



New  
Horizons.

FIRST BANCORP

ANNUAL REPORT 2012

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## P R E S I D E N T ' S   L E T T E R

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Dear Shareholders, Customers and Friends,

Thank you for the privilege to report on the events of the past year. Having served as a director of the company since 2010, it was an honor to join the management team last June. Since then, I have spent a lot of time getting to know the bank better. My visits to our branches and with employees confirmed the belief that I had formed as a director – First Bank is a wonderful community bank with talented employees who are dedicated to serving our friends and neighbors in all the communities we call home.

I also found a company continuing to deal with a lingering recession – an organization spending lots of time and energy trying to resolve delinquent loans that had been negatively impacted by tough economic times. That level of delinquency was also extremely difficult to forecast, resulting in substantial increases in our loan loss provisions. This situation was a serious drag on the value of our bank.

Faced with the prospect of several more years of sub-par financial results, we began to consider other alternatives. One was to sell a large portion of our most problematic loans. We determined that while there were buyers for the loans, the price level they would pay was going to result in a sizeable loss for the bank. While our capital levels were high enough that we could withstand a large loss and still significantly exceed regulatory minimums, we believed the most prudent thing to do was to replace any loss from a loan sale with a capital raise of a similar amount.

The culmination of these plans was announced in late December when we reported that – 1) we had completed a \$33.8 million capital raise, 2) we were nearing the completion of a loan sale of approximately \$68 million of high-risk loans, and 3) we planned to write-down certain of our foreclosed properties in an effort to speed their disposition. The net effect of these initiatives was positive – our capital levels remained almost the same, while the level of risk on our balance sheet was greatly reduced.

We completed the loan sale in January 2013 and are optimistic that the gains in productivity of our employees and the reduction of collection expenses and provisions for loan losses will result in greater value for our shareholders.

Primarily as a result of this loan sale and foreclosed property write-down, our company reported its first annual loss since becoming a public company in 1987. For the year ended December 31, 2012, we reported a loss for our common shareholders of \$26.2 million, or \$1.54 per share, compared to net income of \$7.5 million, or \$0.44 per share, in 2011.

Although we reported a loss for 2012, our shareholders experienced a gain. The price of our common stock rose from \$11.15 at the beginning of the year to \$12.82 on December 31, 2012, an increase of 15%. When you factor in the cash dividends that the company paid, the total return for our shareholders was 18%. And in 2013, our stock price has been

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trading above \$13 for much of the year thus far. The performance of our stock following the December announcement of the capital raise and loan sale helps validate the tough decisions made by the board of directors.

While the events discussed above were the most significant, we had numerous other accomplishments as well.

First, we had good balance sheet growth during the year. Excluding loans we assumed in failed bank acquisitions in prior years, our level of loans increased by \$25 million, or 1.2%, during the year to \$2.1 billion. If you add back the \$68 million in loans that we removed from the loan portfolio in anticipation of the loan sale, our real growth was \$93 million, or 4.5%. We did an especially good job making loans to small businesses, which has resulted in the lowest possible rate of 1% that we pay to the US Treasury related to the Small Business Lending Fund that we accessed in 2011. We look forward to continuing to meet the lending needs of the communities we serve.

On the liability side, we experienced a 2.4% growth in deposits. Within that growth, we experienced a nice shift in the mix of our deposits. Most significantly, we experienced a 16% increase in transaction accounts, including a 23% increase in Checking Accounts. Transaction accounts, especially Checking Accounts, are generally our lowest cost source of funds and also provide us the opportunity to earn fees. Due to the growth in these accounts, we were able to lessen our reliance on Certificates of Deposits, which decreased by 12% and are often our most expensive source of funds.

While almost all of the growth we experienced in 2012 was internal growth, we also continued to evaluate acquisition opportunities. In April 2012, we announced an agreement to purchase a bank branch located in Wilmington, NC. We did not buy the real estate associated with the branch, but rather we consolidated the \$9 million in deposits housed at the branch into an existing, nearby branch of First Bank with minimal incremental overhead. In September 2012, we announced that we had agreed to purchase two branches from another bank, with one branch being in Southern Pines, NC and the other in Rockingham, NC. The total deposits associated with the branches is approximately \$64 million and the loans are approximately \$22 million. We expect to also be able to leverage our existing branch network in those towns and achieve good efficiencies. This transaction is expected to be complete by the time you receive this report.

Looking into the future, we believe that Mobile and Online Banking, as well as social media will continue to increase in popularity. We continue to work towards providing the best Online Banking products possible (available at [www.FirstBancorp.com](http://www.FirstBancorp.com)). In addition, we have complimentary smartphone apps for both the iPhone® and the Android™ that our customers love. On the social media front, we have both a Facebook page where we interact with our customers and a Twitter feed that provides interesting tidbits to our followers. Please visit our Facebook page at “First Bancorp” and follow us on Twitter at “@FirstBancorp”.

We continue to focus on serving all of the financial needs of our customers. While this is not a new idea, we have rededicated ourselves to offering the best possible products for our customers for all financial occasions. We have recently focused on the areas of Wealth Management, Mortgage Loans and Credit Cards. In 2012, we made significant

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investments in our Wealth Management division, which operates under the name “FB Wealth Management”. We now have expert financial advisors in, or within a short distance of, all of our market areas. People need financial advice and our bank, which is a trusted, local community bank, is ideally positioned to help.

In 2013, in order to address increasingly complex regulations, as well as to provide the best possible customer experience, we have reorganized our Mortgage department and increased its staffing. Now when you need a Mortgage Loan, you will be partnered with a highly trained Mortgage Loan expert who only originates Mortgage Loans. We will guide our customers through the increasingly regulated process and be able to provide the best possible product at the best rate, and with the shortest turnaround time possible.

Later in 2013, we will be rolling out a new and improved First Bank Credit Card. Getting a First Bank Credit Card will be more convenient than ever and the rewards you get for using it will be comparable to the best ones in the marketplace. If you do not already have one, we look forward to getting a First Bank Credit Card in your wallet in the near future.

In conclusion, we are hopeful that we are beginning to see early signs of economic recovery in the markets we serve. With our expansion over the last few years and the bank’s recent initiatives, I believe we are ideally positioned to aid in the recovery and profit from it. I look forward to a bright future for our communities and our bank.

Accompanying the mailing of this letter is our proxy statement and the notice of our Annual Shareholders Meeting, which is being held at the James H. Garner Conference Center at 3:00 PM on May 9, 2013. There is important information regarding your company contained within the proxy statement, and I encourage you to read it closely. On the back of the proxy statement is a location map for your convenience. I invite you to attend this meeting, which will give you an opportunity to meet the management and board of directors of your company.

Your support is appreciated, and I welcome your comments and suggestions.

Sincerely,



Richard H. Moore  
President and Chief Executive Officer

March 20, 2013



## BOARD OF DIRECTORS



Daniel T. Blue, Jr.



Jack D. Briggs



R. Walton Brown



David L. Burns



John F. Burns



Mary Clara Capel  
CHAIRMAN  
FIRST BANCORP



James Crawford III



R. Winston Dozier, Jr.



James G. Hudson, Jr.



Richard H. Moore  
CEO AND PRESIDENT  
FIRST BANCORP



Jerry L. Ocheltree  
PRESIDENT  
FIRST BANK



George R. Perkins, Jr.



Thomas F. Phillips



Frederick L. Taylor, II



Virginia C. Thomasson



Dennis A. Wicker



John C. Willis



### IN MEMORIAM Goldie H. Wallace

*We dedicate this year's First Bancorp Annual Report to the beloved memory of Goldie Wallace. Wallace, a private investor and business entrepreneur, served as a dedicated board member for 15 years.*

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F I R S T   B A N C O R P

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FORM 10-K

## S E L E C T E D   F I N A N C I A L   D A T A

Years Ended December 31, (\$ IN THOUSANDS EXCEPT SHARE DATA)	2012	2011	Change 2011 to 2012
<b>SELECTED INCOME STATEMENT DATA</b>			
Net interest income	\$ 135,200	132,203	2.3%
Provision for loan losses	79,672	41,301	92.9%
Noninterest income	1,389	26,216	-94.7%
Noninterest expenses	97,275	96,106	1.2%
Income tax expense (benefit)	(16,952)	7,370	N/M
Net income (loss)	(23,406)	13,642	N/M
Preferred stock dividends	2,809	6,166	-54.4%
Net income (loss) - common shareholders	(26,215)	7,476	N/M
<b>PER SHARE DATA</b>			
Earnings (loss) per common share - basic	\$ (1.54)	0.44	N/M
Earnings (loss) per common share - diluted	(1.54)	0.44	N/M
Cash dividends declared - common	0.32	0.32	0.0%
Market Price:			
High	13.40	16.89	-20.7%
Low	7.68	8.05	-4.6%
Close	12.82	11.15	15.0%
Book value - common	14.51	16.66	-12.9%
Tangible book value - common	11.00	12.53	-12.2%
<b>SELECTED BALANCE SHEET DATA</b> (at year end)			
Assets	\$ 3,244,910	3,290,474	-1.4%
Loans	2,376,457	2,430,386	-2.2%
Deposits	2,821,360	2,755,037	2.4%
Shareholders' Equity	356,117	345,150	3.2%
<b>PERFORMANCE RATIOS</b>			
Return on average assets	(0.79%)	0.23%	-102 bps
Return on average common equity	(9.29%)	2.59%	-1,188 bps
<b>NONFINANCIAL DATA</b>			
Common shares outstanding	19,669,302	16,909,820	
Number of branches	97	97	
Number of employees - full/part time	810/42	812/36	

N/M = NOT MEANINGFUL



## SHAREHOLDER INFORMATION

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### CORPORATE OFFICE

341 North Main Street  
PO Box 508  
Troy, NC 27371  
910-576-6171  
800-548-9377  
Fax 910-576-0662  
[www.FirstBancorp.com](http://www.FirstBancorp.com)

### INDEPENDENT AUDITORS

Elliott Davis, PLLC  
Charlotte, NC

### CORPORATE COUNSEL

Robinson, Bradshaw & Hinson, PA  
Charlotte, NC

### TRANSFER AGENT

Registrar & Transfer Co., Inc.  
10 Commerce Drive  
Cranford, NJ 07016-3572  
800-368-5948  
[www.rtc.com](http://www.rtc.com)

### SHAREHOLDERS' MEETING

The Annual Meeting will be held on May 9, 2013 at 3:00 pm at the James H. Garner Conference Center, 211 Burnette Street, Troy, North Carolina.

### COMMON STOCK INFORMATION

First Bancorp's common stock is traded on the NASDAQ Global Select Market under the symbol FBNC. There were 19,669,302 shares outstanding as of December 31, 2012 with 2,600 shareholders of record and approximately 3,600 additional shareholders that held their shares in "street name."

### DIRECT DEPOSIT

With Direct Deposit, shareholders may enjoy the convenience of having dividends directly deposited into their Checking or Savings Account. There is no cost for this service. Shareholders may obtain further information about Direct Deposit by calling us toll-free at 800-548-9377 and asking for Shareholder Services.

### SHAREHOLDER SERVICES

First Bancorp offers online access to your First Bancorp Stock Account, including your account balance, certificate history, dividend reinvestment plan information and more. Choose About Us at [www.FirstBancorp.com](http://www.FirstBancorp.com) and select Investor Relations.

First Bancorp offers online access to all financial publications, including annual reports and quarterly reports filed with the Securities and Exchange Commission. Choose About Us at [www.FirstBancorp.com](http://www.FirstBancorp.com) and select Investor Relations. SEC Filings are accessible from the left sidebar menu.

For more information or shareholder assistance, call us toll-free at 800-548-9377 and ask for Shareholder Services.

### COPIES OF FORM 10-K

Copies of the First Bancorp Annual Report on Form 10-K filed with the Securities and Exchange Commission may be obtained at no cost by contacting:

Investor Relations  
Anna Hollers  
PO Box 508  
Troy, NC 27371-0508  
800-548-9377  
or  
by visiting our corporate website at [www.FirstBancorp.com](http://www.FirstBancorp.com)

### DIVIDEND REINVESTMENT

Registered holders of First Bancorp stock are eligible to participate in the Company's Dividend Reinvestment Plan, a convenient and economical way to purchase additional shares of First Bancorp common stock without payment of brokerage commissions. For an information folder and authorization form, or to receive additional information on this plan, contact:

Investor Relations  
Anna Hollers  
800-548-9377  
or  
Registrar & Transfer Co., Inc.  
Dividend Reinvestment Section  
10 Commerce Drive  
Cranford, NJ 07016-3572  
800-368-5948 or [info@rtc.com](mailto:info@rtc.com)

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