREASED 15%

TOTAL ASSETS WERE UP 19%

LIQUIDITY IS GOOD

**SHAREHOLDERS' EQUITY
INCREASED 13%**

EQUITY/ASSETS: 7.08%



wholesale CDs shrank while core deposits increased. We also found the loan growth particularly impressive. Moreover, we have been encouraged that the loan portfolio is getting more diversified, in part due to strong growth in mortgages, consumer and C&I loans. As of March 31, 2015, commercial real estate loans were 61% of total loans at March 31, 2015 (more than a fifth of which was owner occupied), while mortgages accounted for 16% and C&I loans about 14% of the total. We would also note that the Bank has about \$260 million in cash, Fed Funds and investments (about 20% of assets), so

liquidity is still quite high despite the rapid loan growth. Paragon Commercial remains well capitalized, with shareholders' equity of \$90 million, or 7.08% of total assets, at March 31, 2015, up 13% from \$80 million, or 7.48% of total assets, at the year-ago date. All of the Company's regulatory capital ratios well exceeded the minimums for it to be considered "well capitalized" at March 31, 2015.

NPAs Decreased 8% from Year-Ago Date, NPA/Asset Ratio is Better than Peers

At March 31, 2015, Paragon Commercial Corporation had nonperforming assets of \$18.3 million, or 1.44% of total assets, versus \$15.2 million, or 1.30% of total assets, at December 31, 2014, and \$19.8 million, or 1.86% of total assets, at the year-ago date. NPAs were predominately OREO, which totaled \$14.4 million at March 31, 2015 (and declined 19% from the year-ago date), with the remainder being nonaccrual loans (\$3.9 million). The nonaccrual loan represents one relationship and the Company is hopeful it will be resolved quickly. The allowance for loan losses was relatively unchanged at \$7.6 million, or 0.80% of gross loans, at March 31, 2015, from \$7.6 million (0.97% of gross loans) at the year-ago date, though it increased 10% from \$6.9 million (0.79% of gross loans) at December 31, 2014.

NPAS/ASSETS: 1.44%

RESERVES/LOANS: 0.80%

Projections Maintained

Based on the results for the quarter being close to our expectations and the momentum in core earnings drivers being positive, we are continuing to project 2015 earnings to approach \$10.0 million, or \$2.25 per diluted share, which represents a 27% increase from EPS in 2014. These projections could vary widely depending on changing conditions.

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

ADDITIONAL INFORMATION UPON REQUEST

Copyright © 2015 Equity Research Services, Inc. All rights reserved. This material is for your information only and is not a solicitation, or an offer, to buy or sell securities mentioned. Equity Research Services, Inc. ("ERS") is a firm involved in financial advisory, equity research, valuation and investor relations services. All reports generated by ERS for the purpose of investor relations are designated "Investor Relations Report," and ERS receives a fee (from the company whose securities are described) for producing such reports. ERS may also act in a financial advisory role to the company. The information contained herein has been obtained from sources we believe reliable but in no way is guaranteed by us. Furthermore, this report contains forward-looking statements and projections that are based on certain assumptions and expectations. Accordingly, actual results may differ considerably from those reflected in this report due to such factors as those which are listed in the Company's SEC or other filings. Any non-factual information in the report is our opinion and is subject to change without notice.