

STRENGTH. PROFITABILITY. GROWTH.



2008 ANNUAL REPORT



## 2008 FINANCIAL HIGHLIGHTS

### YEAR-OVER-YEAR RESULTS

Net Income . . . . .	\$7.7 million, up 8.1%
Diluted Earnings Per Share . . . . .	\$2.57, up 11.8%
Tax-Equivalent Net Interest Income . . . . .	\$28.1 million, up 19.2%
Non-interest Income . . . . .	\$6.4 million, up 8.5%
Non-interest Expense . . . . .	\$20.5 million, up 12.7%
Total Assets . . . . .	\$972 million, up 9.3%
Total Investment Securities . . . . .	\$291 million, up 9.8%
Total Loans . . . . .	\$634 million, up 9.3%
Total Deposits . . . . .	\$578 million, up 7.2%







STRENGTH. PROFITABILITY. GROWTH.



# LETTER TO THE SHAREHOLDERS

Pictured (l-r): Colwell and Murphy



Dear Fellow Shareholders:

We are pleased to provide you with our Summary Annual Report for 2008.

In our recent annual reports, and no doubt with echoes from recent annual reports of community banks across the country, we have positioned our strong results, year after year, against a “backdrop of challenging conditions” and “headwinds” and “unprecedented conditions in the financial markets.” To some readers, these may well sound like shopworn clichés rolled out by unimaginative bankers once a year; but how pertinent and fresh such observations seem today!

During these extraordinary times there is an important point that we must take this opportunity to make. Recent events have confirmed the enduring validity of the community banking business model, unique to the United States, which once again has persevered through amazing challenges. The community bank business model is simple, transparent and grounded in common sense that every employee, customer and shareholder can comprehend. Bar Harbor Bankshares is one such community bank, and, to be fully candid, we are more than pleased to share our results for 2008; we are hugely satisfied!

Most bank investors did not expect increased profits from banks in 2008, but we were delighted to report just that. Net income for Bar Harbor Bankshares was up 8.1% over 2007 to a record level of \$7.7 million. Diluted earnings per share were up 11.8% over 2007 to \$2.57. Also contrary to the national

trend our Return on Average Equity improved to 11.87%.

We are also pleased to have posted significant gains in a number of important balance sheet categories. Total assets grew over 9% and ended the year at \$972 million. Loans reached \$634 million at year end, lead by continued strength in business lending. We believe that this continued success is a testament to our fundamental strategy of using our strong service ethic to develop enduring relationships, which remain loyal during the weak markets as well as the strong.

We saw reduced demand for residential lending during much of 2008, with a resurgence of demand late in the fourth quarter, as interest rates began their fall to historically low levels. Despite this ebb and flow of demand, our residential loan portfolio remained relatively flat, which was not unexpected.

We are delighted to report that, even with continued robust growth in loans, the Company’s asset quality indicators remained strong through all of 2008. While delinquencies were modestly up, they lagged significantly behind both our peer group and national averages. Non-performing loans remained relatively low at 0.70% of total loans. We are also pleased that the Company’s exposure to loans in foreclosure is modest, which affords us the opportunity to work closely with individuals and small businesses to avoid foreclosures wherever possible.

Our growth in deposits has been important, as low cost deposits are the oxygen of successful community banks. In 2008, total deposits grew \$39 million or 7.2%, while retail deposits, the most cost-effective, grew \$54 million or 12.5%. This beneficial growth reflects well upon the efforts of our customer contact staff throughout all our markets.

Our key profit driver, tax equivalent net interest income, was up 19.2% for the year and was driven by an improved net interest margin, up 22 basis points over 2007. These improvements were the

result of consistent day-to-day collaboration among our Finance, Retail Banking and Business Banking teams to ensure that every interest rate decision, whether large or small, contributes to our profitability as much as possible. During the year we also developed additional sources of lower cost liquidity to provide as many options as possible to fund our loans and investments at the best possible cost.

During 2008, many institutions and individuals struggled with difficult decisions about managing investment funds in the face of turbulent financial markets. We are pleased to offer what we believe are professional investment management solutions through Bar Harbor Trust Services and Bar Harbor Financial Services. We believe both units are exceptional choices for investors who prefer a local alternative which is professional, accessible, and sensitive to the needs of both large and small investors. These business units reported combined fees of \$2.5 million in 2008 representing an increase of 7.6% over 2007.

We recognize we must be vigilant to ensure we have in place appropriate technology and delivery systems to meet the emerging and diverse expectations of our customers. During 2008, our Operations and Information Technology teams deployed significant improvements in technical infrastructure and product functionality to improve the banking experience of our customers and the work experience of our employees. These teams enjoyed one of their most productive years in recent memory and helped the Company achieve meaningful gains in expense management, risk mitigation and product enhancement.

Our achievements in 2008 were the direct result of the commitment of all our team members to help us in our quest to become the most successful community bank in Northern New England. In reflection on our results for 2008, we recently shared these observations with our team members:

“Every division, department and office of the Company contributed to these results. The entire team collaborated well and did the right things every day for the right reasons and in the right spirit. We took good care of our customers; we watched

expenses; we made sure we were paid fairly for what we delivered; we made sound investment choices and we made prudent credit decisions. When you do all these things well, you get a good year ...and we did.”

While we are encouraged by our overall results and the value we believe we have delivered to our shareholders, we are profoundly disappointed by the manner in which the markets have abused our stock price. Bar Harbor Bankshares is sound, profitable and demonstrating strong growth in many positive ways that are consistent with its performance trends over the past five years. We deeply regret the current phenomenon that lumps all banks, large or small, Wall Street or Main Street, profitable or not, together in the same out-of-favor basket. We believe that you, our investors, deserve better.

We are committed to doing everything we can, through individual efforts and in concert with our trade associations to make sure that the media, the public, and the federal government recognize the important distinctions among banks and the critical role community banks, like Bar Harbor Bankshares, will play in the ultimate financial recovery that all our constituents, investors, customers, employees and neighbors so eagerly anticipate. In the meantime, you can count upon us to continue to do our best every day to deliver excellent value to the communities we serve in coastal Maine.

On behalf of the Board of Directors and all the Bar Harbor Bankshares team members, we extend our heartfelt thanks to our shareholders for your continued loyalty and support.

Sincerely,



Joseph M. Murphy  
President and Chief Executive Officer



Thomas A. Colwell  
Chairman



In order to best serve our shareholders and customers, before we consider new ways to grow or make a profit, we must first have an underlying strong foundation upon which to build. We approach our work each day with this belief in mind. Given our strong balance sheet, liquidity position, earnings fundamentals and capitalization, we believe our Company is well positioned to manage through the many uncertainties that likely lie ahead for the banking industry.





# STRENGTH.

A testament to our strength, Sandler O'Neill & Partners, L.P., a prominent national research and financial advisory firm, selected Bar Harbor Bankshares for inclusion in its Sandler O'Neill Sm-All Stars Class of 2008, which recognizes the top performing small-cap banks and thrifts in the nation. Of the 574 publicly traded banks and thrifts with a market cap of less than \$2 billion included in the evaluation only 33 were selected as stand-outs in growth, profitability, credit quality, and capital strength.

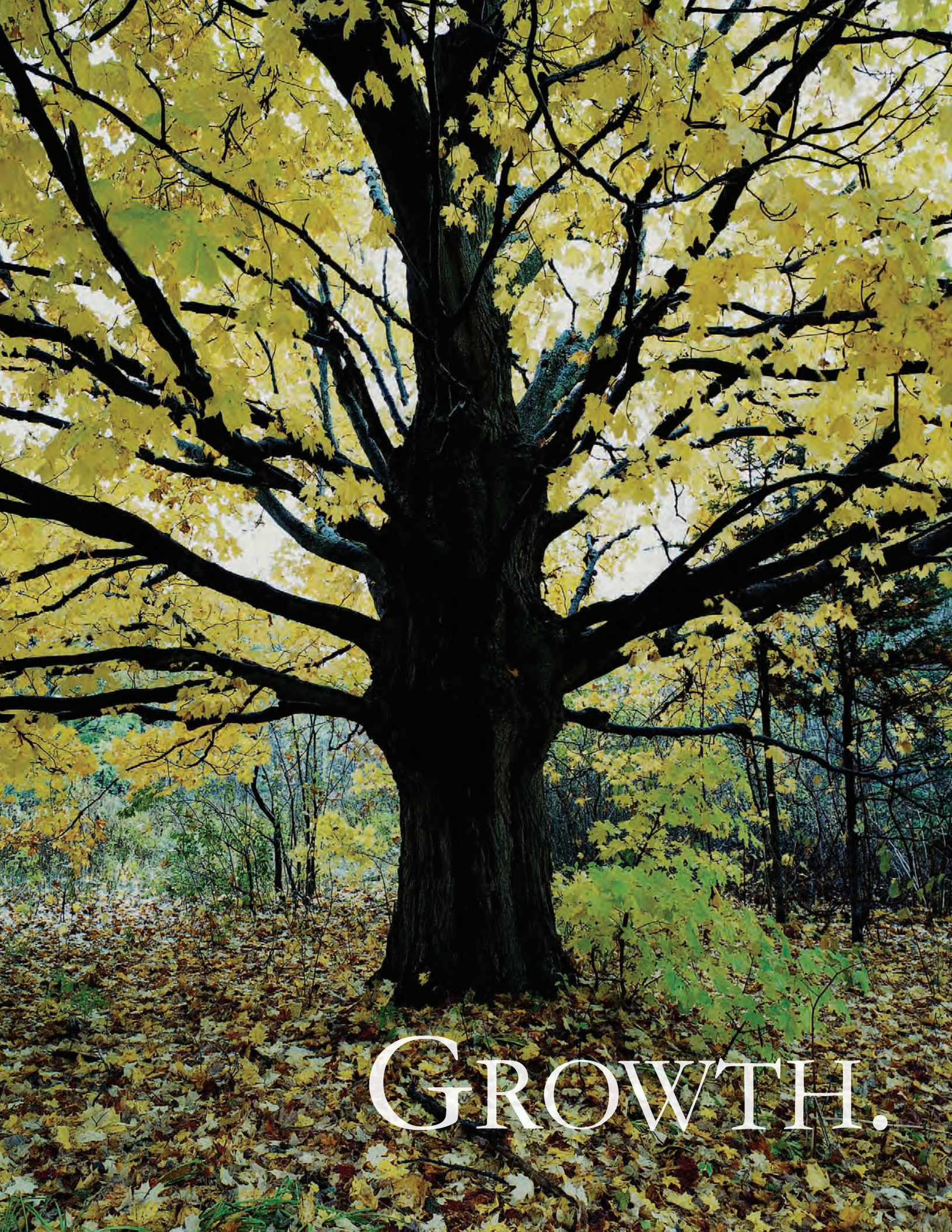
Community banks realize profits through several avenues: developing a strong net interest margin; collecting fair fees for services provided; and controlling expenses. During the course of 2008, the Bank enjoyed an expanding net interest margin and a significant increase in net interest income, which was the primary driver underlying the Company's excellent earnings performance. By paying close attention to service quality and by cultivating a talented business development team, we have been able to realize robust growth in earning assets this year. Through careful monitoring of all expense categories, we lowered our efficiency ratio to record levels in 2008. Our razor sharp focus on interest rates, credit quality, and cost control has allowed us to report a solidly profitable year during what is widely viewed as one of the more turbulent periods in the history of banking.





PROFITABILITY.





GROWTH.



We have never been a company to grow purely for growth's sake. For that reason, growth comes only after we have ensured strength and profitability. Looking back over the past five years, we have shown an unbroken growth trend in many critical areas. At 2008 year end, compared to where we were just five years ago, total assets have increased 46%, loans are up 41%, deposits have grown 45% and net income has risen 50%. This growth has been achieved without bank acquisitions and without sacrificing asset quality, sound expense management or customer service. Over this same time period, we have realized meaningful growth in shareholder value through increases in earnings per share and dividends. We have made this growth possible by paying attention to fundamentals. We are delighted to remain an independent community bank that delivers exceptional service to our customers and consistent returns to our shareholders.

## FIVE YEAR SELECTED FINANCIAL DATA

The following table sets forth selected financial data for the last five years.  
(in thousands, except per share data):

	2008	2007	2006	2005	2004
<b>Balance Sheet Data</b>					
Total assets	\$ 972,288	\$ 889,472	\$ 824,877	\$ 747,945	\$ 666,811
Total investment securities	290,502	264,617	213,252	183,300	176,337
Total loans	633,603	579,711	555,099	514,866	448,478
Allowance for loan losses	(5,446)	(4,743)	(4,525)	(4,647)	(4,829)
Total deposits	578,193	539,116	496,319	445,731	398,272
Total borrowings	323,903	278,853	260,712	239,696	206,923
Total shareholders' equity	65,445	65,974	61,051	56,104	56,042
Average assets	926,357	841,206	788,557	689,644	646,205
Average shareholders' equity	65,139	62,788	57,579	56,132	54,200
<b>Results Of Operations</b>					
Interest and dividend income	\$ 53,594	\$ 51,809	\$ 46,145	\$ 37,195	\$ 31,922
Interest expense	26,403	28,906	24,449	15,336	11,545
Net interest income	27,191	22,903	21,696	21,859	20,377
Provision for loan losses	1,995	456	131	-	180
Net interest income after provision for loan losses	25,196	22,447	21,565	21,859	20,197
Non-interest income	6,432	5,929	6,876	6,415	6,572
Non-interest expense	20,513	18,201	18,677	19,268	18,914
Income before income taxes	11,115	10,175	9,764	9,006	7,855
Income taxes	3,384	3,020	2,885	2,582	2,123
Net income	<u>\$ 7,731</u>	<u>\$ 7,155</u>	<u>\$ 6,879</u>	<u>\$ 6,424</u>	<u>\$ 5,732</u>
<b>Earnings Per Share:</b>					
Basic	<u>\$ 2.63</u>	<u>\$ 2.36</u>	<u>\$ 2.26</u>	<u>\$ 2.09</u>	<u>\$ 1.85</u>
Diluted	<u>\$ 2.57</u>	<u>\$ 2.30</u>	<u>\$ 2.20</u>	<u>\$ 2.03</u>	<u>\$ 1.79</u>
Return on total average assets	0.83%	0.85%	0.87%	0.93%	0.89%
Return on total average equity	11.87%	11.40%	11.95%	11.44%	10.58%
Average equity to average assets	7.03%	7.46%	7.30%	8.14%	8.39%
Tangible book value per share	\$ 21.65	\$ 20.88	\$ 18.93	\$ 17.22	\$ 17.06
Dividends per share	\$ 1.020	\$ 0.955	\$ 0.905	\$ 0.840	\$ 0.800
Dividend payout ratio	38.84%	40.5%	40.1%	40.2%	43.3%

Refer to the Bar Harbor Bankshares 2008 Annual Report on Form 10-K for a complete set of consolidated financial statements, including information covering stock prices, dividends, and outstanding shares.  
This applies to all data on this page and on pages 12-17.





## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors

Bar Harbor Bankshares:

We have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Bar Harbor Bankshares and subsidiaries (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in shareholders' equity, comprehensive income and cash flows, for each of the years in the three-year period ended December 31, 2008 (not presented herein); and in our report dated March 16, 2009, we expressed an unqualified opinion on those consolidated financial statements.

In our opinion, the information set forth in the accompanying consolidated balance sheets as of December 31, 2008 and 2007 and consolidated statements of income for each of the years in the three-year period ended December 31, 2008, is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

**KPMG LLP**

KPMG LLP

Albany, New York

March 16, 2009



# CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31, 2008 AND 2007 (in thousands, except share data)

	2008	2007
<b>Assets</b>		
Cash and due from banks	\$ 9,041	\$ 7,726
Overnight interest bearing money market funds	1	5
Total cash and cash equivalents	9,042	7,731
Securities available for sale, at fair value	290,502	264,617
Federal Home Loan Bank stock	14,796	13,156
Loans	633,603	579,711
Allowance for loan losses	(5,446)	(4,743)
Loans, net of allowance for loan losses	628,157	574,968
Premises and equipment, net	10,854	10,795
Goodwill	3,158	3,158
Bank owned life insurance	6,573	6,340
Other assets	9,206	8,707
<b>TOTAL ASSETS</b>	<b>\$ 972,288</b>	<b>\$ 889,472</b>
<b>Liabilities</b>		
Deposits		
Demand and other non-interest bearing deposits	\$ 57,954	\$ 65,161
NOW accounts	67,747	67,050
Savings and money market deposits	163,780	163,009
Time deposits	200,206	140,204
Brokered time deposits	88,506	103,692
Total deposits	578,193	539,116
Short-term borrowings	121,672	148,246
Long-term advances from Federal Home Loan Bank	197,231	130,607
Junior subordinated debentures	5,000	-
Other liabilities	4,747	5,529
<b>TOTAL LIABILITIES</b>	<b>906,843</b>	<b>823,498</b>
<b>Shareholders' equity</b>		
Capital stock, par value \$2.00; authorized 10,000,000 shares; issued 3,643,614 shares at December 31, 2008 and December 31, 2007	7,287	7,287
Surplus	4,903	4,668
Retained earnings	67,908	63,292
Accumulated other comprehensive (loss) income:		
Prior service cost and unamortized net actuarial gains/losses on employee benefit plans, net of tax of (\$59) and (\$64), at December 31, 2008 and December 31, 2007, respectively	(115)	(124)
Net unrealized appreciation (depreciation) on securities available for sale, net of tax of (\$573) and \$616, at December 31, 2008 and December 31, 2007, respectively	(1,149)	1,196
Net unrealized appreciation (depreciation) on derivative instruments, net of tax of \$382 and \$24 at December 31, 2008 and December 31, 2007, respectively	740	46
Total accumulated other comprehensive income (loss)	(524)	1,118
Less: cost of 769,635 and 640,951 shares of treasury stock at December 31, 2008 and December 31, 2007, respectively	(14,129)	(10,391)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>65,445</b>	<b>65,974</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 972,288</b>	<b>\$ 889,472</b>





# CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006 (in thousands, except share data)

	2008	2007	2006
<b>Interest and dividend income:</b>			
Interest and fees on loans	\$ 37,653	\$ 37,923	\$ 35,388
Interest and dividends on securities and other earning assets	15,941	13,886	10,757
Total interest and dividend income	53,594	51,809	46,145
<b>Interest expense:</b>			
Deposits	14,976	16,222	13,039
Short-term borrowings	1,421	5,967	6,359
Long-term debt	10,006	6,717	5,051
Total interest expense	26,403	28,906	24,449
Net interest income	27,191	22,903	21,696
Provision for loan losses	1,995	456	131
Net interest income after provision for loan losses	25,196	22,447	21,565
<b>Non-interest income:</b>			
Trust and other financial services	2,513	2,335	2,096
Service charges on deposit accounts	1,594	1,624	1,559
Other service charges, commissions and fees	232	215	222
Credit card service charges and fees	2,044	2,100	1,812
Net securities (losses) gains	(831)	(671)	755
Other operating income	880	326	432
Total non-interest income	6,432	5,929	6,876
<b>Non-interest expense:</b>			
Salaries and employee benefits	10,827	9,368	9,292
Postretirement plan settlement	-	(832)	-
Occupancy expense	1,387	1,275	1,303
Furniture and equipment expense	1,539	1,718	1,844
Credit card expenses	1,416	1,469	1,314
Other operating expense	5,344	5,203	4,924
Total non-interest expense	20,513	18,201	18,677
Income before income taxes	11,115	10,175	9,764
Income taxes	3,384	3,020	2,885
Net income	\$ 7,731	\$ 7,155	\$ 6,879
<b>Computation of Earnings Per Share:</b>			
Weighted average number of capital stock shares outstanding			
Basic	2,943,694	3,037,074	3,049,777
Effect of dilutive employee stock options	63,555	75,662	72,048
Diluted	3,007,249	3,112,736	3,121,825
Basic Earnings Per Share	\$ 2.63	\$ 2.36	\$ 2.26
Diluted Earnings Per Share	\$ 2.57	\$ 2.30	\$ 2.20
Dividends per share	\$ 1.020	\$ 0.955	\$ 0.905

## 2008 ANNUAL REPORT FINANCIAL OVERVIEW

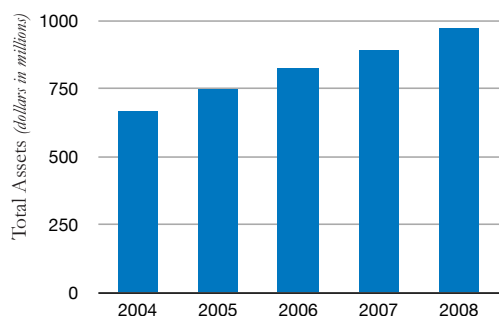
### BUSINESS STRATEGY

As a diversified financial services provider, Bar Harbor Bankshares pursues a strategy of achieving long-term sustainable growth, profitability, and shareholder value, without sacrificing its soundness. The Company works toward achieving this goal by focusing on increasing its loan and deposit market share in the downeast and midcoast communities of Maine. The Company believes one of its more unique strengths is an understanding of the financial needs of coastal communities and the businesses vital to Maine's coastal economy, namely: tourism, hospitality, retail establishments and restaurants, seasonal lodging and campgrounds, fishing, lobstering, boat building, and marine services.

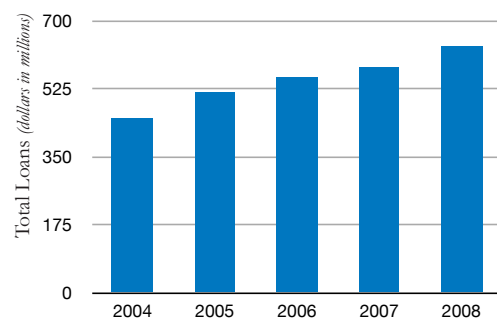
The Company's key strategic focus is vigorous financial stewardship, deploying investor capital safely yet efficiently for the best possible returns. The Company strives to provide unmatched service to its customers, while maintaining strong asset quality and a focus toward improving operating efficiencies.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

### FINANCIAL CONDITION

**Assets:** The Company's total assets increased \$83 million or 9.3% during 2008, ending the year at \$972 million. This increase was principally attributed to the growth of the Bank's loan portfolio.



**Loans:** Total loans ended the year at \$634 million, representing an increase of \$54 million, or 9.3%, compared with year-end 2007. Business loans, which are typically the Bank's highest yielding assets and most profitable relationships, led the overall growth of the loan portfolio. Residential mortgage loan originations slowed during 2008, reflecting softening real estate markets in many of the communities served by the Bank, combined with market interest rates that continued at elevated levels. With the recent and significant decline in residential mortgage loan interest rates, Bank management anticipates a meaningful increase in residential mortgage loan origination activity in 2009.



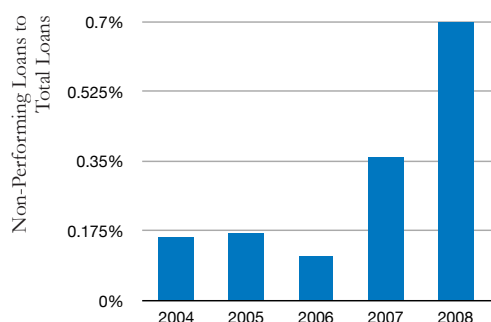
Lending activities have benefited from a relatively stable local economy, favorable market interest rate environment, and initiatives designed to expand the Bank's product offerings and attract new customers while continuing to serve its existing customer base.

Consumer loans comprise about half of the total loan portfolio and principally consist of home mortgages, home equity loans and residential construction loans. The Bank also serves the small business market throughout downeast and midcoast Maine. It offers business loans to individuals, partnerships, corporations, and other business entities for capital construction, real estate purchases, working capital, real estate development, and a broad range of other business purposes.

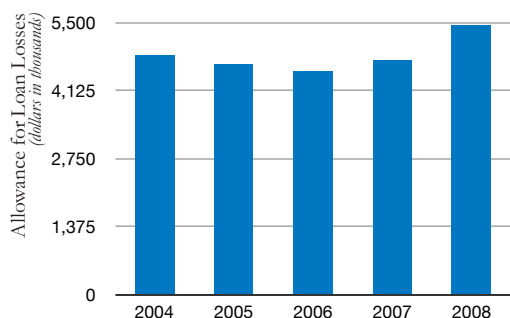
**Credit Quality:** The Bank's non-performing loans ended the year at relatively low levels, representing \$4.4 million or 0.70% of total loans. The Bank's loan loss experience increased during 2008, with net loan charge-offs amounting to \$1.3 million, compared with \$238 thousand, in 2007. Two problem loans accounted for \$1.1 million, or 84.7%, of total net charge-offs in 2008.

Future levels of non-performing loans may be influenced by economic conditions, including the impact of those conditions on the Bank's customers, including debt service levels, declining collateral values, tourism activity, and other factors existing at the time. Bank management believes the economic activity and conditions in the local real estate markets will continue to be

significant determinants of the quality of the loan portfolio in future periods and, thus, the Company's results of operations and financial condition.

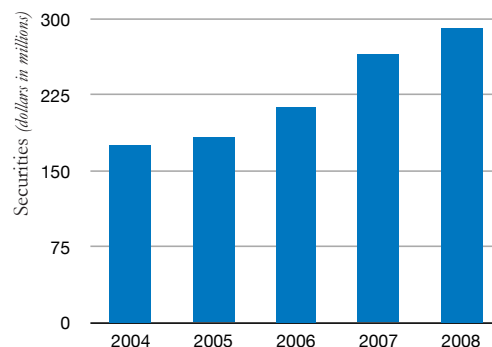


For the year ended December 31, 2008, the Bank recorded a provision for loan losses (the "provision") of \$2.0 million, representing an increase of \$1.5 million compared with 2007. The increase in the provision was largely attributed to the increase in net loan charge-offs, growth in the loan portfolio, generally declining real estate values in many of the markets served by the Bank, and other qualitative and environmental considerations.

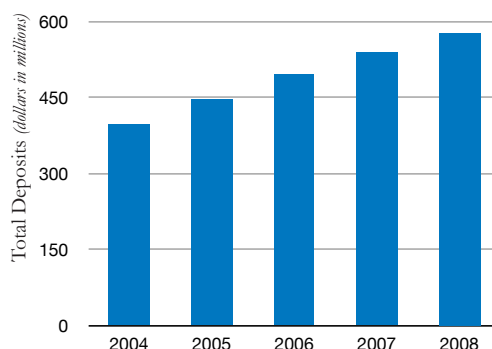


The Bank maintains an allowance for loan losses (the "allowance") which is available to absorb losses on loans. The allowance is maintained at a level that, in management's judgment, is appropriate for the amount of risk inherent in the loan portfolio and adequate to provide for estimated probable losses. At December 31, 2008 the allowance stood at \$5.4 million, representing an increase of \$703 thousand or 14.8% compared with year end 2007. At December 31, 2008, the allowance expressed as a percentage of total loans stood at 86 basis points, up from 82 basis points at year end 2007.

**Investment Securities:** During 2008 the Bank's securities portfolio continued to serve as a key contributor to earnings. Total securities ended the year at \$291 million, representing an increase of \$26 million or 9.8% compared with year end 2007. The securities portfolio is primarily comprised of mortgage-backed securities issued by U.S. government agencies, U.S. government-sponsored enterprises, and other private label issuers. The securities portfolio also includes tax-exempt obligations of state and political subdivisions, and obligations of other U.S. government-sponsored enterprises. At December 31, 2008, the securities portfolio did not contain any pools of sub-prime mortgage-backed securities, collateralized debt obligations, or commercial mortgage-backed securities. Additionally, the Bank did not own any equity securities or have any corporate debt exposure in its securities portfolio, nor did it own any perpetual preferred stock in Federal Home Loan Mortgage Corporation ("FHLMC") or Federal National Mortgage Association ("FNMA"), or any interests in pooled trust preferred securities or auction rate securities.



**Deposits:** In 2008, the most significant funding source for the Bank's earning assets continued to be retail deposits, gathered through its network of twelve banking offices throughout downeast and midcoast Maine. Historically, the banking business in the Bank's market area has been seasonal, with lower deposits in the winter and spring and higher deposits in summer and autumn. The timing and extent of seasonal swings have varied from year to year, particularly with respect to demand deposits.





Total deposits ended the year at \$578 million, representing an increase of \$39 million or 7.2% compared with December 31, 2007. Total retail deposits ended the year at \$490 million, up \$54 million or 12.5% compared with year end 2007. Retail deposit growth was principally attributed to time deposits, with NOW accounts and savings and money market accounts also posting increases. Brokered deposits obtained from the national market ended the year at \$89 million, representing a decline of \$15 million or 14.6% compared with year end 2007.

**Borrowings:** Borrowed funds principally consist of advances from the Federal Home Loan Bank of Boston. The Bank utilizes borrowed funds in leveraging its strong capital position and supporting its earning asset portfolios.

Total borrowings ended the year at \$324 million, representing an increase of \$45 million, or 16.2%, compared with December 31, 2007. The increase in borrowings was principally used to fund the growth of the Bank's securities portfolio and, to a lesser extent, reduce the Bank's dependence on higher cost and more volatile brokered deposits.

**Capital:** Consistent with its long-term strategy of operating a sound and profitable organization, the Company continued to be a "well-capitalized" financial institution according to applicable regulatory standards. Management considers this to be vital in promoting depositor and investor confidence and providing a solid foundation for future growth.

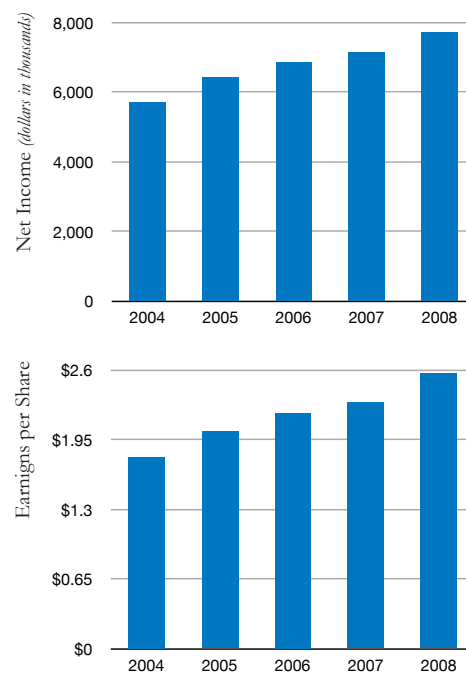
At December 31, 2008, the Bank's Tier I Leverage, Tier I Risk-based, and Total Risk-based capital ratios were 6.74%, 10.15% and 11.80%, respectively. Under the capital adequacy guidelines administered by the Bank's principal regulators, "well-capitalized" institutions are those with Tier I leverage, Tier I Risk-based, and Total Risk-based ratios of at least 5%, 6% and 10%, respectively.

In January 2009, the Company announced the issuance and sale of \$18.751 million in fixed rate cumulative perpetual preferred stock to the U.S. Treasury in connection with its participation in the U.S. Treasury's Capital Purchase Program ("CPP"). The CPP is a voluntary program designed by the U.S. Treasury to provide additional capital to healthy, well-capitalized banks, to help provide economic stimulus through the creation of additional lending capacity in local banking markets. The investment by the U.S. Treasury through the CPP increases the Company's already strong Tier I Leverage, Tier I Risk-based and Total Risk-based capital ratios by approximately 200, 300 and 300 basis points, respectively.

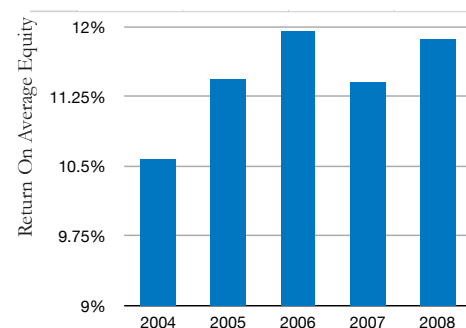
**Shareholder Dividends:** Total regular cash dividends paid by the Company in 2008 amounted to \$1.02 per share of common stock, compared with \$0.955 in 2007, representing an increase of \$0.065, or 6.8%.

## RESULTS OF OPERATIONS

**Net Income and Earnings Per Share:** In 2008 the Company recorded record net income and earnings per share. Net income for the year ended December 31, 2008 amounted to \$7.7 million, or fully diluted earnings per share of \$2.57, compared with \$7.2 million or fully diluted earnings per share of \$2.30 for the year ended December 31, 2007, representing increases of 8.1% and 11.8%, respectively.



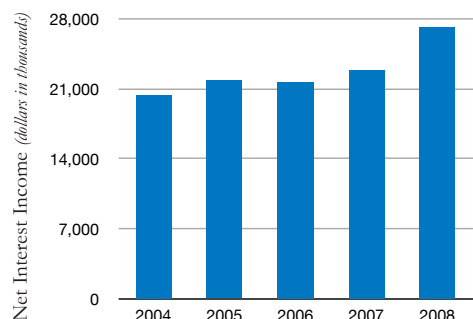
**Return on Average Equity:** The Company's return on average equity amounted to 11.87% in 2008, compared with 11.40% in 2007.



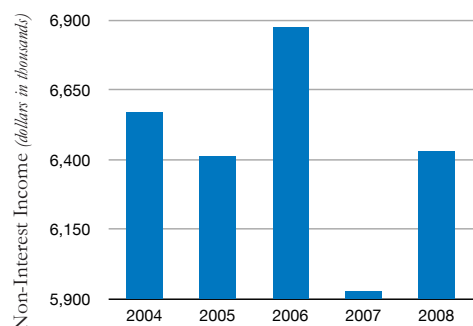
**Net Interest Income:** Net interest income is the principal component of the Company's income stream and represents the difference or spread between interest generated from earning assets and the interest expense paid on deposits and borrowed funds. Fluctuations in market interest rates, as well as volume and mix changes in earning assets and interest bearing liabilities, can materially impact net interest income.

For the year ended December 31, 2008, net interest income on a fully tax-equivalent basis amounted to \$28.1 million, representing an increase of \$4.5 million, or 19.2%, compared with 2007.

The increase in net interest income was principally attributed to an improved net interest margin, combined with 2008 average earning asset growth of \$87.5 million or 10.8%. The decline in short-term interest rates over the past fifteen months favorably impacted the Bank's net interest margin, as the cost of interest bearing liabilities declined faster and to a greater degree than the decline in earning asset yields. For the year ended December 31, 2008, the fully tax-equivalent net interest margin amounted to 3.13%, representing an improvement of 22 basis points compared with 2007.

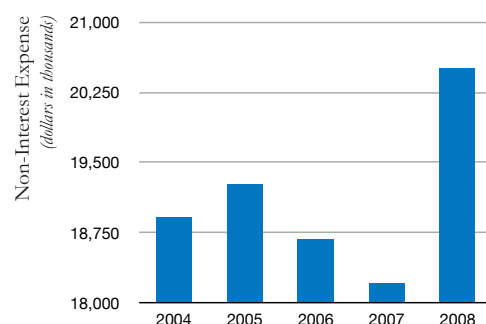


**Non-interest Income:** In addition to net interest income, non-interest income is a significant source of revenue for the Company and an important factor in its results of operations. Non-interest income is principally derived from financial services including trust and investment management activities,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



For the year ended December 31, 2008, total non-interest income amounted to \$6.4 million, representing an increase of \$503 thousand or 8.5%, compared with 2007. Total non-interest income included a \$313 thousand gain recorded in the first quarter of 2008 representing the proceeds from shares redeemed in connection with the Visa, Inc. initial public offering. For the year ended December 31, 2008 net securities losses amounted to \$831 thousand, compared with net securities losses of \$671 thousand in 2007, representing an increase in net securities losses of \$160 thousand, or 23.8%. The \$831 thousand in 2008 net securities losses were comprised of other-than-temporary securities impairment losses of \$1.4 million, largely offset by realized gains on the sale of securities amounting to \$604 thousand.

**Non-interest Expense:** For the year ended December 31, 2008, total non-interest expense amounted to \$20.5 million, representing an increase of \$2.3 million or 12.7%, compared with 2007.



The increase in non-interest expense was largely attributed to the settlement of the Company's limited postretirement program in the first quarter of 2007, which reduced that reporting period's non-interest expense by \$832 thousand. The increase in non-interest expense was also attributed to higher levels of salaries and employee benefits, which were up \$1.5 million or 15.6% compared with 2007. The increase in salaries and employee benefits was attributed to a variety of factors including: strategic additions to staff; normal increases in base salaries and employee benefits; higher levels of employee incentive compensation; and certain employee severance payments.

**Income Tax Expense:** For the year ended December 31, 2008, total income taxes amounted to \$3.4 million, representing an increase of \$364 thousand, or 12.1%, compared with 2007. The Company's effective tax rate amounted to 30.4% in 2008, compared with 29.7% in 2007.



## MANAGEMENT AND STAFF

### BAR HARBOR BANKSHARES MANAGEMENT

**Joseph M. Murphy\***  
President & Chief Executive Officer

**Gerald Shencavitz\***  
Executive Vice President, Chief  
Financial Officer, & Treasurer

### BAR HARBOR BANK & TRUST MANAGEMENT

**Joseph M. Murphy**  
President & Chief Executive Officer

**Gerald Shencavitz**  
Executive Vice President &  
Chief Financial Officer

### SENIOR VICE PRESIDENTS

**Michael W. Bonsey\***  
Credit Administration

**Cheryl D. Curtis**  
Marketing, Research &  
Community Relations

**Gregory W. Dalton\***  
Business Banking

**Daniel A. Hurley, III\***  
Bar Harbor Trust Services

**Stephen M. Leackfeldt**  
Retail Banking & Consumer Lending

**Marsha C. Sawyer**  
Human Resources

**David W. Thibault**  
Operations & Information Systems

### VICE PRESIDENTS

**Judi L. Anderson**  
Credit Administration

**Michelle R. Bannister**  
Retail and Residential Lending

**Marcia T. Bender**  
Branch Operations

**Penny L. Carter**  
Retail and Residential Lending

**David S. Cohen**  
Controller & Assistant Treasurer

**Dawn L. Crabtree**  
Operations

**Audrey H. Eaton**  
Branch Relationship Manager,  
Ellsworth

**Ward A. Grant, II**  
Corporate Compliance Officer

**Joseph E. Hackett**  
Business Banking

**Vicki L. Hall**  
Business Banking

**Wilfred R. Hatt**  
Regional VP - Business Banking

**Derek W. R. Hayes**  
Business Banking

**Lisa A. Holmes**  
Retail and Residential Lending

**Maureen T. Lord**  
Regional Branch  
Relationship Manager

**Carolyn R. Lynch**  
Internal Audit

**Cheryl L. Mullen**  
Retail Sales and Service &  
Branch Administration

**Lisa L. Parsons**  
Regional Branch  
Relationship Manager

**Bonnie A. Poland**  
Retail Banking

**Carol J. Pye**  
Retail and Residential Lending

**Andrew X. Sankey**  
General Services

**R. Todd Starbird**  
Regional VP - Business Banking

**Linda B. Stratton**  
Branch Relationship Manager,  
Deer Isle

### ASSISTANT VICE PRESIDENTS

**Stacie J. Alley**  
Managed Assets

**Steven W. Blackett**  
Credit Administration

**Marjorie E. Gray**  
Branch Relationship Manager,  
Blue Hill

**Barbara F. Hepburn**  
Human Resources

**Donna B. Hutton**  
Customer Service - Direct

**Robert J. Lavoie**  
Information Systems

**Elena M. Martin**  
Electronic Product Support

\*Named executive officers. \*\*Bar Harbor Financial Services is a branch of Infinex Investments, Inc., an independent registered broker dealer which is not affiliated with the Company or the Bank.



Colleen E. Maynard  
Branch Relationship Manager,  
Southwest Harbor

J. Paul Michaud  
Application Support and  
Project Management

Judith L. Newenham  
Retail Lending

Russell A. Patton  
Information Security

Timothy F. Tunney  
Business Banking

Leita K. Zeugner  
Deposit Services

### OFFICERS

Judith W. Fuller  
Corporate Secretary

Deborah A. Maffucci  
Securities Portfolio

Catherine M. Planchart  
Community Relations

Lester L. Porter  
Assistant Controller

### MANAGERS

Laura A. Bridges  
Quality Assurance

Brenda B. Colwell  
Training

Brenda J. Condon  
Customer Service Manager, Blue Hill

Annette J. Guertin  
Purchasing

Greg S. Jones  
Customer Service Manager, Rockland

Wendy R. MacLaughlin  
Human Resources Operations

Jody C. McFadden  
Supervisor, Winter Harbor

Elizabeth B. McMillan  
Human Resources

Debra S. Mitchell-Dow  
Branch Relationship Manager,  
Bar Harbor

Anne M. Pennell  
Branch Relationship Manager,  
Machias

Debra R. Sanner  
Customer Service Manager, Ellsworth

Lottie B. Stevens  
Account & Transaction Processing

Peter M. Swanberg  
Servicing

Terry E. Tracy  
Branch Administration

Ann G. Upham  
Mortgage Originator

Lisa F. Veazie  
Customer Service Manager, Deer Isle

### BAR HARBOR TRUST SERVICES

Daniel A. Hurley, III  
President

Gerald Shencavitz  
Chief Financial Officer

Joshua A. Radel  
Chief Investment Officer

Joseph M. Pratt  
Managing Director and Trust Officer

### VICE PRESIDENTS

Mischelle E. Adams  
Trust Officer

Melanie J. Bowden  
Trust Officer

Faye A. Geel  
Trust Officer

Lara K. Horner  
Trust Operations

Sarah C. Robinson  
Trust Officer

Scott C. Storgaard  
Trust Investment Officer

### OFFICER

Julie B. Zimmerman  
Trust Officer

### SUPERVISOR

Pamela L. Curativo  
Trust Operations

### BAR HARBOR FINANCIAL SERVICES\*\*

Craig D. Worcester  
Managing Director

Ronald L. Hamilton  
Vice President, Financial Consultant

Charles E. Lynch, III  
Vice President, Financial Consultant

Sonya L. Mitchell  
Vice President, Financial Consultant

Diane M. Rimm  
Vice President, Operations

### EMPLOYEES (as of 03/12/09)

Gwen M. Abbott  
Jennifer C. Abbott  
Susan L. Albee  
Deena M. Allen  
Faye M. Allen  
Holly M. Andrews  
June G. Atherton  
Vicki J. Austin  
Karen C. Beal  
Melynda M. Beal  
Donna L. Blankley  
Penny S. Brady  
Hillary A. Carter  
Crystal N. Case  
Sarah A. Cormier  
Theresa L. Colson  
Lisa L. Crosby  
Geneva E. Culshaw  
Laura H. Danielson  
Logan-Ashlee Davis  
Sharon J. Davis  
Julie M. Eaton  
Rebecca H. S. Emerson  
Pamela J. Farnsworth  
Amy N. Foskett  
Ashlee R. Fountaine  
Jason P. Freeman  
Candy A. Ginn  
Erica N. Goggin  
Dawn F. Gray  
Shelley E. Gray  
Susanne M. Griffin  
Samantha E. Hagerthy  
Andrew Haley  
Kelli M. Hall  
Kelton I. Hallett  
Kirsten M. Hamilton  
Casey E. Hardwick  
Mary Beth Harmon  
Prescilla J. Harper  
Nancy B. Hastings  
Mary D. Hays  
Ivy M. Heal  
Holly B. Hersom  
Melissa S. Hinckley  
Nicole S. Hinkel  
Sharon E. Hobbs  
Jeanette L. Howie  
Lynn L. Huffman

Margaret L. Hutchinson  
Ashley N. Johnson  
Danielle Y. Johnson  
Maureen E. Kane  
Rebecca H. Kent  
Kathryn M. Kief  
Ebony A. Kramp  
James W. Lacasse  
Janice E. LaChance  
Paula M. Lamoureux  
Bonnie S. Leblanc  
Marlene A. Lloyd  
Jonathan W. Long  
Virginia L. MacLeod  
Carol M. Marshall  
Ashley S. Matthews  
Bettina F. McGuire  
Kara M. Miller  
Dylan A. Mooney  
Michele L. Morrison  
Dawn B. Nason  
Danielle E. Natale  
Nicole E. Norton-Daley  
Debbie B. Norwood  
Nichole D. Norwood  
Alexandra Orcutt  
Joseph F. Pagan  
Andrea L. Parker  
Jane M. Parker  
Deborah I. Parlee  
Jon B. Perkins  
Michelle P. Rafferty  
Mary C. Ratner  
Julie A. Redman  
Judy A. Richards  
Amanda L. Robbins  
Jane M. Robinson  
Alicia M. Santerre  
Jennifer M. Saunders  
Frank J. Schaefer  
Edith E. Schwartz  
Debra L. Scott-Henderson  
Bridgette M. Shorey  
Stephanie M. Shuster  
Andrea L. Snow  
Rachelle A. Stagg  
Angela M. Stanley  
Teri A. Stover  
Catherine E. Talley  
Bristol N. Timmons  
Brenda D. Tripp  
Jyl E. Tucker  
Allyson M. Wallace  
Erica Wallace  
Jeffrey M. Warner  
Paula Webster  
Jeanne L. F. Weeks

Pictured (l-r, front row): Fernald, Colwell, Dearborn, Murphy, Dudman;  
(l-r, back row): Woodside, Toothaker, Lewis, Shea, Phillips, Carter, Smith, Hannah, Dodge



## BOARD OF DIRECTORS

Thomas A. Colwell, Deer Isle, ME  
Retired President, Colwell Bros., Inc.

Robert C. Carter, Machias, ME  
Retired Owner of Machias Motor Inn  
Owner Carter Enterprises Rental Management Company

Jacquelyn S. Dearborn, Holden, ME  
Mediator for the Ellsworth and Bangor Court System,  
Treasurer of Joel A. Dearborn, Esq., PA,  
President of C. K. Foster, Co., Inc.

Peter Dodge, Blue Hill, ME  
President and Insurance Agent, Peter Dodge  
Agency d/b/a Merle B. Grindle Agency,  
John R. Crooker Agency, and The Endicott Agency

Martha T. Dudman, Northeast Harbor, ME  
President of Dudman Communications Corporation;  
Author

Lauri E. Fernald, Mt. Desert, ME  
Funeral Director and an Owner of  
Jordan - Fernald Funeral Home

Gregg S. Hannah, Surry, ME  
Former Treasurer of a marketing consulting firm  
and past Associate Professor of Business  
Management at Nichols College

Clyde H. Lewis, Sullivan, ME  
Vice President and General Manager,  
Morrison Chevrolet, Inc.

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

Robert M. Phillips, Sullivan, ME  
Consultant to the Wild Blueberry Industry

Constance C. Shea, Mt. Desert, ME  
Real Estate Broker and Former Owner of Lynam Real Estate

Kenneth E. Smith, Bar Harbor, ME  
Owner and Innkeeper of Manor House Inn

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

David B. Woodside, Bar Harbor, ME  
President and General Manager of Acadia Corporation







#### ANNUAL MEETING

The Annual Meeting of shareholders of Bar Harbor Bankshares will be held at 11:00 a.m. on Tuesday May 19, 2009 at the Bar Harbor Club located on West Street in Bar Harbor, Maine.

#### FINANCIAL INFORMATION

Shareholders, analysts and other investors seeking financial information about Bar Harbor Bankshares should contact Gerald Shencavitz, Executive Vice President, Chief Financial Officer and Treasurer, at 207-288-3314.

#### INTERNET

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

#### SHAREHOLDER ASSISTANCE

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

American Stock Transfer & Trust Company  
59 Maiden Lane, Plaza Level  
New York, NY 10038  
800-937-5449 / [www.amstock.com](http://www.amstock.com)

#### STOCK EXCHANGE LISTING

Bar Harbor Bankshares common stock is traded on the NYSE Alternext U.S. Exchange ([nyse.com](http://nyse.com)), under the symbol BHB.

#### FORM 10-K ANNUAL REPORT

The Company refers you to its Annual Report on Form 10-K for fiscal year ended December 31, 2008 and appended to this report for detailed financial data, management's discussion and analysis of financial condition and results of operations, disclosures about market risk, market information including stock graphs, descriptions of the business of the Company and its products and services, and a listing of its executive officers.

#### MAILING ADDRESS

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

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

#### PRINTED FINANCIAL INFORMATION

We will provide, without charge, and upon written request, a copy of the Bar Harbor Bankshares Annual Report to the Securities and Exchange Commission on Form 10-K. The Bank will also provide, upon request, Annual Disclosure Statements for Bar Harbor Bank & Trust as of December 31, 2008. Please contact Marsha C. Sawyer, Bar Harbor Bankshares Clerk, at 207-288-3314.





BAR HARBOR  
82 Main Street  
288-3314

BLUE HILL  
21 Main Street  
374-5600

DEER ISLE  
25 Church Street  
348-2319

ELLSWORTH  
137 High Street  
667-7194

LUBEC  
68 Washington Street  
733-4931

MACHIAS  
20 Main Street  
255-3372

MILBRIDGE  
2 Bridge Street  
546-7323

NORTHEAST HARBOR  
111 Main Street  
276-3314

ROCKLAND  
245 Camden Street  
594-9557

SOMESVILLE  
1055 Main Street  
244-4417

SOUTHWEST HARBOR  
314 Main Street  
244-3314

WINTER HARBOR  
385 Main Street  
963-5800

BUSINESS BANKING, TRUST &  
FINANCIAL SERVICES OFFICES

BANGOR  
One Cumberland Place, Suite 100  
945-5244

ELLSWORTH  
135 High Street  
667-3883