

March 7, 2009

Confidential

Mr. Neil M. Barofsky  
Special Inspector General - TARP  
1500 Pennsylvania Ave, Suite 1064  
Washington, D.C. 20220

Dear Mr. Barofsky,

This letter is in response to your letter dated February 6, 2009 in which you asked for information regarding First Bancorp's use of TARP funds and related compliance with executive compensation requirements.

Due primarily to growth of our company, along with a 2007 redemption of trust preferred securities that was ill-timed in hindsight, First Bancorp entered 2008 with lower levels of capital than we target. Our total risk based capital ratio was 10.30% at December 31, 2007 compared to a normal targeted range of 11.50%-12.00%. In the years leading up to 2008, we were able to access the capital markets with relative ease to bolster our capital ratios when necessary. For the first 10 months of 2008, we tried unsuccessfully to access the capital markets. We also attempted to attract capital from private sources, but also had no success.

With our access to the capital markets effectively eliminated, we were faced with the likely prospects of shrinking our balance sheet by reducing lending. We are a mostly rural community bank with 74 branches throughout central North Carolina and parts of South Carolina and Virginia. Our communities depend on us to provide credit. We see ourselves as partners with our borrowers in which our credit creates a better place to live, and therefore we were troubled about reducing or eliminating credit availability.

We were therefore very happy with the announcement of the US Treasury's Capital Purchase Program in October 2008. We applied for participation in the program, were approved, and received \$65 million in funds on January 9, 2009. We are grateful for this opportunity to have participated in the program and are sincere in our desire to use this capital for its intended purpose. As a result of this investment, we have been able to continue lending on a business-as-usual basis in our communities.

Significantly, our asset quality has held up well, especially in relation to state and national peers. Attached as Exhibit I to this letter is the summary page from the most recent Federal Reserve Bank Holding Company Performance Report. Our loan loss ratio for 2008 was less than half of that of our peers (0.24% vs. 0.66%) and our year end ratio of nonaccrual loans and foreclosed real estate divided by loans and foreclosed real estate was significantly lower than the peer average (1.42% vs. 2.73%). Our sound asset quality provides us with the opportunity to lend our program proceeds instead of using the proceeds to cover losses. Any loan losses are coming out of operating earnings, and we have continuously had positive net income, even after providing for loan losses.



Unfortunately, because loan demand has weakened in our markets due to the recessionary economy, our loans outstanding have declined slightly since our receipt of the Treasury's investment. North Carolina currently has the 8<sup>th</sup> highest unemployment rate in the nation and South Carolina has the 3<sup>rd</sup> highest rate. We continue to seek qualified borrowers and have also sought other ways to demonstrate our sincerity in using the Treasury's investment in the best way possible to help improve the economy – see additional discussion below.

The following are more specific responses to your questions.

**Use of TARP Funds**

**Anticipated use of TARP funds** – As stated above, our long-term anticipated use of TARP funds is to support our ability to make loans in the communities we serve. We expect this will occur gradually, as it is not practical or prudent for us to lend out \$65 million in net new loans in a short time frame with the loan demand that we are currently experiencing.

**Whether the TARP funds were segregated from other institutional funds** – We did not segregate the proceeds we received from the Treasury's investment. The proceeds were deposited into our general operating account, the same operating account that we make all loan disbursements from.

**Actual use of TARP funds to date** – As noted above, our TARP funds were deposited into our general operating account and became commingled with the rest of our funds, so it is difficult to specifically identify TARP dollars. Funds in our general operating account are evaluated as a whole in determining our cash management actions. However, we have maintained consistent profitability since our receipt of the funds, and thus we feel confident in stating that the TARP funds have not funded losses of any kind. We have also consistently had earnings that exceeded stock dividend payments, and thus we are also confident that our TARP funds have not funded dividend payments. Despite the commingled nature of our cash, we can identify a \$20 million cash outflow that occurred shortly after receipt of the funds, as described in the following paragraph.

Upon the receipt of the \$65 million in TARP funds, our operating general operating account bank balance increased materially. This account has been paying only approximately 5 basis points of interest. In an effort to maximize our profitability, yet maintain the flexibility to use the TARP funds for the intended purpose of lending, we paid down a \$20 million line of credit that carried an interest rate of 2.25%. The line of credit remains available for us to draw in the event that loan demand accelerates, and we need to access the funds.

**Expected Use of Unspent TARP Funds** – Long term, our expected use of unspent TARP funds is to make loans within the communities we serve. As noted above, we used \$20 million in TARP funds to at least temporarily pay down a revolving line of credit. In our

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We received our TARP funds on January 9, 2009. For the month of January, we originated \$36 million in new loans, and we renewed \$51 million in loans that matured - See Exhibit II for the report that details these amounts. Presumably, we received \$38 million in principal paydowns and loan payoffs, as we had negative loan growth for the month of \$2 million - we have \$2.2 billion in total loans, so the decrease in loans outstanding was 0.09%. We expect February results to be substantially similar to January - net loan growth was negative \$6 million (0.27%), but we do not have the components available yet.

If we had not had the TARP funds, we would have originated substantially less than the \$36 million in new loans in January, and we would have been more aggressive in seeking payout of the \$51 million in matured loans. On a monthly basis, we typically have between \$50 million and \$60 million in loans that mature. The TARP funds have provided us with the flexibility to work with borrowers and renew loans on acceptable terms.

Although our 2009 net loan growth has declined slightly, in the years leading up to the last quarter of 2008, we experienced strong loan growth. In 2006, our net internal loan growth (excludes impact of acquisitions) was \$252 million, in 2007 it was \$154 million and for the first nine months of 2008, it was \$128 million. When the economy begins to recover, we expect demand to increase, and we are eager to use the TARP Funds to make loans. We have the same number of experienced loan officers as we did in the years of higher demand, and thus we have capacity to meet the credit needs of our communities when stronger demand resumes.

We are also proactively seeking new ways to use the TARP funds in a spirit that is consistent with which the Treasury made them available, as follows:

- 1) We have implemented a low cost mortgage loan program that is applicable to borrowers that purchase homes and/or lots from real estate loan customers of ours. These loans come with competitive interest rates with no origination fees and no PMI costs - a flyer promoting these loans is attached as Exhibit III (the flyer is a draft version currently undergoing compliance review). This is a program that we rolled out last week.
- 2) We have proposed on a \$4 million loan to the municipality of Chatham County, North Carolina for the purposes of constructing a new elementary school. Our \$4 million loan would be part of a syndication of other North Carolina banks that would be loaning a total of \$27 million for the construction of the school. We are hopeful of receiving a favorable response soon.



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- 3) We have implemented a program for real estate developers who have loans with us, whereby we will forgive \$10,000 of their loan for each home they sell. This enables them to lower the asking price to potential homebuyers, hopefully increasing demand. We have had one loan close under this program and have another one in progress under this recently initiated program.
- 4) At our March board of directors meeting, management of our company will be recommending a \$1-\$2 million investment in a Low Income Tax Credit Fund that has qualifying projects in our market area. As you are likely aware, the purchase of low income tax credits from developers facilitates the construction and availability of low income housing.

Without the TARP funds, we would have likely still implemented items #1 and #3 above, but we would not have pursued items #2 or #4.

Finally, I would like to add that redeploying the TARP funds into net positive loan growth is in the best interest of our business, and we are eager to do so on terms that are consistent with our underwriting standards. Without deploying those funds into loans, the low reinvestment rate of the TARP cash is creating significant earnings per share dilution for our company. It makes good business sense to fulfill the terms of the Treasury's objective – our interests are aligned. Again, we are grateful for the Treasury's investment, and we are making a good faith effort to use the TARP funds for the intended purpose of expanding the flow of credit to consumers and businesses on competitive terms to promote the sustained growth and vitality of the U.S. economy. We welcome any suggestions you have in furthering this goal.

### **Executive Compensation**

In connection with our participation in the Capital Purchase Program, our senior executive officers signed letter agreements agreeing to the executive compensation requirements associated with the program. Attached as Exhibit IV is an example of one of the letter agreements (the others are available upon request).

As it relates to loan risks and their relationship to executive compensation, we do not believe we provide incentives for the assumption of undue loan risk. In 2009, under the terms of our incentive compensation plan, the goals for executive officers relate to 1) earnings per share, 2) noninterest expense to average assets, and 3) core deposit growth. As discussed above, due to the low reinvestment rate of TARP funds, our participation in TARP will dilute our earnings per share until the funds are deployed into loans. This does provide some incentive to grow loans, however we believe the disincentive of potential loan losses associated with risky loans more than offsets that incentive. Also it should be noted that the earnings per share goal that was set for our executive officers assumes deployment of the TARP funds as described above (b) (4)

(b) (4) Thus, our earnings per share goal for 2009 does not penalize our officers for dilution attributable to TARP.

(b) (4)



Finally, there are no plans to offset the limitations on executive compensation with long-term or deferred forms of executive compensation. As stated earlier, we are grateful to participate in the program, and we intend to comply with the letter and especially the spirit of the Department of Treasury's guidelines.

We also recognize that additional restrictions on executive compensation were included in the American Recovery and Reinvestment Act of 2009 that was signed into law on February 17, 2009. We will fully comply with the resulting standards that are to be established by the US Treasury. We are already adding a "say on pay" provision for our shareholders to vote on at our annual shareholders meeting being held in May.

I hope this letter satisfactorily addresses the matters you identified. Please let me know if I can provide you with additional information.

I, Eric P. Credle, certify that: I have reviewed this response and supporting documents, and based on my knowledge, this response and the supporting documents do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statement were made, not misleading.

Sincerely,



Eric P. Credle  
Chief Financial Officer

**Summary Ratios**

	12/31/2008			12/31/2007			12/31/2006			12/31/2005			12/31/2004		
Average assets (\$000) .....	2,484,255			2,140,597			1,923,552			1,710,345			1,546,219		
Net income (\$000) .....	22,005			21,810			19,302			16,090			20,114		
Number of BHCs in peer group .....	293			275			265			239			214		
<b>EARNINGS AND PROFITABILITY</b>	<b>BHC</b>	<b>Peer 3</b>	<b>Pct</b>	<b>BHC</b>	<b>Peer 3</b>	<b>Pct</b>	<b>BHC</b>	<b>Peer 3</b>	<b>Pct</b>	<b>BHC</b>	<b>Peer 3</b>	<b>Pct</b>	<b>BHC</b>	<b>Peer 3</b>	<b>Pct</b>
<b>PERCENT OF AVERAGE ASSETS:</b>															
Net interest income (TE) .....	3.51	3.32	64	3.73	3.48	66	3.90	3.68	61	4.04	3.75	65	3.99	3.68	74
+ Non-interest income .....	0.85	0.91	47	0.84	0.96	42	0.83	0.95	43	0.87	1	40	1	1.06	47
- Overhead expense .....	2.52	2.98	27	2.69	2.88	38	2.86	2.84	52	2.78	2.88	46	2.82	2.94	45
- Provision for loan and lease losses .....	0.40	0.78	33	0.24	0.27	59	0.26	0.16	77	0.18	0.17	58	0.19	0.19	55
+ Securities gains (losses) .....	0.00	-0.04	36	0.02	0.00	86	0.01	0.00	82	0.00	0.00	57	0.02	0.02	60
+ Other tax equiv adjustments .....	0.00	0.00	47	0.00	0.00	46	0.00	0.00	50	0.00	0.00	48	0.00	0.00	49
= Pretax net oper income (TE) .....	1.44	0.44	80	1.66	1.32	69	1.62	1.66	50	1.95	1.74	64	2.01	1.71	69
Net operating income .....	0.89	0.28	75	1.02	0.89	62	1	1.10	42	0.94	1.15	29	1.30	1.12	68
Net income .....	0.89	0.28	75	1.02	0.89	62	1	1.10	43	0.94	1.15	28	1.30	1.12	69
Net income (sub S adjusted) .....		0.53			1.02			1.25			1.27			1.16	
<b>PERCENT OF AVG EARNING ASSETS:</b>															
Interest income (TE) .....	6.37	6.25	62	7.47	7.26	65	7.22	7.07	58	6.39	6.21	62	5.74	5.56	63
Interest expense .....	2.63	2.64	48	3.48	3.49	48	3.04	3.08	46	2.06	2.14	42	1.42	1.57	40
Net interest income (TE) .....	3.74	3.60	59	3.99	3.78	61	4.17	3.99	60	4.33	4.07	64	4.32	3.99	72
<b>LOSSES, ALLOW, AND PAST DUE + NONACCR:</b>															
Net Ln&Ls losses / Avg loans & leases .....	0.24	0.66	27	0.16	0.24	46	0.11	0.13	54	0.14	0.15	58	0.14	0.19	43
Earnings coverage of net losses (X) .....	8.82	5.33	78	14.15	16.09	61	20.44	34.76	55	17.62	38.11	51	19.03	25.28	60
Ln&Ls allowance / Total Lns&Ls not held-for-sale .....	1.32	1.51	43	1.13	1.21	44	1.09	1.17	39	1.06	1.24	25	1.08	1.31	21
Ln&Ls allowance / Total loans & leases .....	1.32	1.50	43	1.12	1.20	44	1.09	1.16	42	1.06	1.22	26	1.07	1.30	22
Nonaccr Lns&Ls + RE acq / Lns&Ls + RE acq .....	1.42	2.73	34	0.57	1.15	32	0.48	0.57	50	0.20	0.52	27	0.37	0.61	36
30-89 days PD Lns&Ls / Total Lns&Ls (confidential prior to March 2001) .....	1.23	1.31	52	0.55	0.93	28	0.50	0.62	45	0.58	0.56	55	0.48	0.58	51
<b>LIQUIDITY AND FUNDING:</b>															
Net noncore funding dependence .....	33.97	32.98	53	28.79	28.15	52	26.71	26.53	52	23.30	25.34	42	22.04	24.19	46
Net ST noncore funding dependence .....	29.32	21.73	75	25.09	19.27	69	23.80	17.83	70	18.73	15.26	63	18.24	13.71	69
Net loans and leases/total assets .....	79.23	72.54	75	80.82	72.02	81	80.68	71.08	82	81.58	69.50	89	82.55	67.83	90
<b>CAPITALIZATION:</b>															
Tier 1 leverage ratio .....	8.09	8.65	38	8	8.86	29	8.59	8.95	42	8.60	8.79	46	8.86	8.64	59
Equity capital / Total assets .....	7.98	8.31	46	7.50	8.65	32	7.60	8.62	34	8.64	8.36	58	9.05	8.38	62
Net Loans&Ls / Equity capital (X) .....	9.93	9.14	63	10.77	8.69	80	10.61	8.64	77	9.44	8.60	63	9.12	8.39	65
Cash dividends / Net income .....	55.24	53.83	65	50.11	32.24	74	54.86	27.18	85	61.72	27.03	91	46.08	27.11	77
Cash dividends / Net income (sub S adj) .....		19.31			27.39			25.51			18.12			31.75	
Retained earnings / Avg equity cap .....	4.70	0.00	64	6.37	6.42	44	5.34	9.02	21	3.98	9.68	8	7.39	9.31	31
<b>GROWTH RATES:</b>															
Assets .....	18.77	8.63	87	8.43	9.06	56	18.70	12.20	76	9.87	13.48	42	11.05	12.49	52
Equity capital .....	26.31	4.73	87	6.99	9.13	43	4.48	14.47	15	4.88	11.65	24	4.67	12.31	20
Net loans and leases .....	16.42	9.05	77	8.62	11.24	45	17.40	14.35	67	8.58	15.26	25	12.20	16.66	41
Noncore funding .....	37.48	26.78	70	17.38	14.72	60	35.70	19.60	78	16.35	23.10	42	40.51	18.24	84
<b>PARENT COMPANY RATIOS:</b>															
Short-term debt / Equity capital .....	0.00	1.08	37	0.00	0.65	39	0.00	0.58	41	0.00	0.59	40	0.00	0.29	41
Long-term debt / Equity capital .....	9.10	1.37	90	11.49	1.45	90	0.00	1.17	38	0.00	1.25	36	0.00	1.61	36
Equity investment in subs / Equity cap .....	130.74	116.23	75	136.80	117.36	82	141.89	116.10	87	126.77	114.60	73	124.97	113.72	75
Cash FR op + noncash + op exp / Op exp + div .....	61.68	98.03	27	118.09	121.11	55	72.49	110.20	23	56.55	115.36	14	13.33	108.77	9



YTD New/Renewed Loans thru January 2009

Dr.#	Branch	Officer	# New	\$ New	Renewed	\$Renewed	New Mort.	\$New Mort	Renewed Mort	\$Renewed Mort.	Total	Total \$
1	Robbins	(b) (6)	12	\$ 80,760.73	10	\$ 284,755.01	1	\$ 164,900.00	0	\$ -	23	\$ 510,415.74
1	Robbins	(b) (6)	0	\$ -	0	\$ -	0	\$ -	0	\$ -	0	\$ -
2	Denton	(b) (6)	11	\$ 188,589.15	6	\$ 603,064.10	0	\$ -	1	\$ 75,000.00	18	\$ 1,164,653.25
2	Denton	(b) (6)	1	\$ 1,000.00	0	\$ -	0	\$ -	0	\$ -	1	\$ 1,000.00
2	Denton	(b) (6)	5	\$ 158,125.00	3	\$ 39,968.32	0	\$ -	0	\$ -	8	\$ 198,093.32
2	Denton	(b) (6)	0	\$ -	0	\$ -	0	\$ -	0	\$ -	0	\$ -
3	Biscoe	(b) (6)	7	\$ 94,405.00	2	\$ 250,498.00	0	\$ -	0	\$ -	9	\$ 344,893.00
3	Biscoe	(b) (6)	0	\$ -	0	\$ -	0	\$ -	0	\$ -	0	\$ -
4	7 Lakes	(b) (6)	3	\$ 25,826.00	2	\$ 104,848.68	0	\$ -	0	\$ -	5	\$ 130,474.68
4	7 Lakes	(b) (6)	0	\$ -	0	\$ -	0	\$ -	0	\$ -	0	\$ -
4	7 Lakes	(b) (6)	7	\$ 283,537.68	1	\$ 743,221.84	0	\$ -	0	\$ -	8	\$ 1,006,759.32
5	Mont. Square	(b) (6)	7	\$ 398,963.05	4	\$ 277,477.90	0	\$ -	0	\$ -	11	\$ 676,440.95
5	Mont. Square	(b) (6)	5	\$ 16,250.00	1	\$ 14,948.81	0	\$ -	0	\$ -	6	\$ 31,198.81
5	Mont. Square	(b) (6)	2	\$ 23,059.04	0	\$ -	0	\$ -	0	\$ -	2	\$ 23,059.04
5	Mont. Square	(b) (6)	0	\$ -	0	\$ -	0	\$ -	0	\$ -	0	\$ -
7	Pinhurst	(b) (6)	1	\$ 130,000.00	0	\$ -	0	\$ -	0	\$ -	1	\$ 130,000.00
8	Bennett	(b) (6)	7	\$ 71,800.00	3	\$ 17,968.12	0	\$ -	0	\$ -	10	\$ 89,768.12
8	Bennett	(b) (6)	0	\$ -	0	\$ -	0	\$ -	0	\$ -	0	\$ -
9	Pinobuff	(b) (6)	1	\$ 5,000.00	0	\$ -	0	\$ -	0	\$ -	1	\$ 5,000.00
10	Locust	(b) (6)	2	\$ 69,550.00	1	\$ 142,448.60	0	\$ -	0	\$ -	3	\$ 211,998.60
10	Locust	(b) (6)	4	\$ 19,781.92	1	\$ 200,000.00	0	\$ -	0	\$ -	5	\$ 219,781.92
11	Eastgate	(b) (6)	1	\$ 5,094.86	3	\$ 418,554.98	0	\$ -	0	\$ -	4	\$ 423,649.84
11	Eastgate	(b) (6)	4	\$ 16,457.80	0	\$ -	0	\$ -	0	\$ -	4	\$ 16,457.80
11	Eastgate	(b) (6)	0	\$ -	0	\$ -	0	\$ -	0	\$ -	0	\$ -
12	Hwy 52	(b) (6)	1	\$ 10,199.79	1	\$ 209,000.00	0	\$ -	0	\$ -	2	\$ 219,199.79
12	Hwy 52	(b) (6)	4	\$ 119,788.81	1	\$ 140,017.50	0	\$ -	0	\$ -	5	\$ 259,806.31
12	Hwy 52	(b) (6)	0	\$ -	0	\$ -	0	\$ -	0	\$ -	0	\$ -
12	Hwy 52	(b) (6)	2	\$ 3,742.00	0	\$ -	0	\$ -	0	\$ -	2	\$ 3,742.00
12	Hwy 52	(b) (6)	0	\$ -	0	\$ -	0	\$ -	0	\$ -	0	\$ -
13	Richfield	(b) (6)	7	\$ 329,003.00	0	\$ -	0	\$ -	0	\$ -	7	\$ 329,003.00
13	Richfield	(b) (6)	0	\$ -	0	\$ -	0	\$ -	0	\$ -	0	\$ -
13	Richfield	(b) (6)	7	\$ 49,483.81	0	\$ -	0	\$ -	0	\$ -	7	\$ 49,483.81
14	Mt. Pleasant	(b) (6)	3	\$ 220,063.00	0	\$ -	0	\$ -	0	\$ -	3	\$ 220,063.00
14	Mt. Pleasant	(b) (6)	3	\$ 7,558.49	0	\$ -	0	\$ -	0	\$ -	3	\$ 7,558.49
16	Kannapolis	(b) (6)	1	\$ 500.00	0	\$ -	0	\$ -	0	\$ -	1	\$ 500.00
16	Kannapolis	(b) (6)	1	\$ 12,000.00	0	\$ -	0	\$ -	0	\$ -	1	\$ 12,000.00
18	Candor	(b) (6)	5	\$ 18,859.20	0	\$ -	0	\$ -	0	\$ -	5	\$ 18,859.20
18	Candor	(b) (6)	5	\$ 151,290.00	0	\$ -	1	\$ 83,600.00	0	\$ -	6	\$ 234,890.00
18	Candor	(b) (6)	0	\$ -	0	\$ -	0	\$ -	0	\$ -	0	\$ -
23	Vass	(b) (6)	6	\$ 235,692.43	0	\$ -	0	\$ -	0	\$ -	6	\$ 235,692.43
23	Vass	(b) (6)	4	\$ 73,200.90	1	\$ 59,938.51	0	\$ -	0	\$ -	5	\$ 133,139.41
24	Carthage	(b) (6)	6	\$ 48,938.91	1	\$ 21,313.71	0	\$ -	0	\$ -	7	\$ 70,252.62
27	Ashboro	(b) (6)	1	\$ 168,215.25	4	\$ 178,329.49	0	\$ -	0	\$ -	5	\$ 346,544.74
27	Ashboro	(b) (6)	1	\$ 2,700.00	0	\$ -	0	\$ -	0	\$ -	1	\$ 2,700.00
28	Abertown	(b) (6)	2	\$ 110,100.00	3	\$ 148,743.38	0	\$ -	0	\$ -	5	\$ 258,843.38
28	Abertown	(b) (6)	2	\$ 8,050.00	1	\$ 14,500.00	0	\$ -	0	\$ -	3	\$ 22,550.00
29	Laurinburg	(b) (6)	7	\$ 68,202.68	1	\$ 10,000.00	0	\$ -	0	\$ -	8	\$ 78,202.68
29	Laurinburg	(b) (6)	2	\$ 58,800.00	0	\$ -	0	\$ -	0	\$ -	2	\$ 58,800.00
29	Laurinburg	(b) (6)	0	\$ -	0	\$ -	0	\$ -	0	\$ -	0	\$ -
30	High Point	(b) (6)	2	\$ 59,588.02	2	\$ 2,787,812.82	0	\$ -	0	\$ -	4	\$ 2,847,400.84
30	High Point	(b) (6)	3	\$ 97,688.38	1	\$ 18,075.00	0	\$ -	0	\$ -	4	\$ 115,763.38
30	High Point	(b) (6)	5	\$ 78,971.00	1	\$ 12,089.10	0	\$ -	0	\$ -	6	\$ 91,060.10
31	Broadway	(b) (6)	13	\$ 540,205.52	8	\$ 568,981.00	0	\$ -	0	\$ -	21	\$ 1,109,186.52
31	Broadway	(b) (6)	0	\$ -	0	\$ -	0	\$ -	0	\$ -	0	\$ -
32	Archdale	(b) (6)	4	\$ 141,100.00	1	\$ 37,415.81	0	\$ -	0	\$ -	5	\$ 178,515.81
32	Archdale	(b) (6)	2	\$ 15,100.00	0	\$ -	0	\$ -	0	\$ -	2	\$ 15,100.00
33	So. Pines	(b) (6)	1	\$ 4,000,000.00	0	\$ -	0	\$ -	0	\$ -	1	\$ 4,000,000.00
33	So. Pines	(b) (6)	0	\$ -	0	\$ -	0	\$ -	0	\$ -	0	\$ -
33	So. Pines	(b) (6)	2	\$ 114,000.00	0	\$ -	0	\$ -	0	\$ -	2	\$ 114,000.00
33	So. Pines	(b) (6)	0	\$ -	0	\$ -	0	\$ -	0	\$ -	0	\$ -
34	Rockingham	(b) (6)	3	\$ 29,468.00	2	\$ 137,179.08	0	\$ -	0	\$ -	5	\$ 166,647.08
35	Seagrave	(b) (6)	13	\$ 790,524.50	3	\$ 189,193.09	0	\$ -	0	\$ -	16	\$ 979,717.59
35	Seagrave	(b) (6)	1	\$ 4,942.10	0	\$ -	0	\$ -	0	\$ -	1	\$ 4,942.10
36	Sanford	(b) (6)	29	\$ 1,193,752.00	8	\$ 1,687,396.00	0	\$ -	0	\$ -	37	\$ 2,881,148.00
36	Sanford	(b) (6)	30	\$ 498,079.00	5	\$ 448,560.00	0	\$ -	0	\$ -	35	\$ 946,639.00
36	Sanford	(b) (6)	20	\$ 415,169.00	13	\$ 537,488.00	0	\$ -	0	\$ -	33	\$ 952,657.00
36	Sanford	(b) (6)	9	\$ 180,397.00	7	\$ 138,621.00	0	\$ -	0	\$ -	16	\$ 319,018.00
36	Sanford	(b) (6)	0	\$ -	0	\$ -	0	\$ -	0	\$ -	0	\$ -
36	Sanford	(b) (6)	4	\$ 8,000.00	0	\$ -	0	\$ -	0	\$ -	4	\$ 8,000.00
36	Sanford	(b) (6)	0	\$ -	0	\$ -	0	\$ -	1	\$ 98,187.00	1	\$ 98,187.00
37	Lillington	(b) (6)	44	\$ 4,242,413.85	20	\$ 1,628,018.88	0	\$ -	0	\$ -	64	\$ 5,870,432.73
37	Lillington	(b) (6)	3	\$ 8,075.00	0	\$ -	0	\$ -	0	\$ -	3	\$ 8,075.00
38	So. Homer	(b) (6)	6	\$ 952,202.00	29	\$ 11,248,041.00	0	\$ -	0	\$ -	35	\$ 12,199,243.00
38	So. Homer	(b) (6)	3	\$ 71,389.00	2	\$ 240,782.00	0	\$ -	0	\$ -	5	\$ 312,171.00
38	So. Homer	(b) (6)	1	\$ 5,050.00	0	\$ -	0	\$ -	0	\$ -	1	\$ 5,050.00
38	So. Homer	(b) (6)	4	\$ 28,218.00	4	\$ 187,127.00	0	\$ -	0	\$ -	8	\$ 215,345.00
39	Polkton	(b) (6)	4	\$ 155,908.82	0	\$ -	0	\$ -	0	\$ -	4	\$ 155,908.82
39	Polkton	(b) (6)	0	\$ -	0	\$ -	0	\$ -	0	\$ -	0	\$ -
40	N. Asheboro	(b) (6)	3	\$ 409,500.00	0	\$ -	0	\$ -	0	\$ -	3	\$ 409,500.00
40	N. Asheboro	(b) (6)	1	\$ 1,500.00	1	\$ 40,882.86	0	\$ -	0	\$ -	2	\$ 42,382.86
41	Maxton	(b) (6)	0	\$ -	0	\$ -	0	\$ -	0	\$ -	0	\$ -
42	Angier	(b) (6)	3	\$ 11,848.77	0	\$ -	0	\$ -	0	\$ -	3	\$ 11,848.77
42	Angier	(b) (6)	1	\$ 75,000.00	0	\$ -	0	\$ -	0	\$ -	1	\$ 75,000.00
42	Angier	(b) (6)	2	\$ 297,650.00	2	\$ 236,007.44	0	\$ -	0	\$ -	4	\$ 533,657.44
43	Pittsboro	(b) (6)	0	\$ -	0	\$ -	0	\$ -	0	\$ -	0	\$ -
43	Pittsboro	(b) (6)	0	\$ -	5	\$ 795,872.78	0	\$ -	0	\$ -	5	\$ 795,872.78
44	Salisbury	(b) (6)	2	\$ 154,245.00	2	\$ 410,768.72	0	\$ -	0	\$ -	4	\$ 564,913.72
44	Salisbury	(b) (6)	4	\$ 31,608.44	0	\$ -	0	\$ -	0	\$ -	4	\$ 31,608.44
44	Salisbury	(b) (6)	0	\$ -	0	\$ -	0	\$ -	0	\$ -	0	\$ -
45	Apex	(b) (6)	3	\$ 24,325.00	1	\$ 46,885.43	0	\$ -	0	\$ -	4	\$ 71,210.43
45	Apex	(b) (6)	6	\$ 438,308.91	3	\$ 388,000.00	0	\$ -	0	\$ -	9	\$ 826,308.91
46	Anderson Creek	(b) (6)	8	\$ 219,437.58	5	\$ 2,142,013.04	0	\$ -	0	\$ -	13	\$ 2,361,450.62
46	Anderson Creek	(b) (6)	0	\$ -	0	\$ -	0	\$ -	0	\$ -	0	\$ -
46	Anderson Creek	(b) (6)	0	\$ -	0	\$ -	0	\$ -	0	\$ -	0	\$ -
47	Salisbury Main	(b) (6)	2	\$ 210,610.89	0	\$ -	0	\$ -	0	\$ -	2	\$ 210,610.89
47	Salisbury Main	(b) (6)	2	\$ 2,100,000.00	0	\$ -	0	\$ -	0	\$ -	2	\$ 2,100,000.00
47	Salisbury Main	(b) (6)	1	\$ 2,200.00	0	\$ -	0	\$ -	0	\$ -	1	\$ 2,200.00
48	Pinecrest Plaza	(b) (6)	1	\$ 228,000.00	3	\$ 982,000.00	0	\$ -	0	\$ -	4	\$ 1,210,000.00
48	Pinecrest Plaza	(b) (6)	1	\$ 1,400.00	0	\$ -						

### New/Renewed Loans - January, 2009

Br.#	Branch	Officer	# New	\$ New	# Renewed	\$Renewed	#New Mort.	\$New Mort	#Renewed Mort	\$Renewed Mort.	Total #	Total \$	
58	St. Pauls	(b) (6)	0	\$ -	0	\$ -	0	\$ -	0	\$ -	0	\$ -	
58	Thomasville		2	\$ 535,000.00	0	\$ -	0	\$ -	0	\$ -	2	\$ 535,000.00	
59	Thomasville		0	\$ -	0	\$ -	0	\$ -	0	\$ -	0	\$ -	
59	Thomasville		6	\$ 276,550.00	0	\$ -	0	\$ -	0	\$ -	6	\$ 276,550.00	
59	Thomasville		0	\$ -	0	\$ -	0	\$ -	0	\$ -	0	\$ -	
61	Harmony		0	\$ -	0	\$ -	0	\$ -	0	\$ -	0	\$ -	
61	Harmony		0	\$ -	0	\$ -	0	\$ -	0	\$ -	0	\$ -	
61	Harmony		3	\$ 33,832.00	1	\$ 5,201.44	0	\$ -	0	\$ -	4	\$ 38,833.44	
62	Fairmont		3	\$ 11,520.90	3	\$ 72,878.37	0	\$ -	0	\$ -	6	\$ 84,399.27	
62	Fairmont		3	\$ 21,959.16	1	\$ 32,750.00	0	\$ -	0	\$ -	4	\$ 54,709.16	
63	Wallaco		2	\$ 288,688.00	0	\$ -	0	\$ -	0	\$ -	2	\$ 288,688.00	
63	Wallaco		8	\$ 307,896.60	0	\$ -	0	\$ -	0	\$ -	8	\$ 307,896.60	
63	Wallaco		17	\$ 268,877.91	0	\$ -	0	\$ -	0	\$ -	17	\$ 268,877.91	
64	Kanawha		3	\$ 10,408.75	1	\$ 100,050.00	0	\$ -	0	\$ -	4	\$ 110,458.75	
64	Kanawha		2	\$ 87,056.78	0	\$ -	0	\$ -	0	\$ -	2	\$ 87,056.78	
64	Kanawha		0	\$ -	0	\$ -	0	\$ -	0	\$ -	0	\$ -	
71	Rose Hill		6	\$ 769,755.00	0	\$ -	0	\$ -	0	\$ -	6	\$ 769,755.00	
72	Thomasville-LS		4	\$ 148,075.00	3	\$ 820,380.65	0	\$ -	1	\$ 350,000.00	8	\$ 1,118,455.65	
72	Thomasville-LS		2	\$ 35,225.00	0	\$ -	0	\$ -	0	\$ -	2	\$ 35,225.00	
73	Moosville		5	\$ 526,598.91	8	\$ 4,318,525.28	0	\$ -	0	\$ -	13	\$ 4,842,524.17	
73	Moosville		3	\$ 188,378.87	0	\$ -	0	\$ -	0	\$ -	3	\$ 188,378.87	
73	Moosville		0	\$ -	0	\$ -	0	\$ -	0	\$ -	0	\$ -	
74	Wilmington-LF		0	\$ -	8	\$ 7,658,876.85	0	\$ -	0	\$ -	8	\$ 7,658,876.85	
74	Wilmington-LF		0	\$ -	0	\$ -	0	\$ -	0	\$ -	0	\$ -	
74	Wilmington-LF		0	\$ -	2	\$ 138,006.48	0	\$ -	0	\$ -	2	\$ 138,006.48	
74	Wilmington-LF		2	\$ 38,600.00	1	\$ 100,000.00	0	\$ -	0	\$ -	3	\$ 138,600.00	
76	Wilmington-FS		0	\$ -	0	\$ -	0	\$ -	0	\$ -	0	\$ -	
76	Wilmington-FS		1	\$ 1,000.00	0	\$ -	0	\$ -	0	\$ -	1	\$ 1,000.00	
76	Wilmington-FS		9	\$ 858,147.21	1	\$ 20,000.00	0	\$ -	0	\$ -	10	\$ 878,147.21	
77	Shalotte		3	\$ 332,500.00	3	\$ 329,728.30	0	\$ -	0	\$ -	6	\$ 662,228.30	
77	Shalotte		2	\$ 168,000.00	2	\$ 24,500.00	0	\$ -	0	\$ -	4	\$ 192,500.00	
78	Leland		0	\$ -	1	\$ 2,350,000.00	0	\$ -	0	\$ -	1	\$ 2,350,000.00	
79	Ocean Isle		0	\$ -	0	\$ -	0	\$ -	0	\$ -	0	\$ -	
80	Latta		18	\$ 286,971.84	1	\$ 133,031.83	0	\$ -	0	\$ -	19	\$ 420,003.67	
80	Latta		12	\$ 55,478.18	4	\$ 21,590.31	0	\$ -	0	\$ -	16	\$ 77,068.49	
80	Latta		2	\$ 1,550.00	0	\$ -	0	\$ -	0	\$ -	2	\$ 1,550.00	
81	Dillon Main		2	\$ 55,100.00	1	\$ 75,000.00	0	\$ -	0	\$ -	3	\$ 130,100.00	
81	Dillon Main		17	\$ 452,273.83	3	\$ 70,293.58	0	\$ -	0	\$ -	20	\$ 522,567.41	
81	Dillon Main		8	\$ 88,718.15	4	\$ 333,000.42	0	\$ -	0	\$ -	12	\$ 419,718.57	
81	Dillon Main		1	\$ 1,000.00	0	\$ -	0	\$ -	0	\$ -	1	\$ 1,000.00	
83	Charaw		0	\$ -	5	\$ 1,998,753.44	0	\$ -	0	\$ -	5	\$ 1,998,753.44	
83	Charaw		2	\$ 49,575.21	1	\$ 10,304.79	0	\$ -	0	\$ -	3	\$ 59,880.00	
83	Charaw		0	\$ -	0	\$ -	0	\$ -	0	\$ -	0	\$ -	
84	Market St - Charaw		1	\$ 15,050.00	2	\$ 13,127.00	0	\$ -	0	\$ -	3	\$ 28,177.00	
85	Florence		0	\$ -	2	\$ 87,183.59	0	\$ -	0	\$ -	2	\$ 87,183.59	
85	Florence		2	\$ 7,300.00	1	\$ 97,185.88	0	\$ -	0	\$ -	3	\$ 104,485.88	
85	Florence		2	\$ 6,592.04	0	\$ -	0	\$ -	0	\$ -	2	\$ 6,592.04	
85	Florence		0	\$ -	0	\$ -	0	\$ -	0	\$ -	0	\$ -	
85	Florence		0	\$ -	2	\$ 512,058.04	0	\$ -	0	\$ -	2	\$ 512,058.04	
90	Wytheville		3	\$ 38,074.18	0	\$ -	0	\$ -	0	\$ -	3	\$ 38,074.18	
90	Wytheville		0	\$ -	0	\$ -	0	\$ -	0	\$ -	0	\$ -	
90	Wytheville		24	\$ 2,933,921.18	3	\$ 460,772.04	0	\$ -	0	\$ -	27	\$ 3,394,693.22	
90	Wytheville		0	\$ -	0	\$ -	0	\$ -	0	\$ -	0	\$ -	
91	Abingdon		6	\$ 1,708,000.00	6	\$ 470,917.00	0	\$ -	0	\$ -	12	\$ 2,178,917.00	
91	Abingdon		4	\$ 59,496.00	0	\$ -	0	\$ -	0	\$ -	4	\$ 59,496.00	
92	Radford		4	\$ 64,963.78	1	\$ 50,060.00	0	\$ -	0	\$ -	5	\$ 115,013.78	
92	Radford		2	\$ 21,537.00	1	\$ 25,000.00	0	\$ -	0	\$ -	3	\$ 46,537.00	
92	Radford		1	\$ 500.00	0	\$ -	0	\$ -	0	\$ -	1	\$ 500.00	
93	Dublin		5	\$ 59,249.11	0	\$ -	0	\$ -	0	\$ -	5	\$ 59,249.11	
90	Ft. Chiswell		4	\$ 204,889.00	2	\$ 275,184.00	0	\$ -	0	\$ -	6	\$ 479,853.00	
94	Ft. Chiswell		1	\$ 3,050.00	0	\$ -	0	\$ -	0	\$ -	1	\$ 3,050.00	
<b>TOTALS</b>			<b>556</b>	<b>\$ 35,932,710.66</b>	<b>262</b>	<b>\$ 60,661,909.97</b>	<b>6</b>	<b>\$ 764,823.00</b>	<b>3</b>	<b>\$ 521,187.00</b>	<b>927</b>	<b>\$ 87,879,730.63</b>	



# Now it's even easier to make a move on a new home.

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mortgages<sup>1</sup>

**4.875%** APR\*

FIXED FOR 10 YEARS

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- 90% FINANCING
- NO ORIGATION FEES
- NO PMI

jumbo mortgages<sup>2</sup>

**5.25%** APR\*

FIXED FOR 10 YEARS

- 30-YEAR LOAN
- 85% FINANCING
- NO ORIGATION FEES

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Your Community Bank Since 1935

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\*APR - Annual Percentage Rate. Builder Loan Program available for a select group of homes. Contact a First Bank representative for a listing of select homes. While supplies last. Other rates and terms available. Offer can be withdrawn by First Bank at any time. Offer good for primary residences only. No points due at closing. No PMI required. <sup>1</sup>Annual Percentage Rate is 4.875%. The payment on a \$200,000 10-year Fixed-Rate loan with a 30-year amortization at 4.875% and 90% loan-to-value (LTV) is \$1,066.98. Maximum loan amount is \$416,000. <sup>2</sup>Annual Percentage Rate is 5.25%. The payment on a \$500,000 10-year Fixed-Rate loan with a 30-year amortization at 5.25% and 85% loan-to-value (LTV) is \$2,784.55. Maximum loan amount is \$700,000. Subject to credit approval. Member FDIC.



Confidential

# FIRST BANCORP

December 23, 2008

Mr. Jerry Ocheltree  
24 Oxtan Circle  
Pinehurst, NC 28374

Dear Jerry:

First Bancorp, a North Carolina corporation (together with its subsidiaries, the "Company"), has determined to apply to participate in the Capital Purchase Program (the "Program") established by the U.S. Department of the Treasury (the "Treasury") pursuant to the Emergency Economic Stabilization Act of 2008 (the "Act"). As a condition to the Company participating in the Program, the Company is required, among other things, to agree to adhere to certain provisions regarding executive compensation paid by the Company to certain of its executive officers, which may include you. The purpose of this letter agreement is to confirm your agreement to consent to and accept these provisions to the extent applicable to you.

By executing this letter, and in consideration of the benefits you will receive as a result of the Company's participation in the Program, you hereby agree that to the extent necessary for the Company to comply fully with the provisions of Section 111(b) of the Act and the rules and regulations promulgated thereunder:

1. You hereby agree to return to the Company, promptly upon demand, any bonus or incentive compensation paid to you based on statements of earnings, gains or other criteria that are later proven to be materially inaccurate, as required by Section 111(b)(2)(B) of the Act and the rules and regulations adopted thereunder. Without in any way limiting the generality of the immediately preceding sentence, you acknowledge that the provisions of Section 111(b)(2)(B) of the Act apply to any bonus or incentive compensation paid by the Company to you while you are a "senior executive officer" (as defined by Section 111(b) of the Act and the rules and regulations promulgated thereunder) (a "Senior Officer") during the period that the Treasury holds an equity or debt position in the Company acquired under the Program (the "Investment Period"). You acknowledge and agree that your obligation hereunder to return any bonus or incentive compensation shall be interpreted in accordance with the provisions of Section 111(b)(2)(B) of the Act and the rules and regulations promulgated thereunder.
2. You hereby renounce and forever waive any right you may have under any agreement with the Company or otherwise to receive any "golden parachute



payment" from the Company, as contemplated by Sections 111(b)(2)(C) and 302(b) of the Act and the rules and regulations promulgated thereunder. Without in any way limiting the generality of the immediately preceding sentence, you acknowledge that a "golden parachute payment," as such term is used in Sections 111(b)(2)(C) and 302(b) of the Act and the rules and regulations promulgated thereunder, generally means any payment (a) in the nature of compensation to (or further benefit of) you during the Investment Period (and if the Company is acquired, until the first anniversary following the acquisition to the extent required by the rules and regulations promulgated by the Treasury pursuant to Section 111(b) of the Act) and while you are a Senior Officer, (b) made on account of an "applicable severance of employment" with the Company (generally defined under Section 302(b) of the Act to mean any severance from employment by reason of any involuntary termination of your employment by the Company or in connection with any bankruptcy, liquidation or receivership of the Company) and (c) to the extent that the aggregate present value of all such payments equals or exceeds an amount equal to three times your "base amount" as determined pursuant to Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), and the rules and regulations promulgated thereunder. You acknowledge and agree that your renunciation and waiver of any "golden parachute payment" hereunder shall be interpreted in accordance with the provisions of Sections 111(b)(2)(C) and 302(b) of the Act, Section 280G of the Code and the rules and regulations promulgated thereunder.

3. You hereby acknowledge that in accordance with Section 111(b)(2)(A) of the Act and the rules and regulations adopted thereunder, the Company's compensation committee (or other committee acting in a similar capacity) is required periodically to review the Company's incentive compensation arrangements with its senior risk officers (or other personnel acting in a similar capacity) to ensure that these arrangements do not encourage Senior Officers to take unnecessary and excessive risks that threaten the value of the Company. Notwithstanding any prior agreement between you and the Company, you hereby agree to accept any changes made by the Company to its incentive compensation arrangements as a result of these periodic reviews.


You acknowledge that the Company is relying on your agreements contained herein to elect to participate in the Program. This letter agreement expressly amends any inconsistent provisions contained in any employment or other agreement between you and the Company or in any compensatory plan or program maintained by the Company. To the extent not subject to federal law, this letter will be governed by and construed in accordance with the laws of the State of North Carolina. This letter may be executed in two or more counterparts, each of which will be deemed an original. A signature transmittal by facsimile or other electronic device will be deemed an original signature.

(remainder of page left blank intentionally)



Please confirm your agreement to the foregoing by signing a copy of this letter where indicated below and returning one fully-executed copy of this letter to us.

Sincerely,

  
David Burns  
Chairman, Compensation Committee  
First Bancorp

Agreed and Accepted as of  
the date set forth above:

  
Name: Jerry Ocheltree