

PARAMOUNT GOLD & SILVER CORP.

Form S-8

December 12, 2011

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM S-8

REGISTRATION STATEMENT UNDER  
THE SECURITIES ACT OF 1933

PARAMOUNT GOLD AND SILVER CORP.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or  
organization)

20-3690109  
(I.R.S. Employer Identification No.)

665 Anderson Street  
Winnemucca, NV 89445  
(Address of principal executive office including zip code)

(775) 625-3600  
Registrant's telephone number, including area code:

2011/2012 STOCK INCENTIVE AND EQUITY COMPENSATION PLAN  
(Full title of the Plans)

Mr. Christopher Crupi  
Chief Executive Officer  
665 Anderson Street  
Winnemucca, NV 89445  
(Name and address of agent for service)

(775) 625-3600  
(Telephone number, including area code, of agent for service)

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
Smaller reporting company

CALCULATION OF REGISTRATION FEE

TITLE OF SECURITIES TO BE REGISTERED PER SHARE	PROPOSED MAXIMUM AMOUNT TO BE REGISTERED(1)	PROPOSED MAXIMUM OFFERING PRICE PER SHARE(2)	PROPOSED MAXIMUM AGGREGATE PRICE	AMOUNT OF REGISTRATION FEE
Common Stock	4,000,000	\$2.63	\$10,520,000	\$1,206

(1) Pursuant to Rule 416(a) under the Securities Act of 1933 (the "Securities Act"), this registration statement also covers any additional shares of the Registrant's common stock that become issuable under the Registrant's 2011/2012 Stock Incentive and Equity Compensation Plan by reason of any stock dividend, stock split, recapitalization or other similar transaction that increases the number of outstanding shares of common

(2) Estimated solely for calculating the amount of the registration fee, pursuant to Rule 457 under the Securities Act of 1933, as amended, the proposed maximum aggregate offering price is the product obtained by multiplying (i) \$2.63 (the average of the high and low prices of the Company's common stock on December 7, 2011 by (ii) 4,000,000 (the number of shares of common stock issuable in connection with equity awards that may be granted in the future pursuant to the Plan.

## PART I

### ITEM PLAN INFORMATION

1.

The information set forth herein together with the documents annexed hereto and made part hereof and incorporated herein by reference relates to the shares of common stock of Paramount Gold and Silver Corp. (the "Company") to be issued pursuant to the Company's 2011/2012 Stock Incentive and Equity Compensation Plan (the "Plan").

As permitted by the rules of the Securities and Exchange Commission (the "Commission"), this Registration Statement omits the information specified in Part I of Form S-8. The documents containing the information specified in Part I will be delivered to the participants in the Plan as required by Rule 428(b)(1) promulgated under the Securities Act of 1933, as amended (the "Securities Act"). Such documents are not required to be filed with the Commission as part of this Registration Statement or as prospectuses or prospectus supplements pursuant to Rule 424 of the Securities Act. These documents and the documents incorporated by reference in this Registration Statement pursuant to Item 3 of Part II of this Registration Statement constitute a prospectus that meets the requirement of Section 10(a) of the Securities Act.

Under no circumstances will any information filed under current items 2.02 or 7.01 of Form 8-K, and exhibits furnished on such form that relate to such items, be deemed incorporated herein by reference unless such Form 8-K expressly provides to the contrary.

### ITEM REGISTRANT INFORMATION AND EMPLOYEE PLAN ANNUAL INFORMATION

2.

The Company will provide without charge to each person to whom a copy of this Prospectus is delivered, upon the oral or written request of such person, a copy of any document incorporated in this Registration Statement by reference, except exhibits to such information, unless such exhibits are also expressly incorporated by reference herein. Request for such information should be directed to Paramount Gold and Silver Corp. at 665 Anderson Street Winnemucca, Nevada 89445. Attn: Christopher Crupi. (775)625-3600.

## PART II

### ITEM INCORPORATION OF DOCUMENTS BY REFERENCE

3.

The following documents filed by the Company with the Securities and Exchange Commission (the "Commission") are incorporated by reference in this Registration Statement:

- A. The Company's Definitive Proxy Statement filed on Form 14(a) filed on October 17, 2011
- B. The Company's Annual Report on Form 10-k for the year ended June 30, 2011 filed on September 12, 2011
- C. The Company's Quarterly Report on Form 10-Q for the period ended September 30, 2011 filed on November 8, 2011
- D. The Company's Quarterly Report on Form 10-Q for the period ended March 31, 2011 filed May 9, 2011
- E. The Company's Quarterly Report on Form 10-Q for the period ended December 31, 2010 filed February 8, 2011.
- F. All documents subsequently filed by the Company pursuant to Sections 13(a), 13(c), 14, or 15(d) of the Exchange Act, including but not limited to, subsequently filed amendments to the above listed documents and subsequently filed annual and quarterly reports, and Form 8-K, prior to the termination of the offering of the securities offered hereby shall be deemed to be incorporated by reference herein and to be part hereof from the date of filing such documents.

II - 2

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Any statement contained in a document incorporated or deemed to be incorporated by reference shall be deemed to be modified or superseded for purposes of this Registration Statement to the extent that a statement contained herein or in any subsequently filed document which also is or deemed to be incorporated by reference herein modified or supersedes such statement. All information appearing in this Registration Statement is qualified in its entirety by the information and financial statements (including notes thereto) appearing in documents incorporated herein by reference, except to the extent set forth in the immediately preceding statement.

#### ITEM DESCRIPTION OF SECURITIES

4.

The class of securities to be offered hereby is subject to the reporting requirements of the Securities Exchange Act of 1934, as amended. Subject to the filing of the Company's Certificate of Amendment with the Delaware Secretary of State, the Company's authorized capitalization will be 200 million shares of common stock, \$.001 par value.

Holders of the Company's Common Stock are entitled to one vote per share on each matter submitted to vote at any meeting of shareholders. Shares of Common Stock do not carry cumulative voting rights. The Company's board of directors has authority, without action by the Company's shareholders, to issue all or any portion of the authorized but un-issued shares of Common Stock, which would reduce the percentage ownership of the Company of its shareholders and which would dilute the book value of the Common Stock.

Shareholders of the Company have no preemptive rights to acquire additional shares of Common Stock. The Common Stock is not subject to redemption and carries no subscription or conversion rights. In the event of liquidation of the Company, the shares of Common Stock are entitled to share equally in corporate assets after the satisfaction of all liabilities. Holders of Common Stock are entitled to receive such dividends as the board of directors may from time to time declare out of funds legally available for the payment of dividends. During the last two fiscal years the Company has not paid cash dividends on its Common Stock and does not anticipate that it will pay cash dividends in the foreseeable future.

#### ITEM INTERESTS OF NAMED EXPERTS AND COUNSEL

5.

Not applicable.

#### ITEM INDEMNIFICATION OF OFFICERS AND DIRECTORS

6.

Section 102 of the Delaware General Corporation Law permits a corporation to eliminate the personal liability of its directors to the corporation or its stockholders for monetary damages for a breach of fiduciary duty as a director, except where the director breached his or her duty of loyalty, failed to act in good faith, engaged in intentional misconduct or knowingly violated a law, authorized the payment of a dividend or approved a stock repurchase in violation of Delaware corporate law or obtained an improper personal benefit.

Section 145 of the Delaware General Corporation Law provides that a corporation has the power to indemnify a director, officer, employee or agent of the corporation and certain other persons serving at the request of the corporation for another corporation, partnership, joint venture, trust or other enterprise in related capacities against expenses (including attorneys' fees), judgments, fines and amounts paid in settlements actually and reasonably incurred by the person in connection with an action, suit or proceeding to which he or she is or is threatened to be made a party by reason of such position, if such person acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the corporation, and, in any criminal action or proceeding, had

no reasonable cause to believe his or her conduct was unlawful, except that, in the case of actions brought by or in the right of the corporation, no indemnification shall be made with respect to any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery or other adjudicating court determines that, despite the adjudication of liability but in view of all of the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

II - 3

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Our bylaws permit us to indemnify our officers and directors to the fullest extent permitted by law. Delaware Statutes authorize indemnification when a person is or was made a party to any proceeding by reason of the fact that such person is or was a director, officer, employee or agent or is or was serving as a director, officer, employee or agent of another enterprise, at the request of the corporation, and if such person acted in good faith and in a manner reasonably believed by him or her to be in, or not opposed to, the best interests of the corporation. With respect to any criminal proceeding, such person must have had no reasonable cause to believe that his or her conduct was unlawful. If it is determined that the conduct of such person meets these standards, he or she may be indemnified for judgments, settlements, penalties, fines (including an excise tax assessed with respect to any employee benefit plan), and expenses (including counsel fees) actually and reasonably incurred with respect to a proceeding.

If such a proceeding is brought by or in the right of the corporation (i.e. a derivative suit), such person may be indemnified against expenses and amounts paid in settlement not exceeding, in the judgment of the board of directors, the estimated expenses of litigating the proceeding to a conclusion, actually and reasonably incurred in connection with the defense or settlement of such proceeding, including any appeal thereof, if he or she acted in good faith and in a manner reasonably believed by him or her to be in, or not opposed to, the best interests of the corporation. There can be no indemnification with respect to any matter as to which such person is adjudged to be liable to the corporation; however, a court may, in such case, allow such indemnification of such person for such expenses as the court deems proper.

Where such person is successful in any such proceeding, he or she is entitled to be indemnified against expenses actually and reasonably incurred by him or her. In all other cases, indemnification is made by the corporation upon determination by it that indemnification of such person is proper because such person has met the applicable standard of conduct.

The Company maintains a general liability insurance policy which covers certain liabilities of its directors and officers arising out of claims based on acts or omissions in their capacities as directors or officers.

#### ITEM EXEMPTION FROM REGISTRATION CLAIMED

7.

Not applicable.

#### ITEM EXHIBITS

8.

The following are filed as exhibits to this Registration Statement:

EXHIBIT NO.	DESCRIPTION
<u>5.1</u>	Opinion of Jeffrey G. Klein, P.A.
<u>4.1</u>	Paramount Gold and Silver Corp. 2011/2012 Stock Incentive and Equity Compensation Plan
<u>23.1</u>	Consent of Jeffrey G. Klein, P.A. (included in Exhibit 5)
<u>23.2</u>	Consent of MNP LLP

#### ITEM UNDERTAKINGS

9.

A. The undersigned registrant hereby undertakes:

(1)

To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

- i. To include any prospectus required by Section 10 (a)(3) of the Securities Act of 1933;
- ii. To reflect in the prospectus any facts or events arising after the effective date of the registration statement or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement; and



iii. To include any additional or changed material information with respect to the plan of distribution.

(2) That for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered that remain unsold at the termination of the offering.

B. The undersigned Registrant hereby undertakes that, for purposes of determining liability under the Securities Act, each filing of the Registrant's annual report pursuant to Section 13 (a) or 15 (d) of the Exchange Act (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15 (d) of the Exchange Act) that is incorporated by reference in the registration shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

C. Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer, or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

#### SIGNATURES

The Registrant

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements, for filing on Form S-8 and has duly caused this Registration Statement to be signed on its behalf by the undersigned thereto duly authorized, in the City of Ottawa, Province of Ontario, Canada this 9th day of December 2011.

SIGNATURE	TITLE	DATE
/s/ Christopher Crupi Christopher Crupi	President and Chief Executive Officer Director	December 9, 2011
/s/ SHAWN KENNEDY Shawn Kennedy	Director	December 9, 2011
/s/ John Carden John Carden	Director	December 9, 2011
/s/ ELISEO GONZALEZ-URIEN	Director	December 9, 2011

Eliseo Gonzalez Urien

/s/ Michel Yvan Stinglhamber  
Michel Yvan Stinglhamber

Director

December 9, 2011

II - 5

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/s/ Robert Dinning  
Robert Dinning

Director

December 9, 2011

/s/ CHRISTOPHER REYNOLDS  
Christopher Reynolds

Director

December 9, 2011

II - 6

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## THE PLAN

Pursuant to the requirements of the Securities Act of 1933, the plan administrator has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Ottawa, in the province of Ontario Canada on this 9th day of December 2011

SIGNATURE	TITLE	DATE
/s/ Michel Yvan Stinglhamber Michel Yvan Stinglhamber	Plan Administrator/Compensation Committee	December 9, 2011
/s/ Robert Dinning Robert Dinning	Plan Administrator/Compensation Committee	December 9, 2011
/s/ Eliseo Gonzalez-Urien Eliseo Gonzalez-Urien	Plan Administrator/Compensation Committee	December 9, 2011
/s/ Shawn Kennedy Shawn Kennedy	Plan Administrator/Compensation Committee	December 9, 2011

II - 7

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nd Treasurer of the Company since December, 2007. Prior to his promotion in December 2007 to Executive Vice President, he served as Chief Financial Officer and Treasurer of the Company since June 2001. Mr. Shencavitz has served as Executive Vice President, Chief Financial Officer, and Chief Operating Officer of Bar Harbor Bank & Trust since his promotion in December, 2007. He was Chief Financial Officer, Senior Vice President and Chief Operating Officer of Bar Harbor Bank & Trust between June 2001 and December, 2007. Mr. Shencavitz serves as Treasurer of Bar Harbor Trust Services, an office he has held since 2001. Mr. Shencavitz has also served as a member of the Federal Home Loan Bank of Boston's Advisory Panel since 2007.

**Michael W. Bonsey.** Mr. Bonsey resides in Bar Harbor, Maine, and has served as Executive Vice President ( EVP ) and Chief Risk Officer of Bar Harbor Bank & Trust since October, 2011. He was Senior Vice President of Credit Administration of Bar Harbor Bank & Trust from December, 2001 through October, 2011. Additionally, Mr. Bonsey served as Vice President of Credit Administration from 2000 through December, 2001. Mr. Bonsey is the Chairperson of the Mount Desert Island Hospital's Trustees and is a past President of Bar Harbor Rotary.

**Gregory W. Dalton.** Mr. Dalton resides in Mount Desert, Maine, and has served as Executive Vice President ( EVP ) of Business Banking of Bar Harbor Bank & Trust since October 2011. He was Senior Vice President of Bar Harbor Bank & Trust's Business Banking function from 2000 through October 2011. He is also a minority owner in both the Bar Harbor Jam Co. and its real estate holding companies, Blueberry Partners LLC and Triangle Development LLC located in Bar Harbor, Maine. Mr. Dalton served as Vice Chair of the MDI YMCA and serves in several local youth

focused, non-profit organizations including The Katahdin Area Council of the Boy Scouts of America and the Neighborhood House in Northeast Harbor, Maine.

***Stephen M. Leackfeldt.*** Mr. Leackfeldt resides in Harrington, Maine, and has served as Executive Vice President ( EVP ) of Retail Banking and Operations since 2011. From 2001 through October 2011 he served as Senior Vice President of Retail Banking and Consumer Lending of Bar Harbor Bank & Trust. He is also the owner of State Cinemas located in Calais, Maine.

## CORPORATE GOVERNANCE

### **Board of Directors:**

A Board of Directors comprised of thirteen (13) members managed the Company during 2012. A majority of the Board of Directors meets the independence standards established by NYSE MKT. The Board has determined that all the named director-nominees listed in this Proxy, with the exception of Mr. Murphy, meet applicable independence standards established by NYSE MKT. The Board of Directors of the Company held a total of eleven (11) regular meetings, three (3) special meetings, and one (1) annual meeting during 2012. Each director attended at least 75% of the total number of board and committee meetings that he or she was eligible to attend. The Board encourages, but does not require, each director to attend its Annual Meeting. All of the Board's members attended the 2012 Annual Meeting.

### **Mr. Murphy's Service as Director following his Planned Retirement as President and CEO:**

Mr. Murphy has announced his planned retirement as President and Chief Executive Officer of the Company and the Bank effective June 30, 2013. The Governance Committee has recommended Mr. Murphy as a nominee for re-election as a Director to continue his service following his planned retirement in 2013. Mr. Murphy has agreed to stand for re-election understanding that his service, if elected, will continue following his June 2013 retirement date.

The Governance Committee believes Mr. Murphy's continuing service as a Director following his retirement will provide continuity and assist the Company in its CEO leadership transition process.

### **Board Leadership Structure and Risk Oversight:**

The leadership structure of the Company is guided by its Governance Committee. The Company's Governance Committee nominates individuals to serve as members of the Company's Board of Directors, including any management Directors. All Directors of the Company are considered independent directors, except for the CEO of the Company. The Chairperson of the Board of Directors, as well as the Vice Chairperson of the Board, are both independent directors. Management Directors do not serve as Chairs of any Board Committees. The Governance Committee nominates the Chairperson and Vice Chairperson roles for election by the entire Board of Directors. The independent directors meet in executive session directly after Board meetings periodically to ensure that there is adequate oversight of Company management and to ensure that there is ample time to assess the Company's activities separate from management. The Governance Committee believes this leadership structure is prudent and provides sufficient segregation and independence.

The Board of Directors provides oversight to the management of the Company's risk profile, including but not limited to internal controls over financial reporting, credit risk, interest rate risk, liquidity risk, operational risk, reputational risk and compliance risk. The Board of Directors monitors and manages these risks through the activities of specialized Board Committees in conjunction with management, internal audit, the independent registered public accounting firm, and other independent advisors. Some of the more significant risks and the Board's oversight of those risks are described below.

The Board manages credit risk through a Director's Loan Committee, which operates at the BHBT level and meets at least monthly. This committee sets loan policy, establishes credit authorities, and approves or ratifies all extensions of credit over \$1,000,000. This Committee regularly reviews credit trends, delinquencies, non-performing loans and recommends loans to be charged-off to the Board of Directors.

The Asset and Liability Management Committee (ALCO), which comprises the entire senior management team and is chaired by the CFO, assists in the management of interest rate and liquidity risk. This committee meets on a regular basis to review market interest rate trends and product pricing strategies. On a quarterly basis, ALCO meets with its asset and liability management consultant, Darling Consulting Group, to review current trends, possible interest rate or liquidity risks in the balance sheet and to review prospective strategies over typically a two-year horizon using their proprietary modeling services. The Chairperson of the Board attends these quarterly meetings and the findings and recommendations are reported to the full Board by the consultants at least twice a year. The Company's balance sheet position and risk mitigation strategies are reviewed by internal audit and the data verified by an outsourced specialist from M & M Consulting.

The Company's Audit Committee meets quarterly and receives reports from its independent registered public accounting firm, the independent loan review consultants, and the Company's internal audit function. The senior auditor conducts an annual risk-based audit program and provides audit findings quarterly.

The Company has an Enterprise Risk Management Program that is administered on behalf of the Board of Directors by Executive Vice President and Chief Risk Officer Bonsey. In addition to this Program, the Bank's credit review, consumer loan underwriting, compliance and information security departments report to Mr. Bonsey. The Enterprise Risk Management Program coordinates with all of the Bank's lines of business to identify, monitor, track and report various risks within the organization. The Program also established an Enterprise Risk Management committee that reviews and discusses on a quarterly basis the Program's Bank wide risk assessments. The final risk assessments are shared and discussed with the Board of Directors each quarter.

The Board manages incentive compensation risk through its Compensation and Human Resources Committee. This Committee has engaged Pearl Meyer & Partners as independent compensation consultants to provide the Committee with both competitive market data and research into compensation best practices to guide the decisions of the Committee. To mitigate the inherent risks of incenting behaviors potentially adverse to the Company and its stakeholders, the Committee has reviewed the plans with the assistance of the Company's Chief Risk Officer and their results are reviewed by the Board to ensure that incentive plans for senior officers and others do not encourage excessive risk-taking.

The Company believes that its risk management activities and procedures provide sufficient information to management and the Board of Directors to assist them in properly and adequately evaluating the Company's compliance with its risk management programs and policies. There can be no assurance that the Board's risk oversight structure has identified and addressed every potential material risk and there may be additional risks that could arise in the Company's business. Both known and unknown risks could result in potentially material financial and/or business losses despite the Board's efforts to oversee risk.

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**Committees**

The Board of Directors has a standing Executive Committee, Audit Committee, Governance Committee, and Compensation and Human Resources Committee.

***Executive Committee***

The Bylaws of the Company provide that after each Annual Meeting of Shareholders, the Board shall designate from among its members an Executive Committee with the authority to exercise all the powers of the Board of Directors in regard to



ordinary operations of the business of the Company when the Board is not in session, subject to any specific vote of the Board. The Executive Committee for 2012 included directors Dodge, Colwell, Dudman, Murphy, Phillips, Shea, Toothaker, and Woodside. Mr. Dodge served as Chairperson. The Executive Committee held two (2) meetings in 2012.

### *Audit Committee*

The members of the Audit Committee included directors Toothaker, Dudman, Fernald, Hannah, and Woodside. Mr. Toothaker served as Chairperson of the Committee. The Audit Committee met five (5) times during 2012. See Appendix A for a Report of the Audit Committee. The Audit Committee has a written charter, a copy of which is attached to this Proxy Statement and labeled Appendix B. The Audit Committee Charter may be viewed on the Company's general website under the Investor Relations section at [www.BHBT.com](http://www.BHBT.com).

The Company's Board has determined that the Audit Committee is composed of independent directors, in accordance with applicable NYSE MKT listing requirements and Rule 10A-3(b)(1) under the Exchange Act. The Audit Committee operates under a written charter, which has been adopted by the Audit Committee and the Company's Board. Audit Committee members do not accept any consulting, advisory, or other compensatory fees (except directors fees) and are not affiliated with the Company (except as a director) or any of its subsidiaries. The Board of Directors has determined that the Company has at least one audit committee financial expert serving on its Audit Committee. Mr. Scott G. Toothaker, CPA, meets the criteria for an audit committee financial expert and is independent within the meaning of the rules adopted by the NYSE MKT pursuant to the Sarbanes-Oxley Act of 2002.

The Audit Committee has the sole authority to appoint and replace the independent registered public accounting firm. The Audit Committee is responsible for the compensation and oversight of the independent registered public accounting firm and this firm reports directly to the Audit Committee. The Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities with respect to (i) the financial information to be provided to shareholders and the Commission; (ii) the review of quarterly financial statements; (iii) the system of financial reporting controls management has established; and (iv) the internal audit, external audit, and loan review processes.

### *Governance Committee*

The Governance Committee for 2012 was comprised of directors Shea, Dodge, Colwell, Carter, and Lewis. The Governance Committee met four (4) times during 2012. Mrs. Shea served as Chairperson of the Committee. The Company Board of Directors has determined that each member of the Governance Committee is independent for purposes of NYSE MKT listing standards.

The Governance Committee's responsibilities include screening director candidates, recommending nominees to the full Board of Directors (including the slate of returning directors) to be elected each year, making recommendations concerning the size and composition of the Board of Directors, recommending Committee structure and membership, and sponsoring new director orientation and education. The Governance Committee has a written charter, which may be viewed on the Company's general website under the Investor Relations section at [www.BHBT.com](http://www.BHBT.com).

The Governance Committee expects to identify nominees to serve as directors of the Company primarily by accepting and considering the suggestions and nominee recommendations made by directors, management, and shareholders. To date the Governance Committee has not engaged any third parties to assist it in identifying candidates for the Board of Directors. The Governance Committee considers among other things the background, business and professional experience (including any requisite financial expertise or other special qualifications), current employment, community service, and other board service of its director-nominees, as well as racial, ethnic, and gender diversity of the Board as a whole. The Governance Committee generally considers a candidate's qualifications in light of these broad criteria as well as an assessment as to whether the candidate can make decisions on behalf of or while representing the Company in a manner consistent with its stated business goals and objectives. The Governance Committee will also consider the candidate's independent status in accordance with applicable regulations and listing standards. The Governance Committee will consider nominees recommended by shareholders. Any shareholder wishing to nominate a candidate for director must follow the procedures for submission of proposals set forth in the section of this Proxy Statement entitled "Nominations by Shareholders."

### *Compensation and Human Resources Committee*

The Compensation and Human Resources Committee reviews and considers recommendations from management, consultants, and directors concerning executive compensation policies, employee benefit plans, and salary administration programs, including reviewing annually the performance, total compensation, and recommended

adjustments for all executive officers of the Company and its subsidiaries. The deliberations of the Compensation and Human Resources Committee are reported to the Board of Directors for review and approval by the independent board members. The Compensation and Human Resources Committee has a written charter, which may be viewed on the Company's general website under the Investor Relations section at [www.BHBT.com](http://www.BHBT.com).

The Compensation and Human Resources Committee is comprised of Company directors Phillips, Colwell, Dodge, Fernald and Smith. Mr. Phillips served as Chairperson of the Committee. The Company's and Bank's CEO, Mr. Murphy, served on the Committee in a non-voting, ex-officio capacity, as does the Bank's Senior Vice President of Human Resources, Mrs. Marsha C. Sawyer. All voting members of the Compensation and Human Resource Committee are independent for purposes of NYSE MKT listing standards. The Compensation and Human Resources Committee met eight (8) times in 2012.

Further information regarding the Compensation and Human Resources Committee can be found below in this Proxy Statement beginning under the caption "Role of the Compensation Committee." The Compensation Committee report appears at page 27 of this Proxy Statement.

## **COMPENSATION OF EXECUTIVE OFFICERS**

### **Compensation Discussion and Analysis**

In the paragraphs that follow, is an overview and analysis of the Company's compensation program and policies, the material compensation decisions made under those programs and policies with respect to its named executive officers, and the material factors considered in making those decisions. Later in this Proxy Statement under the heading,

Executive Compensation is a series of tables containing specific information about the compensation earned or paid to the named executive officers, referred to as NEOs.

The discussion below is intended to aid understanding the detailed information provided in those tables and put that information into context within the overall compensation program.

### **Named Executive Officers**

As used in this Proxy Statement, the term named executive officers or NEOs includes: (i) the Company's President and Chief Executive Officer, Joseph M. Murphy and Chief Financial Officer, Gerald Shencavitz, and (ii) the Company's three (3) other most highly compensated policy making, executive officers who earned more than \$100,000 in total compensation during the Company's last fiscal year. In 2012, the other three NEOs were Executive Vice Presidents: Michael W. Bonsey, Gregory W. Dalton and Stephen M. Leackfeldt.

### **Objectives of the Company's Compensation Program**

The objective of the Company's compensation program is to attract, retain, motivate, and reward NEOs and other executives who contribute to its financial and operational success, which ultimately builds value for its shareholders.

The Company Board of Directors believes that, in order to do this effectively, the program must:

Provide Company NEOs with total compensation opportunities at levels that are competitive for comparable positions at companies and banks with whom it competes for talent;

Directly link a significant portion of total compensation to the Company's achievement of performance goals in a way that proportionally rewards higher performance levels;

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Provide upside opportunities for exceptional individual performance, which can result in differentiated compensation among NEOs based on performance; and

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Closely align the NEOs' interest with those of Company shareholders by making stock-based incentives an element of the executive's compensation over time.

### **Role of the Compensation Committee**

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

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

**Shareholder Say on Pay Advisory Votes**

Shareholders were first entitled to vote on an advisory, non-binding resolution on the Company's compensation policies and procedures in 2009, again in 2011, and annually thereafter. Past shareholder votes have been overwhelmingly in favor of the Company's programs and practices.

The May, 2012 Say on Pay voting results were as follows:

<b>For</b>	<b>Against</b>	<b>Abstain</b>	<b>Broker Non-Vote</b>
2,315,677.99	62,894.35	77,016.82	981,993

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

***The Role of Compensation Consultants and the Committee's Evaluation of Conflicts of Interest***

The Committee has occasionally utilized, and expects to utilize in the future, various outside consultants, actuaries, and employment attorneys to assist it in developing and implementing the essential components of the Company's compensation program, including its stock option program, Supplemental Executive Retirement Plan (SERP), and incentive compensation arrangements.

During 2012, as in past years, Committee Chair, Robert Phillips and Senior Vice President Sawyer attended a multi-day conference sponsored by *Bank Director Magazine*, NASDAQ, and Institutional Shareholder Services specifically targeted at Bank Executive & Board Compensation best practices.

The Committee, under authority granted by its Charter, engages Pearl Meyer & Partners to assist in conducting updated reviews of the Company's executive officer and director compensation packages. Their 2012-2013 engagement includes:

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 Providing current market-based total compensation guidelines to assist in establishing appropriate and ongoing base compensation and short-term incentive compensation levels for the Company's NEOs;

Providing on-going guidance on the Company's short-term, annual cash incentive plan positions in relationship to the established plan framework utilizing, thresholds, targets, and stretch goals tied to the Company's strategic and long-term financial plans;

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Providing a comprehensive review of the Company's compensation program for its directors;

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Recommending an updated, appropriate Compensation Peer Group comparison for compensation purposes;

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Providing guidelines for competitive base salary, equity components, and benefit structure as the Company seeks a candidate to fill the vacancy created by Mr. Murphy's previously announced retirement in June 2013; and

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Providing guidance for the development of a long term incentive program using equity grants as partial payment for future grants to NEOs under the Bar Harbor Bankshares and Subsidiaries Equity Incentive Plan of 2009.

The Committee has assessed the relationships between Pearl Meyer & Partners, the Company, the Committee and the executive officers of the Company for independence and conflicts of interest. In this assessment, the Committee reviewed the criteria set forth in the SEC's Reg. 240.10C-1(b)(4) (i)-(vi) and such other criteria as it deemed appropriate. Specifically, the Committee considered the following factors in its evaluation of its relationship with Pearl Meyer & Partners:

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Whether Pearl Meyer & Partners provided any other services to the Company;

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How much compensation Pearl Meyer & Partners has received from the Company for compensation consulting services, as a percentage to their total revenue;

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What policies and procedures have been adopted by Pearl Meyer & Partners to prevent a conflict of interest;

Whether Pearl Meyer & Partners has any business or personal relationship with a member of the Committee;

Whether Pearl Meyer & Partners owns any of our Company stock; and

Whether Pearl Meyer & Partners has any personal or business relationship with any executive officer of the Company.

The Committee did not identify any conflicts of interest for Pearl Meyer & Partners.

### **Role of Management in Establishing Compensation**

On an annual basis Mrs. Marsha C. Sawyer, the Senior Vice President of Human Resources, with the oversight of the CEO, provides the Committee with general information on executive officer compensation, including the NEOs. The Committee then reviews, discusses, and considers this information and any recommendations. The CEO and the Senior Vice President of Human Resources generally attend the Committee meetings but were not present for the executive sessions or for any discussion of their own compensation. Mrs. Sawyer assists in the administration of all executive compensation programs, prepares Committee and Board meeting materials and performs work as requested by the Committee, including working directly with the Company's Compensation Consultant in preparation of peer analyses for the Committee's consideration. Mr. Murphy, the Company's CEO attends portions of the Committee's meetings and makes recommendations on base salary, annual incentives, and equity compensation for executive officers who report to him. The Committee has the discretion to accept, reject, or modify the CEO's recommendations. No changes occurred in 2012 with respect to the participation by management in the compensation process.

### **Market Benchmarking and Performance Comparisons**

The Committee approves and recommends to the Board's independent members compensation programs it believes meets the Company's ongoing need to attract, motivate, and retain talented and qualified executives who have the ability to make a major contribution to the leadership and success of the Company. The Committee regularly reviews market information provided by the Company's independent compensation consulting firm, Pearl Meyer & Partners. Pearl Meyer & Partners is retained by the Committee and does not provide any other consulting services to the Company or its subsidiaries. Pearl Meyer & Partners draws compensation information from published surveys and public filings detailing comparable benchmark data for similarly sized banks in the Company's region. The Committee reviews comparative compensation and benefit information contained in the public filings of a peer group the Company established for compensation comparison (the Compensation Peer Group). The Committee again found it necessary due to bank mergers and acquisitions to update and expand its Compensation Peer Group to financial



institutions outside of Maine to incorporate an appropriate selection of publicly-traded financial institutions and provide a representation of the geographical area that may be considered for recruitment purposes. With the assistance of Pearl Meyer & Partners, the Company redefined its 2012 Compensation Peer Group to the companies listed below. The Committee believes these Compensation Peer Group filings disclose compensation programs of similarly situated executives in comparable institutions throughout Maine and the Northeast region and they are a useful comparative tool for the Committee in establishing executive compensation programs and individual criteria for its executives including the NEOs. The Compensation Peer Group information is used as a guide in establishing reasonableness in the Company's compensation program.

Financial performance statistics for the Company's Compensation Peer Group is shown for the year ended **December 31, 2012**. The statistical information reported below was provided to Pearl Meyer & Partners by SNL Financial. For 2012, the Company's Compensation Peer Group was comprised of the following institutions.

PEER BANK	STATE	TICKER SYMBOL	ASSETS (\$)	EPS GROWTH (%)	NET INCOME	RETURN	ON	NET INTEREST MARGIN <sup>1</sup> (%)
						AVERAGE	EFFICIENCY	
						EQUITY	RATIO <sup>1</sup>	
						(%)	(%)	
Alliance Financial Corp	NY	ALNC	1,406,357	(31.43)	9,188	6.40	70.37	3.21
Arrow Financial Corp	NY	AROW	2,022,796	0.91	22,179	12.88	58.95	3.26
Bridge Bancorp, Inc.	NY	BDGE	1,624,713	(3.90)	12,772	11.78	59.45	3.49
Camden National Corp	ME	CAC	2,564,757	(10.29)	23,428	10.31	58.42	3.36
Chicopee Bancorp, Inc	MA	CBNK	599,982	128.57	2,465	2.74	78.09	3.41
Elmira Savings Bank	NY	ESBK	536,936	7.13	5,218	7.92	60.84	3.34
Enterprise Bancorp Inc.	MA	EBTC	1,665,726	10.34	12,375	9.27	69.81	4.26
Evans Bancorp, Inc	NY	EVBN	809,676	30.87	8,132	11.16	70.05	3.78
Financial Institutions Inc.	NY	FISI	2,764,034	7.38	23,449	9.46	58.22	3.95
First Bancorp Inc.	ME	FNLC	1,414,999	7.02	12,688	8.14	49.39	3.14
Hampden Bancorp Inc.	MA	HBNK	615,957	142.86	3,016	3.37	76.46	3.50
Hingham Inst. Merchants Bancshares Inc.	MA	HIFS	1,205,884	10.23	13,290	15.05	40.69	3.38
NH Thrift Bancshares, Inc.	VT	MBVT	1,708,550	2.98	15,194	13.37	66.48	3.28
Northeast Bancorp	NH	NHTB	1,270,477	(0.00)	7,759	6.90	71.57	2.87
Salisbury Bancorp, Inc	ME	NBN	669,196	(80.49)	2,163	3.03	92.39	3.69
Union Bankshares, Inc	CT	SAL	600,813	7.55	4,077	5.87	68.37	3.45
United Financial Bancorp, Inc	VT	UNB	577,256	31.62	6,844	16.51	73.09	4.08
	MA	UBNK	2,402,303	(67.57)	3,628	1.52	69.54	3.45
	MA	WFD	1,301,462	18.18	6,254	2.97	78.01	2.53

Westfield Financial  
Inc.

<b>50<sup>th</sup> Percentile</b>		<b>1,301,462</b>	<b>7.13</b>	<b>8,132</b>	<b>8.14</b>	<b>69.54</b>	<b>3.41</b>
<b>Average</b>		<b>1,355,888</b>	<b>11.16</b>	<b>10,217</b>	<b>8.35</b>	<b>66.85</b>	<b>3.44</b>
B a r H a r b o r ME	BHB	1,302,935	11.58	12,466	9.93	54.74	3.23
Bankshares Percentile Rank							
BHB to Peers		53%	74%	63%	63%	90%	21%

<sup>1</sup>Calculated on a tax-equivalent basis.

The Committee did not target the elements of its compensation program at any specific level or percentile within the Compensation Peer Group, but used the information as a whole and the 50th percentile as a way to define its compensation program and assess the competitiveness and reasonableness of the Company's pay practices. Rather than rely on a specific formula-based model, the Committee believes that retaining discretion to assess the overall performance of NEOs gives the Committee the ability to more accurately reflect individual contributions that cannot be absolutely quantified. The Committee also considers the senior incentive program tailored to provide more emphasis on incentive compensation for the NEO group as an important component of the Company's overall compensation program.

Total Shareholder Returns ( TSR ) statistics for the Company's Compensation Peer Group is shown below for both one year and the three years ending December 31, 2012 for the purposes of measuring its CEO compensation in relationship to shareholder value. The statistical information was provided to Pearl Meyer & Partners for the Company's 2012 Compensation Peer Group.

The Committee feels the Company's TSR compares favorably with the Company's Compensation Peer Group and places the Company above average for the measurement period indicating a solid pay-performance alignment. The Committee believes that the compensation established for its CEO and other NEOs provides for appropriate balance between market compensation and shareholder return.



			<b>1 Year</b>	<b>3 Year</b>
			<b>TSR</b>	<b>TSR</b>
		<b>TICKER</b>	<b>2012 Y</b>	<b>2012 Y</b>
<b>PEER BANK</b>	<b>STATE</b>	<b>SYMBOL</b>	<b>(%)</b>	<b>(%)</b>
Alliance Financial Corp	NY	ALNC	19.75	22.12
Arrow Financial Corp	NY	AROW	13.14	6.88
Bridge Bancorp, Inc.	NY	BDGE	7.83	(1.45)
Camden National Corp	ME	CAC	7.19	4.92
Chicopee Bancorp, Inc	MA	CBNK	12.70	8.39
Elmira Savings Bank	NY	ESBK	52.69	21.97
Enterprise Bancorp Inc.	MA	EBTC	18.64	18.16
Evans Bancorp, Inc	NY	EVBN	35.95	14.85
Financial Institutions Inc.	NY	FISI	19.33	19.91
First Bancorp Inc.	ME	FNLC	12.37	7.69
Hampden Bancorp Inc.	MA	HBNK	28.81	13.39
Hingham Inst.	MA	HIFS	33.99	30.32
Merchants Bancshares Inc.	VT	MBVT	(4.55)	10.41
NH Thrift Bancshares, Inc.	NH	NHTB	17.12	14.25
Northeast Bancorp	ME	NBN	(24.80)	5.85
Salisbury Bancorp, Inc	CT	SAL	4.47	7.14
Union Bankshares, Inc.	VT	UNB	7.98	10.52
United Financial Bancorp, Inc	MA	UBNK	.18	8.68
Westfield Financial Inc.	MA	WFD	4.23	1.93
<b>75th<sup>th</sup> Percentile</b>			<b>19.54</b>	<b>16.50</b>
<b>50th<sup>th</sup> Percentile</b>			<b>12.70</b>	<b>10.41</b>
<b>Bar Harbor Bankshares Percentile Rank</b>	<b>ME</b>	<b>BHB</b>	<b>16.23</b>	<b>11.03</b>
<b>BHB to Peers</b>			<b>58%</b>	<b>58%</b>

The Committee used detailed compensation information on the Compensation Peer Group as disclosed in the most recent proxy filings available for competitive reference along with market salary survey information provided by Pearl Meyer & Partners. The Committee further referenced salary survey information and guidance provided by Pearl Meyer & Partners in its process to confirm and validate the appropriateness of the Company's executive compensation compared to market and performance in establishing compensation levels for this group.

2012 compensation and comparative market salary information is detailed below:

	<b>BHB</b>	<b>Market</b>	<b>BHB</b>	<b>Market</b>
	<b>2012 Base</b>	<b>of</b>	<b>2012 Total</b>	<b>of</b>
	<b>Salary<sup>1</sup></b>	<b>Base</b>	<b>Cash</b>	<b>Total Cash</b>
	<b>(\$)</b>	<b>Salaries<sup>2</sup></b>	<b>Compensation<sup>3</sup></b>	<b>Compensation<sup>2</sup></b>
	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>
<b>Joseph M. Murphy</b>	<b>351,805</b>	300,000 350,000	<b>464,961</b>	455,000
<b>Gerald Shencavitz</b>	<b>215,253</b>	180,000 215,000	<b>272,958</b>	269,000
<b>Michael W. Bonsey<sup>4</sup></b>	<b>169,000</b>	150,000 180,000	<b>206,450</b>	225,000
<b>Gregory W. Dalton</b>	<b>177,000</b>	150,000 180,000	<b>214,109</b>	225,000
<b>Stephen M. Leackfeldt<sup>5</sup></b>	<b>177,000</b>	140,000 165,000	<b>216,987</b>	206,000
		190,000		

<sup>1</sup>Approved base salary figures at the end of 2012 are used for comparison purposes in this table.

<sup>2</sup>Market sources are comprised of Peer Group Average Proxy filing data from the financial institutions disclosed on page 20 of base salary and cash (incentive) compensation and multiple industry survey results utilized by Pearl Meyer & Partners.



<sup>3</sup> Approved base salary figures at the end of 2012 plus the amount paid to each NEO under the 2012 Annual Incentive

Plans are used in this table for comparison purposes.

<sup>4</sup>Mr. Bonsey's salary comparison is measured against market salaries for a Chief Risk Officer. Salaries ranges reported include banks on a larger scale than Bar Harbor Bankshares. Mr. Bonsey's base salary is set reflective of the Company's size in relationship to the reported group size.

<sup>5</sup>Mr. Leackfeldt's salary comparison is measured against market salaries for an Executive Officer in charge of Retail Banking. Mr. Leackfeldt also carries the responsibilities for oversight of all the Company's facilities and the Bank's Operations areas that are not reflected in the market comparison detailed above

The Committee also considers the relative scarcity of senior banking executive candidates in its immediate market area and the difficulties of recruiting out-of-market candidates to work in rural Maine. The Committee does not use any formal, fixed, or indexed criteria for establishing compensation levels for any of its NEOs within market identified ranges. The Committee believes over time, the growth in total compensation provided to its executive officers should be balanced towards incentive and equity compensation opportunities directly tied to corporate performance with less emphasis upon growth in base salaries.

### *Compensation Plan Components*

The Company's executive compensation program applicable to the NEOs is comprised of the following primary components: (a) base salaries and benefits, (b) annual incentive cash compensation programs, (c) long-term incentives in the form of stock option grants, and (d) retirement benefits:

(a)***Base Salary and Benefits.*** The executive compensation program provides base salaries and benefits, which include health and life insurance programs, a 401(k) retirement program, and vacation awards to compensate executive officers for the performance of core duties and responsibilities associated with their positions. The Committee reviews base salaries annually in the context of the comparative industry information, as described above. The Committee also considers the specific contributions of the individual executive officer and the officer's opportunity for professional growth, as well as market factors, when it sets and adjusts base salaries. In addition, the Committee considers the prevailing economic climate, the overall performance of the Company, and its most current business plan.

Upon performance evaluations and the advice and market salary data supplied by Pearl Meyer & Partners, the Committee made performance and market adjustments resulting in the 2012 approved base salaries for NEOs as follows:



Named Executive	2011	2012	2012	2012	Percentage	Percentage
	Base Salary	Base Salary Adjustment	Equity Grants <sup>2</sup>	Ending Base Salary	of Base Increase Over 2011	of Base with Equity Value Increase Over 2011
	(\$)	(\$)	(\$)	(\$)	(%)	(%)
<b>Joseph M. Murphy</b>						
President and CEO of Bar Harbor Bankshares and Bar Harbor Bank & Trust	341,805	10,000	\$9,999	351,805	2.93	5.85
<b>Gerald Shencavitz</b>						
EVP, CFO, and Treasurer of Bar Harbor Bank-hares and EVP, CFO, and Chief Operations Officer of Bar Harbor Bank & Trust	211,253	4,000	\$3,978	215,253	1.89	3.78
<b>Michael W. Bonsey<sup>1</sup></b>						
EVP, Chief Risk Officer of Bar Harbor Bank & Trust	167,000	2,000	\$1,971	169,000	1.20	2.38
<b>Gregory W. Dalton<sup>1</sup></b>						
EVP Vice President, Business Banking of Bar Harbor Bank & Trust	175,000	2,000	\$1,971	177,000	1.14	2.27
<b>Stephen M. Leackfeldt<sup>1</sup></b>						
EVP, Retail Banking and Operations for Bar Harbor Bank & Trust	167,000	10,000	\$1,971	177,000	5.99	7.17

<sup>1</sup>Mr. Bonsey's, Mr. Dalton's, and Mr. Leackfeldt's base salaries were increased through the Company's normal process at the beginning of 2011. They were further increased in October of 2011 in recognition of their promotions to Executive Vice President and expansion of their respective roles within the Company. The 2011 Base Salary figure noted in the table represents their annualized, ending base salary for 2011.

<sup>2</sup>The Board of Directors voted NEOs equity shares as part of their 2012 compensation adjustment to further align the NEOs compensation with the financial success of the Company. The shares are wholly owned by the executive, but carry the restriction to be held for a minimum of three months after leaving the employment of the Company

(b)***Short-term, Annual Incentive Cash Compensation Program.*** During 2012, eight (8) senior managers including NEOs, Messrs. Murphy, Shencavitz, Bonsey, Dalton, and Leackfeldt participated in an annual cash incentive compensation plan developed under the guidance of Pearl Meyer & Partners. The philosophy of the Compensation Committee was to set competitive, reasonable base salaries and allow for the potential of meaningful incentives tied to the Company's short-term initiatives to optimize profitability, growth, excellence in individual performance, and to promote teamwork among its participants. This plan was approved by the Company's Board of Directors for 2012 and is detailed below:

**Incentive Payout Opportunity**

Each participant had a target incentive opportunity based on their role. The target incentive reflected a percentage of base salary determined to be consistent with competitive market practices. Actual awards varied based on achievement of specific goals. The opportunity reflects a range of potential awards. Actual awards ranged from 0% (for not achieving minimal performance) to 150% of target (for exceptional performance). The table below summarizes the incentive ranges for the 2012 plan year.

**2012 Short-Term Incentive Targets**

Role	Below Threshold	Threshold	Target	Stretch
		(50% of Target Percentage)	(100%)	(150% of Target Percentage)
President /CEO	0%	12.50%	25.00%	37.50%
EVP & CFO	0%	10.00%	20.00%	30.00%
EVP	0%	8.75%	17.50%	26.25%

**Plan Trigger**

In order for the Annual Incentive Plan to activate or turn on, the Company needed to achieve at least \$10,336 in Net Income for 2012. If BHB did not meet this level, the plan would not pay out any awards for the year, regardless of performance on other goals.

For the year ended December 31, 2012, the Company reported record net income of \$12,466 compared with \$11,043 for the year ended December 31, 2011, representing an increase of \$1,423 or 12.89%.

**Incentive Plan Measures**

Each participant had predefined performance goals used to determine their short-term incentive award. There were two performance categories: BHB Team and Individual. BHB Team performance was reflected by common goals for all participants. Individual goals reflected each participant's individual contributions based on their role. The specific allocations of goals were weighted to reflect the focus and contribution for each position in the Company.

The table below provided the guidelines for the allocation of participant's incentives for each performance component.

<b>Position</b>	<b>BHB/Team Performance</b>	<b>Individual Performance</b>
President/CEO (Murphy)	75%	25%
EVP/CFO (Shencavitz)	75%	25%
EVP Line (Dalton)	30%	70%
EVP Staff (Bonsey and Leackfeldt)	50%	50%



**BHB Performance**

BHB Team performance goals for 2012 were increased Net Income and an improved Efficiency Ratio. The table below shows the specific performance goals at Threshold, Target (budget or improvement over prior year measurements) and Stretch for each of the NEOs during 2012.

**Joseph M. Murphy  
President and CEO**

Base Salary	\$351,805	Base Salary	\$351,805	Base Salary	\$351,805		
Incentive Threshold (%)	12.50%	Incentive Target (%)	25.00%	Incentive Stretch (%)	37.50%		
Incentive Threshold (\$)	\$43,976	Incentive Target (\$)	\$87,951	Incentive Stretch (\$)	\$131,927		
Performance Goals				Payment Range <sup>1</sup>			
Incentive Measures	Threshold	Target	Stretch	Weight	Threshold	Target	Stretch
Net Income							
(\$thousands)	\$10,336	\$11,114	\$12,225	50.00%	6.25%	12.50%	18.75%
Efficiency Ratio	56.10%	55.00%	49.50%	25.00%	3.13%	6.25%	9.38%
Past Dues <sup>2</sup>	225bps	200bps	150bps	8.33%	1.04%	2.08%	3.12%
Charge offs <sup>2</sup>	30bps	25bps	20bps	8.33%	1.04%	2.08%	3.12%
NPL+OREO <sup>2</sup>	225bps	175bps	125bps	8.34%	1.04%	2.09%	3.13%
TOTALS				100.00%	12.50%	25.00%	37.50%

**Gerald Shencavitz  
EVP and CFO**

Base Salary	\$215,253	Base Salary	\$215,253	Base Salary	\$215,253		
Incentive Threshold (%)	10.00%	Incentive Target (%)	20.00%	Incentive Stretch (%)	30.00%		
Incentive Threshold (\$)	\$21,525	Incentive Target (\$)	\$43,051	Incentive Stretch (\$)	\$64,576		
Performance Goals				Payment Range <sup>1</sup>			
Incentive Measures	Threshold	Target	Stretch	Weight	Threshold	Target	Stretch
Net Income							
(\$thousands)	\$10,336	\$11,114	\$12,225	50.00%	5.00%	10.00%	15.00%
Efficiency Ratio	56.10%	55.00%	49.50%	25.00%	2.50%	5.00%	7.50%
Net Invest. Income	\$15,675	\$15,995	\$17,595	15.00%	1.50%	3.00%	4.50%
Inv Yield Percentile							
Against Peer	48th	50th	75th	10.00%	1.00%	2.00%	3.00%
TOTALS				100.00%	10.00%	20.00%	30.00%

**Michael W. Bonsey  
Executive Vice  
President**

Base Salary	\$169,000	Base Salary	\$169,000	Base Salary	\$169,000		
Incentive Threshold (%)	8.75%	Incentive Target (%)	17.50%	Incentive Stretch (%)	26.25%		
Incentive Threshold (\$)	\$14,788	Incentive Target (\$)	\$29,575	Incentive Stretch (\$)	\$44,363		
Performance Goals				Payment Range <sup>1</sup>			
Incentive Measures	Threshold	Target	Stretch	Weight	Threshold	Target	Stretch
Net Income							
(\$thousands)	\$10,336	\$11,114	\$12,225	30.00%	2.63%	5.25%	7.88%

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Efficiency Ratio	56.10%	55.00%	49.50%	20.00%	1.75%	3.50%	5.25%
Avg. Commercial Loans	\$406,539	\$414,836	\$456,320	15.00%	1.31%	2.63%	3.94%
Avg. Consumer Loans	\$302,404	\$308,575	\$339,443	10.00%	0.88%	1.75%	2.63%
Past Dues <sup>2</sup>	225bps	200bps	150bps	8.33%	0.73%	1.46%	2.19%
Charge offs <sup>2</sup>	30bps	25bps	20bps	8.33%	0.73%	1.46%	2.18%
NPL+OREO <sup>2</sup>	225bps	175bps	125bps	8.34%	0.72%	1.45%	2.18%
TOTALS				100.00%	8.75%	17.50%	26.25%

**Gregory W. Dalton**  
**Executive Vice**  
**President**

Base Salary	\$177,000	Base Salary	\$177,000	Base Salary	\$177,000
Incentive Threshold (%)	8.75%	Incentive Target (%)	17.50%	Incentive Stretch (%)	26.25%
Incentive Threshold (\$)	\$15,488	Incentive Target (\$)	\$30,975	Incentive Stretch (\$)	\$46,463

Performance Goals					Payment Range <sup>1</sup>		
Incentive Measures	Threshold	Target	Stretch	Weight	Threshold	Target	Stretch
Net Income (\$thousands)	\$10,336	\$11,114	\$12,225	20.00%	1.75%	3.50%	5.25%
Efficiency Ratio	56.10%	55.00%	49.50%	10.00%	0.88%	1.75%	2.63%
Avg. Commercial Loans	\$406,539	\$414,836	\$456,320	35.00%	3.06%	6.13%	9.19%
Avg. Non Personal Deposits	\$176,224	\$179,820	\$197,802	15.00%	1.31%	2.63%	3.94%
Past Dues <sup>2</sup>	225bp	200bp	150bp	6.66%	0.58%	1.17%	1.75%
Charge offs <sup>2</sup>	30bps	25bps	20bps	6.67%	0.58%	1.16%	1.75%
NPL+OREO <sup>2</sup>	225bps	175bps	125bps	6.67%	0.59%	1.16%	1.74%
TOTALS				100.00%	8.75%	17.50%	26.25%

**Stephen M. Leackfeldt**  
**Executive Vice**  
**President**

Base Salary	\$177,000	Base Salary	\$177,000	Base Salary	\$177,000
Incentive Threshold (%)	8.75%	Incentive Target (%)	17.50%	Incentive Stretch (%)	26.25%
Incentive Threshold (\$)	\$15,488	Incentive Target (\$)	\$30,975	Incentive Stretch (\$)	\$46,463

Performance Goals					Payment Range <sup>1</sup>		
Incentive Measures	Threshold	Target	Stretch	Weight	Threshold	Target	Stretch
Net Income thousands)	\$10,336	\$11,114	\$12,225	30.00%	2.63%	5.25%	7.88%
Efficiency Ratio	56.10%	55.00%	49.50%	20.00%	1.75%	3.50%	5.25%
Retail Deposits	\$498,626	\$508,802	\$559,682	10.00%	0.88%	1.75%	2.63%
Deposit Rate	0.81	0.79	0.77	10.00%	0.88%	1.75%	2.63%
Avg. Cons. Loans	\$302,404	\$308,575	\$339,433	10.00%	0.88%	1.75%	2.63%
Past Dues <sup>2</sup>	225bps	200bps	150bps	6.67%	0.58%	1.17%	1.75%
Charge offs <sup>2</sup>	30bps	25bps	20bps	6.67%	0.58%	1.17%	1.74%
NPL+OREO <sup>2</sup>	225bps	175bps	125bps	6.66%	0.57%	1.16%	1.74%
TOTALS				100.00%	8.75%	17.50%	26.25%

<sup>1</sup> All Payment Range percentages rounded to two trailing decimals.

<sup>2</sup> The asset quality measures for Past Dues and Non-Performing Loans + Other Real Estate Owned are calculated using a twelve month average of the month-end actual data for the calendar year. Charge off percentage is measured using the actual annual net charge offs as a percentage of the average outstanding. The average outstanding for this calculation is measured by averaging the actual outstanding loans at each month end.

Below is a summary of the 2012 awards paid as described above

### 2012 Incentive Payment Summary

Named Executive	Percentage Of Base	Total Payout	Net Income	Efficiency Ratio	Credit Asset Quality <sup>1</sup>	Loan and Deposit Growth	Individual Goals
Joseph M. Murphy	32.16	113,156	65,963	22,801	24,392		
Gerald Shencavitz	26.81	57,705	32,288	11,150			14,267 <sup>2</sup>
Michael W. Bonsey	22.16	37,450	13,317	6,135	8,221	9,777	
Gregory W. Dalton	20.97	37,109	9,293	3,204	6,899	17,713	
Stephen M. Leackfeldt	22.59	39,987	13,948	6,425	6,895	8,064	4,655 <sup>3</sup>
<b>Totals</b>		<b>285,407</b>	<b>134,809</b>	<b>49,715</b>	<b>46,407</b>	<b>35,554</b>	<b>18,922</b>

<sup>1</sup>The asset quality measures for Past Dues and Non-Performing Loans + Other Real Estate Owned are calculated using a twelve month average of the month-end actual data for the calendar year. Charge off percentage is measured using the actual annual net charge offs as a percentage of the average outstanding. The average outstanding for this calculation are measured by averaging the actual outstanding loans at each month end

<sup>2</sup>Mr. Shencavitz earned \$7,811 for exceeding investment income targets, and \$6,456 for investment yield measured against peers for a total incentive payment of \$14,267 in this category.

<sup>3</sup>Mr. Leackfeldt received \$4,655 for deposit rate management.

Details of the above payments maximums are disclosed into Threshold, Target, and Stretch categories on be found on page 32.

- (c)**Equity Plans.** Since adopting its Stock Option Plan in 2000, the Company has provided its officers and managers, including its NEOs, with an equity-based compensation component in the form of stock options. This compensation component is used to align the interest of the Company's participating officers and managers, particularly its executive officers, with those of its shareholders over a long-term horizon and to serve as a retention tool. The Company granted options upon date of hire or promotion for qualified individuals, and from time to time for special recognition. The Company awards all grants at the closing market price of the business day of the enabling vote by the Company's Board of Directors. The Board of Directors also sets the vesting schedule, which is typically over a period of three to seven years. The Stock Option Plan adopted in 2000 may no longer issue stock options grants and the grants made under the Stock Option Plan of 2000 to NEOs and other management members are nearing expiration. A schedule of these maturing options can be found on page 33. Stock trading activity in the Company stock is being experienced as members of the management team exercise these maturing options. The Company adopted the Bar Harbor Bankshares and Subsidiaries Equity Incentive Plan of 2009 which was approved by shareholders at the May 2009 Annual Meeting under which equity grants currently may be issued. NEOs were granted an increment of restricted stock as part of their 2012 compensation adjustment. These restricted equity shares are fully vested, but held in the possession of the Company and may not be sold, transferred, or gifted by the NEOs until at least three months after they are no longer employed nor have director oversight for the Company. The purpose of the 2012 equity grants was to tie a portion of the NEOs compensation to the future success of the Company. While no formal plan to continue this compensation philosophy was established in 2012, the Committee may consider employing some form of this practice in the future. Details of these grants made under the Bar Harbor Bankshares and Subsidiaries Equity Incentive Plan of 2009 are set forth on page 33 in the 2012 Option Exercises and Stock Vested Table in columns (d) and (e). The Compensation Committee has engaged Pearl Meyer & Partners to assist it in developing a new equity-based program for future use. This portion of the Company's compensation program was designed to encourage the long-term financial growth of the Company and reward the NEOs for the appreciation in shareholder value.
- (d)**Benefits, Retirement and Post-Termination Compensation Elements.** The Company provides a 401(k) plan for all employees meeting minimum age and service requirements. In addition, the Company provides a nonqualified, noncontributory, defined-benefit plan (SERP) for certain highly compensated officers. Currently, the CEO and Executive Vice President and Chief Financial Officer (EVP/CFO) are the only two NEOs that participate in the SERP. The Company's 401(k) plan has embedded regulatory ceilings that limit the two most senior executives from deferring amounts which the Committee considers sufficient to provide for a reasonable, final average salary retirement benefit. The Company utilizes its SERP plan as a vehicle to assist in funding the CEO's and EVP/CFO's total retirement program.



The Company also maintains Change in Control Agreements for NEOs Murphy, Shencavitz, Bonsey, Leackfeldt, and Dalton. These agreements provide for the payment of their salary and other specified benefits for a period of twelve to twenty-four months in the event of both a change of control of the Company and subsequent termination (or constructive termination) within set timeframes after a change in control, unless such termination was for cause. These specific payments and timeframes were established under the advice of a compensation consultant and employment attorney as representative of similar type agreements in the industry.

The Committee believes that the Company's SERP plan and Change in Control Agreements are necessary to provide a competitive total compensation plan to attract and retain the employment of NEOs that are a party to the agreements.

### **Other Compensation and Benefits**

In addition to the foregoing, all executive officers of the Company are entitled to participate in certain group health, dental, and term life insurance benefits. In accordance with Company policy, all such benefits are generally available to employees of the Company and its subsidiaries.

### **Stock Ownership Guidelines**

While all of the Company's executive officers hold Company stock, the Company does not have specific guidelines regarding stock ownership for its NEOs at this time. However, the Company encourages stock ownership and reviews overall ownership levels on a periodic basis.

**Compliance with Internal Revenue Code Section 409A**

Section 409A of the Internal Revenue Code was enacted in 2005 and provides that if a service provider is entitled to nonqualified deferred compensation benefits that are subject to Section 409A, and such benefits do not comply with Section 409A, the service provider would be subject to adverse tax treatment, including accelerated income recognition and a potential 20% tax penalty. The Company has modified its affected compensation plans to comply with the Section 409A tax provisions because the Company's NEOs meet the definition of a service provider under Section 409A.

**Policy on Internal Revenue Code Section 162(m)**

Section 162(m) of the Code disallows publicly-traded companies from receiving a tax deduction on compensation paid to executive officers in excess of \$ 1 million unless, among other things, the compensation meets the requirements for performance-based compensation. In structuring the compensation programs and in determining executive compensation, the Committee takes into consideration the deductibility limit for compensation and the performance-based requirements of Section 162(m).

No Company employee exceeded the \$1 million dollar threshold during 2012.

**Compensation Committee Report**

The Compensation Committee has reviewed the Compensation Discussion and Analysis included in this proxy statement and has discussed it with members of management. Based on such review and discussion, the Compensation Committee recommended to the Board of Director members that the Compensation Discussion and Analysis be included in the Company's Annual Report on Form 10-K and this Proxy Statement.

Respectfully submitted by the members of the Compensation and Human Resources Committee of the Board:

Robert M. Phillips, Chair

Thomas A. Colwell

Peter Dodge

Lauri E. Fernald

Kenneth E. Smith

## EXECUTIVE COMPENSATION

## 2012 Summary Compensation Table

The following table discloses compensation for the years ended December 31, 2012, 2011 and 2010 received by the Company's principal executive officer, principal financial officer, and three other most highly compensated executive officers (the NEOs). The Company, or the subsidiary by which he was employed, paid compensation for each named executive officer.

Name and Principal Position	Year	Base Salary	Stock Awards	Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation	Total	
		Received <sup>1</sup>	Bonus Awards <sup>2</sup>						
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Joseph M. Murphy President and CEO of Bar Harbor Bankshares and Bar Harbor Bank & Trust	2012	351,805	0	9,999	0	113,156	0	19,339	494,299
	2011	341,581	0	0	0	92,659	68,337	18,758	521,335
	2010	343,343	0	0	0	95,234 <sup>5</sup>	202,721	21,400	662,698
Gerald Shencavitz EVP, CFO and Treasurer of Bar Harbor Bankshares and EVP, CFO, and COO of Bar Harbor Bank & Trust	2012	215,253	0	3,978	0	57,705	96,177	10,279	383,392
	2011	211,154	0	0	0	54,183	0 <sup>6</sup>	10,131	275,468
Michael W. Bonsey	2012	169,000	0	1,971	0	37,450	0	7,701	216,122
	2011	148,504 <sup>7</sup>	0	0	0	22,357	0	8,544	179,405

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EVP, Chief Risk Officer of Bar Harbor Bank & Trust	2010	144,655	5,000 <sup>8</sup>	0	0	21,722	0	7,603	178,980
<b>Gregory W. Dalton</b>	2012	177,000	0	1,971	0	37,109	0	8,625	224,705
	2011	156,003 <sup>9</sup>	0	0	0	21,896	0	8,780	186,679
EVP, Business Banking of Bar Harbor Bank & Trust	2010	151,850	5,000 <sup>8</sup>	0	0	19,885	0	8,270	185,005
<b>Stephen M. Leackfeldt</b>	2012	177,000	0	1,971	0	39,987	0	9,629	228,587
	2011	149,193 <sup>10</sup>	0	0	0	23,699	0	6,690	179,582
EVP, Retail Banking and Operations of Bar Harbor Bank & Trust	2010	146,539	0	0	0	26,019	0	6,289	178,847

<sup>1</sup>Included in received base salary amounts disclosed above for each named executive officer are monies they deferred pursuant to the Company's 401(k) Plan, which allows employees of the Company and its wholly owned subsidiaries to defer monies from their compensation, subject to applicable limitations in section 401(k) of the Internal Revenue Code of 1986, as amended, and amounts deferred pursuant to the Company's Section 125 Cafeteria plan providing health, life, and disability insurance benefits. Employees, including NEOs are paid on a 26 bi-weekly basis most years. Infrequently, the calendar provides for 27 bi-weekly pay days. NEOs received 1/26<sup>th</sup> of their 2009 base salary on January 4, 2010 to accommodate this additional pay date. This adjusting amount has been included in the 2010 base salary amount disclosed above. This additional pay amount for 2010 was approved by the Board of Directors.

<sup>2</sup>Amounts in this column represent the cash value of restricted stock granted to executives as part of their 2012 compensation adjustments.

<sup>3</sup>The amounts in this column reflect the changes in value of the Company's nonqualified, noncontributory, defined-benefit supplemental executive retirement program between December 31, 2012, December 31, 2011, and December 31, 2010. The amounts include applicable Medicare gross up (1.45%) amounts on the SERP calculations.

<sup>4</sup>Other Annual Compensation includes match and contribution amounts into the Company's 401(k) plan in the same formula and schedule as available to all other employees and imputed life insurance amounts on group term insurance in excess of the allowable \$50,000, non-taxable IRS limit.

<sup>5</sup>Mr. Murphy's 2010 Incentive Compensation was capped as a result of the Company participation in the U.S. Treasury's Capital Purchase Program. The amounts disclosed above represent the reduced amounts for Mr. Murphy.



<sup>6</sup>Mr. Shencavitz's calculation (memo post only) had been over-reported in prior years. Thus, to eliminate the cumulative prior overage, there was no need to report any additional amount for 2011 on Mr. Shencavitz's income statement to the IRS.

<sup>7</sup>Mr. Bonsey's base salary was adjusted from \$144,200 to \$167,000 effective October, 2011 upon his promotion to Executive Vice President. The \$148,504 represents the actual blended base salary he received for the calendar year 2011.

<sup>8</sup>One time payment of \$5,000 in recognition of transitional teamwork effort in the business banking function during 2010 but paid in 2011

<sup>9</sup>Mr. Dalton's base salary was adjusted from \$151,600 to \$175,000 effective October, 2011 upon his promotion to Executive Vice President. The \$156,003 represents the actual blended base salary he received for the calendar year 2011.

<sup>10</sup>Mr. Leackfeldt's base salary was adjusted from \$145,038 to \$167,000 effective October, 2011 upon his promotion to Executive Vice President. The \$149,193 represents the actual blended base salary he received for the calendar year 2011.

The NEOs also participate in certain group life, health, disability insurance, and medical reimbursement plans, not disclosed in the Summary Compensation Table, that are generally available to all employees and do not discriminate in scope, terms, and operation. The table below provides detail on the amounts comprising the column entitled "All Other Compensation" contained in the 2012 Summary Compensation Table.

**All Other Compensation Detail**

Name	Year	Employer	Club	Spousal	Imputed	TOTAL
		Contribution			Life	
		Match and	Dues	Travel	Insurance	
		Contribution				
		(\$)	(\$)	(\$)	(\$)	(\$)
Joseph M. Murphy	2012	9,800	1,250	0	8,289	19,339

Gerald Shencavitz	2012	7,989	0	198	2,092	10,279
Michael W. Bonsey	2012	6,928	0	0	773	7,701
Gregory W. Dalton	2012	7,789	0	0	836	8,625
Stephen M. Leackfeldt	2012	7,443	0	0	2,186	9,629

The Company provides non-cash perquisites that do not exceed \$10,000 in the aggregate for any individual and are not included in the reported figures. Benefits not disclosed in the table above are of *de minimus* value such as incidental service fee waivers on deposit accounts or safe deposit rental fees.

#### **NARRATIVE DISCUSSION AND ANALYSIS OF SUMMARY COMPENSATION TABLE**

The Committee believes the following information and discussion is useful to the reader in understanding the information set forth in the above Summary Compensation Table.

##### **Chief Executive Officer Employment Agreement**

The Company has entered into a written employment agreement with Mr. Joseph M. Murphy, its President and CEO which was amended and restated on November 19, 2008 (the CEO Employment Agreement).

The CEO Employment Agreement provides for the payment of an annual base salary to the President and CEO of not less than \$273,946 to be paid in substantially equal installments in accordance with the Company's compensation policies and procedures on the pay dates established by the Company for its senior executive officers. The base salary shall be reviewed annually by the Compensation Committee of the Company's Board of Directors and shall be adjusted at the Company's sole discretion. The CEO shall also participate in any performance





compensation plan agreed upon by the parties during the term of the CEO Employment Agreement in concert with the Company's evolving goals and objectives. The Employment Agreement is for an initial term of two (2) years with provisions for automatic extensions of one (1) year each in the absence of notice from the Company of its intention not to extend the term of the Employment Agreement. Mr. Murphy has announced his retirement from the Company as of June 30, 2013.

Mr. Murphy's Employment Agreement also provided for a payment in the event of his involuntary termination without cause or voluntary termination for good reason of two times his salary plus health and welfare benefits for twenty four months. With limited exceptions, it also allows for a severance payment to the CEO in the event his employment is terminated within one (1) year prior to or following certain events defined to constitute a change in control of the Company. This severance payment resulting from a termination of employment (constructive termination) following a change in control is equal to two (2) times the CEO's base annual salary, incentive compensation payments earned and any accrued but unused vacation time. In addition, if Mr. Murphy had any unvested stock options and unvested supplemental executive retirement benefits those amounts would vest in accordance with the terms of the plans under which they were granted and vest fully upon a change in control. In the event that Mr. Murphy becomes subject to an excise tax on payments made under his agreements and various benefit plans in connection with a change in control, he will be reimbursed for payment of such amounts upon such time as the assumptions and calculations have been prepared, reviewed, and confirmed by a nationally recognized accounting firm.

Mr. Murphy's Change in Control Agreement also contains restrictions on competition by the CEO with the Company during the term and for a period of one (1) year following the cessation of the CEO's employment with the Company regardless of reason.

#### **Compensation of the Chief Executive Officer**

On an annual basis, the Committee reviews the existing compensation plan for the Company's CEO, Joseph M. Murphy. The Committee reviews this compensation plan in the context of the Company's overall performance, the achievement of certain financial and non-financial goals and the judgment of the entire Board of Directors as to the quality of the CEO's leadership. In addition, the Committee compares the CEO's compensation to CEOs of the Company's Compensation Peer Group and salary survey information for comparable positions. In making these comparisons, the Committee takes into account appropriate differences in the size, business model, and financial performance of the other banking institutions.

In accordance with the CEO's Employment Agreement with the Company, the Committee reviews the CEO's base salary no less often than annually and may recommend an increase in his base salary to the Board of Directors at the Committee's sole discretion. During 2012, CEO Murphy's cash base salary was adjusted 2.93% based on his continued strong performance on behalf of the Company and competitive data provided by the Company's Compensation Consultant, Pearl Meyer & Partners.

As further discussed below, the CEO participated in the structured annual incentive cash compensation plan provided to all executive officers. During 2012, Mr. Murphy earned an annual incentive of \$113,156.

During 2012, the Committee granted the CEO Murphy 279 shares of restricted stock with a value on the grant date of \$9,999 as part of his 2012 compensation adjustment. The stock is wholly owned by Mr. Murphy, but he is required to hold the shares for a minimum of three months after he has no further employment or director oversight for the Company.

CEO Murphy is a member of the Board of Directors of the Company and its subsidiaries. He does not receive any director fees for participating in the activities of these Boards.

**Other Change in Control, Confidentiality, and Non-competition Agreements**

The Company entered into a Change in Control, Confidentiality, and Non-competition Agreement with the Company's EVP/CFO, Mr. Gerald Shencavitz. This agreement provides Mr. Shencavitz with severance of both salary and benefits for a period of eighteen (18) months in the event of both a change of control of the Company and subsequent termination (or constructive termination) within twelve (12) months after a change of control, unless such termination was for cause. In addition, Mr. Shencavitz's stock options and supplemental executive retirement benefits will vest in accordance with the terms of the plans under which they were granted and vest fully upon a change in control. In the event that Mr. Shencavitz becomes subject to an excise tax on payments made under his agreements and various benefit plans in connection with a change in control, he will be reimbursed for payment of such amounts upon such time as the assumptions and calculations have been prepared, reviewed, and confirmed by a nationally recognized accounting firm.

The Company has also entered into Change in Control, Confidentiality, and Non-Competition Agreements with the Bank's Executive Vice Presidents, Michael W. Bonsey, and Gregory W. Dalton, and Stephen Leackfeldt along with four other senior employees. Their agreements provide for severance of both salary and benefits for a period of twelve (12) months in the event of both a change of control of the Company and subsequent termination (or constructive termination) within twelve (12) months of a change of control, unless such termination was for cause.

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

**Incentive Cash Compensation**

During 2012 NEOs, Messrs. Murphy, Shencavitz, Bonsey, Dalton, and Leackfeldt participated in an annual cash incentive compensation program with a combination of team and individual goals representing opportunities for incentive payments. This plan was approved by the Company's Compensation Committee and Board of Directors in 2012. The voted plan document allows for tiered payments based on Threshold, Target, and Stretch measures along with an overall plan trigger requiring the Company to achieve at least a Net Income Available to Common Shareholder's amount of \$10,336 before any payments would be approved or paid under any measure. The Company paid out a total of Two Hundred Eighty Five Thousand, Four Hundred and Seven dollars (\$285,407) to its NEOs in 2012.

The altering, inflating, and/or inappropriate manipulation of performance/financial results or any other infraction of recognized ethical business standards, will subject any participant to disciplinary action up to and including termination of employment. In addition, any incentive compensation as provided by the plan to which the participant

would otherwise be entitled will be revoked or subject to claw back.

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

**Other Compensation and Benefits**

In addition to the foregoing, all executive officers of the Company are entitled to participate in certain group health, dental, and term life insurance benefits. In accordance with Company policy, all such benefits are generally available to employees of the Company and its subsidiaries.

## 2012 Grants of Plan-Based Awards

The following table sets forth information regarding plan-based awards granted to the NEOs during the last fiscal year under the 2012 Annual Incentive Plan voted by the Board of Directors.

Name	Grant Date <sup>1</sup>	Estimated Future Payouts Under Non-Equity Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All other Stock Awards; Number of shares of Stock or units <sup>5</sup> (#)	All other Option Awards; Number of Securities Under-lying Options (#)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards <sup>6</sup> (\$)
		Thresh- old <sup>2</sup>	Target <sup>3</sup>	Maxi- mum <sup>4</sup>	Thresh- old	Target	Maxi- mum				
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
Joseph M. Murphy	2012										
	Plan	43,976	87,951	131,927	0	0	0	279	0	0	9,999
Gerald Shencavitz	2012										
	Plan	21,525	43,051	64,576	0	0	0	111	0	0	3,978
Michael W. Bonsey	2012										
	Plan	14,788	29,575	44,363	0	0	0	55	0	0	1,971
Gregory W. Dalton	2012										
	Plan	15,488	30,975	46,463	0	0	0	55	0	0	1,971
Stephen M. Leackfeldt	2012										
	Plan	15,488	30,975	46,463	0	0	0	55	0	0	1,971

<sup>1</sup> The 2012 Plan measurement detailed in columns (c), (d), and (e) runs the calendar year of January 1, 2012 through December 31, 2012. The equity grants disclosed in columns (i) and (j) were voted on May 15, 2012.

<sup>2</sup>Amounts in this column represent cash awards available to individual named executives for achieving Threshold limits under the previously described 2012 annual incentive plan for their various assigned measures.

<sup>3</sup> Amounts in this column represent cash awards available to individual named executives for achieving Target limits under the previously described 2012 annual incentive plan for their various assigned measures.

<sup>4</sup>Amounts in this column represent cash awards available to individual named executives for achieving Stretch or Maximum limits under the previously described 2012 annual incentive plan for their various assigned measures.

<sup>5</sup>Amounts in this column represent the number of restricted shares awarded to NEOs on May 15, 2012 as part of their 2012 compensation increase. These shares are full vested but must remain in the ownership of the executives for at least three months following their employment or director association with the Company..

<sup>6</sup>Amounts in this column represent the value of the restricted shares granted to NEOs disclosed in column (i). This amount is calculated using the closing price of BHB stock on May 15, 2012 which was the date of the grants.

## 2012 Outstanding Equity Awards at Fiscal Year-End

Name	Option Awards					Stock Awards			
	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Equity Incentive Plan Awards; Number of Securities Underlying Unexercised Options	Option Exercise Price	Option Expiration	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested	Equity Incentive Plan Awards; Number of Shares, Units or Rights That Have Not Vested	Equity Incentive Plan Awards; Market Value of Unearned Shares, Units or Rights That Have Not Vested
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Joseph M. Murphy	0	0	0			0	0	0	0
Gerald Shencavitz	2,000	0	0	22.70	9/16/2013	0	0	0	0
	2,400	0	0	33.00	1/23/2017				
	4,568	0	0	31.50	12/18/2017				
	432		0	31.50	12/18/2017				
Michael W. Bonsey	2,400	0	0	33.00	1/23/2017	0	0	0	0
Gregory W. Dalton	2,400	0	0	33.00	1/23/2017	0	0	0	0
Stephen M.	2,400	0	0	33.00	1/23/2017	0	0	0	0



Leackfeldt

**2012 Option Exercises and Stock Vested Table**

Name	Option Awards		Stock Awards	
	Number of Shares	Value Realized	Number of Shares	Value Realized
	Acquired on Exercise	on Exercise	Acquired on Vesting <sup>1</sup>	on Vesting <sup>1</sup>
(#)	(\$)	(#)	(\$)	
(a)	(b)	(c)	(d)	(e)
Joseph M. Murphy	0	0	279	9,999
Gerald Shencavitz	4,500	71,550	111	3,978
Michael W. Bonsey	1,000	17,340	55	1,971
Gregory W. Dalton	0	0	55	1,971
Stephen M. Leackfeldt	0	0	55	1,971

<sup>1</sup>This represents the number and dollar value of vested, but restricted shares granted by the Board of Directors as part of the 2012 compensation adjustment required to be held until three months following the date the executive ceases to be employed by or associated with the Company.

**Retirement Benefits**

The table below shows at December 31, 2012, the present value of accumulated benefits payable to each of the NEOs, including the number of years of service credited to each such named executive officer, under the Supplemental Executive Retirement Plan and using interest rate assumptions consistent with those used in Company financial statements. Additional information regarding the Supplemental Executive Retirement Plan benefits follows the table.

<b>Name</b>	<b>Plan Name</b>	<b>Number of Years of Credited Service</b>	<b>Present Value of Accumulated Benefits</b>	<b>Payments During Last Fiscal Year</b>
<b>(a)</b>	<b>(b)</b>	<b>(c)</b>	<b>(d)</b>	<b>(e)</b>
Joseph M. Murphy	Bar Harbor Bankshares Supplemental Executive Retirement Plan	9 <sup>1</sup>	2,688,000 <sup>2</sup>	0
Gerald Shencavitz	Bar Harbor Bankshares Supplemental Executive Retirement Plan	11 <sup>1</sup>	1,012,560	0
Michael W. Bonsey	N/A	0	0	0
Gregory W. Dalton	N/A	0	0	0
Stephen M. Leackfeldt	N/A	0	0	0

<sup>1</sup>Years of credited service are determined by the vesting schedule contained within the Plan and not years of employment with the Company.

<sup>2</sup>Mr. Murphy became 100% vested in his Supplemental Executive Retirement Plan benefit as of September 30, 2010.

**RETIREMENT TABLE NARRATIVE****Supplemental Executive Retirement Plan**

The Company maintains a nonqualified, noncontributory, defined-benefit, supplemental executive retirement program (the SERP ) for certain highly compensated executive employees. Messrs. Murphy and Shencavitz were the only authorized participants (the Participants ) in the SERP as of December 31, 2012. Under the SERP the Participants are eligible to receive upon most termination events, disability, or death, an individually defined benefit payment based upon a predetermined vesting schedule. No plan benefits are payable to these individuals if they are terminated for cause as defined in the document.

Upon full vesting (defined as age 68 for Mr. Murphy and age 65 for Mr. Shencavitz) and the named executive s retirement, then monthly payments of \$11,200 and \$8,583, respectively will be paid under the SERP to the named executives (or their beneficiary) for a period of 240 months. There are also provisions under the SERP for reduced monthly payments in the event of an earlier retirement by these individuals. As of December 31, 2012, Messrs. Murphy and Shencavitz have vested monthly benefits of \$11,200 and \$4,219, respectively.

The SERP benefit for Mr. Shencavitz will fully vest upon a change of control of the Company (as such term is defined in the SERP).

#### **Potential Payments upon Termination or Change in Control**

The Company has entered into change in control agreements and maintains certain benefit plans that require it to provide compensation to executive officers in the event of a termination of employment or a change in control. The tables below set forth the amount and types of compensation payable to each executive officer upon voluntary termination without good reason, involuntary termination without cause, voluntary termination for good reason, termination for cause, death, disability, retirement, or termination after a change in control. The amounts

assume a hypothetical termination of employment effective as of December 31, 2012 and include estimates of the amounts which would be paid to the executives in each specified circumstance. The actual amounts to be paid can only be determined at the time of an executive's actual separation.

***Payments Made Upon Voluntary Termination Without Good Reason.*** Upon termination of employment with the Company; Messrs. Murphy, Shencavitz, Bonsey, Dalton, and Leackfeldt would be entitled to receive amounts earned during their term of employment pursuant to Company policies, programs, and benefit plans as follows:

.

Salary earned through the date of termination;

.

Reimbursement of reasonable and necessary expenses incurred in connection with employment through the date of termination;

.

Any incentive earned but not yet paid for the fiscal year ending prior to the year of termination;

.

Earned but unused vacation pay if terminated prior to December 31 of any year;

.

All vested stock options unless they will be working for a competitor; and

.

Amounts contributed and vested under the Company 401(k) Plan.

Messrs. Murphy and Shencavitz would be entitled to the payments and benefits above plus:

.

Vested benefits through their date of termination payable under the Company's SERP Plan; however, Mr. Murphy was fully vested in the ordinary course in his SERP benefit on September 30, 2010.

***Payments Made Upon Involuntary Termination by Bar Harbor Bankshares Without Cause or by the Executive for Good Reason.*** Messrs. Murphy, Shencavitz, Bonsey, Dalton, and Leackfeldt would be entitled to the payments and benefits as follows:

Salary earned through the date of termination;

.

Reimbursement of reasonable and necessary expenses incurred in connection with employment through the date of termination;

.

Any incentive earned but not yet paid for the fiscal year ending prior to the year of termination;

.

Earned but unused vacation pay if terminated prior to December 31 of any year;

.

All vested stock options; and

.

Amounts contributed and vested under the Company 401(k) Plan.

Messrs. Murphy and Shencavitz would be entitled to the payments and benefits above plus:

.

Vested benefit amounts payable under the Company's SERP Plan; however, Mr. Murphy was fully vested in the ordinary course in his SERP benefit on September 30, 2010.

Mr. Murphy would also be entitled to the payments and benefits above plus:

.

Lump sum payment of two times base salary; and

.

Health and welfare benefits for 24 months.

Mr. Murphy would also be entitled to the following payments and benefits in addition to those listed above if his termination occurs within the twelve months prior or twelve months following a change of control event:

.

Any unvested stock options would become vested; however, Mr. Murphy did not have any outstanding, as of December 31, 2012.

***Payments Made Upon a Termination for Cause.*** Messrs. Murphy, Shencavitz, Bonsey, Dalton and Leackfeldt would be entitled to the payments and benefits below:

.

Salary earned through the date of termination;

.

Reimbursement of reasonable and necessary expenses incurred in connection with employment through the date of termination;

.

Earned but unused vacation pay if terminated prior to December 31 of any year;

.

Amounts contributed and vested under the Company's 401(k) Plan;

.

All vested and unexercised stock options would be forfeited; and

.

Any incentive earned but not yet paid for the fiscal year ending prior to the year of termination will be forfeited.

Messrs. Murphy and Shencavitz would be entitled to the payments and benefits above plus:

.

All vested and unvested benefits under the Company's SERP Plan would be forfeited.

***Payments Made Upon Death or Disability.*** In the event of the death or disability of Messrs. Murphy, Shencavitz, Bonsey, Dalton and Leackfeldt each would be eligible to receive the following payments and benefits:

.

Salary earned through the date of death or disability;

.

Reimbursement of reasonable and necessary expenses incurred in connection with employment through the date of death or disability;

.

Any incentive earned but not yet paid for the fiscal year ending prior to the year of death or disability;

.

Earned but unused vacation pay in the event of death or disability through date of event;

.

All vested stock options would become exercisable by the executive, or in the case of death, by their estate;

.

Amounts contributed and vested under the Company 401(k) Plan; and

.

Life insurance proceeds and/or disability payments under the Company's general benefit plans are paid to the executive or their beneficiary by a third party insurance provider pursuant to policy provisions.

Messrs. Murphy and Shencavitz would be entitled to the payments and benefits above plus:

.

Vested benefit amounts, as of the date of disability, would be payable under the Company's SERP Plan; and

.

Fully vested benefit amounts payable under the Company's SERP Plan to their beneficiaries or estate in the event of death.

***Payments Made Upon Retirement.*** Messrs. Murphy, Shencavitz, Bonsey, Dalton and Leackfeldt would be eligible for the following payments and benefits:

.

Salary earned through the date of retirement;

.

Reimbursement of reasonable and necessary expenses incurred in connection with employment through the date of retirement;

.

Any incentive earned but not yet paid for the fiscal year ending prior to the year retirement;

.



Pro-rata share of any incentive earned for the fiscal year of retirement;

.

Earned but unused vacation pay as of retirement date;

.

All vested stock options would be available for exercise; and

.

Amounts contributed and vested under the Company 401(k) Plan.

In addition, Messrs. Murphy and Shencavitz would be eligible for:

.

Vested benefit amounts payable under the Company's SERP Plan.

***Payments and Benefits Due Upon a Change in Control.*** Messrs. Murphy, Shencavitz, Bonsey, Dalton and Leackfeldt would be eligible for the following payments and benefits:

.

Salary earned through the date of termination;

.

Reimbursement of reasonable and necessary expenses incurred in connection with employment through the date of termination;

.

Any incentive earned but not yet paid for the fiscal year ending prior to the year in which the change of control occurs;

.

Earned but unused vacation pay as of termination date;

.

All vested stock options along with unvested options would be available for exercise; Amounts contributed and vested under the Company's 401(k) Plan; and

.

Twelve months of base salary and specified benefits if terminated as a result of the change of control and specified health and welfare benefits.

Messrs. Murphy and Shencavitz would be eligible for:

.

Fully vested benefit amounts payable under the Company's SERP Plan; and

.

Severance of base salary and specified benefits of twenty-four months for Mr. Murphy and eighteen months for Mr. Shencavitz upon a termination (or constructive termination) within defined time limits detailed within their

agreements and tax gross up payments, if applicable.

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The following table describes the potential payments to **Joseph M. Murphy**, President and CEO, upon an assumed termination of employment or change in control as of December 31, 2012.

	Voluntary		Involuntary				Termination	
	Termination	Termination	Voluntary	Termination	Termination	Termination	Retirement	After a
	Without	Without	For Good	Termination	Termination	Upon		Change in
	Good	Cause <sup>1</sup>	Reason <sup>1</sup>	for Cause	Upon Death	Disability		Control
	Reason							
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
<b>Payments and Benefits</b>								
<b>Cash Severance</b>	0	703,610	703,610	0	0	0	0	703,610
<b>Note A Pro Rata Bonus/Incentive</b>	113,156	113,156	113,156	0	113,156	113,156	113,156	113,156
<b>Note B Vested Stock Options/SARs</b>	0	0	0	0	0	0	0	0
<b>Note C Accelerated Stock Options/SARs</b>	0	0	0	0	0	0	0	0
<b>Note C COBRA Eligible Benefits</b>	0	33,080 <sup>1</sup>	33,080 <sup>1</sup>	0	0	0	0	33,080
<b>Note D Vested Pension Benefits<sup>2</sup></b>	2,688,000	2,688,000	2,688,000	0	2,688,000	2,688,000	2,688,000	2,688,000
<b>Note E Accelerated Pension Benefits</b>	0	0	0	0	0	0	0	0
<b>Note E Nonqualified Deferred Compensation</b>	0	0	0	0	0	0	0	0
<b>Note F Life Insurance Proceeds/</b>	0	0	0	0	375,000	180,000	0	0

**Disability  
Benefits****Note G  
Other  
Perquisites**

0	0	0	0	0	0	0	0	0
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**Note H  
Tax Gross-Up<sup>3</sup>**

0	0	0	0	0	0	0	0	0
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**Note I**

<b>Total</b>	<b>2,801,156</b>	<b>3,537,846</b>	<b>3,537,846</b>	<b>0</b>	<b>3,176,156</b>	<b>2,981,156</b>	<b>2,801,156</b>	<b>3,537,846</b>
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<sup>1</sup>Under certain termination circumstances leading up to or following a Change of Control, Mr. Murphy may eligible for two times salary and COBRA eligible benefits.

<sup>2</sup>Mr. Murphy is fully vested in his SERP Plan and will receive payment in all cases except for gross misconduct or employment with a competitor.

<sup>3</sup>Mr. Murphy does have provision for Tax Gross Ups within his agreements with the Company, but he had no amounts due as of December 31, 2012 that would provide for this provision to calculate additional amounts due him.

The following table describes the potential payments to **Gerald Shencavitz**, Executive Vice President, Chief Financial Officer and Treasurer of Bar Harbor Bankshares and Executive Vice President, Chief Financial Officer, and Chief Operating Officer of Bar Harbor Bank & Trust, upon an assumed termination of employment or change in control as of December 31, 2012.

	Voluntary		Involuntary			Termination		Termination
	Termination	Termination	Voluntary	Termination	Termination	Upon	After a	
	Without	Without	For Good	for Cause	Upon Death	Disability	Retirement	Change in
	Good	Cause <sup>1</sup>	Reason <sup>1</sup>					Control
	Reason							
Payments and	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Benefits								
Cash Severance	0	0	0	0	0	0	0	322,880
Note A Pro Rata Bonus/Incentive	57,705	57,705	57,705	0	57,705	57,705	57,705	57,705
Note B Vested Stock Options/SARs	34,210	34,210	34,210	0	34,210	34,210	34,210	34,210
Note C Accelerated Stock Options/SARs	0	0	0	0	0	0	0	0
Note C COBRA Eligible Benefits	0	0 <sup>1</sup>	0 <sup>1</sup>	0	0	0	0	21,454
Note D Vested Pension Benefits	1,012,560	1,012,560 <sup>2</sup>	1,012,560 <sup>2</sup>	0	1,012,560	1,012,560	1,012,560	1,012,560
Note E Accelerated Pension Benefits	0	0	0	0	1,047,360	0	0	1,047,360
Note E Nonqualified Deferred Compensation	0	0	0	0	0	0	0	0
Note F	0	0	0	0	431,000	143,484	0	0

**Life Insurance  
Proceeds/****Disability  
Benefits****Note G****Other****Perquisites**

0	0	0	0	0	0	0	0	0
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**Note H****Tax Gross-Up**

0	0	0	0	0	0	0	0	490,661 <sup>3</sup>
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**Note I****Total**

<b>1,104,475</b>	<b>1,104,475</b>	<b>1,104,475</b>	<b>0</b>	<b>2,582,835</b>	<b>1,247,959</b>	<b>1,104,475</b>	<b>2,986,830</b>
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<sup>1</sup>Under certain termination circumstances leading up to or following a Change of Control, Mr. Shencavitz may eligible for one and a half time salary and COBRA eligible benefits.

<sup>2</sup> If Mr. Shencavitz terminates his employment on or after his Early Retirement Date and prior to his Normal Retirement Date and within three years after a Change in Control, and if he terminates employment for Good Reason or is terminated without Cause, then the amount of his SERP benefit shall accelerate to his full vested benefit and this figure would be \$2,059,920.

<sup>3</sup>Gross-up plus excise tax. This amount becomes \$620,231, if the Company pays the excise taxes in permitted installment payments (rather than a lump sum).

The following table describes the potential payments to Michael W. Bonsey, Executive Vice President, Chief Risk Officer of Bar Harbor Bank & Trust, upon an assumed termination of employment or change in control as of December 31, 2012.

	Voluntary		Involuntary			Termination		Termination
	Termination	Without	Termination	Voluntary	Termination	Upon	After a	
	Without	Without	For Good	Termination	Termination	Disability	Retirement	Change in
	Good	Cause	Reason	for Cause	Upon Death	Retirement	Retirement	Control
	Reason							
Payments and	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Benefits								
Cash Severance	0	0	0	0	0	0	0	169,000
Note A Pro Rata Bonus/Incentive	37,450	37,450	37,450	0	37,450	37,450	37,450	37,450
Note B Vested Stock Options/SARs	1,560	1,560	1,560	0	1,560	1,560	1,560	1,560
Note C Accelerated Stock Options/SARs	0	0	0	0	0	0	0	0
Note C COBRA Eligible								
Benefits	0	0	0	0	0	0	0	14,754
Note D Pension Benefits	0	0	0	0	0	0	0	0
Note E Nonqualified Deferred Compensation	0	0	0	0	0	0	0	0
Note F Life Insurance Proceeds/ Disability Benefits	0	0	0	0	500,000	101,400	0	0



<b>Note G Other Perquisites</b>	0	0	0	0	0	0	0	0
<b>Note H Tax Gross-Up</b>	0	0	0	0	0	0	0	0
<b>Note I Total</b>	<b>39,010</b>	<b>39,010</b>	<b>39,010</b>	<b>0</b>	<b>539,010</b>	<b>140,410</b>	<b>39,010</b>	<b>222,764</b>

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The following table describes the potential payments to **Gregory W. Dalton**, Executive Vice President, Business Banking of Bar Harbor Bank & Trust, upon an assumed termination of employment or change in control as of December 31, 2012.

	Voluntary		Involuntary		Termination			Termination
	Without Good Reason	Without Cause	For Good Reason	Termination for Cause	Termination Upon Death	Upon Disability	Retirement	After a Change in Control
Payments and Benefits	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Cash Severance	0	0	0	0	0	0	0	177,000
Note A Pro Rata Bonus/Incentive	37,109	37,109	37,109	0	37,109	37,109	37,109	37,109
Note B Stock Options/SARs	1,560	1,560	1,560	0	1,560	1,560	1,560	1,560
Note C Accelerated Stock Options/SARs	0	0	0	0	0	0	0	0
Note C COBRA Eligible  Benefits	0	0	0	0	0	0	0	13,305
Note D Pension Benefits	0	0	0	0	0	0	0	0
Note E Nonqualified Deferred Compensation	0	0	0	0	0	0	0	0
Note F Life Insurance Proceeds/  Disability Benefits	0	0	0	0	354,000	106,200	0	0

<b>Note G Other Perquisites</b>	0	0	0	0	0	0	0	0
<b>Note H Tax Gross-Up</b>	0	0	0	0	0	0	0	0
<b>Note I Total</b>	<b>38,669</b>	<b>38,669</b>	<b>38,669</b>	<b>0</b>	<b>392,669</b>	<b>144,869</b>	<b>38,669</b>	<b>228,974</b>

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The following table describes the potential payments to **Stephen M. Leackfeldt**, Executive Vice President, Retail Banking and Operations of Bar Harbor Bank & Trust, upon an assumed termination of employment or change in control as of December 31, 2012.

	Voluntary		Involuntary		Termination			Termination
	Without Good Reason	Without Cause	For Good Reason	Termination for Cause	Termination Upon Death	Upon Disability	Retirement	After a Change in Control
Payments and Benefits	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
<b>Cash Severance</b>	0	0	0	0	0	0	0	177,000
<b>Note A Pro Rata Bonus/Incentive</b>	39,987	39,987	39,987	0	39,987	39,987	39,987	39,987
<b>Note B Stock Options/SARs</b>	1,560	1,560	1,560	0	1,560	1,560	1,560	1,560
<b>Note C Accelerated Stock Options/SARs</b>	0	0	0	0	0	0	0	0
<b>Note C COBRA Eligible Benefits</b>	0	0	0	0	0	0	0	10,902
<b>Note D Pension Benefits</b>	0	0	0	0	0	0	0	0
<b>Note E Nonqualified Deferred Compensation</b>	0	0	0	0	0	0	0	0
<b>Note F Life Insurance Proceeds/Disability Benefits</b>	0	0	0	0	500,000	106,200	0	0

<b>Note G Other Perquisites</b>	0	0	0	0	0	0	0	0
<b>Note H Tax Gross-Up</b>	0	0	0	0	0	0	0	0
<b>Note I Total</b>	<b>41,547</b>	<b>41,547</b>	<b>41,547</b>	<b>0</b>	<b>541,547</b>	<b>147,747</b>	<b>41,547</b>	<b>229,449</b>

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**Notes**

- A** Cash Severance. Severance payable to all other executives represents a payment due upon a hypothetical change in control event and their subsequent termination under the terms of their agreements. Twenty-four months of severance would have been payable to Mr. Murphy if his employment was terminated by Bar Harbor Bankshares for any reason other than cause, death, disability, or retirement as defined in his written CEO Employment Agreement. Mr. Shencavitz's payment stream under his severance agreement would be for eighteen months. Payments disclosed represent twelve months of salary for each of Bonsey, Leackfeldt, and Dalton.
- B** Bonus. The amount disclosed above represents the bonus/incentive amounts due for 2012 but not yet paid, to each executive on December 31, 2012. These amounts were paid in February, 2013. The amount of incentive payments earned for the fiscal year 2012 has also been disclosed in the Summary Compensation Table for 2012 on page 28 of this Proxy statement.
- C** Stock Options/SARs. The price per share of Bar Harbor Bankshares common stock on December 31, 2012, was \$33.65, representing the closing per share price on the NYSE MKT exchange for that date. All options for participants are either completely vested or of no value when measured against the \$33.65 closing per share price on December 31, 2012. Disclosed amounts would have been realized if the executive actually exercised the vested options in the manner provided for by the Company's stock option plan and award agreement at the December 31, 2012 market price. In the event of a termination of employment, the executive (or the executive's estate in the event of death) would have had the right to exercise vested stock options for a set period as specified under the plan document. All executives would have forfeited the right to exercise vested or unvested options if they had been released for cause. No amounts are reported under the accelerated line item.
- D** COBRA Eligible Benefits. The amount disclosed represents the cost of continued health, dental, and vision coverage for a period of twenty-four months for Murphy, eighteen months for Shencavitz, and twelve months for Bonsey, Dalton, and Leackfeldt.
- E** Pension Benefits/SERP. Amounts disclosed represent vested amounts as of December 31, 2012, payable to Murphy and Shencavitz (or their beneficiary/estate) over the twenty-year benefit period provided for under the Company's plan document. Amounts disclosed under Involuntary Without Cause and Voluntary With Good Reason for Murphy as well as under Change in Control for both Murphy and Shencavitz represent the full vesting of their benefits under the program to be paid over the same 20-year period. Amounts disclosed do not reflect vested balances for each executive as part of the Company-sponsored 401(k) plan under which participation is generally available to all employees. The Company carries term life insurance policies on Murphy and Shencavitz in the amounts of \$1,350,000 and \$1,200,000, respectively, to help defray costs of these pension benefits should either die while employed by the Company, but prior to full recognition of required accounting entries.
- F** Nonqualified Deferred Compensation Plan. No named executive participated under a Nonqualified Deferred Compensation Plan as of December 31, 2012 with the exception of the Supplemental Executive Retirement Benefit Plan (SERP) set forth in Note E.
- G** Life Insurance Proceeds/Disability Benefits. Amounts represent benefits payable by a third party insurer (UNUM) to the designated executives or their beneficiaries under Company-sponsored life and disability programs. These life and disability insurance programs were generally available to

all employees of the Company. The Disability amount quoted is representative of a 12 month, disability paid benefit. Total benefits due would be dependent upon the severity, the length of a disability, and insurance policy interpretation.

**H** Other Perquisites. Not applicable to Bar Harbor Bankshares.

**I** Tax Gross-Ups. In the event of the hypothetical change in control of Bar Harbor Bankshares on December 31, 2012, and the subsequent termination (or constructive termination) as detailed in their individual change in control agreements, and Murphy and Shencavitz were subject to the excise tax imposed by Section 4999 of the Internal Revenue Code, an additional payment would be made to restore them to the after-tax position they would have been in if the excise tax had not been imposed and such excess parachute payments exceeded 110% of three times the executive's base amount, as defined in Section 280G of the Internal Revenue Code. In the event this 110% threshold is not met, the excess parachute payments will be reduced so they do not exceed three times the executive's base amount. Amounts paid under this Gross-Up provision would not be tax deductible by the Company or any successor thereto.

## DIRECTOR COMPENSATION

Directors of the Company, Bar Harbor Bank & Trust, and Bar Harbor Trust Services were paid by a combination of fees for meetings attended supplemented by quarterly stipends. A fee of \$500 was paid to Board members for each meeting of the Company and its subsidiary company boards attended and each committee meeting attended. Members of the Board received \$500 when the Company and the Bank held joint meetings. The Board compensated the Chairperson (or the Vice Chairperson in his stead) for attendance at any Committee meeting even though they are not a voting member. The fee paid for attendance at the Company's Annual Meeting was \$500 per member. Audit Committee members received \$600 for each Audit Committee meeting they attended. In addition, each Director, with the exception of the Chairperson of the Board, Vice Chairperson of the Board and the Chairpersons of the Audit Committee, Governance Committee and Compensation Committee received a quarterly stipend of \$1,500. The Board Chairperson received a quarterly stipend of \$3,500, the Vice Chairman received a quarterly stipend of \$2,500, and the Chairpersons of the Audit, Governance, and Compensation and Human Resources committees each received a \$2,000 stipend per quarter.

	<b>Meeting Fees</b>	<b>Quarterly Stipend</b>
	(\$)	(\$)
Chairperson of the Board		3,500
Vice Chairperson of the Board		2,500
Chairperson of the Audit Committee		2,000
Chairperson of the Governance Committee		2,000
Chairperson of the Compensation and Human Resource Committee		2,000
All other Directors		1,500

Audit Committee Attendance	600
All other meetings, including Annual Meeting	500

Meetings of the Board of Directors of the Company are held monthly. Director Murphy, who also serves as an officer of the Company, does not receive Directors' fees.

The Company reviews a comparative summary of director compensation annually prepared by the Company's Compensation Consultant, Pearl Meyer & Partners. The Consultant recommended that the Board consider including equity compensation as part of its compensation mix on an ongoing basis. In May, 2012 each independent director was awarded 55 restricted shares of Bar Harbor Bankshares under the Bar Harbor Bankshares and Subsidiaries Equity Incentive Plan of 2009 which was approved by the shareholders in 2009 as part of an overall market adjustment in director compensation. These restricted share certificates are fully vested, but held in the possession of the Company and may not be sold, transferred, or gifted by directors until three months after they leave the service of the Board.



**2012 Director Compensation Table**

The following table details the total compensation paid to all directors from Bar Harbor Bankshares, Bar Harbor Bank & Trust, and Bar Harbor Trust Services during the 2012 fiscal year.

Name	Fees Earned or Paid in Cash	Restricted Stock Awards <sup>1</sup>	Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation	Total
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Peter Dodge	46,000	1,971	0	0	0	0	47,971
Thomas A. Colwell	26,000	1,971	0	0	0	0	27,971
Robert C. Carter	21,500	1,971	0	0	0	0	23,471
Jacquelyn S. Dearborn <sup>2</sup>	7,200	0	0	0	0	0	7,200
Martha T. Dudman	26,000	1,971	0	0	0	0	27,971
Lauri E. Fernald	19,400	1,971	0	0	0	0	21,371
Gregg S. Hannah	23,000	1,971	0	0	0	0	24,971
Clyde S. Lewis	22,500	1,971	0	0	0	0	24,471
Joseph M. Murphy	0	0	0	0	0	0	0
Robert M. Phillips	28,500	1,971	0	0	0	0	30,471
Constance C. Shea	26,000	1,971	0	0	0	0	27,971
Kenneth E. Smith	29,500 <sup>3</sup>	1,971	0	0	0	0	31,471
Scott C. Toothaker	24,900	1,971	0	0	0	0	26,871
David B. Woodside	25,500	1,971	0	0	0	0	27,471

<b>Totals</b>	<b>326,000</b>	<b>23,652</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>349,652</b>
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<sup>1</sup>Represents the value of 55 restricted shares granted in May 2012 to each independent director as part of their compensation calculated at the closing price on the day of the grant

<sup>2</sup> Mrs. Dearborn served on the Board through the Annual Meeting in May, 2012.

<sup>3</sup>Director Kenneth E. Smith deferred a portion of his compensation under a Non Qualified Deferred Compensation arrangement. This deferred arrangement is funded entirely by the director and the funds are invested and remain in the name of the Company until the director withdraws them upon his resignation, retirement, or termination from Board membership. Director Smith assumes the investment risk on these funds and holds the status of an unsecured creditor of the Company for the payment of these deferred fees at a future date.

#### **Compensation Committee Interlocks and Insider Participation**

The Compensation and Human Resources Committee is comprised of Company directors Phillips, Dearborn, (through May 15, 2012) Dodge, Fernald, and Colwell. Mr. Smith replaced Mrs. Dearborn on this committee effective May 15, 2012. None of the Company's NEO's serves as a member of a compensation committee of any other company that has an executive officer serving as a member of the Company's Board of Directors. None of the NEO's serves as a member of the board of directors of any other company that has an executive officer serving as a member of the Committee.

## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

### Transactions with Management and Others

The Company has entered into a long-term lease for its Bank branch located in Somesville, Maine, effective February 1, 2006 (the Somesville Lease ). The Somesville Lease has interim renewals of five years and the present term runs through 2016. During each subsequent lease year the base rent is increased using a formula tied to certain changes in the consumer price index. During 2012, the lease payments totaled Seventy Nine Thousand Three Hundred Twenty-Six dollars (\$79,326). In addition to base rent, the Bank is responsible to pay as additional rent certain defined real estate taxes as well as certain operating expenses, and other costs, charges, and expenses associated with the premises. The Landlord under the Somesville Lease is A.C. Fernald Sons Inc., a Maine corporation. Mr. Robert B. Fernald of Mount Desert, Maine, is a shareholder, director, and officer of A. C. Fernald Sons Inc. and is the father of Company director Lauri E. Fernald. Lauri E. Fernald does not own any stock or hold any corporate office or other position with A.C. Fernald Sons Inc. and has no direct or indirect interest in the Somesville Lease other than her familial relationship with Mr. Robert B. Fernald.

Except as set forth above and with regard to Indebtedness of Management described below, none of the director-nominees or NEOs of the Company or of any of its subsidiaries engaged during 2012 in any transaction with the Company or any of its subsidiaries, in which the amount involved exceeded \$120,000.

The Company administers related party transactions (if any) under its Related Party Transaction Policy, which policy addresses compliance to NYSE MKT Rule 120 and Item 404 (a) of Regulations S-K. This policy provides for Board Audit Committee oversight of related party transactions that exceed a *de minimus* lifetime income statement impact of \$25,000 (except for loan transactions, which for the Company and its subsidiaries are administered pursuant to Federal Regulation O, as described more fully below). Any transactions that qualify under this policy are reviewed by the Board Audit Committee (or another acceptable Board Committee, or the full Board of Directors) for approval prior to being contractually bound by the Company. Other than the Somesville Lease described above, and loans offered in the ordinary course of business and approved by the Bar Harbor Bank & Trust Board of Directors, the Company had no related party transactions. The Related Party Transaction Policy is approved annually by the Board of Directors and administered by management of the Bank.

**Indebtedness of Management**

The Company's wholly owned subsidiary, Bar Harbor Bank & Trust (the Bank), offers to its directors, officers, principal shareholders and employees, and to businesses owned and/or controlled by those persons (collectively insiders), commercial and consumer loans in the ordinary course of its business.

All loans made by the Company and its subsidiaries to insiders are regulated by the Company's federal and state regulators under federal Regulation O (Reg. O). Reg. O sets forth various practices and reporting requirements for loans to insiders. In addition, the Sarbanes-Oxley Act of 2002 permits banks and bank holding companies to extend credit to their directors and officers provided that such extensions of credit are (a) made or provided in the ordinary course of the consumer credit business of such issuer; (b) of a type that is generally made available to such issuer to the public; and (c) made by such issuer on market terms, or terms that are no more favorable than those offered by the issuer.

As of December 31, 2012, the outstanding loans by the Company's subsidiary bank (BHBT) to the Company's nominees for Directors and NEOs amounts to an aggregate of approximately \$2,112,645 with a maximum availability limit of \$4,679,278. All loans extended by the Bank to insiders comply with Reg. O, the Sarbanes-Oxley Act of 2002, and NYSE MKT Rule 120. They are offered under the same terms and conditions available to non-insiders, including but not limited to those terms and conditions related to the requirements for approval, the interest rates charged, the required repayment terms, and the required collateral. Further, the Bank may, from time to time at the discretion of management, provide interest rate discounts, fee waivers or other pricing

inducements to qualified employees and directors when doing so accomplishes or furthers an objective of the Bank and/or the Company. No such programs are made available only to insiders. The terms and conditions of all loans, including those to insiders, and the process by which they are approved, is fully documented in the Bank's written Loan Policy. The Loan Policy is approved annually by the Board of Directors and administered by management of the Bank. Loans to insiders may not contain a higher level of risk, nor be offered with terms and conditions more favorable, than loans to non-insiders with equivalent financial profiles (except for the favorable pricing programs previously described). The Company believes that all extensions of credit to Company insiders and executive officers satisfy the foregoing conditions. No such transactions have involved more than normal risk of collectability or presented other unfavorable features and no loans outstanding.

### INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The reports of KPMG LLP on the Company's consolidated financial statements as of December 31, 2012 and 2011 and for the three-year period ending on December 31, 2012, and on internal control over financial reporting as of December 31, 2012, did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles.

The Company anticipates a representative from KPMG LLP will be present and available to respond to questions or make a statement(s) at the Annual Meeting.

#### Audit Fees

The following table summarizes KPMG LLP's audit fees for 2012 and 2011, respectively:

	2012	2011
Service	(\$)	(\$)
Audit Fees	357,500 <sup>1</sup>	325,000
Audit Related Fees	24,200	23,400
Tax Fees	0	0
All Other Fees	0	0
<b>TOTAL</b>	<b>381,700</b>	<b>348,400</b>

<sup>1</sup>This number includes \$66,000 associated with the Border Trust Company acquisition.

1.

*Audit Fees.* The aggregate fees billed for professional service rendered by the independent registered public accounting firm KPMG LLP, for the audit of the Company's annual financial statements and internal control over financial reporting, and review of the financial statements included in the Company's Forms 10-Q for the years ended December 31, 2012, and 2011 were \$291,500 and \$325,000 respectively

2.

*Audit Related Fees.* The aggregate fees billed for assurance and related services rendered by KPMG LLP related to the performance of the audit or review of the Company's financial statements in the years ended December 31, 2012, and 2011 were \$24,200 and \$23,400 respectively. These services were related to an employee benefit plan audit.

3.

*Tax and All Other Fees.* No services or charges were applicable to this category for the year ended December 31, 2012. And 2011.

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

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

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

## OTHER MATTERS

### Financial Statements

ENCLOSED WITH THIS PROXY MAILING TO SHAREHOLDERS IS A COPY OF THE COMPANY'S 2012 SUMMARY ANNUAL REPORT AND A COPY OF THE ANNUAL REPORT TO THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION ON FORM 10-K. THE FORM 10-K INCLUDES CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES FOR THE LAST FISCAL YEAR IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES. UPON WRITTEN REQUEST, SHAREHOLDERS MAY ALSO OBTAIN THE MOST RECENT ANNUAL DISCLOSURE STATEMENT THAT CONTAINS FINANCIAL INFORMATION COVERING THE LAST TWO YEARS.

Any request for a copy of the Annual Disclosure Statement must contain a representation that the person making the request was a beneficial owner of Common Stock on March 20, 2013, which is the record date for this proxy solicitation. Requests should be addressed to: Marsha C. Sawyer, Clerk, Bar Harbor Bankshares, 82 Main Street, Bar Harbor, ME 04609.

### Nominations by Shareholders and other Shareholder Proposals

The Company Bylaws provide that the Company will consider nominees for election to the Board of Directors recommended by shareholders if made in the same manner provided for under the Company Bylaws with regard to typical Shareholder proposals. These procedures require in part, that to be timely, a shareholder's notice shall be delivered to the Clerk at the principal executive offices of the Company not later than the close of business of the 120<sup>th</sup> day nor earlier than the close of business on the 150<sup>th</sup> day prior to the first anniversary of the preceding year's Annual Meeting. Such shareholder's notice shall set forth (a) as to each person whom the shareholder proposes to nominate for election or re-election as a director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the Exchange Act) (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (b) as to any other business that the shareholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting, any material interest in such business of such shareholder and the beneficial owner, if any, on whose behalf the proposal is made, and the names and addresses of other shareholders known by the shareholder proposing such business to support such proposal, and the class and number of shares of the Company's capital stock beneficially

owned by such other shareholders; and (c) as to the shareholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such shareholder, as they appear on the Company's books, and of such beneficial owner, and (ii) the class and number of shares of the Company which are owned beneficially and of record by such shareholder and such beneficial owner. Shareholder proposals submitted pursuant to Rule 14a-8 of the Securities Exchange Act of 1934 for inclusion in the Company's proxy statement and form of proxy for the 2014 Annual Meeting of Shareholders must be received by the Company not later than January 22, 2014 but not earlier than December 23, 2013. Any such proposal must also comply with the requirement as to form and substance established by the Commission for such a proposal to be included in the proxy statement and form of proxy. Proposals should be addressed to Marsha C. Sawyer, Clerk, Bar Harbor Bankshares, 82 Main Street, Bar Harbor, ME 04609. If the Governance Committee determines that any Shareholder proposal (including a nomination for election of a director) was not made in a timely fashion or that information provided in the notice does not fulfill the information requirements set forth above in any material respects, such proposal shall not be presented for action at the Annual Meeting for which it is proposed. If a shareholder should propose a candidate, the Governance Committee would evaluate that candidate on the basis of the criteria noted above.

**Communication with Board of Directors**

The Board of Directors does not have a formal process for shareholders to send communications to the Board. In view of the infrequency of Shareholder communications to the Board of Directors, the Board does not believe that a formal process is necessary. Written communications addressed to the Board of Directors received by



the Company from shareholders will be shared with the full Board of Directors no later than the next regularly scheduled Board meeting.

**Code of Ethics**

The Company Board of Directors has adopted a Code of Ethics that applies to all employees, officers, and directors. The Code covers compliance with law; fair and honest dealings with the Company, with competitors, and with others; fair and honest disclosure to the public; and procedures for compliance with the Code. Shareholders can review the Code of Ethics on the website located at [www.BHBT.com](http://www.BHBT.com).

**Other Business**

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

By Order of the Board of Directors

/s/ Marsha C. Sawyer

Marsha C. Sawyer, Clerk

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**APPENDIX A**

**REPORT OF THE AUDIT COMMITTEE**

March 20, 2013

To the Board of Directors of Bar Harbor Bankshares:

In accordance with the Audit Committee Charter, the Audit Committee reviews the Company's financial reporting process on behalf of the Board. Management is responsible for preparing the financial statements and for designing and implementing the reporting process, including the system of internal controls, and has represented to the Audit Committee that such financial statements were prepared in accordance with generally accepted accounting principles. The independent registered public accounting firm is responsible for expressing opinions on the conformity of those audited financial statements with U.S. generally accepted accounting principles. The Audit Committee has reviewed and discussed with management and the independent registered public accounting firm, together and separately, the Company's audited consolidated financial statements contained in the Company's Annual Report on Form 10-K for 2012.

The Audit Committee discussed with the independent registered public accounting firm the matters required to be discussed by professional standards. In addition, the Audit Committee has discussed with the independent registered public accounting firm the auditors' independence from the Company and its management, including the matters in the written disclosures and letter which were received by the Audit Committee from the independent registered public accounting firm as required by applicable requirements of the PCAOB regarding the independent accountant's communications with the Audit Committee concerning independence. The Audit Committee also considered whether the independent registered public accounting firm's provision of non-audit services to the Company is compatible with the auditor's independence and concluded that the auditors are independent.

The Audit Committee reviewed and discussed with the independent registered public accounting firm any other matters required to be discussed by PCAOB Auditing Standards No 16, Communications with Audit Committees, including without limitation, the auditors' evaluation of the quality of the company's financial reporting, information relating to significant unusual transactions and the business rationale for such transactions, and evaluation of the company's ability to continue as a going concern.

During 2012, the Audit Committee performed all its duties and responsibilities under the Audit Committee Charter. In addition, based on the reports and discussions referred to above, the Audit Committee recommended to the Board

that the audited financial statements of the Company for 2012 be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, for filing with the United States Securities and Exchange Commission.

Each of the members of the Audit Committee is independent as defined under the listing standards of NYSE MKT as of December 31, 2012.

The Board of Directors has determined that the Company has at least one audit committee financial expert serving on its Audit Committee. Mr. Scott G. Toothaker, CPA, meets the criteria for an audit committee financial expert and is independent within the meaning of the rules adopted by the NYSE MKT pursuant to the Sarbanes-Oxley Act of 2002.

Respectfully submitted by the members of the Audit Committee of the Board:

Scott G. Toothaker, Chair

Martha T. Dudman

Lauri E. Fernald

Gregg S. Hannah

David B. Woodside

## **Appendix B**

### **AUDIT COMMITTEE CHARTER**

#### **PURPOSE**

The Audit Committee (the *Committee*) is appointed by the Board of Directors (the *Board*) of Bar Harbor Bankshares (the *Company*) to assist the Board in fulfilling its oversight responsibilities for: (1) the integrity of the *Company's* financial statements; (2) the *Company's* compliance with legal and regulatory requirements; (3) the independent registered public accounting firm's qualifications and independence; (4) the performance of the *Company's* internal audit function and independent registered public accounting firm; and (5) the system of internal controls and disclosure controls that management has established. The Committee shall prepare the *Audit Committee Report* required by the rules of the United States Securities and Exchange Commission (the *Commission*) to be included in the *Company's* annual proxy statement.

#### **COMPOSITION**

The Committee will be comprised of at least three members of the Board of Directors. The members of the Committee shall be appointed annually by the Board and may be replaced or removed by the Board with or without cause. Resignation or removal of a Director from the Board, for whatever reason, shall automatically and without any further action constitute resignation or removal, as applicable, from the Committee. Any vacancy on the Committee, occurring for whatever reason, may be filled only by the Board. The Board shall designate one member of the Committee to be Chairperson of the Committee.

Each Director who serves on the Committee must be affirmatively determined by the Board to satisfy the requirements established by the NYSE MKT, LLC (NYSE MKT), to be considered an independent member of the Board. In addition, the Board of Directors must determine that each member of the Committee satisfies the requirements governing independence of audit committee members established by the NYSE MKT and the United States Securities and Exchange Commission (the *Commission*), including those issued pursuant to Rule 10A-3 of the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder, as amended (the *Exchange Act*).

In addition to satisfying the foregoing independence requirements, each member of the Committee shall be financially literate (or shall become financially literate within a reasonable period of time after his or her appointment to the Committee), as such qualification is interpreted by the Board in its business judgment. One or more members of the

Committee must either be financially sophisticated (determined in accordance with the guidelines published by NYSE MKT or an audit committee financial expert (as such term is defined under the rules promulgated by the Commission).

No member of the Committee may simultaneously serve on the audit committee of more than three (3) issuers having securities registered under Section 12 of the Exchange Act, unless the Board determines that such simultaneous service would not impair the ability of such member to effectively serve on the Audit Committee

## **COMPENSATION**

A member of the Committee may not, other than in his or her capacity as a member of the Committee, the Board or any other committee established by the Board, receive directly or indirectly any consulting, advisory or other compensatory fee from the Company. A member of the Committee may receive additional directors' fees to compensate such member for the significant time and effort expended by such member to fulfill his or her duties as a Committee member.

## **MEETINGS**

The Committee shall meet as often as it determines necessary, but no less frequently than quarterly. A majority of the members of the Committee shall constitute a quorum for purposes of holding a meeting and the Committee may act by a vote of a majority of the members present at such meeting. The Chairperson of the

Committee, in consultation with the other Committee members, may determine the frequency and length of the Committee meetings and may set meeting agendas consistent with this Charter

The Committee may, at its discretion, meet in separate executive sessions with the Chief Executive Officer, Chief Financial Officer, independent registered public accounting firm and internal auditor. All Committee members will strive to attend each meeting. The Committee may request that any officer or employee of the Company or the outside legal counsel or independent registered public accounting firm attend a meeting of the Committee or to meet with any members of or consultants to the Committee.

## **AUTHORITY**

The Committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

§

Appoint, compensate, and oversee the work of the independent public accounting firm employed by the organization to conduct the annual independent audit of the Company's consolidated financial statements. This firm will report directly to the Committee;

§

Resolve any disagreements between management and the independent registered public accounting firm regarding financial reporting;

§

Pre-approve all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for the Company by its independent registered public accounting firm, subject to the de minimus exceptions for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act, which are approved by the Committee prior to the completion of the audit;

§

Retain independent counsel, accountants, or others to advise the Committee or assist in the conduct of an investigation;

§

Seek any information it requires from employees--all of whom are directed to cooperate with the Committee's requests--or external parties;

§

Meet with Company officers, independent registered public accounting firm, or outside legal counsel, as necessary;

§

The Committee may form and delegate authority to subcommittees consisting of one or more members when appropriate, including the authority to grant pre-approvals of audit and permitted non-audit services, provided that the decisions of such subcommittee to grant pre-approvals shall be presented to the full Committee for ratification at its next scheduled meeting;

§

Approve assurance and consulting services performed by outsourced vendors used to complete the annual audit plan;

§

Approve the appointment, replacement and compensation of the internal auditor. The internal auditor will report directly to the Committee Chairman and for administrative purposes to the Chief Executive Officer of the Company. Review and approve the scope and any significant changes to the annual internal audit and loan review plans. Evaluate the internal auditor's performance and risk assessment of the Company's activities used in developing the annual audit plan.

## **RESPONSIBILITIES**

The Committee will be responsible for the following:

.

Financial Reports

o

Review significant accounting and reporting principles, practices and procedures applied by the Company in preparing its financial statements and understanding their impact on the financial statements. These matters include:

§

Complex or unusual transactions and highly judgmental areas;

§

Major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles; and



§

The effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Company.

o

Review analyses prepared by management and/or the independent registered public accounting firm setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements.

o

Review with management and the independent registered public accounting firm the results of the audit, including any difficulties encountered. This review will include any restrictions on the scope of the independent registered public accounting firm's activities or on access to requested information, and any significant disagreements with management.

o

Solicit the independent registered public accounting firm's judgment about the quality, not just the acceptability, of the Company's accounting principles used in financial reporting.

o

Discuss and review with management and the independent registered public accounting firm the annual audited financial statements, related notes to the financial statements and financial information to be included in the Company's annual report to shareholders and on Form 10-K and quarterly financial statements on Form 10-Q, including the Company's disclosures under *Management's Discussion and Analysis of Financial Condition and Results of Operations*.

o

Review disclosures made to the Committee by the Company's Chief Executive Officer and Chief Financial Officer during their certification process for the Form 10-K and Form 10-Q about any significant deficiencies in the design or operation of internal controls or disclosure controls and any fraud involving management or other employees who have a significant role in the Company's internal controls and disclosure controls and procedures.

o

Review with management and the independent registered public accounting firm any other required communications by the independent registered public accounting firm under professional standards relating to the conduct of the audit and the quality of the Company's accounting principles. If deemed appropriate after such review and discussion, recommend to the Board that the financial statements be included in the Company's annual report on Form 10-K.

o

The Committee shall discuss the Company's earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies, including, in general, the types of information to be disclosed and the types of presentation to be made (paying particular attention to the use of "pro forma" or "adjusted non-GAAP

information).

.

#### Internal Control

o

Consider the effectiveness of the Company's system of internal control, including information technology security and control.

o

Understand the scope of internal and independent registered public accounting firms' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses. Discuss any relevant significant recommendations that the independent registered public accounting firm may have, particularly those characterized as reportable conditions. The Committee will review responses of management to the reportable conditions from the independent registered public accounting firm and receive follow-up reports on actions taken concerning the recommendations.

.

#### Internal Audit

o

Review and approve the charter, plans, activities, staffing, and organizational structure of the internal audit function.

o

Ensure there are no restrictions or limitations placed on the Internal Auditor's scope of work and review and approve the appointment, replacement, or dismissal of the Internal Auditor.

o

Review the effectiveness of the internal audit function; including compliance with generally accepted internal auditing standards.

o

On a regular basis, meet separately with the Internal Auditor to discuss any matters that the Committee or Internal Auditor believes should be discussed privately.

o

Receive reports of major findings from the Internal Auditor and evaluate management's response in addressing the reported conditions.

.

Independent Registered Public Accounting Firm

o

Review the independent registered public accounting firm's proposed audit scope and approach, including coordination of audit effort with internal audit. The review will include an explanation from the independent registered public accounting firm of the factors considered by the independent registered public accounting firm in determining the audit scope, including the major risk factors.

o

Review the performance of the independent registered public accounting firm, and exercise final approval on the appointment or discharge of the auditors. In performing this review, the Committee will at least annually, obtain and review a formal written report by the independent registered public accounting firm describing and disclosing:

§

The firm's internal quality-control procedures;

§

Any material issues raised by the most recent internal quality-control review, or peer review of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years and any steps taken to deal with any such issues; and

§

a letter from the independent registered public accounting firm required by applicable requirements of the Public Company Accounting Oversight Board ( PCAOB ) regarding the independent registered public accounting firm's communications with the Committee concerning independence, and that the Committee has discussed with the independent registered public accounting firm the independent registered public accounting firm's independence.

o

Ensure the rotation of the lead (or coordinating) independent audit partner having primary responsibility for the audit and the independent audit partner responsible for reviewing the audit as required by law.

o

Ensure the requirements of PCAOB Rule 3526 are satisfied in connection with new and ongoing engagement of the independent registered public accounting firm.

o

Review and discuss with the independent registered public accounting firm any other matters required to be discussed by PCAOB Auditing Standards No 16, Communications with Audit Committees, including without limitation, the auditors' evaluation of the quality of the company's financial reporting, information relating to significant unusual transactions and the business rationale for such transactions, and evaluation of the company's ability to continue as a going concern.

o

Present its conclusions with respect to the independent registered public accounting firm to the full Board.

o

Recommend to the Board a clear policy for the hiring of employees or former employees of the independent registered public accounting firm who participated in any capacity in the audit of the Company.

o

The Committee shall meet privately with the independent registered public accounting firm as it deems necessary but in no event less frequently than may be required by applicable PCAOB and NYSE MKT rules.

.

#### Compliance

o

Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.

o

Establish procedures for the receipt, retention, and treatment of complaints received by the Company regarding accounting procedures, internal accounting controls, or auditing matters; and the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

o

Review the findings of any examinations by regulatory agencies, and any auditor observations.

o

Periodically review the Company's code of conduct to ensure that it is adequate and up-to-date. Review the process for communicating the code of conduct to Company personnel, and for monitoring compliance therewith.

o

Obtain regular updates from management and company legal counsel regarding compliance matters.

o

Review and assess the adequacy of the Committee charter annually, requesting Board approval for proposed changes, and ensure appropriate disclosure as may be required by applicable NYSE MKT Audit Committee requirements. The charter shall be published as an appendix to the proxy statement every three years.

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#### Reporting Responsibilities

o

Regularly report to the Board about Committee activities and issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance and independence of the Company's independent registered public accounting firm, and the performance of the internal audit function.

o

Provide an open avenue of communication between internal audit, the independent registered public accounting firm, and the Board.

o

Report annually to the shareholders, describing the Committee's composition, responsibilities, and how they were discharged, and any other information required by applicable rule, including approval of non-audit services.

o

Review any other reports the Company issues that relate to Committee responsibilities.

.

#### Other Responsibilities

o

Discuss with management the Company's major policies with respect to risk assessment and risk management.

o

Perform other activities or functions as assigned by law, the Company's Articles of Incorporation, or by the Board.

o

May institute and oversee special investigations as needed.

o

Confirm annually that all responsibilities outlined in this policy have been carried out.

o

Evaluate the Committee's and individual members' performance at least annually.

#### **Limitation of Audit Committee's Role**

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Such responsibilities are the duty of management and, to the extent of the independent registered public accounting firm's audit responsibilities, the independent registered public accounting firm. In addition, it is not the duty of the Committee to conduct investigations or to assure compliance with laws and regulations or the Company's Code of Ethics.













