

The image shows the exterior of a First Bank building. The architecture features a prominent arched window at the top, a central entrance with a gabled roof, and large multi-paned windows on either side. The entrance is flanked by brick pillars. The text "ON THE move" is overlaid in white, with "ON THE" in a sans-serif font and "move" in a large, italicized script font.

# ON THE *move*

FIRST BANCORP ANNUAL REPORT 2013

300  
FIRST BANK

## Financial Highlights

### Years Ended December 31

(\$ in thousands except share data)

#### SELECTED INCOME STATEMENT DATA

	2013	2012	Change 2012 to 2013
Net interest income	\$ 136,526	135,200	1.0%
Provision for loan losses	30,616	79,672	-61.6%
Noninterest income	23,489	1,389	1591.1%
Noninterest expenses	96,619	97,275	-0.7%
Income taxes	12,081	(16,952)	n/m
Net income	20,699	(23,406)	n/m
Preferred stock dividends	895	2,809	-68.1%
Net income - common shareholders	19,804	(26,215)	n/m

#### PER SHARE DATA

Earnings per common share - basic	\$ 1.01	(1.54)	n/m
Earnings per common share - diluted	0.98	(1.54)	n/m
Cash dividends declared - common	0.32	0.32	0.0%
Market Price:			
High	17.39	13.40	29.8%
Low	11.98	7.68	56.0%
Close	16.62	12.82	29.6%
Book value - common	15.30	14.51	5.4%
Tangible book value - common	11.81	11.00	7.4%

#### SELECTED BALANCE SHEET DATA

(at year end)

Assets	\$ 3,185,070	3,244,910	-1.8%
Loans	2,463,194	2,376,457	3.6%
Deposits	2,751,019	2,821,360	-2.5%
Shareholders' Equity	371,922	356,117	4.4%

#### PERFORMANCE RATIOS

Return on average assets	0.62%	-0.79%	n/m
Return on average common equity	6.78%	-9.29%	n/m

#### NONFINANCIAL DATA

Common shares outstanding	19,679,659	19,669,302
Number of branches	96	97
Number of employees - full/part time	837/36	810/42

n/m = not meaningful.



Richard H. Moore  
President and Chief  
Executive Officer

## *Dear Shareholders, Customers and Friends,*

Thank you for this opportunity to report on a successful 2013 for our company. It was a year of change, as we undertook many important initiatives. We are optimistic that our actions combined with the economic recovery we are seeing in much of our market area will lead to enhanced shareholder value for years to come.

### **MOVING TOWARDS STRONGER EARNINGS**

First, I will discuss our earnings for 2013. Net income available to common shareholders totaled \$19.8 million, or \$0.98 per diluted common share, compared to a net loss of \$26.2 million, or \$1.54 per diluted common share, for 2012. In 2012, we incurred losses associated with a loan sale and a foreclosed property write-down that were the primary causes of the loss for the year. The tough decisions made in late 2012 led to 2013 having the lowest level of loan and foreclosed property losses since 2009. The core profitability of the company remains strong, with net interest margins that exceed peer averages, fee income that is trending up and overhead expenses that are being managed very closely. The company's return on average assets was 0.62% for 2013, which was the highest it has been since 2009.

In addition to the strong earnings, we also experienced good loan and core deposit growth in 2013. Excluding loans assumed in failed bank acquisitions, our net loan growth for the year was \$159 million, or 7.6%. This high growth was a result of both a recovering economy and improvements made in our internal loan process that have made us more efficient and responsive to our customers' needs.

On the liability side, we experienced good growth in our low cost core deposit accounts, while maintaining discipline in our pricing of higher cost CD's, which led to declines in that category of deposits. The bank's lower cost core deposits increased 6.8%, while time deposits declined 15.6%, which led to an overall deposit decline of 2.5%. The shift in deposits from high-cost categories to low cost ones led to the company's average cost of funds declining from 0.59% in 2012 to 0.39% in 2013, which helped the company maintain a strong net interest margin of 4.92% for 2013.

As it relates to asset quality, our key ratios at year end were approximately the same as they were following our loan sale in January 2013. The company's ratio of legacy nonperforming assets to total assets (excludes failed bank assets) amounted to 2.78% at year end. That is higher than we would like and remains an area of focus for our company. We are optimistic that with recently implemented enhancements in our internal processes and the recovering economy that better days are ahead.

For our shareholders, 2013 was a very good year. The price for First Bancorp's common stock (Ticker: FBNC) increased from \$12.82 on January 1, 2013 to \$16.62 at December 31, 2013, an increase of 30%. When you add the dividends that the company paid, the total return for our shareholders in 2013 was 33%.

Now I will discuss some of the strategic initiatives that the company has undertaken.



### MOVING INTO NEW TERRITORY

First, we intend to keep growing. Recently, we opened loan production offices in Charlotte, Fayetteville and Greenville (all in North Carolina). These are all attractive markets where we had already been making loans from surrounding counties. We believe that our skilled loan officers, who now also have a physical presence, will be a source of solid growth in 2014 and beyond. These locations could also lay the foundation for future full-service branches. That was the scenario that occurred in Blacksburg, Virginia. We opened a loan production office in Blacksburg several years ago and were pleased to grow our market share enough to be able to upgrade our presence into a full-service branch during 2013.

Another source of strategic growth is acquisitions. In 2013, we completed the purchase of two competitor branches located in Southern Pines and Rockingham. We consolidated the Southern Pines branch into our existing nearby branch (without buying the competitor's building), whereas in Rockingham, the branch we purchased is now our flagship branch in that long-time First Bank market. While we assumed all deposits of the two branches, we hand-selected the loans we purchased. The purchase of the two branches was a low risk transaction that eliminated a competitor, while more efficiently leveraging our existing footprint.



First Bank headquarters, Southern Pines, NC

While targeted increases in our branch network is an important growth strategy, we also recognize that expenses associated with operating branches are high. Therefore, we continually evaluate our branch network for locations for possible closure or consolidation—those with limited prospects for profitability or ones where we can serve our customers easily from a nearby branch. With the ever-increasing popularity of online and mobile banking, the need for branch locations is lessening in importance. In this regard, since December 2012, we have closed and/or consolidated five branch locations.

### MOVING OUR CUSTOMERS WITH WORLD-CLASS WEB OFFERINGS AND NEW SERVICES

I just mentioned the importance of digital banking, which has become an increasingly important part of our relationship with our customers. Thus in January 2014, we were excited to rollout our new and improved website. We changed our website address from [www.FirstBancorp.com](http://www.FirstBancorp.com) to a domain that more closely identifies with our bank name and that conveys who we are to the communities we serve—[www.LocalFirstBank.com](http://www.LocalFirstBank.com). In addition to the domain change, the website was upgraded for ease-of-use and now provides valuable educational resources and tools. If you are not already a user of our website, I encourage you to visit us at [www.LocalFirstBank.com](http://www.LocalFirstBank.com). Work has recently begun on a significant update to our mobile and online banking products that will offer our customers a best-in-class experience in 2014 however they choose to bank with us.

As for social media, the same change in domain name carried over to our Facebook page and Twitter account. Please like us on our Facebook page—[www.facebook.com/LocalFirstBank](http://www.facebook.com/LocalFirstBank)—and follow us on Twitter—[@LocalFirstBank](https://twitter.com/LocalFirstBank). With the growing importance of social media, we have made investments in our online social presence and are looking forward to increased engagement with our customers via this form of media.

In 2013, we rolled-out our brand new MasterCard® credit card. We have always offered a credit card product, however, we recognized that we needed to offer more to our customers if we wanted to grow market share. Last summer, we did just that. Our new MasterCard® comes with easy-to-earn rewards, a competitive interest rate and no annual fee. In addition, we increased the rate at which cardholders earn points, and we now provide an option that allows cardholders to combine the points earned from all eligible First Bank MasterCard® debit and credit cards. If you don't already have MasterCard® debit and credit cards, I hope you will visit your local First Bank branch today and ask for them!

**MOVING FORWARD IN 2014**

In late 2013, we rolled out the biggest change to our product offerings in many years—a new deposit account line-up. Our goal was to simplify our checking, savings and money market accounts by reducing the number of options available and making them easier to understand for our customers. Another fundamental change was the elimination of free checking for customers who maintain low balances in their accounts. This was not a change that was taken lightly. With increasing regulatory costs and the high expense we incur to operate a checking account, including online and mobile banking, checking accounts with low balances have become increasingly unprofitable. We concluded that we had little choice but to ask customers with such accounts to pay a nominal fee. We respect, value and thank all of our customers for their business.

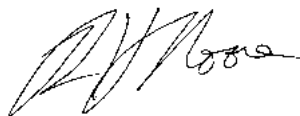
Before concluding, it was with mixed emotions that we moved our corporate headquarters from Troy to Southern Pines, North Carolina. First Bank had been headquartered in Troy since 1935 and Troy was an integral part of our success. Most of our board members were raised in small towns like Troy and understand the special connection that a local business has with its citizens. However, the opportunity to purchase an ideal building in nearby Southern Pines presented itself, and when we looked at future growth plans and recognized that many of our employees were already commuting from the Southern Pines market to Troy, the board decided that a move made sense. But we continue to have a large presence in Troy and still maintain our operations centers there with over 150 employees. And as discussed below, we will hold our upcoming shareholders' meeting in Troy.

We accomplished many things in 2013 and look forward to achieving even more in 2014. One of the exciting events for our area in 2014 will be the back-to-back US Opens in golf for men and women being held in nearby Pinehurst in June. This is the first time that those championships will occur in consecutive weeks and should be beneficial to our economy. If you are visiting the area, I invite you to drop by for a visit to our corporate headquarters on Broad Street in Southern Pines. If you need banking services during your stay, please visit one of our many Southern Pines/Pinehurst branches.

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 in Troy, North Carolina at 3:00 PM on May 8, 2014. 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. One of our directors who you will want to give special thanks to is David Burns. David is retiring from the board after serving as a director for 25 years. David has provided wise counsel to our board since 1988 and he will be missed.

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

Sincerely,



Richard H. Moore  
President and Chief Executive Officer  
March 20, 2014

## BOARD OF DIRECTORS

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Daniel T. Blue, Jr.



Jack D. Briggs



David L. Burns



Mary Clara Capel  
CHAIRMAN  
FIRST BANCORP



James Crawford III



James G. Hudson, Jr.



Richard H. Moore  
PRESIDENT AND CEO  
FIRST BANCORP



George R. Perkins, Jr.



Thomas F. Phillips



Frederick L. Taylor, II



Virginia C. Thomasson



Dennis A. Wicker



John C. Willis

### CORPORATE OFFICE

300 SW Broad Street  
Southern Pines, NC 28387

Customer Service: 866-792-4357  
[www.LocalFirstBank.com](http://www.LocalFirstBank.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 8, 2014 at 3:00 PM at the James H. Garner Conference Center in 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 19,679,659 shares outstanding as of December 31, 2013 with 2,400 shareholders of record and approximately 3,200 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 866-792-4357 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. At [www.LocalFirstBank.com](http://www.LocalFirstBank.com), choose About Us, then click on Investor Relations to open the Corporate Profile page. Then select "Shareholder access to Transfer Agent" from the sidebar.

First Bancorp offers online access to all financial publications, including annual reports and quarterly reports filed with the Securities and Exchange Commission. At [www.LocalFirstBank.com](http://www.LocalFirstBank.com), choose About Us, then click on Investor Relations to open the Corporate Profile page. SEC Filings are accessible from the left sidebar menu.

For more information or shareholder assistance, call us toll-free at 866-792-4357 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  
Elizabeth Bostian  
300 SW Broad Street  
Southern Pines, NC 28387  
866-792-4357  
(Ask for Shareholder Services)  
or  
by visiting our corporate website at  
[www.LocalFirstBank.com](http://www.LocalFirstBank.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  
Elizabeth Bostian  
866-792-4357  
(Ask for Shareholder Services)  
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)

FIRST BANCORP

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300 SW BROAD STREET  
SOUTHERN PINES, NC 28387

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