



2017 SUMMARY ANNUAL REPORT TO SHAREHOLDERS



BAR HARBOR BANKSHARES

A TRUE COMMUNITY BANK

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
Millbridge~Main & Bridge Street
NE Harbor~111 Main 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
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

POSITIONED FOR SUCCESS

TOTAL ASSETS
\$3.57B

Total assets are principally comprised of the Company's earnings assets which include loans and securities. Total assets increased by \$1.81B during the year.

LOAN GROWTH
13.14%

Loan growth, excluding the impact of acquired loans, were led by 23.83% growth, or an increase of \$132M, in commercial real estate and commercial and industrial loans.

EFFICIENCY RATIO
55.4%

The Company improved its efficiency ratio regardless of the acquisition due to disciplined cost control and operational improvements.

ADJUSTED EPS GROWTH
38.1%

Growth in adjusted earnings reflects operations acquired from Lake Sunapee Bank Group, expanded operations, and improved profitability. Profitability benefited from higher non-interest income and improved operational efficiencies.

ADJUSTED ROA
.93%

The Company drove ROA as it continued to focus on profitable growth and fee income. While ROA was 0.93% for the year, the fourth quarter ROA was 1.02% as the Company expanded revenue streams and increased operational efficiencies

ADJUSTED ROE
9.15%

The adjusted ROE was impacted by equity dilution due to stock issued as consideration in the Lake Sunapee Bank Group acquisition in the first quarter, but this was earned back thereafter through strong earnings and realization of synergies from the acquisition.





Letter to Shareholders

CURTIS C. SIMARD
President & Chief Executive Officer

DAVID B. WOODSIDE
Chairman

Dear Fellow Shareholders,
Our annual letter to you, and each communication in between has thanked you for supporting our vision of controlled yet prudent investment in:

- Leadership - both existing and catalyst recruits alike,
- Risk management that starts with credit and extends to all pillars of the discipline, and
- Infrastructure development from IT to product advancement to financial oversight and controls. These infrastructure improvements are the table stakes to having growth ambitions in today's ever-changing landscape.

The above collectively represents the blue print to our model of balancing growth with earnings. Specifically, it enables us to create shareholder value through sustainable earnings and the potential for dividend consistency as we simply are careful yet focused on proactive development.

DELIVERING ON OUR STRATEGIES AND EXPECTATIONS

As we began this journey now five years ago, several key milestones have been achieved. While we will always seek to become better, what has been done to date enabled the successful completion of the acquisition, integration, and conversion of the Lake Sunapee franchise. Not only was it one of the largest mergers in the Northeast, it was complicated as we converted both core systems and instituted substantial change in the processes of our company, more befitting of our

new size and one poised for even greater growth. Yet, we emerged a stronger company with improved leadership, security, fraud management, and controls environments with significant initiatives planned for improving product delivery and advancing our market share in our now expanded footprint.

We have demonstrated an ability to not only technically succeed, but we did so with incredible efficiency as we beat all cost and growth initiatives, bringing our earn-back of dilution from the stock funded acquisition inside original expectations.

UNIFIED AT ALL LEVELS WHILE CONTINUING TO CREATE DEPTH

Our Board of Directors has come together as one united governing body, focused on the best path to meeting our strategic plan and ensuring we deliver on our model of balancing growth and earnings. We have teams that possess the required breadth of skills to manage a growing bank and where needed catalyst recruits are being sought throughout the company with the same vigor as we have demonstrated with senior management.

“We are committed to our model and believe that we have only begun to realize the potential a united company like ours can achieve.”

I'm gratified to report that our Senior Executive Team has yet again improved after the significant enhancements in advance of the acquisition. In 2017, we were fortunate to attract Marion Colombo, John Mercier, and John Land. Marion brings a 30-year career entirely focused on retail banking management that creates superior customer service combined with outbound sales development for deposits. Given that competitive aggression has shifted more frequently to deposits than in recent memory, Marion's hire is critical on many fronts. Most banks our size do not commit to this level of leadership in the retail franchise, instead relying solely on their branch count or legacy. We view her hiring as essential and a significant gain for our company. We now have experience and sophistication as we build on the strengths of our existing team to deliver a best in class retail presence. While we have strong market share in many of our communities, Marion helps to advance a proposition of truly owning our markets and being unafraid to set high goals in newly entered markets while analyzing where we ought to better focus our presence.

"We have demonstrated an ability to not only technically succeed, but we did so with incredible efficiency as we beat all cost and growth initiatives..."

John Mercier is proven in New Hampshire and Vermont with three decades of growing credit related businesses and the associated treasury sales. With significant double-digit annualized commercial loan growth across the footprint once our teams were fully united in the second half of the year, it's clear we know how to build strong and lasting commercial relationships. Deposits and non-interest income are key focus areas in every one of these relationships as we seek to be the most profitable institution possible and know this is the best way to define a relationship. Cross-sell remains the best indicator of relationship value and we believe those who create beneficial solutions for their customers will be rewarded beyond those that simply answer requests.

John Land is our most recent recruit upon the planned retirement of Marsha Sawyer after her distinguished 45-year career here at Bar Harbor. We thank her for tremendous contributions over the years and welcome John's proven skills as an expert in Human Resources optimization. Employee and customer experiences are unquestionably linked and are the thread that ties our culture and our performance. John fully understands these interactions define our brand and will be critical to the continued retention and attraction of key talent.

THE TRUE COMMUNITY BANK CULTURE

With an expanded footprint, a developed risk and controls model that always looks for blind spots, and some of the best leadership throughout the company and at the Board level, we are very excited about our future. Our team at every level understands the company's plan as we daily underscore our focus on being a True Community Bank culture based on accountability.

We are analyzing the best places to have branches, which potential products gaps need to be addressed, and are uniting under one brand: Bar Harbor Bank & Trust. This will allow us to simplify product offerings and marketing efforts as one company rather than regional divisions. It's a necessary and natural evolution that our team welcomes in all three states. We are in fact one franchise deeply rooted in Downeast Maine, yet equally proud of being an important member of our communities throughout all of Northern New England. Our model will be our guide with an undying commitment to brand; a combination that is often difficult to connect and therefore too frequently and consequently ineffective. We understand who we are, what is important to us, and how to best deliver on the commitments we have made.

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 are committed to our model and believe that we have only begun to realize the potential a united company like ours can achieve.



CURTIS C. SIMARD

President & Chief Executive Officer



DAVID B. WOODSIDE

Chairman



CONSOLIDATED BALANCE SHEETS

Years Ended December 31, 2017 and 2016

<i>(in thousands)</i>	Year Ended	
	2017	2016
ASSETS		
Cash and due from banks	\$ 34,262	\$ 8,219
Interest-bearing deposit with the Federal Reserve Bank	56,423	220
Total cash and cash equivalents	90,685	8,439
Securities available for sale, at fair value	717,242	528,856
Federal Home Loan Bank stock	38,105	25,331
Total securities	755,347	554,187
Commercial real estate	826,746	418,119
Commercial and industrial	379,423	151,240
Residential real estate	1,155,682	506,612
Consumer	123,762	53,093
Total loans	2,485,613	1,129,064
Less: Allowance for loan losses	(12,325)	(10,419)
Net loans	2,473,288	1,118,645
Premises and equipment, net	47,708	23,419
Other real estate owned	122	90
Goodwill	100,085	4,935
Other intangible assets	8,383	377
Cash surrender value of bank-owned life insurance	57,997	24,450
Deferred tax assets, net	7,180	5,990
Other assets	24,389	14,817
Total assets	\$ 3,565,184	\$ 1,755,349
LIABILITIES		
Demand and other non-interest bearing deposits	\$ 349,055	\$ 98,856
NOW deposits	466,610	175,150
Savings deposits	364,799	77,623
Money market deposits	305,275	282,234
Time deposits	866,346	416,437
Total deposits	2,352,085	1,050,300
Senior borrowings	786,688	531,596
Subordinated borrowings	43,033	5,000
Total borrowings	829,721	536,596
Other liabilities	28,737	11,713
Total liabilities	3,210,543	1,598,609
SHAREHOLDERS' EQUITY		
Capital stock, par value \$2.00; authorized 20,000,000 shares; issued 16,428,388 and 10,182,611 shares at December 31, 2017 and December 31, 2016, respectively	32,857	13,577
Additional paid-in capital	186,702	23,027
Retained earnings	144,977	130,489
Accumulated other comprehensive loss	(4,554)	(4,326)
Less, 985,462 and 1,067,016 shares of treasury stock at December 31, 2017 and December 31, 2016, respectively, at cost	(5,341)	(6,027)
TOTAL SHAREHOLDERS' EQUITY	354,641	156,740
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 3,565,184	\$ 1,755,349

Refer to the Bar Harbor Bankshares 2017 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, 2017, 2016 and 2015

<i>(in thousands)</i>	Year Ended		
	2017	2016	2015
INTEREST AND DIVIDEND INCOME			
Loans	\$ 94,976	\$ 41,653	\$ 39,303
Securities and other	21,093	15,834	15,921
Total interest and dividend income	116,069	57,487	55,224
INTEREST EXPENSE			
Deposits	11,307	6,699	6,097
Borrowings	12,607	5,414	4,293
Total interest expense	23,914	12,113	10,390
Net interest income	92,155	45,374	44,834
Provision for loan losses	2,788	979	1,785
Net interest income after provision for loan losses	89,367	44,395	43,049
NON-INTEREST INCOME			
Trust and investment management fee income	12,270	3,829	3,888
Insurance and brokerage service income	1,097	-	-
Customer service fees	8,484	2,648	2,586
Gain on sales of securities, net	19	4,498	1,334
Bank-owned life insurance income	1,539	703	606
Other income	2,573	671	565
Total non-interest income	25,982	12,349	8,979
NON-INTEREST EXPENSE			
Salaries and employee benefits	39,589	19,775	17,884
Occupancy and equipment	11,633	4,610	4,569
Loss on premises and equipment, net	94	248	7
Outside services	3,000	767	359
Professional services	1,655	1,489	1,485
Communication	1,289	586	388
Amortization of intangible assets	812	92	92
Merger expenses	3,302	2,650	54
Other expenses	11,352	5,718	6,070
Total non-interest expense	72,726	35,935	30,908
Income before income taxes	42,623	20,809	21,120
Income tax expense	16,630	5,876	5,967
Net income	\$ 25,993	\$ 14,933	\$ 15,153
EARNINGS PER SHARE:			
Basic	\$ 1.71	\$ 1.65	\$ 1.69
Diluted	\$ 1.70	\$ 1.63	\$ 1.67

Refer to the Bar Harbor Bankshares 2017 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
Commercial Banking &
Treasury Services*



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



MARSHA C. SAWYER
*Executive Vice President
Human Resources*



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



WILLIAM J. MCIVER
*Regional President for NH/VT,
Director of Retail Banking
Retired - January 2018*

JOINING OUR SENIOR EXECUTIVE TEAM



Marion Colombo joined the bank in February of 2018 and will serve as Executive Vice President of Retail Delivery.

Ms. Colombo joins Bar Harbor Bank & Trust with over 30 years of experience in retail banking. She is responsible for retail strategy and delivery and will work closely with our teams to ensure that customers experience consistently outstanding service across all 49 locations in Maine, New Hampshire and Vermont.

Ms. Colombo most recently served as Market President - Retail, Greater Boston and Rhode Island Market, for TD Bank. In her role, Ms. Colombo will help us continue to develop and implement our best-in-class community banking model across the entire footprint of the bank.



John W. Land, SPHR joined the bank in February of 2018 and will serve as Executive Vice President of Human Resources.

Mr. Land brings over 20 years of human resources management experience to the company and will oversee talent recruitment, training, compensation, retention, role design, performance evaluation, policy and procedure, as well as payroll and time management systems.

Prior to joining the bank, Mr. Land was employed by Deloitte as a Senior Manager, HR Transformation Consultant. For the seven years prior to this position, he held the role of Principal, HR Effectiveness Consultant for Mercer.

Bar Harbor Bankshares
BOARD OF DIRECTORS



2017 BOARD OF DIRECTORS (Back, l-r): David B. Woodside, Stephen W. Ensign, Steven H. Dimick, Kenneth E. Smith, Stephen R. Theroux, Scott G. Toothaker, David M. Colter, Curtis C. Simard. (Front, l-r): Matthew L. Caras, Laurie E. Fernald, Martha T. Dudman, Daina H. Belair and Leonard R. Cashman.

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.

LEONARD R. CASHMAN
 Grantham, NH
 Owner and partner of COH Properties

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

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

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.



IN APPRECIATION OF 45 YEARS OF SERVICE TO BAR HARBOR BANK & TRUST

We are both happy and sad to announce the retirement of Marsha Sawyer. Marsha has been an inspiration to all of us; her unconditional dedication, grace, and congeniality is unparalleled.

We recognize Marsha for her unwavering commitment to Bar Harbor Bank & Trust. Please join us in wishing Marsha the best of luck in her retirement.



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>	2017	2016	2015	2014	2013
BALANCE SHEET DATA					
Total assets	\$ 3,565	\$ 1,755	\$ 1,580	\$ 1,459	\$ 1,374
Total investments	755	554	526	492	469
Total loans	2,486	1,129	990	919	853
Deposits	2,352	1,050	943	858	836
Borrowings	830	537	475	447	409
Shareholders' equity	355	157	154	146	121
RESULTS OF OPERATIONS					
Net interest income	\$ 92	\$ 45	\$ 45	\$ 44	\$ 39
Non-interest income	26	12	9	8	8
Total revenue	118	58	54	52	47
Provision for loan losses	3	1	2	2	1
Net income	26	15	15	15	13
PER COMMON SHARE DATA					
Diluted earnings	\$ 1.70	\$ 1.63	\$ 1.67	\$ 1.63	\$ 1.48
Adjusted earnings	2.10	1.52	1.58	1.60	1.44
Dividends	0.75	0.73	0.67	0.60	0.56
Book value	22.96	17.19	17.10	16.40	13.70
Tangible book value	15.94	16.61	16.50	15.78	13.06
PERFORMANCE RATIOS					
Return on assets	0.75%	0.89%	0.98%	1.03%	0.98%
Adjusted return on assets*	0.93	0.83	0.93	1.01	0.95
Return on equity	7.41	9.21	10.01	10.69	10.52
Adjusted return on equity*	9.15	8.57	9.46	10.51	10.18
Net interest margin	3.10	2.96	3.19	3.33	3.15
Efficiency ratio*	55.44	58.90	55.93	57.09	55.82
Non-interest income/total revenue	21.99	21.39	16.69	15.04	16.22

*Note: These performance ratios are non-GAAP financial measures; see 2017 Annual Report on Form 10-K for further discussion.

Corporate Profile - as of December 31, 2017

- \$3.6 billion in total assets.
- 47 full-service branches.
- Branches located across Maine, New Hampshire and Vermont.
- A true community bank providing commercial, retail, wealth and treasury management services.
- Wealth assets under management of \$1.8 billion.

Stock Information - as of December 31, 2017

Ticker	NYSEAM: BHB
Stock price	\$27.01 per share
Market capitalization	\$417.1 million
Price to earnings ratio (full year 2017)	17.4X
Price to book value	1.2X
Price to tangible book value	1.7X
52 week price range	\$25.49 to \$33.08
Annualized dividend (Q1 2018)	\$0.75 per share
Dividend yield	2.8%
Shares outstanding	15.4 million
Average daily volume (full year 2017)	29,000 shares



SUMMARY FINANCIAL RESULTS

Bar Harbor Bankshares produced record revenue and earnings in 2017 due to business expansion and increased operational efficiencies. Net income in 2017 was \$26.0 million, or \$1.70 per share, compared with \$14.9 million in 2016 or \$1.63 per share. The Company's 2017 results included almost a full year benefit from the operations of Lake Sunapee Bank Group ("LSBG"). The acquisition of LSBG closed in early January 2017.

Adjusted income (non-GAAP) in 2017 increased to \$32.1 million, or \$2.10 per share, from \$13.9 million in 2016, or \$1.52 per share. The measure of adjusted income excludes an after-tax reduction of \$2.1 million, or \$0.13 per share, during 2017 related to acquisition expenses offset by a one-time benefit associated with the sale of the Company's insurance subsidiary. Adjusted income also excluded the \$4.0 million, or \$0.26 per share, reduction due to the revaluation of net deferred tax assets required by the Tax Cuts and Jobs Act of 2017. Adjusted income in 2016 included an after-tax reduction of \$1.7 million, or \$0.19 per share, related to acquisition costs and an after-tax benefit of \$2.9 million, or \$0.32 per share, related to gains from security sales.

Return on assets in 2017 was 0.75% as compared to 0.89% in 2016 while adjusted return on assets (non-GAAP) improved to 0.93% in 2017 from 0.83% in 2016. In a similar trend, return on equity was 7.41% for 2017 compared to 9.21%; however, adjusted return on equity (non-GAAP) improved to 9.15% in 2017 from 8.57% in 2016. The Company's efficiency ratio (non-GAAP) improved to 55% in 2017 from 59% in 2016 and net interest margin improved to 3.10% in 2017 from 2.96% in 2016.

Total assets increased to \$3.6 billion in 2017 from \$1.8 billion in 2016, which includes the \$1.6 billion of assets that were acquired from LSBG. Excluding the impact of the acquisition, total loans grew by \$221.0 million or 13.1% during 2017 primarily due to commercial loan growth. All major categories of assets, liabilities and equity increased due to the acquired balances which as of the acquisition date included \$1.2 billion in loans, \$155.6 million in securities, \$1.2 billion in deposits, and \$182 million in equity as a result of the issuance of common shares of the Company to LSBG shareholders.

RESULTS OF OPERATIONS

NET INTEREST INCOME: Net interest income increased year-over-year by \$46.8 million to \$92.2 million. The increase was driven by a \$1.6 billion increase in average earning assets, which includes organic growth and benefit of the LSBG acquisition. Net interest margin increased to 3.10% in 2017 compared to 2.96% in 2016. Net interest spread increased 13 basis points mostly from the addition of acquired loans but also reflecting higher yields on commercial loans. Weighted average yields for commercial real estate and commercial and industrial loans increased to 4.24% and 4.73% in 2017 from 3.71% and 4.03% in 2016, respectively. Net interest margin in 2017 also benefited from purchased loan accretion totaling \$3.7 million in the year.

Lower costs of interest-bearing deposits acquired from LSBG were offset by increased rates on FHLB advances and repurchase agreements year over year as well as acquired subordinated borrowings. For short-term advances, weighted average rates increased to 1.49% from 0.97% in 2016 while advances greater than one year showed a 13 basis point increase in weighted average rates year-over-year. Higher wholesale funding costs resulted from fed funds rate hikes. Increases in overall cost of funds are expected to have a negative impact on net interest margin in the near-term as rates increase and the Company employs strategies to mitigate the impact.

NON-INTEREST INCOME: Non-interest income for the year increased to \$26.0 million from \$12.3 million in 2016. Gains from sales of securities in 2016 increased non-interest income by \$4.5 million. Non-interest income in 2017, excluding gains on securities, increased \$18.1 million from 2016. Revenue from trust and investment management services as well as financial services on a year-to-date basis increased \$8.4 million from 2016, which is principally due to the addition of Charter Trust Company as part of the LSBG acquisition. Income from trust and investment management services are principally derived from fee income based on a percentage of the fair market value of client assets under management and held in custody. Revenue from financial services is derived from retail brokerage services conducted through Bar



Harbor Financial Services, an independent third-party broker. Fee income from trust, investment management and financial services represented 47% of total non-interest income in 2017 compared to 31% in 2016.

Income from customer service fees is principally derived from overdraft fees, monthly deposit account maintenance and activity fees, automated teller machine (“ATM”) fees and a variety of other deposit account related fees. Customer services fees also include Bank’s debit card product and merchant credit and debit card processing fees. Customer service fees increased \$5.8 million compared to 2016 also as a result of the acquisition given the broader customer deposit base and higher number of ATM transactions. In 2017, the Company also benefited from \$1.1 million in fees from its insurance subsidiary, which was acquired from the LSBG acquisition. The Company sold the insurance subsidiary in October 2017.

NON-INTEREST EXPENSE: Non-interest expense increased to \$72.7 million from \$35.9 million in 2016. Salary and employee benefit costs increased by \$19.8 million compared with 2016 principally due to the LSBG acquisition. Full time equivalent staff totaled 423 at the end of 2017 compared with 186 at the end of 2016. Salary and employee benefit costs decreased on a quarterly basis in the second half of 2017 reflecting a positive trend of disciplined cost control and realized cost saves with the acquisition. Occupancy expenses increased \$7.0 million as compared to 2016 due to costs of operating additional branches from the acquisition. Acquisition costs totaled \$3.3 million in 2017 and \$2.7 million in 2016. Acquisition costs in 2017 include severance, system conversion and professional costs, which were offset in part by a one-time benefit from the sale of the Company’s insurance subsidiary.

Adjusted Return on Assets



INCOME TAX EXPENSE: The effective tax rate was 39.0% in 2017 compared to 28.2% in 2016. The increase in the effective tax rate was a direct result of the Tax Cuts and Jobs Act of 2017. The tax reform resulted in a \$4.0 million income tax charge in the fourth quarter due to the revaluation of net deferred tax assets.

billion in 2017 from \$1.1 billion in 2016, of which \$1.2 billion were acquired from Lake Sunapee Bank. Excluding the impact of the acquired balances, total loans increased during 2017 by \$221.0 million or 13.1%.

At December 31, 2017, commercial loans comprised 49.0% of the total loan portfolio, compared with 50% at December 31, 2016. Residential real estate mortgage loans, comprised 46% of total loans at December 31, 2017, compared with 45% at December 31, 2016. Total commercial loans had a 23.8% organic growth rate led mostly by commercial and industrial loans. Outside of acquired loans, growth for residential mortgage loans remained relatively flat compared to 2016.

FINANCIAL CONDITION

LOANS: The acquisition of LSBG increased the legal lending limit of the Bank and expanded the lending area across all three of the northern New England states which resulted in organic growth in the loan portfolio. Total loans increased to \$2.5

Adjusted Return on Equity



Efficiency Ratio



ALLOWANCE FOR LOAN LOSSES:

During 2017, the allowance for loan losses increased \$1.9 million to \$12.3 million, which is due to the increase in business activity loans and lower charge-off activity reflecting improved asset quality. Asset quality remained steady with non-accruing loans to total loans ratios at 0.58% at year-end 2017 and 2016. The ratio of net charge-offs to total loans remain near zero in 2017 and 2016. The ratio of the allowance to total loans decreased to 0.50% in 2017 from 0.92% in 2016, which was primarily due to the volume of loans acquired from LSBG.

SECURITIES: Total securities increased \$201.2 million which includes \$156.3 million in securities acquired from LSBG

and \$180.9 million in securities purchased during the year ended December 31, 2017. Securities purchased included \$149.4 million of mortgage-backed securities guaranteed by US Government agency and US Government-sponsored enterprises, \$21.8 million of corporate bonds, and \$8.8 million of FHLB stock. The increase was primarily offset by \$126.8 million of maturities, calls, and pay-downs of amortizing securities and \$7.5 million in FHLB stock repurchases. The weighted average yield on the Company's securities portfolio was 3.10% in 2017 compared to 3.24% in prior year.

DEPOSITS: Excluding the impact of acquired balances, total deposits increased

14.4% to \$1.2 billion in 2017 compared to 2016. Core deposits are still the primary funding source for loan growth and the Company took on additional FHLB borrowings in order to fund additional loan growth in the period. Organic growth for demand deposits and other interest bearing deposits, NOW accounts, and savings and money market accounts in total remained close to zero for 2017 compared to 2016, while time deposits grew to \$575.0 million with an organic growth rate of 38% excluding the impact of acquired balances.

BORROWINGS: FHLB borrowings increased by \$236.2 million during 2017, of which \$175.7 million was assumed from the acquisition. Excluding the impact of the acquisition, the increase was mostly in short term FHLB advances to fund loans during the first half of the year.

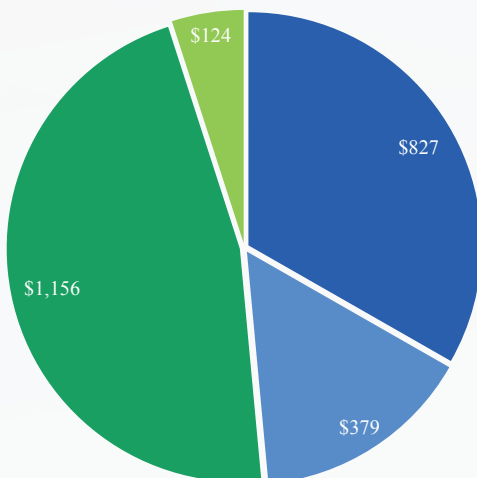
SHAREHOLDERS' EQUITY: Excluding the \$181.9 million of common stock of the Company issued to LSBG shareholders, total equity increased by \$16.0 million, or 10.2%, during 2017. Accumulated other comprehensive loss increased by \$228 thousand primarily due to the changes in fair value of the Company's derivative hedges offset by improvements in its available for sale securities positions.

The Company evaluates changes in tangible book value, a non-GAAP financial measure which is a commonly considered valuation metric used by the investment community and which parallels some regulatory capital measures. Tangible book value increased to \$246.2 million as of December 31, 2017 from \$151.0 million at year-end 2016.

The Company's ratio of tangible equity to tangible assets stood at 7.12% at the end of 2017, compared to 8.65% at the end of 2016. The decrease in the ratio is primarily due to the share issuance offset by goodwill and other intangible assets recorded for the LSBG acquisition in the first quarter 2017. The LSBG acquisition resulted in a \$95.1 million increase in goodwill.

Loan Composition

as of December 31, 2017 (in millions)



- Commercial Real Estate (33%)
- Commercial and Industrial (15%)
- Residential Real Estate (46%)
- Consumer (5%)

A TRUE COMMUNITY BANK

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 through a network of 47 full-service branches. 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
- 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. Within our markets, tourism, agriculture, fishing, and forestry industries remain strong and continue to drive economic activity. These core markets have also maintained their strength through diversification into various services industries. The following is a summary of the regions that the Bank primarily serves:

MAINE



The Bank operates 14 full-service branches principally located in downeast, midcoast and central Maine, which can generally be characterized as rural areas. In Maine the Company 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.

NEW HAMPSHIRE



The Bank operates 20 full-service branches and two stand-alone drive-up windows in New Hampshire. There are several distinct markets within this region. The first is centered in Nashua, New Hampshire, which is a regional commercial, entertainment and dining destination. Bordering Massachusetts, Nashua enjoys a vibrant high-tech industry and a robust retail industry due in part to the state's absence of a sales tax.

The west-central area of New Hampshire includes the towns of Lebanon and Hanover, which are home to Dartmouth-Hitchcock Medical Center and Dartmouth College, respectively.

VERMONT



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 15, 2018 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

—
Kimberly Pruett Ilg
VP, Investor Relations and CAPA
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 December 31, 2017 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, 2017.

Please contact Kimberly Pruett Ilg, Vice President of Investor Relations at 207-667-0660 or via U.S. mail at the address above.



Bar Harbor Bankshares | 82 Main Street | Bar Harbor, Maine 04609
888-853-7100 | bhbt.com