PREMARA
FINANCIAL, INC.

Year-End 2016
Shareholder Communication

February 2, 2017

Dear Shareholders:

The professionals and Boards of Directors of Premara Financial, Inc. (“Premara”) and Carolina Premier Bank (the “Bank”) bring you our summary of FY16 financial performance. FY16 was our first full year after spending the previous year in a re-building effort. While we agree that we are not yet a “high performing” bank, we are pleased with the progress made and the foundation set for FY17 and beyond.

We balance the goals of quality, profitability, and growth in running our Bank. This emphasis, along with staying true to our Core Values of Trust, Excellence, Focus, Collaboration, and Balance will continue to provide the framework for our strategies and tactics.

GROWTH

Loans: Growth for growth’s sake is not a strategy. We do recognize, however, that scale is important to gain efficiencies. After re-building our commercial team in FY15, producing quality loans was a major area of emphasis for FY16. We are pleased that organic loan production increased 187% over FY15, resulting in gross loans outstanding of $201 million at FYE16, a 13.6% increase over FYE15.

Fourth quarter growth was $15 million or 8.3% (the last week of the year was a busy one!), and we will experience the associated increase in net interest income during FY17. We will continue to look for quality growth in FY17 as our pipelines remain strong and our teams continue to provide creative and quality solutions for our clients’ needs.

Deposits: Deposit production did not keep pace with loan production and decreased by 0.2% over FYE15. This decrease was concentrated in time deposits as non-maturity deposits increased 1.1%. Our mix remains favorable with 23.7% in non-interest bearing deposits. The Bank has several initiatives to ensure that deposit growth keeps pace with loans in FY17.

In Q4 2016, we hired a new City Executive, Alan Fletcher, for our Rock Hill market; in addition, we recently hired a new Rock Hill Branch Manager. This market is a solid one that we have not effectively penetrated. We also expanded the team with a Deposit Business Development Officer to focus on footprint-wide deposit generation.

As part of our retail strategy, we developed Universal Bankers who are proficient in sales, service, and issue resolution in order to enhance the client experience. Although we are not going to out-branch the larger national and regional banks, the Bank can grow our deposit market share (actually, more than our share) in the markets we currently serve. We will also continue to analyze new branch expansion opportunities and the potential purchases of branches that become available due to M&A activity.

Small Business Administration: As announced in the Q3 2016 shareholder letter, Don Jackson joined the Bank as our Director of SBA Lending. Don already has several loans in the SBA pipeline with initial funding in Q1 2017. He recently expanded his team to include an 11-year SBA Underwriter/Business Development Officer in Charlotte and a 3-year SBA Business Development Officer in Raleigh, NC. Our pro forma models on this line of business continue to justify these additional resources and point to solid returns.

Kasasa ®: We continue to partner with Kasasa ® for our consumer deposit products. In FY17, we are adding additional rewards-based accounts and several services for the deposit client, such as Kasasa ® Protect, designed to guard against identity theft. Combined with our mobile banking platform, the Kasasa ® product line enables us to compete across several demographics, from millennials to seniors.

QUALITY

Non-performing assets (NPAs) ticked up in Q4 2016 over the Q3 results. Our FYE16 NPAs totaled 1.19% of assets compared to 0.84% at Q3 2016. However, this does compare favorably to FYE15 when NPAs totaled 1.72% of assets. Much of the Q4 uptick was due to one credit, which was paid out in early January 2017. Adjusting for the payout of this one credit, NPAs were 0.80% of assets at FYE16.

Net charge-offs for the year were 0.19% of average loans. Our credit team is experienced, not only in loan approvals, but also in problem asset management and resolution. In particular, our Senior Credit Officer, hired during FY16, has a background in both business development and special assets.

PROFITABILITY

Net Income: Our pre-tax profitability (Bank only) for FY16 stood at $752 thousand, a slight decrease from the level reported at 3Q 2016 (when we reported YTD pre-tax profit of $802 thousand). This decrease was driven by a $90 thousand charge-off related to the closing of one of our offices (see Bank of the Urban League below) and taking a $100 thousand provision expense related to the strong Q4 loan growth. Net income after tax was $676 thousand compared to an after-tax loss of $317 thousand in FY15.

For the holding company, profit after taxes was $588 thousand compared to an after-tax loss of $416 thousand in FY15. Earnings per share in FY16 were $0.19.

Net Interest Margin: Even with the late 2016 rate increase, we experienced a decline in our NIM from 3.74% for FY15 to 3.66% for FY16. Managing our NIM in what appears to be the "new normal" is no easy task. We continue our diligence in balancing growth of quality relationships with maintaining pricing discipline. Our net interest income (before provision) was down slightly ($79 thousand or 0.9%) year-over-year due to the decreased NIM and the fact the much of the loan growth occurred in the second half of the year.

Bank of the Urban League: In FY12, the Bank partnered with the Urban League of Central Carolinas ("ULCC") and opened a division of Carolina Premier Bank in the uptown Charlotte offices of the ULCC. The idea behind this initiative was to provide solutions for the un- and under-banked in Charlotte. This effort has not lived up to the expectations of the Bank or the ULCC, partly due to the emergence of under-banked products by non-bank competitors and partly due to our size. We certainly understand the importance of assisting the un- and under-banked. However, our Bank lacks the scale to execute this initiative efficiently or effectively; therefore, we worked with the ULCC on an exit strategy.

In late December, we announced that this office will close effective March 30, 2017. We will continue to work with the ULCC through this time on finding a more suitable partner for their needs. In Q4 2016, we took a one-time charge-off of $90 thousand related to leasehold improvements and equipment in the ULCC office.

After the closure of the Bank of the Urban League, our resulting footprint will focus on the Charlotte MSA with offices in Ballantyne (south Charlotte) and Rock Hill, SC and two additional markets in South Carolina—Blacksburg and Six Mile. Since FY15, we have closed three locations which did not expectations while focusing our attention on our most productive offices.

Non-Interest Expense: Non-interest expenses (Bank only) totaled $8.5 million for FY16, a decrease of $1.2 million (12.4%) over FY15 levels. In 4Q 2016, our normalized run rate of non-interest expenses (annualized) was approximately $8.4 million. This figure excludes the $90 thousand mentioned above related to the ULCC office charge-off. We also excluded the rental expense of the Washington, DC office that closed in FY15. (Because we sub-leased the DC space, we report offsetting non-interest income and non-interest expense of $203 thousand annually.) We continue to manage our expenses diligently; however, we also make sound investments for the future, such as the hiring of a Deposit Business Development Officer and expansion of our SBA line of business.

Premara Financial, Inc.: Our goal is to increase shareholder value, which equates to growing EPS and tangible book value ("TBV"). At FYE16, Premara's TBV was $7.56/share. The reduction from Q3 2016's $7.68/share was the result of the $90 thousand ULCC write-down ($0.02/share) and mark-to-market accounting on our securities portfolio ($0.10/share). TBV at FYE15 was $7.43/share; therefore year-over-year growth was $0.13/share or 1.7%.

Conclusion: We are pleased that the strategies put in place in FY15 and FY16 are resulting in robust growth, increased profitability, and solid quality. With this foundation, we are looking for continued improvement in FY17 as we build upon the momentum established in FY16. The banking industry, particularly the community banking space, continues to change with fintech, shifting demographics, M&A activity, and the possibility of reduced regulation. Our charge is to run the best bank possible, position our Company for continued success in light of the various economic scenarios, and provide a consistent increase in shareholder value.

If you have questions or comments, we invite you to call us at 704-752-9292. We do not conduct quarterly investor calls but are happy to have one-on-one meetings or phone calls with investors and potential investors.

Thank you for your support of and investment in Premara Financial, Inc. We look forward to our continued journey toward high-performance.

Sincerely,

David P. Barksdale
Chief Executive Officer

Forward-looking statements: We have included in this letter "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act relating to our operations, results of operations and other matters that are based on our current expectations, estimates, assumptions and projections. Words such as "will," "expect," "believe" and similar expressions are used to identify these forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Forward-looking statements are based upon assumptions as to future events that may not prove to be accurate. Actual outcomes and results may differ materially from what is expressed or forecast in these forward-looking statements. Our forward-looking statements speak only as of the date of this letter or as of the date they are made, and we undertake no obligation to update them.

Premara Financial, Inc.

Consolidated Balance Sheet

December 31, 2016 and 2015

ASSETS	2016	2015
Cash and cash equivalents:		
Cash and due from banks	$ 2,863,492	$ 2,647,161
Interest-bearing bank deposits	6,151,148	17,344,098
Total cash and cash equivalents	9,014,640	19,991,259
Time deposits - Financial institutions	500,000	500,000
Securities available-for-sale	31,460,193	37,447,613
Securities held-to-maturity	1,250,000	1,250,000
Nonmarketable equity securities	1,744,493	1,255,367
Loans	200,782,266	176,719,915
Allowance for loan and lease losses	(2,138,155)	(2,292,862)
Net loans	198,644,111	174,427,053
Premises and equipment, net	1,255,529	1,767,151
Deferred tax asset	2,857,861	2,728,301
Other real estate owned	-	54,119
Intangible assets	610,208	671,586
Bank owned life insurance	5,530,975	2,777,196
Accrued interest receivable	910,168	862,162
Other assets	1,262,532	773,057
Total assets	**$ 255,040,710**	**$ 244,504,864**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand:		
Noninterest-bearing	$ 48,181,492	$ 49,035,819
Interest-bearing	20,413,683	20,129,000
Savings and money market	75,868,981	73,663,432
Time, $100,000 and over	19,205,359	19,561,756
Other time deposits	40,977,938	42,565,774
Total deposits	204,647,453	204,955,781
FHLB advances	25,000,000	14,000,000
Accrued interest payable	53,073	43,517
Other liabilities	830,168	1,348,331
Total liabilities	**230,530,694**	**220,347,629**
Stockholders' equity		
Common stock, $0.01 par value; 3,160,268 shares issued and outstanding at December 31, 2016 and 2015	31,603	31,603
Additional paid in capital	23,556,468	23,537,438
Undivided profits	1,064,157	475,821
Accumulated other comprehensive income	(142,212)	112,373
Total stockholders' equity	**24,510,016**	**24,157,235**
Total liabilities and stockholders' equity	**$ 255,040,710**	**$ 244,504,864**

Premara Financial, Inc.

Consolidated Income Statement

Years ended December 31, 2016 and 2015

	2016 - YTD	2015 - YTD
Interest income:		
Loans, including fees	$ 8,683,537	$ 8,594,113
Securities income	991,662	954,203
Other interest and dividend income	172,469	220,125
Total interest income	9,847,668	9,768,441
Interest expense:		
Time deposits, $100,000 and over	277,966	202,170
Other deposits	930,451	818,698
Other borrowings	199,791	229,525
Total interest expense	1,408,208	1,250,393
Net interest income	8,439,460	8,518,048
Provision for loan losses	125,000	300,000
Net int. inc. after prov. for loan losses	8,314,460	8,218,048
Other operating income:		
Debit and ATM income	190,300	153,825
Bank owned life insurance	153,778	143,493
Mortgage broker fees	-	25,219
Mortgage banking income	-	32,688
Gain on sale of available-for-sale securities	15,371	-
Gain (loss) on sale of fixed assets	2,097	(363,408)
Gain (loss) on sale of other real estate owned	(4,707)	324,854
Service charges and other income	588,792	328,190
Total non-interest income	945,631	644,861
Other operating expenses:		
Compensation and employee benefits	4,380,906	4,595,790
Occupancy	1,069,334	1,211,557
Furniture and equipment	357,148	449,838
Professional services	517,522	629,547
Data processing	573,420	593,317
Office supplies and printing	62,999	79,425
Software	210,474	206,295
Advertising and marketing	85,484	62,769
FDIC insurance premiums	205,587	204,500
Telecommunications	151,298	168,028
Debit and ATM fees	159,082	164,803
Writedown on FF&E	90,000	-
Other	777,434	1,502,856
Total operating expenses	8,640,688	9,868,725
Income (loss) before income tax expense	619,403	(1,005,816)
Income tax expense (benefit)	31,067	(589,645)
Net income (loss)	**$ 588,336**	**$ (416,171)**