

# A True Community Bank

READY FOR THE FUTURE



2016 Summary Annual Report





## 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 understand the unique opportunities and challenges our customers face and we're here to face them, too.

We're known for our exceptional support of the people, businesses and communities in the places we call home.

Our staff is widely known as trustworthy, resourceful and friendly; people who customers can count on to help them find solutions they need.

Our commitment to honest service and supporting our customers is why Bar Harbor Bank & Trust is your true community bank.



## GREETINGS FELLOW SHAREHOLDERS,

CURTIS C. SIMARD  
*President & Chief Executive Officer*

DAVID B. WOODSIDE  
*Chairman*

As we continue to evolve, we share with you at every opportunity our desire to maintain our **True Community Bank** culture while continuing to focus on risk management and sustainability of earnings. This year's report is centered on how to connect these three axioms as the very foundation of Bar Harbor Bankshares.

Our company is proud of our geography, heritage, and performance, but is equally unafraid to search for and address blind spots as we set a course that creates long-term value by balancing growth and earnings. In doing so, we possess an unrelenting commitment to process improvement and a defined risk management discipline that is not at odds with performance, but rather contributes to success. The result, as graphically depicted in the report, is that our Total Shareholder Return (TSR)—or the return on our stock as measured in stock price accretion plus dividends—continues to make us a positive outlier even while making needed investments in the company.

We have specifically and consistently shared the rationale behind these measured investments not only in processes, but products, technology, training, and leadership. Each of these components is

critical in an evolving world where technological presence grows daily, new competitive headwinds are all but given, well known facts now seem debatable, and a significant transfer of wealth between generations is underway. Yet, we have continued to deliver strong earnings and consistent dividends, while also being afforded by you, our shareholders, considerable flexibility to develop our team in a manner that better prepares us to maintain a low to moderate risk profile while creating a platform for reasonable and sustainable growth.

### INVESTMENT THAT PAYS A LASTING DIVIDEND

While all of our investments have been carefully deliberated with our Board of Directors, as a service organization we have especially highlighted our investments in team members, both existing colleagues and catalyst recruits alike. While we have deepened our team at a judicious pace to protect earnings and our performance stature, we have fortified existing talent with the skills of new colleagues and an eye toward long-term value creation through balancing



*“Our Entire Team Is the Backbone of Our Already Existing Value Proposition and Brand.”*

growth with earnings and risk mitigation. Many of our newest team members come from larger institutions with substantial experience, but have a desire to be part of a **True Community Bank** where every team member matters. Two examples of our continued evolution in 2016 included elevating Rick Maltz to Chief Operating Officer and recruiting Josephine Iannelli as our new Chief Financial Officer. While each is an experienced and capable leader in their own right, they are critical developers of in-house talent and able recruiters with a wide network of relationships. As we continue to evolve our ability to better identify and manage risk, investing in proven professionals is the clearest path to seeking profitable growth that’s within our risk appetite.

Our entire team is the backbone of our already existing value proposition and brand. An experienced, unified team is necessary to advance the risk and governance disciplines we feel are prudent to safely deliver the growth that is required of lasting shareholder value, regardless of outside forces or prevailing conditions.

## LAKE SUNAPEE BANK JOINS THE BHB FAMILY

The investments we have been making are needed regardless of the growth trajectory the Board has set. They form the foundation from which to capitalize on opportunities that create value through a transformative acquisition.

We were extremely proud to announce the merger with the Lake Sunapee Bank Group of Companies during 2016. Make no mistake, we are a Downeast Maine headquartered institution deeply committed to our namesake, our regions, and our home state. However, finding a like-minded partner with similar geographic attributes quickly made the merger compelling. From our first discussions, the addition of footprint and scale through added population density made this a unique opportunity on several fronts. First, Lake Sunapee Bank shares a culture common to BHB that is rooted in a long, local history guided by employee and customer experiences as the foundation of performance. Frankly, it’s hard to find a company that is a positive outlier for its shareholders and its communities



unless its employees and customers are cooperatively engaged. Second, it further strengthened our team with the addition of a seasoned executive in Bill McIver who assumes responsibility for the retail franchise and mortgage business of the combined company as well as the New Hampshire trust business, Charter Trust Company. In addition to Bill, we have gained a set of passionate colleagues who now have the opportunity to advance their own careers and customer relationships as truly empowered idea generators in a broader organization that remains a **True Community Bank**. Third, the acquisition enables us to expand a relatively “land-locked” institution in Bar Harbor that would otherwise find it difficult to aggressively expand our tested retail brand into Southern Maine markets given few acquisition targets and too many banks competing, at times irrationally.

Together, we connect two organizations that increase the earnings levers available to each. The combined company offers a powerful consumer and residential platform with a credible commercial banking infrastructure that has significant capacity measured by

the needs of most Northern New England companies; both draped with an appropriate infrastructure to manage risk and measure employee productivity.

All business lines, commercial and retail, are further supplemented by the cross sale ability to reputable wealth management platforms that will leverage one another to enhance our non-interest income. With these considerations and the ability to spread the aforementioned infrastructure investments across a greater revenue base, opportunities to enhance corporate efficiency and operating leverage are increasingly apparent.

We are now the only community bank based in New England with a branch presence in Maine, New Hampshire, and Vermont. These states share many traits while clearly maintaining their own character. As such, we are proud to call each home and welcome our newest shareholders and colleagues to the BHB family.



*“We Are Now the Only Community Bank Based in New England  
With a Branch Presence in Maine, New Hampshire, and Vermont.”*

## MOVING FORWARD AND “WHAT’S NEXT”

Our team and our Board of Directors are unified in our enthusiasm for the future. We feel no pressure to grow solely for the sake of growth. We instead have positioned ourselves as a unique organization whose focus is on sustained profitability and desire to be an even greater positive outlier in this regard. Yet, much is changing around us. We are seeing increased rates for the first time in almost a decade. We have a new administration in the federal government, many new faces in local government, and geopolitical issues dominate virtually every headline.

BHB is a carefully governed company whose Board and Management do not change direction carelessly despite being hopeful for stabilization of outside forces such as regulation and more predictability in rates. Rather, as a risk management culture, we remain committed to process and controls improvement regardless of whether such potential shifts materialize or simply remain a mirage.

As a **True Community Bank**, we remain equally committed to being nimble and prepared to make sure no myopia prevents us from recognizing and seizing opportunity for safe and sustainable value creation. On behalf of the Board of Directors and the recently expanded Bar Harbor Bankshares team, it is our privilege to thank you, our fellow shareholders, for your continued confidence and loyalty.

*Curtis C. Simard*

CURTIS C. SIMARD  
*President & Chief Executive Officer*

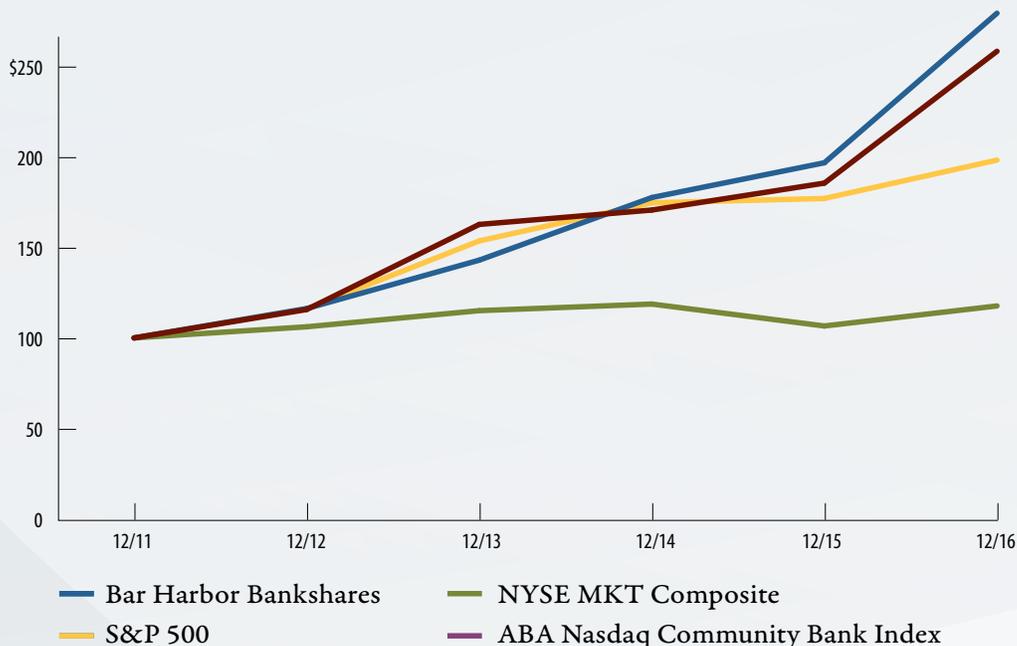
*David B. Woodside*

DAVID B. WOODSIDE  
*Chairman*

The graph below matches the cumulative 5-year total return of holders of Bar Harbor Bankshares' common stock with the cumulative total returns of the NYSE MKT Composite index, the S&P 500 index and the ABA Nasdaq Community Bank Index. The graph assumes that the value of the investment in our common stock, and in each index (including reinvestment of dividends) was \$100 on 12/31/2011 and tracks it through 12/31/2016.

### COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN\*

Among Bar Harbor Bankshares, the NYSE MKT Composite Index, the S&P 500 Index and ABA Nasdaq Community Bank Index



\*\$100 invested on 12/31/11 in stock or index, including reinvestment of dividends.  
Fiscal year ending December 31.

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	12/11	12/12	12/13	12/14	12/15	12/16
Bar Harbor Bankshares	100.00	116.23	142.94	177.51	196.72	279.28
NYSE MKT Composite	100.00	106.15	115.07	118.71	106.60	117.67
S&P 500	100.00	116.00	153.58	174.60	177.01	198.18
ABA Nasdaq Community Bank Index	100.00	115.67	162.67	170.61	185.49	258.29

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

## 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 thousands, except per share data)</i>	2016	2015	2014	2013	2012
<b>BALANCE SHEET DATA</b>					
Total assets	\$ 1,755,349	\$ 1,580,055	\$ 1,459,320	\$ 1,373,893	\$ 1,302,935
Total securities	528,856	504,969	470,525	450,170	418,040
Total loans	1,129,064	990,070	919,024	852,857	815,004
Allowance for loan losses	(10,419)	(9,439)	(8,969)	(8,475)	(8,097)
Total deposits	1,050,300	942,787	858,049	835,651	795,012
Total borrowings	536,596	474,791	447,020	409,445	371,567
Total shareholders' equity	156,740	154,152	146,287	121,379	128,046
Average assets	1,676,941	1,541,327	1,424,209	1,345,353	1,252,390
Average shareholders' equity	162,127	151,391	136,672	125,340	125,600
<b>RESULTS OF OPERATIONS</b>					
Interest and dividend income	\$ 57,487	\$ 55,224	\$ 53,718	\$ 50,749	\$ 50,838
Interest expense	12,113	10,390	9,905	11,663	13,867
Net interest income	45,374	44,834	43,813	39,086	36,971
Provision for loan losses	979	1,785	1,833	1,418	1,652
Net interest income after provision for loan losses	44,395	43,049	41,980	37,668	35,319
Non-interest income	12,349	8,979	7,758	7,566	7,709
Non-interest expense	35,935	30,908	29,211	26,860	25,618
Income before income taxes	20,809	21,120	20,527	18,374	17,410
Income taxes	5,876	5,967	5,914	5,191	4,944
Net income	\$ 14,933	\$ 15,153	\$ 14,613	\$ 13,183	\$ 12,466
Preferred stock dividends and accretion of discount	—	—	—	—	—
Net income available to common shareholders	\$ 14,933	\$ 15,153	\$ 14,613	\$ 13,183	\$ 12,466
<b>PER COMMON SHARE DATA:</b>					
Basic earnings per share	\$ 2.47	\$ 2.53	\$ 2.47	\$ 2.24	\$ 2.13
Diluted earnings per share	\$ 2.45	\$ 2.50	\$ 2.45	\$ 2.22	\$ 2.12
Cash dividends per share	\$ 1.090	\$ 1.010	\$ 0.905	\$ 0.833	\$ 0.780
Dividend payout ratio	44.04%	39.86%	36.69%	37.28%	36.62%
<b>SELECTED FINANCIAL RATIOS:</b>					
Return on total average assets	0.89%	0.98%	1.03%	0.98%	1.00%
Return on total average equity	9.21%	10.01%	10.69%	10.52%	9.93%
Tax-equivalent net interest margin	2.96%	3.19%	3.33%	3.15%	3.23%
<b>CAPITAL RATIOS:</b>					
Tier 1 leverage capital ratio	8.94%	9.37%	9.30%	9.01%	8.87%
Tier 1 risk-based capital ratio	15.01%	15.55%	15.60%	14.97%	14.15%
Total risk-based capital ratio	16.52%	17.12%	17.24%	16.62%	15.78%
Common equity tier 1	15.01%	15.55%	N/A	N/A	N/A
<b>ASSET QUALITY RATIOS:</b>					
Net charge-offs to average loans	0.00%	0.14%	0.15%	0.12%	0.23%
Allowance for loan losses to total loans	0.92%	0.95%	0.98%	0.99%	0.99%
Allowance for loan losses to non-performing loans	160.4%	134.7%	73.0%	95.9%	82.1%
Non-performing loans to total loans	0.58%	0.71%	1.34%	1.04%	1.21%

All per share amounts have been adjusted to reflect the effect of the three-for-two stock split (dividend) during May 2014.

Refer to the Bar Harbor Bankshares 2016 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*

**MARSHA C. SAWYER**  
*Executive Vice President, Human Resources*

**JOSEPHINE IANNELLI**  
*Executive Vice President,  
Chief Financial Officer and Treasurer*

**GREGORY W. DALTON**  
*Executive Vice President,  
Business Banking*

**JOSEPH M. PRATT**  
*Senior Vice President, President  
Bar Harbor Trust Services*

**RICHARD B. MALTZ**  
*Executive Vice President,  
Chief Risk Officer*

**MARCIA T. BENDER**  
*Senior Vice President,  
Retail Banking and BSA Officer*

**STEPHEN M. LEACKFELDT**  
*Executive Vice President,  
Retail Banking*

JOINING OUR SENIOR EXECUTIVE TEAM



**JOSEPHINE IANNELLI**  
*Executive Vice President, Chief Financial Officer and Treasurer*

Ms. Iannelli joined the Bank in October 2016, she most recently served as Senior Executive Vice President, Chief Financial Officer and Treasurer of Berkshire Hills Bancorp in Pittsfield, Massachusetts, having earlier joined the company as SVP/Chief Accounting Officer. Ms. Iannelli holds a bachelor's degree in Accounting from Baldwin Wallace University and her career has spanned from KPMG to several regional financial institutions to owning her own consulting company serving both national and international clients. In these varying roles, Ms. Iannelli's experience includes all the necessary responsibilities of finance leadership including accounting policy, financial planning & analytics, treasury, investor relations, SEC and regulatory reporting, investment management, tax, and M&A.



**WILLIAM J. MCIVER**  
*Regional President for NH/VT, Director of Retail Banking*

Mr. McIver joined the Bank as part of our merger with Lake Sunapee Bank in 2017. He will serve as Regional President for NH/VT, Director of Retail Banking for BHB and will remain the Interim President of Charter Trust Company. Mr. McIver joins Bar Harbor Bank & Trust from Lake Sunapee Bank where he most recently served as Senior Executive Vice President since 2015, Chief Operating Officer and Executive Vice President since 2012 and Chief Information Officer since 2007. He has been with the bank since 1999. Prior to joining Lake Sunapee Bank, Mr. McIver served as a Regional President of CFX Bank and as Director of Acquisitions and Integration for CFX Corporation as well as President and Chief Executive Officer of The Valley Bank.

IN MEMORY OF ROBERT C. CARTER *April 4, 1943–March 5, 2016*

Our 2016 Annual Report is dedicated to the memory of Bob Carter. Bob was appointed to the Bank's board of directors in 1996 and served for 19 years. He helped guide our company using his business experience and local knowledge of the Downeast Maine communities. A United States Army veteran, Bob served as a medic/paratrooper and retired as a Maine State Game Warden. Bob had a great business sense, he and his wife Joan owned Helen's Restaurant and the Machias Motor Inn for many years.

On behalf of the Bar Harbor Bank & Trust board of directors, senior executive team and employees, we mourn his loss and extend our deepest sympathies to his family. May his memory, as was his life, continue to be a blessing to all.



## BOARD OF DIRECTORS

### DAVID B. WOODSIDE—

*Chairman*

*Bar Harbor, ME*

*Chief Executive Officer & General Manager of Acadia Corporation*

### MATTHEW L. CARAS

*Arrowsic, ME*

*Owner/Managing Director of Leaders LLC.*

### DAVID M. COLTER

*Hampden, ME*

*President, GAC Chemical Corporation*

### MARTHA T. DUDMAN

*Northeast Harbor, ME*

*Fundraising Consultant and Author, former President of Dudman Communications Corporation*

### LAURI E. FERNALD

*Mt. Desert, ME*

*President & Owner of Jordan-Fernald Funeral Home*

### DAINA H. BELAIR

*Lincolnville, ME*

*Owner of Inn at Sunrise Point*

### CLYDE H. LEWIS

*Sullivan, ME*

*Retired Vice President & General Manager, Morrison Chevrolet, Inc.*

### CONSTANCE C. SHEA

*Mt. Desert, ME*

*Real Estate Broker, Former Owner of Lynam Real Estate*

### CURTIS C. SIMARD

*Mt. Desert, ME*

*President & Chief Executive Officer of the Company and the Bank*

### KENNETH E. SMITH

*Bar Harbor, ME*

*Owner & Innkeeper of Manor House Inn*

### SCOTT G. TOOTHAKER

*Ellsworth, ME*

*Principal, Vice President of Melanson Heath & Co.*



*(Standing, left to right): Constance C. Shea, Matthew L. Caras, Clyde H. Lewis, Curtis C. Simard, Lauri E. Fernald, David B. Woodside, Scott G. Toothaker, Martha T. Dudman (Seated, left to right): David M. Colter, Kenneth E. Smith, Daina H. Belair*

## NEW MEMBERS OF THE BOARD OF DIRECTORS IN 2017



### STEPHEN R. THEROUX

Mr. Theroux served as a director of the Lake Sunapee Bank Group Board, beginning in 1989, with the position of Vice Chairman since 2002. He served as the President & Chief Executive Officer of Lake Sunapee Bank from 2012–2017, and was a director of LSB since 1986. He is Chairman of the board of directors of Charter Trust Company, a company engaged in the business of trust and investment management. Mr. Theroux previously served as Corporate Secretary, Chief Financial Officer and Chief Operating Officer of Lake Sunapee Bank. Mr. Theroux's strong knowledge of day-to-day operations and industry, and his over 37 years of experience in various operational and financial management responsibilities in the banking and educational industries provide him with the qualifications and skills to serve as a director.



### STEVEN H. DIMICK

Mr. Dimick served as a director of the Lake Sunapee Bank Group Board from 2013 to 2017. He was a member of Randolph National Bank's board of directors since 1981 and President & Chief Executive Officer of Central Financial Corporation and Randolph National Bank for 24 years. Prior to joining Randolph National Bank, Mr. Dimick was with First National Bank of Boston. In addition, Mr. Dimick has served as President of the Vermont Chapter of the Bank Administration Institute and was the Vermont board member on the board of the Independent Community Bankers of America. Mr. Dimick has also served as the Chairman of the Vermont Bankers Association, and as a Trustee of Gifford Medical Center. Mr. Dimick's experience as an executive officer and bank director provides him with the qualifications and skills to serve as a director.



### STEPHEN W. ENSIGN

Mr. Ensign served as Chairman of the Lake Sunapee Bank Group Board from 2002–2017, previously serving as the Chief Executive Officer and President of both Lake Sunapee Bank Group and Lake Sunapee Bank. Mr. Ensign served as a director of the Bank since 1986 and Chairman of the Lake Sunapee Bank board since 2007. Mr. Ensign is also currently Vice Chairman of the board of directors of Charter Trust Company, a company engaged in the business of trust and investment management. He is also a director of Concord General Group, a mutual insurance company. Mr. Ensign previously held various positions with Lake Sunapee Bank Group and Lake Sunapee Bank, including Vice Chairman, President & CEO, Chief Operating Officer, Executive Vice President, Senior Vice President and Senior Loan Officer. Mr. Ensign's experience as an executive officer and bank director provides him with the qualifications and skills to serve as a director.

**CONSOLIDATED BALANCE SHEETS***Years Ended December 31, 2016 and 2015*

<i>(in thousands, except per share data)</i>	<b>December 31, 2016</b>	December 31, 2015
<b>ASSETS</b>		
Cash and cash equivalents	\$ 8,439	\$ 9,720
Securities available for sale, at fair value	528,856	504,969
Federal Home Loan Bank stock	25,331	21,479
Loans	1,129,064	990,070
Allowance for loan losses	(10,419)	(9,439)
Loans, net of allowance for loan losses	1,118,645	980,631
Premises and equipment, net	23,419	20,674
Goodwill	4,935	4,935
Bank owned life insurance	24,450	23,747
Other assets	21,274	13,900
<b>TOTAL ASSETS</b>	<b>\$1,755,349</b>	\$1,580,055
<b>LIABILITIES</b>		
Deposits:		
Demand and other non-interest bearing deposits	\$ 98,856	\$ 86,577
NOW accounts	175,150	160,394
Savings and money market deposits	359,857	299,087
Time deposits	416,437	396,729
Total deposits	1,050,300	942,787
Short-term borrowings	394,480	333,909
Long-term advances from Federal Home Loan Bank	137,116	135,882
Junior subordinated debentures	5,000	5,000
Other liabilities	11,713	8,325
<b>TOTAL LIABILITIES</b>	<b>1,598,609</b>	1,425,903
Commitments and Contingencies (Note 17)		
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock, par value \$2.00; authorized 20,000,000 shares; issued 6,788,407 shares at December 31, 2016 and December 31, 2015	13,577	13,577
Surplus	23,027	21,624
Retained earnings	130,489	122,260
Accumulated other comprehensive (loss) income:		
Prior service cost and unamortized net actuarial losses on employee benefit plans, net of tax of (\$217) and (\$249), at December 31, 2016 and December 31, 2015, respectively	(403)	(463)
Net unrealized (depreciation) appreciation on securities available for sale, net of tax of (\$1,214) and \$2,828, at December 31, 2016 and December 31, 2015, respectively	(2,255)	5,251
Portion of OTTI attributable to non-credit gains, net of tax of \$70 and \$249, at December 31, 2016 and December 31, 2015, respectively	130	462
Net unrealized depreciation on derivative instruments, net of tax of \$968 and \$873, at December 31, 2016 and December 31, 2015, respectively	(1,798)	(1,621)
Total accumulated other comprehensive income	(4,326)	3,629
Less: cost of 711,344 and 778,196 shares of treasury stock at December 31, 2016 and December 31, 2015, respectively	(6,027)	(6,938)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>156,740</b>	154,152
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$1,755,349</b>	\$1,580,055

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**CONSOLIDATED STATEMENTS OF INCOME***Years Ended December 31, 2016, 2015 and 2014*

<i>(in thousands, except per share data)</i>	<b>2016</b>	2015	2014
<b>INTEREST AND DIVIDEND INCOME:</b>			
Interest and fees on loans	<b>\$41,653</b>	\$39,303	\$37,739
Interest on securities	<b>14,966</b>	15,343	15,689
Dividends on FHLB stock	<b>868</b>	578	290
Total interest and dividend income	<b>57,487</b>	55,224	53,718
<b>INTEREST EXPENSE:</b>			
Deposits	<b>6,699</b>	6,097	5,894
Short-term borrowings	<b>1,942</b>	983	667
Long-term debt	<b>3,472</b>	3,310	3,344
Total interest expense	<b>12,113</b>	10,390	9,905
Net interest income	<b>45,374</b>	44,834	43,813
Provision for loan losses	<b>979</b>	1,785	1,833
Net interest income after provision for loan losses	<b>44,395</b>	43,049	41,980
<b>NON-INTEREST INCOME:</b>			
Trust and other financial services	<b>3,829</b>	3,888	3,976
Service charges on deposit accounts	<b>866</b>	892	971
Debit card service charges and fees	<b>1,782</b>	1,694	1,584
Net securities gains	<b>4,498</b>	1,334	403
Other operating income	<b>1,374</b>	1,171	824
Total non-interest income	<b>12,349</b>	8,979	7,758
<b>NON-INTEREST EXPENSE:</b>			
Salaries and employee benefits	<b>19,775</b>	17,884	16,836
Occupancy expense	<b>2,334</b>	2,248	2,143
Furniture and equipment expense	<b>2,276</b>	2,321	2,166
Credit and debit card expenses	<b>495</b>	452	429
FDIC insurance assessments	<b>805</b>	833	699
Other operating expense	<b>10,250</b>	7,170	6,938
Total non-interest expense	<b>35,935</b>	30,908	29,211
Income before income taxes	<b>20,809</b>	21,120	20,527
Income taxes	<b>5,876</b>	5,967	5,914
Net income	<b>\$14,933</b>	\$15,153	\$14,613
<b>PER COMMON SHARE DATA:</b>			
Basic Earnings Per Share	<b>\$ 2.47</b>	\$ 2.53	\$ 2.47
Diluted Earnings Per Share	<b>\$ 2.45</b>	\$ 2.50	\$ 2.45

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## BUSINESS STRATEGY

As a diversified financial services provider, Bar Harbor Bankshares pursues a strategy of achieving long-term sustainable growth, profitability, and shareholder value, without sacrificing its soundness. The Company works toward achieving these goals by focusing on increasing its loan and deposit market share in the communities in which it serves while seeking to create cross-sell opportunities into other products including its wealth management platform. The Company is always seeking appropriate growth and expansion opportunities to bolster its market position without giving up shareholder value and while maintaining our commitment to risk management. The Company believes one of its more unique strengths is its ability to balance risk and earnings. With a thorough and well-defined risk management model, the Company can be responsive to the financial needs of northern New England communities and the businesses vital to these economies.

Operating under a community banking philosophy, the Company's key strategic focus is vigorous financial stewardship, deploying investor capital safely, yet efficiently, for the best possible returns. The Company strives to provide unmatched service to its customers, while maintaining strong asset quality and a focus toward improving operating efficiencies. In managing its earning asset portfolios, the Company utilizes funding and capital resources within well-defined credit, investment, interest-rate and liquidity guidelines. In managing its balance sheet, the Company seeks to preserve the sensitivity of net interest income to changes in interest rates, and to enhance profitability through strategies that promise sufficient reward for understood and controlled risk. The Company is deliberate in its efforts to maintain adequate liquidity under prevailing and expected conditions, and strives to maintain a balanced and appropriate mix of loans, securities, core deposits, and borrowed funds.

## SUMMARY FINANCIAL RESULTS

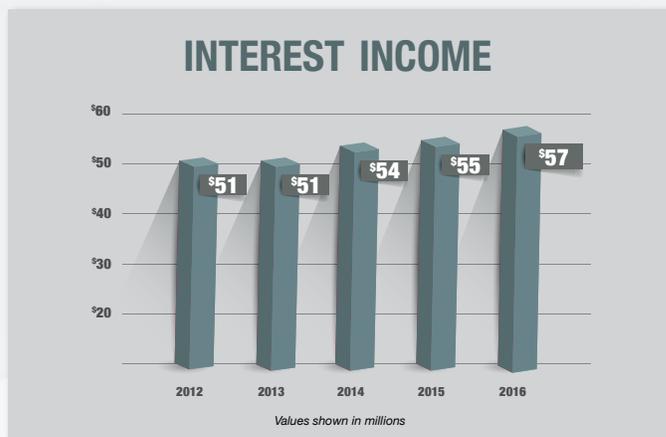
For the year ended 2016, the Company reported net income of \$14.9 million. The Company also reported record diluted earnings per share of \$2.45 for 2016. The Company's return on average shareholders' equity amounted to 9.21% in 2016. The Company's 2016 return on average assets amounted to 0.89% in 2016.

The Company's 2016 performance featured total loan growth of \$139.0 million. The Bank's total deposits increased \$107.5 million in 2016, or 11.4%. Despite pressure on the net interest margin, the Bank was able to increase net interest income by \$540 thousand or 1.2%, while increasing non-interest income by \$3.4 million, or 37.5%, compared with 2015. Credit quality remained stable during 2016, highlighted by a \$512 thousand or 7.3% decline in non-performing loans and lower levels of net loan charge-off experience compared with last year.



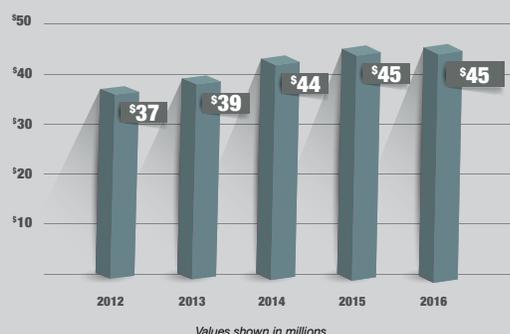
## RESULTS OF OPERATIONS

**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.

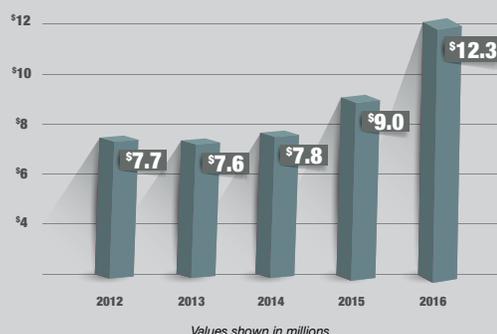


For the year ended December 31, 2016, net interest income on a tax-equivalent basis amounted to \$47.5 million, compared with \$46.8 million in 2015, representing an increase of \$675 thousand, or 1.4%. The increase in net interest income was principally attributed to average earning asset growth of \$132.3 million or 9.0%.

## NET INTEREST INCOME



## NON-INTEREST INCOME



**NON-INTEREST INCOME:** In addition to net interest income, non-interest income is a significant source of revenue for the Company and an important factor in its results of operations. Non-interest income is principally derived from financial services including trust, investment management and brokerage activities, as well as service charges on deposit accounts, debit card processing fees, net securities gains, and a variety of other product and service fees.

For the year ended December 31, 2016, total non-interest income amounted to \$12.3 million, representing an increase of \$3.4 million, or 37.5%, compared with 2015. The increase in non-interest income was mostly attributed to a \$3.2 million increase in realized securities gains compared with 2015. Other operating income amounted to \$1.4 million in 2016 representing an increase of \$203 thousand or 17.3% compared with 2015. The realized securities gains largely reflected Bank management's strategy of lowering the duration of the securities portfolio and its overall interest rate risk profile, while simultaneously generating income. Income generated from debit card service charges and fees amounted to \$1.8 million in 2016 representing an increase of \$88 thousand or 5.2% compared with 2015, largely reflecting continued growth of the Bank's retail deposit base and continued success with a program that offers rewards for certain debit card transactions.

Partially offsetting the foregoing increases in non-interest income was a \$26 thousand or 1.5% decline in service charges on deposits compared with 2015, principally reflecting lower levels of fee-based customer overdraft activity. Revenue from trust and other financial services amounted to \$3.8 million in 2016 representing a decline of \$59 thousand or 1.5% compared with 2015, largely reflecting lower revenue from retail brokerage activity.

**NON-INTEREST EXPENSE:** For the year ended December 31, 2016, total non-interest expense amounted to \$35.9 million, representing an increase of \$5.0 million, or 16.3%, compared with 2015. The increase in non-interest expense was largely attributed to increases in salary and employee benefit expenses of \$1.9 million, or 10.6%. The increase in 2016 was due to strategic hires at the executive and senior level positions within the risk management and information technology departments, along with normal increases in base salaries and employee health insurance costs.

Total other operating expenses amounted to \$10.3 million in 2016, representing an increase of \$3.1 million, or 43.0%, compared with 2015, of which \$2.7 million was attributed to merger related and system conversion costs associated with the Lake Sunapee Bank Group acquisition.

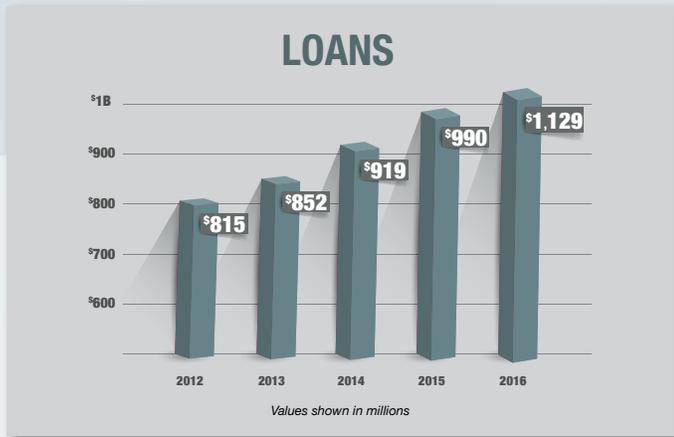
**INCOME TAXES:** The Company's effective tax rate amounted to 28.2% in 2016, compared with 28.3% in 2015. The effective tax rate remained relatively flat in 2016 as compared to 2015, which reflected the impact of 2016 security gains offset by merger-related expenses.

### FINANCIAL CONDITION

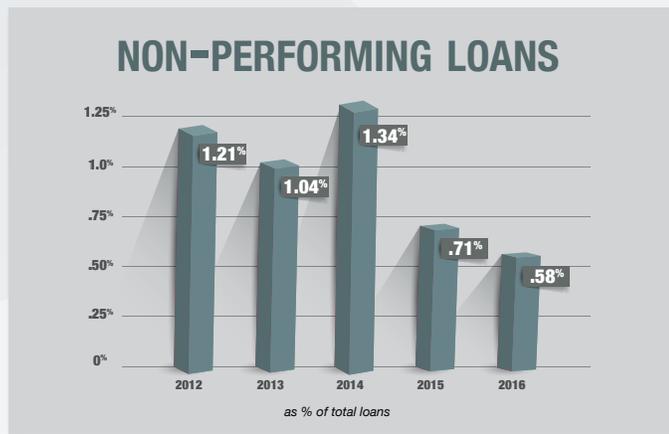
**ASSETS:** At December 31, 2016, the Company's total assets stood at \$1.755 billion, representing an increase of \$175.3 million, or 11.1%, compared with 2015. The increase in total assets was led by loan and securities growth.

**LOANS:** Consumer loans, which principally consisted of residential real estate mortgage loans, comprised 49.6% of the Bank's total loan portfolio at December 31, 2016. The Bank also serves the small business market throughout Northern New England. It offers business loans to individuals, partnerships, corporations, and other business entities for capital construction, real estate purchases, working capital, real estate development, and a broad range of other business purposes. At December 31, 2016, commercial business loans represented 49.0% of the Bank's total loan portfolio.

Total loans ended the year at \$1.129 billion, up \$139.0 million, or 14.0%, compared with December 31, 2015. At year end, the Bank's commercial loan portfolio stood at \$553.7 million, representing an increase of \$46.8 million, or 9.2%, compared with December 31, 2015. Consumer loans ended the year at \$559.7 million, up \$91.8 million or 19.6% compared with December 31, 2015.

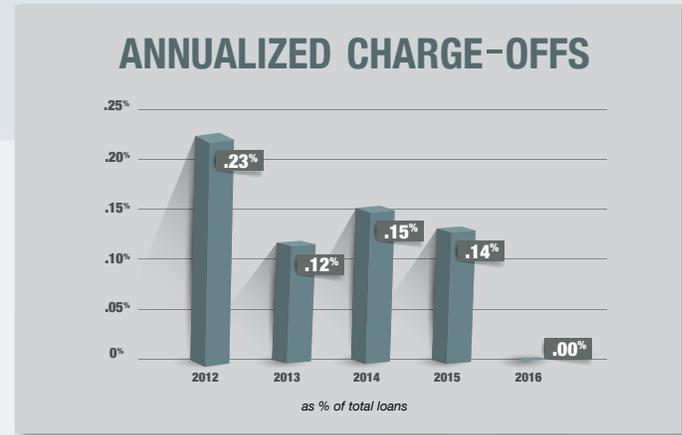


**CREDIT QUALITY:** The overall credit quality of the Bank's loan portfolio remained stable during 2016, highlighted by a decline in non-performing loans. Total non-performing loans ended the year at \$6.5 million, compared with \$7.0 million at December 31, 2015, representing a decline of \$512 thousand, or 7.3%. Total non-performing loans expressed as a percentage of total loans ended the year at 0.58%, down from 0.71% at year-end 2015. Similarly, the allowance for loan losses expressed as a ratio to non-performing loans ended the year at 160.4%, up from 134.7% at December 31, 2015.



The Bank had total net recoveries of \$1 thousand in 2016 compared with net loan charge-offs of \$1.3 million in 2015. In 2015 the net charge-offs to average loans outstanding amounted to 0.14% compared with zero at 2016. The Bank recorded a provision for loan

losses of \$979 thousand in 2016, representing a decline of \$806 thousand or 45.2% compared with 2015. At December 31, 2015, the Bank's allowance for loan losses stood at \$10.4 million, representing an increase of \$980 thousand or 10.4% compared with year end 2015.

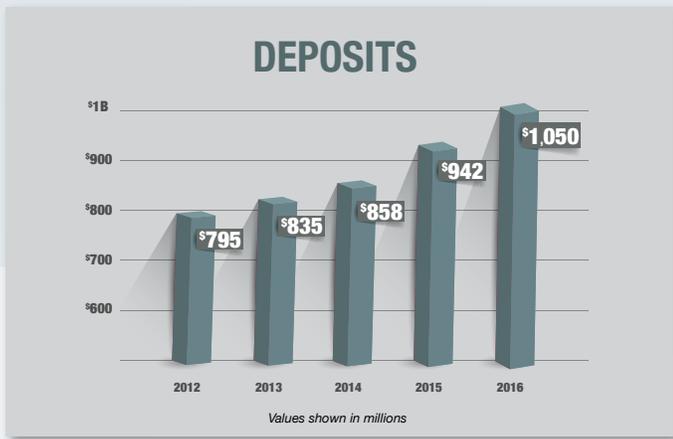


**INVESTMENT SECURITIES:** During 2016 the securities portfolio continued to serve as a key source of earning assets and liquidity for the Bank. Bank management considers securities as a relatively attractive means to effectively leverage the Bank's strong capital position, as securities are typically assigned a significantly lower risk weighting for the purpose of calculating the Bank's and the Company's risk-based capital ratios. The overall objectives of the Bank's strategy for the securities portfolio include maintaining appropriate liquidity reserves, diversifying earning assets, managing interest rate risk, leveraging the Bank's strong capital position, generating acceptable levels of net interest income and, when appropriate, generating realized gains on the sale of securities.

At December 31, 2016, total investment securities amounted to \$528.9 million, representing an increase of \$23.9 million, or 4.7%, compared with year end 2015. The securities portfolio is comprised of mortgage-backed securities issued by U.S. Government agencies, U.S. Government-sponsored enterprises and, to a much lesser extent, other non-agency, private-label issuers. The securities portfolio also includes obligations of states and political subdivisions thereof.

**DEPOSITS:** During 2016, the most significant funding source for the Bank's earning assets continued to be retail deposits, gathered through its network of banking offices.

Total deposits ended the year at \$1.050 billion, up \$107.5 million, or 11.4%, compared with December 31, 2015. Total deposit demand, NOW, savings and money market accounts increased \$87.8 million, or 16.1%, while time deposits were up \$19.7 million or 5.0%, compared with December 31, 2015.



**BORROWINGS:** The Bank utilizes borrowed funds in leveraging its strong capital position and supporting its earning asset portfolios. Borrowed funds are principally utilized to support the Bank’s investment securities portfolio and, to a lesser extent, fund loan growth. Borrowed funds also provide a means to help manage balance sheet interest rate risk, given the Bank’s ability to select desired amounts, terms and maturities on a daily basis.

Borrowed funds principally consist of advances from the FHLB and, to a lesser extent, securities sold under agreements to repurchase, Fed funds purchased and borrowings from the Federal Reserve Bank of Boston. 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.

At December 31, 2016 total borrowings stood at \$536.6 million, representing an increase of \$61.8 million, or 13.0%, compared with December 31, 2015. The increase in borrowings was utilized to help support the Bank’s 2016 earning asset growth.

**CAPITAL:** Consistent with its long-term strategy of operating a sound and profitable organization, at December 31, 2016, the Company and the Bank continued to exceed regulatory requirements for “well-capitalized” financial institutions. Company management considers this to be vital in promoting depositor and investor confidence and providing a solid foundation for future growth.

Under the capital adequacy guidelines administered by the Bank’s principal regulators, “well-capitalized” institutions are those with Common Equity Tier I, Tier I leverage, Tier I Risk-based, and Total Risk-based ratios of at least 6.5%, 5%, 8% and 10%, respectively. At December 31, 2016, the Company’s Common Equity Tier I, Tier I Leverage, Tier I Risk-based, and Total Risk-based capital ratios were 15.01%, 8.94%, 15.01% and 16.52%, respectively.

**SHAREHOLDER DIVIDENDS:** During 2016 the Company paid regular cash dividends on its common stock in the aggregate amount of \$6.6 million, compared with \$6.0 million in 2015. The Company’s 2016 dividend payout ratio amounted to 44.0%, compared with 39.9% in 2015. The total regular cash dividends paid in 2016 amounted to \$1.09 per share of common stock, compared with \$1.01 per share in 2015, representing an increase of 0.08 cents per share, or 7.9%.

The Company’s Board of Directors declared a first quarter 2017 regular cash dividend of 28.0 cents per share of common stock, representing an increase of 1.5 cents or 5.7% compared with the first quarter of 2016. Based on the year-end 2016 price of BHB’s common stock of \$47.33 per share, the dividend yield amounted to 2.37%.

**LAKE SUNAPEE BANK GROUP ACQUISITION UPDATE:**

On January 13, 2017, the Company completed the previously announced acquisition of Lake Sunapee Bank Group (“LSBG”). The Company issued 4,163,853 shares of common stock using a fixed exchange ratio of 0.4970 which was based on a stock price of \$34.55. Total consideration paid at closing was \$182,200 which reflected the increase in the Company’s stock at the time of closing plus an additional \$28 in cash paid for fractional shares. At completion of the acquisition, LSBG had approximately \$1.5 billion in total assets. Final allocation of the purchase price to the fair value of assets and liabilities acquired is expected to be reported as part of the first quarter of 2017 earnings release and Form 10-Q as of March 31, 2017.

**THREE-FOR-TWO STOCK SPLIT AS A LARGE STOCK DIVIDEND:**

On February 21, 2017, the Company announced that its Board of Directors declared a three-for-two split of its common stock payable in the form of a large stock dividend. The three-for-two stock split is payable March 21, 2017, to the Company’s common stockholders of record at the close of business on March 7, 2017. The additional shares will be distributed by the Company’s transfer agent, American Stock Transfer & Trust Company, and the per share price of the Company’s common stock will adjust accordingly on the NYSE MKT, LLC. Stockholders will receive cash in lieu of any fractional share of common stock that they otherwise would have been entitled to receive in connection with the split, except that those shareholders participating in the Company’s dividend reinvestment and share purchase plan will have fractional shares credited to their accounts. After giving effect to the stock split, and as of March 10, 2017, the number of shares of common stock outstanding will increase to approximately 15,384,662.

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 16, 2017 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, Chief Financial Officer and Treasurer, at 207-288-3314.

### INTERNET

Bar Harbor Bank & Trust information, as well as Bar Harbor Bankshares Form 10-K, is available at [www.bhbt.com](http://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:

AST Financial  
6201 15th Avenue  
Brooklyn, New York 11219  
800-937-5449 / [www.astfinancial.com](http://www.astfinancial.com)

### STOCK EXCHANGE LISTING

Bar Harbor Bankshares common stock is traded on the NYSE MKT, LLC ([www.nyse.com](http://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 fiscal year ended December 31, 2016 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, and a listing of its executive officers.

### MAILING ADDRESS

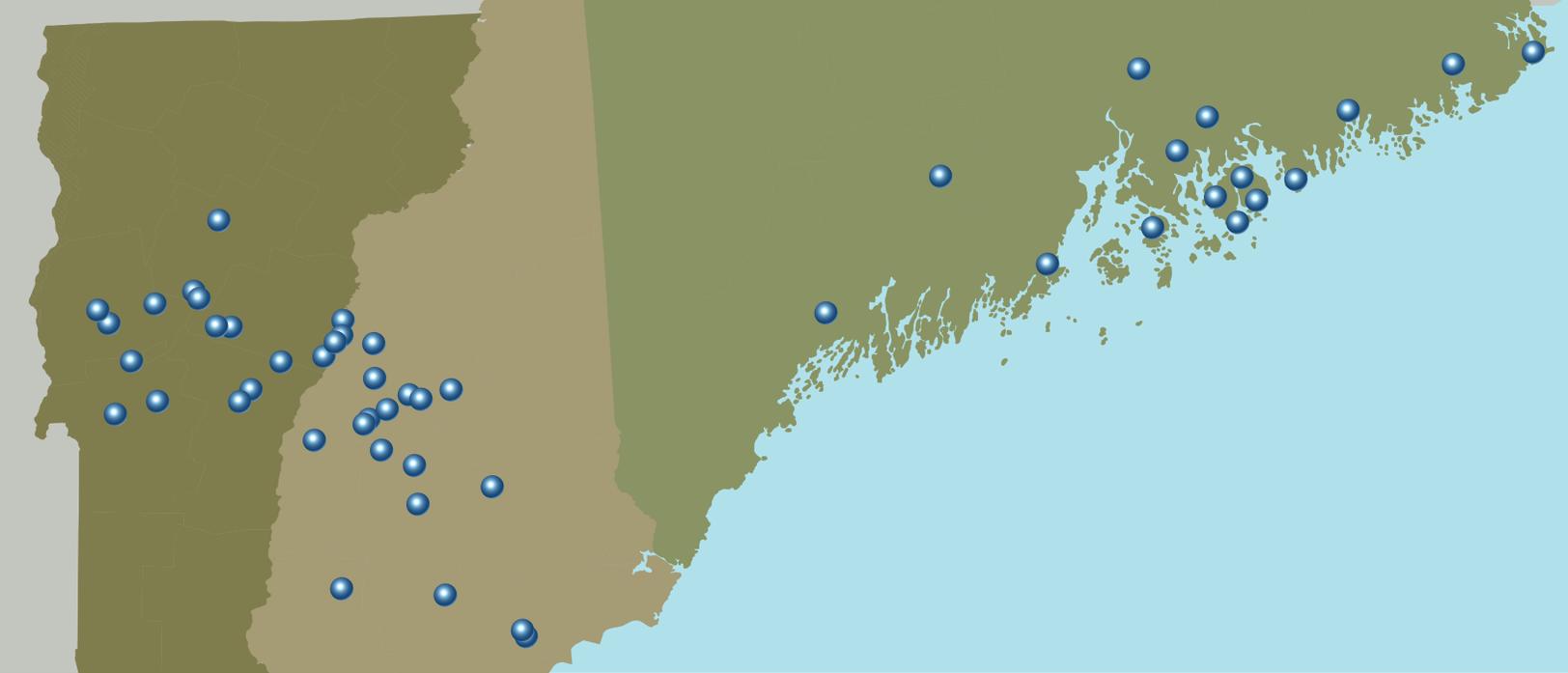
If you need to contact our corporate headquarters office, write:

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, 2016. Please contact Marsha C. Sawyer, Bar Harbor Bankshares Clerk, at 207-288-3314 or the above address.





LAKE SUNAPEE BANK

*A division of Bar Harbor Bank & Trust*



The acquisition of Lake Sunapee Bank by Bar Harbor Bank & Trust unites two northern New England community banks with deep commitments to community banking and personal service. The result is a stronger organization with additional ways to support our customers in reaching their personal financial goals, and our communities by helping local businesses prosper. Headquartered in Bar Harbor, Maine, Bar Harbor Bank & Trust, now with over \$3 billion in assets, is one of the largest community banks in northern New England and the only community bank with forty-nine branch locations across the three states of Maine, New Hampshire and Vermont.

Bringing our two complementary banking organizations together has created new opportunities for us to grow stronger together, while staying true to our roots. We are developing a new, more versatile lineup of checking accounts for every lifestyle, improving the online and mobile banking experience, increasing the strength of our residential lending, and further leveraging our already robust commercial lending with increased lending capacity.

Above all, we are staying true to our community banking roots. All branches remain open and staffed by the same friendly, helpful, and knowledgeable people our customers have come to know and trust. The very compatible cultures of the two companies make the partnership a natural fit to provide community banking that's better than ever. Together we will continue to build on the strong reputations of both organizations, sharing a focus on community involvement and outstanding customer service. We are a true community bank ready for the future.

BAR HARBOR BANK & TRUST • LAKE SUNAPEE BANK

ONE BANK—ONE CULTURE





Bar Harbor Bankshares | 82 Main Street | Bar Harbor, Maine 04609  
888-853-7100 | [bhbt.com](http://bhbt.com)