Good Things Happen When We Work Together

2020 Annual Report

BAR HARBOR
BANKSHARES

Personal Banking · Business Banking · Wealth Management

Over 50 locations in Maine, New Hampshire & Vermont

We understand life in northern New England.

As the only bank headquartered in Northern New England with a branch presence in Maine, New Hampshire, and Vermont, we are uniquely positioned to serve the needs of the region.

Maine Branches:

Bangor
Bar Harbor
Blue Hill
Brewer
Brunswick
Deer Isle
Ellsworth
Lubec
Machias
Milbridge
Newport
Northeast Harbor
Orono
Pittsfield
Rockland
Somesville
South China
Southwest Harbor
Waterville
Winter Harbor

New Hampshire Branches:

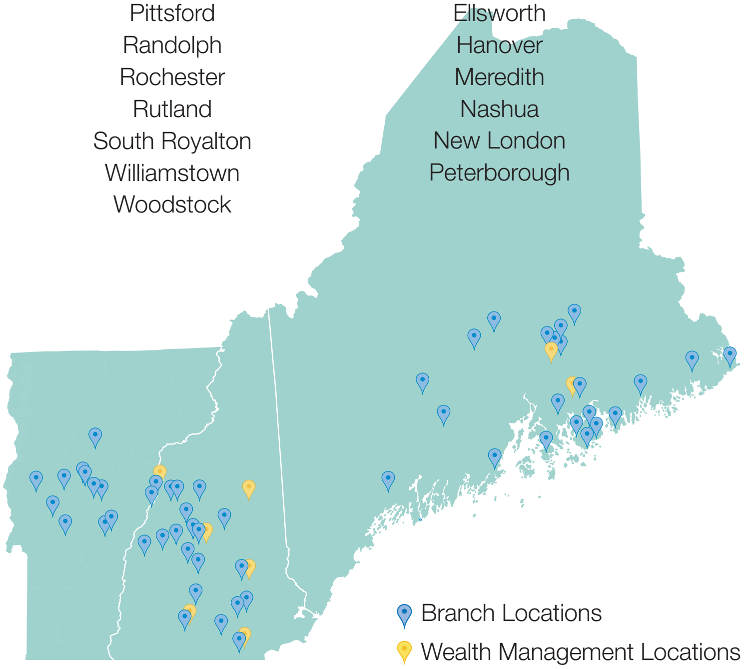
Andover
Bedford
Bradford
Claremont
Concord
Enfield
Grantham
Hanover
Hillsborough
Lebanon
Manchester
Milford
Nashua
New London
Newbury
Newport
Peterborough
Sunapee
West Lebanon

Vermont Branches:

Bethel/Royalton
Brandon
Pittsford
Randolph
Rochester
Rutland
South Royalton
Williamstown
Woodstock

Wealth Management Locations:

Bangor
Concord
Ellsworth
Hanover
Meredith
Nashua
New London
Peterborough



Cover Image: Daryl Wentworth, Director Middle Market Banking, meets with Byron and Justin Tait of Casco Bay Steel.

GOOD THINGS HAPPEN WHEN WE WORK TOGETHER

Delivering results and solutions, no matter what challenges arise.

Sam McGee, Regional Relationship Manager, helps Mark Politte of Stanley Subaru complete account paperwork outside during the pandemic.

DELIVERING BUSINESS RESULTS

Commercial Lenders generated over

$484MM in new loans (net of PPP)

an increase of 32% YOY

Core deposit growth of over

$403MM

an increase of 25% YOY

Bankers opened more than

13,000

core deposit accounts

DELIVERING SOLUTIONS DURING COVID-19

Continued to serve customers and provide solutions without disruption

100% of branches remained open throughout the pandemic

90% of non-branch employees seamlessly transitioned to working remotely

LEVERAGING TECHNOLOGY TO IMPROVE THE CUSTOMER EXPERIENCE

Projects completed in 2020 include

Launched Zelle® person to person payment functionality within Bar Harbor Mobile

Upgraded ATMs across the footprint so that 60% are now smart ATMs

Upgraded Bar Harbor Card Control app

Upgraded Wealth Management core platform

Upgraded Customer Service Center infrastructure

Converted debit card platform to improve system and increase debit card usage

Letter to Shareholders

Dear Fellow Shareholders,

What can we say about 2020 that has not already been said? A year ago, we were only beginning to grasp the reality of COVID, yet the pandemic's indiscriminate nature has since touched us all in one way or another, some more profoundly than others. While we all would like to turn the page on 2020 and COVID uncertainties as we are well into 2021, our annual report is the perfect time to reflect on our performance and what we have learned about ourselves, our culture, and how we must move forward.

A Growing Bank Built for Inevitable Economic Uncertainty

Long before COVID, we knew the reality that banking requires a laser-focused team. More specifically, attention must be centered on creating a balanced bank that is not too reliant on one business line accompanied by steady decision-making, even when markets experience inevitable uncertainty. This approach is the center of our model of balancing growth and earnings.

Curtis C. Simard
President & Chief Executive Officer

While no one could have predicted a health-driven crisis or the scale of political unrest, our risk-based culture is geared toward knowing some force eventually tests markets. Fear did not create this mindset but rather a realization of economic history. While significant stimulus perhaps camouflaged some poor decision-making around the industry, we had little concern about our risk-taking leading up to 2020. Our credit decisions are sound, our procedures and modeling are detailed, and our technology is well-conceived and deployed. And we always strive to do each better, especially as digital acceleration presents growing challenges and responsibilities.

The result is that we proved precisely that which we messaged. We have a talented team and firm culture in place to carry out our strategies. It is apparent in how we managed ourselves leading up to the pandemic, how we responded to it, and how we have fared thus far. We have created disciplined policies that never existed before with a cohesive team commitment that has enabled us to perform well for our customers, communities, and shareholders.

Frankly, it is not easy to highlight every success in the face of adversity in 2020. Large and small victories were experienced throughout the Company. The effort of previous years to focus on our culture has created relationships and accountability throughout the Bank. It is this connectivity that drives successful companies. BHB is not a disparate group of divisions. We are one Bank united under one culture that thinks differently while working together with one another and our customers.

Growth Across The Company

Every segment of our Company moved forward despite the pandemic in 2020. We did more commercial loans than ever before and cross-sold well with our retail, treasury, derivatives, and wealth partners. That occurred despite simultaneously navigating the new PPP program that was crucial to supporting many of our customers. Organized PPP delivery proved to be a significant reputation builder for us and was supported across all divisions who came together in this unique time of need.

We processed more residential mortgage loans than ever before. We eased wealth clients' fears and kept them on paths to tremendous portfolio gains as markets regained confidence. The retail teams substantially lowered our cost of deposits by pushing our DDA focus to new heights and made cross-selling part of immediate and long-term goal setting.

We remained open while many others closed or restricted access by being committed to our protocols as guided by governmental bodies. We also stayed disciplined in collecting fees and negotiating modifications, balancing customers' needs and our performance for shareholders. Countless hours were spent with clients on the best options for them to navigate the financial challenges the pandemic created. KYC (know your customer) took on an expanded meaning and underscores why a high-touch model always serves community banking relationships best.

Some of the less apparent earnings drivers rest with our non-customer-facing colleagues:

- Our ability to rapidly move remote with great confidence in our information security
- Procuring PPE to ensure a safe work environment
- Stress testing of our portfolios
- CECL validation and modeling alongside the ALLL until adoption in Q1 2021
- Modeling of asset and liability positions to include new funding mechanisms and liquidity
- Modeling of stock repurchases and capital management

Important initiatives remained on track like the wealth system consolidation and the subsequent planned merger for efficiency, website enhancements, Zelle® deployment, online banking enhancements, IT upgrades, and facility enhancements, including a branch relocation in Brunswick, ME, and a new branch in Bedford, NH. We have begun to better establish our commitment to ESG and continue to create programs in support of these critical initiatives.

2021 and What Lies Ahead

We are consistent in that which guides us:

- Balancing growth with earnings
- Commitment to risk management
- Sales cultures must be relentless idea originators
- Consistent cross-selling makes for entrenched customers
- And of course, thinking differently while working together

Letter to Shareholders

As we have moved into 2021, the Board and management have spent much time affirming our strategy given the changing times. We unequivocally believe we are on the right course but are focused on the competing headwinds and opportunities. These are exciting times as we know our Northern New England footprint's needs and continue to solve problems rather than fill orders.

While industry-wide credit deterioration was largely averted, credit acumen must remain a hallmark, as should all of our risk pillars. We had no credit variances that required extensive provisioning or releases in this uncertain year. We know we are unquestionably in the risk management business regardless of our growth appetite. We will continue to thoughtfully analyze all options of using our capital most prudently as we always have, including the significant share buyback in 2020.

We do, however, see developing imbalances in our industry. Historic low rates have caused a surprising amount of mortgage refinancing. We have been underwriting a fair amount, but like others, have no interest in growing our balance sheet in this low-rate asset class. We favor maximizing production at our current staffing versus pivoting to become a mortgage powerhouse, whose value fluctuates wildly with rates and, therefore, production. While others are gearing up to underwrite even more residential loans, this imbalance is not sustainable in our markets. We, thus, are forging ahead with our aggressive commercial calling efforts and related cross-selling as planned. We like predictable sustainability as it yields better long-run performance, lasting valuation, and defining culture.

> **"As we have moved into 2021, the Board and management have spent much time affirming our strategy given the changing times. We unequivocally believe we are on the right course but are focused on the competing headwinds and opportunities."**

Unchanged Value Proposition

Once again, consistent with our strategy, we will be a well-managed community bank with outward calling driven retail offerings in deposits and loans with tremendous cross-sell appetite, especially in treasury and wealth. We are committed to mortgage offerings at a long-run sustainable level, not as a unit built and torn down as rates fluctuate.

Commercial and small business rates are more service-driven despite ongoing competition. Our culture, sales abilities, and risk and controls management capabilities must be second to none in our footprint.

Lastly, we always talk about managing our expenses appropriately. We have built our organization from a 14 branch company principally located in Downeast Maine to one that spans three states with more than 50 locations and over $2 billion in wealth assets under management. That took much investment, but the retreat in financial institution valuations and share price this past year, combined with the fact that our infrastructure build is now limited to digital offerings and automation, has renewed our focus on expense management in process and headcount. We made a material cost containment move in Q1 2021 that will save the Company more than $3 million on our annualized run rate, and we continue to evaluate process enhancement. Like our branch rationalization in 2019, we believe intelligent companies must honestly evaluate expense and talent profiles.

With success wrestled from the hands of what could have been significant industry dislocation caused by the pandemic, we are focused on:

- Where do we have duplication in effort?
- How do we make processes more efficient?
- How do we make jobs easier for colleagues and customers without sacrificing risk management?
- Where are our blind spots?
- How do we create continued growth opportunities for our deserving colleagues?
- Ultimately, how do we continue to improve and sustain long-term shareholder returns?

BHB will always look to improve and to answer these questions in order to continue to invest in colleague career advancement, products, processes, technology, and our communities. Together with our distinctive culture and growth prospects, these commitments will require us to continue to think differently.

Thank you for your continued interest in and support of Bar Harbor Bankshares. Both matter to us greatly.

Curtis C. Simard

Curtis C. Simard
President & Chief Executive Officer

Consolidated Balance Sheets

Years Ended December 31, 2019 and 2020

(in thousands)	Years Ended 2020	2019
ASSETS		
Cash and due from banks	$ 27,566	$ 26,485
Interest-bearing deposit with the Federal Reserve Bank	198,441	30,425
Total cash and cash equivalents	**226,007**	**56,910**
Securities available for sale, at fair value	585,046	663,230
Federal Home Loan Bank stock	14,036	20,679
Total securities	**599,082**	**683,909**
Loans held for sale	23,988	6,499
Loans:		
Commercial real estate	1,084,381	930,661
Commercial and industrial	441,069	423,291
Residential real estate	923,891	1,145,358
Consumer	113,544	135,283
Total loans	**2,562,885**	**2,634,593**
Less: Allowance for loan losses	(19,082)	(15,353)
Net loans	**2,543,803**	**2,619,240**
Premises and equipment, net	52,458	51,205
Other real estate owned	-	2,236
Goodwill	119,477	118,649
Other intangible assets	7,670	8,641
Cash surrender value of bank-owned life insurance	77,870	75,863
Deferred tax assets, net	1,745	3,865
Other assets	73,662	42,111
Total assets	**$ 3,725,762**	**$ 3,669,128**
LIABILITIES		
Deposits:		
Demand	$ 544,636	$ 414,534
NOW	738,849	575,809
Savings	521,638	388,683
Money Market	402,731	384,090
Time	698,361	932,635
Total deposits	**2,906,215**	**2,695,751**
Borrowing:		
Senior	276,062	471,396
Subordinated	59,961	59,920
Total borrowings	**336,023**	**531,316**
Other liabilities	72,183	45,654
Total Liabilities	**3,314,421**	**3,272,721**
SHAREHOLDERS' EQUITY		
Capital stock, par value $2.00; authorized 20,000,000 shares; issued 16,428,388 and 16,428,388 shares at December 31, 2020 and December 31, 2019, respectively	32,857	32,857
Additional paid-in capital	190,084	188,536
Retained earnings	195,607	175,780
Accumulated other comprehensive loss	11,016	3,911
Less: 870,257 and 905,201 shares of treasury stock at December 31, 2020 and December 31, 2019, respectively, at cost	(18,223)	(4,677)
TOTAL SHAREHOLDERS' EQUITY	411,341	396,407
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 3,725,762**	**$ 3,669,128**

Refer to the Bar Harbor Bankshares 2020 Annual Report on Form 10-K for a complete set of audited financial statements and accompanying notes.

Consolidated Statements of Income

Years Ended December 31, 2018, 2019 and 2020

(in thousands)	Years Ended 2020	2019	2018
Interest and Dividend Income			
Loans	$ 107,085	$ 111,042	$ 104,015
Securities and other	19,019	24,349	23,436
Total interest and dividend income	**126,104**	**135,391**	**127,451**
Interest Expense			
Deposits	18,043	27,034	19,521
Borrowings	8,881	18,547	17,047
Total Interest Expense	**26,924**	**45,581**	**36,568**
Net interest income	99,180	89,810	90,883
Provisions for loan losses	5,625	2,317	2,780
Net interest income after provision for loan losses	**93,555**	**87,493**	**88,103**
Non-Interest Income			
Trust and investment management fee income	13,378	12,063	11,985
Customer service fees	11,327	10,127	9,538
(Loss) gain on sales of securities, net	5,445	237	(924)
Mortgage banking income	6,884	1,626	1,490
Bank-owned life insurance income	2,007	2,053	1,821
Customer derivative income	2,503	2,028	860
Other income	1,412	935	3,165
Total non-interest income	**42,956**	**29,069**	**27,935**
Non-Interest Expense			
Salaries and employee benefits	48,920	45,000	40,964
Occupancy and equipment	16,751	14,214	12,386
Loss on premises and equipment, net	(32)	18	-
Outside services	1,985	1,818	2,408
Professional services	2,060	2,191	1,474
Communication	892	821	804
Marketing	1,385	1,872	1,743
Amortization of intangible assets	1,024	861	828
Loss on debt extinguishment	1,351	1,096	-
Acquisition, restructuring and other expenses	5,801	8,317	1,728
Other expenses	14,723	13,525	13,204
Total non-interest expense	**94,860**	**89,733**	**75,539**
Income before income taxes	41,651	26,829	40,499
Income tax expense	8,407	4,209	7,562
Net Income	**$ 33,244**	**$ 22,620**	**$ 32,937**
Earnings per Share			
Basic	$ 2.18	$ 1.46	$ 2.13
Diluted	$ 2.18	$ 1.45	$ 2.12
Weighted Average Common Shares Outstanding:			
Basic	15,246	15,541	15,488
Diluted	15,272	15,587	15,564

Bar Harbor Bankshares

Senior Executive Team

Curtis C. Simard
President
Chief Executive Officer

Josephine Iannelli
Executive Vice President
Chief Financial Officer
and Treasurer

Richard B. Maltz
Executive Vice President
Chief Operating Officer
and Chief Risk Officer

John M. Mercier
Executive Vice President
Chief Lending Officer

Marion Colombo
Executive Vice President
Retail Delivery

Jason Edgar
President
Bar Harbor Trust Services
Charter Trust Company

Jenny Svenson
Senior Vice President
Chief Human Resources
Officer

Bar Harbor Bankshares

Board of Directors

2020 Board of Directors (Back L-R): David M. Colter, Brendan O'Halloran, Stephen R. Theroux, Daina H. Belair, Scott G. Toothaker, Curtis C. Simard, David B. Woodside, Martha T. Dudman, Steven H. Dimick. (Front L-R): Lauri E. Fernald, Matthew L. Caras, Kenneth E. Smith.

David B. Woodside - Chairman
Bar Harbor, ME
President and CEO of Acadia Corporation

Daina H. Belair
Lincolnville, ME
Owner of Inn at Sunrise Point

Matthew L. Caras
Arrowsic, ME
Owner and Managing Director of Leaders LLC

David M. Colter
Hampden, ME
President, GAC Chemical Corporation

Steven H. Dimick
Randolph, VT
Former Director for Lake Sunapee Bank Group Board

Martha T. Dudman
Northeast Harbor, ME
Fundraising Consultant and Author, former President of Dudman Communications Corporation

Lauri E. Fernald
Mt. Desert, ME
President and an Owner in Jordan–Fernald Funeral Home

Brendan O'Halloran
Chatham, MA and Naples, FL
Retired Vice Chair & Regional Head of TD Securities, a division of TD Bank

Curtis C. Simard
Mt. Desert, ME
President and Chief Executive Officer of the Company and the Bank

Kenneth E. Smith
Bar Harbor, ME
Former Owner and Innkeeper of Manor House Inn

Stephen R. Theroux
New London, NH
Former President and CEO of Lake Sunapee Bank

Scott G. Toothaker
Nashua, NH
Managing Principal of Melanson Heath & Co.

5 Year Summary of Financial Data

(in millions, except per share)	2020	2019	2018	2017	2016
Balance Sheet Data					
Total assets	$ 3,726	$ 3,669	$ 3,608	$ 3,565	$ 1,755
Earning assets*	3,360	3,349	3,327	3,300	1,681
Investments	599	684	761	755	554
Loans	2,563	2,635	2,488	2,473	1,129
Deposits	2,906	2,696	2,483	2,352	1,050
Borrowings	336	531	724	830	537
Shareholders' equity	411	396	371	355	157
Results of Operations					
Net interest income	$ 99	$ 90	$ 91	$ 92	$ 45
Non-interest income	43	29	28	26	13
Net revenue	142	119	119	119	58
Net income	33	23	33	27	15
Per Common Share Data					
Diluted earnings	$ 2.18	$ 1.45	$ 2.12	$ 1.70	$ 1.63
Adjusted earnings*	2.28	1.91	2.25	2.10	1.52
Dividends	0.88	0.86	0.79	0.75	0.73
Total book value	27.58	25.48	23.87	22.96	17.19
Tangible book value*	19.05	17.30	16.94	15.94	16.61
Performance Ratios					
Return on assets	0.88%	0.62%	0.93%	0.75%	0.89%
Adjusted return on assets*	0.92	0.82	0.99	0.93	0.83
Return on equity	8.17	5.82	9.22	7.41	9.21
Adjusted return on equity*	8.48	7.65	9.79	9.15	8.46
Interest rate spread	2.92	2.53	2.67	2.99	2.86
Net interest margin	2.97	2.77	2.86	3.08	2.96
Efficiency ratio*	61.71	64.95	59.27	55.44	58.90
Net charge-offs/average loans	0.07	0.03	0.05	0.04	-

**Note: These performance ratios are non-GAAP financial measures; see 2020 Annual Report on Form 10-K for further discussion.*

Corporate Profile
as of December 31, 2020

- $3.7 billion in assets.
- 53 full service branches.
- Branches located across Maine, New Hampshire and Vermont.
- A true community bank providing commercial, retail, treasury and wealth management services.
- Wealth assets under management of $2.3 billion.

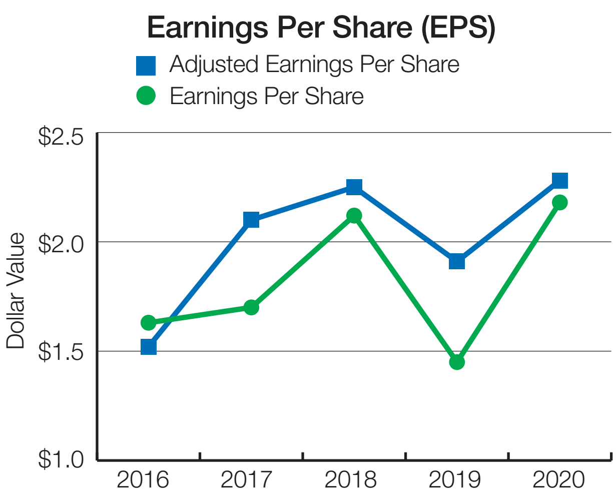
Corporate Profile
as of December 31, 2020

Ticker	NYSEAM: BHB
Stock price	$22.59 per share
Market capitalization	$337 million
Price to earnings ratio (full year 2020)	10.36X
Price to book value	81.92%
Price to tangible book value	118.56%
52 week price range	$13.05 to $25.55
Annualized dividend (Q1 2020)	$0.88 per share
Dividend yield	3.90%
Shares outstanding	14.9 million
Average daily volume (full year 2020)	43,609 shares

Summary Financial Results

Financial Highlights

Bar Harbor Bankshares recorded 2020 net income of $33 million, or $2.18 per diluted share, compared to $23 million, or $1.45 per diluted share, in 2019. Adjusted income (non-GAAP measure) in 2020 was $35 million, or $2.26 per diluted share, and $30 million, or $1.91 per diluted share, for the same period of 2019. Non-recurring expenses in 2020 included swap termination costs and profitability initiative costs while 2019 included acquisition, conversion and balance sheet optimization costs.

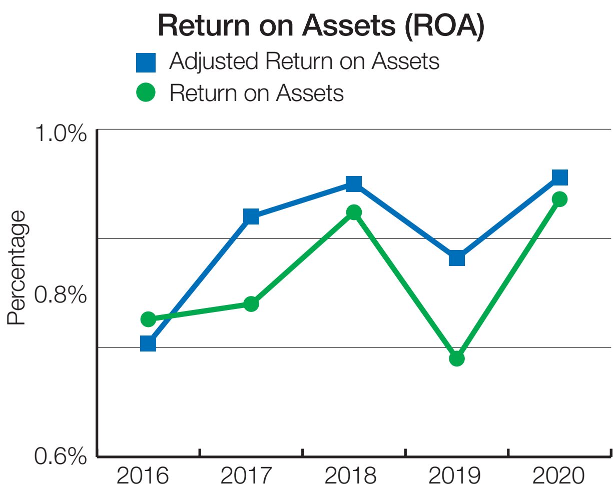


Non-interest income reached record levels in 2020 driven by mortgage banking income, gains on sold securities and other fee income. The Company sold fixed rate residential mortgage production in the secondary market in lieu of taking interest rate and credit risk on the balance sheet, producing $7 million in fee revenue. The Company also took advantage of unrealized gains in the securities portfolio by selling certain investments for a net gain of $5 million. Customer service fees increased 12% on an expanded customer base from the prior year acquisition and a significant number of organic accounts opened throughout 2020. Additionally, the Company's continued focus on commercial customers generated higher derivative and treasury income in 2020, and produced cross-sell opportunities within the retail and wealth management lines.

In 2020, the Company maintained its earning assets through commercial loan growth of $212 million or 17% through its strategy to grow variable rate loans. Non-maturity deposits grew $445 million or 25% through new accounts and the impacts of government stimulus. Excess liquidity generated from deposits was used to further delever the Company's balance sheet by reducing wholesale funding $520 million or 49%. The reduction in wholesale funding consisted of repayments of $195 million in senior borrowings and maturities of $325 million in brokered deposits. These collective actions reduced the Company's overall loan to deposit ratio to 88% at year-end 2020 compared to 98% in the prior year.

The Company maintains a strong capital position; building tangible equity excluding security adjustments (non-GAAP measure) in 2020 to a higher level than before the branch acquisition in the fourth quarter of 2019. The Company furthered its return on capital programs in 2020 in the form of stock purchases and dividend payments. Stock repurchases during the year totaled 720 thousand shares at a cost of $13.9 million. An additional 61 thousand shares remain available to be repurchased before the plan expires in 2021. The Company distributed regular cash dividends on its common stock in the aggregate amount of $13 million representing a payout ratio of 40%.

Return on assets in 2020 was 0.88% compared to 0.62% in 2019, while adjusted return on assets (non-GAAP measure) was 0.92% in 2020 compared to 0.82% in 2019. In a similar trend, return on equity was 8.17% in 2020 from 5.82% in 2019 and adjusted return on equity (non-GAAP measure) was 8.48% in 2020 from 7.65% in 2019.



COVID-19 Pandemic

On March 13, 2020, a national emergency was announced related to the COVID-19 pandemic, which has since been extended. The COVID-19 pandemic has resulted in significant economic uncertainties that have had, and could continue to have, an adverse impact on the Company's operating income, financial condition and cash flows. The extent to which the COVID-19 pandemic will impact the Company's operations and financial results during 2021 cannot be reasonably or reliably estimated at this time. The Company has taken careful measures in an effort to ensure the safety of its employees and customers. That includes restricting nonessential employee travel, expanding remote access availability, distancing work stations, professional cleaning of its facilities, and signs and distancing reminders for customers in the banking centers. Further, the Company remains committed to providing uninterrupted and reliable banking service and has business continuity plans and protocols in place to ensure critical operations are able to continue without disruption.

Credit Quality

The Company has experienced continuous positive trends in credit quality in 2020. Disciplined risk management has guided the Company through volatility created by the pandemic while also allowing the Company to focus on long-term goals. The Company had low levels of non-performing assets at 0.33% and past dues at 0.58% by year end 2020 including a 34% decrease in commercial loan delinquencies.

Starting in the second quarter 2020, the Company began stress testing the loan portfolio in addition to normal migration analysis. The stress testing of commercial loans included the most affected industries by COVID-19 within the Company's footprint, specifically hospitality. However, the Company's customers in the hospitality industry benefited from a better than expected summer tourism season for Northern New England. Testing results throughout the year affirm the Company's risk-based credit philosophy with no significant risk-rating downgrades or changes to reserves.

Paycheck Protection Program Loans

In response to the COVID-19 pandemic the CARES Act went into law on March 27, 2020, which provides assistance for American workers, families and small businesses. The Paycheck Protection Program ("PPP"), established by the CARES Act and implemented by the Small Business Administration ("SBA") provides small businesses with funds to pay payroll costs, pay interest on mortgages, rent, and utilities and are 100% guaranteed by the SBA. PPP loans have a two year term, carry an interest rate at 1% and earn an amortizing

SBA fee between 1 to 5% depending of the size of the loan. These loans are recorded on the Company's balance sheet as commercial and industrial loans. In 2020, the Company obtained SBA approvals on approximately $132 million with $5 million of fees on 1,900 PPP loans. As of December 31, 2020, the Company had an outstanding balance of loans totaling $54 million and $1 million of deferred fees. The Company expects the majority of remaining forgiveness to occur by the end of the second quarter 2021.

On December 27, 2020, the Consolidated Appropriations Act of 2021 ("CAA") was signed into law, which extended certain provisions of the CARES Act and provided additional funding. The CAA extended the PPP application period to March 31, 2021 and permits eligible companies to obtain a second PPP loan with a maximum amount of $2.0 million. This second round of loans carry similar terms and conditions as the first round and lenders are eligible for the same range of SBA processing fees. The Company plans to continue the PPP program into the first quarter of 2021.

Loan Modifications

Also in response to the COVID-19 pandemic the Company has supported its customers through loan deferrals. Under the CARES Act and the CAA Act, banks may deem that loan modifications do not result in troubled debt restructurings if they are (1) related to COVID-19; (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020, and the earlier of (A) 60 days after the date of termination of the COVID-19 national emergency declaration by the President of the United States or (B) January 1, 2022. Additionally, other short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief are not troubled debt restructurings under ASC Subtopic 310-40 and federal banking agencies' interagency guidance. Over the course of the year the Company modified over 800 loans totaling about $400 million, which were mostly temporary principal deferrals with normal interest accruals. The loans modified under deferment plans are still accruing interest and all contractual principal and interest is expected to be collected. As of December 31, 2020, the Company had 69 COVID-19 modified loans totaling $69 million.

CECL

In 2020, the Company implemented the CECL methodology and ran it concurrently with the historical incurred method. Under a provision provided by the CARES Act of 2020, the Company elected to delay the adoption of the CECL standard. On December 27, 2020, the Consolidated Appropriations Act of 2021 was signed into law. This law extended relief for troubled debt restructurings and provided for further delay of the current expected credit losses adoption under the CARES Act to January 1, 2022, with early adoption permitted. The Company elected to remain on the incurred loan loss methodology for 2020 and will adopt the CECL standard during the first quarter of 2021, effective January 1, 2021. Had the Company adopted CECL at year end 2020, the loan loss reserve as a percentage of total loans would have been 95 basis points compared to 74 basis points reported under the incurred loss model. The 95 basis points may change in the first quarter of 2021 based primarily on any changes in economic forecasts.

FINANCIAL CONDITION

Cash and Cash Equivalents

Total cash and cash equivalents at December 31, 2020 were $226 million, compared to $57 million at December 31, 2019. The increase in cash and cash equivalent balances of $169 million between periods was driven by unanticipated extensive growth in non-maturity deposits from new accounts and government stimulus outpacing the growth in other earning assets. The biggest portion of the growth is in Federal Reserve balances reflected in interest bearing deposits with other banks that grew by $168 million. The average earning yield on interest bearing deposits in 2020 is 0.15% compared to 0.96% in 2021, which reduces net interest margin 16 basis points and one basis point, respectively from excess liquidity.

Securities

Securities in 2020 decreased $85 million as the Company focused on meeting overall asset-liability objectives when interest rates increase from their current low levels. Securities activity during the year included purchases of $216 million offset by maturities, calls and pay downs of $152 million and sales of $153 million. The proceeds from sales and amortizing securities supported asset-liability objectives to increase liquidity, reduce prepayment and reinvestment risk, and improve risk adjusted returns.

Loans

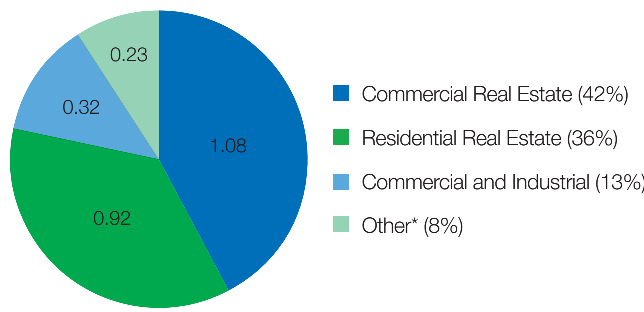
During 2020 total loans decreased $72 million to $2.6 billion. Given the current economic environment, the Company selectively grew total commercial loans to $1.5 billion or at a pace of 17%. Commercial and industrial loans grew 18% during the year, and 2% excluding Paycheck Protection Program loans as the Company closely monitored risk associated with growth prospects in the portfolio. Commercial loan growth was offset by a decline in residential loan balances of $221 million or 20% as the Company strategically moved a majority of production to the secondary market platform to generate fee income. Residential loan production was led by refinancing activity given the lower interest rate environment and originations totaled $246 million in 2020 compared to $67 million in 2019.

Allowance for loan losses

The year-end 2020 allowance for loan losses increased to $19 million from $15 million in 2019 largely due to commercial loan growth and increased qualitative economic factors associated with the pandemic. The allowance for loan losses to total loans ratio expanded at year-end 2020 to 0.74% from 0.58% at year-end 2019. Non-accruing loans in 2020 decreased primarily due to $2 million in commercial and residential payoffs during the fourth quarter. The Company elected to remain on the incurred loan loss methodology for 2020 and will adopt the CECL standard during the first quarter of 2021, effective January 1, 2021.

Loan Composition

As of December 31, 2020 ($ in billions)



*Other loans were comprised of Consumer (4% of total), Tax Exempt and Other (2% of total), and Paycheck Protection Program (2% of total).

Deposits

Total deposits increased $210 million to $2.9 billion in 2020 from $2.7 billion in 2019. Non-maturity deposits grew by $445 million or 25%, with the Company's retail team opening 13,250 new accounts for the year and impacts of government stimulus. Time deposits decreased $235 million given a $325 million reduction in brokered deposits offset by $90 million of growth in customer time deposits. Lower interest rates and the divergence in brokered deposit spreads provided an opportunity to lock into favorable rates with longer maturities in early 2020. The Company improved its loan-to-deposit ratio to 88% at year-end from 98% at the end of 2019 primarily as a result of deposit growth and residential loan sales.

Borrowings

At December 31, 2020 total borrowings were $336 million with a weighted average rate of 1.41% compared to $531 million with a weighted average rate of 2.11% at year-end 2019. Prior to the pandemic the Company's borrowings strategy centered around managing seasonal drops in core deposit funding while neutralizing fixed rate asset growth which involved locking into favorable rates on longer maturities. As a result 2020 long-term borrowings increased by $59 million with a weighted average rate of 2.37% at December 31, 2020 compared to 2.87% at December 31, 2019. Following the onset of the pandemic the Company changed strategy to leverage funds from strong core deposit growth to offset maturing short-term borrowings. Overall borrowings decreased $195 million or 37% from year-end 2019 primarily as excess liquidity was used to pay down borrowings. Short-term borrowings were reduced during the year by $254 million to $93 million with a weighted average rate of 0.44% compared to 1.73% at December 31, 2019.

Stockholders' Equity

Total equity was $411 million at year-end 2020, compared with $396 million at year-end 2019. The Company's book value per share increased $2.10 to $27.58 from year-end 2019. The increase was primarily due to strong net income of $33 million and a $7 million improvement in other comprehensive income offset by $13 million in dividends and $14 million in stock repurchases. The Company evaluates changes in tangible book value, a non-GAAP financial measure that is a commonly used valuation metric in the investment community, which parallels some regulatory capital measures. Tangible book value per share increased to $19.05 per share at year-end 2020 up from $17.30 per share at year-end 2019.

During 2020 and 2019, the Company declared and distributed regular cash dividends on its common stock in the aggregate amount of $13 million for both periods. The Company's 2020 dividend payout ratio amounted to 40%, compared with 59% in 2019. Total cash dividends paid in 2020 was $0.88 per common share of stock, compared with $0.86 in 2019.

On March 12, 2020, the Company's Board of Directors authorized a share repurchase plan (the "Plan"). Under the terms of the Plan, the Company is authorized to repurchase up to 5% of its outstanding common stock, representing approximately 781,000 shares. The Plan is authorized for twelve months expiring on March 20, 2021 and authorized based on the strength of the Company's balance sheet and capital position, and the Company's belief in the intrinsic value of the Company's common stock. Given the current market for bank stock prices, the Company believes this program is another tool to enhance long-term shareholder value. As of December 31, 2020, the Company has purchased 720,043 shares.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income for 2020 was $99 million compared with $90 million in 2019 primarily due to a lower cost of funds resulting from increased liquidity from growth in non-maturity deposits. The net interest margin expanded to 2.97% in 2020 compared to 2.77% in the prior year. Purchase loan accretion contributed 11 and 10 basis points to the margin in 2020 and 2019, respectively. Cost of deposits and borrowings also benefited from the Federal Reserve rate cuts in 2020 and changes in other key indexes in response to the pandemic. In total cost of funds decreased 65 basis points to 0.96% compared to 1.61% in 2019 due to the shift in funding sources to core deposits. Total interest-bearing deposit rates improved to 0.78% compared to 1.27% in 2019 from growth in core deposits and reductions in time deposits during 2020. Borrowing costs improved to 1.75% from 2.61% in 2019, on reduced borrowing levels and interest rates.

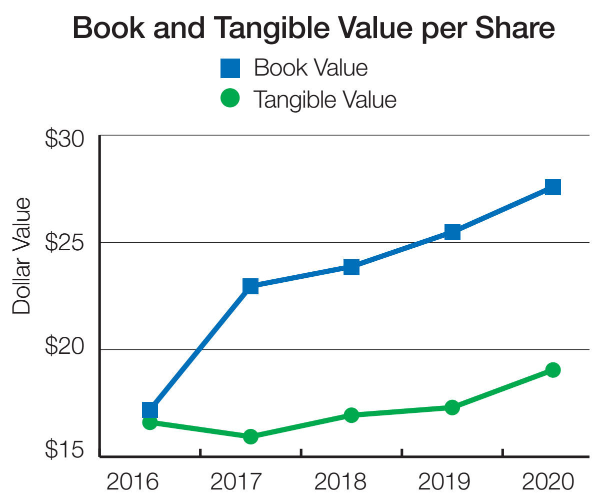
The yield on earning assets was 3.87% compared to 4.14% in 2019 reflecting loan originations and repricing of variable rate products in a lower interest rate environment. Both securities yields and loan yields dropped 22 basis points to 3.20% and 4.16%, respectively for 2020.

Non-Interest Income

Non-interest income in 2020 increased to $43 million from $29 million in 2019 driven primarily by increases in mortgage banking income and gains on sold securities. The $5 million increase in mortgage banking income is associated with secondary market sales of $223 million compared to $63 million in 2019. The Company took advantage of unrealized gains in the securities portfolio in 2020 by selling certain investments for a net gain of $5 million. Customer loan derivative income also contributed to non-interest income as demand for these products remained strong within the commercial loan pipeline throughout the year. Customer services fees increased by over $1 million to $11 million resulting from expanded operations into Central Maine offset by impacts of the pandemic on these services. Wealth management income grew over $1 million to $13 million in 2020. The increase reflects a full year of having assets under management acquired in the fourth quarter of 2019 totaling $218 million.

Non-Interest Expense

Non-interest expense was $95 million in 2020 compared to $90 million in 2019. The increase is primarily a result of a $4 million higher salary and benefit expense due to the expanded branch model and wealth management business. Salary and benefit expense was also impacted by larger accruals for incentives on improved performance metrics and post-retirement plan costs based on lower discount rates. Additionally, occupancy and equipment costs increased by $3 million based on the expanded footprint in central Maine. Operating expenses remained controlled as the efficiency ratio (non-GAAP) improved to 61.71% in 2020 from 64.95% in 2019. Non-recurring expenses in 2020 primarily consisted of a $4 million loss on termination of a $50.0 million swap on wholesale borrowings and a $1 million loss on extinguishment of debt on longer-term and higher cost FHLB borrowings. The remaining represents costs for profitability initiatives including trust system conversion and consolidation. Non-recurring expenses in 2019 included a $3 million loss on interest rate cap terminations, $3 million related to the branch acquisition, and $2 million related to branch optimization and other strategic initiatives.



Corporate Information

Financial Information
Shareholders, analysts and other investors seeking financial information about Bar Harbor Bankshares should contact:

Josephine Iannelli
Executive Vice President, CFO, Treasurer
207-667-0660

Internet
Bar Harbor Bank & Trust information, as well as Bar Harbor Bankshares Form 10-K, is available at www.barharbor.bank

Shareholder Assistance
Questions concerning your shareholder account, including change of address forms, records or information about lost certificates or dividend checks, should be directed to our transfer agent:

Broadridge Corporate Issuer Solutions, Inc.
P.O. Box 1342
Brentwood, NY 11717
877-456-4860
www.shareholder.broadridge.com

Stock Exchange Listing
Bar Harbor Bankshares common stock is traded on the NYSE American (www.nyse.com), under the symbol BHB.

Form 10-K Annual Report
The Company refers you to its Annual Report on Form 10-K for year ended 2020 for detailed financial data, management's discussion and analysis of financial condition and results of operations, disclosures about market risk, market information including stock graphs, descriptions of the business of the Company and its products and services.

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Printed Financial Information
We will provide, without charge, and upon written request, a copy of the Bar Harbor Bankshares Annual Report to the Securities and Exchange Commission on Form 10-K. The Bank will also provide, upon request, Annual Disclosure Statements for Bar Harbor Bank & Trust as of December 31, 2020.

Please contact Investor Relations via U.S. mail at the address above or through email at: investorrelations@barharbor.bank

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