



**MANAGEMENT'S REPORT ON THE FINANCIAL STATEMENTS  
AND THE INTERNAL CONTROL OVER FINANCIAL REPORTING**

March 21, 2017

**FINANCIAL STATEMENTS**

Management of Paragon Commercial Corporation is responsible for the preparation, integrity and fair presentation of the consolidated financial statements as of December 31, 2016, and the year then ended. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and, as such, include amounts, some of which are based on judgments and estimates of management.

**INTERNAL CONTROL STRUCTURE OVER FINANCIAL REPORTING**

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) which includes the preparation of the Consolidated Financial Statements of Bank Holding Companies (Form Y-9C) in accordance with the relevant instructions of the Board of Governors of the Federal Reserve System (Federal Reserve instructions) to comply with the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act.

A handwritten signature in black ink that reads "Robert C. Hatley". The signature is written in a cursive style and is positioned above a horizontal line.

Robert C. Hatley  
President and Chief Executive Officer  
Paragon Commercial Corporation

A handwritten signature in black ink that reads "Steven E. Crouse". The signature is written in a cursive style and is positioned above a horizontal line.

Steven E. Crouse  
Executive Vice President and Chief Financial Officer  
Paragon Commercial Corporation



**MANAGEMENT'S ASSESSMENT OF PARAGON COMMERCIAL  
BANK'S COMPLIANCE WITH LAWS AND REGULATIONS**

March 21, 2017

**COMPLIANCE WITH LAWS AND REGULATIONS**

Management of Paragon Commercial Corporation is responsible for compliance with the federal and state laws and regulations concerning dividend restrictions and federal laws and regulations concerning loans to insiders designated by the FDIC as safety and soundness laws and regulations (the "Designated Laws").

Management assessed its compliance with the Designated Laws and based on this assessment, management concludes that Paragon Commercial Corporation complied with the designated laws and regulations relating to safety and soundness during the year ended December 31, 2016.

A handwritten signature in black ink that reads "Robert C. Hatley". The signature is written in a cursive style with a large initial 'R'.

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Robert C. Hatley  
President and Chief Executive Officer  
Paragon Commercial Corporation

A handwritten signature in black ink that reads "Steven E. Crouse". The signature is written in a cursive style with a large initial 'S'.

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Steven E. Crouse  
Executive Vice President and Chief Financial Officer  
Paragon Commercial Corporation