

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

FORM 10-Q

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

For the quarterly period ended: **March 31, 2024**

☐ **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
(State or other jurisdiction of incorporation or organization)

01-0393663
(I.R.S. Employer Identification No.)

PO Box 400
82 Main Street , Bar Harbor , ME
(Address of principal executive offices)

04609-0400
(Zip Code)

Registrant's telephone number, including area code: **(207) 288-3314**

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

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 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", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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 is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes ☐ No ☒

The registrant had 15,232,425 shares of common stock, par value \$2.00 per share, outstanding as of May 6, 2024.

BAR HARBOR BANKSHARES AND SUBSIDIARIES
FORM 10-Q

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Bar Harbor Bankshares 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 "the Company" "our Company," "our," "us," and similar terms refer to Bar Harbor Bankshares and its subsidiaries, including the Bank, collectively.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report on Form 10-Q (this "Form 10-Q") that are not historical facts may constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. When used in this Form 10-Q the words "believe," "anticipate," "expect," "may," "will," "assume," "should," "predict," "could," "would," "intend," "targets," "estimates," "projects," "plans," and "potential," and other similar words and expressions of the future, are intended to identify such forward-looking statements, but other statements not based on historical information may also be considered forward-looking, including statements about the Company's future financial and operating results and the Company's plans, objectives, and intentions. All forward-looking statements are subject to risks, uncertainties, and other factors that may cause the actual results, performance, or achievements of the Company to differ materially from any results, performance, or achievements expressed or implied by such forward-looking statements. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from the statements, including, but not limited to:

- deterioration in the financial performance and/or condition of borrowers of the Bank, including as a result of the negative impact of inflationary pressures on our customers and their businesses resulting in significant increases in credit losses and provisions for those losses;
- the possibility that our asset quality could decline or that we experience greater loan losses than anticipated;
- increased levels of other real estate owned, primarily as a result of foreclosures;
- the impact of liquidity needs on our results of operations and financial condition;
- competition from financial institutions and other financial service providers;
- the effect of interest rate increases on the cost of deposits;
- unanticipated weakness in loan demand or loan pricing;
- adverse conditions in the national or local economies including in our markets throughout Northern New England;
- changes in consumer spending, borrowing and saving habits;
- the emergence and effects related to a future pandemic, epidemic or outbreak of an infectious disease, including actions taken by governmental officials to curb the spread of such an infectious disease, and the resulting impact on general economic and financial market conditions and on the Company's and our customers' business, results of operations, asset quality and financial condition;
- the effects of civil unrest, international hostilities or other geopolitical events, including the war in Ukraine and recent hostilities in the Middle East;
- lack of strategic growth opportunities or our failure to execute on available opportunities;
- the ability to grow and retain low-cost core deposits and retain large, uninsured deposits;
- our ability to effectively manage problem credits;
- our ability to successfully implement efficiency initiatives on time and with the results projected;
- our ability to successfully develop and market new products and implement technology effectively;
- the impact of negative developments in the financial industry and United States and global capital and credit markets;
- our ability to retain executive officers and key employees and their customer and community relationships;
- our ability to adapt to technological changes;
- risks associated with litigation, including reputational and financial risks and the applicability of insurance coverage;
- the vulnerability of the Bank's computer and information technology systems and networks, and the systems and networks of third parties with whom the Company or the Bank contract, to unauthorized access, computer viruses, phishing schemes, spam attacks, human error, natural disasters, power loss, and other security breaches and interruptions;

- changes in the reliability of our vendors, internal control systems or information systems;
- ongoing competition in the labor markets and increased employee turnover;
- the potential impact of climate change;
- our ability to comply with various governmental and regulatory requirements applicable to financial institutions;
- changes in state and federal laws, rules, regulations, or policies applicable to banks or bank or financial holding companies, including regulatory or legislative developments;
- the effects of and changes in trade and monetary and fiscal policies and laws, including the interest rate policies of the Board of Governors of the Federal Reserve System (the "Federal Reserve");
- adverse impacts (including costs, fines, reputational harm, financial risks and the applicability of insurance coverage or other negative effects) from current or future litigation, regulatory examinations, or other legal and/or regulatory actions; and
- general competitive, economic, political, and market conditions, including economic conditions in the local markets where we operate.

Other factors not identified above, including those described under the headings "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023 (the "Form 10-K"), our Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K filed with the Securities and Exchange Commission (the "SEC") and available on the SEC's website at <http://www.sec.gov>, may also cause actual results to differ materially from those described in our forward-looking statements. Most of these factors are difficult to anticipate and are generally beyond our control. Given these uncertainties, you are cautioned not to place undue reliance on such forward-looking statements, and you should consider these factors in connection with considering any forward-looking statements that may be made by us. We undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events unless we are required to do so by law.

PART I. FINANCIAL INFORMATION
ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS
**BAR HARBOR BANKSHARES AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

(in thousands, except share data)	March 31, 2024	December 31, 2023
Assets		
Cash and cash equivalents:		
Cash and due from banks	\$ 30,770	\$ 42,221
Interest-earning deposits with other banks	45,449	52,621
Total cash and cash equivalents	76,219	94,842
Securities:		
Securities available for sale	527,603	534,574
Federal Home Loan Bank stock	9,960	12,788
Total securities	537,563	547,362
Loans held for sale	3,137	2,189
Total loans	3,011,672	2,999,049
Less: Allowance for credit losses	(28,355)	(28,142)
Net loans	2,983,317	2,970,907
Premises and equipment, net	47,849	48,287
Other real estate owned	—	—
Goodwill	119,477	119,477
Other intangible assets	4,637	4,869
Cash surrender value of bank-owned life insurance	80,642	80,037
Deferred tax assets, net	23,849	22,979
Other assets	82,285	79,936
Total assets	<u>\$ 3,958,975</u>	<u>\$ 3,970,885</u>
Liabilities		
Deposits:		
Demand	\$ 544,495	\$ 569,714
Interest-bearing demand deposits	888,591	946,978
Savings	551,493	553,963
Money market	365,289	370,242
Time	777,208	700,260
Total deposits	3,127,076	3,141,157
Borrowings:		
Senior	269,437	271,044
Subordinated	60,501	60,461
Total borrowings	329,938	331,505
Other liabilities	66,247	66,164
Total liabilities	<u>3,523,261</u>	<u>3,538,826</u>
Shareholders' equity		
Capital stock, par value \$2.00 ; authorized 20,000,000 shares; issued 16,428,388 shares; outstanding 15,211,877 shares and 15,172,131 shares at March 31, 2024 and December 31, 2023, respectively	32,857	32,857
Additional paid-in capital	193,246	193,114
Retained earnings	277,991	272,101
Accumulated other comprehensive loss	(52,568)	(49,862)
Less: 1,216,511 and 1,256,257 shares of treasury stock, at cost, at March 31, 2024 and December 31, 2023, respectively	(15,812)	(16,151)
Total shareholders' equity	<u>435,714</u>	<u>432,059</u>
Total liabilities and shareholders' equity	<u>\$ 3,958,975</u>	<u>\$ 3,970,885</u>

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

BAR HARBOR BANKSHARES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended March 31,	
(in thousands, except earnings per share data)	2024	2023
Interest and dividend income		
Loans	\$ 39,470	\$ 34,560
Securities and other	6,353	5,791
Total interest and dividend income	45,823	40,351
Interest expense		
Deposits	14,532	5,265
Borrowings	3,236	4,180
Total interest expense	17,768	9,445
Net interest income	28,055	30,906
Provision for credit losses	289	798
Net interest income after provision for credit losses	27,766	30,108
Non-interest income		
Trust and investment management fee income	3,670	3,555
Customer service fees	3,710	3,677
Gain on sales of securities, net	—	34
Mortgage banking income	257	279
Bank-owned life insurance income	561	1,148
Customer derivative income	—	132
Other income	388	359
Total non-interest income	8,586	9,184
Non-interest expense		
Salaries and employee benefits	13,248	12,771
Occupancy and equipment	4,473	4,414
Gain on sales of premises and equipment, net	(15)	(13)
Outside services	338	356
Professional services	400	426
Communication	189	162
Marketing	567	409
Amortization of intangible assets	233	233
Acquisition, conversion and other expenses	20	20
Provision for unfunded commitments	(185)	(175)
Other expenses	4,420	4,101
Total non-interest expense	23,688	22,704
Income before income taxes	12,664	16,588
Income tax expense	2,569	3,576
Net income	<u>\$ 10,095</u>	<u>\$ 13,012</u>
Earnings per share:		
Basic	\$ 0.66	\$ 0.86
Diluted	\$ 0.66	\$ 0.86
Weighted average common shares outstanding:		
Basic	15,198	15,110
Diluted	15,270	15,190

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

BAR HARBOR BANKSHARES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)	Three Months Ended March 31,	
	2024	2023
Net income	\$ 10,095	\$ 13,012
Other comprehensive income (loss), before tax:		
Changes in unrealized (loss) gain on securities available for sale	(2,597)	6,006
Changes in unrealized (loss) gain on hedging derivatives	(937)	767
Changes in unrealized gain (loss) on pension	22	—
Income taxes related to other comprehensive income (loss):		
Changes in unrealized loss (gain) on securities available for sale	613	(1,406)
Changes in unrealized loss (gain) on hedging derivatives	221	(178)
Changes in unrealized (gain) loss on pension	(28)	—
Total other comprehensive (loss) income	(2,706)	5,189
Total comprehensive income	\$ 7,389	\$ 18,201

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

BAR HARBOR BANKSHARES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

(in thousands, except per share data)	Common stock amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total
Balance at December 31, 2022	\$ 32,857	\$ 191,922	\$ 243,815	\$ (58,340)	\$ (16,804)	\$ 393,450
Net income	—	—	13,012	—	—	13,012
Other comprehensive income	—	—	—	5,189	—	5,189
Cash dividends declared (\$ 0.26 per share)	—	—	(3,943)	—	—	(3,943)
Net issuance (41,763 shares) to employee stock plans, including related tax effects	—	40	—	—	363	403
Recognition of stock based compensation	—	299	—	—	—	299
Balance at March 31, 2023	<u>\$ 32,857</u>	<u>\$ 192,261</u>	<u>\$ 252,884</u>	<u>\$ (53,151)</u>	<u>\$ (16,441)</u>	<u>\$ 408,410</u>
Balance at December 31, 2023	\$ 32,857	\$ 193,114	\$ 272,101	\$ (49,862)	\$ (16,151)	\$ 432,059
Net income	—	—	10,095	—	—	10,095
Other comprehensive loss	—	—	—	(2,706)	—	(2,706)
Cash dividends declared (\$ 0.28 per share)	—	—	(4,205)	—	—	(4,205)
Net issuance (39,746 shares) to employee stock plans, including related tax effects	—	(355)	—	—	339	(16)
Recognition of stock based compensation	—	487	—	—	—	487
Balance at March 31, 2024	<u>\$ 32,857</u>	<u>\$ 193,246</u>	<u>\$ 277,991</u>	<u>\$ (52,568)</u>	<u>\$ (15,812)</u>	<u>\$ 435,714</u>

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

BAR HARBOR BANKSHARES AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)	Three Months Ended March 31,	
	2024	2023
Cash flows from operating activities:		
Net income	\$ 10,095	\$ 13,012
Adjustments to reconcile net income to net cash provided by operating activities:		
Net change in loans held for sale	948	463
Provision for credit losses	289	798
Net amortization of securities	485	540
Change in unamortized net loan costs and premiums	(265)	49
Premises and equipment depreciation	1,036	1,048
Stock-based compensation expense	487	299
Amortization of other intangibles	233	233
Income from cash surrender value of bank-owned life insurance policies	(561)	(1,148)
Gain on sales of securities, net	—	(34)
Amortization of right-of-use lease assets	126	298
Decrease in lease liabilities	(126)	(290)
Gain on premises and equipment, net	(15)	(13)
Net change in other assets and liabilities	(4,217)	2,098
Net cash provided by operating activities	<u>8,515</u>	<u>17,353</u>
Cash flows from investing activities:		
Proceeds from sales, maturities, calls and prepayments of securities available for sale	7,738	2,534
Purchases of securities available for sale	(4,762)	(1,000)
Net change in loans	(12,434)	(41,582)
Purchase of Federal Home Loan Bank stock	(3,244)	(5,030)
Proceeds from sale of Federal Home Loan Bank stock	6,072	4,205
Purchase of premises and equipment, net	(671)	(1,153)
Proceeds from sale of premises and equipment	74	—
Proceeds from death benefit of bank-owned life insurance policy	—	3,909
Net cash used in investing activities	<u>(7,227)</u>	<u>(38,117)</u>
Cash flows from financing activities:		
Net change in deposits	(14,081)	10,383
Net change in short-term borrowings	(1,604)	4,290
Repayments of long-term borrowings	(5)	(3)
Net change in subordinated debt issuance costs	—	41
Net issuance to employee stock plans	(16)	403
Cash dividends paid on common stock	(4,205)	(3,943)
Net cash provided by financing activities	<u>(19,911)</u>	<u>11,171</u>
Net change in cash and cash equivalents	(18,623)	(9,593)
Cash and cash equivalents at beginning of year	94,842	92,295
Cash and cash equivalents at end of period	<u>\$ 76,219</u>	<u>\$ 82,702</u>
Supplemental cash flow information:		
Interest paid	\$ 15,941	\$ 9,417
Income taxes paid, net	4,303	5,219

BAR HARBOR BANKSHARES AND SUBSIDIARIES
CONDENSED NOTES TO UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

The consolidated financial statements (unaudited) (the “financial statements”) of Bar Harbor Bankshares and its subsidiaries (the “Company,” “we,” “our,” “us” or similar terms) have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). The Company 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 our accounts, the accounts of our 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 GAAP requires otherwise.

In addition, these interim financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X, and accordingly, certain information and footnote disclosures normally included in financial statements prepared according to GAAP have been omitted.

The results for any interim period are not necessarily indicative of results for the full year. The consolidated financial statements should be read in conjunction with the audited financial statements and note disclosures in the Form 10-K previously filed with the Securities and Exchange Commission (the “SEC”). In management’s opinion, all adjustments necessary for a fair statement are reflected in the interim periods presented.

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 consolidated income statement.

Goodwill assessment: In connection with acquisitions, management generally records as assets on our 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, our goodwill is evaluated at the entity level as there is only one reporting unit. Management, 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.

In the fourth quarter 2023, management completed its annual goodwill impairment testing using balance sheet and market data as of September 30, 2023. The analysis was performed at the consolidated Bank-level of the Company, which is considered the smallest reporting unit carrying goodwill. Based on an analysis performed, the Company’s estimated fair value to a market participant as of September 30, 2023, exceeded its carrying amount resulting in no impairment charge for the period. Management evaluated current conditions and concluded there have been no significant changes in the economic environment or future projections and therefore, believes that there has been no further decline in the Company’s fair value as of September 30, 2023. Management will continue to evaluate the economic conditions at future reporting periods for applicable changes.

Recent Accounting Pronouncements

The following table provides a brief description of recent accounting standards updates ("ASU") 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 2023			
ASU 2022-02 Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings ("TDRs") and Vintage Disclosures	The amendments in this update eliminate TDR recognition and measurement guidance and, instead, require that an entity evaluate (consistent with the accounting for other loan modifications) whether the modification represents a new loan or a continuation of an existing loan. The amendments enhance existing disclosure requirements and introduce new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty.	January 1, 2023	The adoption of this ASU did not have a material impact on our consolidated financial statements.
ASU 2023-02 Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method	The amendments in this update permit reporting entities to elect to account for their tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met.	December 15, 2023, including interim periods within the fiscal year	The adoption of this ASU did not have a material impact on our consolidated financial statements.
Standards Not Yet Adopted			
ASU 2023-09 Income Taxes (Topic 740): Improvements to Income Tax Disclosures	The amendments in this update require that public business entities on an annual basis (1) disclose specific categories in the rate reconciliation and (2) provide additional information for reconciling items that meet a quantitative threshold (if the effect of those reconciling items is equal to or greater than 5 percent of the amount computed by multiplying pretax income [or loss] by the applicable statutory income tax rate).	Annual periods beginning after December 15, 2024	We do not expect adoption of this ASU to have a material impact on our consolidated financial statements.

NOTE 2. SECURITIES AVAILABLE FOR SALE

The following is a summary of securities available for sale ("AFS"):

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2024				
Debt securities:				
Obligations of US Government-sponsored enterprises	\$ 1,718	\$ —	\$ (31)	\$ 1,687
Mortgage-backed securities and collateralized mortgage obligations:				
US Government-sponsored enterprises	218,631	4	(32,811)	185,824
US Government agency	87,527	79	(11,424)	76,182
Private label	60,520	18	(1,506)	59,032
Obligations of states and political subdivisions thereof	118,605	5,425	(15,924)	108,106
Corporate bonds	105,550	1	(8,779)	96,772
Total securities available for sale	\$ 592,551	\$ 5,527	\$ (70,475)	\$ 527,603

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2023				
Debt securities:				
Obligations of US Government-sponsored enterprises	\$ 2,021	\$ —	\$ (29)	\$ 1,992
Mortgage-backed securities and collateralized mortgage obligations:				
US Government-sponsored enterprises	223,602	12	(30,332)	193,282
US Government agency	85,005	145	(10,937)	74,213
Private label	60,888	18	(1,855)	59,051
Obligations of states and political subdivisions thereof	119,857	4,515	(14,204)	110,168
Corporate bonds	105,552	19	(9,703)	95,868
Total securities available for sale	\$ 596,925	\$ 4,709	\$ (67,060)	\$ 534,574

Credit Quality Information

We monitor the credit quality of available for sale debt securities through credit ratings from various rating agencies and substantial price changes. In an effort to make informed decisions, we utilize credit ratings that express opinions about the credit quality of a security. Securities are triggered for further review in the quarter if the security has significant fluctuations in ratings, significant pricing changes, or drops below investment-grade, or significant pricing changes. For securities without credit ratings, we utilize other financial information indicating the financial health of the underlying municipality, agency, or organization associated with the underlying security.

As of March 31, 2024 and December 31, 2023, we carried no allowance on available for sale debt securities in accordance with ASC 326, Measurement of Credit Losses on Financial Instruments.

The amortized cost and estimated fair value of available for sale securities segregated by contractual maturity at March 31, 2024 are presented below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Mortgage-backed securities and collateralized mortgage obligations are shown in total, as their maturities are highly variable.

(in thousands)	Available for sale	
	Amortized Cost	Fair Value
Within 1 year	\$ 4,024	\$ 4,024
Over 1 year to 5 years	52,916	49,626
Over 5 years to 10 years	42,276	43,158
Over 10 years	126,657	109,757
Total bonds and obligations	225,873	206,565
Mortgage-backed securities and collateralized mortgage obligations	366,678	321,038
Total securities available for sale	\$ 592,551	\$ 527,603

The following table presents the realized gains and losses from the sale of AFS securities for the periods presented:

(in thousands)	Three Months Ended March 31,	
	2024	2023
Gross gains on sales of available for sale securities	\$ —	\$ 34
Gross losses on sales of available for sale securities	—	—
Net gains on sale of available for sale securities	\$ —	\$ 34

Securities with unrealized losses, segregated by the duration of their continuous unrealized loss positions, are summarized as follows:

(in thousands)	Less Than Twelve Months		Over Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
March 31, 2024						
Debt securities:						
Obligations of US Government-sponsored enterprises	\$ 1	\$ 865	\$ 30	\$ 823	\$ 31	\$ 1,688
Mortgage-backed securities and collateralized mortgage obligations:						
US Government-sponsored enterprises	50	3,071	32,761	182,199	32,811	185,270
US Government agency	62	6,901	11,362	66,391	11,424	73,292
Private label	1	23	1,505	57,494	1,506	57,517
Obligations of states and political subdivisions thereof	26	4,922	15,898	100,867	15,924	105,789
Corporate bonds	70	6,952	8,709	88,789	8,779	95,741
Total securities available for sale	\$ 210	\$ 22,734	\$ 70,265	\$ 496,563	\$ 70,475	\$ 519,297

	Less Than Twelve Months		Over Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
(in thousands)						
December 31, 2023						
Debt securities:						
Obligations of US Government-sponsored enterprises	\$ 1	\$ 1,084	\$ 28	\$ 907	\$ 29	\$ 1,991
Mortgage-backed securities and collateralized mortgage obligations:						
US Government-sponsored enterprises	10	3,439	30,322	188,611	30,332	192,050
US Government agency	2	120	10,935	68,891	10,937	69,011
Private label	—	26	1,855	59,007	1,855	59,033
Obligations of states and political subdivisions thereof	26	3,099	14,178	101,036	14,204	104,135
Corporate bonds	156	4,913	9,547	84,950	9,703	89,863
Total securities available for sale	\$ 195	\$ 12,681	\$ 66,865	\$ 503,402	\$ 67,060	\$ 516,083

We expect to recover the amortized cost basis on all securities in our AFS portfolio. Furthermore, we do not intend to sell nor do we anticipate that we will be required to sell any securities in an unrealized loss position as of March 31, 2024, prior to this recovery. Our ability and intent to hold these securities until recovery is supported by our capital and liquidity positions as well as historically low portfolio turnover.

The following summarizes, by investment security type, the impact of securities in an unrealized loss position at March 31, 2024:

Obligations of US Government-sponsored enterprises

8 out of the total 8 securities in our portfolio of AFS obligations of US Government-sponsored enterprises were in unrealized loss positions. Aggregate unrealized losses represented 1.77 % of the amortized cost of securities in unrealized loss positions. The US Small Business Administration guarantees the contractual cash flows of all of our obligations of US Government-sponsored enterprises. The securities are investment grade rated and there were no material underlying credit downgrades during the quarter.

US Government-sponsored enterprises

466 out of the total 493 securities in our portfolio of AFS US Government-sponsored enterprises were in unrealized loss positions. Aggregate unrealized losses represented 15.05 % of the amortized cost of securities in unrealized loss positions. The Federal National Mortgage Association and Federal Home Loan Mortgage Corporation guarantee the contractual cash flows of all of our US Government-sponsored enterprises. The securities are investment grade rated and there were no material underlying credit downgrades during the quarter.

US Government agency

139 out of the total 154 securities in our portfolio of AFS US Government agency securities were in unrealized loss positions. Aggregate unrealized losses represented 13.49 % of the amortized cost of securities in unrealized loss positions. The Government National Mortgage Association guarantees the contractual cash flows of all of our US Government agency securities. The securities are investment grade rated and there were no material underlying credit downgrades during the quarter.

Private label

25 of the total 28 securities in our portfolio of AFS private label mortgage-backed securities were in unrealized loss positions. Aggregate unrealized losses represented 2.55 % of the amortized cost of securities in unrealized loss positions. We expect to receive all of the future contractual cash flows related to the amortized cost on these securities.

Obligations of states and political subdivisions thereof

61 of the total 69 securities in our portfolio of AFS municipal bonds and obligations were in unrealized loss positions. Aggregate unrealized losses represented 13.69 % of the amortized cost of securities in unrealized loss positions. We continually monitor the municipal bond sector of the market carefully and periodically evaluate the appropriate level of exposure to the market. At this time, we believe (i) the bonds in this portfolio carry minimal risk of default and (ii) we are appropriately compensated for the risk. There were no material underlying credit downgrades during the quarter.

Corporate bonds

33 out of the total 35 securities in our portfolio of AFS corporate bonds were in an unrealized loss position. The aggregate unrealized loss represents 8.40 % of the amortized cost of bonds in unrealized loss positions. We review the financial strength of all of these bonds, and we have concluded that the amortized cost remains supported by the expected future cash flows of these securities. The most recent review includes all bond issuers and their current credit ratings, financial performance and capitalization.

NOTE 3. LOANS AND ALLOWANCE FOR CREDIT LOSSES

We evaluate risk characteristics of loans based on regulatory call report code with segmentation based on the underlying collateral for certain loan types. The following is a summary of total loans based on regulatory call report code segmentation for certain loan types:

(in thousands)	March 31, 2024	December 31, 2023
Commercial construction	\$ 158,270	\$ 154,048
Commercial real estate owner occupied	323,581	310,015
Commercial real estate non-owner occupied	1,155,297	1,144,566
Tax exempt	39,261	43,688
Commercial and industrial	306,844	310,883
Residential real estate	933,911	940,334
Home equity	86,879	87,683
Consumer other	7,629	7,832
Total loans	3,011,672	2,999,049
Allowance for credit losses	28,355	28,142
Net loans	\$ 2,983,317	\$ 2,970,907

Total unamortized net costs and premiums included in loan totals were as follows:

(in thousands)	March 31, 2024	December 31, 2023
Net unamortized loan origination costs	\$ 2,774	\$ 3,039
Net unamortized fair value discount on acquired loans	(2,781)	(2,891)
Total	\$ (7)	\$ 148

We exclude accrued interest receivable from the amortized cost basis of loans disclosed throughout this footnote. As of March 31, 2024 and December 31, 2023, accrued interest receivable for loans totaled \$ 13.2 million and \$ 11.9 million, respectively, and is included in the "other assets" line item on the consolidated balance sheets.

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 on stabilized commercial real estate transactions. 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 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 to these borrowers may provide us with tax-exempt income. While governed and underwritten similar to commercial loans they do have unique requirements based on established policies. 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 US Small Business Administration. 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 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 our consolidated balance sheet. The level of the ACL represents management's estimate of expected credit losses over the expected life of the loans at the consolidated balance sheet date.

The ACL 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.

The activity in the ACL for the periods ended are as follows:

At or for the Three Months Ended March 31, 2024					
(in thousands)	Balance at Beginning of Period	Charge Offs	Recoveries	Provision	Balance at End of Period
Commercial construction	\$ 4,261	\$ —	\$ —	\$ (564)	\$ 3,697
Commercial real estate owner occupied	2,863	(3)	—	221	3,081
Commercial real estate non-owner occupied	9,443	—	—	(288)	9,155
Tax exempt	119	—	—	(6)	113
Commercial and industrial	3,259	(65)	1	639	3,834
Residential real estate	7,352	—	5	294	7,651
Home equity	767	—	3	(18)	752
Consumer other	78	(45)	28	11	72
Total	\$ 28,142	\$ (113)	\$ 37	\$ 289	\$ 28,355

At or for the Three Months Ended March 31, 2023					
(in thousands)	Balance at Beginning of Period	Charge Offs	Recoveries	Provision	Balance at End of Period
Commercial construction	\$ 2,579	\$ —	\$ —	\$ 455	\$ 3,034
Commercial real estate owner occupied	2,189	—	—	159	2,348
Commercial real estate non-owner occupied	9,341	—	—	3	9,344
Tax exempt	93	—	—	—	93
Commercial and industrial	3,493	(1)	6	117	3,615
Residential real estate	7,274	(4)	8	27	7,305
Home equity	811	—	2	(21)	792
Consumer other	80	(63)	1	58	76
Total	\$ 25,860	\$ (68)	\$ 17	\$ 798	\$ 26,607

Unfunded Commitments

The ACL 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 activity in the ACL on unfunded commitments for the periods ended was as follows:

(in thousands)	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Beginning Balance	\$ 3,825	\$ 3,910
Provision for credit losses	(186)	(175)
Ending Balance	\$ 3,639	\$ 3,639

Loan Origination/Risk Management: We have certain lending policies and procedures in place designed to maximize loan income within an acceptable level of risk. Our 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 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. We seek 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 our credit quality indicators:

Pass: Loans we consider 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 considered 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 us to sufficient risks to warrant classification.

Substandard: Loans we consider 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 we consider 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 we consider 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 effected in the future. Losses are taken in the period in which they are determined to be uncollectible.

The following table presents our loans by year of origination, loan segmentation and risk indicator as of March 31, 2024:

(in thousands)	2024	2023	2022	2021	2020	Prior	Total
Commercial construction							
Risk rating:							
Pass	\$ 1,219	\$ 23,199	\$ 107,106	\$ 20,918	\$ 4,415	\$ 1,413	\$ 158,270
Special mention	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—
Total	\$ 1,219	\$ 23,199	\$ 107,106	\$ 20,918	\$ 4,415	\$ 1,413	\$ 158,270
Current period gross write-offs	—	—	—	—	—	—	—
Commercial real estate owner occupied							
Risk rating:							
Pass	\$ 1,328	\$ 52,491	\$ 67,078	\$ 60,467	\$ 19,975	\$ 115,429	\$ 316,768
Special mention	—	152	—	—	1,565	3,382	5,099
Substandard	—	—	—	—	—	1,604	1,604
Doubtful	—	—	—	—	—	110	110
Total	\$ 1,328	\$ 52,643	\$ 67,078	\$ 60,467	\$ 21,540	\$ 120,525	\$ 323,581
Current period gross write-offs	—	—	—	—	—	3	3
Commercial real estate non-owner occupied							
Risk rating:							
Pass	\$ 10,379	\$ 41,205	\$ 342,797	\$ 198,618	\$ 135,808	\$ 321,447	\$ 1,050,254
Special mention	—	7,782	9,363	21,525	27,946	20,597	87,213
Substandard	—	—	—	—	—	17,830	17,830
Doubtful	—	—	—	—	—	—	—
Total	\$ 10,379	\$ 48,987	\$ 352,160	\$ 220,143	\$ 163,754	\$ 359,874	\$ 1,155,297
Current period gross write-offs	—	—	—	—	—	—	—
Tax exempt							
Risk rating:							
Pass	\$ 501	\$ 2,832	\$ 8,468	\$ 724	\$ 208	\$ 26,528	\$ 39,261
Special mention	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—
Total	\$ 501	\$ 2,832	\$ 8,468	\$ 724	\$ 208	\$ 26,528	\$ 39,261
Current period gross write-offs	—	—	—	—	—	—	—
Commercial and industrial							
Risk rating:							
Pass	\$ 25,552	\$ 79,412	\$ 62,520	\$ 18,175	\$ 33,714	\$ 79,651	\$ 299,024
Special mention	—	306	1,419	124	704	3,442	5,995
Substandard	—	155	201	123	124	1,001	1,604
Doubtful	—	—	—	—	—	221	221
Total	\$ 25,552	\$ 79,873	\$ 64,140	\$ 18,422	\$ 34,542	\$ 84,315	\$ 306,844
Current period gross write-offs	—	—	—	62	3	—	65
Residential real estate							
Performing	\$ 7,076	\$ 76,695	\$ 186,939	\$ 162,848	\$ 94,344	\$ 401,684	\$ 929,586
Nonperforming	—	—	403	662	—	3,260	4,325
Total	\$ 7,076	\$ 76,695	\$ 187,342	\$ 163,510	\$ 94,344	\$ 404,944	\$ 933,911
Current period gross write-offs	—	—	—	—	—	—	—
Home equity							
Performing	\$ 2,620	\$ 15,816	\$ 15,200	\$ 7,107	\$ 6,138	\$ 39,038	\$ 85,919
Nonperforming	—	—	—	57	—	903	960
Total	\$ 2,620	\$ 15,816	\$ 15,200	\$ 7,164	\$ 6,138	\$ 39,941	\$ 86,879
Current period gross write-offs	—	—	—	—	—	—	—
Consumer other							
Performing	\$ 1,913	\$ 2,618	\$ 1,476	\$ 572	\$ 212	\$ 827	\$ 7,618
Nonperforming	—	—	—	6	5	—	11
Total	\$ 1,913	\$ 2,618	\$ 1,476	\$ 578	\$ 217	\$ 827	\$ 7,629
Current period gross write-offs	—	4	1	—	—	40	45
Total Loans	\$ 50,588	\$ 302,663	\$ 802,970	\$ 491,926	\$ 325,158	\$ 1,038,367	\$ 3,011,672

The following table presents our loans by year of origination, loan segmentation and risk indicator as of December 31, 2023:

(in thousands)	2023	2022	2021	2020	2019	Prior	Total
Commercial construction							
Risk rating:							
Pass	\$ 14,040	\$ 99,115	\$ 35,978	\$ 3,992	\$ —	\$ 923	\$ 154,048
Special mention	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—
Total	\$ 14,040	\$ 99,115	\$ 35,978	\$ 3,992	\$ —	\$ 923	\$ 154,048
Current period gross write-offs	—	—	—	—	—	—	—
Commercial real estate owner occupied							
Risk rating:							
Pass	\$ 57,603	\$ 61,015	\$ 43,228	\$ 20,209	\$ 20,462	\$ 91,187	\$ 293,704
Special mention	160	387	7,488	1,596	—	3,066	12,697
Substandard	—	—	—	—	—	3,497	3,497
Doubtful	—	—	—	—	—	117	117
Total	\$ 57,763	\$ 61,402	\$ 50,716	\$ 21,805	\$ 20,462	\$ 97,867	\$ 310,015
Current period gross write-offs	—	—	—	—	—	—	—
Commercial real estate non-owner occupied							
Risk rating:							
Pass	\$ 41,270	\$ 353,613	\$ 199,311	\$ 127,231	\$ 78,759	\$ 238,973	\$ 1,039,157
Special mention	7,809	—	14,134	37,249	15,246	17,108	91,546
Substandard	—	—	—	—	—	13,863	13,863
Doubtful	—	—	—	—	—	—	—
Total	\$ 49,079	\$ 353,613	\$ 213,445	\$ 164,480	\$ 94,005	\$ 269,944	\$ 1,144,566
Current period gross write-offs	—	—	—	—	—	—	—
Tax exempt							
Risk rating:							
Pass	\$ 6,340	\$ 8,468	\$ 787	\$ 208	\$ 590	\$ 27,295	\$ 43,688
Special mention	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—
Total	\$ 6,340	\$ 8,468	\$ 787	\$ 208	\$ 590	\$ 27,295	\$ 43,688
Current period gross write-offs	—	—	—	—	—	—	—
Commercial and industrial							
Risk rating:							
Pass	\$ 80,942	\$ 69,402	\$ 22,205	\$ 38,824	\$ 14,739	\$ 77,273	\$ 303,385
Special mention	364	1,446	—	776	28	3,588	6,202
Substandard	58	94	186	109	95	532	1,074
Doubtful	—	—	—	—	87	135	222
Total	\$ 81,364	\$ 70,942	\$ 22,391	\$ 39,709	\$ 14,949	\$ 81,528	\$ 310,883
Current period gross write-offs	—	—	—	—	5	659	664
Performing	\$ 72,395	\$ 194,109	\$ 165,434	\$ 96,016	\$ 62,648	\$ 345,823	\$ 936,425
Nonperforming	—	—	41	—	234	3,634	3,909
Total	\$ 72,395	\$ 194,109	\$ 165,475	\$ 96,016	\$ 62,882	\$ 349,457	\$ 940,334
Current period gross write-offs	—	—	—	—	—	8	8
Home equity							
Performing	\$ 15,582	\$ 15,334	\$ 7,873	\$ 6,633	\$ 4,800	\$ 36,652	\$ 86,874
Nonperforming	—	—	—	—	—	809	809
Total	\$ 15,582	\$ 15,334	\$ 7,873	\$ 6,633	\$ 4,800	\$ 37,461	\$ 87,683
Current period gross write-offs	—	—	—	—	—	12	12
Consumer other							
Performing	\$ 4,128	\$ 1,787	\$ 696	\$ 301	\$ 51	\$ 864	\$ 7,827
Nonperforming	—	—	4	1	—	—	5
Total	\$ 4,128	\$ 1,787	\$ 700	\$ 302	\$ 51	\$ 864	\$ 7,832
Current period gross write-offs	—	52	18	5	—	214	289
Total Loans	\$ 300,691	\$ 804,770	\$ 497,365	\$ 333,145	\$ 197,739	\$ 865,339	\$ 2,999,049

Past Dues

The following is a summary of past due loans for the periods ended:

(in thousands)	March 31, 2024				Current	Total Loans
	30-59	60-89	90+	Total Past Due		
Commercial construction	\$ —	\$ —	\$ —	\$ —	\$ 158,270	\$ 158,270
Commercial real estate owner occupied	262	359	—	621	322,960	323,581
Commercial real estate non-owner occupied	217	—	94	311	1,154,986	1,155,297
Tax exempt	—	—	—	—	39,261	39,261
Commercial and industrial	527	183	1,010	1,720	305,124	306,844
Residential real estate	1,138	1,112	787	3,037	930,874	933,911
Home equity	187	150	348	685	86,194	86,879
Consumer other	66	8	7	81	7,548	7,629
Total	\$ 2,397	\$ 1,812	\$ 2,246	\$ 6,455	\$ 3,005,217	\$ 3,011,672

(in thousands)	December 31, 2023				Current	Total Loans
	30-59	60-89	90+	Total Past Due		
Commercial construction	\$ —	\$ —	\$ —	\$ —	\$ 154,048	\$ 154,048
Commercial real estate owner occupied	—	—	—	—	310,015	310,015
Commercial real estate non-owner occupied	—	—	103	103	1,144,463	1,144,566
Tax exempt	—	—	—	—	43,688	43,688
Commercial and industrial	465	59	330	854	310,029	310,883
Residential real estate	1,520	627	1,999	4,146	936,188	940,334
Home equity	600	—	337	937	86,746	87,683
Consumer other	10	2	—	12	7,820	7,832
Total	\$ 2,595	\$ 688	\$ 2,769	\$ 6,052	\$ 2,992,997	\$ 2,999,049

Non-Accrual Loans

The following is a summary of non-accrual loans for the periods ended:

(in thousands)	March 31, 2024		
	Nonaccrual	Nonaccrual With No Related Allowance	90+ Days Past Due and Accruing
Commercial construction	\$ —	\$ —	\$ —
Commercial real estate owner occupied	95	—	—
Commercial real estate non-owner occupied	327	201	—
Tax exempt	—	—	—
Commercial and industrial	1,152	516	—
Residential real estate	4,325	726	—
Home equity	960	1	—
Consumer other	11	1	—
Total	\$ 6,870	\$ 1,445	\$ —

(in thousands)	December 31, 2023		
	Nonaccrual	Nonaccrual With No Related Allowance	90+ Days Past Due and Accruing
Commercial construction	\$ —	\$ —	\$ —
Commercial real estate owner occupied	103	44	—
Commercial real estate non-owner occupied	340	224	—
Tax exempt	—	—	—
Commercial and industrial	363	6	—
Residential real estate	3,908	1,131	118
Home equity	809	1	22
Consumer other	5	—	—
Total	\$ 5,528	\$ 1,406	\$ 140

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 we have determined that foreclosure of the collateral is probable, or where the borrower is experiencing financial difficulty and we expect 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)	March 31, 2024		December 31, 2023	
	Real Estate	Other	Real Estate	Other
Commercial construction	\$ —	\$ —	\$ —	\$ —
Commercial real estate owner occupied	95	—	104	—
Commercial real estate non-owner occupied	327	—	340	—
Tax exempt	—	—	—	—
Commercial and industrial	1,019	133	229	134
Residential real estate	4,325	—	3,908	—
Home equity	960	—	808	—
Consumer other	11	—	5	—
Total	\$ 6,737	\$ 133	\$ 5,394	\$ 134

Loan Modifications to Borrowers Experiencing Financial Difficulty

In January 2023, the Company adopted ASU 2022-02, "Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures" which eliminated the accounting guidance for TDRs while enhancing disclosure requirements for certain loan refinancing and restructurings by creditors when a borrower is experiencing financial difficulty. This guidance was applied on a prospective basis. Upon adoption of this guidance, we are no longer required to establish a specific reserve for modifications to borrowers experiencing financial difficulty. Instead, these modifications are included in their respective category and a historical loss rate is applied to the current loan balance to arrive at the quantitative baseline portion of the ACL.

These modifications typically result from loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance, or other actions.

The following table presents the amortized cost basis of loans that were both experiencing financial difficulty and modified during the three months ended March 31, 2024, by class and by type of modification.

(in thousands)	Principal Forgiveness	Payment Delay	Term Extension	Interest Rate Reduction	Combination Interest Rate Reduction and Term Extension	% of Total Class of Loans
Three Months Ended March 31, 2024						
Commercial construction	\$ —	\$ —	\$ —	\$ —	\$ —	— %
Commercial real estate owner occupied	—	—	—	—	—	—
Commercial real estate non-owner occupied	—	—	—	—	—	—
Tax exempt	—	—	—	—	—	—
Commercial and industrial	—	—	—	—	—	—
Residential real estate	—	—	33	—	—	0.00
Home equity	—	—	—	—	—	—
Consumer other	—	—	—	—	—	—
Total	\$ —	\$ —	\$ 33	\$ —	\$ —	0.00 %

The following table presents the financial effect of loan modifications made to borrowers experiencing financial difficulty during the three months ended March 31, 2024.

(in thousands)	Weighted- Average Months of Payment Delay	Weighted- Average Months of Term Extension	Weighted-Average Interest Rate Reduction
Three Months Ended March 31, 2024			
Commercial construction	—	—	— %
Commercial real estate owner occupied	—	—	—
Commercial real estate non-owner occupied	—	—	—
Tax exempt	—	—	—
Commercial and industrial	—	—	—
Residential real estate	—	64	—
Home equity	—	—	—
Consumer other	—	—	—
Total	—	64	— %

There were no qualifying modifications for the three months ended March 31, 2023.

Foreclosure

There were no residential mortgage loans collateralized by real estate that are in the process of foreclosure as of March 31, 2024. Residential mortgage loans collateralized by real estate that are in the process of foreclosure as of December 31, 2023 totaled \$ 430 thousand.

Mortgage Banking

Loans held for sale at March 31, 2024 had an unpaid principal balance of \$ 3.1 million and \$ 2.2 million as of December 31, 2023. The interest rate exposure on loans held for sale is mitigated through forward sale commitments with certain approved secondary market investors. Forward sale commitments had a notional amount of \$ 6.0 million at March 31, 2024, and \$ 5.0 million at December 31, 2023.

For the three months ended March 31, 2024 and 2023, we sold \$ 8.4 million and \$ 691 thousand, respectively, of residential mortgage loans on the secondary market, which resulted in a net loss on sale of loans (net of costs, including direct and indirect origination costs) of \$ 31 thousand and a gain \$ 8 thousand, respectively.

We sell residential loans on the secondary market while primarily retaining the servicing of these loans. Servicing sold loans helps to maintain customer relationships and earn fees over the servicing period. Loans serviced for others are not included in the accompanying consolidated balance sheets. The risks inherent in servicing assets relate primarily to level of prepayments that result from shifts in interest rates. We obtain third-party valuations of our servicing assets portfolio quarterly, and the assumptions are reflected in Fair Value disclosures.

NOTE 4. BORROWED FUNDS

Borrowed funds at March 31, 2024 and December 31, 2023 are summarized, as follows:

(dollars in thousands)	March 31, 2024		December 31, 2023	
	Carrying Value	Weighted Average Rate	Carrying Value	Weighted Average Rate
Short-term borrowings				
Advances from the FHLB	\$ 196,000	5.44 %	\$ 232,300	5.46 %
Advances from the FRB BTFP	65,000	4.79	30,000	4.90
Other borrowings	8,161	0.14	8,465	0.13
Total short-term borrowings	269,161	3.00	270,765	2.88
Long-term borrowings				
Advances from the FHLB	276	4.42	279	4.39
Subordinated borrowings	60,501	6.24	60,461	6.22
Total long-term borrowings	60,777	6.23	60,740	6.21
Total	\$ 329,938	3.34 %	\$ 331,505	3.24 %

Short-term debt includes Federal Home Loan Bank of Boston ("FHLB") advances with a remaining maturity of less than one year. We also maintain 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 periods ended March 31, 2024 and December 31, 2023. There are no variable rate short-term FHLB borrowings.

We have the capacity to borrow funds on a secured basis utilizing the Bank Term Funding Program (the "BTFP"), the Borrower in Custody program, and the Discount Window at the Federal Reserve Bank of Boston (the "FRB"). At March 31, 2024, our available secured line of credit at the FRB was \$ 155.9 million versus \$ 156.6 million at December 31, 2023. We have pledged certain loans and securities to the FRB to support this arrangement. The BTFP enables depository institutions to pledge eligible investment securities to the Federal Reserve with borrowing capacity based upon the par value of the collateral.

As of March 31, 2024, we maintained a BTFP balance of \$ 65 million at a fixed rate of 4.76 % with a maturity date of January 16, 2025. During the first quarter 2024, we prepaid our existing advance of \$ 30 million at a rate of 4.85 %, and entered into a new advance for \$ 65 million at a rate of 4.76 %. The BTFP was an additional source of liquidity with

favorable prepayment terms, as we may prepay at any time without penalty. As announced by the Federal Reserve Board on January 24, 2024, the BTFP has ceased making new loans effective March 11, 2024.

We maintain an unused unsecured federal funds line of credit with a correspondent bank that has an aggregate overnight borrowing capacity of \$ 50.0 million as of March 31, 2024 and December 31, 2023. There was no outstanding balance on the line of credit as of March 31, 2024 and December 31, 2023.

Long-term FHLB advances consist of advances with a remaining maturity of more than one year. The advances outstanding at March 31, 2024 include no callable advances and amortizing advances of \$ 276 thousand. There were no callable advances outstanding and \$ 279 thousand of amortizing advances at December 31, 2023. All FHLB borrowings, including the line of credit, are secured by a blanket security agreement on certain qualified collateral, principally all residential first mortgage loans and certain securities. There are no variable rate long-term FHLB borrowings.

A summary of maturities of FHLB advances as of March 31, 2024 is, as follows:

(in thousands, except rates)	Amount	Weighted Average Rate
2024	\$ 196,000	5.44 %
Thereafter	276	4.42
Total FHLB advances	\$ 196,276	5.44 %

We executed a Subordinated Note Purchase Agreement with an aggregate of \$ 40.0 million of subordinated notes (the "Notes") to accredited investors on November 19, 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 %. We have 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 \$ 119 thousand as of March 31, 2024 and \$ 158 thousand net of amortization as of December 31, 2023, which are netted against the subordinated debt.

We also have \$ 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 issued on March 30, 2004 carry a variable interest rate of three-month SOFR 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 we are not the primary beneficiary. Accordingly, Trust II and Trust III are not consolidated into our financial statements.

Repurchase Agreements

We can raise additional liquidity by entering into repurchase agreements at our discretion. In a security repurchase agreement transaction, we 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, we are 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, we either deal 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 our safekeeping agents.

(in thousands)	March 31, 2024	December 31, 2023
Customer Repurchase Agreements		
US Government-sponsored enterprises	\$ 8,161	\$ 8,465
Total	\$ 8,161	\$ 8,465

NOTE 5. DEPOSITS

A summary of time deposits is, as follows:

(in thousands)	March 31, 2024	December 31, 2023
Time less than \$100,000	\$ 445,450	\$ 381,902
Time \$100,000 through \$250,000	173,118	163,933
Time \$250,000 or more	158,640	154,425
Total	\$ 777,208	\$ 700,260

At March 31, 2024 and December 31, 2023, the scheduled maturities by year for time deposits are, as follows:

(in thousands)	March 31, 2024	December 31, 2023
Within 1 year	\$ 750,747	\$ 670,961
Over 1 year to 2 years	15,827	17,000
Over 2 years to 3 years	5,830	6,932
Over 3 years to 4 years	3,377	3,434
Over 4 years to 5 years	1,299	1,795
Over 5 years	128	138
Total	\$ 777,208	\$ 700,260

Included in time deposits are brokered deposits of \$ 275.0 million and \$ 219.6 million at March 31, 2024 and December 31, 2023, respectively. Also included in time deposits are reciprocal deposits of \$ 49.3 million and \$ 43.3 million at March 31, 2024 and December 31, 2023, respectively.

NOTE 6. CAPITAL RATIOS AND SHAREHOLDERS' EQUITY

The actual and required capital ratios are, as follows:

(in thousands, except ratios)	March 31, 2024			
	Actual		Minimum Regulatory Capital Requirements	
	Amount	Ratio	Amount	Ratio
Company (consolidated)				
Total capital to risk-weighted assets	\$ 456,781	14.36 %	\$ 254,393	8.00 %
Common equity tier 1 capital to risk-weighted assets	364,168	11.45	143,097	4.50
Tier 1 capital to risk-weighted assets	384,788	12.10	190,795	6.00
Tier 1 capital to average assets (leverage ratio)	384,788	9.92	155,105	4.00
Bank				
Total capital to risk-weighted assets	\$ 447,860	14.10 %	\$ 254,134	8.00 %
Common equity tier 1 capital to risk-weighted assets	415,867	13.09	142,950	4.50
Tier 1 capital to risk-weighted assets	415,867	13.09	190,600	6.00
Tier 1 capital to average assets (leverage ratio)	415,867	10.73	154,978	4.00
(in thousands, except ratios)	December 31, 2023			
	Actual		Minimum Regulatory Capital Requirements	
	Amount	Ratio	Amount	Ratio
Company (consolidated)				
Total capital to risk-weighted assets	\$ 450,160	14.24 %	\$ 252,888	8.00 %
Common equity tier 1 capital to risk-weighted assets	357,574	11.31	142,249	4.50
Tier 1 capital to risk-weighted assets	378,194	11.96	189,666	6.00
Tier 1 capital to average assets (leverage ratio)	378,194	9.70	156,022	4.00
Bank				
Total capital to risk-weighted assets	\$ 441,278	13.97 %	\$ 252,642	8.00 %
Common equity tier 1 capital to risk-weighted assets	409,312	12.96	142,111	4.50
Tier 1 capital to risk-weighted assets	409,312	12.96	189,482	6.00
Tier 1 capital to average assets (leverage ratio)	409,312	10.50	155,908	4.00

In order to be classified as "well-capitalized" under the relevant regulatory framework, (i) the Company must, on a consolidated basis, maintain a total risk-based capital ratio of 10.00% or greater and a Tier 1 risk-based capital ratio of 6.00% or greater; and (ii) the Bank must maintain a total risk-based capital ratio of 10.00% or greater, a Tier 1 risk-based capital ratio of 8.00% or greater, a common equity Tier 1 capital ratio of 6.50% or greater, and a leverage ratio of 5.00% or greater. At each date shown in the tables above, the Company and the Bank met the conditions to be classified as "well-capitalized" under the relevant regulatory framework.

Accumulated other comprehensive (loss) income

Components of accumulated other comprehensive loss is, as follows:

(in thousands)	March 31, 2024	December 31, 2023
Accumulated other comprehensive loss, before tax:		
Net unrealized loss on AFS securities	\$ (64,948)	\$ (62,351)
Net unrealized loss on hedging derivatives	(2,259)	(1,322)
Net unrealized loss on post-retirement plans	(1,518)	(1,540)
Income taxes related to items of accumulated other comprehensive loss:		
Net unrealized loss on AFS securities	15,315	14,702
Net unrealized loss on hedging derivatives	533	312
Net unrealized loss on post-retirement plans	309	337
Accumulated other comprehensive loss	\$ (52,568)	\$ (49,862)

The following table presents the components of other comprehensive income (loss) for the three months ended March 31, 2024 and 2023:

(in thousands)	Before Tax	Tax Effect	Net of Tax
Three Months Ended March 31, 2024			
Net unrealized loss on AFS securities:			
Net unrealized loss arising during the period	\$ (2,597)	\$ 613	\$ (1,984)
Less: reclassification adjustment for gains (losses) realized in net income	—	—	—
Net unrealized loss on AFS securities	(2,597)	613	(1,984)
Net unrealized loss on hedging derivatives:			
Net unrealized loss arising during the period	(937)	221	(716)
Less: reclassification adjustment for gains (losses) realized in net income	—	—	—
Net unrealized loss on cash flow hedging derivatives	(937)	221	(716)
Net unrealized loss on post-retirement plans:			
Net unrealized loss arising during the period	22	(28)	(6)
Less: reclassification adjustment for gains (losses) realized in net income	—	—	—
Net unrealized loss on post-retirement plans	22	(28)	(6)
Other comprehensive loss	\$ (3,512)	\$ 806	\$ (2,706)
Three Months Ended March 31, 2023			
Net unrealized loss on AFS securities:			
Net unrealized loss arising during the period	\$ 6,040	\$ (1,414)	\$ 4,626
Less: reclassification adjustment for gains (losses) realized in net income	34	(8)	26
Net unrealized loss on AFS securities	6,006	(1,406)	4,600
Net unrealized loss on hedging derivatives:			
Net unrealized loss arising during the period	767	(178)	589
Less: reclassification adjustment for gains (losses) realized in net income	—	—	—
Net unrealized loss on cash flow hedging derivatives	767	(178)	589
Net unrealized loss on post-retirement plans:			
Net unrealized loss arising during the period	—	—	—
Less: reclassification adjustment for gains (losses) realized in net income	—	—	—
Net unrealized loss on post-retirement plans	—	—	—
Other comprehensive income	\$ 6,773	\$ (1,584)	\$ 5,189

The following table presents the changes in each component of accumulated other comprehensive income (loss), net of tax impacts, for the three months ended March 31, 2024 and 2023:

(in thousands)	Net unrealized gain (loss) on AFS Securities	Net gain (loss) on effective cash flow hedging derivatives	Net unrealized loss on pension plans	Total
Three Months Ended March 31, 2024				
Balance at beginning of period	\$ (47,649)	\$ (1,010)	\$ (1,203)	\$ (49,862)
Other comprehensive gain before reclassifications	(1,984)	(716)	(6)	(2,706)
Less: amounts reclassified from accumulated other comprehensive income	—	—	—	—
Total other comprehensive income	(1,984)	(716)	(6)	(2,706)
Balance at end of period	<u>\$ (49,633)</u>	<u>\$ (1,726)</u>	<u>\$ (1,209)</u>	<u>\$ (52,568)</u>
Three Months Ended March 31, 2023				
Balance at beginning of period	\$ (55,246)	\$ (1,794)	\$ (1,300)	\$ (58,340)
Other comprehensive loss before reclassifications	4,626	589	—	5,215
Less: amounts reclassified from accumulated other comprehensive income	26	—	—	26
Total other comprehensive loss	4,600	589	—	5,189
Balance at end of period	<u>\$ (50,646)</u>	<u>\$ (1,205)</u>	<u>\$ (1,300)</u>	<u>\$ (53,151)</u>

The following tables presents the amounts reclassified out of each component of accumulated other comprehensive income for three months ended March 31, 2024 and 2023:

(in thousands)	Three Months Ended March 31,		Affected Line Item where Net Income is Presented
	2024	2023	
Net realized gains on AFS securities:			
Before tax	\$ —	\$ 34	Non-interest income
Tax effect	—	(8)	Tax expense
Total reclassifications for the period	<u>\$ —</u>	<u>\$ 26</u>	

NOTE 7. EARNINGS PER SHARE

The following table presents the calculation of earnings per share:

(in thousands, except per share and share data)	Three Months Ended March 31,	
	2024	2023
Net income	\$ 10,095	\$ 13,012
Average number of basic common shares outstanding	15,198,337	15,109,847
Plus: dilutive effect of stock options and awards outstanding	71,496	80,242
Average number of diluted common shares outstanding ⁽¹⁾	<u>15,269,833</u>	<u>15,190,089</u>
Earnings per share:		
Basic	\$ 0.66	\$ 0.86
Diluted	0.66	0.86

(1) Average diluted shares outstanding are computed using the treasury stock method.

NOTE 8. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

We use derivative instruments to minimize fluctuations in earnings and cash flows caused by interest rate volatility. Our 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 our derivative contracts are considered to be interest rate contracts.

We recognize our derivative instruments on the consolidated balance sheet at fair value. On the date the derivative instrument is entered into, we designate whether the derivative is part of a hedging relationship (i.e., cash flow or fair value hedge). We formally document relationships between hedging instruments and hedged items, as well as our risk management objective and strategy for undertaking hedge transactions. We also assess, 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.

We offer 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 ("MNAs") with financial institution counterparties or Risk Participation Agreements ("RPAs") with commercial bank counterparties, for which we assume a pro rata share of the credit exposure associated with a borrower's performance related to the derivative contract with the counterparty.

The following tables present information about derivative assets and liabilities at March 31, 2024 and December 31, 2023:

	March 31, 2024			
	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 funding	\$ 75,000	0.8	\$ 2,361	Other assets
Interest rate swap on variable rate loans	50,000	2.0	(3,604)	Other liabilities
Total cash flow hedges	125,000		(1,243)	
Fair value hedges:				
Interest rate swap on securities	37,190	5.3	4,407	Other assets
Total fair value hedges	37,190		4,407	
Economic hedges:				
Forward sale commitments	6,000	0.1	(16)	Other liabilities
Customer Loan Swaps-MNA Counterparty	177,994	4.9	(17,037)	Other liabilities
Customer Loan Swaps-RPA Counterparty	142,199	4.7	—	Other liabilities
Customer Loan Swaps-Customer	320,193	4.8	17,037	Other assets
Total economic hedges	646,386		(16)	
Non-hedging derivatives:				
Interest rate lock commitments	3,397	0.4	56	Other assets
Total non-hedging derivatives	3,397		56	
Total	\$ 811,973		\$ 3,204	

	December 31, 2023			
	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 funding	\$ 75,000	1.0	\$ 2,803	Other assets
Interest rate swap on variable rate loans	50,000	2.2	(3,459)	Other liabilities
Total cash flow hedges	125,000		(656)	
Fair value hedges:				
Interest rate swap on securities	37,190	5.6	3,844	Other assets
Total fair value hedges	37,190		3,844	
Economic hedges:				
Forward sale commitments	5,000	—	(20)	Other assets
Customer Loan Swaps-MNA Counterparty	184,826	5.0	(14,842)	Other liabilities
Customer Loan Swaps-RPA Counterparty	142,199	4.9	(286)	Other liabilities
Customer Loan Swaps-Customer	327,025	4.9	15,128	Other assets
Total economic hedges	659,050		(20)	
Non-hedging derivatives:				
Interest rate lock commitments	3,153	0.1	63	Other assets
Total non-hedging derivatives	3,153		63	
Total	\$ 824,393		\$ 3,231	

As of March 31, 2024 and December 31, 2023, the following amounts were recorded on the consolidated 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
March 31, 2024			
Interest rate swap on securities	Securities available for sale	\$ 31,767	\$ (5,423)
December 31, 2023			
Interest rate swap on securities	Securities available for sale	\$ 32,680	\$ (4,510)

Information about derivative assets and liabilities for the three months ended March 31, 2024 and 2023, follows:

(in thousands)	Three Months Ended March 31, 2024				
	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	\$ (338)	Interest expense	\$ —	Interest expense	\$ 827
Interest rate swap on variable rate loans	(111)	Interest income	—	Interest income	(585)
Total cash flow hedges	(449)		—		242
Fair value hedges:					
Interest rate swap on securities	(268)	Interest income	—	Interest income	370
Total fair value hedges	(268)		—		370
Economic hedges:					
Forward commitments	—	Other income	—	Mortgage banking income	4
Total economic hedges	—		—		4
Non-hedging derivatives:					
Interest rate lock commitments	—	Other expense	—	Mortgage banking income	(7)
Total non-hedging derivatives	—		—		(7)
Total	<u>\$ (717)</u>		<u>\$ —</u>		<u>\$ 609</u>

Three Months Ended March 31, 2023					
(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	\$ (610)	Interest expense	\$ —	Interest expense	\$ 664
Interest rate swap on variable rate loans	592	Interest income	—	Interest income	(466)
Total cash flow hedges	(18)		—		198
Fair value hedges:					
Interest rate swap on securities	607	Interest income	—	Interest income	286
Total economic hedges	607		—		286
Economic hedges:					
Forward commitments	—	Other income	—	Mortgage banking income	—
Total economic hedges	—		—		—
Non-hedging derivatives:					
Interest rate lock commitments	—	Other expense	—	Mortgage banking income	8
Total non-hedging derivatives	—		—		8
Total	\$ 589		\$ —		\$ 492

The effect of cash flow hedging and fair value accounting on the consolidated statements of income for the three months ended March 31, 2024 and 2023:

(in thousands)	Three Months Ended March 31, 2024				
	Interest and Dividend Income		Interest Expense		Non-interest Income
	Loans	Securities and other	Deposits	Borrowings	
Income and expense line items presented in the consolidated statements of income	\$ 39,470	\$ 6,353	\$ 14,532	\$ 3,236	\$ 8,586
The effects of cash flow and fair value hedging:					
Gain (loss) on cash flow hedges:					
Interest rate swap on wholesale funding	—	—	—	827	—
Interest rate swap on variable rate loans	(585)	—	—	—	—
Gain (loss) on fair value hedges:					
Interest rate swap on securities	—	370	—	—	—
(in thousands)	Three Months Ended March 31, 2023				
	Interest and Dividend Income		Interest Expense		Non-interest Income
	Loans	Securities and other	Deposits	Borrowings	
Income and expense line items presented in the consolidated statements of income	\$ 34,560	\$ 5,791	\$ 5,265	\$ 4,180	\$ 9,184
The effects of cash flow and fair value hedging:					
Gain (loss) on cash flow hedges:					
Interest rate swap on wholesale funding	—	—	—	664	—
Interest rate swap on variable rate loans	(466)	—	—	—	—
Gain (loss) on fair value hedges:					
Interest rate swap on securities	—	286	—	—	—

The effect of derivatives not designated as hedging instruments on the consolidated statements of income for the three months ended March 31, 2024 and 2023:

(In thousands)	Location of Gain (Loss) Recognized in Non-interest Income	Three Months Ended March 31,	
		2024	2023
Derivatives not designated as hedging instruments			
Economic hedges:			
Forward commitments	Mortgage banking income	\$ 4	\$ -
Non-hedging derivatives:			
Interest rate lock commitments	Mortgage banking income	(7)	8

Cash flow hedges

Interest rate swaps on wholesale funding

As of March 31, 2024, we have two interest rate swaps on wholesale borrowings to limit our 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 was entered into in November 2019 with a \$ 50.0 million notional amount and pays a fixed interest rate of 1.53 %. A second agreement was entered into in April 2020 with a \$ 25.0 million notional amount and pays a fixed rate of 0.59 %. The financial institution counterparty pays us interest on the daily SOFR rate plus 26 basis points. We designated the swaps as cash flow hedges.

Interest rate swap on variable rate loans

We have an interest rate swap that effectively fixes our interest rate on \$ 50 million at the daily SOFR rate plus 11 basis points of based loan assets at 0.806 % plus the credit spread on the loans that reprices on weighted average basis. 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 our variable rate loan assets equal to \$ 50 million. We designated the swap as a cash flow hedge.

Fair value hedges

Interest rate swap on securities

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. We utilize 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 SOFR 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, we 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 1.70 %.

Economic hedges

Forward sale commitments

We utilize 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. We typically use a combination of best efforts and mandatory delivery contracts. The contracts are loan sale agreements where we commit to deliver a certain principal amount of mortgage loans to an investor at a specified price on or before a specified date. Generally, we enter into contracts just prior to the loan closing with a customer.

Customer loan derivatives

We enter into customer loan derivatives to facilitate the risk management strategies for commercial banking customers. We mitigate 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 our consolidated balance sheet. We are party to MNAs with our financial institutional counterparties; however, we do not offset assets and liabilities under these arrangements for financial statement presentation purposes.

The MNAs 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.

The below tables describe the potential effect of master netting arrangements on the consolidated balance sheet and the financial collateral pledged for these arrangements:

(in thousands)	Gross Amounts Offset in the Consolidated Balance Sheet			
	Derivative Liabilities	Derivative Assets	Cash Collateral Pledged	Net Amount
As of March 31, 2024				
Customer Loan Derivatives:				
MNA counterparty	\$(17,037)	\$ 17,037	\$ —	\$ —
RPA counterparty	—	—	—	—
Total	<u>\$(17,037)</u>	<u>\$ 17,037</u>	<u>\$ —</u>	<u>\$ —</u>

(in thousands)	Gross Amounts Offset in the Consolidated Balance Sheet			
	Derivative Liabilities	Derivative Assets	Cash Collateral Pledged	Net Amount
As of December 31, 2023				
Customer Loan Derivatives:				
MNA counterparty	\$(14,842)	\$ 14,842	\$ —	\$ —
RPA counterparty	(286)	286	—	—
Total	<u>\$(15,128)</u>	<u>\$ 15,128</u>	<u>\$ —</u>	<u>\$ —</u>

Non-hedging derivatives

Interest rate lock commitments

We enter into interest rate lock commitments ("IRLCs") for residential mortgage loans, which commit us 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 and are considered derivative financial instruments under applicable accounting guidance. Outstanding IRLCs expose us 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 our 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 9. FAIR VALUE MEASUREMENTS

Recurring Fair Value Measurements

The following table summarizes financial assets and financial liabilities measured at fair value on a recurring basis as of March 31, 2024 and December 31, 2023, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

(in thousands)	March 31, 2024			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Available for sale securities:				
Obligations of US Government-sponsored enterprises	\$ —	\$ 1,687	\$ —	\$ 1,687
Mortgage-backed securities:				
US Government-sponsored enterprises	—	185,824	—	185,824
US Government agency	—	76,182	—	76,182
Private label	—	59,032	—	59,032
Obligations of states and political subdivisions thereof	—	108,106	—	108,106
Corporate bonds	—	96,772	—	96,772
Loans held for sale	—	3,137	—	3,137
Derivative assets	—	23,805	56	23,861
Derivative liabilities	—	(20,641)	(16)	(20,657)

(in thousands)	December 31, 2023			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Available for sale securities:				
Obligations of US Government-sponsored enterprises	\$ —	\$ 1,992	\$ —	\$ 1,992
Mortgage-backed securities:				
US Government-sponsored enterprises	—	193,282	—	193,282
US Government agency	—	74,213	—	74,213
Private label	—	59,051	—	59,051
Obligations of states and political subdivisions thereof	—	110,168	—	110,168
Corporate bonds	—	95,868	—	95,868
Loans held for sale	—	2,189	—	2,189
Derivative assets	—	21,775	63	21,838
Derivative liabilities	—	(18,587)	(20)	(18,607)

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, we obtain 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 US Treasury yield curve, trade execution data, market consensus prepayment speeds, default rates, and the securities' terms and conditions, among other things.

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 our 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 cash flow hedges are all classified as Level 2 measurements.

Interest Rate Lock Commitments. We enter into IRLCs for residential mortgage loans, which commit us to lend funds to potential borrowers 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 internal data and is adjusted using significant management judgment. As such, IRLCs are classified as Level 3 measurements.

Forward Sale Commitments. We utilize forward sale commitments as economic hedges against potential changes in the values of the IRLCs and loans originated for sale. The fair values of mandatory 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 our 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. We incorporate credit valuation adjustments to appropriately reflect our nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of the derivative contracts for the effect of nonperformance risk, we have considered the impact of MNAs and any applicable credit enhancements, such as collateral postings.

Although we have determined that the majority of the inputs used to value customer loan derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and counterparties. However, as of March 31, 2024, we assessed the significance of the impact of the credit valuation adjustments on the overall valuation of our derivative positions and determined that the credit valuation adjustments are not significant to the overall valuation of our derivatives. As a result, we determined that the 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 for the three months ended March 31, 2024 and 2023:

(in thousands)	Assets (Liabilities)	
	Interest Rate Lock Commitments	Forward Commitments
Three Months Ended March 31, 2024		
Balance at beginning of period	\$ 63	\$ (20)
Realized gain recognized in non-interest income	(7)	4
Balance at end of period	\$ 56	\$ (16)
Three Months Ended March 31, 2023		
Balance at beginning of period	\$ —	\$ —
Realized loss recognized in non-interest income	8	—
Balance at end of period	\$ 8	\$ —

Quantitative information about the significant unobservable inputs within Level 3 recurring assets and liabilities is, as follows:

(in thousands, except ratios)	Fair Value March 31, 2024	Valuation Techniques	Unobservable Inputs	Unobservable Input Value
Assets (Liabilities)				
Interest Rate Lock Commitment	\$ 56	Pull-through Rate Analysis	Closing Ratio	95 %
		Pricing Model	Origination Costs, per loan	\$ 1.7
		Discount Cash Flows	Mortgage Servicing Asset	1.0 %
Forward Commitments	(16)	Quoted prices for similar loans in active markets	Freddie Mac pricing system	\$ 99.3 to \$ 102.8
Total	\$ 40			

(in thousands, except ratios)	Fair Value December 31, 2023	Valuation Techniques	Unobservable Inputs	Significant Unobservable Input Value
Assets (Liabilities)				
Interest Rate Lock Commitment	\$ 63	Pull-through Rate Analysis	Closing Ratio	95 %
		Pricing Model	Origination Costs, per loan	\$ 1.7
		Discount Cash Flows	Mortgage Servicing Asset	1.0 %
Forward Commitments	(20)	Quoted prices for similar loans in active markets	Freddie Mac pricing system	\$ 100.9 to \$ 103.3
Total	\$ 43			

Non-Recurring Fair Value Measurements

We are 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 GAAP. The following is a summary of applicable non-recurring fair value measurements:

(in thousands)	Mar 31, 2024 Level 3 Inputs	Dec 31, 2023 Level 3 Inputs	March 31, 2024 Total Gains (Losses)	Fair Value Measurement Date as of March 31, 2024 Level 3 Inputs
Assets				
Individually evaluated loans	\$ 2,911	\$ 3,500	\$ (589)	March 2024
Capitalized servicing rights	6,991	6,764	227	March 2024
Premises held for sale	1,154	1,154	—	March 2024
Total	\$ 11,056	\$ 11,418	\$ (362)	

There are no liabilities measured at fair value on a non-recurring basis in 2024 and 2023.

Quantitative information about the significant unobservable inputs within Level 3 non-recurring assets is, as follows:

(in thousands, except ratios)	Fair Value March 31, 2024	Valuation Techniques	Unobservable Inputs	Range (Weighted Average) ^(a)
Assets				
Individually evaluated loans	\$ 2,254	Fair value of collateral-appraised value	Loss severity	0 % to 40 %
			Appraised value	\$ 215 to \$ 916
Individually evaluated loans	657	Discount cash flow	Discount rate	3.25 % to 4.99 %
			Cash flows	\$ 320 to \$ 513
Capitalized servicing rights	6,991	Discounted cash flow	Constant prepayment rate	6.87 %
			Discount rate	10.06 %
Premises held for sale	1,154	Fair value of asset less selling costs	Appraised value	\$ 1,223
			Selling Costs	6 %
Total	\$ 11,056			

(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 individual properties.

(in thousands, except ratios)	Fair Value December 31, 2023	Valuation Techniques	Unobservable Inputs	Range (Weighted Average) ^(a)
Assets				
Individually evaluated loans	\$ 2,437	Fair value of collateral-appraised value	Loss severity	10 % to 43 %
			Appraised value	\$ 80 to \$ 965
Individually evaluated loans	1,063	Discount cash flow	Discount rate	3.25 % to 7.13 %
			Cash flows	\$ 2 to \$ 520
Capitalized servicing rights	6,764	Discounted cash flow	Constant prepayment rate	7.20 %
			Discount rate	10.06 %
Premises held for sale	1,154	Fair value of asset less selling costs	Appraised value	\$ 1,223
			Selling Costs	6 %
Total	\$ 11,418			

(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 individual properties.

There were no Level 1 or Level 2 non-recurring fair value measurements for the periods ended March 31, 2024 and December 31, 2023.

Individually evaluated loans. Loans are generally not recorded at fair value on a recurring basis. Periodically, we record 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 ACL. 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 relating to real estate collateral have generally been classified as Level 3. Estimates of fair value for other collateral supporting 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 loan 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 Company. Upon assuming the real estate, we record 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. There was no OREO as of March 31, 2024 and December 31, 2023.

Premises held for sale. Assets held for sale, identified as part of our 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 estimated fair values, and related carrying amounts, of our financial instruments are included in the table below. 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.

March 31, 2024					
(in thousands)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial Assets					
Cash and cash equivalents	\$ 76,219	\$ 76,219	\$ 76,219	\$ —	\$ —
Securities available for sale	527,603	527,603	—	527,603	—
FHLB stock	9,960	9,960	—	9,960	—
Loans held for sale	3,137	3,137	—	3,137	—
Net loans	2,983,317	2,844,033	—	—	2,844,033
Accrued interest receivable	5,317	5,317	—	5,317	—
Cash surrender value of bank-owned life insurance policies	80,642	80,642	—	80,642	—
Derivative assets	23,861	23,861	—	23,805	56
Financial Liabilities					
Non-maturity deposits	\$ 2,349,868	\$ 2,177,428	\$ —	\$ 2,177,428	\$ —
Time deposits	777,208	769,302	—	769,302	—
Securities sold under agreements to repurchase	8,161	8,161	—	8,161	—
FRB advances	65,000	65,000	—	65,000	—
FHLB advances	196,276	196,159	—	196,159	—
Subordinated borrowings	60,501	67,691	—	67,691	—
Derivative liabilities	20,657	20,657	—	20,641	16
December 31, 2023					
(in thousands)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial Assets					
Cash and cash equivalents	\$ 94,842	\$ 94,842	\$ 94,842	\$ —	\$ —
Securities available for sale	534,574	534,574	—	534,574	—
FHLB stock	14,834	14,834	—	14,834	—
Loans held for sale	2,189	2,189	—	2,189	—
Net loans	2,970,907	2,832,173	—	—	2,832,173
Accrued interest receivable	4,921	4,921	—	4,921	—
Cash surrender value of bank-owned life insurance policies	80,037	80,037	—	80,037	—
Derivative assets	21,838	21,838	—	21,775	63
Financial Liabilities					
Non-maturity deposits	\$ 2,482,012	\$ 2,325,307	\$ —	\$ 2,325,307	\$ —
Time deposits	658,482	651,855	—	651,855	—
Securities sold under agreements to repurchase	8,465	8,465	—	8,465	—
FRB advances	30,000	30,000	—	30,000	—
FHLB advances	232,579	232,375	—	232,375	—
Subordinated borrowings	60,422	67,635	—	67,635	—
Derivative liabilities	15,607	15,607	—	15,587	20

NOTE 10. REVENUE FROM CONTRACTS WITH CUSTOMERS

We account for our various non-interest revenue streams and related contracts in accordance with "Revenue from Contracts with Customers" ("ASC 606"). ASC 606 is based on the consideration specified in the contract with a customer and excludes amounts collected on behalf of third parties. Revenue is recognized when we satisfy our performance obligation, which is generally when services are rendered and can be either satisfied at a point in time or over time. We recognize revenue at a point in time that is transactional in nature. We recognize revenue over time that is earned as services are performed and performance obligations are satisfied over time.

A substantial portion of our revenue is specifically excluded from the scope of ASC 606. This exclusion is associated with financial instruments, including interest income on loans and investment securities, in addition to loan derivative income and gains on loan and investment sales.

Disaggregation of Revenue

The following presents non-interest income, segregated by revenue streams in-scope and out-of-scope of Topic 606:

(in thousands)	Three Months Ended March 31,	
	2024	2023
Non-interest income within the scope of ASC 606:		
Trust management fees	\$ 3,243	\$ 3,091
Financial services fees	427	464
Interchange fees	1,970	2,010
Customer deposit fees	1,502	1,429
Other customer service fees	238	238
Total non-interest income within the scope of ASC 606	7,380	7,232
Total non-interest income not within the scope of ASC 606	1,206	1,952
Total non-interest income	\$ 8,586	\$ 9,184

(in thousands)	Three Months Ended March 31,	
	2024	2023
Timing of Revenue Recognition		
Products and services transferred at a point in time	\$ 3,926	\$ 3,950
Products and services transferred over time	3,454	3,282
Total	\$ 7,380	\$ 7,232

Trust Management Fees

The trust management business generates revenue through a range of fiduciary services including trust and estate administration, financial advice, and investment management to individuals, businesses, not-for-profit organizations, and municipalities. These fees are primarily earned over time as we charge our customers on a monthly or quarterly basis in accordance with 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 Osaic Institutions, Inc., ("Osaic") a full-service third-party broker-dealer, conducting business under the assumed business name "Bar Harbor Financial Services." Osaic is an independent registered broker-dealer and is not affiliated with the Company or its subsidiaries. We have a revenue sharing agreement with Osaic 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

We earn 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 at a point in time upon the completion of the service.

Other Customer Service Fees

We have 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. We also earn 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.

Contract Balances from Contracts with Customers

The following table provides information about contract assets or receivables and contract liabilities or deferred revenues from contracts with customers:

(in thousands)	March 31, 2024	December 31, 2023
Balances from contracts with customers only:		
Other Assets	\$ 1,107	\$ 1,178
Other Liabilities	1,720	1,769

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, we have 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

We currently expense contract costs for processing and administrative fees for debit card transactions. We also expense custody fees and transactional costs associated with securities transactions as well as third-party tax preparation fees. We have elected the practical expedient in ASC 340-40-25-4, whereby we recognize the incremental costs of obtaining contracts as an expense when incurred if the amortization period of the assets we otherwise would have recognized is one year or less.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management's discussion and analysis of the major factors that influenced our results of operations and financial condition as of and for the three months ended March 31, 2024 and should be read in conjunction with our unaudited consolidated financial statements and condensed notes thereto included elsewhere in this Form 10-Q as well as our audited consolidated financial statements and notes thereto included in our Form 10-K. The following discussion contains "forward-looking statements" that reflect our future plans, estimates, beliefs and expected performance. We caution that assumptions, expectations, projections, intentions or beliefs about future events may, and often do, vary from actual results and the differences can be material. Factors that could cause such differences are discussed in the sections titled "Cautionary Statement Regarding Forward-Looking Statements" and "Part II, Item 1A. Risk Factors" in this Form 10-Q. All amounts, dollars and percentages presented in this Form 10-Q are rounded and therefore approximate.

GENERAL

The Company is a bank holding company headquartered in Maine, providing a broad array of banking and nonbanking products and services to businesses and consumers primarily within our three-state footprint. The Company's primary sources of revenue, through the Bank, are net interest income (predominantly from loans and investment securities) and noninterest income (principally fees and other revenue from financial services provided to customers or ancillary services tied to loans and deposits).

NON-GAAP FINANCIAL MEASURES

Our accounting and reporting policies conform to GAAP and the prevailing practices in the financial services industry. However, we also evaluate our performance by reference to certain additional financial measures discussed in this Form 10-Q that we identify as being "non-GAAP financial measures." In accordance with SEC rules, we classify a financial measure as being a non-GAAP financial measure if that financial measure excludes or includes amounts, or is subject to adjustments that have the effect of excluding or including amounts, as the case may be, in the most directly comparable measure calculated and presented in accordance with GAAP as in effect from time to time in the United States in our statements of income, balance sheets or statements of cash flows. Non-GAAP financial measures do not include operating and other statistical measures or ratios or statistical measures calculated using exclusively either financial measures calculated in accordance with GAAP, operating measures or other measures that are not non-GAAP financial measures or both.

The non-GAAP financial measures that we discuss in this Form 10-Q should not be considered in isolation or as a substitute for the most directly comparable or other financial measures calculated in accordance with GAAP. Moreover, the manner in which we calculate the non-GAAP financial measures that we discuss in this Form 10-Q may differ from that of other companies reporting measures with similar names. You should understand how such other banking organizations calculate their financial measures similar or with names similar to the non-GAAP financial measures we have discussed in this Form 10-Q when comparing such non-GAAP financial measures.

Recent Banking Crisis

In light of events in the last year or so in the banking sector, including bank failures, elevated interest rates and possible recessionary concerns, we intend to continue to position our balance sheet to mitigate the risks affecting the Company and the overall banking industry in order to serve our clients and communities.

- Liquidity remains strong, with cash and available for sale securities representing approximately 15.5% of our total assets at March 31, 2024. We maintain the ability to access considerable sources of contingent liquidity at the FHLB and the FRB. We consider the Company's current liquidity position to be adequate to meet both short-term and long-term liquidity needs. Refer to "*Liquidity and Cash Flows*" for additional information.
- Capital remains strong, with capital ratios of both the Company and the Bank remaining well-capitalized under regulatory guidelines at period end as further described in Note 6 – "Capital Ratios and Shareholders' Equity" to our unaudited consolidated financial statements.
- Asset quality remains solid, with a non-performing asset to total assets of 0.17% of our total assets as of March 31, 2024 and net charge-offs of \$76 thousand, reflecting our disciplined underwriting and conservative lending philosophy which has supported the Company's strong credit performance during prior financial crises.

We will continue our safe and sound banking practices, but the continuing impact of the banking crisis and further extent on the Company's operations and financial results for the remainder of 2024 is uncertain and cannot be predicted.

QUARTERLY PERFORMANCE SUMMARY

Earnings (first quarter 2024, compared to the same period of 2023)

- Net income was \$10.1 million, compared to \$13.0 million. Diluted earnings per share was \$0.66, compared to \$0.86. The decrease was primarily driven by a higher cost of funds offset by rising asset yields in the first quarter 2024.
- Return on assets was 1.03% versus 1.36% and return on equity was 9.31% compared to 12.96%. The decrease in both ratios reflect higher respective average asset and equity balances and slightly lower net income driven by increased cost of funds. See the "Financial Position" section for further discussion.
- Net interest income was \$28.1 million compared to \$30.9 million and net interest margin ("NIM") was 3.14%, versus 3.54%. The decrease was primarily driven by higher cost of funds offset in part by yield expansion on earnings assets.
- The provision for credit losses was an expense of \$289 thousand compared with \$798 million. Our credit trends continue to remain strong. Non-performing assets remain at 17 basis points of total assets while net charge-offs to average loans remain near zero.
- Non-interest income was \$8.6 million compared to \$9.2 million in the same quarter 2023 primarily driven by elevated bank-owned life insurance ("BOLI") income of \$622 thousand related to one-time death benefits.
- Non-interest expense was \$23.7 million in the first quarter 2024 compared to \$22.7 million in the first quarter 2023 driven by salary and benefits, marketing and other expenses.
- Efficiency ratio was 62.91% compared to 54.72% reflecting lower net interest income.

Financial Position (March 31, 2024, compared to December 31, 2023)

- Total assets were \$4.0 billion at the end of both the first quarter 2024 and the fourth quarter 2023, primarily due to loan growth offset by lower cash and security balances during the first quarter 2024.
- Total cash and cash equivalents were \$76.2 million, compared to \$94.8 million at year-end 2023. Interest-earning cash held with other banks totaled \$45.3 million compared to \$52.6 million at year-end 2023.

- Securities decreased to \$527.6 million compared to \$534.6 million at year-end 2023 driven primarily by amortizing securities pay-downs offset by security purchases.
- Total loans were \$3.0 billion at the end of both the first quarter 2024 and fourth quarter 2023.
- The ratio of the ACL to total loans was 0.94% for both periods. Net charge-offs continue to be insignificant and near zero.
- Total deposits remained at \$3.1 billion at the end of the first quarter 2024 and the end of the fourth quarter 2023.
- Senior borrowings remained relatively flat at \$269.4 million in the first quarter 2024 compared to \$271.0 million at the end of the fourth quarter of 2023.
- The Company's book value per share was \$28.64 as of March 31, 2024 compared to \$28.48 as of December 31, 2023. Unrealized losses on securities, net of taxes, reduced book value per share by \$3.26 and \$3.14 at the end of those respective periods. Tangible book value per share (non-GAAP measure) was \$20.48 at the end of the first quarter 2024, compared to \$20.28 at the end of the fourth quarter 2023.

We are honored and proud to be recognized by *Forbes* as one of the "World's Best Banks" again for the second consecutive year in the first quarter 2024, based largely on service and trust metrics. Of the 75 US-based banks to make the list, Bar Harbor Bank & Trust is one of only three banks headquartered in Northern New England. We believe that this recognition is a reflection of our customers' experience with us and their trust in Bar Harbor Bank & Trust.

COMPARISON OF FINANCIAL CONDITION AT MARCH 31, 2024 AND DECEMBER 31, 2023

Cash and cash equivalents

Total cash and cash equivalents were \$76.2 million, compared to \$94.8 million at year-end 2023. Interest-earning cash held with other banks totaled \$45.3 million compared to \$52.6 million at year-end 2023 and yielded 5.88% and 6.42%, respectively.

Securities

Securities decreased to \$527.6 million compared to \$534.6 million at year-end 2023 driven by \$485 thousand in net amortization, and \$7.8 million of amortizing securities pay-downs offset by security purchases of \$4.8 million. Fair value adjustments decreased the security portfolio by \$64.9 million at quarter-end compared to \$62.4 million at year-end. The year to date weighted average yield of the securities portfolio was 4.02% compared to 3.85% at year-end primarily due to a run-off of lower coupon fixed-rate securities. As of quarter-end and year-end, our securities portfolio had an average life of nine years with an effective duration of five years and all securities remain classified as available for sale to provide flexibility in asset funding and other opportunities as they arise.

Loans

Total loans grew 2%, on an annualized basis and remained at \$3 billion at the end of both the first quarter 2024 and fourth quarter 2023. Commercial loans grew by \$35.1 million or 7% annualized primarily driven by a \$22.7 million or 6% increase in commercial real estate and \$12.4 million or 12% increase in commercial and industrial growth. Residential loans decreased by \$16.7 million or 8% compared to the fourth quarter 2023, primarily due to continued lower demand for prevailing mortgage rates and sales into the secondary market. Tax exempt loans decreased by \$4.7 million or 31% driven by payoffs within the first quarter 2024.

Allowance for Credit Losses

The ACL remained flat at \$28.4 million at the end of the first quarter 2024 compared to \$28.1 million at the end of the fourth quarter 2023. Our ACL continues to be driven by a combination of portfolio loan growth, nominal credit movement and general macroeconomic trends. Non-accruing loans increased during the first quarter 2024 to \$6.9 million from \$5.5

million in the fourth quarter 2023, but declined on a year-over-year basis. Charge-offs and specific reserves on non-accruing loans remain nominal, with these non-accruing relationships supported by relatively strong collateral values.

Deposits and Borrowings

Total deposits remained at \$3.1 billion at the end of the first quarter 2024 and the end of fourth quarter 2023. The \$58.4 million decrease in interest bearing demand deposits and the \$25.2 million decrease in non-interest bearing demand deposits in the first quarter 2024 were offset by an increase in time deposits of \$76.9 million primarily due to remix in higher yielding deposit categories as customers are anticipating rates to decrease and are maximizing their own returns. Brokered certificate of deposit accounts ("CDs") increased by \$55 million, and senior borrowings remained relatively flat at \$269.4 million in the first quarter 2024 compared to \$271.0 million at the end of the fourth quarter 2023.

Equity

Total equity was \$435.7 million at March 31, 2024 compared with \$432.1 million at year-end. Tangible book value per share (non-GAAP) was \$20.48 at March 31, 2024 compared with \$20.28 at year-end. Equity included Fair value adjustments decreased the security portfolio by \$64.9 million at quarter-end compared to \$62.4 million at year-end.

COMPARISON OF OPERATING RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2024 AND MARCH 31, 2023

Net Income

Net income was \$10.1 million, compared to \$13.0 million. Diluted earnings per share was \$0.66, compared to \$0.86. The decrease was primarily driven by a higher cost of funds offset by rising asset yields in the first quarter 2024.

Interest and Dividend Income

Total interest and dividend income increased by \$5.4 million or 13.4% to \$45.8 million compared to \$40.4 million in the first quarter 2023 primarily driven by the repricing of adjustable loans and originations of higher fixed rate loans within the commercial portfolio. The yield on commercial real estate loans grew 39 basis points to 5.47% at the end of the first quarter 2024 from 5.08% in the first quarter 2023. Commercial and industrial yield grew 79 basis points to yield 6.68% at the end of the first quarter 2024 compared to 5.89% at the end of the first quarter 2023. Increases in yields were driven by the current rate environment.

Net Interest Income

Net interest margin was 3.14% compared to 3.54% in the first quarter 2023. The decrease was primarily driven by a higher cost of funds offset by rising asset yields in the first quarter 2024. The yield on loans grew 49 basis points to 5.31% in the first quarter 2024, up from 4.82% in the same quarter 2023. Costs of interest-bearing liabilities increased to 2.48% from 1.39% in the first quarter 2023 showing evolution of the market pricing amongst interest-bearing demand deposits, money market accounts and time deposits as customers are seeking out more competitive rates. We continue to experience a shift in deposit composition from non-maturity deposits to CDs. Interest expense increased \$8.3 million in the first quarter 2024 compared to the first quarter of 2023 driven by the rate environment. Cost of borrowing decreased \$944 thousand or 22.5% in the first quarter 2024 compared to the first quarter 2023 driven by a \$68.8 million reduction in borrowing to \$269.4 million from \$338.2 million in the same quarter 2023.

Provision for Credit Losses

The provision for credit losses was \$289 thousand compared to \$798 thousand in the first quarter 2023 as net charge-offs to total loans continue to remain nominal. Credit quality continues to be strong as non-accruing loans to total loans declined 3 basis points to 0.23% at the end of the first quarter 2024 compared to 0.26% in the first quarter 2023. Total delinquent and non-accruing loans to total loans declined 15 basis points from 0.52% at the end of the first quarter 2023 to 0.37% in the first quarter 2024.

Non-Interest Income

Non-interest income was \$8.6 million in the first quarter 2024 compared to \$9.2 million in the same quarter 2023 primarily driven by elevated BOLI income of \$622 thousand related to one-time death benefits, and customer derivative income

\$132 thousand at the end of the first quarter 2023. Wealth management income grew 3% to \$3.7 million compared to \$3.6 million in the first quarter 2023.

Non-Interest Expense

Non-interest expense was \$23.7 million in the first quarter 2024 compared to \$22.7 million in the first quarter 2023 driven by salary and benefits, marketing and other expenses. Salary and benefit expenses increased 4% or \$477 thousand from the comparative quarter driven by cost of living increases in the first quarter 2024. Marketing expenses increased to \$567 thousand compared to \$409 thousand in the first quarter 2023. Other expenses increased to \$4.4 million from \$4.1 million in the first quarter of 2023 primarily due to increases in assessments, software expenses, and debit card replacement costs in the first quarter of 2024.

Income Tax Expense

Income tax expense was \$2.6 million in the first quarter 2024 compared with \$3.6 million in the prior year quarter. The effective tax rate was 20.3% the first quarter 2024 compared to 21.6% the first quarter 2023.

Liquidity and Cash Flows

Liquidity is measured by our ability to meet short-term cash needs at a reasonable cost or minimal loss. We seek 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 our ability to meet liquidity needs, including variations in the markets served by our network of offices, 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.

As of March 31, 2024, available same-day liquidity totaled approximately \$1.1 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 our amortizing securities and loan portfolios. As of March 31, 2024, we had unused borrowing capacity at the FHLB of \$426.1 million, unused borrowing capacity at the Federal Reserve of \$90.9 million and unused lines of credit totaling \$51.0 million, in addition to \$76.2 million in cash.

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 us. Our management believes 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 our liquidity position.

Capital Resources

Please refer to "Comparison of Financial Condition at March 31, 2024 and December 31, 2023 - Equity" for a discussion of shareholders' equity together with Note 6 "Capital Ratios and Shareholders' Equity" in the unaudited consolidated financial statements. Additional information about regulatory capital is contained in the notes to the consolidated financial statements and in our most recent Form 10-K.

We expect to continue our current practice of paying quarterly cash dividends with respect to our common stock subject to our Board of Directors' discretion to modify or terminate this practice at any time and for any reason without prior notice. We believe our quarterly dividend rate per share as approved by our Board of Directors, enables us to balance our multiple objectives of managing our business and returning a portion of our earnings to our shareholders. Historically, and a practice we intend to continue, our principal cash expenditure is the payment of dividends on our common stock, if as and when declared by our Board of Directors. Dividends were paid to our shareholders in the aggregate amount of \$4.2

million and \$3.9 million for the three months ended March 31, 2024 and 2023, respectively. All dividends declared and distributed by us will be in compliance with applicable state corporate law and regulatory requirements.

Off-Balance Sheet Arrangements

We are, from time to time, a party to certain off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources, that may be material to investors.

Our off-balance sheet arrangements are limited to standby letters of credit whereby the Bank guarantees the obligations or performance of certain customers. These letters of credit are sometimes issued in support of third-party debt. The risk involved in issuing standby letters of credit is essentially the same as the credit risk involved in extending loan facilities to customers, and such letters of credit are subject to the same origination, portfolio maintenance and management procedures in effect to monitor other credit products. The amount of collateral obtained, if deemed necessary by the Bank upon issuance of a standby letter of credit, is based upon management's credit evaluation of the customer.

Our off-balance sheet arrangements have not changed materially since previously reported in our Form 10-K.

IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS

Please refer to Note 1 – “Basis of Presentation—Recent Accounting Pronouncements” of the Consolidated Financial Statements in this Form 10-Q and Note 1—“Summary of Significant Accounting Policies” of the Consolidated Financial Statements to our Form 10-K.

CRITICAL ACCOUNTING POLICIES

Our Consolidated Financial Statements were prepared in accordance with GAAP and follow general practices within the industries in which we operate. The most significant accounting policies we follow are presented in Note 1—“Summary of Significant Accounting Policies” of the Consolidated Financial Statements to our Form 10-K. Application of these principles requires us to make estimates, assumptions, and judgments that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Most accounting policies are not considered by management to be critical accounting policies. Several factors are considered in determining whether or not a policy is critical in the preparation of the Consolidated Financial Statements. These factors include among other things, whether the policy requires management 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 accounting policies which we believe to be most critical in preparing our Consolidated Financial Statements are presented in the section titled “Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates” included in our Form 10-K. There have been no significant changes in our application of critical accounting policies since December 31, 2023. Refer to Note 1 – “Basis of Presentation - Recent Accounting Pronouncements” of the consolidated financial statements for discussion of accounting pronouncements issued but yet to be adopted and implemented.

SELECTED FINANCIAL DATA

The following summary data is based in part on the unaudited consolidated financial statements and accompanying notes and other information appearing elsewhere in this Form 10-Q or prior SEC filings.

	Three Months Ended March 31,	
	2024	2023
PER SHARE DATA		
Net earnings, diluted	\$ 0.66	\$ 0.86
Adjusted earnings, diluted ⁽¹⁾	0.66	0.86
Total book value	28.64	27.00
Tangible book value per share ⁽¹⁾	20.48	18.74
Market price at period end	26.48	26.45
Dividends	0.28	0.26
PERFORMANCE RATIOS⁽²⁾		
Return on assets	1.03 %	1.36 %
Adjusted return on assets ⁽¹⁾	1.03	1.36
Pre-tax, pre-provision return on assets	1.32	1.81
Adjusted pre-tax, pre-provision return on assets ⁽¹⁾	1.32	1.81
Return on equity	9.32	12.96
Adjusted return on equity ⁽¹⁾	9.32	12.94
Return on tangible equity	13.26	18.97
Adjusted return on tangible equity ⁽¹⁾	13.27	18.94
Net interest margin, fully taxable equivalent ^{(1) (3)}	3.14	3.54
Efficiency ratio ⁽¹⁾	62.91	54.72
FINANCIAL DATA (In millions)		
Total assets	\$ 3,959	\$ 3,928
Total earning assets ⁽⁴⁾	3,663	3,628
Total investments	538	573
Total loans	3,012	2,944
Allowance for credit losses	28	27
Total goodwill and intangible assets	124	125
Total deposits	3,127	3,054
Total shareholders' equity	436	408
Net income	10	13
Adjusted income ⁽¹⁾	10	13
ASSET QUALITY AND CONDITION RATIOS		
Net charge-offs (recoveries) (annualized)/average loans	0.01 %	0.01 %
Allowance for credit losses/total loans	0.94	0.90
Loans/deposits	96	96
Shareholders' equity to total assets	11.01	10.40
Tangible shareholders' equity to total tangible assets ⁽¹⁾	8.13	7.45

(1) Non-GAAP financial measure. Refer to the Reconciliation of Non-GAAP Financial Measures section of the "Management's Discussion and Analysis of Financial Condition and Results of Operations," in this Form 10-Q for additional information.

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

(3) Fully taxable equivalent considers the impact of tax-advantaged investment securities and loans.

(4) Earning assets includes non-accruing loans and securities are valued at amortized cost.

CONSOLIDATED LOAN AND DEPOSIT ANALYSIS (UNAUDITED)

The following tables present the quarterly trend in loan and deposit data and accompanying growth rates as of March 31, 2024 on an annualized basis:

LOAN ANALYSIS

(in thousands, except ratios)	Mar 31, 2024	Dec 31, 2023	Sep 30, 2023	Jun 30, 2023	Mar 31, 2023	Annualized Growth % Quarter to Date
Commercial real estate	\$ 1,574,802	\$ 1,552,061	\$ 1,548,835	\$ 1,551,748	\$ 1,519,219	6 %
Commercial and industrial	412,567	400,169	391,347	388,430	364,315	12
Total commercial loans	<u>1,987,369</u>	<u>1,952,230</u>	<u>1,940,182</u>	<u>1,940,178</u>	<u>1,883,534</u>	<u>7</u>
Residential real estate	873,213	889,904	896,757	907,741	906,059	(8)
Consumer	95,838	97,001	95,160	96,947	98,616	(5)
Tax exempt and other	55,252	59,914	60,692	62,614	55,796	(31)
Total loans	<u>\$ 3,011,672</u>	<u>\$ 2,999,049</u>	<u>\$ 2,992,791</u>	<u>\$ 3,007,480</u>	<u>\$ 2,944,005</u>	<u>2 %</u>

DEPOSIT ANALYSIS

(in thousands, except ratios)	Mar 31, 2024	Dec 31, 2023	Sep 30, 2023	Jun 30, 2023	Mar 31, 2023	Annualized Growth % Quarter to Date
Demand	\$ 544,495	\$ 569,714	\$ 618,421	\$ 602,667	\$ 636,710	(18)%
NOW	888,591	946,978	929,481	911,488	908,483	(25)
Savings	551,493	553,963	572,271	588,769	628,798	(2)
Money market	365,289	370,242	361,839	351,762	475,577	(5)
Total non-maturity deposits	<u>2,349,868</u>	<u>2,440,897</u>	<u>2,482,012</u>	<u>2,454,686</u>	<u>2,649,568</u>	<u>(15)</u>
Total time deposits	<u>777,208</u>	<u>700,260</u>	<u>658,482</u>	<u>635,559</u>	<u>404,246</u>	<u>44</u>
Total deposits	<u>\$ 3,127,076</u>	<u>\$ 3,141,157</u>	<u>\$ 3,140,494</u>	<u>\$ 3,090,245</u>	<u>\$ 3,053,814</u>	<u>(2)%</u>

AVERAGE BALANCES AND AVERAGE YIELDS/RATES (UNAUDITED)

The following tables present average balances and average yields and rates on an annualized fully taxable equivalent basis for the periods included:

(in thousands, except ratios)	Three Months Ended March 31,					
	2024			2023		
	Average Balance	Interest ⁽³⁾	Yield/Rate ⁽³⁾	Average Balance	Interest ⁽³⁾	Yield/Rate ⁽³⁾
Assets						
Interest-earning deposits with other banks	\$ 36,608	\$ 535	5.88 %	\$ 19,819	\$ 209	4.28 %
Securities available for sale and FHLB stock ⁽²⁾⁽³⁾	604,658	6,040	4.02	643,523	5,807	3.66
Loans:						
Commercial real estate	1,558,506	21,187	5.47	1,505,681	18,862	5.08
Commercial and industrial	464,762	7,718	6.68	413,921	6,009	5.89
Residential	884,767	9,004	4.09	902,348	8,260	3.71
Consumer	96,163	1,726	7.22	100,124	1,572	6.37
Total loans ⁽¹⁾	3,004,198	39,635	5.31	2,922,074	34,703	4.82
Total earning assets	3,645,464	46,210	5.10 %	3,585,416	40,719	4.61 %
Other assets	292,541			299,516		
Total assets	<u>\$ 3,938,005</u>			<u>\$ 3,884,932</u>		
Liabilities						
Interest-bearing demand deposits	\$ 899,349	\$ 3,000	1.34 %	\$ 883,134	\$ 1,106	0.51 %
Savings	552,231	863	0.63	646,291	485	0.30
Money market	390,720	2,986	3.07	481,951	2,542	2.14
Time deposits	738,683	7,683	4.18	342,994	1,132	1.34
Total interest bearing deposits	2,580,983	14,532	2.26	2,354,370	5,265	0.91
Borrowings	298,918	3,236	4.35	398,837	4,180	4.25
Total interest bearing liabilities	2,879,901	17,768	2.48 %	2,753,207	9,445	1.39 %
Non-interest bearing demand deposits	554,816			651,885		
Other liabilities	67,561			72,693		
Total liabilities	3,502,278			3,477,785		
Total shareholders' equity	435,727			407,147		
Total liabilities and shareholders' equity	<u>\$ 3,938,005</u>			<u>\$ 3,884,932</u>		
Net interest spread			2.62 %			3.22 %
Net interest margin			3.14			3.54

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

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

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

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES (UNAUDITED)

The following reconciliation table provides a more detailed analysis of these, and reconciliation for, each of non-GAAP financial measures:

(in thousands)	Calculations	Three Months Ended March 31,	
		2024	2023
Net income		\$ 10,095	\$ 13,012
Non-recurring items:			
Gain on sale of securities, net		—	(34)
Gain on sale of premises and equipment, net		(15)	(13)
Acquisition, conversion and other expenses		20	20
Income tax expense ⁽¹⁾		(1)	6
Total non-recurring items		4	(21)
Total adjusted income ⁽²⁾	(A)	\$ 10,099	\$ 12,991
Net interest income	(B)	\$ 28,055	\$ 30,906
Plus: Non-interest income		8,586	9,184
Total Revenue		36,641	40,090
Gain on sale of securities, net		—	(34)
Total adjusted revenue ⁽²⁾	(C)	\$ 36,641	\$ 40,056
Total non-interest expense		\$ 23,688	\$ 22,704
Non-recurring expenses:			
Gain on sale of premises and equipment, net		15	13
Acquisition, conversion and other expenses		(20)	(20)
Total non-recurring expenses		(5)	(7)
Adjusted non-interest expense ⁽²⁾	(D)	\$ 23,683	\$ 22,697
Total revenue		36,641	40,090
Total non-interest expense		23,688	22,704
Pre-tax, pre-provision net revenue		\$ 12,953	\$ 17,386
Adjusted revenue ⁽²⁾		36,641	40,056
Adjusted non-interest expense ⁽²⁾		23,683	22,697
Adjusted pre-tax, pre-provision net revenue ⁽²⁾	(U)	\$ 12,958	\$ 17,359
(in millions)			
Average earning assets	(E)	\$ 3,645	\$ 3,585
Average assets	(F)	3,938	3,885
Average shareholders' equity	(G)	436	407
Average tangible shareholders' equity ⁽²⁾⁽³⁾	(H)	312	282
Tangible shareholders' equity, period-end ⁽²⁾⁽³⁾	(I)	312	283
Tangible assets, period-end ⁽²⁾⁽³⁾	(J)	3,835	3,803

		Three Months Ended March 31,	
	Calculations	2024	2023
(in thousands)			
Common shares outstanding, period-end	(K)	15,212	15,124
Average diluted shares outstanding	(L)	15,270	15,190
Adjusted earnings per share, diluted ⁽²⁾	(A/L)	\$ 0.66	\$ 0.86
Tangible book value per share, period-end ⁽²⁾	(I/K)	20.48	18.74
Securities adjustment, net of tax ⁽¹⁾⁽⁴⁾	(M)	(49,633)	(50,646)
Tangible book value per share, excluding securities adjustment ⁽²⁾⁽⁴⁾	(I+M)/K	23.75	22.08
Total tangible shareholders' equity/total tangible assets ⁽²⁾	(I/J)	8.13	7.45
Performance ratios ⁽⁵⁾			
Return on assets		1.03 %	1.36 %
Core return on assets ⁽²⁾	(A/F)	1.03	1.36
Pre-tax, pre-provision return on assets		1.32	1.81
Adjusted pre-tax, pre-provision return on assets ⁽²⁾	(U/F)	1.32	1.81
Return on equity		9.32	12.96
Core return on equity ⁽²⁾	(A/G)	9.32	12.94
Return on tangible equity		13.26	18.97
Adjusted return on tangible equity ⁽¹⁾⁽²⁾	(A+Q)/H	13.27	18.94
Efficiency ratio ⁽¹⁾⁽²⁾⁽⁶⁾	(D-O-Q)/(C+N)	62.91	54.72
Net interest margin	(B+P)/E	3.14	3.54
Supplementary data (in thousands)			
Taxable equivalent adjustment for efficiency ratio	(N)	\$ 523	\$ 727
Franchise taxes included in non-interest expense	(O)	70	148
Tax equivalent adjustment for net interest margin	(P)	388	368
Intangible amortization	(Q)	233	233

(1) Assumes a marginal tax rate of 24.01% for 2024 and 23.80% for 2023.

(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 losses and gains on available-for-sale securities recorded on our 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 dividing core non-interest expense net of franchise taxes and intangible amortization divided by core revenue on a fully taxable equivalent basis.

ITEM 3. 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. The most significant market risk that affects us is interest rate risk. Other types of market risk do not arise in the normal course of our 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 Bank's Chief Financial Officer and composed of various members of the Bank's 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 Bank'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.

As of March 31, 2024, 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 periods ended March 31, 2024 and 2023:

Change in Interest Rates-Basis Points (Rate Ramp) (in thousands, except ratios)	1 - 12 Months		13 - 24 Months	
	\$ Change	% Change	\$ Change	% Change
At March 31, 2024				
-200	\$ (6,051)	(5.0)%	\$ (12,235)	(9.6)%
-100	(3,304)	(2.7)	(6,138)	(4.8)
+100	2,297	1.9	4,306	3.4
+200	4,525	3.8	8,307	6.5
At March 31, 2023				
-200	\$ (4,936)	(3.6)%	\$ (14,923)	(10.3)%
-100	(2,593)	(1.9)	(7,028)	(4.8)
+100	1,000	0.7	4,618	3.2
+200	2,068	1.5	8,422	5.8

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 short-term and long-term interest rates increase 200 basis points from current levels (i.e., a parallel yield curve shift) over the next twelve months and the Bank's balance sheet structure and size remain at current levels, management believes net interest income will improve over the one year horizon while improving further from that level over the two-year horizon.

As compared to March 31, 2023, asset sensitivity has increased in year one while in year two sensitivity decreased to downward rate movements and increased to upward rate movements.

The preceding sensitivity analysis does not represent a 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, we 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 4. CONTROLS AND PROCEDURES

(a) Disclosure controls and procedures.

Under the supervision and with the participation of our senior management, consisting of our principal executive officer and our principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of the end of the period covered by this Form 10-Q. Based on this evaluation, our management, including our principal executive officer and principal financial officer, concluded that as of March 31, 2024, our disclosure controls and procedures were effective to ensure that information required to be disclosed by the reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. Our disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by using our Exchange Act reports is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

(b) Changes in internal control over financial reporting.

There were no changes in our internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We and our subsidiaries are parties to certain ordinary routine litigation incidental to the normal conduct of their respective businesses. Although the Company is not able to predict the outcome of such actions, at this time, in the opinion of management, the likelihood is remote that the impact of such proceedings, either individually or in the aggregate, would have a material adverse effect on the Company's consolidated financial position as a whole. However, one or more unfavorable outcomes in any claim or litigation against us could have a material adverse effect for the period in which they are resolved. In addition, regardless of their merits or their ultimate outcomes, such matters are costly, divert management's attention and may materially adversely affect our reputation, even if resolved in our favor.

ITEM 1A. RISK FACTORS

Investing in the Company involves various risks which are particular to our Company, our industry and our market area. We believe there were no material changes to the risk factors discussed in Part I, Item 1A. of our Form 10-K. In addition to the other information set forth in this Form 10-Q, you should carefully consider those risk factors, which could materially affect our business, financial condition and future operating results. Those risk factors are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may have a material adverse effect on our business, financial condition and operating results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

No unregistered equity securities were sold by the Company during the quarter ended March 31, 2024.

On April 18, 2024, the Board of Directors approved a 12-month plan to repurchase up to 5% of the Company's outstanding shares of common stock, representing approximately 761,000 shares. No shares were repurchased by the Company in the first quarter 2024 and the maximum number of shares that may yet be purchased under the plan is 761,000 shares. We will continue examine buying opportunities considering market conditions, including interest rate volatility and potential loan and risk-weighted asset growth.

ITEM 5. OTHER INFORMATION

During the quarter ended March 31, 2024, no director or officer (as defined in Rule 16a-1(f) under the Exchange Act) of the Company adopted or terminated any "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement" as such terms are defined in Item 408(a) of Regulation S-K.

ITEM 6. EXHIBITS

- 10.1 [Employment Agreement, dated as of March 8, 2024, between Bar Harbor Bankshares, Bar Harbor Bank & Trust and Josephine Iannelli \(incorporated herein by reference to Exhibit 10.4 to the Annual Report on Form 10-K filed with the SEC on March 11, 2024\)](#)
- 10.2 [2024 through 2026 Long Term Executive Incentive Program Guidelines \(incorporated herein by reference to Exhibit 10.9 to the Annual Report on Form 10-K filed with the SEC on March 11, 2024\)](#)
- 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 Quarterly Report on Form 10-Q for the quarter ended March 31, 2024 is formatted in Inline Extensible Business Reporting Language (iXBRL): (i) Consolidated Statements of Income, (ii) the Consolidated Balance Sheets, (iii) the Consolidated Statements of Changes in Shareholders' Equity, (iv) Consolidated Statements of Cash Flows and (v) Condensed Notes to the Consolidated Financial Statements
- 104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

*Filed herewith

**Furnished herewith

SIGNATURES

Pursuant to the requirements 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.

BAR HARBOR BANKSHARES

Dated: May 8, 2024

By: /s/ Curtis C. Simard
Curtis C. Simard
President & Chief Executive Officer
(Principal Executive Officer)

Dated: May 8, 2024

/s/ Josephine Iannelli
Josephine Iannelli
Executive Vice President & Chief Financial Officer
(Principal Financial and Accounting Officer)

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO RULES 13a-14 AND 15d-14 OF THE SECURITIES EXCHANGE ACT
OF 1934 AND SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Curtis C. Simard, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bar Harbor Bankshares (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: May 8, 2024

/s/ Curtis C. Simard

Name: Curtis C. Simard

Title: President and Chief Executive Officer

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO RULES 13a-14 AND 15d-14 OF THE SECURITIES EXCHANGE ACT
OF 1934 AND SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Josephine Iannelli, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bar Harbor Bankshares (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: May 8, 2024

/s/ Josephine Iannelli

Name: Josephine Iannelli

Title: Executive Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Bar Harbor Bankshares (the "Registrant") for the quarterly period ended March 31, 2024 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, Curtis C. Simard, President and Chief Executive Officer of the Registrant, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: May 8, 2024

/s/ Curtis C. Simard

Name: Curtis C. Simard

Title: President and Chief Executive Officer

**CERTIFICATION PURSUANT TO
18 U.S.C SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Bar Harbor Bankshares (the "Registrant") for the quarterly period ended March 31, 2024 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, I, Josephine Iannelli, Executive Vice President and Chief Financial Officer of the Registrant, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: May 8, 2024

/s/ Josephine Iannelli

Name: Josephine Iannelli

Title: Executive Vice President and Chief Financial Officer
