

PARAGON COMMERCIAL CORPORATION

**3535 GLENWOOD AVENUE
RALEIGH, NORTH CAROLINA 27612
(919) 788-7770**

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held May 20, 2014

NOTICE is hereby given that the annual meeting of shareholders of Paragon Commercial Corporation (the "Corporation") will be held as follows:

Place: Paragon Bank
3535 Glenwood Avenue
Raleigh, North Carolina 27612

Date: May 20, 2014

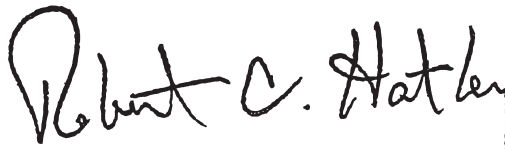
Time: 3:00 p.m.

The purposes of the meeting are as follows:

- 1.** To elect two members of the board of directors for three-year terms
- 2.** To approve an amendment to the Corporation's articles of incorporation to effect a reclassification of each share of issued and outstanding class A and class B common stock into a single class of common stock
- 3.** To ratify the appointment of Grant Thornton LLP as the Corporation's independent public accounting firm for 2014
- 4.** To transact any other business that may properly come before the meeting

You are cordially invited to attend the meeting in person. However, even if you expect to attend the meeting, you are requested to complete, sign, and date the enclosed appointment of proxy and return it in the envelope provided for that purpose to ensure that a quorum is present at the meeting. The giving of an appointment of proxy will not affect your right to revoke it or to attend the meeting and vote in person.

By Order of the Board of Directors



Robert C. Hatley
President and Chief Executive Officer

April 18, 2014

PARAGON COMMERCIAL CORPORATION

**3535 GLENWOOD AVENUE
RALEIGH, NORTH CAROLINA 27612
(919) 788-7770**

PROXY STATEMENT

Mailing Date: On or about April 18, 2014

ANNUAL MEETING OF SHAREHOLDERS

**To Be Held
May 20, 2014**

General

This proxy statement is furnished in connection with the solicitation of the enclosed appointment of proxy by the board of directors of Paragon Commercial Corporation (the "Corporation") for the annual meeting of shareholders of the Corporation to be held at the offices of Paragon Bank (the "Bank"), 3535 Glenwood Avenue, Raleigh, North Carolina 27612, at 3:00 p.m. on May 20, 2014, and any adjournments thereof.

Solicitation and Voting of Appointments of Proxy; Revocation

Persons named in the appointment of proxy as proxies to represent shareholders at the annual meeting are Curtis C. Brewer III and K. Wesley M. Jones (the "Proxies"). Shares represented by each appointment of proxy which is properly executed and returned and not revoked will be voted in accordance with the directions contained in the appointment of proxy. If no directions are given, each such appointment of proxy will be voted FOR the election of each of the nominees for director named in proposal 1 and FOR proposals 2 and 3. If, at or before the time of the annual meeting, either of the nominees named in proposal 1 has become unavailable for any reason, the Proxies will have the discretion to vote for a substitute nominee. On such other matters as may come before the meeting, the Proxies will be authorized to vote shares represented by each appointment of proxy in accordance with their best judgment on such matters. An appointment of proxy may be revoked by the shareholder giving it at any time before it is exercised by filing with Curtis C. Brewer III, secretary of the Corporation, a written instrument revoking it or a duly executed appointment of proxy bearing a later date, or by attending the annual meeting and voting in person.

Expenses of Solicitation

The Corporation will pay the cost of preparing, assembling and mailing this proxy statement and other proxy solicitation expenses. In addition to the use of the mails, appointments of proxy may be solicited in person or by telephone by the Corporation's officers, directors and employees or those of the Corporation's wholly owned subsidiary, Paragon Bank, without additional compensation. The Corporation will reimburse banks, brokers and other custodians, nominees and fiduciaries for their costs in sending the proxy materials to the beneficial owners of the Corporation's common stock.

Record Date

The close of business on April 4, 2014, has been fixed as the record date for the determination of shareholders entitled to notice of and to vote at the annual meeting. Only shareholders of record on the record date will be eligible to vote on the proposals described herein.

Voting Securities

The Corporation has two classes of voting securities: (a) shares of its class A common stock, par value \$1.00 per share, of which 34,608 shares were issued and outstanding on December 31, 2013, and (b) shares of its class B common stock, par value \$1.00 per share, of which 884 shares were issued and outstanding on December 31, 2013. As of December 31, 2013, there were 348 shareholders of record of the Corporation's class A common stock and 183 shareholders of record of the Corporation's class B common stock.

Voting Procedures; Quorum; Votes Required for Approval

Each shareholder of the Corporation's class A common stock is entitled to one (1) vote for each share held of record on the record date on each director to be elected and on each other matter submitted for voting. Each shareholder of the Corporation's class B common stock is entitled to one half ($\frac{1}{2}$) vote for each share held of record on the record date on each director to be elected and on each other matter submitted for voting. Neither class A nor class B shareholders will be entitled to vote cumulatively in the election of directors at the annual meeting.

Single Voting Group for Proposals 1 and 3. The holders of the outstanding shares of class A and class B common stock will vote together as a single voting group on proposal 1 and proposal 3. A majority of the shares of the class A and class B common stock issued and outstanding, in the aggregate, on the record date must be present in person or by proxy to constitute a quorum for purposes of proposal 1 and proposal 3.

Assuming a quorum of the aggregate of the class A and class B common stock is present, in the case of proposal 1, the two nominees for director receiving the greatest number of votes shall be elected to the board of directors. Abstentions and broker nonvotes will have no effect. In the case of proposal 3, for such proposal to be approved, the number of votes cast for approval of the

proposal must exceed the number of votes cast against the proposal. Abstentions and broker nonvotes will have no effect.

Separate Voting Groups for Proposal 2. The holders of the outstanding shares of class A and class B common stock will vote as separate groups on proposal 2. Both groups, voting separately, must approve proposal 2 in order for it to be effective. A majority of the issued and outstanding shares on the record date of each of the class A common stock and class B common stock must be present in person or by proxy to constitute a quorum for purposes of proposal 2.

Assuming quorums of both the class A common stock and class B common stock are present, for proposal 2 to be approved, the number of votes cast for approval of the proposal by holders of shares of each of the class A common stock and class B common stock must exceed the number of votes cast against the proposal by holders of shares of each class of common stock. Abstentions and broker nonvotes with respect to either class of shares will have no effect.

Authorization to Vote on Adjournment and Other Matters

Unless the Corporation is otherwise notified, by signing an appointment of proxy, shareholders will be authorizing the Proxies to vote in their discretion regarding any procedural motions that may come before the annual meeting. For example, this authority could be used to adjourn the annual meeting if the Corporation believes it is desirable to do so. Adjournment or other procedural matters could be used to obtain more time before a vote is taken in order to solicit additional proxies to establish a quorum or to provide additional information to shareholders. However, proxies voted against any one of the proposals will not be used to adjourn the annual meeting. The Corporation does not have any plans to adjourn the annual meeting at this time, but intends to do so, if needed, to promote shareholder interests.

Beneficial Ownership of Voting Securities

As of December 31, 2013, the only shareholders known to management to own 5% or more of the Corporation's class A common stock were BancTenn Corp., Johnson City, Tennessee, which owned 6,341 class A shares (18.32% of the class A shares or 17.78% of the aggregate number of class A and class B shares) and William B. Greene, Elizabethton, Tennessee, chairman of the board of directors of BancTenn Corp., who owned 1,805 class A shares (5.22% of the class A shares or 5.09% of the aggregate number of the class A and class B shares). The Corporation knows of no shareholders that own 5% or more of the Corporation's class B common stock.

Beneficial Ownership of Class A Common Stock by Directors and Executive Officers

As of April 1, 2014, the beneficial ownership of the Corporation's class A common stock by directors of the Corporation and the Bank individually, and by directors and executive officers as a group, was as follows:

<u>NAME OF BENEFICIAL OWNER</u>	<u>AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP</u> ⁽¹⁾⁽²⁾	<u>PERCENT OF CLASS</u> ⁽³⁾
Curtis C. Brewer III	442 ⁽⁴⁾	1.28
Benjamin S. Goldstein ⁽⁵⁾	52	*
Roy L. Harmon Jr.	401 ⁽⁶⁾	1.16
Robert C. Hatley	885 ⁽⁷⁾	2.55
K. Wesley M. Jones	386	1.12
Howard Jung	567 ⁽⁸⁾	1.64
John N. Miller	147 ⁽⁹⁾	*
Thomas B. Oxholm	183 ⁽¹⁰⁾	*
Alvin G. Ragland	33	*
Billie J. Redmond	87	*
F. Alton Russell	247 ⁽¹¹⁾	*
All Directors and Executive Officers as a group (13 persons) ⁽¹²⁾	3,736	10.60

* Represents less than 1% of the class A shares outstanding.

- (1) Except as otherwise noted, to the best knowledge of the Corporation's management, the above individuals and group exercise sole voting and investment power with respect to all shares shown as beneficially owned except for the following shares over which voting and investment power is shared: Mr. Goldstein – 4 shares, Mr. Hatley – 2 shares, Mr. Miller – 74 shares, and Mr. Russell – 116 shares.
- (2) Included in the beneficial ownership tabulations are the following options to purchase shares of class A common stock of the Corporation: Mr. Brewer – 55 shares, Mr. Goldstein – 20 shares, Mr. Harmon – 40 shares, Mr. Hatley – 110 shares, Mr. Jung – 55 shares, Mr. Miller – 55 shares, Mr. Oxholm – 30 shares, Mr. Ragland – 15 shares, Ms. Redmond – 30 shares, and Mr. Russell – 32 shares.
- (3) The calculation of the percentage of class beneficially owned by the group and each individual is based on the sum of (i) 34,608 shares of class A common stock outstanding on April 1, 2014, and (ii) options to purchase shares of class A common stock capable of being exercised within 60 days of April 1, 2014.
- (4) Includes 11 shares with respect to which Mr. Brewer's spouse exercises sole voting and investment power.
- (5) Mr. Goldstein resigned from the board of directors of the Bank effective April 1, 2014.

- (6) Includes 98 shares with respect to which Mr. Harmon's spouse exercises sole voting and investment power.
- (7) Includes 36 shares with respect to which Mr. Hatley's spouse exercises sole voting and investment power and 308 shares pledged as collateral.
- (8) Includes 230 shares with respect to which Mr. Jung's spouse exercises sole voting and investment power.
- (9) Includes 42 shares pledged as collateral.
- (10) Includes 43 shares with respect to which Mr. Oxholm's spouse exercises sole voting and investment power.
- (11) Includes 85 shares with respect to which Mr. Russell's spouse exercises sole voting and investment power and 75 shares pledged as collateral.
- (12) Includes shares beneficially owned by two non-director executives.

Beneficial Ownership of Class B Common Stock by Directors and Executive Officers

As of April 1, 2014, the beneficial ownership of the Corporation's class B common stock by directors of the Corporation and the Bank individually, and by directors and executive officers as a group, was as follows:

<u>NAME OF BENEFICIAL OWNER</u>	<u>AMOUNT AND NATURE OF BENEFICIAL OWNERSHIP⁽¹⁾</u>	<u>PERCENT OF CLASS⁽²⁾</u>
Benjamin S. Goldstein ⁽³⁾	2	*
Roy L. Harmon Jr.	9	1.02
Alvin G. Ragland	3	*
All Directors and Executive Officers as a group (5 persons) ⁽⁴⁾	23	2.60

* Represents less than 1% of the class B shares outstanding.

- (1) To the best knowledge of the Corporation's management, the above individuals and group exercise sole voting and investment power with respect to all shares shown as beneficially owned except for the following shares over which voting and investment power is shared: Mr. Ragland – 1 share.
- (2) The calculation of the percentage of class beneficially owned by the group and each individual is based on 884 shares of class B common stock outstanding on April 1, 2014.
- (3) Mr. Goldstein resigned from the board of directors of the Bank effective April 1, 2014.
- (4) Includes shares beneficially owned by two non-director executives.

PROPOSAL 1: ELECTION OF DIRECTORS

The Corporation's amended bylaws provide that the board of directors shall consist of up to seven members, and that the board shall be divided into three classes approximately equal in number and elected to staggered terms. The size of the board of directors is currently set at six members. The board of directors recommends that shareholders vote for the following directors, each for a three-year term:

<u>Name and Age</u>	<u>Position(s) Held</u>	<u>Director Since</u>	<u>Principal Occupation and Business Experience</u>
Robert C. Hatley (63)	President, Chief Executive Officer, and Director	1999	President, Chief Executive Officer and Director, Paragon Commercial Corporation and Paragon Commercial Bank; Regional Market Manager for Wake County, RBC Centura (now PNC Bank), 1994–1998; City Executive for Cary, North Carolina, RBC Centura, 1989–1994
Howard Jung (67)	Chairman of the Board of Directors	1999	Chairman of the Board, Ace Hardware Corporation, 1998–2003; Vice President, Ace Hardware Stores, Inc., Raleigh, North Carolina, 1997–Present

**THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE
“FOR” EACH OF THE NOMINEES FOR DIRECTOR OF THE CORPORATION FOR
A THREE-YEAR TERM.**

Incumbent Directors

The Corporation's board of directors includes the following directors whose terms will continue after the annual meeting. Certain information regarding the incumbent directors is set forth in the following table:

<u>Name and Age</u>	<u>Director Since</u>	<u>Term Expires</u>	<u>Principal Occupation and Business Experience</u>
Curtis C. Brewer III (70)	1999	2015	Real Estate Broker, Curtis C. Brewer III Real Estate, 2002–Present; Broker, Spectrum Properties (real estate brokerage company), 1997–2002; Broker, Capital Associates, 1995–1997; Senior Vice President and Regional Executive, United Carolina Bank (now BB&T), 1972–1995
Roy L. Harmon Jr. (59)	2000	2016	Vice Chairman and Executive Vice President, BancTenn Corp., Chairman, President, and CEO, Bank of Tennessee, Kingsport, Tennessee
K. Wesley M. Jones (56)	2008	2016	Managing Partner, Five Oaks Capital, LLC, Charlotte, North Carolina (private investment firm), 2001–Present

<u>Name and Age</u>	<u>Director Since</u>	<u>Term Expires</u>	<u>Principal Occupation and Business Experience</u>
F. Alton Russell (73)	2002	2015	Chairman and Counsel, the Title Company of North Carolina, Inc., 1983–Present; Senior Vice President, Old Republic National Title Insurance Company, 1999–Present

The incumbent directors listed above and the nominees standing for reelection to the board of directors of the Corporation also serve as directors of the Bank. In addition, the following individuals serve as directors of the Bank. Certain information regarding these individuals is set forth in the following table:

<u>Name and Age</u>	<u>Position(s) Held</u>	<u>Director Since</u>	<u>Principal Occupation and Business Experience</u>
John N. Miller (73)	Director	1999	Partner/Management Committee, Advanced Tear Diagnostics (ATD), LLC (pharmaceutical device company), 2012–present; President and Chairman, TSI, Inc. (pharmaceutical device company), 2009–present; USA Manager of Area Systems Centers, IBM, 1986–1991; Director, Raleigh Racquet Club, Inc. (non-profit corporation), 2007–present
Thomas B. Oxholm (58)	Director	2004	CFO, Wake Stone Corporation; Chair, Board of Directors, WakeMed Health and Hospitals, 2011–2013; Board Member, Finance Chair, Wake County Board of Education, 1999–2003
Alvin G. Ragland (60)	Director	2007	Chief Human Resources Executive, North Carolina Department of Public Safety, 2011–present; Owner, AHK Global Resources, L.L.C. (workforce solutions company), 2011–present; Senior Vice President, Headway Corporate Resources (human capital solutions company), 2009–2011; Independent Human Resources Consultant, 2007–2009
Billie J. Redmond (61)	Director	2004	CEO, TradeMark Properties, Inc., 1994–Present; Past Chair, Greater Raleigh Chamber of Commerce Board of Directors; Kids n’ Community Hurricanes Foundation Board Member; WakeMed Board of Directors; Chair, Board of Directors and Executive Committee, NC Chamber; Toll Brothers Advisory Board of Directors

Director Relationships

No current director is a director of any company with a class of securities registered pursuant to section 12 of the Securities Exchange Act of 1934 or subject to the requirements of section 15(d) thereof, or any company registered as an investment company under the Investment Company Act of 1940.

Meetings and Committees of the Boards of Directors

Board of Directors. The Bank's board of directors held ten regular meetings during 2013; the Corporation's board of directors held four separate meetings during 2013. The board of directors of the Corporation and the Bank held three joint meetings during 2013. The Corporation does not have a formal policy with respect to director attendance at the annual meeting of shareholders, however, such attendance is encouraged.

The Bank's board of directors has standing executive, audit, compensation, governance, asset/liability, and loan committees, which are described below.

Executive Committee. The members of the executive committee in 2013 were Messrs. Brewer, Goldstein, Hatley, Jung, Miller, and Oxholm. The executive committee may exercise all of the board's authority between board meetings, subject to such limitations as may be required by law or imposed by board resolution. The executive committee met once in 2013.

Audit Committee. The members of the audit committee in 2013 were Messrs. Brewer, Goldstein, Jung, Miller, Oxholm, and Ragland. The audit committee is responsible for ensuring that the board receives objective information regarding the Corporation's policies, procedures and activities with respect to auditing, accounting, internal accounting controls, financial reporting, and such other Corporation activities as the board may direct. Subject to the board's approval, the audit committee engages a qualified firm of certified public accountants to conduct an audit of the Corporation's consolidated financial statements on an annual basis. The audit committee has adopted a formal written charter. The audit committee met five times in 2013.

Compensation Committee. The members of the compensation committee in 2013 were Messrs. Harmon, Jung, Miller, Ragland, and Ms. Redmond. The compensation committee reviews and recommends to the board the annual compensation, including salary, stock options, incentive compensation and other benefits, for senior management and other Corporation and Bank employees. The compensation committee met six times in 2013.

Governance Committee. The members of the governance committee, which also serves as a nominating committee, in 2013 were Messrs. Jung, Miller, Oxholm, Russell, and Ms. Redmond. The governance committee met once in 2013.

Asset/Liability Committee. The members of the asset/liability committee in 2013 were Messrs. Goldstein, Harmon, Hatley, Jung, and Oxholm. The asset/liability committee evaluates and manages the risks associated with the Bank's assets and liabilities, including interest rate risk. The asset/liability committee met four times in 2013.

Loan Committee. The members of the loan committee in 2013 were Messrs. Brewer, Goldstein, Hatley, Jones, Jung, Oxholm, Ragland, Russell, and Ms. Redmond. The loan committee approves certain loans and evaluates and manages risks related to the Bank's loan portfolio and credit quality. The loan committee met twenty-four times in 2013.

Report of the Audit Committee

The audit committee of the Corporation is responsible for receiving and reviewing the annual audit report of the Corporation's independent auditors and reports of examination by bank regulatory agencies, and helping to formulate, implement, and review the Corporation's internal audit programs.

During the course of its examination of the Corporation's audit process in 2013, the audit committee reviewed and discussed the audited financial statements with management. The audit committee also discussed with the independent auditors, Grant Thornton LLP ("Grant Thornton"), all the matters that independent accounting firms must communicate to audit committees under rules such as Statement on Auditing Standards No. 114, *The Auditor's Communications with Those Charged with Governance*. Furthermore, the audit committee received disclosures from Grant Thornton required by applicable requirements of the Public Company Accounting Oversight Board regarding Grant Thornton's communications with the audit committee concerning independence, and has discussed with Grant Thornton their independence with respect to the Corporation and the Bank.

The audit committee has considered whether Grant Thornton's provision of certain non-audit services to the Corporation and the Bank is compatible with maintaining the independence of Grant Thornton. The audit committee has determined that it is compatible with maintaining such independence.

This report is submitted by the audit committee: Messrs. Brewer, Jung, Miller, Oxholm, and Ragland.

Director Compensation

Board Fees. During the fiscal year ended December 31, 2013, each non-employee director of the Bank received a fee of \$500 per board meeting attended and \$300 per committee meeting attended. Directors of the Bank also received an annual retainer of \$20,000. Committee chairs received an additional annual retainer of \$2,500 and the chairman of the board received an additional annual retainer of \$5,000. Those non-employee directors also serving on the Corporation's board received an annual retainer of \$15,000.

2006 Omnibus Stock Ownership and Long Term Incentive Plan. The shareholders of the Corporation approved the 2006 Omnibus Stock Ownership and Long Term Incentive Plan (the "Omnibus Plan") at the 2006 annual meeting of shareholders to replace the previously approved stock option plans of the Corporation. The Omnibus Plan originally reserved 1,000 shares of the Corporation's common stock for issuance under the terms of the Omnibus Plan. At the 2008 annual meeting, the Corporation's shareholders voted to amend the Omnibus Plan to authorize the issuance of an additional 1,500 shares of class A common stock under the terms of the Omnibus Plan pursuant to the grant of incentive stock options, nonqualified stock options, restricted stock grants, long-term incentive compensation units, and stock appreciation rights. During 2013, no nonqualified stock options were granted to non-employee directors under the Omnibus Plan.

Executive Officers

Set forth below is certain information regarding the executive officers of the Corporation and the Bank.

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Prior Business Experience</u>
Robert C. Hatley	63	President and Chief Executive Officer of the Corporation and the Bank	Regional Market Manager for Wake County, RBC Centura (now PNC Bank), 1994–1998; City Executive for Cary, North Carolina, RBC Centura, 1989–1994
Steven E. Crouse	49	Executive Vice President and Chief Financial Officer of the Corporation and the Bank	Senior Vice President, Finance, and Chief Accounting Officer, Capital Bank, 1998–2005
Matthew C. Davis	47	Executive Vice President and Chief Operating Officer of the Bank	Vice President, Commercial Lending, RBC Centura (now PNC Bank), Cary, NC, 1996–1998; Assistant Vice President, Corporate Banking, Wachovia Bank (now Wells Fargo Bank), Charlotte, NC, 1994–1996

2006 Omnibus Stock Ownership and Long Term Incentive Plan

As stated above, the shareholders of the Corporation approved the Omnibus Plan at the 2006 annual meeting of shareholders. The Omnibus Plan provides for the grant of incentive stock options, nonstatutory stock options, restricted stock, long term incentive compensation units and stock appreciation rights. No stock options or other awards were granted to officers and key employees of the Bank or the Corporation under the Omnibus Plan during 2013.

The following table sets forth information regarding vested and unvested incentive stock options outstanding as of December 31, 2013.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

<u>Name</u>	<u>No. of Securities Underlying Unexercised Options Exercisable</u>	<u>No. of Securities Underlying Unexercised Options Unexercisable</u>	<u>Option Exercise Price</u>	<u>Option Expiration Date</u>
Robert C. Hatley	30	-0-	\$5,000	December 28, 2015
	40	-0-	6,000	February 1, 2017
	40	-0-	5,400	June 18, 2018
Steven E. Crouse	80	-0-	\$2,200	July 13, 2015
	23	-0-	6,000	February 1, 2017
	23	-0-	5,400	June 18, 2018
Matthew C. Davis	12	-0-	\$5,000	December 28, 2015
	22	-0-	6,000	February 1, 2017
	22	-0-	5,400	June 18, 2018

Compensatory Agreements with Management

The Bank has entered into certain compensatory management agreements with its executive officers, including an employment agreement with Mr. Hatley, change in control agreements with Messrs. Crouse and Davis, salary continuation agreements with Messrs. Hatley, Crouse, and Davis; and endorsement split dollar agreements with Messrs. Hatley, Crouse, and Davis.

401(k) Savings Plan

The Bank has adopted a tax-qualified savings plan (the “Savings Plan”) which covers all current full-time employees and any new employees who have completed three months of service with the Corporation or the Bank. Under the Savings Plan, a participating employee may contribute income up to applicable limits on a tax-deferred basis through salary reduction as permitted under section 401(k) of the Internal Revenue Code of 1986, as amended. The Bank may make additional discretionary profit sharing contributions to the Savings Plan on behalf of all participants. A participant’s contributions and the Bank’s matching and profit-sharing contributions under the Savings Plan will be held in trust accounts for the benefit of the participants. A participant is at all times 100% vested with respect to his or her own contributions under the Savings Plan and with respect to the Bank’s matching and profit sharing contributions. The value of a participant’s account under the Savings Plan becomes payable to him or her in full upon retirement, total or permanent disability or termination of employment for any other reason, or becomes payable to a designated beneficiary upon a participant’s death. The Savings Plan contains provisions for withdrawals in the event of certain hardships. A participant’s contributions, vested matching and profit sharing contributions of the Bank, and any income accrued on such contributions, are not subject to federal or state taxes until such time as they are withdrawn by the participant.

Indebtedness of and Transactions with Management

The Bank has had, and expects to have in the future, transactions in the ordinary course of business with certain of its current directors, nominees for director, executive officers, and their associates. All loans included in such transactions were made on substantially the same terms, including interest rates, repayment terms and collateral, as those prevailing at the time such loans were made for comparable transactions with other persons, and do not involve more than the normal risk of collectibility or present other unfavorable features.

Loans made by the Bank to directors and executive officers are subject to the requirements of Regulation O of the Board of Governors of the Federal Reserve System. Regulation O requires, among other things, prior approval of the board of directors with any “interested director” not participating, dollar limitations on amounts of certain loans, and prohibitions on any favorable treatment to any director or executive officer in any of the Bank’s lending matters. To the best knowledge of the management of the Bank, Regulation O has been complied with in its entirety.

During the fiscal year ended December 31, 2013, the Corporation paid BTIS \$538,020 for the provision of services, which include, but are not limited to, the following: accounting, human resources, loan processing, business management, and data processing. BTIS is an affiliate of the

Corporation's largest shareholder, BancTenn Corp. Roy L. Harmon Jr., a member of the board of directors, is an executive officer and director of BancTenn Corp.

The Bank has also engaged TradeMark Properties, Inc., to provide real estate management and disposition services. TradeMark Properties is an affiliate of Billie J. Redmond, a member of the board of directors.

The Title Company of North Carolina provided title insurance services in connection with certain loans originated by the Bank. The Title Company of North Carolina is an affiliate of F. Alton Russell, a member of the board of directors.

CAPTRUST Financial Advisors provided investment advisory services to the Bank's 401(k) plan. CAPTRUST Financial Advisors is an affiliate of Benjamin S. Goldstein, who was a member of the Bank's board of directors during 2013. Mr. Goldstein resigned from the Bank's board of directors effective April 1, 2014.

PROPOSAL 2: COMMON STOCK RECLASSIFICATION

The Corporation's board of directors has authorized, and recommends that shareholders approve, a proposal to reclassify all of the issued and outstanding shares of the Corporation's class A and class B common stock into a single class of common stock (the "Reclassification Proposal"). Pursuant to the Reclassification Proposal, each issued and outstanding share of our class A and class B common stock will be converted on a one-for-one basis into shares of a single class of common stock. The Reclassification Proposal, if approved by our shareholders, would simplify our capital structure and is expected to have the other benefits discussed under "Reasons for the Reclassification" below.

In order for the Reclassification Proposal to be approved, each class of our common stock, voting as a separate voting group, must vote to approve the proposal. The Reclassification Proposal will be approved by a particular class of our shares if more shares of that class vote for approval of the proposal than vote against it.

The reclassification will be effected by amending the Corporation's articles of incorporation. By voting for approval of the Reclassification Proposal, shareholders are voting to approve the amendment to the Corporation's articles of incorporation, which amendment will be effected by filing with the North Carolina Secretary of State the articles of amendment attached to this proxy statement as Exhibit A.

Background of our Current Capital Structure and the Reclassification Proposal

At the time it was originally incorporated in 2001, the Corporation had a single class of common stock. This capital structure remained in place until 2008, when the Corporation eliminated its single class of common stock and created the class A and class B common stock. The class A common stock is entitled to one (1) vote per share on all matters to be voted upon and the class B common stock is entitled to one half (½) vote per share on all matters to be voted upon, except in special circumstances. At the time we effected the reclassification into class A

and class B common stock, owners of eleven or more shares of common stock received class A shares on a one-for-one basis and owners of less than eleven shares of common stock received class B shares, also on a one-for-one basis. At the time of the 2008 reclassification, there were 489 record shareholders of the Corporation's common stock. Under federal securities laws in effect at that time, companies with more than 500 shareholders of record were required to register with the Securities and Exchange Commission ("SEC") and become subject to ongoing and costly SEC reporting requirements and regulation. The board of directors believed that these requirements would be a burden on management and would become a significant corporate overhead expense. The creation of two classes of common stock enabled the Corporation to remain a private, non-SEC reporting company, thereby reducing its regulatory burden and expenses.

Although it allowed the Corporation to remain private, the 2008 reclassification also created a more complex capital structure for the Corporation. The Corporation now has the administrative expense of managing two classes of common stock, and a capital structure that may be unfamiliar to outside investors. In April of 2012, the federal Jumpstart Our Business Startups Act (the "JOBS Act") was enacted. The JOBS Act, among other things, raised the threshold at which a bank holding company must register with the SEC from 500 shareholders of record to 2,000 shareholders of record of any class of equity securities. Thus, the Corporation can now have up to 2,000 shareholders of record of its common stock before it would be required to become an SEC-reporting company and incur the administrative and financial burden that accompanies such status. As of December 31, 2013, there were 531 holders of record of the Corporation's class A and class B common stock, which are the only equity securities currently issued and outstanding. In light of the increased 2,000-shareholder threshold, the board of directors has concluded that the Corporation's dual-class capital structure is no longer necessary.

Reasons for the Reclassification

In determining to approve the reclassification and recommend approval of the Reclassification Proposal to shareholders, the board of directors considered a number of factors, including the possible benefits that may be derived from each of the following:

- Reduction of administrative expense
- Avoidance of potential investor confusion
- Corporate governance best practices

The board of directors also considered the costs of the reclassification in terms of management time and financial costs, including expenses associated with preparing this proxy statement and effecting a conversion and reclassification of the existing common stock.

This discussion of information and factors considered by the board of directors is not intended to be exhaustive, but includes the material factors considered by the board of directors in making its decision. In view of the factors considered by the board of directors in connection

with its evaluation of the Reclassification Proposal and the complexity of these matters, the board of directors did not consider it practicable to, nor did it attempt to quantify, rank or otherwise assign relative weights to the specific factors it considered in reaching its decision. In considering the factors described above, individual members of the board of directors may have given different weight to different factors. We cannot assure you when or if any specific potential benefits considered by the board of directors will be realized.

Conditions Precedent to Effectiveness of the Reclassification

The Reclassification Proposal is conditioned upon the approval of the class A and class B common stock, voting as separate voting groups. The non-objection or approval of the Corporation's banking regulators may also be required. If approved by the shareholders of the Corporation and, to the extent required, by the Corporation's banking regulators, we currently anticipate that the conversion will become effective on or before June 30, 2014.

Certain Effects of the Reclassification

If the reclassification is completed, each issued and outstanding share of our class A common stock and class B common stock will automatically be converted into one fully paid and non-assessable share of common stock. Upon the reclassification, each share of the Corporation's class A common stock and class B common stock will be deemed to be no longer outstanding and all rights with respect to such shares shall immediately cease and terminate, except the right of the holder thereof to receive newly issued shares of the Corporation's common stock on a one-for-one basis.

Voting Power. The holders of our class B common stock currently have the right to cast one half ($\frac{1}{2}$) vote for the election and removal of directors and all other matters on which our shareholders are entitled to vote. Holders of our class A common stock currently have the right to cast one (1) vote per share for the election and removal of directors and all other matters on which our shareholders are entitled to vote.

After the reclassification, all holders of our outstanding shares of common stock will have identical voting rights consisting of one (1) vote per share for the election and removal of directors and all other matters on which our shareholders are entitled to vote. As a result, existing holders of our class A common stock will no longer have superior rights with respect to the election and removal of directors and other matters after the reclassification.

Liquidation Rights. Existing holders of class A common stock are not entitled to a preference in the distribution of assets of the Corporation in the event of any liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary. Holders of class B common stock are entitled to a preference in the distribution of assets of the Corporation in the event of any liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, equal to the greater of (i) \$2,314 per share; (ii) the net tangible book value per share of the shares of class A common stock as determined under generally accepted accounting principles, assuming for those purposes that all outstanding shares of class B common stock were first

converted to an equal number of shares of class A common stock; or (iii) the aggregate amount proposed to be paid, or actually paid, per share to the holders of the class A common stock.

Dividend Rights. Holders of class A and class B common stock currently rank equal as to dividend rights so that holders of class A or class B common stock shall receive an equivalent dividend, when and if declared and paid by the Corporation, except that holders of class B common stock are entitled to receive the dividend on their shares prior to, or simultaneously with, the receipt of dividends by the holders of class A common stock. Dividends are non-cumulative, which means that they will not accumulate to future periods or represent a contingent liability of the Corporation.

After the reclassification, all shares of common stock will rank equally as to dividend rights, subject to any dividend preference applicable to any other class of securities issued by the Corporation, such as preferred stock. No share or group of shares will be entitled to receive dividends prior to any other share or group of shares. All shares will receive dividends at the same time. As a result, existing holders of our class B common stock will no longer be entitled to receive the dividend on their shares prior to the receipt of dividends by any other shares. Dividends will continue to be non-cumulative.

After the reclassification, all shares of common stock will rank equally as to liquidation rights. All shares of common stock will share equally in the assets available to shareholders upon liquidation of the Corporation, subject to any liquidation preference applicable to any other class of securities issued by the Corporation, such as preferred stock. As a result, existing holders of our class B common stock will no longer be entitled to a preference in the distribution of assets of the Corporation.

Preemptive Rights. Neither the class A nor class B common stock has any preemptive rights to purchase additional shares of capital stock that may be issued in the future. After the reclassification, the shares of common stock likewise will not have any preemptive rights.

Redemption Rights. Neither the class A nor class B common stock has a right to require that the Corporation redeem its shares nor does the Corporation have the right to require the holders of the class A or class B common stock to sell their shares to the Corporation. After the reclassification, the shares of common stock likewise will not have any redemption rights.

Rights Upon a Change in Control. Existing holders of class A and class B common stock are entitled to receive the same amount and kind of consideration in the event of a change in control of the Corporation resulting from a merger, share exchange, consolidation, or similar corporate exchange transaction. After the reclassification, all shares of common stock will also be entitled to receive the same amount and kind of consideration in the event of a change in control under similar circumstances.

Anti-dilution Adjustments. If the outstanding shares of class A common stock are increased, decreased, changed into or exchanged for a different number or kind of securities of the Corporation or another entity by reason of any recapitalization, stock split, stock dividend,

merger or similar transaction, the Corporation's board of directors will adjust the number and relative terms of the class B common stock proportionately. After the reclassification, all shares of common stock will be treated equally in the event of a recapitalization, stock split, stock dividend, merger or similar transaction.

Rights Upon SEC Registration. If the Corporation files a registration statement with the SEC to register the shares of class A common stock under the Securities Act of 1933, as amended, in connection with a proposed sale of its class A common stock, and such registration statement becomes effective, then upon the effectiveness of such registration statement, each share of the Corporation's class B common stock shall convert automatically into a share of its class A common stock without any action by the class B holders.

After the reclassification, there will be a single class of common stock. If the Corporation files a registration statement with the SEC to register shares of its common stock, there will be no accompanying conversion rights since all shares of common stock will have the same relative rights, privileges, and preferences as all other shares of common stock.

Capitalization. The reclassification will have no impact on the total issued and outstanding shares of our common stock. As of December 31, 2013, there were 35,492 shares of our common stock issued and outstanding, consisting of 34,608 shares of class A common stock and 884 shares of class B common stock. As a result of the reclassification and based on the number of shares outstanding on December 31, 2013, there would be 35,492 shares of common stock issued and outstanding immediately after the effective time of the reclassification. In addition, the reclassification will not increase the total number of authorized shares of our capital stock. Accordingly, immediately after the proposed reclassification, our authorized capital stock will continue to consist of 20,000,000 shares of common stock and 1,000,000 shares of preferred stock.

Operations. The proposed reclassification will have no impact on the business operations of the Corporation or the Bank, except to the extent that the Corporation is able to realize some or all of the potential benefits from the proposed reclassification, which are described above.

Description of Our Common Stock

General. The following description summarizes the material provisions of the Corporation's common stock, into which the Corporation's class A common stock and class B common stock will be converted if the Reclassification Proposal is approved. This description is not complete, and is qualified in its entirety by reference to the provisions of the Corporation's articles of incorporation, as amended, and bylaws, as amended, as well as the North Carolina Business Corporation Act.

The transfer agent and registrar for our common stock is Registrar and Transfer Company, Cranford, New Jersey.

Each share of the Corporation's common stock has the same relative rights as, and is identical in all respects to, each other share of common stock.

Dividends. Holders of shares of the Corporation's common stock will be entitled to receive such cash dividends as the board of directors may declare out of funds legally available therefor. However, the payment of dividends by us will be subject to the restrictions of North Carolina law applicable to the declaration of dividends by a business corporation. Under such provisions, cash dividends may not be paid if a corporation will not be able to pay its debts as they become due in the usual course of business after making such cash dividend distribution or the corporation's total assets would be less than the sum of its total liabilities plus the amount that would be needed to satisfy certain liquidation preferential rights. In addition, the Federal Reserve Board generally prohibits bank holding companies from paying dividends except out of operating earnings, and when the prospective rate of earnings retention appears consistent with the holding company's capital needs, asset quality and overall financial condition. The Federal Reserve Board may also impose additional restrictions on the payment of dividends by bank holding companies, such as the Corporation. Furthermore, the Corporation's ability to pay dividends to holders of shares of its common stock will be principally dependent upon the amount of dividends its subsidiary, Paragon Bank, is permitted to pay to the Corporation as its parent holding company. The ability of a North Carolina bank to pay dividends is restricted under applicable law and regulations. Also, under federal banking law, no cash dividend may be paid if the bank is undercapitalized or insolvent or if payment of the cash dividend would render the bank undercapitalized or insolvent, and no cash dividend may be paid by the bank if it is in default of any deposit insurance assessment due to the FDIC.

Voting Rights. Each share of the Corporation's common stock will entitle the holder thereof to one vote on all matters upon which shareholders have the right to vote. Holders of common stock elect the board of directors and act on such other matters as are required to be presented to them under North Carolina law or the Corporation's articles of incorporation or as otherwise presented to them by the board of directors. Shareholders are not entitled to cumulate their votes for the election of directors.

Liquidation Rights. In the event of any liquidation, dissolution, or winding up of the Corporation, the holders of shares of its common stock will be entitled to receive, after payment of all debts and liabilities and after satisfaction of all liquidation preferences applicable to any senior securities (none of which are outstanding at this time), all of the Corporation's remaining assets available for distribution in cash or in kind. In the event of any liquidation, dissolution, or winding up of the Corporation's subsidiary, Paragon Bank, the Corporation, as the holder of all shares of the Bank's common stock, would be entitled to receive, after payment of all debts and liabilities of the subsidiary (including all deposits and accrued interest thereon), all remaining assets of the subsidiary available for distribution in cash or in kind.

No Preemptive Rights; Redemption and Assessment. Holders of shares of the Corporation's common stock will not be entitled to preemptive rights with respect to any shares that may be issued by the Corporation in the future. The Corporation's common stock is not subject to redemption or any sinking fund and the outstanding shares are fully paid and non-assessable.

Securities Are Not Insured by the FDIC

Investments in the common stock or any of the Corporation's equity or debt securities will not qualify as deposits or savings accounts and will not be insured or guaranteed by the FDIC or any other governmental agency and are subject to investment risk, including the possible loss of principal.

Certain U.S. Federal Income Tax Consequences

The following summary describes certain material U.S. federal income tax considerations relating to the proposed reclassification. This discussion is based upon the U.S. Internal Revenue Code of 1986, as amended, existing and proposed Treasury regulations promulgated thereunder, legislative history with respect thereto, and U.S. judicial decisions and current administrative rulings and practices, all as amended and in effect on the date hereof. Any of these authorities could be repealed, overruled or modified at any time. Any such change could be retroactive and, accordingly, could cause the tax consequences to vary substantially from the consequences described herein.

This summary does not discuss all aspects of U.S. federal income taxation that may be relevant to a holder of class A common stock or class B common stock in light of such shareholder's individual circumstances or certain types of shareholders (such as, but not limited to, dealers in securities, insurance companies, non-U.S. persons and tax-exempt entities) who may be subject to special treatment under federal income tax laws. In addition, this summary does not address any state, local, foreign, or other federal tax consequences of the conversion.

This summary is included for general information purposes only and is not intended to constitute advice regarding the U.S. federal income tax consequences of the reclassification. **Because the tax consequences to a holder of securities will depend on the shareholder's particular facts and circumstances, each shareholder is urged to consult with his or her own tax advisor with respect to the tax consequences of the reclassification, including the application of any tax reporting requirements of federal, state, local or foreign tax law.**

The Corporation has not sought and will not seek an opinion of counsel or a ruling from the U.S. Internal Revenue Service ("IRS") regarding the federal income tax consequences of the proposed reclassification.

We believe that the reclassification will constitute a reorganization under section 368(a)(1)(E) of the Code. In such event:

- No gain or loss will be recognized for U.S. federal income tax purposes by any of the holders of our class A common stock or class B common stock upon the reclassification.
- A shareholder's basis in his or her new shares of common stock will be the same as such shareholder's basis in the shares of class A common stock or class B common stock converted into common stock pursuant to the reclassification.

- A shareholder's holding period for his or her new shares of common stock will include such stockholder's holding period for the shares of class A common stock or class B common stock converted into such common stock pursuant to the reclassification.

TO ENSURE COMPLIANCE WITH UNITED STATES TREASURY DEPARTMENT CIRCULAR 230, YOU ARE HEREBY NOTIFIED THAT (I) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS PROXY STATEMENT IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY YOU FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON YOU UNDER THE CODE; (II) SUCH DISCUSSION IS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN AND YOUR DECISION TO APPROVE OR NOT APPROVE THEM; AND (III) YOU SHOULD SEEK ADVICE BASED ON YOUR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

Accounting Considerations

We do not expect that the reclassification will have any effect on our earnings or book value per share.

Procedure for Effecting Reclassification

If the Reclassification Proposal is approved, the Corporation will file articles of amendment with the North Carolina Secretary of State to amend and restate article II of the Corporation's articles of incorporation as set forth in Exhibit A to this proxy statement. Upon the effectiveness of the reclassification, which will occur at the effective time specified in the Corporation's articles of amendment, all outstanding shares of the Corporation's class A common stock and class B common stock will be converted on a one-for-one basis into shares of a single class of common stock. If the reclassification is completed, we will send you written instructions for exchanging your stock certificates.

Required Vote

The North Carolina Business Corporation Act requires that the Reclassification Proposal be approved by the class A common stock and class B common stock voting as separate voting groups. The number of votes cast for approval within each voting group must exceed the number of votes cast against the proposal in each voting group. Abstentions and broker nonvotes will have no effect on either voting group.

No Appraisal Rights

Holders of the Corporation's class A and class B common stock do not have appraisal rights under the North Carolina Business Corporation Act or otherwise under the Corporation's articles of incorporation or bylaws in connection with the Reclassification Proposal.

THE BOARD OF DIRECTORS RECOMMENDS THAT ALL SHAREHOLDERS VOTE “FOR” THE RECLASSIFICATION PROPOSAL.

**PROPOSAL 3: RATIFICATION OF INDEPENDENT
PUBLIC ACCOUNTING FIRM**

The board of directors has appointed the firm of Grant Thornton LLP, certified public accountants, as the Corporation’s independent public accounting firm for 2014. A representative of Grant Thornton is expected to be present at the annual meeting, available to respond to appropriate questions, and will have the opportunity to make a statement if he or she desires to do so.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE “FOR” RATIFICATION OF GRANT THORNTON LLP AS THE CORPORATION’S INDEPENDENT PUBLIC ACCOUNTING FIRM FOR 2014.

Other Matters

The board of directors knows of no other business that will be brought before the annual meeting. Should other matters properly come before the annual meeting, the Proxies will be authorized to vote shares represented by each appointment of proxy in accordance with their best judgment on such matters.

Shareholder Communications

The Corporation does not currently have a formal policy regarding shareholder communications with the board of directors, however, any shareholder may submit written communications to Curtis C. Brewer III, secretary of the Corporation, Paragon Commercial Corporation, 3535 Glenwood Avenue, Raleigh, North Carolina 27612, whereupon such communications will be forwarded to the board of directors if addressed to the board of directors as a group or to the individual director or directors addressed.

Proposals for 2015 Annual Meeting

It is anticipated that the 2015 annual meeting of shareholders will be held on a date during May 2015. Any proposal of a shareholder which is intended to be presented at the 2015 annual meeting must be received by the Corporation at its main office in Raleigh, North Carolina, no later than December 31, 2014, in order that such proposal be timely received for inclusion in the proxy statement and appointment of proxy issued in connection with that meeting. If a proposal for the 2015 annual meeting is not expected to be included in the proxy statement for that meeting, the proposal must be received by the Corporation by February 16, 2015, for it to be timely received for consideration. The Corporation will use its discretionary authority for any proposals received thereafter.

**ARTICLES OF AMENDMENT
OF
PARAGON COMMERCIAL CORPORATION**

Pursuant to Section 55-10-06 of the North Carolina General Statutes, the undersigned corporation hereby submits these articles of amendment for the purpose of amending its articles of incorporation:

1. The name of the corporation is Paragon Commercial Corporation.
2. The articles of incorporation of the corporation are hereby amended by deleting Article II thereof in its entirety and replacing such text with the following new Article II:

ARTICLE II

The authorized capital stock of the Corporation shall consist of the following:

(a) Common Stock. The aggregate number of shares of common stock which the Corporation shall have authority to issue is 20,000,000, with a par value of \$1.00 per share. Each record holder of common stock shall be entitled to one vote for each share held. Holders of common stock shall have no cumulative voting rights in any election of directors of the Corporation. All shares of common stock are entitled to share equally in dividends from legally available funds, when and if declared by the Corporation's Board of Directors, and in the assets available to shareholders upon liquidation of the Corporation, subject in each case to any liquidation or dividend preference applicable to any other class of securities issued by the Corporation.

(b) Preferred Stock. The aggregate number of shares of preferred stock which the Corporation shall have authority to issue is 1,000,000, with no par value per share. The preferences, limitations, and relative rights of shares of preferred stock shall be designated by the Board of Directors and may be issued in one or more series.

3. Immediately upon the effective filing of these articles of amendment, each share of the corporation's Class A common stock and Class B common stock issued and outstanding at the time of such filing shall, by virtue of the filing of these articles of amendment and without any action on the part of any holder of the Class A common stock or Class B common stock, be reclassified and converted into a single class of common stock, on the basis of one share of common stock for each share of Class A common stock and Class B common stock so reclassified, which shares of common stock shall thereupon be duly authorized, validly issued, and fully paid.

4. The amendment was duly adopted by the Board of Directors of the corporation on March 25, 2014 and approved by the shareholders of the corporation on _____, 2014, in the manner required by Chapter 55 of the North Carolina General Statutes.

5. These articles will become effective upon filing with the North Carolina Secretary of State.

This the ____ day of _____, 2014.

PARAGON COMMERCIAL CORPORATION

By: _____
Robert C. Hatley
President and Chief Executive Officer