2022 Notice of Annual Meeting of Shareholders & Proxy Statement

BAR HARBOR BANKSHARES

Personal Banking · Business Banking · Wealth Management

Over 50 locations in Maine, New Hampshire & Vermont

April 1, 2022

Dear Bar Harbor Bankshares Shareholders:

I invite you to join me, our Board of Directors, our Senior Management Team, and your fellow shareholders at our 2022 Annual Meeting of Shareholders to **be held at 9:00 a.m. EDT on Tuesday, May 17, 2022**, at the *Bar Harbor Club located at 111 West Street in Bar Harbor, Maine*. Please note the health of our shareholders and colleagues is important to us. If you are not vaccinated and plan to attend the Annual Meeting, we ask that you respect the health and safety of your fellow shareholders and wear a face covering. Our Notice of Annual Meeting, Proxy Statement and Proxy Card are enclosed together with the Company's 2021 Summary Annual Report and Annual Report on Form 10-K.

As springtime emerges in New England, I am more excited than ever for the future of Bar Harbor Bankshares. While the past few years have been very difficult, we have skillfully navigated the challenges presented and I can say confidently that we are a stronger company than before COVID. The coming years will present new challenges that will require continued focus, discipline, and strong execution. I remain confident that Bar Harbor Bank & Trust, led by an experienced Board of Directors and a management team with a proven track record, has the right elements in place to continue to be successful.

Our Board and Senior Management Team are committed to operating Bar Harbor Bankshares as a responsible corporate citizen. We are continuing our work to reduce the environmental impact of our branches and facilities by significantly decreasing our use of paper, and decreasing our travel by embracing remote meeting capabilities with customers and colleagues. While we have made significant progress we know there is more work to be done and we will continuously update shareholders on our progress.

Your vote is important and your prompt attention to these materials is greatly appreciated. Regardless of whether you plan to attend the Annual Meeting in person, we hope you will vote as soon as possible. You may vote by telephone or via Internet, or by completing, signing, dating, and returning the enclosed Proxy Card or Voting Instruction Card if you requested and received printed proxy materials. Shareholders who attend the Annual Meeting may withdraw their proxy and vote at the meeting if they wish to do so. You may submit Internet, telephone, and email votes up until 11:59 p.m. EDT on May 16, 2022 for shares held directly and by 11:59 p.m. EDT on May 12, 2022 for shares held in a Plan. Please have your proxy card in hand when utilizing these alternate forms of voting.

Finally, I would like to thank Stephen R. Theroux for his service and commitment as a member of the Board of Directors of Bar Harbor Bankshares. Mr. Theroux has more than 30 years of service to Bar Harbor Bank & Trust and will retire after his current board term expires at the Annual Meeting. We value the insights that he shared from his extensive business expertise, and we will miss his contributions.

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

Sincerely,

Curtis C. Simard

CURTIS C. SIMARD
President and
Chief Executive Officer

$79M
invested in small business loan origination with 387 total loans

441
organizations supported through charitable giving efforts

73%
of employees provided funds to support charitable giving efforts

27%
of women represented on Board of Directors

68%
of women in management

FOSTERING SUSTAINABLE COMMUNITIES

RESPONSIBLE FINANCIAL COMMITMENTS

$14M
currently committed to creating affordable housing

100%
employee ethics training

$7.5M
invested in low income housing tax credits

$150,000
in employee owned charitable giving through the program *Casual for a Cause*

7,930 lbs
of IT equipment recycled

74%
of women in the BHB workforce

$681,000
committed to nonprofits & educational organizations

4,734 hours
of employees volunteering at various organizations with 24 hours of paid volunteer time annually

100%
of operations reviewed to support an environmental conscience approach

To learn more about our Environmental, Social and Governance practices, please visit our dedicated webpage at: https://www.barharbor.bank/about-us/esg

Notice of Annual Meeting of Shareholders

BAR HARBOR BANKSHARES

WHEN:
9:00 a.m., EDT,
Tuesday, May 17, 2022

WHERE:
Bar Harbor Club
111 West Street
Bar Harbor, Maine

RECORD DATE:
March 15, 2022

This meeting is being held for the following purposes:

Item 1: Elect 12 nominees as Directors

Item 2: Approve, by a "Say on Pay" advisory vote, our 2021 executive compensation as set forth in the proxy statement for the Annual Meeting

Item 3: Ratify the appointment of RSM US LLP as our independent registered public accounting firm for 2022

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

PROXY VOTING:

Your vote is important. You may vote your shares:

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

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

ANNUAL MEETING ADMISSION:

Please note that the health of our shareholders and colleagues is important to us. If you are not vaccinated and plan to attend the Annual Meeting we ask that you respect the health and safety of your fellow shareholders and wear a face covering.

For security reasons, a picture ID will be required if you attend the Annual Meeting in person. If your shares are not registered in your name, appropriate documentation from the shareholder of record is required to vote at the Annual Meeting. Examples include a broker's statement, letter or other document that confirms your beneficial ownership of the shares. If shares are held by your broker, bank or another party as a nominee or agent, you should follow the instructions provided by that party. We may refuse admission to anyone who is not a shareholder or does not comply with these requirements.

A list of shareholders entitled to vote at the Annual Meeting will be available for inspection by any shareholder of Bar Harbor Bankshares following the record date and will remain available for inspection throughout the Annual Meeting or any adjournment.

By Order of the Board of Directors

Kirstie A. Carter

Kirstie A. Carter, Corporate Clerk

April 1, 2022

The deadline for transmitting Internet, telephone, and email voting is 11:59 p.m. EDT on May 16, 2022 for shares held directly and by 11:59 p.m. EDT on May 12, 2022 for shares held in a Plan. Please have your proxy card in hand when utilizing these alternate forms of voting.

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Proxy Summary

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

ANNUAL MEETING OF SHAREHOLDERS

Record Date	Close of business on March 15, 2022
Voting	Shareholders as of the record date will be entitled to one vote at the Annual Meeting for each outstanding share of common stock
Common stock outstanding as of record date	15,012,606 shares

By Internet
www.proxyvote.com

By Telephone
1 800 690 6903

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

By Email
bhb@allianceadvisors.com

By Mail
Vote Processing,
c/o Broadridge,
51 Mercedes Way,
Edgewood, NY 11717.

VOTING MATTERS

Proposal	Board	Page
Item 1 Election of 12 Directors	FOR EACH NOMINEE	14
Item 2 Approval, as an advisory vote, of our 2021 executive compensation (“Say on Pay”)	FOR	46
Item 3 Ratification of the appointment of RSM US LLP as our independent registered public accounting firm for the year ending December 31, 2022	FOR	47

The Notice of Annual Meeting, proxy statement and proxy card were first mailed to our shareholders on or about April 1, 2022.

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

VOTING PROCEDURES AND METHOD OF COUNTING VOTES

Quorum Requirements

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

Voting Rights

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

Broker Non-Votes

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

Votes Required for Election or Approval

Proposal 1: Election of Directors

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

Proposal 2: Advisory Approval of 2021 Executive Compensation

The advisory vote to approve our 2021 named executive officers' compensation must be approved by a majority of the votes cast at the Annual Meeting by the shareholders present by webcast, in person or represented by proxy and entitled to vote. Abstentions will have no effect on the outcome of the vote because they do not count as "votes cast." Brokers do not have discretionary authority to vote shares on this proposal and broker non-votes will have no effect on the vote.

Proposal 3: Ratification of 2022 Independent Auditor

The ratification of RSM US LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2022 must be approved by a majority of the votes cast at the Annual Meeting by the shareholders present by webcast, in person or represented by proxy and entitled to vote. Abstentions will have no effect on the outcome of the vote because they do not count as "votes cast." Because this proposal is considered a routine matter, discretionary votes by brokers will be counted.

Environmental, Social and Governance

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

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

In 2021, we formed a dedicated Environmental, Corporate Social Responsibility, and Governance Committee ("ESGC"), to provide leadership, oversight, and guidance in assisting us to further develop our action plans with regard to:

- Environmental
- Health and Safety
- Corporate Social Responsibility
- Sustainability
- Corporate Governance
- Reputation
- Diversity
- Equity and Inclusion
- Community Issues
- Political Contributions
- Lobbying
- Other public policy matters relevant to the Company (collectively, "ESG Matters")

The Governance Committee of our Board of Directors provides the ultimate oversight and direction of all ESG related matters including the activities of the ESGC. This dedicated ESGC is structured as a sub-committee of our Enterprise Risk Management Committee and aligns with the Board's Risk Committee for additional guidance. Our Board is engaged and invested at all levels in the long-term sustainability of our business and fulfilling our shareholder interests.

Our Employees

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

Our Communities

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

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

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

Environmental Sustainability

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

Governance

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

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

Corporate Governance

Board Committees

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

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

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

Board Leadership Structure

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

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

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

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

Role of the Chairman

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

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

Risk Oversight

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

Board Risk Committee

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

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

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

In addition, the Board Risk Committee reviews and discusses our bank-wide risk assessment. The resulting risk assessment is aggregated, shared and discussed with the Board at least annually. In addition to monthly Board reports, our Board receives real-time reports from our Chief Risk Officer on key developments across the industry, as well as specific information about peers, vendors, and other significant incidents. In 2021, the Committee held a total of 12 meetings. Our state-of-the-art information security programs enable us to monitor and promptly respond to threats and incidents, and innovate and adopt new technologies, as appropriate. The Board Risk Committee shares our goal that each employee be responsible for information security, data security, and proven cybersecurity practices.

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

Compensation and Human Resources Committee

Our Compensation and Human Resources Committee manages executive officer and director compensation, including incentive compensation risk. This Committee has engaged Meridian Compensation Partners, LLC or "Meridian," an independent compensation consultant, to provide competitive market data and research into compensation best practices to guide the decisions of the Committee. Pearl Meyer Partners served as the Committee's compensation advisor in determining 2021 target compensation. Going forward, Meridian will replace Pearl Meyer as our compensation consultant. The Committee reviews compensation matters with the assistance of our Board Risk Committee. These results are reviewed by the Board to ensure incentive plans for executive management and other officers discourage excessive risk-taking. In 2021, the Committee held a total of 5 meetings.

Board Committees

Our Board has five standing committees—Executive, Audit, Compensation and Human Resources, Governance, and Board Risk. Charters describing the responsibilities of the Audit, Compensation and Human Resources, and Governance Committees can be found on our website at *www.barharbor.bank* under the Shareholder Relations page. The Board Risk Committee is discussed on pages 4 and 7.

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

Executive
Key Responsibilities

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

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

2021 Meetings: 0

Audit
Key Responsibilities

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

Independence/Qualifications

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

Members: Daina Belair, David Colter, Steven Dimick, and Scott Toothaker (Chair)

2021 Meetings: 4

See Appendix A for the Report of the Audit Committee.

Compensation and Human Resources
Key Responsibilities

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

Independence/Qualifications

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

Members: Matthew Caras, David Colter, Brendan O'Halloran, Kenneth Smith (Chair) and David Woodside

2021 Meetings: 5

Further information regarding the Compensation and Human Resources Committee can be found in this proxy statement beginning under the caption "Role of the Compensation and Human Resources Committee" on page 32.

Governance
Key Responsibilities

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

Independence/Qualifications

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

Members: Daina Belair, Matthew Caras, Steven Dimick, Martha Dudman, Brendan O'Halloran, and Lauri Fernald (Chair)

2021 Meetings: 5

Board Risk
Key Responsibilities

- Oversees risk governance structure
- Reviews risk management, risk assessment guidelines, policies regarding market, credit, operational, liquidity, funding, capital, reputational, compliance
- Reviews enterprise risk, as well as other risks as necessary to fulfill the Committee's oversight duties and responsibilities
- Reviews risk appetite and tolerance
- Oversees capital, liquidity, and funding in coordination with the Asset/Liability Management Committee of our subsidiary, Bar Harbor Bank & Trust which we refer to as the Bank or BHBT

Independence/Qualifications

- All committee members are independent under the NYSE American listing standards, with the exception of our President & CEO, Curtis Simard

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

2021 Meetings: 12

Further information regarding the Board Risk Committee can be found in this proxy statement beginning under the caption "Board Risk Committee" on page 4.

Compensation and Human Resources Committee Interlocks and Insider Participation

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

Board Risk Committee

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

Other Risk Oversight Committees

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

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

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

ISG Corporate Governance Framework

We follow the Investor Stewardship Group's (ISG) Corporate Governance Framework for U.S. Listed Companies. The six ISG Principles and our corresponding practices are as follows:

Principle 1: **Boards are accountable to shareholders**	• All Directors are elected annually by a majority of votes cast • We have proxy access with market terms • We have robust corporate governance disclosures • We have responded to all shareholder proposals that received majority support
Principle 2: **Shareholders should be entitled to voting rights in line with their economic interest**	• Each shareholder gets one vote per share on all matters • We have majority voting in uncontested director elections, and directors not receiving majority support must tender their resignation for consideration by the Board
Principle 3: **Boards should be responsive to shareholders and be proactive in order to understand their perspectives**	• We have a robust shareholder engagement program to discuss our business, corporate governance, executive compensation, and sustainability practices • Our Board considers the feedback received from shareholder engagement when structuring governance, compensation, and sustainability practices
Principle 4: **Boards should have a strong independent leadership structure**	• The Chair of the Board is an independent, non-executive Director with a robust oversight role that has clearly defined duties that are disclosed to shareholders • Each Committee of the Board is chaired by an independent Director • The Board leadership structure is considered at least annually
Principle 5: **Boards should adopt structures and practices that enhance their effectiveness**	• Excluding our CEO, 100% of our Board is independent • The Board regularly reviews Director skills with a commitment to Director refreshment to ensure the Board meets the Company's evolving oversight need • Each Committee of the Board has an extensive detailed charter outlining the Committee's duties and responsibilities • Board members have complete access to Company officers and counsel and may retain outside counsel, financial or other advisors as the Board deems appropriate
Principle 6: **Boards should develop management incentive structures that are aligned with the long-term strategy of the company**	• The Compensation and Human Resources Committee annually reviews and approves incentive compensation program design, goals and objectives for alignment with compensation and business strategies. Further information can be found in this proxy statement beginning under caption "Compensation Discussion and Analysis" on page 31

Governance Procedures and Related Matters

Code of Conduct and Business Ethics

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

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

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

Securities and Insider Trading Policy

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

Prohibition on Hedging

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

Board Independence and Qualifications

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

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

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

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

Director Tenure

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

Bar Harbor Trust Services and Charter Trust Company Committees

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

CEO and Senior Management Succession Planning

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

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

Board Meetings, Committee Membership, and Attendance

In 2021 our Board held ten regular meetings, one strategic planning meeting for measurement against and appropriateness of strategic objectives and one annual meeting. Directors are expected to attend our Annual Meetings of Shareholders, our Board meetings and the Committee meetings of committees of which they are members. Each of our directors attended at least 96.0% of the total number of meetings of our Board and each of the Committees on which they served during 2021. In addition, all the Directors serving on our Board at the time of our 2021 Annual Meeting attended the meeting.

Identifying and Evaluating Director Candidates Board Composition

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

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

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

Board Diversity

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

Shareholder Engagement

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

Additional Corporate Governance Information

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

Beneficial Ownership of Common Stock

The following table sets forth information regarding the beneficial ownership of our common stock as of March 15, 2022 by: 1) each person or entity known by us to own beneficially more than 5% of the outstanding common stock calculated on the number of shares outstanding on March 15, 2022; 2) each current director and nominee for election to the Board; 3) each NEO; and 4) all executive officers and directors as a group. We had 15,012,606 shares of common stock, net of treasury shares, outstanding as of March 15, 2022. Unless otherwise indicated, the address of all individuals listed below is 82 Main Street, PO Box 400, Bar Harbor, Maine, 04609.

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

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

NAME OF BENEFICIAL OWNERS	TITLE OF CLASS	AMOUNT OF BENEFICIAL OWNERSHIP	FOOTNOTES	PERCENT OF CLASS[1]
5% or more beneficial owners				
BlackRock, Inc.	Common	1,117,209	2	7.50%
FMR LLC	Common	992,295	3	6.60%
DIRECTORS				
Belair, Daina H.	Common	6,496		*
Caras, Matthew L.	Common	14,672		*
Colter, David M.	Common	6,694	4	*
Dimick, Steven H.	Common	9,196		*
Dudman, Martha T.	Common	17,704		*
Fernald, Lauri E.	Common	13,338		*
O'Halloran, Brendan J.	Common	8,836		*
Simard, Curtis C.	Common	70,155	9	*
Smith, Kenneth E.	Common	19,022	5	*
Theroux, Stephen R.	Common	64,276	6	*
Toothaker, Scott G.	Common	37,715	7	*
Woodside, David B.	Common	18,182	8	*
NAMED EXECUTIVE OFFICERS				
Iannelli, Josephine	Common	21,497	9	*
Colombo, Marion	Common	10,979	9	*
Mercier, John M.	Common	11,011	9	*
Edgar, Jason P.	Common	6,489	9	*
All directors and executive officers as a group (16 persons)		336,262	10	2.22%

1. Unless otherwise indicated, an individual has sole voting power and sole investment power with respect to the indicated shares. All individual holdings amounting to less than 1% of issued and outstanding common stock are marked with an (*).
2. BlackRock, Inc, holdings are disclosed based on their ownership as of December 31, 2021 as filed on Form Schedule 13G on February 1, 2022. The address of BlackRock, Inc. is 55 East 52nd Street, New York, NY 10055.
3. FMR LLC holdings are disclosed based on their ownership as of December 31, 2021 as filed on Form Schedule 13G on February 9, 2022. The address of FMR LLC is 245 Summer Street, Boson, MA 02210.
4. Includes 30 shares owned by Mr. Colter's children.
5. Includes 3,990 shares over which voting and dispositive powers are shared jointly with Mr. Smith's spouse.

6. Includes 24,844 shares over which voting and dispositive powers are shared jointly with Mr. Theroux's spouse. This number does not include 20,000 shares held within a Supplemental Executive Retirement Plan for which Mr. Theroux does not have voting or dispositive powers.
7. Includes 4,500 shares over which voting and dispositive powers are shared with Mr. Toothaker's spouse.
8. Includes 3,776 shares over which voting and dispositive powers are shared jointly with Mr. Woodside's spouse. This also includes 1,500 shares owned by Mr. Woodside's spouse over which he does not have voting or dispositive powers.
9. The table below includes (a) shares the NEOs own directly, (b) shares over which NEOs have voting power of fully vested shares under our 401(k) Plan, (c) time-vested and performance shares (disclosed at Target) scheduled to be issued to the executives within 60 days of the March 15, 2022 record date under the long-term incentive plans. These ownership positions are set forth in the table below:
10. Total beneficial ownership excludes 1,000 (.0001%) shares of common stock as of the March 15, 2022 record date held by one trust, which, for the purpose of voting, are allocated equally among the directors present at the Annual Meeting under the terms of the respective trust instruments. No director has any other beneficial interest in these shares. This trust is denominated for purposes of this proxy statement as the "Parker Trust." The Parker Trust was established in 1955 in perpetuity. BHTS, our second tier non-depository trust services company located in Ellsworth, Maine, is the sole Trustee, with full powers, of this trust benefiting the Mt. Heights Cemetery in Southwest Harbor, Maine.

NAME	DIRECT (a)	401(k) PLAN (b)	LONG TERM INCENTIVE EQUITY (c)
Simard, Curtis C.	56,866	1,258	12,030
Iannelli, Josephine	15,582	—	5,915
Colombo, Marion	7,260	—	3,719
Mercier, John M.	7,292	—	3,719
Edgar, Jason P.	3,240	—	3,249

Section 16(a) of the Securities Exchange Act requires our executive officers and directors and any persons owning ten percent or more of our common stock to file reports with the SEC to report their beneficial ownership of and transactions in our securities and to furnish us with copies of the reports.

Based solely upon a review of the Section 16(a) reports furnished to us, along with written representations from our executive officers and directors, we believe that all required reports were timely filed during 2021, except that Jason P. Edgar inadvertently failed to file one report.

Proposal 1
Election of Directors

Directors and Nominees

At the Annual Meeting, shareholders will elect the entire Board of Directors to serve for the ensuing year and until their successors are elected and qualified. The Board has designated as nominees for election the 12 persons named below, 11 of which currently serve as a director. Each director nominee has consented to being named in this proxy statement and to serving as a director if elected.

Listed are each nominee's name, age as of our Annual Meeting date, tenure of Board service, committee memberships, principal occupation, business experience, Board Committee positions, and positions with our subsidiaries consisting of BHBT and CTC. We also discuss the qualifications, attributes, and skills that led our Board to nominate each director for election. The terms of all current directors expire at the 2023 Annual Meeting.

NAME	AGE	YEAR FIRST ELECTED OR APPOINTED DIRECTOR	POSITION(S) WITH OUR COMPANY	POSITION(S) WITH OUR SUBSIDIARIES
Daina H. Belair	66	2015	Director	Director, BHBT since 2015 Director, BHTS since 2015 Director, CTC since 2017
Matthew L. Caras	65	2014	Director	Director, BHBT since 2014
David M. Colter	54	2016	Director	Director, BHBT since 2016
Steven H. Dimick	71	2017	Director	Director, BHBT since 2017
Martha T. Dudman	70	2003	Director	Director, BHBT since 2003 Chairman, BHTS since 2005 Director, BHTS since 2003 Chairman, CTC since 2017 Director, CTC since 2017
Lauri E. Fernald	60	2005	Director	Director, BHBT since 2005
Debra B. Miller	64	Nominee	Nominee	None
Brendan J. O'Halloran	59	2018	Director	Director, BHBT since 2018
Curtis C. Simard	51	2013	Director, President and CEO since August 2013	President and CEO of BHBT since 2013 Director, BHBT since 2013 Director, BHTS since 2013 Director, CTC since 2017
Kenneth E. Smith	68	2004	Director	Director, BHBT since 2004 Director, BHTS from 2004–2013 and 2015 to present Director, CTC since 2017
Scott G. Toothaker	59	2003	Director	Director, BHBT since 2003
David B. Woodside	70	2003	Director	Director, BHBT since 2003 Chairman of the Board since 2016

NUMBER OF BOARD AND COMMITTEE MEETINGS HELD IN 2021					
BOARD	EXECUTIVE	AUDIT	COMPENSATION & HUMAN RESOURCES	GOVERNANCE	BOARD RISK
10	0	4	5	5	12

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

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

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

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

Stock Ownership Guidelines

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

All current director nominees are in conformity with the Bylaws.

Vote Required

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

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

Director Nominees

DAINA H. BELAIR — DIRECTOR SINCE: 2015

AGE: 66

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

Mrs. Belair is a retired attorney and a member of the New York and District of Columbia Bar Associations. In 2008, she relocated to Maine where she owned and operated the Inn at Sunrise Point until mid-2021 and is now retired. During her more than 25 years as a practicing attorney she specialized in banking and financial services. In 2002-2006 she served as General Counsel and Managing Director of U.S. Trust Corporation and its subsidiary banks, U.S. Trust Company of New York and U.S. Trust Company N.A. Prior to that she was employed by Citibank N.A. for 15 years, as a Vice President and Managing Director, and holding various senior division general counsel and compliance officer positions for Citibank's international corporate and institutional business as well as general counsel for the Citibank Private Bank. Earlier in her career she practiced law in Washington D.C. At this time, she primarily resides in South Carolina but maintains family and business ties to Maine.

Professional and Leadership Highlights:

- Significant banking, wealth management and regulatory experience
- Served as a Director of various private not-for-profit organizations, including Home Counselors Inc. in Maine and Women in Housing and Finance in Washington DC
- Served as Director and Treasurer of the Penobscot Bay Chamber of Commerce and as President of the Lincolnville Business Group
- Served on the Town of Lincolnville Budget Committee

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

MATTHEW L. CARAS, JD — DIRECTOR SINCE: 2014

AGE: 65

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

An attorney and member of the Maine Bar for more than 20 years, Mr. Caras is a founder and principal of Leaders LLC, a mergers and acquisitions advisory services firm representing public, private, and family-owned businesses in a broad range of industries throughout the United States and globally. Mr. Caras is also a mediator and neutral negotiation facilitator who has conducted over 150 mediation sessions and facilitated transactions as a neutral party. Mr. Caras resides in Arrowsic, Maine.

Professional and Leadership Highlights:

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

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

DAVID M. COLTER — DIRECTOR SINCE: 2016

AGE: 54

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

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

Professional and Leadership Highlights:

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

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

STEVEN H. DIMICK — DIRECTOR SINCE: 2017

AGE: 71

COMMITTEE MEMBERSHIPS:
- AUDIT COMMITTEE
- GOVERNANCE COMMITTEE

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

Professional and Leadership Highlights:

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

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

MARTHA T. DUDMAN — DIRECTOR SINCE: 2003

AGE: 70

COMMITTEE MEMBERSHIPS:
- EXECUTIVE COMMITTEE
- GOVERNANCE COMMITTEE
- BAR HARBOR TRUST SERVICES COMMITTEE (CHAIR)
- CHARTER TRUST COMMITTEE (CHAIR)

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

Professional and Leadership Highlights:

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

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

LAURI E. FERNALD — DIRECTOR SINCE: 2005

AGE: 60

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

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

Professional and Leadership Highlights:

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

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

DEBRA B. MILLER — DIRECTOR SINCE: NOMINEE

AGE: 64

COMMITTEE MEMBERSHIPS:

- NEW DIRECTOR NOMINEE

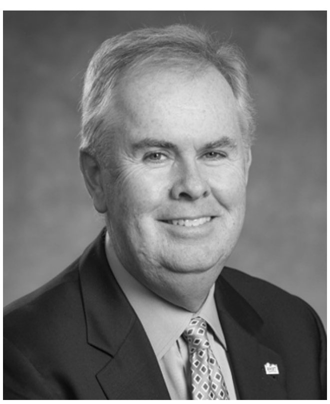
Mrs. Miller has served as the Vice President of External Relations at the NH Community Loan Fund since 2013. She oversees the organization's philanthropy, marketing and communications as well as their public policy efforts. She previously served as Senior Vice President and Director of Corporate Affairs in New England for Citizens Bank where she was responsible for overseeing public and community relations, media relations, internal communications, special events, charitable contributions, marketing sponsorships and government affairs for the New England region. In addition, she was responsible for the bank's Community Reinvestment Act programs throughout its 13-state footprint.

Professional and Leadership Highlights:

- Received a BS in Urban Affairs and Economics from Winston-Salem University
- Previously served as the Chair of the Board of Trustees for Winston-Salem State University and the past chair of Whittier Street Health Center in Roxbury, MA
- Previously appointed by New Hampshire Governor Jeanne Shaheen to serve as a trustee for the University System of New Hampshire where she chaired the External Affairs Committee
- Among other awards, recognized as one of New Hampshire's Remarkable Women by *New Hampshire Magazine,* received the Susan B. Anthony Award from the Manchester YWCA, and received the Leading Women Award from the Girl Scouts Patriots' Trail Council

Mrs. Miller's significant experience in banking and compliance combined with her community service experience provide a valuable combination of proven skills and insights to the Board.

BRENDAN J. O'HALLORAN — DIRECTOR SINCE: 2018



AGE: 59

COMMITTEE MEMBERSHIPS:

- COMPENSATION COMMITTEE
- GOVERNANCE COMMITTEE
- BOARD RISK COMMITTEE

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

Professional and Leadership Highlights:

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

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

CURTIS C. SIMARD — DIRECTOR SINCE: 2013

AGE: 51

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

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

Professional and Leadership Highlights:

- Serves as a member on the Executive Committee of Maine Bankers Association
- Serves as a member of the Board of Directors at the Seal Cove Auto Museum and the Ellsworth Business Development Corporation
- Serves as a member of the Board of Directors at the Business and Industry Association of New Hampshire
- Serves as Chair of Maine Bankers Association
- Previous Board member of Northern Light Maine Coast Memorial Hospital and the Abbe Museum a Smithsonian affiliate representing Native American Culture.

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

KENNETH E. SMITH — DIRECTOR SINCE: 2004

AGE: 68

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

Mr. Smith is the former owner and innkeeper of Manor House Inn from 2003-2020 at which time he retired and was the former owner of Wonder View Inn, both of which are lodging facilities located in Bar Harbor, Maine. Mr. Smith resides in Bar Harbor, Maine.

Professional and Leadership Highlights:

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

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

SCOTT G. TOOTHAKER — DIRECTOR SINCE: 2003

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

Professional and Leadership Highlights:

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

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

AGE: 59

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

DAVID B. WOODSIDE — DIRECTOR SINCE: 2003

Since 1989, Mr. Woodside has served as Chief Executive Officer and Director of The Acadia Corporation, a locally owned company operating retail shops on Mount Desert Island. Mr. Woodside resides in Bar Harbor, Maine.

Professional and Leadership Highlights:

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

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

AGE: 70
- CHAIRMAN OF THE BOARD OF DIRECTORS

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

Board Skills and Demographics—Bar Harbor Bankshares

Skills & Experience	Belair	Caras	Colter	Dimick	Dudman	Fernald	Miller	O'Halloran	Simard	Smith	Toothaker	Woodside
Executive Leadership	✓	✓	✓	✓	✓	✓		✓	✓		✓	✓
Financial Services Industry	✓	✓	✓	✓			✓	✓	✓	✓	✓	✓
Financial Reporting/Audit/Capital Planning	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓
Risk Management	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓
Compliance/Legal/Regulatory	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓
Technology/Information Security/ Cybersecurity	✓		✓	✓				✓	✓		✓	✓
Mergers & Acquisitions	✓	✓	✓	✓			✓	✓	✓		✓	✓
Human Capital Management	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Public Company Experience	✓			✓			✓	✓	✓	✓	✓	
Board Independence and Tenure												
Independent	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓
Board Tenure (years)	6	7	7	4	18	16	Nominee	3	9	17	18	18
Board Demographics												
Age	66	65	54	71	70	60	64	59	51	68	59	70
Gender	F	M	M	M	F	F	F	M	M	M	M	M
Race	Caucasian/ White	Caucasian/ White	Caucasian/ White	Caucasian/ White	Caucasian/ White	Caucasian/ White	African American/ Black	Caucasian/ White	Caucasian/ White	Caucasian/ White	Caucasian/ White	Caucasian/ White

Executive Officers

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

NAME	AGE	SINCE	CURRENT POSITION	POSITIONS WITH SUBSIDIARIES
Curtis C. Simard	51	2013	Director, President and CEO	President and CEO of BHBT since June 2013. Director of BHBT since June 2013. Director, BHTS since June 2013. Director of CTC since 2017
Josephine Iannelli	49	2016	Executive Vice President, Chief Financial Officer and Treasurer	Executive Vice President, Chief Financial Officer, and Treasurer of BHBT and BHTS since 2016. Chief Financial Officer and Treasurer of CTC since 2017
Marion Colombo	56	2018	N/A	Executive Vice President, Director of Retail Delivery of BHBT since 2018
John M. Mercier	58	2018	N/A	Executive Vice President, Chief Lending Officer of BHBT since 2018. Formerly Executive Vice President, Senior Lender NH and VT of BHBT since 2017
Jason Edgar	45	2019	N/A	President of BHTS and CTC since June 2019
Jennifer Svenson	57	2019	N/A	Senior Vice President, Chief Human Resources Officer of BHBT since June 2019
Joseph P. Scully	60	2021	N/A	Senior Vice President, Chief Information Officer and Director of Operations of BHBT since April 2021
John M. Williams, II	31	2021	N/A	Senior Vice President, Chief Risk Officer of BHBT since April 2021

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

CURTIS C. SIMARD

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

Professional and Leadership Highlights:

- Serves as a member on the Executive Committee of Maine Bankers Association
- Serves as a member of the Board of Directors at the Seal Cove Auto Museum and the Ellsworth Business Development Corporation
- Serves as a member of the Board of Directors at the Business and Industry Association of N.H.
- Serves as Chair of Maine Bankers Association
- Previous Board member of Northern Light Maine Coast Memorial Hospital and the Abbe Museum a Smithsonian affiliate representing Native American Culture.

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

JOSEPHINE IANNELLI

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

Professional and Leadership Highlights:

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

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

MARION COLOMBO

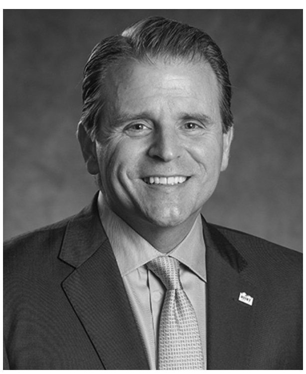
Ms. Colombo joined our company in February 2018 as Executive Vice President, Director of Retail Delivery. She is responsible for retail strategy and delivery working with teams to ensure that our customer experience is consistent with outstanding service across all locations in Maine, New Hampshire and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

Professional and Leadership Highlights:

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

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

JOHN M. MERCIER



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

Professional and Leadership Highlights:

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

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

JASON EDGAR

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

Professional and Leadership Highlights:

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

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

JENNIFER SVENSON

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

Professional and Leadership Highlights:

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

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

JOSEPH SCULLY

Mr. Scully is the CIO and Director of Operations at Bar Harbor Bank & Trust and is responsible for guiding the bank's Technology, Project & Vendor Management, Business Continuity, Real Estate Management, and Deposit/Loan Operations functions. Mr. Scully has nearly four decades of experience working in the Department of Defense and Financial Services verticals. He has supervised Information Technology & Security, Fraud, Project Management, Facilities, and Card Operations departments throughout his career and has served on multiple banking and security industry committees during the last 20 years. Since arriving at the bank, Mr. Scully has spearheaded the modernization of our enterprise infrastructure and has played key roles in a majority of the bank's strategic initiatives to include merger and acquisition projects. Mr. Scully resides in Plymouth, Maine.

Professional and Leadership Highlights:

- Past FS-ISAC Payments Risk Council Member
- Past Trusteer Product Advisory Committee Member

Mr. Scully holds an Associate's degree of Applied Science from Edison State Community College in Ohio. Mr. Scully is a proud US Army veteran.

JOHN WILLIAMS

Mr. Williams has served as our Senior Vice President, Chief Risk Officer since April 2021, and has served in varying and progressively higher roles of responsibilities within risk management of the company since December 2014. Mr. Williams was deeply involved with the Bank's M&A activity, including work relative to due diligence reviews and leading e-commerce integrations for each transaction. Prior to that, Mr. Williams served in various risk management capacities at another Maine-based financial institution. Mr. Williams resides in Clifton, Maine.

Professional and Leadership Highlights:

- Received a BA in Economics from Yale University
- Board member of several community and non-profit endeavers, including the Town of Clifton TIF Committee and Northern Light Eastern Maine Medical Center Institutional Review Board
- Significant involvement in the Company's M&A activity

Mr. Williams' leadership, education, and risk management experience makes him well-suited to lead the overall risk management culture throughout the organization.

Certain Relationships and Related-Party Transactions

Transactions with Management and Others

We administer related party transactions under compliance with NYSE American Rule 120 and Item 404(a) of Regulation S-K. This policy provides for Audit Committee oversight of related party transactions that exceed a *de minimis* lifetime income statement impact of $25,000 (except for loan transactions, administered according to Federal Regulation O, as described more fully below). Any transactions that qualify under this policy are reviewed by the Audit Committee (or another acceptable Board Committee, or the full Board) for pre-approval. Other than the Somesville Lease described below, and loans offered in the ordinary course of business and approved by the Bank's Board of Directors there were no related party transactions in 2021.

The company entered into a long-term lease for a Bank branch located in Somesville, Maine, effective February 1, 2006, which we refer to as the Somesville Lease. The Somesville Lease currently has a lease that runs through 2026. During each subsequent lease year, the base rent is increased using a formula tied to certain changes in the consumer price index. During 2021 the lease payments totaled $90,704. There were no amounts outstanding for this lease as of December 31, 2021. In addition to base rent, the Bank is responsible to pay as "additional rent" certain defined real estate taxes, as well as certain operating expenses, and other costs, charges, and expenses associated with the premises. The "Landlord" under the Somesville Lease is A.C. Fernald Sons Inc., a Maine corporation. Mr. Robert B. Fernald of Mount Desert, Maine, is a shareholder, director, and officer of A. C. Fernald Sons Inc. and is the father of our director Lauri E. Fernald. Ms. Fernald does not own any stock or hold any corporate office or other position with A.C. Fernald Sons Inc. and has no direct or indirect interest in the Somesville Lease other than her familial relationship with Mr. Robert B. Fernald.

Except as set forth above and with regard to "Indebtedness of Management" described below, none of our director-nominees or NEOs nor any of its subsidiaries engaged during 2021 in any transaction with our Company or any of our subsidiaries, in which the amount involved exceeded $120,000.

Indebtedness of Management and Directors

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

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

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

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

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

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

As of December 31, 2021, the outstanding loans by BHBT to director nominees and NEOs amounted to an aggregate of approximately $3,379,203 with a maximum availability limit of $6,233,641. All loans are offered under the same terms and conditions available for comparable loans to persons not related to BHBT, including, interest rates, repayment terms, and the required collateral. The terms and conditions of all loans, including those to insiders, and the process by which such loans are approved, is fully documented in BHBT's written loan policy ("Loan Policy"). The Loan Policy is approved annually by the Board and administered by the management of BHBT. Loans to insiders may not contain a higher level of risk, nor be offered with terms and conditions more favorable, than loans to non-insiders with equivalent financial profiles (except for the favorable pricing programs previously described). We believe all extensions of credit to our insiders and executive officers satisfy the foregoing conditions. No extensions of credit to our insiders have involved more than normal risk of collectability or present other unfavorable features.

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

Compensation of Directors

Compensation of independent directors of our Company and subsidiaries, BHBT, BHTS and CTC consisted of quarterly stipends, and an equity award. The CEO does not receive compensation for service as a director.

We regularly review the compensation practices of the peer companies, which include the same peer companies used for our executive benchmarking study. The Board believes that providing a significant portion of director compensation in equity will reinforce the alignment with shareholder interests. To achieve this objective, the Board eliminated meeting fees for both Board and Committees and increased annual retainers and equity compensation value in 2021.

The following table summarizes the components of director compensation and changes made for FY 2021.

COMPENSATION	2020 AMOUNTS	2021 AMOUNTS
Board Retainer	$ 20,000	$32,000
Chair of the Board Retainer	17,000	22,500
Audit Chair Retainer	9,000	10,000
All Other Committee Chair Retainer	4,000	7,500
Chair of both BHTS and CTC	4,000	7,500
Annual Fully Vested Restricted Stock Grant	25,000	32,500
Per Meeting Fee	500-600	—

In November 2021, each independent director was awarded 1,038 restricted shares of our common stock under the 2019 Equity Plan, valued at $32,500 per director on the date of the grant. These restricted share certificates are fully vested, but may not be sold, transferred or gifted by any director until three (3) months after such director leaves the service of the Board.

Each of our directors attended at least 96% of the total number of meetings of our Board and each of the Committees on which they served during 2021. In addition, all the directors serving on our Board at the time of our 2021 Annual Meeting attended the meeting.

2021 Director Compensation

The following table details the total compensation paid to directors from our company and our subsidiaries, BHBT, BHTS and CTC, during 2021. Directors received no additional compensation or perquisites for their service other than that set forth in the table below.

NAME	FEES EARNED OR PAID IN CASH	RESTRICTED STOCK AWARDS[1]	TOTAL
Daina H. Belair	$ 32,000	$ 32,479	$ 64,479
Matthew L. Caras	39,500	32,479	71,979
David M. Colter	32,000	32,479	64,479
Steven H. Dimick	32,000	32,479	64,479
Martha T. Dudman	39,500	32,479	71,979
Lauri E. Fernald	39,500	32,479	71,979
Brendan J. O'Halloran	32,000	32,479	64,479
Kenneth E. Smith[2]	39,500	32,479	71,979
Stephen R. Theroux	32,000	32,479	64,479
Scott C. Toothaker	42,000	32,479	74,479
David B. Woodside	54,500	32,479	86,979
Totals	**$414,500**	**$357,269**	**$771,769**

1. Represents the value of 1,038 restricted shares earned in 2021 and granted in November 16, 2021 to each independent director as part of their compensation calculated at the closing price on the day of the grant.
2. Mr. Smith deferred a portion of his compensation under a Non-Qualified Deferred Compensation arrangement. This deferred arrangement is funded entirely by the director and the funds are invested and remain in our name until the director withdraws them upon his resignation, retirement, or termination from Board membership. Mr. Smith assumes the investment risk on these funds and holds the status of an unsecured creditor of our Company for the payment of these deferred fees at a future date.

Compensation Discussion and Analysis

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

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

Named Executive Officers

For 2021, our NEOs were:

- Curtis C. Simard, President and CEO
- Josephine Iannelli, Executive Vice President, CFO and Treasurer
- Richard B. Maltz, Executive Vice President, Chief Operating and Chief Risk Officer. **Mr. Maltz retired from the Company on April 30, 2021.**
- Marion Colombo, Executive Vice President and Director of Retail Delivery
- John M. Mercier, Executive Vice President and Chief Lending Officer
- Jason P. Edgar, President, Bar Harbor Trust Services & Charter Trust Company

Summary of 2021 Compensation Decisions

The Compensation and Human Resources Committee made the following compensation decisions for 2021, which are further described below:

- Awarded base salary increases to NEOs averaging 3.0%
- Paid annual cash incentives at 150% of target which represents 56.4% of NEO base salaries based on corporate and individual achievements
- Authorized the vesting of restricted stock for the 2019-2021 Long-Term Incentive Plan performance period,
- Granted annual equity awards pursuant to our Long-Term Incentive Plan

Our Compensation Program Philosophy and Objectives

Our compensation philosophy is to pay for performance. Our performance considerations include both financial and non-financial measures—including how we achieve goals—for our Company, the line of business, and the individual. These considerations reinforce and promote responsible growth and maintain alignment with our risk framework. Our executive compensation program including salary, incentives, and benefits provides a balanced and market competitive compensation package.

The objectives of our program are to:

- provide NEOs with total compensation opportunities at levels that are competitive for comparable positions at our peer companies
- directly link a significant portion of total compensation to our achievement of performance goals and allows us to vary pay to reflect performance
- provide upside opportunities for exceptional individual performance, which can result in differentiated compensation among NEOs based on performance
- closely aligns the NEOs' interests with those of our shareholders by making stock-based incentives an important element of the executive's compensation

Executive Compensation Governance

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

What We Do:

- Design programs that place a substantial portion of compensation at-risk
- Align compensation programs with our annual business objectives and long-term strategies
- Use multiple performance measures and caps on potential incentive payments
- Grant at least 50% of annual equity in performance-based awards (i.e., performance shares)
- Vest equity awards over a multi-year period
- Include clawback provisions in our annual and long-term incentive plans for executive officers
- Engage with and consider shareholder input in designing our executive pay programs
- Conduct an annual risk assessment of annual incentive programs

What We Don't Do:

- Allow hedging of our securities
- Provide excessive perquisites or supplemental executives retirement plans
- Provide for multi-year guaranteed salary increases or non-performance-based cash incentive awards for executive officers

- Include "golden parachute" excise tax gross ups in severance arrangements

Compensation of the CEO

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

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

As further discussed, below, Mr. Simard participated in the structured annual incentive cash compensation plan provided to all executive officers. During 2021, Mr. Simard earned an award amounting to $506,025.

During 2021, the Compensation and Human Resources Committee granted Mr. Simard equity awards subject to time-based shares and performance-based vesting conditions under the 2021-2023 Long Term Incentive Program. He is required to hold the shares issued pursuant to time-vested and performance-vested awards for a minimum of three years from the issue date. Mr. Simard is a member of the Board and does not receive any director fees for participating in the activities of the Board.

Shareholder "Say on Pay" Advisory Votes

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

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

2018	2019	2020	2021
95.6%	96.4%	93.8%	96.0%

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

The Role of Compensation Consultants

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

The Compensation and Human Resources Committee, under the authority granted by its charter, engages consultants to provide independent advice and counsel. Pearl Meyer and Partners served as the Committee's compensation advisor in determining 2021 target compensation. The Committee engaged Meridian Compensation Partners, LLC (Meridian) mid-year and assisted with updating the peer group and competitive benchmarking in the fall to guide 2022 pay decisions and program designs. Going forward, Meridian will replace Pearl Meyer as our compensation consultant.

The Committee's consultants provide the following services:

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

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

The Compensation and Human Resources Committee did not identify any conflicts of interest with the engagements with Pearl Meyer or Meridian. Upon their engagement in June, 2021, Meridian provided documented assurances that their relationship meets the independence standards, and no conflicts of interest were identified.

Role of the Compensation and Human Resources Committee

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

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

The Compensation and Human Resources Committee also considers the relative scarcity of senior banking executive candidates in its immediate market area with skills and experience necessary to achieve future strategic goals, as well as the challenge in a very competitive market to recruit out-of-market candidates to work in rural Maine. The Committee does not use any formal, fixed or indexed criteria for establishing compensation levels for any of our NEOs within market identified ranges.

Role of Management

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

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

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

Market Benchmarking and Performance Comparisons

The Compensation and Human Resources Committee considers companies in the banking industry that are comparable based on assets and geographic area. To set 2021 pay opportunities, the Committee approved a Compensation Peer Group, including financial institutions that fall within a range of $1.8 billion in assets to $8.7 billion in assets and positioned Bar Harbor close to the median. All peer banks are in the Northeast region plus New York but excluding New York City.

Institution Name	Ticker
Arrow Financial Corporation	AROW
Bankwell Financial Group, Inc.	BWFG
Boston Private Financial Holdings	BPFH
Bridge Bancorp, Inc.	BDGE
Brookline Bancorp, Inc.	BRKL
Cambridge Bancorp	CATC
Camden National Corporation	CAC
Century Bancorp, Inc.	CNBK.A
Chemung Financial Corporation	CHMG
Enterprise Bancorp, Inc.	EBTC
Financial Institution Inc.	FISI
First Bancorp, Inc.	FNLC
Hingham Institution for Savings	HIFS
Meridian Bancorp, Inc.	EBSB
Tompkins Financial Corporation	TMP
TrustCo Bank Corp NY	TRST
Washington Trust Bancorp, Inc.	WASH
Western New England Bancorp	WNEB

The Compensation Peer Group information is used as a guide in establishing the competitiveness and reasonableness in our compensation program and practices. The committee does not target the elements of our compensation program at any specific level or percentile within the Compensation Peer Group. Rather than rely on a specific formula-based model, the committee believes that retaining discretion to assess the overall performance of NEOs gives the committee the ability to more accurately reflect individual contributions that cannot be absolutely quantified.

The Compensation and Human Resources Committee also believes that an emphasis on incentive compensation for our NEOs is an important component of our overall compensation program. In addition, the Committee generally does not affirmatively set out in any given year, or with respect to any given executive, to apportion compensation in any specific ratio among the various categories of compensation described below. Rather, the Compensation Committee uses the principles described above, and the factors described for each category in the discussion that follows as a guide in assessing the proper allocation among those categories.

Compensation and Human Resources Committee Report

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

The Compensation and Human Resources Committee believes our financial results and total shareholder return (disclosed in our Form 10-K for the year ended December 31, 2021) compare favorably with our Compensation Peer Group indicating a solid pay-for-performance alignment. The Committee further believes the compensation established for our CEO and other NEOs provide an appropriate balance between market compensation and shareholder return. The Committee referenced market data including peer group and survey information along with guidance provided by our compensation consultant in its process to establish and validate the appropriateness of our executive compensation compared to market and performance.

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

Compensation and Human Resources Committee Members	
Kenneth E. Smith, Chair	David M. Colter
Matthew L. Caras	Brendan J. O'Halloran
	David B. Woodside

The following table provides information concerning the compensation paid for 2021 to our Named Executive Officers who consist of our Chief Executive Officer and President and our other five most highly compensated executive officers during 2021.

NAME	BHB 2021 BASE SALARY[1]	BHB 2021 TOTAL CASH COMPENSATION[2]
Curtis C. Simard	$674,700	$1,180,725
Josephine Iannelli	432,600	659,715
Richard B. Maltz[3]	407,401	407,401
Marion Colombo	319,300	462,985
John M. Mercier	319,300	462,985
Jason Edgar	309,000	401,700

1. Approved base salary figures for 2021 have been used for comparison purposes in this table.
2. Approved base salary figures for 2021 plus the cash amount paid to each NEO under the 2021 Annual Cash Incentive Program.
3. Mr. Maltz retired from the company on April 30, 2021.

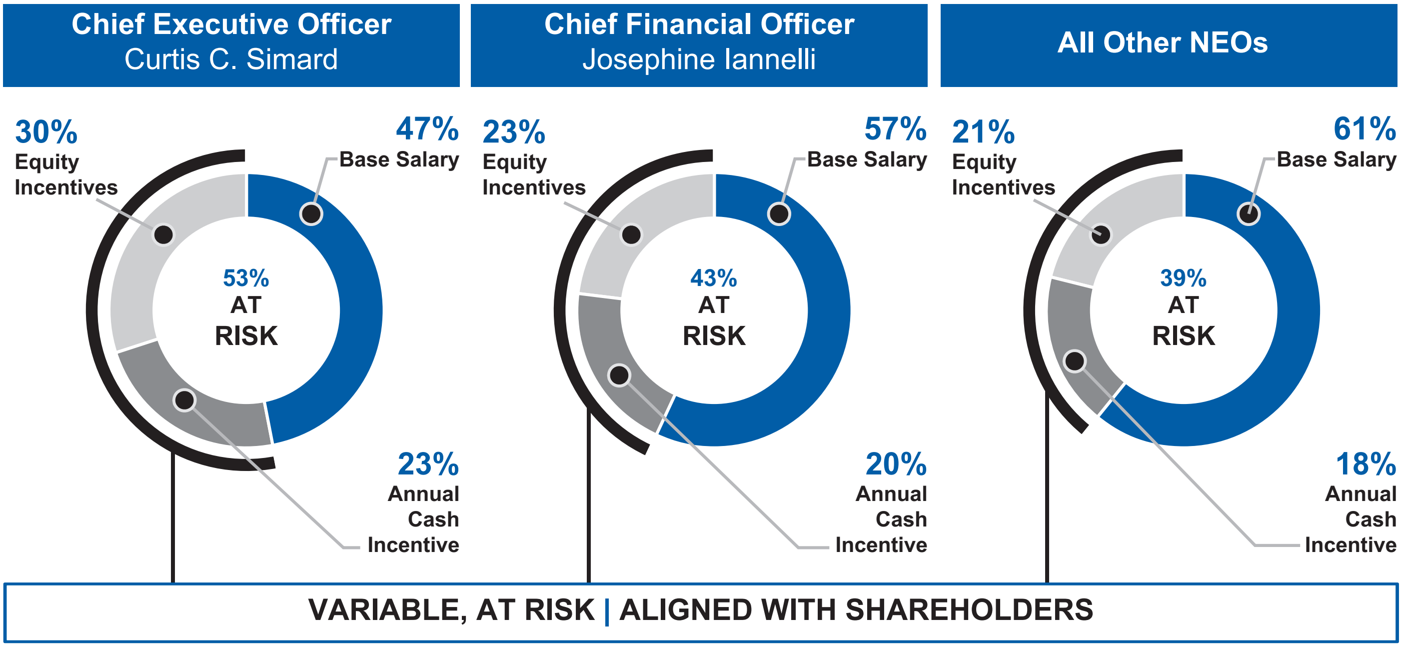
Compensation Plan Components

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

PERFORMANCE YEAR 2021 COMPENSATION COMPONENTS	
DESCRIPTION	**HOW IT PAYS**
Base Salary	Salary/wages are paid on a standard, company-wide schedule of 26 pay periods throughout the year.
Annual Cash Incentive	Awarded annually, subject to Board-approved formulas for company-wide, group-specific performance measures, and individual performance measures.
Equity Incentives	Comprised of three-year performance- and time-based Restricted Stock Units, or Restricted Stock Awards with immediate vesting on grant date, all with three-year restriction periods after vesting.
Executive Benefits	Executive benefits include reimbursement of membership fees to fitness, country club, or similar organizations, a housing allowance, an automobile allowance, 401k matching contributions under our 401(k) plan and the value of employer provided life insurance that exceeds the IRS limit.

The Committee believes the growth in total compensation provided to our executive officers should be weighted increasingly towards variable, or "at risk" compensation including cash and equity incentives which tie directly to corporate performance, to remain in alignment with shareholders.

The charts below summarize the 2021 targeted pay mix for each NEO.



Mr. Maltz retired from the Company on April 30, 2021, and therefore he is not included in "All Other NEOs" chart above.

Base Salary

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

Based on performance evaluations, and consideration of market salary data supplied by the Committee's independent consultants (Pearl Meyer for 2021 and Meridian Compensation Partners, LLC for 2022), the Compensation and Human Resources Committee approved the following base salaries for 2021 and 2022 as set forth below:

NAME	2021 BASE SALARY	2022 BASE SALARY
Curtis C. Simard	$674,700	$694,900
Josephine Iannelli	432,600	445,600
Richard B. Maltz[1]	432,600	—
Marion Colombo	319,300	328,900
John M. Mercier	319,300	328,900
Jason Edgar	309,000	318,300

1. Mr. Maltz retired from the company on April 30, 2021.

Annual Cash Incentive Program

During 2021, the NEOs participated in the Annual Cash Incentive Program which was designed to provide rewards tied to our annual metrics to optimize profitability, growth, excellence in individual performance, and to promote teamwork among its participants. Consistent with best practices, the Board and its compensation consultant(s) regularly review the percentage of at risk pay for each executive to ensure alignment with market and best practices. This program was approved by the Board for 2021.

During 2021, Messrs. Simard, Mercier and Edgar and Mses. Iannelli and Colombo participated in an annual cash incentive compensation program with team goals representing opportunities for incentive payments. We paid out a total of $1,159,560 in March 2022 to the five NEOs based on the 2021 measurement period.

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

Annual Cash Incentive Performance Measures. The senior executive team has predefined performance goals for their annual short-term incentive awards. The common team goals for 2021 were Adjusted Net Income, asset quality measure (Non-Performing Loans as a Percentage of Total Loans), a well-managed Efficiency Ratio, and the successful completion of strategic initiatives. The specific allocations of goals were weighted to reflect the focus and contribution of each position.

The following table shows the 2021 target compensation for the annual cash incentive in dollars:

NAME	BASE SALARY	TARGET (AS A PERCENTAGE OF BASE SALARY)	TARGET
Curtis C. Simard	$674,700	50.00%	$337,350
Josephine Iannelli	432,600	35.00%	151,410
Richard B. Maltz	432,600	35.00%	151,410
Marion Colombo	319,300	30.00%	95,790
John M. Mercier	319,300	30.00%	95,790
Jason Edgar	309,000	30.00%	92,700

The following table shows the specific performance goals of the 2021 annual cash incentive plan:

	PERFORMANCE GOALS		
INCENTIVE MEASURES	THRESHOLD	TARGET	STRETCH
Adjusted Net Income ($thousands)[1]	$29,805	$32,048	$35,253
NPL/Tloans[2]	1.20%	0.90%	0.75%
Efficiency Ratio[3]	64.40%	63.14%	61.88%
Strategic Initiatives[4]	90.00%	100.00%	110.00%

1. Adjusted net income is reflected in the Non-GAAP table located in the Management Discussion and Analysis section of our annual 10-K filing. Additional adjustments may be made based on approval by the board compensation and human resource committee. Adjusted net income includes but is not limited to gain or losses on sales of securities, extinguishment of debt, sales of premises and equipment, and other real estate owned. Non-recurring charges reflected in acquisition, conversion, and other expenses are also included.
2. Non-Performing Loans (NPL's) include all loans on non-accrual status as of December 31, 2021 as measured against total loans
3. Efficiency ratio is a Non-GAAP measure computed by using adjusted non-interest expense net of franchise taxes and intangible amortization divided by adjusted revenue tax effected for tax advantaged assets using marginal tax rate. See 10-K Reconciliation of Non-GAAP measures for further details.
4. Strategic initiatives include, but are not limited to, M&A activity, balance sheet strategies, restructuring initiatives, and long-term strategic development that positions for long-term performance consistency.

Based on performance measures illustrated above, all executives with the exception of Mr. Maltz who previously retired on April 30, 2021, received maximum payout for 2021 performance as summarized in the table below:

NAMED EXECUTIVE OFFICER	ACTUAL	TARGET	% OF TARGET
Curtis C. Simard	$506,025	$337,350	150%
Josephine Iannelli	227,115	151,410	150%
Richard B. Maltz	—	151,410	0%
Marion Colombo	143,685	95,790	150%
John M. Mercier	143,685	95,790	150%
Jason Edgar	139,050	92,700	150%

Details of the above are disclosed in Threshold, Target and Stretch categories in the "Grants of Plan-Based Awards" table under the heading "Executive Compensation Tables" found on page 39 of this proxy statement.

Long-Term Equity Incentives

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

The purpose of the program is to align executives' interests with shareholder interests, increase executive stock ownership, and ensure sound risk management by providing a balanced view of performance and reward over a longer time horizon. The program also positions our total compensation opportunities to be competitive with the market to attract and retain strong talent which is needed to drive our success.

The Compensation and Human Resources Committee periodically evaluates long-term incentive programs to ensure the competitive target opportunities and appropriateness of the goals and measures.

For 2021, consistent with 2020, the program comprised of time-vested restricted stock and performance-vested restricted stock units. For the CEO, 62% of his LTI is granted as performance shares and 38% as time-vested awards. For the other NEOs, shares are allocated 50% performance shares and 50% time-vested shares.

Time-vested awards vest incrementally over three years (i.e., 1/3 per year) and also subject to a post-vesting holding requirement of three years. The post-vesting holding requirement will be eliminated upon implementation of new stock ownership guidelines in 2022.

Performance-vested awards will vest after the 3-year performance period ends depending on the achievement of performance goals.

The 2021 long-term incentive awards were made under the 2019 Equity Plan ("2019 Equity Plan") which was approved by shareholders at the 2019 Annual Meeting of Shareholders.

Target award opportunities were set based on each NEO's role as a percentage of base salary. See the table "Grants of Plan Based Awards on page 41 to reference the actual shares that may be earned under the 2021-2023 plan year for each NEO.

The following table shows the long-term incentive awards granted in 2021:

2021 Long-Term Incentive Awards				
	Time Vested		Performance-Vested	
Name	% of Salary	Amount $	Target % of Salary	Target $
Curtis C. Simard	25.00%	$168,675	40.00%	$269,880
Josephine Iannelli	20.00	86,520	20.00	86,520
Richard B. Maltz	20.00	86,520	20.00	86,520
Marion Colombo	17.50	55,878	17.50	55,878
John M. Mercier	17.50	55,878	17.50	55,878
Jason Edgar	17.50	54,075	17.50	54,075

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

LONG-TERM EQUITY INCENTIVE MEASURES

Relative Return on Assets ("ROA") was selected as the primary performance measure for awards granted subject to performance-based vesting conditions since it reflects our growth strategy and our strategic plan. We will measure our performance against the SNL $1.5 billion to $6 billion Bank Index for 2021-2023 performance period. The average of the 12 quarters within the performance period is calculated for Bar Harbor and the component companies of the Index. Then, the percent rank will be calculated to measure the relative performance achievement. The table below shows the performance metric.

Measure	Threshold	Target	Stretch
Relative Three Year Average ROA	35th percentile	50th percentile	75th percentile
Payout	50%	100%	150%

In addition to relative ROA, a Total Shareholder Return ("TSR") cap is used to further align with shareholder interest. If our three year TSR for the performance period is negative, a payout cannot exceed "Threshold" regardless of the relative ROA performance results.

Benefits, Retirement and Post-Termination Compensation Elements

We provide a 401(k) plan for all employees meeting minimum age (20 ½ years old) and service (1st of month following 30 days of employment) requirements which includes employer matching contributions of up to 5%. We match 100% on the first 3% deferred by employees and 50% on the next 2% deferred by employees.

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

We also have change in control agreements with Ms. Colombo and Messrs. Mercier and Edgar. These agreements provide for, among other things, the payment of 24 months of their salary and subsidized medical COBRA reimbursements for a period of 12 months in the event of both a change in control and subsequent termination (or constructive termination) within one year after a change in control, unless such termination was for cause. These specific payments and timeframes were selected based on the advice of a compensation consultant and employment attorney as representative of similar type agreements in the industry, and which we believe are necessary to attract and retain senior executives.

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

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

Other Compensation and Benefits

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

Clawback Provision

We have provisions in our incentive programs requiring each current and former executive officer to forfeit any erroneously awarded incentive-based compensation. This incentive-based compensation would have been received by any such officer during the three completed years preceding the date on which we are required to prepare an accounting restatement due to our material non-compliance with any financial reporting requirement under federal securities laws. None of our directors or executives were required to forfeit any erroneously awarded incentive-based compensation in 2021.

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

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

Stock Ownership Guidelines

In 2022, we added stock ownership guidelines for our NEOs and have eliminated the three-year retention requirement. Stock ownership guidelines require both ownership requirements as well as retention requirements. The CEO must own and retain three times his or her annual base salary and other NEO's must own and retain one times their annual base salary. All equity granted (net of taxes withheld and/or transactions costs) must be held until the ownership requirement is met.

Policy on Code Section 162(m)

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

Summary Compensation Table

The following table discloses compensation for the years ended December 31, 2021, 2020 and 2019 received by the NEOs.

NAME AND PRINCIPAL POSITION	YEAR	BASE SALARY RECEIVED[1]	SIGN ON BONUS[4]	STOCK AWARDS[2]	NON-EQUITY INCENTIVE PLAN COMPENSATION	ALL OTHER COMPENSATION[3]	TOTAL ($)
Curtis C. Simard	2021	$674,700	$ —	$573,495	$506,025	$42,251	$1,796,471
President & CEO	2020	655,000	—	556,767	433,738	62,965	1,708,470
	2019	635,000	—	417,498	253,388	30,287	1,336,173
Josephine Iannelli	2021	432,600	—	216,300	227,115	14,224	890,239
EVP, CFO and Treasurer	2020	420,000	—	210,024	216,317	12,660	859,001
	2019	405,000	—	226,856	121,780	24,585	778,221
Richard B. Maltz	2021	407,401	—	—	—	13,052	420,453
EVP, Chief Operating Officer and Chief Risk Officer	2020	420,000	—	210,024	216,317	24,126	870,467
	2019	405,000	—	226,856	121,780	26,744	780,380
Marion Colombo	2021	319,300	—	139,694	143,685	25,334	628,013
EVP, Director of Retail Delivery	2020	310,000	—	135,629	136,854	25,204	607,687
	2019	300,000	—	143,738	78,931	32,663	555,332
John M. Mercier	2021	319,300	—	139,694	143,685	31,149	633,828
EVP, Chief Lending Officer	2020	310,000	—	135,629	136,854	34,820	617,303
	2019	300,000	—	123,743	78,931	33,354	536,028
Jason Edgar	2021	309,000	—	135,188	139,050	24,440	607,678
President, Wealth	2020	300,000	—	78,745	132,439	25,119	536,303
	2019	275,000	50,000	71,604	50,000	4,430	451,034

1. Included in salary amounts for each NEO are monies they deferred pursuant to our 401(k) Plan, which allows our employees and employees of our wholly owned subsidiaries to defer monies from their compensation, subject to applicable limitations in Code Section 401(k), and amounts deferred pursuant to our Section 125 Cafeteria Plan providing health, life, and disability insurance benefits. Employees, including NEOs, are paid on a bi-weekly basis. Mr. Maltz's base salary is reflective of what he earned as he retired from the Company on April 30, 2021.
2. Amounts in this column represent grants issued to NEOs under the Long-Term Incentive Plans computed in accordance with FASB ASC Topic 718. See Note 14 Stock Based Compensation Plans to our financial statements included in our Annual Report Form 10-K filed for the year ending December 31, 2021. For performance-based awards, amounts in this column are computed at the probable level of Stretch performance.
3. Other Annual Compensation includes match and contribution amounts into our 401(k) plan in the same formula and schedule as available to all other employees and such other items as imputed life insurance amounts on group term insurance in excess of the allowable $50,000, non-taxable IRS limit. Please see the table following these footnotes for further detail.
4. Mr. Edgar received a sign on bonus of $50,000 upon joining in June 2019.

The NEOs also participate in certain group life, health and disability insurances and medical reimbursement plans not disclosed in the Summary Compensation Table that are generally available to all employees and do not discriminate in scope, terms and operation. The table below provides detail on the amounts comprising the column entitled "All Other Compensation" contained in the Summary Compensation Table for 2021.

NAME	EMPLOYER 401(K) CONTRIBUTION MATCH	MEMBERSHIP DUES	HOUSING ALLOWANCE	AUTOMOBILE ALLOWANCE	IMPUTED LIFE INSURANCE	TOTAL
Curtis C. Simard	$11,600	$26,002	$—	$ 2,813	$1,836	$42,251
Josephine Iannelli	11,600	—	—	1,634	990	14,224
Richard B. Maltz	10,281	—	—	1,431	1,340	13,052
Marion Colombo	11,600	10,896	—	—	2,838	25,334
John M. Mercier	11,600	14,043	—	2,668	2,838	31,149
Jason P. Edgar	11,600	—	—	11,850	990	24,440

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

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

Grants of Plan-Based Awards

The following table sets forth information regarding the awards granted to the NEOs during the last fiscal year under the 2021-2023 Long Term Incentive Plan. Amounts disclosed are based on 2021 eligible salaries received by the participants. The time-vested awards granted under the 2021-2023 Long Term Incentive Plan are shown under Target, and the range of the possible performance awards pursuant to the 2021-2023 Long Term Incentive Plan is also disclosed for each participant.

			Estimated Future Payouts Under Non-Equity Incentive Plan Awards[1]			Estimated Future Payouts Under Equity Incentive Plan Awards[2]			All other stock awards: Number of stock units[3](#)	Grant date fair value of stock awards[4](#)
Name (a)	Grant Type (b)	Grant Date (c)	Threshold ($) (d)	Target ($) (e)	Stretch ($) (f)	Threshold (#) (g)	Target (#) (h)	Stretch (#) (i)	(j)	(k)
Curtis C. Simard	Short-term		$168,678	$337,350	$506,025					$
	Time-vested	Jan 2021							7,493	168,675
	Performance	Jan 2021				5,995	11,989	17,984		404,820
Josephine Iannelli	Short-term		75,705	151,410	227,115					
	Time-vested	Jan 2021							3,844	86,520
	Performance	Jan 2021				1,922	3,844	5,765		129,780
Rick Maltz	Short-term		—	—	—					
	Time-vested	Jan 2021							3,844	86,520
	Performance	Jan 2021				1,922	3,844	5,765		129,780
Marion Colombo	Short-term		47,895	95,790	143,685					
	Time-vested	Jan 2021							2,482	55,877
	Performance	Jan 2021				1,241	2,482	3,724		83,816
John M. Mercier	Short-term		47,895	95,790	143,685					
	Time-vested	Jan 2021							2,482	55,877
	Performance	Jan 2021				1,241	2,482	3,724		83,816
Jason Edgar	Short-term		46,350	92,700	139,050					
	Time-vested	Jan 2021							2,402	54,075
	Performance	Jan 2021				1,201	2,402	3,603		81,113

1. The Annual Incentive Program detail in columns (d), (e), and (f) represents the possible payouts ranges based on the relevant performance level for the calendar year ended December 31, 2021. More information regarding the terms of the Annual Incentive Program can be found in the Compensation Discussion and Analysis.
2. Amounts in columns (g), (h), and (i) represent the number of shares subject to performance-vested awards granted in 2021 under the 2019 Equity Plan. More information regarding the terms of the performance-vested awards can be found in the Compensation Discussion and Analysis.
3. Represents the number of shares subject to time-vested awards granted to NEOs in 2021 under the 2019 Equity Plan. More information regarding the terms of the time-vested awards can be found in the Compensation Discussion and Analysis
4. Fair values of performance awards in column (k) are determined based on Stretch performance level.

Outstanding Equity Awards at Fiscal Year-End-2021

	STOCK AWARDS			
NAME (a)	NUMBER OF SHARES OR UNITS OF STOCK THAT HAVE NOT VESTED[1] (b)	MARKET VALUE OF SHARES OR UNITS OF STOCK THAT HAVE NOT VESTED[1] (c)	EQUITY INCENTIVE PLAN AWARDS; NUMBER OF UNEARNED SHARES, UNITS OR OTHER RIGHTS THAT HAVE NOT VESTED[2] (d)	EQUITY INCENTIVE PLAN AWARDS; MARKET OR PAYOUT VALUE OF UNEARNED SHARES, UNITS OR OTHER RIGHTS THAT HAVE NOT VESTED[2] (e)
Curtis C. Simard	7,173	$207,512	33,661	$973,799
Josephine Iannelli	3,679	106,446	10,792	312,211
Rick Maltz	3,679	106,446	10,792	312,211
Marion Colombo	2,376	68,744	6,970	201,628
John M. Mercier	2,376	68,744	6,970	201,628
Jason Edgar	2,300	66,525	6,744	195,116

1. Amounts in column (b) represent shares subject to time-vested awards payable in 2022, 2023 and 2024. The amount in column (c) represents the total value of those shares at December 31, 2021 at the closing price of $28.93 per share.
2. Amounts in column (d) represent shares subject to time-vested awards payable in 2022, 2023, and 2024 if paid at Stretch level. The amounts in column (e) represent the total value of those shares at December 31, 2021 at the closing price of $28.93 per share. Our standard vesting schedule (3) year is applied. More information regarding the terms of the performance shares can be found in the Compensation and Discussion Analysis.

Stock Vested in 2021

	STOCK AWARDS[1]	
NAME	NUMBER OF SHARES ACQUIRED ON VESTING	VALUE REALIZED ON VESTING[1]
Curtis C. Simard	7,738	$228,116
Josephine Iannelli	3,867	113,999
Rick Maltz	3,867	113,999
Marion Colombo	2,339	68,954
John M. Mercier	2,378	70,103
Jason Edgar	2,083	61,407

1. This represents the number and dollar value, respectively, of restricted time-vested shares issued in 2021 to NEOs under the 2018-2020, 2019-2021 and 2020-2022 Long Term Incentive Programs and the performance shares issued under the 2018-2020 plan. Depending on the plan period, the shares subject to time-vested awards must be held for a period of one to three years after issue and shares subject to performance-vested awards are required to be held for a three-year period.

No NEO held stock options at December 31, 2021.

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

Potential Payments Upon Termination of Employment or Change in Control

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

- Non-CIC severance

- For Mr. Simard, his employment agreement provides for (i) cash severance equal to his base salary for the remainder of the term of his employment agreement (currently scheduled to remain in effect through December 31, 2024), payable in a lump sum; (ii) pro-rata annual incentive award for the year of termination; (iii) group health benefits (including medical, vision and dental benefits) for the remainder of the employment term (currently, through December 31, 2024) or 18 months (if longer); and (iv) full vesting of all outstanding equity awards, with assumed target performance for performance-based awards.
- For Ms. Iannelli, her employment agreement provides for (i) cash severance equal to three years of base salary, payable in a lump sum; (ii) pro-rata annual

incentive award for the year of termination; and (iii) a payment equal to 18 months of our share of premium contributions for group health benefits (including medical, vision and dental benefits).

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

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

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

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

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

Termination and Change in Control Benefits

Termination Event	Curtis C. Simard	Josephine Iannelli	Marion Colombo	John M. Mercier	Jason Edgar
Termination Without Cause or With Good Reason—Not in Connection with Change in Control					
Cash severance	$2,024,100	$1,297,800	$ —	$ —	$ —
Pro rata bonus	506,025	227,115	—	—	—
Benefits	62,364	62,364	—	—	—
Equity vesting	1,204,872	485,811	—	—	—
Total	**$3,797,361**	**$2,073,090**	**$ —**	**$ —**	**$ —**
Termination Without Cause or With Good Reason—In Connection with Change in Control[1]					
Cash severance	$3,390,368	$1,979,145	$638,600	$638,600	$618,000
Pro rata bonus	506,025	227,115	—	—	—
Benefits	62,364	62,364	21,204	15,213	21,204
Equity vesting	1,204,872	485,811	310,836	310,836	288,296
Total	**$5,163,629**	**$2,754,435**	**$970,640**	**$964,649**	**$927,500**
Death, Disability or Retirement					
Cash severance	$ 674,700	$ 432,600	$ —	$ —	$ —
Pro rata bonus	—	—	—	—	—
Benefits	31,182	31,182	—	—	—
Equity vesting	348,188	171,239	107,682	107,682	91,703
Total	**$1,054,070**	**$ 599,926**	**$107,682**	**$107,682**	**$ 91,703**
Any Other Termination of Employment					
Cash severance	$ —	$ —	$ —	$ —	$ —
Pro rata bonus	—	—	—	—	—
Benefits	—	—	—	—	—
Equity vesting	—	—	—	—	—
Total	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**

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

CEO Pay Ratio

As required by Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, and Item 402(u) of Regulation S-K, we are providing the following information about the relationship of the annual total compensation of our employees and the annual total compensation of Curtis C. Simard, our Chief Executive Officer and President ("CEO") as of the end of 2021, our last completed fiscal year:

CEO PAY RATIO	
CEO Annual Total Compensation	$1,134,279
Median Employee Annual Total Compensation	$ 55,038
CEO to Median Employee Pay Ratio	20.61

Based on this information, we reasonably estimate that for 2021 our CEO's annual total compensation was approximately 21 times that of the median of the annual total compensation of all our employees.

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

- We selected, November 16, 2021 which is within the last three months of 2021, as the date upon which we would identify the "median employee" because it enabled us to make such identification in a reasonably efficient and economical manner.
- We identified the "median employee" from our employee population excluding the CEO by including the annualized base salary calculated on their November 16, 2021 compensation rate, overtime, incentives, commissions, matching contributions to participants in our 401(k) plan, and the employer subsidy contributions for our health programs.
- We annualized the compensation of the employees who were hired in 2021 but did not work for us for the entire fiscal year.

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

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

Executive and Change in Control Agreements

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

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

Under the terms of the Employment Agreement, Mr. Simard is entitled to receive an annual base salary of $674,700, which amount is not subject to automatic increase, but will be reviewed annually, and further provides that his base compensation will not be reduced downward during the term of the Employment Agreement. Mr. Simard will be eligible to continue to participate in our annual incentive and long-term incentive plans approved by the Board and in our medical, dental, disability, retirement, life insurance, and other employee benefit plans.

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

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

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

We entered into an Employment Agreement with Ms. Iannelli on September 14, 2020, which includes change in control, confidentiality and non-competition provisions. This agreement provides Ms. Iannelli severance of salary for 36 months and benefits for a period of 36 months in the event of both a change of control of our Company and subsequent termination (or constructive termination) within 12 months after a change of control, unless such termination was for cause. In addition, Ms. Iannelli's equity grants will vest in accordance with the terms of the plans under which they were granted and vest fully upon a change in control.

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

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

Proposal 2 Advisory Approval of 2021 Executive Compensation

Our shareholders have the opportunity at the Annual Meeting to vote to approve, on a non-binding, advisory basis, the compensation of our Named Executive Officers, or NEOs, as disclosed in this proxy statement in accordance with SEC rules. Each year, our Compensation and Human Resources Committee reviews our NEOs performance using a balanced and disciplined approach to determine base salaries and variable compensation awards. The approach for 2021 included a full-year assessment of financial results, contributions of the executives to the overall performance of the business, and progress delivering on our short- and long-term strategic goals. The Compensation and Human Resources Committee considers various factors that collectively indicate successful management of our business, including: i) overall corporate performance; ii) individual performance, including financial and non-financial measures; iii) the manner in which results are achieved; iv) adherence to risk and compliance policies, as well as the quality of earnings; v) accountability in driving a strong risk management culture and other core values of our company; vi) our year-over-year performance relative to our established risk metrics; and vii) our performance relative to our peer competitor group.

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

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

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

***RESOLVED*, on an advisory basis, that the compensation paid to the Named Executive Officers, as disclosed in the proxy statement for this 2022 Annual Meeting of Shareholders pursuant to compensation disclosure rules of the Securities and Exchange Commission, including the "Compensation Discussion and Analysis" section, the executive compensation tables and narrative discussion, is hereby APPROVED.**

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

Vote Required

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

OUR BOARD UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS VOTE "FOR" THE ADVISORY APPROVAL OF OUR 2021 EXECUTIVE COMPENSATION.

Proposal 3 Ratification of Appointment of Independent Registered Public Accounting Firm

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

After assessing the performance and independence of RSM US LLP or RSM, our principal independent registered public accounting firm, the Audit Committee believes that retaining RSM is in the best interests of our Company and shareholders. The Audit Committee has appointed RSM as our independent registered public accounting firm to audit our 2022 consolidated financial statements. RSM has served as our independent registered public accounting firm since 2015. Although it is not required to do so, our Board is asking shareholders to ratify RSM's appointment. The Audit Committee considers RSM to be well qualified. In the absence of contrary specification, the proxy holders will vote proxies received in response to this solicitation in favor of ratification of the appointment. If our shareholders do not ratify RSM's appointment, the Audit Committee will consider changing our independent registered public accounting firm for 2022.

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

Vote Required

The ratification of RSM as our independent registered public accounting firm for the fiscal year ending December 31, 2022 will require the approval of a majority of the votes cast at the Annual Meeting by shareholders present at the meeting or represented by proxy and entitled to vote. An abstention will have no effect on the outcome of the proposal. Because this proposal is considered a routine matter, discretionary votes by brokers will be counted.

THE BOARD UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF RSM US LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2022.

Principal Accounting Fees and Services

The reports of RSM on our consolidated financial statements as of December 31, 2021 and 2020 and for the three-year period ending on December 31, 2021, and on internal control over financial reporting as of December 31, 2021, did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles.

The following table summarizes RSM's audit fees from January 1, 2020 through December 31, 2021.

SERVICE	2020	2021
Audit Fees[1]	$395,600	$389,943
Audit-Related Fees[2]	60,000	47,500
Tax Fees	—	—
All Other Fees	—	—
Total	$455,600	$437,443

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

Pre-Approval Policies and Procedures

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

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

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

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

Other Matters

Nominations by Shareholders and Other Shareholder Proposals

Our Bylaws and Governance Committee Charter provide that we consider nominees for election to the Board recommended by shareholders if those nominations are made in the same manner provided for under our Bylaws with regard to typical shareholder proposals. These procedures require in part, that to be timely, a shareholder's notice shall be delivered to the Clerk at our principal executive offices no later than the close of business of the 120th day (i.e., January 17, 2023) nor earlier than the close of business on the 150th day (i.e., December 18, 2022) prior to the first anniversary of the preceding year's Annual Meeting.

The shareholder's notice shall include:

- for each person whom the shareholder proposes to nominate for election or re-election as a director, all information relating to that person is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required; in each case pursuant to Regulation 14A under the Exchange Act, such person's written consent to being named in the proxy statement as a nominee and to serving as a director, if elected, is to be included;
- for any other business that the shareholder proposes to bring before the meeting, a brief description of the business to be brought before the meeting, the reasons for conducting such business at the meeting, any material interest in such business of such shareholder and the beneficial owner, if any, on whose behalf the proposal is made, and the names and addresses of other shareholders known by the shareholder proposing such business to support the proposal, and the class and number of shares of our capital stock beneficially owned by the other shareholders;
- for the shareholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made 1) the name and address of such shareholder, as they appear on our books, and of such beneficial owner, and 2) the class and number of shares of our common stock, which are owned beneficially and of record by such shareholder and such beneficial owner. Shareholder proposals submitted pursuant to Rule 14a-8 of the Exchange Act for inclusion in our proxy statement and form of proxy for the 2023 Annual Meeting of Shareholders must be received by us no later than December 2, 2022. Any such proposal must also comply with the requirement as to form and substance established by the SEC for such a proposal to be included in the proxy statement and form of proxy.

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

Communication with Board

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

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

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

Delivery of Documents to Security Holders Sharing an Address

SEC rules permit us to deliver a single copy of our 2021 Annual Report to Shareholders and this proxy statement to two or more shareholders who share an address, unless we have received contrary instructions from one or more of the security holders. This delivery method, which is known as "householding," can reduce our expenses for printing and mailing. Any shareholder of record at a shared address to which a single copy of the documents was delivered may request a separate copy of the 2021 Annual Report to Shareholders and this proxy statement by (a) calling 1-888-853-7100, (b) sending a letter to us at 82 Main Street, P.O. Box 400, Bar Harbor, Maine 04609, Attn: Investor Relations, or (c) sending us an e-mail at InvestorRelations@barharbor.bank. Shareholders of record who wish to receive separate copies of these documents in the future may also contact us as stated above. Shareholders of record who share an address and are receiving multiple copies of our Annual Reports to Shareholders and proxy statements may contact us as stated above to request delivery of a single copy of such documents. Shareholders who hold their shares in "street name" and who wish to obtain copies of these proxy materials should follow the instructions on their voting instruction forms or contact the holders of record.

Solicitation of Proxies

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

Other Business

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

By Order of the Board of Directors

Kirstie A. Carter

Kirstie A. Carter, Corporate Clerk & Secretary

Appendix A
Audit Committee Report

To the Board of Directors of Bar Harbor Bankshares:

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

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

Consistent with its monitoring and oversight responsibilities, the Audit Committee met with management and RSM US LLP, or RSM, the independent auditor of Bar Harbor Bankshares, to review and discuss the December 31, 2021 audited consolidated financial statements. Management represented that Bar Harbor Bankshares had prepared the consolidated financial statements in accordance with U.S. generally accepted accounting principles. The Audit Committee discussed with RSM the matters required by the PCAOB in accordance with Auditing Standard No. 1301, "Communications with Audit Committees."

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

Management completed the documentation, testing and evaluation of Bar Harbor Bankshares' system of internal control over financial reporting as of December 31, 2021 as required by Section 404 of the Sarbanes-Oxley Act of 2002. The Audit Committee received periodic updates from management and RSM at Audit Committee meetings throughout the year and provided oversight of the process. Prior to filing Bar Harbor Bankshares' Annual Report on Form 10-K for the fiscal year ended December 31, 2021, or the Form 10-K, with the SEC, the Audit Committee also reviewed management's report on the effectiveness of Bar Harbor Bankshares' internal control over financial reporting contained in the Form 10-K, as well as the Report of Independent Registered Public Accounting Firm provided by RSM and also included in the Form 10-K. RSM's report included in the Form 10-K related to its audit of Bar Harbor Bankshares' consolidated financial statements and the effectiveness of Bar Harbor Bankshares' internal control over financial reporting.

Based upon the Audit Committee's discussions with management and RSM and the Audit Committee's review of the information provided by, and the representations of, management and RSM, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements as of and for the year ended December 31, 2021 be included in the Form 10-K. The Audit Committee selected RSM as Bar Harbor Bankshares' independent auditor for the fiscal year ending December 31, 2022, and recommended the selection be submitted for ratification by the shareholders of Bar Harbor Bankshares.

Audit Committee of the Board:

Scott G. Toothaker, Chair
Steven H. Dimick
David M. Colter
Daina H. Belair

ANNUAL MEETING OF SHAREHOLDERS

Time and date:	**9:00 a.m., Eastern Time, on Tuesday, May 17, 2022**
Record date:	Close of business on March 15, 2022
Attendance:	Shareholders as of the record date may participate in the Annual Meeting: *In Person:* Bar Harbor Club 111 West Street Bar Harbor, Maine
How to vote:	Over the internet at *www.proxyvote.com*, by telephone at 1-800-690-6903, or in person at the Annual Meeting, or by mail addressed to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717 The deadline for transmitting Internet, telephone, and email voting is up until 11:59 p.m. Eastern Time on May 16, 2022 for shares held directly and by 11:59 p.m. Eastern Time on May 12, 2021 for shares held in a Plan. Please have your proxy card in hand when utilizing these other forms of voting.
Votes	Shareholders as of the record date will be entitled to one vote at the Annual Meeting for each outstanding share of common stock
Common stock outstanding as of record date:	15,012,606 shares

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2021

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

For the transition period from to
Commission File Number: 001-13349

BAR HARBOR BANKSHARES
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The aggregate market value of the common stock held by non-affiliates of Bar Harbor Bankshares was $420,108,452 based on the closing sale price of the common stock on the NYSE American on June 30, 2021, the last trading day of the registrant's most recently completed second quarter.

The Registrant had 15,012,606 shares of common stock, par value $2.00 per share, outstanding as of March 11, 2022.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 17, 2022 are incorporated by reference into Part III, Items 10-14 of this Annual Report on Form 10-K.

BAR HARBOR BANKSHARES AND SUBSIDIARIES
FORM 10-K

INDEX

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

PART I

ITEM 1. BUSINESS

FORWARD-LOOKING STATEMENTS

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

GENERAL

Bar Harbor Bankshares (the "Company") is the parent company of Bar Harbor Bank & Trust (the "Bank"), which is the only community bank headquartered in Northern New England with branches in Maine, New Hampshire and Vermont. The Bank is a regional community bank that thinks differently about banking. We provide the technology offerings and capabilities of larger banks, accompanied by access to local decision makers who are acutely focused on their local markets. As we celebrate the 135th anniversary of our founding, we remain focused on helping our customers achieve their goals as the key to the Bank's success. We deliver banking, lending and wealth management services from more than 50 locations. The Company's corporate goal is to be one of the top performing in New England, and its business model is centered on the following:

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

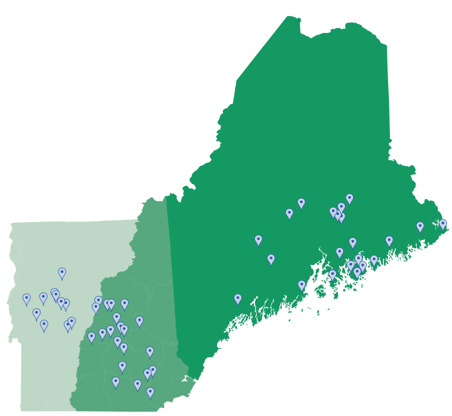
Shown below is a profile and geographical footprint of the Bank as of December 31, 2021:

BAR HARBOR BANKSHARES

Personal Banking · Business Banking · Wealth Management

Over 50 locations in Maine, New Hampshire & Vermont

- **Assets: $3.7 billion**
- **New England Footprint**
- **Maine Headquarters**
- **Market Capitalization: $434 milion**
- **Dividend Yield: 3.32%**
- **NYSE American: BHB**



The Bank serves affluent and growing markets in Maine, New Hampshire and Vermont with more than 49 thousand, 47 thousand and 24 thousand customers, respectively. Within these markets, tourism, agriculture and fishing industries remain strong and continue to drive economic activity. These core markets have also maintained their strength through diversification into various service industries.

Maine

The Bank operates 22 full-service branches and two wealth management offices principally located in the regions of downeast, midcoast and central Maine, which can generally be characterized as rural areas. The Bank also has a commercial loan office in Portland, Maine. In Maine, the Bank considers its primary market areas to be Hancock, Penobscot, Washington, Kennebec, Knox and Sagadahoc counties. The economies in these counties are based primarily on tourism, healthcare, fishing and lobstering, agriculture, state government, and small local businesses and are also supported by a large contingent of retirees.

New Hampshire

The Bank operates 21 full-service branches and three wealth management offices in New Hampshire located in the regions of Lake Sunapee, Upper Valley and Merrimack Valley. There are several distinct markets within each of these regions. The towns or cities of Nashua, Manchester, and Concord are considered part of the Merrimack Valley. Nashua, New Hampshire is a regional commercial, entertainment and dining destination and with its border with Massachusetts, also enjoys a vibrant high-tech industry and a robust retail industry due in part to the state's absence of a sales tax. The upper valley region of New Hampshire includes the towns of Lebanon and Hanover, which are home to Dartmouth-Hitchcock Medical Center and Dartmouth College, respectively. The Lake Sunapee market is a popular year-round recreation and resort area that includes both Lake Sunapee and Mount Sunapee and includes the towns of Claremont, New London, and Newport.

Vermont

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

SUBSIDIARY ACTIVITIES

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

The Company also owns all of the common stock of two Connecticut statutory trusts. These capital trusts are unconsolidated and their only material asset is a $20.6 million trust preferred security related to the junior subordinated debentures reported in Note 7—*Borrowed Funds* of the Consolidated Financial Statements.

AVAILABLE INFORMATION

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

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

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

COMPETITION

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

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

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

LENDING ACTIVITIES

General

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

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

	2021		2020	
(in thousands, except percentages)	**Amount**	**% of Total**	**Amount**	**% of Total**
Commercial construction	$ 56,263	2%	$ 117,882	5%
Commercial real estate owner occupied	257,122	12	219,217	9
Commercial real estate non-owner occupied	887,092	35	716,776	28
Tax exempt	41,280	2	47,862	2
Commercial and industrial	307,112	12	355,684	14
Residential real estate	888,263	34	995,216	38
Home equity	86,657	3	100,096	4
Consumer other	8,121	—	10,152	—
Total loans	$2,531,910	100%	$2,562,885	100%

Commercial Loan Exposure and Industries

All commercial loans are assigned Standard Industrial Classification codes, North American Industry Classification System codes, and state and county codes. The following table summarizes the major industries of the Company's commercial loan portfolio as of December 31, 2021 and 2020:

	2021			2020		
(in thousands, except percentages)	**Loans**	**Total Exposure**	**% of Total Portfolio**	**Loans**	**Total Exposure**	**% of Total Portfolio**
Real Estate and Rental and Leasing	$ 707,444	$ 815,070	46%	$ 644,944	$ 711,606	45%
Accommodation and Food Services	281,122	294,971	18	276,421	317,989	19
Health Care and Social Assistance	99,128	138,008	6	91,989	116,910	6
Retail Trade	58,647	79,109	4	58,942	76,073	4
Finance and Insurance	54,462	83,153	4	36,236	81,398	2
Agriculture, Forestry, Fishing and Hunting	52,957	61,157	3	41,271	65,435	3
Educational Services	52,921	65,524	3	61,696	74,503	4
Manufacturing	50,752	70,742	3	57,280	73,984	4
Arts, Entertainment, and Recreation	34,122	36,854	2	22,137	22,389	2
Public Administration	32,576	35,189	2	39,315	41,695	3
Construction	32,451	58,394	2	40,716	46,979	3
Wholesale Trade	24,179	38,098	2	20,727	36,215	1
Transportation and Warehousing	14,569	17,656	1	15,038	16,350	1
All other	53,539	73,417	4	50,709	117,716	3
Total commercial loans	$1,548,869	$1,867,341	100%	$1,457,421	$1,799,242	100%

Maturity and Sensitivity of the Loan Portfolio

The following table shows contractual maturities of selected loan categories at December 31, 2021. The contractual maturities do not reflect premiums, discounts, deferred costs, or prepayments.

(in thousands, except percentages)	Within 1 year	1 to 5 Years	5 to 15 Years	After 15 Years	Total	% of Total
Commercial construction	$ 47,672	$ 7,340	$ 1,215	$ 36	$ 56,263	2%
Commercial real estate owner occupied	112,217	56,616	73,957	14,332	257,122	10
Commercial real estate non-owner occupied	393,042	245,168	239,803	9,079	887,092	35
Tax exempt	206	9,455	24,819	6,800	41,280	2
Commercial and industrial	122,727	79,489	78,440	26,456	307,112	12
Residential real estate	36,070	85,324	217,919	548,950	888,263	35
Home equity	63,736	9,696	3,619	9,606	86,657	3
Consumer other	2,346	4,742	693	340	8,121	1
Total loans	$778,016	$497,830	$640,465	$615,599	$2,531,910	100%
Fixed-rate	75,926	305,778	503,129	615,322	1,500,155	59
Floating or adjustable rate	702,090	192,052	137,336	277	1,031,755	41
Total loans	$778,016	$497,830	$640,465	$615,599	$2,531,910	100%

Problem Assets

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

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

(in thousands, except ratios)	2021	2020
Non-accruing loans:		
Commercial construction	$ —	$ 258
Commercial real estate owner occupied	783	3,038
Commercial real estate non-owner occupied	622	383
Tax exempt	—	—
Commercial and industrial	677	1,223
Residential real estate	6,835	5,883
Home equity	1,269	1,345
Consumer other	5	58
Total loans	10,191	12,188
Other real estate owned	—	—
Total non-performing assets	$10,191	$12,188
Troubled debt restructurings (accruing)	$ —	$ 95
Accruing loans 90+ days past due	134	125
Total non-performing loans/total loans	0.40%	0.48%
Total non-performing assets/total assets	0.27	0.33

Allowance for Credit Losses

The Bank's loan portfolio is regularly reviewed by management to evaluate the adequacy of the allowance for credit losses (ACL). The allowance represents management's estimate of inherent losses that are probable and estimable as of the date of the financial statements. The ACL is comprised of reserves measured on a collective (pool) basis based on a lifetime loss-rate model when similar risk characteristics exist. Loans that do not share risk characteristics are evaluated on an individual basis, generally comprised of larger non-accruing commercial loans and TDRs. The allowance for credit losses is discussed further in Note 1—Summary *of Significant Accounting Policies* of the Consolidated Financial Statements.

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

(in thousands, except ratios)	2021	2020
Balance at beginning of year	$19,082	$15,353
Impact of CECL adoption	5,228	—
Charged-off loans:		
Commercial construction	—	—
Commercial real estate owner occupied	(403)	—
Commercial real estate non-owner occupied	—	(1,137)
Tax exempt	—	—
Commercial and industrial	(59)	(593)
Residential real estate	(77)	(54)
Home equity	(154)	—
Consumer other	(205)	(384)
Total charged-off loans	(898)	(2,168)
Recoveries on charged-off loans:		
Commercial construction	18	—
Commercial real estate owner occupied	290	—
Commercial real estate non-owner occupied	4	173
Tax exempt	—	—
Commercial and industrial	77	30
Residential real estate	159	13
Home equity	51	—
Consumer other	9	56
Total recoveries on charged-off loans	608	272
Net charged-off	(290)	(1,896)
Provision for credit losses	(1,302)	5,625
Balance at end of year	$22,718	$19,082
Ratios:		
Net charge-offs/average loans	0.01%	0.07%
Recoveries/charged-off loans	68	13
Allowance for credit losses/total loans	0.90	0.74
Allowance for credit losses/non-accruing loans	223	157

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

(in thousands, except ratios)	2021 Amount	2021 % Allocated to Total Loans	2020 Amount	2020 % Allocated to Total Loans
Commercial construction	$ 2,111	0.08%	$ 824	0.03%
Commercial real estate owner occupied	2,751	0.11	1,783	0.07
Commercial real estate non-owner occupied	5,650	0.23	7,864	0.31
Tax exempt	86	0.01	58	—
Commercial and industrial	5,369	0.21	3,137	0.12
Residential real estate	5,862	0.23	5,010	0.20
Home equity	814	0.03	285	0.01
Consumer other	75	—	121	—
Total	$22,718	0.90%	$19,082	0.74%

INVESTMENT SECURITIES ACTIVITIES

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

The Company only invests in high-quality investment-grade securities. Investment decisions are made in accordance with the Company's investment and treasury policies and include consideration of risk, return, duration, and portfolio concentrations. For further discussion on investments see Note 2—Securities *Available for Sale* of the Consolidated Financial Statements.

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

(in thousands)	2021 Amortized Cost	2021 Fair Value	2020 Amortized Cost	2020 Fair Value
US Government-sponsored enterprises	$237,283	$236,117	$206,834	$212,390
US Government agency	79,143	79,637	82,878	85,632
Private label	68,691	68,695	19,810	19,709
Obligations of states and political subdivisions thereof	140,585	141,776	164,766	169,004
Corporate bonds	89,994	92,051	97,689	98,311
Total	$615,696	$618,276	$571,977	$585,046

The following table presents the amortized cost and weighted average yields of securities available for sale at by maturity:

(in thousands, except ratios)	December 31, 2021 Within 1 Year	Over 1 Year to 5 Years	Over 5 Years to 10 years	Over 10 Years	Total
US Government-sponsored enterprises	$ 32	$ 2,601	$ 8,227	$226,423	$237,283
US Government agency	3	306	1,798	77,036	79,143
Private label	—	—	31,185	37,506	68,691
Obligations of states and political subdivisions thereof	—	285	3,663	136,637	140,585
Corporate bonds	4,999	24,245	55,750	5,000	89,994
Total	$5,034	$27,437	$100,623	$482,602	$615,696
Weighted Average Yield	4.37%	5.48%	3.65%	1.92%	2.38%

DERIVATIVE FINANCIAL INSTRUMENTS

The Company utilizes interest swap derivatives to minimize fluctuations in earnings and cash flows caused by interest rate volatility either in the form of interest rate swaps on wholesale funding and variable rate loans designated as cash flow hedges or partial interest rate hedges on securities accounted for as fair value hedges. For further discussion on derivatives see Note 10—*Derivative Financial Instruments and Hedging Activities* of the Consolidated Financial Statements.

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

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

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

DEPOSIT ACTIVITIES

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

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

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

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

	2021			2020		
(in thousands, except ratios)	**Average Balance**	**Percent of Total**	**Weighted Average Rate**	**Average Balance**	**Percent of Total**	**Weighted Average Rate**
Demand	$ 668,379	22%	—%	$ 480,721	17%	—%
NOW	949,485	31	0.11	643,289	23	0.20
Savings	629,152	20	0.09	466,593	17	0.16
Money market	390,150	13	0.12	395,571	14	0.42
Time deposits	424,899	14	1.51	795,535	29	1.80
Total	$3,062,065	100%	0.28%	$2,781,709	100%	0.65%

The following table presents the scheduled maturities of uninsured time deposits at December 31, 2021:

(in thousands, except ratios)	**Amount**
Three months or less	$13,546
Over 3 months through 6 months	8,638
Over 6 months through 12 months	8,856
Over 12 months	9,048
Total	$40,088

BORROWING ACTIVITIES

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

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

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

RETAIL BROKERAGE SERVICES

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

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

TRUST MANAGEMENT SERVICES

The Bank has two wholly-owned subsidiaries that provide a comprehensive array of fiduciary services including trust and estate administration, wealth advisory services, and investment management services to individuals, businesses, not-for-profit organizations, and municipalities. Bar Harbor Trust Services is a Maine-chartered trust company, and Charter Trust is a New Hampshire-chartered trust company. As a New Hampshire-chartered trust company, Charter Trust is subject to New Hampshire laws applicable to trust companies and fiduciaries. Professional advisors help individuals and families structure accounts that will meet their long-term financial needs. To many wealth management clients, the effective transfer of wealth to future generations is of paramount importance. The Company's trust services act as a fiduciary for various types of trusts. In addition the Company also serves as the investment manager for these accounts. Outside of trust services, they also provide 401K plan services, financial, estate and charitable planning, investment management, family office, municipal and tax services. The employees include credentialed investment professionals with extensive experience. At December 31, 2021 and 2020, trust management services had total assets under management of $2.5 billion and $2.3 billion, respectively.

HUMAN CAPITAL

The Company had 489 and 531 full time equivalent employee positions at December 31, 2021 and 2020, respectively, including 277, 175 and 37 in Maine, New Hampshire and Vermont, respectively, at December 31, 2021. Strategically the Company has augmented employee talent with targeted hires to deepen the overall employee skill set. All employment decisions are based on talent and potential for growth. The Company's ability to attract and retain the best diverse talent while sustaining and deepening the current employees' relationship is critical to maintaining a best-in-class customer experience. The opportunity for personal and professional development is a critically important focus of ours and one that helps us retain top talent. The Company is committed to supporting, developing, and encouraging employees to engage with their communities.

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

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

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

Providing good work-life balance choices results in the Company's employees' making more meaningful contributions in the workplace. The Company has a Paid Time Off policy to support employees' time management and paid volunteer time to support this. In 2021, the Company continued to offer Flexible Work Arrangements ("FWA") on a permanent basis to help employees navigate the unprecedented pandemic operating environment. Programs include full remote, partially remote, condensed workweeks, and flexible hours. The flexibility these various FWAs offer allows employees to manage their work-life needs while continuing to deliver stellar results in the workplace.

The Company values a diverse workforce to ensure different perspectives and ideas are considered and are a part of operations. As part of the commitment to equal employment opportunities, the Company seeks to ensure affirmative action provides equality of opportunity in all aspects of employment.

REGULATION AND SUPERVISION

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

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

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

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

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

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

In accordance with NH RSA 383-C:5-502, Charter's Capital Plan requires minimum capital of $500 thousand to be invested in accordance with NH RSA 564-B:9-902. As of December 31, 2021, Charter's total capital was $18.2 million, and it had liquidation reserves of $503 thousand held in a savings account. Charter also had operating reserves of $16.5 million held primarily at the Bank. As of December 31, 2021, Charter had an appropriate liquidation reserve, minimum capital in excess of statutory requirements, and all funds were held in accordance with prudent investor standards of NH RSA 564-B:9-902 and as required by NH RSA 383-C:5-501.

Certain Laws and Regulations Applicable to the Company

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

Permitted Activities

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

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

Safe and Sound Banking Practices

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

Dividends

Dividends from the Bank are the Company's principal source of cash revenues. The Company's earnings and activities are affected by federal and state legislation, regulations, local legislative and administrative bodies, and decisions of courts in the jurisdictions in which business is conducted. These include limitations on the ability of the Bank to pay dividends to the Company and the Company's ability to pay dividends to its stockholders. It is the policy of the

Federal Reserve Board that bank holding companies should pay cash dividends on common stock only out of income available over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. The policy provides that bank holding companies should not maintain a level of cash dividends that undermines the bank holding company's ability to serve as a source of strength to its banking subsidiary. Consistent with such policy, a banking organization should have comprehensive policies on dividend payments that clearly articulate the organization's objectives and approaches for maintaining a strong capital position and achieving the objectives of the policy statement.

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

Source of Strength

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

Anti-tying Restrictions

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

Mergers & Acquisitions

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

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

Limitations on Acquisitions of Bar Harbor Bankshares Common Stock

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

Transactions with Affiliates

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

State Law Restrictions

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

Capital Adequacy and Prompt Corrective Action

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

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

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

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

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

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

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

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

(iv) leverage ratio of at least 5%.

Both the Company and the Bank have always maintained the capital ratios and leverage ratio above the levels to be considered quantitatively well-capitalized. For information regarding the capital ratios and leverage ratio of the Company and the Bank as of December 31, 2021, and December 31, 2020, see the discussion under the section captioned *Capital Resources* included in Item 7—*Management's Discussion and Analysis of Financial Condition and Results of Operations* of this report and Note 12—*Shareholders' Equity and Earnings Per Common Share* of the Consolidated Financial Statements.

Significant Banking Regulations Applicable to the Bank

Deposit Insurance

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

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

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

Consumer Financial Protection

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

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

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

Brokered Deposit Restrictions

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

Community Reinvestment Act

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

Insider Credit Transactions

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

Safety and Soundness

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

Financial Privacy

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

Anti-Money Laundering Initiatives and the USA Patriot Act

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

Office of Foreign Assets Control Regulation

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

Guidance on Sound Compensation Policies

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

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

Changing Regulatory Structure and Future Legislation and Regulation

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

Other Laws and Regulations

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

ITEM 1A. RISK FACTORS

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

Credit Risks

Deterioration in local economies or real estate market may adversely affect the Company's financial performance, as its borrowers' ability to repay loans and the value of the collateral securing the loans may decline.

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

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

As of December 31, 2021, approximately 60% of the Banks's loan portfolio consisted of commercial real estate, commercial and industrial and construction loans. Commercial loan portfolio concentration generally exposes lenders to greater risk of delinquency and loss than residential real estate loans because repayment of the loans often depends on the successful operation and income streams from the property. Commercial loans typically involve larger balances to single borrowers or groups of related borrowers as compared to residential real estate loans. As the Bank's loan portfolio contains a significant number of large commercial loans, the deterioration of one or a few of these loans could cause a significant increase in non-performing loans, provision for loan losses, and/or an increase in loan charge-offs, all of which could adversely affect the Company's financial condition and results of operations.

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

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

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

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

As further discussed in Note 1—*Summary of Significant Accounting Policies* of the Consolidated Financial Statements in this report, the Company has adopted Accounting Standard Codification (ASC) 326 or "CECL" effective January 1, 2021.

Liquidity and Interest Rate Risks

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company established a committee in 2020 comprised of bank management to prepare for the discontinuance of LIBOR. The Company has determined that its financial products tied to LIBOR will not be subject to cessation until June 30, 2023. This review also identified that only a few legacy contracts do not include appropriate fallback language. The Company anticipates that the appropriate fallback provisions for these contracts will be implemented and allow for an orderly transition prior to the June 30, 2023 cessation of U.S. Dollar LIBOR. As of December 31, 2021, the Company no longer issues new LIBOR-based financial instruments. Furthermore, U.S. Dollar LIBOR indices utilized by Company's existing financial instruments shall cease on June 30, 2023. Beginning January 1, 2022, the Company is using the CME Term Secured Overnight Financing Rate (SOFR) as the primary index for financial instruments and the Bloomberg Short Term Bank Yield Index (BSBY) as a secondary index.

Operational Risks

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

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

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

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

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

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

The Company's operations are reliant on outside vendors.

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

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

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

Changes in the federal, state, or local tax laws may negatively impact the Company's financial performance.

The Company is subject to changes in tax law that could increase effective tax rates. These law changes may be retroactive to previous periods and as a result could negatively affect the Company's current and future financial performance. Legislation enacted in 2017 resulted in a reduction in the Company's federal corporate tax rate from 35% in 2017 to 21% in 2018, which had a favorable impact on earnings and capital generation abilities. During 2021, Congress debated various proposals for increase in the corporate tax rate and possible surcharges on corporate share repurchases as part of the funding for various spending initiatives. Any such increase in the corporate tax rate or surcharges would adversely affect the Company's results of operations in future periods.

Impairment of investment securities or goodwill could result in a negative impact on the Company's results of operations.

In assessing whether the impairment of securities is related to a deterioration in credit factors, the Company considers the length of time and extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability to retain the securities for a period of time sufficient to allow for any anticipated recovery in fair value in the near term.

Under current accounting standards, goodwill is not amortized but, instead, is subject to impairment tests on at least an annual basis or more frequently if an event occurs or circumstances change that reduce the fair value of a reporting unit below its carrying amount. A decline in the Company's stock price or occurrence of a triggering event following any of its quarterly earnings releases and prior to the filing of the periodic report for that period could, under certain circumstances, require performance of a goodwill impairment test and result in an impairment charge being recorded for that period which was not reflected in such earnings release. During 2021, the annual impairment test conducted in October, using discounted cash flows and market based approaches, indicated that the estimated fair value of its sole reporting unit "Bar Harbor Bank & Trust" exceeded the carrying value. In a future assessments, the Company could conclude that all or a portion of our goodwill may be impaired, which would result in a non-cash charge to earnings.

Revenues from the Company's wealth management companies are significant to its earnings.

Revenues from the Company's wealth management business are significant to our earnings. Generating returns that satisfy clients in a variety of asset classes is important to maintaining existing business and attracting new business. Administering or managing assets in accordance with the terms of governing documents and applicable laws is also important to client satisfaction. Failure in either of the foregoing areas can expose the Company to liability, and result in a decrease in revenues and earnings.

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

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

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

Severe weather, natural disasters, acts of war or terrorism, and other adverse external events could have a significant impact on the

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

Strategic and External Risks

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

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

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

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

Monetary policy and economic environment could impact financial performance.

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

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

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

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

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

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

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

The Company may be adversely affected by continuous technological change.

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

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

Legal, Regulatory and Compliance Risks

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

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

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

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

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

Fee revenues from overdraft protection programs constitute a significant portion of our noninterest income and may be subject to increased supervisory scrutiny.

Revenues derived from transaction fees associated with overdraft protection programs offered to the Company's customers represent a significant portion of its noninterest income. In response to recent increased congressional and regulatory scrutiny, and in anticipation of enhanced supervision and enforcement of overdraft protection practices in the future, certain banking organizations have begun to modify their overdraft protection programs, including by discontinuing the imposition of overdraft transaction fees. These competitive pressures, as well as any adoption by the Company's regulators of new rules or supervisory guidance or more aggressive examination and enforcement policies in respect of banks' overdraft protection practices, could cause it to modify programs and practices in ways that may have a negative impact revenue and earnings.

General Risk Factors

Changes in the Company's accounting policies or in accounting standards could materially affect its results of operations, and financial condition.

Accounting policies are fundamental to understanding the Company's results of operations, and financial condition. Some of the accounting policies are critical because they require the Company to make difficult, subjective and complex judgments about matters that are inherently uncertain and because it is likely that materially different amounts would be reported under different conditions or using different assumptions. The Company may experience material losses if such estimates or assumptions underlying in the Company's financial statements are incorrect.

From time to time, the FASB and the SEC change the financial accounting and reporting standards or the interpretation of those standards that govern the preparation of our external financial statements. These changes could materially impact how the Company's reports its results of operations and financial condition. New or revised standards could also require retroactive application, which could result in the restatement of the Company's prior period financial statements in material amounts.

Internal controls may become ineffective in preventing or detecting material errors

The Company regularly reviews and updates our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the controls are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Company's business, results of operations, and financial condition.

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

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

ITEM 2. PROPERTIES

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

ITEM 3. LEGAL PROCEEDINGS

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

PART II

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

Market Information

The common stock of the Company is traded on the NYSE American, under the trading symbol "BHB". As of March 11, 2022, there were 15,012,606 shares of Bar Harbor Bankshares common stock, par value $2.00 per share, outstanding and approximately 1,471 shareholders of record, as obtained through the Company's transfer agent. Cash dividends declared and paid totaled $0.24 per share in the second, third and fourth quarter of 2021 and $0.22 per share in the first quarter of 2021 and each quarter of 2020. The Company typically declares and pays dividends in the same quarter.

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

No unregistered equity securities were sold by the Company during the year ended December 31, 2021.

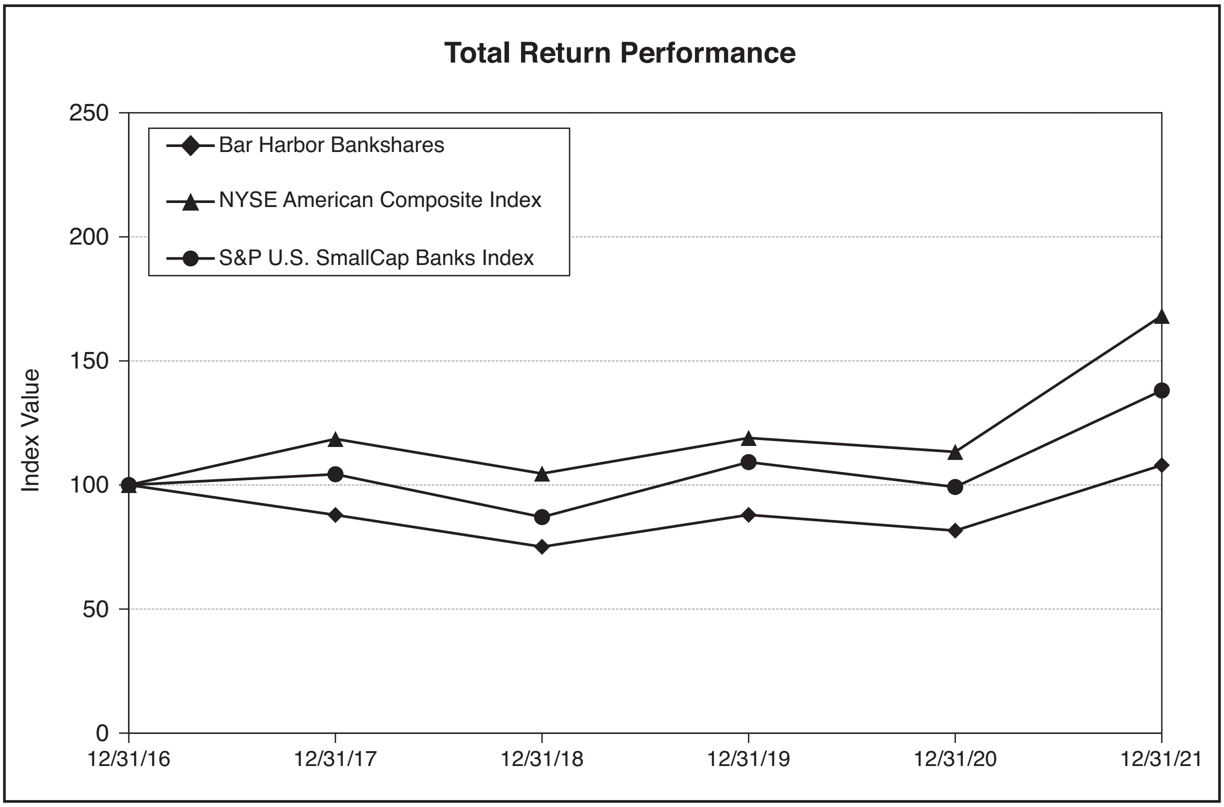
On April 20, 2021, Company's Board of Directors approved a twelve-month plan to repurchase up to 5% of its outstanding common stock, representing 747,000 shares.

The following table indicates that no shares were repurchased by the Company in the fourth quarter of 2021:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as a part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
October 1 - 31, 2021	—	$—	—	747,000
November 1 - 30, 2021	—	—	—	747,000
December 1 - 31, 2021	—	—	—	747,000
Total	—	$—	—	747,000

Common Stock Performance Graph

The following graph illustrates the estimated yearly change in value of the Company's cumulative total stockholder return on its common stock for each of the last five years. Total shareholder return is computed by taking the difference between the ending price of the common stock at the end of the previous year and the current year, plus any dividends paid divided by the ending price of the common stock at the end of the previous year. For purposes of comparison, the graph also matches Bar Harbor Bankshares' cumulative 5-Year total shareholder return on common stock with the cumulative total returns of the NYSE American Composite index, and the SNL Bank $1B to $5B Index. The graph tracks the performance of a $100 investment in the Company's common stock and in each index (with the reinvestment of all dividends) from December 31, 2016 to December 31, 2021.



	Period Ending					
Index	**12/31/16**	**12/31/17**	**12/31/18**	**12/31/2019**	**12/31/2020**	**12/31/2021**
Bar Harbor Bankshares	100.00	87.92	75.09	87.97	81.61	107.99
NYSE American Composite Index	100.00	118.56	104.61	118.96	113.34	168.18
S&P U.S. SmallCap Banks Index	100.00	104.33	87.06	109.22	99.19	138.09

ITEM 6.

[Reserved]

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

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

SELECTED FINANCIAL DATA

	At or For the Years Ended December 31,		
(in millions, except ratios and share data)	**2021**	**2020**	**2019**
Financial Condition Data:			
Total assets[7]	$3,709	$3,724	$3,669
Total earning assets[1]	3,377	3,371	3,349
Total investments	626	599	684
Total loans	2,532	2,563	2,635
Allowance for credit losses	23	19	15
Total goodwill and intangible assets	126	127	127
Total deposits	3,049	2,906	2,696
Total borrowings	179	336	531
Total shareholders' equity[7]	424	407	396
Operating Data:			
Total interest and dividend income	$111	$126	$135
Total interest expense	15	27	46
Net interest income	96	99	90
Non-interest income	42	43	29
Net revenue[2]	138	142	119
Provision for credit losses	(1)	6	2
Total non-interest expense	91	95	90
Income tax expense[3]	9	8	4
Net income	39	33	23
Ratios and Other Data:			
Per Common Share Data			
Basic earnings	$2.63	$2.18	$1.46
Diluted earnings	2.61	2.18	1.45
Total book value[6]	28.27	27.29	25.47
Dividends	0.94	0.88	0.86
Common stock price:			
High	32.94	25.55	27.58
Low	21.26	13.05	21.24
Close	28.93	22.59	25.39
Weighted average common shares outstanding (in thousands):			
Basic	14,969	15,246	15,541
Diluted	15,045	15,272	15,587
Performance Ratios:[4]			
Return on assets	1.06%	0.88%	0.62%
Return on equity[6]	9.50	8.29	5.82
Interest rate spread	2.74	2.92	2.53
Net interest margin[5]	2.88	2.97	2.77
Dividend payout ratio	35.81	40.36	59.09
Organic Growth Ratios:			
Total commercial loans	7%	17%	6%
Total loans	(1)	(3)	2
Total deposits	5	8 (2)	
Asset Quality and Condition Ratios:			
Non-accruing loans/total loans	0.40%	0.48%	0.44%
Net charge-offs/average loans	0.01	0.07	0.03
Allowance for credit losses/total loans	0.90	0.74	0.58
Loans/deposits	83	88	98
Capital Ratios:			
Tier 1 capital to average assets - Company	8.66%	8.12%	8.13%
Tier 1 capital to risk-weighted assets - Company	11.90	11.28	11.39
Tier 1 capital to average assets - Bank	9.62	9.02	8.39
Tier 1 capital to risk-weighted assets - Bank	13.22	12.52	11.79
Shareholders equity to total assets[6]	11.43	11.04	10.80

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

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

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

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

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

(6) Non-GAAP financial measure. Refer to the Reconciliation of Non-GAAP Financial Measures for additional information.

(7) Prior period has been revised, see Note 1—*Summary of Significant Accounting Policies—Revision of Previously Issued Financial Statements.*

AVERAGE BALANCES AND AVERAGE YIELDS/RATES

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

	Year Ended December 31,								
	2021			2020			2019		
(in millions, except ratios)	Average Balance	Interest(3)	Yield/ Rate(3)	Average Balance	Interest(3)	Yield/ Rate(3)	Average Balance	Interest(3)	Yield/ Rate(3)
Assets									
Interest-earning deposits with other banks	$ 219	$ —	0.15%	$ 89	$ —	0.15%	$ 17	$ —	0.96%
Securities available for sale and FHLB stock(2)(3)	621	16	2.63	625	20	3.20	743	25	3.42
Loans:									
Commercial real estate	1,210	40	3.34	993	40	4.02	875	42	4.74
Commercial and industrial(3)	348	14	3.98	379	21	5.62	411	19	4.72
Paycheck protection program	51	6	11.93	109	5	4.19	—	—	—
Residential	825	32	3.86	1,078	41	3.78	1,158	45	3.91
Consumer	99	4	3.77	124	5	4.03	116	6	5.10
Total loans(1)	2,533	96	3.78	2,683	112	4.16	2,560	112	4.38
Total earning assets	3,373	112	3.33%	3,397	132	3.87%	3,320	137	4.14%
Cash and due from banks	35			27			64		
Allowance for credit losses	(23)			(17)			(15)		
Other assets(5)	333			351			277		
Total assets(5)	$3,718			$3,758			$3,646		
Liabilities									
NOW	$ 949	$ 1	0.11%	$ 643	$ 1	0.20%	$ 492	$ 2	0.49%
Savings	629	1	0.09	467	1	0.16	359	1	0.19
Money market	390	1	0.12	396	2	0.42	348	5	1.32
Time deposits	425	6	1.51	796	14	1.80	924	19	2.09
Total interest bearing deposits	2,393	9	0.36	2,302	18	0.78	2,123	27	1.27
Borrowings	175	7	3.82	507	9	1.75	708	19	2.61
Total interest bearing liabilities	2,568	16	0.59%	2,809	27	0.96%	2,831	46	1.61%
Non-interest bearing demand deposits	668			481			394		
Other liabilities(5)	68			67			34		
Total liabilities(5)	3,304			3,357			3,259		
Total shareholders' equity(5)	414			401			387		
Total liabilities and shareholders' equity(5)	$3,718			$3,758			$3,646		
Net interest income		$ 96			$105			$ 91	
Net interest spread			2.74%			2.91%			2.53%
Net interest margin			2.88			2.97			2.77
Adjusted net interest margin(4)			2.93			3.01			2.77

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

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

(3) Fully taxable equivalent considers the impact of tax-advantaged securities and loans.
(4) Adjusted net interest margin excludes Paycheck Protection Program loans and interest-earning deposits with other banks.
(5) Prior period has been revised, see Note 1—*Summary of Significant Accounting Policies—Revision of Previously Issued Financial Statements.*

RATE/VOLUME ANALYSIS

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

	2021 Compared with 2020			2020 Compared with 2019		
	Increases (Decreases) due to			Increases (Decreases) due to		
(in thousands)	**Rate**	**Volume**	**Net**	**Rate**	**Volume**	**Net**
Interest income:						
Interest-earning deposits with other banks	$ 11	$ 191	$ 202	$ (246)	$ 305	$ 59
Securities available for sale and FHLB stock	(3,560)	(139)	(3,699)	(1,305)	(4,031)	(5,336)
Loans:						
Commercial real estate	(8,244)	8,748	504	(7,140)	5,544	(1,596)
Commercial and industrial	(5,712)	(1,752)	(7,464)	4,694	(1,388)	3,306
Paycheck protection program	3,919	(2,450)	1,469	—	4,569	4,569
Residential	647	(9,566)	(8,919)	(1,407)	(3,107)	(4,514)
Consumer	(263)	(1,011)	(1,274)	(1,320)	426	(894)
Total loans	(9,653)	(6,031)	(15,684)	(5,173)	6,044	871
Total interest income	$(13,202)	$ (5,979)	$(19,181)	$ (6,724)	$ 2,318	$ (4,406)
Interest expense:						
Deposits:						
NOW	$ (842)	$ 617	$ (225)	$ (1,807)	$ 731	$ (1,076)
Savings	(452)	262	(190)	(200)	219	19
Money market	(1,148)	(23)	(1,171)	(3,631)	635	(2,996)
Time deposits	(1,230)	(6,685)	(7,915)	(2,253)	(2,682)	(4,935)
Total deposits	(3,672)	(5,829)	(9,501)	(7,891)	(1,097)	(8,988)
Borrowings	3,619	(5,812)	(2,193)	(4,397)	(5,269)	(9,666)
Total interest expense	$ (53)	$(11,641)	$(11,694)	$(12,288)	$(6,366)	$(18,654)
Change in net interest income	$(13,149)	$ 5,662	$ (7,487)	$ 5,564	$ 8,684	$ 14,248

NON-GAAP FINANCIAL MEASURES

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

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

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

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

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

		At or For The Years Ended December 31,		
(in thousands)	**Calculations**	**2021**	**2020**	**2019**
Net income		$ 39,299	$ 33,244	$ 22,620
Non-recurring items:				
Gain on sale of securities, net		(2,870)	(5,445)	(237)
Loss (gain) on sale of premises and equipment, net		378	(32)	18
Loss on other real estate owned		—	355	166
Loss on debt extinguishment		2,851	1,351	1,096
Acquisition, conversion and other expenses		1,667	5,801	8,317
Income tax expense(1)		(479)	(481)	(2,232)
Total non-recurring items		1,547	1,549	7,128
Total adjusted income(2)	(A)	$ 40,846	$ 34,793	$ 29,748
Net interest income	(B)	$ 95,573	$ 99,180	$ 89,810
Plus: Non-interest income		42,261	42,956	29,069
Total Revenue		137,834	142,136	118,879
Gain on sale of securities, net		(2,870)	(5,445)	(237)
Total adjusted revenue(2)	(C)	$134,964	$136,691	$118,642
Total non-interest expense		$ 90,508	$ 94,860	$ 89,733
Non-recurring expenses:				
(Loss) gain on sale of premises and equipment, net		(378)	32	(18)
Loss on other real estate owned		—	(355)	(166)
Loss on debt extinguishment		(2,851)	(1,351)	(1,096)
Acquisition, conversion and other expenses		(1,667)	(5,801)	(8,317)
Total non-recurring expenses		(4,896)	(7,475)	(9,597)
Adjusted non-interest expense(2)	(D)	$ 85,612	$ 87,385	$ 80,136
Total revenue		137,834	142,136	118,879
Total non-interest expense		90,508	94,860	89,733
Pre-tax, pre-provision net revenue		$ 47,326	$ 47,276	$ 29,146
Adjusted revenue(2)		134,964	136,691	118,642
Adjusted non-interest expense(2)		85,612	87,385	80,136
Adjusted pre-tax, pre-provision net revenue(2)		$ 49,352	$ 49,306	$ 38,506
(in millions)				
Average earning assets	(E)	$ 3,373	$ 3,397	$ 3,320
Average paycheck protection program (PPP) loans	(R)	51	109	—
Average interest-bearing deposits with other banks	(U)	219	89	17
Average earning assets, excluding PPP loans and interest-earning deposits with other banks	(S)	3,103	3,199	3,303
Average assets(8)	(F)	3,718	3,758	3,646
Average shareholders' equity(8)	(G)	414	401	387
Average tangible shareholders' equity(2)(3)(8)	(H)	288	273	278
Tangible shareholders' equity, period-end(2)(3)(8)	(I)	298	284	269
Tangible assets, period-end(2)(3)(8)	(J)	3,583	3,598	3,542
Common shares outstanding, period-end	(K)	15,001	14,916	15,558
Average diluted shares outstanding	(L)	15,045	15,272	15,587
Adjusted earnings per share, diluted(2)	(A/L)	$ 2.72	$ 2.28	$ 1.91
Tangible book value per share, period-end(2)(8)	(I/K)	19.86	18.77	17.30
Securities adjustment, net of tax(1)(4)	(M)	1,985	10,023	5,549
Tangible book value per share, excluding securities adjustment(2)(4)(8)	(I+M)/K	19.73	18.09	16.94
Total tangible shareholders' equity/total tangible assets(2)(8)	(I/J)	8.32	7.78	7.60

(in thousands)	Calculations	At or For The Years Ended December 31, 2021	2020	2019
Performance ratios[5]				
Return on assets		1.06%	0.88%	0.62%
Adjusted return on assets[2]	(A/F)	1.10	0.93	0.82
Pre-tax, pre-provision return on assets		1.27	1.26	0.80
Adjusted pre-tax, pre-provision return on assets [2]	(U/F)	1.33	1.31	1.06
Return on equity[8]		9.50	8.29	5.82
Adjusted return on equity[2][8]	(A/G)	9.87	8.68	7.65
Return on tangible equity[8]		13.92	12.45	8.32
Adjusted return on tangible equity[1][2][8]	(A+Q)/H	14.46	13.02	10.86
Efficiency ratio[2][6]	(D-O-Q)/ (C+N)	61.29	61.71	64.95
Net interest margin	(B+P)/E	2.88	2.97	2.77
Adjusted net interest margin[2][7]	(B+P-T- V)/S	2.93	3.01	2.77
Supplementary data (in thousands)				
Taxable equivalent adjustment for efficiency ratio	(N)	$2,330	$2,477	$2,692
Franchise taxes included in non-interest expense	(O)	528	477	469
Tax equivalent adjustment for net interest margin	(P)	1,653	1,853	2,048
Intangible amortization	(Q)	940	1,024	861
Interest and fees on PPP loans	(T)	6,039	4,569	—
Interest and fees on interest-earning deposits with other banks	(V)	333	131	—

(1) Assumes a marginal tax rate of 23.71% in 2021 and 2020, 23.87% in 2019.

(2) Non-GAAP financial measure.

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

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

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

(6) Efficiency ratio is computed by using adjusted non-interest expense net of franchise taxes and intangible amortization divided by adjusted revenue tax effected for tax-advantaged assets using a marginal tax rate of 23.71% in 2021 and 2020, and 23.87% in 2019.

(7) Adjusted net interest margin excludes Paycheck Protection Program loans and interest-earning deposits with other banks.

(8) Prior period has been revised, see Note 1—Summary of Significant Accounting Policies—*Revision of Previously Issued Financial Statements.*

EXECUTIVE OVERVIEW

Bar Harbor Bankshares recorded 2021 net income of $39 million, or $2.61 per diluted share, compared to $33 million, or $2.18 per diluted share, in 2020. Adjusted income (non-GAAP measure) in 2021 was $41 million, or $2.72 per diluted share, and $35 million, or $2.28 per diluted share, for the same period of 2020. The Company's return on assets ratio was 1.06% for 2021, up from 0.88% in the prior year.

Net interest margin (NIM) was 2.88% for 2021 compared with 2.97% in 2020. Excluding the effects of PPP fee acceleration, excess cash, and one-time items, adjusted NIM was 2.93% in 2021 compared to 3.01% in 2020. At year-end 2021, the Company had approximately $200 thousand of remaining PPP deferred fees which are expected to be amortized to the margin in 2022. The Company saw a leveling of NIM in the second quarter 2021, which was contributed growth in non-maturity deposits, and maturities of wholesale funding that were not replaced. NIM continued to stabilize in the second half of 2021 due to the execution of several delever and security remix strategies. Also as result, the Company's cost of interest-bearing liabilities steadily dropped to 59 basis points in 2021 from 96 basis points during 2020.

In 2021, the Company prepaid $159 million of FHLB borrowings and sold $63 million of securities to offset prepayment penalties, which were replaced with relatively short-lived securities with an average duration of approximately 4 years. The transactions took place in the second half of 2021 and the net result is expected to be fully accretive to NIM and earnings per share starting in 2022.

Non-maturity deposits increased 19% during 2021 due to a significant amount of accounts were opened as new relationships were built and relationships with existing customers deepened. Wholesale funding has decreased to 4% of total funding, down from 18% at year-end 2020. Non-maturity deposit reliance continues to expand, funding earning asset growth with a much more stabilized cost if rates do go up. At year-end 2021, $114 million of wholesale funding remains, which represent longer durations or have associated hedges.

The Company continues to focus on profitability and fee-based revenue remains a priority. The growth seen during this past year has contributed to the expansion of the Company's key performance metrics, while further enhancing the diversity and strength of revenue streams. Wealth management and customer service fees in 2021 increased 15% over the prior year, given a 13% increase in assets under management and significant increase in non-maturity deposits. The Wealth Management division continues to deliver a strong performance from both a customer and shareholder perspective. Customer service revenue benefits from the increase in non-maturity deposits along with adjustments made to product fee schedules based on peer review studies performed in late 2020. Mortgage banking income benefited from higher secondary market loan sales in 2021, which also accounts for the decrease in residential loans as production was selectively moved between on-balance sheet and held for sale throughout the year.

Commercial real estate loans in 2021 grew 12% over the prior year driven by a balanced mix of new and existing customers that are proven operators and are strong relationships of the Bank. Similarly, the growth in commercial and industrial loans of 5%, excluding paycheck protection program (PPP) loans, came from new and existing customers and represented a variety of industries. Looking forward, the Company's loan pipelines remain robust and it is seeing momentum continuing into the first quarter of 2022.

The Company adopted CECL effective January 1, 2021, which increased the allowance for credit losses (ACL) by $5.2 million and reserve for unfunded commitments by $1.6 million. Upon adoption, the coverage ratio of ACL to total loans increased to 0.94% from 0.76% in the fourth quarter of 2020, excluding PPP loans. The provision for credit losses for 2021 was a credit of $1.3 million compared with expense of $5.6 million in 2020. Steady improvements in macroeconomic expectations, lower specific reserves along with relative flat growth in total loans contributed to the benefit in 2021.

The Company continues to build long term shareholder value while providing a favorable dividend rate relative to other community banks. The Company's return on equity for 2021 rose to 9.50% from 8.29% in 2020. Credit metrics remained strong and stable throughout 2021. Non-performing loans continue to decline across all categories on a quarterly and year-over- year basis. There was also noteworthy reduction of criticized loans, down to 3% from 4% at year-end 2020. Moving into 2022, all of these trends are positive and are expected to continue based on the Company's credit discipline.

In early 2021, the Company performed an intensive review of non-interest expense leveraging a strategic third-party partner. The goal of the review was to identify normalized expense run-rates that are optimal for the Company's current size and footprint, and establish sustainable run-rates that allow for revenue growth in the future. Results of the study reduced salary and benefit expense by $2.3 million in 2021 and $3.0 million is expected to be fully realized in 2022.

The Company was named by Newsweek Magazine as one of "America's Best Banks." Best Bank winners were selected from over 2,500 financial institutions and assessed on more than 30 separate factors including the overall health of the bank, customer service performance and features, digital and branch presence, account and loan options, interest rate offerings, and fees.

COMPARISON OF FINANCIAL CONDITION AT DECEMBER 31, 2021 AND 2020

Cash and cash equivalents

Total cash and cash equivalents at the end of 2021 were $250 million, compared to $226 million at December 31, 2020. Interest-earning cash held with other banks totaled $217 million compared to $198 million at year-end 2020 carrying a yield of 0.15% in both periods. The increase in cash balances reflects the growth in non-maturity deposits.

Securities

Securities totaled $626 million at the end of 2021 and $599 million at year-end 2020 representing 17% and 16% of total assets, respectively. During 2021 security purchases totaled $250 million and were offset by $93 million of sales, $112 million of maturities, calls and pay-downs of amortizing securities and a $7 million reduction in FHLB stock. The majority of the sales were made in connection with the Company's balance sheet delever and security remix strategies in the third and fourth quarters of 2021. Fair value adjustments decreased the security portfolio by $10 million in 2021 compared to an increase $5.8 million during 2020. Unrealized gains decreased in 2021 due to sales and changes in the long-term treasury yield curve. The weighted average yield of the Company's securities portfolio was 2.63% as of December 31, 2021 compared to 3.20% at year-end 2020. At the end of 2021 securities held by the Company had an average life of 5.3 years with an effective duration of 4.21 years compared to 4.8 years and 4.3 years at the end of 2020, respectively.

Loans

In 2021 total loans decreased by $31 million from year-end 2020. The decrease was the net result of the Company's strategy to grow its commercial portfolios and sell the majority of its residential loan originations in the secondary market. Commercial loans grew 10% in 2021 when excluding PPP loans, which was driven mostly from new relationships in commercial real estate products. Commercial real estate and commercial and industrial loans, excluding PPP, increased 12% and 5% in 2021, respectively PPP loans totaled $6.7 million at quarter-end, consisting of $6.6 million from 2021 and $104 thousand from 2020, and were $53.8 million at year-end 2020. COVID loan modifications were zero, down from $68.6 million at year-end 2020, as all modified loans have resumed normal payment schedules .Total residential loans decreased $103 million from year-end 2020, which includes $173 million of originations recorded on the balance sheet and $275 million of prepayments/amortization.

Allowance for Credit Losses

The ACL was $22.7 million at the end of 2021 compared to $19.0 million at year-end 2020. The increase is primarily due to the Company's adoption of CECL as of January 1, 2021, which increased the ACL by $5.2 million and for unfunded commitment reserves by $1.6 million. Unfunded commitment reserves are recorded in other liabilities. Since adoption the ACL has decreased due to improved economic forecasts and lower reserves on specific loans offset by changes in loan mix.

Net charge-offs totaled $290 thousand in 2021, down from $1.9 million, or 0.07% of total average loans in 2020. Non-accruing loans improved to $10.2 million, or 0.40% of total loans at the end of 2021 from $12.2 million or 0.48% of total loans at year-end 2020. The allowance credit losses to total loans ratio was 0.90% at the end of 2021 compared to 0.74% at year-end 2021. The ratio of allowance for credit losses to non-accrual loans increased to 223% from 157% at year-end 2020. Increases in both credit quality ratios is primarily the result of the CECL implementation at the beginning of 2021 offset by improvement in economic forecasts throughout the year.

Other Assets

Total other assets were $318 million at the end of 2021 compared to $331 million as of December 31, 2020. The decrease is primarily from a $15 million decrease in the fair value in customer loan and municipal security derivatives offset by $2.2 million increase in community limited partnership investments. Additionally, derivative balances and deferred taxes have been restated for prior periods as described in Note 1—*Summary of Significant Accounting policies.*

Deposits and Borrowings

Total deposits were $3.0 billion at the end of 2021 compared to $2.9 billion at year-end 2020. Non-maturity deposits increased $415 million in 2021, or 19% due to growth in new accounts with over 4,884 new customer relationships added. Growth in non-maturity deposits in 2021 and the prepayment of $159 million in FHLB borrowings resulted in a reduction of wholesale funding as a percentage of total funding to 4% from 18% at year-end 2020. Time deposits decreased $273 million to $426 million at year-end 2021 as $178 million of brokered deposits matured in of 2021 and were not replaced due to excess liquidity. Retail time deposits decreased $63.1 million as customers moved funds to transactional accounts upon contractual maturity. Total borrowings decreased by $157 million primarily from the aforementioned delever strategy.

Derivative Financial Instruments and Other Liabilities

The notional balance of derivative financial instruments increased to $944 million at year end 2021 from $877 million in the prior year. The increase is principally due to a $50.0 million new hedge on variable rate loans tied to one-month LIBOR. The net fair value of all derivatives was a liability of $1.1 million at the end of 2021 compared to $5.5 million at year-end 2020. The reduction in net derivative fair values reflects the rise in long-term interest rates. Additionally, derivative balances have been restated for prior periods as described in Note 1—*Summary of Significant Accounting Policies*.

Other liabilities totaled $58 million at the end of 2021 compared to $75 million as of December 31, 2020. The decrease primarily reflects a $12 million increase in the customer loan derivatives and a $2.5 million wholesale hedge valuations on higher interest rates compared to 2020.

Equity

Total equity was $424 million, compared with $407 million at year-end 2020. The Company's book value per share was $28.27 as of December 31, 2021 compared with $27.29 at December 31, 2020. Equity included net unrealized gains on securities, derivative and pension revaluations, net of tax, and totaling $2.3 million at the end of 2021 compared to $6.7 million at year-end 2020. Equity was reduced by $5.2 million due to the Company's CECL adoption in the first quarter 2021. Additionally, accumulated other comprehensive income has been restated for prior periods as described in Note 1—*Summary of Significant Accounting Policies*. The Company evaluates changes in tangible book value, a non-GAAP financial measure that is a commonly used valuation metric in the investment community, which parallels some regulatory capital measures. Tangible book value per share increased to $19.86 per share at year-end 2021, up from $18.77 per share at year-end 2020.

During 2021 and 2020, the Company declared and distributed regular cash dividends on its common stock in the aggregate amounts of $14 million and $13 million, respectively. The Company's 2021 dividend payout ratio amounted to 36%, compared with 40% in 2020. Total cash dividends paid in 2021 was $0.94 per common share of stock, compared with $0.88 in 2020.

On April 20, 2021, the Company's Board of Directors authorized a share repurchase plan (the "Plan"). Under the terms of the Plan, the Company is authorized to repurchase up to 5% of its outstanding common stock, representing approximately 747,000 shares. The Plan is authorized for twelve months expiring on March 31, 2022 and authorized based on the strength of the Company's balance sheet and capital position, and the Company's belief in the intrinsic value of the Company's common stock. Given the current market for bank stock prices, the Company believes this program is another tool to enhance long-term shareholder value.

The Company and the Bank remained well-capitalized under regulatory guidelines at period end as further described in Note 12—*Shareholders' Equity and Earnings Per Common Share* on the Consolidated Financial Statements.

COMPARISON OF OPERATING RESULTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

Net Interest Income

Net interest income for 2021 was $96 million compared with $99 million in 2020. The net interest margin was 2.88% in 2021 compared to 2.97% in the prior year. The 2021 adjusted net interest margin (non-GAAP measure), which excludes PPP loans and excess cash was 2.93% compared to 3.01% for 2020. Acceleration of PPP loan fee amortization due to forgiveness contributed 14 basis points to NIM in 2021 and 4 basis points in the same period of 2020. Interest-bearing cash balances, held mostly at the Federal Reserve Bank, reduced NIM by 19 basis points in the year and 8 basis points in 2020. The yield on earning assets totaled 3.33% compared to 3.87% in 2020. Excluding the impact of PPP and excess cash, the yield on earning assets totaled 3.42% and 3.97% for the same periods. The decrease was primarily due to lower yields on loans which the Company feels are near-bottom at year-end 2021. The yield on loans was 3.78% in 2021 and 4.16% in 2020. Excluding PPP loans the yield on loans was 3.62% in 2021, and 4.15% in 2020. Costs of interest-bearing liabilities decreased to 0.59% from 0.96% in 2020 due to increased core deposit levels, lower deposit rates and reduced wholesale borrowings.

Provision for Credit Losses

The provision in 2021 was a recapture of $1.3 million compared to and expense of $5.6 million in 2020. The benefit in 2021 is primarily due to the recapture of the day 1 CECL allowance that was established January 1, 2021 given steady improvements in most macroeconomic drivers to the ACL. The provision also benefited from lower net charge-offs of $209 thousand in 2021 compared to $1.9 million in 2020. Overall credit quality remains strong and credit quality metrics improved with decreases in non-accruing and past due loans.

Non-Interest Income

Non-interest income in 2021 was $42 million compared to $43 million in 2020. The net change reflects an increase in fee income from operations offset by decreased gains on sales of securities. Non-interest income excluding gains on sales of securities increased 5% over the prior year. Trust management fees were $15 million compared to $13 million in 2020 driven by higher assets under management of $2.5 billion compared to $2.3 billion in 2020. Customer service fees increased 17% to $13 million in 2021, with 3,374 net new core deposit accounts opened during the year. The Company sold securities resulting in gains of $2.9 million during 2021 as part of its delever and security remix strategies. Mortgage banking activities contributed $6.5 million in 2021 and $6.9 million in 2020. The Company took advantage of volatility in the yield curve in 2021 and put residential mortgages on the balance sheet when rates were higher and sold loans in the secondary market when rates were low.

Non-Interest Expense

Non-interest expense was $91 million in 2021 compared to $95 million in 2020. The decrease is principally due to lower salary and benefit costs as well as decreased non-recurring expenses. Salaries and benefits expense decreased to $47 million compared to $49 million in 2020, the decrease is primarily due to the reduction from the aforementioned expense study in early 2021 offset by higher employee incentive accruals. The decrease also reflects full-time equivalents of 489 compared to 531 in 2020. Non-recurring expenses in 2021 totaled $4.9 million and were mostly made up of the $2.9 million prepayment penalty on debt extinguishment. In 2020 non-recurring expenses totaled $7.5 million and included a loss on debt extinguishment and costs to consolidate wealth management systems. The efficiency ratio for 2021was 61.29% compared to 61.71% in 2020.

Income Tax Expense

Income tax expense was $9.3 million for the year ended December 31, 2021, compared with $8.4 million for the year ended December 31, 2020. The effective tax rate decreased to 19.2% in 2021 from 20.2% in 2020 primarily from a shift of business to the state of Maine, which has a lower tax rate compared with other jurisdictions.

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

Net Interest Income

Net interest income for 2020 was $99 million compared with $90 million in 2019 primarily due to a lower cost of funds resulting from increased liquidity from growth in non-maturity deposits. The net interest margin expanded to 2.97% in 2020 compared to 2.77% in the prior year. Purchase loan accretion contributed 11 and 10 basis points to the margin in 2020 and 2019, respectively. Cost of deposits and borrowings also benefited from the Federal Reserve rate cuts in 2020 and changes in other key indexes in response to the pandemic. In total cost of funds decreased 65 basis points to 0.96% compared to 1.61% in 2019 due to the shift in funding sources to core deposits. Total interest-bearing deposit rates improved to 0.78% compared to 1.27% in 2019 from growth in core deposits and reductions in time deposits during 2020. Borrowing costs improved to 1.75% from 2.61% in 2019, on reduced borrowing levels and interest rates.

The yield on earning assets was 3.87% compared to 4.14% in 2019 reflecting loan originations and repricing of variable rate products in a lower interest rate environment. Both securities yields and loan yields dropped 22 basis points to 3.20% and 4.16%, respectively for 2020. The 2020 adjusted net interest margin (non-GAAP measure), which excludes PPP loans was 2.93% compared to 2.77% for 2019, which included a drag of 16 basis points and one basis point, respectively from excess liquidity reflected in interest-bearing deposits with other banks.

Loan Loss Provision

The provision was $6 million in 2020 compared to $2 million in 2019. Credit quality metrics improved with decreases in non-accruing and past due loans. Overall credit quality remains strong, the increase in the provision is indicative of commercial loan growth and higher economic adjustments reflecting elevated risk from COVID-19.

Non-Interest Income

Non-interest income in 2020 increased to $43 million from $29 million in 2019 driven primarily by increases in mortgage banking income and gains on sold securities. The $5 million increase in mortgage banking income is associated with secondary market sales of $223 million compared to $63 million in 2019. The Company took advantage of unrealized gains in the securities portfolio in 2020 by selling certain investments for a net gain of $5 million. Customer loan derivative income also contributed to non-interest income as demand for these products remained strong within the commercial loan pipeline throughout the year. Customer services fees increased by over $1 million to $11 million resulting from expanded operations into Central Maine offset by impacts of the pandemic on these services. Wealth management income grew over $1 million to $13 million in 2020. The increase reflects a full year of having assets under management acquired in the fourth quarter of 2019 totaling $218 million.

Non-Interest Expense

Non-interest expense was $95 million in 2020 compared to $90 million in 2019. The increase is primarily a result of a $4 million higher salary and benefit expense due to the expanded branch model and wealth management business. Salary and benefit expense was also impacted by larger accruals for incentives on improved performance metrics and post-retirement plan costs based on lower discount rates. Additionally, occupancy and equipment costs increased by $3 million based on the expanded footprint in central Maine. Operating expenses remained controlled as the efficiency ratio (non-GAAP) improved to 61.71% in 2020 from 64.95% in 2019. Non-recurring expenses in 2020 primarily consisted of a $4 million loss on termination of a $50.0 million swap on wholesale borrowings and a $1 million loss on extinguishment of debt on longer-term and higher cost FHLB borrowings. The remaining represents costs for profitability initiatives including trust system conversion and consolidation. Non-recurring expenses in 2019 included a $3 million loss on interest rate cap terminations, $3 million related to the branch acquisition, and $2 million related to branch optimization and other strategic initiatives.

Income Tax Expense

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

LIQUIDITY AND CASH FLOWS

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

The Bank actively manages its liquidity position through target ratios established under its Asset Liability Management Policy. Continual monitoring of these ratios, by using historical data and through forecasts under multiple rate and stress scenarios, allows the Bank to employ strategies necessary to maintain adequate liquidity. The Bank's policy is to maintain a liquidity position of at least 8% of total assets. A portion of the Bank's deposit base has been historically seasonal in nature, with balances typically declining in the winter months through late spring, during which period the Bank's liquidity position tightens.

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

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

Capital Resources

Consistent with its long-term goal of operating a sound and profitable organization, at December 31, 2021, the Company maintained its strong capital position and continued to be a "well-capitalized" financial institution according to applicable regulatory standards. Management believes this to be vital in promoting depositor and investor confidence and providing a solid foundation for future growth.

The Company's liquidity position remains strong. At December 31, 2021, available same-day liquidity totaled approximately $1.2 billion, including cash, borrowing capacity at FHLB and the Federal Reserve Discount Window and various lines of credit. Additional sources of liquidity include cash flows from operations, wholesale deposits, cash flow from the Company's amortizing securities and loan portfolios. The Company had unused borrowing capacity at the FHLB of $472 million, unused borrowing capacity at the Federal Reserve of $65 million and unused lines of credit totaling $51 million, in addition to over $200 million in unencumbered, liquid investment portfolio assets. The Company has also utilized the Federal Reserve's Paycheck Protection Program Liquidity Facility to provide liquidity to fund PPP loans.

Purchase Obligations

In the normal course of conducting its banking and financial services business, and in connection with providing products and services to its customers, the Company has entered into a variety of traditional third-party contracts for support services. Examples of such contractual agreements include, but are not limited to: services providing core banking systems, ATM and debit card processing, trust services software, accounting software and the leasing of T-1 telecommunication lines and other technology infrastructure supporting the Company's network. These types of purchase obligations that will come due during 2022 totaled $4.4 million as of December 31, 2021 which is expected to be funded by cash flows generated from operations.

IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Note 1—*Summary of Significant Accounting Policies* to the Company's Audited Consolidated Financial Statements for the year ended December 31, 2021 contains a summary of significant accounting policies. Various elements of these accounting policies, by their nature, are subject to estimation techniques, valuation assumptions and other subjective assessments. Certain assets are carried in the consolidated statements of financial condition at estimated fair value or the lower of cost or estimated fair value. Policies with respect to the methodology used to determine the allowance for credit losses is a critical accounting policy and estimate because of its importance to the presentation of the Company's financial condition and results of operations. The critical accounting policy involves a higher degree of complexity and requires management to make difficult and subjective judgments which often require assumptions or estimates about highly uncertain matters. The use of different judgments, assumptions, and estimates could result in material differences in the results of operations or financial condition.

Allowance for credit losses on loans.

Effective January 1, 2021, the Company adopted CECL, which replaced the incurred loss allowance methodology with an expected loss allowance methodology. See Note 1—*Summary of Significant Accounting Policies* and Note 3—*Loans and Allowance for Credit Losses* to the consolidated financial statements for information about CECL adoption, areas of judgment and methodologies used in establishing the allowance.

The allowance is sensitive to a number of internal factors, such as modifications in the mix and level of loan balances outstanding, portfolio performance and assigned risk ratings. The allowance is also sensitive to external factors such as the general health of the economy, as evidenced by changes in unemployment rates, home pricing index, gross domestic product, retail sales, multi-housing starts and changes in commercial real estate values. The Company considers these variables and all other available information when establishing the final level of the allowance. These variables and others have the ability to result in actual loan losses that differ from the originally estimated amounts.

Changes in the factors used by management to determine the appropriateness of the allowance or the availability of new information could cause the allowance to be increased or decreased in future periods. Additionally, changes in circumstances related to individually large credits, or certain macroeconomic forecast assumptions may result in volatility.

It is difficult to estimate how potential changes in any one economic factor might affect the overall allowance because a wide variety of factors and inputs are considered in the allowance estimate. Changes in the factors and inputs may not occur at the same rate and may not be consistent across all product types. Additionally, changes in factors and inputs may be directionally inconsistent, such that improvement in one factor may offset deterioration in others. However, to consider the impact of a hypothetical stressed forecast, the Company estimated the allowance using forecast inputs that were severely unfavorable to the expected scenario for each macroeconomic variable. This unfavorable scenario resulted in an allowance that is approximately $8.8 million higher than the allowance using the expected scenario.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

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

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

Interest Rate Risk:

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

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

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

Interest Rate Sensitivity Modeling:

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

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

The simulation models a parallel and pro rata shift in rates over a 12-month period. Using this approach, we are able to produce simulation results that illustrate the effect that both a gradual "rate ramp" and a "rate shock" have on earnings expectations. Our net interest income sensitivity analysis reflects changes to net interest income assuming no balance sheet growth and a parallel shift in interest rates. All rate changes were "ramped" over the first 12-month period and then maintained at those levels over the remainder of the simulation horizon. Changes in net interest income based upon these simulations are measured against the flat interest rate scenario.

In 2020, behavioral assumptions regarding both core deposits and residential loans were modified to incorporate the results of a third party model to better reflect the Bank's unique position and geographic footprint. As of December 31, 2021, interest rate sensitivity modeling results indicate that the Bank's balance sheet was asset sensitive over the one- and two-year horizons.

The following table presents the changes in sensitivities on net interest income for the years ended December 31, 2021 and 2020:

Change in Interest Rates-Basis Points (Rate Ramp) (in thousands, except ratios)	**1 - 12 Months**		**13 - 24 Months**	
	$ Change	**% Change**	**$ Change**	**% Change**
At December 31, 2021				
-100	$(1,939)	(2.0)%	$ (5,945)	(6.4)%
+200	9,413	10.0	22,220	24.0
At December 31, 2020				
-100	(2,368)	(2.6)	(5,849)	(6.6)
+200	7,080	7.7	19,812	22.2

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

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

As compared to December 31, 2020, the down 100 basis points scenario is improved in both years 1 and 2. In the up 200 basis points scenario, results are also improved on a year-over-year basis.

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

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

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Bar Harbor Bankshares and Subsidiaries (the Company) as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2021, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 14, 2022 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Adoption of New Accounting Standard

As discussed in Note 1 and 3 to the financial statements, the Company has changed its method of accounting for credit losses on financial instruments in 2021 due to the adoption of Accounting Standards Update No. 2016-13, Financial Instruments—Credit Losses (Topic 326)—Measurement of Credit Losses on Financial Instruments.

Basis for Opinion

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

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

Critical Audit Matters

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

Allowance for Credit Losses on Loans

As described in Notes 1 and 3 to the consolidated financial statements, the allowance for credit losses on loans is established through a provision for credit losses and represents an amount which, in management's judgement, will be adequate to absorb losses on existing loans. The Company's consolidated allowance for credit losses on loans balance was $22.7 million at December 31, 2021. The allowance for credit losses on loans is comprised of reserves measured on a collective (pool) basis based on a lifetime loss-rate model when similar risk characteristics exist. Loans that do not share risk characteristics are evaluated on an individual basis, generally larger non-accruing commercial loans and troubled debt restructurings.

The Company uses the discounted cash flow method to estimate expected credit losses for all loan portfolio segments measured on a pool basis wherein payment expectations are adjusted for estimated prepayment speeds, probability of default (PD), and loss given default (LGD). The Company uses regression analysis of historical internal and peer data to determine suitable loss drivers to utilize when modeling lifetime PD. This analysis also determines how expected PD and LGD will react to forecasted levels of the loss drivers. Management utilizes various economic indicators such as changes in unemployment rates, gross domestic product (GDP), property values and other relevant factors as loss drivers and has determined that, due to historical volatility in economic data, two quarters currently represents a reasonable and supportable forecast period, followed by a six-period reversion to historical mean levels for each of the various economic indicators. The allowance evaluation also considers various qualitative factors, such as: (i) changes to lending policies, underwriting standards and/or management personnel performing such functions, (ii) delinquency and other credit quality trends, (iii) credit risk concentrations, if any, (iv) changes to the nature of the Company's business impacting the loan portfolio, (v) and other external factors, that may include, but are not limited to, results of internal loan reviews, stress testing, examinations by bank regulatory agencies, or other events such as a natural disaster. The development of the loan loss allocation for pools of loans with similar risk characteristics requires a significant amount of judgement by management and the assumptions utilized are subject to changing economic conditions.

We identified the Company's allowance for credit losses on loans as a critical audit matter, specifically the economic forecasts and qualitative factors, because they involved complex auditor judgement in the evaluation of the Company's methodology and assumptions. Specifically, complex auditor judgement was required to examine the methodology that underpins the allowance for credit losses on pools of loans with similar risk characteristics. This includes modeling of PD, LGD, economic forecasts, and qualitative factors.

Our audit procedures related to this critical audit matter included the following at implementation date and period end, among others:

- We obtained an understanding of the relevant controls related to the allowance for credit losses on loans and tested such controls for design and operating effectiveness, including those over model approval, validation and approval of key data inputs such as economic forecasts and qualitative factors.
- We tested the completeness and accuracy of data used by management in determining inputs to the PD and LGD, such as prepayment speed, by agreeing those inputs to internal or external information sources.
- We evaluated management's forecasts of future economic indicators for reasonableness, which include unemployment, housing price index, retail sales, and national GDP growth, among others, by comparing these forecasts to external and internal information sources.
- We evaluated management's judgments and assumptions used in the development of the qualitative factors for reasonableness, and tested the reliability of the underlying data on which these factors are based, by comparing information to source documents and external information sources.

/s/ RSM US LLP

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

Boston, Massachusetts
March 14, 2022

BAR HARBOR BANKSHARES AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)	December 31, 2021	December 31, 2020
Assets		
Cash and cash equivalents:		
Cash and due from banks	$ 33,508	$ 27,566
Interest-earning deposits with other banks	216,881	198,441
Total cash and cash equivalents	250,389	226,007
Securities:		
Securities available for sale	618,276	585,046
Federal Home Loan Bank stock	7,384	14,036
Total securities	625,660	599,082
Loans held for sale	5,523	23,988
Total loans	2,531,910	2,562,885
Less: Allowance for credit losses	(22,718)	(19,082)
Net loans	2,509,192	2,543,803
Premises and equipment, net	49,382	52,458
Goodwill	119,477	119,477
Other intangible assets	6,733	7,670
Cash surrender value of bank-owned life insurance	79,020	77,870
Deferred tax assets, net(1)	5,547	3,047
Other assets(1)	58,310	70,873
Total assets(1)	$3,709,233	$3,724,275
Liabilities		
Deposits:		
Demand	$ 664,420	$ 544,636
NOW	940,631	738,849
Savings	628,670	521,638
Money market	389,291	402,731
Time	425,532	698,361
Total deposits	3,048,544	2,906,215
Borrowings:		
Senior	118,400	276,062
Subordinated	60,124	59,961
Total borrowings	178,524	336,023
Other liabilities(1)	58,018	74,972
Total liabilities(1)	3,285,086	3,317,210
Shareholders' equity		
Capital stock, par value $2.00; authorized 20,000,000 shares; issued 16,428,388 shares at December 31, 2021 and December 31, 2020	32,857	32,857
Additional paid-in capital	190,876	190,084
Retained earnings	215,592	195,607
Accumulated other comprehensive income(1)	2,303	6,740
Less: 1,427,059 and 1,512,465 shares of treasury stock at December 31, 2021 and December 31, 2020, respectively	(17,481)	(18,223)
Total shareholders' equity(1)	424,147	407,065
Total liabilities and shareholders' equity(1)	$3,709,233	$3,724,275

(1) Prior period has been revised, see Note 1—Summary of Significant Accounting Policies—*Revision of Previously Issued Financial Statements.*

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

BAR HARBOR BANKSHARES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except earnings per share data)	Years Ended December 31, 2021	2020	2019
Interest and dividend income			
Loans	$ 95,236	$107,085	$111,042
Securities and other	15,568	19,019	24,349
Total interest and dividend income	110,804	126,104	135,391
Interest expense			
Deposits	8,543	18,043	27,034
Borrowings	6,688	8,881	18,547
Total interest expense	15,231	26,924	45,581
Net interest income	95,573	99,180	89,810
Provision for credit losses	(1,302)	5,625	2,317
Net interest income after provision for credit losses	96,875	93,555	87,493
Non-interest income			
Trust and investment management fee income	15,179	13,378	12,063
Customer service fees	13,212	11,327	10,127
Gain on sales of securities, net	2,870	5,445	237
Mortgage banking income	6,536	6,884	1,626
Bank-owned life insurance income	2,179	2,007	2,053
Customer derivative income	1,010	2,503	2,028
Other income	1,275	1,412	935
Total non-interest income	42,261	42,956	29,069
Non-interest expense			
Salaries and employee benefits	47,117	48,920	45,000
Occupancy and equipment	16,356	16,751	14,214
Loss (gain) on sales of premises and equipment, net	378	(32)	18
Outside services	1,943	1,985	1,818
Professional services	1,756	2,060	2,191
Communication	912	892	821
Marketing	1,541	1,385	1,872
Amortization of intangible assets	940	1,024	861
Loss on debt extinguishment	2,851	1,351	1,096
Acquisition, conversion and other expenses	1,667	5,801	8,317
Other expenses	15,047	14,723	13,525
Total non-interest expense	90,508	94,860	89,733
Income before income taxes	48,628	41,651	26,829
Income tax expense	9,329	8,407	4,209
Net income	$ 39,299	$ 33,244	$ 22,620
Earnings per share:			
Basic	$ 2.63	$ 2.18	$ 1.46
Diluted	$ 2.61	$ 2.18	$ 1.45
Weighted average common shares outstanding:			
Basic	14,969	15,246	15,541
Diluted	15,045	15,272	15,587

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

BAR HARBOR BANKSHARES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
(in thousands)	2021	2020	2019
Net income	$ 39,299	$33,244	$22,620
Other comprehensive (loss) income, before tax:			
Changes in unrealized (loss) gain on securities available for sale	(10,489)	5,819	18,646
Changes in unrealized gain (loss) on hedging derivatives(1)	3,562	(1,651)	2,060
Changes in unrealized gain (loss) on pension	1,132	(338)	(350)
Income taxes related to other comprehensive income:			
Changes in unrealized loss (gain) on securities available for sale	2,451	(1,345)	(4,434)
Changes in unrealized (gain) loss on hedging derivatives(1)	(827)	386	(411)
Changes in unrealized (gain) loss on pension	(266)	77	83
Total other comprehensive (loss) income(1)	(4,437)	2,948	15,594
Total comprehensive income(1)	$ 34,862	$36,192	$38,214

(1) Prior period has been revised, see Note 1—Summary of Significant Accounting Policies—*Revision of Previously Issued Financial Statements.*

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

BAR HARBOR BANKSHARES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(in thousands, except per share data)	Common stock amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)[1]	Treasury stock	Total[1]
Balance at December 31, 2018	$32,857	$187,653	$166,526	$(11,802)	$ (4,655)	$370,579
Net income	—	—	22,620	—	—	22,620
Other comprehensive income	—	—	—	15,594	—	15,594
Cash dividends declared ($0.86 per share)	—	—	(13,366)	—	—	(13,366)
Treasury stock purchased (9,195 shares)	—	—	—	—	(239)	(239)
Net issuance (34,944 shares) to employee stock plans, including related tax effects	—	(490)	—	—	217	(273)
Recognition of stock based compensation	—	1,373	—	—	—	1,373
Balance at December 31, 2019	$32,857	$188,536	$175,780	$ 3,792	$ (4,677)	$396,288
Net income	—	—	33,244	—	—	33,244
Other comprehensive income	—	—	—	2,948	—	2,948
Cash dividends declared ($0.88 per share)	—	—	(13,417)	—	—	(13,417)
Treasury stock purchased (733,567 shares)	—	—	—	—	(14,188)	(14,188)
Net issuance (91,359 shares) to employee stock plans, including related tax effects	—	(22)	—	—	642	620
Recognition of stock based compensation	—	1,570	—	—	—	1,570
Balance at December 31, 2020	$32,857	$190,084	$195,607	$ 6,740	$(18,223)	$407,065
Net income	—	—	39,299	—	—	39,299
Other comprehensive income	—	—	—	(4,437)	—	(4,437)
Allowance for credit losses cumulative-effect adjustment—ASU 2016-13 (Note 1)	—	—	(5,242)	—	—	(5,242)
Cash dividends declared ($0.94 per share)	—	—	(14,072)	—	—	(14,072)
Net issuance (85,406 shares) to employee stock plans, including related tax effects	—	(1,357)	—	—	742	(615)
Recognition of stock based compensation	—	2,149	—	—	—	2,149
Balance at December 31, 2021	$32,857	$190,876	$215,592	$ 2,303	$(17,481)	$424,147

(1) Prior period has been revised, see Note 1—Summary of Significant Accounting Policies—*Revision of Previously Issued Financial Statements.*

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

BAR HARBOR BANKSHARES AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	**2021**	**2020**	**2019**
Cash flows from operating activities:			
Net income	$ 39,299	$ 33,244	$ 22,620
Adjustments to reconcile net income to net cash provided by operating activities:			
Originations of loans held for sale	(170,758)	(240,858)	(69,070)
Proceeds from loan sales	193,468	228,626	63,232
Gain on sale of loans	(4,131)	(5,257)	(493)
Provision for credit losses	(1,302)	5,625	2,317
Net amortization of securities	4,471	3,367	3,341
Deferred tax expense (benefit)	427	(38)	1,020
Change in unamortized net loan costs and premiums	(1,354)	(122)	(555)
Premises and equipment depreciation	4,596	4,771	4,136
Stock-based compensation expense	2,149	1,570	1,373
Accretion of purchase accounting entries, net	(2,274)	(749)	(3,806)
Amortization of other intangibles	940	1,025	861
Income from cash surrender value of bank-owned life insurance policies	(2,179)	(2,007)	(2,053)
Gain on sales of securities, net	(2,870)	(5,445)	(237)
Decrease (increase) in right-of-use lease assets	1,064	(715)	(632)
(Decrease) increase in lease liabilities	(984)	976	660
(Gain) loss on other real estate owned	—	(355)	166
Loss (gain) on premises and equipment, net	378	(32)	18
Net change in other assets and liabilities	(462)	(2,942)	7,174
Net cash provided by operating activities	60,478	20,684	30,072
Cash flows from investing activities:			
Proceeds from sales of securities available for sale	92,723	153,200	92,315
Proceeds from maturities, calls and prepayments of securities available for sale	111,552	151,829	115,334
Purchases of securities available for sale	(249,595)	(215,567)	(129,189)
Net change in loans	33,707	70,617	(144,821)
Recoveries of previously charged off loans	608	272	321
Purchase of FHLB stock	(2,565)	(4,105)	(11,687)
Proceeds from sale of FHLB stock	9,217	10,748	26,667
Purchase of premises and equipment, net	(1,716)	(6,776)	(9,185)
Proceeds from premises held for sale	288	903	—
Net investment in community limited partnerships	(1,310)	(2,750)	(22)
Proceeds from death benefit of bank-owned life insurance policy	1,029	—	—
Acquisitions, net of cash acquired	—	(340)	(18,383)
Proceeds from sale of other real estate owned	—	2,205	—
Net cash (used in) provided by investing activities	(6,062)	160,236	(78,650)
Cash flows from financing activities:			
Net change in deposits	142,329	210,464	212,693
Net change in short-term senior borrowings	9,324	(248,262)	(308,380)
Proceeds from long-term senior borrowings	—	148,199	328,097
Repayments of long-term senior borrowings	(159,023)	(78,186)	(237,719)
Net change in short-term other borrowings	(7,977)	(17,053)	8,621
Proceeds from subordinated debt issuance	—	—	40,000
Repayments of subordinated debt	—	—	(22,000)
Payment of subordinated debt issuance costs	—	—	(700)
Exercise of stock options	(615)	620	(273)
Purchase of treasury and common stock	—	(14,188)	(239)
Cash dividends paid on common stock	(14,072)	(13,417)	(13,366)
Net cash (used in) provided by financing activities	(30,034)	(11,823)	6,734
Net change in cash and cash equivalents	24,382	169,097	(41,844)
Cash and cash equivalents at beginning of year	226,007	56,910	98,754
Cash and cash equivalents at end of period	$ 250,389	$ 226,007	$ 56,910
Supplemental cash flow information:			
Interest paid	$ 16,354	$ 27,423	$ 45,755
Income taxes paid, net	8,859	10,045	2,371
Acquisition of non-cash assets and liabilities:			
Assets acquired	—	1,171	243,676
Liabilities acquired	—	(343)	261,814
Other non-cash changes:			
Real estate owned acquired in settlement of loans	—	—	250
Initial recognition of operating lease right-of-use assets	—	—	8,991
Initial recognition of operating lease liabilities	—	—	8,991

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Use of estimates: In preparing financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to change in the near term relate to the allowance for credit losses, off-balance sheet credit exposures, available for sale securities (effective for periods on or after January 1, 2021, upon adoption of ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13")), the accounting for business combinations including subsequent impairment analyses for goodwill and other intangible assets, accounting for income taxes, postretirement benefits, and asset impairment assessments, including the assessment of OTTI of investment securities (for periods prior to January 1, 2021).

Subsequent Events: The Company has evaluated events and transactions subsequent to December 31, 2021 for potential recognition or disclosure as required by GAAP.

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

Securities: All securities held at December 31, 2021 and 2020 were classified as available-for-sale ("AFS"). Available for sale securities primarily consist of mortgage-backed securities, obligations of state and political subdivisions thereof, and corporate bonds and are carried at estimated fair value. Changes in estimated fair value of AFS securities, net of applicable income taxes, are reported in accumulated other comprehensive income (loss) as a separate component of shareholders' equity unless deemed to have a credit loss as discussed below. The Company does not have any securities classified as trading or held-to-maturity.

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

Allowance for Credit Loss on AFS Debt Securities: Upon adoption of CECL, effective January 1, 2021, the Company monitors the credit quality of available for sale (AFS) debt securities through credit ratings from various rating agencies and substantial price changes. Credit ratings express opinions about the credit quality of a security and are utilized by the Company to make informed decisions. Securities are triggered for further review in the quarter if the security has significant fluctuations in ratings, drops below investment grade, or significant pricing changes. For securities without credit ratings, the Company utilizes other financial information indicating the financial health of the underlying municipality, agency, or organization associated with the underlying security. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance on AFS debt securities is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. When assessing an AFS debt security for credit loss, securities with identical CUSIPs are pooled together to assess for impairment using the average cost basis. Any impairment that has not been recorded through an allowance is recognized in other comprehensive income.

A change in the allowance on AFS debt securities may be in full or a portion thereof, is recorded as expense (credit) within provision for credit losses on the consolidated statements of income. Losses are charged against the allowance when management believes the uncollectibility of an AFS debt security is confirmed based on the above described analysis. As of December 31, 2021 and January 1, 2021 (i.e. ASU 2016-13 adoption), there was no allowance carried on the Company's AFS debt securities. Refer to Note 2—*Securities Available for Sale* of the consolidated financial statements for further discussion.

Federal Home Loan Bank Stock: The Bank is a member of the Federal Home Loan Bank of Boston ("FHLB"). The Bank uses the FHLB for most of its wholesale funding needs. As a requirement of membership in the FHLB, the Bank must own a minimum required amount of FHLB stock, based primarily on its level of obligations with the FHLB. FHLB stock is a non-marketable equity security and therefore is reported at cost, which generally equals par value. Shares held in excess of the minimum required amount are generally redeemable at par value. Dividends from FHLB stock are reported in interest and dividend income.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company periodically evaluates FHLB stock for impairment based on the capital adequacy of the FHLB and its overall financial condition. Based on the capital adequacy, liquidity position and sustained profitability of the FHLB, management believes there is no impairment related to the carrying amount of the Bank's FHLB stock as of December 31, 2021 and 2020.

Loans Held for Sale: Residential loans originated with the intent to be sold in the secondary market are accounted for at fair value. The Company elected the fair value option of accounting for its loans designated as held for sale as of December 31, 2021. Fair value is primarily determined based on quoted prices for similar loans in active markets. Residential loans held for sale are generally sold with servicing rights retained. The carrying value of loans sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of residential loans (sales proceeds minus carrying value) are recorded in non-interest income. Management consistently evaluates the Company's loan portfolio in conjunction with asset/liability management practices, and will opt to sell certain residential mortgage loans to manage the Company's interest rate exposure and for other business purposes, including generating fee income through mortgage sale gains.

Loans: Loans held for investment by the Company are reported at amortized cost. Amortized cost is the principal balance outstanding net of the unamortized balance of any deferred fees or costs and the unamortized balance of any premiums or discounts on loans purchased or acquired through mergers.

For originated loans, loan fees and certain direct origination costs are deferred and amortized into interest income over the contractual term of the loan using the level-yield method over the estimated lives of the related loans. When a loan is paid off, the unamortized portion of deferred fees or costs are recognized in interest income. Interest income on originated loans is accrued based upon the daily principal amount outstanding except for loans on non-accrual status.

For acquired loans, interest income is accrued based upon the daily principal amount outstanding and is then further adjusted by the accretion of any discount or amortization of any premium associated with the loan that was recognized based on the acquisition date fair value. When a loan is paid off, the unamortized portion of any premiums or discounts on loans are recognized in interest income.

Purchase Credit Deteriorated (PCD) Loans: Loans that the Company acquired in acquisitions include some loans that have experienced more than insignificant credit deterioration since origination. The initial allowance for credit losses is determined on a collective basis and allocated to the individual loans. The sum of the loan's purchase price and allowance for credit losses becomes its initial amortized cost. The difference between the initial amortized cost and the par value of the loan is a discount or premium, which is amortized into interest income over the life of the loan. Subsequent changes to the allowance for credit losses are recorded through provision expense.

The Company adopted CECL using the prospective transition approach for financial assets purchased with credit deterioration that were previously classified as purchased credit impaired (PCI) and accounted for under ASC 310-30. In accordance with the standard, the Company did not reassess whether PCI assets met the definition of PCD assets as of the date of adoption. On January 1, 2021, the amortized cost basis of the PCD assets representing the noncredit discount will be accreted into interest income using the level-yield method over the estimated lives of the related loans. The converted PCD assets of $12.5 million were then pooled by call report coding and an additional allowance was calculated on the pooled assets separately from other loan pools totaling $524 thousand.

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

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

Previously, acquired loans that met the criteria for non-accrual of interest prior to the acquisition were considered performing upon acquisition, regardless of whether the customer is contractually delinquent, if the Company could reasonably estimate the timing and amount of the expected cash flows on such loans and if the Company expects to fully collect the new carrying value of the loans and any change in performance would have impacted accretable yield. After adoption of ASC 326 on January 1, 2021 the Company now treats these non-performing acquired loans that meet the criteria for non-accrual consistent with originated loans.

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Allowance for Credit Losses: The allowance for credit losses (the "allowance") is a significant accounting estimate used in the preparation of the Company's consolidated financial statements. The Allowance is comprised of the allowance for loan losses and the allowance for off-balance sheet credit exposures, which is accounted for as a separate liability in other liabilities on the balance sheet. The level of the allowance represents management's estimate of expected credit losses over the expected life of the loans at the balance sheet date.

Upon adoption of ASC 326 or CECL effective January 1, 2021, the Company replaced the incurred loss impairment model that recognized losses when it became probable that a credit loss will be incurred, with a requirement to recognize lifetime expected credit losses immediately when a financial asset is originated or purchased. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loans. Loans, or portions thereof, are charged off against the allowance when they are deemed uncollectible. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged- off. The allowance is comprised of reserves measured on a collective (pool) basis based on a lifetime loss-rate model when similar risk characteristics exist. Loans that do not share risk characteristics are evaluated on an individual basis, generally larger non-accruing commercial loans and TDRs.

The Company uses the discounted cash flow (DCF) method to estimate expected credit losses for all loan portfolio segments measured on a collective (pool) basis. For each loan segment, the Company generates cash flow projections at the instrument level wherein payment expectations are adjusted for estimated prepayment speeds, probability of default, and loss given default. The modeling of prepayment speeds is based on historical internal data.

The Company uses regression analysis of historical internal and peer data to determine suitable loss drivers to utilize when modeling lifetime probability of default. This analysis also determines how expected probability of default and loss given default will react to forecasted levels of the loss drivers. For all loan pools utilizing the DCF method, management utilizes various economic indicators such as changes in unemployment rates, gross domestic product, property values, housing starts, and other relevant factors as loss drivers. For all DCF models, management has determined that due to historic volatility in economic data, two quarters currently represents a reasonable and supportable forecast period, followed by a six-period reversion to historical mean levels for each of the various economic indicators.

The combination of adjustments for credit expectations (default and loss) and timing expectations (prepayment, curtailment, and time to recovery) produces an expected cash flow stream at the instrument level. Specific instrument effective yields are calculated, net of the impacts of prepayment assumptions, and the instrument expected cash flows are then discounted at that effective yield to produce an instrument-level Net Present Value (NPV). An allowance is established for the difference between the instrument's NPV and amortized cost basis.

The allowance evaluation also considers various qualitative factors, such as: (i) changes to lending policies, underwriting standards and/or management personnel performing such functions, (ii) delinquency and other credit quality trends, (iii) credit risk concentrations, if any, (iv) changes to the nature of the Company's business impacting the loan portfolio, (v) and other external factors, that may include, but are not limited to, results of internal loan reviews, stress testing, examinations by bank regulatory agencies, or other events such as a natural disaster.

Arriving at an appropriate level of allowance involves a high degree of judgment. The determination of the adequacy of the allowance and provisioning for estimated losses is evaluated regularly based on review of loans, with particular emphasis on non-performing and other loans that management believes warrant special consideration. While management uses available information to recognize losses on loans, changing economic conditions and the economic prospects of the borrowers may necessitate future additions or reductions to the allowance.

***Individually Evaluated Loans*:** Prior to the adoption of CECL effective January 1, 2021, a loan was individually evaluated when the loan was considered impaired. Impaired loans were based on current information and events, it is probable that the Company will not be able to collect all amounts due from the borrower in accordance with the contractual terms of the loan, including scheduled interest payments.

With the adoption of CECL, loans that do not share risk characteristics with existing pools are evaluated on an individual basis. For loans that are individually evaluated and collateral dependent, financial loans where the Company has determined that foreclosure of the collateral is probable, or where the borrower is experiencing financial difficulty and the Company expects repayment of the financial asset to be provided substantially through the operation or sale of the collateral, the ACL is measured based on the difference between the fair value of the collateral and the amortized cost basis of the asset as of the measurement date. When repayment is expected to be from the operation of the collateral, the specific credit loss reserve is calculated as the amount by which the amortized cost basis of the financial asset exceeds the NPV from the operation of the collateral. When repayment is expected to be from the sale of the collateral, the specific credit loss reserve is calculated as the amount by which the amortized costs basis of the financial asset exceeds the fair value of the underlying collateral less estimated cost to sell. The allowance may be zero if the fair value of the collateral at the measurement date exceeds the amortized cost basis of the financial asset.

Accrued Interest. Upon adoption of CECL, effective January 1, 2021, the Company made the following elections regarding accrued interest receivable: (i) present accrued interest receivable balances within other assets on the consolidated statements of condition; (ii) exclude accrued interest from the measurement of the allowance for credit losses, including investments and loans; and (iii) continue to write-off accrued interest receivable by reversing interest income. The Company has a policy in place to write-off accrued interest when a loan is placed on non-accrual. Historically,

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

the Company has not experienced uncollectible accrued interest receivable on investment debt securities.

Allowance for off-balance sheet credit exposures: The exposure is a component of other liabilities on the Company's Consolidated Balance Sheet and represents the estimate for probable credit losses inherent in unfunded commitments to extend credit. Unfunded commitments to extend credit include unused portions of lines of credit and standby and commercial letters of credit. The process used to determine the allowance for these exposures is consistent with the process for determining the allowance for loans, as adjusted for estimated funding probabilities or loan equivalency factors. A charge (credit) to provision for credit losses on the consolidated statements of income is made to account for the change in the allowance on off-balance sheet exposures between reporting periods.

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

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

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

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

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

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

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

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

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

changes in cash flows or fair values of hedged items. The fair value of the derivative is reflected on the Consolidated Balance Sheet in either other assets or liabilities.

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

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

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

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

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

Stock Based Compensation: The Company has equity award plans that include stock options, restricted stock awards restricted stock units and performance stock units, which are described more fully in Note 13—*Stock Based Compensation Plans o*f the Consolidated Financial Statements. The Company recognizes expenses for stock options and restricted awards based on the fair value of these awards as of the grant date. For restricted stock units and performance stock units the expense is recognized over the vesting periods of the grants. The Company uses its treasury shares for issuing shares upon option exercises, restricted stock awards, restricted stock unit vesting and performance stock unit vesting.

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

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

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

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

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

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

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

Revenue Recognition: The Company recognizes revenue in accordance with ASC 606, "Revenue from Contracts with Customers." ASC 606 requires the Company to follow a five step process: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the Company satisfies a performance obligation. Revenue recognition under ASC 606 depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or service. See Note 15—*Revenue from Contracts with Customers* of the Company's Consolidated Financial Statements for additional information on revenue recognition.

Wealth Management: Wealth management assets held in a fiduciary or agent capacity are not included in the accompanying Consolidated Balance Sheets because they are not assets of the Company. Trust and investment management fees are primarily comprised of fees earned from consultative investment management, trust administration, tax return preparation, and financial planning. The Company's performance obligation is generally satisfied over time and the resulting fees are recognized monthly, based on the daily accrual of the market value of the investment accounts and the applicable fee rate.

Marketing Costs: Marketing costs are expensed as incurred.

Segment Reporting: An operating segment is defined as a component of a business for which separate financial information is available that is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and evaluate performance. The Company has determined that its operations are solely in the community banking industry and include traditional community banking services, including lending activities, acceptance of demand, savings and time deposits, business services, investment management, trust and third-party brokerage services. These products and services have similar distribution methods, types of customers and regulatory responsibilities. Accordingly, segment information is not presented in the Consolidated Financial Statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impact of Adoption

The following table illustrates the adoption of CECL effective January 1, 2021:

(in thousands)	Pre-CECL Adoption	Reclassification to CECL Portfolio Segmentation	Pre-CECL Adoption Portfolio Segmentation	Post-CECL Adoption Portfolio Segmentation	Impact of CECL Adoption
Assets:					
Loans:					
Commercial construction	$ 131,123	$ (13,241)	$ 117,882	$ 117,882	$ —
Commercial real estate	953,258	(953,258)	—	—	—
Commercial real estate owner occupied	—	219,217	219,217	219,217	—
Commercial real estate non-owner occupied	—	716,776	716,776	716,776	—
Tax exempt	63,431	(15,569)	47,862	47,862	—
Commercial and industrial	377,638	(21,954)	355,684	355,684	—
Residential real estate	923,891	71,325	995,216	995,216	—
Home equity	102,464	(2,368)	100,096	100,096	—
Consumer other	11,080	(928)	10,152	10,152	—
Total loans	$2,562,885	$ —	$2,562,885	$2,562,885	$ —
Allowance for credit losses on loans					
Commercial construction	$ 1,044	$ (220)	$ 824	$ 2,020	$ 1,196
Commercial real estate	10,199	(10,199)	—	—	—
Commercial real estate owner occupied	—	1,783	1,783	2,491	708
Commercial real estate non-owner occupied	—	7,864	7,864	5,856	(2,008)
Tax exempt	80	(22)	58	98	40
Commercial and industrial	3,302	(165)	3,137	6,133	2,996
Residential real estate	4,078	932	5,010	6,742	1,732
Home equity	258	27	285	888	603
Consumer other	121	—	121	82	(39)
Total allowance for credit losses on loans	$ 19,082	$ —	$ 19,082	$ 24,310	$ 5,228
Liabilities:					
Allowance for credit losses on unfunded commitments	$ 359	$ —	$ 359	$ 1,975	$ 1,616
Total allowance for credit losses	$ 19,441	$ —	$ 19,441	$ 26,285	$ 6,844
Retained earnings:					
Total increase in Allowance for credit losses					$ 6,844
Tax effect					(1,602)
Decrease to retained earnings					$ 5,242

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revision of Previously Issued Financial Statements

The Company has revised amounts reported in previously issued financial statements for the periods presented in this Annual Report on Form 10-K related to errors. The revised amounts relate to derivatives that were incorrectly presented as assets instead of liabilities and related equity effects net of tax and the related effects on comprehensive income and shareholders' equity.

The following tables present the revisions to the line items of our previously issued financial statements to reflect the correction of errors:

Consolidated Balance Sheets

December 31, 2020	As Reported	Adjustment	As Revised
Deferred tax assets, net	$ 1,745	$ 1,302	$ 3,047
Other assets	73,662	(2,789)	70,873
Total assets	$3,725,762	$(1,487)	$3,724,275
Other liabilities	$ 72,183	$ 2,789	$ 74,972
Total liabilities	3,314,421	2,789	3,317,210
Total shareholders' equity	411,341	(4,276)	407,065
Total liabilities and shareholders' equity	$3,725,762	$(1,487)	$3,724,275

Consolidated Statements of Comprehensive Income

Twelve months ended December 31, 2019	As Reported	Adjustment	As Revised
Other comprehensive income, before tax:			
Changes in unrealized gain (loss) on hedging derivatives	$ 2,216	$(156)	$ 2,060
Income taxes related to other comprehensive income:			
Changes in unrealized (gain) loss on hedging derivatives	(448)	37	(411)
Total other comprehensive income	15,713	(119)	15,594
Total comprehensive income	$38,333	$(119)	$38,214

Twelve months ended December 31, 2020	As Reported	Adjustment	As Revised
Other comprehensive income, before tax:			
Changes in unrealized gain (loss) on hedging derivatives	$ 3,772	$ (5,423)	$ (1,651)
Income taxes related to other comprehensive income:			
Changes in unrealized (gain) loss on hedging derivatives	(880)	1,266	386
Total other comprehensive income	7,105	(4,157)	2,948
Total comprehensive income	$ 40,349	$ (4,157)	$ 36,192

Consolidated Statements of Changes in Shareholder's Equity

	As Reported	Adjustment	As Revised
Balance at December 31, 2019	$396,407	$ (119)	$396,288
Beginning accumulated other comprehensive income	3,911	(119)	3,792
Other comprehensive income	7,105	(4,157)	2,948
Ending accumulated other comprehensive income	11,016	(4,276)	6,740
Balance at December 31, 2020	$411,341	$(4,276)	$407,065

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements

The following table provides a brief description of accounting standards that could have a material impact to the Company's consolidated financial statements upon adoption:

Standard	Description	Required Date of Adoption	Effect on financial statements
Standards Adopted in 2021			
ASU 2016-13, Measurement of Credit Losses on Financial Instruments ASU 2018-19, Codification Improvements to ASU 2016-13	This ASU amends Topic 326, Financial Instruments- Credit Losses to replace the current incurred loss accounting model with a current expected credit loss approach ("CECL") for financial instruments measured at amortized cost and other commitments to extend credit, such as of balance sheet credit exposures (loan commitments, unused line of credit and stand-by letters of credit). The amendments require entities to consider all available relevant information when estimating current expected credit losses, including details about past events, current conditions, and reasonable and supportable forecasts. The resulting allowance for credit losses is to reflect the portion of the amortized cost basis that the entity does not expect to collect. The amendments also eliminate the current accounting model for purchased credit impaired loans and certain off-balance sheet exposures. Additional quantitative and qualitative disclosures are required upon adoption. While the CECL model does not apply to available for sale debt securities, the ASU does require entities to record an allowance when recognizing credit losses for available for sale securities with unrealized losses, rather than reduce the amortized cost of the securities by direct write-offs. The guidance will require companies to recognize improvements to estimated credit losses immediately in earnings rather than interest income over time. The ASU should be adopted on a modified retrospective basis. Entities that have loans accounted for under ASC 310-30 at the time of adoption should prospectively apply the guidance in this amendment for purchase credit deteriorated assets.	January 1, 2022	Adoption of this ASU primarily changed how the Company estimates credit losses with the application of the expected credit loss model. The Company applied the standard's provisions as a cumulative effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., modified retrospective approach). The Company has finalized its CECL implementation, received board approval of the final CECL model, completed modelling of off-balance sheet credit risks, completed formal governance and control documentation, and developed and presented revised disclosures for board approval. The ASU was originally effective for the Company beginning in the first quarter of 2020; however, after the Coronavirus Aid, Relief, and Economic Security Act, or CARES Act, was enacted on March 27, 2020, the Securities and Exchange Commission (SEC) staff clarified that once the deferral was elected by a registrant, Dec. 31, 2020, adoption of CECL was required, retrospective to Jan. 1, 2020 (ignoring an early termination of the national emergency). Under the amendments, a registrant electing the delay under the CARES Act is further delayed until Jan. 1, 2022, effective as of Jan. 1, 2022 (absent an early termination of the national emergency). With regard to the amendments to Section 4014, the SEC staff indicated it would not object to a registrant early adopting on Dec. 31, 2020, retrospective to Jan. 1, 2020, or Jan. 1, 2021, effective as of Jan. 1, 2021. The Company adopted CECL effective January 1, 2021, which increased its allowance for credit losses (ACL) by $5.2 million and reserve for unfunded commitments by $1.6 million. Equity was reduced by $5.2 million, net of deferred tax of $1.6 million on the date of adoption.
ASU 2018-14 Compensation-Disclosure Requirements for Defined Pension Plans Topic 715-20	This ASU makes minor changes to the disclosure requirements for employers that sponsor defined benefit pension and/or other post-retirement benefit plans.	January 1, 2021 Early adoption is permitted.	Adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Standard	Description	Required Date of Adoption	Effect on financial statements
Standards Adopted in 2021			
ASU 2020-01, Investments—Equity Securities, Investments Equity Method and Joint Ventures, and Derivatives and Hedging	In January 2016, the FASB issued Accounting Standards Update No. 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which added Topic 321, Investments—Equity Securities, and made targeted improvements to address certain aspects of accounting for financial instruments. The amendments in this Update affect all entities that apply the guidance in Topics 321, 323, and 815 and (1) elect to apply the measurement alternative or (2) enter into a forward contract or purchase an option to purchase securities that, upon settlement of the forward contract or exercise of the purchased option, would be accounted for under the equity method of accounting. The amendments in this Update clarify certain interactions between the guidance to account for certain equity securities under Topic 321, the guidance to account for investments under the equity method of accounting in Topic 323, and the guidance in Topic 815, which could change how an entity accounts for an equity security under the measurement alternative or a forward contract or purchased option to purchase securities that, upon settlement of the forward contract or exercise of the purchased option, would be accounted for under the equity method of accounting or the fair value option in accordance with Topic 825, Financial Instruments. The amendments in this Update should be applied prospectively.	December 15, 2020	The adoption had no material impact on the Company's consolidated financial statements. The Company's equity method investments which primarily consist of community limited partnership investments are in compliance with the new guidance prospectively in 2021.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Standard	Description	Required Date of Adoption	Effect on financial statements
Standards Not Yet Adopted			
ASU 2020-04 Facilitation of the Effects of Reference Rate Reform, Topic 848, as amended in ASU 2021-01	This ASU provides temporary optional expedients and exceptions to GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens of the expected market transition from the London Interbank Offered Rate ("LIBOR") and other interbank offered rates to alternative reference rates, such as the Secured Overnight Financing Rate ("SOFR"). For instance, companies can (1) elect not to apply certain modification accounting requirements to contracts affected by reference rate reform, if certain criteria are met. A company that makes this election would not have to re-measure the contracts at the modification date or reassess a previous accounting determination. Companies can also (2) elect various optional expedients that would allow them to continue applying hedge accounting for hedging relationships affected by reference rate reform, if certain criteria are met. Finally, companies can (3) make a one-time election to sell and/or reclassify held-to-maturity debt securities that reference an interest rate affected by reference rate reform.	May be elected through December 31, 2022.	The Company is currently evaluating all of its contracts, hedging relationships and other transactions that will be effected by reference rates are being discontinued. The following elections have been made in regards to our cash flow hedges as outlined on the next page.

Rate Reform Elections

Adherence to ISDA Fallback Protocol

The ISDA 2020 IBOR Fallbacks Protocol (the "ISDA Fallback Protocol") was made available for adherence on October 23, 2020 with an effective date of January 25, 2021. Once adhered to by both counterparties in a bilateral relationship and the effective date is reached, the ISDA Fallback Protocol represents a change to the contractual terms of derivatives governed by each respective ISDA agreement between the Company and a derivative counterparty. The change relates to reference rate reform and represents the potential for addition of or changes to contractual terms and was developed by a private-sector working group convened by a regulator as referenced in 848-20-15-5(g). For all of the Company's interest rate swaps that meet the scope requirements of 848-10-15-3 and 848-10-15-3A and for which the Company adhered to the ISDA Fallback Protocol, the Company makes the following elections:

- Modification related elections
- Option to not reassess a previous accounting determination (paragraph 848-20-35-4)
- Hedge accounting related modifications
- Option to not dedesignate a hedging relationship due to a change in a critical term (paragraph 848-30-25-3)
- Option to change the contractual terms of a hedging instrument, hedged item, or forecasted transaction and to not dedesignate a hedging relationship (paragraph 848-30-25-5)

Cash flow hedges

The Company amends the hedge documentation, without dedesignating and redesignating, for all outstanding cash flow hedging relationships for the following elections:

- Probability of forecasted transactions: The Company elects the expedient in ASC 848-50-25-2 to assert probability of the hedged interest payments/receipts regardless of any expected modification in terms related to reference rate reform.
- Assessment of effectiveness: In accordance with ASC 848-30-25-4, ASC 848-30-25-8, and ASC 848-50-35-1 through 35-24 the Company has the option to change the method of assessing effectiveness upon a change in the critical terms of the derivative or the hedged transactions and upon the end of relief under ASC 848. At this time the Company elects to continue the method of assessing effectiveness as documented in the original hedge documentation and elects to apply the expedient in ASC 848-50-35-17 so that the reference rate on the hypothetical derivative matches the reference rate on the hedging instrument. For new hedging relationships designated subsequent to the date of this memorandum, the Company elects to apply the expedient in ASC 848-50-25-11 to assume that the reference rate will not be replaced for the remainder of the hedging relationship.

New hedging activity

The Company makes the same elections for each hedging relationship designated subsequent to March 31, 2021. Any hedging relationship-specific elections beyond the elections noted above will be documented in the respective inception hedge documentation. Subsequent election of optional expedients and exceptions after March 31, 2021 will be documented in accordance with the elections being made here.

NOTE 2. SECURITIES AVAILABLE FOR SALE

The following is a summary of securities available for sale:

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2021				
Mortgage-backed securities:				
US Government-sponsored enterprises	$237,283	$2,289	$(3,455)	$236,117
US Government agency	79,143	1,016	(522)	79,637
Private label	68,691	142	(138)	68,695
Obligations of states and political subdivisions thereof	140,585	1,489	(298)	141,776
Corporate bonds	89,994	2,479	(422)	92,051
Total securities available for sale	$615,696	$7,415	$(4,835)	$618,276

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2020				
Mortgage-backed securities:				
US Government-sponsored enterprises	$206,834	$ 6,018	$ (462)	$212,390
US Government agency	82,878	2,870	(116)	85,632
Private label	19,810	40	(141)	19,709
Obligations of states and political subdivisions thereof	164,766	4,244	(6)	169,004
Corporate bonds	97,689	1,465	(843)	98,311
Total securities available for sale	$571,977	$14,637	$(1,568)	$585,046

The amortized cost and estimated fair value of available for sale securities segregated by contractual maturity at December 31, 2021 are presented below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Mortgage-backed securities are shown in total, as their maturities are highly variable.

	Available for sale	
(in thousands)	Amortized Cost	Fair Value
Within 1 year	$ 4,999	$ 5,047
Over 1 year to 5 years	24,530	25,112
Over 5 years to 10 years	61,955	60,534
Over 10 years	139,095	143,134
Total bonds and obligations	230,579	233,827
Mortgage-backed securities	385,117	384,449
Total securities available for sale	$615,696	$618,276

The following table summarizes proceeds from the sale of AFS securities and realized gains and losses:

(in thousands)	Proceeds from Sale of Securities Available for Sale	Realized Gains	Realized Losses	Net
2021	$ 92,723	$2,933	$ (63)	$2,870
2020	153,200	5,492	(47)	5,445
2019	92,315	993	(756)	237

NOTE 2. SECURITIES AVAILABLE FOR SALE (Continued)

Securities with unrealized losses, segregated by the duration of their continuous unrealized loss positions, are summarized as follows:

	Less Than Twelve Months		Over Twelve Months		Total	
(in thousands)	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
December 31, 2021						
Mortgage-backed securities:						
US Government-sponsored enterprises	$1,589	$127,780	$1,866	$39,717	$3,455	$167,497
US Government agency	381	32,628	141	4,548	522	37,176
Private label	133	44,372	5	16	138	44,388
Obligations of states and political subdivisions thereof	187	36,878	111	6,129	298	43,007
Corporate bonds	94	21,358	328	11,922	422	33,280
Total securities available for sale	$2,384	$263,016	$2,451	$62,332	$4,835	$325,348

	Less Than Twelve Months		Over Twelve Months		Total	
(in thousands)	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
December 31, 2020						
Mortgage-backed securities:						
US Government-sponsored enterprises	$209	$40,285	$253	$ 4,323	$ 462	$ 44,608
US Government agency	45	6,776	71	3,297	116	10,073
Private label	—	—	141	19,514	141	19,514
Obligations of states and political subdivisions thereof	6	5,577	—	—	6	5,577
Corporate bonds	555	21,774	288	11,712	843	33,486
Total securities available for sale	$815	$74,412	$753	$38,846	$1,568	$113,258

A summary of securities pledged as collateral for certain deposits and borrowing arrangements as of the years ended December 31, 2021 and December 31, 2020 is as follows:

	December 31, 2021		December 31, 2020	
(in thousands)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Securities pledged for deposits	$15,326	$17,214	$ 83,805	$ 92,862
Securities pledged for repurchase agreements	25,693	28,431	37,444	39,119
Securities pledged for borrowings(1)	45,005	47,568	48,725	51,913
Total securities pledged	$86,024	$93,213	$169,974	$183,894

(1) The Bank pledged securities as collateral for certain borrowing arrangements with the Federal Home Loan Bank of Boston and Federal Reserve Bank of Boston.

The Company expects to recover its amortized cost basis on all securities in its AFS portfolio. Furthermore, the Company does not intend to sell nor does it anticipate that it will be required to sell any of its securities in an unrealized loss position as of December 31, 2021, prior to this recovery. The Company's ability and intent to hold these securities until recovery is supported by the Company's strong capital and liquidity positions as well as its historically low portfolio turnover.

The following summarizes, by investment security type, the impact of securities in an unrealized loss position for greater than 12 months at December 31, 2021:

US Government-sponsored enterprises

27 out of the total 533 securities in the Company's portfolios of AFS US Government-sponsored enterprises were in unrealized loss positions. Aggregate unrealized losses represented 1.46% of the amortized cost of securities in unrealized loss positions. The FNMA and FHLMC guarantee the contractual cash flows of all of the Company's US Government- sponsored enterprises. The securities are investment grade rated and there were no material underlying credit downgrades during the year. All securities are performing.

NOTE 2. SECURITIES AVAILABLE FOR SALE (Continued)

US Government agencies

7 out of the total 156 securities in the Company's portfolios of AFS US Government agency securities were in unrealized loss positions. Aggregate unrealized losses represented 0.66% of the amortized cost of securities in unrealized loss positions. The Government National Mortgage Association ("GNMA") guarantees the contractual cash flows of all of the Company's US government agency securities. The securities are rated investment grade and there were no material underlying credit downgrades during the year. All securities are performing.

Private-label

4 of the total 33 securities in the Company's portfolio of AFS private-label mortgage-backed securities were in unrealized loss positions. Aggregate unrealized losses represented 0.20% of the amortized cost of securities in unrealized loss positions. Based upon the foregoing considerations, and the expectation that the Company will receive all of the future contractual cash flows related to the amortized cost on these securities, the Company does not consider there to be any additional other-than-temporary impairment with respect to these securities.

Obligations of states and political subdivisions thereof

2 of the total 93 securities in the Company's portfolio of AFS municipal bonds and obligations were in unrealized loss positions. Aggregate unrealized losses represented 0.21% of the amortized cost of securities in unrealized loss positions. The Company continually monitors the municipal bond sector of the market carefully and periodically evaluates the appropriate level of exposure to the market. At this time, the Company believes the bonds in this portfolio carry minimal risk of default and the Company is appropriately compensated for that risk. There were no material underlying credit downgrades during the year. All securities are performing.

Corporate bonds

3 of the total 29 securities in the Company's portfolio of AFS corporate bonds were in an unrealized loss position. The aggregate unrealized loss represents 0.47% of the amortized cost of securities in unrealized loss positions. The Company reviews the financial strength of all of these bonds and has concluded that the amortized cost remains supported by the expected future cash flows of these securities.

NOTE 3. LOANS AND ALLOWANCE FOR CREDIT LOSSES

Upon adoption of ASC 326 or CECL, effective January 1, 2021, the Company evaluates its risk characteristics of loans based on regulatory call report code with segmentation based on the underlying collateral for certain loan types. Prior to the adoption of ASC 326, under the incurred loss model, the Company evaluated its risk characteristics of loans based on purpose of the loans.

The following is a summary of total loans, excluding residential loans held for sale, by regulatory call report code segmentation based on underlying collateral for certain loan types:

(in thousands)	December 31, 2021	December 31, 2020
Commercial construction	$ 56,263	$ 117,882
Commercial real estate owner occupied	257,122	219,217
Commercial real estate non-owner occupied	887,092	716,776
Tax exempt	41,280	47,862
Commercial and industrial	307,112	355,684
Residential real estate	888,263	995,216
Home equity	86,657	100,096
Consumer other	8,121	10,152
Total loans	2,531,910	2,562,885
Allowance for credit losses	22,718	19,082
Net loans	$2,509,192	$2,543,803

Total unamortized net costs and premiums included in loan totals were as follows:

(in thousands)	December 31, 2021	December 31, 2020
Net Unamortized loan origination costs	$ 3,014	$ 1,660
Net Unamortized fair value discount on acquired loans	(4,758)	(7,032)
Total	$(1,744)	$(5,372)

The Company elected to exclude accrued interest receivable from the amortized cost basis of loans disclosed throughout this footnote. As of December 31, 2021 and 2020, accrued interest receivable for loans totaled $6.3 million and $8.7 million, respectively, and is included in the "other assets" line item on the Company's consolidated balance sheets.

NOTE 3. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The CARES Act and subsequent legislation established the Payroll Protection Program (PPP), administered directly by the Small Business Administration (SBA). The Company has participated in both 2020 and 2021 rounds of funding. As of December 31, 2021 and 2020, the Company had 61 and 746 PPP loans outstanding, with an outstanding principal balance of $6.7 million and $53.8 million, respectively. The PPP loans are fully guaranteed by the SBA and may be eligible for forgiveness by the SBA to the extent that the proceeds are used to cover eligible costs. PPP loans are included in the commercial and industrial portfolio segment.

For purposes of determining the ACL on loans, the Company disaggregates its loans into portfolio segments. Each portfolio segment possesses unique risk characteristics that are considered when determining the appropriate level of allowance. Characteristics of each loan portfolio segment are as follows:

Commercial construction—Loans in this segment primarily include raw land, land development and construction of commercial and multifamily residential properties. Collateral values are determined based upon appraisals and evaluations of the completed structure in accordance with established policy guidelines. Maximum loan-to-value ratios at origination are governed by established policy guidelines that are more restrictive than existing structures. Construction loans are primarily paid by the cash flow generated from the completed structure, such as operating leases, rents, or other operating cash flows from the borrower.

Commercial real estate owner occupied and non-owner occupied—Loans in these segments are primarily owner occupied or income-producing properties. Loans to Real Estate Investment Trusts (REITs) and unsecured loans to developers that closely correlate to the inherent risk in commercial real estate markets are also included. Commercial real estate loans are typically written with amortizing payment structures. Collateral values are determined based upon appraisals and evaluations in accordance with established policy guidelines. Maximum loan-to-value ratios at origination are governed by established policy and regulatory guidelines. Commercial real estate loans are primarily paid by the cash flow generated from the real property, such as operating leases, rents, or other operating cash flows from the borrower.

Tax exempt—Loans in this segment primarily include loans to various state and municipal government entities. Loans made in these borrowers may provide the Company with tax-exempt income. While governed and underwritten similar to commercial loans, they do have unique requirements based on established polices. Almost all state and municipal loans are considered a general obligation of the issuing entity. Given the size of many municipal borrowers, borrowings are normally not rated by major rating agencies.

Commercial and industrial loans—Loans consist of revolving and term loan obligations extended to business and corporate enterprises for the purpose of financing working capital and/or capital investment in this segment. Generally loans are secured by assets of the business such as accounts receivable, inventory, marketable securities, other liquid collateral, equipment and other business assets. Some loans in this category may be unsecured or guaranteed by government agencies such as the SBA. Loans are primarily paid by the operating cash flow of the borrower.

Residential real estate—All loans in this segment are collateralized by one-to-four family homes. Residential real estate loans held in the Company's loan portfolio are made to borrowers who demonstrate the ability to make scheduled payments with full consideration to various underwriting factors. Borrower qualifications include favorable credit history combined with supportive income requirements and combined loan-to-value ratios within established policy guidelines.

Home equity—All loans and lines of credit are made to qualified individuals and are secured by senior or junior mortgage liens on owner-occupied one- to four-family homes, condominiums, or vacation homes. The home equity loan has a fixed rate and is billed as equal payments comprised of principal and interest. The home equity line of credit has a variable rate and is billed as interest-only payments during the draw period. At the end of the draw period, the home equity line of credit is billed as a percentage of the principal balance plus all accrued interest. Borrower qualifications include favorable credit history combined with supportive income requirements and combined loan-to-value ratios within established policy guidelines.

Consumer other—Loans in this segment include personal lines of credit and amortizing loans made to qualified individuals for various purposes such as auto loans, recreational equipment, overdraft protection or other consumer loans. Borrower qualifications include favorable credit history combined with supportive income and collateral requirements within established policy guidelines, as applicable.

Allowance for Credit Losses

The Allowance for Credit Losses (ACL) is comprised of the allowance for loan losses and the allowance for unfunded commitments which is accounted for as a separate liability in other liabilities on the balance sheet. The level of the ACL represents management's estimate of expected credit losses over the expected life of the loans at the balance sheet date.

Upon adoption of CECL effective January 1, 2021, the Company replaced the incurred loss impairment model that recognizes losses when it becomes probable that a credit loss will be incurred, with a requirement to recognize lifetime expected credit losses immediately when a financial asset is originated or purchased. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loans. Loans, or portions thereof, are charged off against the allowance when they are deemed uncollectible. Expected recoveries do not exceed the aggregate of amounts previously charged off and expected to be charged off. The ACL is comprised of reserves measured on a collective (pool) basis based on a lifetime loss-rate model when similar risk characteristics exist. Loans that do not share risk characteristics are evaluated on an individual basis, generally larger non-accruing commercial loans and TDRs.

NOTE 3. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The Company's activity in the allowance for credit losses for the periods ended are as follows:

	At or for the Year Ended December 31, 2021					
(in thousands)	**Balance at Beginning of Period**	**Impact of ASC 326**	**Charge Offs**	**Recoveries**	**Provision**	**Balance at End of Period**
Commercial construction	$ 824	$ 1,196	$ —	$ 18	$ 73	$ 2,111
Commercial real estate owner occupied	1,783	708	(403)	290	373	2,751
Commercial real estate non-owner occupied	7,864	(2,008)	—	4	(210)	5,650
Tax exempt	58	40	—	—	(12)	86
Commercial and industrial	3,137	2,996	(59)	77	(782)	5,369
Residential real estate	5,010	1,732	(77)	159	(962)	5,862
Home equity	285	603	(154)	51	29	814
Consumer other	121	(39)	(205)	9	189	75
Total	$19,082	$ 5,228	$(898)	$608	$(1,302)	$22,718

	At or For the Year Ended December 30, 2020				
(in thousands)	**Balance at Beginning of Period**	**Charge Offs**	**Recoveries**	**Provision**	**Balance at End of Period**
Commercial construction	$ 317	$ —	$ —	$ 507	$ 824
Commercial real estate owner occupied	2,368	—	—	(585)	1,783
Commercial real estate non-owner occupied	4,695	(1,137)	173	4,133	7,864
Tax exempt	67	—	—	(9)	58
Commercial and industrial	3,262	(593)	30	438	3,137
Residential real estate	4,213	(54)	13	838	5,010
Home equity	320	—	—	(35)	285
Consumer other	111	(384)	56	338	121
Total	$15,353	$(2,168)	$272	$5,625	$19,082

The following table presents activity in the allowance for loan losses and select loan information by portfolio segment, under the incurred loss methodology, for the period indicated:

	At or for the Year Ended December 31, 2019				
(in thousands)	**Commercial real estate**	**Commercial and industrial**	**Residential real estate**	**Consumer**	**Total**
Balance at beginning of period	$6,984	$2,415	$4,059	$ 408	$13,866
Charged-off loans	(212)	(359)	(349)	(233)	(1,153)
Recoveries on charged-off loans	194	65	55	9	323
Provision (release) for loan losses	849	1,493	(220)	195	2,317
Balance at end of period	$7,815	$3,614	$3,545	$ 379	$15,353
Individually evaluated for impairment	1,243	164	106	—	1,513
Collectively evaluated	6,572	3,450	3,439	379	13,840
Total	$7,815	$3,614	$3,545	$ 379	$15,353

NOTE 3. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Unfunded Commitments

The Company's allowance for credit losses on unfunded commitments is recognized as a liability (other liabilities on the consolidated balance sheet), with adjustments to the reserve recognized in other non-interest expense in the consolidated statement of operations. The Company's activity in the allowance for credit losses on unfunded commitments for the periods ended was as follows:

	At or for the Years Ended December 31,		
(in thousands)	**2021**	**2020**	**2019**
Beginning Balance	$ 359	$314	$304
Impact of CECL adoption	1,616	—	—
Provision for credit losses	177	45	10
Ending Balance	$2,152	$359	$314

Loan Origination/Risk Management: The Company has certain lending policies and procedures in place designed to maximize loan income within an acceptable level of risk. The Company's Board of Directors reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management and the Company's Board of Directors with frequent reports related to loan production, loan quality, and concentration of credit, loan delinquencies, non-performing loans and potential problem loans. The Company seeks to diversify the loan portfolio as a means of managing risk associated with fluctuations in economic conditions.

Credit Quality Indicators: In monitoring the credit quality of the portfolio, management applies a credit quality indicator and uses an internal risk rating system to categorize commercial loans. These credit quality indicators range from one through nine, with a higher number correlating to increasing risk of loss. Consistent with regulatory guidelines, the Company provides for the classification of loans which are considered to be of lesser quality as special mention, substandard, doubtful, or loss (i.e. risk-rated 6, 7, 8 and 9, respectively).

The following are the definitions of the Company's credit quality indicators:

Pass: Loans the Company considers in the commercial portfolio segments that are not adversely rated, are contractually current as to principal and interest, and are otherwise in compliance with the contractual terms of the loan agreement. Management believes there is a low risk of loss related to these loans considered pass-rated.

Special Mention: Loans the Company considers having some potential weaknesses, but are deemed to not carry levels of risk inherent in one of the subsequent categories, are designated as special mention. A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. This might include loans which may require a higher level of supervision or internal reporting because of: (i) declining industry trends; (ii) increasing reliance on secondary sources of repayment; (iii) the poor condition of or lack of control over collateral; or (iv) failure to obtain proper documentation or any other deviations from prudent lending practices. Economic or market conditions which may, in the future, affect the obligor may warrant special mention of the asset. Loans for which an adverse trend in the borrower's operations or an imbalanced position in the balance sheet which has not reached a point where the liquidation is jeopardized may be included in this classification. Special mention loans are not adversely classified and do not expose the Company to sufficient risks to warrant classification.

Substandard: Loans the Company considers as substandard are inadequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Substandard loans have a well-defined weakness that jeopardizes liquidation of the debt. Substandard loans include those loans where there is the distinct possibility of some loss of principal, if the deficiencies are not corrected.

Doubtful: Loans the Company considers as doubtful have all of the weaknesses inherent in those loans that are classified as substandard. These loans have the added characteristic of a well-defined weakness which is inadequately protected by the current sound worth and paying capacity of borrower or of the collateral pledged, if any, and calls into question the collectability of the full balance of the loan. The possibility of loss is high but because of certain important and reasonably specific pending factors which may work to the advantage and strengthening of the loan, its classification as loss is deferred until its more exact status is determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral and refinancing plans. The entire amount of the loan might not be classified as doubtful when collection of a specific portion appears highly probable. Loans are generally not classified doubtful for an extended period of time (i.e., over a year).

Loss: Loans the Company considers as losses are those considered uncollectible and of such little value that their continuance as an asset is not warranted and the uncollectible amounts are charged-off. This classification does not mean the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this worthless asset even though partial recovery may be affected in the future. Losses are taken in the period in which they are determined to be uncollectible.

NOTE 3. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The Company periodically reassesses asset quality indicators to reflect appropriately the risk composition of the Company's loan portfolio. Based on the most recent analysis performed the Company's loans by year of origination, loan segmentation and risk indicator as of December 31, 2021 were as follows:

(in thousands)	2021	2020	2019	2018	2017	Prior	Total
Commercial construction							
Risk rating:							
Pass	$ 22,866	$ 4,787	$ 19,211	$ 9,399	$ —	$ —	$ 56,263
Special mention	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—
Total	$ 22,866	$ 4,787	$ 19,211	$ 9,399	$ —	$ —	$ 56,263
Commercial real estate owner occupied							
Risk rating:							
Pass	$ 12,940	$ 25,240	$ 34,782	$ 49,136	$ 19,292	$103,144	$ 244,534
Special mention	—	—	760	—	—	2,659	3,419
Substandard	—	—	1	853	247	7,737	8,838
Doubtful	—	—	—	167	—	164	331
Total	$ 12,940	$ 25,240	$ 35,543	$ 50,156	$ 19,539	$113,704	$ 257,122
Commercial real estate non-owner occupied							
Risk rating:							
Pass	$235,646	$172,785	$119,326	$ 39,663	$136,120	$165,329	$ 868,869
Special mention	—	—	174	—	—	14,789	14,963
Substandard	—	—	—	—	—	3,097	3,097
Doubtful	—	—	—	—	—	163	163
Total	$235,646	$172,785	$119,500	$ 39,663	$136,120	$183,378	$ 887,092
Tax exempt							
Risk rating:							
Pass	$ 1,249	$ 299	$ 968	$ 14,408	$ 5,329	$ 19,027	$ 41,280
Special mention	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—
Total	$ 1,249	$ 299	$ 968	$ 14,408	$ 5,329	$ 19,027	$ 41,280
Commercial and industrial							
Risk rating:							
Pass	$ 77,608	$ 80,569	$ 33,405	$ 16,457	$ 33,413	$ 61,594	$ 303,046
Special mention	—	—	584	468	172	1,396	2,620
Substandard	58	3	512	—	48	578	1,199
Doubtful	—	—	—	—	92	155	247
Total	$ 77,666	$ 80,572	$ 34,501	$ 16,925	$ 33,725	$ 63,723	$ 307,112
Residential real estate							
Performing	$191,466	$120,495	$ 83,044	$ 62,299	$ 59,642	$364,482	$ 881,428
Nonperforming	—	—	—	286	178	6,371	6,835
Total	$191,466	$120,495	$ 83,044	$ 62,585	$ 59,820	$370,853	$ 888,263
Home equity							
Performing	$ 12,770	$ 10,461	$ 9,005	$ 7,855	$ 6,474	$ 38,823	$ 85,388
Nonperforming	—	—	—	—	—	1,269	1,269
Total	$ 12,770	$ 10,461	$ 9,005	$ 7,855	$ 6,474	$ 40,092	$ 86,657
Consumer other							
Performing	$ 2,525	$ 1,659	$ 792	$ 669	$ 92	$ 2,379	$ 8,116
Nonperforming	—	—	—	—	—	5	5
Total	$ 2,525	$ 1,659	$ 792	$ 669	$ 92	$ 2,384	$ 8,121
Total Loans	$557,128	$416,298	$302,564	$201,660	$261,099	$793,161	$2,531,910

NOTE 3. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table summarizes credit risk exposure indicators by portfolio segment, under the incurred loss methodology, as of the period indicated:

	December 31, 2020				
(in thousands)	**Commercial Real Estate**	**Commercial and Industrial**	**Residential Real Estate**	**Consumer**	**Total**
Grade:					
Pass	$1,053,773	$422,016	$ —	$ —	$1,475,789
Performing	—	—	914,749	112,190	1,026,939
Special mention	6,075	2,771	—	—	8,846
Substandard	22,267	15,180	—	—	37,447
Doubtful	2,265	1,100	—	—	3,365
Loss	1	2	—	—	3
Non-performing	—	—	9,142	1,354	10,496
Total	$1,084,381	$441,069	$923,891	$113,544	$2,562,885

Past Dues

The following is a summary of past due loans for the periods ended:

	December 31, 2021					
(in thousands)	**30 - 59**	**60 - 89**	**90+**	**Total Past Due**	**Current**	**Total Loans**
Commercial construction	$ —	$ —	$ —	$ —	$ 56,263	$ 56,263
Commercial real estate owner occupied	1,190	7	1	1,198	255,924	257,122
Commercial real estate non-owner occupied	—	—	—	—	887,092	887,092
Tax exempt	—	—	—	—	41,280	41,280
Commercial and industrial	31	318	185	534	306,578	307,112
Residential real estate	5,010	1,238	1,416	7,664	880,599	888,263
Home equity	699	149	101	949	85,708	86,657
Consumer other	29	—	2	31	8,090	8,121
Total	$6,959	$1,712	$1,705	$10,376	$2,521,534	$2,531,910

	December 31, 2020					
(in thousands)	**30 - 59**	**60 - 89**	**90+**	**Total Past Due**	**Current**	**Total Loans**
Commercial construction	$ 74	$ —	$ 1	$ 75	$ 117,807	$ 117,882
Commercial real estate owner occupied	1,309	464	438	2,211	217,006	219,217
Commercial real estate non-owner occupied	503	674	624	1,801	714,975	716,776
Tax exempt	—	—	—	—	47,862	47,862
Commercial and industrial	161	—	193	354	355,330	355,684
Residential real estate	9,178	2,511	3,200	14,889	980,327	995,216
Home equity	1,062	614	375	2,051	98,045	100,096
Consumer other	20	—	2	22	10,130	10,152
Total	$12,307	$4,263	$4,833	$21,403	$2,541,482	$2,562,885

NOTE 3. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Non-Accrual Loans

The following is a summary of non-accrual loans for the periods ended:

(in thousands)	December 31, 2021 Nonaccrual	December 31, 2021 Nonaccrual With No Related Allowance	December 31, 2021 90+ Days Past Due and Accruing
Commercial construction	$ —	$ —	$ —
Commercial real estate owner occupied	783	424	—
Commercial real estate non-owner occupied	622	459	—
Tax exempt	—	—	—
Commercial and industrial	677	542	30
Residential real estate	6,835	2,537	41
Home equity	1,269	305	63
Consumer other	5	—	—
Total	$10,191	$4,267	$134

(in thousands)	December 31, 2020 Nonaccrual	December 31, 2020 Nonaccrual With No Related Allowance	December 31, 2020 90+ Days Past Due and Accruing
Commercial construction	$ 258	$ —	$ —
Commercial real estate owner occupied	3,038	929	—
Commercial real estate non-owner occupied	383	118	—
Tax exempt	—	—	—
Commercial and industrial	1,223	1,065	—
Residential real estate	5,883	4,948	—
Home equity	1,345	1,346	267
Consumer other	58	58	—
Total	$12,188	$8,464	$267

The Company's policy is to reverse previously recorded interest income when a loan is placed on non-accrual, as such, the Company did not record any interest income on its non-accrual for the year ended December 31, 2021 and 2020.

Collateral Dependent Loans

Loans that do not share risk characteristics are evaluated on an individual basis. For loans that are individually evaluated and collateral dependent-financial loans where the Company has determined that foreclosure of the collateral is probable, or where the borrower is experiencing financial difficulty and the Company expects repayment of the financial asset to be provided substantially through the operation or sale of the collateral, the ACL is measured based on the difference between the fair value of the collateral and the amortized cost basis of the asset as of the measurement date.

The following table presents the amortized cost basis of collateral-dependent loans by loan portfolio segment for the periods ended.

(in thousands)	December 31, 2021 Real Estate	December 31, 2021 Other	December 31, 2020 Real Estate	December 31, 2020 Other
Commercial construction	$ —	$ —	$ 259	$ —
Commercial real estate owner occupied	783	—	3,441	—
Commercial real estate non-owner occupied	622	—	383	—
Tax exempt	—	—	—	—
Commercial and industrial	385	292	625	607
Residential real estate	6,835	—	7,432	—
Home equity	1,269	—	1,493	—
Consumer other	5	—	60	—
Total	$9,899	$292	$13,693	$607

NOTE 3. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Pre Adoption of ASC 326—Impaired Loans

For periods prior to the adoption of CECL, loans were considered impaired when, based on current information and events, it was probable the Company would be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. The Company identified loan relationships having aggregate balances in excess of $150 thousand with potential credit weaknesses. Such loan relationships were identified primarily through the Company's analysis of internal loan evaluations, past due loan reports, TDRs and loans adversely classified. Each loan so identified was then individually evaluated for impairment. Substantially all impaired loans have historically been collateral dependent, meaning repayment of the loan was expected or was considered to be provided solely from the sale of the loan's underlying collateral. For such loans, the Company measured impairment based on the fair value of the loan's collateral, which is generally determined utilizing current appraisals. A specific reserve was established in an amount equal to the excess, if any, of the recorded investment in each impaired loan over the fair value of its underlying collateral, less estimated costs to sell. The Company's policy was to re-evaluate the fair value of collateral dependent loans at least every twelve months unless there is a known deterioration in the collateral's value, in which case a new appraisal is obtained.

The tables reflects the activity associated with impaired loans in 2020 prior to the adoption of CECL.

	December 31, 2020				
(in thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Recorded Investment**	**Interest Income Recognized**
With no related allowance:					
Construction and land development	$ —	$ —	$ —	$ —	$—
Other commercial real estate	2,001	2,047	—	1,610	—
Commercial	1,095	1,254	—	1,140	4
Agricultural	361	150	—	114	2
Tax exempt loans	—	—	—	—	—
Residential real estate	2,745	3,165	—	1,077	17
Home equity	—	—	—	—	—
Other consumer	—	—	—	—	—
With an allowance recorded:					
Construction and land development	258	258	205	203	—
Other commercial real estate	1,963	2,108	1,038	1,973	17
Commercial	282	289	164	73	—
Agricultural	—	—	—	—	—
Tax exempt loans	—	—	—	—	—
Residential real estate	887	944	106	1,865	37
Home equity	13	13	—	12	1
Other consumer	—	—	—	—	—
Total					
Commercial real estate	4,222	4,413	1,243	3,786	17
Commercial and industrial	1,738	1,693	164	1,327	6
Residential real estate	3,632	4,109	106	2,942	54
Consumer	13	13	—	12	1
Total impaired loans	$9,605	$10,228	$1,513	$8,067	$78

NOTE 3. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Troubled Debt Restructuring Loans

The Company's loan portfolio also includes certain loans that have been modified in a Troubled Debt Restructuring (TDR), where economic concessions have been granted to borrowers who have experienced or are expected to experience financial difficulties. These concessions typically result from the Company's loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance, or other actions. Certain TDRs are classified as non-performing at the time of restructure and may only be returned to performing status after considering the borrower's sustained repayment performance for a reasonable period, generally six months. TDRs are evaluated individually for impairment and may result in a specific allowance amount allocated to an individual loan.

The following tables include the recorded investment and number of modifications identified during the periods ended. The table includes the recorded investment in the loans prior to a modification and also the recorded investment in the loans after the loans were restructured. Modifications may include adjustments to interest rates, payment amounts, extensions of maturity, court ordered concessions or other actions intended to minimize economic loss and avoid foreclosure or repossession of collateral. There were no modifications qualifying as TDR's for the year ended December 31, 2021.

	Year Ended December 31, 2020			
(in thousands)	**Number of Modifications**	**Pre-Modification Outstanding Balance**	**Post-Modification Outstanding Balance**	**Reserve**
Commercial construction	—	$ —	$ —	$—
Commercial real estate owner occupied	—	—	—	—
Commercial real estate non-owner occupied	1	54	244	24
Tax exempt	—	—	—	—
Commercial and industrial	7	315	325	—
Residential real estate	—	—	—	—
Home equity	1	26	24	—
Consumer other	1	9	8	—
Total	10	$404	$601	$24

	Year Ended December 31, 2019			
(in thousands)	**Number of Modifications**	**Pre-Modification Outstanding Balance**	**Post-Modification Outstanding Balance**	**Reserve**
Commercial construction	—	$ —	$ —	$—
Commercial real estate owner occupied	—	—	—	—
Commercial real estate non-owner occupied	10	630	529	69
Tax exempt	—	—	—	—
Commercial and industrial	9	866	774	—
Residential real estate	12	1,427	1,327	—
Home equity	—	—	—	—
Consumer other	—	—	—	—
Total	31	$2,923	$2,630	$69

NOTE 3. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following tables summarize the types of loan concessions made for the periods presented:

(in thousands)	December 31, 2020 Number of Modifications	December 31, 2020 Post-Modification Outstanding Balance	December 31, 2019 Number of Modifications	December 31, 2019 Post-Modification Outstanding Balance
Interest only payments and maturity concession	—	$ —	2	$ 73
Interest rate, forbearance and maturity concession	4	384	—	—
Amortization and maturity concession	—	—	4	273
Amortization concession	—	—	—	—
Amortization, interest rate and maturity concession	—	—	5	539
Forbearance	—	—	5	346
Forbearance and interest only payments	1	24	7	692
Forbearance and maturity concession	—	—	4	472
Forbearance, amortization and maturity concession	—	—	—	—
Maturity concession	5	193	—	—
Other	—	—	4	235
Total	10	$601	31	$2,630

For the year ended December 31, 2021 there were no loans that were restructured that had subsequently defaulted during the period. The evaluation of certain loans individually for specific impairment includes loans that were previously classified as TDRs or continue to be classified as TDRs.

Modifications in response to COVID-19

The Company began offering short-term loan modifications to assist borrowers during the COVID-19 national emergency. The CARES Act along with a joint agency statement issued by banking agencies, provides that short-term modifications made in response to COVID-19 do not need to be accounted for as a TDR. Accordingly, the Company does not account for such loan modifications as TDRs.

Foreclosure

Residential mortgage loans collateralized by real estate that are in the process of foreclosure as of December 31, 2021 and December 31, 2020 totaled $574 thousand and $633 thousand, respectively.

Loan Concentrations

Loan concentrations in specific industries may occasionally emerge as a result of economic conditions, changes in local demands, natural loan growth and runoff. At December 31, 2021 the largest industry concentration outside of commercial real estate was the hospitality industry which represents 11% or $283.3 million of the Company's total loan portfolio, compared with 11% or $276.4 million at December 31, 2020.

Loans to Related Parties

In the ordinary course of business, the Bank has made loans at prevailing rates and terms to directors, officers and other related parties. In management's opinion, such loans do not present more than the normal risk of collectability or incorporate other unfavorable features, and were made under terms that are consistent with the Bank's lending policies.

Loan to related parties at December 31, 2021 and December 31, 2020 are summarized below:

(in thousands)	2021	2020
Beginning balance	$ 6,131	$ 8,209
New loans	335	1,589
Less: repayments	(3,087)	(3,667)
Ending balance	$ 3,379	$ 6,131

Mortgage Banking

Loans sold

For the years ended December 31, 2021 and 2020, the Company sold $189.3 million and $226.4 million, respectively, of residential mortgage loans on the secondary market, which resulted in a net gain on sale of loans (net of costs, including direct and indirect origination costs) of $4.1 million and $5.3 million, respectively.

Loans Held for Sale

The Company had identified and designated loans with an unpaid principal balance of $5.4 million and $24.0 million as residential loans held for sale at December 31, 2021 and 2020,

NOTE 3. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

respectively. The Company elected the fair value option of accounting for its loans designated as held for sale as of December 31, 2021 and the total adjustment was $113 thousand. At December 31, 2020 loans designated as held for sale were accounted for at the lower of fair value or amortized cost. The interest rate exposure on loans held for sale are mitigated through forward delivery commitments with certain approved secondary market investors. Forward delivery commitments were $14.8 million, and $50.6 million, respectively. Refer to Note 10 for further discussion of the Company's forward delivery commitments.

Servicing Assets

The Bank sells loans in the secondary market and retains the ability to service many of these loans. The Bank earns fees for the servicing provided. At year end 2021 and 2020, the Company was servicing loans for participants totaling $653.4 million and $596.3 million, respectively. Loans serviced for others are not included in the accompanying consolidated balance sheets. The risks inherent in servicing assets relate primarily to changes in prepayments that result from shifts in interest rates. Contractually-specified servicing fees were $1.6 million for the year ended 2021 and $1.3 million for the years ended, 2020, and 2019, and is included as a component of other income within non-interest income.

Servicing rights activity during 2021 and 2020, included in other assets, was as follows:

	At or for the Twelve Months Ended December 31,	
(in thousands)	**2021**	**2020**
Balance at beginning of year	$3,353	$3,001
Additions	565	597
Amortization	(245)	(245)
Balance at end of year	$3,673	$3,353

NOTE 4. PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2021 and December 31, 2020 are summarized as follows:

(in thousands, except years)	**2021**	**2020**	**Estimated Useful Life**
Land	$ 4,949	$ 5,531	N/A
Buildings and improvements	55,499	55,366	5 - 39 years
Furniture and equipment	14,661	13,865	3 - 8 years
Premises and equipment, gross	75,109	74,762	
Accumulated depreciation	(25,727)	(22,304)	
Premises and equipment, net	$ 49,382	$ 52,458	

Depreciation expense for the years ended December 31, 2021, 2020 and 2019 amounted to $4.6 million, $4.8 million and $4.1 million, respectively.

Premises held for sale for the years ended December 31, 2021 and 2020 were $226 thousand and $962 thousand, respectively and are included in other assets. The Company measures assets held for sale at the lower of amortized cost or estimated fair value less 6% selling costs. The Company sold $579 thousand of premises held for sale in 2021 for a net loss of $291 thousand. The Company sold $802 thousand of premises held for sale in 2020 at a gain of $122 thousand, there were no sales in 2019. There were $157 thousand of impairment charges recognized in 2021 due to the demolition of a building and no impairment charges recognized in 2020 and 2019.

NOTE 5. GOODWILL AND OTHER INTANGIBLES

The activity impacting goodwill in 2021 and 2020 is as follows:

(in thousands)	**2021**	**2020**
Balance at beginning of year	$119,477	$118,649
Acquisition	—	828
Balance at end of year	$119,477	$119,477

NOTE 5. GOODWILL AND OTHER INTANGIBLES (Continued)

In the fourth quarter of 2021, the Company completed its annual goodwill impairment testing using balance sheet and market data as of September 30, 2021. The analysis was performed at the consolidated Bank level of the Company, which is considered the smallest reporting unit carrying goodwill. The step one analysis under the guidance of ASC 350 was passed, and therefore no goodwill impairment was recognized for the year ended December 31, 2021. No impairment was recorded in 2020 and 2019.

The components of other intangible assets in 2021 and 2020 are as follows:

	2021		
(in thousands)	**Gross Intangible Assets**	**Accumulated Amortization**	**Net Intangible Assets**
Core deposit intangible (non-maturity deposits)	$ 9,483	$(4,210)	$5,273
Customer list and other intangibles	2,118	(658)	1,460
Total	$11,601	$(4,868)	$6,733

	2020		
(in thousands)	**Gross Intangible Assets**	**Accumulated Amortization**	**Net Intangible Assets**
Core deposit intangible (non-maturity deposits)	$ 9,483	$(3,465)	$6,018
Customer list and other intangibles	2,118	(466)	1,652
Total	$11,601	$(3,931)	$7,670

Other intangible assets are amortized on a straight-line basis over their estimated lives, which range from 5 years to 11 years. Amortization expenses related to intangibles totaled $940 thousand in 2021, $1.0 million in 2020 and $861 thousand in 2019.

The estimated aggregate future amortization expense for other intangible assets remaining at year end 2021 is as follows:

(in thousands)	**Other Intangible Assets**
2022	$ 932
2023	932
2024	932
2025	932
2026	932
and thereafter	2,073
Total	$6,733

NOTE 6. DEPOSITS

A summary of time deposits at December 31, 2021 and December 31, 2020 are as follows:

(in thousands)	**December 31, 2021**	**December 31, 2020**
Time less than $100,000	$181,586	$325,646
Time $100,000 through $250,000	169,645	278,940
Time $250,000 or more	74,301	93,775
Total	$425,532	$698,361

At December 31, 2021 and December 31, 2020, the scheduled maturities by year for time deposits are as follows:

(in thousands)	**December 31, 2021**	**December 31, 2020**
Within 1 year	$318,692	$574,007
Over 1 year to 2 years	71,247	61,584
Over 2 years to 3 years	18,201	41,145
Over 3 years to 4 years	8,498	12,875
Over 4 years to 5 years	6,751	8,728
Over 5 years	2,143	22
Total	$425,532	$698,361

NOTE 6. DEPOSITS (Continued)

Included in time deposits are brokered deposits of $16.1 million and $193.7 million at December 31, 2021 and December 31, 2020, respectively. Also included in time deposits are reciprocal deposits of $17.3 million and $8.1 million at December 31, 2021 and December 31, 2020, respectively.

NOTE 7. BORROWED FUNDS

Borrowed funds at December 31, 2021 and December 31, 2020 are summarized, as follows:

	December 31, 2021		December 31, 2020	
(dollars in thousands)	**Carrying Value**	**Weighted Average Rate**	**Carrying Value**	**Weighted Average Rate**
Short-term borrowings				
Advances from the FHLB	$ 75,000	0.30%	$ 65,676	1.19%
Other borrowings	19,802	0.17	27,779	0.15
Total short-term borrowings	94,802	0.21	93,455	0.44
Long-term borrowings				
Advances from the FHLB	23,598	1.08	182,607	1.73
Subordinated borrowings	60,124	4.34	59,961	4.34
Total long-term borrowings	83,722	3.42	242,568	2.37
Total	$178,524	0.91%	$336,023	1.41%

Short-term debt includes Federal Home Loan Bank of Boston ("FHLB") advances with a remaining maturity of less than one year. The Company also maintains a $1.0 million secured line of credit with the FHLB that bears a daily adjustable rate calculated by the FHLB. There was no outstanding balance on the FHLB line of credit for the years ended December 31, 2021 and 2020.

The Company also has capacity to borrow funds on a secured basis utilizing the Borrower in Custody program and the Discount Window at the Federal Reserve Bank of Boston (the "FRB"). At December 31, 2021, the Company's available secured line of credit at the FRB was $64.7 million. The Company has pledged certain loans and securities to the FRB to support this arrangement. There were no borrowings with the FRB as of December 31, 2021 and December 31, 2020.

The Company maintains an unused unsecured federal funds line of credit with a correspondent bank that has an aggregate overnight borrowing capacity of $50 million as of December 31, 2021 and December 31, 2020. There was no outstanding balance on the line of credit as of December 31, 2021 and December 31, 2020.

Long-term FHLB advances consist of advances with a remaining maturity of more than one year. The advances outstanding at December 31, 2021 include $20.0 million of callable advances and $298 thousand of amortizing advances. The advances outstanding at December 31, 2020 include $20.0 million of callable advances and $307 thousand of amortizing advances. All FHLB borrowings, including the line of credit, are secured by a blanket security agreement on certain qualified collateral, principally residential first mortgage loans and certain securities.

A summary of maturities of FHLB advances as of December 31, 2021 is as follows:

(in thousands, except rates)	**Amount**	**Weighted Average Rate**
2022	$75,000	0.30%
2023	—	—
2024	1,000	—
2025	2,300	—
2026	20,000	1.21
2027 and thereafter	298	4.20
Total FHLB advances	$98,598	0.49%

The Company executed a Subordinated Note Purchase Agreement with an aggregate of $40.0 million of subordinated notes (the "Notes") to accredited investors on November 26, 2019. The Notes have a maturity date of December 1, 2029 and bear a fixed interest rate of 4.63% through December 1, 2024 payable semi-annually in arrears. From December 1, 2024 and thereafter the interest rate shall be reset quarterly to an interest rate per annum equal to the then current three-month Secured Overnight Financing Rate ("SOFR") plus 3.27%. The Company has the option beginning with the interest payment date of December 1, 2024, and on any scheduled payment date thereafter, to redeem the Notes, in whole or in part upon prior approval of the Federal Reserve. The transaction included debt issuance costs of $496 thousand and $659 thousand net of amortization as of December 31, 2021 and 2020 respectively, that are netted against the subordinated debt.

NOTE 7. BORROWED FUNDS (Continued)

The Company also has $20.6 million in floating Junior Subordinated Deferrable Interest Debentures ("Debentures") issued by NHTB Capital Trust II ("Trust II") and NHTB Capital Trust III ("Trust III"), which are both Connecticut statutory trusts. The Debentures were issued on March 30, 2004, carry a variable interest rate of three-month LIBOR plus 2.79%, and mature in 2034. The debt is callable by the Company at the time when any interest payment is made. Trust II and Trust III are considered variable interest entities for which the Company is not the primary beneficiary. Accordingly, Trust II and Trust III are not consolidated into the Company's financial statements.

Repurchase Agreements

The Company can raise additional liquidity by entering into repurchase agreements at its discretion. In a security repurchase agreement transaction, the Company will generally sell a security, agreeing to repurchase either the same or substantially identical security on a specified later date, at a greater price than the original sales price. The difference between the sale price and purchase price is the cost of the proceeds, which is recorded as interest expense on the consolidated statements of income. The securities underlying the agreements are delivered to counterparties as security for the repurchase obligations. Since the securities are treated as collateral and the agreement does not qualify for a full transfer of effective control, the transactions do not meet the criteria to be classified as sales, and are therefore considered secured borrowing transactions for accounting purposes. Payments on such borrowings are interest only until the scheduled repurchase date. In a repurchase agreement the Company is subject to the risk that the purchaser may default at maturity and not return the securities underlying the agreements. In order to minimize this potential risk, the Company either deals with established firms when entering into these transactions or with customers whose agreements stipulate that the securities underlying the agreement are not delivered to the customer and instead are held in segregated safekeeping accounts by the Company's safekeeping agents.

The Company's repurchase agreements accounted for as secured borrowings, as of December 31, 2021 and December 31, 2020 is as follows:

	December 31,	
(in thousands)	**2021**	**2020**
Customer Repurchase Agreements		
US Government-sponsored enterprises	$19,802	$27,779
Total	$19,802	$27,779

NOTE 8. EMPLOYEE BENEFIT PLANS

Pension Plans

The Company maintains a legacy, employer-sponsored defined benefit pension plan (the "Plan") for which participation and benefit accruals were frozen on January 13, 2017. The Plan was assumed in connection with a business combination in 2017. Accordingly, no employees are permitted to commence participation in the Plan and future salary increases and years of credited service are not considered when computing an employee's benefits under the Plan. As of December 31, 2021, all minimum Employee Retirement Income Security Act ("ERISA") funding requirements have been met. The Company did not have any defined benefit pension plans prior to 2017.

The following tables set forth information about the plan for the year ended December 31, 2021 and 2020:

(in thousands)	**2021**	**2020**
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$ 9,650	$ 8,926
Service cost	—	—
Interest cost	233	282
Actuarial loss	(406)	913
Benefits paid	(326)	(319)
Settlements	(550)	(152)
Projected benefit obligation at end of year	8,601	9,650
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	12,040	11,078
Expected return on plan assets	1,258	1,433
Contributions by employer	—	—
Benefits paid	(326)	(319)
Settlements	(550)	(152)
Fair value of plan assets at end of year	12,422	12,040
Overfunded status	$ (3,821)	$ (2,390)
Amounts recognized in consolidated balance sheet:		
Other assets	$ 3,821	$ 2,390

NOTE 8. EMPLOYEE BENEFIT PLANS (Continued)

Net periodic pension cost is comprised of the following for the year ended December 31, 2021 and 2020:

(in thousands)	2021	2020
Interest cost	$ 233	$ 282
Expected return on plan assets	(712)	(708)
Settlement Charge	—	—
Net periodic pension benefit credit	$(479)	$(426)

(in thousands)	2021	2020
Net actuarial (gain) loss	$ (953)	$ 178
Settlement charge	—	—
Net period pension benefit (credit)	(479)	(426)
Total recognized in net periodic benefit (credit) and other comprehensive income	$(1,432)	$(248)

Change in plan assets and benefit obligations recognized in accumulated other comprehensive income as of December 31, 2021 and 2020 are as follows:

(in thousands)	2021	2020
Net actuarial (gain) loss	$ (953)	$ 178
Settlement charge	—	—
Prior service cost	1,072	893
Total accumulated other comprehensive loss (pre-tax)	$ 119	$1,071

The after tax components of accumulated other comprehensive loss, which have not yet been recognized in net periodic pension cost, related to the Plan are a net loss of $91 thousand. The Company expects to make no cash contributions to the pension trust during the 2022 fiscal year. The amount expected to be amortized from accumulated other comprehensive loss into net periodic pension cost over the next fiscal year is zero.

The principal actuarial assumptions used at December 31, 2021 and 2020 were as follows:

	2021	2020
Projected benefit obligation		
Discount rate	2.80%	2.46%
Net periodic pension cost		
Discount rate	2.46%	3.23%
Long-term rate of return on plan assets	6.00	6.00

The discount rate that is used in the measurement of the pension obligation is determined by comparing the expected future retirement payment cash flows of the plan to the Citigroup Above Median Double-A Curve as of the measurement date. The expected long-term rate of return on Plan assets reflects expectations of future returns as applied to the plan's target allocation of asset classes. In estimating that rate, appropriate consideration was given to historical returns earned by equities and fixed income securities.

The Company's overall investment strategy with respect to the Plan's assets is to maintain assets at a level that will sufficiently cover future beneficiary obligations while achieving long term growth in assets. The Plan's targeted asset allocation is 20% equity securities and 80% fixed-income securities primarily consisting of long-term products.

The fair values for investment securities are determined by quoted prices in active markets, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

NOTE 8. EMPLOYEE BENEFIT PLANS (Continued)

The fair value of the Plan's assets by category and level within fair value hierarchy are as follows at December 31, 2021 and 2020:

(in thousands)	2021 Total	2021 Level 1	2021 Level 2
Equity mutual funds:			
Large-cap	$ 952	$ 952	$ —
Mid-cap	296	296	—
Small-cap	302	302	—
International	573	573	
Fixed income funds:			
Fixed-income—core plus	—	—	—
Intermediate duration	—	—	—
Long duration	9,042	9,042	—
Common stock	653	653	—
Common/collective trusts—large-cap	244	—	244
Cash equivalents—money market	360	360	—
Total	$12,422	$12,178	$244

(in thousands)	2020 Total	2020 Level 1	2020 Level 2
Equity mutual funds:			
Large-cap	$ 2,364	$ 2,364	$ —
Mid-cap	744	744	—
Small-cap	765	765	—
International	1,499	1,499	
Fixed income funds:			
Fixed-income—core plus	3,880	3,880	—
Intermediate duration	1,338	1,338	—
Common stock	510	510	—
Common/collective trusts—large-cap	620	—	620
Cash equivalents—money market	320	320	—
Total	$12,040	$11,420	$620

The Plan did not hold any assets classified as Level 3, and there were no transfers between levels during 2021 and 2020.

Estimated benefit payments under the Company's pension plan over the next 10 years at December 31, 2021 are as follows:

(in thousands)	Payments
2022	$ 350
2023	346
2024	353
2025	348
2026	412
2027 - 2031	2,192
Total	$4,001

Non-qualified Supplemental Executive Retirement Plan

The Company has non-qualified supplemental executive retirement agreements with certain retired officers. The agreements provide supplemental retirement benefits payable in installments over a period of years upon retirement or death. This agreement provides a stream of

NOTE 8. EMPLOYEE BENEFIT PLANS (Continued)

future payments in accordance with individually defined vesting schedules upon retirement, termination, or in the event that the participating executive leaves the Company following a change of control event.

The following table sets forth changes in benefit obligation, changes in plan assets, and the funded status of the plan as of and for the years ended December 31, 2021 and December 31, 2020:

(in thousands)	2021	2020
Change in benefit obligation:		
Projected benefit obligation at beginning of year	$2,969	$2,979
Service cost	—	—
Interest cost	44	81
Actuarial (gain) loss	(147)	202
Benefits paid	(260)	(293)
Projected benefit obligation at end of year	$2,606	$2,969
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	$ —	$ —
Expected return on plan assets	—	—
Contributions by employer	260	293
Benefits paid	(260)	(293)
Fair value of plan assets at end of year	$ —	$ —
Underfunded status	$2,606	$2,969
Amounts recognized in consolidated balance sheet		
Other liabilities	$2,606	$2,969

Net periodic benefit cost is comprised of the following for the years ended December 31, 2021 and 2020:

(in thousands)	2021	2020
Interest cost	$44	$ 81
Expected return on plan assets	—	—
Amortization of unrecognized actuarial loss	43	42
Net periodic benefit cost	$87	$123

(in thousands)	2021	2020
Net actuarial (gain) loss	$(137)	$202
Amortization of unrecognized actuarial loss	(43)	(42)
Total recognized in net periodic benefit cost and other comprehensive loss	$(180)	$160

Change in plan assets and benefit obligations recognized in accumulated other comprehensive income in 2021 and 2020 are as follows:

(in thousands)	2021	2020
Accumulated other comprehensive loss at beginning of the year (pre-tax)	$ 779	$619
Actuarial (gain) loss	(137)	202
Amortization of actuarial loss	(43)	(42)
Accumulated other comprehensive loss at end of year (pre-tax)	$ 599	$779

The after tax components of accumulated other comprehensive loss, which have not yet been recognized in net periodic benefit cost, related to the non-qualified supplemental executive retirement agreements are a net loss of $461 thousand. The amount expected to be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $37 thousand.

NOTE 8. EMPLOYEE BENEFIT PLANS (Continued)

The principal actuarial assumptions used at December 31, 2021 and December 31, 2020 were as follows:

	2021	2020
Discount rate beginning of year	1.56%	2.65%
Discount rate end of year	2.12	1.56

The discount rate used in the measurement of the non-qualified supplemental executive retirement plan obligation is determined by comparing the expected future retirement payment cash flows to the Citigroup Above Median Double- A Curve as of the measurement date.

The Company expects to contribute the following amounts to fund benefit payments under the supplemental executive retirement plans:

(in thousands)	Payments
2022	$ 260
2023	260
2024	260
2025	260
2026	231
2027 - 2031	2,027
Total	$3,298

401(k) Plan

The Company maintains a Section 401(k) savings plan for substantially all of its employees. Employees are eligible to participate in the 401(k) Plan on the first day of any quarter following their date of hire and attainment of age 21½. Under the plan, the Company makes a matching contribution of a portion of the amount contributed by each participating employee, up to a percentage of the employee's annual salary. The plan allows for supplementary profit sharing contributions by the Company, at its discretion, for the benefit of participating employees. The total expense for this plan in 2021, 2020, and 2019 was $1.2 million, $1.2 million, and $1.1 million, respectively.

Other Plans

As a result of the acquisition of a business combination in 2017, the Company assumed salary continuation agreements for supplemental retirement income with certain prior executives and senior officers along with an executive indexed supplemental retirement plan for one prior executive. The total liability for these agreements included in other liabilities was $8.0 million at December 31, 2021 and $8.8 million at December 31, 2020. Income recorded in 2021 was $312 thousand and expense recorded in 2020 and 2019 under these agreements was $793 thousand and $779 thousand, respectively.

The Company also assumed split-dollar life insurance agreements from the 2017 business combination with an accrued liability of $876 thousand at December 31, 2021 and $919 thousand at December 31, 2020. The Company recorded income for the split-dollar life insurance agreements of $22 thousand in 2021 and expense of $65 thousand and $163 thousand in 2020 and 2019, respectively.

NOTE 9. INCOME TAXES

The following table summarizes the current and deferred components of income tax expense (benefit) for each of the years ended December 31, 2021, 2020 and 2019:

(in thousands)	2021	2020	2019
Current:			
Federal tax expense	$7,796	$7,165	$2,639
State tax expense	1,106	1,280	550
Total current tax expense	8,902	8,445	3,189
Deferred tax expense	427	(38)	1,020
Total income tax expense	$9,329	$8,407	$4,209

NOTE 9. INCOME TAXES (Continued)

The following table reconciles the expected federal income tax expense (computed by applying the federal statutory tax rate of 21%) to recorded income tax expense for the years ended December 31, 2021, 2020 and 2019:

	2021		2020		2019	
(in thousands, except ratios)	**Amount**	**Rate**	**Amount**	**Rate**	**Amount**	**Rate**
Statutory tax rate	$10,210	21.00%	$ 8,747	21.00%	$ 5,633	21.00%
Increase (decrease) resulting from:						
State taxes, net of federal benefit	1,280	2.63	1,120	2.69	547	2.04
Tax exempt interest	(1,240)	(2.55)	(1,301)	(3.12)	(1,375)	(5.13)
Federal tax credits	(582)	(1.20)	(330)	(0.79)	(282)	(1.05)
Officers' life insurance	(466)	(0.96)	(403)	(0.97)	(431)	(1.61)
Gain of disposal of low income housing tax credit investments	—	—	147	0.35	—	—
Stock-based compensation plans	(73)	(0.15)	52	0.12	(20)	(0.07)
Other	200	0.42	375	0.90	137	0.51
Effective tax rate	$ 9,329	19.19%	$ 8,407	20.18%	$ 4,209	15.69%

The net deferred tax asset was $5.5 million at December 31, 2021 and $3.0 million at December 31, 2020.

The tax effects of temporary differences that give rise to deferred tax assets and deferred tax liabilities at December 31, 2021 and 2020 are summarized below:

	2021		2020	
(in thousands)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Allowance for credit losses	$ 5,214	$ —	$ 4,464	$ —
Deferred compensation	3,965	—	4,129	—
Unrealized gain or loss on securities available for sale	—	1,055	—	3,046
Unrealized gain or loss on derivatives(1)	201	—	567	—
Depreciation	—	2,033	—	2,261
Deferred loan origination fees, net(2)	432	—	451	—
Non-accrual interest	593	—	492	—
Branch acquisition costs and goodwill	—	1,326	—	1,034
Core deposit intangible	—	929	—	1,078
Acquisition fair value adjustments(2)	208	—	192	—
Prepaid expenses	—	205	—	301
Mortgage servicing rights	—	843	—	784
Equity compensation	668	—	432	—
Prepaid pension	—	739	—	377
Contract incentives	820	—	1,017	—
Right of use asset	—	2,129	—	2,419
Lease liability	2,213	—	2,487	—
Other	492	—	116	—
Total	$14,806	$9,259	$14,347	$11,300

(1) Prior period has been revised, see Note 1—Summary of Significant Accounting Policies—*Revision of Previously Issued Financial Statements.*

(2) With the adoption of CECL, premiums and discounts on acquired loans are presented along with deferred loan origination fees, net.

The Company has determined that a valuation allowance is not required for its net deferred tax asset since it is more likely than not that this asset is realizable principally through future taxable income and future reversal of existing temporary differences.

GAAP requires the measurement of unrecorded tax benefits related to uncertain tax positions. An unrecorded tax benefit is the difference between the tax benefit of a position taken, or expected to be taken, on a tax return and the benefit recorded for accounting

NOTE 9. INCOME TAXES (Continued)

purposes. At December 31, 2021 and 2020, the Company had no unrecorded tax benefits and does not expect its position to significantly change within the next twelve months.

The Company is subject to income tax in the U.S. federal jurisdiction and also in the states of Maine, New Hampshire and Massachusetts. The Company is no longer subject to examination by taxing authorities for years before 2018.

NOTE 10. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Company uses derivative instruments to minimize fluctuations in earnings and cash flows caused by interest rate volatility. The Company's interest rate risk management strategy involves modifying the re-pricing characteristics of certain assets or liabilities so the changes in interest rates do not have a significant effect on net interest income. Thus, all of the Company's derivative contracts are considered to be interest rate contracts.

The Company recognizes its derivative instruments on the consolidated balance sheet at fair value. On the date the derivative instrument is entered into, the Company designates whether the derivative is part of a hedging relationship (i.e., cash flow or fair value hedge). The Company formally documents relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking hedge transactions. The Company also assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives used in hedging transactions are highly effective in offsetting the changes in cash flows or fair values of hedged items. Changes in fair value of derivative instruments that are highly effective and qualify as cash flow hedges are recorded in other comprehensive income or loss.

The Company offers derivative products in the form of interest rate swaps, to commercial loan customers to facilitate their risk management strategies. These instruments are executed through Master Netting Arrangements ("MNA") with financial institution counterparties or Risk Participation Agreements ("RPA") with commercial bank counterparties, for which the Company assumes a pro rata share of the credit exposure associated with a borrower's performance related to the derivative contract with the counterparty.

Information about derivative assets and liabilities at December 31, 2021 and December 31, 2020, follows:

	December 31, 2021			
	Notional Amount (in thousands)	Weighted Average Maturity (in years)	Fair Value Asset (Liability) (in thousands)	Location Fair Value Asset (Liability)
Cash flow hedges:				
Interest rate swap on wholesale fundings	$ 75,000	3.0	$ (121)	Other liabilities
Interest rate swap on variable rate loans	50,000	4.2	(756)	Other liabilities
Total cash flow hedges	125,000		(877)	
Fair value hedges:				
Interest rate swap on securities	37,190	7.6	(530)	Other liabilities
Total fair value hedges	37,190		(530)	
Economic hedges:				
Forward sale commitments	16,600	0.1	15	Other assets
Customer Loan Swaps—MNA Counterparty	260,102	6.2	(9,429)	Other liabilities
Customer Loan Swaps—RPA Counterparty	115,285	6.7	(4,421)	Other liabilities
Customer Loan Swaps—Customer	375,387	6.4	13,850	Other assets
Total economic hedges	767,374		15	
Non-hedging derivatives:				
Interest rate lock commitments	14,059	0.1	283	Other assets
Total non-hedging derivatives	14,059		283	
Total	$943,623		$ (1,109)	

NOTE 10. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

	December 31, 2020			
	Notional Amount (in thousands)	Weighted Average Maturity (in years)	Fair Value Asset (Liability) (in thousands)	Location Fair Value Asset (Liability)
Cash flow hedges:				
Interest rate swap on wholesale fundings	$ 75,000	4.0	$ (2,664)	Other liabilities
Total cash flow hedges	75,000		(2,664)	
Fair value hedges:				
Interest rate swap on securities[1]	37,190	8.6	(2,789)	Other liabilities
Total fair value hedges	37,190		(2,789)	
Economic hedges:				
Forward sale commitments	50,629	0.2	(95)	Other liabilities
Customer Loan Swaps—MNA Counterparty	235,947	6.8	(15,938)	Other liabilities
Customer Loan Swaps—RPA Counterparty	119,285	7.9	(9,957)	Other liabilities
Customer Loan Swaps—Customer	355,232	7.1	25,895	Other assets
Total economic hedges	761,093		(95)	
Non-hedging derivatives:				
Interest rate lock commitments	3,320	0.1	22	Other assets
Total non-hedging derivatives	3,320		22	
Total	$876,603		$ (5,526)	

(1) Prior period has been revised, see Note 1—Summary of Significant Accounting Policies—*Revision of Previously Issued Financial Statements.*

As of December 31, 2021, and 2020, the following amounts were recorded on the balance sheet related to cumulative basis adjustments for fair value hedges:

	Location of Hedged Item on Balance Sheet	Carrying Amount of Hedged Assets	Cumulative Amount of Fair Value Hedging Adjustment in Carrying Amount
December 31, 2021			
Interest rate swap on securities	Securities Available for Sale	$39,726	$2,536
December 31, 2020			
Interest rate swap on securities	Securities Available for Sale	$40,209	$3,019

NOTE 10. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

Information about derivative assets and liabilities for December 31, 2021 and December 31, 2020, follows:

	Year Ended December 31, 2021				
(in thousands)	**Amount of Gain (Loss) Recognized in Other Comprehensive Income**	**Location of Gain (Loss) Reclassified from Other Comprehensive Income**	**Amount of Gain (Loss) Reclassified from Other Comprehensive Income**	**Location of Gain (Loss) Recognized in Income**	**Amount of Gain (Loss) Recognized in Income**
Cash flow hedges:					
Interest rate swap on wholesale funding	$1,950	Interest expense	$—	Interest expense	$(727)
Interest rate swap on variable rate loans	(582)	Interest income	—	Interest income	211
Total cash flow hedges	1,368		—		(516)
Fair value hedges:					
Interest rate swap on securities	3,087	Interest income	—	Interest income	(566)
Total fair value hedges	3,087		—		(566)
Economic hedges:					
Forward commitments	—	Other income	—	Other income	110
Total economic hedges	—		—		110
Non-hedging derivatives:					
Interest rate lock commitments	—	Other income	—	Other income	261
Total non-hedging derivatives	—		—		261
Total	$4,455		$—		$(711)

(1) As of December 31, 2021 the Company does not expect any gains or losses from accumulated other comprehensive income into earnings within the next 12 months.

	Year Ended December 31, 2020				
(in thousands)	**Amount of Gain (Loss) Recognized in Other Comprehensive Income(1)**	**Location of Gain (Loss) Reclassified from Other Comprehensive Income**	**Amount of Gain (Loss) Reclassified from Other Comprehensive Income**	**Location of Gain (Loss) Recognized in Income**	**Amount of Gain (Loss) Recognized in Income**
Cash flow hedges:					
Interest rate swap on wholesale funding	$(2,876)	Interest expense	$(3,935)	Interest expense	$ (829)
Total cash flow hedges	(2,876)		(3,935)		(829)
Fair value hedges:					
Interest rate swap on securities	(208)	Interest income	—	Interest income	(281)
Total economic hedges	(208)		—		(281)
Economic hedges:					
Forward commitments	—	Other income	—	Other income	(11)
Total economic hedges	—		—		(11)
Non-hedging derivatives:					
Interest rate lock commitments	—	Other income	—	Other Income	(37)
Total non-hedging derivatives	—		—		(37)
Total	$(3,084)		$(3,935)		$(1,158)

(1) Prior period has been revised, see Note 1—Summary of Significant Accounting Policies—*Revision of Previously Issued Financial Statements.*

NOTE 10. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

The effect of cash flow hedging and fair value accounting on the consolidated statements of income for the years ended December 31, 2021 and 2020:

	Year Ended December 31, 2021				
	Interest and Dividend Income		Interest Expense		
(in thousands)	Loans	Securities and other	Deposits	Borrowings	Non-interest Income
Income and expense line items presented in the consolidated statements of income	$95,236	15,568	$8,543	6,688	$42,261
The effects of cash flow and fair value hedging:					
Gain (loss) on cash flow hedges:					
Interest rate swap on wholesale funding	—	—	(669)	(58)	—
Interest rate swap on variable rate loans	211	—	—	—	—
Gain (loss) on fair value hedges:					
Interest rate swap on securities	—	(566)	—	—	—

	Year Ended December 31, 2020				
	Interest and Dividend Income		Interest Expense		
(in thousands)	Loans	Securities and other	Deposits	Borrowings	Non-interest Income
Income and expense line items presented in the consolidated statements of income	$107,085	19,019	$18,043	8,881	$42,956
The effects of cash flow and fair value hedging:					
Gain (loss) on cash flow hedges:					
Interest rate swap on wholesale funding	—	—	(793)	(37)	—
Interest rate swap on variable rate loans	—	—	—	—	—
Gain (loss) on fair value hedges:					
Interest rate swap on securities	—	(281)	—	—	—

Cash flow hedges

Interest rate swaps on wholesale funding

As of December 31, 2021 the Company has two interest rate swaps on wholesale borrowings (the "SWAPS") to limit its exposure to rising interest rates over a five year term on 3-month FHLB borrowings or brokered certificates, or a combination thereof at each maturity date. The first of the two agreements were entered in November 2019 with a $50.0 million notional amount and pays a fixed interest rate of 1.53%. A second agreement was entered on April 2020 with a $25.0 million notional amount and pays a fixed rate of 0.59%. The financial institution counterparty pays the Company interest on the three-month LIBOR rate. The Company designated the swaps as a cash flow hedge.

Interest rate swap on variable rate loans

In March 2021, the Company entered into a contract with a counterparty to manage interest rate risk associated with its variable rate loans. The instrument is specifically designed to hedge the risk of changes in its cash flows from interest receipts attributable to changes in a contractually specified interest rate, on an amount of the Company's variable rate loan assets equal to $50 million. The interest rate swap will effectively fix the Company's interest rate on $50 million of 1 month USD-LIBOR-BBA (or LIBOR less two days) based loan assets at 0.806% plus the credit spread on the loans that reprices on weighted average basis. The Company designated the swap as a cash flow hedge.

Fair value hedges

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged asset or liability attributable to the hedged risk are recognized in current earnings. The Company utilizes interest rate swaps designated as fair value hedges to mitigate the effect of changing interest rates on the fair values of fixed rate callable securities available-for-sale. The hedging strategy on securities converts the fixed interest rates to LIBOR-based variable interest rates. These derivatives are designated as partial term hedges of selected cash flows covering specified periods of time prior to the call dates of the hedged securities. During 2019, the Company entered into eight swap transactions with a notional amount of $37.2 million designated as fair value hedges. These derivatives are intended to protect against the effects of changing interest rates on the fair values of fixed rate securities. The fixed rates on the transactions have a weighted average of 1.696%.

Economic hedges

Forward sale commitments

The Company utilizes forward sale commitments on residential mortgage loans to hedge interest rate risk and the associated effects on the fair value of interest rate lock commitments and loans originated for sale. The forward sale commitments are accounted for as derivatives. The Company typically uses a combination of best

NOTE 10. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

efforts and mandatory delivery contracts. The contracts are loan sale agreements where the Company commits to deliver a certain principal amount of mortgage loans to an investor at a specified price on or before a specified date. Generally, the Company may enter into contracts just prior to the loan closing with a customer.

Customer loan derivatives

The Company enters into customer loan derivatives to facilitate the risk management strategies for commercial banking customers. The Company mitigates this risk by entering into equal and offsetting loan swap agreements with highly rated third-party financial institutions. The loan swap agreements are free standing derivatives and are recorded at fair value in the Company's consolidated balance sheet. The Company is party to master netting arrangements with its financial institutional counterparties; however, the Company does not offset assets and liabilities under these arrangements for financial statement presentation purposes.

The master netting arrangements provide for a single net settlement of all loan swap agreements, as well as collateral or cash funds, in the event of default on, or termination of, any one contract. Collateral is provided by cash or securities received or posted by the counterparty with net liability positions, respectively, in accordance with contract thresholds. Currently, the Company has posted cash of $12.0 million with counterparties.

The below table describes the potential effect of master netting arrangements on the consolidated balance sheet and the financial collateral pledged for these arrangements:

	Gross Amounts Offset in the Consolidated Balance Sheet			
(in thousands)	**Derivative Liabilities**	**Derivative Assets**	**Cash Collateral Pledged**	**Net Amount**
As of December 31, 2021				
Customer Loan Derivatives:				
MNA counterparty	$ (9,429)	$ 9,429	$12,000	$12,000
RPA counterparty	(4,421)	4,421	—	—
Total	$(13,850)	$13,850	$12,000	$12,000

Non-hedging derivatives

Interest rate lock commitments

The Company enters into interest rate lock commitments ("IRLCs") for residential mortgage loans, which commit the Company to lend funds to a potential borrower at a specific interest rate and within a specified period of time. IRLCs relate to the origination of residential mortgage loans that are held for sale are considered derivative financial instruments under applicable accounting guidance. Outstanding IRLCs expose the Company to the risk that the price of the mortgage loans underlying the commitments may decline due to increases in mortgage interest rates from inception of the rate lock to the funding of the loan. The IRLCs are free-standing derivatives which are carried at fair value with changes recorded in non-interest income in the Company's Consolidated Statements of Income. Changes in the fair value of IRLCs subsequent to inception are based on; (i) changes in the fair value of the underlying loan resulting from the fulfillment of the commitment and (ii) changes in the probability when the loan will fund within the terms of the commitment, which is affected primarily by changes in interest rates and the passage of time.

NOTE 11. OTHER COMMITMENTS, CONTINGENCIES, AND OFF-BALANCE SHEET ACTIVITIES

Customer Obligations

The Company is a party to financial instruments in the normal course of business to meet financing needs of its customers. These financial instruments include commitments to extend credit, unused or unadvanced loan funds, and letters of credit. The Company uses the same lending policies and procedures to make such commitments as it uses for other lending products. Customer's creditworthiness is evaluated on a case-by-case basis.

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

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

NOTE 11. OTHER COMMITMENTS, CONTINGENCIES, AND OFF-BALANCE SHEET ACTIVITIES (Continued)

The following table summarizes the contractual amounts of commitments and contingent liabilities to customers as of December 31, 2021 and December 31, 2020:

(in thousands)	2021	2020
Commitments to originate new loans	$115,563	$ 71,857
Unused funds on commercial and other lines of credit	98,993	202,217
Unadvanced funds on home equity lines of credit	117,351	117,198
Unadvanced funds on construction and real estate loans	168,883	106,935
Commercial and standby letters of credit	3,061	3,481
Letters of credit securing municipal deposits	221,804	181,150
Total	$725,655	$682,838

Legal Claims

Various legal claims arise from time to time in the normal course of business. As of December 31, 2021, neither the Company nor its subsidiaries were involved in any pending legal proceedings believed by management to be material to the Company's financial condition or results of operations. Periodically, there have been various claims and lawsuits involving the Company, such as claims to enforce liens, condemnation proceedings on properties in which the Company holds security interests, claims involving the making and servicing of real property loans, and other issues incident in the normal course of the Company's business. However, neither the Company nor its subsidiaries are a party to any pending legal proceedings that it believes, in the aggregate, would have a material adverse effect on the financial condition or operations of the Company. Additionally, future, probable losses cannot be estimated as of December 31, 2021.

NOTE 12. SHAREHOLDERS' EQUITY AND EARNINGS PER COMMON SHARE

The actual and required capital ratios at December 31, 2021 and December 31, 2020 were as follows:

	2021			
	Actual		Regulatory Minimum to be "Well-Capitalized"	
(in thousands, except ratios)	Amount	Ratio	Amount	Ratio
Company (consolidated)				
Total capital to risk-weighted assets	$380,690	14.32%	$265,845	10.00%
Common equity tier 1 capital to risk-weighted assets	295,635	11.12	172,808	6.50
Tier 1 capital to risk-weighted assets	316,255	11.90	212,608	8.00
Tier 1 capital to average assets	316,255	8.66	182,595	5.00
Bank				
Total capital to risk-weighted assets	$375,435	14.14%	$265,513	10.00%
Common equity tier 1 capital to risk-weighted assets	351,000	13.22	172,579	6.50
Tier 1 capital to risk-weighted assets	351,000	13.22	212,405	8.00
Tier 1 capital to average assets	351,000	9.62	182,432	5.00

NOTE 12. SHAREHOLDERS' EQUITY AND EARNINGS PER COMMON SHARE (Continued)

	2020			
	Actual		Regulatory Minimum to be "Well-Capitalized"	
(in thousands, except ratios)	Amount	Ratio	Amount	Ratio
Company (consolidated)				
Total capital to risk-weighted assets	$353,239	13.56%	$260,457	10.00%
Common equity tier 1 capital to risk-weighted assets	273,178	10.49	169,297	6.50
Tier 1 capital to risk-weighted assets	273,178	11.28	193,742	8.00
Tier 1 capital to average assets	273,178	8.12	168,147	5.00
Bank				
Total capital to risk-weighted assets	$345,397	13.27%	$260,284	10.00%
Common equity tier 1 capital to risk-weighted assets	325,956	12.52	169,226	6.50
Tier 1 capital to risk-weighted assets	325,956	12.52	208,279	8.00
Tier 1 capital to average assets	325,956	9.02	180,685	5.00

At each date shown, the Company and the Bank met the conditions to be classified as "well-capitalized" under the relevant regulatory framework. To be categorized as "well-capitalized", an institution must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table above.

The Company and the Bank are subject to the Basel III rule that requires the Company and the Bank to assess their Common equity tier 1 capital to risk weighted assets and the Company and the Bank each exceed the minimum to be "well-capitalized." All banking organizations must maintain a minimum Common equity tier 1 risk-based capital ratio of 6.5%, a minimum Tier 1 risk-based capital ratio of 8.0% and a minimum Total risk- based capital ratio of 10.0%.

Accumulated Other Comprehensive Income

Components of accumulated other comprehensive income at December 31, 2021 and December 31, 2020 are as follows:

(in thousands)	December 31, 2021	December 31, 2020
Accumulated other comprehensive income, before tax:		
Net unrealized gain on AFS securities	$2,580	$13,069
Net unrealized gain (loss) on hedging derivatives[(1)]	1,130	(2,432)
Net unrealized loss on post-retirement plans	(718)	(1,850)
Income taxes related to items of accumulated other comprehensive income:		
Net unrealized gain on AFS securities	(595)	(3,046)
Net unrealized (gain) loss on hedging derivatives[(1)]	(260)	567
Net unrealized loss on post-retirement plans	166	432
Accumulated other comprehensive income[(1)]	$2,303	$ 6,740

(1) Prior period has been revised, see Note 1—Summary of Significant Accounting Policies—*Revision of Previously Issued Financial Statements.*

NOTE 12. SHAREHOLDERS' EQUITY AND EARNINGS PER COMMON SHARE (Continued)

The following table presents the components of other comprehensive income in 2021, 2020 and 2019:

(in thousands)	Before Tax	Tax Effect	Net of Tax
Year Ended December 31, 2021			
Net unrealized loss on AFS securities:			
Net unrealized loss arising during the period	$ (7,619)	$1,779	$(5,840)
Less: reclassification adjustment for gains (losses) realized in net income	2,870	(672)	2,198
Net unrealized loss on AFS securities	(10,489)	2,451	(8,038)
Net unrealized gain on hedging derivatives:			
Net unrealized gain arising during the period	3,562	(827)	2,735
Less: reclassification adjustment for gains (losses) realized in net income	—	—	—
Net unrealized gain on hedging derivatives	3,562	(827)	2,735
Net unrealized gain on post-retirement plans:			
Net unrealized gain arising during the period	1,132	(266)	866
Less: reclassification adjustment for gains (losses) realized in net income	—	—	—
Net unrealized gain on post-retirement plans	1,132	(266)	866
Other comprehensive loss	$ (5,795)	$1,358	$(4,437)

(in thousands)	Before Tax	Tax Effect	Net of Tax
Year Ended December 31, 2020			
Net unrealized gain on AFS securities:			
Net unrealized gain arising during the period	$11,264	$(2,636)	$ 8,628
Less: reclassification adjustment for gains realized in net income	5,445	(1,291)	4,154
Net unrealized gain on AFS securities	5,819	(1,345)	4,474
Net unrealized loss on hedging derivatives:			
Net unrealized loss arising during the period(1)	(6,503)	1,303	(5,200)
Less: reclassification adjustment for gains (losses) realized in net income	(4,852)	917	(3,935)
Net unrealized loss on cash flow hedging derivatives(1)	(1,651)	386	(1,265)
Net unrealized gain on post-retirement plans:			
Net unrealized loss arising during the period	(338)	77	(261)
Less: reclassification adjustment for gains (losses) realized in net income	—	—	—
Net unrealized loss on post-retirement plans	(338)	77	(261)
Other comprehensive income(1)	$ 3,830	$ (882)	$ 2,948

(1) Prior period has been revised, see Note 1—Summary of Significant Accounting Policies—*Revision of Previously Issued Financial Statements.*

NOTE 12. SHAREHOLDERS' EQUITY AND EARNINGS PER COMMON SHARE (Continued)

(in thousands)	2019 Before Tax	2019 Tax Effect	2019 Net of Tax
Net unrealized gain on AFS securities:			
Net unrealized gain arising during the period	$18,883	$(4,489)	$14,394
Less: reclassification adjustment for gains (losses) realized in net income	237	(55)	182
Net unrealized gain on AFS securities	18,646	(4,434)	14,212
Net unrealized loss on hedging derivatives:			
Net unrealized loss arising during the period(1)	(1,096)	326	(770)
Less: reclassification adjustment for gains (losses) realized in net income	(3,156)	737	(2,419)
Net unrealized loss on hedging derivatives(1)	2,060	(411)	1,649
Net unrealized loss on post-retirement plans:			
Net unrealized loss arising during the period	(350)	83	(267)
Less: reclassification adjustment for gains (losses) realized in net income	—	—	—
Net unrealized loss on post-retirement plans	(350)	83	(267)
Other comprehensive income(1)	$20,356	$(4,762)	$15,594

(1) Prior period has been revised, see Note 1—Summary of Significant Accounting Policies—*Revision of Previously Issued Financial Statements.*

The following table presents the changes in each component of accumulated other comprehensive income/(loss) in 2021, 2020 and 2019:

(in thousands)	2021 Net unrealized gain on AFS Securities	Net loss on effective cash flow hedging derivatives	Net unrealized loss on pension plans	Total(1)
Year Ended December 31, 2021				
Balance at beginning of period	$10,023	$(1,865)	$(1,418)	$ 6,740
Other comprehensive loss before reclassifications	(5,840)	2,735	866	(2,239)
Less: amounts reclassified from accumulated other comprehensive income	2,198	—	—	2,198
Total other comprehensive (loss) income	(8,038)	2,735	866	(4,437)
Balance at end of period	$ 1,985	$ 870	$ (552)	$ 2,303

(in thousands)	2020 Net unrealized (loss) gain on AFS Securities	Net loss on effective cash flow hedging derivatives(1)	Net unrealized loss on pension plans	Total
Balance at beginning of period	$ 5,549	$ (600)	$(1,157)	$3,792
Other comprehensive (loss) gain before reclassifications	8,628	(5,200)	(261)	3,167
Less: amounts reclassified from accumulated other comprehensive income	4,154	(3,935)	—	219
Total other comprehensive income (loss)	4,474	(1,265)	(261)	2,948
Balance at end of period	$10,023	$(1,865)	$(1,418)	$6,740

(1) Prior period has been revised, see Note 1—Summary of Significant Accounting Policies—*Revision of Previously Issued Financial Statements.*

NOTE 12. SHAREHOLDERS' EQUITY AND EARNINGS PER COMMON SHARE (Continued)

(in thousands)	2019 Net unrealized (loss) gain on AFS Securities	Net loss on effective cash flow hedging derivatives[1]	Net unrealized loss on pension plans	Total
Balance at beginning of period	$ (8,663)	$(2,249)	$ (890)	$(11,802)
Other comprehensive (loss) gain before reclassifications	14,394	(770)	(267)	13,357
Less: amounts reclassified from accumulated other comprehensive income	182	(2,419)	—	(2,237)
Total other comprehensive (loss) income	14,212	1,649	(267)	15,594
Balance at end of period	$ 5,549	$ (600)	$(1,157)	$ 3,792

(1) Prior period has been revised, see Note 1—Summary of Significant Accounting Policies—*Revision of Previously Issued Financial Statements.*

The following tables presents the amounts reclassified out of each component of accumulated other comprehensive income (loss) in 2021, 2020 and 2019:

(in thousands)	2021	2020	2019	Affected Line Item where Net Income is Presented
Net realized gains on AFS securities:				
Before tax[1]	$2,870	$ 5,445	$237	Non-interest income
Tax effect	(672)	(1,275)	(55)	Tax expense
Total reclassifications for the period	$2,198	$ 4,170	$182	

(in thousands)	2021	2020	2019	Affected Line Item where Net Income is Presented
Net realized loss on hedging derivatives:				
Before tax	$—	$(4,852)	$—	Non-interest income
Tax effect	—	917	—	Tax expense
Total reclassifications for the period	$—	$(3,935)	$—	

(in thousands)	2021	2020	2019	Affected Line Item where Net Income is Presented
Realized loss on post-retirement plans:				
Before tax	$—	$—	$—	Non-interest expense
Tax effect	—	—	—	Tax expense
Total reclassifications for the period	$—	$—	$—	

Earnings per Share

Earnings per share have been computed based on the following:

(in thousands, except per share and share data)	2021	2020	2019
Net income	$ 39,299	$ 33,244	$ 22,620
Average number of basic common shares outstanding	14,968,973	15,245,728	15,540,884
Plus: dilutive effect of stock options and awards outstanding	76,189	25,819	46,109
Average number of diluted common shares outstanding[1]	15,045,162	15,271,547	15,586,993
Earnings per share:			
Basic	$ 2.63	$ 2.18	$ 1.46
Diluted	$ 2.61	$ 2.18	$ 1.45

(1) Average diluted shares outstanding are computed using the treasury stock method.

NOTE 13. STOCK-BASED COMPENSATION PLANS

The Company has several stock-based compensation plans that allow for grants of restricted stock, restricted shares, performance share units, performance shares and restricted stock units to its employees and non-employee directors. The Company's stock-based compensation plans are administered by the Compensation Committee of the Board of Directors. For the years ended December 31, 2021, 2020 and 2019, all common stock issuances in connection with stock-based compensation arrangements were issued from unissued shares. As of December 31, 2021, total shares authorized under the Company's stock-based compensation 2019 plan for employees and directors were 500,000 shares, of which 226,286 shares were available for future grants.

Compensation expense recognized in connection with the stock-based compensation plans are presented in the following table for the years ended December 31, 2021, 2020, and 2019:

(in thousands)	2021	2020	2019
Stock options	$ —	$ 12	$ 28
Restricted stock awards	357	275	300
Performance stock units	317	225	182
Restricted stock units	1,391	960	841
Total compensation expense	$2,065	$1,472	$1,351

Tax benefits recognized from stock-based compensation plans for the years ended December 31, 2021, 2020, and 2019 are, as follows:

(in thousands)	2021	2020	2019
Stock options(1)	$ 77	$ 9	$ 23
Restricted stock awards	84	65	72
Performance stock units	79	49	56
Restricted stock units	344	190	198
Total tax benefit	$584	$313	$349

(1) The Company does not receive a tax benefit on this plan until disqualifying dispositions are made.

Stock Options

A summary of stock options as of December 31, 2021 and 2020, and changes during the year then ended is presented below:

Stock Options	Number of Stock Options Outstanding	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2021	94,566	$20.29	
Granted	—	—	
Exercised	(36,441)	19.38	
Forfeited	—	—	
Expired	(161)	13.27	
Outstanding at December 31, 2021	57,964	$20.89	$466
Ending vested and expected to vest December 31, 2021	57,964	$20.89	$466
Exercisable at December 31, 2021	57,962	20.89	466

NOTE 13. STOCK-BASED COMPENSATION PLANS (Continued)

Stock Options	Number of Stock Options Outstanding	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2020	107,784	$20.15	
Granted	—	—	
Exercised	(9,860)	18.42	
Forfeited	(483)	16.96	
Expired	(2,875)	21.90	
Outstanding at December 31, 2020	94,566	$20.29	$226
Ending vested and expected to vest December 31, 2020	94,566	$20.29	$226
Exercisable at December 31, 2020	92,956	20.35	217

All outstanding options were fully vested with no unrecognized compensation cost as of December 31, 2021. The intrinsic value of the options exercised for the years ended December 31, 2021, 2020, and 2019, was approximately $331 thousand, $39 thousand and $94 thousand, respectively. The weighted average remaining contractual term of outstanding options is approximately 3.2 years.

Restricted Stock Awards

Restricted stock awards (RSAs) are granted to certain directors and executive officers and vest immediately. A summary of RSAs as of December 31, 2021 and 2020, and changes during the year then ended is presented below:

Restricted Stock Awards	Number of Restricted Stock Awards Outstanding	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2021	—	$ —
Awarded	11,418	31.29
Vested	(11,418)	31.29
Forfeited	—	—
Outstanding at December 31, 2021	—	$ —

Restricted Stock Awards	Number of Restricted Stock Awards Outstanding	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2020	—	$ —
Awarded	39,565	23.59
Vested	(39,565)	23.59
Forfeited	—	—
Outstanding at December 31, 2020	—	$ —

As RSAs are granted and vest on the same day there is no remaining contractual maturity or unrecognized expense to report as of December 31, 2021. As there is no exercise price, RSAs also have no intrinsic value as of December 31, 2021.

Performance Stock Units

The Company has a long-term incentive plan where performance unit awards (PSUs) are granted to certain executive officers providing the opportunity to earn shares of common stock of the Company based on its performance compared to peers. Participants in the plan were collectively granted PSUs ranging from zero to 49,625 in 2021 and from zero to 37,562 in 2020. The PSUs granted will vest only if the performance measures are achieved over a three year performance period. Failure to achieve the performance measures will result in all or a portion of shares being forfeited. On the grant dates in 2021 and 2020, PSUs had a weighted average fair value per share of $23.18 and $25.07, respectively. Expense is recognized over the performance period and is adjusted for changes in probability of the Company achieving profitability metrics.

NOTE 13. STOCK-BASED COMPENSATION PLANS (Continued)

The following table summarizes performance units at target as of December 31, 2021 and 2020:

Performance Stock Units	Number of Performance Stock Units Outstanding	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2021	56,328	$24.98
Awarded	33,083	23.18
Vested and exercised	(7,694)	26.79
Forfeited	(11,252)	25.33
Nonvested at December 31, 2021	70,465	$23.88

Performance Stock Units	Number of Performance Stock Units Outstanding	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2020	43,058	$26.01
Awarded	25,041	25.07
Vested and exercised	(10,369)	18.51
Forfeited	(1,402)	29.13
Nonvested at December 31, 2020	56,328	$24.98

Unrecognized expense for non-vested PSUs totaled $445 thousand as of December 31, 2021, which is expected to be recognized over the weighted average remaining contractual maturity term of 2.0 years. PSU's do not carry an exercise price and therefore have no intrinsic value as of December 31, 2021.

Restricted Stock Units

During 2021 and 2020, restricted stock units (RSUs) were granted to certain executive officers and senior vice presidents. Awards to executives vest annually over 3 years while awards to senior vice presidents cliff vest at the end of three years. The RSUs granted were valued between $22.51 and $28.93 for 2021 and between $20.44 and $25.07 for 2020 the fair value at the date of grant and are expensed over three years.

The following table summarizes restricted stock units activity in 2021 and 2020:

	Number of Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2021	131,398	$23.57
Granted	59,401	25.51
Vested and exercised	(38,202)	27.33
Forfeited	(18,980)	22.72
Outstanding at December 31, 2021	133,617	$23.48

	Number of Restricted Stock Units Outstanding	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2020	106,552	$25.82
Granted	63,667	21.98
Vested and exercised	(31,565)	27.38
Forfeited	(7,256)	25.60
Outstanding at December 31, 2020	131,398	$23.57

Restricted stock units include cash-based restricted stock units (CRSUs), total CRSUs vested and exercised during 2022 and 2020 were 20,568 and 13,290 shares, respectively. Unrecognized expense for non-vested RSUs totaled $2.1 million as of December 31, 2021, which is expected to be recognized over the weighted average remaining contractual maturity term of 1.9 years.

NOTE 13. STOCK-BASED COMPENSATION PLANS (Continued)

Employee Stock Purchase Plan

The Company maintains an employee stock purchase plan (ESPP) under which employees, through payroll deductions, are able to purchase shares of Company common stock. The purchase price is 92% of the lower of the market price on the first or last day of the offering period. The maximum number of shares issuable during any offering period is 200,000 shares however, as of December 31, 2021, December 31, 2020 and December 31, 2019, there were 167,502, 186,983 and 200,000 shares available for issuance under the ESPP, respectively. Participants may not purchase more than 400 shares during any offering period and, in any event, no more than $25 thousand worth of common stock in any calendar year. The ESPP has been determined to be non-compensatory in nature. As a result, the Company expects that expenses related to the ESPP will not be material. During the years ended December 31, 2021, 2020 and 2019, there were 19,481, 13,017 and zero shares of common stock issued under the ESPP, respectively.

NOTE 14. FAIR VALUE MEASUREMENTS

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company's financial assets and financial liabilities that are carried at fair value.

Recurring Fair Value Measurements

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of December 31, 2021 and December 31, 2020, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

	December 31, 2021			
(in thousands)	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Available for sale securities:				
Mortgage-backed securities:				
US Government-sponsored enterprises	$—	$236,117	$ —	$236,117
US Government agency	—	79,637	—	79,637
Private label	—	68,695	—	68,695
Obligations of states and political subdivisions thereof	—	141,776	—	141,776
Corporate bonds	—	92,051	—	92,051
Loans held for sale	—	5,523	—	5,523
Derivative assets	—	13,850	298	14,148
Derivative liabilities	—	(15,257)	—	(15,257)

	December 31, 2020			
(in thousands)	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Available for sale securities:				
Mortgage-backed securities:				
US Government-sponsored enterprises	$—	$212,390	$ —	$212,390
US Government agency	—	85,632	—	85,632
Private label	—	19,709	—	19,709
Obligations of states and political subdivisions thereof	—	169,004	—	169,004
Corporate bonds	—	98,311	—	98,311
Derivative assets(1)	—	25,895	22	25,917
Derivative liabilities(1)	—	(31,348)	(95)	(31,443)

(1) Prior period has been revised, see Note 1—Summary of Significant Accounting Policies—*Revision of Previously Issued Financial Statements.*

Securities Available for Sale: All securities and major categories of securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from independent pricing providers. The fair value measurements used by the pricing providers consider observable data that may include dealer quotes, market maker quotes and live trading systems. If quoted prices are not readily available, fair values are determined using matrix pricing models, or other model-based valuation techniques requiring observable inputs other than quoted prices such as market pricing spreads, credit information, callable features, cash flows, the U.S. Treasury yield curve, trade execution data, market consensus prepayment speeds, default rates, and the securities' terms and conditions, among other things.

NOTE 14. FAIR VALUE MEASUREMENTS (Continued)

Loans Held for Sale: The valuation of the Company's loans held for sale are determined on an individual basis using quoted secondary market prices and are classified as Level 2 measurements.

Derivative Assets and Liabilities

Cash Flow Hedges. The valuation of the Company's cash flow hedges are obtained from a third party. The pricing analysis is based on observable inputs for the contractual terms of the derivatives, including the period to maturity and interest rate curves. The inputs used to value the Company's cash flow hedges are all classified as Level 2 measurements.

Interest Rate Lock Commitments. The Company enters into IRLCs for residential mortgage loans, which commit the Company to lend funds to a potential borrower at a specific interest rate and within a specified period of time. The estimated fair value of commitments to originate residential mortgage loans for sale is based on quoted prices for similar loans in active markets. However, this value is adjusted by a factor which considers the likelihood of a loan in a lock position will ultimately close. The closing ratio is derived from the Company's internal data and is adjusted using significant management judgment. As such, IRLCs are classified as Level 3 measurements.

Forward Sale Commitments. The Company utilizes forward sale commitments as economic hedges against potential changes in the values of the IRLCs and loans originated for sale. The fair values of the Company's delivery loan sale commitments are determined similarly to the IRLCs using quoted prices in the market place that are observable. However, closing ratios included in the calculation are internally generated and are based on management's judgment and prior experience, which are not considered observable factors. As such, mandatory delivery forward commitments are classified as Level 3 measurements.

Customer Loan Derivatives. The valuation of the Company's customer loan derivatives is obtained from a third-party pricing service and is determined using a discounted cash flow analysis on the expected cash flows of each derivative. The pricing analysis is based on observable inputs for the contractual terms of the derivatives, including the period to maturity and interest rate curves. The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of master netting arrangements and any applicable credit enhancements, such as collateral postings.

Although the Company has determined that the majority of the inputs used to value its customer loan derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of December 31, 2021, the Company assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

The table below presents the changes in Level 3 assets and liabilities that were measured at fair value on a recurring basis in 2021 and 2020.

	Assets (Liabilities)	
(in thousands)	**Interest Rate Lock Commitments**	**Forward Commitments**
Year Ended December 31, 2021		
Balance at beginning of period	$ 22	$ (95)
Realized gain recognized in non-interest income	261	110
Balance at end of period	$283	$ 15
Year Ended December 31, 2020		
Balance at beginning of period	$ 59	$ (84)
Realized loss recognized in non-interest income	(37)	(11)
Balance at end of period	$ 22	$ (95)

NOTE 14. FAIR VALUE MEASUREMENTS (Continued)

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

(in thousands, except ratios)	Fair Value December 31, 2021	Fair Value December 31, 2020	Valuation Techniques	Unobservable Inputs	Significant Unobservable Input Value
Assets (Liabilities)					
Interest Rate Lock Commitment	$283	$ 22	Pull-through Rate Analysis	Closing Ratio	85%
			Pricing Model	Origination Costs, per loan	$1.7
			Discount Cash Flows	Mortgage Servicing Asset	1.0%
Forward Commitments	15	(95)	Quoted prices for similar loans in active markets	Freddie Mac pricing system	$99.8 to $103.2
Total	$298	$(73)			

There were no level 3 assets and liabilities that were measured at fair value on a recurring basis in 2021 and 2020.

Non-Recurring Fair Value Measurements

The Company is required, on a non-recurring basis, to adjust the carrying value or provide valuation allowances for certain assets using fair value measurements in accordance with U.S. GAAP. The following is a summary of applicable non-recurring fair value measurements.

	December 31, 2021	December 31, 2020	December 31, 2021	Fair Value Measurement Date as of December 31, 2021
(in thousands)	Level 3 Inputs	Level 3 Inputs	Total Gains (Losses)	Level 3 Inputs
Assets				
Individually evaluated loans	$ 8,324	$ 8,746	$ (422)	December 2021
Capitalized servicing rights	5,263	3,605	1,658	December 2021
Premises held for sale	226	962	(736)	December 2021
Total	$13,813	$13,313	$ 500	

Quantitative information about the significant unobservable inputs within Level 3 non-recurring assets as of December 31, 2021 and December 31, 2020 is as follows:

(in thousands, except ratios)	Fair Value December 31, 2021	Valuation Techniques	Unobservable Inputs	Range (Weighted Average)[(a)]
Assets				
Individually evaluated loans	$ 4,780	Fair value of collateral—appraised value	Loss severity	10% to 70%
			Appraised value	$71 to $1,792
Individually evaluated loans	3,544	Discount cash flow	Discount rate	2.88% to 9.50%
			Cash flows	$6 to $931
Capitalized servicing rights	5,263	Discounted cash flow	Constant prepayment rate (CPR)	12.47%
			Discount rate	9.53%
Premises held for sale	226	Fair value of asset less selling costs	Appraised value	$240
			Selling Costs	6%
Total	$13,813			

(a) Where dollar amounts are disclosed, the amounts represent the lowest and highest fair value of the respective assets in the population except for adjustments for market/property conditions, which represents the range of adjustments to individuals properties.

NOTE 14. FAIR VALUE MEASUREMENTS (Continued)

(in thousands, except ratios)	Fair Value December 31, 2020	Valuation Techniques	Unobservable Inputs	Range (Weighted Average)[(a)]
Assets				
Individually evaluated loans	$ 6,128	Fair value of collateral—appraised value	Loss severity	0% to 70%
			Appraised value	$0 to $1,730
Individually evaluated loans	2,618	Discount cash flow	Discount rate	3.50% to 9.50%
			Cash flows	$19 to $953
Capitalized servicing rights	3,605	Discounted cash flow	Constant prepayment rate (CPR)	18.53%
			Discount rate	10.05%
Premises held for sale	962	Fair value of asset less selling costs	Appraised value	$220 to $386
			Selling Costs	6%
Total	$13,313			

(a) Where dollar amounts are disclosed, the amounts represent the lowest and highest fair value of the respective assets in the population except for adjustments for market/property conditions, which represents the range of adjustments to individuals properties.

There were no Level 1 or Level 2 non-recurring fair value measurements for the periods ended December 31, 2021 and December 31, 2020.

Individually evaluated loans. Loans are generally not recorded at fair value on a recurring basis. Periodically, the Company records non-recurring adjustments to the carrying value of loans based on fair value measurements for partial charge-offs of the uncollectible portions of those loans. Non-recurring adjustments can also include certain impairment amounts for collateral-dependent loans calculated when establishing the allowance for credit losses. Such amounts are generally based on the fair value of the underlying collateral supporting the loan and, as a result, the carrying value of the loan less the calculated valuation amount does not necessarily represent the fair value of the loan. Real estate collateral is typically valued using appraisals or other indications of value based on recent comparable sales of similar properties or assumptions generally observable in the marketplace. However, the choice of observable data is subject to significant judgment, and there are often adjustments based on judgment in order to make observable data comparable and to consider the impact of time, the condition of properties, interest rates, and other market factors on current values. Additionally, commercial real estate appraisals frequently involve discounting of projected cash flows, which relies inherently on unobservable data. Therefore, non-recurring fair value measurement adjustments that relate to real estate collateral have generally been classified as Level 3. Estimates of fair value for other collateral that supports commercial loans are generally based on assumptions not observable in the marketplace and therefore such valuations have been classified as Level 3.

Capitalized loan servicing rights. A loan servicing right asset represents the amount by which the present value of the estimated future net cash flows to be received from servicing loans exceed adequate compensation for performing the servicing. The fair value of servicing rights is estimated using a present value cash flow model. The most important assumptions used in the valuation model are the anticipated rate of the loan prepayments and discount rates. Adjustments are only recorded when the discounted cash flows derived from the valuation model are less than the carrying value of the asset. Although some assumptions in determining fair value are based on standards used by market participants, some are based on unobservable inputs and therefore are classified in Level 3 of the valuation hierarchy.

Other real estate owned (“OREO”). OREO results from the foreclosure process on residential or commercial loans issued by the Bank. Upon assuming the real estate, the Company records the property at the fair value of the asset less the estimated sales costs. Thereafter, OREO properties are recorded at the lower of cost or fair value less the estimated sales costs. OREO fair values are primarily determined based on Level 3 data including sales comparables and appraisals.

Premises held for sale. Premises held for sale, identified as part of the Company’s strategic review and branch optimization exercise, were transferred from premises and equipment at the lower of amortized cost or fair value less the estimated sales costs. Assets held for sale fair values are primarily determined based on Level 3 data including sales comparables and appraisals.

Summary of Estimated Fair Values of Financial Instruments

The following table represents estimated fair values, and related carrying amounts of the Company’s financial instruments as of December 31, 2021 and December 31, 2020. Certain financial instruments and all non-financial instruments are excluded from disclosure requirements. Accordingly, the aggregate fair value amounts presented herein may not necessarily represent the underlying fair value of the Company.

NOTE 14. FAIR VALUE MEASUREMENTS (Continued)

	December 31, 2021				
(in thousands)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial Assets					
Cash and cash equivalents	$ 250,389	$ 250,389	$250,389	$ —	$ —
Securities available for sale	618,276	618,276	—	618,276	—
FHLB stock	7,384	7,384	—	7,384	—
Loans held for sale	5,523	5,523	—	5,523	—
Net loans	2,509,192	2,442,741	—	—	2,442,741
Accrued interest receivable	2,712	2,712	—	2,712	—
Cash surrender value of bank-owned life insurance policies	79,020	79,020	—	79,020	—
Derivative assets	14,148	14,148	—	13,850	298
Financial Liabilities					
Non-maturity deposits	$2,623,012	$2,853,000	$ —	$2,853,000	$ —
Time deposits	425,532	424,000	—	424,000	—
Securities sold under agreements to repurchase	19,802	19,802	—	19,802	—
FHLB advances	98,598	98,439	—	98,439	—
Subordinated borrowings	60,124	61,884	—	61,884	—
Derivative liabilities	15,257	15,257	—	15,257	—

	December 31, 2020				
(in thousands)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial Assets					
Cash and cash equivalents	$ 226,007	$ 226,007	$226,007	$ —	$ —
Securities available for sale	585,046	585,046	—	585,046	—
FHLB stock	14,036	14,036	—	14,036	—
Loans held for sale	23,988	24,163	—	24,163	—
Net loans	2,543,803	2,547,970	—	—	2,547,970
Accrued interest receivable	2,964	2,964	—	2,964	—
Cash surrender value of bank-owned life insurance policies	77,870	77,870	—	77,870	—
Derivative assets(1)	25,895	25,895	—	25,917	22
Financial Liabilities					
Non-maturity deposits	$2,207,854	$2,122,222	$ —	$2,122,222	$ —
Time deposits	698,361	694,700	—	694,700	—
Short-term other borrowings	27,779	27,779	—	27,779	—
FHLB advances	248,283	252,698	—	252,698	—
Subordinated borrowings	59,961	57,091	—	57,091	—
Derivative liabilities(1)	31,348	31,348	—	31,443	95

(1) Prior period has been revised, see Note 1—Summary of Significant Accounting Policies—*Revision of Previously Issued Financial Statements.*

NOTE 15. REVENUE FROM CONTRACTS WITH CUSTOMERS

The Company has accounted for the various non-interest revenue streams and related contracts under ASC 606.

Disaggregation of Revenue

The following tables present disaggregation of the Company's non-interest revenue by major business line and timing of revenue recognition for the transfer of products or services:

(in thousands)	Year Ended December 31, 2021	Year Ended December 31, 2020
Major Products/Service Lines		
Trust management fees	$13,495	$12,246
Financial services fees	1,684	1,132
Interchange fees	7,368	6,668
Customer deposit fees	4,905	3,746
Other customer service fees	939	913
Total	$28,391	$24,705

(in thousands)	Year Ended December 31, 2021	Year Ended December 31, 2020
Timing of Revenue Recognition		
Products and services transferred at a point in time	$14,250	$11,992
Products and services transferred over time	14,141	12,713
Total	$28,391	$24,705

Trust Management Fees

The trust management business generates revenue through a range of fiduciary services including trust and estate administration, wealth advisory, and investment management to individuals, businesses, not-for-profit organizations, and municipalities. These fees are primarily earned over time as the Company charges its customers on a monthly or quarterly basis in accordance with its investment advisory agreements. Fees are generally assessed based on a tiered scale of the market value of assets under management at month end. Certain fees, such as bill paying fees, distribution fees, real estate sale fees, and supplemental tax service fees, are recorded as revenue at a point in time upon the completion of the service.

Financial Services Fees

Bar Harbor Financial Services is a branch office of Infinex, an independent registered broker dealer offering securities and insurance products not affiliated with the Company or its subsidiaries. The Company has a revenue sharing agreement with Infinex for any financial service fee income generated. Financial services fees are recognized at a point in time upon the completion of service requirements.

Interchange Fees

The Company earns interchange fees from transaction fees that merchants pay whenever a customer uses a debit card to make a purchase from their store. The fees are paid to the card-issuing bank to cover handling costs, fraud, bad debt costs and the risk involved in approving the payment. Interchange fees are generally recognized as revenue at a point in time upon the completion of a debit card transaction.

Customer Deposit Fees

The customer deposit business offers a variety of deposit accounts with a range of interest rates, fee schedules and other terms, which are designed to meet the customer's financial needs. Additional depositor-related services provided to customers include ATM, bank-by-phone, internet banking, internet bill pay, mobile banking, and other cash management services which include remote deposit capture, ACH origination, and wire transfers. These customer deposit fees are generally recognized by the Company at a point in time upon the completion of the service.

Other Customer Service Fees

The Company has certain incentive and referral fee arrangements with independent third parties in which fees are earned for new account activity, product sales, or transaction volume generated for the respective third parties. The Company also earns a percentage of the fees generated from third-party credit card plans promoted through the Bank. Revenue from these incentive and referral fee arrangements are recognized over time using the right to invoice measure of progress.

NOTE 15. REVENUE FROM CONTRACTS WITH CUSTOMERS (Continued)

Contract Balances with Customers

The following table provides information about contract assets or receivables and contract liabilities or deferred revenues from contracts with customers:

(in thousands)	December 31, 2021	December 31, 2020
Balances from contracts with customers only:		
Other Assets	$1,184	$1,121
Other Liabilities	2,324	2,785

The timing of revenue recognition, billings and cash collections results in contract assets or receivables and contract liabilities or deferred revenue on the consolidated balance sheets. For most customer contracts, fees are deducted directly from customer accounts and, therefore, there is no associated impact on the accounts receivable balance. For certain types of service contracts, the Company has an unconditional right to consideration under the service contract and an accounts receivable balance is recorded for services completed. When consideration is received, or such consideration is unconditionally due, from a customer prior to transferring goods or services to the customer under the terms of a contract, a contract liability is recorded. Contract liabilities are recognized as revenue after control of the products or services is transferred to the customer and all revenue recognition criteria have been met.

Costs to Obtain and Fulfill a Contract

The Company currently expenses contract costs for processing and administrative fees for debit card transactions. The Company also expenses custody fees and transactional costs associated with securities transactions as well as third party tax preparation fees. The Company has elected the practical expedient in ASC 340-40-25-4, whereby the Company recognizes the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets the Company otherwise would have recognized is one year or less.

NOTE 16. LEASES

A lease is defined as a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. Substantially all of the leases pursuant to which the Company is the lessee are comprised of real estate property for branches, ATM locations, and office space with terms extending through 2040. All leases are classified as operating leases, and are recognized on the consolidated balance sheets as a right- of-use ("ROU") asset with a corresponding lease liability.

The following table presents the consolidated statements of condition classification of the Company's ROU assets and lease liabilities:

(in thousands)	Classification	December 31, 2021	December 31, 2020
Lease Right-of-Use Assets			
Operating lease right-of-use assets	Other assets	$9,274	$10,338
Lease Liabilities			
Operating lease liabilities	Other liabilities	9,643	10,627

The calculated amount of the ROU assets and lease liabilities in the table above are impacted by the length of the lease term and the discount rate used for the present value of the minimum lease payments. The Company's lease agreements often include one or more options to renew at the Company's discretion. If at lease inception, the Company considers the exercising of a renewal option to be reasonably certain, the Company will include the extended term in the calculation of the ROU asset and lease liability.

	December 31, 2021	December 31, 2020
Weighted-average remaining lease term (in years)		
Operating leases	8.03	9.26
Weighted-average discount rate		
Operating leases	3.07%	3.15%

NOTE 17. CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY

The following table represents lease costs and other lease information. As the Company elected, for all classes of underlying assets, not to separate lease and non-lease components and instead to account for them as a single lease component, the variable lease cost primarily represents variable payments such as real estate taxes, common area maintenance and utilities.

	Year Ended		
(in thousands)	**December 31, 2021**	**December 31, 2020**	**December 31, 2019**
Lease Costs			
Operating lease cost	$1,295	$1,285	$ 698
Variable lease cost	229	271	711
Total lease cost	$1,524	$1,556	$1,409

Future minimum payments for operating leases with initial or remaining terms of one year or more as of December 31, 2021 are, as follows:

(in thousands)	**Payments**
Twelve Months Ended:	
December 31, 2022	$ 1,344
December 31, 2023	1,343
December 31, 2024	1,316
December 31, 2025	1,092
December 31, 2026	987
Thereafter	4,074
Total future minimum lease payments	10,156
Amounts representing interest	(513)
Present value of net future minimum lease payments	$ 9,643

The condensed balance sheets of Bar Harbor Bankshares as of December 31, 2021 and 2020, and the condensed statements of income and cash flows for the years ended December 31, 2021, 2020 and 2019 are presented below:

CONDENSED BALANCE SHEETS

	December 31,	
(in thousands)	**2021**	**2020**
Assets		
Cash	$ 2,572	$ 10,741
Investment in subsidiaries(1)	479,914	460,369
Premises and equipment	792	756
Other assets	7,078	1,934
Total assets	$490,356	$473,800
Liabilities and Shareholders' Equity		
Subordinated notes	$ 60,124	$ 59,961
Accrued expenses	6,085	6,774
Shareholders' equity(1)	424,147	407,065
Total liabilities and shareholders' equity(1)	$490,356	$473,800

(1) Prior period has been revised, see Note 1—Summary of Significant Accounting Policies—*Revision of Previously Issued Financial Statements.*

NOTE 17. CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY (Continued)

CONDENSED STATEMENTS OF INCOME

(in thousands)	Years Ended December 31, 2021	2020	2019
Income:			
Dividends from subsidiaries	$15,557	$ 8,024	$21,734
Other income	740	742	337
Total income	16,297	8,766	22,071
Interest expense	2,632	2,750	2,188
Non-interest expense	5,455	4,465	3,208
Total expense	8,087	7,215	5,396
Income before taxes and equity in undistributed income of subsidiaries	8,210	1,552	16,675
Income tax benefit	(1,741)	(1,539)	(1,100)
Income before equity in undistributed income of subsidiaries	9,951	3,091	17,775
Equity in undistributed income of subsidiaries	29,348	30,153	4,845
Net income	$39,299	$33,244	$22,620

CONDENSED STATEMENTS OF CASH FLOWS

(in thousands)	Years Ended December 31, 2021	2020	2019
Cash flows from operating activities:			
Net income	$ 39,299	$ 33,244	$ 22,620
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Equity in undistributed income of subsidiaries	(29,348)	(30,153)	(4,845)
Other, net	(5,582)	3,840	(1,040)
Net cash provided by operating activities	4,369	6,931	16,735
Cash flows from investing activities:			
Acquisitions, net of cash paid	—	—	—
Purchase of securities	—	—	—
Capital contribution to subsidiary	—	—	(8,000)
Net cash (used in) investing activities	—	—	(8,000)
Cash flows from financing activities:			
Proceeds from issuance of subordinated debt	—	—	40,000
Repayment of subordinated debt	—	—	(17,000)
Net proceeds from common stock	1,534	2,192	883
Net proceeds from reissuance of treasury stock	—	(14,188)	(22)
Common stock cash dividends paid	(14,072)	(13,417)	(13,366)
Net cash (used in) provided by financing activities	(12,538)	(25,413)	10,495
Net change in cash and cash equivalents	(8,169)	(18,482)	19,230
Cash and cash equivalents at beginning of year	10,741	29,223	9,993
Cash and cash equivalents at end of year	$ 2,572	$ 10,741	$ 29,223

NOTE 18. QUARTERLY FINANCIAL DATA (UNAUDITED)

The Company has revised amounts reported in previously issued quarterly financial statements of 2021 and 2020 related to errors. The revised amounts relate to derivatives that were incorrectly presented as assets instead of liabilities and related equity effects net of tax and the related effects on comprehensive income and shareholders' equity.

The following tables present the revisions to comprehensive income from our previously issued financial statements to reflect the correction of errors:

(in thousands)	As Reported	Adjustment	As Revised
Three Months Ended March 31, 2021			
Other comprehensive income, before tax:			
Changes in unrealized loss on hedging derivatives	$ (2,659)	$ 5,052	$ 2,393
Income taxes related to other comprehensive income:			
Changes in unrealized loss on hedging derivatives	620	(1,176)	(556)
Total other comprehensive loss	(7,552)	3,876	(3,676)
Total comprehensive income	$ 1,928	$ 3,876	$ 5,804
Three Months Ended June 30, 2021			
Other comprehensive income, before tax:			
Changes in unrealized gain on hedging derivatives	$ 1,963	$(1,842)	$ 121
Income taxes related to other comprehensive income:			
Changes in unrealized gain on hedging derivatives	(460)	430	(30)
Total other comprehensive income	4,230	(1,412)	2,818
Total comprehensive income	$13,255	$(1,412)	$11,843

NOTE 18. QUARTERLY FINANCIAL DATA (UNAUDITED) (Continued)

(in thousands)	As Reported	Adjustment	As Revised
Three Months Ended March 31, 2020			
Other comprehensive income, before tax:			
Changes in unrealized (loss) on hedging derivatives	$ (2,382)	$(6,540)	$ (8,922)
Income taxes related to other comprehensive income:			
Changes in unrealized loss on hedging derivatives	650	1,535	2,185
Total other comprehensive income	2,279	(5,005)	(2,726)
Total comprehensive income	$10,000	$(5,005)	$ 4,995
Three Months Ended June 30, 2020			
Other comprehensive income, before tax:			
Changes in unrealized gain (loss) on hedging derivatives	$ 626	$ (692)	$ (66)
Income taxes related to other comprehensive income:			
Changes in unrealized (gain) loss on hedging derivatives	(147)	162	15
Total other comprehensive income	2,331	(530)	1,801
Total comprehensive income	$10,812	$ (530)	$10,282
Three Months Ended September 30, 2020			
Other comprehensive income, before tax:			
Changes in unrealized gain on hedging derivatives	$ 805	$ 497	$ 1,302
Income taxes related to other comprehensive income:			
Changes in unrealized gain on hedging derivatives	(190)	(118)	(308)
Total other comprehensive income	884	379	1,263
Total comprehensive income	$ 9,286	$ 379	$ 9,665
Three Months Ended December 31, 2020			
Other comprehensive income, before tax:			
Changes in unrealized gain on hedging derivatives	$ 4,723	$ 1,312	$ 6,035
Income taxes related to other comprehensive income:			
Changes in unrealized gain on hedging derivatives	(1,193)	(313)	(1,506)
Total other comprehensive income	1,611	999	2,610
Total comprehensive income	$10,251	$ 999	$11,250

NOTE 19. SUBSEQUENT EVENTS

There were no significant subsequent events between December 31, 2021 and through the date the financial statements are available to be issued.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures: The Company carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of its disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are designed to ensure that the information required to be disclosed in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and are operating in an effective manner.

Management Report on Internal Control over Financial Reporting: Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act is a process designed by, or under the supervision of, the Company's principal executive and principal financial officers and effected by the Company's Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2021. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control-Integrated Framework (2013)*.

Based on its assessment, management believes that as of December 31, 2021, the Company's internal control over financial reporting is effective, based on the criteria set forth by COSO in *Internal Control—Integrated Framework (2013)*.

The Company's independent registered public accounting firm has issued an audit report on the effectiveness of the Company's internal control over financial reporting. This audit report appears within Item 8 of this report.

Changes in Internal Control Over Financial Reporting: No change in the internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the last fiscal year that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Internal Control Over Financial Reporting

We have audited Bar Harbor Bankshares and Subsidiaries' (the Company) internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of Bar Harbor Bankshares and Subsidiaries (the Company) as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2021, and the related notes to the consolidated financial statements of the Company and our report dated March 14, 2022 expressed an unqualified opinion.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying "Management Report on Internal Control Over Financial Reporting". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ RSM US LLP

Boston, Massachusetts
March 14, 2022

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The information required in response to this Item 10 is incorporated herein by reference to the Company's Definitive Proxy Statement to be filed with the SEC pursuant to Regulation 14A of the Exchange Act not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

The information required in response to this Item 11 is incorporated herein by reference to the Company's Definitive Proxy Statement to be filed with the SEC pursuant to Regulation 14A of the Exchange Act not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The information required in response to this Item 12 is incorporated herein by reference to the Company's Definitive Proxy Statement to be filed with the SEC pursuant to Regulation 14A of the Exchange Act not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required in response to this Item 13 is incorporated herein by reference to the Company's Definitive Proxy Statement to be filed with the SEC pursuant to Regulation 14A of the Exchange Act not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required in response to this Item 14 is incorporated herein by reference to the Company's Definitive Proxy Statement to be filed with the SEC pursuant to Regulation 14A of the Exchange Act not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

1. All Financial Statements

The consolidated financial statements of the Company and report of the Company's independent registered public accounting firm incorporated herein are included in Item 8 of this report as follows:

2. Financial Statement Schedules. Schedules have been omitted because they are not applicable or are not required under the instructions contained in Regulation S-X or because the information required to be set forth therein is included in the consolidated financial statements or notes thereto.

EXHIBIT INDEX

Exhibit No.	Description
3.1	Articles of Incorporation, as amended to date (incorporated herein by reference to Exhibit 3.1 to the Quarterly Report to Form 10-Q filed on November 5, 2015)
3.2	Bylaws, as amended to date (incorporated herein by reference to Exhibit 3.2 to the Current Report on Form 8-K filed on November 29, 2011)
4.1	Certificate of Designations, Fixed Rate Cumulative Perpetual Preferred Stock, Series A (incorporated herein by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on January 21, 2009)
4.2	Form of Specimen Stock Certificate for Series A Preferred Stock (incorporated herein by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on January 21, 2009)
4.3	Debt Securities Purchase Agreement (incorporated herein by reference to Exhibit 4.5 to the Annual Report on Form 10-K filed on March 16, 2009)
4.4	Form of Subordinated Debt Security of Bar Harbor Bank & Trust (incorporated herein by reference to Exhibit 4.6 to the Annual Report on Form 10-K filed on March 16, 2009)
4.5	Description of Company Common Stock (incorporated herein by reference to Exhibit 99.1 to the Current Report on Form 8-K filed on August 7, 2015)
4.6*	Indenture, dated as of November 26, 2019, by and between Bar Harbor Bankshares and U.S. Bank, National Association. (incorporated herein by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on November 26, 2019)
4.7	Form of 4.625% Fixed-to-floating Subordinated Note due 2029 of Bar Harbor Bankshares (incorporated herein by reference to Exhibit 4.2 to the Current Report on Form 8-K filed on November 26, 2019)
10.1†	Bar Harbor Bankshares Executive Change in Control Severance Plan (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on November 21, 2018)
10.2†	Bar Harbor Bankshares Executive Change in Control Severance Plan Participation Agreement (incorporated herein by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on November 21, 2018)
10.3†	Employment Agreement, dated as of February 22, 2018, between Bar Harbor Bankshares, Bar Harbor Bank & Trust and Curtis C. Simard (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on February 22, 2018)
10.4†	Employment Agreement, dated as of September 14, 2020, between Bar Harbor Bankshares, Bar Harbor Bank & Trust and Josephine Iannelli (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on September 28, 2016)
10.5†	2019 through 2021 Long Term Executive Incentive Program Guidelines (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on December 17, 2018)
10.6†	2020 through 2022 Long Term Executive Incentive Program Guidelines
10.7†	2021 through 2023 Long Term Executive Incentive Program Guidelines
10.8†	Bar Harbor Bankshares and Subsidiaries Equity Incentive Plan of 2015 (incorporated herein by reference to Exhibit 10 to the Current Report on Form 8-K filed on May 22, 2015).
10.9†	Form of Incentive Stock Option Agreement under Equity Incentive Plan of 2015.Form of Restricted Stock Agreement (Directors) under Equity Incentive Plan of 2015 (incorporated herein by reference to Exhibit 10.2 to the Registration Statement on Form S-8 filed on August 18, 2015)
10.10†	Form of Restricted Stock Agreement (Directors) under Equity Incentive Plan of 2015 (incorporated herein by reference to Exhibit 10.3 to the Registration Statement on Form S-8 filed on August 18, 2015)
10.11†	Form of Restricted Stock and Performance-Based Restricted Stock Unit Agreement under Equity Incentive Plan of 2015 (incorporated herein by reference to Exhibit 10.4 to the Registration Statement on Form S-8 filed on August 18, 2015)
10.12†	Bar Harbor Bankshares 2019 Equity Plan (incorporated herein by reference to Appendix B to the Company's Definitive Proxy Statement on Form DEF 14A dated April 15, 2019)

Exhibit No.	Description
10.13†	Form of Subordinated Note Purchase Agreement, dated as of November 26, 2019, by and among Bar Harbor Bankshares and the several purchasers of 4.625% Fixed-to-Floating Subordinated Notes due 2029 (incorporated by reference to Exhibit 10.1 to the Current Report on From 8-K Filed November 26, 2019)
10.14	Somesville Bank Branch Lease dated October 27, 2005 (incorporated herein by reference to Exhibit 10 to the Annual Report on Form 10-K filed on March 16, 2006)
10.15*	Form of Subordinated Note Purchase Agreement, dated as of November 26, 2019, by and among Bar Harbor Bankshares and the several purchasers of 4.625% Fixed-to-Floating Subordinated Notes due 2029 (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on November 26, 2019)
10.16	Form of Registration Rights Agreement, dated as of November 26, 2019, by and among Bar Harbor Bankshares and the Purchasers (incorporated herein by reference to Exhibit 10.2 to the Current Report on Form 8-K filed on November 26, 2019)
10.17*	Purchase and Assumption Agreement, dated July 8, 2019, by and between People's United Bank, National Association, and Bar Harbor Bank & Trust (incorporated herein by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on July 8, 2019)

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Exhibit No.	Description
21.1	Subsidiaries of the Registrant
23.1	Consent of Independent Registered Public Accounting Firm, RSM US LLP
31.1	Certification of Chief Executive Officer under Rule 13a-14(a)/15d-14(a)
31.2	Certification of Chief Financial Officer under Rule 13a-14(a)/15d-14(a)
32.1	Certification of Chief Executive Officer under 18 U.S.C. Sec. 1350.
32.2	Certification of Chief Financial Officer under 18 U.S.C. Sec. 1350.
101	The following financial information from the Company's Annual Report on Form 10-K for the year ended December 31, 2021 is formatted in inline XBRL: (i) Consolidated Condensed Statements of Income, (ii) the Condensed Consolidated Balance Sheets, (iii) the Condensed Consolidated Statements of Changes in Shareholders' Equity,(iv) Consolidated Statements of Cash Flows and (v) Notes to the Consolidated Condensed Financial Statements
104	Cover Page Interactive Data File – the cover page XBRL tags are embedded within the Inline XBRL document

* Schedules (or similar attachments) have been omitted pursuant to Item 601(a)(5) of Regulation S-K. The registrant hereby undertakes to furnish copies of any of the omitted schedules upon request by the Securities and Exchange Commission, *provided* that the registrant may request confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934 for any schedules so furnished.

† Indicates management contract or compensatory plan.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 14, 2022

/s/ Curtis C. Simard

Name: Curtis C. Simard
Title: President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, the following persons have signed this report in the capacities indicated on behalf of the Registrant.

/s/ David B. Woodside
David B. Woodside, Chairman, Board of Directors

/s/ Curtis C. Simard
Curtis C. Simard, Director
President & Chief Executive Officer

/s/ Daina H. Belair
Daina H. Belair, Director

/s/ Josephine Iannelli
Josephine Iannelli
Executive Vice President and Chief Financial Officer

/s/ Matthew L. Caras
Matthew Caras, Director

/s/ Brendan O'Halloran
Brendan O'Halloran, Director

/s/ David M. Colter
David M. Colter, Director

/s/ Kenneth E. Smith
Kenneth E. Smith, Director

/s/ Steven H. Dimick
Steven H. Dimick, Director

/s/ Stephen R. Theroux
Stephen R. Theroux, Director

/s/ Martha Tod Dudman
Martha Tod Dudman, Director

/s/ Scott G. Toothaker
Scott G. Toothaker, Director

/s/ Lauri E. Fernald
Lauri E. Fernald, Director

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