

# **FIRST BANCORP**

## **Corporate Governance Guidelines**

### **Introduction**

The Board of Directors of First Bancorp has adopted these Corporate Governance Guidelines to assist in fulfilling its responsibilities to the shareholders of the Company and to establish principles for the functioning of the Board and the Committees of the Board.

### **Board Responsibilities**

The primary functions of the Board of Directors of First Bancorp include the following:

- Act in the best interest of First Bancorp and its shareholders, and set a climate of corporate trust, confidence and overall transparency. In discharging this responsibility, the Board relies on the expertise and integrity of First Bancorp's Senior Executive Management, other senior officers, the internal audit function, the independent accountants, and outside advisors and consultants.
- Oversee the direction and management of First Bancorp.
- Establish and periodically review corporate governance guidelines.
- Review and approve fundamental business strategies to enhance long-term shareholder value.
- Oversee and evaluate internal control systems and processes, financial reporting, and public disclosure of information.
- Monitor corporate performance on an on-going basis against annual operating plans and budgets, management incentive plans, and the performance of peer companies.
- Periodically, review the Chief Executive Officer's performance and annually approve his compensation.
- Conduct management succession planning and review.
- Conduct a self-evaluation at least annually to determine whether the Board and its committees are functioning effectively.

### **Director Nomination Process**

The Nominating and Corporate Governance Committee is responsible for identifying individuals qualified to become Board members and recommending to the Board the individuals for nomination as members of the Board. The goal of the Nominating and Corporate

Governance Committee is to create a Board that will demonstrate objectivity and the highest degree of integrity on an individual and collective basis. In evaluating current members and new candidates, the Nominating and Corporate Governance Committee considers the needs of the Board and Company in light of the current mix of director skills and attributes. In addition to requiring that each director possess the highest integrity and character, the Nominating and Corporate Governance Committee's evaluation of director candidates includes an assessment of issues and factors regarding an individual's familiarity with the Company's geographic market area, independence as defined by the various regulatory authorities and these guidelines, business experience, accounting and financial expertise, diversity, and awareness of the Company's responsibilities to its customers, employees, regulatory bodies, and the communities in which it operates. The Nominating and Corporate Governance Committee also takes into consideration the Board's established policies relating to the Board's retirement policy and the ability of directors to devote adequate time to Board and committee matters. When the Nominating and Corporate Governance Committee is considering current Board members for nomination for re-election, the Committee also considers prior Board contributions and performance, as well as meeting attendance records.

The Nominating and Corporate Governance Committee may seek the input of the other members of the Board and management in identifying and attracting director candidates that are consistent with the criteria outlined above. In addition, the Committee may use the services of consultants or a search firm. The Nominating and Corporate Governance Committee will consider recommendations by Company shareholders of qualified director candidates for possible nomination to the Board. Shareholders may recommend qualified director candidates by writing to the Company's Corporate Secretary at 341 North Main Street, Troy, North Carolina 27371. Submissions should include information regarding a candidate's background, qualifications, experience, and willingness to serve as a director. Based on a preliminary assessment of a candidate's qualifications, the Nominating and Corporate Governance Committee may conduct interviews with the candidate and request additional information from the candidate. The Committee uses the same process for evaluating all nominees, including those recommended by shareholders.

In addition, the Company's bylaws contain specific conditions under which persons may be nominated directly by shareholders as directors at an annual meeting of shareholders. The provisions include the condition that shareholders comply with the advance notice time-frame requirements.

### **Annual Director Re-Election**

The Company's bylaws require that directors must stand for re-election to the Board of Directors at each annual shareholder's meeting. The Board of Directors believes that this policy makes it easier for shareholders to hold directors more directly accountable for corporate performance compared to the staggered-board structure in use at many public companies, which permits directors to hold their positions for several years.

## Director Independence

The Board believes that as a matter of policy at least a majority of the Board should be independent directors. In addition, regulations of the Securities and Exchange Commission and the Nasdaq Stock Market contain provisions that require independent directors comprise the membership of certain Board committees and a majority of the Board. The Board and its committees will endeavor to ensure that the memberships of the Board and its committees remain in compliance with all such requirements, and in any event that a majority of the Board is comprised of independent directors.

In determining the independence of directors, the Board and the Nominating and Corporate Governance Committee will first look to the definitions of independence found in rules of the Nasdaq Stock Market. SEC Exchange Act rules contain additional independence requirements for members of the Audit Committee. In addition to these rules, the Company will apply the following minimum standards in determining whether a director is considered independent:

An independent director is a director who is not an officer or employee of the Company or its subsidiaries and who does not have a relationship, which, in the opinion of the Company's Board of Directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

Certain relationships will automatically prevent the Board from determining that a director is independent, as follows:

### Directors Who Are Former Employees

A director will not be independent if he was employed by the Company (or any parent or subsidiary) at any time during the past three years.

### Directors Who Receive Compensation in Excess of \$120,000

A director will not be independent if he (or a family member) accepted compensation from the Company in excess of \$120,000 during the current fiscal year or any of the three years preceding the determination of independence, other than

- Director or committee fees
- Payments arising from investments in the Company's stock
- Payment of non-discretionary compensation
- Compensation paid to a family member who is employed by the Company, (or its parent or subsidiary) in a non-executive officer capacity
- Benefits under tax-qualified retirement plans; or
- Loans made in the ordinary course of business or otherwise permitted under applicable law and regulations.

### Directors Who Have Family Members Who Are Executive Officers.

A director will not be independent if he has a family member who was an executive officer of the Company (or its parent or subsidiary) at any time during the last three years.

Directors Who Have Certain Business Relationships with the Company.

A director will not be independent if he (or a family member) is a partner in, or a controlling shareholder or an executive officer of, any organization (including non-profit organizations) to which the Company made, or from which the Company received, payments for property, or services in the current year or any of the past three fiscal years if the amount involved exceeds the greater of (i) 5% of the recipient's consolidated gross revenues or \$200,000, other than

Payments arising solely from investments in the Company's securities;  
Payments under non-discretionary charitable contribution matching programs

Director Interlocks.

A director will not be independent if he (or a family member) is employed as an executive officer of another entity, if, at any time during the past three years, an executive officer of the Company served on the other entity's compensation committee.

Directors Affiliated with Outside Auditor.

A director will not be independent if he (or a family member) is a current partner of the Company's outside auditing firm, or if he was at any time during the past three years a partner or employee of the Company's outside auditing firm and worked on the Company's audit.

For purposes of these standards, we define a "family member" as a director's spouse, parents, children and siblings, whether by blood, marriage or adoption, and anyone residing in the director's home.

In general, a majority of the Board must meet the independence standards described above. In addition, all members of the Nominating and Corporate Governance Committee, Compensation Committee and Audit Committee must be independent.

Audit Committee members must also meet Exchange Act independence requirements (Exchange Act Rule 10A-3(b)(1)), as follows:

Other than in his or her capacity as a board or board committee member, the director must not accept any consulting, advisory or other compensatory fee from the Company or any of its subsidiaries (provided that compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan for prior service with the Company so long as compensation is not contingent in any way on continued service) and must not be an affiliate of the Company.

In addition, Audit Committee members must have not participated in the preparation of the Company's financial statements during the past 3 years and must be able to read and understand fundamental financial statements.

## **Stock Ownership Requirement**

The Company's Board of Directors has adopted a common stock ownership policy for members of the Board. This policy requires that any candidate for the Board must either own, or commit to acquire within one year after election as a director, common stock of the Company with a monetary value of at least \$50,000. Once the \$50,000 ownership requirement is met, the Board member is deemed to have satisfied this requirement even if subsequent decreases in the Company's stock price cause the value of the director's holdings to fall below \$50,000. The board believes that this stock ownership policy substantially enhances shareholder value by materially aligning the Board's interests with those of the shareholders.

## **Changes to Directors Current Job Responsibilities or Position**

If a director's job responsibilities or position substantially changes after his or her election to the Board of Directors of First Bancorp, the director shall promptly so advise the Chairman of the Board and the Chairman of the Nominating and Corporate Governance Committee, and offer to resign from the Board. The Board of Directors will review any such change and determine the appropriateness of the director's continued membership on the Board, and will decide whether to accept or decline the offer to resign.

## **Service by Directors on Other Boards**

A director shall advise the Chairman of the Board and the Chairman of the Nominating and Corporate Governance Committee in advance of accepting an invitation to serve on another public company board. No First Bancorp director shall serve on more than four other public company boards.

## **Shareholder Communications With the Board**

The Board of Directors believes it is important that a direct and open line of communication exist between the Board and the shareholders and other interested parties. Any shareholder or other interested party who desires to contact one or more of the Company's directors may send a letter to the following address:

First Bancorp Board of Directors  
PO Box 417  
Troy, North Carolina 27371

In addition, any shareholder or other interested party who has any concerns or complaints relating to accounting, internal controls or auditing matters may contact the Audit Committee by writing to the following address:

First Bancorp Audit Committee  
PO Box 417  
Troy, North Carolina 27371

All such communication will be forwarded to the appropriate party as soon as practicable without being screened.

## **Board Leadership**

The Board of Directors believes that one of its main purposes is to protect shareholders' interests by providing independent oversight of management, including the Chief Executive Officer. Although not required by the Company's bylaws, the Board of Directors has historically believed, and continues to believe, that this objective is facilitated by having an independent director serve as Chairman, thereby separating the offices of Chairman of the Board of Directors and Chief Executive Officer. The Chairman of the Board is responsible for approving meeting schedules and agendas, as well as acting as a liaison between the Chief Executive Officer and the independent directors.

## **Attendance at Meetings**

In order to effectively fulfill their primary responsibilities, directors are expected to attend the annual meeting of the shareholders and all board meetings and meetings of committees on which they serve.

## **Meeting Agendas**

The Chairman of the Board establishes the agenda for each board meeting. Each director is free to suggest the inclusion of items for the agenda and to raise subjects that are not on the agenda during any meeting. Information and data that are important to directors' understanding of the business to be conducted at a Board or committee meeting, to the extent that it is practical, shall be mailed or otherwise distributed to directors for review prior to the meeting.

The Corporate Secretary maintains a list of recurring agenda items and the timing of such agenda items throughout the year, as well as departmental requests for presentation of matters to be directed to the Board.

## **Executive Sessions**

The Board of Directors has adopted a resolution requiring that the independent directors of the Company meet at least twice a year in executive session with no non-independent directors or employees of the Company present. At these meetings, the independent directors discuss strategies or other key issues regarding the Company.

## **Directors Representing First Bancorp**

Senior Executive Management and/or its designees speak for First Bancorp. Individual directors may, from time to time, meet or otherwise communicate with various constituencies that are involved with First Bancorp. However, it is expected that a director will do this only with the knowledge of and at the request of Senior Executive Management. Directors should not communicate with members of the media about the Company's affairs without explicit authorization from the Board or Senior Executive Management.

## **Director Access to Management and Independent Advisors**

The Board of Directors or any committee of the Board shall have full and free access to all officers and employees of First Bancorp and its subsidiaries and its independent advisors. The directors will use their judgment to ensure that any such contact is not disruptive to the business operations of First Bancorp and will, to the extent appropriate, inform the Chief Executive Officer of any such communications between a director and an officer or employee of the Company or an independent advisor.

The board welcomes and encourages member of Senior Executive Management to bring managers into board meetings who can provide additional insight and expertise with respect to matters being discussed by the Board and/or who have demonstrated future potential and should be given exposure to the Board.

The Board of Directors, each committee of the Board, and the independent directors as a group, has the authority by majority vote of the group to retain independent advisors from time to time, separate and apart from the Company's regular advisors. The cost of any such advisors will be paid by the Company.

## **Director Orientation**

All new directors shall participate in an orientation program to acquaint them with the following:

- Corporate Governance Guidelines
- Code of Conduct
- Insider Trading rules
- Related Person Transactions Policy and Procedure – (Regulation O)
- First Bancorp Strategic Plan
- Principal officers
- Significant financial, accounting, and risk management issues
- Internal Audit services and external independent accounting firm
- Required SEC filings

## **Director Education**

Directors are expected to attend the North Carolina Commissioner of Bank's Directors College within two years of being elected a director. In order to effectively carry out the primary responsibilities of the Board, directors are encouraged to participate in the annual Directors Assembly sponsored by the North Carolina Bankers Association.

## **CEO Evaluation and Management Succession**

Consistent with its charter, the Compensation Committee shall conduct an annual review of corporate goals and objectives relevant to CEO compensation, evaluate the CEO's performance in light of those goals, and determine, or recommend to the Board for its determination, the compensation level of the CEO based on such an evaluation. The Board of

Directors will review the Compensation Committee's report in order to confirm that the CEO is providing effective leadership for First Bancorp. The Board of Directors, in consultation with the Nominating and Corporate Governance Committee, shall be responsible for ensuring that First Bancorp has developed an executive management succession plan, including procedures for CEO selection in the event of an emergency or the retirement of the CEO. Such plan shall be reviewed and evaluated by the Board at least annually.

### **Annual Self-Evaluation of the Board**

The board shall conduct an annual self-evaluation to assess how effectively the Board is functioning as a whole.

### **Board Size**

The board believes that the current size is serving the Company well. Section 3.02 of the Company's bylaws provides that the number of directors on the Board of Directors of the Company will be not less than three nor more than 18, as may be fixed by resolution duly adopted by the Board of Directors at or prior to the annual meeting at which such directors are to be elected.

### **Mandatory Retirement Policy**

The Company's bylaws state that no individual may be elected to, or may serve, on the Board of Directors any time after his or her 75<sup>th</sup> birthday, except that if a director is elected to the Board prior to his or her 75<sup>th</sup> birthday and reaches the age of 75 while serving as a director, such director's term shall continue until the next annual meeting of shareholders, at which time the director shall retire. The bylaws allow for the Board to make exceptions to this limitation in connection with mergers and acquisitions. The bylaws also state that the foregoing provisions do not apply to any individual during the time such individual is serving as Chief Executive Officer of the Company.

### **Director Indemnification**

The Board of Directors shall be entitled to have First Bancorp purchase reasonable directors and officers liability insurance on its behalf and provide indemnification to directors to the fullest extent permitted by law and First Bancorp's Articles of Incorporation and bylaws.

### **Committee Structure**

The Board has established four standing committees. The Board has adopted and published a written charter for the Audit, Compensation, and Nominating and Corporate Governance committees, which set forth the purpose, composition, activities and other principles guiding these committees. The Board may adopt charters for other committees or other governing policies not inconsistent with those guidelines, and it also is anticipated that the committees of the Board will perform additional duties that are not specifically set out in their respective charters as may be necessary or advisable in order for First Bancorp to comply with certain laws, regulations or corporate governance standards, as the same may be adopted, amended or revised from time to time. The Board has established an Executive Committee to

exercise the authority of the full Board to the extent permitted by law and when necessary during intervals between meetings of the Board. All significant actions taken by the Executive Committee are reviewed by the full Board.

The written charters of the Audit, Compensation and Nominating and Corporate Governance committees are published on First Bancorp's website, and will be mailed to any shareholder upon written request to the Corporate Secretary. The charter of each of these committees is reviewed and assessed annually by the committee to determine its adequacy in light of governance principles and applicable rules and regulations. Any changes to these committee charters are reviewed and adopted by the Board. Each committee has the authority to, as it deems appropriate, independently engage outside legal, accounting, or other advisors or consultants. Each of the Audit, Compensation and Nominating and Corporate Governance committees annually conducts a review and evaluation of the performance of such committee.

### **Committee Membership**

Each committee of the Board named above, except for the Executive Committee shall be composed entirely of independent directors as defined in these guidelines, and each board committee, including the Executive Committee shall be chaired by an independent director.

### **Selection of Chairman of the Board and Chairmen of Subsidiaries**

It is the responsibility of the Board of Directors to elect its Chairman, who will be an independent director. The board of directors of each of the Company's subsidiaries annually elects the Chairman of its board, who also will be an independent director. The Chairman of the Board and the Chairman of each subsidiary's board of directors is typically elected for a four year term.

### **Committee Reporting**

Each committee chairman, or the chairman's designee, reports to the full board on committee actions at the next board meeting after the committee has met.

### **Board Compensation Program**

The form and amount of director compensation is determined by the full Board of Directors upon the recommendation of the Compensation Committee, as set forth in its charter.

The Compensation Committee conducts an annual review of director compensation. In formulating its recommendation regarding the form and amount of director compensation and the potential impact on the independence of a director, the Compensation Committee shall evaluate whether director compensation and perquisites are appropriate, reasonably comparable to First Bancorp's peers in the financial services industry and in the best interests of First Bancorp's shareholders.

First Bancorp's Compensation Committee has authority to and may, from time to time, directly engage an independent compensation consultant to advise it as to "best practices" and emerging trends in director compensation. The independent consultant may also benchmark

First Bancorp's director compensation against a national peer group and general industry data, adjusted for each company's relative income and asset base, or otherwise advise the committee as the committee may request.

### **Code of Ethics**

The Board of Directors has adopted a Code of Ethics that applies to the Company's directors, executive officers, and employees. The Code includes guidelines relating to ethical handling of actual or potential conflicts of interest, compliance with laws, accurate financial reporting, and procedures for promoting compliance with, and reporting violations of, the Code of Ethics. The Code of Ethics is available on the Company's website at [www.firstbancorp.com](http://www.firstbancorp.com) under the tab "Investor Relations – Corporate Governance." Any amendments to the Code of Ethics will be disclosed on the Company's website.

Approved March 12, 2013