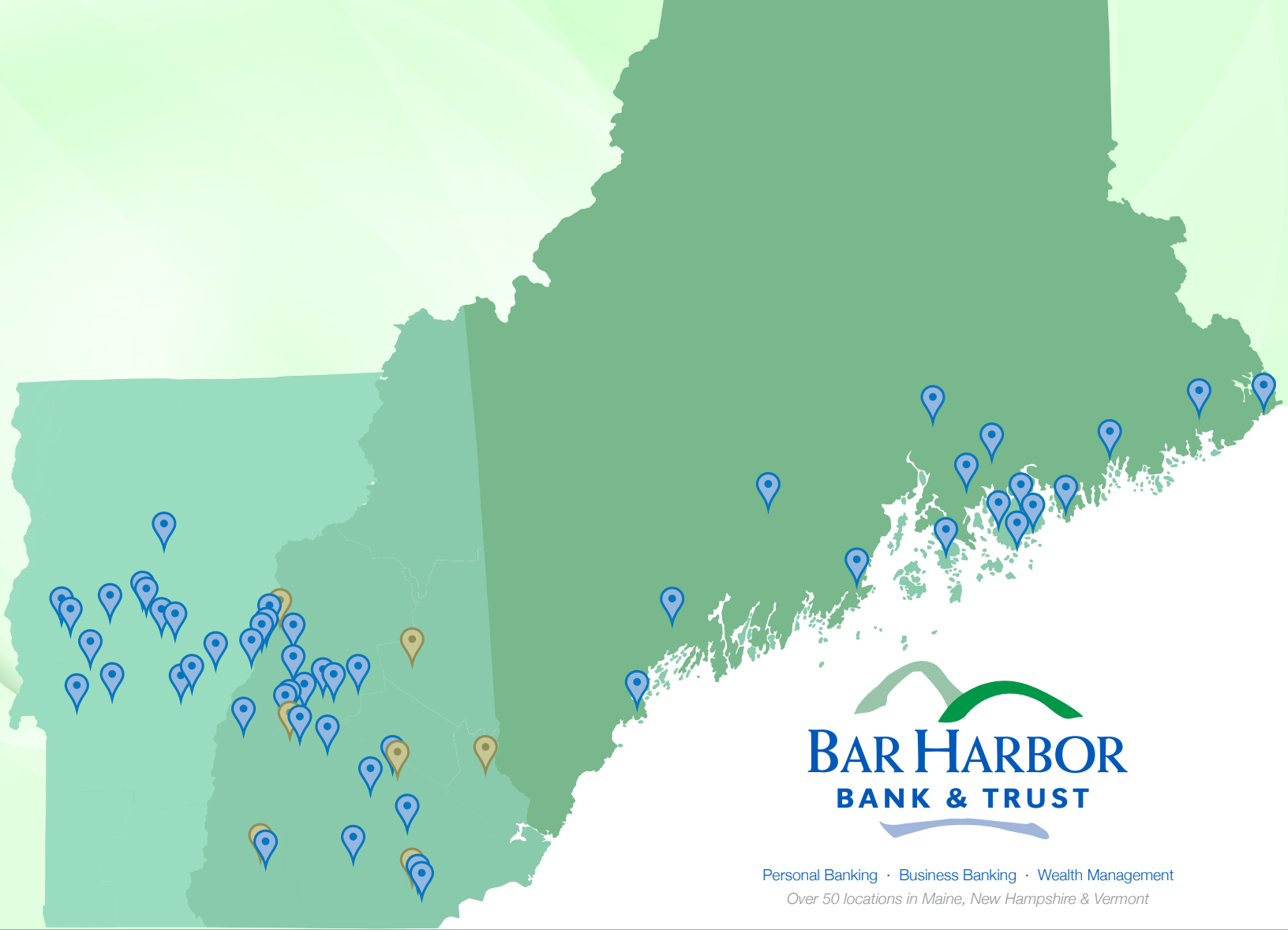




ANNUAL REPORT





BAR HARBOR BANK & TRUST

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

Maine Locations

- Bar Harbor~82 Main Street
- Blue Hill~21 Main Street
- Deer Isle~25 Church Street
- Ellsworth~125 High Street
- Ellsworth~135 High Street
- Lubec~68 Washington Street
- Machias~41 Main Street
- Milbridge~Main & Bridge Street
- NE Harbor~111 Main Street
- Portland - 75 Market Street
- Rockland~245 Camden Street
- Somesville~1055 Main Street
- South China~368 Route 3
- SW Harbor~314 Main Street
- Topsham~2 Main Street
- Winter Harbor~385 Main Street

New Hampshire Locations

- Andover~7 Lawrence Street
- Bradford~115 East Main Street
- Claremont~345 Washington Street
- Concord~8 Loudon Road
- Enfield~468 US Route 4
- Grantham~165 Route 10S
- Hanover~68 South Main Street
- Hillsborough~15 Antrim Road
- Lebanon~106 Hanover Street
- Lebanon~200 Heater Road
- Manchester~1000 Elm Street
- Milford~32 Elm Street
- Nashua~188 Main Street
- Nashua~115 DW Highway
- New London~321 Main Street
- New London~116 Newport Road
- Newbury~976 Route 103
- Newport~9 Main Street
- Newport~300 Sunapee Street
- Peterborough~2-4 Main Street
- Sunapee~565 Route 11
- West Lebanon~83 Main Street

Vermont Locations

- Bethel/Royalton~1583 VT Route 107
- Brandon~2 Park Street
- Brandon~1340 Franklin Street
- Pittsford~Route 7 & Depot Hill Road
- Quechee~6931 VT Route 4
- Randolph~21 Main Street
- Randolph~189 VT Route 12 South
- Rochester~85 North Main Street
- Rutland~100 Woodstock Ave.
- South Royalton~52 Railroad Street
- West Rutland~484 Main Street
- Williamstown~20 Methodist Lane
- Woodstock~Bond Street
- Woodstock ~906 W. Woodstock Road

Charter Trust Company NH Locations

- Concord~90 North Main Street
- Hanover~68 South Main Street
- Meredith~255 DW Highway
- Nashua~188 Main Street
- New London~331 Main Street
- Peterborough~2-4 Main Street
- Rochester~34 Wakefield Street

 Bar Harbor Bank & Trust Locations
 Charter Trust Company Locations



Bar Harbor Bank & Trust

Committed to Helping Build Thriving Communities.





Letter to Shareholders

CURTIS C. SIMARD

President & Chief Executive Officer

DAVID B. WOODSIDE

Chairman

Dear Fellow Shareholders,

We have spent the last several years communicating our purposeful evolution to you. This has specifically included becoming a core earnings financial institution that fully embraces its origins while also understanding that banking has indeed changed. We have invested in people, process, and product while also substantially increasing our footprint to be the only bank headquartered in Maine with a presence in all three Northern New England states. As banking has changed, long term sustainability and growth requires judicious capital deployment with unwavering disciplines in risk and balance sheet management. These will be the differentiators, for shareholders and customers alike as it's increasingly easy to get lost or "blend in" with the many bank and non-bank competitors in the market. Frankly, the messages and vision largely feel the same. We, on the other hand, know you have to think a little differently to separate ourselves from the often blurred banking landscape.

Providing Superior Service through a Combination of Talent, Product, and Convenience

2018 was not just any year. It was the culmination of that which we have been describing to you: we redefined our infrastructure and better embraced technology, holding firm to our risk centric operating model that balances growth with earnings. While that process began some four years into the economic recovery, 2018 represented some of the most visible results of our transformation. We have been focused on creating the type of bank that can deliver profitable growth in varying economic environments, whether through our own sales development or through acquisition. Our strategy is not designed for one specific year or one point in the economic cycle.

Along this evolution, we have clearly focused on our customer and employee experiences by creating a defined sales culture with an eye toward repeatable performance by a team who greatly believes in themselves and this company. It is not about simply meeting demands, but generating thoughtful solutions to the challenges our customers and prospects face. This sales culture is being driven at every level of leadership throughout the company with a risk management framework equally embedded throughout. We have provided significant sales training for our colleagues to understand how to better uncover the needs of our customers – and our bank – with an example of the latter represented by a distinct focus on checking account creation as that often best signifies that we are that customer's principal bank in an environment where multiple financial relationships are often maintained. Double digit growth in non-maturity deposit products in recent quarters signifies the success of our retail teams in making this connection. We seek franchise development based on articulating the value in the services we provide. Franchise value creation at this level cannot be fully achieved without direct human interactions in our markets.

Importantly, we have unified all of branches in our three-state footprint under the Bar Harbor Bank & Trust name. This has enabled us to align all messaging to better leverage our strong reputation. This was timed with the conversion of all of our debit card customers to Bar Harbor Bank & Trust Debit MasterCard®. We believe this product provides superior fraud prevention and security bundled with enhanced convenience tools, supporting our view that risk management is a value proposition of the company.



“Different” Means Many Things

The obsolescence of the physical branch simply does not fit within our markets. It does require careful planning of capital usage and branch optimization. We continue to invest in the properties we call home to ensure that we provide a convenient, fulfilling experience for both employees and customers. A significant redesign has occurred in our Newport branch and adjacent mortgage operations facility, underscoring our commitment to our entire footprint. We have consolidated our call centers and find this to be an important anchor to the town that is central to our existing New Hampshire market area.

Being different also extends to selective expansion. We opened a new branch in the heart of Manchester, New Hampshire at the 20 story 1000 Elm Street Plaza. We have created an efficient branch model that utilizes less than 1,400 square feet and we have centralized our southern commercial leadership there as well. This puts us at the center of a \$4.5 billion deposit market with existing branches extending into many of the surrounding cities and towns. Toward that end and knowing the importance of growth provided by the population density of Southern New Hampshire, we have targeted branch expansion into the Bedford market as it plays an integral part of the daily flow of Southern New Hampshire.

We have not forgotten our home state of Maine with a planned branch expansion in Belfast, a growing mid-coast community with which our Bar Harbor brand is closely aligned. We continue to look at improving branch presence and efficiency while exploring growth markets that have both near and long term potential.

Near the end of 2018, we opened a Portland, Maine commercial banking center where we can better serve the already substantial Southern Maine customer base, increase wallet share namely with Treasury Management, Wealth, and residential mortgage activity, and aggressively call on prospects in the economic capital of the state. Consistent with our belief that our brand is driven by the quality of our team, this office is run by talented Bankers with whom we have much experience. They are well positioned to regularly communicate the BHB growth story and value proposition in order to grow the bank responsibly. We have high expectations of our practical investment in this location and the team.

The World Around Us

As a risk management centric organization, we are always focused on the seemingly endless political unrest, shifting uncertainty of global economic headwinds, and other regional fluctuations that permeate our everyday lives. While some think the economy is like a “falling knife”, others feel there’s more optimism on the horizon. Pricing has clearly gotten ahead of itself exacerbated by a flat yield curve. We have built a durable bank that is designed to withstand uncertainty of outside forces. Thinking differently in this instance is centered on risk adjusted returns

and employee productivity to navigate changing environments. We will never grow for growth’s sake as moving outward on the risk curve is seldom if ever rewarded in banking circles.

We are Bar Harbor Bank & Trust

Our bank has been positioned for profitable growth for years to come, but we will never stop looking for our blind spots. We have built a very strong team that focuses on disciplined process, listening, and accountability. We benefit from the core strength and work ethic of our Downeast Maine roots while also possessing the versatility to be an important player across a broad geography that helps mitigate risk and provide various growth opportunities. Unified under our well-known and respected name that is created by our strong 130+ year reputation, Bar Harbor Bank & Trust continues to positively evolve and look at things differently in the sea of homogeneity that is banking. We have never been more enthusiastic about what we have created for our shareholders and for what lies ahead. We are confident about our future knowing we have created:

- An expanded footprint that includes strong market share with growth opportunity in more densely populated markets.
- A committed team that has fully adopted our culture and proudly advances our brand.
- Sensible expansion in product sets that align with our growth endeavors and within our risk appetite.
- An established fee income stream that continues to multiply with wealth services focus and ancillary product enhancement.
- A developed risk and controls model that views these disciplines as valuable to all of our constituents.
- Diversified leadership throughout the company and at the Board level.
- Investments and repeated commitment to the places we call home in support of our brand and efficiency.

We fill a needed void for a bank with a capacity to think differently. We are proud to live and work here and it shows. We strive to deepen our relationships every day. Our model will always be our guide with an undying commitment to brand and experiences.

On behalf of the Board of Directors and our 500+ colleagues throughout Maine, New Hampshire and Vermont, we thank you for your confidence in us. We proudly say, “We are Bar Harbor Bank & Trust.”

Curtis C. Simard

Curtis C. Simard
President & Chief Executive Officer

David B. Woodside

David B. Woodside
Chairman



CONSOLIDATED BALANCE SHEETS

Years Ended December 31, 2018 and 2017

<i>(in thousands)</i>	Years Ended	
	2018	2017
ASSETS		
Cash and due from banks	\$ 35,208	\$ 34,262
Interest-bearing deposit with the Federal Reserve Bank	63,546	56,423
Total cash and cash equivalents	98,754	90,685
Securities available for sale, at fair value	725,837	717,242
Federal Home Loan Bank stock	35,659	38,105
Total securities	761,496	755,347
Loans:		
Commercial real estate	826,699	826,746
Commercial and industrial	404,870	379,423
Residential real estate	1,144,698	1,155,682
Consumer	113,960	123,762
Total loans	2,490,227	2,485,613
Less: Allowance for loan losses	(13,866)	(12,325)
Net loans	2,476,361	2,473,288
Premises and equipment, net	48,804	47,708
Other real estate owned	2,351	122
Goodwill	100,085	100,085
Other intangible assets	7,459	8,383
Cash surrender value of bank-owned life insurance	73,810	57,997
Deferred tax assets, net	9,514	7,180
Other assets	29,853	24,389
Total assets	\$ 3,608,487	\$ 3,565,184
LIABILITIES		
Deposits:		
Demand	\$ 370,889	\$ 349,055
NOW	484,717	466,610
Savings	358,888	364,799
Money market	335,951	305,275
Time	932,793	866,346
Total deposits	2,483,238	2,352,085
Borrowings:		
Senior	680,823	786,688
Subordinated	42,973	43,033
Total borrowings	723,796	829,721
Other liabilities	30,874	28,737
Total liabilities	3,237,908	3,210,543
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, 2018 and December 31, 2017, respectively	32,857	32,857
Additional paid-in capital	187,653	186,702
Retained earnings	166,526	144,977
Accumulated other comprehensive loss	(11,802)	(4,554)
Less: 905,201 and 985,462 shares of treasury stock at December 31, 2018 and December 31, 2017, respectively, at cost	(4,655)	(5,341)
TOTAL SHAREHOLDERS' EQUITY	370,579	354,641
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 3,608,487	\$ 3,565,184

Refer to the Bar Harbor Bankshares 2018 Annual Report on Form 10-K for a complete set of audited financial statements and accompanying notes.



CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2018, 2017 and 2016

<i>(in thousands)</i>	Years Ended		
	2018	2017	2016
INTEREST AND DIVIDEND INCOME			
Loans	\$ 104,015	\$ 94,976	\$ 41,653
Securities and other	23,436	21,093	15,834
Total interest and dividend income	127,451	116,069	57,487
INTEREST EXPENSE			
Deposits	19,521	11,307	6,699
Borrowings	17,047	12,607	5,414
Total interest expense	36,568	23,914	12,113
Net interest income	90,883	92,155	45,374
Provision for loan losses	2,780	2,788	979
Net interest income after provision for loan losses	88,103	89,367	44,395
NON-INTEREST INCOME			
Trust and investment management fee income	11,985	12,270	3,829
Insurance and brokerage service income	—	1,097	—
Customer service fees	9,538	8,484	2,648
(Loss) gain on sales of securities, net	(924)	19	4,498
Bank-owned life insurance income	1,821	1,539	703
Other income	5,515	2,573	671
Total non-interest income	27,935	25,982	12,349
NON-INTEREST EXPENSE			
Salaries and employee benefits	40,964	39,589	19,775
Occupancy and equipment	12,386	11,061	4,610
Loss on premises and equipment, net	—	94	248
Outside services	2,408	3,000	767
Professional services	1,474	1,655	1,489
Communication	804	1,289	586
Amortization of intangible assets	828	812	92
Acquisition, conversion and other expenses	1,728	3,302	2,650
Other expenses	14,947	11,924	5,718
Total non-interest expense	75,539	72,726	35,935
Income before income taxes	40,499	42,623	20,809
Income tax expense	7,562	16,630	5,876
Net income	\$ 32,937	\$ 25,993	\$ 14,933
EARNINGS PER SHARE:			
Basic	\$ 2.13	\$ 1.71	\$ 1.65
Diluted	\$ 2.12	\$ 1.70	\$ 1.63
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:			
Basic	15,488	15,184	9,069
Diluted	15,564	15,290	9,143

Refer to the Bar Harbor Bankshares 2018 Annual Report on Form 10-K for a complete set of audited financial statements and accompanying notes.



SENIOR EXECUTIVE TEAM



CURTIS C. SIMARD

*President
Chief Executive Officer*



JOSEPHINE IANNELLI

*Executive Vice President
Chief Financial Officer
and Treasurer*



RICHARD B. MALTZ

*Executive Vice President
Chief Operating Officer &
Chief Risk Officer*



JOHN M. MERCIER

*Executive Vice President
Chief Lending Officer*



MARION COLOMBO

*Executive Vice President
Retail Delivery*



JOSEPH M. PRATT

*Senior Vice President,
President Bar Harbor Trust Services,
Charter Trust Company*



IN APPRECIATION FOR 48 YEARS OF SERVICE

Having given much of his professional life to the success of our institution, Stephen W. Ensign will be retiring from the Board in 2019. Steve's industry expertise, local knowledge, and keen insights have been invaluable for over four decades.

We recognize and thank Steve for his leadership and contributions to our industry and to our Institution. We wish him a rewarding and well-deserved retirement.

Bar Harbor Bankshares
BOARD OF DIRECTORS



2018 BOARD OF DIRECTORS (Back, l-r): Stephen W. Ensign, Brendan O'Halloran, Scott G. Toothaker, Stephen R. Theroux, Kenneth E. Smith, David M. Colter, Matthew L. Caras, Curtis C. Simard. (Front, l-r): Steven H. Dimick, Laurie E. Fernald, David B. Woodside, Daina H. Belair, Martha T. Dudman

DAVID B. WOODSIDE - CHAIRMAN

Bar Harbor, ME
Chief Executive Officer and General Manager
of Acadia Corporation

DAINA H. BELAIR

Lincolnville, ME
Owner of Inn at Sunrise Point

MATTHEW L. CARAS

Arrowsic, ME
Owner and Managing Director of Leaders LLC.

DAVID M. COLTER

Hampden, ME
President, GAC Chemical Corporation

STEVEN H. DIMICK

Randolph, VT
Former Director for Lake Sunapee Bank Group Board

MARTHA T. DUDMAN

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

STEPHEN W. ENSIGN

New London, NH
Former Chairman of the Board of Directors for Lake Sunapee Bank Group

LAURIE E. FERNALD

Mt. Desert, ME
President and an Owner in Jordan-Fernald Funeral Home

BRENDAN O'HALLORAN

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

CURTIS C. SIMARD

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

KENNETH E. SMITH

Bar Harbor, ME
Owner and Innkeeper of Manor House Inn

STEPHEN R. THEROUX

New London, NH
Former President and CEO of Lake Sunapee Bank

SCOTT G. TOOTHAKER

Ellsworth, ME
Principal and Vice President of Melanson Heath & Co.



FIVE-YEAR SUMMARY OF FINANCIAL DATA

The following table sets forth selected data for the last five years. As of and for the Years Ended December 31,

<i>(in millions, except per share data)</i>	2018	2017	2016	2015	2014
BALANCE SHEET DATA					
Total assets	\$ 3,608	\$ 3,565	\$ 1,755	\$ 1,580	\$ 1,459
Total earning assets*	3,263	3,244	1,683	1,517	1,411
Total investments	761	755	554	526	492
Total loans	2,490	2,486	1,129	990	919
Total deposits	2,483	2,352	1,050	943	858
Total borrowings	724	830	537	475	447
Total shareholders' equity	371	355	157	154	146
RESULTS OF OPERATIONS					
Net interest income	\$ 91	\$ 92	\$ 45	\$ 45	\$ 44
Non-interest income	28	26	13	9	8
Net revenue	119	118	58	54	52
Net income	33	27	15	15	15
PER COMMON SHARE DATA					
Diluted earnings	\$ 2.12	\$ 1.70	\$ 1.63	\$ 1.67	\$ 1.63
Adjusted earnings*	2.25	2.10	1.52	1.58	1.60
Dividends	0.79	0.75	0.73	0.67	0.60
Book value	23.87	22.96	17.19	17.10	16.40
Tangible book value*	16.94	15.94	16.61	16.50	15.78
PERFORMANCE RATIOS					
Return on assets	0.93%	0.75%	0.89%	0.98%	1.03%
Adjusted return on assets*	0.99	0.93	0.83	0.93	1.01
Return on equity	9.22	7.41	9.21	10.01	10.69
Adjusted return on equity*	9.79	9.15	8.57	9.46	10.51
Interest rate spread	2.68	2.99	2.86	3.09	3.23
Net interest margin	2.87	3.10	2.96	3.19	3.33
Efficiency ratio*	59.27	55.44	58.90	55.93	57.09
Net charge-offs/average loans	.05	.04	—	.14	.15

*Note: These performance ratios are non-GAAP financial measures; see 2018 Annual Report on Form 10-K for further discussion.

Corporate Profile - as of December 31, 2018

- \$3.6 billion in assets.
- 48 full service branches.
- Branches located across Maine, New Hampshire and Vermont.
- A true community bank providing commercial, retail, treasury and wealth management services.
- Wealth assets under management of \$1.7 billion.

Stock Information - as of December 31, 2018

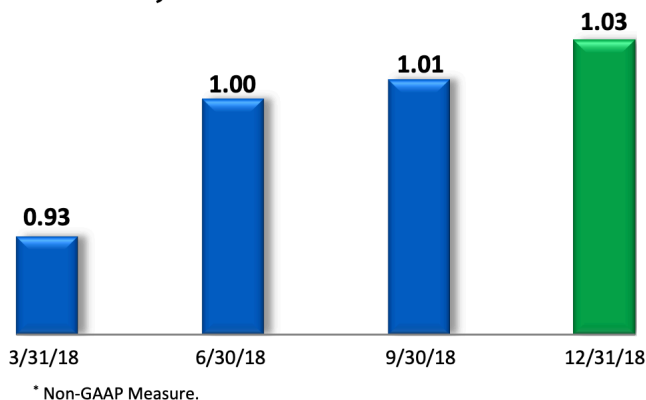
Ticker	NYSEAM: BHB
Stock price	\$22.43 per share
Market capitalization	\$348.2 million
Price to earnings ratio (full year 2018)	10.58X
Price to book value	94%
Price to tangible book value	132%
52 week price range	\$21.25 to \$30.95
Annualized dividend (Q1 2019)	\$0.80 per share
Dividend yield	3.52%
Shares outstanding	15.5 million
Average daily volume (full year 2018)	26,000 shares

SUMMARY FINANCIAL RESULTS

Bar Harbor Bankshares recorded 2018 net income of \$32.9 million or \$2.12 per share, a 27% increase compared to \$26.0 million or \$1.70 per share in 2017. The Company improved its key performance metrics in every consecutive quarter in 2018 while focusing on profitable organic growth by continuing to strengthen community and customer relationships.

Return on assets in 2018 was 0.93% as compared to 0.75% in 2017, while adjusted return on assets (non-GAAP measure) improved to 0.99% in 2018 from 0.93% in 2017. In a similar trend, return on equity was 9.22% for 2018 compared to 7.41% in 2017 and adjusted return on equity (non-GAAP measure) improved to 9.79% in 2018 from 9.15% in 2017. Credit quality remains strong with a ratio of net charge-offs to average loans of 0.05% in 2018 compared to 0.04% in 2017.

Adjusted Return on Assets*



In December 2018, the Company opened a new branch in Manchester, New Hampshire and a commercial loan office in Portland, Maine. The new branch has already attracted market share given its anticipated arrival and the new commercial loan production office is expected to generate more opportunities for loan growth and fee income, including but not limited to customer loan derivatives. The Company also announced plans to further expand into Bedford, New Hampshire and Belfast, Maine during 2019. These additional markets are viewed by the Company as providing great opportunity to further grow its franchise while serving existing communities. Additionally, strategic recruits were hired in 2018 to complement existing teams. This foundation of talent is expected to drive revenue as the Company grows across its New England footprint.

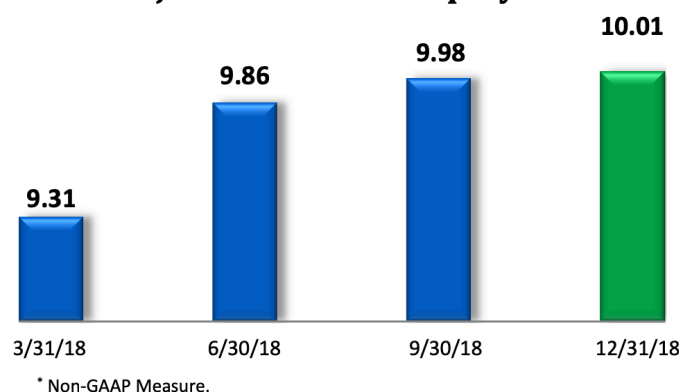
In 2018, the Company rolled out an expanded Treasury Management platform, which contributed to overall growth in loans and deposits and helped to drive the loan to deposit ratio

to 100% at year-end. Given the volatile interest rate environment, active balance sheet management was prevalent in 2018. The Company continues to diligently explore various balance sheet strategies to efficiently use capital and enhance shareholder returns.

Total assets were \$3.6 billion in 2018, increasing \$43.3 million from 2017. Loans totaled \$2.5 billion, increasing \$4.6 million from 2017 primarily due to commercial and industrial loans which grew at a rate of 5.4%. Deposits were \$2.5 billion at the end of 2018, increasing 5.6% from 2017 with growth in about equal parts of non-maturity and time deposits.

Shareholders' equity increased by 4.5% to \$370.6 million in 2018 from \$354.6 million in 2017. The Company continued to build shareholder value in 2018 with strong risk-based capital ratios and increasing tangible book value per share excluding security adjustments (non-GAAP measure) by 11% to \$17.50 per share. The Company increased dividends to \$0.79 per share in 2018 from \$0.75 per share in 2017.

Adjusted Return on Equity*



RESULTS OF OPERATIONS

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 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%.

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. Customer service fees are principally derived from debit card interchange fees and customer deposit fees. The Company earns interchange fees from transaction fees that merchants pay whenever a customer uses a debit card to make a purchase. Customer deposit fees are earned from 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 ATMs, bank remote deposit capture, ACH origination, wire transfers-by-phone, internet banking, internet bill pay, mobile banking, and other cash management services.

Trust and investment management fee income represented 43% of total non-interest income in 2018 compared to 47% in

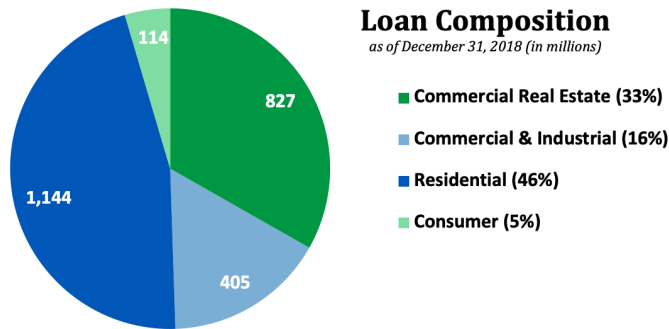
2017 due to the increase in customer service fees. Income from trust and investment management fees are principally derived from fee income through a range of fiduciary services including trust and estate administration, wealth advisory services, and investment management to individuals, businesses, not-for-profit organizations, and municipalities. Revenue from financial services is derived from retail brokerage services conducted through Bar Harbor Financial Services, an independent third-party broker.

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.

FINANCIAL CONDITION

LOANS: At December 31, 2018, total loans were \$2.5 billion with commercial loans comprising 49.4% of the total loan portfolio and residential real estate mortgage loans comprising 46.0% of total loans, remaining consistent with 2017. The remaining loan portfolio consists of consumer, home equity and tax exempt loans. Total commercial loans had a 1.41% growth rate led mostly by commercial and industrial loans which grew at a rate of 5.4%. The increase in commercial and industrial loans was influenced by the launch of a treasury management platform in 2018.



ALLOWANCE FOR LOAN LOSSES: During 2018, the allowance for loan losses increased \$1.5 million to \$13.9 million, largely as a result of the increase in business activity loans offset by lower net charge-off activity reflecting stable asset quality. The ratio of net charge-offs to total loans remain near zero at 0.05% in 2018 and 0.04% in 2017. The allowance to total loans ratio increased to 0.56% in 2018 from 0.50% in 2017, reflecting adequate coverage for future net charge-offs.

SECURITIES: Securities available for sale in 2018 increased \$8.6 million to \$725.8 million from \$717.2 million in 2017. As part of its ongoing balance sheet optimization strategy, the Company completed the sale of approximately \$30.0 million of its lower yielding securities available-for-sale. The weighted average yield on the securities sold was 2.36% with an estimated duration of 3.2 years. Proceeds from the sales were reinvested in debt securities with a weighted average yield of 5.30% with an estimated duration of 0.4 years.

In total, securities purchased were \$146.8 million during 2018 and included \$119.1 million of mortgage-backed securities guaranteed by US Government agency and US Government-sponsored enterprises and \$27.7 million of corporate bonds. The increase was primarily offset by \$95.6 million of maturities, calls, and pay-downs of amortizing securities and sale of \$30.0 million in mortgage-backed securities. While the securities sale generated a \$924 thousand realized loss, the mark-to-market on these securities had already been recognized in other comprehensive income thus resulting in no impact to tangible book value.

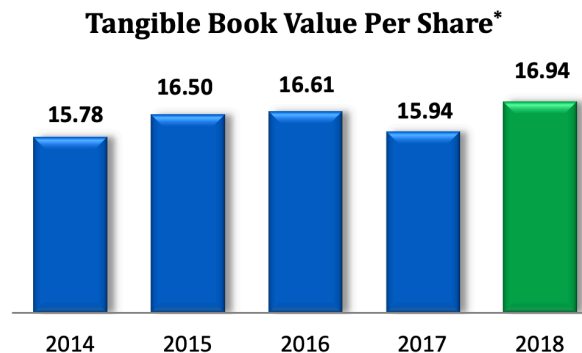
The weighted average yield on the Company's securities portfolio was 3.23% in 2018 compared to 3.10% in prior year. The weighted average life of the securities portfolio at December 31, 2018 was estimated to be 5.2 years, with a duration of approximately 3.9 years. These metrics compare with an estimated weighted average life of 5.1 years, with a duration of approximately 4.0 years for the portfolio at December 31, 2017.

DEPOSITS: Total deposits increased to \$2.5 billion in 2018 compared to \$2.4 billion in 2017 with growth of \$131 million. Core deposits remain the primary funding source for loan growth with FHLB borrowings supplementing funding needs. Deposit growth for 2018 was 5.6% with non-maturity deposits growing 4.4%. Excluding the impact of acquired balances, total deposits increased 14.4% in 2017. Non-maturity deposits saw the largest growth in non-interest bearing demand deposits and interest bearing money market deposits of 6.3% and 10.0% respectively. The Company improved its loan-to-deposit ratio to 100% at December 31, 2018 from 106% at December 31, 2017, which helped to mitigate the overall rising cost of funds.

BORROWINGS: At December 31, 2018 total borrowings were \$723.8 million with a weighted average rate of 2.56% at year-end. Overall borrowing decreased 13% from year-end 2017 due to deposit growth.

SHAREHOLDERS' EQUITY: Total equity increased by \$15.9 million, or 4.5%, during 2018. The increase reflects strong earnings of \$32.9 million, net issuance of stock based compensation of \$2.0 million offset by treasury shares of \$300 thousand, implementation of revenue recognition of \$200 thousand offset by dividends of \$12.2 million and an increase in other accumulated comprehensive losses of \$6.3 million.

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 was \$16.94 at year end 2018 compared to \$15.94 at year end 2017. Lower long-term rates had a positive impact on the fair value adjustment to the Company's securities portfolio recorded in accumulated other comprehensive income. Excluding the impact of security fair value adjustments, tangible book value per share (non-GAAP measure) was \$17.50 for 2018, compared to \$15.83 in 2017, representing a 11% increase.



* Non-GAAP Measure.

Bar Harbor Bank & Trust 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

THE BANK SERVES AFFLUENT AND GROWING MARKETS IN MAINE, NEW HAMPSHIRE AND VERMONT.



The Bank operates 14 full-service branches principally located in the regions of downeast, midcoast and central Maine, which can generally be characterized as rural areas. As previously announced, the Bank opened a new commercial loan office in Portland, Maine in December 2018.

In Maine, the Bank considers its primary market areas to be Hancock, Knox, Washington, Kennebec 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.



The Bank operates 21 full-service branches and two stand-alone drive-up windows 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. Nashua, Manchester, and Concord are considered part of the Merrimack Valley. This part of Southern NH is a regional commercial, entertainment and dining destination and 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 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 and includes the towns of Claremont, New London, and Newport.



The Bank operates 13 full-service branches and one stand-alone drive-up window 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, Ludlow and Quechee.

BAR HARBOR BANKSHARES

CORPORATE INFORMATION

ANNUAL MEETING

The Annual Meeting of shareholders of Bar Harbor Bankshares will be held at 11:00 a.m. on Tuesday, May 21, 2019 at the Bar Harbor Club located on West Street in Bar Harbor, Maine.

FINANCIAL INFORMATION

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

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

INTERNET

Bar Harbor Bank & Trust information, as well as Bar Harbor Bankshares Form 10-K, is available at www.bhbt.com

SHAREHOLDER ASSISTANCE

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

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

STOCK EXCHANGE LISTING

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

FORM 10-K ANNUAL REPORT

The Company refers you to its Annual Report on Form 10-K for year ended 2018 for detailed financial data, management's discussion and analysis of financial condition and results of operations, disclosures about market risk, market information including stock graphs, descriptions of the business of the Company and its products and services.

MAILING ADDRESS

If you need to contact our corporate headquarters office, write:

Bar Harbor Bankshares
Post Office Box 400
82 Main Street
Bar Harbor, Maine 04609-0400
207-288-3314 • 888-853-7100

PRINTED FINANCIAL INFORMATION

We will provide, without charge, and upon written request, a copy of the Bar Harbor Bankshares Annual Report to the Securities and Exchange Commission on Form 10-K. The Bank will also provide, upon request, Annual Disclosure Statements for Bar Harbor Bank & Trust as of December 31, 2018.

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



Bar Harbor Bankshares | 82 Main Street | Bar Harbor, Maine 04609
888-853-7100 | www.barharbor.bank