

2016
ANNUAL REPORT

PUBLIC **PRIVATE**
ACHIEVEMENT **COMMITMENT**



PARAGON
COMMERCIAL CORPORATION

PUBLIC ACHIEVEMENT

For public companies, there is always urgency about creating shareholder value. Policies and decisions must be mindful of the trust people place in our company—people who look to our performance to bring tangible value to their lives. In our first year as a public company, Paragon continued to enjoy the kind of financial performance that gave us confidence to make a public offering in the first place. And shareholders have responded.

One particularly ebullient day for the Paragon team was one that put a public face on our progress to date—the ringing of the bell at NASDAQ.

PRIVATE COMMITMENT

In 2016, Paragon enjoyed financial success by just about every measure, but we are not resting. In fact, we are renewing our day-to-day focus on the practices that drive our success. Our high standards for finding and rewarding top professionals in each market, equipping and supporting those high performers, and cultivating long-term, broad-based client relationships—creating extraordinary client experiences—will be the key to our future.

Our clients' success is our success, so we are pleased to include four client stories—examples of how Paragon defines success.



SELECTED FINANCIAL DATA

Years Ended December 31,
(Dollars in thousands, except per share data)

FOR THE YEAR:	2016	2015	% CHANGE
Interest income	\$54,167	\$48,435	12%
Interest expense	8,129	7,384	10%
Net interest income	46,038	41,051	12%
Provision for loan losses	591	750	-21%
Net interest income after provision for loan losses	45,447	40,301	13%
Non-interest income	1,294	1,454	-11%
Non-interest expense	26,874	24,760	9%
Income before income taxes	19,867	16,995	17%
Income tax (benefit) expense	6,477	5,761	12%
Net income	\$13,390	\$11,234	19%

PER SHARE DATA:	2016	2015	% CHANGE
Book value per common share (period end)	\$24.97	\$21.32	17%
Basic earnings per share	\$2.69	\$2.49	8%
Diluted earnings per share	\$2.68	\$2.47	9%
Period end common shares outstanding	5,450,713	4,581,334	19%
Average diluted common shares outstanding	5,004,751	4,547,906	10%

AT YEAR END:	2016	2015	% CHANGE
Total assets	\$1,503,767	\$1,305,911	15%
Investments securities - at fair value	197,441	168,896	17%
Loans-net	1,183,371	1,008,515	17%
Deposits	1,172,255	982,847	19%
Shareholders' equity	136,101	97,658	39%
Full time equivalent employees	148	139	6%

SELECTED AVERAGE BALANCES:	2016	2015	% CHANGE
Total assets	\$1,414,631	\$1,280,913	10%
Investment securities - at book value	187,404	168,650	11%
Loans	1,102,740	970,153	14%
Deposits	1,076,424	959,515	12%
Shareholders' equity	117,988	92,073	28%

PERFORMANCE RATIOS:	2016	2015
Return on average assets	0.95%	0.87%
Return on average equity	11.35%	12.20%
Average loans to deposits	102.44%	101.11%
Average tangible common equity ratio	8.34%	7.10%
Average yield on loans	4.43%	4.48%
Average cost of deposits	0.56%	0.63%
Tax equivalent net interest margin	3.54%	3.51%
Overhead to average assets	1.90%	1.91%

ASSET QUALITY RATIOS:	2016	2015
Nonperforming assets to total assets - period end	0.38%	0.46%
Nonperforming loans to total loans - period end	0.08%	0.05%
Accruing loans past due 30 days or more to total loans	0.00%	0.00%
Net (recoveries) charge-offs to average loans	0.03%	0.00%
Allowance for loan losses as a percentage of total loans	0.66%	0.75%
Allowance for loan losses as a percentage of nonperforming loans	817.05%	1489.47%

TO OUR SHAREHOLDERS

By almost all measures, 2016 was Paragon's most outstanding year in our 18-year history. We experienced 17% loan growth, 32% local deposit growth (including repurchase agreements), a 1% ROA at the Bank level (.95% on a consolidated basis), and achieved an EPS of \$2.69 which was well over our goal.



PARAGON accomplished these outstanding numbers while completing a very successful Initial Public Offering. The IPO, completed in June of 2016, attracted \$26 million in additional capital for our future growth, added liquidity for our shareholders, and added institutional ownership, which is critical to increasing the trading volume in our stock.

Last year as part of our IPO, our CFO, Steve Crouse, and I visited 32 institutional investors in Chicago, Washington, Philadelphia, Baltimore, and Boston over a 4-day time period. It was quite an experience and very rewarding. Our offering was four times oversubscribed due to investor demand and the IPO priced at \$34.00 per share, which was a premium over the then currently traded price of \$27.30.

We believe the IPO was successful because we told our story. That is what sealed it for us. We have a very unique story that the investment community really appreciates. We talked about our talented staff and our outstanding markets (the Triangle and Charlotte). We talked about what sets us apart from our competitors. It wasn't a story of a large branch network or how

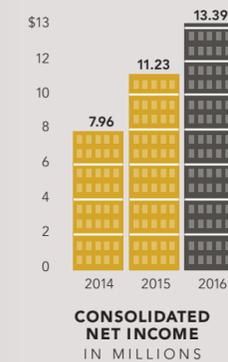
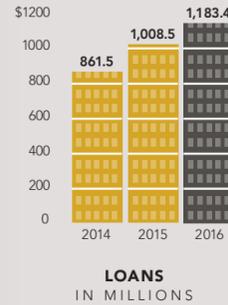
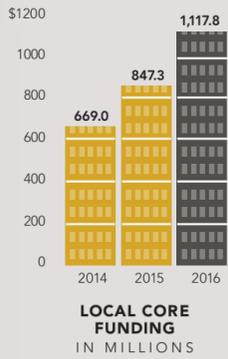
"we provide great service," which is the story of every other community bank. We know that multiple branches in today's technology-driven world are no longer an asset but rather a liability to an efficient banking franchise.

We also know that every banker says that they

provide good service but they seldom do. Instead we focused on the experience of our clients, which we term the Extraordinary Client Experience. We walk this talk every day and it clearly is a major distinguishing factor. It is part of our core values and in our strategic plan.

Our story is also our focus on small- and medium-size businesses and high net worth individuals. Why is that important to the client? Because we have relatively larger relationships which means fewer clients per Client Development Officer. This results in more attention to our clients. That is what everyone desires from their banker—professional and friendly attention. The list of our distinguishing characteristics is long, but these characteristics are designed for one purpose—to deliver timely, professional attention to our clients. To our shareholders I will say that our distinguishing characteristic of not being all things to everyone reflects into an extremely efficient banking franchise. I will also say that it all begins with our staff. They are our most important stakeholders. The reason is obvious to management. If we employ highly skilled and motivated employees who really enjoy their working experience, they will deliver more clients to the bank with lending and deposit needs. Those clients will become "raving fans" who are our greatest referral source. Those clients do more business with Paragon and in the end the shareholders are rewarded. This is a very simple concept that few competitors employ.

Lift page to continue. ▶



How is this plan working out? The stock price is a good indication that we are a high performing bank. Also, our staff enjoys working at Paragon. The best measurements are that Paragon enjoys a staff turnover ratio which is well below the national average and that Paragon was named for the second year in a row as one of the top ten banks in the country to work for (per American Banker Magazine). There are approximately 6,000 banks in the country.

In addition to the financial results mentioned above other key numbers are:

- Non-performing Assets - .38%. This includes \$5.7mm "Other Real Estate Owned" (foreclosed property) and non-accruing loans. This is very low relative to our \$1.2B loan portfolio and puts us in the top quartile among banks with total assets between \$1B and \$5B in the country.
- Efficiency Ratio - 54.92%. This ratio of noninterest expenses to net income is a good indication of how efficiently a bank operates. We strive for a low efficiency ratio. As a result, our ratio is one of the lowest in NC and in the top 10% in the Southeast for this expense control measure. With a \$1.5B asset size and less than 160 employees in three offices, we believe we have a built-in advantage over our competitors.
- Demand Deposit Growth - Noninterest deposit accounts that come from relationships with operating companies are a good indicator of our success in attracting those types of clients. We grew our demand deposit account portfolio by 33% in 2016, which is outstanding.

While we are very proud of our accomplishments in 2016, we cannot become complacent but will continue to work hard. To that end, we continue to hire quality staff, seek quality clients, and employ continual sales and business development training. We continue to employ our resources on compliance, credit quality, technology, interest rate risk, and audit. We recognize that Fintech (financial technology) is becoming more prominent in the financial services industry. We must stay abreast of that ever-changing landscape.

Everything about Paragon works together towards our single defining characteristic: the distinctive culture that earns us our reputation as a high-quality institution. We have maintained an outstanding brand in our communities.

I am very proud of the organization we have developed over a short number of years. But most importantly what drives management and our staff is why we do this. The answer is above. What we provide is what everyone seeks. That is quality attention to our clients.

Thank you for sharing our vision.

Robert C. Hatley
President
and Chief Executive Officer



Times Square, New York City
December 5, 2016
Paragon rings the NASDAQ opening bell.

“PARAGON IS THERE FOR US...”

Tammy Lynn Center



Holly Richard believes everyone should have the opportunity to “live, love, grow, laugh, work, and reach their fullest potential”—including the hundreds of children and adults with intellectual and developmental disabilities (IDD) served each year at Tammy Lynn Center (TLC) in Raleigh, North Carolina.

👉 TLC started as a “mom’s morning out,” in a church basement in 1969. The idea then, as it is now, was to support children with special needs, and their families, so they can be a vital part of both family and community.

👉 Since then, TLC has grown into a “birth to Heaven organization,” touching more than 400 lives each year, with group homes, a Pre-K school, a school for students ages 6-22 with IDD and complex medical needs, in-home respite care, and therapy services.

👉 “Caring for a child or adult with intellectual and developmental disabilities can be a 24/7 labor of love,” says Mrs. Richard. “There need to be various services and supports for individuals and their families. Our homes provide round-the-clock services — including nursing care — in a home-like environment. And we provide that same care in our schools, including medical care and various therapies to ensure the quality of each student’s education.”

👉 With the services they provide, the Tammy Lynn Center needs to raise more than \$800,000 each year. And to keep this labor of love going, they need a unique banking relationship.

👉 “We’re dedicated and committed to celebrating the lives of the people we serve,” says Mrs. Richard. “We’re all family.”

👉 “We’re not corporate. We’re a nonprofit. And that’s what’s great about Paragon. They get what we’re about. They understand how to work with a nonprofit like us — the services we need, the challenges we face.

👉 “And they’re our partners. They’re right here when we need them. And they celebrate with us.”

Holly Richard

Tammy Lynn Center
President and CEO
Raleigh NC



Connie Thames

Paragon Bank
Client Development Officer
Raleigh NC

**“WE’RE A
LOCAL BRAND.
THEY’RE A LOCAL BANK...”**

Reid's Fine Foods



“Reid’s is a great brand.

It’s kind of an institution in this part of the country,” says Tom Coker, of the Charlotte restaurant and caterer founded in 1928.

We bought the company primarily because of the brand.

We see a lot of growth potential.”

👤 Mr. Coker and his partner, Al Waugh, both have strong financial backgrounds. And when they went looking for a business investment opportunity, they settled on Reid’s.

👤 “People in Charlotte know the name and associate it with great quality. It says ‘local’ to people to whom that really matters. The company has been providing good products and service for a long time. We find that very attractive. As business people, we see that as a great foundation to build on.”

👤 One thing a business needs, if it’s going to grow at a good pace, is strong banking relationships. That’s where Paragon comes in.

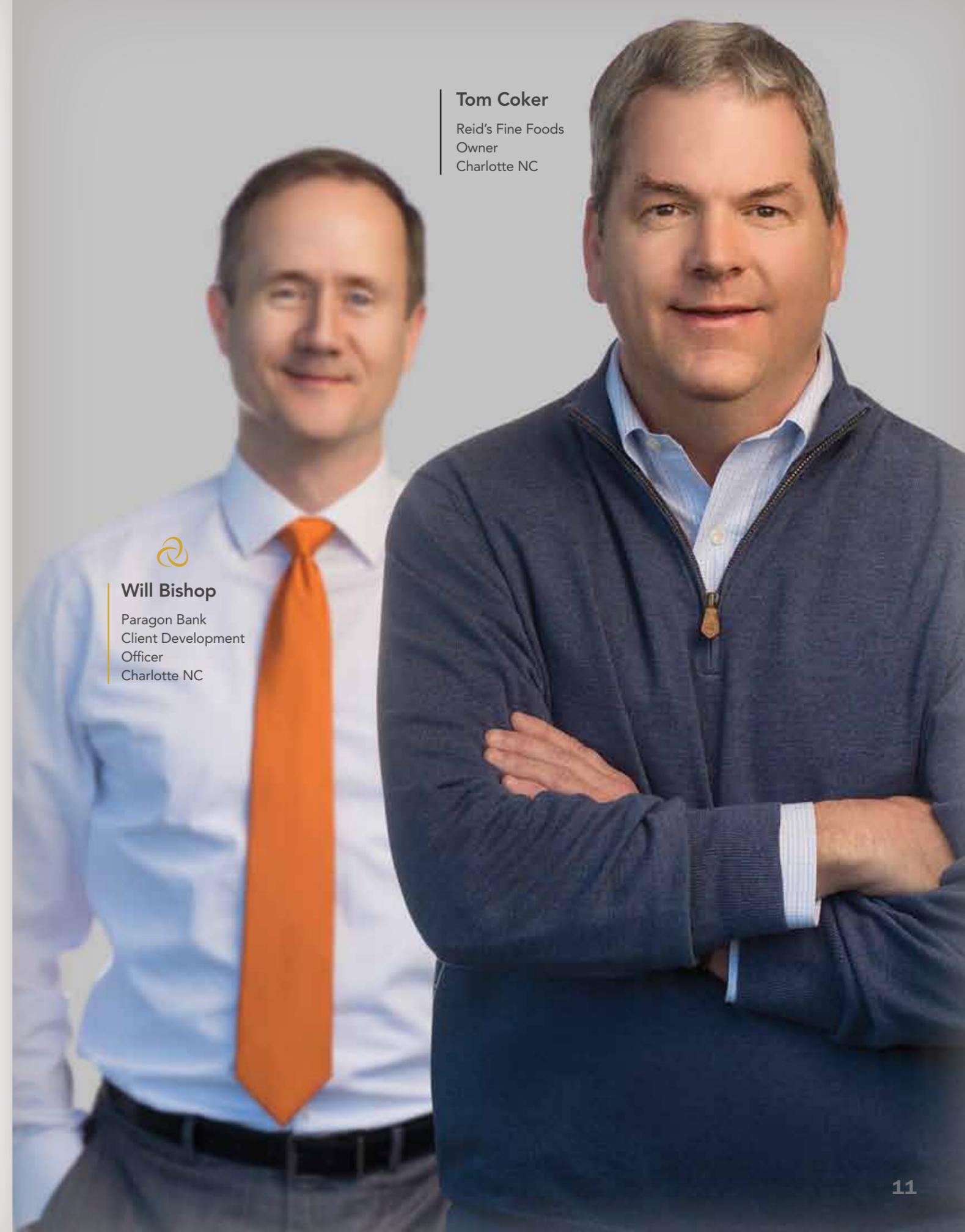
👤 “We were looking for a banking relationship with someone who could help us with our growth plans. Al had known Will Bishop (Paragon Client Development Officer) for years, and ran into him one day in our parking lot,” says Mr. Coker.

👤 “They talked for a few minutes about our business and how things were going. Will handed him a card and said, ‘I’m right across the street at Paragon.’ A few days later, Will followed up...

“And the rest is history!”

👤 “Paragon is a great bank for the role they’re playing. We’re a local brand. They’re a local bank. We’ve got premium products. They provide premium service. They’re exactly the kind of people we want to be working with.

👤 “Great commercial banking professionals ... right across the street.”



Tom Coker

Reid’s Fine Foods
Owner
Charlotte NC



Will Bishop

Paragon Bank
Client Development
Officer
Charlotte NC

**“THEY’RE THE
KIND OF PEOPLE
I WANT TO DO BUSINESS WITH....”**

Qionna Tinney MD



Dr. Qionna Tinney is very busy. Between her Family Psychiatry practice, her focus on pediatric bipolar illness, research responsibilities at Duke University, and medical school faculty responsibilities at both Duke University and the University of North Carolina, she doesn’t have a lot of time to worry about banking.

👤 “Paragon is great,” says Dr. Tinney.

👤 “I was in the process of preparing to build a home, and my contractor gave me two or three banks to consider. But I settled on Paragon right away.”

👤 “I’m not your ordinary Psychiatrist,” she says. “And they’re not an ordinary bank.”

👤 Most important for Dr. Tinney was the availability, responsiveness, and personal attention she found

at Paragon. “Patsy (Patsy Johnson, Paragon Client Development Officer) really knew what she was doing, and she held my hand through the whole process.

👤 “When you’re dealing with a big project over a period of time, you can find yourself running into complicating factors you may not have anticipated. Currency. Time zones. The sort of thing I wasn’t used to thinking about.

👤 “One time, I called and left a message, and Patsy returned my call the same day ... from her vacation abroad. That’s just the kind of bank they are ... the kind of people they are.”

👤 Starting with a home building project, Dr. Tinney is excited about the relationship she is cultivating with the people of Paragon.

👤 “They’re the kind of people I want to do business with. Local. Capable. Helpful. And right there for you...

👤 “Patsy even bought me a Christmas present!”



Patsy Johnson

Paragon Bank
Client Development Officer
Cary NC



Qionna Tinney, MD

Family Psychiatry Practice
Owner
Durham NC

“THEY’RE VERY, VERY GOOD WITH REAL ESTATE”

McMillan Psaroudis & Markey



“I’ve been practicing real estate law since 1977. We started this firm in 1995. And we’ve become probably one of the top five real estate law firms in North Carolina.” That’s how Ralph McMillan sets up the story of Paragon client and real estate institution, McMillan, Psaroudis & Markey.

“We do about 300 closings a month. That’s a lot of transactions. So, we’ve developed some very strong procedures to minimize mistakes. When you do that many closings, you really need for them to go off without a hitch. That’s our business, really.”

To maintain both their reputation and their flow of business, McMillan runs a tight ship. “I do a lot of real estate educational talks and seminars. If I’m the one educating the realtors, I better be able to practice what I preach.”

Mr. McMillan looks to Paragon Bank for the kind of white glove, no-drama support his clients expect from him.

“Since the financial regulations of the Dodd-Frank legislation, the banking side of a real estate transaction has gotten more complicated, especially with the transfer of funds. That’s where Paragon Bank is very, very good.

“We deal with millions of dollars a day. We have to verify every check, run reports, worry about preventing wire fraud... every detail we deal with, they understand and anticipate.

“We have come to expect that with Paragon, a closing is going to come off exactly as it should.”

A big reason for Mr. McMillan’s confidence in Paragon is the professional preparation, combined with the community feel. “They are real people. They have a small bank feel, but they’re able to offer big bank services. Their wire room is excellent.”



Ralph McMillan

McMillan, Psaroudis & Markey
Managing Partner
Charlotte NC



Melanie Robinson

Paragon Bank
Client Development Officer
Charlotte NC

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Moss Withers
Broker
NAI Carolantic Realty Inc.

CORPORATE PROFILE

PARAGON IS TRADED
ON NASDAQ: PBNC

Paragon Commercial Corporation is the holding company for Paragon Bank, serving small- and middle-market companies, nonprofits, trade associations, property owners associations, law firms, title companies, and private banking clients in the Raleigh and Charlotte metropolitan markets of North Carolina. Paragon's unique business model creates extraordinary client experiences through well-prepared, responsive bankers, select locations in vibrant markets, proprietary courier fleet service, and convenient banking technology.



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PREPARED PRESENT PROACTIVE

PREPARED. Paragon Bank is built around a team of respected and experienced banking professionals in each community.

By training and experience, our team is well-prepared to deliver extraordinary client experiences.

PRESENT. Paragon is committed to being present for each client, making information and expertise available in their preferred communication mode—face-to-face, phone, mail, or online.

PROACTIVE. By cultivating a thorough understanding of each client's preferences and financial style, Paragon professionals are able to take informed initiative to offer personalized assistance.



PARAGON
COMMERCIAL CORPORATION

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