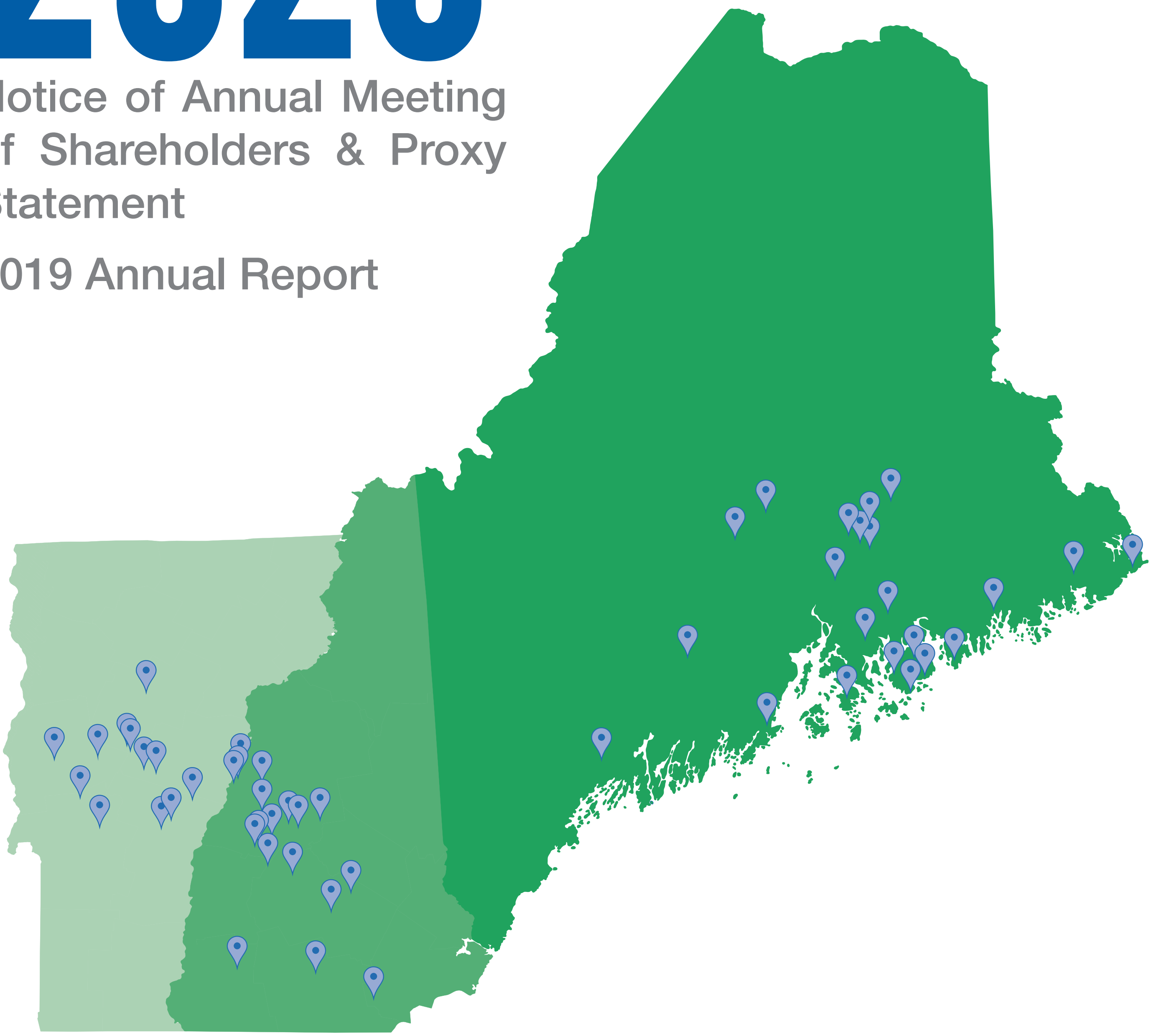
2020

Notice of Annual Meeting of Shareholders & Proxy Statement

2019 Annual Report



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BAR HARBOR
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April 1, 2020

Dear Bar Harbor Shareholders:

I invite you to join me, our Board of Directors, our senior management team and your fellow shareholders at our 2019 Annual Meeting of Shareholders to **be held at 11:00 a.m. EDT on Tuesday, May 12, 2020** at the *Bar Harbor Club located at 111 West Street in Bar Harbor, Maine.* In light of the COVID-19 (Coronavirus) outbreak, we are offering shareholders the option to participate virtually this year through a webcast. You can access this virtual webcast of the Annual Meeting by using a web browser to visit *virtualshareholdermeeting.com/BHB2020 and entering the 16-digit control number included on your proxy card.*

For the well-being of our shareholders and the Annual Meeting participants we would prefer to hold a virtual only meeting, however Maine law does not allow that. Therefore we are holding a hybrid meeting—that is, a meeting in person and via virtual webcast. 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. 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.

Our Notice of Annual Meeting, proxy statement and proxy card are enclosed together with our 2019 Summary Annual Report and 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 in person if they wish to do so.

The Board of Directors recommends that you vote:

- ☐ **FOR** the election of the 12 nominees as Directors
- ☐ **FOR** the ratification of the appointment of RSM US LLP as our independent public accounting firm for 2020
- ☐ **FOR** the approval, by a "Say on Pay" advisory vote, of our 2019 executive compensation as disclosed in the Proxy Statement for the Annual Meeting

Following the formal items of business, our senior management team will report on the operations and activities of Bar Harbor Bankshares and its subsidiary Bar Harbor Bank & Trust.

Sincerely,

Curtis C. Simard

CURTIS C. SIMARD
President and
Chief Executive Officer

Enclosures

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD MAY 12, 2020

TIME AND DATE: 11:00 a.m., Eastern Time, May 12, 2020

RECORD DATE: March 16, 2020

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, 2020.

ATTENDANCE:

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

By Webcast: On the internet, access *virtualshareholdermeeting.com/BHB2020* and enter the 16-digit control number included on your proxy card

In Person: Bar Harbor Club
111 West Street
Bar Harbor, Maine

ITEMS OF BUSINESS:

1. Elect the 12 nominees as Directors
2. Ratify the appointment of RSM US LLP as our independent registered public accounting firm for 2020
3. Approve, by a "Say on Pay" advisory vote, our 2019 executive compensation as set forth in the proxy statement for the Annual Meeting

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
- At our Annual Meeting, either by webcast or in person
- By mailing your completed proxy to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717

We urge you to vote your shares soon. Submitting a proxy 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 *virtualshareholdermeeting.com/BHB2020* and enter the 16-digit control number located on your proxy. 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.

If you 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 in person and vote at the Annual Meeting. We may refuse admission to anyone who is not a shareholder of record or does not comply with these requirements.

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

C. Dunston

Caitlin Dunston, Corporate Counsel and Clerk
April 1, 2020

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to Be Held on May 12, 2020: Our proxy statement and Annual Report are available at *www.barharbor.bank* under our Shareholder Relations section.

$80M
in small business loans

1500+
organizations impacted by employee volunteered hours

80%
of employees provided funds to support charitable giving efforts

3
women on the board of directors

69%
women in management

100%
employee ethics training

$2.5M
invested in community loan origination

FOSTERING SUSTAINABLE COMMUNITIES

RESPONSIBLE FINANCIAL COMMITMENTS

22%
of investments made in community funds.

$4.3M
invested in low income housing origination

77%
women in the workforce

$100M
in commitments to nonprofits and educational entities

7500+hours
of employee volunteering

100%
of operations reviewed to support an environmentally conscience approach

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Proxy Summary

PROXY STATEMENT
2020 ANNUAL MEETING OF SHAREHOLDERS

This summary highlights certain information contained elsewhere in the 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:	11:00 a.m., Eastern Time, on May 12, 2020
Record date:	**Close of business on March 16, 2020**
Attendance:	Shareholders as of the record date may participate in the Annual Meeting: *By Webcast:* On the internet, access *virtualshareholdermeeting.com/BHB2020* and enter the 16-digit control number included on your proxy card *In Person:* Bar Harbor Club 111 West 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
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:	15,587,359 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. Ratification of the appointment of RSM US LLP as our independent registered public accounting firm for the year ending December 31, 2020	**Board Recommendation**	**FOR**	45
Item 3. Approval, as an advisory vote, of our 2019 executive compensation ("Say on Pay")	**Board Recommendation**	**FOR**	47

The Notice of Annual Meeting, proxy statement and proxy card were first mailed to our shareholders on or about April 1, 2020.

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. 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. Abstentions will not count as votes cast and 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: Ratification of 2020 Independent Auditor

The ratification of RSM US LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2020 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 the effect of a vote against the proposal. Because this proposal is considered a routine matter, discretionary votes by brokers will be counted.

Proposal 3: Advisory Approval of 2019 Executive Compensation

The advisory vote to approve our 2019 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 the effect of a vote against the proposal. Brokers do not have discretionary authority to vote shares on this proposal and broker non-votes will have no effect on the vote.

Environmental and Social Governance

We are committed to our corporate responsibility and culture of bringing value to all our stakeholders—our employees, our customers, our communities and our shareholders. We categorize our corporate responsibility efforts under the following strategic pillars:

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 that active, objective and independent oversight of management is central to effective Board governance, to serving the best interests of our company and our shareholders, to executing our strategic objectives and to creating long-term shareholder value.

Specifically, our Board has adopted rigorous governance practices and procedures focused on our corporate growth. 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 achievement of our strategic objectives and enables 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 such other 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, 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 provide oversight of the following functions:

Our risk profile includes, but is not limited to, internal controls over financial reporting, credit risk, interest rate risk, liquidity risk, operational risk, 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 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 2019, 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 4.

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)

2019 Meetings: 5

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)

2019 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

2019 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 29.

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

2019 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 franchise risk, as well as other risks as necessary to fulfill the Committee's oversight duties and responsibilities
- 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

Independence/Qualifications

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

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

2019 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 4

Compensation and Human Resources Committee Interlocks and Insider Participation

None of our Named Executive Officers or NEOs (see listing on Page 29) 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 above $5 million.
- Information Technology & Operations 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 and the Board to properly and adequately evaluate our 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. 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. Both the Code of Conduct and the Code of Ethics for Senior Financial Officers 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 2019 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 99.5% of the total number of meetings of our Board and each of the committees on which they served during 2019. In addition, all the directors serving on our Board at the time of our 2019 Annual Meeting attended the meeting. The Board held ten executive sessions following Board meetings during 2019.

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

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, 2020 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, 2020; 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 15,587,359 shares of common stock, net of treasury shares, outstanding as of March 16, 2020. 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.		1,043,597	2	6.70%
DIRECTORS				
Belair, Daina H.	Common	4,436		*
Caras, Matthew L.	Common	11,463		*
Colter, David M.	Common	4,564	3	*
Dimick, Steven H.	Common	7,136		*
Dudman, Martha T.	Common	15,644		*
Fernald, Lauri E.	Common	11,032		*
O'Halloran, Brendan J.	Common	5,341		*
Simard, Curtis C.	Common	42,449	8	*
Smith, Kenneth E.	Common	15,152	4	*
Theroux, Stephen R.	Common	61,361	5	*
Toothaker, Scott G.	Common	35,655	6	*
Woodside, David B.	Common	12,205	7	*
NAMED EXECUTIVE OFFICERS				
Iannelli, Josephine	Common	10,368	8	*
Maltz, Richard B.	Common	16,415	8	*
Colombo, Marion	Common	3,871	8	*
Mercier, John M.	Common	5,089	8	*
All directors and executive officers as a group (16 persons)		267,681	9	1.72%

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, 2019 as filed on Form Schedule 13G on February 5, 2020. The address of BlackRock, Inc. is 55 East 52nd Street, New York, NY 10055.
3. Includes 30 shares owned by Mr. Colter's children registered in a custodial account.
4. Includes 3,427 shares over which voting and dispositive powers are shared jointly with Mr. Smith's spouse.
5. Includes 24,844 shares over which voting and dispositive powers are shared jointly with Mr. Theroux's spouse. This number does not include 30,557 shares held within a Supplemental Executive Retirement Plan for which Mr. Theroux does not have voting or dispositive powers.
6. Includes 4,500 shares over which voting and dispositive powers are shared with Mr. Toothaker's spouse.
7. Includes 3,009 shares over which voting and dispositive powers are shared jointly with Mr. Woodside's spouse. This number does not include 1,500 shares owned by Mr. Woodside's spouse over which he does not have voting or dispositive powers.
8. 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, 2020 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	37,408	835	4,206
Josephine Iannelli	8,164	—	2,204
Richard B. Maltz	14,211	—	2,204
Marion Colombo	2,591	—	1,280
John M. Mercier	3,904	—	1,185

9. Total beneficial ownership includes 5,500 (.0004%) shares of common stock as of the March 16, 2020 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.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the 1934 Exchange Act requires officers, directors, and persons who own more than 10% of a registered class of our equity securities to file initial reports of ownership and reports of changes of ownership with the SEC and the NYSE American. These persons are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file.

To our knowledge, based solely on review of such reports provided to us and written representations, all reports were filed timely.

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 2021 Annual Meeting.

NAME	AGE	YEAR FIRST ELECTED OR APPOINTED DIRECTOR	POSITIONS WITH OUR COMPANY	POSITIONS WITH OUR SUBSIDIARIES
Daina H. Belair	64	2015	Director	Director, BHBT since 2015 Director, BHTS since 2015 Director, CTC since 2017
Matthew L. Caras	63	2014	Director	Director, BHBT since 2014
David M. Colter	52	2016	Director	Director, BHBT since 2016
Steven H. Dimick	69	2017	Director	Director, BHBT since 2017
Martha T. Dudman	68	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	58	2005	Director	Director, BHBT since 2005
Brendan J. O'Halloran	57	2018	Director	Director, BHBT since 2018
Curtis C. Simard	49	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	66	2004	Director	Director, BHBT since 2004 Director, BHTS from 2004 - 2013 and 2015 to present Director, CTC since 2017
Stephen R. Theroux	70	2017	Director	Director, BHBT since 2017 Director, CTC since 2017
Scott G. Toothaker	57	2003	Director	Director, BHBT since 2003
David B. Woodside	68	2003	Director	Director, BHBT since 2003 Chairman of the Board since 2016

NUMBER OF BOARD AND COMMITTEE MEETINGS HELD IN 2019					
BOARD	EXECUTIVE	AUDIT	COMPENSATION & HUMAN RESOURCES	GOVERNANCE	BOARD RISK
10	5	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 2019.

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: 64

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

Our Board believes 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: 63

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

Our Board believes that given Mr. Caras' legal expertise in commercial transactions, as well as his business knowledge of many industries with which we do business, he provides valuable perspective to the Board as we expand our customer service area throughout Northern New England.

DAVID M. COLTER — DIRECTOR SINCE: 2016

AGE: 52

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 and his educational and professional credentials bring essential qualifications and skills to the Board.

STEVEN H. DIMICK — DIRECTOR SINCE: 2017

AGE: 69

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 our Board's leadership capabilities and strength in overseeing and guiding the Bank.

MARTHA T. DUDMAN — DIRECTOR SINCE: 2003

AGE: 68

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: 58

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

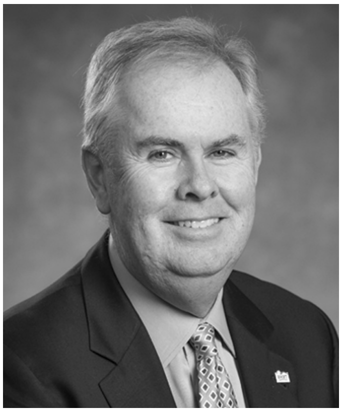
Ms. Fernald is an owner in Jordan-Fernald Funeral Home headquartered in Mount Desert, Maine and is a Certified Funeral Service Practitioner. Ms. Fernald resides in Mount Desert, Maine.

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: 57

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 will be an invaluable asset to our Board.

CURTIS C. SIMARD — DIRECTOR SINCE: 2013

AGE: 49

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
- Served as a Trustee of the Smithsonian affiliated Abbe Museum
- Served on the Insurance Trust Committee 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 an extensive knowledge of our opportunities, challenges and operations.

KENNETH E. SMITH — DIRECTOR SINCE: 2004

AGE: 66

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

Since 2003, Mr. Smith has been the 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: 70

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 experience in various operational and financial management responsibilities in the banking, educational, and insurance industries provide him with the qualifications and skills to serve as a valuable director.

SCOTT G. TOOTHAKER — DIRECTOR SINCE: 2003

AGE: 57

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

Mr. Toothaker has served as a Managing Principal of Melanson Heath & Co., PC, a certified public accounting firm with five 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.

DAVID B. WOODSIDE — DIRECTOR SINCE: 2003

AGE: 68
- CHAIRMAN OF THE BOARD OF DIRECTORS

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

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.

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, 2020.

NAME	AGE	SINCE	CURRENT POSITION	POSITIONS WITH SUBSIDIARIES
Curtis C. Simard	49	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	47	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	60	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	54	2018	N/A	Executive Vice President, Director of Retail Delivery of BHBT since 2018
John M. Mercier	56	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	43	2019	N/A	President of BHTS and CTC since June 2019
Jennifer Svenson	55	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.
- Served as a Trustee of the Smithsonian affiliated Abbe Museum
- Served on the Insurance Trust Committee 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 him with extensive knowledge of our opportunities, challenges and operations.

JOSEPHINE IANNELLI

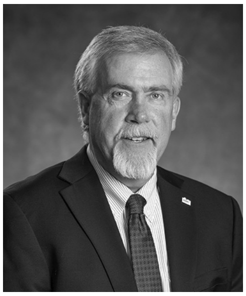
Ms. Iannelli joined Bar Harbor Bank & Trust in October 2016 as Executive Vice President, Chief Financial Officer and Treasurer. Prior to joining the organization, Ms. Iannelli served as Senior Executive Vice President, Chief Financial Officer and Treasurer of Berkshire Hills Bancorp in Pittsfield, Massachusetts. 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 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 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 provides significant expertise to us 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 this 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 to us 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 Danvers, Massachusetts.

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 resource experience, a strong understanding of the human capital challenges and of 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 our Related Party Transaction Policy, which addresses 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 2019. The Related Party Transaction Policy is approved annually by the Board and administered by management of the Bank.

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 2019 the lease payments totaled $87,300. There were no amounts outstanding for this lease as of December 31, 2019. 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 2019 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, 2019, the outstanding loans by BHBT to director nominees and NEOs amounted to an aggregate of approximately $8,207,619 with a maximum availability limit of $9,736,581. 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 3.

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	2019 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 February 2020, each independent director was awarded 1,075 restricted shares of our common stock under the 2015 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.

2019 Director Compensation

The following table details the total compensation paid to directors from our company and our subsidiaries, BHBT, BHTS and CTC, during 2019. Directors receive 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	$ 37,000	$ 24,994	$ 61,994
Matthew L. Caras	45,300	24,994	70,294
David M. Colter	31,500	24,994	56,494
Steven H. Dimick	30,200	24,994	55,194
Martha T. Dudman	40,500	24,994	65,494
Stephen W. Ensign[3]	13,902	—	13,902
Lauri E. Fernald	44,500	24,994	64,494
Brendan J. O'Halloran	36,000	24,994	60,994
Kenneth E. Smith[4]	48,000	24,994	72,994
Stephen R. Theroux	39,000	24,994	63,994
Scott C. Toothaker	44,300	24,994	69,294
David B. Woodside	62,300	24,994	87,294
Totals	$458,600	$274,934	$728,534

1 Fees earned include all stipends and meeting fees earned in 2019.
2 Represents the value of 1,075 restricted shares earned in 2019 and granted in February 2020 to each independent director as part of their compensation calculated at the closing price on the day of the grant.
3 Mr. Ensign retired in May 2019.
4 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 2019, 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 2019 Compensation Decisions

The Compensation and Human Resources Committee made the following compensation decisions for 2019, which are further described below in this Compensation Discussion and Analysis:

- Awarded base salary increases to NEOs averaging 3.4%
- Paid annual cash incentives at 94% - 30.4% of NEO base salaries based on corporate and individual achievements
- Authorized the vesting of restricted stock for the 2017-2019 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 five years were as follows:

2015	2016	2017	2018	2019
95.2%	97.6%	97.0%	95.6%	96.4%

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 2019 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 2019 Compensation Peer Group includes financial institutions that fall within a range of $1.7 billion in assets to $8.3 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.

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, 2019) 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 2019 to our Named Executive Officers who consist of our Chief Executive Officer and President and our other four most highly compensated executive officers during 2019.

NAME	BHB 2019 BASE SALARY[1]	BHB 2019 TOTAL CASH COMPENSATION[2]
Curtis C. Simard	$635,000	$888,388
Josephine Iannelli	405,000	526,780
Richard B. Maltz	405,000	526,780
Marion Colombo	300,000	378,931
John M. Mercier	300,000	378,931

1 Approved base salary figures as of year-end 2019 have been used for comparison purposes in this table.
2 Approved base salary figures at the end of 2019 plus the cash amount paid to each NEO under the 2019 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.

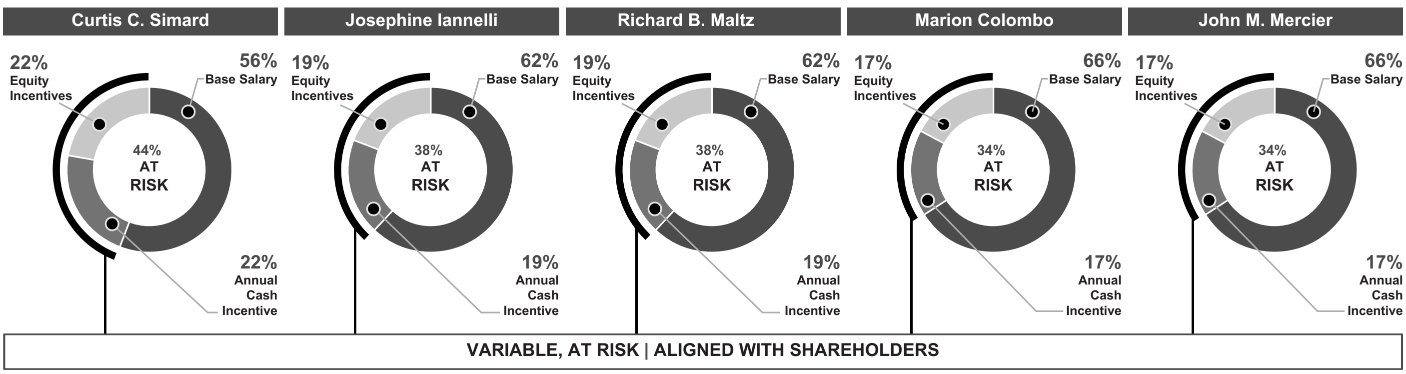
Compensation Plan Components

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 2019 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 2019 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 2019 the Compensation and Human Resources Committee made performance and market adjustments resulting in the approved base salaries for 2020 as set forth below:

NAME	2019 BASE SALARY	2020 BASE SALARY
Curtis C. Simard	$635,000	$655,000
Josephine Iannelli	405,000	420,000
Richard B. Maltz	405,000	420,000
Marion Colombo	300,000	310,000
John M. Mercier	300,000	310,000

Annual Cash Incentive Program

During 2019, 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 precentage of at risk pay for each executive annually. This program was approved by the Board for 2019.

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 2019 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 2019 target compensation for the annual cash incentive in dollars:

NAME	BASE SALARY	Target (AS A PERCENTAGE OF BASE SALARY)	TARGET
Curtis C. Simard	$635,000	42.00%	$266,700
Josephine Iannelli	405,000	32.00%	129,600
Richard B. Maltz	405,000	32.00%	129,600
Marion Colombo	300,000	28.00%	84,000
John M. Mercier	300,000	28.00%	84,000

The following table shows the specific performance goals of the 2019 annual cash incentive plan:

PERFORMANCE GOALS			
INCENTIVE MEASURES	THRESHOLD	TARGET	STRETCH
Adjusted Net Income ($thousands)	$29,408	$31,621	$43,783
NPL/Tloans[1]	1.08%	0.81%	0.68%
Efficiency Ratio[2]	65.00%	63.00%	61.74%
Strategic Initiatives[3]	93.00%	100.00%	110.00%

1 Non-Performing Loans (NPL's) include all loans on non-accrual status as of December 31, 2019 as measured against total loans
2 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.
3 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 2019 performance:

NAMED EXECUTIVE OFFICER	ACTUAL	TARGET	% OF TARGET
Curtis C. Simard	$253,388	$266,700	94%
Josephine Iannelli	121,780	129,600	94%
Richard B. Maltz	121,780	129,600	94%
Marion Colombo	78,931	84,000	94%
John M. Mercier	78,931	84,000	94%

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 2019 at Threshold, Target and Stretch for role of the participants within the 2019-2021 Plan:

2019-2021 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	20.00%	$127,000	10.00%	$63,500	20.00%	$127,000	30.00%	$190,500
Josephine Iannelli	15.00%	60,750	8.00%	32,400	15.00%	60,750	22.00%	89,100
Richard B. Maltz	15.00%	60,750	8.00%	32,400	15.00%	60,750	22.00%	89,100
Marion Colombo	12.50%	37,500	6.25%	18,750	12.50%	37,500	18.75%	56,250
John M. Mercier	12.50%	37,500	6.25%	18,750	12.50%	37,500	18.75%	56,250

Information pertaining to outstanding equity awards are disclosed in the ''Outstanding Equity Awards at Fiscal Year-end'' table found on page 40 in this proxy statement.

The 2019 Plan provides our NEOs with the opportunity to earn equity-based awards. Under the 2019 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 39 to reference the actual shares that may be earned under the 2019-2021 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. Fifty percent of the grants to each participant time-vest 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 50% of the 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 2019-2021 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 45th 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 2019.

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, 2019, 2018 and 2017 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	2019	$635,000	$ —	$417,498	$253,388	$30,287	$1,336,173
President & CEO of	2018	605,000	—	302,481	303,500	30,235	1,241,216
Bar Harbor Bankshares/BHBT	2017	525,000	—	350,369	299,250	28,415	1,203,034
Josephine Iannelli	2019	405,000	—	226,856	121,780	24,585	778,221
EVP, CFO and Treasurer of	2018	390,000	—	144,261	160,000	28,204	722,465
Bar Harbor Bankshares/BHBT	2017	350,000	—	179,978	147,000	41,469	718,447
Richard B. Maltz	2019	405,000	—	226,856	121,780	26,744	780,380
EVP, Chief Operating Officer and	2018	390,000	—	144,261	160,000	23,838	718,099
Chief Risk Officer of BHBT	2017	350,000	—	204,984	147,000	23,638	725,622
Marion Colombo	2019	300,000	—	143,738	78,931	32,663	555,332
EVP, Director of Retail Delivery	2018	245,385[4]	30,000[5]	160,296[6]	115,000	28,631	579,312
John M. Mercier	2019	300,000	—	123,743	78,931	33,354	536,028
EVP, Chief Lending Officer	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, 2019. 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 2018-2020 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 2019.

NAME	EMPLOYER 401(K) CONTRIBUTION MATCH	MEMBERSHIP DUES	HOUSING ALLOWANCE	AUTOMOBILE ALLOWANCE	IMPUTED LIFE INSURANCE	TOTAL
Curtis C. Simard	$11,200	$2,835	$ —	$15,000	$1,252	$30,287
Josephine Iannelli	11,200	2,125	—	10,000	1,260	24,585
Richard B. Maltz	11,200	—	—	10,000	5,544	26,744
Marion Colombo	11,200	—	—	20,000	1,463	32,663
John M. Mercier	11,200	7,480	—	12,000	2,674	33,354

[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 2019-2021 long-term plan-based awards granted to the NEOs during the last fiscal year under the 2019 Annual Incentive Plan. Amounts disclosed are based on 2019 eligible salaries received by the participants. The time-vested grants under the 2019-2021 Long Term Incentive Plan are shown under Target, and the range of the possible performance awards pursuant to the 2019-2021 Long Term Incentive Plan is also disclosed for each participant.

			Estimated Future Payouts Under Non-Equity Incentive Plan Awards[1]			Estimated future payouts under equity incentive plan awards[2]			All other stock awards:	Grant date
Name (a)	Grant Type (b)	Grant Date (c)	Threshold ($) (d)	Target ($) (e)	Stretch ($) (f)	Threshold (#) (g)	Target (#) (h)	Stretch (#) (i)	Number of stock units[3](#) (j)	fair value of stock awards[4] (#) (k)
Curtis C. Simard	Short-term		$114,300	$266,700	$431,800					
	Time-vested	Jan 2019							5,519	$127,000
	Performance	Jan 2019				2,760	5,519	8,279		190,500
	Immediate vest	Nov 2019							4,301	99,998
Josephine Iannelli	Short-term		64,800	129,600	194,400					
	Time-vested	Jan 2019							2,640	60,750
	Performance	Jan 2019				1,320	2,640	3,960		91,125
	Immediate vest	Nov 2019							3,225	74,981
Richard B. Maltz	Short-term		64,800	129,600	194,400					
	Time-vested	Jan 2019							2,640	60,750
	Performance	Jan 2019				1,320	2,640	3,960		91,125
	Immediate vest	Nov 2019							3,225	74,981
Marion Colombo[5]	Short-term		42,000	84,000	126,000					
	Time-vested	Jan 2019							1,630	37,500
	Performance	Jan 2019				815	1,630	2,445		56,250
	Immediate vest	Nov 2019							2,150	49,988
John M. Mercier	Short-term		42,000	84,000	126,000					
	Time-vested	Jan 2019							1,630	37,500
	Performance	Jan 2019				815	1,630	2,445		56,250
	Immediate vest	Nov 2019							1,290	29,993

[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, 2019. 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 2019 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 2019 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-2019

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	7,035	$178,616	15,001	$380,863
Josephine Iannelli	3,413	86,650	7,209	183,043
Richard B. Maltz	3,723	94,530	7,209	183,043
Marion Colombo	1,513	38,419	4,365	110,817
John M. Mercier	1,534	38,944	4,458	113,178

[1] Amounts in column (b) represent time-vested shares payable in 2020, 2021 and 2022. The amount in column (c) represents the total value of those shares at December 31, 2019 at the closing price of $25.39 per share.

[2] Amounts in column (d) represent the performance shares payable in 2020, 2021, and 2022 if paid at Stretch level. The amounts in column (e) represent the total value of those shares at December 31, 2019 at the closing price of $25.39 per share. More information regarding the terms of the performance shares can be found in the Compensation and Discussion Analysis.

Stock Vested in 2019

NAME	STOCK AWARDS[1]	
	NUMBER OF SHARES ACQUIRED ON VESTING	VALUE REALIZED ON VESTING[1]
Curtis C. Simard	8,995	$232,899
Josephine Iannelli	4,523	117,120
Richard B. Maltz	5,381	139,104
Marion Colombo	1,680	44,100
John M. Mercier	1,728	45,360

[1] This represents the number and dollar value, respectively, of restricted time-vested shares issued in 2019 to NEOs under the 2015-2017, 2016-2018 and 2017-2019 Long Term Incentive Programs and the performance shares issued under the 2015-2017 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, 2019.

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 two 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 two 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).

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 24 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	$ 740,833	$ 810,000	—	—	—
Pro rata bonus	266,700	—	—	—	—
Benefits	29,560	29,560	—	—	—
Equity vesting	623,973	305,317	—	—	—
Total	**$2,044,397**	**$1,213,067**	**—**	**—**	**—**
Termination Without Cause or With Good Reason—In Connection with Change in Control[1]					
Cash severance	1,950,000	810,000	810,000	600,000	600,000
Pro rata bonus	800,100	—	—	—	—
Benefits	59,119	29,560	29,560	19,706	19,706
Equity vesting	—	—	—	—	—
Total	**$1,551,229**	**$ 966,023**	**$839,560**	**$619,706**	**$619,706**
Death, Disability or Retirement[2]					
Cash severance	$ 740,833	$ 810,000	—	—	—
Pro rata bonus	266,700	—	—	—	—
Benefits	29,560	29,560	—	—	—
Equity vesting	206,358	104,108	64,765	52,852	54,082
Total	**$ 329,887**	**$ 166,326**	**$ 64,765**	**$ 52,852**	**$ 54,082**
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	493,168	247,044	—	—	—
Total	**$ 493,168**	**$ 247,044**	**—**	**—**	**—**

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, 2019.

Equity Awards Outstanding and Available

The following table sets forth the aggregate information of our equity compensation plans in effect as of December 31, 2019. There are no compensation plans under which equity securities may be issued that have not been approved by our shareholders.

PLAN CATEGORY	NUMBER OF SECURTIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS.	WEIGHTED-AVERAGE EXERCISE PRICES OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE UNDER EQUITY COMPENSATION PLANS
Equity Compensation plans approved by security holders	257,394	8.44	467,616

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 2018, our last completed fiscal year:

CEO PAY RATIO	
CEO Annual Total Compensation	$950,279
Median Employee Annual Total Compensation	$ 43,083
CEO to Median Employee Pay Ratio	22:1

Based on this information, we reasonably estimate that for 2019 our CEO's annual total compensation was approximately 22 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, 2019 which is within the last three months of 2019, 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, 2019 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 2019 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 $605,000, 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 2019, Mr. Simard earned an award amounting to $253,388.

During 2019, 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 24 months and benefits for a period of 18 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 2019, 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 $654,810 in March 2020 to the five NEOs based on the 2019 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
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 2020 consolidated financial statements. 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, 2020 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 the effect of a vote against 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 2020.

Principal Accounting Fees and Services

The reports of RSM on our consolidated financial statements as of December 31, 2019 and 2018 and for the three-year period ending on December 31, 2019, and on internal control over financial reporting as of December 31, 2019, 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, 2018 through December 31, 2019.

SERVICE	2018	2019
Audit Fees	$370,283	$386,000
Audit-Related Fees	68,250	54,000
Tax Fees	—	—
All Other Fees	—	—
Total	$438,533	$440,000

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.

Proposal 3
Advisory Approval of 2019 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 2019 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. The Compensation and Human Resources Committee's evaluation includes a robust review of performance scorecards that were enhanced in 2018 to reinforce the alignment with our corporate strategies and shareholder return.

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 2018 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 2019 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 the effect of a vote against 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 2019 EXECUTIVE COMPENSATION.

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 12, 2021) nor earlier than the close of business on the 150th day (i.e., December 13, 2020) 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 2021 Annual Meeting of Shareholders must be received by us no later than December 3, 2020. 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 2019 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 2019 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 customerservicecenter@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 $7,000 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

C. Dunston

Caitlin Dunston, Corporate Counsel & Clerk

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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.bhbt.com/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, 2019 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, 2019 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, 2019, 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, 2019 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, 2020, 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

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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, 2019

☐ **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) 288-3314**

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 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 $405,816,048 based on the closing sale price of the common stock on the NYSE American on June 30, 2019, the last trading day of the registrant's most recently completed second quarter.

The Registrant had 15,587,359 shares of common stock, par value $2.00 per share, outstanding as of March 6, 2020.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 12, 2020 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

INDEX

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 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 true community bank providing exceptional commercial, retail and wealth management banking services from over 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 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

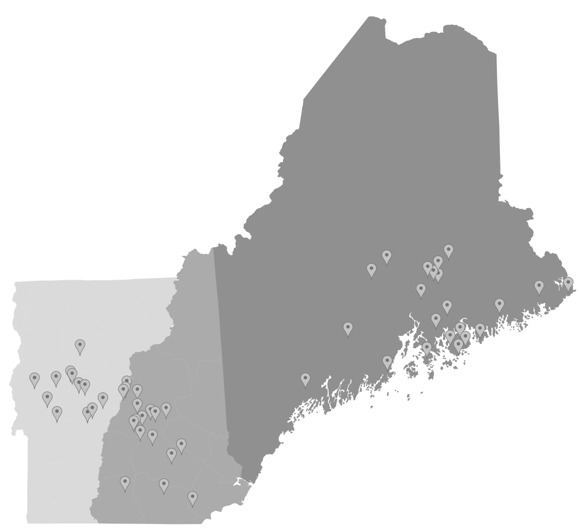
Shown below is a profile and geographical footprint of the Bank as of December 31, 2019:

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: $395 million
- Dividend Yield: 3.47%
- NYSE American: BHB



The Bank serves affluent and growing markets in Maine, New Hampshire and Vermont. 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 22 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 in New Hampshire located in the regions of the lake sunapee, upper valley and merrimack valley. 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 board 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 portfolio categories include 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 does not engage in subprime lending activities. 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.

	2019		2018		2017		2016		2015	
(in thousands, 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	$ 930,661	35%	$ 826,699	33%	$ 826,746	34%	$ 418,119	37%	$396,032	40%
Commercial and industrial	423,291	16	404,870	16	379,423	15	151,240	13	126,158	13
Total commercial	1,353,952	51	1,231,569	49	1,206,169	49	569,359	50	522,190	53
Residential real estate	1,151,857	44	1,144,698	46	1,155,682	46	506,612	45	408,401	41
Consumer	135,283	5	113,960	5	123,762	5	53,093	5	59,479	6
Total loans	2,641,092	100%	2,490,227	100%	2,485,613	100%	1,129,064	100%	990,070	100%
Allowance for loan losses	(15,353)		(13,866)		(12,325)		(10,419)		(9,439)	
Net loans	$2,625,739		$2,476,361		$2,473,288		$1,118,645		$980,631	

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. Unless on some sort of seasonal pay basis, to match debt payments with seasonal cash flows, loans typically require monthly payments containing balloon payments with maturities of 10 years or less based on 20 year amortization schedules for commercial real estate and 25 years for 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 percent, though appropriate advance rates can vary depending on asset class.

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 do 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 ten or fifteen 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 percent or 1.5 percent 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 ten 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, 2019. 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	$18,647	$122,942	$ 789,072	$ 930,661
Commercial and industrial	36,105	129,781	257,405	423,291
Total commercial	54,752	252,723	1,046,477	1,353,952
Residential real estate	389	15,489	1,135,979	1,151,857
Consumer	5,784	30,928	98,571	135,283
Total	$60,925	$299,140	$2,281,027	$2,641,092

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 does not result in a "troubled" loan designation. For residential mortgage loans, the Bank generally follows The Federal Deposit Insurance Corporation ("FDIC") 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, then the Bank generally will initiate foreclosure or other proceedings no later than the 90th day of a delinquency, as necessary, to minimize any potential loss. Management reports 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)	2019	2018	2017	2016	2015
Non-accruing loans:					
Commercial real estate	$ 3,489	$ 8,156	$ 8,343	$2,564	$2,390
Commercial and industrial	1,836	2,331	1,209	315	308
Residential real estate	5,335	7,210	4,266	3,419	3,452
Consumer	890	538	500	198	830
Total non-performing loans	11,550	18,235	14,318	6,496	6,980
Real estate owned	2,236	2,351	122	90	256
Total non-performing assets	$13,786	$20,586	$14,440	$6,586	$7,236
Troubled debt restructurings (accruing)	$ 890	$ 1,657	$ 1,046	$2,713	$2,336
Accruing loans 90+ days past due	267	246	510	—	28
Total non-performing loans/total loans	0.44%	0.73%	0.58%	0.58%	0.71%
Total non-performing assets/total assets	0.38	0.57	0.41	0.38	0.46

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 estimatable 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)	2019	2018	2017	2016	2015
Balance at beginning of year	$13,866	$12,325	$10,419	$ 9,439	$ 8,969
Charged-off loans:					
Commercial real estate	212	553	275	133	667
Commercial and industrial	359	277	207	90	395
Residential real estate	349	383	255	141	70
Consumer	233	694	289	47	487
Total charged-off loans	1,153	1,907	1,026	411	1,619
Recoveries on charged-off loans:					
Commercial real estate	194	318	50	40	98
Commercial and industrial	65	83	11	289	54
Residential real estate	55	166	65	44	129
Consumer	9	101	18	39	23
Total recoveries on charged-off loans	323	668	144	412	304
Net charged-off	830	1,239	882	(1)	1,315
Provision for loan losses	2,317	2,780	2,788	979	1,785
Balance at end of year	$15,353	$13,866	$12,325	$10,419	$ 9,439
Ratios:					
Net charge-offs/average loans	0.03%	0.05%	0.04%	—%	0.14%
Recoveries/charged-off loans	28.01	35.03	14.04	100.24	18.78
Allowance for loan losses/total loans	0.58	0.56	0.50	0.92	0.95
Allowance for loan losses/non-accruing loans	132.93	76.04	86.08	160.39	135.23

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)	2019 Amount Allocated	2019 Percent Allocated to Total Loans In Each Category	2018 Amount Allocated	2018 Percent Allocated to Total Loans In Each Category	2017 Amount Allocated	2017 Percent Allocated to Total Loans In Each Category	2016 Amount Allocated	2016 Percent Allocated to Total Loans In Each Category	2015 Amount Allocated	2015 Percent Allocated to Total Loans In Each Category
Commercial real estate	$ 7,816	0.84%	$ 6,984	0.84%	$ 6,134	0.74%	$ 5,145	1.23%	$4,430	1.12%
Commercial and industrial	3,613	0.85	2,415	0.60	2,389	0.63	1,952	1.29	1,590	1.26
Residential real estate	3,545	0.31	4,059	0.35	3,416	0.30	2,721	0.54	2,747	0.67
Consumer	379	0.28	408	0.36	386	0.31	601	1.13	672	1.13
Total	$15,353	0.58%	$13,866	0.56%	$12,325	0.50%	$10,419	0.92%	$9,439	0.95%

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)	2019 Amortized Cost	2019 Fair Value	2018 Amortized Cost	2018 Fair Value	2017 Amortized Cost	2017 Fair Value
Obligations of US Government-sponsored enterprises	$ —	$ —	$ —	$ —	$ 6,967	$ 6,972
US Government-sponsored enterprises	319,065	321,969	413,492	404,952	447,081	443,003
US Government agency	98,568	99,661	111,938	110,512	96,357	95,596
Private label	20,212	19,533	20,353	20,382	529	674
Obligations of states and political subdivisions thereof	139,240	142,006	133,260	132,265	138,522	140,200
Corporate bonds	78,804	80,061	58,098	57,726	30,527	30,797
Total	$655,889	$663,230	$737,141	$725,837	$719,983	$717,242

The following table presents the amortized cost and weighted average yields of securities at December 31, 2019:

(in thousands, except ratios)	Available for sale Amortized Cost	Available for sale Weighted Average Yield
Within 1 year	$ —	—%
Over 1 year to 5 years	33,179	4.66
Over 5 years to 10 years	55,285	3.83
Over 10 years	129,580	3.94
Total bonds and obligations	218,044	4.03
Mortgage-backed securities	437,845	2.88
Total securities available for sale	$655,889	3.21%

DERIVATIVE FINANCIAL INSTRUMENTS

The Company offers derivative products in the form of interest rate swaps, 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 utilizes interest swap derivatives to minimize fluctuations in earnings and cash flows caused by interest rate volatility either in the form of interest rate caps on borrowings or interest rate swaps on deposits 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.

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 deposit related 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 banking, internet bill pay, mobile banking, 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 the Company's experience, the Company believes that the Company's 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:

	2019			2018			2017		
(in thousands, except ratios)	**Average Balance**	**Percent of Total Average Deposits**	**Weighted Average Rate**	**Average Balance**	**Percent of Total Average Deposits**	**Weighted Average Rate**	**Average Balance**	**Percent of Total Average Deposits**	**Weighted Average Rate**
Demand	$ 394,243	16%	—%	$ 354,499	15%	—%	$ 339,303	15%	—%
NOW	491,701	20	0.49	456,591	20	0.42	455,064	20	0.25
Savings	359,422	14	0.19	354,453	15	0.17	367,785	17	0.16
Money market	347,963	13	1.32	281,258	12	0.78	300,905	14	0.49
Time deposits	924,063	37	2.09	902,507	38	1.64	760,544	34	1.07
Total	$2,517,392	100%	1.07%	$2,349,308	100%	0.83%	$2,223,601	100%	0.51%

The following table presents the scheduled maturities of time deposits $100 thousand or greater at December 31, 2019:

(in thousands, except ratios)	**Amount**	**Weighted Average Rate**
Three months or less	$103,071	1.58%
Over 3 months through 6 months	33,219	2.05
Over 6 months through 12 months	45,212	1.68
Over 12 months	150,386	1.77
Total	$331,888	1.83%

BORROWING ACTIVITIES

The Company may also 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 has a correspondent bank unsecured line of credit. The Company also has the ability to borrow from the Federal Reserve Bank of Boston ("FRB"), 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 issued $40 million in subordinated notes to accredited investors that provides funds for ongoing operations and future growth.

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. Trust management services include trustee of both living trusts and trusts under wills, including revocable, irrevocable, charitable remainder and testamentary trusts, and in this capacity holds, accounts for and manages financial assets, real estate and special assets. Trust Services offers custody, estate settlement, and fiduciary tax services. The employees include credentialed investment and trust professionals with extensive experience. At December 31, 2019 and 2018, trust management services had total assets under management of $2.0 billion and $1.7 billion, respectively.

PERSONNEL

As of December 31, 2019, the Company had 460 full time equivalent employee positions compared to 445 full time equivalents at December 31, 2018. The Company has augmented the staff with targeted hires to deepen the overall employee skill set. The Company has never had a work stoppage, and no employees are represented by a labor organization or subject to any collective bargaining arrangements. The employee relations of the Company are considered to be good.

REGULATION AND SUPERVISION

As a bank holding company, the Company is regulated under the Bank Holding Company Act ("BHC") and is subject to inspection, examination and supervision by the Board of Governors of the Federal Reserve System, or the Federal Reserve Board. 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 and the Exchange Act. The Company's common stock is listed on the 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, periodic examination, and regulation by the Maine Bureau of Financial Institutions ("BFI") as its chartering authority and the Federal Deposit Insurance Corporation ("FDIC") as its primary federal regulator. 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.

As a New Hampshire-chartered trust company, Charter Trust Company and its affiliates ("Charter") are subject to supervision and periodic 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 held in accordance with NH RSA 564-B:9-902. As of December 31, 2019 Charter's total capital was $12.7 million and had liquidation reserves of $501 thousand held in a savings account. Charter also had operating reserves of $13.2 million held primarily at the Bank. As of December 31, 2019, 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.

Bank Holding Company 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.

Permitted Activities

Generally, bank holding companies are prohibited under the BHC Act from engaging in or acquiring direct or indirect control of more than 5% of the voting shares of any company engaged in any activity other than (i) banking or managing or controlling banks or (ii) an activity that the Federal Reserve Board determines to be so closely related to banking as to be a proper incident to the business of banking. 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.

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 in the preceding year, 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 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.

Source of Strength

In accordance with Federal Reserve Board policy, the holding 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 holding 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.

Regulatory agencies have promulgated regulations to increase the capital requirements for bank holding companies to a level that matches those of banking institutions. See *Capital Adequacy and Prompt Corrective Action* included in "Item I—Regulation and Supervision" of this Annual Report on Form 10-K.

Anti-tying Restrictions

Bank holding companies and 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 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 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 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 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.

Dividends

Dividends from the Bank are the Company's principal source of cash revenues. The Company's earnings and activities are affected by legislation, by regulations and by 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 holding company and the ability to pay dividends to 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.

Annual Reporting

The Company is required to file an annual report with the Federal Reserve Board, and such additional information as the Federal Reserve Board may require. The Federal Reserve Board may examine a bank holding company and any of its subsidiaries, and charge the Company for the cost of such an examination.

Imposition of Liability for Undercapitalized Subsidiaries: Pursuant to Section 38 of the Federal Deposit Insurance Act ("FDIA") federal banking agencies are required to take "prompt corrective action" ("PCA") should an insured depository institution fail to meet certain capital adequacy standards. In the event an institution becomes "undercapitalized," it must submit a capital restoration plan. The capital restoration plan will not be accepted by the regulators unless each company "having control of" the undercapitalized institution "guarantees" the subsidiary's compliance with the capital restoration plan until it becomes "adequately capitalized." For purposes of this statute, the holding company has control of the Bank. Under FDIA, the aggregate liability of all companies controlling a particular institution is limited to the lesser of five percent of the depository institution's total assets at the time it became undercapitalized or the amount necessary to bring the institution into compliance with applicable capital standards. FDIA grants greater powers to bank regulators in situations where an institution becomes "significantly" or "critically" undercapitalized or fails to submit a capital restoration plan. For example, a bank holding company controlling such an institution can be required to obtain prior Federal Reserve Board approval of proposed distributions, or might be required to consent to a merger or to divest the troubled institution or other affiliates. See *Capital Adequacy and Prompt Corrective Action* included in Item I.

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 holding 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.

As a New Hampshire-chartered trust company, Charter is subject to supervision and periodic 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.

Capital Adequacy and Prompt Corrective Action

In July 2013, the Federal Reserve Board, the FDIC and the Office of the Comptroller of the Currency (the "OCC") 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 (the "Basel Committee") 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 FDIA, 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 PCA, to be: (i) well-capitalized, an insured depository institution must have a total risk-based capital ratio of at least 10.5%, a Tier 1 risk-based capital ratio of at least 8.5%, a CET1 risk-based capital ratio of at least 7.0%, and a Tier 1 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, 2019, and December 31, 2018, 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.

The Volker Rule

Section 619 of the Dodd-Frank Act, commonly known as the Volcker Rule, restricts the ability of banking entities, such as the Company, from: (i) engaging in "proprietary trading" and (ii) investing in or sponsoring certain types of funds ("Covered Funds"), subject to certain limited exceptions. Under the Volcker Rule, a Covered Fund is any issuer that would be an investment company under the Investment Company Act (the "ICA") but for the exemptions in section 3(c)(1) and 3(c)(7) of the ICA, which includes collateralized loan obligation ("CLO") and collateralized debt obligation securities. The regulation also provides, among other exemptions, an exemption for CLOs meeting certain requirements. The Bank is in compliance with these rules.

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 limit of $250,000 per depositor, per FDIC insured institution, and per ownership category, all in accordance with applicable laws 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 FDIA 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 2019.

Depositor Preference

The FDIA provides that, in the event of the "liquidation or other resolution" of an insured depository institution, the claims of depositors of the institution, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors, including the parent bank holding company, with respect to any extensions of credit they have made to such insured depository institution.

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 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 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 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, a rating of "satisfactory" was received by the Bank.

Insider Credit Transactions

Section 22(h) of the Federal Reserve Act ("FRA") 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 FDIA, 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 which 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.

Examinations

The Bank is examined from time-to-time by its primary federal banking regulator, the FDIC, and the BFI.

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, 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.

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.

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.

Guidance on Sound Compensation Policies

The Dodd-Frank Act requires publicly traded companies to give stockholders a non-binding vote on executive compensation at their first annual meeting taking place six months after the date of enactment and at least every three years thereafter and on so-called "golden parachute" payments in connection with approvals of mergers and acquisitions.

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 the Maine or New Hampshire legislature may enact further legislation affecting the regulation of financial institutions chartered by the State of Maine or the State of New Hampshire. 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.

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.

Environmental Laws

The Company believes that it is in compliance with all federal, state and local environmental regulations. The cost of ongoing compliance with such regulations does not have a material effect on operations.

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.

Economic Risk Factors

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

The Company serves individuals and businesses located in the downeast, midcoast and central regions of Maine, the Cheshire, Grafton, Hillsborough, Merrimack and Sullivan counties in central and western New Hampshire, and the Rutland, Windsor and Orange counties in central 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.

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

The outlook for the U.S. economy remains uncertain amid concerns about short- and long-term interest rates, debt and equity capital markets and general financial market conditions. 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.

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 and, in particular, the Board of Governors of the Federal Reserve System. 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.

Industry Risk Factors

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.

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 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 affect on the Company's business, financial condition and results of operations.

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

As of December 31, 2019, approximately 51% of the Banks's loan portfolio consisted of commercial real estate, commercial and industrial, construction and agricultural 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, a 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 these properties. 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 affect on operating results. The Company makes various assumptions and judgments about the collectability of the loan portfolio and provide 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, the value 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.

A new accounting standard may require us to increase the allowance for loan losses.

The Financial Accounting Standards Board has issued Accounting Standards Update 2016-13, Measurement of Credit Losses on Financial Instruments, which will be effective for the Company for the first quarter of the year ending December 31, 2020. This standard, often referred to as CECL requires companies to recognize an allowance for credit losses using a new current expected credit loss model. The Company is currently evaluating the impact of adopting this standard on the consolidated financial statements. 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 affect 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 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. Many of the Company's larger competitors have substantially greater resources to invest in technological improvements. The Company may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to its customers.

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.

Business Risk Factors

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.

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.

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.

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 affect on 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 services of one or more of key personnel could have a material 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'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 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.

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 and natural resource dependent industries in the Company's market area, which could have a direct negative impact on the Company's business and results of operations.

Regulatory Risk Factors

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 affect 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.

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 and to fund all payments on its 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, which could impede access to funds it needs to make payments on its obligations or dividend payments.

The Company may elect or be compelled to seek additional capital in the future, but capital may not be available when it is needed.

The Company is required by federal and state regulatory authorities to maintain adequate levels of capital to support its operations. In addition, the Company may elect to raise additional capital to support its business or to finance acquisitions, if any, or the Company may otherwise elect to raise additional capital.

The Company's ability to raise additional capital, if needed, will depend on conditions in the capital markets, economic conditions, and a number of other factors, many of which are outside the Company's control, and on its financial performance. Accordingly, there is no assurance of the Company's ability to raise additional capital if needed or on acceptable terms. If the Company cannot raise additional capital when needed, or on reasonable terms, it may have a material adverse affect on its financial condition and results of operations.

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 affect on results.

ITEM 2. PROPERTIES

The Company's principal executive offices and one branch are in a building owned by the Company located at 82 Main Street, Bar Harbor, Maine. The Bank provides full-banking services at an additional 51 locations throughout Maine, New Hampshire and Vermont of which 32 are owned and 19 are leased. The Bank also has one stand-alone drive-up window in New Hampshire and one in Vermont. In addition to banking offices, the Company also has an Operations Center located in Ellsworth, Maine, that houses the Company's operations and data processing centers, as well as leased space in Hampden, Maine, Rockland, Maine, Portland, Maine, Manchester, New Hampshire and Bedford, New Hampshire where back office support for multiple lines of business and related functions are located. 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.

PART II

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

Market Information

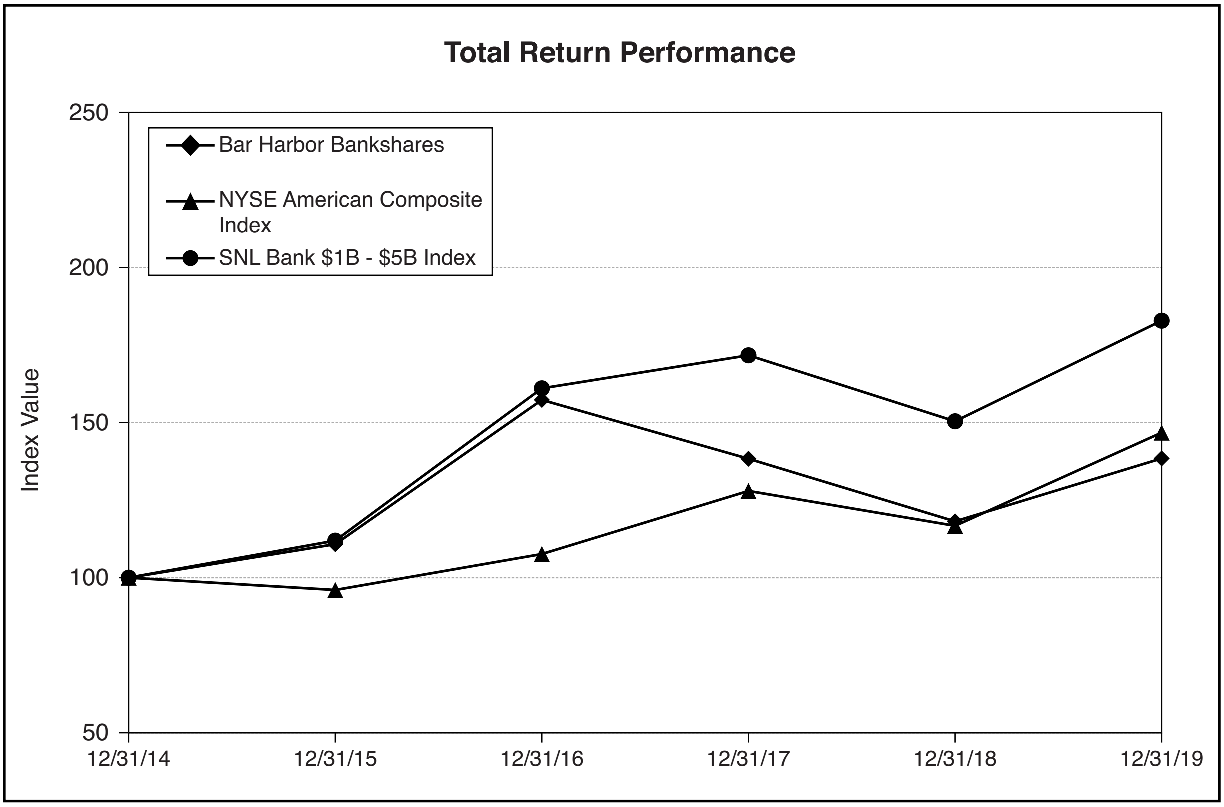
The common stock of the Company is traded on the NYSE American, under the trading symbol "BHB". As of March 6, 2020, there were 15,587,359 shares of Bar Harbor Bankshares common stock, par value $2.00 per share, outstanding and approximately 1,579 shareholders of record, as obtained through the Company's 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, 2019.

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, 2014 to December 31, 2019.



	Period Ending					
Index	**12/31/14**	**12/31/15**	**12/31/16**	**12/31/17**	**12/31/18**	**12/31/19**
Bar Harbor Bankshares	100.00	110.8	157.31	138.34	118.15	138.44
NYSE American Composite Index	100.00	96.03	107.62	127.96	116.72	146.76
SNL Bank $1B - $5B Index	100.00	111.94	161.04	171.69	150.42	182.85

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)	**2019**	**2018**	**2017**	**2016**	**2015**
Financial Condition Data:					
Total assets	$ 3,669	$ 3,608	$ 3,565	$1,755	$1,580
Total earning assets[(1)]	3,318	3,263	3,244	1,683	1,517
Total investments	684	761	755	554	526
Total loans	2,641	2,490	2,486	1,129	990
Allowance for loan losses	15	14	12	10	9
Total goodwill and intangible assets	127	108	108	5	5
Total deposits	2,696	2,483	2,352	1,050	943
Total borrowings	531	724	830	537	475
Total shareholders' equity	396	371	355	157	154
Operating Data:					
Total interest and dividend income	$ 135	$ 127	$ 116	$ 57	$ 55
Total interest expense	45	36	24	12	10
Net interest income	90	91	92	45	45
Non-interest income	29	28	26	13	9
Net revenue[(2)]	119	119	118	58	54
Provision for loan losses	2	3	3	1	2
Total non-interest expense	90	75	72	36	31
Income tax expense[(3)]	4	8	17	6	6
Net income	23	33	27	15	15
Ratios and Other Data:					
Per Common Share Data					
Basic earnings	$ 1.46	$ 2.13	$ 1.71	$ 1.65	$ 1.69
Diluted earnings	1.45	2.12	1.70	1.63	1.67
Total book value	25.48	23.87	22.96	17.19	17.10
Dividends	0.86	0.79	0.75	0.73	0.67
Common stock price:					
High	27.58	30.95	33.41	33.25	25.32
Low	21.24	21.25	25.09	19.69	19.31
Close	25.39	22.43	27.01	31.55	22.95
Weighted average common shares outstanding (in thousands):					
Basic	15,541	15,488	15,184	9,069	8,970
Diluted	15,587	15,564	15,290	9,143	9,090
Performance Ratios:[(4)]					
Return on assets	0.62%	0.93%	0.75%	0.89%	0.98%
Return on equity	5.82	9.22	7.41	9.21	10.01
Interest rate spread	2.56	2.68	2.99	2.86	3.09
Net interest margin (fully taxable equivalent)[(5)]	2.78	2.87	3.10	2.96	3.19
Dividend payout ratio	59.09	36.99	44.26	44.04	39.86
Organic Growth Ratios:					
Total commercial loans	6.0%	1.4%	23.8%	9.2%	11.2%
Total loans	1.9	0.2	13.1	14.0	7.7
Total deposits	(1.8)	5.6	14.4	11.4	9.9
Asset Quality and Condition Ratios:					
Non-accruing loans/total loans	0.44%	0.73%	0.58%	0.58%	0.71%
Net charge-offs/average loans	0.03	0.05	0.04	—	0.14
Allowance for loan losses/total loans[(6)]	0.58	0.56	0.50	0.92	0.95
Loans/deposits	98	100	106	108	105
Capital Ratios:					
Tier 1 capital to average assets - Company	8.13%	8.53%	8.10%	8.94%	9.37%
Tier 1 capital to risk-weighted assets - Company	11.39	12.68	12.19	15.01	15.55
Tier 1 capital to average assets - Bank	8.39	8.74	8.58	9.06	9.49
Tier 1 capital to risk-weighted assets - Bank	11.79	12.99	12.92	15.20	15.77
Shareholders equity to total assets	10.80	10.27	9.95	8.93	9.76

(1) Earning assets includes non-accruing loans and securities that 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:

	2019			2018			2017		
(in millions, except ratios)	**Average Balance**	**Interest[3]**	**Average Yield/ Rate[3]**	**Average Balance**	**Interest[3]**	**Average Yield/ Rate[3]**	**Average Balance**	**Interest[3]**	**Average Yield/ Rate[3]**
Assets									
Loans:									
Commercial real estate	$ 875	$ 42	4.73%	$ 829	$ 38	4.56%	$ 774	$ 33	4.24%
Commercial and industrial	411	19	4.72	390	18	4.57	337	16	4.73
Residential real estate	1,158	45	3.91	1,133	44	3.85	1,159	44	3.79
Consumer	116	6	5.11	118	6	4.73	127	6	4.34
Total loans[1]	2,560	113	4.38	2,470	106	4.24	2,397	99	4.10
Securities and other[2]	743	25	3.42	762	25	3.23	757	24	3.10
Total earning assets	3,303	138	4.16%	3,232	131	4.00%	3,154	123	3.86%
Cash and due from banks	81			58			67		
Allowance for loan losses	(15)			(13)			(12)		
Goodwill and other intangible assets	109			108			108		
Other assets	170			140			148		
Total assets	$3,648			$3,525			$3,465		
Liabilities									
Deposits:									
NOW	$ 492	$ 2	0.49%	$ 457	$ 2	0.42%	$ 455	$ 1	0.25%
Savings	359	1	0.19	354	1	0.17	368	1	0.16
Money market	348	5	1.32	281	2	0.78	301	2	0.49
Time	924	19	2.09	903	15	1.64	760	8	1.07
Total interest bearing deposits	2,123	27	1.27	1,995	20	0.98	1,884	12	0.60
Borrowings	708	19	2.61	790	17	2.16	863	13	1.46
Total interest bearing liabilities	2,831	46	1.61%	2,785	37	1.31%	2,747	25	0.87%
Non-interest bearing demand deposits	394			355			340		
Other liabilities	34			28			27		
Total liabilities	3,259			3,168			3,114		
Total shareholders' equity	389			357			351		
Total liabilities and shareholders' equity	$3,648			$3,525			$3,465		
Net interest income		$ 92			$ 93			$ 98	
Net interest margin			2.78%			2.87%			3.10%
Net interest spread			2.56			2.68			2.99

(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.

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.

	2019 Compared with 2018			2018 Compared with 2017		
	Increases (Decreases) due to			Increases (Decreases) due to		
(in thousands)	Rate	Volume	Net	Rate	Volume	Net
Interest income:						
Commercial real estate	$ 1,631	$ 2,123	$ 3,754	$ 2,583	$ 2,295	$ 4,878
Commercial and industrial(1)	619	962	1,581	(644)	2,553	1,909
Residential	708	920	1,628	655	(961)	(306)
Consumer	373	(120)	253	616	(486)	130
Total loans	3,331	3,885	7,216	3,210	3,401	6,611
Securities	1,394	(608)	786	818	323	1,141
Total interest income	$ 4,725	$ 3,277	$ 8,002	$ 4,028	$ 3,724	$ 7,752
Interest expense:						
NOW	$ 344	$ 142	$ 486	$ 736	$ 4	$ 740
Savings	108	13	121	113	(72)	41
Money market	1,897	527	2,424	842	(98)	744
Time deposits	4,130	352	4,482	5,163	1,525	6,688
Total deposits	6,479	1,034	7,513	6,854	1,359	8,213
Borrowings	3,357	(1,857)	1,500	5,507	(1,067)	4,440
Total interest expense	$ 9,836	$ (823)	$ 9,013	$12,361	$ 292	$12,653
Change in net interest income	$(5,111)	$ 4,100	$(1,011)	$(8,333)	$ 3,432	$(4,901)

(1) Includes a lower tax equivalency adjustment due to a lower federal corporate tax rate of 21% in 2019 and 2018 and 35% in 2017.

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)		At or For The Years Ended December 31, 2019	2018	2017
GAAP net income		$ 22,620	$ 32,937	$ 25,993
Plus (less):				
(Gain) loss on sale of securities, net		(237)	924	(19)
Loss on sale of premises and equipment, net		18	—	94
Loss on other real estate owned		166	20	—
Loss on debt extinguishment		1,096	—	—
Acquisition, restructuring and other expenses		8,317	1,728	3,302
Income tax expense(1)		(2,232)	(635)	(1,269)
Tax reform charge		—	—	3,988
Total adjusted income(2)	(A)	$ 29,748	$ 34,974	$ 32,089
GAAP net interest income	(B)	$ 89,810	$ 90,883	$ 92,155
Plus: Non-interest income		29,069	27,935	25,982
Total Revenue		118,879	118,818	118,137
(Less) plus: (Gain) loss on sale of securities, net		(237)	924	(19)
Total adjusted revenue(2)	(C)	$118,642	$119,742	$118,118
GAAP total non-interest expense		$ 89,733	$ 75,539	$ 72,726
Less: Loss on sale of premises and equipment, net		(18)	—	(94)
Less: Loss on other real estate owned		(166)	(20)	—
Less: Loss on debt extinguishment		(1,096)	—	—
Less: Acquisition, restructuring and other expenses		(8,317)	(1,728)	(3,302)
Adjusted non-interest expense(2)	(D)	$ 80,136	$ 73,791	$ 69,330
(in millions)				
Average earning assets	(E)	$ 3,303	$ 3,233	$ 3,154
Average assets	(F)	3,649	3,525	3,464
Average shareholders' equity	(G)	389	357	351
Average tangible shareholders' equity(2)(3)	(H)	280	249	243
Tangible shareholders' equity, period-end(2)(3)	(I)	269	263	246
Tangible assets, period-end(2)(3)	(J)	3,542	3,501	3,457
(in thousands)				
Common shares outstanding, period-end	(K)	15,558	15,523	15,443
Average diluted shares outstanding	(L)	15,587	15,564	15,290
Adjusted earnings per share, diluted(2)	(A/L)	$ 1.91	$ 2.25	$ 2.10
Tangible book value per share, period-end(2)	(I/K)	17.30	16.94	15.94
Securities adjustment, net of tax(1)(4)	(M)	5,549	(8,663)	1,711
Tangible book value per share, excluding securities adjustment(2)	(I+M)/K	16.94	17.50	15.83
Tangible shareholders' equity/tangible assets(2)	(I/J)	7.60	7.51	7.12
Performance ratios(5)				
GAAP return on assets		0.62%	0.93%	0.75%
Adjusted return on assets(2)	(A/F)	0.82	0.99	0.93
GAAP return on equity		5.82	9.22	7.41
Adjusted return on equity(2)	(A/G)	7.65	9.79	9.15
Adjusted return on tangible equity(2)(3)(6)	(A/H)	10.86	14.29	13.40
Efficiency ratio(2)(7)	(D-O-Q)/(C+N)	64.95	59.27	55.44
Net interest margin(2)	(B+P)/E	2.78	2.87	3.10
Supplementary data				
Taxable equivalent adjustment for efficiency ratio	(N)	$ 2,692	$ 2,554	$ 4,391
Franchise taxes included in non-interest expense	(O)	469	479	599
Tax equivalent adjustment for net interest margin	(P)	2,048	1,986	5,615
Intangible amortization	(Q)	861	828	812

(1) Assumes a marginal tax rate of 23.87% in 2019, 23.78% in 2018 and 37.57% in 2017.

(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) Adjusted return on tangible equity is computed by taking adjusted income divided by shareholder's equity less tax-effected amortization of intangibles assets, assuming a marginal tax rate of 23.87% in 2019, 23.78% in 2018 and 37.57% in 2017%.

(7) 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 23.87% in 2019, 23.78% in 2018 and 37.57% in 2017.

GENERAL

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

SUMMARY

Bar Harbor Bankshares recorded 2019 net income of $23 million, or $1.45 per diluted share, compared to $33 million, or $2.12 per diluted share, in 2018. Acquisition, restructuring and other expenses after taxes totaled $0.46 per diluted share in 2019 related to one-time costs associated with the Company's branch acquisition and balance sheet optimization initiatives. Adjusted income (non-GAAP measure) in 2019 was $30 million, or $1.91 per diluted share, and $35 million, or $2.25 per diluted share, for the same period of 2018.

In 2019 the Company repositioned the balance sheet, expanded its footprint within central Maine and achieved record revenues of $119 million on higher interest and fee income. The Company also completed a strategic review of its balance sheet and operations ("strategic review") and executed several initiatives that reduced the Company's cost of funds in the second half of 2019 and improved its interest rate risk and overall capital position.

On October 25, 2019, the Company completed the acquisition of eight branches within central Maine. The Company used the net deposit proceeds to extinguish approximately $140 million of higher cost FHLB borrowings. These transactions changed the Company's balance sheet profile and funding needs. Therefore, the Company decided to terminate its interest rate caps on $90 million of rolling three-month FHLB borrowings. The losses from the interest rate caps were reclassified from other comprehensive income to net income, with no further dilution to equity. Additional FHLB borrowings were paid off with the proceeds from executing a deleveraging and remix strategy that included the sale of $92 million of lower yielding securities.

In the fourth quarter 2019, the Company completed a $40 million subordinated debt issuance which replaced $22 million of higher cost subordinated notes that were called. The offering was more than two times oversubscribed, driven by one of the most effective executions for 2019, and presented an opportunity to upsize the deal.

The strategic review also included a branch optimization exercise that evaluated fixed assets, staffing models, and business and operational processes that included the closure of five branches effective December 31, 2019. Results of this exercise are expected to be fully accretive starting in the first quarter 2020.

Total assets were $3.7 billion in 2019, increasing $61 million from 2018. Loans totaled $2.6 billion, increasing $151 million from 2018, primarily due to the branch acquisition and organic commercial loan growth. Credit quality remains strong with the ratio of non-accruing loans to total loans at 0.44% at December 31, 2019 compared to 0.73% at December 31, 2018. Deposits totaled $2.7 billion at the end of 2019, increasing 8.6% from 2018 due to the branch acquisition.

Return on assets in 2019 was 0.62% compared to 0.93% in 2018, while adjusted return on assets (non-GAAP measure) was 0.82% in 2019 compared to 0.99% in 2018. In a similar trend, return on equity was 5.82% in 2019 from 9.22% in 2018 and adjusted return on equity (non-GAAP measure) was 7.65% in 2019 from 9.79% in 2018.

COMPARISON OF FINANCIAL CONDITION AT DECEMBER 31, 2019 AND 2018

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 through strategies and controlled risk. The Company maintains adequate liquidity under both prevailing and forecasted economic conditions achieved primarily through an appropriate mix of core deposits, and borrowed funds.

Securities

The Company maintains a relatively high quality and liquid security portfolio consisting of mortgage-backed securities issued by U.S. Government-sponsored enterprises, U.S. Government agencies, and, to a much lesser extent, other non-agency, and private-label issuers. The securities portfolio also includes obligations of state and political subdivisions thereof, as well as corporate bonds. Each investment is evaluated from a return on asset and interest rate risk perspective under policy guidelines established by the Company's Board of Directors. The Company continuously evaluates the portfolio's size, yield, diversification, risk, and duration in consideration to the current interest rate environment. 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 2019 decreased by $78 million as the Company remixed the investment portfolio as part of the strategic review. The 2019 securities activity included purchases of $129 million offset by maturities, calls and pay downs of $115 million and sales of $92 million in lower yielding securities. The proceeds from the net decrease in the securities portfolio were utilized to pay down higher cost FHLB borrowings. The change in unrealized gains or losses on securities improved to a gain of $14 million in 2019 from a loss of $7 million in 2018 due to lower long-term rates in 2019.

The weighted average yield on the Company's securities portfolio was 3.42% in 2019 compared to 3.23% in prior year. The weighted average life of the securities portfolio at December 31, 2019 was estimated to be 5.0 years, with a duration of approximately 3.6 years. These metrics compare with an estimated weighted average life of 5.2 years, with a duration of approximately 3.9 years for the portfolio at December 31, 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 and agricultural businesses, and tax exempt entities. 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 2019 total loans grew $151 million to $2.6 billion. In the fourth quarter $101 million of acquired loans were recorded resulting in net organic growth of 1.9% for the year. Commercial real estate grew $79 million or 9.5% excluding the impact of the acquisition. Residential organic loan growth was relatively flat as originations kept pace with loan payoffs and the secondary market platform was leveraged for fee income. The Company's loan origination teams continued to adhere to disciplined underwriting practices and selectively pursuing opportunities that are accretive to profitability metrics.

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 allowance for loan losses increased to $15 million from $14 million at year-end 2018 largely due to commercial loan growth offset by lower net charge-off activity reflecting stable asset quality. The ratio of net charge-offs to total loans remains near zero at 0.03% in 2019 and 0.05% in 2018. The allowance to total loans ratio increased to 0.58% in 2019 from 0.56% in 2018, primarily due to the $101 million of loans from the branch acquisition that were recorded without a carryover allowance for loan losses. Non-accruing loans in 2019 decreased $7 million primarily due to the settlement of several credit relationships for about the carrying values. The settlement also contributed to the improvement of the non-accruing loans to total loans ratio to 0.44% from 0.73% in the prior year.

As discussed in Note 1—*Summary of Significant Accounting Policies* of the Consolidated Financial Statements in this Annual Report on Form 10-K, in June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The ASU requires companies to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The Company is in the process of finalizing the required changes to loan loss estimation methodologies and processes as a result of the new accounting guidance. Also, the Company is finalizing its control environment regarding the new processes, data validations, and model validation.

Other Assets

The Company has other assets identified on its balance sheet consisting of premises and equipment, other real estate owned, goodwill, other intangible assets, bank-owned life insurance, net deferred tax assets and other assets. These assets totaled $303 million at the end of 2019 compared to $272 million as of December 31, 2018. The increase is primarily from the branch acquisition adding $4 million of premises and equipment, $19 million of goodwill, and $2 million of other intangibles. Contributing to the increase was a $9 million right-of-use asset recorded in connection with the implementation of ASU No. 2016-02 for lease accounting described further in Note 17—*Leases* of the Consolidated Financial Statements in this Annual Report on Form 10-K. These increases were partially offset by a $6 million decrease in net deferred tax assets primarily from the $21 million net change in accumulated other comprehensive income with a gain of $16 million in 2019 from a loss of $6 million in 2018. Further details on the components of deferred tax assets are in Note 10—*Income Taxes* of the Consolidated Financial Statements in this Annual Report on Form 10-K.

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 to $2.7 billion in 2019 from $2.5 billion in 2018 with growth of $213 million. The branch acquisition contributed $258 million while non-maturity deposits organically grew by $23 million. Time deposits excluding acquired balances decreased $68 million given the interest rate environment in the second half of 2019. The Company improved its loan-to-deposit ratio to 98% at year-end from 100% at the end of 2018 primarily as a result of the branch acquisition and balance sheet deleveraging.

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.

At December 31, 2019 total borrowings were $531 million with a weighted average rate of 2.11% at year-end compared to $724 million with a weighted average rate of 2.56% at year-end 2018. Overall borrowings decreased $192 million from year-end 2018 due to the branch acquisition and strategic review, improving cost of funds year-over-year. Subordinated borrowings increased by $17 million as $22 million of higher cost subordinated notes were called and the Company opportunistically replaced with a $40 million private placement issued in November 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 $580 million at the end of 2019 from $182 million at year-end 2018. Year-over-year, the increase is primarily due to a $319 million increase in customer loan derivatives sold on commercial loans with matching hedges using a national bank counterparty. Additionally, the increase includes a $100 million notional amount interest rate swap on brokered certificate of deposits over a five- year term, $37 million in interest rate swaps on securities and a $32 million increase in mortgage banking derivatives. The net fair value of total derivatives was a liability of $743 thousand at the end of 2019 compared to an asset of $811 thousand at year-end 2018.

Stockholders' Equity

Total equity was $396 million at year-end 2019, compared with $371 million at year-end 2018. The Company's book value per share increased $1.61 to $25.48 from year-end 2018. The increase was primarily due to a $22 million improvement in the Company's securities fair value adjustment, net of tax, along with strong net income of $23 million offset by $13 million in dividends. 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 (non-GAAP measure) increased to $17.30 per share at year-end 2019 up from $16.94 per share at year-end 2018. Excluding the impact from the acquisition, tangible book value per share increased to $18.62; an increase of 10% for 2019.

During 2019, the Company declared and distributed regular cash dividends on its common stock in the aggregate amount of $13 million compared with $12 million in 2018. The Company's 2019 dividend payout ratio amounted to 59%, compared with 37% in 2018. The total cash dividends paid in 2019 amounted to $0.86 per common share of stock, compared with $0.79 in 2018, representing an increase of $0.07 per share, or 9%.

On March 21, 2019, 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 776,000 shares as of March 15, 2019. The Plan is authorized to last no longer than twelve months and was 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, 2019, no shares have been purchased.

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, 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 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 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 are fees that 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 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 460 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.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

Summary

Net income in 2018 was $32.9 million, up 27% compared to $26.0 million in 2017. Adjusted income increased to $35.0 million in 2018, up 9% from $32.1 million in 2017. The increase in net income reflects the positive organic growth during 2018.

Net Interest Income

Net interest income decreased year-over-year by $1.3 million to $90.9 million on a higher cost of funds while interest income increased 9.8% to $11.4 million as yields on earning assets expanded. Interest income increases are being driven by a focus on variable rate loan origination and shifts in the securities portfolio. These increases are partially offset by a lower tax equivalency adjustment from a lower 2018 federal tax rate and a lower contribution from purchased loan accretion. The Company executed an investment remix strategy in the fourth quarter of 2018 which is expected to be accretive starting in 2019 and improve overall liquidity and interest rate risk position. Net interest margin in 2018 decreased to 2.87% from 3.10% in 2017. Interest expense increases are being driven by short-term interest rate hikes through 2018, strategies continue to be implemented to shift funding mix and term to secure the Company's longer- term net interest margin goals and funding requirements. Excluding purchased loan accretion, net interest margin in 2018 was 2.76%.

Loan Loss Provision

The provision for loan losses in 2018 remained consistent with 2017 at $2.8 million. The amount of the provision exceeded net charge-offs in all periods shown, as the amount of the allowance has risen gradually based on loan portfolio growth and offset in part by the ongoing improvement in loan performance and credit quality. The ratio of the allowance for loan losses to totals loans increased to 0.56% in 2018 from 0.50% in 2017.

Non-Interest Income

Non-interest income for 2018 increased to $27.9 million from $26.0 million in 2017. Income in 2018 included $2.1 million from the sale of Visa Class B shares, customer loan derivative income of $860 thousand, and an increase in customer service fees of $1.0 million. Income in 2018 was offset by a loss on security sales of $924 thousand and 2017 included a decrease of $1.1 million from insurance brokerage income after the sale of the business line in 2017. Other areas of non-interest income remained consistent year over year, which includes trust and investment management fee income and bank-owned life insurance income. Customer loan derivative income of $860 thousand resulted from fees earned in helping commercial customers to facilitate risk management strategies. The Company mitigates the risk by entering into equal and offsetting loan swap arrangements with highly rated third party financial institutions.

Income from customer service fees increased to $9.5 million in 2018 from $8.5 million in 2017. Trust and investment management fee income represented 43% of total non-interest income in 2018 compared to 47% in 2017 due to the increase in customer service fees.

Non-Interest Expense

Non-interest expense increased to $75.5 million from $72.7 million in 2017. Full time equivalent staff totaled 445 at the end of 2018 compared with 423 at the end of 2017, and increase of 5.2%. Salary and benefit expense increased proportionally to the amount of new hires and was offset by the revaluation of post-retirement liabilities at lower year-end discount rates. Acquisition, conversion and other expenses totaled $1.7 million in 2018 compared to $3.3 million in 2017. The charges in 2018 relate to debit card conversion from VISA to Mastercard and preliminary trust system conversion costs. In addition, there was a net benefit of $2.6 million in 2017, which reflected a gain on the sale of the Company's insurance subsidiary offset by other one-time charges. Other non-interest expenses increased to $14.9 million in 2018 from $11.9 million in 2017. The increase is due to various one-time charges related to brand consolidation and upgrades around the Company's automated teller machines and associated write-offs.

Income Tax Expense

The effective tax rate was 18.7% in 2018 compared to 39.0% in 2017. The decrease in the effective tax rate was a direct result of the Tax Cuts and Jobs Act of 2017. As previously mentioned, the tax reform resulted in a $4.0 million income tax charge in the fourth quarter of 2017 due to the revaluation of net deferred tax assets.

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, 2019, 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 Bank has capacity to borrow funds on a secured basis utilizing the Borrower in Custody program and the Discount Window at the FRB. At December 31, 2019, the Bank's available secured line of credit at the FRB stood at $144.2 million or 3.9% of the Bank's total assets. The Bank also has access to the national brokered deposit market, and has used this funding source to bolster its on balance sheet liquidity position. The Company has issued $40 million in subordinated notes to accredited investors that provides funds for ongoing operations and future growth.

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, 2019:

(in thousands)	Total	Less than One Year	One to Three Years	Three to Five Years	After Five Years
FHLB Borrowings	$426,564	$303,286	$114,662	$ 8,300	$ 316
Subordinated Notes	59,920	—	—	—	59,920
Operating lease obligations	12,008	1,194	2,421	2,409	5,984
Purchase obligations	20,398	3,369	6,659	5,812	4,558
Total Contractual Obligations	$518,890	$307,849	$123,742	$16,521	$70,778

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, 2019 and 2018, 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 call provisions are examined on an individual basis in each rate environment to estimate the likelihood of a call. Prepayment assumptions for mortgage loans and mortgage-backed securities are developed from industry median estimates 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 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.

As of December 31, 2019, interest rate sensitivity modeling results indicate that the Bank's balance sheet was essentially neutral over the one- and two-year horizons (i.e., relatively unexposed to changes in interest rates).

The following table presents the changes in sensitivities on net interest income for the years ended December 31, 2019 and 2018:

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, 2019				
−100	$ (961)	(1.0)%	$(3,645)	(3.7)%
+200	651	0.7	3,246	3.3
At December 31, 2018				
−100	1,471	1.7	603	0.7
+200	(3,220)	(3.7)	(7,161)	(8.3)

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 be slightly lower over the one year horizon with a further modest reduction over the two-year horizon. Should the yield curve steepen as rates fall, the model suggests that accelerated earning asset prepayments will slow, resulting in a more stabilized level of net interest income. Management anticipates that moderate to strong earning asset growth will be needed to meaningfully increase the Bank's current level of net interest income should both long-term and short-term interest rates decline in parallel.

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 moderately over the one and two-year horizons as increased earning asset yields outpace increases in funding costs. The interest rate sensitivity simulation model suggests that as interest rates rise, the Bank's earning assets will initially re-price disproportionately with funding costs to a moderate degree. Management similarly believes moderate to strong earning asset growth will be necessary to meaningfully increase the current level of net interest income over the one-year and two-year horizons should short-term and long-term interest rates rise in parallel.

As compared to December 31, 2018, the year-one sensitivity in the down 100 basis points scenario is slightly lower year-over-year, while the year-two sensitivity in the down 100 basis points scenario also showed a further reduction. In the year-one up 200 basis points scenario, results were modestly up versus the prior year, while year-two, up 200 basis points results were slightly positive further still. On balance, the current aggregate position is less liability sensitive and largely consistent with a more neutral stance on interest rates.

Net interest income exposure is also significantly affected by the shape and level of the U.S. Government securities and interest rate swap yield curve, and changes in the size and composition of the Bank's loan, investment and deposit portfolios.

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 anticipation of 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 INDEPENDANT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Bar Harbor Bankshares and its Subsidiaries (the Company) as of December 31, 2019 and 2018, 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, 2019, 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, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, 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, 2019, 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, 2020 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 audits 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.

/s/ RSM US LLP

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

Boston, Massachusetts
March 10, 2020

BAR HARBOR BANKSHARES AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)	December 31, 2019	December 31, 2018
Assets		
Cash and due from banks	$ 37,261	$ 35,208
Interest-bearing deposit with the Federal Reserve Bank	19,649	63,546
Total cash and cash equivalents	56,910	98,754
Securities available for sale, at fair value	663,230	725,837
Federal Home Loan Bank stock	20,679	35,659
Total securities	683,909	761,496
Loans:		
Commercial real estate	930,661	826,699
Commercial and industrial	423,291	404,870
Residential real estate	1,151,857	1,144,698
Consumer	135,283	113,960
Total loans	2,641,092	2,490,227
Less: Allowance for loan losses	(15,353)	(13,866)
Net loans	2,625,739	2,476,361
Premises and equipment, net	51,205	48,804
Other real estate owned	2,236	2,351
Goodwill	118,649	100,085
Other intangible assets, net	8,641	7,459
Cash surrender value of bank-owned life insurance	75,863	73,810
Deferred tax assets, net	3,865	9,514
Other assets	42,111	29,853
Total assets	$3,669,128	$3,608,487
Liabilities		
Deposits:		
Demand	$ 414,534	$ 370,889
NOW	575,809	484,717
Savings	388,683	358,888
Money market	384,090	335,951
Time	932,635	932,793
Total deposits	2,695,751	2,483,238
Borrowings:		
Senior	471,396	680,823
Subordinated	59,920	42,973
Total borrowings	531,316	723,796
Other liabilities	45,654	30,874
Total liabilities	3,272,721	3,237,908
Shareholders' equity		
Capital stock, par value $2.00; authorized 20,000,000 shares; issued 16,428,388 and 16,428,388 shares at December 31, 2019 and December 31, 2018, respectively	32,857	32,857
Additional paid-in capital	188,536	187,653
Retained earnings	175,780	166,526
Accumulated other comprehensive loss	3,911	(11,802)
Less: 870,257 and 905,201 shares of treasury stock at December 31, 2019 and December 31, 2018, respectively, at cost	(4,677)	(4,655)
Total shareholders' equity	396,407	370,579
Total liabilities and shareholders' equity	$3,669,128	$3,608,487

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

BAR HARBOR BANKSHARES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)	Years Ended December 31, 2019	2018	2017
Interest and dividend income			
Loans	$111,042	$104,015	$94,976
Securities and other	24,349	23,436	21,093
Total interest and dividend income	135,391	127,451	116,069
Interest expense			
Deposits	27,034	19,521	11,307
Borrowings	18,547	17,047	12,607
Total interest expense	45,581	36,568	23,914
Net interest income	89,810	90,883	92,155
Provision for loan losses	2,317	2,780	2,788
Net interest income after provision for loan losses	87,493	88,103	89,367
Non-interest income			
Trust and investment management fee income	12,063	11,985	12,270
Insurance brokerage service income	—	—	1,097
Customer service fees	10,127	9,538	8,484
(Loss) gain on sales of securities, net	237	(924)	19
Bank-owned life insurance income	2,053	1,821	1,539
Customer derivative income	2,028	860	—
Other income	2,561	4,655	2,573
Total non-interest income	29,069	27,935	25,982
Non-interest expense			
Salaries and employee benefits	45,000	40,964	39,589
Occupancy and equipment	14,214	12,386	11,061
Loss on premises and equipment, net	18	—	94
Outside services	1,818	2,408	3,000
Professional services	2,191	1,474	1,655
Communication	821	804	1,289
Marketing	1,872	1,743	945
Amortization of intangible assets	861	828	812
Loss on debt extinguishment	1,096	—	—
Acquisition, restructuring and other expenses	8,317	1,728	3,302
Other expenses	13,525	13,204	10,979
Total non-interest expense	89,733	75,539	72,726
Income before income taxes	26,829	40,499	42,623
Income tax expense	4,209	7,562	16,630
Net income	$ 22,620	$ 32,937	$25,993
Earnings per share:			
Basic	$ 1.46	$ 2.13	$ 1.71
Diluted	$ 1.45	$ 2.12	$ 1.70
Weighted average common shares outstanding:			
Basic	15,541	15,488	15,184
Diluted	15,587	15,564	15,290

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

BAR HARBOR BANKSHARES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
(in thousands)	**2019**	**2018**	**2017**
Net income	$22,620	$32,937	$ 25,993
Other comprehensive income (loss), before tax:			
Changes in unrealized loss on securities available for sale	18,646	(8,563)	526
Changes in unrealized loss on derivative hedges	2,216	654	(838)
Changes in unrealized loss on post-retirement plans	(350)	(216)	(326)
Income taxes related to other comprehensive income (loss):			
Changes in unrealized loss on securities available for sale	(4,434)	1,978	(114)
Changes in unrealized loss on derivative hedges	(448)	(168)	386
Changes in unrealized loss on post-retirement plans	83	47	138
Total other comprehensive income (loss)	15,713	(6,268)	(228)
Total comprehensive income	$38,333	$26,669	$ 25,765

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 share data)	Common stock amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total
Balance at December 31, 2016	$13,577	$ 23,027	$130,489	$ (4,326)	$(6,027)	$156,740
Comprehensive income:						
Net income	—	—	25,993	—	—	25,993
Other comprehensive loss	—	—	—	(228)	—	(228)
Total comprehensive income	—	—	25,993	(228)	—	25,765
Cash dividends declared ($0.75 per share)	—	—	(11,505)	—	—	(11,505)
Acquisition of Lake Sunapee Bank Group (6,245,780 shares)	8,328	173,591	—	—	—	181,919
Treasury stock purchased (9,603 shares)	—	—	—	—	(282)	(282)
Net issuance (91,517 shares) to employee stock plans, including related tax effects	—	(222)	—	—	968	746
Three-for-two stock split	10,952	(10,968)	—	—	—	(16)
Recognition of stock based compensation	—	1,274	—	—	—	1,274
Balance at December 31, 2017	$32,857	$186,702	$144,977	$ (4,554)	$(5,341)	$354,641
Comprehensive income:						
Net income	—	—	32,937	—	—	32,937
Other comprehensive loss	—	—	—	(6,268)	—	(6,268)
Total comprehensive income	—	—	32,937	(6,268)	—	26,669
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
Comprehensive income:						
Net income	—	—	22,620	—	—	22,620
Other comprehensive income	—	—	—	15,713	—	15,713
Total comprehensive income	—	—	22,620	15,713	—	38,333
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

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, 2019**	**2018**	**2017**
Cash flows from operating activities:			
Net income	$ 22,620	$ 32,937	$ 25,993
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	2,317	2,780	2,788
Net amortization of securities	3,341	3,945	5,214
Deferred tax benefit	1,101	(443)	6,886
Change in unamortized net loan costs and premiums	(555)	(600)	(933)
Premises and equipment depreciation	4,136	3,704	3,553
Stock-based compensation expense	1,373	1,346	1,274
Accretion of purchase accounting entries, net	(3,806)	(3,512)	(3,337)
Amortization of other intangibles	861	828	812
Income from cash surrender value of bank-owned life insurance policies	(2,053)	(1,821)	(1,539)
(Gain) loss on sales of securities, net	(237)	924	(19)
Loss on other real estate owned	166	—	—
Loss on premises and equipment, net	18	—	94
Net change in other assets and liabilities	7,121	(2,366)	(432)
Net cash provided by operating activities	36,403	37,722	40,354
Cash flows from investing activities:			
Proceeds from sales of securities available for sale	92,315	29,107	1,599
Proceeds from maturities, calls and prepayments of securities available for sale	115,334	95,629	121,583
Purchases of securities available for sale	(129,189)	(146,763)	(172,116)
Net change in loans	(150,831)	(5,158)	(145,449)
Purchase of Federal Home Loan Bank stock	(11,687)	(2,676)	(11,986)
Proceeds from sale of Federal Home Loan Bank stock	26,667	5,122	10,661
Purchase of premises and equipment, net	(9,185)	(4,793)	(3,157)
Purchase of bank-owned life insurance	—	(14,000)	—
Acquisitions, net of cash acquired	(18,383)	—	39,537
Net investment in tax credit limited partnerships	(22)	(585)	—
Proceeds from sale of other real estate owned	—	153	322
Net cash used in investing activities	(84,981)	(43,964)	(159,006)
Cash flows from financing activities:			
Net increase in deposits	212,693	131,981	151,900
Net change in short-term FHLB borrowings	(308,380)	37,000	(68,368)
Proceeds from advances from the Federal Home Loan Bank	328,097	42,700	221,168
Repayments of advances from the Federal Home Loan Bank	(237,719)	(180,982)	(92,539)
Net change in short-term other borrowings	8,621	(4,495)	(222)
Proceeds from subordinated debt issuance	40,000	—	—
Repayments of subordinated debt	(22,000)	—	—
Payment of subordinated debt issuance costs	(700)	—	—
Exercise of stock options	(273)	615	746
Purchase of treasury stock	(239)	(324)	(282)
Cash dividends paid on common stock	(13,366)	(12,184)	(11,505)
Net cash provided by financing activities	6,734	14,311	200,898
Net change in cash and cash equivalents	(41,844)	8,069	82,246
Cash and cash equivalents at beginning of year	98,754	90,685	8,439
Cash and cash equivalents at end of year	$ 56,910	$ 98,754	$ 90,685
Supplemental cash flow information:			
Interest paid	$ 45,755	$ 36,511	$ 21,399
Income taxes paid, net	2,371	9,891	9,084
Acquisition of non-cash assets and liabilities:			
Assets acquired	243,676	—	1,454,076
Liabilities assumed	261,814	—	1,406,672
Other non-cash changes:			
Real estate owned acquired in settlement of loans	250	2,380	32
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.

Stock Split: On February 21, 2017, the Company's Board of Directors declared a three-for-two stock split payable on March 21, 2017 as a large stock dividend.

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, 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. The reserve requirement, included in cash and equivalents, was $23.1 million and $15.8 million at year-end 2019 and 2018, respectively.

Securities: All securities held at December 31, 2019 and 2018 were classified as available-for-sale ("AFS"). Available for sale securities primarily consist of mortgage-backed securities and obligations of state and political subdivisions there of, 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, calculated periodically based primarily on its level of borrowings from the

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FHLB. FHLB stock is a 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.

The Company periodically evaluates its investment in FHLB stock for impairment based on, among other things, 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, 2019.

Loans Held for Sale: 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. Gains and losses on sales of residential mortgage loans (sales proceeds minus carrying value) are recorded in non-interest income. Non-refundable fees and direct loan origination costs related to residential mortgage loans held for sale are recognized in non-interest income or non-interest expense as earned or incurred.

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.

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 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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

noninterest expense. Reserve for unfunded commitments are classified in other liabilities on the Company's Consolidated Balance Sheet.

Premises and Equipment: 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 25 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 is calculated using the straight-line method over the estimated useful lives of the related 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 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. If it is more likely than not that the fair value of the reporting unit is less than the carrying value, then the fair value of each reporting unit is compared to the recorded book value "step one." If the fair value of the reporting unit exceeds its carrying value, goodwill is not considered impaired and "step two" is not considered necessary. If the carrying value of a reporting unit exceeds its fair value, the impairment test continues ("step two") by comparing the carrying value of the reporting unit's goodwill to the implied fair value of goodwill. The implied fair value is computed by adjusting all assets and liabilities of the reporting unit to current fair value with the offset adjustment to goodwill. The adjusted goodwill balance is the implied fair value of the goodwill. An impairment charge is recognized if the carrying fair value of goodwill exceeds the implied fair value of goodwill.

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 are subsequently amortized on a straight- line basis or an accelerated basis over their estimated lives. Management assesses the recoverability of these intangible assets whenever events or changes in circumstances indicate that their carrying value may not be recoverable. If the carrying amount exceeds fair value, an impairment charge is recorded to income.

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. The cash surrender value is included in other assets on the Company's consolidated balance sheet.

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

The Company's capitalized servicing rights are accounted for under the amortization method and 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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

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.

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.

The Company enters into commitments to lend with borrowers, and forward commitments to sell loans or to-be-announced mortgage-backed bonds to investors 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, the commitment period expires or the borrower decides not to contract for the loan. These commitments are considered derivatives which are accounted for by recognizing their estimated fair value on the Consolidated Balance Sheets as either a freestanding asset or liability.

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 option, restricted stock and performance stock, which are described more fully in Note 14—*Stock Based Compensation Plans o*f the Consolidated Financial Statements. The Company expenses the grant date fair value of equity awards granted. 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 and performance stock vesting.

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 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 2019			
ASU 2016-02, Leases ASU 2018-11 Practical Expedients to Topic 842, Leases ASU 2018-20 Scope Improvements for Lessors ASU 2019-01 Leases: Codification Improvements	This ASU creates ASU Topic 842, Leases, and supersedes Topic 840, Leases. The new guidance requires lessees to record a right-of- use asset and a corresponding liability equal to the present value of future rental payments on their balance sheets for all leases with a term greater than one year. There are not significant changes to lessor accounting; however, there are certain improvements made to align lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers.This guidance expands both quantitative and qualitative required disclosures. This ASU is required to be adopted on a modified retrospective basis and allows for practical expedients and elections in conjunction with implementation. The Company may elect some of the expedients upon the adoption date, which may be applied prospectively or retrospectively.	January 1, 2019	The Company adopted this ASU as of January 1, 2019 including the election of the practical expedients, allowing for existing leases to be accounted for consistent with current guidance, with the exception of balance sheet recognition for lessees. A modified retrospective transition approach was utilized, applying the new standard to all leases existing at the date of initial application. At January 1, 2019 the Company recognized a right-of-use asset and corresponding lease liability of $9.0 million. This computation is based, primarily, on the present value of unpaid future minimum lease payments. Additionally, that amount is impacted by assumptions around renewals and/or extensions, and the interest rate used to discount those future lease obligations. Due to the limited size of the Company's leasing portfolio, many other items related to this standard don't apply, or had an immaterial impact on the Company's consolidated financial statements. For transitional disclosures see Note 17—*Leases*.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Standard	Description	Required Date of Adoption	Effect on financial statements
Standards Adopted in 2019			
ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities ASU 2018-16, Inclusion of Overnight Financing Rate or Overnight Swap Rate as a Benchmark for Hedge Accounting	This ASU amends Accounting Standards Codification ("ASC") 815, Derivatives and Hedging to (1) improve the transparency and understandability of information conveyed to financial statement users about an entity's risk management activities by better aligning the entity's financial reporting for hedging relationships with those risk management activities and (2) reduce the complexity of and simplify the application of hedge accounting by preparers.	January 1, 2019	The Company adopted this ASU as of January 1, 2019, although it did not have a material impact on the Company's consolidated financial statements, disclosures were updated to comply with the guidance. For further detail see Note 13—*Derivative Financial Instruments and Hedging Activities.*
ASU 2018-07, Share Based Payment Accounting	This ASU expands the scope of Topic 718, Compensation- Stock Compensation to include share-based payments issued to non- employees for goods or services. Consequently, the accounting for share-based payments to non-employees and employees will be substantially aligned. The ASU supersedes Subtopic 505-50, Equity-Based Payments to non-employees.	January 1, 2019	The Company adopted this ASU as of January 1, 2019, with no 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 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. 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 debt securities. 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, rather than reduce the amortized cost of the securities by direct write-offs. 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 Early adoption is permitted in 2019	Adoption of this ASU is expected to primarily change how the Company estimates credit losses with the application of the expected credit loss model. Entities 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 will utilize the modified retrospective approach. The Company's CECL implementation efforts are in process and continue to focus on model validation, developing new disclosures, establishing formal policies and procedures and other governance and control documentation. Certain elements of the calculation are pending finalization, including refinement of the model assumptions, the qualitative framework, internal control design, model validation, and the operational control framework to support the new process. Furthermore, changes to the economic forecasts within the model could positively or negatively impact the actual results. The quantitative impact to the consolidated financial statements is estimated to be between $4 to $6 million.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Standard	Description	Required Date of Adoption	Effect on financial statements
Standards Adopted in 2019			
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.	January 1, 2020 Early adoption is permitted.	Adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.
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.	Adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.
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 2. SECURITIES AVAILABLE FOR SALE

The following is a summary of securities available for sale:

(in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2019				
Debt securities:				
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	139,240	3,034	(268)	142,006
Corporate bonds	78,804	1,478	(221)	80,061
Total securities available for sale	$655,888	$11,205	$ (3,863)	$663,230
December 31, 2018				
Debt securities:				
Mortgage-backed securities:				
US Government-sponsored enterprises	$413,492	$ 904	$ (9,444)	$404,952
US Government agency	111,938	509	(1,935)	110,512
Private label	20,353	113	(84)	20,382
Obligations of states and political subdivisions thereof	133,260	1,081	(2,076)	132,265
Corporate bonds	58,098	264	(636)	57,726
Total securities available for sale	$737,141	$ 2,871	$(14,175)	$725,837

The amortized cost and estimated fair value of available for sale ("AFS") securities segregated by contractual maturity at December 31, 2019 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	33,179	34,004
Over 5 years to 10 years	57,285	58,138
Over 10 years	127,580	129,925
Total bonds and obligations	218,044	222,067
Mortgage-backed securities	437,844	441,163
Total securities available for sale	$655,888	$663,230

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
2019	$92,315	$993	$(756)	$ 237
2018	29,107	—	(924)	(924)
2017	1,599	19	—	19

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)	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
December 31, 2019						
Debt securities:						
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
December 31, 2018						
Debt securities:						
Mortgage-backed securities:						
US Government-sponsored enterprises	$ 155	$ 19,367	$ 9,289	$297,569	$ 9,444	$316,936
US Government agency	16	2,570	1,919	68,266	1,935	70,836
Private label	79	10,393	5	47	84	10,440
Obligations of states and political subdivisions thereof	43	6,784	2,033	47,930	2,076	54,714
Corporate bonds	224	11,759	412	14,460	636	26,219
Total securities available for sale	$ 517	$ 50,873	$13,658	$428,272	$14,175	$479,145

A summary of securities pledged as collateral for certain deposits and borrowing arrangements as of the years ended December 31, 2019 and December 31, 2018 is as follows:

	December 31, 2019		December 31, 2018	
(in thousands)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Securities pledged for deposits	$217,009	$220,054	$128,949	$126,649
Securities pledged for repurchase agreements	96,007	96,477	55,656	54,189
Securities pledged for other borrowings(1)	157,172	157,458	270,252	265,334
Total securities pledged	$470,188	$473,989	$454,857	$446,172

(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, 2019, 2018 and 2017 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, 2019	2018	2017
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, 2019, 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, 2019:

US Government-sponsored enterprises

163 out of the total 684 securities in the Company's portfolios of AFS US Government-sponsored enterprises were in unrealized loss positions. Aggregate unrealized losses represented 2.3% 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

49 out of the total 182 securities in the Company's portfolios of AFS US Government agency securities were in unrealized loss positions. Aggregate unrealized losses represented 1.9% 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 19 securities in the Company's portfolio of AFS private-label mortgage-backed securities were in unrealized loss positions. Aggregate unrealized losses represented 3.7% 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

15 of the total 217 securities in the Company's portfolio of AFS municipal bonds and obligations were in unrealized loss positions. Aggregate unrealized losses represented 0.9% 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

7 of the total 27 securities in the Company's portfolio of AFS corporate bonds were in an unrealized loss position. The aggregate unrealized loss represents 1.1% of the amortized cost of bonds 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, 2019			December 31, 2018		
(in thousands)	**Business Activities Loans**	**Acquired Loans**	**Total**	**Business Activities Loans**	**Acquired Loans**	**Total**
Commercial real estate:						
Construction and land development	$ 31,387	$ 2,903	$ 34,290	$ 23,754	$ 2,890	$ 26,644
Other commercial real estate	666,051	230,320	896,371	555,980	244,075	800,055
Total commercial real estate	697,438	233,223	930,661	579,734	246,965	826,699
Commercial and industrial:						
Commercial	239,692	59,072	298,764	234,757	52,470	287,227
Agricultural	20,018	206	20,224	22,317	—	22,317
Tax exempt	66,860	37,443	104,303	56,588	38,738	95,326
Total commercial and industrial	326,570	96,721	423,291	313,662	91,208	404,870
Total commercial loans	1,024,008	329,944	1,353,952	893,396	338,173	1,231,569
Residential real estate:						
Residential mortgages	740,687	411,170	1,151,857	670,189	474,509	1,144,698
Total residential real estate	740,687	411,170	1,151,857	670,189	474,509	1,144,698
Consumer:						
Home equity	59,368	63,033	122,401	57,898	45,291	103,189
Other consumer	11,167	1,715	12,882	9,414	1,357	10,771
Total consumer	70,535	64,748	135,283	67,312	46,648	113,960
Total loans	$1,835,230	$805,862	$2,641,092	$1,630,897	$ 859,330	$2,490,227

Total unamortized net costs and premiums included in the year-end total for business activity loans were as follows:

(in thousands)	**December 31, 2019**	**December 31, 2018**
Unamortized net loan origination costs	$3,603	$3,064
Unamortized net premium on purchased loans	(134)	(127)
Total unamortized net costs and premiums	$3,469	$2,937

For the year ended December 31, 2019, the Company had pledged loans with a collateral value totaling $144.2 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 $955.7 million for FHLB borrowings for the year ended December 31, 2019. (See Note 8—*Borrowed Funds* of the Company's Consolidated Financial Statements.)

The carrying amount of the acquired loans at December 31, 2019 totaled $805.9 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 $16.6 million (and a note balance of $21.8 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 $789.2 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, 2019	Twelve Months Ended December 31, 2018
Balance at beginning of period	$ 4,377	$ 3,509
Acquisitions	4,391	—
Reclassification from nonaccretable difference for loans with improved cash flows	541	2,240
Changes in expected cash flows that do not affect the nonaccretable difference	—	—
Reclassification to TDR	—	(30)
Accretion	(1,942)	(1,342)
Balance at end of period	$ 7,367	$ 4,377

The following is a summary of past due loans at December 31, 2019 and December 31, 2018:

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	731,483	740,687	—
Total residential real estate	7,293	1,243	668	9,204	731,483	740,687	—
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	$1,819,679	$1,835,230	$ 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)

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, 2018							
Commercial real estate:							
Construction and land development	$ —	$ —	$ —	$ —	$ 23,754	$ 23,754	$ —
Other commercial real estate	1,146	—	6,725	7,871	548,109	555,980	—
Total commercial real estate	1,146	—	6,725	7,871	571,863	579,734	—
Commercial and industrial:							
Commercial	395	60	402	857	233,900	234,757	50
Agricultural	65	6	25	96	22,221	22,317	—
Tax exempt	—	—	—	—	56,588	56,588	—
Total commercial and industrial	460	66	427	953	312,709	313,662	50
Total commercial loans	1,606	66	7,152	8,824	884,572	893,396	50
Residential real estate:							
Residential mortgages	3,565	641	1,309	5,515	664,674	670,189	—
Total residential real estate	3,565	641	1,309	5,515	664,674	670,189	—
Consumer:							
Home equity	72	—	—	72	57,826	57,898	—
Other consumer	17	—	11	28	9,386	9,414	—
Total consumer	89	—	11	100	67,212	67,312	—
Total loans	$5,260	$707	$8,472	$14,439	$1,616,458	$1,630,897	$ 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, 2018							
Commercial real estate:							
Construction and land development	$ —	$ —	$ —	$ —	$ 164	$ 2,890	$ —
Other commercial real estate	631	99	211	941	6,143	244,075	—
Total commercial real estate	631	99	211	941	6,307	246,965	—
Commercial and industrial:							
Commercial	149	26	494	669	679	52,470	—
Agricultural	—	—	—	—	—	—	—
Tax exempt	—	—	—	—	—	38,738	—
Total commercial and industrial	149	26	494	669	679	91,208	—
Total commercial loans	780	125	705	1,610	6,986	338,173	—
Residential real estate:							
Residential mortgages	3,419	254	1,792	5,465	3,095	474,509	189
Total residential real estate	3,419	254	1,792	5,465	3,095	474,509	189
Consumer:							
Home equity	198	—	66	264	22	45,291	7
Other consumer	17	—	—	17	3	1,357	—
Total consumer	215	—	66	281	25	46,648	7
Total loans	$4,414	$379	$2,563	$7,356	$10,106	$859,330	$196

NOTE 3. LOANS (Continued)

Non-Accrual Loans

The following is summary information pertaining to non-accrual loans at December 31, 2019 and December 31, 2018:

	December 31, 2019			December 31, 2018		
(in thousands)	Business Activities Loans	Acquired Loans	Total	Business Activities Loans	Acquired Loans	Total
Commercial real estate:						
Construction and land development	$ 258	$ —	$ 258	$ 1	$ —	$ 1
Other commercial real estate	2,888	343	3,231	7,873	282	8,155
Total commercial real estate	3,146	343	3,489	7,874	282	8,156
Commercial and industrial:						
Commercial	932	626	1,558	1,423	643	2,066
Agricultural	278	—	278	265	—	265
Tax exempt	—	—	—	—	—	—
Total commercial and industrial	1,210	626	1,836	1,688	643	2,331
Total commercial loans	4,356	969	5,325	9,562	925	10,487
Residential real estate:						
Residential mortgages	3,362	1,973	5,335	4,213	2,997	7,210
Total residential real estate	3,362	1,973	5,335	4,213	2,997	7,210
Consumer:						
Home equity	615	254	869	246	201	447
Other consumer	21	—	21	90	1	91
Total consumer	636	254	890	336	202	538
Total loans	$8,354	$3,196	$11,550	$14,111	$4,124	$18,235

Loans evaluated for impairment by portfolio segment as of December 31, 2019 and December 31, 2018 were as follows:

Business Activities Loans

(in thousands)	Commercial real estate	Commercial and industrial	Residential real estate	Consumer	Total
December 31, 2019					
Individually evaluated for impairment	$ 3,964	$ 1,353	$ 2,620	$ 13	$ 7,950
Collectively evaluated	693,474	325,217	738,067	70,522	1,827,280
Total	$697,438	$326,570	$740,687	$70,535	$1,835,230

NOTE 3. LOANS (Continued)

Acquired Loans

(in thousands)	Commercial real estate	Commercial and industrial	Residential real estate	Consumer	Total
December 31, 2019					
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

Business Activities Loans

(in thousands)	Commercial real estate	Commercial and industrial	Residential real estate	Consumer	Total
December 31, 2018					
Individually evaluated for impairment	$ 9,835	$ 1,445	$ 2,562	$ 13	$ 13,855
Collectively evaluated	569,899	312,217	667,627	67,299	1,617,042
Total	$579,734	$313,662	$670,189	$67,312	$1,630,897

Acquired Loans

(in thousands)	Commercial real estate	Commercial and industrial	Residential real estate	Consumer	Total
December 31, 2018					
Individually evaluated for impairment	$ 188	$ 426	$ 744	$ —	$ 1,358
Purchased credit impaired	6,307	679	3,095	25	10,106
Collectively evaluated	240,470	90,103	470,670	46,623	847,866
Total	$246,965	$91,208	$474,509	$46,648	$859,330

NOTE 3. LOANS (Continued)

The following is a summary of impaired loans at December 31, 2019 and December 31, 2018:

Business Activities Loans

	December 31, 2019		
(in thousands)	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

	December 31, 2019		
(in thousands)	**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 loans	—	—	—
Residential real estate	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 loans	—	—	—
Residential real estate	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)

Business Activities Loans

	December 31, 2018		
(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance:			
Construction and land development	$ —	$ —	$ —
Other commercial real estate	8,209	8,301	—
Commercial	649	669	—
Agricultural	—	—	—
Tax exempt loans	—	—	—
Residential real estate	1,671	1,709	—
Home equity	—	—	—
Other consumer	—	—	—
With an allowance recorded:			
Construction and land development	$ 1	$ 1	$ 1
Other commercial real estate	1,625	1,660	421
Commercial	796	855	78
Agricultural	—	—	—
Tax exempt loans	—	—	—
Residential real estate	891	916	111
Home equity	13	13	—
Other consumer	—	—	—
Total			
Commercial real estate	$ 9,835	$ 9,962	$422
Commercial and industrial	1,445	1,524	78
Residential real estate	2,562	2,625	111
Consumer	13	13	—
Total impaired loans	$13,855	$14,124	$611

NOTE 3. LOANS (Continued)

Acquired Loans

	December 31, 2018		
(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance:			
Construction and land development	$ —	$ —	$ —
Other commercial real estate	188	187	—
Commercial	426	510	—
Agricultural	—	—	—
Tax exempt loans	—	—	—
Residential real estate	375	524	—
Home equity	—	—	—
Other consumer	—	—	—
With an allowance recorded:			
Construction and land development	$ —	$ —	$ —
Other commercial real estate	—	—	—
Commercial		—	—
Agricultural	—	—	—
Tax exempt loans	—	—	—
Residential real estate	369	379	41
Home equity	—	—	—
Other consumer	—	—	—
Total			
Commercial real estate	$ 188	$ 187	$ —
Commercial and industrial	426	510	—
Residential real estate	744	903	41
Consumer	—	—	—
Total impaired loans	$1,358	$1,600	$ 41

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, 2019 and December 31, 2018:

Business Activities Loan

	Twelve Months Ended December 31, 2019		Twelve Months Ended December 31, 2018	
(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	5,434	55	6,878	77
Commercial	871	5	634	9
Agricultural	—	—	—	—
Tax exempt loans	—	—	—	—
Residential real estate	2,089	47	1,693	39
Home equity	—	—	—	—
Other consumer	—	—	—	—
With an allowance recorded:				
Construction and land development	$ 56	$ 1	$ 1	$ —
Other commercial real estate	1,737	—	1,140	—
Commercial	153	—	735	—
Agricultural	—	—	—	—
Tax exempt loans	—	—	—	—
Residential real estate	540	7	826	9
Home equity	13	—	13	1
Other consumer	—	—	—	—
Total				
Commercial real estate	$ 7,227	$ 56	$ 8,019	$ 77
Commercial and industrial	1,024	5	1,369	9
Residential real estate	2,629	54	2,519	48
Consumer	13	—	13	1
Total impaired loans	$10,893	$115	$11,920	$135

NOTE 3. LOANS (Continued)

Acquired Loans

(in thousands)	Twelve Months Ended December 31, 2019 Average Recorded Investment	Twelve Months Ended December 31, 2019 Interest Income Recognized	Twelve Months Ended December 31, 2018 Average Recorded Investment	Twelve Months Ended December 31, 2018 Interest Income Recognized
With no related allowance:				
Construction and land development	$ —	$ —	$ —	$ —
Other commercial real estate	89	—	112	1
Commercial	429	—	441	1
Agricultural	—	—	—	—
Tax exempt loans	—	—	—	—
Residential real estate	652	—	442	—
Home equity	—	—	—	—
Other consumer	—	—	—	—
With an allowance recorded:				
Construction and land development	$ —	$ —	$ —	$ —
Other commercial real estate	123	—	—	—
Commercial	—	—	—	—
Agricultural	—	—	—	—
Tax exempt loans	—	—	—	—
Residential real estate	361	—	218	3
Home equity	—	—	—	—
Other consumer	—	—	—	—
Total				
Commercial real estate	$ 212	$ —	$ 112	$ 1
Commercial and industrial	429	—	441	1
Residential real estate	1,013	—	660	3
Consumer	—	—	—	—
Total impaired loans	$1,654	$ —	$1,213	$ 5

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, 2019, 2018 and 2017, 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.

	Twelve Months 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				
Construction and land development	—	$ —	$ —	$ —
Other commercial real estate	10	630	529	69
Other commercial	7	366	271	—
Agricultural	2	500	503	—
Tax exempt	—	—	—	—
Residential mortgages	12	1,427	1,327	—
Home equity	—	—	—	—
Other consumer	—	—	—	—
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				
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

	Twelve Months Ended December 31, 2017			
(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	6	$ 388	$ 222	$ —
Other commercial	6	563	545	—
Agricultural	1	19	18	—
Residential mortgages	3	692	670	—
Home equity	1	13	13	—
Other consumer	1	38	36	—
Total	18	$1,713	$1,504	$ —

NOTE 3. LOANS (Continued)

The following table summarizes the types of loan concessions made for the periods presented:

	2019		2018		2017	
(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**
Interest rate and maturity concession	2	$ 73	1	$ 16	6	$ 725
Amortization and maturity concession	4	273	1	286	6	490
Amortization concession	—	—	—	—	1	94
Amortization, interest rate and maturity concession	5	539	—	—	1	36
Amortization and interest rate concession	—	—	—	—	—	—
Forbearance	5	346	3	271	—	—
Forbearance and interest only payments	7	692	6	121	—	—
Forbearance and interest rate concession	—	—	1	49	—	—
Forbearance and maturity concession	4	472	20	2,030	—	—
Maturity concession	—	—	2	440	—	—
Restructure without concession	—	—	5	1,419	—	—
Court ordered	—	—	—	—	—	—
Other	4	235	2	282	4	159
Total	31	$2,630	41	$4,914	18	$1,504

For the twelve months ended December 31, 2019, 2018 and 2017, 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, 2019 and December 31, 2018, the Company maintained bank-owned residential real estate property with a fair value of $2.2 million and $2.4 million, respectively. Additionally, residential mortgage loans collateralized by real estate property that are in the process of foreclosure as of December 31, 2019 and December 31, 2018 totaled $810 thousand and $1.5 million, 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, 2019 the largest industry concentration outside of commercial real estate was the hospitality industry which represents 8.6% or $227.0 million of the Company's total loan portfolio, compared with 9.0% or $223.0 million at December 31, 2018. There were no concentrations of loans related to any single industry in excess of 10% of total loans for 2019 or 2018.

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, 2019 and December 31, 2018 are summarized below.

(in thousands)	2019	2018
Beginning balance	$8,395	$10,487
Changes in composition(1)	(302)	—
New Loans	242	—
Less: repayments	(126)	(2,092)
Ending balance	$8,209	$ 8,395

(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 2019 and 2018, the Company was servicing loans for participants totaling $497.2 million and $496.5 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, $1.3 million, and $1.2 million for the years ended 2019, 2018, and 2017, respectively, and is included as a component of other income within non-interest income.

Servicing rights activity during 2019 and 2018, included in other assets, was as follows:

	At or for the Twelve Months Ended December 31,	
(in thousands)	2019	2018
Balance at beginning of year	$3,086	$3,232
Acquired	—	—
Additions	160	99
Amortization	(245)	(245)
Balance at end of year	$3,001	$3,086

Total residential loans included held for sale loans of $6.5 million and $168 thousand at December 31, 2019 and 2018, respectively. The net gains on sales of loans at December 31, 2019 and 2018 were $493 thousand and $121 thousand, respectively, and included as a component of other 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, 2019, 2018 and 2017 was as follows:

Business Activities Loans (in thousands)	At or for the Twelve Months Ended December 31, 2019				
	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/(releases) 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

Acquired Loans (in thousands)	At or for the Twelve Months 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/(releases) 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

NOTE 4. ALLOWANCE FOR LOAN LOSSES (Continued)

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

Business Activities Loans (in thousands)	**At or for the Twelve Months Ended December 31, 2017**				
	Commercial real estate	**Commercial and industrial**	**Residential real estate**	**Consumer**	**Total**
Balance at beginning of period	$5,145	$1,952	$2,721	$ 601	$10,419
Charged-off loans	(124)	(189)	(226)	(162)	(701)
Recoveries on charged-off loans	49	11	65	18	143
Provision/(releases) for loan losses	967	599	797	(71)	2,292
Balance at end of period	$6,037	$2,373	$3,357	$ 386	$12,153
Individually evaluated for impairment	447	3	9	—	459
Collectively evaluated	5,590	2,370	3,348	386	11,694
Total	$6,037	$2,373	$3,357	$ 386	$12,153

Acquired Loans (in thousands)	**At or for the Twelve Months Ended December 31, 2017**				
	Commercial real estate	**Commercial and industrial**	**Residential real estate**	**Consumer**	**Total**
Balance at beginning of period	$ —	$ —	$ —	$ —	$ —
Charged-off loans	(151)	(18)	(29)	(127)	(325)
Recoveries on charged-off loans	1	—	—	—	1
Provision/(releases) for loan losses	247	34	88	127	496
Balance at end of period	$ 97	$ 16	$ 59	$ —	$ 172
Individually evaluated for impairment	—	—	—	—	—
Collectively evaluated	97	16	59	—	172
Total	$ 97	$ 16	$ 59	$ —	$ 172

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.

The following tables present the Company's commercial loans by risk rating at December 31, 2019 and December 31, 2018:

Business Activities Loans

Commercial Real Estate

Credit Risk Profile by Creditworthiness Category

	Commercial construction and land development		Commercial real estate other		Total commercial real estate	
(in thousands)	**December 31, 2019**	**December 31, 2018**	**December 31, 2019**	**December 31, 2018**	**December 31, 2019**	**December 31, 2018**
Grade:						
Pass	$31,057	$23,680	$646,886	$532,386	$677,943	$556,066
Special mention	—	73	5,483	8,319	5,483	8,392
Substandard	330	—	11,974	13,914	12,304	13,914
Doubtful	—	1	1,708	1,361	1,708	1,362
Total	$31,387	$23,754	$666,051	$555,980	$697,438	$579,734

NOTE 4. ALLOWANCE FOR LOAN LOSSES (Continued)

Commercial and Industrial

Credit Risk Profile by Creditworthiness Category

	Commercial		Agricultural		Tax exempt loans		Total commercial and industrial	
(in thousands)	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Grade:								
Pass	$221,329	$226,353	$18,940	$21,680	$66,860	$56,588	$307,129	$304,621
Special mention	2,744	6,730	298	215	—	—	3,042	6,945
Substandard	14,866	924	780	422	—	—	15,646	1,346
Doubtful	753	750	—	—	—	—	753	750
Total	$239,692	$234,757	$20,018	$22,317	$66,860	$56,588	$326,570	$313,662

Residential Real Estate and Consumer Loans

Credit Risk Profile Based on Payment Activity

	Residential real estate		Home equity		Other consumer		Total residential real estate and consumer	
(in thousands)	Dec 31, 2019	Dec 31, 2018	Dec 31, 2019	Dec 31, 2018	Dec 31, 2019	Dec 31, 2018	Dec 31, 2019	Dec 31, 2018
Performing	$737,325	$665,976	$58,753	$57,652	$11,146	$9,324	$807,224	$732,952
Non-performing	3,362	4,213	615	246	21	90	3,998	4,549
Total	$740,687	$670,189	$59,368	$57,898	$11,167	$9,414	$811,222	$737,501

Acquired Loans

Commercial Real Estate

Credit Risk Profile by Creditworthiness Category

	Commercial construction and land development		Commercial real estate other		Total commercial real estate	
(in thousands)	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Grade:						
Pass	$2,412	$2,626	$218,491	$236,393	$220,903	$239,019
Special mention	12	—	2,261	1,574	2,273	1,574
Substandard	479	264	9,400	6,009	9,879	6,273
Doubtful	—	—	168	99	168	99
Total	$2,903	$2,890	$230,320	$244,075	$233,223	$246,965

Commercial and Industrial

Credit Risk Profile by Creditworthiness Category

	Commercial		Agricultural		Tax exempt loans		Total commercial and industrial	
(in thousands)	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
Grade:								
Pass	$51,184	$46,120	$ 58	$—	$37,407	$38,738	$88,649	$84,858
Special mention	5,432	4,825	—	—	—	—	5,432	4,825
Substandard	2,115	1,222	148	—	36	—	2,299	1,222
Doubtful	341	303	—	—	—	—	341	303
Total	$59,072	$52,470	$206	$—	$37,443	$38,738	$96,721	$91,208

NOTE 4. ALLOWANCE FOR LOAN LOSSES (Continued)

Residential Real Estate and Consumer Loans

Credit Risk Profile Based on Payment Activity

	Residential real estate		Home equity		Other consumer		Total residential real estate and consumer	
(in thousands)	**Dec 31, 2019**	**Dec 31, 2018**	**Dec 31, 2019**	**Dec 31, 2018**	**Dec 31, 2019**	**Dec 31, 2018**	**Dec 31, 2019**	**Dec 31, 2018**
Performing	$407,811	$470,497	$62,504	$45,090	$1,707	$1,356	$472,022	$516,943
Non-performing	3,359	4,012	529	201	8	1	3,896	4,214
Total	$411,170	$474,509	$63,033	$45,291	$1,715	$1,357	$475,918	$521,157

The following table summarizes information about total classified and criticized loans loans as of December 31, 2019 and December 31, 2018.

	December 31, 2019			December 31, 2018		
(in thousands)	**Business Activities Loans**	**Acquired Loans**	**Total**	**Business Activities Loans**	**Acquired Loans**	**Total**
Non-accrual	$ 8,354	$ 3,196	$11,550	$14,111	$ 4,124	$18,235
Substandard accruing	26,055	13,387	39,442	7,810	7,987	15,797
Doubtful accruing	—	—	—	—	—	—
Total classified	34,409	16,583	50,992	21,921	12,111	34,032
Special mention	8,525	7,705	16,230	15,337	6,399	21,736
Total Criticized	$42,934	$24,288	$67,222	$37,258	$18,510	$55,768

NOTE 5. PREMISES AND EQUIPMENT

Year-end premises and equipment at December 31, 2019 and December 31, 2018 are summarized as follows:

(in thousands, except years)	**2019**	**2018**	**Estimated Useful Life**
Land	$ 5,028	$ 4,837	N/A
Buildings and improvements	52,363	50,933	5 - 39 years
Furniture and equipment	13,573	9,098	3 - 7 years
Premises and equipment, gross	70,964	64,868	
Accumulated depreciation	(19,759)	(16,064)	
Premises and equipment, net	$ 51,205	$ 48,804	

Depreciation expense for the years ended December 31, 2019, 2018 and 2017 amounted to $4.1 million, $3.7 million and $3.5 million, respectively.

Included in other assets is $1.8 million of premises held for sale as of December 31, 2019 that was identified as part of the Company's strategic review and branch optimization exercise, approved by the Board of Directors in September 2019. There was no property held for sale as of December 31, 2018. The Company measures assets held for sale at the lower of carrying amount or estimated fair value less 6% selling costs. The losses from this transfer of premises and equipment to premises held for sale totaled $1.0 million for 2019. There were no impairment charges recognized through December 31, 2019.

NOTE 6. GOODWILL AND OTHER INTANGIBLES

The activity impacting goodwill in 2019 and 2018 is as follows:

(in thousands)	2019	2018
Balance at beginning of year	$100,085	$100,085
Acquisition	18,564	—
Balance at end of year	$118,649	$100,085

In the fourth quarter of 2019, the Company completed its annual goodwill impairment testing using balance sheet data as of September 30, 2019 and market data as of November 30, 2019. 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 step two of the goodwill impairment test was not performed and no goodwill impairment was recognized for the year ended December 31, 2019. No impairment was recorded in 2019 and 2018.

The components of other intangible assets in 2019 and 2018 are as follows:

	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

	2018		
(in thousands)	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Core deposit intangible (non-maturity deposits)	$8,586	$(1,878)	$6,708
Customer list and other intangibles	919	(168)	751
Total	$9,505	$(2,046)	$7,459

Other intangible assets are amortized on a straight-line basis over their estimated lives, which range from eight and a half years to twelve years. Amortization expenses related to intangibles totaled $861 thousand in 2019, $828 thousand in 2018 and $812 thousand in 2017.

The estimated aggregate future amortization expense for other intangible assets remaining at year end 2019 is as follows:

(in thousands)	Other Intangible Assets
2020	$ 975
2021	932
2022	932
2023	932
2024	932
and thereafter	3,938
Total other intangible assets	$8,641

NOTE 7. DEPOSITS

A summary of time deposits at December 31, 2019 and December 31, 2018 were as follows:

(in thousands)	December 31, 2019	December 31, 2018
Time less than $100,000	$600,747	$622,478
Time $100,000 through $250,000	225,505	193,535
Time $250,000 or more	106,383	116,780
Total time deposits	$932,635	$932,793

At December 31, 2019 and December 31, 2018, the scheduled maturities by year for time deposits were as follows:

(in thousands)	December 31, 2019	December 31, 2018
Within 1 year	$555,074	$505,313
Over 1 year to 2 years	287,934	258,176
Over 2 years to 3 years	51,444	123,337
Over 3 years to 4 years	31,262	14,494
Over 4 years to 5 years	6,883	31,353
Over 5 years	38	120
Total	$932,635	$932,793

Included in time deposits are brokered deposits of $526.9 million and $466.9 million at December 31, 2019 and December 31, 2018, respectively. Also included in time deposits are reciprocal deposits of $64.1 million and $52.4 million at December 31, 2019 and December 31, 2018, respectively.

NOTE 8. BORROWED FUNDS

Borrowed funds at December 31, 2019 and December 31, 2018 are summarized, as follows:

(in thousands, except ratios)	December 31, 2019 Amount	December 31, 2019 Weighted Average Rate	December 31, 2018 Amount	December 31, 2018 Weighted Average Rate
Short-term borrowings				
Advances from the FHLB	$303,286	1.83%	$611,683	2.47%
Other borrowings	44,832	0.99	36,211	1.09
Total short-term borrowings	348,118	1.73	647,894	2.39
Long-term borrowings				
Advances from the FHLB	123,278	1.93	32,929	1.86
Subordinated borrowings	59,920	5.53	37,973	5.58
Junior subordinated borrowings	—	—	5,000	5.96
Total long-term borrowings	183,198	2.87	75,902	3.99
Total	$531,316	2.11%	$723,796	2.56%

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, 2019 and 2018.

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, 2019, the Company's available secured line of credit at the FRB was $144.2 million. The Company has pledged certain loans and securities to the FRB to support this arrangement. There were no borrowings with the FRB for the periods ended December 31, 2019 and December 31, 2018.

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, 2019 and December 31, 2018. There was no outstanding balance on the line of credit as of December 31, 2019 and December 31, 2018.

Long-term FHLB advances consist of advances with a remaining maturity of more than one year. The advances outstanding at December 31, 2019 include no callable advances and $316 thousand of amortizing advances. The advances outstanding at December 31, 2018 include no callable advances and $330 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.

A summary of maturities of FHLB advances as of December 31, 2019 is as follows:

(in thousands, except rates)	December 31, 2019 Amount	December 31, 2019 Weighted Average Rate
Fixed rate advances maturing:		
2020	$303,286	1.83%
2021	10,662	2.21
2022	104,000	1.97
2023	1,000	—
2024	7,300	1.16
2025 and thereafter	316	4.05
Total FHLB advances	$426,564	1.85%

NOTE 8. BORROWED FUNDS (Continued)

In April 2008, the Bank issued fifteen year junior subordinated notes in the amount of $5.0 million due in 2023. These debt securities qualify as Tier 2 capital for the Company and the Bank. The interest rate was three-month LIBOR plus 3.45%, which was 6.24% at December 31, 2018. On October 29, 2014, the Company executed a Subordinated Note Purchase Agreement with an aggregate of $17.0 million in subordinated notes to accredited investors. The subordinated notes have a maturity date of November 1, 2024, and bear interest at a fixed rate of 6.75% per annum. The Company called both of these notes in the fourth quarter of 2019.

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 $700 thousand 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, 2019, 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.

The following tables set forth information about the plan for the year ended December 31, 2019 and 2018:

(in thousands)	2019	2018
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$ 8,009	$ 9,020
Service cost	—	—
Interest cost	331	315
Actuarial loss (gain)	1,068	(771)
Benefits paid	(300)	(291)
Settlements	(182)	(264)
Projected benefit obligation at end of year	8,926	8,009
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	9,990	11,026
Expected return on plan assets	1,570	(481)
Contributions by employer	—	—
Benefits paid	(300)	(291)
Settlements	(182)	(264)
Fair value of plan assets at end of year	11,078	9,990
Overfunded status	$(2,152)	$(1,981)
Amounts recognized in consolidated balance sheet:		
Other assets	$ 2,152	$ 1,981

Net periodic pension cost is comprised of the following for the year ended December 31, 2019 and 2018:

(in thousands)	2019	2018
Interest cost	$ 331	$ 315
Expected return on plan assets	(638)	(706)
Settlement Charge	—	—
Net periodic pension benefit credit	$(307)	$(391)

(in thousands)	2019	2018
Net actuarial loss	$ 145	$ 415
Settlement charge	—	—
Net period pension benefit credit	(307)	(391)
Total recognized in net periodic benefit (credit) cost and other comprehensive (income) loss	$(162)	$ 24

NOTE 9. EMPLOYEE BENEFIT PLANS (Continued)

Change in plan assets and benefit obligations recognized in accumulated other comprehensive income as of December 31, 2019 and 2018 are as follows:

(in thousands)	2019	2018
Net actuarial loss	$145	$415
Settlement charge	—	—
Prior service cost	748	333
Total accumulated other comprehensive loss (pre-tax)	$893	$748

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 $684 thousand. The Company expects to make no cash contributions to the pension trust during the 2020 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, 2019 and 2018 were as follows:

	2019	2018
Projected benefit obligation		
Discount rate	3.23%	4.23%
Net periodic pension cost		
Discount rate	4.23%	3.56%
Long-term rate of return on plan assets	6.50	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 49% equity securities and 51% 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).

NOTE 9. EMPLOYEE BENEFIT PLANS (Continued)

The fair value of the Plan's assets by category and level within fair value hierarchy are as follows at December 31, 2019 and 2018:

	2019		
(in thousands)	Total	Level 1	Level 2
Asset Category			
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

	2018		
(in thousands)	Total	Level 1	Level 2
Asset Category			
Equity mutual funds:			
Large-cap	$1,730	$1,730	$ —
Mid-cap	477	477	—
Small-cap	469	469	—
International	845	845	
Fixed income funds:			
Fixed-income—core plus	3,945	3,945	—
Intermediate duration	1,321	1,321	—
Common stock	506	506	—
Common/collective trusts—large-cap	469	—	469
Cash equivalents—money market	228	228	—
Total	$9,990	$9,521	$469

The Plan did not hold any assets classified as Level 3, and there were no transfers between levels during 2019 and 2018.

Estimated benefit payments under the Company's pension plan over the next 10 years at December 31, 2019 are as follows:

Year	Payments in Thousands
2020	$ 365
2021	364
2022	383
2023	379
2024	394
2025 - 2029	2,262

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.

NOTE 9. EMPLOYEE BENEFIT PLANS (Continued)

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, 2019 and December 31, 2018:

(in thousands)	2019	2018
Change in benefit obligation:		
Projected benefit obligation at beginning of year	$3,033	$3,451
Service cost	—	—
Interest cost	103	102
Actuarial loss/(gain)	221	(142)
Benefits paid	(378)	(378)
Projected benefit obligation at end of year	$2,979	$3,033
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	$ —	$ —
Expected return on plan assets	—	—
Contributions by employer	378	378
Benefits paid	(378)	(378)
Fair value of plan assets at end of year	$ —	$ —
Underfunded status	$2,979	$3,033
Amounts recognized in consolidated balance sheet		
Other liabilities	$2,979	$3,033

Net periodic benefit cost is comprised of the following for the years ended December 31, 2019 and 2018:

(in thousands)	2019	2018
Interest cost	$103	$102
Expected return on plan assets	—	—
Amortization of unrecognized actuarial loss	15	29
Net periodic benefit cost	$118	$131

(in thousands)	2019	2018
Net actuarial loss (gain)	$220	$(142)
Amortization of unrecognized actuarial loss	(15)	(29)
Total recognized in net periodic benefit cost and other comprehensive loss	$205	$(171)

Change in plan assets and benefit obligations recognized in accumulated other comprehensive income in 2019 and 2018 are as follows:

(in thousands)	2019	2018
Accumulated other comprehensive income at beginning of the year (pre-tax)	$414	$ 585
Actuarial loss (gain)	220	(142)
Amortization of actuarial loss	(15)	(29)
Accumulated other comprehensive income at end of year (pre-tax)	$619	$ 414

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 $474 thousand. The amount expected to be amortized from accumulated other comprehensive income into net periodic benefit cost over then next fiscal year is $42 thousand.

NOTE 9. EMPLOYEE BENEFIT PLANS (Continued)

The principal actuarial assumptions used at December 31, 2019 and December 31, 2018 were as follows:

	2019	2018
Discount rate beginning of year	3.83%	3.13%
Discount rate end of year	2.65	3.83

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
2020	$ 293
2021	260
2022	260
2023	260
2024	260
2025 - 2036	2,027

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 2019, 2018, and 2017 was $1.1 million , $1.0 million, and $970 thousand, 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 $8.1 million at December 31, 2019 and $7.3 million at December 31, 2018. Expense recorded in 2019 and 2018 under these agreements was $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 $834 thousand as of year-end at December 31, 2019 and $671 thousand at December 31, 2018. Expense recorded for the split-dollar life insurance agreements in 2019 was $163 thousand and $57 thousand and $9 thousand in 2018 and 2017, respectively. In 2017, a net benefit of $57 thousand relating to split-dollar life insurance agreements was recognized.

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, 2019, 2018 and 2017:

(in thousands)	2019	2018	2017
Current:			
Federal tax expense	$2,639	$6,775	$ 8,705
State tax expense	550	1,230	1,039
Total current tax expense	3,189	8,005	9,744
Deferred tax expense	1,020	(443)	2,898
Impact of federal tax reform enactment	—	—	3,988
Total income tax expense	$4,209	$7,562	$16,630

The following table reconciles the expected federal income tax expense (computed by applying the federal statutory tax rate of 21%, 35% for years prior to 2018) to recorded income tax expense for the years ended December 31, 2019, 2018 and 2017:

	2019		2018		2017	
(in thousands, except ratios)	Amount	Rate	Amount	Rate	Amount	Rate
Statutory tax rate	$ 5,633	21.00%	$ 8,505	21.00%	$14,918	35.00%
Increase (decrease) resulting from:						
State taxes, net of federal benefit	547	2.04	908	2.24	986	2.31
Tax exempt interest	(1,375)	(5.13)	(1,315)	(3.25)	(2,074)	(4.87)
Federal tax credits	(282)	(1.05)	(125)	(0.31)	(130)	(0.3)
Officers' life insurance	(431)	(1.61)	(382)	(0.94)	(538)	(1.26)
Acquisition costs	—	—	—	—	89	0.21
Stock-based compensation plans	(20)	(0.07)	(120)	(0.3)	(241)	(0.57)
Impact of federal tax reform enactment	—	—	—	—	3,988	9.36
Other	137	0.51	91	0.23	(368)	(0.86)
Effective tax rate	$ 4,209	15.69%	$ 7,562	18.67%	$16,630	39.02%

The tax effects of temporary differences that give rise to deferred tax assets and deferred tax liabilities at December 31, 2019 and 2018 are summarized below. The net deferred tax asset, which is included in other assets, amounted to $3.9 million at December 31, 2019 and $9.5 million at December 31, 2018.

NOTE 10. INCOME TAXES (Continued)

The significant components of deferred tax assets and liabilities at December 31, 2019 and December 31, 2018 were as follows:

	2019		2018	
(in thousands)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Allowance for loan losses	$ 3,507	$ —	$ 3,085	$ —
Deferred compensation	3,383	—	3,242	—
Unrealized gain or loss on securities available for sale	—	1,858	2,641	—
Unrealized gain or loss on derivatives	307	—	685	—
Depreciation	—	1,722	—	1,517
Deferred loan origination costs	—	862	—	725
Non-accrual interest	381	—	374	—
Branch acquisition costs and goodwill	—	712	—	784
Core deposit intangible	—	1,231	—	1,309
Acquisition fair value adjustments	2,223	—	3,171	—
Prepaid expenses	—	311	—	215
Interest rate cap premium amortization	—	—	—	257
Mortgage servicing rights	—	703	—	721
Equity compensation	468	—	335	—
Prepaid pension	—	359	—	366
Contract incentives	1,167	—	1,658	—
Right of use asset	—	2,253	—	—
Lease liability	2,273	—	—	—
Other	160	—	217	—
Total	$13,869	$10,011	$15,408	$5,894

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.

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 2016.

On December 22, 2017, H.R.1, commonly known as the Tax Cuts and Jobs Act (the "Act"), was signed into law. The Act included several provisions affecting the Company's federal income tax expense, including the reduced federal income tax rate from 35% to 21% effective January 1, 2018. As a result of this rate reduction, the Company was required to re-measure, through income tax expense in the period of enactment, the deferred tax assets and liabilities using the enacted rate at which these items are expected to be recovered or settled. The re-measurement of the Company's net deferred tax asset resulted in additional 2017 income tax expense of $4.0 million.

NOTE 11. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

As part of its overall asset and liability management strategy, 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 counterpary.

Information about derivative assets and liabilities at December 31, 2019 and December 31, 2018, follows:

	December 31, 2019			
	Notional Amount	Weighted Average Maturity	Fair Value Asset (Liability)	Location Fair Value Asset (Liability)
	(in thousands)	(in years)	(in thousands)	
Cash flow hedges:				
Interest rate swap on deposits	$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.

NOTE 11. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

	December 31, 2018			
	Notional Amount	Weighted Average Maturity	Fair Value Asset (Liability)	Location Fair Value Asset (Liability)
	(in thousands)	(in years)	(in thousands)	
Cash flow hedges:				
Interest rate caps agreements	$ 90,000	4.1	$ 803	Other liabilities
Total cash flow hedges	90,000		803	
Non-hedging derivatives:				
Interest rate lock commitments	957	0.1	8	Other assets
Customer loan derivative liability	45,641	9.9	(1,353)	(1)
Customer loan derivative asset	45,641	9.9	1,353	(1)
Total non-hedging derivatives	92,239		8	
Total	$182,239		$ 811	

(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, 2019, and 2018, 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, 2019			
Fair value hedges:			
Interest rate swap on securities	Securities Available for Sale	$39,026	$523
December 31, 2018			
Fair value hedges:			
Interest rate swap on securities	Securities Available for Sale	$ —	$ —

NOTE 11. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

Information about derivative assets and liabilities for December 31, 2019 and December 31, 2018, follows:

	Twelve Months 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[1]	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income
Cash flow hedges:					
Interest rate cap agreements	$ —	Acquisition, restructuring, and other expenses	$3,156	Interest expense	$(603)
Interest rate swap on deposits	2,291	Interest expense	—	Interest expense	(2)
Total cash flow hedges	2,291		3,156		(605)
Fair value hedges:					
Interest rate swap on securities	(523)	Interest income	—	Interest income	7
Total fair value 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)

(1) As of December 31, 2019 the Company does not expect any gains or losses from accumulated other comprehensive income into earnings withing the next 12 months.

NOTE 11. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

	Twelve Months Ended December 31, 2018				
(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[(1)]	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income
Cash flow hedges:					
Interest rate cap agreements	$ 486	Acquisition, restructuring, and other expenses	$ —	Interest expense	$(519)
Total cash flow hedges	486		—		(519)
Economic hedges:					
Forward commitments	—	Other income	—	Other income	221
Total economic hedges	—		—		—
Non-hedging derivatives:					
Interest rate lock commitments	—	Other Income	—	Other Income	9
Total non-hedging derivatives	—		—		9
Total	$ 486		$ —		$(510)

(1) As of December 31, 2019 the Company does not expect any gains or losses from accumulated other comprehensive income into earnings withing the next 12 months.

Cash flow hedges

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.The caps were terminated because it was probable that the original forecasted transaction would not occur by the end of the original specified period.

Interest rate swaps on deposits

In March and November 2019, the Company entered into interest rate swaps on brokered deposits (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 pays a fixed interest rate of 2.46% and 1.55% respectively, and the financial institution counterparty pays the Company interest on the three-month LIBOR rate. The Company designated the swap as a cash flow hedge.

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 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 1.696%.

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

NOTE 11. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

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 $10.7 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, 2019				
Customer Loan Derivatives:				
MNA counterparty	$(4,669)	$4,669	$10,700	$—
RPA counterparty	(3,377)	3,377	—	—
Total	$(8,046)	$8,046	$10,700	$—

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, 2019 and December 31, 2018:

(in thousands)	2019	2018
Commitments to originate new loans	$112,669	$ 20,431
Unused funds on commercial and other lines of credit	188,098	169,063
Unadvanced funds on home equity lines of credit	114,711	106,121
Unadvanced funds on construction and real estate loans	97,500	133,130
Commercial letters of credit	2,941	1,171
Standby letters of credit	—	486
Total	$515,919	$430,402

Legal Claims

Various legal claims arise from time to time in the normal course of business. As of December 31, 2019, 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, 2019.

NOTE 13. SHAREHOLDERS' EQUITY AND EARNINGS PER COMMON SHARE

The actual and required capital ratios at December 31, 2019 and December 31, 2018 were as follows:

	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

	2018			
	Actual		Regulatory Minimum to be "Well-Capitalized"	
(in thousands, except ratios)	Amount	Ratio	Amount	Ratio
Company (consolidated)				
Total capital to risk-weighted assets	$331,628	14.23%	$230,093	9.88%
Common equity tier 1 capital to risk-weighted assets	274,838	11.80	148,542	6.38
Tier 1 capital to risk-weighted assets	295,458	12.68	183,492	7.88
Tier 1 capital to average assets	295,458	8.53	173,102	5.00
Bank				
Total capital to risk-weighted assets	$321,390	13.82%	$229,707	9.88%
Common equity tier 1 capital to risk-weighted assets	302,220	12.99	148,292	6.38
Tier 1 capital to risk-weighted assets	302,220	12.99	183,184	7.88
Tier 1 capital to average assets	302,220	8.74	172,990	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%.

The required regulatory minimum conservation buffer to be "well-capitalized" began to be phased-in incrementally, starting at 0.625% on January 1, 2016, 1.25% on January 1, 2017, 1.875% on January 1, 2018 and increased to 2.5% on January 1, 2019. The final capital rules impose restrictions on capital distributions and certain discretionary cash bonus payments if the minimum capital conservation buffer is not met.

NOTE 13. SHAREHOLDERS' EQUITY AND EARNINGS PER COMMON SHARE (Continued)

Accumulated Other Comprehensive Income

Components of accumulated other comprehensive income at December 31, 2019 and December 31, 2018 are as follows:

(in thousands)	2019	2018
Other accumulated comprehensive income (loss), before tax:		
Net unrealized gain (loss) on AFS securities	$ 7,342	$(11,304)
Net unrealized loss on derivative hedges	(718)	(2,934)
Net unrealized loss on post-retirement plans	(1,512)	(1,162)
Income taxes related to items of accumulated other comprehensive (income) loss:		
Net unrealized (gain) loss on AFS securities	(1,793)	2,641
Net unrealized loss on derivative hedges	237	685
Net unrealized loss on post-retirement plans	355	272
Accumulated other comprehensive income (loss)	$ 3,911	$(11,802)

The following table presents the components of other comprehensive income in 2019, 2018 and 2017:

	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	(940)	289	(651)
Less: reclassification adjustment for gains (losses) realized in net income	(3,156)	737	(2,419)
Net unrealized gain on derivative hedges	2,216	(448)	1,768
Net unrealized gain on post-retirement plans:			
Net unrealized gain arising during the period	(350)	83	(267)
Less: reclassification adjustment for gains (losses) realized in net income	—	—	—
Net unrealized gain on post-retirement plans	(350)	83	(267)
Other comprehensive income	$20,512	$(4,799)	$15,713

NOTE 13. SHAREHOLDERS' EQUITY AND EARNINGS PER COMMON SHARE (Continued)

(in thousands)	2018 Before Tax	2018 Tax Effect	2018 Net of Tax
Net unrealized loss on AFS securities:			
Net unrealized loss 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)

(in thousands)	2017 Before Tax	2017 Tax Effect	2017 Net of Tax
Net unrealized gain on AFS securities:			
Net unrealized gain arising during the period	$ 545	$(121)	$ 424
Less: reclassification adjustment for gains (losses) realized in net income	19	(7)	12
Net unrealized gain on AFS securities	526	(114)	412
Net unrealized loss on derivative hedges:			
Net unrealized loss arising during the period	(838)	386	(452)
Less: reclassification adjustment for gains (losses) realized in net income	—	—	—
Net unrealized loss on derivative hedges	(838)	386	(452)
Net unrealized loss on post-retirement plans:			
Net unrealized loss arising during the period	(347)	146	(201)
Less: reclassification adjustment for gains (losses) realized in net income	(21)	8	(13)
Net unrealized loss on post-retirement plans	(326)	138	(188)
Other comprehensive loss	$(638)	$ 410	$(228)

The following table presents the changes in each component of accumulated other comprehensive income/(loss) in 2019, 2018 and 2017:

(in thousands)	2019 Net unrealized gain on AFS Securities	Net loss on effective derivative hedges	Net unrealized loss on post-retirement plans	Total
Balance at beginning of period	$ (8,665)	$(2,249)	$ (888)	$(11,802)
Other comprehensive gain/(loss) before reclassifications	14,394	(651)	(267)	13,476
Less: amounts reclassified from accumulated other comprehensive income	182	(2,419)	—	(2,237)
Total other comprehensive loss	14,212	1,768	(267)	15,713
Balance at end of period	$ 5,547	$ (481)	$(1,155)	$ 3,911

NOTE 13. SHAREHOLDERS' EQUITY AND EARNINGS PER COMMON SHARE (Continued)

	2018			
(in thousands)	**Net unrealized gain on AFS Securities**	**Net loss on effective derivative hedges**	**Net unrealized loss on post-retirement plans**	**Total**
Balance at beginning of period	$(1,713)	$(2,250)	$(591)	$ (4,554)
Other comprehensive gain/(loss) before reclassifications	(7,293)	486	(191)	(6,998)
Less: amounts reclassified from accumulated other comprehensive income	(708)	—	(22)	(730)
Total other comprehensive loss	(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)

	2017			
(in thousands)	**Net unrealized gain on AFS Securities**	**Net loss on effective derivative hedges**	**Net unrealized loss on post-retirement plans**	**Total**
Balance at beginning of period	$(2,125)	$(1,798)	$(403)	$(4,326)
Other comprehensive gain/(loss) before reclassifications	424	(452)	(201)	(229)
Less: amounts reclassified from accumulated other comprehensive income	12	—	(13)	(1)
Total other comprehensive loss	412	(452)	(188)	(228)
Balance at end of period	$(1,713)	$(2,250)	$(591)	$(4,554)

The following tables presents the amounts reclassified out of each component of accumulated other comprehensive income (loss) in 2019, 2018 and 2017:

(in thousands)	**2019**	**2018**	**2017**	**Affected Line Item where Net Income is Presented**
Realized gains on AFS securities:				
Before tax	$237	$(924)	$19	Non-interest income
Tax effect	(55)	216	(7)	Tax expense
Total reclassifications for the period	$182	$(708)	$12	Net of tax

(in thousands)	**2019**	**2018**	**2017**	**Affected Line Item where Net Income is Presented**
Realized loss on effective derivative hedges:				
Before tax	$(3,156)	$—	$—	Non-interest expense
Tax effect	737	—	—	Tax benefit
Total reclassifications for the period	$(2,419)	$—	$—	Net of tax

NOTE 13. SHAREHOLDERS' EQUITY AND EARNINGS PER COMMON SHARE (Continued)

(in thousands)	2019	2018	2017	Affected Line Item where Net Income is Presented
Realized loss on post-retirement plans:				
Before tax	$—	$(29)	$(21)	Salaries and benefits
Tax effect	—	7	8	Tax benefit
Total reclassifications for the period	$—	$(22)	$(13)	Net of tax

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)	2019	2018	2017
Net income	$ 22,620	$ 32,937	$ 25,993
Average number of basic common shares outstanding	15,540,884	15,487,686	15,183,615
Plus: dilutive effect of stock options and awards outstanding	46,109	76,778	106,795
Average number of diluted common shares outstanding	15,586,993	15,564,464	15,290,410
Anti-dilutive options excluded from earnings calculation	—	7,991	8,659
Earnings per share:			
Basic	$ 1.46	$ 2.13	$ 1.71
Diluted	$ 1.45	$ 2.12	$ 1.70

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 can be issued under the 2015 Plan over the 10 year period in which the plan will be in place is 420,000 shares of common stock. The 2015 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 2015 Plan, subject to the discretion of the administrator and the terms of the 2015 Plan. The maximum stock award granted to one individual may 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, 2019 there were 467,616 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.

Compensation expense recognized in connection with the stock based compensation plans are presented in the following table for the years ended December 31, 2019, 2018, and 2017:

(in thousands)	2019	2018	2017
Stock options and restricted stock awards	$ 328	$ 350	$ 399
Performance stock units	170	237	290
Restricted stock units	854	711	585
Total compensation expense	$1,352	$1,298	$1,274

The total tax benefit recognized associated with stock options and restricted stock awards for the years ended 2019, 2018 and 2017 was $78 thousand, $81 thousand and $308 thousand, respectively. The total tax benefit recognized associated with restricted stock units and performance stock units for the years ended 2019, 2018 and 2017 was $244 thousand, $221 thousand and $423 thousand, respectively.

NOTE 14. STOCK BASED COMPENSATION PLANS (Continued)

Stock Option and Restricted Stock Awards Activity: A summary combined status of the stock option and restricted stock awards as of December 31, 2019 and 2018, 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, 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

Stock Options	Number of Stock Options Outstanding	Weighted Average Exercise Price	Aggregate Intrinsic Value
			(in thousands)
Outstanding at January 1, 2018	169,921	$18.95	
Granted	—	—	
Exercised	(47,534)	16.32	
Forfeited	(750)	22.16	
Outstanding at December 31, 2018	121,637	$19.96	$313
Ending vested and expected to vest December 31, 2018	121,637	$19.96	$313
Exercisable at December 31, 2018	101,554	20.66	192

There were no restricted stock awards granted in 2019.

Restricted Stock Awards	Number of Restricted Stock Awards Outstanding	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2018	—	$ —
Awarded	12,420	24.14
Vested	(12,420)	24.14
Forfeited	—	—
Outstanding at December 31, 2018	—	$ —

The intrinsic value of the options exercised under both plans for the years ended December 31, 2019, 2018, and 2017, was approximately $98 thousand, $760 thousand and $708 thousand, respectively.

As of December 31, 2019, there was approximately $14 thousand of unrecognized compensation cost related to unvested stock option awards, net of estimated forfeitures. This amount is expected to be recognized as expense over the next six years, with a weighted average recognition period of 0.56 years.

Performance Stock Units

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 26,952 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.

NOTE 14. STOCK BASED COMPENSATION PLANS (Continued)

During 2018, 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 19,973 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 $26.30 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, 2019 and 2018:

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

Performance Stock Units	Number of Performance Stock Units Outstanding	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2018	33,627	$25.21
Awarded	23,011	26.30
Vested and exercised	(15,017)	22.25
Forfeited	(3,756)	27.94
Nonvested at December 31, 2018	37,865	$26.77

The intrinsic value of the performance stock units vested and exercised for the years ended December 31, 2019, 2018 and 2017, was $376 thousand, $337 thousand and $285 thousand, respectively.

Restricted Stock Units

During 2019 and 2018, restricted stock units were granted to certain executive officers and senior vice presidents. The restricted shares granted were valued between $22.07 and $24.67 for 2019 and between $24.85 and $30.19 for 2018 the fair market value at the date of grant and vest annually over three years.

The following table summarizes restricted stock units activity in 2019 and 2018:

Restricted Stock Units	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

NOTE 14. STOCK BASED COMPENSATION PLANS (Continued)

Restricted Stock Units	Number of Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2018	74,168	$26.60
Granted	46,743	28.66
Vested and exercised	(26,489)	24.36
Forfeited	(13,682)	28.28
Outstanding at December 31, 2018	80,740	$28.24

The intrinsic value of the restricted stock units vested and exercised for the years ended December 31, 2019, 2018 and 2017, was $493 thousand, $594 thousand and $272 thousand, respectively.

As of December 31, 2019, there was $549 thousand 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 1.65 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.

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, 2019 and December 31, 2018, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

	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)

	December 31, 2018			
(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	$—	$404,952	$—	$404,952
US Government agency	—	110,512	—	110,512
Private label	—	20,382	—	20,382
Obligations of states and political subdivisions thereof	—	132,265	—	132,265
Corporate bonds	—	57,726	—	57,726
Derivative assets	—	2,156	8	2,164
Derivative liabilities	—	(1,353)	—	(1,353)

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

NOTE 15. FAIR VALUE MEASUREMENTS (Continued)

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 mandatory delivery loan sale 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, 2019, 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 2019 and 2018.

	Assets (Liabilities)	
(in thousands)	Interest Rate Lock Commitments	Forward Commitments
December 31, 2017	$(1)	$(221)
Realized loss recognized in non-interest income	9	221
December 31, 2018	8	—
Realized gain (loss) recognized in non-interest income	51	(84)
December 31, 2019	$59	$ (84)

Quantitative information about the significant unobservable inputs within Level 3 recurring assets and liabilities is as follows:

(in thousands, except ratios)	Fair Value December 31, 2019	Valuation Techniques	Unobservable Inputs	Significant Unobservable Input Value
Assets (Liabilities)				
Interest Rate Lock Commitment	$ 59	Historical trend	Closing Ratio	90%
		Pricing Model	Origination Costs, per loan	$1.7
Forward Commitments	(84)	Quoted prices for similar loans in active markets.	Freddie Mac pricing system	Pair-off contract price
Total	$(25)			

There were no level 3 assets and liabilities that were measured at fair value on a recurring basis in 2019 and 2018.

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, 2019	December 31, 2018	December 31, 2019	Fair Value Measurement Date as of December 31, 2019
(in thousands)	Level 3 Inputs	Level 3 Inputs	Total Gains (Losses)	Level 3 Inputs
Assets				
Impaired loans	$ 9,625	$15,213	$5,588	December 2019
Capitalized servicing rights	4,301	4,882	—	December 2019
Other real estate owned	2,236	2,351	(166)	August 2019
Premises held for sale	1,764	—	—	September 2019
Total	$17,926	$22,446	$5,422	

Quantitative information about the significant unobservable inputs within Level 3 non-recurring assets as of December 31, 2019 and December 31, 2018 is as follows:

(in thousands, except ratios)	Fair Value December 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	Discounted 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[(b)]	1,764	Fair value of asset less selling costs	Appraised value	$136 to $527
			Selling Costs	6.00%
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.

(b) The carrying value of premises held for sale was $1.8 million as of December 31, 2019. There were no premises held for sale as of December 31, 2018.

NOTE 15. FAIR VALUE MEASUREMENTS (Continued)

(in thousands, except ratios)	Fair Value December 31, 2018	Valuation Techniques	Unobservable Inputs	Range (Weighted Average)[(a)]
Assets				
Impaired loans	$11,676	Fair value of collateral—appraised value	Loss severity	0% to 55.00%
			Appraised value	$0 to $6,915
Impaired loans	3,537	Discount cash flow	Discount rate	2.88% to 9.50%
			Cash flows	$22 to $1,072
Capitalized servicing rights	4,882	Discounted cash flow	Constant prepayment rate (CPR)	8.19%
			Discount rate	10.08%
Other real estate owned	2,351	Fair value of collateral less selling costs	Appraised value	$2,700
			Selling costs	12.93%
Total	$22,446			

(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, 2019 and December 31, 2018.

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 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

NOTE 15. FAIR VALUE MEASUREMENTS (Continued)

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, 2019 and December 31, 2018. 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, 2019				
(in thousands)	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 bank stock	20,679	20,679	—	20,679	—
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	—
Other short-term borrowings	44,832	44,831	—	44,831	—
Federal Home Loan Bank advances	426,564	425,989	—	425,989	—
Subordinated borrowings	59,920	59,920	—	59,920	—
Derivative liabilities	(8,186)	(8,186)	—	(8,102)	(84)

	December 31, 2018				
(in thousands)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial Assets					
Cash and cash equivalents	$ 98,754	$ 98,754	$98,754	$ —	$ —
Securities available for sale	725,837	725,837	—	725,837	—
FHLB bank stock	35,659	35,659	—	35,659	—
Net loans	2,476,361	2,415,863	—	—	2,415,863
Accrued interest receivable	3,533	3,533	—	3,533	—
Cash surrender value of bank-owned life insurance policies	73,810	73,810	—	73,810	—
Derivative assets	2,164	2,164	—	2,156	8
Financial Liabilities					
Non-maturity deposits	$1,550,445	$1,476,673	$ —	$1,476,673	$ —
Time deposits	932,793	927,577	—	927,577	—
Other short-term borrowings	36,211	36,171	—	36,171	—
Federal Home Loan Bank advances	644,611	643,065	—	643,065	—
Subordinated borrowings	37,973	37,973	—	37,973	—
Junior subordinated borrowings	5,000	3,923	—	3,923	—
Derivative liabilities	(1,353)	(1,353)	—	—	(1,353)

NOTE 15. FAIR VALUE MEASUREMENTS (Continued)

Other than as discussed above, the following methods and assumptions were used by management to estimate the fair value of significant classes of financial instruments for which it is practicable to estimate that value.

Cash and cash equivalents. Carrying value is assumed to represent fair value for cash and cash equivalents that have original maturities of 90 days or less.

FHLB bank stock and restricted securities. Carrying value approximates fair value based on the redemption provisions of the issuers.

Cash surrender value of life insurance policies. Carrying value approximates fair value.

Loans, net. The fair value of loans were calculated on an individual basis with consideration given to the loans' underlying characteristics, including account types, remaining terms, annual interest rates or coupons, interest types, timing of principal and interest payments, current market rates, risk ratings, credit ratings and remaining balances. A discounted cash flow model is used to estimate the fair value of the loans using assumptions for the coupon rates, remaining maturities, prepayment speeds, liquidity premiums, projected default probabilities, losses given defaults, and estimates of prevailing discount rates.

Accrued interest receivable. Carrying value approximates fair value.

Deposits. The fair value of demand, non-interest bearing checking, savings and money market deposits is determined as the amount payable on demand at the reporting date. The fair value of time deposits is estimated by discounting the estimated future cash flows using market rates offered for deposits of similar remaining maturities.

Borrowed funds. The fair value of borrowed funds is estimated by discounting the future cash flows using market rates for similar borrowings. Such funds include all categories of debt and debentures in the table above.

Subordinated borrowings. The Company utilizes a pricing service along with internal models to estimate the valuation of its subordinated debentures with variable rates.

Off-balance-sheet financial instruments. Off-balance-sheet financial instruments include standby letters of credit and other financial guarantees and commitments considered immaterial to the Company's financial statements.

NOTE 16. REVENUE FROM CONTRACTS WITH CUSTOMERS

The Company has accounted for the various non-interest revenue streams and related contracts under ASC 606 as of January 1, 2018, using the modified retrospective method for all contracts not completed as of the date of adoption.

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:

	Twelve Months Ended December 31,	
(in thousands)	2019	2018
Major Products/Service Lines		
Trust management fees	$11,098	$11,017
Financial services fees	966	968
Interchange fees	4,899	4,434
Customer deposit fees	4,281	3,800
Other customer service fees	946	1,304
Total	$22,190	$21,523

	Twelve Months Ended December 31,	
(in thousands)	2019	2018
Timing of Revenue Recognition		
Products and services transferred at a point in time	$10,748	$ 9,766
Products and services transferred over time	11,442	11,757
Total	$22,190	$21,523

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.

NOTE 16. REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

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)	Balance at December 31, 2019	Balance at December 31, 2018
Balances from contracts with customers only:		
Other Assets	$1,703	$2,866
Other Liabilities	3,114	4,923

The timing of revenue recognition, billings and cash collections results in contract assets or recievables 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. For the Company, ASC 842 primarily affects the accounting treatment for operating lease agreements where the Company is the lessee.

Lessee Accounting

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 total of ROU assets and lease liabilities were $9.0 million as of January 1, 2019.

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 as of December 31, 2019:

(in thousands)		December 31, 2019
Lease Right-of-Use Assets	**Classification**	
Operating lease right-of-use assets	Other assets	$9,623
Lease Liabilities		
Operating lease liabilities	Other liabilities	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, 2019
Weighted-average remaining lease term	
Operating leases	8.96
Weighted-average discount rate	
Operating leases	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.

NOTE 17. LEASES (Continued)

(in thousands)	Twelve Months Ended December 31, 2019
Lease Costs	
Operating lease cost	$ 698
Variable lease cost	711
Total lease cost	$1,409

Future minimum payments for operating leases with initial or remaining terms of one year or more as of December 31, 2019 are, as follows:

(in thousands)	Operating Leases
Twelve Months Ended:	
December 31, 2020	$ 1,194
December 31, 2021	1,199
December 31, 2022	1,222
December 31, 2023	1,219
December 31, 2024	1,190
Thereafter	5,984
Total future minimum lease payments	12,008
Amounts representing interest	(2,357)
Present value of net future minimum lease payments	$ 9,651

NOTE 18. CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY

The condensed balance sheets of Bar Harbor Bankshares as of December 31, 2019 and 2018, and the condensed statements of income and cash flows for the years ended December 31, 2019, 2018 and 2017 are presented below:

CONDENSED BALANCE SHEETS

(in thousands)	December 31, 2019	2018
Assets		
Cash due from Bar Harbor Bank and Trust	$ 29,223	$ 9,993
Investment in subsidiaries	427,536	398,821
Premises and equipment	687	687
Other assets	4,586	3,416
Total assets	$462,032	$412,917
Liabilities and Shareholders Equity		
Subordinated notes	$ 59,920	$ 37,973
Accrued expenses	5,705	4,365
Shareholders equity	396,407	370,579
Total Liabilities and shareholders equity	$462,032	$412,917

NOTE 18. CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY (Continued)

CONDENSED STATEMENTS OF INCOME

(in thousands)	Years Ended December 31, 2019	2018	2017
Income:			
Dividends from subsidiaries	$21,734	$23,705	$13,907
Other	337	31	25
Total income	22,071	23,736	13,932
Interest expense	2,188	2,121	1,857
Non-interest expense	3,208	3,147	2,979
Total expense	5,396	5,268	4,836
Income before taxes and equity in undistributed income of subsidiaries	16,675	18,468	9,096
Income tax benefit	(1,100)	(1,136)	(1,210)
Income before equity in undistributed income of subsidiaries	17,775	19,604	10,306
Equity in undistributed income of subsidiaries	4,845	13,333	15,687
Net income	$22,620	$32,937	$25,993

CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)	Years Ended December 31, 2019	2018	2017
Cash flows from operating activities:			
Net income	$ 22,620	$ 32,937	$ 25,993
Adjustments to reconcile net income to net cash (used) provided by operating activities:			
Equity in undistributed income of subsidiaries	(4,845)	(13,333)	(15,687)
Other, net	(1,040)	(1,457)	(1,364)
Net cash provided by operating activities	16,735	18,147	8,942
Cash flows from investing activities:			
Acquisitions, net of cash paid	—	—	1,939
Purchase of securities	—	(7)	—
Other, net	(8,000)	—	—
Net cash (used in) provided by investing activities	(8,000)	(7)	1,939
Cash flows from financing activities:			
Proceeds from issuance of subordinated debt	40,000	—	—
Repayment of subordinated debt	(17,000)	—	—
Net proceeds from common stock	883	951	1,052
Net proceeds from reissuance of treasury stock	(22)	686	686
Common stock cash dividends paid	(13,366)	(12,184)	(11,505)
Other, net	—	—	(16)
Net cash provided by (used in) financing activities	10,495	(10,547)	(9,783)
Net change in cash and cash equivalents	19,230	7,593	1,098
Cash and cash equivalents at beginning of year	9,993	2,400	1,302
Cash and cash equivalents at end of year	$ 29,223	$ 9,993	$ 2,400

NOTE 19. QUARTERLY DATA (UNAUDITED)

Quarterly results of operations were as follows during 2019 and 2018:

	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

	2018			
(in thousands, except per share data)	**Fourth Quarter**	**Third Quarter**	**Second Quarter**	**First Quarter**
Interest and dividend income	$32,772	$32,184	$31,718	$30,777
Interest expense	10,508	9,715	8,726	7,619
Net interest income	22,264	22,469	22,992	23,158
Non-interest income	7,450	7,126	7,121	6,238
Provision for loan losses	572	643	770	795
Non-interest expense	20,096	17,906	18,685	18,852
Income before income taxes	9,046	11,046	10,658	9,749
Income tax expense	1,426	2,076	2,123	1,937
Net income	$ 7,620	$ 8,970	$ 8,535	$ 7,812
Earnings per share:				
Basic	$ 0.49	$ 0.58	$ 0.55	$ 0.51
Diluted	$ 0.49	$ 0.58	$ 0.55	$ 0.50
Weighted average shares outstanding:				
Basic	15,516	15,503	15,482	15,448
Diluted	15,574	15,580	15,571	15,553

NOTE 20. SUBSEQUENT EVENTS

There were no significant subsequent events between December 31, 2019 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, 2019. 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, 2019, 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 INDEPENDANT 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, 2019, 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, 2019, 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, 2019 and 2018, 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, 2019, and the related notes to the consolidated financial statements of the Company and our report dated March 10, 2020, 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, 2020

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 27, 2016 and effective as of October 23, 2016, 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, 2019 is formatted in 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

* 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, 2020

/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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BAR HARBOR
BANKSHARES

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