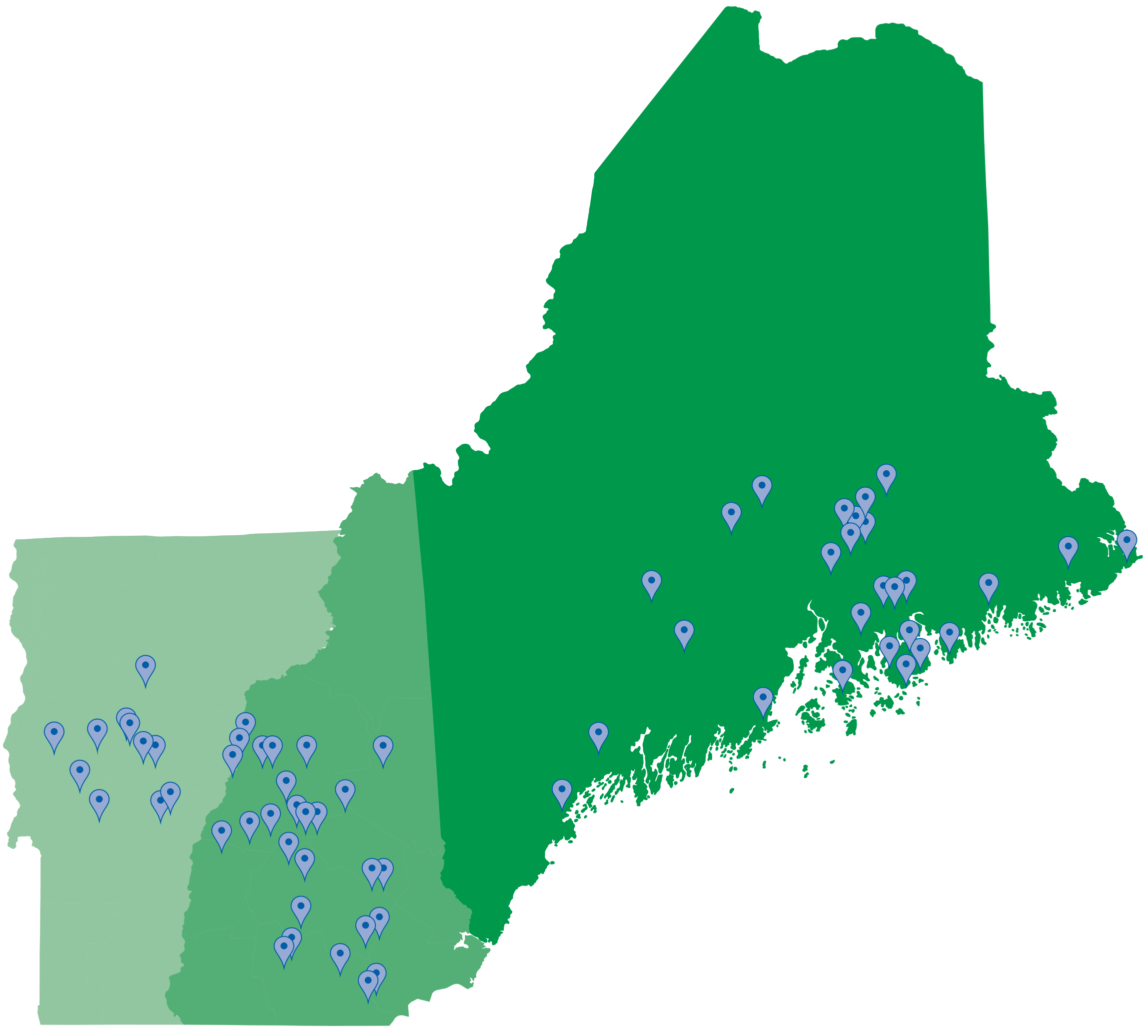

2021 Notice of Annual Meeting of Shareholders & Proxy Statement
2020 Annual Report

BAR HARBOR BANKSHARES

Personal Banking · Business Banking · Wealth Management

Over 50 locations in Maine, New Hampshire & Vermont

April 1, 2021

Dear Bar Harbor Bankshares Shareholders:

On behalf of the Board of Directors and our senior management team, I am pleased to invite you to attend our 2021 Annual Meeting of Shareholders to be held online via live webcast **on Tuesday, May 18, 2021 at 9:00 am ET.** To access this virtual webcast of the Annual Meeting, please visit *www.virtualshareholdermeeting.com/BHB2021 and enter the 16-digit control number included on your proxy card.*

In accordance with Maine law which does not allow virtual only shareholder meetings, the Annual Meeting will also be held in-person at Bar Harbor Bank & Trust, 82 Main Street, Bar Harbor, Maine. In view of the continuing public health impact of the COVID-19 pandemic and in keeping with the recommendations of the U.S. Centers for Disease Control and Prevention, we strongly encourage shareholders to participate remotely through the virtual webcast and discourage anyone from participating in person due to the potential public health risks involved. Voting without attending the meeting in person has never been easier, with the options to vote via the Internet, email and telephone being widely available, in addition to mailing in completed and signed proxy cards. If shareholders attend in person in a number that we determine may present a public health risk to the attendees, we reserve the right to adjourn the meeting to a later date.

As we are all aware 2020 was a year of reactions and stresses which required a new level of strength and adaptability. As the pandemic grew and strained our economy, we quickly responded with programs to help protect and serve our employees, customers and communities. We processed thousands of SBA Paycheck Protection Program loans, donated resources to support essential workers and local non-profit organizations and maintained services during state-mandated lockdowns. We also supported our customers by processing over 550 customized loan modifications and over 350 consumer loan modifications. We demonstrated that Bar Harbor Bankshares is an organization of resilience and endurance. We faced difficult decisions on a daily basis, but we persevered thanks to our stability, our relationship banking strategy, and our commitment to always put our employees, customers and communities first.

During 2020, we further enhanced our corporate responsibility efforts by completing our first ESG materiality assessment to identify the issues that represent the most significant opportunities and risks. The outcome of that assessment will be published in our 2021 Environmental, Social, and Governance Report and will guide our strategies and reporting as we move forward on our ESG journey.

Our Notice of Annual Meeting, proxy statement and proxy card are enclosed together with our 2020 Summary Annual Report and 2020 Annual Report on Form 10-K. We encourage you to carefully read the proxy statement and attachments as they describe the proposals to be voted on at the Annual Meeting and other important matters.

Your vote is important and your prompt attention to these materials is greatly appreciated. Regardless of whether you plan to attend the Annual Meeting via webcast or in person, we hope you will vote as soon as possible. You may vote by telephone or over the Internet, or by completing, signing, dating and returning the enclosed proxy card or voting instruction card if you requested and received printed proxy materials. Shareholders who attend the Annual Meeting may withdraw their proxy and vote at meeting if they wish to do so. The deadline for transmitting Internet, telephone, and email voting is up until 11:59 p.m. Eastern Time on May 17, 2021 for shares held directly and by 11:59 p.m. Eastern Time on May 13, 2021 for shares held in a Plan. Please have your proxy card in hand when utilizing these other forms of voting.

The Board of Directors recommends that you vote:

- ☐ **FOR** the election of the 12 nominees as Directors
- ☐ **FOR** the approval, by a "Say on Pay" advisory vote, of our 2020 executive compensation as disclosed in the Proxy Statement for the Annual Meeting
- ☐ **FOR** the ratification of the appointment of RSM US LLP as our independent public accounting firm for 2021

On behalf of your Board of Directors, we thank you for trusting us with overseeing your investment in Bar Harbor Bankshares.

Sincerely,

Curtis C. Simard

CURTIS C. SIMARD
President and
Chief Executive Officer

FOSTERING SUSTAINABLE COMMUNITIES

RESPONSIBLE FINANCIAL COMMITMENTS

1,472
total small business originated with gross loans over $73M

400+
organizations supported through charitable giving efforts

80%
of employees provided funds to support charitable giving efforts

25%
of women represented on Board of Directors

70%
of women in management

$3.45M
invested in various community housing funding programs

100%
employee ethics training

$100,000
in employee owned charitable giving

17.4M
invested in low income housing origination

77%
of women in the workforce

$590,000
in commitments to nonprofits & educational entities

16,000 hours
of employees volunteering at various organizations

100%
of operations revewed to support an environmental conscience approach

For more information view our 2021 ESG Report at: www.barharbor.bank/esgreport2021

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD MAY 18, 2021

TIME AND DATE: 9:00 a.m., Eastern Time, Tuesday, May 18, 2021

RECORD DATE: March 16, 2021

You are eligible to vote at the Annual Meeting if you were a shareholder of record as of the close of business on March 16, 2021.

ATTENDANCE:

Shareholders of record as of the record date may participate in the Annual Meeting by:

By Webcast: On the Internet, access *www.virtualshareholdermeeting.com/ BHB2021* and enter the 16-digit control number included on your proxy card

In Person: Bar Harbor Bank & Trust
82 Main Street
Bar Harbor, Maine

ITEMS OF BUSINESS:

1. Elect the 12 nominees as Directors
2. Approve, by a "Say on Pay" advisory vote, our 2020 executive compensation as set forth in the proxy statement for the Annual Meeting
3. Ratify the appointment of RSM US LLP as our independent registered public accounting firm for 2021

In addition, any other business properly presented may be acted upon at the meeting.

PROXY VOTING:

Your vote is important. You may vote your shares:

- Over the Internet at *www.proxyvote.com*
- By telephone at 1-800-690-6903
- By email to bhb@allianceadvisors.com with your full name and shares owned. For non-institutional investors only
- At our Annual Meeting, either by webcast or in person
- By mailing your completed proxy card to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717

We urge you to vote your shares soon. Submitting a proxy card will not prevent you from participating in the Annual Meeting and voting by webcast or in person.

ANNUAL MEETING ADMISSION:

To participate and vote at the meeting by webcast, log on to www.virtualshareholdermeeting.com/BHB2021 and enter the 16-digit control number located on your proxy card. If your shares are not registered in your name, for example, if they are held with a broker in "street name," then you are a beneficial owner. Beneficial owners may participate by webcast with their 16-digit control number. Beneficial owners must obtain a legal proxy from their broker, bank or other nominee to vote during the meeting.

In view of the continuing risks associated with the COVID-19 pandemic, we strongly encourage shareholders to participate remotely. If shareholders choose to attend in person, for security reasons, please bring a valid form of photo identification to the Annual Meeting. Beneficial owners will need to also bring appropriate documentation to attend and vote. We may refuse admission to anyone who is not a shareholder of record.

Any shareholder who attends the annual meeting in person will be required to follow social distancing guidelines and wear a mask or cloth face covering in accordance with the requirements of applicable laws, orders and the meeting venue, and may be subject to additional health screening requirements. No masks, face coverings or other personal protective equipment will be provided at the meeting. While we are implementing measures to reduce the risks of COVID-19 transmission at the Annual Meeting, we cannot guarantee your safety due to the nature of the virus.

Additionally, due to the public health risks, if shareholders attend in person in a number that we determine may present a public health risk to the attendees, the Board of Directors reserves the right to adjourn the meeting to a later date.

By Order of the Board of Directors

Kirstie A. Carter

Kirstie A. Carter, Corporate Clerk
April 1, 2021

The deadline for transmitting Internet, telephone, and email voting is up until 11:59 p.m. Eastern Time on May 17, 2021 for shares held directly and by 11:59 p.m. Eastern Time on May 13, 2021 for shares held in a Plan. Please have your proxy card in hand when utilizing these other forms of voting.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to Be Held on May 18, 2021: Our proxy statement and Annual Report are available at *www.barharbor.bank* under our Shareholder Relations section.

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Proxy Summary

PROXY STATEMENT
2021 ANNUAL MEETING OF SHAREHOLDERS

This summary highlights certain information contained elsewhere in this proxy statement. This summary does not contain all of the information you should consider. You should read the entire proxy statement carefully before voting.

ANNUAL MEETING OF SHAREHOLDERS

Time and date: 9:00 a.m., Eastern Time, on Tuesday, May 18, 2021

Record date: **Close of business on March 16, 2021**

Attendance: Shareholders as of the record date may participate in the Annual Meeting:

By Webcast: On the Internet, access *www.virtualshareholdermeeting.com/BHB2021* and enter the 16-digit control number included on your proxy card

In Person: Bar Harbor Bank & Trust
82 Main Street
Bar Harbor, Maine

How to vote: Over the Internet at *www.proxyvote.com*, by telephone at 1-800-690-6903, by webcast or in person at the Annual Meeting, by email at bhb@allianceadvisors.com, or by mail addressed to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717. The deadline for transmitting Internet, telephone, and email voting is up until 11:59 p.m. Eastern Time on May 17, 2021 for shares held directly and by 11:59 p.m. Eastern Time on May 13, 2021 for shares held in a Plan. Please have your proxy card in hand when utilizing these other forms of voting.

Votes Shareholders as of the record date will be entitled to one vote at the Annual Meeting for each outstanding share of common stock

Common stock outstanding as of record date: 14,945,097 shares

VOTING MATTERS

Proposal		Board Voting Recommendation	Page
Item 1. Election of 12 directors	**Board Recommendation for each Director Nominee**	**FOR each nominee**	13
Item 2. Approval, as an advisory vote, of our 2020 executive compensation ("Say on Pay")	**Board Recommendation**	**FOR**	47
Item 3. Ratification of the appointment of RSM US LLP as our independent registered public accounting firm for the year ending December 31, 2021	**Board Recommendation**	**FOR**	48

The Notice of Annual Meeting, proxy statement and proxy card were first mailed to our shareholders on or about April 1, 2021.

Shares represented by properly executed proxies, including unmarked proxies, will be voted "**FOR**" each of the director nominees identified in Proposal 1 and "**FOR**" Proposals 2 and 3. Our Board knows of no business other than the matters described in this proxy statement that will be presented at the Annual Meeting. To the extent that matters not known at this time may properly come before the Annual Meeting, absent instructions thereon to the contrary, the enclosed proxy will confer discretionary authority with respect to such other matters. It is the intention of the persons named in the proxy to vote in accordance with the recommendations of the Board.

VOTING PROCEDURES AND METHOD OF COUNTING VOTES

Quorum Requirements

The presence at the Annual Meeting, either in person, by webcast or by proxy, of the holders of not less than a majority of the shares entitled to vote at the Annual Meeting will constitute a quorum. Shareholders who attend the annual meeting may revoke their proxy and vote at the meeting if they choose to do so. If there is no quorum, the holders of a majority of shares present at the Annual Meeting in person, by webcast or represented by proxy may adjourn the Annual Meeting to another date.

Voting Rights

Each share is entitled to cast one vote for each matter to be voted on at the meeting. Cumulative voting is not permitted.

Broker Non-Votes

A broker non-vote occurs when a broker or other nominee holder, such as a bank, submits a proxy representing shares that another person owns. Specifically, that person has not provided voting instructions to the broker or other nominee holder. Brokers who hold their customers' shares in "street name," under the applicable rules of the NYSE American and other self-regulatory organizations of which the brokers are members, may sign and submit proxies for these shares and may vote these shares on routine matters, which typically include the ratification of the appointment of our independent registered public accounting firm.

Votes Required for Election or Approval

Proposal 1: Election of Directors

Each director will be elected by a plurality of the votes cast at the Annual Meeting by shareholders present by webcast, in person or represented by proxy and entitled to vote. This means that individuals who receive the largest number of "**FOR**" votes will be elected as directors. A "withhold" vote will have no effect on the vote. Brokers do not have discretionary authority to vote shares on this proposal and broker non-votes will have no effect on the vote.

Proposal 2: Advisory Approval of 2020 Executive Compensation

The advisory vote to approve our 2020 named executive officers' compensation must be approved by a majority of the votes cast at the Annual Meeting by the shareholders present by webcast, in person or represented by proxy and entitled to vote. Abstentions will have no effect on the outcome of the vote because they do not count as "votes cast". Brokers do not have discretionary authority to vote shares on this proposal and broker non-votes will have no effect on the vote.

Proposal 3: Ratification of 2021 Independent Auditor

The ratification of RSM US LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2021 must be approved by a majority of the votes cast at the Annual Meeting by the shareholders present by webcast, in person or represented by proxy and entitled to vote. Abstentions will have no effect on the outcome of the vote because they do not count as "votes cast". Because this proposal is considered a routine matter, discretionary votes by brokers will be counted.

Participation in Virtual Webcast of Annual Meeting:

In accordance with Maine law which does not allow virtual only shareholder meetings, the Annual Meeting will be held in-person at Bar Harbor Bank & Trust, 82 Main Street, Bar Harbor, Maine. In view of the continuing public health impact of the COVID-19 pandemic and in keeping with the recommendations of the U.S. Centers for Disease Control and Prevention, we strongly encourage shareholders to participate remotely through the virtual webcast and discourage anyone from participating in person due to the potential public health risks involved. Voting without attending the meeting in person has never been easier, with the options to vote via the Internet, email, and telephone being widely available, in addition to mailing in completed and signed proxy cards. If shareholders attend in person in a number that we determine may present a public health risk to the attendees, we reserve the right to adjourn the meeting to a later date. Any shareholder who attends the annual meeting in person will be required to follow social distancing guidelines and wear a mask or cloth face covering in accordance with the requirements of applicable laws, orders and the meeting venue, and may be subject to additional health screening requirements. No masks, face coverings or other personal protective equipment will be provided at the meeting. While we are implementing measures to reduce the risks of COVID-19 transmission at the Annual Meeting, we cannot guarantee your safety due to the nature of the virus.

The live audio webcast of the Annual Meeting will be available for listening by the general public, but participation in the Annual Meeting, including voting shares and submitting questions, will be limited to shareholders. To ensure they can participate, shareholders and proxyholders should visit www.virtualshareholdermeeting.com/BHB2021 and enter the 16-digit control number included on their Notice of Internet Availability of Proxy Materials or proxy card. If you wish to participate in the meeting and your shares are held in street name, you must obtain, from the broker, bank or other organization that holds your shares, the information required, including a 16-digit control number, in order for you to be able to participate in, and vote at, the Annual Meeting.

Shareholders can vote their shares and submit questions via the Internet during the Annual Meeting by accessing the annual meeting website at www.virtualshareholdermeeting.com/BHB2021. We will answer any timely submitted questions on a matter to be voted on at the Annual Meeting before voting is closed on the matter. Following adjournment of the formal business of the Annual Meeting, we will address appropriate general questions from shareholders regarding Bar Harbor Bankshares in the order in which the questions are received. Questions relating to shareholder proposals or Bar Harbor Bankshares may be submitted in the field provided in the web portal at or before the time the questions are to be discussed. All questions received during the Annual Meeting will be presented as submitted, uncensored and unedited, except that we may omit certain personal details for data protection issues and we may edit profanity or other inappropriate language. If we receive substantially similar questions, we will group those questions together and provide a single response to avoid repetition.

Online check-in to the Annual Meeting webcast will begin at 8:45 a.m., Eastern time, and you should allow ample time to log in to the meeting webcast and test your computer audio system.

During online check-in and continuing through the length of the Annual Meeting, we will have technicians standing by to assist you with any technical difficulties you may have accessing the virtual meeting. If you encounter any difficulties accessing the Annual Meeting during the check-in or at meeting time, you should call the technical support number available at www.virtualshareholdermeeting.com/BHB2021.

We have designed our virtual format to enhance, rather than constrain, shareholder access, participation and communication. For example, shareholder will be able to communicate with us during the Annual Meeting so they can ask questions. An audio replay of the Annual Meeting will be made publicly available at https://www.barharbor.bank/shareholder-relations until our 2022 annual meeting of shareholders.

This audio replay will include each shareholder question addressed during the Annual Meeting. The virtual webcast platform is expected to accommodate most, if not all, shareholders. We will test the platform technology before going ''live'' for the Annual Meeting webcast.

Environmental and Social Governance

Our Environmental, Social and Governance (ESG) practices embody our commitment to the people and places we serve. Through these principled business practices, we remain committed and connected to our recognized corporate culture of positively impacting society.

In early 2021, we published our initial Environmental, Social, and Governance Report which highlights our progress on a variety of ESG topics and is aligned with GRI and SASB frameworks. This Report will guide our strategies and reporting as we move forward on our ESG journey. Following the core values that drive our culture, actions, and behaviors, actions both in and outside of the workplace are fundamental in everything we do. This sets us apart and allows us to achieve our goals to generate a consistent value for our customers, employees, communities and shareholders. Our 2021 Environmental, Social and Governance Report can be found at www.barharbor.bank/esgreport2021.

Our Employees

We strive to create and maintain an employment environment that attracts and rewards the best talent available, encouraging diversity in hiring practices in the communities in which we do business. We provide competitive compensation and benefits to our employees and we offer opportunities through training and development. We are committed to maintaining a workplace where all employees feel valued for their contributions and fully engaged with our business. We believe that a workforce bringing together diverse perspectives, ideas and experiences based on competencies leads to stronger financial performance and retention of the best talent.

Our Communities

Our strong commitment to our communities is underscored in our brand promise:

> Bar Harbor Bank & Trust is a true community Bank. We recognize, appreciate, and support the unique people and culture in the places we call home.

We share these commitments during the onboarding experience for our new employees and through volunteer opportunities in the communities we serve. In addition to many volunteer hours dedicated, we proudly promote a higher quality of life in the communities we serve and encourage our employees to participate in a charitable fund distributed throughout our region. We also support our employees volunteering their time and talents in the communities where they live and work. We provide paid time off to specifically serve in the community. This community involvement is part of our required brand behaviors and as such is incorporated into our annual performance reviews.

Environmental Sustainability

We are committed to pursuing initiatives that are smart for our business and good for the environment. We have continually focused on meaningful initiatives that are aligned with our business goals to help reduce our environmental impact, drive operational cost reductions and demonstrate our ongoing commitment to environmental sustainability. Some of our key initiatives include increasing energy efficiency, reducing carbon waste, recycling, and reduction in paper usage and storage.

Governance

We are committed to assuring and maintaining transparent governance through best board governance practices, which are subject to continuous review as such practices evolve. We maintain strong risk oversight in management and at the Board level. We have ongoing dialogue with our shareholders, regulators, customers and employees. Our Board embodies diversity, inclusion and mutual respect with a wide variety of business expertise.

We believe operating our business responsibly and ethically puts us in a position to address the interests of our stakeholders while also creating long-term value for our shareholders. We remain focused on continuing to advance these programs and making a positive, sustainable impact on the communities in which we live and conduct our business.

Corporate Governance

Board Committees

We are committed to objective, independent leadership for our Board and each of its committees. Our Board believes active, objective and independent oversight of management is central to:

- effective Board governance,
- serving the best interests of our company and our shareholders
- executing our strategic objectives
- creating long-term shareholder value

Our Board has adopted rigorous governance practices and procedures focused on our corporate growth in accordance with the Investor Stewardship Group's Corporate Governance Principles for U.S. Listed Companies. In addition, to maintain and enhance its independent oversight, our Board has implemented measures to further enrich Board composition, leadership and effectiveness. These measures align our corporate governance structure with achieving our strategic objectives and enable our Board to effectively communicate and oversee our culture of compliance and in-depth risk management. Our Board frequently discusses business and other matters with the senior management team, as well as principal advisors such as our legal counsel, auditors, consultants and financial advisors.

Board Leadership Structure

The position of Chairman of the Board is held by David Woodside. Curtis Simard serves as President and Chief Executive Officer. This leadership structure allows Mr. Simard to focus on our operations and business strategy, while Mr. Woodside provides independent leadership for the Board together with an appropriate level of management oversight, sets the agenda for meetings, and enables other directors to raise issues and concerns for Board consideration.

The Board leadership structure is guided by our Governance Committee which nominates individuals to serve as members of the Board, including management directors. The Governance Committee is keenly focused on the character, integrity, diversity and qualifications of the Board's members, as well as the Board's leadership structure and composition. The Board has concluded that our current leadership structure is appropriate at this time but will continue to periodically review its leadership structure and may make such changes in the future as it deems appropriate.

All director-nominees are considered "independent directors" under the corporate governance standards set forth in the NYSE American Company Guide or the NYSE American Rules, except for Mr. Simard, our President and Chief Executive Officer. The Chairman of the Board is considered an "independent director." Mr. Simard does not serve as a Chair of any Board committee, nor is he a member of the Audit, Compensation and Human Resources, or Governance Committee. Our Governance Committee nominates an independent director to serve in the Chairman's role for election by the entire Board. The independent directors meet regularly, as they deem appropriate, in executive session immediately after Board meetings to help ensure Board independence and oversight of organizational activities.

Our Audit Committee meets quarterly and receives reports from our independent registered public accounting firm, the independent loan review consultants, and the internal audit function of Bar Harbor Bankshares. Our internal auditor conducts an annual risk-based audit program and provides audit findings quarterly to the Audit Committee.

Role of the Chairman

Mr. Woodside, as the Chairman of the Board, presides over the meetings of the Board and performs duties as may be assigned to him including:

- Presiding at all meetings of the Board, including all executive sessions of the independent directors
- Serving as principal liaison between the President and Chief Executive Officer and the independent directors
- Approving agendas for board meetings
- Approving information to be presented to the Board
- Approving the schedule of meetings of the Board to ensure there is sufficient time for discussion of agenda items
- Calling meetings of the entire Board or the independent directors as needed
- Participating in consultations and direct communications with major shareholders and their representatives

Risk Oversight

Our Board recognizes the importance of maintaining the trust and confidence of our customers, clients and employees. Specifically independent of oversight of key risks facing our company, including the impact of the COVID-19 pandemic, the Board devotes significant time and attention to data and systems protection, including cybersecurity and information security risks. Our Board monitors and manages risks through the activities of select Board committees and in conjunction with our management, internal audit, our independent registered public accounting firm, and other specialized independent advisors. Specialized audits include Information Technology and Security, Bank Secrecy Act, Loan Review, and Trust Operations. The Board regularly discusses risk management with senior management.

Board Risk Committee

The Board Risk Committee is composed of the following directors: Matthew Caras, Lauri Fernald, Brendan O'Halloran, Curtis Simard, Kenneth Smith, Stephen Theroux, Scott Toothaker, and David Woodside. Mr. Caras serves as Chair. Committee members are appointed by the Board and oversees the risk governance structure.

Key responsibilities include, but is not limited to, internal controls over financial reporting, credit risk, interest rate risk, liquidity risk, operational risk, data and cybersecurity risk, compensation risk, reputational risk, and compliance risk.

The Board Risk Committee meets at least monthly and receives regular presentations and reports throughout the year on data, cybersecurity and information security risk from management. These presentations and reports address a broad range of topics including updates on technology trends, regulatory developments, legal issues, policies and practices, the threat of environment and vulnerability assessments, and specific and ongoing efforts to prevent, detect, and respond to internal and external critical threats.

In addition, the Board Risk Committee reviews and discusses on a quarterly basis Bar Harbor Bank and Trust's bank-wide risk assessment. The resulting risk assessment is aggregated, shared and discussed with the Board at least annually. In addition to monthly Board reports, our Board receives real-time reports from our Chief Risk Officer on key developments across the industry, as well as specific information about peers, vendors, and other significant incidents. In 2020, the Committee held a total of 12 meetings. Our information security programs enable us to monitor and promptly respond to threats and incidents, and innovate and adopt new technologies, as appropriate. The Board Risk Committee shares the Company's goal that each employee be responsible for information security, data security, and proven cybersecurity practices.

The Board Risk Committee also sets loan policy, establishes credit authorities, and approves or ratifies all extensions of credit to borrowers with loan relationships over $5 million, and regularly reviews credit trends, delinquencies, non-performing loans, charged-off loans, and management's quarterly assessment of the adequacy of the Loan Loss reserve. The Board Risk Committee, in conjunction with the Audit Committee, reviews reports prepared by an independent loan review firm, as well as those issued by our Internal Audit to assist in their on-going assessment of credit risk.

Compensation and Human Resources Committee

Our Compensation and Human Resources Committee manages executive officer and director compensation, including incentive compensation risk. This Committee has engaged Pearl Meyer & Partners, LLC or "Pearl Meyer," an independent compensation consultant, to provide competitive market data and research into compensation best practices to guide the decisions of the Committee. The Committee reviews compensation matters with the assistance of our Board Risk Committee. These results are reviewed by the Board to ensure incentive plans for executive management and other officers discourage excessive risk-taking.

Board Committees

Our Board has five standing committees—Executive, Audit, Compensation and Human Resources, Governance, and Board Risk. Charters describing the responsibilities of the Audit, Compensation and Human Resources, and Governance Committees can be found on our website at *www.barharbor.bank* under the Shareholder Relations page. The Board Risk Committee is discussed on page 6.

Our Board committees regularly make recommendations and report on their activities to the full Board. Each committee may obtain advice from internal or external financial, legal, accounting, or other advisors at their discretion. Our Board, considering the recommendations of our Governance Committee, reviews our committee charters and committee membership at least annually. The duties of our Board committees are summarized below.

Executive
Key Responsibilities

- Exercises all the powers of the Board relating to the ordinary operations of business when the Board is not in session, subject to any specific vote of the Board
- Appointed by the Board after the Annual Meeting of Shareholders

Members: Matthew Caras, Martha Dudman, Lauri Fernald, Curtis Simard, Kenneth Smith, Scott Toothaker and David Woodside (Chair)

2020 Meetings: 2

Audit
Key Responsibilities

- Oversees qualifications, appointment, performance, compensation, and independence of our independent registered public accounting firm
- Assists the Board in fulfilling its oversight responsibilities with respect to 1) the financial information to be provided to shareholders and the Securities and Exchange Commission or SEC; 2) the review of quarterly financial statements; 3) the system of financial reporting controls management as established; and 4) the internal audit, external audit, and loan review processes
- Oversees compliance with legal and regulatory requirements
- Makes inquiries of management to assess the scope and resources necessary for the corporate audit function to execute its responsibilities

Independence/Qualifications

- All committee members are independent under the NYSE American listing requirements and Rule 10A-3(b)(1) under the Securities Exchange Act of 1934 or Exchange Act
- All committee members are financially literate in accordance with the NYSE American listing standards
- All committee members are qualified as Audit Committee financial experts under SEC rules

Members: Daina Belair, David Colter, Steven Dimick, Brendan O'Halloran and Scott Toothaker (Chair)

2020 Meetings: 4

See Appendix A for the Report of the Audit Committee.

Compensation and Human Resources
Key Responsibilities

- Oversees establishing, maintaining, and administering all compensation programs and employee benefit plans
- Approves and recommends the CEO's compensation to the Board for further approval by all independent directors, and reviews and approves all other executive officer compensation
- Recommends director compensation for Board approval
- Reviews and approves the terms of any employment agreements, severance agreements, change in control protections and any other compensatory arrangements for the CEO, officers and other senior management
- Reviews human capital management practices
- Prepares and reviews its report on executive compensation to be included in our proxy statement or annual report

Independence/Qualifications

- All committee members are independent under the NYSE American listing standards
- Heightened independence requirements (same as those applicable to Audit Committee members under SEC rules)

Members: Matthew Caras, David Colter, Martha Dudman, Lauri Fernald, Kenneth Smith (Chair) and David Woodside

2020 Meetings: 6

Further information regarding the Compensation and Human Resources Committee can be found in this proxy statement beginning under the caption "Role of the Compensation and Human Resources Committee" on page 31.

Governance
Key Responsibilities

- Oversees the Board's governance processes
- Screens director candidates, recommending nominees to the full Board (including the slate of returning directors) to be elected each year
- Identifies and reviews the qualifications of potential Board members; recommends nominees for election to the Board
- Recommends the size and composition of the Board
- Recommends committee structure and membership
- Sponsors new director orientation and education
- Reviews and assesses shareholder input and our shareholder engagement process

Independence/Qualifications

- All committee members are independent under the NYSE American listing standards

Members: Daina Belair, Matthew Caras, Steven Dimick, Lauri Fernald (Chair) and David Woodside

2020 Meetings: 4

Board Risk
Key Responsibilities

- Oversees risk governance structure
- Reviews risk management, risk assessment guidelines, policies regarding market, credit, operational, liquidity, funding, reputational, compliance
- Reviews enterprise risk, as well as other risks as necessary to fulfill the Committee's oversight duties and responsibilities

Independence/Qualifications

- All committee members are independent under the NYSE American listing standards

- Reviews risk appetite and tolerance
- Oversees capital, liquidity, and funding in coordination with the Asset/Liability Management Committee of our subsidiary, Bar Harbor Bank & Trust which we refer to as the Bank or BHBT

Members: Matthew Caras (Chair), Lauri Fernald, Brendan O'Halloran, Curtis Simard, Kenneth Smith, Stephen Theroux, Scott Toothaker, and David Woodside

2020 Meetings: 12

Further information regarding the Board Risk Committee can be found in this proxy statement beginning under the caption "Board Risk Committee" on page 6

Compensation and Human Resources Committee Interlocks and Insider Participation

None of our Named Executive Officers or NEOs (see listing on Page 30) serves as a member of a Compensation and Human Resources Committee of any other company that has an executive officer serving as a member of our Board. No NEO serves as a member of the board of directors of any other company that has an executive officer serving as a member of our Compensation and Human Resources Committee.

Board Risk Committee

Risk assessment and risk management are the responsibility of our company's senior management team. The Board Risk Committee is responsible for oversight and review. Oversight is, in part, conducted through the established Enterprise Risk Management Program and is administered by the Bank's Chief Risk Officer, Richard B. Maltz. As part of the Enterprise Risk Management Program, information from the BHBT's business lines is regularly collected and analyzed to identify, monitor, track, and report various risks within the company.

Other Risk Oversight Committees

To assist our Board in fulfilling its risk management responsibilities, a network of management oversight committees has been established. These oversight committees have the delegated authority and specific duties to execute our risk management policy. Specifically, the committees listed below are responsible for the ongoing identification, measurement, monitoring, and management of risk.

- Enterprise Risk Management Committee is responsible for reviewing and recommending for approval risk mitigation strategies, risk acceptance, as well as ongoing assessment of the adequacy and effectiveness of internal controls, and oversight of any risk mitigation plans. This committee ensures our company has an appropriate balance between business development objectives, risk tolerances, cost of internal control, operational efficiency, regulatory requirements and customer experiences.
- Management Loan Committee oversees the management of credit risk related to the lending portfolio of the Bank and associated activities, including credit quality, loan production, credit delivery activities, credit policies, problem loan management, and the collection processes. This committee meets regularly and can approve aggregate loan exposure for borrowers up to $5 million.
- Information Technology & Operations Steering Committee is responsible for developing and implementing our technology and operations strategies. This committee manages the implementation of operational risk management practices, including the development of internal policies, procedures and risk tolerance guidelines, assures the quality and performance of the Bank's project management practices, and ensures the organization's operational objectives are achieved in a safe and sound manner.
- Asset Liability Management Committee is responsible for the management of interest rate risk, liquidity risk, market risk, and capital adequacy levels, as well as developing strategies governing the effective management of our balance sheet and income statement.

We believe our risk management activities and detailed reports provide clear and concise information to our senior management team, as well as the Board to adequately evaluate compliance with our risk management programs and policies.

Governance Procedures and Related Matters

Code of Conduct and Business Ethics

Our Code of Conduct and Business Ethics or the Code of Conduct applies to all our directors, executive officers, employees, contractors and consultants, and articulates our philosophy regarding ethical conduct in the workplace. The Code of Conduct establishes standards for behavior, including standards with respect to compliance with laws and regulations, actual or potential conflicts of interest, fairness, insider trading, use of our customers' information, and public and financial disclosure.

Our Code of Conduct also provides clear guidance on reporting concerns or offenses. Also, we have adopted a Code of Ethics for Senior Financial Officers that supplements the more general Code of Conduct and conforms to the requirements of the Sarbanes-Oxley Act of 2002 and NYSE American listing standards.

Any substantive changes in or waivers of the Code of Conduct granted to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, must be disclosed within four business days by a posting on our website. In the case of a waiver of our Code of Conduct for any executive officer or director, the required disclosure also will be made available on our website within four business days of the date of such waiver. The Company's corporate governance guidelines including Code of Conduct and Code of Ethics are available on our website at *https://www.barharbor.bank/codes-and-charters*.

Securities and Insider Trading Policy

We maintain a Securities and Insider Trading Policy that applies to all our directors, executive officers, employees, contractors and consultants. The policy is designed to prevent insider trading, or even the appearance of insider trading, and to protect our reputation, integrity and ethical conduct. A copy of policy is available on our website at *https://www.barharbor.bank/codes-and-charters*.

Prohibition on Hedging

Our Securities and Insider Trading Policy prohibits directors, executive officers, employees, contractors and consultants from engaging in any hedging activity involving our securities.

Board Independence and Qualifications

Under NYSE American corporate governance standards, a majority of the Board must be ''independent directors'' as defined in Section 803A of the NYSE American Rules. According to Section 803A, ''independent director'' means a person other than an executive officer or employee of our company. In addition, for a director to qualify as ''independent,'' the Board must affirmatively determine that the director does not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. The Board has determined that all the director-nominees listed in this proxy statement meet the applicable independence standards except for Curtis Simard, our President and Chief Executive Officer. Mr. Simard is not a member of the Audit, Compensation and Human Resources, or Governance Committee.

As noted, the Governance Committee identifies nominees to serve as directors primarily by accepting and considering the suggestions and nominee recommendations made by directors, management and shareholders. To date, the Governance Committee has not engaged any third parties to assist in identifying candidates for the Board. The Governance Committee considers a potential candidate's background, business and professional experience, demonstrated business acumen (including any requisite financial expertise or other special qualifications), ethical character, current employment, the ability to exercise sound business judgment, and a commitment to understand our company, our business and the industry in which we operate.

In addition, the Governance Committee considers a candidate's experience at a regulated financial institution and whether a candidate has sufficient time to devote to the responsibilities of being a director, their community service or other board service, as well as the racial, ethnic, and gender diversity of the Board. Candidates are subject to a background check and must be clear of any judgments or sanctions. The Governance Committee generally considers a candidate's qualifications with respect to these broad criteria and assesses whether the candidate can make decisions on behalf of or while representing us in a manner consistent with our stated business goals and objectives.

The Governance Committee will also consider the candidate's ''independent'' status in accordance with applicable regulations and listing standards. The Governance Committee will consider nominees recommended by shareholders. Any shareholder wishing to nominate a candidate for director must follow the procedures for submission of proposals set forth in the section of this proxy statement entitled ''Nominations by Shareholders and Other Shareholder Proposals.''

Director Tenure

Each elected director serves until the next succeeding annual meeting and until his or her successor is elected or qualified or until his or her earlier resignation or removal from office. The Board has not established limits on the number of terms that may be served by a director. However, our Bylaws provide that directors will not be nominated for election or re-election after their seventy-second birthday except that the full Board may nominate candidates over 72 years of age for election or re-election for a single annual term for special circumstances as determined by the Board to be for the benefit of shareholders. We believe our best interests are served when the Board is represented by individuals who have developed, over time, valuable insight into our operations, businesses, as well as a profound understanding of our core values and goals toward community growth and prosperity.

Bar Harbor Trust Services and Charter Trust Company Committees

Our company, indirectly through BHBT, has two additional wholly-owned subsidiaries—Bar Harbor Trust Services, or BHTS, and Charter Trust Company, or CTC. BHTS and CTC have separate committees. These committees have identical memberships and are composed of: Daina Belair, Martha Dudman, Curtis Simard, Kenneth Smith and Stephen Theroux. These directors oversee both subsidiaries. Ms. Dudman serves as the Chair for both Committees. The BHTS and CTC committees provide oversight for these two entities that offer trust and wealth management services to clients.

CEO and Senior Management Succession Planning

Our Board oversees CEO and senior executive management succession planning which is formally reviewed at least annually. Our CEO and our Human Resources Officer provide our Board with recommendations and evaluations of potential CEO successors and review their development progress. Our Board reviews potential internal senior executive management candidates with our President and CEO and our Human Resources Officer, including the qualifications, experience, and development priorities for these individuals. Directors engage with potential candidates at Board and committee meetings and in less formal settings to allow directors to personally assess their qualifications.

Further, our Board periodically reviews the overall composition of our senior management's qualifications, tenure, and experience. Our Board also establishes steps to address emergency succession planning in extraordinary circumstances. Our emergency succession planning is intended to enable us to respond to unexpected position vacancies, including those resulting from a major catastrophe, by continuing our safe and sound operation and minimizing potential disruption or loss of continuity to our organization's business and operations.

Board Meetings, Committee Membership, and Attendance

In 2020 our Board held ten regular meetings, one strategic planning meeting, our quarterly measurement against strategic objectives meetings, and one annual meeting. Directors are expected to attend our Annual Meetings of shareholders, our Board meetings and the meetings of committees of which they are members. Each of our directors attended at least 99.7% of the total number of meetings of our Board and each of the committees on which they served during 2020. In addition, all the directors serving on our Board at the time of our 2020 Annual Meeting attended the meeting.

Identifying and Evaluating Director Candidates

Board Composition

Our Board oversees the business and affairs of our organization. Our Board provides active and independent oversight of management. To carry out Board responsibilities, we seek candidates with:

- Strong business judgment
- High personal integrity
- Demonstrated achievement in public or private companies
- Proven leadership and management ability
- Dedicated—able to devote necessary time to oversight
- Free of potential conflicts of interests
- Collegial manner

Our Board seeks directors whose complementary knowledge, experience, and skills provide a broad range of perspectives and leadership expertise in financial services and other highly complex and regulated industries, strategic planning and business development, business operations, marketing and distribution, technology/cybersecurity, risk management and financial controls, human capital management, corporate governance, public policy, and other areas important to our business strategy and oversight. Our Board also assesses directors' age and tenure, and Board continuity; it strives to achieve a balance between the perspectives of new directors and those of longer-serving directors with industry and institutional insights.

Board Diversity

Although we do not maintain a formal diversity policy our Board views diversity as a priority and seeks representation across a range of attributes, including gender, race, ethnicity, and professional experience. It regularly assesses our Board's diversity when identifying and evaluating director candidates. In addition, our Board seeks to include members who are independent, possess financial literacy and expertise, and an understanding of risk management principles, policies, and practices, and have experience in identifying, assessing, and managing risk exposures. Our current Board, composed of the 12 director nominees, reflects the Board's commitment to identifying, evaluating, and nominating candidates who possess personal qualities, qualifications, skills, and diversity of backgrounds, and provide a mix of tenures that, when taken together, best serve our company and our shareholders.

Shareholder Engagement

Our Board and management regularly engage with our shareholders to solicit their views and input on company performance, corporate governance, environmental, social and governance and other topics of interest to shareholders, such as human capital management, and executive compensation matters. These meetings may include participation by our Chairman, President and Chief Executive Officer, Chief Financial Officer, or other senior management members, and they generally focus on our performance, strategy, and business development. The combination of information received in investor meetings and shareholder engagement meetings regularly provides the Board and management with insights into the comprehensive scope of topics important to our shareholders.

Additional Corporate Governance Information

More information about our corporate governance can be found on our website at *www.barharbor.bank*. Shareholders may also obtain copies of this proxy statement, free of charge, as well as our other corporate filings at our website.

Beneficial Ownership of Common Stock

The following table sets forth information regarding the beneficial ownership of our common stock as of March 16, 2021 by: 1) each person or entity known by us to own beneficially more than 5% of the outstanding common stock calculated on the number of shares outstanding on March 16, 2021; 2) each current director and nominee for election to the Board; 3) each NEO; and 4) all executive officers and directors as a group. We had 14,945,097 shares of common stock, net of treasury shares, outstanding as of March 16, 2021. Unless otherwise indicated, the address of all individuals listed below is 82 Main Street, PO Box 400, Bar Harbor, Maine, 04609.

The information provided is based on our records and information furnished by the persons listed. We are not aware of any arrangement that could at a subsequent date result in a change in control of our company.

The number of shares beneficially owned by the persons set forth below is determined under the rules of Section 13 of the Exchange Act, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rules, an individual is considered to beneficially own any shares of common stock if he or she directly or indirectly has or shares, or has the right within 60 days to directly or indirectly have or share 1) voting power, which includes the power to vote or to direct the voting of the shares; or 2) investment power, which includes the power to dispose or direct the disposition of shares.

NAME OF BENEFICIAL OWNERS	TITLE OF CLASS	AMOUNT OF BENEFICIAL OWNERSHIP	FOOTNOTES	PERCENT OF CLASS[1]
5% or more beneficial owners				
BlackRock, Inc.		1,156,712	2	7.74%
The Vanguard Group		778,159	3	5.21%
DIRECTORS				
Belair, Daina H.	Common	5,458		*
Caras, Matthew L.	Common	13,447		*
Colter, David M.	Common	5,656	4	*
Dimick, Steven H.	Common	8,158		*
Dudman, Martha T.	Common	16,666		*
Fernald, Lauri E.	Common	12,300		*
O'Halloran, Brendan J.	Common	6,457		*
Simard, Curtis C.	Common	56,397	9	*
Smith, Kenneth E.	Common	17,157	5	*
Theroux, Stephen R.	Common	63,115	6	*
Toothaker, Scott G.	Common	36,677	7	*
Woodside, David B.	Common	16,567	8	*
NAMED EXECUTIVE OFFICERS				
Iannelli, Josephine	Common	15,039	9	*
Maltz, Richard B.	Common	22,024	9	*
Colombo, Marion	Common	7,283	9	*
Mercier, John M.	Common	6,586	9	*
All directors and executive officers as a group (16 persons)		308,987	10	2.07%

1. Unless otherwise indicated, an individual has sole voting power and sole investment power with respect to the indicated shares. All individual holdings amounting to less than 1% of issued and outstanding common stock are marked with an (*).
2. BlackRock, Inc, holdings are disclosed based on their ownership as of December 31, 2020 as filed on Form Schedule 13G on January 29, 2021. The address of BlackRock, Inc. is 55 East 52nd Street, New York, NY 10055.
3. The Vanguard Group holding are disclosures based on their ownership as of December 31, 2020 as filed on Form Schedule 13G on February 10, 2021. The address of The Vanguard Group is 100 Vanguard Blvd., Malvern, PA 19355.
4. Includes 30 shares owned by Mr. Colter's children registered in a custodial account.
5. Includes 3,861 shares over which voting and dispositive powers are shared jointly with Mr. Smith's spouse.
6. Includes 24,844 shares over which voting and dispositive powers are shared jointly with Mr. Theroux's spouse. This number does not include 24,000 shares held within a Supplemental Executive Retirement Plan for which Mr. Theroux does not have voting or dispositive powers.
7. Includes 4,500 shares over which voting and dispositive powers are shared with Mr. Toothaker's spouse.
8. Includes 3,443 shares over which voting and dispositive powers are shared jointly with Mr. Woodside's spouse. This also includes 1,500 shares owned by Mr. Woodside's spouse over which he does not have voting or dispositive powers.
9. The table below includes (a) shares the NEOs own directly, (b) shares over which NEOs have voting power of fully vested shares under our 401(k) Plan, (c) time-vested and performance shares (disclosed at Target) scheduled to be issued to the executives within 60 days of the March 16, 2021 record date under the long-term incentive plans. These ownership positions are set forth in the table below:

NAME	DIRECT (a)	401(k) PLAN (b)	LONG TERM INCENTIVE EQUITY (c)
Curtis C. Simard	49,333	1,090	5,975
Josephine Iannelli	12,151	—	2,888
Richard B. Maltz	19,136	—	2,888
Marion Colombo	4,879	—	1,707
John M. Mercier	5,494	—	1,789

10. Total beneficial ownership excludes 5,500 (.0004%) shares of common stock as of the March 16, 2021 record date held by two trusts, which, for the purpose of voting, are allocated equally among the directors present at the Annual Meeting under the terms of the respective trust instruments. No director has any other beneficial interest in these shares. These trusts are denominated for purposes of this proxy statement as the "Parker Trust "and the "The Fred & Hattie Lynam Private Foundation" formerly known as the Lynam Trust. The Parker Trust was established in 1955 in perpetuity. BHTS, our second tier non-depository trust services company located in Ellsworth, Maine, is the sole Trustee, with full powers, of this trust benefiting the Mt. Heights Cemetery in Southwest Harbor, Maine. The Fred & Hattie Lynam Private Foundation, was established in 1942 in perpetuity to benefit Mount Desert Island charities and later expanded to provide scholarships to graduates of Mount Desert Island High School. BHTS is the sole Trustee, with full powers, and administers the trust with the assistance of an established Grant and Scholarship Committee made up of members of the Board and community representatives.

Proposal 1
Election of Directors

Directors and Nominees

At the Annual Meeting, shareholders will elect the entire Board of Directors to serve for the ensuing year and until their successors are elected and qualified. The Board has designated as nominees for election the 12 persons named below, each of whom currently serves as a director. Each director nominee has consented to being named in this proxy statement and to serving as a director if elected.

Listed are each nominee's name, age as of our Annual Meeting date, tenure of Board service, committee memberships, principal occupation, business experience, Board Committee positions, and positions with our subsidiaries consisting of BHBT and CTC. We also discuss the qualifications, attributes, and skills that led our Board to nominate each director for election. The terms of all current directors expire at the 2022 Annual Meeting.

NAME	AGE	YEAR FIRST ELECTED OR APPOINTED DIRECTOR	POSITION(S) WITH OUR COMPANY	POSITION(S) WITH OUR SUBSIDIARIES
Daina H. Belair	65	2015	Director	Director, BHBT since 2015 Director, BHTS since 2015 Director, CTC since 2017
Matthew L. Caras	64	2014	Director	Director, BHBT since 2014
David M. Colter	53	2016	Director	Director, BHBT since 2016
Steven H. Dimick	70	2017	Director	Director, BHBT since 2017
Martha T. Dudman	69	2003	Director	Director, BHBT since 2003 Chairman, BHTS since 2005 Director, BHTS since 2003 Chairman, CTC since 2017 Director, CTC since 2017
Lauri E. Fernald	59	2005	Director	Director, BHBT since 2005
Brendan J. O'Halloran	58	2018	Director	Director, BHBT since 2018
Curtis C. Simard	50	2013	Director, President and CEO since August 2013	President and CEO of BHBT since 2013 Director, BHBT since 2013 Director, BHTS since 2013 Director, CTC since 2017
Kenneth E. Smith	67	2004	Director	Director, BHBT since 2004 Director, BHTS from 2004 - 2013 and 2015 to present Director, CTC since 2017
Stephen R. Theroux	71	2017	Director	Director, BHBT since 2017 Director, CTC since 2017
Scott G. Toothaker	58	2003	Director	Director, BHBT since 2003
David B. Woodside	69	2003	Director	Director, BHBT since 2003 Chairman of the Board since 2016

NUMBER OF BOARD AND COMMITTEE MEETINGS HELD IN 2020					
BOARD	EXECUTIVE	AUDIT	COMPENSATION & HUMAN RESOURCES	GOVERNANCE	BOARD RISK
10	2	4	6	4	12

Note: In addition to the number of formal meetings reflected above, from time to time our Board and/or its committees also held educational and/or informational sessions.

Our Board has determined that all but one of the director nominees are "independent directors" in accordance with applicable laws, regulations, and NYSE American LLC listing requirements. The exception is director nominee Curtis C. Simard, who currently serves as our President and Chief Executive Officer. Mr. Simard is not a member of the Audit, Compensation and Human Resources, or Governance Committees.

The Board selected our 12 director nominees based on their satisfaction of the core attributes described starting on page 10, and the belief that each can make substantial contributions to our Board and company. Our Board believes our nominees' breadth of experience and their mix of attributes strengthen our Board's independent leadership and effective oversight of management relating to our businesses, our industry's operating environment, and our long-term strategy. Our 12 director nominees:

- are seasoned leaders who have held diverse leadership positions in complex, highly regulated businesses (including banks and other financial services organizations)
- have served as chief executives or other senior positions in the areas of finance, legal, public relations, marketing and customer service
- bring deep and diverse experience in public and private companies, financial services, the public sector, nonprofit organizations, and other domestic and international businesses
- are experienced in regulated, non-financial services industries and organizations, adding to our Board's understanding of overseeing a business subject to governmental oversight, and enhancing the diversity of our Board with valuable insights and fresh perspectives that complement those of our directors with specific experience in banking or financial services
- represent diverse backgrounds and viewpoints
- strengthen our Board's oversight capabilities by having varied lengths of tenure that provide historical and new perspectives about our company

Stock Ownership Guidelines

Our Bylaws require that each director own a minimum of 500 shares no later than one year following their initial election to the Board. In addition, our Board has implemented a policy requiring each director to own a minimum of five times his or her annual stipend. Ownership must be attained within five years of a director's initial election and may include their 500 qualifying shares.

All current director nominees will exceed or will meet their five-year timeline ownership requirement under this policy for 2020.

Vote Required

Our directors will be elected by a plurality of the votes cast at the Annual Meeting by shareholders present at the meeting or represented by proxy and entitled to vote on the election of directors. Plurality means that the individuals who receive the largest number of "**FOR**" votes will be elected as directors. If you do not vote for a nominee, or you indicate "**WITHHOLD**" for any nominee on your proxy card, your vote will not count "**FOR**" or "**AGAINST**" the nominee. You may not vote your shares cumulatively in the election of directors. Brokers do not have discretionary authority to vote shares on this proposal without direction from the beneficial shareholder. Therefore, broker non-votes will have no effect on the vote.

OUR BOARD UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS VOTE "FOR" THE ELECTION OF EACH OF THE 12 DIRECTOR NOMINEES.

Director Nominees

DAINA H. BELAIR — DIRECTOR SINCE: 2015

AGE: 65

COMMITTEE MEMBERSHIPS:
- AUDIT COMMITTEE
- GOVERNANCE COMMITTEE
- BAR HARBOR TRUST SERVICES COMMITTEE
- CHARTER TRUST COMMITTEE

Since 2008, Ms. Belair has been the owner of the Inn at Sunrise Point located in Lincolnville, Maine. She is a retired attorney specializing in the field of banking and financial services. Before relocating to Maine, she was employed as General Counsel and Managing Director of U.S. Trust Corporation, U.S. Trust Company of New York and U.S. Trust Company N.A. from May 2002 through October 2006. Prior to her time at U. S. Trust, she served as Vice President and a senior and division general counsel at Citibank N.A. from 1987 to 2002 including in its Emerging Markets and its Private Banking Division. Ms. Belair resides in Lincolnville, Maine.

Professional and Leadership Highlights:

- Significant Banking and Wealth Management experience
- Serves as a Director of Home Counselors Inc., a private not-for-profit organization
- Member of the Lincolnville Business Group
- Member of the Belfast Chamber of Commerce
- Served on the Town of Lincolnville Budget Committee
- Served as Director and Treasurer of the Penobscot Bay Chamber of Commerce

Mrs. Belair's legal background in the financial services industry and hospitality experience provides valuable guidance to the Board.

MATTHEW L. CARAS, JD — DIRECTOR SINCE: 2014

AGE: 64

COMMITTEE MEMBERSHIPS:
- EXECUTIVE COMMITTEE
- COMPENSATION AND HUMAN RESOURCES COMMITTEE
- GOVERNANCE COMMITTEE
- BOARD RISK COMMITTEE (CHAIR)

An attorney and member of the Maine Bar, Mr. Caras is a founder and principal of Leaders LLC, a mergers and acquisitions advisory services firm representing public, private, and family-owned businesses in a broad range of industries throughout the United States and globally. Mr. Caras is also a mediator and neutral negotiation facilitator who has conducted over 150 mediation sessions and facilitated transactions as a neutral party. Mr. Caras resides in Arrowsic, Maine.

Professional and Leadership Highlights:

- Serves on the Arrowsic, Maine Planning Board
- Former partner, department chair, and member of the executive committee of Verrill Dana LLP, a full-service law firm with over 130 attorneys and offices in Portland, Maine; Boston, Massachusetts; Westport, Connecticut; and Washington, DC

Mr. Caras' legal expertise in commercial transactions, as well as his business knowledge of the many industries with which we conduct business is invaluable to the Board with our growing customer service area throughout Northern New England.

DAVID M. COLTER — DIRECTOR SINCE: 2016

AGE: 53

COMMITTEE MEMBERSHIPS:
- AUDIT COMMITTEE
- COMPENSATION AND HUMAN RESOURCES COMMITTEE

Mr. Colter serves as President and Chief Executive Officer of GAC Chemical Corporation in Searsport, Maine. GAC manufactures and distributes industrial, specialty, and fine inorganic and organic chemicals. Prior to joining GAC and moving to Maine, he worked for Ernst & Young in Ohio in their Financial Institutions Group. Mr. Colter resides in Hampden, Maine.

Professional and Leadership Highlights:

- Board member, Maine State Chamber of Commerce
- Executive Committee Chair and Audit Committee, member of University of Maine Pulp and Paper Foundation
- Holds Certified Public Accountant and Chartered Global Management Accountant designations
- Former member of the Board, Executive Committee and Treasurer for the Ronald McDonald House, NW Ohio
- Former District Chairman, Waldo District, Boy Scouts of America

Mr. Colter's experience as the principal executive officer of a manufacturing company, as well as his educational and professional credentials, bring essential qualifications and skills to the Board.

STEVEN H. DIMICK — DIRECTOR SINCE: 2017

AGE: 70

COMMITTEE MEMBERSHIPS:
- AUDIT COMMITTEE
- GOVERNANCE COMMITTEE

Mr. Dimick joined our Board in January 2017. He previously served as a director of Lake Sunapee Bank since November 2013. His career has included serving as a member of the Randolph National Bank Board of Directors from 1981-2013 and as a Director/President/CEO at Central Financial Corporation. Mr. Dimick resides in Randolph, Vermont.

Professional and Leadership Highlights:

- Substantial banking experience in New England, including at the executive and board levels
- Served as President of the Vermont Chapter of the Bank Administration Institute
- Former member of the National Board of Directors of the Independent Community Bankers of America representing Vermont
- Served as the Chairman of the Vermont Bankers Association
- Former Trustee of Gifford Medical Center

Mr. Dimick's substantial experience as an executive officer and bank director will greatly contribute to the Board's leadership capabilities and strength in overseeing and guiding the Bank.

MARTHA T. DUDMAN — DIRECTOR SINCE: 2003

AGE: 69

COMMITTEE MEMBERSHIPS:
- EXECUTIVE COMMITTEE
- COMPENSATION AND HUMAN RESOURCES COMMITTEE
- BAR HARBOR TRUST SERVICES COMMITTEE (CHAIR)
- CHARTER TRUST COMMITTEE (CHAIR)

Ms. Dudman has served as the President of Dudman Communications Corporation, operating a group of radio stations in Ellsworth and Bangor, Maine. She currently serves as Senior Counsel with Gary Friedmann & Associates since 2011, and held the same position from 1999 to 2006, providing fundraising consulting services to nonprofits throughout the State of Maine. Ms. Dudman is also a published author. Ms. Dudman resides in Northeast Harbor, Maine.

Professional and Leadership Highlights:

- Former Corporate President, with experience extending to nonprofit relationship building
- Vice President of the Summer Scholarship Endowment Foundation
- Past President of the Northeast Harbor Library
- Member of the Board of Selectmen for the Town of Mount Desert
- Served on numerous non-profit boards; awarded membership in the Deborah Morton Society, recognizing women of high distinction in their careers and public service and whose leadership in civic, cultural, and social causes has been exceptional

Ms. Dudman's extensive experience in business management, public relations, marketing and sales provide a unique insight into our operations and strategic long-term goals.

LAURI E. FERNALD — DIRECTOR SINCE: 2005

AGE: 59

COMMITTEE MEMBERSHIPS:
- EXECUTIVE COMMITTEE
- COMPENSATION AND HUMAN RESOURCES COMMITTEE
- GOVERNANCE COMMITTEE (CHAIR)
- BOARD RISK COMMITTEE

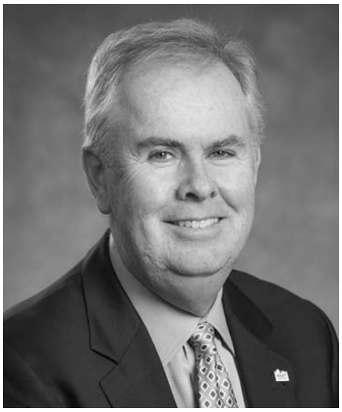
Ms. Fernald is an owner in Jordan-Fernald Funeral Home headquartered in Mount Desert, Maine and is a Certified Funeral Service Practitioner. Ms. Fernald resides in Mount Desert, Maine.

Professional and Leadership Highlights:

- Serves as Managing Partner of L.E. Fernald LLC, and 125 Franklin Street LLC, operating as real estate holding companies and has managed several businesses over her career
- Serves on the finance committee of Hospice Volunteers of Hancock County
- Treasurer, Parish of St. Mary and St. Jude Episcopal Church of Northeast Harbor and Seal Harbor
- Member for the Maine Coast Memorial Hospital Foundation Council
- Current member of numerous foundations and associations including the Woodbine Cemetery Association of Ellsworth, the Brookside Cemetery Corp. of Mount Desert, and Maine Community Foundation Hancock County Committee

Ms. Fernald's commercial and community service experience brings a depth of knowledge and perspective to the Board and the markets we serve.

BRENDAN J. O'HALLORAN — DIRECTOR SINCE: 2018



AGE: 58

COMMITTEE MEMBERSHIPS:
- AUDIT COMMITTEE
- BOARD RISK COMMITTEE

Mr. O'Halloran began his career at The First Boston Corporation in New York City, and was employed by Toronto Dominion Bank Financial Group in varying capacities since 1989. Prior to his retirement in 2015, his most recent position was Vice Chair & Region Head, TD Securities where he oversaw TD Securities investment banking, trading and operational activities in the US through its offices in New York, Chicago, Boston, Houston, and Philadelphia. Mr. O'Halloran resides in Chatham, Massachusetts and Naples Florida.

Professional and Leadership Highlights:

- Holds an AB from Princeton University and an MBA from the Harvard Graduate School of Business Administration
- Substantial banking experience including oversight over broad geography and multiple business lines. Demonstrated leadership skills that include strong integration and strategic expansion experience across various credit and capital market cycles
- Serves as a member of the Board of Directors of Cigent Technology, Inc., Fort Meyers, Florida
- Served as a trustee for the Institute of International Bankers

Mr. O'Halloran's extensive experience in the financial services industry and specifically regulatory interaction and oversight is an invaluable asset to our Board.

CURTIS C. SIMARD — DIRECTOR SINCE: 2013

AGE: 50

COMMITTEE MEMBERSHIPS:
- EXECUTIVE COMMITTEE
- BAR HARBOR TRUST SERVICES COMMITTEE
- CHARTER TRUST COMMITTEE
- BOARD RISK COMMITTEE

Mr. Simard has served as our President and Chief Executive Officer since August 10, 2013. Prior to joining the Bank, he served as Senior Vice President and Managing Director of Corporate Banking for TD Bank from 2002 to 2013. He also was affiliated with First New Hampshire Bank and its successor, Citizens Bank, from 1992 to 2002 working on various business initiatives. Mr. Simard resides in Mount Desert, Maine.

Professional and Leadership Highlights:

- Serves as a member on the Executive Committee of Maine Bankers Association
- Serves as a member of the Board of Directors at the Seal Cove Auto Museum and the Ellsworth Business Development Corporation
- Serves as a member of the Board of Directors at the Business and Industry Association of New Hampshire
- Serves as Vice Chair of Maine Bankers Association

Mr. Simard's position as our President and CEO, his long track record of banking throughout New England, and his leadership of our company provide extensive insight of our opportunities, challenges and operations.

KENNETH E. SMITH — DIRECTOR SINCE: 2004

AGE: 67

COMMITTEE MEMBERSHIPS:
- EXECUTIVE COMMITTEE
- COMPENSATION AND HUMAN RESOURCES COMMITTEE (CHAIR)
- BOARD RISK COMMITTEE
- BAR HARBOR TRUST SERVICES COMMITTEE
- CHARTER TRUST COMMITTEE

Mr. Smith is the former owner and innkeeper of Manor House Inn and was the former owner of Wonder View Inn, both of which are lodging facilities located in Bar Harbor, Maine. Mr. Smith resides in Bar Harbor, Maine.

Professional and Leadership Highlights:

- 40 years plus of experience and expertise in the hospitality and customer service industry
- Serves as a Commissioner of the Bar Harbor Housing Authority
- Member of the Town's Cruise Ship Committee
- Member of Anah Shrine
- Former Chairman and long-time member of the Bar Harbor Town Council
- Past President and current member of the Bar Harbor Rotary Club

Mr. Smith's expertise in the hospitality industry is beneficial to the Board as it represents a critical segment of the local economy and Bar Harbor Bank Trust's commercial loan portfolio.

STEPHEN R. THEROUX — DIRECTOR SINCE: 2017

AGE: 71

COMMITTEE MEMBERSHIPS:
- BOARD RISK COMMITTEE
- BAR HARBOR TRUST SERVICES COMMITTEE
- CHARTER TRUST COMMITTEE

Mr. Theroux retired as Vice Chairman, President and CEO of both Lake Sunapee Bank Group (LSBG) and Lake Sunapee Bank in 2017. He served as a director of the LSBG Board, the Lake Sunapee Bank Board, and as Chairman of the Board of Directors of CTC. Mr. Theroux resides in New London, New Hampshire.

Professional and Leadership Highlights:

- Held numerous executive positions for LSBG and LSB as Corporate Secretary, Chief Financial Officer, and Chief Operating Officer
- Director of the Federal Home Loan Bank of Boston from 2015 to 2018
- Treasurer for the Town of New London, New Hampshire
- Trustee and Treasurer of Proctor Academy, Andover, New Hampshire
- Serves as a director of the American European Insurance Company, Cherry Hill, New Jersey

Mr. Theroux's 40 years of banking, education and insurance experience in various operational and financial management roles provide him with the qualifications and skills to serve as a valuable director.

SCOTT G. TOOTHAKER — DIRECTOR SINCE: 2003

Mr. Toothaker serves as Managing Principal of Melanson Heath & Co., PC, a certified public accounting firm with four offices located in Maine, New Hampshire, and Massachusetts. The firm specializes in professional services to individuals, as well as small to medium sized businesses and entrepreneurs throughout New England. Mr. Toothaker resides in Nashua, New Hampshire.

Professional and Leadership Highlights:

- Holds an MBA from the University of Maine and a MTax from Bentley College
- Experience in navigating financial management and transition across many industries and through various economic cycles

As a practicing CPA, Mr. Toothaker has experience across business and personal financial management that is well suited in his role as a director and Chair of the Board's Audit Committee.

AGE: 58

COMMITTEE MEMBERSHIPS:
- EXECUTIVE COMMITTEE
- AUDIT COMMITTEE (CHAIR)
- BOARD RISK COMMITTEE

DAVID B. WOODSIDE — DIRECTOR SINCE: 2003

Mr. Woodside has served as Chief Executive Officer and Director of The Acadia Corporation, a locally owned company operating retail shops on Mount Desert Island. Mr. Woodside resides in Bar Harbor, Maine.

Professional and Leadership Highlights:

- Received a BS in Business Administration from the University of Maine
- Served as Vice Chair of the National Park Hospitality Association
- Past member of the Bar Harbor Town Council
- Past president of the Bar Harbor Rotary Club and Bar Harbor Chamber of Commerce

Mr. Woodside's in-depth knowledge of the retail and hospitality industries both in Maine and across the country provide significant expertise to the Board.

AGE: 69
- CHAIRMAN OF THE BOARD OF DIRECTORS

COMMITTEE MEMBERSHIPS:
- EXECUTIVE COMMITTEE (CHAIR)
- COMPENSATION AND HUMAN RESOURCES COMMITTEE
- GOVERNANCE COMMITTEE
- BOARD RISK COMMITTEE

Board Skills and Demographics

Skills & Experience	Belair	Caras	Colter	Dimick	Dudman	Fernald	O'Halloran	Simard	Smith	Theroux	Toothaker	Woodside
Executive Leadership	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓
Financial Services Industry	✓	✓	✓	✓			✓	✓	✓	✓	✓	✓
Financial Reporting/Audit/Capital Planning	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Risk Management	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓
Compliance/Legal/Regulatory	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓
Technology/Information Security/ Cybersecurity	✓		✓	✓			✓	✓		✓	✓	✓
Mergers & Acquisitions	✓	✓	✓	✓			✓	✓		✓	✓	✓
Human Capital Management	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Public Company Experience	✓			✓			✓	✓	✓	✓	✓	
Board Independence and Tenure												
Independent	✓	✓	✓	✓	✓	✓	✓		✓	(1)	✓	✓
Board Tenure (years)	5	6	6	3	17	15	2	8	16	3	17	17
Board Demographics												
Age	65	64	53	70	69	59	58	50	67	71	58	69
Gender	F	M	M	M	F	F	M	M	M	M	M	M
Race	White/ Caucasian	White/ Caucasian	White/ Caucasian	White/ Caucasian	White/ Caucasian	White/ Caucasian	White/ Caucasian	White/ Caucasian	White/ Caucasian	White/ Caucasian	White/ Caucasian	White/ Caucasian

1 Mr. Theroux is considered independent according to NYSE but not for ISS

Executive Officers

Below is a list of our Executive Officers, including their ages and positions with us and our subsidiaries BHBT, BHTS and CTC as of March 16, 2021.

NAME	AGE	SINCE	CURRENT POSITION	POSITIONS WITH SUBSIDIARIES
Curtis C. Simard	50	2013	Director, President and CEO	President and CEO of BHBT since June 2013. Director of BHBT since June 2013. Director, BHTS since June 2013. Director of CTC since 2017
Josephine Iannelli	48	2016	Executive Vice President, Chief Financial Officer and Treasurer	Executive Vice President, Chief Financial Officer, and Treasurer of BHBT and BHTS since 2016. Chief Financial Officer and Treasurer of CTC since 2017
Richard B. Maltz	61	2014	N/A	Executive Vice President, Chief Operating Officer, and Chief Risk Officer of BHBT since 2016. Formerly Executive Vice President and Chief Risk Officer of BHBT since 2014
Marion Colombo	55	2018	N/A	Executive Vice President, Director of Retail Delivery of BHBT since 2018
John M. Mercier	57	2018	N/A	Executive Vice President, Chief Lending Officer of BHBT since 2018. Formerly Executive Vice President, Senior Lender NH and VT of BHBT since 2017
Jason Edgar	44	2019	N/A	President of BHTS and CTC since June 2019
Jennifer Svenson	56	2019	N/A	Senior Vice President, Chief Human Resources Officer of BHBT since June 2019

Our Bylaws provide that our Board elect executive officers annually. The Bylaws further provide the President and CEO, Chairman and Vice Chairman, if any, shall serve at the pleasure of the Board or until their successors have been chosen and qualified. All other officers serve at the pleasure of the Board and the CEO. There are no arrangements or understandings between any of the directors, executive officers, or any other persons pursuant to which the above directors have been selected as directors or any of the above officers have been selected as officers. There are no ''family relationships'' (as defined by the SEC) between any director, executive officer, or person nominated or chosen by us to become a director or executive officer.

CURTIS C. SIMARD

Mr. Simard has served as our President and Chief Executive Officer since August 10, 2013. Prior to joining the Bank, he served as Senior Vice President and Managing Director of Corporate Banking for TD Bank from 2002 to 2013. He also was affiliated with First New Hampshire Bank and its successor, Citizens Bank, from 1992 to 2002 working on various business initiatives. Mr. Simard resides in Mount Desert, Maine.

Professional and Leadership Highlights:

- Serves as a member on the Executive Committee of Maine Bankers Association
- Serves as a member of the Board of Directors at the Seal Cove Auto Museum and the Ellsworth Business Development Corporation
- Serves as a member of the Board of Directors at the Business and Industry Association of N.H.
- Serves as Vice Chair of Maine Bankers Association

Mr. Simard's position as our President and CEO, his extensive track record of banking throughout New England, and his leadership of our company provide him with considerable insight of our opportunities, challenges and operations.

JOSEPHINE IANNELLI

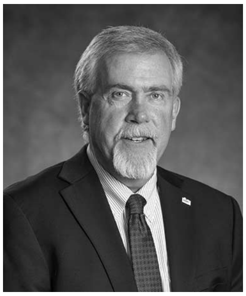
Ms. Iannelli joined Bar Harbor Bank & Trust in October 2016 as Executive Vice President, Chief Financial Officer and Treasurer. Prior to joining the organization, Ms. Iannelli served as Senior Executive Vice President, Chief Financial Officer and Treasurer of Berkshire Hills Bancorp in Pittsfield, Massachusetts. She began her career at KPMG and subsequently KeyCorp. She also served in various roles at National City Corporation starting in 2002 up to and including the acquisition and integration into PNC Financial Services Group. Ms. Iannelli resides in Mount Desert, Maine.

Professional and Leadership Highlights:

- Holds a BS in Accounting from Baldwin Wallace University
- Serves as a member of the Board of Directors and Chair of the Audit Committee for the Maine Seacoast Mission
- Serves as a member of the Board of Trustees and Chair of the Finance Committee for Camp Beech Cliff
- Owned her own consulting company serving both national and international publicly traded clients

In these varying roles, Ms. Iannelli's experience and expertise encompasses senior financial leadership in accounting policy, financial planning and analytics, treasury, investor relations, SEC and regulatory reporting, investment management, tax, and mergers and acquisitions.

RICHARD B. MALTZ



Mr. Maltz has served as our Executive Vice President, Chief Operating Officer, and Chief Risk Officer since September 2016, and served as Executive Vice President & Chief Risk Officer since September 1, 2014. Prior to that Mr. Maltz has served in various executive risk, IT, and auditing roles throughout his career. Mr. Maltz resides in Ellsworth, Maine.

Professional and Leadership Highlights:

- Received a BS in Financial Accounting from the University of New Haven
- Holds the Certified Public Accountant designation
- Current member of the American Institute of Certified Public Accountants

With more than 35 years of banking experience in operations, technology and risk management, Mr. Maltz is well suited in his role leading our overall operational and technology areas, while continually improving the process efficiency and risk management culture throughout the organization.

MARION COLOMBO

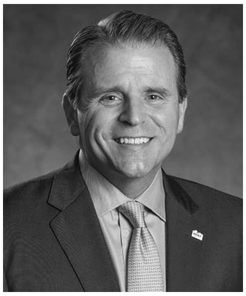
Ms. Colombo joined our company in February 2018 as Executive Vice President, Director of Retail Delivery. She is responsible for retail strategy and delivery working with teams to ensure that our customer experience is consistent with outstanding service across all locations in Maine, New Hampshire and Vermont. She has demonstrated the ability to partner with business lines to advance wallet share beyond the branch environment. Ms. Colombo resides in York, Maine.

Professional and Leadership Highlights:

- Prior to joining Bar Harbor Bank & Trust, Ms. Colombo served in multiple leadership roles at TD Bank for 30 years. She served as Market President of Retail for TD Bank in Boston, Massachusetts from 2009 to 2018 where she was responsible for the retail strategy for 110 de novo branches across Greater Boston and Rhode Island
- Past recipient of the Abigail Adams award from the Massachusetts Women's Political Caucus, recognizing her as an Outstanding Woman Leader
- Served with the United Way, Boston Partners in Education, and other nonprofits having been recognized for extraordinary support of women in the workplace

Ms. Colombo's in-depth knowledge of retail banking and her strong leadership skills and experience provide significant expertise in this important segment of our business.

JOHN M. MERCIER



Mr. Mercier has served as our Executive Vice President and Chief Lending Officer since October 1, 2018. He joined our company in April 2017 as Executive Vice President, Senior Loan Officer for New Hampshire and Vermont. His banking career spans more than 30 years with significant lending experience in many types of lending, across segments, and through various economic cycles. Prior roles have included various initiatives at Citizens Bank, KeyCorp, TD Bank, and most recently as Executive Vice President, Senior Lender of Primary Bank in Bedford, New Hampshire from October 2015 to April 2017. Mr. Mercier resides in Manchester, New Hampshire.

Professional and Leadership Highlights:

- Received a BS in Finance from Bentley College
- Graduate of the New England School of Banking
- Serves as a member of the Board of Trustees and is Treasurer of the Elliot Health System
- Past Chairman and Trustee Emeritus of Southern New Hampshire Health System
- Past Chairman of the Manchester-Boston Regional Airport Authority
- Past Trustee of various nonprofits including the Granite United Way, New Hampshire Institute of Art, and the Manchester Boys & Girls Club

In his role, Mr. Mercier's experience provides for the effective planning, development and implementation of the Bank's long-term lending strategies, including initiatives such as portfolio mix, growth strategies and market penetration objectives.

JASON EDGAR

Mr. Edgar joined our company in June 2019 as President of BHTS and CTC. He is responsible for setting the strategic direction and managing the day-to-day business of BHTS and CTC. Mr. Edgar resides in Atkinson, New Hampshire.

Professional and Leadership Highlights:

- Prior to joining Bar Harbor Bank & Trust, Mr. Edgar served in multiple leadership roles at Berkshire Bank in Burlington, Massachusetts. He served as the Chief Investment Officer and Director of Wealth Management from 2016 to 2019. In his position at Berkshire Bank, he was responsible for setting Wealth Management's investment strategy, as well as overseeing its strategic direction. From 2014 to 2016 he served as New England Regional Leader for Berkshire Bank.
- He received a Bachelor of Arts Degree in Political Science from the University of Connecticut.

Mr. Edgar's strong wealth management experience, deep industry knowledge and significant leadership skills provide expertise in this important segment of our business.

JENNIFER SVENSON

Ms. Svenson joined Bar Harbor Bank & Trust in June 2019 as Senior Vice President, Chief Human Resources Officer. She is responsible for all core Human Resources functions such as recruitment, engagement, leadership development, employee relations, and retention. Ms. Svenson resides in Carrabassett Valley, ME.

Professional and Leadership Highlights:

- Prior to joining Bar Harbor Bank & Trust, Ms. Svenson served in multiple leadership roles at Ironshore Insurance in Boston, Massachusetts. Most recently, from 2009 to 2019, she led the US HR function and was accountable for all facets of human resources including compensation, benefits, leadership development, talent acquisition, performance management, reporting and compliance.
- She received a BA in Psychology from the North Adams State College and she earned an MBA from Salem State College
- She holds SHRM Certifications in Human Resource Management and Pension and Employee Benefits

With more than 25 years of human resources experience including a strong understanding of human capital management and the complexities of managing a multi-state workforce, Ms. Svenson is well suited in her role leading our human resources function.

Certain Relationships and Related-Party Transactions

Transactions with Management and Others

We administer related party transactions under compliance with NYSE American Rule 120 and Item 404(a) of Regulation S-K. This policy provides for Audit Committee oversight of related party transactions that exceed a *de minimis* lifetime income statement impact of $25,000 (except for loan transactions, administered according to Federal Regulation O, as described more fully below). Any transactions that qualify under this policy are reviewed by the Audit Committee (or another acceptable Board Committee, or the full Board) for pre-approval. Other than the Somesville Lease described below, and loans offered in the ordinary course of business and approved by the Bank's Board of Directors there were no related party transactions in 2020.

We have entered into a long-term lease for a Bank branch located in Somesville, Maine, effective February 1, 2006, which we refer to as the Somesville Lease. The Somesville Lease currently has a lease that runs through 2026. During each subsequent lease year, the base rent is increased using a formula tied to certain changes in the consumer price index. During 2020 the lease payments totaled $88,329. There were no amounts outstanding for this lease as of December 31, 2020. In addition to base rent, the Bank is responsible to pay as "additional rent" certain defined real estate taxes, as well as certain operating expenses, and other costs, charges, and expenses associated with the premises. The "Landlord" under the Somesville Lease is A.C. Fernald Sons Inc., a Maine corporation. Mr. Robert B. Fernald of Mount Desert, Maine, is a shareholder, director, and officer of A. C. Fernald Sons Inc. and is the father of our director Lauri E. Fernald. Ms. Fernald does not own any stock or hold any corporate office or other position with A.C. Fernald Sons Inc. and has no direct or indirect interest in the Somesville Lease other than her familial relationship with Mr. Robert B. Fernald.

Except as set forth above and with regard to "Indebtedness of Management" described below, none of our director-nominees or NEOs nor any of its subsidiaries engaged during 2020 in any transaction with our Company or any of our subsidiaries, in which the amount involved exceeded $120,000.

Indebtedness of Management and Directors

BHBT offers to its directors, officers, principal shareholders and employees, and to businesses owned and/or controlled by those persons (collectively "insiders"), commercial and consumer loans in the ordinary course of its business.

All loans made by us and our subsidiaries to insiders are regulated by federal and state regulators under Regulation O. Regulation O covers various practices and reporting requirements for loans to insiders. In addition, the Sarbanes-Oxley Act of 2002 permits banks and bank holding companies to extend credit to directors and officers provided that such extensions of credit are:

(1) made or provided in the ordinary course of the consumer credit business of such issuer

(2) of a type that is generally made available to such issuer to the public

(3) made by such issuer on market terms, or terms that are no more favorable than those offered by the issuer to the public

(4) subject to appropriate review and oversight by our Audit Committee or a comparable body of the Board in accordance with NYSE American Rules for related party transactions

As of December 31, 2020, the outstanding loans by BHBT to director nominees and NEOs amounted to an aggregate of approximately $6,131,285 with a maximum availability limit of $8,973,407. All loans are offered under the same terms and conditions available for comparable loans to persons not related to BHBT, including, interest rates, repayment terms, and the required collateral. The terms and conditions of all loans, including those to insiders, and the process by which such loans are approved, is fully documented in BHBT's written loan policy (the "Loan Policy"). The Loan Policy is approved annually by the Board and administered by the management of BHBT. Loans to insiders may not contain a higher level of risk, nor be offered with terms and conditions more favorable, than loans to non-insiders with equivalent financial profiles (except for the favorable pricing programs previously described). We believe all extensions of credit to our insiders and executive officers satisfy the foregoing conditions. No extensions of credit to our insiders have involved more than normal risk of collectability or present other unfavorable features.

Director independence disclosures may be found under "Corporate Governance" beginning on page 4.

Compensation Discussion & Analysis

Compensation of Directors

Compensation of independent directors of our company and our subsidiaries, BHBT, BHTS and CTC, consisted of a combination of fees for meetings attended, quarterly stipends, and an equity award. Members of the Board receive $600 when joint meetings are held with our company and BHBT. The fee paid for attendance at our Annual Meeting of Shareholders is also $600 per member. Audit Committee members receive $600 for each Audit Committee meeting attended. The Board Chairman is compensated at one-half of the meeting fee for his attendance at committee meetings where he is not a member of the committee.

In addition, the Board Chairman receives a quarterly stipend of $9,250 and the Chairman of the Audit Committee receives $7,250. The Chairs of Governance, Compensation, and Human Resources and Board Risk Committees, and the Chairman who oversees both BHTS and CTC meetings receive a quarterly stipend of $6,000. All other directors receive a quarterly stipend of $5,000. The following table summarizes the components of director compensation.

	ANNUAL STIPEND	2020 STOCK GRANT	MEETING FEES
Chairman of the Board	$ 37,000	Shares up to a market value of $25,000	$600 for Board, $500 for Executive, Compensation and Human Resources, Governance and Board Risk, $300 for Audit, $150 each for BHTS and CTC
Audit Chair	29,000	Shares up to a market value of $25,000	
Governance Chair	24,000	Shares up to a market value of $25,000	
Board Risk Chair	24,000	Shares up to a market value of $25,000	
Compensation and Human Resources Chair	24,000	Shares up to a market value of $25,000	
Charter and Trust Chair	24,000	Shares up to a market value of $25,000	
All other Directors	20,000	Shares up to a market value of $25,000	
Audit Committee Attendance			$600
All other meetings			$500

We review a comparative summary of director compensation annually prepared by Pearl Meyer. Pearl Meyer recommended the Board consider including equity compensation as part of its compensation mix on an ongoing basis. In November 17, 2020, each independent director was awarded 1,022 restricted shares of our common stock under the 2019 Equity Plan. This grant was made in lieu of an increase in the cash portion of their fees and as part of an overall market adjustment in director compensation. These restricted share certificates are fully vested, but may not be sold, transferred or gifted by any director until three (3) months after such director leaves the service of the Board.

2020 Director Compensation

The following table details the total compensation paid to directors from our company and our subsidiaries, BHBT, BHTS and CTC, during 2020. Directors received no additional compensation or perquisites for their service other than that set forth in the table below.

NAME	FEES EARNED OR PAID IN CASH[1]	RESTRICTED STOCK AWARDS[2]	TOTAL
Daina H. Belair	$ 37,600	$ 24,998	$ 62,598
Matthew L. Caras	43,600	24,998	68,598
David M. Colter	32,100	24,998	57,098
Steven H. Dimick	31,000	24,998	55,998
Martha T. Dudman	40,600	24,998	65,598
Lauri E. Fernald	43,600	24,998	68,598
Brendan J. O'Halloran	36,100	24,998	61,098
Kenneth E. Smith[3]	47,600	24,998	72,598
Stephen R. Theroux	39,600	24,998	64,598
Scott C. Toothaker	46,100	24,998	71,098
David B. Woodside	61,400	24,998	86,398
Totals	$459,300	$274,868	$734,168

1 Fees earned include all stipends and meeting fees earned in 2020.

2 Represents the value of 1,022 restricted shares earned in 2020 and granted in November 17, 2020 to each independent director as part of their compensation calculated at the closing price on the day of the grant.

3 Mr. Smith deferred a portion of his compensation under a Non-Qualified Deferred Compensation arrangement. This deferred arrangement is funded entirely by the director and the funds are invested and remain in our name until the director withdraws them upon his resignation, retirement, or termination from Board membership. Mr. Smith assumes the investment risk on these funds and holds the status of an unsecured creditor of our company for the payment of these deferred fees at a future date.

Compensation of Executive Officers

Compensation Discussion and Analysis

This section discusses an overview and analysis of our compensation program and policies, as they relate to our named executive officers, or NEOs, listed below, the material compensation decisions made under those programs and policies, and the material factors considered in making those decisions. Later in this proxy statement under the heading ''Executive Compensation Tables'' is a series of tables containing specific information about the compensation earned or paid to the NEOs.

The discussion below is intended to aid in the understanding of the detailed information disclosed in those tables and provide context within the overall compensation program.

Named Executive Officers

For 2020, our NEOs were:

- Curtis C. Simard, President and CEO
- Josephine Iannelli, Executive Vice President, CFO and Treasurer
- Richard B. Maltz, Executive Vice President, Chief Operating and Chief Risk Officer
- Marion Colombo, Executive Vice President and Director of Retail Delivery
- John M. Mercier, Executive Vice President and Chief Lending Officer

Summary of 2020 Compensation Decisions

The Compensation and Human Resources Committee made the following compensation decisions for 2020, which are further described below in this Compensation Discussion and Analysis:

- Awarded base salary increases to NEOs averaging 3.0%
- Paid annual cash incentives at 147% of target which represents 53.9% of NEO base salaries based on corporate and individual achievements
- Authorized the vesting of restricted stock for the 2018-2020 Long-Term Incentive Plan performance period,
- Granted annual equity awards pursuant to our Long-Term Incentive Plan

Our Compensation Program Philosophy and Objectives

Our compensation philosophy is to pay for performance. Our performance considerations include both financial and non-financial measures—including the way results are achieved—for our company, the line of business, and the individual. These considerations reinforce and promote responsible growth and maintain alignment with our risk framework. Our executive compensation program provides a mix of salary, incentives, and benefits paid over time to align executive officer and shareholder interests.

The objectives of our program are to:

- provide NEOs with total compensation opportunities at levels that are competitive for comparable positions at other companies and banks
- directly link a significant portion of total compensation to our achievement of performance goals in a way that proportionally rewards higher performance levels
- provide upside opportunities for exceptional individual performance, which can result in differentiated compensation among NEOs based on performance
- closely align the NEOs' interests with those of our shareholders by making stock-based incentives an important element of the executive's compensation

Role of the Compensation and Human Resources Committee

The Compensation and Human Resources Committee oversees regulatory compliance for all our compensation and benefit plans and administers our executive compensation programs. This Committee recommends these programs to the Board for approval through its independent board members at least annually and more frequently, if circumstances warrant. These programs are intended to provide a variety of competitive compensation components including base salaries, annual cash incentives, severance arrangements, retirement programs, traditional benefits and limited perquisites. In addition, we have sought to align the long-term interests of our executives, including the NEOs, with those of our shareholders by providing share-based incentives in the form of equity awards. The composition of the components may vary from year-to-year based on individual performance, our business plan, market conditions or other factors.

The Compensation and Human Resources Committee believes that our compensation policies and procedures are designed to provide a strong link between each NEO's compensation and our short- and long-term performance. The objective of our compensation program is to provide compensation, which is competitive, variable based on our performance, and aligned with the long-term interests of shareholders.

Executive Compensation Governance

Our executive compensation program includes the following practices and policies which we believe promote sound compensation governance and are in the best interests of our shareholders.

What We Do:

- Design programs that place a substantial portion of compensation at-risk
- Align compensation programs with our annual business objectives and long-term strategies
- Use multiple performance measures and caps on potential incentive payments
- Grant 50% of annual equity awards based on the total dollar value under accounting rules to NEOs with performance-based conditions
- Vest equity awards over a multi-year period
- Include clawback provisions in our annual and long-term incentive plans for executive officers
- Engage with and consider shareholder input in designing our executive pay programs
- Conduct an annual risk assessment of annual incentive programs

What We Don't Do:

- Allow hedging of our securities
- Provide excessive perquisites or supplemental executives retirement plans
- Provide for multi-year guaranteed salary increases or non-performance-based cash incentive awards for executive officers
- Include "golden parachute" excise tax gross ups in severance arrangements

Shareholder "Say on Pay" Advisory Votes

Shareholders are entitled to annually vote on an advisory, non-binding resolution on our compensation policies and procedures as they relate to our NEOs. Past shareholder votes have been overwhelmingly in favor of our programs and practices.

The approval percentages of the "Say on Pay" voting results for the last four years were as follows:

2017	2018	2019	2020
97.0%	95.6%	96.4%	93.81%

The Compensation and Human Resources Committee has and will continue to consider the outcome of future advisory, non-binding "Say on Pay" votes when reviewing and planning future executive compensation arrangements.

The Role of Compensation Consultants

The Compensation and Human Resources Committee has utilized, and expects to utilize in the future, various outside consultants, actuaries and attorneys to assist in developing and implementing the essential components of our compensation program, including its equity program and incentive compensation arrangements.

The Compensation and Human Resources Committee, under the authority granted by its charter, engages Pearl Meyer to assist in reviewing our executive officer and director compensation packages. Their 2020 engagement included:

- providing current market-based total compensation guidelines to assist in establishing appropriate and ongoing base compensation and incentive compensation levels for our NEOs
- providing guidance and market comparisons for the long-term incentive program using equity grants to NEOs under our approved equity plan
- providing a comprehensive review of our compensation program for our directors

The Compensation and Human Resources Committee has assessed the relationships among Pearl Meyer, our company, the Committee, and its executive officers for independence and conflicts of interest. In this assessment, the Committee reviewed the criteria set forth in the SEC Reg. 240.10C-1(b)(4) (i)-(vi) and such other criteria as it deemed appropriate

The Compensation and Human Resources Committee did not identify any conflicts of interest with the engagement of Pearl Meyer. Additionally, Pearl Meyer provided documented assurances that their relationship meets the independence standards, and no conflicts of interest were identified.

Role of Management

On an annual basis, management provides the Compensation and Human Resources Committee with general information on executive officer compensation, including the NEOs. The Committee then reviews, discusses and considers this information and any recommendations. Mr. Simard and our Human Resources experts assist in the administration of all executive compensation programs, prepare Compensation and Human Resources Committee and Board meeting materials, and perform work as requested by this Committee. Mr. Simard, as our CEO, attends portions of the Committee's meetings and makes recommendations on base salary, annual incentives and equity compensation for only the executive officers who report to the CEO. The Committee has the discretion to accept, reject or modify the CEO's recommendations.

The CEO is not a member of the Compensation and Human Resources Committee and is not present for the executive sessions or for any discussion regarding his own compensation.

The Compensation and Human Resources Committee reviews and recommends to the Board's independent members compensation programs for approval. The Committee also provides an analysis of the recommendations it believes meet our ongoing needs to attract, motivate, and retain talented and qualified executives who can make major contributions to our leadership and success. The Committee regularly reviews market information provided by Pearl Meyer. Primary data sources used in the benchmarking for the NEOs represent information publicly disclosed by a peer group of publicly traded banks and published surveys. The Committee reviews comparative compensation and benefit information contained in the public filings of this peer group which has been established for compensation comparison (the Compensation Peer Group) using objective selection criteria. The Compensation Peer Group is reviewed annually by the Committee.

Market Benchmarking and Performance Comparisons

The Compensation and Human Resources Committee considers companies primarily in the banking industry that are comparable to us based on market capitalization, geographic area and number of employees. The 2020 Compensation Peer Group includes financial institutions that fall within a range of $1.8 billion in assets to $8.7 billion in assets. All peer banks are in the Northeast region and New York excluding New York City. The Committee believes this group provides an appropriate selection of publicly traded financial institutions representing the geographical area most probable to be considered for recruitment purposes. Further, the Committee believes the Compensation Peer Group information discloses compensation programs of similarly situated executives in comparable institutions, and the analysis is a useful comparative tool for the Committee in establishing executive compensation programs and individual criteria for our executives.

Institution Name	Ticker	City	State	Industry	Exchange	Prior Peer	ISS Peer	Total Assets (Reported) 2020Q1	Total Assets (Reported) 2019Y	Total Revenue (Reported) 2019Y	FTE Employees (actual) 2019Y	Number of Offices (actual) 2019Y
Boston Private Financial Holdings	BPFH	Boston	MA	Bank	NASDAQ	Y	Y	8,746,326	8,830,501	329,532	779	22
Brookline Bancorp, Inc.	BRKL	Boston	MA	Bank	NASDAQ	Y	Y	8,461,591	7,856,853	283,093	787	51
Tompkins Financial Corporation	TMP	Ithaca	NY	Bank	AMEX	Y	Y	6,743,114	6,725,623	286,061	1,047	64
Meridian Bancorp, Inc.	EBSB	Peabody	MA	SB/T/M	NASDAQ	Y		6,348,554	6,343,694	186,251	514	39
Washington Trust Bancorp, Inc.	WASH	Westerly	RI	Bank	NASDAQ	Y	Y	5,620,979	5,292,659	200,494	609	23
Century Bancorp, Inc.	CNBK.A	Medford	MA	Bank	NASDAQ	Y	Y	5,562,286	5,492,424	114,267	432	27
TrustCo Bank Corp NY	TRST	Glenville	NY	SB/T/M	NASDAQ	Y		5,256,647	5,221,322	174,398	814	148
Bridge Bancorp, Inc.	BDGE	Bridgehampton	NY	Bank	NASDAQ	Y	Y	5,060,872	4,921,520	167,468	496	40
Camden National Corporation	CAC	Camden	ME	Bank	NASDAQ	Y	Y	4,594,539	4,429,521	169,743	639	60
Financial Institution Inc.	FISI	Warsaw	NY	Bank	NASDAQ	Y	Y	4,471,768	4,384,178	170,293	703	53
Enterprise Bancorp, Inc.	EBTC	Lowell	MA	Bank	NASDAQ	Y	Y	3,367,153	3,235,049	132,142	538	24
Arrow Financial Corporation	AROW	Glens Falls	NY	Bank	NASDAQ	Y	Y	3,291,332	3,184,275	116,846	520	40
Cambridge Bancorp	CATC	Cambridge	MA	Bank	NASDAQ	Y	Y	2,852,629	2,855,563	115,097	303	16
Hingham Institution for Savings	HIFS	Hingham	MA	SB/T/M	NASDAQ	Y		2,654,571	2,590,346	75,730	88	10
Western New England Bancorp	WNEB	Westfield	MA	SB/T/M	NASDAQ	Y		2,190,328	2,181,476	67,684	307	22
First Bancorp, Inc.	FNLC	Damariscotta	ME	Bank	NASDAQ	Y	Y	2,136,396	2,068,796	66,682	240	16
Bankwell Financial Group, Inc.	BWFG	New Canaan	CT	Bank	NASDAQ	Y	Y	2,053,625	1,882,182	59,107	157	12
Chemung Financial Corporation	CHMG	Elmira	NY	Bank	NASDAQ	Y	Y	1,841,329	1,787,827	80,783	362	33

The Compensation Peer Group information is used as a guide in establishing the competitiveness and reasonableness in our compensation program and practices. The committee does not target the elements of our compensation program at any specific level or percentile within the Compensation Peer Group. Rather than rely on a specific formula-based model, the committee believes that retaining discretion to assess the overall performance of NEOs gives the committee the ability to more accurately reflect individual contributions that cannot be absolutely quantified. The Compensation and Human Resources Committee also believes that an emphasis on incentive compensation for our NEOs is an important component of our overall compensation program. In addition, the Committee generally does not affirmatively set out in any given year, or with respect to any given executive, to apportion compensation in any specific ratio among the various categories of compensation described below. Rather, the Compensation Committee uses the principles described above, and the factors described for each category in the discussion that follows as a guide in assessing the proper allocation among those categories.

Compensation and Human Resources Committee Report

The Compensation and Human Resources Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of the Securities and Exchange Commission Regulation S-K with management.

The Compensation and Human Resources Committee believes our financial results and total shareholder return (disclosed in our Form 10-K for the year ended December 31, 2020) compare favorably with our Compensation Peer Group indicating a solid pay-for-performance alignment. The Committee further believes the compensation established for our CEO and other NEOs provide an appropriate balance between market compensation and shareholder return. The Committee referenced market data including peer group and survey information along with guidance provided by Pearl Meyer in its process to establish and validate the appropriateness of our executive compensation compared to market and performance.

Based upon this review and discussion, the Compensation and Human Resources Committee recommended to our Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement.

Compensation and Human Resources Committee Members	
Kenneth E. Smith, Chair	David M. Colter
Matthew L. Caras	Martha T. Dudman
Lauri E. Fernald	David B. Woodside

The following table provides information concerning the compensation paid for 2020 to our Named Executive Officers who consist of our Chief Executive Officer and President and our other four most highly compensated executive officers during 2020.

NAME	BHB 2020 BASE SALARY[1]	BHB 2020 TOTAL CASH COMPENSATION[2]
Curtis C. Simard	$655,000	$1,088,738
Josephine Iannelli	420,000	636,317
Richard B. Maltz	420,000	636,317
Marion Colombo	310,000	446,854
John M. Mercier	310,000	446,854

1 Approved base salary figures as of year-end 2020 have been used for comparison purposes in this table.
2 Approved base salary figures at the end of 2020 plus the cash amount paid to each NEO under the 2020 Annual Cash Incentive Program.

The Compensation and Human Resources Committee also considers the relative scarcity of senior banking executive candidates in its immediate market area with skills and experience necessary to achieve future strategic goals, as well as the challenge in a very competitive market to recruit out-of-market candidates to work in rural Maine. The Committee does not use any formal, fixed or indexed criteria for establishing compensation levels for any of our NEOs within market identified ranges. The Committee believes the growth in total compensation provided to our executive officers should be weighted towards variable compensation including cash and equity incentives which tie directly to corporate performance with less emphasis upon growth in base salaries.

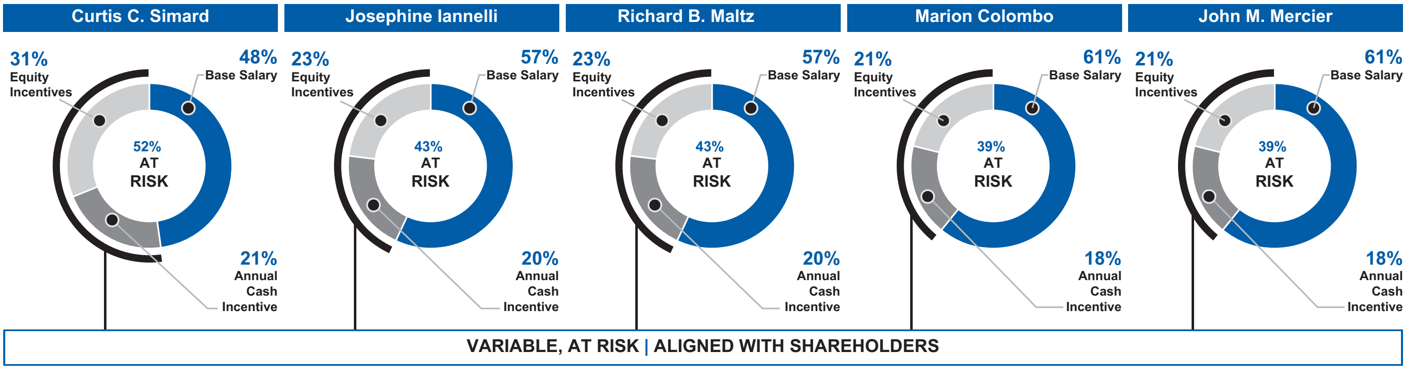
Compensation Plan Components

Our executive compensation program applicable to the NEOs is composed of the following primary components: (1) base salaries; (2) annual cash incentive compensation programs; (3) long-term incentives in the form of equity grants; and (4) retirement benefits including our 401(k) plan, severance arrangements and perquisites (membership dues and auto allowances).

PERFORMANCE YEAR 2020 COMPENSATION COMPONENTS[1]	
DESCRIPTION	**HOW IT PAYS**
Base Salary	Salary/wages are paid on a standard, company-wide schedule of 26 pay periods throughout the year
Annual Cash Incentive	Awarded annually, subject to Board-approved formulas for company-wide, group-specific performance measures, and individual performance measures.
Equity Incentives	Comprised of three-year performance- and time-based Restricted Stock Units, or Restricted Stock Awards with immediate vesting on grant date, all with three-year restriction periods after vesting

[1] Benefits and perquisites are described later in the proxy statement are excluded.

The charts below summarize the 2020 targeted pay mix for each NEO.



Base Salary

Our executive compensation program provides base salaries to compensate executive officers for the performance of core duties and responsibilities associated with their positions. The Compensation and Human Resources Committee reviews base salaries annually in the context of comparative industry information, as described above. The Committee also considers the specific contributions of the individual executive officer's leadership skills, contributions to our strategic initiatives, the officer's opportunity for professional growth, as well as market factors when it sets and adjusts base salaries. In addition, the Committee considers the prevailing economic climate, our overall performance, and our most current business plan.

Upon performance evaluations, and the advice and market salary data supplied by Pearl Meyer, in 2020 the Compensation and Human Resources Committee made performance and market adjustments resulting in the approved base salaries for 2021 as set forth below:

NAME	2020 BASE SALARY	2021 BASE SALARY
Curtis C. Simard	$655,000	$674,700
Josephine Iannelli	420,000	432,600
Richard B. Maltz	420,000	432,600
Marion Colombo	310,000	319,300
John M. Mercier	310,000	319,300

Annual Cash Incentive Program

During 2020, the NEOs participated in the Annual Cash Incentive Program which was designed to provide meaningful incentives tied to our annual metrics to optimize profitability, growth, excellence in individual performance, and to promote teamwork among its participants. Consistent with best practices, the Board and its compensation consultant continue to review and increase the percentage of at risk pay for each executive annually. This program was approved by the Board for 2020.

Annual Cash Incentive Performance Measures. The senior management team has predefined performance goals to determine their annual short-term incentive awards. Bar Harbor Bankshares common team goals for 2020 were Net Income, a credit asset quality measure of Non-Performing Loans as a Percentage of Total Loans, a well-managed Efficiency Ratio, and the successful completion of strategic initiatives. The specific allocations of goals were weighted to reflect the focus and contribution of each position.

The following table shows the 2020 target compensation for the annual cash incentive in dollars:

NAME	BASE SALARY	Target (AS A PERCENTAGE OF BASE SALARY)	TARGET
Curtis C. Simard	$655,000	45.00%	$294,750
Josephine Iannelli	420,000	35.00%	147,000
Richard B. Maltz	420,000	35.00%	147,000
Marion Colombo	310,000	30.00%	93,000
John M. Mercier	310,000	30.00%	93,000

The following table shows the specific performance goals of the 2020 annual cash incentive plan:

	PERFORMANCE GOALS		
INCENTIVE MEASURES	THRESHOLD	TARGET	STRETCH
Adjusted Net Income ($thousands)[1]	$29,805	$32,048	$35,253
NPL/Tloans[2]	1.02%	0.90%	0.75%
Efficiency Ratio[3]	64.40%	63.14%	61.88%
Strategic Initiatives[4]	90.00%	100.00%	110.00%

1 Adjusted net income is reflected in the Non-GAAP table located in the Management Discussion and Analysis section of our annual 10-K filing. Additional adjustments may be made based on approval by the board compensation and human resource committee. Adjusted net income includes, but is not limited to gain or losses on sales of securities, extinguishment of debt, sales of premises and equipment, and other real estate owned. Non-recurring charges reflected in acquisition, conversion, and other expenses are also included.

2 Non-Performing Loans (NPL's) include all loans on non-accrual status as of December 31, 2020 as measured against total loans

3 Efficiency ratio is a Non-GAAP measure computed by using adjusted non-interest expense net of franchise taxes and intangible amortization divided by adjusted revenue tax effected for tax advantaged assets using marginal tax rate. See 10-K Reconciliation of Non-GAAP measures for further details.

4 Strategic initiatives include, but are not limited to, M&A activity, balance sheet strategies and restructuring initiatives.

Below is a summary of the annual incentive awards paid for 2020 performance:

NAMED EXECUTIVE OFFICER	ACTUAL	TARGET	% OF TARGET
Curtis C. Simard	$433,738	$294,750	147%
Josephine Iannelli	216,317	147,000	147
Richard B. Maltz	216,317	147,000	147
Marion Colombo	136,854	93,000	147
John M. Mercier	136,854	93,000	147

Details of the above are disclosed in Threshold, Target and Stretch categories in the "Grants of Plan-Based Awards" table under the heading "Executive Compensation Tables" found elsewhere in this proxy statement.

Long-Term Equity Incentives

Our Board utilizes a Long-Term Incentive Program for senior management members as part of their total compensation.

Pearl Meyer assisted the Compensation and Human Resources Committee with the initial plan design and periodically evaluates appropriate reward levels. The program is designed to be made up of three-year rolling plans. Grants may be given in time-vested restricted stock, performance-vested restricted stock units, or a combination of both. The purpose of the program is to align executives' interests with shareholder interests, increase executive stock ownership, and ensure sound risk management by providing a balanced view of performance and reward over a longer time horizon. The program also positions our total compensation offerings to be competitive with the market to attract and retain strong talent which is needed to drive our success.

Our Board has approved Long-Term Incentive Programs for senior management members as part of their total compensation. This compensation component is used to align the interests of our participating officers and managers, particularly executive officers, with those of shareholders over a long-term horizon, and to support our leadership retention objectives. As further described below grants are made under the 2019 Equity Plan ("the 2019 Plan") which was approved by shareholders at the 2019 Annual Meeting of Shareholders.

The following table shows the performance goals for the long-term incentive awards granted in 2020 at Threshold, Target and Stretch for role of the participants within the 2020-2022 Plan:

2020-2022 Long Term Incentive Plan								
	Time Vested		Performance					
Name	% of Salary	Amount $	Threshold % of Salary	Threshold $	Target % of Salary	Target $	Stretch % of Salary	Stretch $
Curtis C. Simard	25.00%	$163,750	20.00%	$131,000	40.00%	$262,000	60.00%	$393,000
Josephine Iannelli	20.00	84,000	10.00	42,000	20.00	84,000	30.00	126,000
Richard B. Maltz	20.00	84,000	10.00	42,000	20.00	84,000	30.00	126,000
Marion Colombo	17.50	54,250	8.75	27,125	17.50	54,250	26.25	81,375
John M. Mercier	17.50	54,250	8.75	27,125	17.50	54,250	26.25	81,375

Information pertaining to outstanding equity awards are disclosed in the "Outstanding Equity Awards at Fiscal Year-end" table found on page 42 in this proxy statement.

The 2020 Plan provides our NEOs with the opportunity to earn equity-based awards. Under the 2020 program, grants may be delivered in performance-vested restricted stock units, time-vested restricted stock, or a combination of both. The purpose of the program is to align executives' interests with shareholder interests, increase executive stock ownership, and ensure sound risk management by providing a balanced view of performance and reward over a longer time horizon. The program also positions our total compensation offerings to be competitive with the market to attract and retain strong talent which is needed to drive our success.

Target award opportunities are based on role. Equity awards are calculated as a percentage of base salary to determine the number of shares available for awards. See the table "Grants of Plan Based Awards (columns g-k) on page 41 to reference the actual shares that may be earned under the 2020-2022 plan year to each NEO.

LONG-TERM EQUITY INCENTIVE MEASURES

The Long-Term Incentive Programs consist of both performance-based and time-vested stock units converted to restricted shares. Time-vested shares that are granted vest annually with a third of the shares vesting in each of the years covered. Grants are contingent upon continued employment with a pro-rated portion vesting in the event of a participant retirement, death, or disability. The time-vested shares also have a post-vesting holding period of three years. At the time of vesting, sufficient shares may be withheld to cover the executive's tax liabilities.

The remaining shares are performance-vested shares to be awarded at the end of the three-year measurement period and upon attainment of the performance goals. Relative Return on Assets ("ROA") measured against the SNL $1.5 billion to $6 billion Bank Index peer group will determine the performance award for 2020-2022 Plan. The average of the twelve quarters within the plan measurement year is calculated and measured against peer results for the same period. A result below the 35th percentile of the peer group would fall below Threshold and no payment would be due or paid. Target is calculated at the 50th percentile when measured against the peer group, and the plan Stretch is capped at the 75th percentile. In addition to relative ROA, there is a Total Shareholder Return ("TSR") modifier to further align shareholder interest. If our TSR calculation for the same performance measurement period is negative, a payout cannot exceed Threshold regardless of the relative ROA performance results.

Benefits, Retirement and Post-Termination Compensation Elements

We provide a 401(k) plan for all employees meeting minimum age and service requirements which includes employer matching contributions of up to 5%. We match 100% on the first 3% deferred by employees and 50% on the next 2% deferred by employees.

We also maintain employment agreements with NEOs Simard and Iannelli which provide severance benefits in the event of a termination by the employer without cause and/or by the employee with good reason, as well as change in control with subsequent termination (or constructive termination).

We also have change in control agreements for NEOs Maltz, Colombo and Mercier. These agreements provide for, among other things, the payment of their salary and subsidized medical COBRA reimbursement for a period of 24 to 36 months in the event of both a change in control and subsequent termination (or constructive termination) within set timeframes after a change in control, unless such termination was for cause. These specific payments and timeframes were established under the advice of a compensation consultant and employment attorney as representative of similar type agreements in the industry, and which we believe are necessary to attract and retain senior executives.

Our equity award agreements and the related long term incentive plan program documents address treatment of equity awards upon termination of employment or change in control. Under these provisions, the awards vest on a prorated basis in case of termination of employment due to death, disability, or retirement (defined as attainment of age 65 or attainment of age 60 with at least 10 years of service), based on actual performance for performance-based awards. The award agreements and program documents also provide for full vesting of outstanding equity awards upon the occurrence of a change in control (i.e., without requirement of a subsequent termination of employment), based on target performance in case of performance-based awards.

The Compensation and Human Resources Committee feels these agreements are necessary to provide a competitive total compensation plan to attract and retain the employment of our current and future NEOs.

Other Compensation and Benefits

All executive officers can participate in certain group health, dental, disability and term life insurance benefits. In accordance with our policy, all such benefits are generally available to our employees including employees of our subsidiaries. In addition, we provide our NEOs paid time off awards.

Clawback Provision

We have provisions in our incentive programs guidance requiring each current and former executive officer to forfeit any erroneously awarded incentive-based compensation. This incentive-based compensation would have been received by any such officer during the three completed years preceding the date on which we are required to prepare an accounting restatement due to our material non-compliance with any financial reporting requirement under the federal securities laws. None of our directors or executives were required to forfeit any such erroneously awarded incentive-based compensation in 2020.

Our provisions further state that the altering, inflating and/or inappropriate manipulation of performance/financial results or any other infraction of recognized ethical business standards will subject any participant to disciplinary action up to and including termination of employment. In addition, any incentive compensation as provided by the plan to which the participant would otherwise be entitled will be revoked or subject to "clawback."

All cash and equity awards proposed under the 2019 Equity Plan will be subject to clawback, cancellation, recoupment, rescission, payback, reduction, or similar action in accordance with the terms of any clawback or similar policy or any applicable law related to such actions, as may be in effect from time-to-time.

Stock Ownership Guidelines

While all our executive officers hold equity interests in our company and may be granted shares in the future under our equity programs, we do not have specific guidelines regarding stock ownership for our NEOs at this time. Our Board has implemented a three-year retention requirement for shares acquired under equity awards issued under our Long-Term Incentive Program for NEOs for retention purposes. We encourage NEO stock ownership and review overall ownership levels on a periodic basis.

Policy on Code Section 162(m)

Section 162(m) of the U.S. Internal Revenue Code, or the Code, generally prohibits any publicly held corporation from taking a federal income tax deduction for compensation paid in excess of $1 million in any taxable year to the CEO and the other "covered employees" as defined in the rule. Under the tax laws in effect before 2018, compensation that qualified as "performance-based compensation" under Section 162(m) of the Code was deductible without regard to this limitation. Effective for tax years beginning after December 31, 2017, the Tax Cuts and Job Acts of 2017 generally eliminated the performance-based exemption, subject to a special rule that grandfathers certain awards and agreements that were in effect on November 2, 2017. While considering tax deductibility as only one of several considerations in determining compensation, the Compensation and Human Resources Committee believes the tax deduction limitation should not compromise its ability to structure compensation programs that provide benefits to us that outweigh the potential benefit of a tax deduction, and therefore, may approve compensation that is not deductible for tax purposes.

Summary Compensation Table

The following table discloses compensation for the years ended December 31, 2020, 2019 and 2018 received by the NEOs.

NAME AND PRINCIPAL POSITION	YEAR	BASE SALARY RECEIVED[1]	SIGN ON BONUS	STOCK AWARDS[2]	NON-EQUITY INCENTIVE PLAN COMPENSATION	ALL OTHER COMPENSATION[3]	TOTAL ($)
Curtis C. Simard	2020	$655,000	$ —	$556,767	$433,738	$62,965	$1,708,470
President & CEO	2019	635,000	—	417,498	253,388	30,287	1,336,173
	2018	605,000	—	302,481	303,500	30,235	1,241,216
Josephine Iannelli	2020	420,000	—	210,024	216,317	12,660	859,001
EVP, CFO and Treasurer	2019	405,000	—	226,856	121,780	24,585	778,221
	2018	390,000	—	144,261	160,000	28,204	722,465
Richard B. Maltz	2020	420,000	—	210,024	216,317	24,126	870,467
EVP, Chief Operating Officer and	2019	405,000	—	226,856	121,780	26,744	780,380
Chief Risk Officer	2018	390,000	—	144,261	160,000	23,838	718,099
Marion Colombo	2020	310,000	—	135,629	136,854	25,204	607,687
EVP, Director of Retail Delivery	2019	300,000	—	143,738	78,931	32,663	555,332
	2018	245,385[4]	30,000[5]	160,296[6]	115,000	28,631	579,312
John M. Mercier	2020	310,000	—	135,629	136,854	34,820	617,303
EVP, Chief Lending Officer	2019	300,000	—	123,743	78,931	33,354	536,028
	2018	290,000	—	90,585	100,000	29,269	509,854

[1] Included in salary amounts for each NEO are monies they deferred pursuant to our 401(k) Plan, which allows our employees and employees of our wholly owned subsidiaries to defer monies from their compensation, subject to applicable limitations in Code Section 401(k), and amounts deferred pursuant to our Section 125 Cafeteria Plan providing health, life, and disability insurance benefits. Employees, including NEOs, are paid on a bi-weekly basis.

[2] Amounts in this column represent grants issued to NEOs under the Long-Term Incentive Plans computed in accordance with FASB ASC Topic 718. See Note 14 Stock Based Compensation Plans to our financial statements included in our Annual Report Form 10-K filed for the year ending December 31, 2020. For performance-based awards, amounts in this column are computed at the probable level of Stretch performance.

[3] Other Annual Compensation includes match and contribution amounts into our 401(k) plan in the same formula and schedule as available to all other employees and such other items as imputed life insurance amounts on group term insurance in excess of the allowable $50,000, non-taxable IRS limit. Please see the table following these footnotes for further detail.

[4] Base salary for Ms. Colombo represents pro-rated amounts of her approved annualized base salary representing the time worked during the identified year.

[5] Ms. Colombo received a sign on bonus of $30,000 upon joining in February 2018.

[6] Ms. Colombo was granted a pro rata share of long-term performance stock awards for 2016-2018, 2017-2019, and 2018-2021 upon joining in February 2018.

The NEOs also participate in certain group life, health and disability insurances and medical reimbursement plans not disclosed in the Summary Compensation Table that are generally available to all employees and do not discriminate in scope, terms and operation. The table below provides detail on the amounts comprising the column entitled "All Other Compensation" contained in the Summary Compensation Table for 2020.

NAME	EMPLOYER 401(K) CONTRIBUTION MATCH	MEMBERSHIP DUES	HOUSING ALLOWANCE	AUTOMOBILE ALLOWANCE	IMPUTED LIFE INSURANCE	TOTAL
Curtis C. Simard	$11,400	$43,680	$—	$5,979	$1,906	$62,965
Josephine Iannelli	11,400	—	—	0	1,260	12,660
Richard B. Maltz	11,400	—	—	7,182	5,544	24,126
Marion Colombo	11,400	10,920	—	0	2,884	25,204
John M. Mercier	11,400	11,560	—	8,927	2,933	34,820

[1] Membership Dues include payment of membership or participation fees to fitness, country club, or similar organizations.

We may provide non-cash perquisites that are not disclosed in the table above with a *de minimis* value such as incidental service fee waivers on deposit accounts or safe deposit rental fees.

Grants of Plan-Based Awards

The following table sets forth information regarding the 2020-2022 long-term plan-based awards granted to the NEOs during the last fiscal year under the 2020 Annual Incentive Plan. Amounts disclosed are based on 2020 eligible salaries received by the participants. The time-vested grants under the 2020-2022 Long Term Incentive Plan are shown under Target, and the range of the possible performance awards pursuant to the 2020-2022 Long Term Incentive Plan is also disclosed for each participant.

Name (a)	Grant Type (b)	Grant Date (c)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards[1]			Estimated future payouts under equity incentive plan awards[2]			All other stock awards: Number of stock units[3](#) (j)	Grant date fair value of stock awards[4] (#) (k)
			Threshold ($) (d)	Target ($) (e)	Stretch ($) (f)	Threshold (#) (g)	Target (#) (h)	Stretch (#) (i)		
Curtis C. Simard	Short-term		$147,375	$294,750	$442,125					
	Time-vested	Jan 2020							6,532	$163,757
	Performance	Jan 2020				5,226	10,451	15,677		393,010
Josephine Iannelli	Short-term		73,500	147,000	220,500					
	Time-vested	Jan 2020							3,351	84,010
	Performance	Jan 2020				1,676	3,351	5,027		126,014
Richard B. Maltz	Short-term		73,500	147,000	220,500					
	Time-vested	Jan 2020							3,351	84,010
	Performance	Jan 2020				1,676	3,351	5,027		126,014
Marion Colombo	Short-term		46,500	93,000	139,500					
	Time-vested	Jan 2020							2,164	54,251
	Performance	Jan 2020				1,082	2,164	3,246		81,377
John M. Mercier	Short-term		46,500	93,000	139,500					
	Time-vested	Jan 2020							2,164	54,251
	Performance	Jan 2020				1,082	2,164	3,246		81,377

[1] The Annual Incentive Program detail in columns (d), (e), and (f) represents the possible payouts ranges based on the relevant performance level for the calendar year ended December 31, 2020. More information regarding the terms of the Annual Incentive Program can be found in the Compensation Discussion and Analysis.
[2] Amounts in columns (g), (h), and (i) represent the number of performance shares granted under the Long-Term Incentive Plan in 2020 based on the relevant performance level. The performance shares were granted under the 2019 Equity Plan. More information regarding the terms of the performance shares can be found in the Compensation Discussion and Analysis.
[3] Represents the number of time-vested shares granted to NEOs in 2020 under the Long-Term Incentive Plans. The performance shares were granted under the 2019 Equity Plan. More information regarding the terms of the time-vested can be found in the Compensation Discussion and Analysis
[4] Fair values of performance awards in column (k) are determined based on Stretch performance level.

Outstanding Equity Awards at Fiscal Year-End-2020

NAME (a)	STOCK AWARDS			
	NUMBER OF SHARES OR UNITS OF STOCK THAT HAVE NOT VESTED[1] (b)	MARKET VALUE OF SHARES OR UNITS OF STOCK THAT HAVE NOT VESTED[1] (c)	EQUITY INCENTIVE PLAN AWARDS; NUMBER OF UNEARNED SHARES, UNITS OR OTHER RIGHTS THAT HAVE NOT VESTED[2] (d)	EQUITY INCENTIVE PLAN AWARDS; MARKET OR PAYOUT VALUE OF UNEARNED SHARES, UNITS OR OTHER RIGHTS THAT HAVE NOT VESTED[2] (e)
Curtis C. Simard	6,194	$139,933	23,956	$541,155
Josephine Iannelli	3,114	70,346	8,987	203,010
Richard B. Maltz	3,114	70,346	8,987	203,010
Marion Colombo	1,986	44,862	5,691	128,551
John M. Mercier	1,986	44,862	5,691	128,551

[1] Amounts in column (b) represent time-vested shares payable in 2021, 2022 and 2023. The amount in column (c) represents the total value of those shares at December 31, 2020 at the closing price of $22.59 per share.

[2] Amounts in column (d) represent the performance shares payable in 2021, 2022, and 2023 if paid at Stretch level. The amounts in column (e) represent the total value of those shares at December 31, 2020 at the closing price of $22.59 per share. More information regarding the terms of the performance shares can be found in the Compensation and Discussion Analysis.

Stock Vested in 2020

NAME	STOCK AWARDS[1]	
	NUMBER OF SHARES ACQUIRED ON VESTING	VALUE REALIZED ON VESTING[1]
Curtis C. Simard	10,264	$187,036
Josephine Iannelli	7,739	153,954
Richard B. Maltz	8,049	160,291
Marion Colombo	4,257	85,238
John M. Mercier	6,405	135,198

[1] This represents the number and dollar value, respectively, of restricted time-vested shares issued in 2020 to NEOs under the 2016-2018, 2017-2019 and 2018-2020 Long Term Incentive Programs and the performance shares issued under the 2017-2019 plan. Depending on the plan period, the time-vested shares must be held for a period of one to three years after issue and performance shares are required to be held for a three-year period.

No NEO held stock options at December 31, 2020.

No NEOs have Pension Benefits or activity in any Nonqualified Deferred Compensation plan or SERP.

Potential Payments Upon Termination of Employment or Change in Control

Executive Employment Agreements. We have entered into executive employment agreements with Mr. Simard and Ms. Iannelli. Mr. Simard and Ms. Iannelli are the only named executive officers with employment agreements. The agreements provide severance benefits to the executive in connection with termination of employment either by us without "cause" or by the executive for "good reason" (as those terms are defined in the employment agreements). The amount of severance depends, in part, on whether the termination of employment occurs prior to a change in control ("non-CIC severance"), or in anticipation of, or within 12 months after, a change in control ("CIC severance"). In each case, severance payments are conditioned on the executive providing us with a release of claims. The following briefly summarizes the severance benefits payable to each executive under the agreements:

Non-CIC severance

- For Mr. Simard, his employment agreement provides for (i) cash severance equal to his base salary for the remainder of the term of his employment agreement (currently scheduled to remain in effect through December 31, 2021), payable in a lump sum; (ii) pro-rata annual incentive award for the year of termination; (iii) group health benefits (including medical, vision and dental benefits) for the remainder of the employment term (currently, through December 31, 2021) or 18 months (if longer); and (iv) full vesting of all outstanding equity awards, with assumed target performance for performance-based awards.

- For Ms. Iannelli, her employment agreement provides for (i) cash severance equal to three years' of base salary, payable in a lump sum; and (ii) a payment equal to 18 months of our share of premium contributions for group health benefits (including medical, vision and dental benefits).

CIC severance

- For Mr. Simard, his employment agreement provides for (i) cash severance equal to three times the sum of Mr. Simard's base salary and target annual bonus, payable in a lump sum; (ii) pro-rata annual incentive award for the year of termination; (iii) group health benefits (including medical, vision and dental benefits) for 36 months; and (iv) full vesting of all outstanding equity awards, with assumed target performance for performance-based awards.
- For Ms. Iannelli, her employment agreement provides for (i) cash severance equal to three times the sum of Ms. Iannelli's base salary and target annual bonus, payable in a lump sum; and (ii) a payment equal to 36 months of our share of premium contributions for group health benefits (including medical, vision and dental benefits).

Executive Change in Control Severance Plan. The named executive officers, other than Mr. Simard and Ms. Iannelli, do not have employment agreements and do not participate in any arrangements entitling them to non-CIC severance. The named executives, other than Mr. Simard and Ms. Iannelli, do, however, participate in our Executive Change in Control Severance Plan. The plan provides participating executives with severance benefits in the event that (i) a change in control occurs; and (ii) within 12 months after the change in control, the executive's employment is terminated by us without cause or by the executive for good reason (as those terms are defined in the plan). If a qualifying termination occurs, the executive is eligible for severance benefits equal to a specified number of months of base salary and a specified number of months of COBRA premiums for group health coverage (to the extent the COBRA premiums exceed active employee premium rates). Mr. Maltz is eligible for 36 months of salary and 18 months of COBRA premiums, and the other named executive officers are eligible for 24 months of salary and 12 months of COBRA premiums.

Equity Awards. Our equity award agreements and the related long-term incentive plan program documents address treatment of equity awards upon termination of employment or change in control. Under these provisions, the awards vest on a prorated basis in case of termination of employment due to death, disability, or retirement (defined as attainment of age 65 or attainment of age 60 with at least 10 years of service), based on actual performance for performance-based awards. None of the named executive officers were eligible for retirement as of the end of the last fiscal year. Except as set forth in the preceding paragraphs, for any other termination of employment before vesting, the awards forfeit. The award agreements and program documents also provide for full vesting of outstanding equity awards upon the occurrence of a change in control (i.e., without requirement of a subsequent termination of employment), based on target performance in case of performance-based awards.

No Change in Control Excise Taxes. None of these arrangements include payments of excise taxes in case of a change in control. The employment agreements and Executive Change in Control Severance Plan instead provide for a cutback in any change in control payments to the extent a cutback would result in a greater after-tax payment to the executive.

The following table estimates the amount that would have been payable to each named executive officer under the arrangements described above assuming the applicable employment termination event or change in control had occurred as of the end of the last fiscal year. The value of equity awards that vest is based on the closing price of our common stock at the end of the last fiscal year and assumes target performance in case of performance-based awards.

Termination and Change in Control Benefits

Termination Event	Curtis C. Simard	Josephine Iannelli	Richard B. Maltz	Marion Colombo	John M. Mercier
Termination Without Cause or With Good Reason—Not in Connection with Change in Control					
Cash severance	$1,965,000	$1,260,000	—	—	—
Pro rata bonus	294,750	147,000	—	—	—
Benefits	59,119	59,119	—	—	—
Equity vesting	726,424	316,043	—	—	—
Total	**$3,045,293**	**$1,782,162**	**—**	**—**	**—**
Termination Without Cause or With Good Reason—In Connection with Change in Control[1]					
Cash severance	$2,849,250	$1,701,000	$1,260,000	$620,000	$620,000
Pro rata bonus	294,750	147,000	—	—	—
Benefits	59,119	59,119	29,560	19,706	19,706
Equity vesting	726,424	316,043	316,043	197,684	199,552
Total	**$3,929,543**	**$2,223,162**	**$1,605,603**	**$837,390**	**$839,258**
Death, Disability or Retirement[2]					
Cash severance	$ 655,000	$ 420,000	—	—	—
Pro rata bonus	—	—	—	—	—
Benefits	29,560	29,560	—	—	—
Equity vesting	225,739	110,366	110,366	67,128	68,996
Total	**$ 910,299**	**$ 599,926**	**$ 110,366**	**$ 67,128**	**$ 68,996**
Any Other Termination of Employment					
Cash severance	—	—	—	—	—
Pro rata bonus	—	—	—	—	—
Benefits	—	—	—	—	—
Equity vesting	—	—	—	—	—
Total	**—**	**—**	**—**	**—**	**—**
Closing of Change in Control					
Cash severance	—	—	—	—	—
Pro rata bonus	—	—	—	—	—
Benefits	—	—	—	—	—
Equity vesting	726,424	316,043	316,043	197,684	199,552
Total	**$ 726,424**	**$ 316,043**	**$ 316,043**	**$197,684**	**$199,552**

[1] The termination of employment is in connection with a change in control if (i) for Mr. Simard and Ms. Iannelli, it occurs in anticipation of, or within 12 months after, a change in control, and (ii) for the other named executive officers, it occurs within 12 months after a change in control.

[2] None of the named executive officers were eligible for retirement for purposes of the equity award agreements as of the end of December 31, 2020.

CEO Pay Ratio

As required by Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, and Item 402(u) of Regulation S-K, we are providing the following information about the relationship of the annual total compensation of our employees and the annual total compensation of Curtis C. Simard, our Chief Executive Officer and President ("CEO") as of the end of 2020, our last completed fiscal year:

CEO PAY RATIO	
CEO Annual Total Compensation	$953,945
Median Employee Annual Total Compensation	$ 53,704
CEO to Median Employee Pay Ratio	17.76

Based on this information, we reasonably estimate that for 2020 our CEO's annual total compensation was approximately 18 times that of the median of the annual total compensation of all our employees.

To identify the median of the annual total compensation of all our employees, as well as to determine the annual total compensation of our median employee and our CEO for this purpose, we took the following steps:

- We selected, November 16, 2020 which is within the last three months of 2020, as the date upon which we would identify the "median employee" because it enabled us to make such identification in a reasonably efficient and economical manner.
- We identified the "median employee" from our employee population excluding the CEO by including the annualized base salary calculated on their November 16, 2020 compensation rate, overtime, incentives, commissions, matching contributions to participants in our Section 401(k) plan, and the employer subsidy contributions for our health programs.
- We annualized the compensation of the employees who were hired in 2020 but did not work for us for the entire fiscal year.

Since we do not widely distribute annual equity awards to our employees, such awards were excluded from our compensation measure for identifying our median employee.

We identified our median employee using compensation measures identified in Section 953(b) consistently applied to all our employees included in the calculation.

CEO Employment Agreement

In February 2018 we executed a new CEO Employment Agreement with Mr. Simard in order to retain Mr. Simard.

The term of the Employment Agreement is three years from January 1, 2018, with automatic one-year renewals each January 1st thereafter unless we elect not to extend the term of the Employment Agreement by providing Mr. Simard with 90 days' written notice. The Employment Agreement includes certain restrictive covenants with respect to competition and non-solicitation of customers and employees that apply during the term of the Employment Agreement and for a period of one-year following Mr. Simard's termination of employment, the geographic scope of which has been expanded to cover a fifty-mile radius of any location where the employer maintains an office as of the date of the termination of employment.

Under the terms of the Employment Agreement, Mr. Simard is entitled to receive an annual base salary of $655,000, which amount is not subject to automatic increase, but will be reviewed annually, and further provides that his base compensation will not be reduced downward during the term of the Employment Agreement. Mr. Simard will be eligible to continue to participate in our annual incentive and long-term incentive plans approved by the Board and in our medical, dental, disability, retirement, life insurance, and other employee benefit plans.

If Mr. Simard's employment is terminated by the employer without "cause" or he resigns for "good reason" (each as defined in the Employment Agreement), Mr. Simard is entitled to receive, in addition to accrued benefits, 1) a lump sum payment equal to the base compensation that would have been paid during the remaining unexpired term of the Employment Agreement; 2) insurance continuation for the greater of the remaining unexpired term of the Employment Agreement or the duration of COBRA coverage; 3) payment of a pro-rated amount of any incentive compensation earned for the calendar year of termination; and 4) immediate vesting of all time-based equity awards and vesting at target of all performance-based equity awards.

In addition, if Mr. Simard's employment is terminated by the employer without cause or he resigns for good reason within six months prior to or within twelve months following a change in control (as defined in the Employment Agreement), then, in addition to accrued benefits, he is entitled to receive 1) a lump sum payment equal to three times his base compensation and target bonus in effect during the year of termination; 2) insurance continuation for three years; 3) payment of a pro-rated amount of any incentive compensation earned for the calendar year of termination; and 4) immediate vesting of all time-based equity awards and vesting at target of all performance-based equity awards. If the payment of the severance benefits upon a change in control is determined to constitute an "excess parachute payment" under Code Section 280G, then the payments will be reduced so that no portion of the severance benefits will be non-deductible to us or will be subject to excise taxes.

Compensation of the CEO.

On an annual basis, the Compensation and Human Resources Committee reviews the existing compensation plan for our CEO. This Committee reviews his compensation plan specific to our overall performance, the achievement of certain financial and non-financial goals and the judgment of the entire Board as to the quality of his leadership. In addition, the Committee will compare his compensation to CEOs of our Compensation Peer Group and salary survey information for comparable positions. In making these comparisons, the Committee will consider appropriate differences in the size, business model, and financial performance of the other banking institutions.

In accordance with the CEO Employment Agreement, the Committee reviews his base salary no less often than annually and may recommend an increase in his base salary to the Board at the Committee's sole discretion.

As further discussed below, Mr. Simard participated in the structured annual incentive cash compensation plan provided to all executive officers. During 2020, Mr. Simard earned an award amounting to $433,738.

During 2020, the Compensation and Human Resources Committee granted Mr. Simard restricted time-vested shares and the potential for an issue of restricted performance shares under the 2019-2021 Long Term Incentive Program. He is required to hold the time-vested and any performance shares issued for a minimum of three years from the issue date. Mr. Simard is a member of the Board and does not receive any director fees for participating in the activities of the Board.

Other Employment Agreements, Change in Control, Confidentiality and Non-Competition Agreements.

We entered into an Employment Agreement with Ms. Iannelli which includes change in control, confidentiality and non-competition provisions. This agreement provides Ms. Iannelli severance of salary for 36 months and benefits for a period of 36 months in the event of both a change of control of our company and subsequent termination (or constructive termination) within 12 months after a change of control, unless such termination was for cause. In addition, Ms. Iannelli's equity grants will vest in accordance with the terms of the plans under which they were granted and vest fully upon a change in control.

We have also entered into an Executive Change in Control Severance Plan with BHBT's Executive Vice Presidents, Richard B. Maltz, Marion Colombo, and John M. Mercier along with eight other management employees. Their agreements provide for severance of salary for a period of 12 to 24 months in the event of both a change of control of our company and subsequent termination (or constructive termination) within 12 months of a change of control, unless such termination was for cause.

All these agreements were entered into as part of a total compensation program to attract and/or retain qualified executives and not entered into in response to any effort known to the Board by any party or entity to acquire control of our company.

Incentive Cash Compensation.

During 2020, Messrs. Simard, Maltz and Mercier and Mss. Iannelli and Colombo participated in an annual cash incentive compensation program with team goals representing opportunities for incentive payments. We paid out a total of $1,140,080 in March 2021 to the five NEOs based on the 2020 measurement period.

The plan is based on a balance of multiple measures, layered oversight, and reasonable ceilings for exceptional performance. These two basic plan features structure the plan to discourage excessive risk but rewards strong performance. The Compensation and Human Resources Committee and the Board Risk Committee both reviewed the plan design to insure it is in line with best practices for risk.

Proposal 2 Advisory Approval of 2020 Executive Compensation

Our shareholders have the opportunity at the Annual Meeting to vote to approve, on a non-binding, advisory basis, the compensation of our Named Executive Officers, or NEOs, as disclosed in this proxy statement in accordance with SEC rules. Each year, our Compensation and Human Resources Committee reviews our NEOs performance using a balanced and disciplined approach to determine base salaries and variable compensation awards. The approach for 2020 included a full-year assessment of financial results, contributions of the executives to the overall performance of the business, and progress delivering on our short- and long-term strategic goals. The Compensation and Human Resources Committee considers various factors that collectively indicate successful management of our business, including: 1) overall corporate performance; 2) individual performance, including financial and non-financial measures; 3) the manner in which results are achieved; 4) adherence to risk and compliance policies, as well as the quality of earnings; 5) accountability in driving a strong risk management culture and other core values of our company; 6) our year-over-year performance relative to our established risk metrics; and 7) our performance relative to our peer competitor group.

Section 14A of the Exchange Act requires us to provide shareholders an opportunity to vote to approve, on a non-binding, advisory basis, the compensation of our NEOs, as disclosed in this proxy statement. This vote does not address any specific item of compensation, but rather the overall compensation of our NEOs and our compensation philosophy, policies and practices, as disclosed in this proxy statement. At the 2021 Annual Meeting of Shareholders, shareholders voted to have the opportunity to express their opinion on the overall compensation program through this non-binding voting mechanism on an annual basis.

The NEOs in this proxy statement are Curtis C. Simard, Josephine Iannelli, Richard B. Maltz, Marion Colombo and John M. Mercier. The compensation of our NEOs is disclosed in the "Compensation Discussion and Analysis" section, the summary compensation table, and the other related tables and narrative disclosure contained elsewhere in this proxy statement. As discussed in those disclosures, our Board believes that our executive compensation philosophy, policies, and procedures provide a strong link between each NEO's compensation and our short- and long-term performance.

We are asking our shareholders to indicate their support of our NEOs' compensation as described in this proxy statement. This proposal will be presented at the Annual Meeting as a resolution in substantially the following form:

***RESOLVED*, on an advisory basis, that the compensation paid to the Named Executive Officers, as disclosed in the proxy statement for this 2021 Annual Meeting of Shareholders pursuant to compensation disclosure rules of the Securities and Exchange Commission, including the "Compensation Discussion and Analysis" section, the executive compensation tables and narrative discussion, is hereby APPROVED.**

This vote is advisory and therefore not binding on us, the Compensation and Human Resources Committee or the Board. However, the Board and the Compensation and Human Resources Committee value the opinions of our shareholders and to the extent there is any significant vote against the NEO compensation as disclosed in this proxy statement, we will consider our shareholders' concerns, and the Compensation and Human Resources Committee will evaluate whether any actions are necessary to address those concerns.

Vote Required

The approval of the non-binding, advisory resolution on the compensation of our NEOs will require a majority of the votes cast at the Annual Meeting by the shareholders present at the meeting or represented by proxy and entitled to vote be cast "FOR" this proposal. An abstention will have no effect on the outcome of the proposal. Brokers do not have discretionary authority to vote shares on this proposal without direction from the beneficial owner and broker non-votes will have no effect on the vote.

OUR BOARD UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS VOTE "FOR" THE ADVISORY APPROVAL OF OUR 2020 EXECUTIVE COMPENSATION.

Proposal 3
Ratification of Appointment of Independent Registered Public Accounting Firm

Our Audit Committee is directly responsible for the appointment, compensation, retention, and oversight of our independent registered public accounting firm, and is involved in the selection of the firm's lead engagement partner. Annually the Audit Committee will evaluate the independent public accounting firm's qualifications, assess the firm's quality of service, the firm's sufficiency of resources, the quality of the communication and interaction with the firm, and the firm's independence, objectivity, and professional skepticism. The Audit Committee also considers the advisability and potential impact of selecting a different independent public accounting firm.

After assessing the performance and independence of RSM US LLP or RSM, our principal independent registered public accounting firm, the Audit Committee believes that retaining RSM is in the best interests of our Company and shareholders. The Audit Committee has appointed RSM as our independent registered public accounting firm to audit our 2021 consolidated financial statements. RSM has served as our independent registered public accounting firm since 2015. Although it is not required to do so, our Board is asking shareholders to ratify RSM's appointment. The Audit Committee considers RSM to be well qualified. In the absence of contrary specification, the proxy holders will vote proxies received in response to this solicitation in favor of ratification of the appointment. If our shareholders do not ratify RSM's appointment, the Audit Committee will consider changing our independent registered public accounting firm for 2021.

Whether or not shareholders ratify RSM's appointment, the Audit Committee may appoint a different independent registered public accounting firm at any time if it determines that such a change is appropriate. RSM has advised the Committee that it is an independent accounting firm with respect to our company and our subsidiaries in accordance with the requirements of the SEC and the Public Company Accounting Oversight Board. Representatives of RSM are expected to be present at the Annual Meeting. They will have an opportunity to make a statement if they choose and are expected to be available to respond to appropriate shareholder questions.

Vote Required

The ratification of RSM as our independent registered public accounting firm for the fiscal year ending December 31, 2021 will require the approval of a majority of the votes cast at the Annual Meeting by shareholders present at the meeting or represented by proxy and entitled to vote. An abstention will have no effect on the outcome of the proposal. Because this proposal is considered a routine matter, discretionary votes by brokers will be counted.

THE BOARD UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF RSM US LLP AS INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2021.

Principal Accounting Fees and Services

The reports of RSM on our consolidated financial statements as of December 31, 2020 and 2019 and for the three-year period ending on December 31, 2020, and on internal control over financial reporting as of December 31, 2020, did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles.

The following table summarizes RSM's audit fees from January 1, 2019 through December 31, 2020.

SERVICE	2019	2020
Audit Fees[1]	$386,000	$395,600
Audit-Related Fees[2]	54,000	60,000
Tax Fees	—	—
All Other Fees	—	—
Total	$440,000	$455,600

[1] Includes services relating to the audit of annual consolidated financial statements, review of quarterly consolidated financial statements, statutory audits, comfort letters, and consents and review of documentation filed with SEC-registered and other securities offerings.
[2] Includes services related to assistance with general accounting matters, work performed on acquisitions and divestitures, employee benefit plan audits and assistance with statutory audit matters.

Pre-Approval Policies and Procedures

The Audit Committee's policies and procedures require the Audit Committee Chair to pre-approve all audits and non-audit services and report such pre-approvals to the Audit Committee at its next regularly scheduled meeting.

No services were rendered for financial information systems design and implementation or internal audit.

The Audit Committee has considered the compatibility of the non-audit services furnished by our auditing firm with the firm's need to be independent.

The Audit Committee pre-approved 100% of the services performed by RSM pursuant to the policies outlined above.

Other Matters

Nominations by Shareholders and Other Shareholder Proposals

Our Bylaws and Governance Committee Charter provide that we consider nominees for election to the Board recommended by shareholders if those nominations are made in the same manner provided for under our Bylaws with regard to typical shareholder proposals. These procedures require in part, that to be timely, a shareholder's notice shall be delivered to the Clerk at our principal executive offices no later than the close of business of the 120th day (i.e., January 18, 2022) nor earlier than the close of business on the 150th day (i.e., December 19, 2021) prior to the first anniversary of the preceding year's Annual Meeting.

The shareholder's notice shall include:

- for each person whom the shareholder proposes to nominate for election or re-election as a director, all information relating to that person is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required; in each case pursuant to Regulation 14A under the Exchange Act, such person's written consent to being named in the proxy statement as a nominee and to serving as a director, if elected, is to be included;
- for any other business that the shareholder proposes to bring before the meeting, a brief description of the business to be brought before the meeting, the reasons for conducting such business at the meeting, any material interest in such business of such shareholder and the beneficial owner, if any, on whose behalf the proposal is made, and the names and addresses of other shareholders known by the shareholder proposing such business to support the proposal, and the class and number of shares of our capital stock beneficially owned by the other shareholders;
- for the shareholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made 1) the name and address of such shareholder, as they appear on our books, and of such beneficial owner, and 2) the class and number of shares of our common stock, which are owned beneficially and of record by such shareholder and such beneficial owner. Shareholder proposals submitted pursuant to Rule 14a-8 of the Exchange Act for inclusion in our proxy statement and form of proxy for the 2022 Annual Meeting of Shareholders must be received by us no later than December 2, 2021. Any such proposal must also comply with the requirement as to form and substance established by the SEC for such a proposal to be included in the proxy statement and form of proxy.

Proposals should be addressed to Curtis C. Simard, CEO, Bar Harbor Bankshares, 82 Main Street, P.O. Box 400, Bar Harbor, Maine 04609. If our Governance Committee determines that any shareholder proposal (including a nomination for election of a director) was not made in a timely fashion or that information provided in the notice does not fulfill the information requirements set forth above in any material respects, such proposal will not be presented for action at the Annual Meeting for which it is proposed. If a shareholder should propose a candidate, our Governance Committee would evaluate that candidate based on the criteria noted in this proxy statement.

Communication with Board

Our shareholders and other interested persons who want to communicate with the Board, any individual director, the non-management directors as a group, or any other group of directors, can write to:

Chairman of the Board Bar Harbor
Bankshares
82 Main Street
P.O. Box 400
Bar Harbor, ME 04609

Written communications addressed to the Board received by us from shareholders will be shared with the full Board no later than the next regularly scheduled Board meeting.

Delivery of Documents to Security Holders Sharing an Address

SEC rules permit us to deliver a single copy of our 2020 Annual Report to Shareholders and this proxy statement to two or more shareholders who share an address, unless we have received contrary instructions from one or more of the security holders. This delivery method, which is known as "householding," can reduce our expenses for printing and mailing. Any shareholder of record at a shared address to which a single copy of the documents was delivered may request a separate copy of the 2020 Annual Report to Shareholders and this proxy statement by (a) calling 1-888-853-7100, (b) sending a letter to us at 82 Main Street, P.O. Box 400, Bar Harbor, Maine 04609, Attn: Investor Relations, or (c) sending us an e-mail at InvestorRelations@barharbor.bank. Shareholders of record who wish to receive separate copies of these documents in the future may also contact us as stated above. Shareholders of record who share an address and are receiving multiple copies of our Annual Reports to Shareholders and proxy statements may contact us as stated above to request delivery of a single copy of such documents. Shareholders who hold their shares in "street name" and who wish to obtain copies of these proxy materials should follow the instructions on their voting instruction forms or contact the holders of record.

Solicitation of Proxies

We will pay all expenses of preparing, printing and mailing, and making available over the internet, the Annual Meeting proxy materials, as well as all other expenses of soliciting proxies for the Annual Meeting on behalf of our Board. Alliance Advisors will solicit proxies by personal interview, mail, telephone, facsimile, email, Internet or other means of electronic transmission and will request brokerage houses, banks, and other custodians, nominees and fiduciaries to forward soliciting material to the beneficial owners of common stock held of record by these persons. We will pay a fee of approximately $10,500 to Alliance Advisors for its services and will reimburse it for payments made to brokers and other nominees for their expenses in forwarding soliciting material. In addition, certain of our Directors, officers and other employees, who will receive no compensation in addition to their regular salary or other compensation, may solicit proxies by personal interview, mail, telephone, facsimile, email, internet or other means of electronic transmission.

Other Business

As of the date of this proxy statement, the Board knows of no other matters that will be presented for consideration at the Annual Meeting other than as described in this proxy statement. If any other business, matter, or proposal shall properly come before the Annual Meeting and be voted upon, the enclosed proxies will be deemed to confer discretionary authority on the individuals named as proxies therein to vote the shares represented by such proxies as to any such matters. The person named as proxies intend to vote or not to vote in accordance with the recommendation of the Board.

By Order of the Board of Directors

Kirstie A. Carter

Kirstie A. Carter, Corporate Clerk & Secretary

Appendix A
Audit Committee Report

To the Board of Directors of Bar Harbor Bankshares:

The Audit Committee of the Board of Directors consists entirely of members who meet the independence requirements of the listing standards of the New York Stock Exchange and the rules and regulations of the SEC, as determined by the Board of Directors. The Audit Committee is responsible for providing independent, objective oversight of the financial reporting processes and internal controls of Bar Harbor Bankshares. The Audit Committee operates under a written charter approved by the Board of Directors. A copy of the current charter is available on Bar Harbor Bankshares' website at *https://www.barharbor.bank/codes-and-charters*.

Management is responsible for Bar Harbor Bankshares' system of internal control and financial reporting processes, for the preparation of consolidated financial statements in accordance with U.S. generally accepted accounting principles and for the annual report on Bar Harbor Bankshares' internal control over financial reporting. The independent auditor is responsible for performing an independent audit of Bar Harbor Bankshares' consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board, or PCAOB, and for issuing a report on the financial statements and the effectiveness of Bar Harbor Bankshares' internal control over financial reporting. The Audit Committee's responsibility is to monitor and oversee these processes. Audit Committee members do not serve as professional accountants or auditors for Bar Harbor Bankshares, and their functions are not intended to duplicate or certify the activities of Bar Harbor Bankshares' management or independent auditor.

Consistent with its monitoring and oversight responsibilities, the Audit Committee met with management and RSM US LLP, or RSM, the independent auditor of Bar Harbor Bankshares, to review and discuss the December 31, 2020 audited consolidated financial statements. Management represented that Bar Harbor Bankshares had prepared the consolidated financial statements in accordance with U.S. generally accepted accounting principles. The Audit Committee discussed with RSM the matters required by the PCAOB in accordance with Auditing Standard No. 1301, "Communications with Audit Committees."

The Audit Committee received from RSM the written communication that is required by PCAOB Rule 3526, "Communication with Audit Committees Concerning Independence," and the Audit Committee discussed with RSM that firm's independence. The Audit Committee also considered whether RSM's provision of non-audit services and the audit and non-audit fees paid to RSM were compatible with maintaining that firm's independence. Based on these reviews, the Audit Committee determined that RSM has the requisite independence.

Management completed the documentation, testing and evaluation of Bar Harbor Bankshares' system of internal control over financial reporting as of December 31, 2020 as required by Section 404 of the Sarbanes-Oxley Act of 2002. The Audit Committee received periodic updates from management and RSM at Audit Committee meetings throughout the year and provided oversight of the process. Prior to filing Bar Harbor Bankshares' Annual Report on Form 10-K for the fiscal year ended December 31, 2020, or the Form 10-K, with the SEC, the Audit Committee also reviewed management's report on the effectiveness of Bar Harbor Bankshares' internal control over financial reporting contained in the Form 10-K, as well as the Report of Independent Registered Public Accounting Firm provided by RSM and also included in the Form 10-K. RSM's report included in the Form 10-K related to its audit of Bar Harbor Bankshares' consolidated financial statements and the effectiveness of Bar Harbor Bankshares' internal control over financial reporting.

Based upon the Audit Committee's discussions with management and RSM and the Audit Committee's review of the information provided by, and the representations of, management and RSM, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements as of and for the year ended December 31, 2020 be included in the Form 10-K. The Audit Committee selected RSM as Bar Harbor Bankshares' independent auditor for the fiscal year ending December 31, 2021, and recommended the selection be submitted for ratification by the shareholders of Bar Harbor Bankshares.

Audit Committee of the Board:

Scott G. Toothaker, Chair
Steven H. Dimick
Daina H. Belair
David M. Colter
Brendan J. O'Halloran

ANNUAL MEETING OF SHAREHOLDERS

Time and date:	**9:00 a.m., Eastern Time, on Tuesday, May 18, 2021**
Record date:	Close of business on March 16, 2021
Attendance:	Shareholders as of the record date may participate in the Annual Meeting: *By Webcast:* On the internet, access *virtualshareholdermeeting.com/BHB2021* and enter the 16-digit control number included on your proxy card *In Person:* Bar Harbor Bank & Trust 82 Main Street Bar Harbor, Maine
How to vote:	Over the internet at *www.proxyvote.com*, by telephone at 1-800-690-6903, by webcast or in person at the Annual Meeting, or by mail addressed to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717 The deadline for transmitting Internet, telephone, and email voting is up until 11:59 p.m. Eastern Time on May 17, 2021 for shares held directly and by 11:59 p.m. Eastern Time on May 13, 2021 for shares held in a Plan. Please have your proxy card in hand when utilizing these other forms of voting.
Votes	Shareholders as of the record date will be entitled to one vote at the Annual Meeting for each outstanding share of common stock
Common stock outstanding as of record date:	14,945,097 shares

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2020

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number: 001-13349

BAR HARBOR BANKSHARES

(Exact name of registrant as specified in its charter)

Maine (State or other jurisdiction of incorporation or organization)	**01-0393663** (I.R.S. Employer Identification No.)
PO Box 400 **82 Main Street, Bar Harbor, ME** (Address of principal executive offices)	**04609-0400** (Zip Code)

Registrant's telephone number, including area code: **(207) 669-6784**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value $2.00 per share	BHB	NYSE American

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definition of "large accelerated filer," "accelerated filer", "smaller reporting company", or "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one)

Large Accelerated Filer ☐ Accelerated Filer ☒ Non-Accelerated Filer ☐ Smaller Reporting Company ☐
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes ☐ No ☒

The aggregate market value of the common stock held by non-affiliates of Bar Harbor Bankshares was $334,523,815 based on the closing sale price of the common stock on the NYSE American on June 30, 2020, the last trading day of the registrant's most recently completed second quarter.

The Registrant had 14,938,697 shares of common stock, par value $2.00 per share, outstanding as of March 5, 2021.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 18, 2021 are incorporated by reference into Part III, Items 10-14 of this Annual Report on Form 10-K.

BAR HARBOR BANKSHARES AND SUBSIDIARIES
FORM 10-K

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The Company conducts business operations principally through Bar Harbor Bank & Trust, which may be referred to as the Bank and which is a subsidiary of Bar Harbor Bankshares. Unless the context requires otherwise, references in this report to "our company, "our," "us," "we" and similar terms refer to Bar Harbor Bankshares and its subsidiaries, including the Bank, collectively.

PART I

ITEM 1. BUSINESS

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report on Form 10-K that are not historical facts may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 ("Securities Act") and Section 21E of the Securities Exchange Act of 1934 ("Exchange Act") and are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. You can identify these statements from the use of the words "may," "will," "should," "could," "would," "plan," "potential," "estimate," "project," "believe," "intend," "anticipate," "expect," "target" and similar expressions. These forward-looking statements are subject to significant risks, assumptions and uncertainties, including among other things, changes in general economic and business conditions, increased competitive pressures, changes in the interest rate environment, legislative and regulatory change, changes in the financial markets, and other risks and uncertainties disclosed from time to time in documents that Bar Harbor Bankshares files with the Securities and Exchange Commission ("SEC"). All risk factors set forth in Item 1A of this Annual Report on Form 10-K should be considered in evaluating forward-looking statements, which speak only as of the dates on which they were made. The Company is not undertaking an obligation to update forward-looking statements, even though its situation may change in the future, except as required under federal securities law. The Company qualifies all of its forward-looking statements by these cautionary statements.

GENERAL

Bar Harbor Bankshares (the "Company") is the parent company of Bar Harbor Bank & Trust (the "Bank"), which is the only community bank headquartered in Northern New England with branches in Maine, New Hampshire and Vermont. The Bank is a regional community bank that thinks differently about banking. We provide the technology offerings and capabilities of larger banks, accompanied by access to local decision makers who are acutely focused on their local markets. As we approach the 135th anniversary of our founding, we have not forgotten that helping our customers achieve their goals is the key to the Bank's success. We deliver banking, lending and wealth management services from more than 50 locations. The Company's corporate goal is to be among the most profitable banks in New England, and its business model is centered on the following:

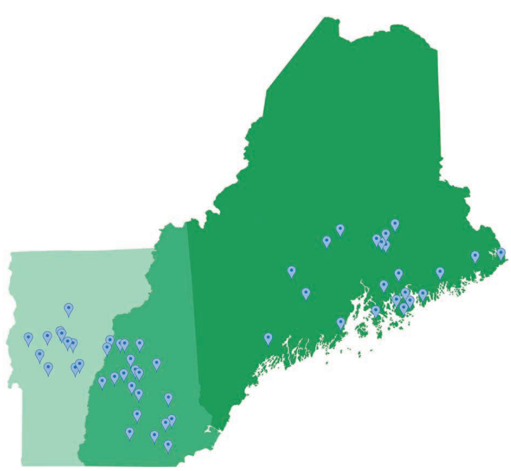
- Employee and customer experience is the foundation of superior performance, which leads to significant financial benefit to shareholders
- Geography, heritage, and performance are key while remaining true to a community-focused culture
- Strong commitment to risk management while balancing growth and earnings
- Service and sales driven culture with a focus on core business growth
- Fee income is fundamental to the Company's profitability through trust and treasury management services, customer derivatives, and secondary market mortgage sales
- Investment in processes, products, technology, training, leadership, and infrastructure
- Expansion of the Company's brand and business to deepen market presence
- Opportunity and growth for existing employees while adding catalyst recruits across all levels of the Company

Shown below is a profile and geographical footprint of the Bank as of December 31, 2020:

BAR HARBOR BANKSHARES

Personal Banking · Business Banking · Wealth Management
Over 50 locations in Maine, New Hampshire & Vermont

- **Assets: $3.7 billion**
- **New England Footprint**
- **Maine Headquarters**
- **Market Capitalization: $377 milion**
- **Dividend Yield: 3.90%**
- **NYSE American: BHB**



The Bank serves affluent and growing markets in Maine, New Hampshire and Vermont with more than 37 thousand, 32 thousand and 16 thousand customers, respectively. Within these markets, tourism, agriculture and fishing industries remain strong and continue to drive economic activity. These core markets have also maintained their strength through diversification into various service industries.

Maine

The Bank operates 23 full-service branches principally located in the regions of downeast, midcoast and central Maine, which can generally be characterized as rural areas. The Bank also has a commercial loan office in Portland, Maine. In Maine, the Bank considers its primary market areas to be Hancock, Penobscot, Washington, Kennebec, Knox and Sagadahoc counties. The economies in these counties are based primarily on tourism, healthcare, fishing and lobstering, agriculture, state government, and small local businesses and are also supported by a large contingent of retirees.

New Hampshire

The Bank operates 20 full-service branches and 3 wealth management offices in New Hampshire located in the regions of Lake Sunapee, Upper Valley and Merrimack Valley. A new full-service branch was opened in Bedford, New Hampshire on January 4, 2021. There are several distinct markets within each of these regions. The towns or cities of Nashua, Manchester, and Concord are considered part of the Merrimack Valley. Nashua, New Hampshire is a regional commercial, entertainment and dining destination and with its border with Massachusetts, also enjoys a vibrant high-tech industry and a robust retail industry due in part to the state's absence of a sales tax. The upper valley region of New Hampshire includes the towns of Lebanon and Hanover, which are home to Dartmouth-Hitchcock Medical Center and Dartmouth College, respectively. The Lake Sunapee market is a popular year-round recreation and resort area that includes both Lake Sunapee and Mount Sunapee and includes the towns of Claremont, New London, and Newport.

Vermont

The Bank operates 10 full-service branches in Vermont. The branches are primarily located in central Vermont within the counties of Rutland, Windsor and Orange. These markets are home to many attractions, including Killington Mountain, Okemo Resort, and the city of Rutland. Popular vacation destinations in this region include Woodstock, Brandon, and Ludlow.

SUBSIDIARY ACTIVITIES

Bar Harbor Bankshares is a legal entity separate and distinct from its first-tier bank subsidiary, Bar Harbor Bank & Trust, and its second-tier subsidiaries, Bar Harbor Trust Services, Charter Trust Company and Cottage Street Corporation. Under Charter Trust Company are third-tier subsidiaries Charter Holding Corporation and Charter New England Agency.

The Company also owns all of the common stock of two Connecticut statutory trusts. These capital trusts are unconsolidated and their only material asset is a $20.6 million trust preferred security related to the junior subordinated debentures reported in Note 8—*Borrowed Funds* of the Consolidated Financial Statements.

AVAILABLE INFORMATION

The Company is required to file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission, or SEC. The SEC maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

The Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements and amendments to those documents filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, are also available free of charge on the Company's website at www.barharbor.bank under the Shareholders Relations link as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC.

Investors should note that the Company currently announces material information to investors and others using SEC filings, press releases and postings on the Company's website (www.barharbor.bank), including news and announcements regarding the Company's financial performance, key personnel, brands and business strategy. Information posted on the corporate website could be deemed material to investors. The Company encourages investors to review the information posted on these channels. Updates may be made, from time to time, to the list of channels used to communicate information that could be deemed material and any such change will be posted on www.barharbor.bank. The information on the website is not, and shall not be deemed to be, a part hereof or incorporated into this or any other filings with the SEC.

COMPETITION

Major competitors in the Company's market areas include local independent banks, local branches of large regional and national bank affiliates, thrift institutions, savings and loan institutions, mortgage companies, and credit unions.

The Company has generally been able to compete effectively with other financial institutions by emphasizing quality customer service, making decisions at the local level, maintaining long-term customer relationships, building customer loyalty, and providing products and services designed to address the specific needs of customers. However, no assurance can be provided regarding the Company's ongoing ability to compete effectively with other financial institutions in the future.

No part of the Company's business is materially dependent upon one, or a few customers, or upon a particular industry segment, the loss of which would have a material adverse impact on the operations of the Company.

LENDING ACTIVITIES

General

The Bank originates loans in four basic portfolio categories, which are discussed below. These portfolios include the categories construction and land development, commercial real estate, commercial and industrial, agricultural, tax exempt entities, residential mortgages, home equity and other consumer loans. Loan interest rates and other key loan terms are affected principally by the Bank's lending policy, asset/liability strategy, loan demand, competition, and the supply of money available for lending purposes. The Bank monitors and manages the amount of long-term fixed-rate lending and adjustable-rate loan products according to its interest rate management policy. The Bank generally originates loans for investment except for certain residential mortgages that are underwritten with the intention to be sold in the secondary mortgage market.

Loan Portfolio Analysis. The following table sets forth the year-end composition of the Company's loan portfolio in dollar amounts and as a percentage of the portfolio for the five years indicated. Further information about the composition of the loan portfolio is contained in Note 3—*Loans* of the Consolidated Financial Statements.

	2020		2019		2018		2017		2016	
(in millions, except percentages)	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Commercial real estate	$1,084	43%	$ 931	35%	$ 827	33%	$ 827	34%	$ 418	37%
Commercial and industrial	441	17	423	16	405	16	379	15	151	13
Total commercial	1,525	60	1,354	51	1,232	49	1,206	49	569	50
Residential real estate	924	36	1,152	44	1,145	46	1,156	46	507	45
Consumer	114	4	135	5	114	5	123	5	53	5
Total loans	2,563	100%	2,641	100%	2,490	100%	2,485	100%	1,129	100%
Allowance for loan losses	(19)		(15)		(14)		(12)		(10)	
Net loans	$2,544		$2,626		$2,476		$2,473		$1,119	

Commercial Real Estate

Commercial real estate loans are secured primarily by multifamily dwellings, industrial/warehouse buildings, retail centers, office buildings and hospitality properties, primarily located in the Company's market area in New England. The Company's loans secured by commercial real estate are originated with either a fixed or an adjustable interest rate. Interest rates on adjustable rate loans are based on a variety of indices, generally determined through negotiations with borrowers. The Bank's commercial real estate underwriting guidelines call for loan-to-value ratios not to exceed 80 percent of the appraised value of the underlying property securing the loan. Loans generally require monthly payments containing balloon payments with maturities of 10 years or less based on 25 year or less amortization schedules for commercial real estate and multifamily loans.

Commercial and Industrial Loans

Commercial and industrial loans are made to finance operations, provide working capital, finance the purchase of fixed assets, and business acquisitions. Additionally, commercial and industrial loans attract multifaceted relationships, which include deposit and treasury management services. A borrower's cash flow from operations is generally the primary source of repayment. Accordingly, the Company's loan policy provides specific guidelines regarding debt service coverage and other financial ratios. Commercial and industrial loans include lines of credit, commercial term loans and owner-occupied commercial real estate loans. Commercial lines of credit are extended to businesses generally to finance operations and working capital needs. Commercial term loans are typically made to finance the acquisition of fixed assets, refinance short-term debt originally used to purchase fixed assets or make business acquisitions. Commercial and industrial loans are extended based on the financial strength and integrity of the borrower and guarantor(s) and are generally collateralized by the borrower's assets such as accounts receivable, inventory, equipment or real estate, typically with a term based on the collateral's useful life of 1-10 years. The interest rates on these loans generally are adjustable and usually are indexed to The Wall Street Journal's prime rate (Prime Rate) or London Interbank Offered Rate (LIBOR) and the spread will vary based on market conditions and perceived credit risk.

In order to mitigate the risk of loss, the Company generally requires collateral and personal guarantees to support commercial and industrial loans. The Company attempts to mitigate risk by limiting advance rates against eligible collateral to no more than 80%, though appropriate advance rates can vary depending on asset class.

The Company participates in the Small Business Administration's (SBA) Paycheck Protection Program (PPP) initiated by the CARES Act of 2020. The program was designed to provide short-term relief to help small businesses sustain operations. Borrowers have the opportunity to have these loans forgiven upon acceptance of their documentation by the SBA. Upon forgiveness the SBA will reimburse the Company for any principal and accrued interest on the loan. The Company began offering PPP loans to customers in 2020 and is currently accepting loan applications for additional PPP loans under the Consolidated Appropriations Act of 2021.

Residential Real Estate

The Company offers fixed-rate and adjustable-rate residential mortgage loans to individuals with maturities of up to 30 years that are fully amortizing with monthly loan payments. Certain loans are originated for sale with rate lock commitments which are recorded as derivative financial instruments. Mortgages are generally underwritten according to U.S. government sponsored enterprise guidelines designated as "conforming loans". The Company also originates jumbo loans above conforming loan amounts which generally are consistent with secondary market guidelines for these loans; however, these are typically held for investment. The Company does not offer a subprime mortgage lending program. Mortgage loans sold on the secondary market are sold on a servicing-retained basis.

Consumer Loans

The Company offers a variety of secured consumer loans, including second deed-of-trust home equity loans, home equity lines of credit ("HELOCs"), personal property and loans secured by deposits. The Company also offers a limited amount of unsecured loans. The Company originates consumer loans primarily in its market area. Consumer loans generally have shorter terms to maturity or variable interest rates, which reduce the Company's exposure to changes in interest rates, and carry higher rates of interest than residential real estate loans. The Company believes that offering consumer loan products is critical to community banking by providing customer service at the holistic relationship level.

HELOCs have a 10 or 15 year draw period followed by a 20 year amortization and require either interest-only payments during the draw period or the payment of 1.0% or 1.5% of the outstanding loan balance per month (depending on the terms). Following receipt of payments, the available credit includes amounts repaid up to the credit limit. HELOCs with a 10 year draw period have a balloon payment due at the end of the draw period and then amortize for the remaining term. For loans with shorter-term draw periods, once the draw period has lapsed, generally the payment is fixed based on the loan balance and prevailing market interest rates at that time.

Maturity and Sensitivity of the Loan Portfolio

The following table shows contractual maturities of selected loan categories at December 31, 2020. The contractual maturities do not reflect premiums, discounts, deferred costs, or prepayments.

(in thousands)	**Within 1 year**	**1 to 5 Years**	**More than 5 Years**	**Total**
Commercial real estate	$219,243	$5,778	$859,360	$1,084,381
Commercial and industrial	161,609	56,670	222,790	441,069
Total commercial	380,852	62,448	1,082,150	1,525,450
Residential real estate	11,704	407	911,780	923,891
Consumer	26,438	3,550	83,556	113,544
Total	$418,994	$66,405	$2,077,486	$2,562,885

Problem Assets

The Bank prefers to work with borrowers to resolve problems rather than proceeding to foreclosure. For commercial loans, this may result in a period of forbearance or restructuring of the loan, which is normally done at current market terms and may not result in a "troubled" loan designation. For residential mortgage loans, the Bank generally follows the Consumer Financial Protection Bureau ("CFPB") guidelines to attempt a restructuring that will enable owner-occupants to remain in their home. However, if these processes fail to result in a performing loan, the Bank generally will initiate foreclosure or other proceedings no later than the 120th day of a delinquency, as necessary, to minimize any potential loss. Management reports on delinquent loans and non-performing assets to the Board monthly. Loans are generally removed from accruing status when they reach 90 days delinquent, except for certain loans which are well secured and in the process of collection. Loan collections are managed by a combination of the related business units and the Bank's managed assets group, which focuses on larger, riskier collections and the recovery of purchased credit impaired loans.

The following table presents the problem assets and accruing troubled debt restructurings ("TDRs") for the five years indicated:

(in thousands, except ratios)	2020	2019	2018	2017	2016
Non-accruing loans:					
Commercial real estate	$ 4,251	$ 3,489	$ 8,156	$ 8,343	$2,564
Commercial and industrial	1,466	1,836	2,331	1,209	315
Residential real estate	5,729	5,335	7,210	4,266	3,419
Consumer	742	890	538	500	198
Total non-performing loans	12,188	11,550	18,235	14,318	6,496
Real estate owned	—	2,236	2,351	122	90
Total non-performing assets	$12,188	$13,786	$20,586	$14,440	$6,586
Troubled debt restructurings (accruing)	$ 95	$ 890	$ 1,657	$ 1,046	$2,713
Accruing loans 90+ days past due	125	267	246	510	—
Total non-performing loans/total loans	0.48%	0.44%	0.73%	0.58%	0.58%
Total non-performing assets/total assets	0.33	0.38	0.57	0.41	0.38

Allowance for Loan Losses

The Bank's loan portfolio is regularly reviewed by management to evaluate the adequacy of the allowance for loan losses. The allowance represents management's estimate of inherent losses that are probable and estimable as of the date of the financial statements. The allowance includes a specific component for impaired loans (a "specific loan loss reserve") and a general component for portfolios of all outstanding loans (a "general loan loss reserve"). At the time of acquisition, no allowance for loan losses is assigned to loans acquired in business combinations. These loans are carried at fair value, including the impact of expected losses, as of the acquisition date. The loan loss allowance is discussed further in Note 1—*Summary of Significant Accounting Policies* of the Consolidated Financial Statements.

The following table presents an analysis of the allowance for loan losses for the five years indicated:

(in thousands, except ratios)	2020	2019	2018	2017	2016
Balance at beginning of year	$15,353	$13,866	$12,325	$10,419	$ 9,439
Charged-off loans:					
Commercial real estate	1,137	212	553	275	133
Commercial and industrial	593	359	277	207	90
Residential real estate	54	349	383	255	141
Consumer	384	233	694	289	47
Total charged-off loans	2,168	1,153	1,907	1,026	411
Recoveries on charged-off loans:					
Commercial real estate	173	194	318	50	40
Commercial and industrial	30	65	83	11	289
Residential real estate	13	55	166	65	44
Consumer	56	9	101	18	39
Total recoveries on charged-off loans	272	323	668	144	412
Net charged-off	1,896	830	1,239	882	(1)
Provision for loan losses	5,625	2,317	2,780	2,788	979
Balance at end of year	$19,082	$15,353	$13,866	$12,325	$10,419
Ratios:					
Net charge-offs/average loans	0.07%	0.03%	0.05%	0.04%	—%
Recoveries/charged-off loans	12.55	28.01	35.03	14.04	100.24
Allowance for loan losses/total loans	0.74	0.58	0.56	0.50	0.92
Allowance for loan losses/non-accruing loans	156.56	132.93	76.04	86.08	160.39

The following table presents year-end data for the approximate allocation of the allowance for loan losses by loan categories at the dates indicated. The table shows for each category the amount of the allowance allocated to that category as a percentage of the outstanding loans in that category. Management believes that the allowance can be allocated by category only on an approximate basis. The allocation of the allowance to each category is not indicative of future losses and does not restrict the use of any of the allowance to absorb losses in any category. Due to the impact of accounting standards for acquired loans, data in the accompanying tables may not be comparable between accounting periods.

(in thousands, except ratios)	2020 Amount	2020 Percent Allocated to Total Loans	2019 Amount	2019 Percent Allocated to Total Loans	2018 Amount	2018 Percent Allocated to Total Loans	2017 Amount	2017 Percent Allocated to Total Loans	2016 Amount	2016 Percent Allocated to Total Loans
Commercial real estate	$11,243	1.04%	$ 7,816	0.84%	$ 6,984	0.84%	$ 6,134	0.74%	$ 5,145	1.23%
Commercial and industrial	3,382	0.77	3,613	0.85	2,415	0.60	2,389	0.63	1,952	1.29
Residential real estate	4,078	0.44	3,545	0.31	4,059	0.35	3,416	0.30	2,721	0.54
Consumer	379	0.33	379	0.28	408	0.36	386	0.31	601	1.13
Total	$19,082	0.74%	$15,353	0.58%	$13,866	0.56%	$12,325	0.50%	$10,419	0.92%

INVESTMENT SECURITIES ACTIVITIES

The general objectives of the Company's investment portfolio are to provide liquidity when loan demand is high, and to absorb excess funds when demand is low. The securities portfolio also provides a medium for certain interest rate risk measures intended to maintain an appropriate balance between interest income from loans and total interest expense. For additional information, see Item 7A of this Annual Report on Form 10-K.

The Company only invests in high-quality investment-grade securities. Investment decisions are made in accordance with the Company's investment and treasury policies and include consideration of risk, return, duration, and portfolio concentrations.

The following table presents the amortized cost and fair value of securities available for sale for the three years indicated:

(in thousands)	2020 Amortized Cost	2020 Fair Value	2019 Amortized Cost	2019 Fair Value	2018 Amortized Cost	2018 Fair Value
US Government-sponsored enterprises	$206,834	$212,390	$319,065	$321,969	$413,492	$404,952
US Government agency	82,878	85,632	98,568	99,661	111,938	110,512
Private label	19,810	19,709	20,212	19,533	20,353	20,382
Obligations of states and political subdivisions thereof	164,766	169,004	139,240	142,006	133,260	132,265
Corporate bonds	97,689	98,311	78,804	80,061	58,098	57,726
Total	$571,977	$585,046	$655,889	$663,230	$737,141	$725,837

The following table presents the amortized cost and weighted average yields of securities available for sale at December 31, 2020:

(in thousands, except ratios)	Available for sale Amortized Cost	Available for sale Weighted Average Yield
Within 1 year	$ —	—%
Over 1 year to 5 years	20,566	4.82
Over 5 years to 10 years	76,456	4.26
Over 10 years	165,433	3.04
Total bonds and obligations	262,455	3.59
Mortgage-backed securities	309,522	2.64
Total	$571,977	3.03%

DERIVATIVE FINANCIAL INSTRUMENTS

The Company utilizes interest swap derivatives to minimize fluctuations in earnings and cash flows caused by interest rate volatility either in the form of interest rate swaps on wholesale funding designated as cash flow hedges or partial interest rate hedges on securities accounted for as fair value hedges. For further discussion on derivatives see Note 11—*Derivative Financial Instruments and Hedging Activities* of the Consolidated Financial Statements.

The Company offers derivative products in the form of interest rate swaps and interest rate caps, to commercial loan customers to facilitate their risk management strategies. The Company enters into an interest rate swap with a customer, while at the same time entering into an offsetting interest rate swap with another financial institution. These interest rate swap transactions allows customers to effectively fix the interest rate on their loans. Customer loan derivative income is recognized for the upfront fee paid by the customer at origination. These swaps are designated as economic hedges and transactions are cleared through arrangements with third-party financial institutions.

The Company's mortgage banking activities result in two types of derivative instruments. Interest rate lock commitments are offered to residential loan customers, to allow them the ability to lock into a fixed interest rate prior to closing, for loans the Company intends to sell are classified as non-hedging derivatives. To offset this risk the Company often enters into offsetting forward sale commitments with national financial institutions to purchase the loans selected for sale under a best efforts or mandatory delivery contract accounted for as an economic hedge.

The Company's floating-rate funding, certain hedging transactions and certain of the Company's products, such as floating-rate loans and mortgages, determine the applicable interest rate or payment amount by reference to a benchmark rate, such as the London Interbank Offered Rate ("LIBOR"), or to an index, currency, basket or other financial metric. LIBOR and certain other benchmark rates are the subject of recent national, international, and other regulatory guidance and proposals for reform. Further accounting guidance has been issued regarding rate reform in relation to derivative instruments as further described in Note 1—*Summary of Significant Accounting Policies* under ASU 2020-04.

DEPOSIT ACTIVITIES

The Company offers a variety of deposit products to consumers, businesses and institutional customers with a wide range of interest rates and terms. The Company's deposits consist of interest-bearing and non-interest-bearing demand accounts, savings accounts, money market deposit accounts, and certificates of deposit. The Company solicits deposits primarily in its market area, excluding brokered deposits. The Company primarily relies on competitive pricing policies, marketing and customer service to attract and retain deposits.

Additionally, customer related deposit fees are a significant source of fee income and principally derived from debit card interchange fees earned from transaction fees that merchants pay whenever a customer uses a debit card to make a purchase. Customer deposit fees are also earned from a variety of deposit accounts with various fee schedules and terms, which are designed to meet the customer's financial needs. Other depositor related fee services provided to customers include ATMs, remote deposit capture, ACH origination, wire transfers, internet bill pay, and other cash management services.

The Company manages pricing of deposits in keeping with the Company's asset/liability management, liquidity and profitability objectives, subject to market competitive factors. Based on experience, the Company believes that their deposits are relatively stable sources of funds. Despite this stability, the Company's ability to attract and maintain these deposits and rates are significantly affected by market conditions.

The following table presents the average balances and weighted average rates for deposits for the three years indicated:

	2020			2019			2018		
(in thousands, except ratios)	**Average Balance**	**Percent of Total**	**Weighted Average Rate**	**Average Balance**	**Percent of Total**	**Weighted Average Rate**	**Average Balance**	**Percent of Total**	**Weighted Average Rate**
Demand	$ 480,721	17%	—%	$ 394,243	16%	—%	$ 354,499	15%	—%
NOW	643,289	23	0.20	491,701	20	0.49	456,591	20	0.42
Savings	466,593	17	0.16	359,422	14	0.19	354,453	15	0.17
Money market	395,571	14	0.42	347,963	13	1.32	281,258	12	0.78
Time deposits	795,535	29	1.80	924,063	37	2.09	902,507	38	1.64
Total	$2,781,709	100%	0.65%	$2,517,392	100%	1.07%	$2,349,308	100%	0.83%

The following table presents the scheduled maturities of time deposits $100 thousand or greater at December 31, 2020:

(in thousands, except ratios)	**Amount**	**Weighted Average Rate**
Three months or less	$ 66,134	1.10%
Over 3 months through 6 months	125,685	1.43
Over 6 months through 12 months	102,397	1.23
Over 12 months	78,499	1.58
Total	$372,715	1.37%

BORROWING ACTIVITIES

The Company may utilize borrowings as an alternative source of funds which can be invested at a positive interest rate spread when the Company desires additional capacity to fund loan demand or when they meet the Company's asset/liability management goals to diversify funding sources and enhance interest rate risk management.

The Company's borrowings historically have included advances from the Federal Home Loan Bank of Boston ("FHLB"), securities sold under repurchase agreements, and a correspondent bank unsecured line of credit. The Company also has the ability to borrow from the Federal Reserve Bank of Boston ("FRB"), which was used as a lending facility for Paycheck Protection Program ("PPP") loans, as well as through unsecured federal funds lines with a correspondent bank. The Company may obtain advances from the FHLB by collateralizing the advances with certain loans and investment securities of the Company. These advances may be made pursuant to several different credit programs, each of which has its own interest rate, range of maturities and call features.

The Company has $60 million in subordinated notes to accredited investors that provides funds for ongoing operations and future growth. Subordinated notes consist of $40 million issued in November 2019 and an additional $20 million from the Lake Sunapee acquisition.

RETAIL BROKERAGE SERVICES

Bar Harbor Financial Services principally serves the brokerage needs of individuals ranging from first-time purchasers, to sophisticated investors. It also offers a line of life insurance, annuity, and retirement products, as well as financial planning services. These products are not deposits, are not insured by the FDIC or any other government agency, are not guaranteed by the Bank or any affiliate, and may be subject to investment risk, including possible loss of principal.

The Bank is a branch office of Infinex Investments, Inc., ("Infinex") a full-service third-party broker-dealer, conducting business under the assumed business name "Bar Harbor Financial Services." Infinex is an independent registered broker-dealer and is not affiliated with the Company or its subsidiaries. Infinex was formed by a group of member banks, and is one of the largest providers of third-party investment and insurance services to banks and their customers in New England. Through Infinex, the Bank is able to take advantage of the expertise, capabilities, and experience of a well-established third-party broker-dealer in a cost effective manner.

TRUST MANAGEMENT SERVICES

The Bank has two wholly-owned subsidiaries that provide a comprehensive array of fiduciary services including trust and estate administration, wealth advisory services, and investment management services to individuals, businesses, not-for-profit organizations, and municipalities. Bar Harbor Trust Services is a Maine-chartered trust company, and Charter Trust is a New Hampshire-chartered trust company. As a New Hampshire-chartered trust company, Charter Trust is subject to New Hampshire laws applicable to trust companies and fiduciaries. Professional advisors help individuals and families structure accounts that will meet their long-term financial needs. To many wealth management clients, the effective transfer of wealth to future generations is of paramount importance. The Company's trust services act as a fiduciary for various types of trusts. In addition the Company also serves as the investment manager for these accounts. Outside of trust services, they also provide 401K plan services, financial, estate and charitable planning, investment management, family office, municipal and tax services. The employees include credentialed investment professionals with extensive experience. At December 31, 2020 and 2019, trust management services had total assets under management of $2.3 billion and $2.1 billion, respectively.

HUMAN CAPITAL

The Company had 531 full time equivalent employee positions at both December 31, 2020 and 2019 including 294, 190 and 47 in Maine, New Hampshire and Vermont, respectively. Strategically the Company has augmented employee talent with targeted hires to deepen the overall employee skill set. All employment decisions are based on talent and potential for growth. The Company's ability to attract and retain the best diverse talent while sustaining and deepening the current employees' relationship is critical to maintaining a best-in-class customer experience. The opportunity for personal and professional development is just one of the reasons employee retention is at an all-time high. The Company is committed to supporting, developing, and encouraging employees to engage with their communities.

The Company invests in its employees and continuously encourages them to build the skills they need to become an even more valuable team member. Opportunities are provided for employees to take on challenging and intriguing work to advance their career goals and transition into new roles as the banking industry evolves. Developing programs aligned with employee skills and capabilities is critical to the organization's success and creates robust development opportunities supported by leaders at every level.

Attracting, retaining, and rewarding high-performing talent is key to the Company's success. The total rewards program is designed to recognize and reward top talent and keep employees engaged effectively. Compensation programs align with the Company's Pay for Performance philosophy and guarantees that every employee knows their contribution to the success of the organization. The Company participates in several market studies, including peers in the banking industry, to ensure competitive pay, benefits, and programs are offered to validate that the Company is an employer of choice. Annual merit increases align with market data and performance to ensure fair and equitable practices are adhered to.

The Company's commitment to an employee's health and well-being is evidenced through comprehensive benefit packages, including medical, dental, vision, life and disability offerings, and several other voluntary programs. The Company contributes to employee-owned health savings accounts and has a robust wellness program to encourage employees to stay fit physically and mentally. The retirement savings programs include a 401k plan with a generous Company match that vests immediately, along with an Employee Stock Purchase Plan that allows employees to be owners of the Bank at a reduced price. The plan encourages employees to think and make decisions like shareholders while mitigating risk-taking behavior.

Providing good work-life balance choices results in the Company's employees' making more meaningful contributions in the workplace. The Company has a Paid Time Off policy to support employees' time management and paid volunteer time to support this. In 2020, the Company began offering Flexible Work Arrangements (FWA) to help employees navigate the unprecedented pandemic operating environment. The success of the programs has made FWA a permanent part of the Company's total rewards package. Programs include full remote, partially remote, condensed workweeks, and flexible hours. The flexibility these various FWAs offer allows employees to manage their work-life needs while continuing to deliver stellar results in the workplace.

The Company values a diverse workforce to ensure different perspectives and ideas are considered and are a part of operations. In 2020, 50% of the executive management team was female. As part of the commitment to equal employment opportunities, the Company seeks to ensure affirmative action provides equality of opportunity in all aspects of employment.

REGULATION AND SUPERVISION

As a bank holding company, the Company is regulated under the federal Bank Holding Company Act ("BHC Act") and is subject to examination and supervision by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). The Federal Reserve Board requires the Company to file various reports and also may conduct an examination of the Company.

The Company is also under the jurisdiction of the Securities and Exchange Commission ("SEC") and is subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended. The Company's common stock is listed on the New York Stock Exchange American ("NYSE American") exchange under the trading symbol "BHB," and is subject to the rules of NYSE American for listed companies.

As a Maine-chartered financial institution, the Bank is subject to supervision, regular examination, and regulation by the Maine Bureau of Financial Institutions ("BFI") and the Federal Deposit Insurance Corporation ("FDIC") as its primary federal regulator and as its deposit insurer. The Bank's deposits are insured by the FDIC in accordance with applicable federal laws and regulations. The prior approval of the BFI and the FDIC is required, among other things, for the Bank to establish or relocate an additional branch office, assume deposits, or engage in any merger, consolidation, purchase or sale of all or substantially all of the assets of any bank.

The Bank's significant wholly owned subsidiaries include Bar Harbor Trust Services, a Maine chartered non-depository trust company, and Charter Trust Company, New Hampshire-chartered non-depository trust company. In February 2021, the Company submitted its application to merge Bar Harbor Trust Services and Charter Trust Company into one New Hampshire-chartered non-depository trust company.

Bar Harbor Trust Services ("BHTS") is subject to supervision, regular examination, and regulation by BFI. The Bank has other directly held subsidiaries that are not included as they are not significant to our business. The prior approval of the BFI is required, among other things, for BHTS to establish or relocate an additional branch office, assume deposits, or engage in any merger, consolidation, purchase or sale of all or substantially all of the assets of BHTS.

Charter Trust Company and its affiliates ("Charter") are subject to supervision, regular examination, and regulation by the New Hampshire Banking Department. Charter's consolidated capital includes the following legal entities: Charter Holding Corporation, Charter Trust Company and Charter New England Agency.

In accordance with NH RSA 383-C:5-502, Charter's Capital Plan requires minimum capital of $500 thousand to be invested in accordance with NH RSA 564-B:9-902. As of December 31, 2020, Charter's total capital was $15.5 million, and it had liquidation reserves of $502 thousand held in a savings account. Charter also had operating reserves of $13.3 million held primarily at the Bank. As of December 31, 2020, Charter had an appropriate liquidation reserve, minimum capital in excess of statutory requirements, and all funds were held in accordance with prudent investor standards of NH RSA 564-B:9-902 and as required by NH RSA 383-C:5-501.

Certain Laws and Regulations Applicable to the Company

The BHC Act and other federal laws subject bank holding companies to particular restrictions on the types of activities in which the Company may engage, and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations. Below is a summary of certain provisions of the BHC Act and certain other laws and regulations applicable to the Company. These laws or regulations may be amended or changed by Congress or through other governmental or legal processes, which could have a material effect on the results of the Company.

Permitted Activities

Generally, bank holding companies are prohibited under the BHC Act from engaging in non-banking activities, or acquiring direct or indirect control of any company engaged in non-banking activities. The Federal Reserve Board has allowed by regulation some exceptions based on activities closely related to banking including: (i) making or servicing loans; (ii) performing certain data processing services; (iii) providing discount brokerage services; (iv) acting as fiduciary, investment or financial advisor; and (v) acquiring a savings and loan association whose direct and indirect activities are limited to those permitted for bank holding companies. The Federal Reserve Board has the authority to require a bank holding company to terminate an activity or terminate control of or liquidate or divest certain subsidiaries or affiliates when the Federal Reserve Board believes the activity or the control of the subsidiary or affiliate constitutes a significant risk to the financial safety, soundness, or stability of any of its banking subsidiaries.

A bank holding company that qualifies and elects to become a financial holding company is permitted to engage in additional activities that are financial in nature or incidental or complementary to financial activity. The Company currently has no plans to make a financial holding company election.

Safe and Sound Banking Practices

Bank holding companies and their non-banking subsidiaries are prohibited from engaging in activities that represent unsafe and unsound banking practices. For example, under certain circumstances the Federal Reserve Board's Regulation Y requires a holding company to give the Federal Reserve Board prior notice of any redemption or repurchase of its own equity securities if the consideration to be paid, together with the consideration paid for any repurchases during the preceding 12 months, is equal to 10% or more of the company's consolidated net worth. The Federal Reserve Board may oppose the transaction if it believes that the transaction would constitute an unsafe or unsound practice or would violate a regulation. As another example, a holding company is prohibited from impairing its subsidiary bank's safety and soundness by causing the bank to make funds available to non-banking subsidiaries or their customers if the Federal Reserve Board believes it not prudent to do so. The Federal Reserve Board has the power to assess civil money penalties for knowing or reckless violations, if the activities leading to a violation caused a substantial loss to a depository institution. Potential penalties are as high as $1,000,000 for each day the activity continues.

Dividends

Dividends from the Bank are the Company's principal source of cash revenues. The Company's earnings and activities are affected by federal and state legislation, regulations, local legislative and administrative bodies, and decisions of courts in the jurisdictions in which business is conducted. These include limitations on the ability of the Bank to pay dividends to the Company and the Company's ability to pay dividends to its stockholders. It is the policy of the Federal Reserve Board that bank holding companies should pay cash dividends on common stock only out of income available over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. The policy provides that bank holding companies should not maintain a level of cash dividends that undermines the bank holding company's ability to serve as a source of strength to its banking subsidiary. Consistent with such policy, a banking organization should have comprehensive policies on dividend payments that clearly articulate the organization's objectives and approaches for maintaining a strong capital position and achieving the objectives of the policy statement.

The FDIC has the authority to use its enforcement powers to prohibit a bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice. Federal law also prohibits the payment of dividends by a bank that will result in the bank failing to meet its applicable capital requirements on a pro forma basis. Maine law requires the approval of the BFI for any dividend that would reduce a bank's capital below prescribed limits.

Source of Strength

In accordance with Federal Reserve Board policy, the Company is expected to act as a source of financial and managerial strength to the Bank. Section 616 of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") codifies the requirement that bank holding companies serve as a source of financial strength to their subsidiary depository institutions. Under this policy, the holding company is expected to commit resources to support its bank subsidiary, including at times when the holding company may not be in a financial position to provide it. As discussed below, the Company could be required to guarantee the capital plan of the Bank if it becomes undercapitalized for purposes of banking regulations. Any capital loans by a bank holding company to its subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. The BHC Act provides that, in the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a bank subsidiary will be assumed by the bankruptcy trustee and entitled to priority of payment.

Anti-tying Restrictions

Bank holding companies and their affiliates are prohibited from tying the provision of services, such as extensions of credit, to other services offered by a holding company or its affiliates.

Mergers & Acquisitions

The BHC Act, the federal Bank Merger Act, the laws of the State of Maine applicable to financial institutions and other federal and state statutes regulate acquisitions of banks and their holding companies. The BHC Act generally limits acquisitions by bank holding companies to banks and companies engaged in activities that the Federal Reserve Board has determined to be so closely related to banking as to be a proper incident thereto. The BHC Act requires every bank holding company to obtain the prior approval of the Federal Reserve Board before (i) acquiring more than 5% of the voting stock of any bank or other bank holding company, (ii) acquiring all or substantially all of the assets of any bank or bank holding company, or (iii) merging or consolidating with any other bank holding company.

In reviewing applications seeking approval of merger and acquisition transactions, the bank regulatory authorities generally consider, among other things, the competitive effect and public benefits of the transactions, the financial and managerial resources and future prospects of the combined organization (including the capital position of the combined organization), the applicant's performance record under the federal Community Reinvestment Act (see *Community Reinvestment Act* included in Item I), fair housing laws and the effectiveness of the subject organizations in combating money laundering activities.

Limitations on Acquisitions of Bar Harbor Bankshares Common Stock

The federal Change in Bank Control Act prohibits a person or group of persons from acquiring "control" of a bank holding company unless the appropriate federal bank regulator has been notified and has not objected to the transaction. Under a rebuttable presumption established by the federal bank regulator, the acquisition of 10% or more of a class of voting securities of a bank holding company with a class of securities registered under Section 12 of the Exchange Act would constitute the acquisition of control of a bank holding company. In addition, the BHC Act prohibits any company from acquiring control of a bank or bank holding company without first having obtained the approval of the federal bank regulator. Among other circumstances, under the BHC Act, a company has control of a bank or bank holding company if the company owns, controls or holds with power to vote 25% or more of a class of voting securities of the bank or bank holding company, controls in any manner the election of a majority of directors or trustees of the bank or bank holding company, or the federal bank regulator has determined, after notice and opportunity for hearing, that the company has the power to exercise a controlling influence over the management or policies of the bank or bank holding company.

Transactions with Affiliates

The holding company and the Bank are considered "affiliates" of each other under the Federal Reserve Act, and transactions between a bank and its affiliates are subject to certain restrictions, under Sections 23A and 23B of the Federal Reserve Act and the Federal Reserve Board's implementing Regulation W. Generally, Sections 23A and 23B: (1) limit the extent to which an insured depository or its subsidiaries may engage in covered transactions (a) with an affiliate (as defined in such sections) to an amount equal to 10% of such institution's capital and surplus, and (b) with all affiliates, in the aggregate to an amount equal to 20% of such capital and surplus; and (2) require all transactions with an affiliate, whether or not covered transactions, to be on terms substantially the same, or at least as favorable to the institution or subsidiary, as the terms provided or that would be provided to a non-affiliate. The term "covered transaction" includes the making of loans, purchase of assets, issuance of a guarantee and other similar types of transactions.

State Law Restrictions

As a Maine corporation, the Company is subject to certain limitations and restrictions under applicable Maine corporate law. For example, state law restrictions in Maine include limitations and restrictions relating to indemnification of directors, distributions and dividends to stockholders, transactions involving directors, officers or interested stockholders, maintenance of books, records, and minutes, and observance of certain corporate formalities. Further, as a Maine financial institution holding company, the Company is also subject to certain requirements and restrictions under applicable Maine banking law.

Capital Adequacy and Prompt Corrective Action

In July 2013, the Federal Reserve Board, the FDIC and the Office of the Comptroller of the Currency issued final rules (the "Capital Rules") that established the current capital framework for U.S. banking organizations. The Capital Rules generally implement the Basel Committee on Banking Supervision's December 2010 final capital framework referred to as "Basel III" for strengthening international capital standards. In addition, the Capital Rules implement certain provisions of the Dodd-Frank Act, including the requirements of Section 939A to remove references to credit ratings from the federal banking agencies' rules. The Capital Rules substantially revised the risk-based capital requirements applicable to bank holding companies and their depository institution subsidiaries. The risk based capital guidelines are designed to make regulatory capital requirements sensitive to differences in risk profiles among banks and bank holding companies, to account for off-balance sheet exposures and to minimize disincentives for holding liquid, low-risk assets.

The Capital Rules: (i) require a capital measure called "Common Equity Tier 1" ("CET1") and related regulatory capital ratio of CET1 to risk-weighted assets; (ii) specify that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting certain revised requirements; (iii) mandate that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expand the scope of the deductions from and adjustments to capital as compared to existing regulations. The Capital Rules revised the definitions and the components of regulatory capital and impacted the calculation of the numerator in banking institutions' regulatory capital ratios.

The Capital Rules prescribe a standardized approach for risk weightings, generally ranging from 0% for U.S. government and agency securities to 600% for certain equity exposures, resulting in higher risk weights for a variety of asset classes.

Pursuant to Section 38 of the Federal Deposit Insurance Act ("FDI Act"), federal banking agencies are required to take "prompt corrective action" should an insured depository institutions fail to meet certain capital adequacy standards. At each successive lower capital category, an insured depository institution is subject to more restrictions and prohibitions, including restrictions on growth, restrictions on interest rates paid on deposits, restrictions or prohibitions on payment of dividends and restrictions on the acceptance of brokered deposits. Furthermore, if an insured depository institution is classified in one of the undercapitalized categories, it is required to submit a capital restoration plan to the appropriate federal banking agency, and the holding company must guarantee the performance of that plan. Based upon its capital levels, a bank that is classified as well-capitalized, adequately capitalized, or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment.

For purposes of Section 38 of the FDI Act, for an insured depository institution to be well-capitalized it must have a:

(i) total risk-based capital ratio of at least 10%,

(ii) Tier 1 risk-based capital ratio of at least 8%,

(iii) CET1 risk-based capital ratio of at least 6.5%, and

(iv) leverage ratio of at least 5%.

Both the Company and the Bank have always maintained the capital ratios and leverage ratio above the levels to be considered quantitatively well-capitalized. For information regarding the capital ratios and leverage ratio of the Company and the Bank as of December 31, 2020, and December 31, 2019, see the discussion under the section captioned *Capital Resources* included in Item 7—*Management's Discussion and Analysis of Financial Condition and Results of Operations* included in Item 7 and Note 13—*Shareholders' Equity and Earnings Per Common Share* in the Notes to Consolidated Financial Statements, elsewhere in this report.

Significant Banking Regulations Applicable to the Bank

Deposit Insurance

The Bank's deposit accounts are fully insured by the Deposit Insurance Fund ("DIF") of the FDIC up to the deposit insurance limits set forth in applicable law and regulations.

The FDIC uses a risk-based assessment system that imposes insurance premiums based upon a risk matrix that accounts for a bank's capital level and supervisory rating (CAMELS rating). The risk matrix uses different risk categories distinguished by capital levels and supervisory ratings. The base for deposit insurance assessments is consolidated average assets less average tangible equity. Assessment rates are calculated using formulas that take into account the risk of the institution being assessed. The FDIC may increase or decrease the assessment rate schedule in order to manage the DIF to prescribed statutory target levels. An increase in the risk category for the Bank or in the assessment rates could have an adverse effect on the Bank's and consequently the Company's earnings. The FDIC may terminate deposit insurance if it determines the institution involved has engaged in or is engaging in unsafe or unsound banking practices, is in an unsafe or unsound condition, or has violated applicable laws, regulations or orders.

In addition to deposit insurance assessments, the FDI Act provides for additional assessments to be imposed on insured depository institutions to pay for the cost of Financing Corporation ("FICO") funding. The FICO is a mixed-ownership government corporation established by the Competitive Equality Banking Act of 1987, whose sole purpose was to function as a financing vehicle for the now defunct Federal Savings & Loan Insurance Corporation. The FICO assessments are adjusted quarterly to reflect changes in the assessment base of the DIF and do not vary depending upon a depository institution's capitalization or supervisory evaluation. The current annualized assessment rate is approximately six basis points and the rate is adjusted quarterly. These assessments continued until the FICO bonds matured in 2020.

Consumer Financial Protection

The Company is subject to a number of federal and state consumer protection laws that govern its relationship with its customers. These laws include, for example, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Truth in Savings Act, the Electronic Fund Transfer Act, the Expedited Funds Availability Act, the Home Mortgage Disclosure Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Fair Debt Collection Practices Act, the Right to Financial Privacy Act, the Service Members Civil Relief Act and these federal laws' respective state law counterparts, as well as state usury laws and laws regarding unfair and deceptive acts and practices. These and other federal laws, among other things, require disclosures of the cost of credit and terms of deposit accounts, provide substantive consumer rights, prohibit discrimination in credit transactions, regulate the use of credit report information, provide financial privacy protections, prohibit unfair, deceptive and abusive practices, restrict the Bank's ability to raise interest rates and subject the Bank to substantial regulatory oversight. Violations of applicable consumer protection laws can result in significant potential liability from litigation brought by customers, including actual damages, restitution and attorneys' fees.

Further, the Consumer Financial Protection Bureau ("CFPB") has broad rulemaking authority for a wide range of consumer financial laws that apply to all banks, including, among other things, the authority to prohibit "unfair, deceptive or abusive" acts and practices. Abusive acts or practices are defined as those that materially interfere with a consumer's ability to understand a term or condition of a consumer financial product or service or take unreasonable advantage of a consumer's: (i) lack of understanding on the part of the consumer of the material risks, costs, or conditions of the product or service, (ii) inability of the consumer to protect its interests in selecting or using a consumer financial product or service, or (iii) reasonable reliance on a covered entity to act in the consumer's interests.

Neither the Dodd-Frank Act nor the individual consumer financial protection laws prevent states from adopting stricter consumer protection standards.

Brokered Deposit Restrictions

Under the FDIC Improvement Act, banks may be restricted in their ability to accept brokered deposits, depending on their classification. "Well-capitalized" institutions are permitted to accept brokered deposits, but all banks that are not well- capitalized could be restricted from accepting such deposits. The Bank is currently well-capitalized and not restricted from accepting brokered deposits.

Community Reinvestment Act

The Community Reinvestment Act of 1977 ("CRA"), requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to low- and moderate-income individuals and communities. These factors are also considered in evaluating mergers, acquisitions and applications to open a branch or facility. The applicable federal regulators regularly conduct CRA examinations to assess the performance of financial institutions and assign one of four ratings to the institution's records of meeting the credit needs of its community. During its last examination, the Bank received a CRA rating of "satisfactory".

Insider Credit Transactions

Section 22(h) of the Federal Reserve Act and its implementing Regulation O, restricts loans to directors, executive officers, and principal stockholders ("insiders"). Under Section 22(h), loans to insiders and their related interests may not exceed, together with all other outstanding loans to such persons and affiliated entities, the institution's total capital and surplus. Loans to insiders above specified amounts must receive the prior approval of the Board of Directors. Further, under Section 22(h) of the FRA, loans to directors, executive officers and principal stockholders must be made on terms substantially the same as offered in comparable transactions to other persons, except that such insiders may receive preferential loans made under a benefit or compensation program that is widely available to the bank's employees and does not give preference to the insider over the employees. Section 22(g) of the FRA places additional limitations on loans to executive officers. A violation of these restrictions may result in the assessment of substantial civil monetary penalties on the affected bank or any officer, director, employee, agent or other person participating in the conduct of the affairs of that bank, the imposition of a cease and desist order, and other regulatory sanctions.

Safety and Soundness

Under the FDI Act, each federal banking agency has prescribed, by regulation, non-capital safety and soundness standards for institutions under its authority. These standards cover internal controls, information and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, such other operational and managerial standards as the agency determines to be appropriate, and standards for asset quality, earnings and stock valuation. An institution that fails to meet these standards must develop a plan acceptable to the agency, specifying the steps that the institution will take to meet the standards. Failure to submit or implement such a plan may subject the institution to regulatory sanctions.

Financial Privacy

Section V of the Gramm-Leach-Bliley Act ("GLBA") and its implementing regulations require all financial institutions, including the Company and the Bank and the Bank's subsidiaries, to adopt privacy policies, restrict the sharing of nonpublic customer data with non-affiliated parties at the customer's request, limit the reuse of certain consumer information received from non-affiliated financial institutions, and establish procedures and practices to protect customer data from unauthorized access. In addition, the Fair Credit Reporting Act ("FCRA"), as amended by the Fair and Accurate Credit Transactions Act of 2003 (the "FACT Act"), includes many provisions affecting the Company, Bank, and/or their affiliates, including provisions concerning obtaining consumer reports, furnishing information to consumer reporting agencies, maintaining a program to prevent identity theft, sharing of certain information among affiliated companies, and other provisions. The FACT Act requires entities subject to FCRA to notify their customers if they report negative information about them to a credit bureau or if they are granted credit on terms less favorable than those generally available. The CFPB and the Federal Trade Commission ("FTC") have extensive rulemaking authority under the FACT Act, and the Company and the Bank are subject to the rules that have been promulgated under the FACT Act, including rules requiring financial institutions with covered accounts (e.g. consumer bank accounts and loans) to develop, implement, and administer an identity theft protection program, as well as rules regarding limitations on affiliate marketing and implementation of programs to identify, detect and mitigate certain identity theft red flags. The Company has developed policies and procedures for itself and its subsidiaries, including the Bank, and believes it is in compliance with all privacy, information sharing, and notification provisions of the GLBA and the FACT Act. The Bank is also subject to data security standards, privacy and data breach notice requirements, primarily those issued by the FDIC, as well as under state laws.

Anti-Money Laundering Initiatives and the USA Patriot Act

A major focus of governmental policy on financial institutions over the last two decades has been combating money laundering and terrorist financing. The USA PATRIOT Act of 2001 ("USA Patriot Act"), substantially broadened the scope of United States anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. The U.S. Treasury Department has issued a number of regulations that apply various requirements of the USA Patriot Act to financial institutions such as the Bank. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identities of their customers. Financial institutions are also prohibited from entering into specified financial transactions and account relationships and must use enhanced due diligence procedures in their dealings with certain types of high-risk customers and implement a written customer identification program. Financial institutions must take certain steps to assist government agencies in detecting and preventing money laundering and report certain types of suspicious transactions. Regulatory authorities routinely examine financial institutions for compliance with these obligations, and failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, can have serious legal and reputational consequences for the institution.

Office of Foreign Assets Control Regulation

The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These are typically known as the "OFAC" rules based on their administration by the U.S. Treasury Department Office of Foreign Assets Control ("OFAC"). The OFAC-administered sanctions targeting countries take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on "U.S. persons" engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. The Company is responsible for, among other things, blocking accounts of, and transactions with, such targets and countries, prohibiting unlicensed trade and financial transactions with them and reporting blocked transactions after their occurrence. Failure to comply with these sanctions could have serious legal and reputational consequences.

Guidance on Sound Compensation Policies

The Dodd-Frank Act requires publicly traded companies to give stockholders a non-binding vote on executive compensation at least every three years (the so-called "say-on-pay vote") and on so-called "golden parachute" payments in connection with approvals of mergers and acquisitions. In addition, the Dodd-Frank Act requires publicly traded companies to give stockholders a non-binding vote, at least once every six years, on how frequently to hold the "say on pay" vote.

The Dodd-Frank Act also requires the federal banking agencies and the SEC to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities with at least $1 billion in total consolidated assets that encourage inappropriate risks by providing an executive officer, employee, director or principal shareholder with excessive compensation, fees, or benefits that could lead to material financial loss to the entity. The federal banking agencies and the SEC most recently proposed such regulations in 2016, but the regulations have not yet been finalized. If the regulations are adopted in the form initially proposed, they will restrict the manner in which executive compensation is structured.

Changing Regulatory Structure and Future Legislation and Regulation

Congress may enact further legislation that affects the regulation of the financial services industry, and state legislatures may enact further legislation affecting the regulation of financial institutions. Federal and state regulatory agencies also periodically propose and adopt changes to their regulations or change the manner in which existing regulations are applied. The Company cannot predict the substance or impact of pending or future legislation or regulations, or the application thereof, although enactment of the proposed legislation could impact the regulatory structure under which the Company operates and may significantly increase costs, impede the efficiency of internal business processes, require an increase in regulatory capital, require modifications to the Company's business strategy, and limit the Company's ability to pursue business opportunities in an efficient manner. A change in statutes, regulations or regulatory policies applicable to the Company or any of its subsidiaries could have a material effect on its business.

Other Laws and Regulations

The Company is not only subject to federal laws applicable to it, it is also subject to the rules and regulations of the various federal agencies charged with the responsibility of implementing these federal laws.

An investment in the Company involves risk, some of which, including market, liquidity, credit, operational, legal, compliance, reputational and strategic risks, could be substantial and is inherent in the Company's business. This risk also includes the possibility that the value of the investment could decrease considerably, and dividends or other distributions concerning the investment could be reduced or eliminated. Discussed below are risk factors that could adversely affect financial results and condition, as well as the value of, and return on investments made in the Company. Although the Company believes that these risks are the most important for you to consider, you should read this section in conjunction with the Consolidated Financial Statements, the notes to those Financial Statements and management's discussion and analysis of financial condition and results of operations.

Risks Related to the Company's Lending Activities

Deterioration in local economies or real estate market may adversely affect financial performance.

The Company serves individuals and businesses located in Maine, New Hampshire, and Vermont. A substantial portion of the loan portfolio is secured by real estate in these areas and the value of the associated collateral is subject to local real estate market conditions. Furthermore, many customers in the hospitality industry rely upon a high number of tourists to vacation destinations and attractions within the Company's markets. The Company's success is largely dependent on the economic conditions, including employment levels, population growth, income levels, savings trends and government policies in those market areas. A downturn in the local economies may adversely affect collateral values, sources of funds, and demand for products, all of which could have a negative impact on results of operations, financial condition and business expansion.

High concentrations of commercial loans may increase exposure to credit loss upon borrower default.

As of December 31, 2020, approximately 60% of the Banks's loan portfolio consisted of commercial real estate, commercial and industrial and construction loans. Commercial loan portfolio concentration generally exposes lenders to greater risk of delinquency and loss than residential real estate loans because repayment of the loans often depends on the successful operation and income streams from the property. Commercial loans typically involve larger balances to single borrowers or groups of related borrowers as compared to residential real estate loans. As the Bank's loan portfolio contains a significant number of large commercial loans, the deterioration of one or a few of these loans could cause a significant increase in non-performing loans, provision for loan losses, and/or an increase in loan charge-offs, all of which could adversely affect the Company's financial condition and results of operations.

Prepayments of loans may negatively impact the Company's business. Generally, customers may prepay the principal amount of their outstanding loans at any time.

The speeds at which such prepayments occur, as well as the size of such prepayments, are within the customers' discretion. Fluctuations in interest rates, in certain circumstances, may also lead to high levels of loan prepayments, which may also have an adverse impact on net interest income. If customers prepay the principal amount of their loans, and the Company is unable to lend those funds to other borrowers or invest the funds at the same or higher interest rates, interest income will be reduced. A significant reduction in interest income could have a negative impact on results of operations and financial condition.

Secondary mortgage market conditions may adversely affect financial condition and earnings.

The secondary mortgage markets are impacted by interest rates and investor demand for residential mortgage loans and increased investor yield requirements for these loans. These conditions may fluctuate in the future. As a result, a prolonged period of secondary market illiquidity may reduce the Company's loan production volumes, change loan portfolio composition, and reduce operating results. Secondary markets are affected by Fannie Mae, Freddie Mac, and Ginny Mae (collectively, the "Agencies") for loan purchases that meet their conforming loan requirements. These agencies could limit purchases of conforming loans due to capital constraints, changes in conforming loan criteria or other factors. Proposals to reform mortgage finance could affect the role of the Agencies and the market for conforming loans.

The Bank is exposed to risk of environmental liabilities with respect to properties to which it takes title.

In the course of business, the Bank may own or foreclose and take title to real estate that may be subject to environmental liabilities with respect to subject property. As a result, the Company may be held liable for property damage, personal injury, investigation and restoration costs. The cost associated with investigation or restoration activities could be substantial. In addition, as the owner or former owner of a contaminated site, the Company may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property.

Greater than anticipated credit losses in the loan portfolios may adversely affect earnings.

Credit losses are inherent in the business of making loans and could have a material adverse effect on operating results. The Company makes various assumptions and judgments about the collectability of the loan portfolio and provides an allowance for loan losses based on a number of factors. The allowance for loan losses is evaluated on a periodic basis using current information, including the quality of the loan portfolio, economic conditions, values of the underlying collateral and the level of non-accrual loans. Although the Company believes the allowance for loan losses is appropriate to absorb probable losses in the loan portfolio, this allowance may not be adequate. Increases in the allowance will result in an expense for the period, thereby reducing reported net income.

The Financial Accounting Standards Board has issued Accounting Standards Update 2016-13, Measurement of Credit Losses on Financial Instruments. This standard, often referred to as CECL requires companies to recognize an allowance for credit losses using a new current expected credit loss model. Any increase in the allowance for credit losses or expenses incurred to determine the appropriate level of the allowance for loan losses may have a material adverse effect on the Company's financial condition and results of operations. This is discussed further in Note 1- *Summary of Significant Accounting Policies* of the Consolidated Financial Statements in this Annual Report on Form 10-K. The Company has adopted CECL as of January 1, 2021.

Risks Related to the Company's Business

The COVID-19 pandemic may adversely impact our business and financial results, as it is highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities in response to the pandemic.

The COVID-19 pandemic is creating extensive disruptions to the economy and to the lives of individuals. Governments, businesses, and the public are taking unprecedented actions to contain the spread of COVID-19 and to mitigate its effects, including quarantines, travel bans, shelter-in-place orders, closures of businesses and schools, fiscal stimulus, and legislation designed to deliver monetary aid and other relief. While the scope, duration, and full effects of COVID-19 are rapidly evolving, the pandemic and related efforts to contain it have disrupted economic activity, adversely affected the functioning of financial markets, impacted interest rates, increased economic and market uncertainty, and disrupted trade and supply chains. If these effects continue for a prolonged period or result in sustained economic stress or recession, many of the risk factors identified in our Form 10-K could be exacerbated and such effects could have an adverse impact on us in a number of ways related to credit quality, collateral values, customer demand, funding, operations, interest rate risk, and human capital.

Expansion, growth, and acquisitions could negatively impact earnings if not successful.

The Company may grow organically both by geographic expansion and through business line expansion, as well as through acquisitions. Success of these activities depends on the Company's ability to continue to maintain and develop an infrastructure appropriate to support and integrate such growth. Success may also depends on acceptance of the Bank by customers in these new markets and, in the case of expansion through acquisitions, these factors include the long-term recruitment and retention of key personnel and acquired customer relationships. Profitability depends on whether the marginal revenue generated in the new markets will offset the increased expenses of operating a larger entity, with more staff, more locations, and more product offerings. Failure to achieve any of these success factors may have a negative impact on the Company's financial condition and results of operations.

The Company may be adversely affected by continuous technological change.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. The Company's future success depends, in part, upon its ability to address the needs of its customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional operational efficiencies.

The introduction of new products and services can entail significant time and resources. The Company's failure to manage risks and uncertainties associated with new products and services exposes it to enhanced risk of operational lapses which may result in the recognition of financial statement liabilities. Regulatory and internal control requirements, capital requirements, competitive alternatives, vendor relationships and shifting market preferences may also determine if such initiatives can be brought to market in a manner that is timely and attractive to the Company's clients. Products and services relying on internet and mobile technologies may expose the Company to fraud and cybersecurity risks. Failure to successfully manage these risks in the development and implementation of new products or services could have a material adverse effect on the Company's business and reputation.

Strong competition within the Company's markets may significantly impact profitability.

The Company competes with an ever-increasing array of financial service providers. See the section entitled "Competition" of Item 1 of this Annual Report on Form 10-K for additional competitor information. Competition from nationwide banks, as well as local institutions, continues to mount in the Company's markets. To compete, the Company focuses on quality customer service, making decisions at the local level, maintaining long-term customer relationships, building customer loyalty, and providing products and services designed to address the specific needs of customers. Failure to perform in any of these areas could significantly weaken the Company's competitive position, which could adversely affect growth and profitability.

Market changes may adversely affect demand for services and impact revenue, costs, and earnings.

Channels for servicing the Company's customers are evolving rapidly, with less reliance on traditional branch facilities, increased use of e-commerce channels, and demand for universal bankers and other relationship managers who can service multiple product lines. The Company has an ongoing process for evaluating the profitability of its branch system and other office and operational facilities. The identification of unprofitable operations and facilities can lead to restructuring charges and introduce the risk of disruptions to revenues and customer relationships. The Company competes with larger financial institutions who are rapidly evolving their service channels and escalating the costs of evolving the service process.

Disruptions to the Company's information systems and security breaches may adversely affect its business and reputation.

In the ordinary course of business, the Company relies on electronic communications and information systems to conduct its businesses and to store sensitive data, including financial information regarding its customers. The integrity of information systems are under significant threat from cyberattacks by third parties, including through coordinated attacks sponsored by foreign nations and criminal organizations to disrupt business operations and other compromises to data and systems for political or criminal purposes. The Company employs an in-depth, layered, defense approach that leverages people, processes and technology to manage and maintain cybersecurity controls. Notwithstanding the strength of defensive measures, the threat from cyberattacks is severe, attacks are sophisticated and attackers respond rapidly to changes in defensive measures. Cybersecurity risks may also occur with the Company's third-party service providers, and may interfere with their ability to fulfill their contractual obligations to us, with additional potential for financial loss or liability that could adversely affect the Company's financial condition or results of operations. The Company offers its customers the ability to bank remotely and provide other technology-based products and services, which services include the secure transmission of confidential information over the Internet and other remote channels. To the extent that the Company's customers' systems are not secure or are otherwise compromised, its network could be vulnerable to unauthorized access, malicious software, phishing schemes and other security breaches. To the extent that the Company's activities or the activities of its clients or third-party service providers involve the storage and transmission of confidential information, security breaches and malicious software could expose the Company to claims, regulatory scrutiny, litigation and other possible liabilities.

While to date the Company has not experienced a significant compromise, significant data loss or material financial losses related to cybersecurity attacks, the Company's systems and those of its customers and third-party service providers, are under constant threat and may experience a significant event in the future. The Company may suffer material financial losses related to these risks or be subject to liability for compromises to its customers or third-party providers. Any such losses or liabilities could adversely affect the Company's financial condition or results of operations, and could expose us to reputation risk, the loss of client business, increased operational costs, as well as additional regulatory scrutiny, possible litigation, and related financial liability. These risks also include possible business interruption, including the inability to access critical information and systems.

The Company's operations is reliant on outside vendors.

The Company's operations is dependent on the use of certain outside vendors for its day-to-day operations. The vendor may not perform in accordance with established performance standards required in its agreements for any number of reasons including a change in the vendor's senior management, financial condition, product line or mix and how they support existing customers, or simply change their strategic focus putting the Company at risk. While the Company has a comprehensive policies and procedures in place to mitigate risk in all phases of vendor management from selection, to performance monitoring, the failure of a vendor to perform in accordance with contractual agreements could be disruptive to its business, which could have a material adverse effect on its financial condition and results of operations.

The Company is subject to a variety of operational risks, including reputational risk, and the risk of fraud or theft by employees or outsiders, which may adversely affect the Company's business and results of operations.

The Company is exposed to many types of operational risks, including reputational risk, legal and compliance risk, the risk of fraud or theft by employees or outsiders, and unauthorized transactions by employees or operational errors, including clerical or record-keeping errors or those resulting from faulty or disabled computer or telecommunications systems. If personal, non-public, confidential, or proprietary information of customers in the Company's possession were to be mishandled or misused, the Company could suffer significant regulatory consequences, reputational damage, and financial loss.

Because the nature of the financial services business involves a high volume of transactions, certain errors may be repeated or compounded before they are discovered and successfully rectified. The Company's necessary dependence upon automated systems to record and process transactions and its large transaction volume may further increase the risk that technical flaws or employee tampering or manipulation of those systems will result in losses that are difficult to detect. The Company may also be subject to disruptions of its operating systems arising from events that are wholly or partially beyond its control (i.e., computer viruses or electrical or telecommunications outages, natural disaster, disease pandemics, or other damage to property or physical assets), which may give rise to disruption of service to customers and to financial loss or liability. The Company is further exposed to the risk that its external vendors may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors by their respective employees) and to the risk that the Company's vendors' business continuity and data security systems prove to be inadequate. The occurrence of any of these risks could result in a diminished ability to operate (i.e., by requiring the Company to expend significant resources to correct the defect), as well as potential liability to clients, reputational damage, and regulatory intervention.

The Company may be adversely affected by the soundness of other financial institutions.

The Company's ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Bank and non-bank financial services companies are interrelated as a result of trading, clearing, counterparty and other relationships. The Company has exposure to different industries and counterparties through transactions with counterparties in the bank and non-bank financial services industries, including brokers and dealers, commercial banks, investment banks and other institutional clients. As a result, defaults by, or even rumors or questions about, one or more bank or non-bank financial services companies, or the bank or non-bank financial services industries generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. These losses or defaults could have an adverse effect on the Company's business, financial condition and results of operations.

The Company may be unable to attract and retain key personnel.

The Company's success depends, in large part, on its ability to attract and retain key personnel. Competition for qualified personnel in the financial services industry can be intense and the Company and its subsidiaries may not be able to hire or retain the key personnel that it depends upon for success. In addition, the Bank's rural geographic marketplace, combined with relatively expensive real estate purchase prices in the many tourist communities the Company serves, create additional risks for the Company's ability to attract and retain key personnel. The unexpected loss of key personnel could have an adverse impact on the Company's business because of their skills, knowledge of the markets in which the Company operates, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

The Company is subject to possible claims and litigation pertaining to fiduciary responsibilities.

From time to time, customers make claims and take legal action pertaining to the Company's performance of its fiduciary responsibilities. Whether customer claims and legal action related to the Company's performance of fiduciary responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a favorable manner, they may result in significant financial liability and/or adversely affect the market perception of the Company and products and services as well as impact customer demand for products and services.

Societal responses to climate change could adversely affect the Company's business and performance, including indirectly through impacts on the Company's customers.

Concerns over the long-term impacts of climate change have led and will continue to lead to governmental efforts around the world to mitigate those impacts. Consumers and businesses also may change their behavior on their own as a result of these concerns. The Company and its customers will need to respond to new laws and regulations as well as consumer and business preferences resulting from climate change concerns. The Company and its customers may face cost increases, asset value reductions and operating process changes, among other impacts. The impact on the Company's customers will likely vary depending on their specific attributes. In addition, the Company could face reductions in creditworthiness on the part of some customers or in the value of assets securing loans. The Company's efforts to take these risks into account in making lending and other decisions may not be effective in protecting the Company from the negative impact of new laws and regulations or changes in consumer or business behavior.

Severe weather, natural disasters, acts of war or terrorism, and other external events could significantly impact the Company's business and the business of its customers.

Severe weather, natural disasters, acts of war or terrorism, and other adverse external events could have a significant impact on the Company's ability to conduct business. Such events could affect the stability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause us to incur additional expenses. In particular, such events may have a particularly negative impact upon the business of customers who are engaged in the hospitality in the Company's market area, which could have a direct negative impact on the Company's business and results of operations.

Risks Related to Liquidity

Reforms to London Interbank Offered Rate ("LIBOR") and other indices, and related uncertainty, may adversely affect our business, financial condition or results of operations.

In July 2017, the U.K. Financial Conduct Authority announced that after 2021 it will no longer persuade or require banks to submit rates for LIBOR. This announcement, and, more generally, financial benchmark reforms and changes in the interbank lending markets, have resulted in uncertainty about the future of LIBOR and certain other rates or indices that are used as interest rate benchmarks. These actions may result in future changes in the rules or methodologies used to calculate benchmarks or in the discontinuance or unavailability of certain benchmarks. The possible impact of these actions is uncertain and cannot be predicted at this time, and the potential or actual discontinuance of benchmark quotes may have a material, adverse effect on the value of, return on and trading market for our financial assets and liabilities that are based on or are linked to benchmarks, including our hedge contracts, or our financial condition or results of operations. In addition, we cannot assure that we and other market participants will adequately be prepared for a discontinuation of LIBOR or other benchmarks, and such discontinuation may have an unpredictable impact on our contracts and/or cause significant disruption to financial markets that are relevant to our business, which may have a material, adverse effect on our financial condition or results of operations.

Wholesale funding sources may prove insufficient to replace deposits, support operations and future growth.

The Company and banking subsidiaries must maintain sufficient funds to respond to the needs of customers. To manage liquidity, the Company draws upon a number of funding sources in addition to core deposit growth, loan repayments and maturities of loans and securities. These sources include FHLB and FRB advances, proceeds from the sale of securities and loans and liquidity resources at the holding company. The Company's ability to manage liquidity will be severely constrained if unable to maintain access to funding or if adequate financing is not available to accommodate future growth at acceptable costs. In addition, if the Company is required to rely more heavily on more expensive funding sources to support future growth, revenues may not increase proportionately to cover costs. In this case, operating margins and profitability would be adversely affected.

The Company's access to funds from subsidiaries may be restricted.

Bar Harbor Bankshares is a separate and distinct legal entity from the Bank and non-banking subsidiaries. Bar Harbor Bankshares depends on dividends, distributions and other payments from its banking and non-banking subsidiaries to fund dividend payments on its common stock, debt service of subordinated borrowings, fund stock repurchase program and to fund strategic initiatives or other obligations. The Company's subsidiaries are subject to laws that authorize regulatory bodies to block or reduce the flow of funds from those subsidiaries to Bar Harbor Bankshares based on assertion that certain payments from subsidiaries are considered an unsafe or unsound practice.

Changes in the general economy or the financial markets could adversely affect financial performance.

A deterioration of general economic conditions could adversely affect local economies and have a negative impact on results of operations and financial condition. Deterioration or defaults made by issuers of the underlying collateral of investment securities may cause additional credit-related other-than-temporary impairment charges to the income statement. The Company's ability to borrow from other financial institutions or to access the debt or equity capital markets on favorable terms or at all could be adversely affected by disruptions in the capital markets or other events, including actions by rating agencies or deteriorating investor expectations.

Monetary Policy and Economic Environment

The earnings of the Company are significantly affected by the monetary and fiscal policies of governmental authorities, including the Federal Reserve Board. Among the instruments of monetary policy used by the Federal Reserve Board to implement these objectives are open-market operations in U.S. Government securities and federal funds, changes in the discount rate on member bank borrowings, and changes in reserve requirements against member bank deposits. These instruments of monetary policy are used in varying combinations to influence the overall level of bank loans, investments, and deposits, and the interest rates charged on loans and paid for deposits. The Federal Reserve Board frequently uses these instruments of monetary policy, especially its open-market operations and the discount rate, to influence the level of interest rates, thereby affecting the strength of the economy, the level of inflation, or the price of the dollar in foreign exchange markets. The monetary policies of the Federal Reserve Board have had a significant effect on the operating results of banking institutions in the past and are expected to continue to do so in the future. It is not possible to predict the nature of future changes in monetary and fiscal policies, or the effect which they may have on the Company's business and earnings.

Interest rate volatility could significantly reduce the Company's profitability.

The Bank's earnings and cash flows are largely dependent upon its net interest income. Net interest income is the difference between interest income earned on interest-bearing assets such as loans and securities and interest expense paid on interest-bearing liabilities such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond the Company's control, including general economic conditions, demand for loans, securities and deposits, policies of various governmental and regulatory agencies. Changes in monetary policy, including changes in interest rates, or the slope of the yield curve could influence not only the interest received on loans and securities and the amount of interest paid on deposits and borrowings, but such changes could also affect (i) the ability to originate loans and obtain deposits, (ii) the fair value of the Company's financial assets and liabilities, and (iii) the average duration of loans and securities that are collateralized by mortgages. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings. If interest rates decline, the Bank's higher- rate loans and investments may be subject to prepayment risk, which could negatively impact its net interest margin. Conversely, if interest rates increase, the Bank's loans and investment securities may be subject to extension risk, which could negatively impact its net interest margin as well.

Loss of deposits or a change in deposit mix could increase the cost of funding.

Deposits are a low cost and stable source of funding. The Company competes with banks and other financial institutions for deposits. Funding costs may increase if deposits are lost and are forced to replace them with more expensive sources of funding, if customers shift their deposits into higher cost products or if the Company needs to raise interest rates to avoid losing deposits. Higher funding costs reduce the net interest margin, net interest income and net income.

Risks Related to Regulatory Matters

The Company is subject to extensive government regulation and supervision, which may interfere with the ability to conduct business and may negatively impact financial results.

The Company is subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors' funds, the Federal Deposit Insurance Fund and the safety and soundness of the banking system as a whole, not stockholders. These regulations affect the Company's lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect the Company in substantial and unpredictable ways. Such changes could subject the Company to additional costs, limit the types of financial services and products the Company may offer, and/or limit the pricing the Company may charge on certain banking services, among other things. Compliance personnel and resources may increase costs of operations and adversely impact earnings.

Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on the Company's business, financial condition and results of operations. While the Company has policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur.

Changes in tax laws and regulations and differences in interpretation of tax laws and regulations may adversely impact the Company's financial statements.

Federal, state, and local tax authorities may change tax laws and regulations, which could result in a decrease or increase to net deferred tax assets. In December 2017, the Company recognized a write-down of $4.0 million in net deferred tax assets in connection with the adoption of the Tax Cuts and Jobs Act of 2017 ("TCJA"). Federal, state, and local tax authorities may interpret tax laws and regulations differently and challenge tax positions that the Company has taken on tax returns. This may result in differences in the treatment of revenues, deductions, credits and/or differences in the timing of these items. The differences in treatment may result in payment of additional taxes, interest or penalties that could have a material adverse effect on results.

Goodwill from acquisitions could become impaired.

Applicable accounting standards require that the purchase method of accounting be used for all business combinations. Under purchase accounting, if the purchase price of an acquired company exceeds the fair value of the acquired company's net assets, the excess is carried on the balance sheet as goodwill, by the acquirer. A significant decline in expected future cash flows, a continuing period of market disruption, market capitalization to book value deterioration, or slower growth rates may require the Company to record charges in the future related to the impairment of goodwill. If the Company concludes that a future write-down is necessary, the impact could have an adverse effect on financial condition and results of operations.

ITEM 2. PROPERTIES

The Company's principal executive office is in a building owned by the Company located at 82 Main Street, Bar Harbor, Maine. The Bank provides full-banking services at 53 locations throughout Maine, New Hampshire and Vermont, of which 33 are owned and 20 are leased. The Bank also has one stand-alone drive-up window in Vermont. In addition to banking offices, the Company also has Operations Centers located in Ellsworth, Maine, and Newport, New Hampshire that house the Company's operations and data processing centers, as well as leased space in Hampden, Maine, Portland, Maine and Manchester, New Hampshire and owned space in Ellsworth, Maine, where back office support for multiple lines of business and related functions are located. Additionally, the Bank has 1 leased and 2 owned Wealth Management offices in New Hampshire. In the opinion of management, the physical properties of the Company and the Bank are considered adequate to meet the needs of customers in the communities served.

ITEM 3. LEGAL PROCEEDINGS

From time to time the Company may become involved in legal proceedings or may be subject to claims arising in the ordinary course of business. Although the results of litigation and claims cannot be predicted with certainty, the Company currently believes that the final outcome of these ordinary course matters will not have a material adverse effect on business, operating results, financial condition or cash flows. Regardless of the outcome, litigation can have an adverse impact on the Company because of defense and settlement costs, diversion of management resources and other factors.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

The common stock of the Company is traded on the NYSE American, under the trading symbol "BHB". As of March 5, 2021, there were 14,938,697 shares of Bar Harbor Bankshares common stock, par value $2.00 per share, outstanding and approximately 1,530 shareholders of record, as obtained through the Company's transfer agent.

Recent Sale of Unregistered Securities and Use of Proceeds from Registered Securities

No unregistered equity securities were sold by the Company during the year ended December 31, 2020.

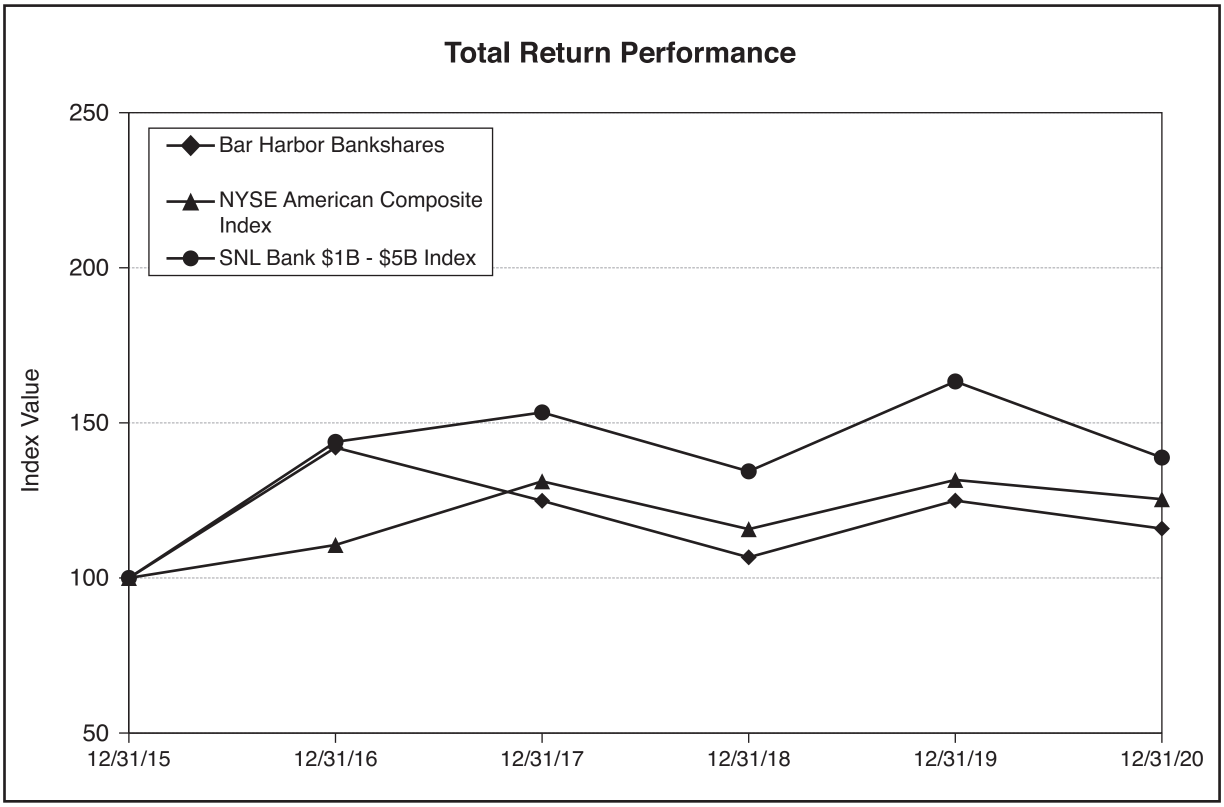
The following table provides certain information with regard to shares repurchased by the Company in the fourth quarter of 2020:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as a part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs[1]
October 1 - 31, 2020	27,600	$20.38	716,942	64,058
November 1 - 30, 2020	3,101	20.35	720,043	60,957
December 1 - 31, 2020	—	—	720,043	60,957
Total	30,701	$20.37	720,043	60,957

On March 12, 2020, the Company's Board of Directors approved a twelve-month plan to repurchase up to 5% of its outstanding common stock, representing 781,000 shares and expires on March 20, 2021.

Common Stock Performance Graph

The following graph illustrates the estimated yearly change in value of the Company's cumulative total stockholder return on its common stock for each of the last five years. Total shareholder return is computed by taking the difference between the ending price of the common stock at the end of the previous year and the current year, plus any dividends paid divided by the ending price of the common stock at the end of the previous year. For purposes of comparison, the graph also matches Bar Harbor Bankshares' cumulative 5-Year total shareholder return on common stock with the cumulative total returns of the NYSE American Composite index, and the SNL Bank $1B to $5B Index. The graph tracks the performance of a $100 investment in the Company's common stock and in each index (with the reinvestment of all dividends) from December 31, 2015 to December 31, 2020.



	Period Ending					
Index	**12/31/15**	**12/31/16**	**12/31/17**	**12/31/2018**	**12/31/2019**	**12/31/2020**
Bar Harbor Bankshares	100.00	142.03	124.88	106.65	124.94	115.91
NYSE American Composite Index	100.00	110.64	131.16	115.73	131.61	125.39
SNL Bank $1B - $5B Index	100.00	143.87	153.37	134.37	163.35	138.81

ITEM 6. SELECTED FINANCIAL DATA

The following summary data is based in part on the consolidated financial statements and accompanying notes, and other schedules appearing elsewhere in this Form 10-K. Historical data is also based in part on, and should be read in conjunction with, prior filings with the SEC.

	At or For the Years Ended December 31,				
(in millions, except ratios and share data)	**2020**	**2019**	**2018**	**2017**	**2016**
Financial Condition Data:					
Total assets	$ 3,726	$ 3,669	$ 3,608	$ 3,565	$1,755
Total earning assets[(1)]	3,360	3,349	3,327	3,300	1,681
Total investments	599	684	761	755	554
Total loans	2,563	2,635	2,488	2,473	1,129
Allowance for loan losses	19	15	14	12	10
Total goodwill and intangible assets	127	127	108	108	5
Total deposits	2,906	2,696	2,483	2,352	1,050
Total borrowings	336	531	724	830	537
Total shareholders' equity	411	396	371	355	157
Operating Data:					
Total interest and dividend income	$ 126	$ 135	$ 127	$ 116	$ 57
Total interest expense	27	45	36	24	12
Net interest income	99	90	91	92	45
Non-interest income	43	29	28	26	13
Net revenue[(2)]	142	119	119	119	58
Provision for loan losses	6	2	3	3	1
Total non-interest expense	95	90	76	72	36
Income tax expense[(3)]	8	4	8	17	6
Net income	33	23	33	27	15
Ratios and Other Data:					
Per Common Share Data					
Basic earnings	$ 2.18	$ 1.46	$ 2.13	$ 1.71	$ 1.65
Diluted earnings	2.18	1.45	2.12	1.70	1.63
Total book value	27.58	25.48	23.87	22.96	17.19
Dividends	0.88	0.86	0.79	0.75	0.73
Common stock price:					
High	25.55	27.58	30.95	33.41	33.25
Low	13.05	21.24	21.25	25.09	19.69
Close	22.59	25.39	22.43	27.01	31.55
Weighted average common shares outstanding (in thousands):					
Basic	15,246	15,541	15,488	15,184	9,069
Diluted	15,272	15,587	15,564	15,290	9,143
Performance Ratios:[(4)]					
Return on assets	0.88%	0.62%	0.93%	0.75%	0.89%
Return on equity	8.17	5.82	9.22	7.41	9.21
Interest rate spread	2.92	2.53	2.67	2.99	2.86
Net interest margin[(5)]	2.97	2.77	2.86	3.08	2.96
Dividend payout ratio	40.36	59.09	36.99	44.26	44.04
Organic Growth Ratios:					
Total commercial loans	17%	6%	1%	24%	9%
Total loans	(3)	2	0	13	14
Total deposits	8	(2)	6	14	11
Asset Quality and Condition Ratios:					
Non-accruing loans/total loans	0.48%	0.44%	0.73%	0.58%	0.58%
Net charge-offs/average loans	0.07	0.03	0.05	0.04	—
Allowance for loan losses/total loans[(6)]	0.74	0.58	0.56	0.50	0.92
Loans/deposits	88	98	100	106	108
Capital Ratios:					
Tier 1 capital to average assets - Company	8.12%	8.13%	8.53%	8.10%	8.94%
Tier 1 capital to risk-weighted assets - Company	11.28	11.39	12.68	12.19	15.01
Tier 1 capital to average assets - Bank	9.02	8.39	8.74	8.58	9.06
Tier 1 capital to risk-weighted assets - Bank	12.52	11.79	12.99	12.92	15.20
Shareholders equity to total assets	11.04	10.80	10.27	9.95	8.93

(1) Earning assets includes non-accruing loans and interest-bearing deposits with other banks. Securities are valued at amortized cost.

(2) Net revenue is defined as net interest income plus non-interest income.

(3) In December 2017, the Tax Cuts and Jobs Act of 2017 was enacted, and the Company recognized a $4.0 million write-down of its deferred tax assets and liabilities upon revaluation using the lower federal corporate income tax rate of 21.0%

(4) All performance ratios are based on average balance sheet amounts, where applicable.

(5) Fully taxable equivalent considers the impact of tax advantaged securities and loans.

(6) Generally accepted accounting principles require that loans acquired in a business combination be recorded at fair value, whereas loans from business activities are recorded at cost. The fair value of loans acquired in a business combination includes expected loan losses, and there is no loan loss allowance recorded for these loans at the time of acquisition. Accordingly, the ratio of the loan loss allowance to total loans is reduced as a result of the existence of such loans, and this measure is not directly comparable to prior periods. Similarly, net loan charge-offs are normally reduced for loans acquired in a business combination since these loans are recorded net of expected loan losses. Therefore, the ratio of net loan charge-offs to average loans is reduced as a result of the existence of such loans, and this measure is not directly comparable to prior periods. Other institutions may have loans acquired in a business combination, and therefore there may be no direct comparability of these ratios between and among other institutions.

AVERAGE BALANCES AND AVERAGE YIELDS/RATES

The following table presents average balances and average rates and yields on a fully taxable equivalent basis for the periods included:

	2020			2019			2018		
(in millions, except ratios)	**Average Balance**	**Interest**	**Yield/ Rate**	**Average Balance**	**Interest**	**Yield/ Rate**	**Average Balance**	**Interest**	**Yield/ Rate**
Assets									
Interest-bearing deposits with other banks[4]	$ 89	$ —	0.15%	$ 17	$—	0.96%	$ 16	$—	0.34%
Securities available for sale and FHLB stock[2][3]	625	20	3.20	743	25	3.42	762	25	3.20
Loans:									
Commercial real estate	993	40	4.02	875	42	4.73	829	38	4.56
Commercial and industrial[3]	379	21	5.62	411	19	4.72	390	18	4.57
Paycheck protection program	109	5	4.19	—	—	—	—	—	—
Residential	1,078	41	3.78	1,158	45	3.91	1,133	44	3.85
Consumer	124	5	4.06	116	6	5.11	118	6	4.73
Total loans[1]	2,683	112	4.16	2,560	112	4.38	2,470	106	4.24
Total earning assets	3,397	132	3.87%	3,320	137	4.14%	3,248	131	3.98%
Cash and due from banks	27			64			42		
Allowance for loan losses	(17)			(15)			(13)		
Other assets	353			279			248		
Total assets	$3,760			$3,648			$3,525		
Liabilities									
NOW	$ 643	$ 1	0.20%	$ 492	$ 2	0.49%	$ 457	$ 2	0.42%
Savings	467	1	0.16	359	1	0.19	354	1	0.17
Money market	396	2	0.42	348	5	1.32	281	2	0.78
Time deposits	796	14	1.80	924	19	2.09	903	15	1.64
Total interest bearing deposits	2,302	18	0.78	2,123	27	1.27	1,995	20	0.98
Borrowings	507	9	1.75	708	19	2.61	790	17	2.16
Total interest bearing liabilities	2,809	27	0.96%	2,831	46	1.61%	2,785	37	1.31%
Non-interest bearing demand deposits	481			394			355		
Other liabilities	63			34			28		
Total liabilities	3,353			3,259			3,168		
Total shareholders' equity	407			389			357		
Total liabilities and shareholders' equity	$3,760			$3,648			$3,525		
Net interest income		$105			$92			$93	
Net interest spread			2.92%			2.53%			2.67%
Net interest margin			2.97			2.77			2.86
Adjusted net interest margin[5]			2.93			2.77			2.86

(1) The average balances of loans include non-accrual loans and unamortized deferred fees and costs.

(2) The average balance for securities is based on amortized cost.

(3) Fully taxable equivalent considers the impact of tax-advantaged securities and loans.

(4) Income from interest-bearing deposits with other banks has been separated from securities and restated for prior periods to conform to the current period presentation.

(5) Core net interest margin excludes Paycheck Protection Program loans.

RATE/VOLUME ANALYSIS

The following table presents the effects of rate and volume changes on the fully taxable equivalent net interest income. Tax exempt interest revenue is shown on a tax-equivalent basis for proper comparison. For each category of interest- earning assets and interest-bearing liabilities, information is provided with respect to changes attributable to (1) changes in rate (change in rate multiplied by prior year volume), (2) changes in volume (change in volume multiplied by prior year rate), and (3) changes in volume/rate (change in rate multiplied by change in volume) have been allocated proportionately based on the absolute value of the change due to the rate and the change due to volume.

	2020 Compared with 2019			2019 Compared with 2018		
	Increases (Decreases) due to			Increases (Decreases) due to		
(in thousands)	Rate	Volume	Net	Rate	Volume	Net
Interest income:						
Interest-bearing deposits with other banks	$ (246)	$ 305	$ 59	$ 115	$ 8	$ 123
Securities available for sale and FHLB stock	(1,305)	(4,031)	(5,336)	1,279	(616)	663
Loans:						
Commercial real estate	(7,140)	5,544	(1,596)	1,631	2,123	3,754
Commercial and industrial(1)	4,694	(1,388)	3,306	619	962	1,581
Paycheck protection program	—	4,569	4,569	—	—	—
Residential	(1,407)	(3,107)	(4,514)	708	920	1,628
Consumer	(1,320)	426	(894)	373	(120)	253
Total loans	(5,173)	6,044	871	3,331	3,885	7,216
Total interest income	$ (6,724)	$ 2,318	$ (4,406)	$ 4,725	$ 3,277	$ 8,002
Interest expense:						
Deposits:						
NOW	$ (1,807)	$ 731	$ (1,076)	$ 344	$ 142	$ 486
Savings	(200)	219	19	108	13	121
Money market	(3,631)	635	(2,996)	1,897	527	2,424
Time deposits	(2,253)	(2,682)	(4,935)	4,130	352	4,482
Total deposits	(7,891)	(1,097)	(8,988)	6,479	1,034	7,513
Borrowings	(4,397)	(5,269)	(9,666)	3,357	(1,857)	1,500
Total interest expense	$(12,288)	$(6,366)	$(18,654)	$ 9,836	$ (823)	$ 9,013
Change in net interest income	$ 5,564	$ 8,684	$ 14,248	$(5,111)	$ 4,100	$(1,011)

NON-GAAP FINANCIAL MEASURES

This document contains certain non-GAAP financial measures in addition to results presented in accordance with accounting principles generally accepted in the United States of America ("GAAP"). These non-GAAP measures are intended to provide the reader with additional supplemental perspectives on operating results, performance trends, and financial condition. Non-GAAP financial measures are not a substitute for GAAP measures; they should be read and used in conjunction with the Company's GAAP financial information. A reconciliation of non-GAAP financial measures to GAAP measures is provided below. In all cases, it should be understood that non-GAAP measures do not depict amounts that accrue directly to the benefit of shareholders. An item that management excludes when computing non- GAAP adjusted earnings can be of substantial importance to the Company's results for any particular quarter or year. The Company's non-GAAP adjusted earnings information set forth is not necessarily comparable to non- GAAP information that may be presented by other companies. Each non-GAAP measure used by the Company in this report as supplemental financial data should be considered in conjunction with the Company's GAAP financial information.

The Company utilizes the non-GAAP measure of adjusted earnings in evaluating operating trends, including components for adjusted revenue and expense. These measures exclude amounts that the Company views as unrelated to its normalized operations, including gains/losses on securities, premises, equipment and other real estate owned, acquisition costs, restructuring costs, legal settlements, and systems conversion costs. Non-GAAP adjustments are presented net of an adjustment for income tax expense.

The Company also calculates adjusted earnings per share based on its measure of adjusted earnings. The Company views these amounts as important to understanding its operating trends, particularly due to the impact of accounting standards related to acquisition activity. Analysts also rely on these measures in estimating and evaluating the Company's performance. Management also believes that the computation of non-GAAP adjusted earnings and adjusted earnings per share may facilitate the comparison of the Company to other companies in the financial services industry. The Company also adjusts certain equity related measures to exclude intangible assets due to the importance of these measures to the investment community.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

The following table summarizes the reconciliation of non-GAAP items for the time periods presented:

(in thousands)	Calculations	At or For The Years Ended December 31, 2020	2019	2018
GAAP net income		$ 33,244	$ 22,620	$ 32,937
(Gain) loss on sale of securities, net		(5,445)	(237)	924
(Gain) loss on sale of premises and equipment, net		(32)	18	—
Loss on other real estate owned		355	166	20
Loss on debt extinguishment		1,351	1,096	—
Acquisition, conversion and other expenses		5,801	8,317	1,728
Income tax expense(1)		(481)	(2,232)	(635)
Total adjusted income(2)	(A)	$ 34,793	$ 29,748	$ 34,974
GAAP net interest income	(B)	$ 99,180	$ 89,810	$ 90,883
Plus: Non-interest income		42,956	29,069	27,935
Total Revenue		142,136	118,879	118,818
(Gain) loss on sale of securities, net		(5,445)	(237)	924
Total adjusted revenue(2)	(C)	$136,691	$118,642	$119,742
GAAP total non-interest expense		$ 94,860	$ 89,733	$ 75,539
Gain (loss) on sale of premises and equipment, net		32	(18)	—
Loss on other real estate owned		(355)	(166)	(20)
Loss on debt extinguishment		(1,351)	(1,096)	—
Acquisition, conversion and other expenses		(5,801)	(8,317)	(1,728)
Adjusted non-interest expense(2)	(D)	$ 87,385	$ 80,136	$ 73,791
(in millions)				
Average earning assets	(E)	$ 3,397	$ 3,320	$ 3,249
Average paycheck protection program (PPP) loans	(R)	109	—	—
Average earning assets, excluding PPP loans	(S)	3,288	3,320	3,249
Average assets	(F)	3,760	3,649	3,525
Average shareholders' equity	(G)	407	389	357
Average tangible shareholders' equity(2)(3)	(H)	279	280	249
Tangible shareholders' equity, period-end(2)(3)	(I)	284	269	263
Tangible assets, period-end(2)(3)	(J)	3,598	3,542	3,501
(in thousands)				
Common shares outstanding, period-end	(K)	14,916	15,558	15,523
Average diluted shares outstanding	(L)	15,272	15,587	15,564
Adjusted earnings per share, diluted	(A/L)	$ 2.28	$ 1.91	$ 2.25
Tangible book value per share, period-end(2)	(I/K)	19.05	17.30	16.94
Securities adjustment, net of tax(1)(4)	(M)	10,023	5,549	(8,663)
Tangible book value per share, excluding securities adjustment(2)(4)	(I+M)/K	18.38	16.94	17.50
Total tangible shareholders' equity/total tangible assets(2)	(I/J)	7.90	7.60	7.51
Performance ratios(5)				
GAAP Return on assets		0.88%	0.62%	0.93%
Adjusted return on assets(2)	(A/F)	0.92	0.82	0.99
GAAP Return on equity		8.17	5.82	9.22
Adjusted return on equity(2)	(A/G)	8.48	7.65	9.79
Adjusted return on tangible equity(2)	(A+Q)/H	12.63	10.86	14.29
Efficiency ratio(2)(6)	(D-O-Q)/(C+N)	61.71	64.95	59.27
Net interest margin(2)	(B+P)/E	2.97	2.77	2.86
Adjusted net interest margin(7)	(B+P-T)/S	2.93	2.77	2.86
Supplementary data (in thousands)				
Taxable equivalent adjustment for efficiency ratio	(N)	$ 2,477	$ 2,692$	2,554
Franchise taxes included in non-interest expense	(O)	477	469	479
Tax equivalent adjustment for net interest margin	(P)	1,853	2,048	1,986
Intangible amortization	(Q)	1,024	861	828
Interest and fees on PPP loans	(T)	4,569	—	—

(1) Assumes a marginal tax rate of 23.71% in 2020, 23.87% in 2019 and 23.78% in 2018.

(2) Non-GAAP financial measure.

(3) Tangible shareholders' equity is computed by taking total shareholders' equity less the intangible assets at period-end. Tangible assets is computed by taking total assets less the intangible assets at period-end.

(4) Securities adjustment, net of tax represents the total unrealized gain on securities recorded on the Company's consolidated balance sheets within total common shareholders' equity.

(5) All performance ratios are based on average balance sheet amounts, where applicable.

(6) Efficiency ratio is computed by using adjusted non-interest expense net of franchise taxes and intangible amortization divided by adjusted revenue tax effected for tax-advantaged assets using a marginal tax rate of 23.71% in 2020, 23.87% in 2019 and 23.78% in 2018.

(7) Core net interest margin excludes Paycheck Protection Program loans.

GENERAL

Management's discussion and analysis is intended to assist in understanding the financial condition and results of operations of the Company. The information in this section should be read in conjunction with the Consolidated Financial Statements and accompanying Notes contained in this Form 10-K.

EXECUTIVE SUMMARY

The Company is focused on providing core banking products and services, including customized and innovative banking and lending solutions, designed to cater to the unique needs of its diverse communities, businesses and entrepreneurs through over 50 locations throughout Maine, New Hampshire and Vermont. Through over 500 dedicated professionals, the Company is committed to servicing and building enduring relationships by providing a higher standard of banking. The Company offers a variety of financial products and services designed around our target clients in order to serve all of their banking and financial needs. The Company continues to focus on three main initiatives designed to improve its franchise and profitability on an ongoing basis: attracting noninterest-bearing deposits and reducing our cost of deposits, optimizing the balance sheet to focus on higher-margin products while managing credit risk, and appropriately managing down expenses to the size and complexity of the business. Through these efforts, the Company continues to transform its franchise into a relationship-focused business bank within its footprint.

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.

Wealth management remains a significant contributor to fee income in 2020; increasing 11% and serving as a foundation for deepening customer relationships with $2.3 billion in assets under management. During the year the Company consolidated leadership and combined operations onto a common platform in its wealth management business. This consolidation allowed for unified policies under one environment driven by best practices.

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. See further discussion in Item 1A—*Risk Factors* of this Form 10-K.

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, 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.

COMPARISON OF FINANCIAL CONDITION AT DECEMBER 31, 2020 AND 2019

Summary

The Company offers a competitive mix of loan and deposit products to serve the retail and commercial markets in its footprint. Loans and investment securities are the Company's primary earning assets and net interest income from these products is its primary revenue source. Funding of the Company's earning assets is achieved through its management of liabilities, attempting to provide stable and flexible sources of funding within well-defined credit, investment, interest rate and liquidity guidelines. The Company's objective is to optimize its balance sheet position and enhance profitability with controlled risk. The Company maintains adequate liquidity under both prevailing and forecasted economic conditions achieved primarily through an appropriate mix of deposits and borrowed funds. Total assets were $3.7 billion in 2020, remaining steady with 2019.

Cash and Cash Equivalents

The Company maintains cash vaults and teller drawers to service customers along with transactional cash accounts to service the needs of the Company and its subsidiaries that are non-interest bearing. Interest-bearing deposits are maintained with other banks such as the Federal Reserve Bank, Federal Home Loan Bank, and other correspondent banks. These accounts are used to fund reserve requirements, debt service on senior borrowings, and serve as collateral for correspondent bank relationships. In addition, these accounts hold any excess liquidity used to fund higher earning assets. The Company continuously monitors cash levels to ensure compliance with applicable regulatory requirements, including liquidity and reserve requirements.

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

The Company maintains a relatively high quality and liquid securities portfolio primarily consisting of US Government-sponsored enterprises and US Government agency mortgage-backed securities, obligations of states and political subdivisions, corporate bonds, and to a much lesser extent other asset backed securities and non-agency mortgage securities. The securities portfolio is managed in accordance with achieving the Company's asset-liability objectives which includes managing liquidity, funding, capital, and structural interest rate risks. Investments are evaluated within this framework and policy guidelines which have been established by the Company's Board of Directors. The Company continuously evaluates and monitors the securities portfolio tied to credit, liquidity, duration, suitability and other metrics. Included in the Company's total securities is FHLB stock which is a non-marketable equity security and, therefore, is reported at cost.

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.

The Company monitors our securities portfolio to ensure adequate credit support. As of December 31, 2020, the Company has identified no credit impairment. There is no current intent to sell securities with a fair value below amortized cost at December 31, 2020, and it is more likely than not that the Company will not be required to sell such securities prior to the recovery of their amortized cost basis. We consider the lowest credit rating and industrial analysis for identification of potential credit impairment.

In 2020, the Company sold securities of $153 million with a net gain of $5 million. The sales strategy took advantage of favorable market conditions with attractive prices allowing the Company to sell securities projected to have sub-optimal returns and lower liquidity profiles at sizable gains. The Company was then able to repurchase more liquid securities with reduced prepayment risk and improved risk adjusted returns. The execution of the fourth quarter trades led to slight increase in profitability metrics and availability to pledge additional securities with the FHLB. Although the sales generating realized gains the Company still improved December 31, 2020 unrealized gains, net of tax to $10 million compared to $6 million at December 31, 2019.

The weighted average yield on the Company's securities portfolio was 2.96% in 2020 compared to 3.42% in the prior year. The weighted average life of the securities portfolio at December 31, 2020 was estimated to be 4.8 years, with a duration of approximately 4.3 years. These metrics compare with an estimated weighted average life of 5.0 years, with a duration of approximately 3.6 years for the portfolio at December 31, 2019.

Loans Held For Sale

Held for sale loans increased by $18 million to $24 million at December 31, 2020 from $6 million at December 31, 2019 as a result of strong mortgage refinancing demand in response to the low interest rate environment. This asset category is subject to a high degree of variability depending on, among other things, recent mortgage loan rates and the timing of loan sales into the secondary market. In 2020, the Company's strategy was to sell most of its residential mortgage originations on the secondary market. Proceeds from sales totaled $223 million in 2020, $63 million in 2019 and $58 million in 2018.

Loans

The Company's loan portfolio is comprised of the following segments: commercial real estate, commercial and industrial, residential real estate, and consumer loans. Commercial real estate loans include multi-family, commercial construction and land development, and other commercial real estate classes. Commercial and industrial loans include loans to commercial businesses and tax exempt entities including PPP loans to small businesses. Residential real estate loans consist of mortgages for 1-4 family housing. Consumer loans include home equity loans, lines of credit and auto and other installment lending.

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 PPP 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.

The Company offered PPP loans in an effort to assist its business partners and communities. The Company will continue the program with the second round of PPP loans authorized by the new stimulus bill in 2021. The Company originated over 1,900 first-round PPP loans totaling $132 million, of which many have been submitted for forgiveness by the SBA. The remaining first round PPP loans total $54 million with an associated $1 million of deferred fees not yet recognized in income and are expected to be forgiven by the end of the second quarter 2021. The Company also offered borrowers COVID-19 loan modifications consisting mostly of temporary deferrals with normal interest accruals. The modifications totaled over 800 loans or about $400 million over the course of the year.

The Company's loan portfolio remains diverse among many different industries over several geographies. However, commercial loans represent 60% of the total portfolio and typically involve larger balances and gives rise to concentration risk.

All commercial loans are assigned Standard Industrial Classification codes, North American Industry Classification System codes, and state and county codes. The following table summarizes the major industries of the Company's commercial loan portfolio as of December 31, 2020:

(in thousands)	Amount	Percent of Portfolio
Real estate rental and leasing	$ 644,994	42%
Hospitality	276,421	18
Health care and social assistance	91,989	6
Educational services	61,696	4
Retail trade	58,942	4
Manufacturing	57,280	4
Agriculture, forestry, fishing and hunting	41,271	3
Construction	40,716	3
Public administration	39,315	3
Finance and insurance	36,236	2
Food services	23,373	2
Arts, entertainment, and recreation	22,137	1
Wholesale trade	20,727	1
Professional, scientific, and technical services	16,463	1
Management of companies and enterprises	15,324	1
Utilities	15,081	1
Transportation and warehousing	15,038	1
All other	48,447	3
Total commercial loans	$1,525,450	100%

The largest concentrations in the commercial loan portfolio are commercial real estate and hospitality representing 42% and 18%, respectively. Concentrations are managed through a serious of loan policy limits and stringent underwriting requirements to minimize exposures. Loan policy limits are based on Tier 1 Risk Based Capital (TRBC) as computed in quarterly regulatory reporting. At December 31, 2020, none of these TRBC thresholds were exceeded. In regard to stringent underwriting requirements the Company has established minimum thresholds for loan to value ratios, debt service coverage rations, and requirements for personal guarantees. The Company also performs a borrower revenue/margin sensitively analysis on current financials to determine the impact of decreases in borrower revenues on cash flow and ability to cover debt service.

Allowance for loan losses

The determination of the allowance for loan losses is a critical accounting estimate. The Company's methodologies for determining the loan loss allowance are discussed in Note 1—*Summary of Significant Accounting Policies* of the Consolidated Financial Statements.

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. As noted above the Company has adopted CECL as of January 1, 2021 which will result in a higher allowance coverage ratio. Non-accruing loans in 2020 decreased primarily due to $2 million in commercial and residential payoffs during the fourth quarter.

Due to the impacts of the pandemic the Company began and expanded quarterly stress testing of its commercial loan portfolio throughout 2020. Fourth quarter testing covered 54% of the portfolio including the top 50 relationships, all criticized loans greater than $1.0 million, hospitality loans greater than $250 thousand, all loans over $150 thousand with a pandemic modification and any seasonal payment, restaurant, or 2021 maturing term loans greater than $500 thousand. Results of the stress testing led to no significant downgrades or changes to reserves.

Other Assets

The Company identifies on its balance sheet premises and equipment, other real estate owned, goodwill, other intangible assets, bank-owned life insurance, net deferred tax assets and other assets consisting of derivative fair values, right of use asset, community investments, and receivables. These collective assets totaled $333 million at the end of 2020 compared to $303 million as of December 31, 2019. The increase is primarily from the $26 million gross up of the fair value in customer loan derivatives and $3 million in community limited partnership investments made during 2020 reflected in the cash flow from investing activities. Community limited partnership investments provide affordable loans or equity funding typically for multifamily or residential real estate in qualified community reinvestment areas, some of which may involve low income housing tax credits. Partnerships can also include loans for commercial purposes used in economic development in qualified community reinvestment areas.

Deposits

The Company views its customer relationships as key to building its core funding platform. The Company offers competitive deposit products with local convenience including accounts with cash-back rewards. Historically, the Company's deposit market experiences some seasonality, with lower deposits in the winter and spring months and higher deposits in the summer and autumn months.

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

Borrowed funds provide a means to help manage balance sheet interest rate risk, given the Company's ability to select desired amounts, terms and maturities on a daily basis. Senior borrowings principally consist of advances from the FHLB and, to a lesser extent, securities sold under agreements to repurchase. Advances from the FHLB are secured by stock in the FHLB, investment securities, certain commercial real estate loans, and blanket liens on qualifying mortgage loans and home equity loans. Subordinated borrowings consist of notes issued to accredited investors and provides a stable source of funding and capital to the Company. Contingency lines of credit are also maintained with the Federal Reserve Bank of Boston and a correspondent bank.

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.

Derivative Financial Instruments and Hedging Activities

The Company utilizes derivative instruments to minimize fluctuations in earnings and cash flows caused by interest rate volatility. The notional balance of derivative financial instruments increased to $877 million at the end of 2020 from $580 million at year-end 2019. The increase is primarily due to $300 million in customer loan derivatives sold on commercial loans with matching hedges using a national bank counterparty. The net fair value of total derivatives was a net asset of $52 thousand at the end of 2020 compared to a net liability of $743 thousand at year-end 2019.

Cash flow hedges reflected a new $25 million notional amount hedge on wholesale funding in April 2020. Based on direct and indirect events resulting from COVID-19 pandemic, the Company determined that $50 million of wholesale funding was no longer necessary. A hedge the Company placed in March 2019 with a $50 million notional amount and fixed rate of 2.46% was terminated in October 2020. As a result of the termination a $4 million loss recognized in acquisition, conversion, and other expenses as a result of the reclassification of the unrealized loss from other comprehensive income.

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.

The Company and the Bank remained well-capitalized under regulatory guidelines at period end as further described in Note 13—*Shareholders' Equity and Earnings Per Common Share* on the Consolidated Financial Statements.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

Summary

Net income in 2020 was $33 million compared to $23 million in 2019. The non-GAAP measure of adjusted earnings in 2020 was $35 million compared to $30 million in 2019 and included acquisition, conversion and other expense charges of $6 million and $8 million, respectively. Net income and adjusted earnings benefited from an expanded net interest margin and higher non-interest income.

Net Interest Income

Net interest income is the principal component of the Company's income stream and represents the difference or spread between interest generated from earning assets and the interest expense paid on deposits and borrowed funds. Fluctuations in market interest rates as well as volume and mix changes in earning assets and interest-bearing liabilities can materially impact 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. The 2020 adjusted net interest margin (non-GAAP measure), which excludes PPP loans was 2.93% compared to 2.77% for 2019, which included a drag of 16 basis points and one basis point, respectively from excess liquidity reflected in interest-bearing deposits with other banks.

Loan Loss Provision

The level of the allowance is a critical accounting estimate, which is subject to uncertainty. The provision for loan losses is a charge to earnings in an amount sufficient to maintain the allowance for loan losses at a level deemed adequate by the Company. The provision was $6 million in 2020 compared to $2 million in 2019. Credit quality metrics improved with decreases in non-accruing and past due loans. Overall credit quality remains strong, the increase in the provision is indicative of commercial loan growth and higher economic adjustments reflecting elevated risk from COVID-19.

Non-Interest Income

Non-interest income are fees that are fundamental to the Company's profitability through revenue diversification in the forms of trust and treasury management services, customer service fees, customer loan derivatives, and secondary market mortgage sales.

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.

Income Tax Expense

The amount of federal and state income tax expense is influenced by the amount of pre-tax income, the amount of tax-exempt income and the amount of other nondeductible expenses. Income tax expense was $8 million for the year ended December 31, 2020, compared with $4 million for the year ended December 31, 2019. The effective tax rate increased to 20.2% in 2020 from 15.7% in 2019, reflecting the higher level of taxable income and lower level of non-tax advantaged income in 2020. This reflects higher income in 2020 from the Company's expanded customer base in the state of Maine along with higher core deposits that carry a lower cost of funds.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

Summary

Net income in 2019 was $23 million compared to $33 million in 2018 and included acquisition, restructuring and other expense charges of $8 million and $2 million, respectively. The non-GAAP measure of adjusted earnings in 2019 was $30 million compared to $35 million in 2018. Net income and adjusted earnings in 2019 benefited from expanded yields on earning assets and non-interest income growth, offset by higher cost of funds. Results for 2019 include operations from the branch acquisition as of the October 25, 2019 effective date.

Net Interest Income

Net interest income for 2019 was $90 million compared with $91 million in 2018. Interest income was $135 million, up 6% from $127 million in 2018 as average earning assets grew $70 million. The net interest margin was 2.78% in 2019 compared to 2.87% in the prior year. Purchase loan accretion contributed 10 and 11 basis points to the margin in 2019 and 2018, respectively. Yields expanded across all loan categories as variable rate products in the first half of 2019 repriced to higher rates driven by the 2018 short-term hikes. The 2019 yield on securities improved by 19 basis points reflecting the benefit of portfolio remix strategies and associated security sales in the second half of 2019. These improvements in interest from earning assets were offset by a higher cost of interest bearing liabilities, especially in the first half of 2019, which was also driven by short-term rate hikes in late 2018. While the cost of interest bearing liabilities increased 30 basis points to 1.61% on a year-over-year basis, the same costs improved to 1.42% in the fourth quarter due to executing deleveraging strategies associated with the branch acquisition and securities sales.

Loan Loss Provision

The level of the allowance is a critical accounting estimate, which is subject to uncertainty. The provision for loan losses is a charge to earnings in an amount sufficient to maintain the allowance for loan losses at a level deemed adequate by the Company. The provision was $2 million in 2019 compared to $3 million in 2018. The decrease is primarily due to lower charge-offs in 2019 as compared to prior year reflecting continued improvement in credit quality.

Non-Interest Income

Non-interest income for 2019 increased to $29 million from $28 million in 2018 driven primarily by customer loan derivative income, which increased to $2 million in 2019 compared to $860 thousand in 2018. The increase in these fees is attributable to the Company's continued focus on the complexity of the financial needs of its customers and related commercial loan growth in 2019. Customer service fees also contributed to the overall increase in non-interest income growing by $589 thousand in 2019. The increase is due to higher transaction volume principally from the deposit base obtained through the branch acquisition. Trust and investment management fee income in 2019 was relatively flat with 2018. However, assets under management increased to $2.0 billion in 2019 compared to $1.7 billion in 2018 primarily due wealth management accounts that were obtained through the branch acquisition.

Non-Interest Expense

Non-interest expense was $90 million in 2019 compared to $76 million in 2018. The increase in 2019 includes $3 million related to the branch acquisition, a $3 million reclassification of losses on the interest rate cap derivative from other comprehensive income and $3 million related to branch optimization and other strategic review expenses. Salary and employee benefits expenses increased by $4 million due to postretirement benefit revaluations on lower discount rates and an increase in full time equivalent employees ("FTEs"). FTEs totaled 531 at the end of 2019 compared with 445 at the end of 2018, which includes employees from the branch acquisition.

Income Tax Expense

The effective tax rate decreased to 15.7% in 2019 from 18.7% in 2018 due to a higher proportion of tax-advantaged income to taxable income, which was driven by overall lower net income in 2019 as compared to 2018.

Expected Replacement of London Interbank Offered Rate

The Alternative Reference Rates Committee continues its work in finding suitable replacements for LIBOR. It is expected that a transition away from the widespread use of LIBOR to alternative reference rates and other potential interest rate benchmark reforms will occur beginning potentially in 2022. Although the full impact of such reforms and actions, together with any transition away from LIBOR remains unclear, the Company is preparing to transition from the LIBOR to an alternative reference rate.

The Company's transition plan includes a number of key steps, including engagement with central bank and industry working groups and regulators, active client engagement, internal operational readiness, and risk management, among other things, to promote the transition to alternative reference rates. The Company is identifying on-balance sheet and off-balance sheet references to LIBOR, determining appropriate language to replace the LIBOR index language, and determining disclosures necessary for customers, with appropriate procedures and schedules to complete the LIBOR transition.

However, there is a number of unknown factors regarding the transition from LIBOR or interest rate benchmark reforms that could impact the Company's business, including, for example, the pace of the transition to replacement or reformed rates, the specific terms and parameters for and market acceptance of the alternative reference rates, prices of and the liquidity of trading markets for products based on the alternative reference rates, and ability to transition to and develop appropriate systems and analytics for one or more alternative reference rates.

For a further discussion of the various risks the Company faces in connection with the expected replacement of LIBOR and reform of interest rate benchmarks on operations, see Item 1A of this Form 10K—"Risk Factors," paragraph for "*Reforms to London Interbank Offered Rate ("LIBOR") and other indices, and related uncertainty, may adversely affect our business, financial condition or results of operations*."

LIQUIDITY AND CASH FLOWS

Liquidity is measured by the Company's ability to meet short-term cash needs at a reasonable cost or minimal loss. The Company seeks to obtain favorable sources of liabilities and to maintain prudent levels of liquid assets in order to satisfy varied liquidity demands. Besides serving as a funding source for maturing obligations, liquidity provides flexibility in responding to customer initiated needs. Many factors affect the Company's ability to meet liquidity needs, including variations in the markets served by its network of offices, its mix of assets and liabilities, reputation and credit standing in the marketplace, and general economic conditions.

The Bank actively manages its liquidity position through target ratios established under its Asset Liability Management Policy. Continual monitoring of these ratios, by using historical data and through forecasts under multiple rate and stress scenarios, allows the Bank to employ strategies necessary to maintain adequate liquidity. The Bank's policy is to maintain a liquidity position of at least 4% of total assets. A portion of the Bank's deposit base has been historically seasonal in nature, with balances typically declining in the winter months through late spring, during which period the Bank's liquidity position tightens.

The Bank maintains a liquidity contingency plan approved by the Bank's Board of Directors. This plan addresses the steps that would be taken in the event of a liquidity crisis, and identifies other sources of liquidity available to the Company. Company management believes that the level of liquidity is sufficient to meet current and future funding requirements. However, changes in economic conditions, including consumer savings habits and availability or access to the brokered deposit market could potentially have a significant impact on the Company's liquidity position.

The Company believes the existing cash and cash equivalents (including an interest-bearing deposit at the FRB Boston), securities available for sale and cash flows from operating activities will be sufficient to meet anticipated cash needs for at least the next twelve months. Future working capital needs will depend on many factors, including the rate of business and revenue growth. To the extent cash and cash equivalents, securities available for sale and cash flows from operating activities are insufficient to fund future activities, the Company may need to raise additional funds through debt arrangements or public or private debt or equity financings. The Company also may need to raise additional funds in the event it is determined in the future to effect one or more acquisitions of banks or businesses. If additional funding is required, the Company may not be able to obtain debt arrangements or to effect an equity or debt financing on terms acceptable to the Company or at all.

Capital Resources

Consistent with its long-term goal of operating a sound and profitable organization, at December 31, 2020, the Company maintained its strong capital position and continued to be a "well-capitalized" financial institution according to applicable regulatory standards. Management believes this to be vital in promoting depositor and investor confidence and providing a solid foundation for future growth.

The Company's liquidity position remains strong. During the quarter we initiated pandemic-specific liquidity stress tests to analyze potential impacts from payment deferrals, unanticipated use of committed lines of credit, as well as the possibility of required servicer advances on sold loans. At December 31, 2020, available same-day liquidity totaled approximately $1.1 billion, including cash, borrowing capacity at FHLB and the Federal Reserve Discount Window and various lines of credit. Additional sources of liquidity include cash flows from operations, wholesale deposits, cash flow from the Company's amortizing securities and loan portfolios. The Company had unused borrowing capacity at the FHLB of $511.9 million, unused borrowing capacity at the Federal Reserve of $81.1 million and unused lines of credit totaling $71.9 million, in addition to over $200.0 million in unencumbered, liquid investment portfolio assets. The Company has also utilized the Federal Reserve's Paycheck Protection Program Liquidity Facility to provide liquidity to fund PPP loans.

Contractual Obligations

The Company is a party to certain contractual obligations under which it is obligated to make future payments. These principally include borrowings from the FHLB, consisting of short-term and long-term fixed rate borrowings, and collateralized by all stock in the FHLB; a blanket lien on qualified collateral consisting primarily of loans with first and second mortgages secured by one-to-four family properties; and certain pledged investment securities. The Company has an obligation to repay all borrowings from the FHLB.

In the normal course of conducting its banking and financial services business, and in connection with providing products and services to its customers, the Company has entered into a variety of traditional third-party contracts for support services. Examples of such contractual agreements include, but are not limited to: services providing core banking systems, ATM and debit card processing, trust services software, accounting software and the leasing of T-1 telecommunication lines and other technology infrastructure supporting the Company's network.

The following table summarizes the Company's contractual obligations at December 31, 2020:

(in thousands)	Total	Less than One Year	One to Three Years	Three to Five Years	After Five Years
FHLB Borrowings	$248,283	$65,676	$155,000	$27,300	$ 307
Subordinated Notes	59,961	—	—	—	59,961
Operating lease obligations	11,677	1,293	2,637	2,385	5,362
Purchase obligations	23,349	4,532	8,196	7,984	2,637
Total Contractual Obligations	$343,270	$71,501	$165,833	$37,669	$68,267

EFFECTS OF INFLATION

Inflation and changing prices have not had a material effect on the Company's business, and the Company does not expect that they will materially affect the business in the foreseeable future. Any impact of inflation on cost of revenue and operating expenses, especially employee compensation costs, may not be readily recoverable in the price of the Company product offerings.

OFF-BALANCE SHEET ARRANGEMENTS

The Company is a party to certain off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that may be material to investors.

At December 31, 2020 and 2019, the Company's off-balance sheet arrangements were limited to customer obligations, in the normal course of business to meet customer's financing needs. These financial arrangements include commitments to extend credit, unused or unadvanced loan funds, and letters of credit. The Company uses the same lending policies and procedures to make such commitments as it uses for other lending products. Customers' creditworthiness is evaluated on a case-by-case basis.

Commitments to originate loans, including unused or unadvanced loan funds, are agreements to lend to a customer provided there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the customer to pay a fee. Since many of the commitments are expected to expire without being fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Standby letters of credit generally become payable upon the failure of the customer to perform according to the terms of the underlying contract with the third party, while commercial letters of credit are issued specifically to facilitate commerce and typically result in the commitment being drawn on when the underlying transaction is consummated between the customer and a third party. The contractual amount of these letters of credit represents the maximum potential future payments guaranteed by the Company. Typically these letters of credit expire if unused; therefore the total amounts do not necessarily represent future cash requirements. For further detail see Note 12—*Other*

Commitments, Contingencies and Off-Balance Sheet Activities of the Consolidated Financial Statements.

IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

Please refer to the notes on Recently Adopted Accounting Principles and Future Application of Accounting Pronouncements in Note 1—*Summary of Significant Accounting Policies* of the Consolidated Financial Statements.

APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES, AND RECENT ACCOUNTING PRONOUNCEMENTS

The Company's significant accounting policies are described in Note 1—*Summary of Significant Accounting Policies* of the Consolidated Financial Statements in this Annual Report on Form 10-K. The preparation of the consolidated financial statements in accordance with GAAP and practices generally applicable to the financial services industry requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and to disclose contingent assets and liabilities. Actual results could differ from those estimates.

Management has identified the Company's most critical accounting policies as related to:

- Allowance for Loan Losses
- Acquired Loans
- Income Taxes
- Goodwill and Identifiable Intangible Assets
- Determination of Other-Than-Temporary Impairment of Securities
- Fair Value of Financial Instruments

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

Market risk is the risk of loss in a financial instrument arising from adverse changes in market rates/prices, such as interest rates, foreign currency exchange rates, commodity prices and equity prices. Interest rate risk is the most significant market risk affecting the Company. Other types of market risk do not arise in the normal course of the Company's business activities.

The responsibility for interest rate risk management oversight is the function of the Bank's Asset and Liability Committee ("ALCO"), chaired by the Chief Financial Officer and composed of various members of senior management. ALCO meets regularly to review balance sheet structure, formulate strategies in light of current and expected economic conditions, adjust product prices as necessary, implement policy, monitor liquidity, and review performance against guidelines established to control exposure to the various types of inherent risk.

Interest Rate Risk: Interest rate risk can be defined as an exposure to movement in interest rates that could have an adverse impact on the Bank's net interest income. Interest rate risk arises from the imbalance in the re-pricing, maturity and/or cash flow characteristics of assets and liabilities. Management's objectives are to measure, monitor and develop strategies in response to the interest rate risk profile inherent in the Bank's balance sheet. The objectives in managing the Bank's balance sheet are to preserve the sensitivity of net interest income to actual or potential changes in interest rates, and to enhance profitability through strategies that promote sufficient reward for understood and controlled risk.

The Bank's interest rate risk measurement and management techniques incorporate the re-pricing and cash flow attributes of balance sheet and off-balance sheet instruments as each relate to current and potential changes in interest rates. The level of interest rate risk, measured in terms of the potential future effect on net interest income, is determined through the use of modeling and other techniques under multiple interest rate scenarios. Interest rate risk is evaluated in depth on a quarterly basis and reviewed by ALCO and the Company's Board of Directors.

The Bank's Asset Liability Management Policy, approved annually by the Bank's Board of Directors, establishes interest rate risk limits in terms of variability of net interest income under rising, flat, and decreasing rate scenarios. It is the role of the ALCO to evaluate the overall risk profile and to determine actions to maintain and achieve a posture consistent with policy guidelines.

Interest Rate Sensitivity Modeling: The Bank utilizes an interest rate risk model widely recognized in the financial industry to monitor and measure interest rate risk. The model simulates the behavior of interest income and expense for all balance sheet and off-balance sheet instruments, under different interest rate scenarios together with a dynamic future balance sheet. Interest rate risk is measured in terms of potential changes in net interest income based upon shifts in the yield curve.

The interest rate risk sensitivity model requires that assets and liabilities be broken down into components as to fixed, variable, and adjustable interest rates, as well as other homogeneous groupings, which are segregated as to maturity and type of instrument. The model includes assumptions about how the balance sheet is likely to evolve through time and in different interest rate environments. The model uses contractual re-pricing dates for variable products, contractual maturities for fixed rate products, and product-specific assumptions for deposit accounts, such as money market accounts, that are subject to re-pricing based on current market conditions. Re-pricing margins are also determined for adjustable rate assets and incorporated in the model. Investment securities and borrowings with option provisions are examined on an individual basis in each rate environment to estimate the likelihood of exercise. Prepayment assumptions for mortgage loans are calibrated using specific Bank experience while mortgage-backed securities are developed from industry standard models of prepayment speeds, based upon similar coupon ranges and degree of seasoning. Cash flows and maturities are then determined, and for certain assets, prepayment assumptions are estimated under different interest rate scenarios. Interest income and interest expense are then simulated under several hypothetical interest rate conditions including:

- A flat interest rate scenario in which current prevailing rates are locked in and the only balance sheet fluctuations that occur are due to cash flows, maturities, new volumes, and re-pricing volumes consistent with this flat rate assumption;
- A 200 basis point rise or decline in interest rates (or as appropriate given the absolute level of market rates) applied against a parallel shift in the yield curve over a twelve-month horizon together with a dynamic balance sheet anticipated to be consistent with such interest rate changes;
- Various non-parallel shifts in the yield curve, including changes in either short-term or long-term rates over a twelve-month horizon, together with a dynamic balance sheet anticipated to be consistent with such interest rate changes; and
- An extension of the foregoing simulations to each of two, three, four and five year horizons to determine the interest rate risk with the level of interest rates stabilizing in years two through five. Even though rates remain stable during this two to five year time period, re-pricing opportunities driven by maturities, cash flow, and adjustable rate products will continue to change the balance sheet profile for each of the interest rate conditions.

Changes in net interest income based upon the foregoing simulations are measured against the flat interest rate scenario and actions are taken to maintain the balance sheet interest rate risk within established policy guidelines.

In 2020, behavioral assumptions regarding both core deposits and residential loans were modified to incorporate the results of a third party model to better reflect the Bank's unique position and geographic footprint. As of December 31, 2020, interest rate sensitivity modeling results indicate that the Bank's balance sheet was asset sensitive over the one- and two-year horizons.

The following table presents the changes in sensitivities on net interest income for the years ended December 31, 2020 and 2019:

Change in Interest Rates-Basis Points (Rate Ramp) (in thousands, except ratios)	1 - 12 Months		13 - 24 Months	
	$ Change	% Change	$ Change	% Change
At December 31, 2020				
−100	$(2,368)	(2.6)%	$(8,716)	(9.5)%
+200	7,080	7.7	16,945	18.4
At December 31, 2019				
−100	(961)	(1.0)	(3,645)	(3.7)
+200	651	0.7	3,246	3.3

Assuming short-term and long-term interest rates decline 100 basis points from current levels (i.e., a parallel yield curve shift) and the Bank's balance sheet structure and size remain at current levels, management believes net interest income will deteriorate over the one year horizon while deteriorating further from that level over the two-year horizon.

Assuming the Bank's balance sheet structure and size remain at current levels and the Federal Reserve increases short-term interest rates by 200 basis points with the balance of the yield curve shifting in parallel with these increases, management believes net interest income will improve over both the one and two-year horizons.

As compared to December 31, 2019, the year-one sensitivity in the down 100 basis points scenario is down with the year-two sensitivities in the down 100 basis points scenario lower as well. In the year-one and year-two up 200 basis points scenario, results are meaningfully improved on a year-over-year basis.

The preceding sensitivity analysis does not represent a Company forecast and should not be relied upon as being indicative of expected operating results. These hypothetical estimates are based upon numerous assumptions including: the nature and timing of interest rate levels and yield curve shape, prepayment speeds on loans and securities, deposit rates, pricing decisions on loans and deposits, reinvestment or replacement of asset and liability cash flows, and renegotiated loan terms with borrowers. While assumptions are developed based upon current economic and local market conditions, the Company cannot make any assurances as to the predictive nature of these assumptions including how customer preferences or competitor influences might change.

As market conditions vary from those assumed in the sensitivity analysis, actual results may also differ due to: prepayment and refinancing levels deviating from those assumed; the impact of interest rate changes, caps or floors on adjustable rate assets; the potential effect of changing debt service levels on customers with adjustable rate loans; depositor early withdrawals and product preference changes; and other such variables. The sensitivity analysis also does not reflect additional actions that the Bank's Senior Executive Team and Board of Directors might take in responding to or anticipating changes in interest rates, and the anticipated impact on the Bank's net interest income.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Bar Harbor Bankshares and Subsidiaries

Opinion on the Internal Control Over Financial Reporting

We have audited the accompanying consolidated balance sheets of Bar Harbor Bankshares and Subsidiaries (the Company) as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 10, 2021 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Qualitative Reserve in the Allowance for Loan Losses

As described in Notes 1 and 4 of the consolidated financial statements, the Company's allowance for loan losses totaled $19.1 million as of December 31, 2020. The allowance is comprised of four distinct reserve components: (1) specific reserves related to loans individually evaluated; (2) quantitative reserves related to loans collectively evaluated; (3) qualitative reserves related to loans collectively evaluated; and (4) an estimate is made for losses incurred during the loss emergence period for each loan category within the collectively evaluated pools. As of December 31, 2020, specific reserves related to loans individually evaluated totaled $730 thousand and the reserve associated with loans collectively evaluated, including the quantitative, qualitative and loss emergence period estimates, totaled, $18.4 million.

For loans that are collectively evaluated, the Company segregates loans into two general loan pools: substandard and pass rated by loan type. The reserve for loans collectively evaluated is established through historical loss experience of the loan pools over their respective loss emergence periods which are then adjusted for potential risks factors that could result in actual losses deviating from prior loss experience. The Company has considered these qualitative risk factors to be: (1) lending policies and procedures, (2) business conditions, (3) volume and nature of the loan portfolio, (4) experience, ability and depth of lending management, (5) problem loan trends, (6) quality of the Company's loan review system, (7) concentrations in the loan portfolio, (8) competition, legal, and regulatory environment, and (9) collateral coverage and loan to value. Arriving at an appropriate level of allowance for loan losses, specifically the qualitative reserve, involves a high degree of judgment by management and future adjustments may be necessary if there are significant changes in conditions.

We identified the qualitative reserve for loans collectively evaluated in the allowance for loan losses as a critical audit matter due to the high degree of auditor judgment required in order to evaluate the subjective assumptions made by management within the reserve. Our audit procedures related to management's evaluation and establishment of the qualitative reserve for loans collectively evaluated in the allowance for loan losses include the following, among others:

- We obtained an understanding of the relevant controls related to the qualitative factors applied to the qualitative reserve for loans collectively evaluated in the allowance for loan losses and tested such controls for design and operating effectiveness, including controls over management's establishment, review and approval of the qualitative factors and the data used in determining the qualitative factors.
- We tested management's process and significant judgments in the evaluation and establishment of the qualitative reserve, which included:
  - Evaluating the reasonableness of management's judgments by validating the source of information used by management with the relevant internal or external information from which it was derived, as well as testing the completeness and accuracy of the source data used by management.
  - Evaluating the reasonableness of management's judgments related to the adjustments given to the qualitative factors by evaluating the adjustments for the proper magnitude and directional consistency based on the data utilized in the determination of the qualitative factors.

Goodwill Impairment Assessment

As described in Notes 1 and 6 of the consolidated financial statements, the Company's goodwill balance was $119.5 million as of December 31, 2020. The Company performs a goodwill impairment test annually as of September 30, or whenever certain triggering events occur or there are circumstances that would more likely than not reduce the fair value of the reporting unit below its carrying amount are identified. Management estimates the fair value of the reporting unit by considering multiple valuation techniques, which include the income approach (discounted cash flow method) and the market approach (combination of comparable public companies and acquisition transactions). These valuation techniques consider various assumptions about projected financial results, business plans, discount rates, valuation multiples, and growth rates, among others.

We identified the impairment assessment of goodwill as a critical audit matter due to the high degree of auditor judgement, subjectivity, and effort in order to evaluate the fair value of the reporting unit due to the judgements made by management in the estimation of the Company's future cash flows (including consideration of projected financial results and business plans), the components used in determining the discount and growth rates, the valuation multiples used, and the market data used. In addition, the audit effort involved the use of internal professionals with specialized skill and knowledge in the field of business valuation.

Our audit procedures related to the goodwill impairment assessments performed throughout the year included the following:

- We obtained an understanding of the relevant controls and tested such controls for design and operating effectiveness related to management's review of the fair value of the reporting unit calculation, including a review of the accuracy and completeness of the inputs to the calculation as well as the review of the judgements made by management in the calculation.
- We evaluated management's process for developing the fair value estimates of the reporting unit including evaluating the appropriateness of the income and market approaches used.
- We tested the completeness and accuracy of the underlying data used in the fair value estimates by agreeing Company financial data to internal records and independently obtaining market data for a population of comparable companies.
- We evaluated management's cash flow projections and significant assumptions considered within the business plan by considering the current and past performance by the Company, consideration of the Company's ability to meet financial projections, and the consistency of these assumptions with evidence obtained in other areas of the audit.
- We used the assistance of internal specialists to assist in the evaluation of significant assumptions in the valuation methodology. This included:
  - Evaluating the discount rate by comparing to publicly available market data and, as necessary, establishing an independent expectation of a market discount rate.
  - Evaluating the long term growth rate by comparing to industry standard metrics and, as necessary, establishing an independent expectation of a long term growth rate.

- Evaluating the price multiples of comparable public companies by comparing management's assumptions to market information publicly available for comparable companies.
- Evaluating the reasonableness and application of the methodologies used by management including the income approach and the market approach.

/s/ RSM US LLP

We have served as the Company's auditor since 2015.

Boston, Massachusetts
March 10, 2021

BAR HARBOR BANKSHARES AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)	December 31, 2020	December 31, 2019
Assets		
Cash and cash equivalents:		
Cash and due from banks	$ 27,566	$ 26,485
Interest-bearing deposits with other banks	198,441	30,425
Total cash and cash equivalents	226,007	56,910
Securities:		
Securities available for sale	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
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
Borrowings:		
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 shares at December 31, 2020 and December 31, 2019	32,857	32,857
Additional paid-in capital	190,084	188,536
Retained earnings	195,607	175,780
Accumulated other comprehensive income	11,016	3,911
Less: 1,512,465 and 870,257 shares of treasury stock at December 31, 2020 and December 31, 2019, respectively	(18,223)	(4,677)
Total shareholders' equity	411,341	396,407
Total liabilities and shareholders' equity	$3,725,762	$3,669,128

The accompanying notes are an integral part of these consolidated financial statements.

BAR HARBOR BANKSHARES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except earnings per share data)	Years Ended December 31, 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
Provision 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
Gain (loss) 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
(Gain) 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, conversion 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

The accompanying notes are an integral part of these consolidated financial statements.

BAR HARBOR BANKSHARES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)	Years Ended December 31, 2020	2019	2018
Net income	$33,244	$22,620	$32,937
Other comprehensive income, before tax:			
Changes in unrealized gain (loss) on securities available for sale	5,819	18,646	(8,563)
Changes in unrealized gain on hedging derivatives	3,772	2,216	654
Changes in unrealized loss on pension	(338)	(350)	(216)
Income taxes related to other comprehensive income:			
Changes in unrealized (gain) loss on securities available for sale	(1,345)	(4,434)	1,978
Changes in unrealized gain on hedging derivatives	(880)	(448)	(168)
Changes in unrealized loss on pension	77	83	47
Total other comprehensive income (loss)	7,105	15,713	(6,268)
Total comprehensive income	$40,349	$38,333	$26,669

The accompanying notes are an integral part of these consolidated financial statements.

BAR HARBOR BANKSHARES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands, except per share data)	Common stock amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total
Balance at December 31, 2017	$32,857	$186,702	$144,977	$ (4,554)	$ (5,341)	$354,641
Net income	—	—	32,937	—	—	32,937
Other comprehensive income	—	—	—	(6,268)	—	(6,268)
Cash dividends declared ($0.79 per share)	—	—	(12,184)	—	—	(12,184)
Treasury stock purchased (10,899 shares)	—	—	—	—	(324)	(324)
Net issuance (101,460 shares) to employee stock plans, including related tax effects	—	(395)	—	—	1,010	615
Modified retrospective basis adoption of Revenue Recognition Accounting Codification Standard 606	—	—	(184)	—	—	(184)
Reclassification of the income tax effects of the Tax Cuts and Jobs Act from accumulated other comprehensive income for adoption of ASU 2018-02	—	—	980	(980)	—	—
Recognition of stock based compensation	—	1,346	—	—	—	1,346
Balance at December 31, 2018	$32,857	$187,653	$166,526	$(11,802)	$ (4,655)	$370,579
Net income	—	—	22,620	—	—	22,620
Other comprehensive income	—	—	—	15,713	—	15,713
Cash dividends declared ($0.86 per share)	—	—	(13,366)	—	—	(13,366)
Treasury stock purchased (9,195 shares)	—	—	—	—	(239)	(239)
Net issuance (34,944 shares) to employee stock plans, including related tax effects	—	(490)	—	—	217	(273)
Recognition of stock based compensation	—	1,373	—	—	—	1,373
Balance at December 31, 2019	$32,857	$188,536	$175,780	$ 3,911	$ (4,677)	$396,407
Net income	—	—	33,244	—	—	33,244
Other comprehensive income	—	—	—	7,105	—	7,105
Cash dividends declared ($0.88 per share)	—	—	(13,417)	—	—	(13,417)
Treasury stock purchased (733,567 shares)	—	—	—	—	(14,188)	(14,188)
Net issuance (91,359 shares) to employee stock plans, including related tax effects	—	(22)	—	—	642	620
Recognition of stock based compensation	—	1,570	—	—	—	1,570
Balance at December 31, 2020	$32,857	$190,084	$195,607	$ 11,016	$(18,223)	$411,341

The accompanying notes are an integral part of these consolidated financial statements.

BAR HARBOR BANKSHARES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Years Ended December 31, 2020	2019	2018
Cash flows from operating activities:			
Net income	$ 33,244	$ 22,620	$ 32,937
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	5,625	2,317	2,780
Net amortization of securities	3,367	3,341	3,945
Deferred tax benefit	(38)	1,020	(443)
Change in unamortized net loan costs and premiums	1,104	(555)	(600)
Premises and equipment depreciation	4,771	4,136	3,704
Stock-based compensation expense	1,570	1,373	1,346
Accretion of purchase accounting entries, net	(1,975)	(3,806)	(3,512)
Amortization of other intangibles	1,025	861	828
Income from cash surrender value of bank-owned life insurance policies	(2,007)	(2,053)	(1,821)
(Gain) loss on sales of securities, net	(5,445)	(237)	924
Increase in right-of-use lease assets	(578)	(632)	—
Increase in lease liabilities	625	660	—
(Gain) loss on other real estate owned	(355)	166	—
(Gain) loss on premises and equipment, net	(32)	18	—
Net change in other assets and liabilities	(2,728)	7,174	(2,366)
Net cash provided by operating activities	38,173	36,403	37,722
Cash flows from investing activities:			
Proceeds from sales of securities available for sale	153,200	92,315	29,107
Proceeds from maturities, calls and prepayments of securities available for sale	151,829	115,334	95,629
Purchases of securities available for sale	(215,567)	(129,189)	(146,763)
Net change in loans	53,400	(150,831)	(5,158)
Purchase of FHLB stock	(4,105)	(11,687)	(2,676)
Proceeds from sale of FHLB stock	10,748	26,667	5,122
Purchase of premises and equipment, net	(6,776)	(9,185)	(4,793)
Proceeds from premises held for sale	903	—	—
Net investment in community limited partnerships	(2,750)	(22)	(585)
Purchase of bank-owned life insurance	—	—	(14,000)
Acquisitions, net of cash acquired	(340)	(18,383)	—
Proceeds from sale of other real estate owned	2,205	—	153
Net cash provided by (used in) investing activities	142,747	(84,981)	(43,964)
Cash flows from financing activities:			
Net change in deposits	210,464	212,693	131,981
Net change in short-term FHLB borrowings	(248,262)	(308,380)	37,000
Proceeds from long-term advances	148,199	328,097	42,700
Repayments of long-term advances	(78,186)	(237,719)	(180,982)
Net change in short-term other borrowings	(17,053)	8,621	(4,495)
Proceeds from subordinated debt issuance	—	40,000	—
Repayments of subordinated debt	—	(22,000)	—
Payment of subordinated debt issuance costs	—	(700)	—
Exercise of stock options	620	(273)	615
Purchase of treasury and common stock	(14,188)	(239)	(324)
Cash dividends paid on common stock	(13,417)	(13,366)	(12,184)
Net cash (used in) provided by financing activities	(11,823)	6,734	14,311
Net change in cash and cash equivalents	169,097	(41,844)	8,069
Cash and cash equivalents at beginning of year	56,910	98,754	90,685
Cash and cash equivalents at end of year	$ 226,007	$ 56,910	$ 98,754
Supplemental cash flow information:			
Interest paid	$ 27,423	$ 45,755	$ 36,511
Income taxes paid, net	10,045	2,371	9,891
Acquisition of non-cash assets and liabilities:			
Assets acquired	1,171	243,676	—
Liabilities acquired	(343)	261,814	—
Other non-cash changes:			
Real estate owned acquired in settlement of loans	—	250	2,380
Initial recognition of operating lease right-of-use assets	—	8,991	—
Initial recognition of operating lease liabilities	—	8,991	—

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation: The consolidated financial statements (the "financial statements") of Bar Harbor Bankshares and its subsidiaries (the "Company" or "Bar Harbor") have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Bar Harbor Bankshares is a Maine Financial Institution Holding Company for the purposes of the laws of the state of Maine, and as such, is subject to the jurisdiction of the Superintendent of the Maine Bureau of Financial Institutions. These financial statements include the accounts of the Company, its wholly-owned subsidiary Bar Harbor Bank & Trust (the "Bank") and the Bank's consolidated subsidiaries. The results of operations of companies or assets acquired are included only from the dates of acquisition. All material wholly-owned and majority-owned subsidiaries are consolidated unless U.S. GAAP requires otherwise.

Consolidation: The accompanying consolidated financial statements have been prepared in accordance with U.S. GAAP. The consolidated financial statements include the accounts of Bar Harbor Bankshares and its wholly-owned subsidiaries, Bar Harbor Bank & Trust, Bar Harbor Trust Services, Charter Trust Company and Cottage Street Corporation. All significant inter-company balances and transactions have been eliminated in consolidation. Assets held in a fiduciary capacity are not assets of the Company, but assets of customers, and therefore, are not included in the consolidated balance sheets.

Reclassifications: Whenever necessary, amounts in the prior years' financial statements are reclassified to conform to current presentation. The reclassifications had no impact on net income in the Company's consolidated income statement.

Use of estimates: In preparing financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to change in the near term relate to the determination of the allowance for loan losses, other-than-temporary impairment on securities, income tax estimates, reviews of goodwill for impairment, and accounting for post-retirement plans.

Cash and Cash Equivalents: For purposes of reporting cash flows, cash and cash equivalents include cash on hand and amounts due from banks, interest-bearing deposits with other banks, federal funds sold, and other short-term investments with maturities less than 90 days. The Federal Reserve Bank requires the Bank to maintain certain reserve requirements of vault cash and/or deposits. On March 15, 2020, the Federal Reserve Board reduced reserve requirement ratios to zero percent effective March 26, 2020. This action eliminated reserve requirement for all depository institutions. The reserve requirement at December 31, 2019 was $23.1 million.

Securities: All securities held at December 31, 2020 and 2019 were classified as available-for-sale ("AFS"). Available for sale securities primarily consist of mortgage-backed securities, obligations of state and political subdivisions thereof, and corporate bonds and are carried at estimated fair value. Changes in estimated fair value of AFS securities, net of applicable income taxes, are reported in accumulated other comprehensive income (loss) as a separate component of shareholders' equity unless deemed to be other-than-temporarily impaired ("OTTI") as discussed below. The Company does not have any securities classified as trading or held-to-maturity.

Premiums and discounts on securities are amortized and accreted over the term of the securities using the interest method. Gains and losses on the sale of securities are recognized at the trade date using the specific-identification method and are shown separately in the Consolidated Statements of Income.

Other-Than-Temporary Impairments on Securities: The Company conducts an OTTI analysis of investment securities on a quarterly basis or more often if a potential loss-triggering event occurs. A write-down of a debt security is recorded when fair value is below amortized cost in circumstances where: (1) the Company has the intent to sell a security; (2) it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis; or (3) the Company does not expect to recover the entire amortized cost basis of the security. If the Company intends to sell a security or if it is more likely than not that the Company will be required to sell the security before recovery, an OTTI write-down is recognized in earnings equal to the entire difference between the security's amortized cost basis and its fair value. If the Company does not intend to sell the security or it is not more likely than not that it will be required to sell the security before recovery, the OTTI write-down is separated into an amount representing credit loss, which is recognized in earnings, and an amount related to all other factors, which is recognized in other comprehensive income. To determine the amount related to credit loss on a debt security, the Company applies a methodology similar to that used for evaluating the impairment of loans.

Federal Home Loan Bank Stock: The Bank is a member of the Federal Home Loan Bank of Boston ("FHLB"). The Bank uses the FHLB for most of its wholesale funding needs. As a requirement of membership in the FHLB, the Bank must own a minimum required amount of FHLB stock, based primarily on its level of obligations with the FHLB. FHLB stock is a

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

non-marketable equity security and therefore is reported at cost, which generally equals par value. Shares held in excess of the minimum required amount are generally redeemable at par value. Dividends from FHLB stock are reported in interest and dividend income.

The Company periodically evaluates FHLB stock for impairment based on the capital adequacy of the FHLB and its overall financial condition. Based on the capital adequacy, liquidity position and sustained profitability of the FHLB, management believes there is no impairment related to the carrying amount of the Bank's FHLB stock as of December 31, 2020.

Loans Held for Sale: Residential loans originated with the intent to be sold in the secondary market are accounted for at the lower of cost or market (fair value). Fair value is primarily determined based on quoted prices for similar loans in active markets. Residential loans held for sale are generally sold with servicing rights retained. The carrying value of loans sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of residential loans (sales proceeds minus carrying value) are recorded in non-interest income.

Loans: Loans are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, the unamortized balance of any deferred fees or costs on originated loans and the unamortized balance of any premiums or discounts on loans purchased or acquired through mergers.

Interest on loans is accrued and credited to income based on the principal amount of loans outstanding.

Loan origination and commitment fees and direct loan origination costs are deferred, and the net amount is amortized as an adjustment of the related loans' yield, using the level-yield method over the estimated lives of the related loans.

Acquired Loans: Loans acquired in acquisitions are initially recorded at fair value with no carryover of the related allowance for credit losses. Determining the fair value of the loans involves estimating the amount and timing of principal and interest cash flows initially expected to be collected on the loans and discounting those cash flows at an appropriate market rate of interest.

For loans that meet the criteria stipulated in ASC 310-30, "Loans and Debt Securities Acquired with Deteriorated Credit Quality," the Company recognizes the accretable yield, which is defined as the excess of all cash flows expected at acquisition over the initial fair value of the loan, as interest income on a level-yield basis over the expected remaining life of the loan. The excess of the loan's contractually required payments over the cash flows expected to be collected is the non-accretable difference. The non-accretable difference is not recognized as an adjustment of yield, a loss accrual, or a valuation allowance. The Company evaluates quarterly whether the timing and cash to be collected are reasonably expected. Subsequent significant increases in cash flows the Company expects to collect will first reduce any previously recognized valuation allowance and then be reflected prospectively as an increase to the level yield. Subsequent decreases in expected cash flows may result in the loan being considered impaired. Interest income is not recognized to the extent that the net investment in the loan would increase to an amount greater than the estimated payoff amount.

For loans that do not meet the ASC 310-30 criteria, the Company accretes interest income based on the contractually required cash flows. The Company subjects loans that do not meet the ASC 310-30 criteria to ASC 450, "Contingencies" by collectively evaluating these loans for an allowance for loan loss.

Acquired loans that met the criteria for non-accrual of interest prior to the acquisition are considered performing upon acquisition, regardless of whether the customer is contractually delinquent, if the Company can reasonably estimate the timing and amount of the expected cash flows on such loans and if the Company expects to fully collect the new carrying value of the loans. As such, the Company may no longer consider the loan to be non-accrual or nonperforming and may accrue interest on these loans, including the impact of any accretable yield.

Non-performing loans: Residential real estate and home equity loans are generally placed on non-accrual status when reaching 90 days past due, or in process of foreclosure, or sooner if considered appropriate by management. Consumer loans are generally placed on non-accrual when reaching 90 days or more past due, or sooner if considered appropriate by management. Secured consumer loans are written down to net realizable value and unsecured consumer loans are charged-off upon reaching 120 days past due. Commercial real estate loans and commercial business loans that are 90 days or more past due are generally placed on non-accrual status, unless secured by sufficient cash or other assets immediately convertible to cash, and the loan is in the process of collection. Commercial real estate and commercial business loans may be placed on non-accrual status prior to the 90 days delinquency date if considered appropriate by management.

When a loan has been placed on non-accrual status, previously accrued and uncollected interest is reversed against interest on the loan. The interest on non-accrual loans is accounted for using the cash-basis or cost-recovery method depending on corresponding credit risk, until qualifying for return to accrual status. A loan can be returned to accrual status when collectability of principal is reasonably assured and the loan has performed for a period of time, generally six months.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impaired loans: A loan is considered impaired when, based on current information and events, it is probable that the Company will not be able to collect all amounts due from the borrower in accordance with the contractual terms of the loan, including scheduled interest payments.

Factors considered by management in determining impairment include payment status and collateral value. In considering loans for evaluation of impairment, management generally excludes smaller balance, homogeneous loans; residential mortgage loans, home equity loans, and all consumer loans, unless such loans were restructured in a troubled debt restructuring. These loans are collectively evaluated for risk of loss.

When a loan has been identified as being impaired, the amount of impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the estimated fair value of the collateral, less any selling costs, if the loan is collateral-dependent. If the measurement of the impaired loan is less than the recorded investment in the loan (including accrued interest, net of deferred loan fees or costs, and unamortized premiums or discounts), impairment is recognized by establishing or adjusting an existing allocation of the allowance for loan losses, or by recording a partial charge-off of the loan to its fair value. Interest payments made on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case, interest income may be accrued or recognized on a cash basis.

Loans Modified in a Troubled Debt Restructuring: Loans are considered to have been modified in a troubled debt restructuring when, due to a borrower's financial difficulties, the Company makes certain concessions to the borrower that it would not otherwise consider. Modifications may include interest rate reductions, principal or interest forgiveness, forbearance, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral. Generally, a non-accrual loan that has been modified in a troubled debt restructuring remains on non-accrual status for a period of at least 6 months to demonstrate that the borrower is able to meet the terms of the modified loan.

However, performance prior to the modification, or significant events that coincide with the modification, are included in assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual status at the time of loan modification or after a shorter performance period. If the borrower's ability to meet the revised payment schedule is uncertain, the loan remains on non-accrual status.

Loan Modifications under the CARES Act: The CARES Act provides that a financial institution may elect to suspend (1) the requirements under GAAP for certain loan modifications that may otherwise be categorized as a troubled debt restructuring ("TDR") and (2) any determination that such loan modifications would be considered a TDR, including the related impairment for accounting purposes.

Allowance for Loan Losses: The allowance for loan losses (the "allowance") is a significant accounting estimate used in the preparation of the Company's consolidated financial statements. The allowance is available to absorb losses inherent in the current loan portfolio and is maintained at a level that, in management's judgment, is appropriate for the amount of risk inherent in the loan portfolio, given past and present conditions. The allowance is increased by provisions charged to operating expense and by recoveries on loans previously charged off, and is decreased by loans charged off as uncollectible.

The allowance is calculated in accordance with ASC 310—Receivables and ASC 450—Contingencies. Under the guidance of ASC 310, specific allowances are established in cases where management has identified significant conditions or circumstances related to individual loans where the probability of a loss may be incurred. Credit loss estimates for loans without specific allowances are determined under the guidance of ASC 450, which includes portfolio segmentation based on similar risk characteristics, determination of estimated historical loss rates, calculation of a time-based loss emergence and confirmation periods, and adjustments for certain qualitative risk factors.

Arriving at an appropriate level of allowance for loan losses involves a high degree of judgment. The determination of the adequacy of the allowance and provisioning for estimated losses is evaluated regularly based on review of loans, with particular emphasis on non-performing and other loans that management believes warrant special consideration.

While management uses available information to recognize losses on loans, changing economic conditions and the economic prospects of the borrowers may necessitate future additions or reductions to the allowance. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance, which also may necessitate future additions or reductions to the allowance, based on information available to them at the time of their examination.

Refer to Note 4—*Allowance for Loan Losses*, for further information, including the Company's loan loss estimation methodology.

Reserve for Unfunded Commitments: The unfunded reserve is a component of other liabilities and represents the estimate

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

for probable credit losses inherent in unfunded commitments to extend credit. Unfunded commitments to extend credit include banker's acceptances, and standby and commercial letters of credit. The process used to determine the unfunded reserve is consistent with the process for determining the allowance, as adjusted for estimated funding probabilities or loan and lease equivalency factors. The level of the unfunded reserve is adjusted by recording on an expense or recovery in other noninterest expense. Reserve for unfunded commitments are classified in other liabilities on the Company's Consolidated Balance Sheet.

Premises and Equipment: Land is carried at cost. Premises and equipment and related improvements are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the lesser of the lease term or estimated useful lives of related assets; generally 5 to 39 years for premises and three to seven years for furniture and equipment. Software costs are stated at cost less accumulated depreciation within other assets on the Consolidated Statements of Condition. Amortization expense on software is calculated using the straight-line method over the estimated useful lives of the related assets.

Transfers of Financial Assets: Transfers of an entire financial asset, group of entire financial assets, or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets.

Other Real Estate Owned: Other real estate owned consists of properties acquired through foreclosure proceedings or acceptance of a deed-in-lieu of foreclosure. These properties are recorded at fair value less estimated costs to sell the property. Initially at transfer if the recorded investment in the loan exceeds the property's fair value at the time of acquisition, a charge-off is recorded against the allowance. If the fair value of the property initially at transfer exceeds the carrying amount of the loan, the excess is recorded either as a recovery to the allowance if a charge-off had previously been recorded, or as a gain on initial transfer in other non-interest income. Subsequent decreases in the property's fair value and operating expenses of the property are recognized through charges to other non-interest expense. The fair value of the property acquired and ongoing valuation is based on third-party appraisals, broker price opinions, recent sales activity, or a combination thereof, subject to management judgment. Due to changing market conditions the amount ultimately realized on the other real estate owned may differ from the amounts reflected in the financial statements.

Goodwill: In connection with acquisitions, the Company generally records as assets on its consolidated financial statements both goodwill and other intangible assets, such as core deposit and acquired customer relationship intangibles.

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in accordance with the purchase method of accounting for business combinations. Goodwill is not amortized but, instead, is subject to impairment tests on at least an annual basis, or more frequently, if an event occurs or circumstances change that reduce the fair value of a reporting unit below its carrying amount. The impairment testing process is conducted by assigning assets and goodwill to each reporting unit. Currently, the Company's goodwill is evaluated at the entity level as there is only one reporting unit. The Company, at our discretion, assesses certain qualitative factors to determine if it is more likely than not that the fair value of the reporting unit is less than its carrying value. An impairment charge is recognized if the carrying fair value of goodwill exceeds the implied fair value of goodwill.

Refer to Note 6—*Goodwill and Other Intangibles*, for further information, including the Company's loan loss estimation methodology

Other Intangible Assets: Intangible assets are acquired assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights or the asset is capable of being sold or exchanged either on its own or in combination with a related contract, asset or liability. The fair value of these assets are generally determined based on appraisals and management assesses the recoverability of these intangible assets whenever events or changes in circumstances indicate that their carrying value may not be recoverable. These other intangible assets primarily consist of core deposit and acquired customer relationship intangible assets arising from the whole bank and branch acquisitions are amortized on an accelerated method over their estimated useful lives.

Bank-Owned Life Insurance: Bank-owned life insurance ("BOLI") represents life insurance on the lives of certain current and retired employees who had provided positive consent allowing the Bank to be the beneficiary of such policies. Increases in the cash value of the policies, as well as insurance proceeds received in excess of the cash value, are recorded in other non-interest income, and are not subject to income taxes.

Capitalized Servicing Rights: Capitalized servicing rights are recognized as assets when residential loans are sold and the rights to service those loans are retained.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company's capitalized servicing rights are initially recorded at fair value. Fair values are established by using a discounted cash flow model to calculate the present value of estimated future net servicing income. Changes in the fair value of capitalized servicing rights are primarily due to changes in valuation inputs, assumptions, and the collection and realization of expected cash flows. However, these capitalized servicing rights are amortized in proportion to and over the period of estimated net servicing income, which includes prepayment assumptions. An impairment analysis is prepared on a quarterly basis by estimating the fair value of the capitalized servicing rights and comparing that value to the carrying amount. A valuation allowance is established when the carrying amount of these capitalized servicing rights exceeds fair value. The capitalized servicing rights are included in other assets on the Company's consolidated balance sheet.

Derivative Financial Instruments: The Company recognizes all derivative instruments on the consolidated balance sheet at fair value. On the date the derivative instrument is entered into, the Company designates whether the derivative is part of a hedging relationship (i.e., cash flow or fair value hedge). The Company formally documents relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking hedge transactions. The Company also assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives used in hedging transactions are highly effective in offsetting the changes in cash flows or fair values of hedged items. The fair value of the derivative is reflected on the Consolidated Balance Sheet in either other assets or liabilities.

Changes in the fair value of derivative instruments that are highly effective and qualify as cash flow hedge are recorded in other comprehensive income (loss). Any ineffective portion is recorded in earnings. For fair value hedges that are highly effective, the gain or loss on the derivative and the loss or gain on the hedged item attributable to the hedged risk are both recognized in earnings, with the differences (if any) representing hedge ineffectiveness. The Company discontinues hedge accounting when it is determined that the derivative is no longer highly effective in offsetting changes of the hedged risk on the hedged item, or management determines that the designation of the derivative as a hedging instrument is no longer appropriate.

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense based on the item being hedged. Net cash settlements on derivatives that do not quality for hedge accounting are reporting in non-interest income. Cash flows on hedges are classified in the cash flow statement the same as cash flows of the items being hedged.

The Company enters into commitments to fund mortgage loans with borrowers (interest rate locks) and forward commitments for the future delivery of these mortgage loans for sale on the secondary market. These mortgage banking derivatives are classified as free standing derivatives to hedge against inherent interest rate and pricing risk associated with selling loans. The commitments to lend generally terminate once the loan is funded, the lock period expires or the borrower decides not to contract for the loan. The forward commitments generally terminate once the loan is sold or the commitment period expires. These commitments are considered derivatives which are accounted for by recognizing their estimated fair value on the Consolidated Balance Sheets in either other assets or other liabilities.

Senior and Subordinated Borrowings: The Company's senior borrowings include retail and wholesale repurchase agreements, FHLB overnight, FHLB short-term and long-term advances, federal funds purchased, credit facilities, and line of credit advances. Subordinated borrowings consist of subordinated notes issued to investors. The Company is required to post collateral for certain borrowings, for which it, generally, posts loans and/or investment securities as collateral.

Off-Balance Sheet Financial Instruments: In the ordinary course of business, the Company has entered into off- balance sheet financial instruments consisting of commitments to extend credit, unused or unadvanced loan funds and letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received.

Stock Based Compensation: The Company has equity award plans that include stock options, restricted stock awards restricted stock units and performance stock units, which are described more fully in Note 14—*Stock Based Compensation Plans o*f the Consolidated Financial Statements. The Company recognizes expenses for stock options and restricted awards based on the fair value of these awards as of the grant date. For restricted stock units and performance stock units the expense is recognized over the vesting periods of the grants. The Company uses its treasury shares for issuing shares upon option exercises, restricted stock awards, restricted stock unit vesting and performance stock unit vesting.

Employee Stock Purchase Plan: The Company recognizes expense based difference between the market price of shares and the discounted price of the plan from participant enrollment over each six month enrollment period.

Employee Benefit Plans: The Company has non-qualified supplemental executive retirement agreements with certain retired officers. The agreements provide supplemental retirement benefits payable in installments over a period of

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

years upon retirement or death. The Company recognized the net present value of payments associated with the agreements over the service periods of the participating officers. Interest costs continue to be recognized on the benefit obligations. The Company also has a supplemental executive retirement agreement with a certain current executive officer. This agreement provides a stream of future payments in accordance with individually defined vesting schedules upon retirement, termination, or in the event that the participating executive leaves the Company following a change of control event. The Company recognizes the net present value of payments associated with these agreements over the service periods of the participating executive officers. Upon retirement, interest costs will continue to be recognized on the benefit obligation.

The Company recognizes the over-funded or under-funded status of post-retirement benefit plans as a liability or asset on the balance sheet in other liabilities or other assets and recognizes changes in that funded status through other comprehensive income (loss). Gains and losses, prior service costs and credits, and any remaining transition amounts that have not yet been recognized through net periodic benefit costs are recognized in accumulated other comprehensive income/(loss), net of tax effects, until they are amortized as a component of net periodic cost. The measurement date, which is the date at which the benefit obligation and plan assets are measured, is the Company's fiscal year end.

Employee 401(k) expenses are recognized for the amount of the Company's matching contributions.

Income Taxes: The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. If current available information indicates that it is more likely than not that deferred tax assets will not be realized, a valuation allowance is established. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Treasury Stock: Shares of the Company's common stock that are repurchased are recorded in treasury stock at cost. On the date of subsequent re-issuance, the treasury stock account is reduced by the cost of such stock on an average cost basis.

Earnings Per Share: Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Company, such as the Company's dilutive stock options.

Revenue Recognition: The Company recognizes revenue in accordance with ASC 606, "Revenue from Contracts with Customers." ASC 606 requires the Company to follow a five step process: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the Company satisfies a performance obligation. Revenue recognition under ASC 606 depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or service. See Note 16—*Revenue from Contracts with Customers* of the Company's Consolidated Financial Statements for additional information on revenue recognition.

Wealth Management: Wealth management assets held in a fiduciary or agent capacity are not included in the accompanying Consolidated Balance Sheets because they are not assets of the Company. Trust and investment management fees is primarily comprised of fees earned from consultative investment management, trust administration, tax return preparation, and financial planning. The Company's performance obligation is generally satisfied over time and the resulting fees are recognized monthly, based on the daily accrual of the market value of the investment accounts and the applicable fee rate.

Marketing Costs: Marketing costs are expensed as incurred.

Segment Reporting: An operating segment is defined as a component of a business for which separate financial information is available that is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and evaluate performance. The Company has determined that its operations are solely in the community banking industry and include traditional community banking services, including lending activities, acceptance of demand, savings and time deposits, business services, investment management, trust and third-party brokerage services. These products and services have similar distribution methods, types of customers and regulatory responsibilities. Accordingly, segment information is not presented in the Consolidated Financial Statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements

The following table provides a brief description of accounting standards that could have a material impact to the Company's consolidated financial statements upon adoption:

Standard	Description	Required Date of Adoption	Effect on financial statements
Standards Adopted in 2020			
ASU 2017-04, Simplifying the Test for Goodwill Impairment	This ASU amends Topic 350, Intangibles-Goodwill and Other, and eliminates Step 2 from the goodwill impairment test. The Company still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary	January 1, 2020 Early adoption is permitted.	The Company has adopted ASU 2017-04 effective January 1, 2020, as required, and the ASU did not have a material impact on its financial statements. Annual goodwill testing was completed as of September 30, 2020. The Company recognized no impairments to goodwill in the third quarter of 2020. See management's discussion and analysis for further details.
ASU 2018-13 Changes to Disclosure Requirements Fair Value Measurement, Topic 820	This ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements. Among the changes, entities will no longer be required to disclose the amount and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements.	January 1, 2020 Early adoption is permitted.	The Company has adopted ASU 2018-13, as of January 1, 2020, as required, and the ASU did not have a material impact to the disclosures as a result of the adoption.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Standard	Description	Required Date of Adoption	Effect on financial statements
Standards Not Yet Adopted			
ASU 2016-13, Measurement of Credit Losses on Financial Instruments ASU 2018-19, Codification Improvements to ASU 2016-13	This ASU amends Topic 326, Financial Instruments- Credit Losses to replace the current incurred loss accounting model with a current expected credit loss approach (“CECL”) for financial instruments measured at amortized cost and other commitments to extend credit, such as of balance sheet credit exposures (loan commitments, unused line of credit and stand-by letters of credit). The amendments require entities to consider all available relevant information when estimating current expected credit losses, including details about past events, current conditions, and reasonable and supportable forecasts. The resulting allowance for credit losses is to reflect the portion of the amortized cost basis that the entity does not expect to collect. The amendments also eliminate the current accounting model for purchased credit impaired loans and certain off-balance sheet exposures. Additional quantitative and qualitative disclosures are required upon adoption. While the CECL model does not apply to available for sale debt securities, the ASU does require entities to record an allowance when recognizing credit losses for available for sale securities with unrealized losses, rather than reduce the amortized cost of the securities by direct write-offs. The guidance will require companies to recognize improvements to estimated credit losses immediately in earnings rather than interest income over time. The ASU should be adopted on a modified retrospective basis. Entities that have loans accounted for under ASC 310-30 at the time of adoption should prospectively apply the guidance in this amendment for purchase credit deteriorated assets.	January 1, 2020	Adoption of this ASU is expected to primarily change how the Company estimates credit losses with the application of the expected credit loss model. The Company will apply the standard’s provisions as a cumulative effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., modified retrospective approach). The Company’s CECL implementation efforts in the fourth quarter focused on the finalization and board approval of the final CECL model, completed modelling of off-balance sheet credit risks, completed formal governance and control documentation, and developed and presented revised disclosures for board approval. The ASU was originally effective for the Company beginning in the first quarter of 2020; however, after the CARES Act was enacted on March 27, 2020, the Securities and Exchange Commission (SEC) staff clarified that once the deferral was elected by a registrant, Dec. 31, 2020, adoption of CECL was required, retrospective to Jan. 1, 2020 (ignoring an early termination of the national emergency). Under the amendments, a registrant electing the delay under the CARES Act is further delayed until Jan. 1, 2022, effective as of Jan. 1, 2022 (absent an early termination of the national emergency). With regard to the amendments to Section 4014, the SEC staff indicated it would not object to a registrant early adopting on Dec. 31, 2020, retrospective to Jan. 1, 2020, or Jan. 1, 2021, effective as of Jan. 1, 2021. The Company elected to delay the adoption to Jan. 1, 2021 to allow for a more comparable quarterly presentation as we report in 2021. Had we 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.
ASU 2018-14 Compensation-Disclosure Requirements for Defined Pension Plans Topic 715-20	This ASU makes minor changes to the disclosure requirements for employers that sponsor defined benefit pension and/or other post-retirement benefit plans.	January 1, 2021 Early adoption is permitted.	Adoption of this ASU is not expected to have a material impact on the Company’s consolidated financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Standard	Description	Required Date of Adoption	Effect on financial statements
Standards Not Yet Adopted			
ASU 2020-01, Investments—Equity Securities, Investments Equity Method and Joint Ventures, and Derivatives and Hedging	In January 2016, the FASB issued Accounting Standards Update No. 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which added Topic 321, Investments—Equity Securities, and made targeted improvements to address certain aspects of accounting for financial instruments. The amendments in this Update affect all entities that apply the guidance in Topics 321, 323, and 815 and (1) elect to apply the measurement alternative or (2) enter into a forward contract or purchase an option to purchase securities that, upon settlement of the forward contract or exercise of the purchased option, would be accounted for under the equity method of accounting. The amendments in this Update clarify certain interactions between the guidance to account for certain equity securities under Topic 321, the guidance to account for investments under the equity method of accounting in Topic 323, and the guidance in Topic 815, which could change how an entity accounts for an equity security under the measurement alternative or a forward contract or purchased option to purchase securities that, upon settlement of the forward contract or exercise of the purchased option, would be accounted for under the equity method of accounting or the fair value option in accordance with Topic 825, Financial Instruments. The amendments in this Update should be applied prospectively.	December 15, 2020	The Company has been evaluating our equity method investments which primarily consist of community limited partnership investments to ensure compliance with the new guidance prospectively in 2021. Adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.
ASU 2020-04 Facilitation of the Effects of Reference Rate Reform, Topic 848, as amended in ASU 2021-01	This ASU provides temporary optional expedients and exceptions to GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens of the expected market transition from the London Interbank Offered Rate ("LIBOR") and other interbank offered rates to alternative reference rates, such as the Secured Overnight Financing Rate ("SOFR"). For instance, companies can (1) elect not to apply certain modification accounting requirements to contracts affected by reference rate reform, if certain criteria are met. A company that makes this election would not have to re-measure the contracts at the modification date or reassess a previous accounting determination. Companies can also (2) elect various optional expedients that would allow them to continue applying hedge accounting for hedging relationships affected by reference rate reform, if certain criteria are met. Finally, companies can (3) make a one-time election to sell and/or reclassify held-to-maturity debt securities that reference an interest rate affected by reference rate reform.	May be elected through December 31, 2022.	The Company is currently evaluating all of its contracts, hedging relationships and other transactions that will be effected by reference rates that are being discontinued and determining which elections need to be made.

NOTE 2. SECURITIES AVAILABLE FOR SALE

The following is a summary of securities available for sale:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2020				
Mortgage-backed securities:				
US Government-sponsored enterprises	$206,834	$ 6,018	$ (462)	$212,390
US Government agency	82,878	2,870	(116)	85,632
Private label	19,810	40	(141)	19,709
Obligations of states and political subdivisions thereof	164,766	4,244	(6)	169,004
Corporate bonds	97,689	1,465	(843)	98,311
Total securities available for sale	$571,977	$14,637	$(1,568)	$585,046
December 31, 2019				
Mortgage-backed securities:				
US Government-sponsored enterprises	$319,064	$ 4,985	$(2,080)	$321,969
US Government agency	98,568	1,640	(547)	99,661
Private label	20,212	68	(747)	19,533
Obligations of states and political subdivisions thereof	139,332	2,942	(268)	142,006
Corporate bonds	78,804	1,478	(221)	80,061
Total securities available for sale	$655,980	$11,113	$(3,863)	$663,230

The amortized cost and estimated fair value of available for sale ("AFS") securities segregated by contractual maturity at December 31, 2020 are presented below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Mortgage-backed securities are shown in total, as their maturities are highly variable.

	Available for sale	
(in thousands)	Amortized Cost	Fair Value
Within 1 year	$ —	$ —
Over 1 year to 5 years	20,566	20,963
Over 5 years to 10 years	76,456	76,598
Over 10 years	165,433	169,752
Total bonds and obligations	262,455	267,313
Mortgage-backed securities	309,522	317,733
Total securities available for sale	$571,977	$585,046

The following table summarizes proceeds from the sale of AFS securities and realized gains and losses:

(in thousands)	Proceeds from Sale of Securities Available for Sale	Realized Gains	Realized Losses	Net
2020	$153,200	$5,492	$ (47)	$5,445
2019	92,315	993	(756)	237
2018	29,107	—	(924)	(924)

NOTE 2. SECURITIES AVAILABLE FOR SALE (Continued)

Securities with unrealized losses, segregated by the duration of their continuous unrealized loss positions, are summarized as follows:

	Less Than Twelve Months		Over Twelve Months		Total	
(in thousands)	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**
December 31, 2020						
Mortgage-backed securities:						
US Government-sponsored enterprises	$ 209	$ 40,285	$ 253	$ 4,323	$ 462	$ 44,608
US Government agency	45	6,776	71	3,297	116	10,073
Private label	—	—	141	19,514	141	19,514
Obligations of states and political subdivisions thereof	6	5,577	—	—	6	5,577
Corporate bonds	555	21,774	288	11,712	843	33,486
Total securities available for sale	$ 815	$ 74,412	$ 753	$38,846	$1,568	$113,258
December 31, 2019						
Mortgage-backed securities:						
US Government-sponsored enterprises	$1,074	$ 43,429	$1,006	$49,712	$2,080	$ 93,141
US Government agency	432	19,717	115	9,120	547	28,837
Private label	380	9,843	367	9,411	747	19,254
Obligations of states and political subdivisions thereof	137	29,355	131	1,682	268	31,037
Corporate bonds	142	9,888	79	12,276	221	22,164
Total securities available for sale	$2,165	$112,232	$1,698	$82,201	$3,863	$194,433

A summary of securities pledged as collateral for certain deposits and borrowing arrangements as of the years ended December 31, 2020 and December 31, 2019 is as follows:

	December 31, 2020		December 31, 2019	
(in thousands)	**Carrying Value**	**Estimated Fair Value**	**Carrying Value**	**Estimated Fair Value**
Securities pledged for deposits	$ 83,805	$ 92,862	$217,009	$220,054
Securities pledged for repurchase agreements	37,444	39,119	96,007	96,477
Securities pledged for borrowings(1)	48,725	51,913	157,172	157,458
Total securities pledged	$169,974	$183,894	$470,188	$473,989

(1) The Bank pledged securities as collateral for certain borrowing arrangements with the Federal Home Loan Bank of Boston and Federal Reserve Bank of Boston.

Securities Impairment

As a part of the Company's ongoing security monitoring process, the Company identifies securities in an unrealized loss position that could potentially be other-than-temporarily impaired. For the twelve months ended December 31, 2020, 2019 and 2018 the Company did not record any other-than-temporary impairment ("OTTI") losses.

NOTE 2. SECURITIES AVAILABLE FOR SALE (Continued)

The following table presents the remaining amount of historical credit losses on debt securities and changes reflected in the statement of income:

(in thousands)	Twelve Months Ended December 31, 2020	2019	2018
Estimated credit losses as of prior year-end	$1,697	$1,697	$1,697
Reductions for securities paid off during the period	—	—	—
Estimated credit losses at end of the period	$1,697	$1,697	$1,697

The Company expects to recover its amortized cost basis on all debt securities in its AFS portfolio, as unrealized losses are the result of changes in the interest rate environment and other market factors. Furthermore, the Company does not intend to sell nor does it anticipate that it will be required to sell any of its securities in an unrealized loss position as of December 31, 2020, prior to this recovery. The Company's ability and intent to hold these securities until recovery is supported by the Company's strong capital and liquidity positions as well as its historically low portfolio turnover.

The following summarizes, by investment security type, the basis for the conclusion that the debt securities in an unrealized loss position within the Company's AFS were not other-than-temporarily impaired at December 31, 2020:

US Government-sponsored enterprises

35 out of the total 571 securities in the Company's portfolios of AFS US Government-sponsored enterprises were in unrealized loss positions. Aggregate unrealized losses represented 1.04% of the amortized cost of securities in unrealized loss positions. The FNMA and FHLMC guarantee the contractual cash flows of all of the Company's US Government-sponsored enterprises. The securities are investment grade rated and there were no material underlying credit downgrades during the year. All securities are performing.

US Government agencies

10 out of the total 159 securities in the Company's portfolios of AFS US Government agency securities were in unrealized loss positions. Aggregate unrealized losses represented 1.14% of the amortized cost of securities in unrealized loss positions. The Government National Mortgage Association ("GNMA") guarantees the contractual cash flows of all of the Company's US government agency securities. The securities are rated investment grade and there were no material underlying credit downgrades during the year. All securities are performing.

Private-label

9 of the total 16 securities in the Company's portfolio of AFS private-label mortgage-backed securities were in unrealized loss positions. Aggregate unrealized losses represented 0.72% of the amortized cost of securities in unrealized loss positions. Based upon the foregoing considerations, and the expectation that the Company will receive all of the future contractual cash flows related to the amortized cost on these securities, the Company does not consider there to be any additional other-than-temporary impairment with respect to these securities.

Obligations of states and political subdivisions thereof

2 of the total 142 securities in the Company's portfolio of AFS municipal bonds and obligations were in unrealized loss positions. Aggregate unrealized losses represented 0.12% of the amortized cost of securities in unrealized loss positions. The Company continually monitors the municipal bond sector of the market carefully and periodically evaluates the appropriate level of exposure to the market. At this time, the Company believes the bonds in this portfolio carry minimal risk of default and the Company is appropriately compensated for that risk. There were no material underlying credit downgrades during the year. All securities are performing.

Corporate bonds

11 of the total 33 securities in the Company's portfolio of AFS corporate bonds were in an unrealized loss position. The aggregate unrealized loss represents 2.45% of the amortized cost of securities in unrealized loss positions. The Company reviews the financial strength of all of these bonds and has concluded that the amortized cost remains supported by the expected future cash flows of these securities.

NOTE 3. LOANS

The Company's loan portfolio is comprised of the following segments: commercial real estate, commercial and industrial, residential real estate, and consumer loans. Commercial real estate loans include multi-family, commercial construction and land development, and other commercial real estate classes. Commercial and industrial loans include loans to commercial and agricultural businesses, and tax exempt entities. Residential real estate loans consist of mortgages for 1-to-4 family housing. Consumer loans include home equity loans, auto and other installment loans.

The Company's lending activities are principally conducted in Maine, New Hampshire, and Vermont.

Total loans include business activity loans and acquired loans. Acquired loans are those loans previously acquired from a business combination. The following is a summary of total loans:

	December 31, 2020			December 31, 2019		
(in thousands)	**Business Activities Loans**	**Acquired Loans**	**Total**	**Business Activities Loans**	**Acquired Loans**	**Total**
Commercial real estate:						
Construction and land development	$ 129,255	$ 1,868	$ 131,123	$ 31,387	$ 2,903	$ 34,290
Other commercial real estate	765,862	187,396	953,258	666,051	230,320	896,371
Total commercial real estate	895,117	189,264	1,084,381	697,438	233,223	930,661
Commercial and industrial:						
Commercial	315,005	45,683	360,688	239,692	59,072	298,764
Agricultural	16,797	153	16,950	20,018	206	20,224
Tax exempt	39,429	24,002	63,431	66,860	37,443	104,303
Total commercial and industrial	371,231	69,838	441,069	326,570	96,721	423,291
Total commercial loans	1,266,348	259,102	1,525,450	1,024,008	329,944	1,353,952
Residential real estate:						
Residential mortgages	633,390	290,501	923,891	734,188	411,170	1,145,358
Total residential real estate	633,390	290,501	923,891	734,188	411,170	1,145,358
Consumer:						
Home equity	55,092	47,372	102,464	59,368	63,033	122,401
Other consumer	9,924	1,156	11,080	11,167	1,715	12,882
Total consumer	65,016	48,528	113,544	70,535	64,748	135,283
Total loans	$1,964,754	$598,131	$2,562,885	$1,828,731	$805,862	$2,634,593

Total unamortized net costs and premiums included in the year-end total for business activity loans were as follows:

(in thousands)	**December 31, 2020**	**December 31, 2019**
Unamortized net loan origination costs	$5,157	$3,603
Unamortized net premium on purchased loans	(85)	(134)
Total unamortized net costs and premiums	$5,072	$3,469

For the year ended December 31, 2020, the Company had pledged loans with a collateral value totaling $71.9 million to the Federal Reserve Bank of Boston for certain borrowing arrangements. The Company also pledged residential first mortgage loans, home equity loans and certain commercial loans with collateral value totaling $910.5 million for FHLB borrowings for the year ended December 31, 2020. (See Note 8—*Borrowed Funds* of the Company's Consolidated Financial Statements.)

The carrying amount of the acquired loans at December 31, 2020 totaled $598.1 million. A subset of these loans was determined to have evidence of credit deterioration at the acquisition date, which is accounted for in accordance with ASC 310-30. These purchased credit-impaired loans presently

NOTE 3. LOANS (Continued)

maintain a carrying value of $12.7 million (and a note balance of $16.3 million). These loans are evaluated for impairment through the periodic reforecasting of expected cash flows. Loans considered not impaired at acquisition date had a carrying amount of $585.4 million.

The following table summarizes activity in the accretable yield for the acquired loan portfolio that falls under the purview of ASC 310-30, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer:*

(in thousands)	Twelve Months Ended December 31, 2020	2019
Balance at beginning of period	$ 7,367	$ 4,377
Acquisitions	—	4,391
Net reclassifications from (to) nonaccretable difference	1,146	541
Accretion	(2,957)	(1,942)
Balance at end of period	$ 5,556	$ 7,367

The following is a summary of past due loans at December 31, 2020 and December 31, 2019:

Business Activities Loans

(in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans	Past Due > 90 days and Accruing
December 31, 2020							
Commercial real estate:							
Construction and land development	$ —	$ —	$ 1	$ 1	$ 129,254	$ 129,255	$—
Other commercial real estate	454	464	850	1,768	764,094	765,862	—
Total commercial real estate	454	464	851	1,769	893,348	895,117	—
Commercial and industrial:							
Commercial	5	310	157	472	314,533	315,005	—
Agricultural	7	—	36	43	16,754	16,797	—
Tax exempt	—	—	—	—	39,429	39,429	—
Total commercial and industrial	12	310	193	515	370,716	371,231	—
Total commercial loans	466	774	1,044	2,284	1,264,064	1,266,348	—
Residential real estate:							
Residential mortgages	6,219	1,767	973	8,959	624,431	633,390	—
Total residential real estate	6,219	1,767	973	8,959	624,431	633,390	—
Consumer:							
Home equity	95	137	170	402	54,690	55,092	3
Other consumer	20	—	2	22	9,902	9,924	—
Total consumer	115	137	172	424	64,592	65,016	3
Total loans	$6,800	$2,678	$2,189	$11,667	$1,953,087	$1,964,754	$ 3

NOTE 3. LOANS (Continued)

Acquired Loans

(in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Acquired Credit Impaired	Total Loans	Past Due > 90 days and Accruing
December 31, 2020							
Commercial real estate:							
Construction and land development	$ —	$ —	$ —	$ —	$ 74	$ 1,868	$ —
Other commercial real estate	2,360	105	695	3,160	6,359	187,396	—
Total commercial real estate	2,360	105	695	3,160	6,433	189,264	—
Commercial and industrial:							
Commercial	184	—	131	315	870	45,683	—
Agricultural	—	—	—	—	153	153	—
Tax exempt	—	—	—	—	—	24,002	—
Total commercial and industrial	184	—	131	315	1,023	69,838	—
Total commercial loans	2,544	105	826	3,475	7,456	259,102	—
Residential real estate:							
Residential mortgages	785	579	1,155	2,519	4,532	290,501	121
Total residential real estate	785	579	1,155	2,519	4,532	290,501	121
Consumer:							
Home equity	971	486	101	1,558	659	47,372	—
Other consumer	—	—	—	—	39	1,156	—
Total consumer	971	486	101	1,558	698	48,528	—
Total loans	$4,300	$1,170	$2,082	$7,552	$12,686	$598,131	$121

Business Activities Loans

(in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans	Past Due > 90 days and Accruing
December 31, 2019							
Commercial real estate:							
Construction and land development	$ 205	$ 53	$ —	$ 258	$ 31,129	$ 31,387	$—
Other commercial real estate	40	1,534	1,810	3,384	662,667	666,051	—
Total commercial real estate	245	1,587	1,810	3,642	693,796	697,438	—
Commercial and industrial:							
Commercial	452	50	894	1,396	238,296	239,692	—
Agricultural	62	34	96	192	19,826	20,018	—
Tax exempt	—	—	—	—	66,860	66,860	—
Total commercial and industrial	514	84	990	1,588	324,982	326,570	—
Total commercial loans	759	1,671	2,800	5,230	1,018,778	1,024,008	—
Residential real estate:							
Residential mortgages	7,293	1,243	668	9,204	724,984	734,188	—
Total residential real estate	7,293	1,243	668	9,204	724,984	734,188	—
Consumer:							
Home equity	597	43	429	1,069	58,299	59,368	50
Other consumer	36	12	—	48	11,119	11,167	—
Total consumer	633	55	429	1,117	69,418	70,535	50
Total loans	$8,685	$2,969	$3,897	$15,551	$1,813,180	$1,828,731	$50

NOTE 3. LOANS (Continued)

Acquired Loans

(in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Acquired Credit Impaired	Total Loans	Past Due > 90 days and Accruing
December 31, 2019							
Commercial real estate:							
Construction and land development	$ —	$ 12	$ —	$ 12	$ 384	$ 2,903	$ —
Other commercial real estate	2,029	245	231	2,505	8,289	230,320	—
Total commercial real estate	2,029	257	231	2,517	8,673	233,223	—
Commercial and industrial:							
Commercial	440	335	140	915	2,723	59,072	—
Agricultural	—	—	—	—	173	206	—
Tax exempt	—	—	—	—	36	37,443	—
Total commercial and industrial	440	335	140	915	2,932	96,721	—
Total commercial loans	2,469	592	371	3,432	11,605	329,944	—
Residential real estate:							
Residential mortgages	3,185	864	1,015	5,064	5,591	411,170	—
Total residential real estate	3,185	864	1,015	5,064	5,591	411,170	—
Consumer:							
Home equity	208	548	217	973	1,291	63,033	217
Other consumer	2	9	—	11	66	1,715	—
Total consumer	210	557	217	984	1,357	64,748	217
Total loans	$5,864	$2,013	$1,603	$9,480	$18,553	$805,862	$217

NOTE 3. LOANS (Continued)

Non-Accrual Loans

The following is summary information pertaining to non-accrual loans at December 31, 2020 and December 31, 2019:

(in thousands)	December 31, 2020			December 31, 2019		
	Business Activities Loans	Acquired Loans	Total	Business Activities Loans	Acquired Loans	Total
Commercial real estate:						
Construction and land development	$ 190	$ —	$ 190	$ 258	$ —	$ 258
Other commercial real estate	1,404	2,657	4,061	2,888	343	3,231
Total commercial real estate	1,594	2,657	4,251	3,146	343	3,489
Commercial and industrial:						
Commercial	869	375	1,244	932	626	1,558
Agricultural	222	—	222	278	—	278
Tax exempt	—	—	—	—	—	—
Total commercial and industrial	1,091	375	1,466	1,210	626	1,836
Total commercial loans	2,685	3,032	5,717	4,356	969	5,325
Residential real estate:						
Residential mortgages	3,301	2,428	5,729	3,362	1,973	5,335
Total residential real estate	3,301	2,428	5,729	3,362	1,973	5,335
Consumer:						
Home equity	438	291	729	615	254	869
Other consumer	13	—	13	21	—	21
Total consumer	451	291	742	636	254	890
Total loans	$6,437	$5,751	$12,188	$8,354	$3,196	$11,550

Loans evaluated for impairment by portfolio segment as of December 31, 2020 and December 31, 2019 were as follows:

Business Activities Loans

(in thousands)	Commercial real estate	Commercial and industrial	Residential real estate	Consumer	Total
December 31, 2020					
Balance at end of period					
Individually evaluated for impairment	$ 2,222	$ 997	$ 2,215	$ 12	$ 5,446
Collectively evaluated	892,895	370,234	631,175	65,004	1,959,308
Total	$895,117	$371,231	$633,390	$65,016	$1,964,754

NOTE 3. LOANS (Continued)

Acquired Loans

(in thousands)	Commercial real estate	Commercial and industrial	Residential real estate	Consumer	Total
December 31, 2020					
Balance at end of period					
Individually evaluated for impairment	$ 2,338	$ 294	$ 668	$ —	$ 3,300
Purchased credit impaired	6,433	1,023	4,532	698	12,686
Collectively evaluated	180,493	68,521	285,301	47,830	582,145
Total	$189,264	$69,838	$290,501	$48,528	$598,131

Business Activities Loans

(in thousands)	Commercial real estate	Commercial and industrial	Residential real estate	Consumer	Total
December 31, 2019					
Balance at end of period					
Individually evaluated for impairment	$ 3,964	$ 1,353	$ 2,620	$ 13	$ 7,950
Collectively evaluated	693,474	325,217	731,568	70,522	1,820,781
Total	$697,438	$326,570	$734,188	$70,535	$1,828,731

Acquired Loans

(in thousands)	Commercial real estate	Commercial and industrial	Residential real estate	Consumer	Total
December 31, 2019					
Balance at end of period					
Individually evaluated for impairment	$ 258	$ 385	$ 1,032	$ —	$ 1,675
Purchased credit impaired	8,673	2,932	5,591	1,357	18,553
Collectively evaluated	224,292	93,404	404,547	63,391	785,634
Total	$233,223	$96,721	$411,170	$64,748	$805,862

NOTE 3. LOANS (Continued)

The following is a summary of impaired loans at December 31, 2020 and December 31, 2019:

Business Activities Loans

(in thousands)	December 31, 2020		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance:			
Construction and land development	$ —	$ —	$ —
Other commercial real estate	748	832	—
Commercial	851	958	—
Agricultural	146	150	—
Tax exempt loans	—	—	—
Residential real estate	612	701	—
Home equity	—	—	—
Other consumer	—	—	—
With an allowance recorded:			
Construction and land development	189	199	139
Other commercial real estate	1,285	1,356	227
Commercial	—	—	—
Agricultural	—	—	—
Tax exempt loans	—	—	—
Residential real estate	1,603	1,663	67
Home equity	12	12	1
Other consumer	—	—	—
Total			
Commercial real estate	2,222	2,387	366
Commercial and industrial	997	1,108	—
Residential real estate	2,215	2,364	67
Consumer	12	12	1
Total impaired loans	$5,446	$5,871	$434

NOTE 3. LOANS (Continued)

Acquired Loans

(in thousands)	December 31, 2020 Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance:			
Construction and land development	$ —	$ —	$ —
Other commercial real estate	1,567	1,595	—
Commercial	229	332	—
Agricultural	—	—	—
Tax exempt loans	—	—	—
Residential real estate	423	465	—
Home equity	—	—	—
Other consumer	—	—	—
With an allowance recorded:			
Construction and land development	—	—	—
Other commercial real estate	771	791	290
Commercial	65	67	5
Agricultural	—	—	—
Tax exempt loans	—	—	—
Residential real estate	245	334	1
Home equity	—	—	—
Other consumer	—	—	—
Total			
Commercial real estate	2,338	2,386	290
Commercial and industrial	294	399	5
Residential real estate	668	799	1
Consumer	—	—	—
Total impaired loans	$3,300	$3,584	$296

NOTE 3. LOANS (Continued)

Business Activities Loans

(in thousands)	December 31, 2019 Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance:			
Construction and land development	$ —	$ —	$ —
Other commercial real estate	1,911	1,957	—
Commercial	710	773	—
Agricultural	361	361	—
Tax exempt loans	—	—	—
Residential real estate	2,067	2,227	—
Home equity	—	—	—
Other consumer	—	—	—
With an allowance recorded:			
Construction and land development	258	258	205
Other commercial real estate	1,795	1,940	1,026
Commercial	282	289	164
Agricultural	—	—	—
Tax exempt loans	—	—	—
Residential real estate	553	590	57
Home equity	13	13	—
Other consumer	—	—	—
Total			
Commercial real estate	3,964	4,155	1,231
Commercial and industrial	1,353	1,423	164
Residential real estate	2,620	2,817	57
Consumer	13	13	—
Total impaired loans	$7,950	$8,408	$1,452

NOTE 3. LOANS (Continued)

Acquired Loans

(in thousands)	December 31, 2019 Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance:			
Construction and land development	$ —	$ —	$—
Other commercial real estate	90	90	—
Commercial	385	481	—
Agricultural	—	—	—
Tax exempt	—	—	—
Residential mortgages	678	938	—
Home equity	—	—	—
Other consumer	—	—	—
With an allowance recorded:			
Construction and land development	—	—	—
Other commercial real estate	168	168	12
Commercial	—	—	—
Agricultural	—	—	—
Tax exempt	—	—	—
Residential mortgages	354	376	49
Home equity	—	—	—
Other consumer	—	—	—
Total			
Commercial real estate	258	258	12
Commercial and industrial	385	481	—
Residential real estate	1,032	1,314	49
Consumer	—	—	—
Total impaired loans	$1,675	$2,053	$61

NOTE 3. LOANS (Continued)

The following is a summary of the average recorded investment and interest income recognized on impaired loans as of December 31, 2020 and December 31, 2019:

Business Activities Loan

	Year Ended December 31, 2020		Year Ended December 31, 2019	
(in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance:				
Construction and land development	$ —	$—	$ —	$ —
Other commercial real estate	392	—	5,434	55
Commercial	842	4	871	5
Agricultural	114	2	—	—
Tax exempt loans	—	—	—	—
Residential real estate	641	17	2,089	47
Home equity	—	—	—	—
Other consumer	—	—	—	—
With an allowance recorded:				
Construction and land development	203	—	56	1
Other commercial real estate	1,295	14	1,737	—
Commercial	—	—	153	—
Agricultural	—	—	—	—
Tax exempt loans	—	—	—	—
Residential real estate	1,616	37	540	7
Home equity	12	1	13	—
Other consumer	—	—	—	—
Total				
Commercial real estate	1,890	14	7,227	56
Commercial and industrial	956	6	1,024	5
Residential real estate	2,257	54	2,629	54
Consumer	12	1	13	—
Total impaired loans	$5,115	$75	$10,893	$115

NOTE 3. LOANS (Continued)

Acquired Loans

	Year Ended December 31, 2020		Year Ended December 31, 2019	
(in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance:				
Construction and land development	$ —	$—	$ —	$—
Other commercial real estate	1,218	—	89	—
Commercial	298	—	429	—
Agricultural	—	—	—	—
Tax exempt loans	—	—	—	—
Residential real estate	436	—	652	—
Home equity	—	—	—	—
Other consumer	—	—	—	—
With an allowance recorded:				
Construction and land development	—	—	—	—
Other commercial real estate	678	3	123	—
Commercial	73	—	—	—
Agricultural	—	—	—	—
Tax exempt loans	—	—	—	—
Residential real estate	249	—	361	—
Home equity	—	—	—	—
Other consumer	—	—	—	—
Total				
Commercial real estate	1,896	3	212	—
Commercial and industrial	371	—	429	—
Residential real estate	685	—	1,013	—
Consumer	—	—	—	—
Total impaired loans	$2,952	$ 3	$1,654	$—

Troubled Debt Restructuring Loans

The Company's loan portfolio also includes certain loans that have been modified in a Troubled Debt Restructuring ("TDR"), where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Company's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance, or other actions. Certain TDRs are classified as non-performing at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months. TDRs are evaluated individually for impairment and may result in a specific allowance amount allocated to an individual loan.

NOTE 3. LOANS (Continued)

The following tables include the recorded investment and number of modifications identified during the twelve months ended December 31, 2020, 2019 and 2018, respectively. The table includes the recorded investment in the loans prior to a modification and also the recorded investment in the loans after the loans were restructured. Modifications may include adjustments to interest rates, payment amounts, extensions of maturity, court ordered concessions or other actions intended to minimize economic loss and avoid foreclosure or repossession of collateral.

	Year Ended December 31, 2020			
(in thousands, except modifications)	Number of Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Specific Reserve
Troubled Debt Restructurings				
Other commercial real estate	1	$ 54	$244	$ 24
Other commercial	6	229	239	—
Agricultural	1	86	86	—
Home equity	1	26	24	—
Other consumer	1	9	8	—
Total	10	$404	$601	$ 24

	Year Ended December 31, 2019			
(in thousands, except modifications)	Number of Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Specific Reserve
Troubled Debt Restructurings				
Other commercial real estate	10	$ 630	$ 529	$69
Other commercial	7	366	271	—
Agricultural	2	500	503	—
Residential mortgages	12	1,427	1,327	—
Total	31	$2,923	$2,630	$69

	Twelve Months Ended December 31, 2018			
(in thousands, except modifications)	Number of Modifications	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Specific Reserve
Troubled Debt Restructurings				
Commercial construction and land development	1	$ 1	$ 1	$ 1
Other commercial real estate	9	1,896	1,564	153
Other commercial	7	556	486	55
Agricultural	1	167	—	—
Residential mortgages	19	3,348	2,752	145
Home equity	1	100	100	—
Other consumer	3	13	11	—
Total	41	$6,081	$4,914	$354

NOTE 3. LOANS (Continued)

The following table summarizes the types of loan concessions made for the periods presented:

	Year Ended December 31,					
	2020		2019		2018	
(in thousands, except modifications)	Number of Modifications	Post-Modification Outstanding Recorded Investment	Number of Modifications	Post-Modification outstanding Recorded Investment	Number of Modifications	Post-Modification outstanding Recorded Investment
Troubled Debt Restructurings						
Interest only payments and maturity concession	—	$ —	2	$ 73	1	$ 16
Interest rate, forbearance and maturity concession	4	384	—	—	—	—
Amortization and maturity concession	—	—	4	273	1	286
Amortization, interest rate and maturity concession	—	—	5	539	—	—
Forbearance	—	—	5	346	3	271
Forbearance and interest only payments	1	24	7	692	6	121
Forbearance and interest rate concession	—	—	—	—	1	49
Forbearance and maturity concession	—	—	4	472	20	2,030
Maturity concession	5	193	—	—	2	440
Restructure without concession	—	—	—	—	5	1,419
Other	—	—	4	235	2	282
Total	10	$601	31	$2,630	41	$4,914

For the twelve months ended December 31, 2020, 2019 and 2018, there were no loans that were restructured that had subsequently defaulted during the period. The evaluation of certain loans individually for specific impairment includes loans that were previously classified as TDRs or continue to be classified as TDRs.

Foreclosure

As of December 31, 2020, the Company had no bank-owned residential real estate property. As of December 31, 2019, the Company maintained bank-owned residential real estate property with a fair value of $2.2 million. Additionally, residential mortgage loans collateralized by real estate property that are in the process of foreclosure as of December 31, 2020 and December 31, 2019 totaled $633 thousand and $810 thousand, respectively.

Loan Concentrations

Loan concentrations in specific industries may occasionally emerge as a result of economic conditions, changes in local demands, natural loan growth and runoff. At December 31, 2020 the largest industry concentration outside of commercial real estate was the hospitality industry which represents 11% or $276.4 million of the Company's total loan portfolio, compared with 8.6% or $227.0 million at December 31, 2019.

Loans to Related Parties

In the ordinary course of business, the Bank has made loans at prevailing rates and terms to directors, officers and other related parties. In management's opinion, such loans do not present more than the normal risk of collectability or incorporate other unfavorable features, and were made under terms that are consistent with the Bank's lending policies.

NOTE 3. LOANS (Continued)

Loan to related parties at December 31, 2020 and December 31, 2019 are summarized below.

(in thousands)	December 31, 2020	December 31, 2019
Beginning balance	$ 8,209	$8,395
Changes in composition[1]	—	(302)
New loans	1,589	242
Less: repayments	(3,667)	(126)
Ending balance	$ 6,131	$8,209

(1) Adjustments to reflect changes in status of directors and officers for each year presented.

Mortgage Banking

The Bank sells loans in the secondary market and retains the ability to service many of these loans. The Bank earns fees for the servicing provided. At year end 2020 and 2019, the Company was servicing loans for participants totaling $596.3 million and $497.2 million, respectively. Loans serviced for others are not included in the accompanying consolidated balance sheets. The risks inherent in servicing assets relate primarily to changes in prepayments that result from shifts in interest rates. Contractually-specified servicing fees were $1.3 million for the years ended 2020, 2019, and 2018, and is included as a component of other income within non- interest income.

Servicing rights activity during 2020 and 2019, included in other assets, was as follows:

	At or for the Twelve Months Ended December 31,	
(in thousands)	2020	2019
Balance at beginning of year	$3,001	$3,086
Additions	1,152	160
Amortization	(800)	(245)
Balance at end of year	$3,353	$3,001

Total held for sale loans were $24.0 million and $6.5 million and at December 31, 2020 and 2019, respectively. The net gains on sales of loans at December 31, 2020 and 2019 were $5.3 million and $493 thousand, respectively, and is included as a component of mortgage banking income within non-interest income.

NOTE 4. ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is maintained at a level considered adequate to provide for an estimate of probable credit losses inherent in the loan portfolio. The allowance is increased by the provision charged to operating expense and reduced by net charge-offs. Loans are charged against the allowance for loan losses when the Company believes collectability has declined to a point where there is a distinct possibility of some loss of principal and interest. While the Company uses the best information available to make the evaluation, future adjustments may be necessary if there are significant changes in conditions.

The allowance is comprised of four distinct reserve components: (1) specific reserves related to loans individually evaluated; (2) quantitative reserves related to loans collectively evaluated; (3) qualitative reserves related to loans collectively evaluated; and (4) a temporal estimate is made for incurred loss emergence period for each loan category within the collectively evaluated pools.

A summary of the methodology employed on a quarterly basis with respect to each of these components in order to evaluate the overall adequacy of the Company's allowance for loan losses is as follows:

Specific Reserve for Loans Individually Evaluated

First, the Company identifies loan relationships having aggregate balances in excess of $150 thousand with potential credit weaknesses. Such loan relationships are identified primarily through the Company's analysis of internal loan evaluations, past due loan reports, TDRs and loans adversely classified. Each loan so identified is then individually evaluated for impairment. Loans are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the original loan agreement. Substantially all impaired loans have historically been collateral dependent, meaning repayment of the loan is expected or is considered to be provided solely from the sale of the loan's underlying collateral. For such loans, the Company measures impairment based on the fair value of the loan's collateral, which is generally determined utilizing current appraisals. A specific reserve is established in an amount equal to the excess, if any, of the recorded investment in each impaired loan over the fair value of its underlying collateral, less estimated costs to sell. The Company's policy is to re-evaluate the fair value of collateral dependent loans at least every twelve months unless there is a known deterioration in the collateral's value, in which case a new appraisal is obtained.

Purchase credit impaired ("PCI") loans are collectively evaluated, but are not included in the general reserve as described below. The evaluation of the PCI loans requires continued quarterly assessment of key assumptions and estimates similar to the initial fair value estimate, including changes in the severity of loss, timing and speed of payments, collateral value changes, expected cash flows and other relevant factors. The quarterly assessment is compared to the initial fair value estimate and a determination is made if an adjustment to the allowance for loan loss is deemed necessary.

Quantitative Reserve for Loans Collectively Evaluated

Second, the Company stratifies the loan portfolio into two general business loan pools: substandard (7 risk rated) and pass-rated (0 to 6 rated) by loan type. Substandard rated loans are subject to higher credit loss rates in the allowance for loan loss calculation. The Company utilizes historical loss rates for commercial real estate and commercial and industrial loans assessed by internal risk rating. Historical loss rates on residential real estate and consumer loans are not risk graded. Residential real estate and consumer loans are considered as part of the pass-rated portfolio unless removed due to specific reserve evaluation based on past due status and/or other indications of credit deterioration. Quantitative reserves relative to each loan pool are established as follows: for all loan segments an allocation equaling 100% of the respective pool's average 3-year historical net loan charge-off rate (determined based upon the most recent 12 quarters) is applied to the aggregate recorded investment in the pool of loans. Purchased performing loans are collectively evaluated as their own separate category within each loan pool.

Qualitative Reserve for Loans Collectively Evaluated

Third, the Company considers the necessity to adjust the average historical net loan charge-off rates relative to each of the above two loan pools for potential risks factors that could result in actual losses deviating from prior loss experience. Such qualitative risk factors considered are: (1) lending policies and procedures, (2) business conditions, (3) volume and nature of the loan portfolio, (4) experience, ability and depth of lending management, (5) problem loan trends, (6) quality of the Company's loan review system, (7) concentrations in the loan portfolio, (8) competition, legal, and regulatory environment and (9) collateral coverage and loan-to-value.

Loss Emergence Period for Loans Collectively Evaluated

Fourth, the general allowance related to loans collectively evaluated includes an estimate of incurred losses over an estimated loss emergence period ("LEP"). The LEP is generated utilizing a charge-off look-back analysis, which evaluates the time from the first indication of elevated risk of repayment (or other early event indicating a problem) to eventual charge-off to support the LEP considered in the allowance calculation. This reserving methodology establishes the approximate number of months of LEP that represents incurred losses for each loan portfolio within each portfolio segment in addition to the qualitative reserves.

NOTE 4. ALLOWANCE FOR LOAN LOSSES (Continued)

Activity in the allowance for loan losses for the twelve months ended December 31, 2020, 2019 and 2018 was as follows:

	At or for the Year Ended December 31, 2020				
Business Activities Loans (in thousands)	**Commercial real estate**	**Commercial and industrial**	**Residential real estate**	**Consumer**	**Total**
Balance at beginning of period	$ 7,668	$3,608	$3,402	$ 379	$15,057
Charged-off loans	(1,036)	(540)	(43)	(306)	(1,925)
Recoveries on charged-off loans	154	21	—	45	220
Provision for loan losses	4,167	288	718	261	5,434
Balance at end of period	$10,953	$3,377	$4,077	$ 379	$18,786
Individually evaluated for impairment	366	—	67	1	434
Collectively evaluated	10,587	3,377	4,010	378	18,352
Total	$10,953	$3,377	$4,077	$ 379	$18,786

	At or for the Year Ended December 31, 2020				
Acquired Loans (in thousands)	**Commercial real estate**	**Commercial and industrial**	**Residential real estate**	**Consumer**	**Total**
Balance at beginning of period	$ 147	$ 6	$ 143	$ —	$296
Charged-off loans	(101)	(53)	(11)	(78)	(243)
Recoveries on charged-off loans	19	9	13	11	52
Provision (release) for loan losses	225	43	(144)	67	191
Balance at end of period	$ 290	$ 5	$ 1	$ —	$296
Individually evaluated for impairment	290	5	1	—	296
Collectively evaluated	—	—	—	—	—
Total	$ 290	$ 5	$ 1	$ —	$296

	At or for the Year Ended December 31, 2019				
Business Activities Loans (in thousands)	**Commercial real estate**	**Commercial and industrial**	**Residential real estate**	**Consumer**	**Total**
Balance at beginning of period	$6,811	$2,380	$3,982	$408	$13,581
Charged-off loans	(212)	(336)	(109)	(228)	(885)
Recoveries on charged-off loans	194	65	55	6	320
Provision (release) for loan losses	875	1,499	(526)	193	2,041
Balance at end of period	$7,668	$3,608	$3,402	$379	$15,057
Individually evaluated for impairment	1,231	164	57	—	1,452
Collectively evaluated	6,437	3,444	3,345	379	13,605
Total	$7,668	$3,608	$3,402	$379	$15,057

NOTE 4. ALLOWANCE FOR LOAN LOSSES (Continued)

Acquired Loans (in thousands)	At or for the Year Ended December 31, 2019 Commercial real estate	Commercial and industrial	Residential real estate	Consumer	Total
Balance at beginning of period	$173	$ 35	$ 77	$ —	$ 285
Charged-off loans	—	(23)	(240)	(5)	(268)
Recoveries on charged-off loans	—	—	—	3	3
Provision (releases) for loan losses	(26)	(6)	306	2	276
Balance at end of period	$147	$ 6	$ 143	$ —	$ 296
Individually evaluated for impairment	12	—	49	—	61
Collectively evaluated	135	6	94	—	235
Total	$147	$ 6	$ 143	$ —	$ 296

Business Activities Loans (in thousands)	At or for the Twelve Months Ended December 31, 2018 Commercial real estate	Commercial and industrial	Residential real estate	Consumer	Total
Balance at beginning of period	$6,037	$2,373	$3,357	$ 386	$12,153
Charged-off loans	(417)	(111)	(225)	(629)	(1,382)
Recoveries on charged-off loans	275	76	166	18	535
Provision for loan losses	916	42	684	633	2,275
Balance at end of period	$6,811	$2,380	$3,982	$ 408	$13,581
Individually evaluated for impairment	422	78	111	—	611
Collectively evaluated	6,389	2,302	3,871	408	12,970
Total	$6,811	$2,380	$3,982	$ 408	$13,581

Acquired Loans (in thousands)	At or for the Twelve Months Ended December 31, 2018 Commercial real estate	Commercial and industrial	Residential real estate	Consumer	Total
Balance at beginning of period	$ 97	$ 16	$ 59	$ —	$ 172
Charged-off loans	(136)	(166)	(158)	(65)	(525)
Recoveries on charged-off loans	43	7	—	83	133
Provision (releases) for loan losses	169	178	176	(18)	505
Balance at end of period	$ 173	$ 35	$ 77	$ —	$ 285
Individually evaluated for impairment	—	—	41	—	41
Collectively evaluated	173	35	36	—	244
Total	$ 173	$ 35	$ 77	$ —	$ 285

Credit Quality Information

Loan Origination/Risk Management: The Company has certain lending policies and procedures in place designed to maximize loan income within an acceptable level of risk. The Company's Board of Directors reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management and the Company's Board of Directors with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies, non-performing loans and potential problem loans. The Company seeks to diversify the loan portfolio as a means of managing risk associated with fluctuations in economic conditions.

Credit Quality Indicators/Classified Loans: In monitoring the credit quality of the portfolio, management applies a credit quality indicator and uses an internal risk rating system to categorize commercial loans. These credit quality indicators range from one through nine, with a higher number correlating to increasing risk of loss. These ratings are used as inputs to the calculation of the allowance for loan losses. Consistent with

NOTE 4. ALLOWANCE FOR LOAN LOSSES (Continued)

regulatory guidelines, the Company provides for the classification of loans which are considered to be of lesser quality as special mention, substandard, doubtful, or loss (i.e. risk rated 6, 7, 8 and 9, respectively).

The following are the definitions of the Company's credit quality indicators:

Pass: Loans the Company considers in the commercial portfolio segments that are not adversely rated, are contractually current as to principal and interest, and are otherwise in compliance with the contractual terms of the loan agreement. Management believes there is a low risk of loss related to these loans considered pass rated.

Special Mention: Loans the Company considers having some potential weaknesses, but are deemed to not carry levels of risk inherent in one of the subsequent categories, are designated as special mention. A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. This might include loans which may require a higher level of supervision or internal reporting because of: (i) declining industry trends; (ii) increasing reliance on secondary sources of repayment; (iii) the poor condition of or lack of control over collateral; or (iv) failure to obtain proper documentation or any other deviations from prudent lending practices. Economic or market conditions which may, in the future, affect the obligor, may warrant special mention of the asset. Loans for which an adverse trend in the borrower's operations or an imbalanced position in the balance sheet which has not reached a point where the liquidation is jeopardized may be included in this classification. Special mention loans are not adversely classified and do not expose the Company to sufficient risks to warrant classification.

Substandard: Loans the Company considers as substandard are inadequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Substandard loans have a well-defined weakness that jeopardizes liquidation of the debt. Substandard loans include those loans where there is the distinct possibility of some loss of principal, if the deficiencies are not corrected.

Doubtful: Loans the Company considers as doubtful have all of the weaknesses inherent in those loans that are classified as substandard. These loans have the added characteristic of a well-defined weakness which is inadequately protected by the current sound worth and paying capacity of borrower or of the collateral pledged, if any, and calls into question the collectability of the full balance of the loan. The possibility of loss is high but because of certain important and reasonably specific pending factors which may work to the advantage and strengthening of the loan, its classification as loss is deferred until its more exact status is determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral and refinancing plans. The entire amount of the loan might not be classified as doubtful when collection of a specific portion appears highly probable. Loans are generally not classified doubtful for an extended period of time (i.e., over a year).

Loss: Loans the Company considers as losses are those considered uncollectible and of such little value that their continuance as an asset is not warranted and the uncollectible amounts are charged-off. This classification does not mean the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this worthless asset even though partial recovery may be affected in the future. Losses are taken in the period in which they are determined to be uncollectible.

NOTE 4. ALLOWANCE FOR LOAN LOSSES (Continued)

The following tables present the Company's commercial loans by risk rating at December 31, 2020 and December 31, 2019:

Business Activities Loans

Commercial Real Estate

Credit Risk Profile by Creditworthiness Category

(in thousands)	Commercial construction and land development		Commercial real estate other		Total commercial real estate	
	Dec 31, 2020	Dec 31, 2019	Dec 31, 2020	Dec 31, 2019	Dec 31, 2020	Dec 31, 2019
Grade:						
Pass	$129,065	$31,057	$745,600	$646,886	$874,665	$677,943
Special mention	—	—	4,626	5,483	4,626	5,483
Substandard	—	330	15,076	11,974	15,076	12,304
Doubtful	189	—	560	1,708	749	1,708
Loss	1	—	—	—	1	—
Total	$129,255	$31,387	$765,862	$666,051	$895,117	$697,438

Commercial and Industrial

Credit Risk Profile by Creditworthiness Category

(in thousands)	Commercial		Agricultural		Tax exempt loans		Total commercial and industrial	
	Dec 31, 2020	Dec 31, 2019	Dec 31, 2020	Dec 31, 2019	Dec 31, 2020	Dec 31, 2019	Dec 31, 2020	Dec 31, 2019
Grade:								
Pass	$298,568	$221,329	$16,025	$18,940	$39,429	$66,860	$354,022	$307,129
Special mention	1,644	2,744	334	298	—	—	1,978	3,042
Substandard	14,158	14,866	438	780	—	—	14,596	15,646
Doubtful	633	753	—	—	—	—	633	753
Loss	2	—	—	—	—	—	2	—
Total	$315,005	$239,692	$16,797	$20,018	$39,429	$66,860	$371,231	$326,570

Residential Real Estate and Consumer Loans

Credit Risk Profile Based on Payment Activity

(in thousands)	Residential real estate		Home equity		Other consumer		Total residential real estate and consumer	
	Dec 31, 2020	Dec 31, 2019	Dec 31, 2020	Dec 31, 2019	Dec 31, 2020	Dec 31, 2019	Dec 31, 2020	Dec 31, 2019
Performing	$630,089	$737,325	$54,654	$58,753	$ 9,911	$11,146	$694,654	$807,224
Nonperforming	3,301	3,362	438	615	13	21	3,752	3,998
Total	$633,390	$740,687	$55,092	$59,368	$ 9,924	$11,167	$698,406	$811,222

NOTE 4. ALLOWANCE FOR LOAN LOSSES (Continued)

Acquired Loans

Commercial Real Estate

Credit Risk Profile by Creditworthiness Category

(in thousands)	Commercial construction and land development		Commercial real estate other		Total commercial real estate	
	Dec 31, 2020	Dec 31, 2019	Dec 31, 2020	Dec 31, 2019	Dec 31, 2020	Dec 31, 2019
Grade:						
Pass	$1,703	$2,412	$177,405	$218,491	$179,108	$220,903
Special mention	—	12	1,449	2,261	1,449	2,273
Substandard	165	479	7,026	9,400	7,191	9,879
Doubtful	—	—	1,516	168	1,516	168
Total	$1,868	$2,903	$187,396	$230,320	$189,264	$233,223

Commercial and Industrial

Credit Risk Profile by Creditworthiness Category

(in thousands)	Commercial		Agricultural		Tax exempt loans		Total commercial and industrial	
	Dec 31, 2020	Dec 31, 2019	Dec 31, 2020	Dec 31, 2019	Dec 31, 2020	Dec 31, 2019	Dec 31, 2020	Dec 31, 2019
Grade:								
Pass	$43,972	$51,184	$ 20	$ 58	$24,002	$37,407	$67,994	$88,649
Special mention	793	5,432	—	—	—	—	793	5,432
Substandard	451	2,115	133	148	—	36	584	2,299
Doubtful	467	341	—	—	—	—	467	341
Total	$45,683	$59,072	$153	$206	$24,002	$37,443	$69,838	$96,721

Residential Real Estate and Consumer Loans

Credit Risk Profile Based on Payment Activity

(in thousands)	Residential real estate		Home equity		Other consumer		Total residential real estate and consumer	
	Dec 31, 2020	Dec 31, 2019	Dec 31, 2020	Dec 31, 2019	Dec 31, 2020	Dec 31, 2019	Dec 31, 2020	Dec 31, 2019
Performing	$288,073	$407,811	$47,081	$62,504	$1,156	$1,707	$336,310	$472,022
Nonperforming	2,428	3,359	291	529	—	8	2,719	3,896
Total	$290,501	$411,170	$47,372	$63,033	$1,156	$1,715	$339,029	$475,918

NOTE 4. ALLOWANCE FOR LOAN LOSSES (Continued)

The following table summarizes information about total classified and criticized loans as of December 31, 2020 and December 31, 2019.

	December 31, 2020			December 31, 2019		
(in thousands)	Business Activities Loans	Acquired Loans	Total	Business Activities Loans	Acquired Loans	Total
Non-accrual	$ 6,437	$ 5,751	$12,188	$ 8,354	$ 3,196	$11,550
Substandard accruing	28,371	6,726	35,097	26,055	13,387	39,442
Loss accruing	1	—	1	—	—	—
Total classified	34,809	12,477	47,286	34,409	16,583	50,992
Special mention	6,604	2,242	8,846	8,525	7,705	16,230
Total Criticized	$41,413	$14,719	$56,132	$42,934	$24,288	$67,222

NOTE 5. PREMISES AND EQUIPMENT

Year-end premises and equipment at December 31, 2020 and December 31, 2019 are summarized as follows:

(in thousands, except years)	2020	2019	Estimated Useful Life
Land	$ 5,531	$ 5,028	N/A
Buildings and improvements	55,366	52,363	5 - 39 years
Furniture and equipment	13,865	13,573	3 - 7 years
Premises and equipment, gross	74,762	70,964	
Accumulated depreciation	(22,304)	(19,759)	
Premises and equipment, net	$ 52,458	$ 51,205	

Depreciation expense for the years ended December 31, 2020, 2019 and 2018 amounted to $4.8 million, $4.1 million and $3.7 million, respectively.

Premises held for sale for the years ended December 31, 2020 and 2019 were $962 thousand and $1.8 million, respectively and are included in other assets. The Company measures assets held for sale at the lower of carrying amount or estimated fair value less 6% selling costs. The Company sold $802 thousand of premises held for sale in 2020 at a gain of $122 thousand, there were no sales in 2019 and 2018. There were no impairment charges recognized in 2020, 2019 and 2018.

NOTE 6. GOODWILL AND OTHER INTANGIBLES

The activity impacting goodwill in 2020 and 2019 is as follows:

(in thousands)	2020	2019
Balance at beginning of year	$118,649	$100,085
Acquisition	828	18,564
Balance at end of year	$119,477	$118,649

In the fourth quarter of 2020, the Company completed its annual goodwill impairment testing using balance sheet and market data as of September 30, 2020. The analysis was performed at the consolidated Bank level of the Company, which is considered the smallest reporting unit carrying goodwill. The step one analysis under the guidance of ASC 350 was passed, and therefore no goodwill impairment was recognized for the year ended December 31, 2020. No impairment was recorded in 2019 and 2018.

NOTE 6. GOODWILL AND OTHER INTANGIBLES (Continued)

The components of other intangible assets in 2020 and 2019 are as follows:

	2020		
(in thousands)	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Core deposit intangible (non-maturity deposits)	$ 9,305	$(3,287)	$6,018
Customer list and other intangibles	1,901	(249)	1,652
Total	$11,206	$(3,536)	$7,670

	2019		
(in thousands)	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Core deposit intangible (non-maturity deposits)	$ 9,483	$(2,635)	$6,848
Customer list and other intangibles	2,065	(272)	1,793
Total	$11,548	$(2,907)	$8,641

Other intangible assets are amortized on a straight-line basis over their estimated lives, which range from 5 years to 11 years. Amortization expenses related to intangibles totaled $1.0 million in 2020, $861 thousand in 2019 and $828 thousand in 2018.

The estimated aggregate future amortization expense for other intangible assets remaining at year end 2020 is as follows:

(in thousands)	Other Intangible Assets
2021	$ 934
2022	932
2023	932
2024	932
2025	932
and thereafter	3,008
Total	$7,670

NOTE 7. DEPOSITS

A summary of time deposits at December 31, 2020 and December 31, 2019 are as follows:

(in thousands)	December 31, 2020	December 31, 2019
Time less than $100,000	$325,646	$600,747
Time $100,000 through $250,000	278,940	225,505
Time $250,000 or more	93,775	106,383
Total	$698,361	$932,635

NOTE 7. DEPOSITS (Continued)

At December 31, 2020 and December 31, 2019, the scheduled maturities by year for time deposits are as follows:

(in thousands)	December 31, 2020	December 31, 2019
Within 1 year	$574,007	$555,074
Over 1 year to 2 years	61,584	287,934
Over 2 years to 3 years	41,145	51,444
Over 3 years to 4 years	12,875	31,262
Over 4 years to 5 years	8,728	6,883
Over 5 years	22	38
Total	$698,361	$932,635

Included in time deposits are brokered deposits of $201.8 million and $526.9 million at December 31, 2020 and December 31, 2019, respectively. Also included in time deposits are reciprocal deposits of $125.0 million and $64.1 million at December 31, 2020 and December 31, 2019, respectively.

NOTE 8. BORROWED FUNDS

Borrowed funds at December 31, 2020 and December 31, 2019 are summarized, as follows:

	December 31, 2020		December 31, 2019	
(dollars in thousands)	Carrying Value	Weighted Average Rate	Carrying Value	Weighted Average Rate
Short-term borrowings				
Advances from the FHLB	$ 65,676	1.19%	$303,286	1.83%
Other borrowings	27,779	0.15	44,832	0.99
Total short-term borrowings	93,455	0.44	348,118	1.73
Long-term borrowings				
Advances from the FHLB	182,607	1.73	123,278	1.93
Subordinated borrowings	59,961	4.34	59,920	5.53
Total long-term borrowings	242,568	2.37	183,198	2.87
Total	$336,023	1.41%	$531,316	2.11%

Short-term debt includes Federal Home Loan Bank of Boston (“FHLB”) advances with a remaining maturity of less than one year. The Company also maintains a $1.0 million secured line of credit with the FHLB that bears a daily adjustable rate calculated by the FHLB. There was no outstanding balance on the FHLB line of credit for the years ended December 31, 2020 and 2019.

The Company also has capacity to borrow funds on a secured basis utilizing the Borrower in Custody program and the Discount Window at the Federal Reserve Bank of Boston (the “FRB”). At December 31, 2020, the Company’s available secured line of credit at the FRB was $71.9 million. The Company has pledged certain loans and securities to the FRB to support this arrangement. There were no borrowings with the FRB as of December 31, 2020 and December 31, 2019.

The Company maintains an unused unsecured federal funds line of credit with a correspondent bank that has an aggregate overnight borrowing capacity of $50 million as of December 31, 2020 and December 31, 2019. There was no outstanding balance on the line of credit as of December 31, 2020 and December 31, 2019.

Long-term FHLB advances consist of advances with a remaining maturity of more than one year. The advances outstanding at December 31, 2020 include $20.0 million of callable advances and $307 thousand of amortizing advances. The advances outstanding at December 31, 2019 include no callable advances and $316 thousand of amortizing advances. All FHLB borrowings, including the line of credit, are secured by a blanket security agreement on certain qualified collateral, principally residential first mortgage loans and certain securities.

NOTE 8. BORROWED FUNDS (Continued)

A summary of maturities of FHLB advances as of December 31, 2020 is as follows:

(in thousands, except rates)	December 31, 2020 Amount	Weighted Average Rate
2021	$ 65,676	1.19%
2022	75,000	1.87
2023	80,000	1.77
2024	7,300	1.16
2025	20,000	1.21
2026 and thereafter	307	4.12
Total FHLB advances	$248,283	1.59%

On November 26, 2019, the Company executed a new Subordinated Note Purchase Agreement with an aggregate of $40.0 million of subordinated notes (the "Notes") to accredited investors. The Notes have a maturity date of December 1, 2029 and bear a fixed interest rate of 4.63% through December 1, 2024 payable semi-annually in arrears. From December 1, 2024 and thereafter the interest rate shall be reset quarterly to an interest rate per annum equal to the then current three-month Secured Overnight Financing Rate ("SOFR") plus 3.27%. The Company has the option beginning with the interest payment date of December 1, 2024, and on any scheduled payment date thereafter, to redeem the Notes, in whole or in part upon prior approval of the Federal Reserve. The transaction included debt issuance costs of $659 thousand and $700 thousand net of amortization as of December 31, 2020 and 2019 respectively, that are netted against the subordinated debt.

The Company also has $20.6 million in floating Junior Subordinated Deferrable Interest Debentures ("Debentures") issued by NHTB Capital Trust II ("Trust II") and NHTB Capital Trust III ("Trust III"), which are both Connecticut statutory trusts. The Debentures were issued on March 30, 2004, carry a variable interest rate of three-month LIBOR plus 2.79%, and mature in 2034. The debt is callable by the Company at the time when any interest payment is made. Trust II and Trust III are considered variable interest entities for which the Company is not the primary beneficiary. Accordingly, Trust II and Trust III are not consolidated into the Company's financial statements.

NOTE 9. EMPLOYEE BENEFIT PLANS

Pension Plans

The Company maintains a legacy, employer-sponsored defined benefit pension plan (the "Plan") for which participation and benefit accruals were frozen on January 13, 2017. The Plan was assumed in connection with a business combination in 2017. Accordingly, no employees are permitted to commence participation in the Plan and future salary increases and years of credited service are not considered when computing an employee's benefits under the Plan. As of December 31, 2020, all minimum Employee Retirement Income Security Act ("ERISA") funding requirements have been met. The Company did not have any defined benefit pension plans prior to 2017.

NOTE 9. EMPLOYEE BENEFIT PLANS (Continued)

The following tables set forth information about the plan for the year ended December 31, 2020 and 2019:

(in thousands)	2020	2019
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$ 8,926	$ 8,009
Service cost	—	—
Interest cost	282	331
Actuarial loss	913	1,068
Benefits paid	(319)	(300)
Settlements	(152)	(182)
Projected benefit obligation at end of year	9,650	8,926
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	11,078	9,990
Expected return on plan assets	1,433	1,570
Contributions by employer	—	—
Benefits paid	(319)	(300)
Settlements	(152)	(182)
Fair value of plan assets at end of year	12,040	11,078
Overfunded status	$(2,390)	$(2,152)
Amounts recognized in consolidated balance sheet:		
Other assets	$ 2,390	$ 2,152

Net periodic pension cost is comprised of the following for the year ended December 31, 2020 and 2019:

(in thousands)	2020	2019
Interest cost	$ 282	$ 331
Expected return on plan assets	(708)	(638)
Settlement Charge	—	—
Net periodic pension benefit credit	$(426)	$(307)

(in thousands)	2020	2019
Net actuarial loss	$ 178	$ 145
Settlement charge	—	—
Net period pension benefit credit	(426)	(307)
Total recognized in net periodic benefit (credit) cost and other comprehensive income	$(248)	$(162)

Change in plan assets and benefit obligations recognized in accumulated other comprehensive income as of December 31, 2020 and 2019 are as follows:

(in thousands)	2020	2019
Net actuarial loss	$ 178	$145
Settlement charge	—	—
Prior service cost	893	748
Total accumulated other comprehensive loss (pre-tax)	$1,071	$893

The after tax components of accumulated other comprehensive loss, which have not yet been recognized in net periodic pension cost, related to the Plan are a net loss of $822 thousand. The Company expects to make no cash

NOTE 9. EMPLOYEE BENEFIT PLANS (Continued)

contributions to the pension trust during the 2021 fiscal year. The amount expected to be amortized from accumulated other comprehensive loss into net periodic pension cost over the next fiscal year is zero.

The principal actuarial assumptions used at December 31, 2020 and 2019 were as follows:

	2020	2019
Projected benefit obligation		
Discount rate	2.46%	3.23%
Net periodic pension cost		
Discount rate	3.23%	4.23%
Long-term rate of return on plan assets	6.00	6.50

The discount rate that is used in the measurement of the pension obligation is determined by comparing the expected future retirement payment cash flows of the plan to the Citigroup Above Median Double-A Curve as of the measurement date. The expected long-term rate of return on Plan assets reflects expectations of future returns as applied to the plan's target allocation of asset classes. In estimating that rate, appropriate consideration was given to historical returns earned by equities and fixed income securities.

The Company's overall investment strategy with respect to the Plan's assets is to maintain assets at a level that will sufficiently cover future beneficiary obligations while achieving long term growth in assets. The Plan's targeted asset allocation is 54% equity securities and 46% fixed-income securities primarily consisting of intermediate-term products.

The fair values for investment securities are determined by quoted prices in active markets, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

The fair value of the Plan's assets by category and level within fair value hierarchy are as follows at December 31, 2020 and 2019:

	2020		
(in thousands)	**Total**	**Level 1**	**Level 2**
Equity mutual funds:			
Large-cap	$ 2,364	$ 2,364	$ —
Mid-cap	744	744	—
Small-cap	765	765	—
International	1,499	1,499	
Fixed income funds:			
Fixed-income—core plus	3,880	3,880	—
Intermediate duration	1,338	1,338	—
Common stock	510	510	—
Common/collective trusts—large-cap	620	—	620
Cash equivalents—money market	320	320	—
Total	$12,040	$11,420	$620

	2019		
(in thousands)	**Total**	**Level 1**	**Level 2**
Equity mutual funds:			
Large-cap	$ 2,144	$ 2,144	$ —
Mid-cap	590	590	—
Small-cap	557	557	—
International	1,009	1,009	
Fixed income funds:			
Fixed-income—core plus	4,028	4,028	—
Intermediate duration	1,371	1,371	—
Common stock	574	574	—
Common/collective trusts—large-cap	566	—	566
Cash equivalents—money market	230	230	—
Total	$11,069	$10,503	$566

NOTE 9. EMPLOYEE BENEFIT PLANS (Continued)

The Plan did not hold any assets classified as Level 3, and there were no transfers between levels during 2020 and 2019.

Estimated benefit payments under the Company's pension plan over the next 10 years at December 31, 2020 are as follows:

(in thousands)	Payments
2021	$ 354
2022	372
2023	369
2024	384
2025	379
2026 - 2030	2,321
Total	$4,179

Non-qualified Supplemental Executive Retirement Plan

The Company has non-qualified supplemental executive retirement agreements with certain retired officers. The agreements provide supplemental retirement benefits payable in installments over a period of years upon retirement or death. This agreement provides a stream of future payments in accordance with individually defined vesting schedules upon retirement, termination, or in the event that the participating executive leaves the Company following a change of control event.

The following table sets forth changes in benefit obligation, changes in plan assets, and the funded status of the plan as of and for the years ended December 31, 2020 and December 31, 2019:

(in thousands)	2020	2019
Change in benefit obligation:		
Projected benefit obligation at beginning of year	$2,979	$3,033
Service cost	—	—
Interest cost	81	103
Actuarial loss	202	221
Benefits paid	(293)	(378)
Projected benefit obligation at end of year	$2,969	$2,979
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	$ —	$ —
Expected return on plan assets	—	—
Contributions by employer	293	378
Benefits paid	(293)	(378)
Fair value of plan assets at end of year	$ —	$ —
Underfunded status	$2,969	$2,979
Amounts recognized in consolidated balance sheet		
Other liabilities	$2,969	$2,979

NOTE 9. EMPLOYEE BENEFIT PLANS (Continued)

Net periodic benefit cost is comprised of the following for the years ended December 31, 2020 and 2019:

(in thousands)	2020	2019
Interest cost	$ 81	$103
Expected return on plan assets	—	—
Amortization of unrecognized actuarial loss	42	15
Net periodic benefit cost	$123	$118

(in thousands)	2020	2019
Net actuarial loss	$202	$220
Amortization of unrecognized actuarial loss	(42)	(15)
Total recognized in net periodic benefit cost and other comprehensive loss	$160	$205

Change in plan assets and benefit obligations recognized in accumulated other comprehensive income in 2020 and 2019 are as follows:

(in thousands)	2020	2019
Accumulated other comprehensive loss at beginning of the year (pre-tax)	$619	$414
Actuarial loss	202	220
Amortization of actuarial loss	(42)	(15)
Accumulated other comprehensive loss at end of year (pre-tax)	$779	$619

The after tax components of accumulated other comprehensive loss, which have not yet been recognized in net periodic benefit cost, related to the non-qualified supplemental executive retirement agreements are a net loss of $597 thousand. The amount expected to be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $43 thousand.

The principal actuarial assumptions used at December 31, 2020 and December 31, 2019 were as follows:

	2020	2019
Discount rate beginning of year	2.65%	3.83%
Discount rate end of year	1.56	2.65

The discount rate used in the measurement of the non-qualified supplemental executive retirement plan obligation is determined by comparing the expected future retirement payment cash flows to the Citigroup Above Median Double-A Curve as of the measurement date.

The Company expects to contribute the following amounts to fund benefit payments under the supplemental executive retirement plans:

(in thousands)	Payments
2021	$ 260
2022	260
2023	260
2024	260
2025	260
2026 - 2037	2,018
Total	$3,318

NOTE 9. EMPLOYEE BENEFIT PLANS (Continued)

401(k) Plan

The Company maintains a Section 401(k) savings plan for substantially all of its employees. Employees are eligible to participate in the 401(k) Plan on the first day of any quarter following their date of hire and attainment of age 21½ . Under the plan, the Company makes a matching contribution of a portion of the amount contributed by each participating employee, up to a percentage of the employee's annual salary. The plan allows for supplementary profit sharing contributions by the Company, at its discretion, for the benefit of participating employees. The total expense for this plan in 2020, 2019, and 2018 was $1.2 million, $1.1 million, and $1.0 million, respectively.

Other Plans

As a result of the acquisition of a business combination in 2017, the Company assumed salary continuation agreements for supplemental retirement income with certain prior executives and senior officers along with an executive indexed supplemental retirement plan for one prior executive. The total liability for these agreements included in other liabilities was $8.8 million at December 31, 2020 and $8.1 million at December 31, 2019. Expense recorded in 2020, 2019 and 2018 under these agreements was $793 thousand, $779 thousand and $752 thousand, respectively.

The Company also assumed split-dollar life insurance agreements with the 2017 business combination with an accrued liability of $919 thousand at December 31, 2020 and $834 thousand at December 31, 2019. Expense recorded for the split-dollar life insurance agreements was $65 thousand and $163 thousand and $57 thousand in 2020, 2019 and 2018, respectively.

NOTE 10. INCOME TAXES

The following table summarizes the current and deferred components of income tax expense (benefit) for each of the years ended December 31, 2020, 2019 and 2018:

(in thousands)	2020	2019	2018
Current:			
Federal tax expense	$7,165	$2,639	$6,775
State tax expense	1,280	550	1,230
Total current tax expense	8,445	3,189	8,005
Deferred tax expense	(38)	1,020	(443)
Total income tax expense	$8,407	$4,209	$7,562

The following table reconciles the expected federal income tax expense (computed by applying the federal statutory tax rate of 21%) to recorded income tax expense for the years ended December 31, 2020, 2019 and 2018:

	2020		2019		2018	
(in thousands, except ratios)	Amount	Rate	Amount	Rate	Amount	Rate
Statutory tax rate	$ 8,747	21.00%	$ 5,633	21.00%	$ 8,505	21.00%
Increase (decrease) resulting from:						
State taxes, net of federal benefit	1,120	2.69	547	2.04	908	2.24
Tax exempt interest	(1,301)	(3.12)	(1,375)	(5.13)	(1,315)	(3.25)
Federal tax credits	(330)	(0.79)	(282)	(1.05)	(125)	(0.31)
Officers' life insurance	(403)	(0.97)	(431)	(1.61)	(382)	(0.94)
Gain of disposal of low income housing tax credit investments	147	0.35	—	—	—	—
Stock-based compensation plans	52	0.12	(20)	(0.07)	(120)	(0.30)
Other	375	0.90	137	0.51	91	0.23
Effective tax rate	$ 8,407	20.18%	$ 4,209	15.69%	$ 7,562	18.67%

NOTE 10. INCOME TAXES (Continued)

The tax effects of temporary differences that give rise to deferred tax assets and deferred tax liabilities at December 31, 2020 and 2019 are summarized below. The net deferred tax asset, which is included in other assets, amounted to $1.7 million at December 31, 2020 and $3.9 million at December 31, 2019.

The significant components of deferred tax assets and liabilities at December 31, 2020 and December 31, 2019 were as follows:

	2020		2019	
(in thousands)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Allowance for loan losses	$ 4,464	$ —	$ 3,507	$ —
Deferred compensation	4,129	—	3,383	—
Unrealized gain or loss on securities available for sale	—	4,404	—	1,858
Unrealized gain or loss on derivatives	623	—	307	—
Depreciation	—	2,261	—	1,722
Deferred loan origination costs	—	1,190	—	862
Non-accrual interest	492	—	381	—
Branch acquisition costs and goodwill	—	1,034	—	712
Core deposit intangible	—	1,078	—	1,231
Acquisition fair value adjustments	1,833	—	2,223	—
Prepaid expenses	—	301	—	311
Mortgage servicing rights	—	784	—	703
Equity compensation	432	—	468	—
Prepaid pension	—	377	—	359
Contract incentives	1,017	—	1,167	—
Right of use asset	—	2,419	—	2,253
Lease liability	2,487	—	2,273	—
Other	116	—	167	—
Total	$15,593	$13,848	$13,876	$10,011

The Company has determined that a valuation allowance is not required for its net deferred tax asset since it is more likely than not that this asset is realizable principally through future taxable income and future reversal of existing temporary differences.

GAAP requires the measurement of unrecorded tax benefits related to uncertain tax positions. An unrecorded tax benefit is the difference between the tax benefit of a position taken, or expected to be taken, on a tax return and the benefit recorded for accounting purposes. At December 31, 2020 and 2019, the Company had no unrecorded tax benefits and does not expect the amount of unrecorded tax benefits to significantly increase within the next twelve months.

The Company is subject to income tax in the U.S. federal jurisdiction and also in the states of Maine, New Hampshire and Massachusetts. The Company is no longer subject to examination by taxing authorities for years before 2017.

NOTE 11. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Company uses derivative instruments to minimize fluctuations in earnings and cash flows caused by interest rate volatility. The Company's interest rate risk management strategy involves modifying the re-pricing characteristics of certain assets or liabilities so the changes in interest rates do not have a significant effect on net interest income. Thus, all of the Company's derivative contracts are considered to be interest rate contracts.

The Company recognizes its derivative instruments on the consolidated balance sheet at fair value. On the date the derivative instrument is entered into, the Company designates whether the derivative is part of a hedging relationship (i.e., cash flow or fair value hedge). The Company formally documents relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking hedge transactions. The Company also assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives used in hedging transactions are highly effective in offsetting the changes in cash flows or fair values of hedged items. Changes in fair value of derivative instruments that are highly effective and qualify as cash flow hedges are recorded in other comprehensive income or loss.

The Company offers derivative products in the form of interest rate swaps, to commercial loan customers to facilitate their risk management strategies. These instruments are executed through Master Netting Arrangements ("MNA") with financial institution counterparties or Risk Participation Agreements ("RPA") with commercial bank counterparties, for which the Company assumes a pro rata share of the credit exposure associated with a borrower's performance related to the derivative contract with the counterparty.

Information about derivative assets and liabilities at December 31, 2020 and December 31, 2019, follows:

	December 31, 2020			
	Notional Amount (in thousands)	Weighted Average Maturity (in years)	Fair Value Asset (Liability) (in thousands)	Location Fair Value Asset (Liability)
Cash flow hedges:				
Interest rate swap on wholesale fundings	$ 75,000	4.0	$ (2,664)	Other liabilities
Total cash flow hedges	75,000		(2,664)	
Fair value hedges:				
Interest rate swap on securities	37,190	8.6	2,789	Other assets
Total fair value hedges	37,190		2,789	
Economic hedges:				
Forward sale commitments	50,629	0.2	(95)	Other liabilities
Customer Loan Swaps—MNA Counterparty	235,947	6.8	(15,938)	Other liabilities
Customer Loan Swaps—RPA Counterparty	119,285	7.9	(9,957)	Other liabilities
Customer Loan Swaps—Customer	355,232	7.1	25,895	Other assets
Total economic hedges	761,093		(95)	
Non-hedging derivatives:				
Interest rate lock commitments	3,320	0.1	22	Other assets
Total non-hedging derivatives	3,320		22	
Total	$876,603		$ 52	

NOTE 11. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

	December 31, 2019			
	Notional Amount (in thousands)	Weighted Average Maturity (in years)	Fair Value Asset (Liability) (in thousands)	Location Fair Value Asset (Liability)
Cash flow hedges:				
Interest rate swap on wholesale fundings	$100,000	4.6	$(1,311)	Other liabilities
Total cash flow hedges	100,000		(1,311)	
Fair value hedges:				
Interest rate swap on securities	37,190	9.6	593	Other liabilities
Total fair value hedges	37,190		593	
Economic hedges:				
Forward sale commitments	11,228	0.1	(84)	Other liabilities
Customer Loan Swaps—MNA Counterparty	135,598	7.5	(4,669)	(1)
Customer Loan Swaps—RPA Counterparty	69,505	8.8	(3,377)	(1)
Customer Loan Swaps—Customer	205,103	8.1	8,046	(1)
Total economic hedges	421,434		(84)	
Non-hedging derivatives:				
Interest rate lock commitments	21,748	0.1	59	Other assets
Total non-hedging derivatives	21,748		59	
Total	$580,372		$ (743)	

(1) Customer loan derivatives are subject to MNA or RPA arrangements with financial institution counterparties, thus assets and liabilities with the counterparty are netted for financial statement presentation.

As of December 31, 2020, and 2019, the following amounts were recorded on the balance sheet related to cumulative basis adjustments for fair value hedges:

	Location of Hedged Item on Balance Sheet	Carrying Amount of Hedged Assets (Liabilities)	Cumulative Amount of Fair Value Hedging Adjustment in Carrying Amount
December 31, 2020			
Interest rate swap on securities	Securities Available for Sale	$40,209	$3,019
December 31, 2019			
Interest rate swap on securities	Securities Available for Sale	$39,026	$523

NOTE 11. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

Information about derivative assets and liabilities for December 31, 2020 and December 31, 2019, follows:

	Year Ended December 31, 2020				
(in thousands)	**Amount of Gain (Loss) Recognized in Other Comprehensive Income**	**Location of Gain (Loss) Reclassified from Other Comprehensive Income**	**Amount of Gain (Loss) Reclassified from Other Comprehensive Income**	**Location of Gain (Loss) Recognized in Income**	**Amount of Gain (Loss) Recognized in Income**
Cash flow hedges:					
Interest rate swap on wholesale funding	$(2,566)	Non-interest expense	$(3,935)	Interest expense	$ (829)
Total cash flow hedges	(2,566)		(3,935)		(829)
Fair value hedges:					
Interest rate swap on securities	5,458	Interest income	—	Interest income	(281)
Total fair value hedges	5,458		—		(281)
Economic hedges:					
Forward commitments	—	Other income	—	Other income	(11)
Total economic hedges	—		—		(11)
Non-hedging derivatives:					
Interest rate lock commitments	—	Other income	—	Other income	(37)
Total non-hedging derivatives	—		—		(37)
Total	$ 2,892		$(3,935)		$(1,158)

(1) As of December 31, 2020 the Company does not expect any gains or losses from accumulated other comprehensive income into earnings within the next 12 months.

NOTE 11. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

	Years Ended December 31, 2019				
(in thousands)	Amount of Gain (Loss) Recognized in Other Comprehensive Income	Location of Gain (Loss) Reclassified from Other Comprehensive Income	Amount of Gain (Loss) Reclassified from Other Comprehensive Income	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income
Cash flow hedges:					
Interest rate swap on wholesale funding	$ —	Interest expense	$ —	Interest expense	$ (2)
Interest rate cap agreements	2,291	Non-interest expense	3,156	Interest expense	(603)
Total cash flow hedges	2,291		3,156		(605)
Fair value hedges:					
Interest rate swap on securities	(523)	Interest income	—	Interest income	7
Total economic hedges	(523)		—		7
Economic hedges:					
Forward commitments	—	Other income	—	Other income	(84)
Total economic hedges	—		—		(84)
Non-hedging derivatives:					
Interest rate lock commitments	—	Other income	—	Other Income	52
Total non-hedging derivatives	—		—		52
Total	$1,768		$3,156		$(630)

Cash flow hedges

Interest rate swaps on wholesale funding

In March and November 2019 and April 2020, the Company entered into interest rate swaps on wholesale borrowings (the "SWAPS") to limit its exposure to rising interest rates over a five year term. Under the terms of the agreement, the Company has two swaps each with a $50.0 million notional amount and pay fixed interest rates of 2.46% and 1.53%, and one swap with a $25.0 million notional amount and pays a fixed interest rate of 0.59%. The financial institution counterparty pays the Company interest on the three-month LIBOR rate. The Company designated the swap as a cash flow hedge. Based on direct and indirect events resulting from COVID-19 pandemic, the Company determined that $50 million of wholesale fundings were no longer necessary. As a result of the unprecedented nature of the pandemic the FASB staff believes that it would be acceptable for a company to determine that missed forecasts related to the effects of the COVID-19 pandemic need not be considered when determining whether it has exhibited a pattern of missing forecasts that would call into question its ability to accurately predict forecasted transactions and the propriety of using cash flow hedge accounting in the future for similar transactions. The FASB staff believes that this guidance did not contemplate forecasts changing so rapidly as a result of a pandemic. The March 2019 hedge with a $50.0 million notional amount and fixed rate of 2.46% was terminated in the fourth quarter of 2020, with $3.9 million loss recognized in acquisition, conversion, and other expenses as a result of the reclassification from other comprehensive income.

Interest rate cap agreements

In 2014, interest rate cap agreements were purchased to limit the Company's exposure to rising interest rates on four rolling, three-month borrowings indexed to three-month LIBOR. Under the terms of the agreements, the Company paid total premiums of $4.6 million for the right to receive cash flow payments if three-month LIBOR rises above the caps of 3.00%, thus effectively ensuring interest expense on the borrowings at maximum rates of 3.00% for the duration of the agreements. The interest rate cap agreements were designated as cash flow hedges, however the caps were terminated in the fourth quarter of 2019, with $3.2 million recognized in acquisition, restructuring and other expenses as a result of the reclassification from other comprehensive income.

Fair value hedges

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged

NOTE 11. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

asset or liability attributable to the hedged risk are recognized in current earnings. The Company utilizes interest rate swaps designated as fair value hedges to mitigate the effect of changing interest rates on the fair values of fixed rate callable securities available-for-sale. The hedging strategy on securities converts the fixed interest rates to LIBOR-based variable interest rates. These derivatives are designated as partial term hedges of selected cash flows covering specified periods of time prior to the call dates of the hedged securities. During 2019, the Company entered into eight swap transactions with a notional amount of $37.2 million designated as fair value hedges. These derivatives are intended to protect against the effects of changing interest rates on the fair values of fixed rate securities. The fixed rates on the transactions have a weighted average of 1.697%.

Economic hedges

Forward sale commitments

The Company utilizes forward sale commitments on residential mortgage loans to hedge interest rate risk and the associated effects on the fair value of interest rate lock commitments and loans originated for sale. The forward sale commitments are accounted for as derivatives. The Company typically uses a combination of best efforts and mandatory delivery contracts. The contracts are loan sale agreements where the Company commits to deliver a certain principal amount of mortgage loans to an investor at a specified price on or before a specified date. Generally, the Company may enter into contracts just prior to the loan closing with a customer.

Customer loan derivatives

The Company enters into customer loan derivatives to facilitate the risk management strategies for commercial banking customers. The Company mitigates this risk by entering into equal and offsetting loan swap agreements with highly rated third-party financial institutions. The Company is party to master netting arrangements with its financial institutional counterparties and the Company offsets assets and liabilities under these arrangements for financial statement presentation purposes.

The master netting arrangements provide for a single net settlement of all loan swap agreements, as well as collateral or cash funds, in the event of default on, or termination of, any one contract with that counterparty. Collateral is provided by cash or securities received or posted by the counterparty with net liability positions, respectively, in accordance with contract thresholds. Currently, the Company has posted cash of $23.5 million with counterparties.

The below table describes the potential effect of master netting arrangements on the consolidated balance sheet and the financial collateral pledged for these arrangements:

	Gross Amounts Offset in the Consolidated Balance Sheet			
(in thousands)	Derivative Liabilities	Derivative Assets	Cash Collateral Pledged	Net Amount
As of December 31, 2020				
Customer Loan Derivatives:				
MNA counterparty	$(15,938)	$15,938	$23,450	$—
RPA counterparty	(9,957)	9,957	—	—
Total	$(25,895)	$25,895	$23,450	$—

Non-hedging derivatives

Interest rate lock commitments

The Company enters into interest rate lock commitments ("IRLCs") for residential mortgage loans, which commit the Company to lend funds to a potential borrower at a specific interest rate and within a specified period of time. IRLCs relate to the origination of residential mortgage loans that are held for sale are considered derivative financial instruments under applicable accounting guidance. Outstanding IRLCs expose the Company to the risk that the price of the mortgage loans underlying the commitments may decline due to increases in mortgage interest rates from inception of the rate lock to the funding of the loan. The IRLCs are free-standing derivatives which are carried at fair value with changes recorded in non-interest income in the Company's Consolidated Statements of Income. Changes in the fair value of IRLCs subsequent to inception are based on; (i) changes in the fair value of the underlying loan resulting from the fulfillment of the commitment and (ii) changes in the probability when the loan will fund within the terms of the commitment, which is affected primarily by changes in interest rates and the passage of time.

NOTE 12. OTHER COMMITMENTS, CONTINGENCIES, AND OFF-BALANCE SHEET ACTIVITIES

Customer Obligations

The Company is a party to financial instruments in the normal course of business to meet financing needs of its customers. These financial instruments include commitments to extend credit, unused or unadvanced loan funds, and letters of credit. The Company uses the same lending policies and procedures to make such commitments as it uses for other lending products. Customer's creditworthiness is evaluated on a case-by-case basis.

Commitments to originate loans, including unused or unadvanced loan funds, are agreements to lend to a customer provided there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require customer payment of a fee. Since many of the commitments are expected to expire without being fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Standby letters of credit generally become payable upon the failure of the customer to perform according to the terms of the underlying contract with the third party, while commercial letters of credit are issued specifically to facilitate commerce and typically result in the commitment being drawn on when the underlying transaction is consummated between the customer and a third party. The contractual amount of these letters of credit represents the maximum potential future payments guaranteed by the Company. Typically these letters of credit expire if unused; therefore the total amounts do not necessarily represent future cash requirements.

The following table summarizes the contractual amounts of commitments and contingent liabilities to customers as of December 31, 2020 and December 31, 2019:

(in thousands)	2020	2019
Commitments to originate new loans	$ 71,857	$112,669
Unused funds on commercial and other lines of credit	202,217	188,098
Unadvanced funds on home equity lines of credit	117,198	114,711
Unadvanced funds on construction and real estate loans	106,935	97,500
Commercial and standby letters of credit	3,481	2,941
Letters of credit securing municipal deposits	181,150	38,390
Total	$682,838	$554,309

Legal Claims

Various legal claims arise from time to time in the normal course of business. As of December 31, 2020, neither the Company nor its subsidiaries were involved in any pending legal proceedings believed by management to be material to the Company's financial condition or results of operations. Periodically, there have been various claims and lawsuits involving the Company, such as claims to enforce liens, condemnation proceedings on properties in which the Company holds security interests, claims involving the making and servicing of real property loans, and other issues incident in the normal course of the Company's business. However, neither the Company nor its subsidiaries are a party to any pending legal proceedings that it believes, in the aggregate, would have a material adverse effect on the financial condition or operations of the Company. Additionally, an estimate of future, probable losses cannot be estimated as of December 31, 2020.

NOTE 13. SHAREHOLDERS' EQUITY AND EARNINGS PER COMMON SHARE

The actual and required capital ratios at December 31, 2020 and December 31, 2019 were as follows:

	2020			
	Actual		Regulatory Minimum to be "Well-Capitalized"	
(in thousands, except ratios)	Amount	Ratio	Amount	Ratio
Company (consolidated)				
Total capital to risk-weighted assets	$353,239	13.56%	$273,479	10.50%
Common equity tier 1 capital to risk-weighted assets	273,178	10.49	182,320	7.00
Tier 1 capital to risk-weighted assets	273,178	11.28	205,850	8.50
Tier 1 capital to average assets	273,178	8.12	168,147	5.00
Bank				
Total capital to risk-weighted assets	$345,397	13.27%	$273,298	10.50%
Common equity tier 1 capital to risk-weighted assets	325,956	12.52	182,244	7.00
Tier 1 capital to risk-weighted assets	325,956	12.52	221,296	8.50
Tier 1 capital to average assets	325,956	9.02	180,685	5.00

	2019			
	Actual		Regulatory Minimum to be "Well-Capitalized"	
(in thousands, except ratios)	Amount	Ratio	Amount	Ratio
Company (consolidated)				
Total capital to risk-weighted assets	$341,492	13.61%	$263,377	10.50%
Common equity tier 1 capital to risk-weighted assets	265,205	10.57	175,584	7.00
Tier 1 capital to risk-weighted assets	285,825	11.39	213,211	8.50
Tier 1 capital to average assets	285,825	8.13	175,890	5.00
Bank				
Total capital to risk-weighted assets	$310,982	12.42%	$262,999	10.50%
Common equity tier 1 capital to risk-weighted assets	295,315	11.79	175,332	7.00
Tier 1 capital to risk-weighted assets	295,315	11.79	212,904	8.50
Tier 1 capital to average assets	295,315	8.39	175,996	5.00

At each date shown, the Company and the Bank met the conditions to be classified as "well-capitalized" under the relevant regulatory framework. To be categorized as "well-capitalized", an institution must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table above.

The Company and the Bank are subject to the Basel III rule that requires the Company and the Bank to assess their Common equity tier 1 capital to risk weighted assets and the Company and the Bank each exceed the minimum to be "well-capitalized." Effective January 1, 2019, all banking organizations must maintain a minimum Common equity tier 1 risk-based capital ratio of 7.0%, a minimum Tier 1 risk-based capital ratio of 8.5% and a minimum Total risk- based capital ratio of 10.5%.

NOTE 13. SHAREHOLDERS' EQUITY AND EARNINGS PER COMMON SHARE (Continued)

Accumulated Other Comprehensive Income

Components of accumulated other comprehensive income at December 31, 2020 and December 31, 2019 are as follows:

(in thousands)	2020	2019
Accumulated other comprehensive income, before tax:		
Net unrealized gain on AFS securities	$13,069	$ 7,250
Net unrealized gain (loss) on hedging derivatives	3,144	(628)
Net unrealized loss on post-retirement plans	(1,850)	(1,512)
Income taxes related to items of accumulated other comprehensive income:		
Net unrealized gain on AFS securities	(3,046)	(1,703)
Net unrealized (gain) loss on hedging derivatives	(733)	149
Net unrealized loss on post-retirement plans	432	355
Accumulated other comprehensive income	$11,016	$ 3,911

The following table presents the components of other comprehensive income in 2020, 2019 and 2018:

	2020		
(in thousands)	Before Tax	Tax Effect	Net of Tax
Net unrealized gain on AFS securities:			
Net unrealized gain arising during the period	$11,264	$(2,636)	$ 8,628
Less: reclassification adjustment for gains (losses) realized in net income	5,445	(1,291)	4,154
Net unrealized gain on AFS securities	5,819	(1,345)	4,474
Net unrealized gain on hedging derivatives:			
Net unrealized loss arising during the period	(1,080)	37	(1,043)
Less: reclassification adjustment for (losses) gains realized in net income	(4,852)	917	(3,935)
Net unrealized gain on hedging derivatives	3,772	(880)	2,892
Net unrealized loss on post-retirement plans:			
Net unrealized loss arising during the period	(338)	77	(261)
Less: reclassification adjustment for gains (losses) realized in net income	—	—	—
Net unrealized loss on post-retirement plans	(338)	77	(261)
Other comprehensive income	$ 9,253	$(2,148)	$ 7,105

NOTE 13. SHAREHOLDERS' EQUITY AND EARNINGS PER COMMON SHARE (Continued)

	2019		
(in thousands)	**Before Tax**	**Tax Effect**	**Net of Tax**
Net unrealized gain on AFS securities:			
Net unrealized gain arising during the period	$18,883	$(4,489)	$14,394
Less: reclassification adjustment for gains (losses) realized in net income	237	(55)	182
Net unrealized gain on AFS securities	18,646	(4,434)	14,212
Net unrealized loss on derivative hedges:			
Net unrealized loss arising during the period	(938)	289	(649)
Less: reclassification adjustment for gains (losses) realized in net income	(3,156)	737	(2,419)
Net unrealized gain on derivative hedges	2,218	(448)	1,770
Net unrealized loss on post-retirement plans:			
Net unrealized loss arising during the period	(352)	83	(269)
Less: reclassification adjustment for gains (losses) realized in net income	—	—	—
Net unrealized loss on post-retirement plans	(352)	83	(269)
Other comprehensive income	$20,512	$(4,799)	$15,713

	2018		
(in thousands)	**Before Tax**	**Tax Effect**	**Net of Tax**
Net unrealized loss on AFS securities:			
Net unrealized arising during the period	$(9,487)	$2,194	$(7,293)
Less: reclassification adjustment for gains (losses) realized in net income	(924)	216	(708)
Net unrealized loss on AFS securities	(8,563)	1,978	(6,585)
Net unrealized gain on derivative hedges:			
Net unrealized gain arising during the period	654	(168)	486
Less: reclassification adjustment for gains (losses) realized in net income	—	—	—
Net unrealized gain on derivative hedges	654	(168)	486
Net unrealized loss on post-retirement plans:			
Net unrealized loss arising during the period	(245)	54	(191)
Less: reclassification adjustment for gains (losses) realized in net income	(29)	7	(22)
Net unrealized loss on post-retirement plans	(216)	47	(169)
Other comprehensive loss	$(8,125)	$1,857	$(6,268)

The following table presents the changes in each component of accumulated other comprehensive income/(loss) in 2020, 2019 and 2018:

	2020			
(in thousands)	**Net unrealized gain on AFS Securities**	**Net loss on effective cash flow hedging derivatives**	**Net unrealized loss on pension plans**	**Total**
Balance at beginning of period	$ 5,547	$ (479)	$(1,157)	$ 3,911
Other comprehensive gain (loss) before reclassifications	8,628	(1,043)	(261)	7,324
Less: amounts reclassified from accumulated other comprehensive income	4,154	(3,935)	—	219
Total other comprehensive income (loss)	4,474	2,892	(261)	7,105
Balance at end of period	$10,021	$ 2,413	$(1,418)	$ 11,016

NOTE 13. SHAREHOLDERS' EQUITY AND EARNINGS PER COMMON SHARE (Continued)

(in thousands)	2019 Net unrealized (loss) gain on AFS Securities	Net loss on effective cash flow hedging derivatives	Net unrealized loss on pension plans	Total
Balance at beginning of period	$(8,665)	$(2,249)	$ (888)	$(11,802)
Other comprehensive (loss) gain before reclassifications	14,394	(649)	(269)	13,476
Less: amounts reclassified from accumulated other comprehensive income	182	(2,419)	—	(2,237)
Total other comprehensive income (loss)	14,212	1,770	(269)	15,713
Less: amounts reclassified from accumulated other comprehensive income for ASU 2018-02	—	—	—	—
Balance at end of period	$ 5,547	$ (479)	$(1,157)	$ 3,911

(in thousands)	2018 Net unrealized (loss) gain on AFS Securities	Net loss on effective cash flow hedging derivatives	Net unrealized loss on pension plans	Total
Balance at beginning of period	$(1,713)	$(2,250)	$(591)	$ (4,554)
Other comprehensive (loss) gain before reclassifications	(7,293)	486	(191)	(6,998)
Less: amounts reclassified from accumulated other comprehensive income	(708)	—	(22)	(730)
Total other comprehensive (loss) income	(6,585)	486	(169)	(6,268)
Less: amounts reclassified from accumulated other comprehensive income for ASU 2018-02	(367)	(485)	(128)	(980)
Balance at end of period	$(8,665)	$(2,249)	$(888)	$(11,802)

The following tables presents the amounts reclassified out of each component of accumulated other comprehensive income (loss) in 2020, 2019 and 2018:

(in thousands)	2020	2019	2018	Affected Line Item where Net Income is Presented
Net realized gains on AFS securities:				
Before tax	$ 5,445	$ 237	$(924)	Non-interest income
Tax effect	(1,291)	(55)	216	Tax expense
Total reclassifications for the period	$ 4,154	$ 182	$(708)	

(in thousands)	2020	2019	2018	Affected Line Item where Net Income is Presented
Realized loss on effective derivative hedges:				
Before tax	$4,852	$(3,156)	$—	Non-interest expense
Tax effect	(917)	737	—	Tax expense
Total reclassifications for the period	$3,935	$(2,419)	$—	

NOTE 13. SHAREHOLDERS' EQUITY AND EARNINGS PER COMMON SHARE (Continued)

(in thousands)	2020	2019	2018	Affected Line Item where Net Income is Presented
Realized loss on effective post retirement:				
Before tax	$—	$—	$(29)	Non-interest expense
Tax effect	—	—	7	Tax expense
Total reclassifications for the period	$—	$—	$(22)	

Earnings per share have been computed based on the following (average diluted shares outstanding are calculated using the treasury stock method):

(in thousands, except per share and share data)	2020	2019	2018
Net income	$ 33,244	$ 22,620	$ 32,937
Average number of basic common shares outstanding	15,245,728	15,540,884	15,487,686
Plus: dilutive effect of stock options and awards outstanding	25,819	46,109	76,778
Average number of diluted common shares outstanding	15,271,547	15,586,993	15,564,464
Anti-dilutive options excluded from earnings calculation	—	—	7,991
Earnings per share:			
Basic	$ 2.18	$ 1.46	$ 2.13
Diluted	$ 2.18	$ 1.45	$ 2.12

NOTE 14. STOCK BASED COMPENSATION PLANS

On October 3, 2000, the shareholders of the Company approved the Bar Harbor Bankshares and Subsidiaries Incentive Stock Option Plan of 2000 (the "ISOP") for its officers and employees, which provided for the issuance of up to 1,012,500 shares of common stock. The purchase price of the stock covered by each option must be at least 100% of the trading value on the date such option was granted. Vesting terms ranged from three to seven years. According to the ISOP no option shall be granted after October 3, 2010, ten years after the effective date of the ISOP.

On May 19, 2015, the shareholders of the Company approved the adoption of the 2015 Bar Harbor Bankshares and Subsidiaries Equity Incentive Plan (the "2015 Plan") for employees and directors of the Company and its subsidiaries. Subject to adjustment for stock splits, stock dividends, and similar events, the total number of shares of common stock that could be issued under the 2015 Plan over the 10 year period in which the plan is in place was 420,000 shares of common stock. The 2015 Plan was administered by the Company's Compensation Committee. All employees and directors of the Company and its subsidiaries were eligible to participate in the 2015 Plan, subject to the discretion of the administrator and the terms of the 2015 Plan. The maximum stock award granted to one individual did not exceed 30,000 shares of common stock (subject to adjustment for stock splits, and similar events) for any calendar year. No grants were made after May 19, 2019 pursuant to this plan.

On May 21, 2019 the shareholders of the Company approved the adoption of the 2019 Bar Harbor Bankshares and Subsidiaries Equity Incentive Plan (the "2019 Plan") for employees and directors of the Company and its subsidiaries. Subject to adjustment for stock splits, stock dividends, and similar events, the total number of shares of common stock that can be issued under the 2019 Plan over the 10 year period in which the plan will be in place is 500,000 shares of common stock. The 2019 Plan is administered by the Company's Compensation Committee. All employees and directors of the Company and its subsidiaries are eligible to participate in the 2019 Plan, subject to the discretion of the administrator and the terms of the 2019 Plan. As of December 31, 2020 there were 330,188 shares available for grant under this plan.

In April of 2013, the Board of Directors approved a Long Term Incentive Program for senior management members. The program is designed to be made up of a series of three year rolling plans utilizing the shares made available through the approved equity plans. Grants may be given in time vested restricted stock awards, time vested restricted stock units or performance vested restricted stock units, or a combination of these types of grants.

NOTE 14. STOCK BASED COMPENSATION PLANS (Continued)

Compensation expense recognized in connection with the stock based compensation plans are presented in the following table for the years ended December 31, 2020, 2019, and 2018:

(in thousands)	2020	2019	2018
Stock options and restricted stock awards	$ 287	$ 328	$ 350
Performance stock units	385	170	237
Restricted stock units	1,258	854	711
Total compensation expense	$1,930	$1,352	$1,298

The total tax benefit recognized associated with stock options and restricted stock awards for the years ended 2020, 2019 and 2018 was $67 thousand, $78 thousand and $81 thousand, respectively. The total tax benefit recognized associated with restricted stock units and performance stock units for the years ended 2020, 2019 and 2018 was $383 thousand, $244 thousand and $221 thousand, respectively.

Stock Option and Restricted Stock Awards Activity: A summary combined status of the stock option and restricted stock awards as of December 31, 2020 and 2019, and changes during the year then ended is presented below:

Stock Options	Number of Stock Options Outstanding	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2020	107,784	$20.15	
Granted	—	—	
Exercised	(9,860)	18.42	
Forfeited	(483)	16.96	
Expired	(2,875)	21.90	
Outstanding at December 31, 2020	94,566	$20.29	$226
Ending vested and expected to vest December 31, 2020	94,566	$20.29	$226
Exercisable at December 31, 2020	92,956	20.35	217

Stock Options	Number of Stock Options Outstanding	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2019	121,637	$19.96	
Granted	—	—	
Exercised	(13,853)	18.44	
Forfeited	—	—	
Outstanding at December 31, 2019	107,784	$20.15	$565
Ending vested and expected to vest December 31, 2019	107,784	$20.15	$565
Exercisable at December 31, 2019	98,460	20.48	483

Restricted Stock Awards	Number of Restricted Stock Awards Outstanding	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2020	—	$ —
Awarded	39,565	23.59
Vested	(39,565)	23.59
Forfeited	—	—
Outstanding at December 31, 2020	—	$ —

NOTE 14. STOCK BASED COMPENSATION PLANS (Continued)

There were no restricted stock awards granted in 2019.

The intrinsic value of the options exercised under both plans for the years ended December 31, 2020, 2019, and 2018, was approximately $48 thousand, $98 thousand and $760 thousand, respectively. As of December 31, 2020, there was no unrecognized compensation cost related to unvested stock option awards, net of estimated forfeitures.

Performance Stock Units

During 2020, performance stock unit awards were granted to certain executive officers providing the opportunity to earn shares of common stock of the Company collectively ranging from zero to 37,562 shares, based on the Company's performance compared to peers. The performance stock units granted will vest only if the performance measures are achieved. Failure to achieve the performance measures will result in all or a portion of shares being forfeited. The performance shares granted had a weighted average fair value of $25.07 at the date of grant, and will be earned over a three year performance period.

During 2019, performance stock unit awards were granted to certain executive officers providing the opportunity to earn shares of common stock of the Company collectively ranging from zero to 26,956 shares, based on the Company's performance compared to peers. The performance stock units granted will vest only if the performance measures are achieved. Failure to achieve the performance measures will result in all or a portion of shares being forfeited. The performance shares granted had a weighted average fair value of $23.24 at the date of grant, and will be earned over a three year performance period.

The following table summarizes performance units at target as of December 31, 2020 and 2019:

Performance Stock Units	Number of Performance Stock Units Outstanding	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2020	43,058	$26.01
Awarded	25,041	25.07
Vested and exercised	(10,369)	18.51
Forfeited	(1,402)	29.13
Nonvested at December 31, 2020	56,328	$24.98

Performance Stock Units	Number of Performance Stock Units Outstanding	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2019	37,865	$26.77
Awarded	17,968	23.24
Vested and exercised	(11,801)	23.92
Forfeited	(974)	28.78
Nonvested at December 31, 2019	43,058	$26.01

The intrinsic value of the performance stock units vested and exercised for the years ended December 31, 2020, 2019 and 2018, was $174 thousand, $376 thousand and $337 thousand, respectively.

NOTE 14. STOCK BASED COMPENSATION PLANS (Continued)

Restricted Stock Units

During 2020 and 2019, restricted stock units were granted to certain executive officers and senior vice presidents. The restricted shares granted were valued between $20.44 and $25.07 for 2020 and between $22.07 and $24.67 for 2019 the fair market value at the date of grant and vest annually over three years.

The following table summarizes restricted stock units activity in 2020 and 2019:

	Number of Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2020	106,552	$25.82
Granted	63,667	21.98
Vested and exercised	(31,565)	27.38
Forfeited	(7,256)	25.60
Outstanding at December 31, 2020	131,398	$23.57

	Number of Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2019	80,740	$28.24
Granted	50,352	22.45
Vested and exercised	(19,411)	26.11
Forfeited	(5,129)	29.28
Outstanding at December 31, 2019	106,552	$25.82

The intrinsic value of the restricted stock units vested and exercised for the years ended December 31, 2020, 2019 and 2018, was $600 thousand, $493 thousand and $594 thousand, respectively.

As of December 31, 2020, there was $2.2 million of total unrecognized compensation cost related to nonvested restricted stock units and performance stock units granted under the Plans. That cost is expected to be recognized over a weighted average period of 1.62 years.

NOTE 15. FAIR VALUE MEASUREMENTS

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company's financial assets and financial liabilities that are carried at fair value.

NOTE 15. FAIR VALUE MEASUREMENTS (Continued)

Recurring Fair Value Measurements

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of December 31, 2020 and December 31, 2019, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

	December 31, 2020			
(in thousands)	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**	**Total Fair Value**
Available for sale securities:				
Mortgage-backed securities:				
US Government-sponsored enterprises	$—	$212,390	$ —	$212,390
US Government agency	—	85,632	—	85,632
Private label	—	19,709	—	19,709
Obligations of states and political subdivisions thereof	—	169,004	—	169,004
Corporate bonds	—	98,311	—	98,311
Derivative assets	—	28,684	22	28,706
Derivative liabilities	—	(28,559)	(95)	(28,654)

	December 31, 2019			
(in thousands)	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**	**Total Fair Value**
Available for sale securities:				
Mortgage-backed securities:				
US Government-sponsored enterprises	$—	$321,969	$ —	$321,969
US Government agency	—	99,661	—	99,661
Private label	—	19,533	—	19,533
Obligations of states and political subdivisions thereof	—	142,006	—	142,006
Corporate bonds	—	80,061	—	80,061
Derivative assets	—	6,791	59	6,850
Derivative liabilities	—	(8,102)	(84)	(8,186)

Securities Available for Sale: All securities and major categories of securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from independent pricing providers. The fair value measurements used by the pricing providers consider observable data that may include dealer quotes, market maker quotes and live trading systems. If quoted prices are not readily available, fair values are determined using matrix pricing models, or other model-based valuation techniques requiring observable inputs other than quoted prices such as market pricing spreads, credit information, callable features, cash flows, the U.S. Treasury yield curve, trade execution data, market consensus prepayment speeds, default rates, and the securities' terms and conditions, among other things.

Derivative Assets and Liabilities

Cash Flow Hedges. The valuation of the Company's cash flow hedges are obtained from a third party. The pricing analysis is based on observable inputs for the contractual terms of the derivatives, including the period to maturity and interest rate curves. The inputs used to value the Company's cash flow hedges are all classified as Level 2 measurements.

Interest Rate Lock Commitments. The Company enters into IRLCs for residential mortgage loans, which commit the Company to lend funds to a potential borrower at a specific interest rate and within a specified period of time. The estimated fair value of commitments to originate residential mortgage loans for sale is based on quoted prices for similar loans in active markets. However, this value is adjusted by a factor which considers the likelihood of a loan in a lock position will ultimately close. The closing ratio is derived from the Company's internal data and is adjusted using significant management judgment. As such, IRLCs are classified as Level 3 measurements.

Forward Sale Commitments. The Company utilizes forward sale commitments as economic hedges against potential changes in the values of the IRLCs and loans originated for sale. The fair values of the Company's delivery loan sale

NOTE 15. FAIR VALUE MEASUREMENTS (Continued)

commitments are determined similarly to the IRLCs using quoted prices in the market place that are observable. However, closing ratios included in the calculation are internally generated and are based on management's judgment and prior experience, which are not considered observable factors. As such, mandatory delivery forward commitments are classified as Level 3 measurements.

Customer Loan Derivatives. The valuation of the Company's customer loan derivatives is obtained from a third-party pricing service and is determined using a discounted cash flow analysis on the expected cash flows of each derivative. The pricing analysis is based on observable inputs for the contractual terms of the derivatives, including the period to maturity and interest rate curves. The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of master netting arrangements and any applicable credit enhancements, such as collateral postings.

Although the Company has determined that the majority of the inputs used to value its customer loan derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of December 31, 2020, the Company assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

The table below presents the changes in Level 3 assets and liabilities that were measured at fair value on a recurring basis in 2020 and 2019.

	Assets (Liabilities)	
(in thousands)	**Interest Rate Lock Commitments**	**Forward Commitments**
December 31, 2018	$ 8	$ —
Realized gain (loss) recognized in non-interest income	51	(84)
December 31, 2019	59	(84)
Realized loss recognized in non-interest income	(37)	(11)
December 31, 2020	$ 22	$(95)

Quantitative information about the significant unobservable inputs within Level 3 recurring assets and liabilities is as follows:

(in thousands, except ratios)	**Fair Value Dec 31, 2020**	**Fair Value Dec 31, 2019**	**Valuation Techniques**	**Unobservable Inputs**	**Significant Unobservable Input Value**
Assets (Liabilities)					
Interest Rate Lock Commitment	$ 22	$ 59	Historical trend	Closing Ratio	90%
			Pricing Model	Origination Costs, per loan	$1.7
Forward Commitments	(95)	(84)	Quoted prices for similar loans in active markets	Freddie Mac pricing system	Pair-off contract price
Total	$(73)	$(25)			

There were no level 3 assets and liabilities that were measured at fair value on a recurring basis in 2020 and 2019.

NOTE 15. FAIR VALUE MEASUREMENTS (Continued)

Non-Recurring Fair Value Measurements

The Company is required, on a non-recurring basis, to adjust the carrying value or provide valuation allowances for certain assets using fair value measurements in accordance with U.S. GAAP. The following is a summary of applicable non-recurring fair value measurements.

	December 31, 2020	December 31, 2019	December 31, 2020	Fair Value Measurement Date as of December 31, 2020
(in thousands)	Level 3 Inputs	Level 3 Inputs	Total Gains (Losses)	Level 3 Inputs
Assets				
Impaired loans	$ 8,746	$ 9,625	$ 879	December 2020
Capitalized servicing rights	3,605	4,301	696	December 2020
Other real estate owned	—	2,236	(355)	September 2020
Premises held for sale	962	1,764	122	December 2020
Total	$13,313	$17,926	$1,342	

Quantitative information about the significant unobservable inputs within Level 3 non-recurring assets as of December 31, 2020 and December 31, 2019 is as follows:

(in thousands, except ratios)	Fair Value Dec 31, 2020	Valuation Techniques	Unobservable Inputs	Range (Weighted Average)[(a)]
Assets				
Impaired loans	$ 6,128	Fair value of collateral—appraised value	Loss severity	0% to 70%
			Appraised value	$0 to $1,730
Impaired loans	2,618	Discount cash flow	Discount rate	3.50% to 9.50%
			Cash flows	$19 to $953
Capitalized servicing rights	3,605	Discounted cash flow	Constant prepayment rate (CPR)	18.53%
			Discount rate	10.05%
Premises held for sale	962	Fair value of asset less selling costs	Appraised value	$220 to $386
			Selling Costs	6%
Total	$13,313			

(a) Where dollar amounts are disclosed, the amounts represent the lowest and highest fair value of the respective assets in the population except for adjustments for market/property conditions, which represents the range of adjustments to individuals properties.

NOTE 15. FAIR VALUE MEASUREMENTS (Continued)

(in thousands, except ratios)	Fair Value Dec 31, 2019	Valuation Techniques	Unobservable Inputs	Range (Weighted Average)[(a)]
Assets				
Impaired loans	$ 6,137	Fair value of collateral—appraised value	Loss severity	0% to 55.00%
			Appraised value	$0 to $6,915
Impaired loans	3,488	Discount cash flow	Discount rate	2.88% to 9.50%
			Cash flows	$22 to $1,002
Capitalized servicing rights	4,301	Discounted cash flow	Constant prepayment rate (CPR)	9.95%
			Discount rate	10.07%
Other real estate owned . .	2,236	Fair value of collateral less selling costs	Appraised value	$2,695
			Selling Costs	10% to 20%
Premises held for sale	1,764	Fair value of asset less selling costs	Appraised value	$136 to $527
			Selling Costs	6%
Total	$17,926			

(a) Where dollar amounts are disclosed, the amounts represent the lowest and highest fair value of the respective assets in the population except for adjustments for market/property conditions, which represents the range of adjustments to individuals properties.

There were no Level 1 or Level 2 non-recurring fair value measurements for the periods ended December 31, 2020 and December 31, 2019.

Impaired Loans. Loans are generally not recorded at fair value on a recurring basis. Periodically, the Company records non-recurring adjustments to the carrying value of loans based on fair value measurements for partial charge-offs of the uncollectible portions of those loans. Non-recurring adjustments can also include certain impairment amounts for collateral-dependent loans calculated when establishing the allowance for credit losses. Such amounts are generally based on the fair value of the underlying collateral supporting the loan and, as a result, the carrying value of the loan less the calculated valuation amount does not necessarily represent the fair value of the loan. Real estate collateral is typically valued using appraisals or other indications of value based on recent comparable sales of similar properties or assumptions generally observable in the marketplace. However, the choice of observable data is subject to significant judgment, and there are often adjustments based on judgment in order to make observable data comparable and to consider the impact of time, the condition of properties, interest rates, and other market factors on current values. Additionally, commercial real estate appraisals frequently involve discounting of projected cash flows, which relies inherently on unobservable data. Therefore, non-recurring fair value measurement adjustments that relate to real estate collateral have generally been classified as Level 3. Estimates of fair value for other collateral that supports commercial loans are generally based on assumptions not observable in the marketplace and therefore such valuations have been classified as Level 3.

Capitalized loan servicing rights. A loan servicing right asset represents the amount by which the present value of the estimated future net cash flows to be received from servicing loans exceed adequate compensation for performing the servicing. The fair value of servicing rights is estimated using a present value cash flow model. The most important assumptions used in the valuation model are the anticipated rate of the loan prepayments and discount rates. Adjustments are only recorded when the discounted cash flows derived from the valuation model are less than the carrying value of the asset. Although some assumptions in determining fair value are based on standards used by market participants, some are based on unobservable inputs and therefore are classified in Level 3 of the valuation hierarchy.

Other real estate owned ("OREO"). OREO results from the foreclosure process on residential or commercial loans issued by the Bank. Upon assuming the real estate, the Company records the property at the fair value of the asset less the estimated sales costs. Thereafter, OREO properties are recorded at the lower of cost or fair value less the estimated sales costs. OREO fair

NOTE 15. FAIR VALUE MEASUREMENTS (Continued)

values are primarily determined based on Level 3 data including sales comparables and appraisals.

Premises held for sale. Premises held for sale, identified as part of the Company's strategic review and branch optimization exercise, were transferred from premises and equipment at the lower of amortized cost or fair value less the estimated sales costs. Assets held for sale fair values are primarily determined based on Level 3 data including sales comparables and appraisals.

Summary of Estimated Fair Values of Financial Instruments

The following table represents estimated fair values, and related carrying amounts of the Company's financial instruments as of December 31, 2020 and December 31, 2019. Certain financial instruments and all non-financial instruments are excluded from disclosure requirements. Accordingly, the aggregate fair value amounts presented herein may not necessarily represent the underlying fair value of the Company.

	December 31, 2020				
(in thousands)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial Assets					
Cash and cash equivalents	$ 226,007	$ 226,007	$226,007	$ —	$ —
Securities available for sale	585,046	585,046	—	585,046	—
FHLB stock	14,036	14,036	—	14,036	—
Loans held for sale	23,988	—	—	—	24,163
Net loans	2,543,803	2,547,970	—	—	2,547,970
Accrued interest receivable	2,964	2,964	—	2,964	—
Cash surrender value of bank-owned life insurance policies	77,870	77,870	—	77,870	—
Derivative assets	28,706	28,706	—	28,684	22
Financial Liabilities					
Non-maturity deposits	$2,207,854	$2,122,222	$ —	$2,122,222	$ —
Time deposits	698,361	694,700	—	694,700	—
Securities sold under agreements to repurchase	27,779	27,779	—	27,779	—
FHLB advances	248,283	252,698	—	252,698	—
Subordinated borrowings	59,961	57,091	—	57,091	—
Derivative liabilities	28,654	28,654	—	28,559	95

NOTE 15. FAIR VALUE MEASUREMENTS (Continued)

(in thousands)	December 31, 2019				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial Assets					
Cash and cash equivalents	$ 56,910	$ 56,910	$56,910	$ —	$ —
Securities available for sale	663,230	663,230	—	663,230	—
FHLB stock	20,679	20,679	—	20,679	—
Loans held for sale	6,499	—	—	—	6,572
Net loans	2,625,739	2,634,147	—	—	2,634,147
Accrued interest receivable	3,294	3,294	—	3,294	—
Cash surrender value of bank-owned life insurance policies	75,863	75,863	—	75,863	—
Derivative assets	6,850	6,850	—	6,791	59
Financial Liabilities					
Non-maturity deposits	$1,763,116	$1,751,481	$ —	$1,751,481	$ —
Time deposits	932,635	932,886	—	932,886	—
Short-term other borrowings	44,832	44,831	—	44,831	—
FHLB advances	426,564	425,989	—	425,989	—
Subordinated borrowings	59,920	59,920	—	59,920	—
Derivative liabilities	8,186	8,186	—	8,102	84

NOTE 16. REVENUE FROM CONTRACTS WITH CUSTOMERS

The Company has accounted for the various non-interest revenue streams and related contracts under ASC 606.

Disaggregation of Revenue

The following tables present disaggregation of the Company's non-interest revenue by major business line and timing of revenue recognition for the transfer of products or services:

(in thousands)	Twelve Months Ended December 31,	
	2020	2019
Major Products/Service Lines		
Trust management fees	$12,246	$11,098
Financial services fees	1,132	966
Interchange fees	6,668	4,899
Customer deposit fees	3,746	4,281
Other customer service fees	913	946
Total	$24,705	$22,190

(in thousands)	Twelve Months Ended December 31,	
	2020	2019
Timing of Revenue Recognition		
Products and services transferred at a point in time	$11,992	$10,748
Products and services transferred over time	12,713	11,442
Total	$24,705	$22,190

NOTE 16. REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

Trust Management Fees

The trust management business generates revenue through a range of fiduciary services including trust and estate administration, wealth advisory, and investment management to individuals, businesses, not-for-profit organizations, and municipalities. Revenue from these services is generally recognized over time and is typically based on a time elapsed measure of progress. Certain fees, such as bill paying fees, distribution fees, real estate sale fees, and supplemental tax service fees, are recorded as revenue at a point in time upon the completion of the service.

Financial Services Fees

Bar Harbor Financial Services is a branch office of Infinex, an independent registered broker dealer offering securities and insurance products not affiliated with the Company or its subsidiaries. The Company has a revenue sharing agreement with Infinex for any financial service fee income generated. Financial services fees are recognized at a point in time upon the completion of monthly service requirements.

Interchange Fees

The Company earns interchange fees from transaction fees that merchants pay whenever a customer uses a debit card to make a purchase from the merchant. The fees are paid to the card-issuing bank to cover handling costs, fraud, bad debt costs and the risk involved in approving the payment. Interchange fees are generally recognized as revenue at a point in time upon the completion of a debit card transaction.

Customer Deposit Fees

The Customer Deposit business offers a variety of deposit accounts with a range of interest rates, fee schedules and other terms, which are designed to meet the customer's financial needs. Additional depositor related services provided to customers include ATM, bank-by-phone, internet banking, internet bill pay, mobile banking, and other cash management services which include remote deposit capture, ACH origination, and wire transfers. These customer deposit fees are generally recognized by the Company at a point in time upon the completion of the service.

Other Customer Service Fees

The Company has certain incentive and referral fee arrangements with independent third parties in which fees are earned for new account activity, product sales, or transaction volume generated for the respective third parties. The Company also earns a percentage of the fees generated from third party credit card plans promoted through the Bank. Revenue from these incentive and referral fee arrangements are recognized over time using the right to invoice measure of progress.

Contract Balances with Customers

The following table provides information about contract assets or receivables and contract liabilities or deferred revenues from contracts with customers.

(in thousands)	December 31, 2020	December 31, 2019
Balances from contracts with customers only:		
Other Assets	$1,121	$1,703
Other Liabilities	2,785	3,114

The timing of revenue recognition, billings and cash collections results in contract assets or receivables and contract liabilities or deferred revenue on the consolidated balance sheets. For most customer contracts, fees are deducted directly from customer accounts and, therefore, there is no associated impact on the accounts receivable balance. For certain types of service contracts, the Company has an unconditional right to consideration under the service contract and an accounts receivable balance is recorded for services completed. When consideration is received, or such consideration is unconditionally due, from a customer prior to transferring goods or services to the customer under the terms of a contract, a contract liability is recorded. Contract liabilities are recognized as revenue after control of the products or services is transferred to the customer and all revenue recognition criteria have been met.

Costs to Obtain and Fulfill a Contract

The Company currently expenses contract costs for processing and administrative fees for debit card transactions. The Company also expenses custody fees and transactional costs associated with securities transactions as well as third party tax preparation fees. The Company has elected the practical expedient in ASC 340-40-25-4, whereby the Company recognizes the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets the Company otherwise would have recognized is one year or less.

NOTE 17. LEASES

A lease is defined as a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. On January 1, 2019, the Company adopted ASU No. 2016-02 *"Leases"* and all subsequent ASUs modifying ASC 842. Substantially all of the leases pursuant to which the Company is the lessee are comprised of real estate property for branches, ATM locations, and office space with terms extending through 2040. All leases are classified as operating leases, and therefore, were previously not recognized on the Company's consolidated balance sheets. With the adoption of ASC 842, operating lease agreements are required to be recognized on the consolidated balance sheets as a right- of-use ("ROU") asset with a corresponding lease liability using the modified retrospective approach.

The Company has elected the following practical expedients in conjunction with implementation of ASC 842 as follows:

- Package of practical expedients:
  - Lease classification as an operating lease under the prior standards is grandfathered.
  - Re-evaluation of embedded leases evaluated under the prior standards is not required.
  - No re-assessment of previously recorded initial direct lease costs.
- Election to exclude short-term leases (i.e., leases with initial terms of twelve months or less), from capitalization on the consolidated balance sheets.

The following table presents the consolidated statements of condition classification of the Company's ROU assets and lease liabilities:

(in thousands)	Classification	December 31, 2020	December 31, 2019
Lease Right-of-Use Assets			
Operating lease right-of-use assets	Other assets	$10,338	$9,623
Lease Liabilities			
Operating lease liabilities	Other liabilities	10,627	9,651

The calculated amount of the ROU assets and lease liabilities in the table above are impacted by the length of the lease term and the discount rate used for the present value of the minimum lease payments. The Company's lease agreements often include one or more options to renew at the Company's discretion. If at lease inception, the Company considers the exercising of a renewal option to be reasonably certain, the Company will include the extended term in the calculation of the ROU asset and lease liability. Regarding the discount rate, ASC 842 requires the use of the rate implicit in the lease whenever this rate is readily determinable. As this rate is rarely determinable, the Company utilizes its incremental borrowing rate at lease inception, on a collateralized basis, over a similar term. For operating leases existing prior to January 1, 2019, the rate for the original lease term as of January 1, 2019 was used.

	December 31, 2020	December 31, 2019
Weighted-average remaining lease term (in years)		
Operating leases	9.26	8.96
Weighted-average discount rate		
Operating leases	3.15%	3.27%

The following table represents lease costs and other lease information. As the Company elected, for all classes of underlying assets, not to separate lease and non-lease components and instead to account for them as a single lease component, the variable lease cost primarily represents variable payments such as real estate taxes, common area maintenance and utilities.

	Twelve Months Ended	
(in thousands)	December 31, 2020	December 31, 2019
Lease Costs		
Operating lease cost	$1,285	$ 698
Variable lease cost	271	711
Total lease cost	$1,556	$1,409

NOTE 17. LEASES (Continued)

Future minimum payments for operating leases with initial or remaining terms of one year or more as of December 31, 2020 are, as follows:

(in thousands)	Payments
Twelve Months Ended:	
December 31, 2021	$ 1,293
December 31, 2022	1,319
December 31, 2023	1,318
December 31, 2024	1,293
December 31, 2025	1,092
Thereafter	5,362
Total future minimum lease payments	11,677
Amounts representing interest	(1,050)
Present value of net future minimum lease payments	$10,627

NOTE 18. CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY

The condensed balance sheets of Bar Harbor Bankshares as of December 31, 2020 and 2019, and the condensed statements of income and cash flows for the years ended December 31, 2020, 2019 and 2018 are presented below:

CONDENSED BALANCE SHEETS

	December 31,	
(in thousands)	2020	2019
Assets		
Cash	$ 10,741	$ 29,223
Investment in subsidiaries	464,645	427,536
Premises and equipment	756	687
Other assets	1,934	4,586
Total assets	$478,076	$462,032
Liabilities and Shareholders Equity		
Subordinated notes	$ 59,961	$ 59,920
Accrued expenses	6,774	5,705
Shareholders equity	411,341	396,407
Total liabilities and shareholders equity	$478,076	$462,032

NOTE 18. CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY (Continued)

CONDENSED STATEMENTS OF INCOME

(in thousands)	Years Ended December 31, 2020	2019	2018
Income:			
Dividends from subsidiaries	$ 8,024	$21,734	$23,705
Other income	742	337	31
Total income	8,766	22,071	23,736
Interest expense	2,750	2,188	2,121
Non-interest expense	4,465	3,208	3,147
Total expense	7,215	5,396	5,268
Income before taxes and equity in undistributed income of subsidiaries	1,552	16,675	18,468
Income tax benefit	(1,539)	(1,100)	(1,136)
Income before equity in undistributed income of subsidiaries	3,091	17,775	19,604
Equity in undistributed income of subsidiaries	30,153	4,845	13,333
Net income	$33,244	$22,620	$32,937

CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)	Years Ended December 31, 2020	2019	2018
Cash flows from operating activities:			
Net income	$ 33,244	$ 22,620	$ 32,937
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Equity in undistributed income of subsidiaries	(30,153)	(4,845)	(13,333)
Other, net	3,840	(1,040)	(1,457)
Net cash provided by operating activities	6,931	16,735	18,147
Cash flows from investing activities:			
Acquisitions, net of cash paid	—	—	—
Purchase of securities	—	—	(7)
Capital contribution to subsidiary	—	(8,000)	—
Net cash used in investing activities	—	(8,000)	(7)
Cash flows from financing activities:			
Proceeds from issuance of subordinated debt	—	40,000	—
Repayment of subordinated debt	—	(17,000)	—
Net proceeds from common stock	2,192	883	951
Net proceeds from reissuance of treasury stock	(14,188)	(22)	686
Common stock cash dividends paid	(13,417)	(13,366)	(12,184)
Net cash (used in) provided by financing activities	(25,413)	10,495	(10,547)
Net change in cash and cash equivalents	(18,482)	19,230	7,593
Cash and cash equivalents at beginning of year	29,223	9,993	2,400
Cash and cash equivalents at end of year	$ 10,741	$ 29,223	$ 9,993

NOTE 19. QUARTERLY DATA (UNAUDITED)

Quarterly results of operations were as follows during 2020 and 2019:

	2020			
(in thousands, except per share data)	**Fourth Quarter**	**Third Quarter**	**Second Quarter**	**First Quarter**
Interest and dividend income	$30,700	$30,475	$31,435	$33,494
Interest expense	5,338	5,810	6,845	8,931
Net interest income	25,362	24,665	24,590	24,563
Non-interest income	14,723	10,102	9,710	8,421
Provision for loan losses	1,360	1,800	1,354	1,111
Non-interest expense	27,816	22,419	22,266	22,359
Income before income taxes	10,909	10,548	10,680	9,514
Income tax expense	2,269	2,146	2,199	1,793
Net income	$ 8,640	$ 8,402	$ 8,481	$ 7,721
Earnings per share:				
Basic	$ 0.58	$ 0.56	$ 0.55	$ 0.50
Diluted	$ 0.58	$ 0.56	$ 0.55	$ 0.50
Weighted average shares outstanding:				
Basic	14,909	15,079	15,424	15,558
Diluted	14,952	15,103	15,441	15,593

	2019			
(in thousands, except per share data)	**Fourth Quarter**	**Third Quarter**	**Second Quarter**	**First Quarter**
Interest and dividend income	$34,117	$34,262	$33,785	$33,227
Interest expense	10,013	11,817	12,289	11,462
Net interest income	24,104	22,445	21,496	21,765
Non-interest income	7,806	7,643	7,453	6,167
Provision for loan losses	538	893	562	324
Non-interest expense	26,803	23,400	20,906	18,624
Income before income taxes	4,569	5,795	7,481	8,984
Income tax expense	362	780	1,364	1,703
Net income	$ 4,207	$ 5,015	$ 6,117	$ 7,281
Earnings per share:				
Basic	$ 0.27	$ 0.32	$ 0.39	$ 0.47
Diluted	$ 0.27	$ 0.32	$ 0.39	$ 0.47
Weighted average shares outstanding:				
Basic	15,554	15,547	15,538	15,523
Diluted	15,602	15,581	15,586	15,587

NOTE 20. SUBSEQUENT EVENTS

There were no significant subsequent events between December 31, 2020 and through the date the financial statements are available to be issued.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures: The Company carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of its disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are designed to ensure that the information required to be disclosed in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and are operating in an effective manner.

Management Report on Internal Control over Financial Reporting: Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act is a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2020. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control—Integrated Framework (2013)*.

Based on its assessment, management believes that as of December 31, 2020, the Company's internal control over financial reporting is effective, based on the criteria set forth by COSO in *Internal Control—Integrated Framework (2013)*.

The Company's independent registered public accounting firm has issued an audit report on the effectiveness of the Company's internal control over financial reporting. This audit report appears within Item 8 of this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting: No change in the internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the last fiscal year that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Bar Harbor Bankshares and Subsidiaries:

Opinion on the Internal Control Over Financial Reporting

We have audited Bar Harbor Bankshares and Subsidiaries' (the Company) internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes to the consolidated financial statements of the Company and our report dated March 10, 2021, expressed an unqualified opinion.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying "Management Report on Internal Control Over Financial Reporting". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ RSM US LLP

Boston, Massachusetts
March 10, 2021

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The information required in response to this Item 10 is incorporated herein by reference to the Company's Definitive Proxy Statement to be filed with the SEC pursuant to Regulation 14A of the Exchange Act not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

The information required in response to this Item 11 is incorporated herein by reference to the Company's Definitive Proxy Statement to be filed with the SEC pursuant to Regulation 14A of the Exchange Act not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The information required in response to this Item 12 is incorporated herein by reference to the Company's Definitive Proxy Statement to be filed with the SEC pursuant to Regulation 14A of the Exchange Act not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required in response to this Item 13 is incorporated herein by reference to the Company's Definitive Proxy Statement to be filed with the SEC pursuant to Regulation 14A of the Exchange Act not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required in response to this Item 14 is incorporated herein by reference to the Company's Definitive Proxy Statement to be filed with the SEC pursuant to Regulation 14A of the Exchange Act not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

1. All Financial Statements

The consolidated financial statements of the Company and report of the Company's independent registered public accounting firm incorporated herein are included in Item 8 of this Report as follows:

2. Financial Statement Schedules. Schedules have been omitted because they are not applicable or are not required under the instructions contained in Regulation S-X or because the information required to be set forth therein is included in the consolidated financial statements or notes thereto.

EXHIBIT INDEX

Exhibit No.	Description
3.1	Articles of Incorporation, as amended to date
3.2	Bylaws, as amended to date
4.1	Certificate of Designations, Fixed Rate Cumulative Perpetual Preferred Stock, Series A
4.2	Form of Specimen Stock Certificate for Series A Preferred Sock
4.3	Debt Securities Purchase Agreement
4.4	Form of Subordinated Debt Security of Bar Harbor Bank & Trust
4.5	Description of Company Common Stock
4.6*	Indenture, dated as of November 26, 2019, by and between Bar Harbor Bankshares and U.S. Bank, National Association.
4.7	Form of 4.625% Fixed-to-floating Subordinated Note due 2029 of Bar Harbor Bankshares
10.1†	Bar Harbor Bankshares Executive Change in Control Severance Plan
10.2†	Bar Harbor Bankshares Executive Change in Control Severance Plan Participation Agreement
10.3†	Employment Agreement, dated as of February 22, 2018, between Bar Harbor Bankshares, Bar Harbor Bank & Trust and Curtis C. Simard
10.4†	Employment Agreement, dated as of September 14, 2020, between Bar Harbor Bankshares, Bar Harbor Bank & Trust and Josephine Iannelli
10.5†	2019 through 2021 Long Term Executive Incentive Program Guidelines
10.6†	Bar Harbor Bankshares and Subsidiaries Equity Incentive Plan of 2015
10.7†	Form of Incentive Stock Option Agreement under Equity Incentive Plan of 2015.
10.8†	Form of Restricted Stock Agreement (Directors) under Equity Incentive Plan of 2015
10.9†	Form of Restricted Stock and Performance-Based Restricted Stock Unit Agreement under Equity Incentive Plan of 2015
10.10†	Bar Harbor Bankshares 2018 Employee Stock Purchase Plan (Appendix B to the Company's Definitive Proxy Statement on Form DEF 14A dated April 3, 2018)
10.11	Somesville Bank Branch Lease dated October 27, 2005
10.12*	Form of Subordinated Note Purchase Agreement, dated as of November 26, 2019, by and among Bar Harbor Bankshares and the several purchasers of 4.625% Fixed-to-Floating Subordinated Notes due 2029
10.13	Form of Registration Rights Agreement, dated as of November 26, 2019, by and among Bar Harbor Bankshares and the Purchasers
10.14*	Purchase and Assumption Agreement, dated July 8, 2019, by and between People's United Bank, National Association, and Bar Harbor Bank & Trust
21.1	Subsidiaries of the Registrant
23.1	Consent of Independent Registered Public Accounting Firm, RSM US LLP
31.1	Certification of Chief Executive Officer under Rule 13a-14(a)/15d-14(a)
31.2	Certification of Chief Financial Officer under Rule 13a-14(a)/15d-14(a)
32.1	Certification of Chief Executive Officer under 18 U.S.C. Sec. 1350.
32.2	Certification of Chief Financial Officer under 18 U.S.C. Sec. 1350.

Exhibit No.	Description
101	The following financial information from the Company's Annual Report on Form 10-K for the year ended December 31, 2020 is formatted in inline XBRL: (i) Consolidated Condensed Statements of Income, (ii) the Condensed Consolidated Balance Sheets, (iii) the Condensed Consolidated Statements of Changes in Shareholders' Equity,(iv) Consolidated Statements of Cash Flows and (v) Notes to the Consolidated Condensed Financial Statements
104	Cover Page Interactive Data File – the cover page XBRL tags are embedded within the Inline XBRL document

* Schedules (or similar attachments) have been omitted pursuant to Item 601(a)(5) of Regulation S-K. The registrant hereby undertakes to furnish copies of any of the omitted schedules upon request by the Securities and Exchange Commission, *provided* that the registrant may request confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934 for any schedules so furnished.

† Indicates management contract or compensatory plan.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 10, 2021

/s/ Curtis C. Simard
Name: Curtis C. Simard
Title: *President and Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, the following persons have signed this report in the capacities indicated on behalf of the Registrant.

/s/ David B. Woodside
David B. Woodside, Chairman, Board of Directors

/s/ Curtis C. Simard
Curtis C. Simard, Director
President & Chief Executive Officer

/s/ Daina H. Belair
Daina H. Belair, Director

/s/ Josephine Iannelli
Josephine Iannelli
Executive Vice President and Chief Financial Officer

/s/ Matthew L. Caras
Matthew Caras, Director

/s/ Brendan O'Halloran
Brendan O'Halloran, Director

/s/ David M. Colter
David M. Colter, Director

/s/ Kenneth E. Smith
Kenneth E. Smith, Director

/s/ Steven H. Dimick
Steven H. Dimick, Director

/s/ Stephen R. Theroux
Stephen R. Theroux, Director

/s/ Martha Tod Dudman
Martha Tod Dudman, Director

/s/ Scott G. Toothaker
Scott G. Toothaker, Director

/s/ Lauri E. Fernald
Lauri E. Fernald, Director

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