NORTHWAY FINANCIAL INC
Form 10-Q
May 14, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q

(Mark One)
[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the quarterly period ended March 31, 2003

OR

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from ____________________ to _____________________

Commission File Number 000-23129

NORTHWAY FINANCIAL, INC
(Exact name of registrant as specified in its charter)

New Hampshire	04-3368579
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
9 Main Street Berlin, New Hampshire	03570
(Address of principal executive offices)	(Zip Code)

(603) 752-1171
(Registrant's telephone number, including area code)

No Change
(Former name, former address and former fiscal year, if changed since last year)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). YES [ ] NO [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date. At April 30, 2003, there were 1,506,574 shares of common stock outstanding, par value $1.00 per share.

INDEX
NORTHWAY FINANCIAL, INC.

PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements.

NORTHWAY FINANCIAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

Three Months
Ended Mar. 31,

(Dollars in thousands, except per share data)	2003	2002
Interest and dividend income:		
Loans	$7,059	$7,104
Interest on debt securities:		
Taxable	798	581
Tax-exempt	77	64
Dividends	54	58
Federal funds sold	10	47
Interest bearing deposits	1	-
Total interest and dividend income	7,999	7,854
Interest expense:		
Deposits	1,268	1,850
Borrowed funds	666	685
Guaranteed preferred beneficial interest in junior subordinated debentures	257	-
Total interest expense	2,191	2,535
Net interest and dividend income	5,808	5,319
Provision for loan losses	225	225
Net interest and dividend income after provision for loan losses	5,583	5,094
Noninterest income:		
Service charges and fees on deposit accounts	398	309
Securities gains, net	198	246
Loan servicing income	81	119
Other	365	278
Total noninterest income	1,042	952
Noninterest expense:		
Salaries and employee benefits	2,699	2,380
Office occupancy and equipment	935	763
Amortization of core deposit intangible	238	104
Write-down of equity securities	78	-
Other	1,397	1,082
Total noninterest expense	5,347	4,329
Income before income tax expense	1,278	1,717
Income tax expense	467	598
Net income	$ 811	$1,119
Comprehensive net income	$ 1,068	$ 750

Per share data:

Earnings per common share	$ 0.54	$ 0.74
Earnings per common share (assuming dilution)	$ 0.54	$ 0.74
Cash dividends declared	$ 0.17	$ 0.17
Weighted average number of common shares	1,509,907	1,511,424

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

NORTHWAY FINANCIAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)	Mar. 31, 2003
	(Unaudite
Assets:	
Cash and due from banks and interest bearing deposits	$ 17,672
Federal funds sold	-
Securities available-for-sale	77,581
Federal Home Loan Bank stock	4,632
Federal Reserve Bank stock	365
Loans held-for-sale	1,547
Loans, net before allowance for loan losses	458,578
Less: allowance for loan losses	4,983
Loans, net	453,595
Other real estate owned	186
Premises and equipment, net	12,211
Core deposit intangible	4,618
Goodwill	10,152
Other assets	7,463
Total assets	$590,022
Liabilities and Stockholders' Equity:	
Liabilities	
Interest bearing deposits	$387,965
Noninterest bearing deposits	68,922
Securities sold under agreements to repurchase	8,067
Federal funds purchased	575
Long-term Federal Home Loan Bank advances	56,000
Other liabilities	3,708
Total liabilities	525,237
Guaranteed preferred beneficial interest in junior subordinated debentures	20,000
Stockholders' equity	
Preferred stock, $1.00 par value; 1,000,000 shares authorized; none issued	-
Common stock, $1 par value; 9,000,000 shares authorized; 1,731,969 issued at March 31, 2003 and December 31, 2002 and 1,506,574 outstanding at March	

31, 2003 and 1,516,574 outstanding at December 31, 2002	1,732
Surplus	2,088
Retained earnings	48,077
Treasury stock, at cost (225,395 and 215,395 shares, respectively)	(6,003)
Accumulated other comprehensive loss, net of tax	(1,109)
Total stockholders' equity	44,785
Total liabilities and stockholders' equity	$590,022

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

NORTHWAY FINANCIAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Dollars in thousands)	For the Ended 2003
Cash flows from operating activities:	
Net income	$ 811
Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for loan losses	225
Depreciation and amortization	608
Deferred income tax expense	-
Write-down of equity securities	78
Gains on sales of securities available-for-sale, net	(198)
Loss on disposal and write-down of premises and equipment	2
Amortization of premiums and accretion of discounts on securities, net	131
Increase in unearned income, net	20
Amortization of discount on loans acquired	27
Gain on sales of other real estate owned and other personal property, net	-
Net decrease (increase) in loans held-for-sale	(878)
Net change in other assets and other liabilities	1,725
Net cash provided by operating activities	2,551
Cash flows from investing activities:	
Proceeds from sales of securities available-for-sale	3,169
Proceeds from maturities of securities available-for-sale	19,385
Purchase of securities available-for-sale	(8,626)
Loan originations and principal collections, net	(16,903)
Recoveries of previously charged-off loans	44
Proceeds from sales of and payments received on other real estate owned	10
Proceeds from sales of and payments received on other personal property	160
Additions to premises and equipment	(79)
Net cash provided by (used in) investing activities	(2,840)
Cash flows from financing activities:	
Net decrease in deposits	(19,307)
Advances from FHLB	10,000
Net increase in federal funds purchased	575
Net decrease in securities sold under agreements to repurchase	(184)
Exercise of stock options	-
Purchases of treasury stock	(292)
Cash dividends paid	(257)

Net cash used by financing activities	(9,465)
Net decrease in cash and cash equivalents	(9,754)
Cash and cash equivalents at beginning of period	27,426
Cash and cash equivalents at end of period	$17,672
Supplemental disclosure of cash flows:	
Interest paid	$ 2,142
Taxes paid	$ 60
Loans transferred to other real estate owned	$ 21
Loans transferred to other personal property	$ 202

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

NORTHWAY FINANCIAL, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2003
(Unaudited)

1. Basis of Presentation.

The unaudited condensed consolidated financial statements of Northway Financial, Inc. and its four wholly-owned subsidiaries, The Berlin City Bank, The Pemigewasset National Bank of Plymouth, the Northway Capital Trust I (an issuer of trust preferred securities) and the Northway Capital Trust II (also an issuer of trust preferred securities) (collectively, "the Company") included herein have been prepared by the Company in accordance with the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted in accordance with such rules and regulations. The Company, however, believes that the disclosures are adequate to make the information presented not misleading. The amounts shown reflect, in the opinion of management, all adjustments necessary for a fair presentation of the financial statements for the periods reported.

The results of operations for the three month periods ended March 31, 2003 and 2002 are not necessarily indicative of the results of operations to be expected for the full year or any other interim periods. The interim financial statements are meant to be read in conjunction with the Company's audited financial statements presented in its Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

In preparing financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the balance sheet and revenues and expenses for the reported periods. Actual results could differ from these estimates. Material estimates that are particularly susceptible to change relate to the determination of the allowance for loan losses.

The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP.

2. Stock-Based Compensation

As of March 31, 2003, the Company has a stock-based employee compensation plan which is described more fully in its Annual Report on Form 10-K for the fiscal year ended December 31, 2002. The Company accounts for this plan under the recognition and measurement principles of the Auditing Practice Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under this plan had an exercise price equal to the market value of the underlying common stock on the date of the grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of Statement of Financial

Accounts Standards ("SFAS") No. 123, Accounting for Stock-Based Compensation, to stock-based empl

		($000 Omitted,
		E
		2003
Net income	As reported	$ 8
Deduct: Total stock-based employee compensation expense determined under fair value based methods awards, net of related tax effects		
	Pro forma	$ 8
Earnings per common share	As reported	$0.
	Pro forma	$0.
Earnings per common share (assuming dilution)	As reported	$0.
	Pro forma	$0.

3. Impact of New Accounting Standards.

SFAS No. 142, Goodwill and Other Intangible Assets, requires that goodwill no longer be amortized to earnings, but instead be reviewed for impairment. The amortization of goodwill ceased upon adoption of the statement, which for the Company, was January 1, 2002. The effect of the adoption of SFAS No. 142 on the Company's consolidated financial statements is described below.

In October 2002, the Financial Accounting Standards Board (the "FASB") issued SFAS No. 147, Acquisitions of Certain Financial Institutions, an Amendment of SFAS Nos. 72 and 144 and FASB Interpretation No. 9. SFAS No. 72, Accounting for Certain Acquisitions of Banking or Thrift Institutions and FASB Interpretation No. 9, Applying APB Opinions No. 16 and 17 When a Savings and Loan Association or a Similar Institution Is Acquired in a Business Combination Accounted for by the Purchase Method, provided interpretive guidance on the application of the purchase method to acquisitions of financial institutions. Except for transactions between two or more mutual enterprises, SFAS No. 147 removes acquisitions of financial institutions from the scope of both Statement 72 and Interpretation 9 and requires that those transactions be accounted for in accordance with SFAS No. 141, Business Combinations and No. 142, Goodwill and Other Intangible Assets. Thus, the requirement in paragraph 5 of Statement 72 to recognize (and subsequently amortize) any excess of the fair value of liabilities assumed over the fair value of tangible and identifiable intangible assets acquired as an unidentifiable intangible asset no longer applies to acquisitions within the scope of SFAS No. 147. In addition, SFAS No. 147 amends SFAS No. 144 Accounting for the Impairment or disposal of Long-Lived Assets to include in its scope long-term customer-relationship intangible assets of financial institutions such as depositor- and borrower-relationship intangible assets and credit cardholder intangible assets. Consequently, those intangible assets are subject to the same undiscounted cash flow recoverability test and impairment loss recognition and measurement provisions that SFAS No. 144 requires for other long-lived assets that are held and used.

Paragraph 5 of SFAS No. 147, which relates to the application of the purchase method of accounting, was effective for acquisitions for which the date of acquisition is on or after October 1, 2002. The provisions in paragraph 6 related to accounting for the impairment or disposal of certain long-term customer-relationship intangible assets were effective on October 1, 2002. Transition provisions for previously recognized unidentifiable intangible assets in paragraphs 8-14 were effective on October 1, 2002, with earlier application permitted.

In accordance with paragraph 9 of SFAS No. 147, the Company has reclassified, as of September 30, 2002 its recognized unidentifiable intangible asset related to branch acquisitions. This asset was reclassified as goodwill ("reclassified goodwill"). The amount reclassified was $5,386,000, the carrying amount as of January 1, 2002. The reclassified goodwill is being accounted for and reported prospectively as goodwill under SFAS No. 142, with no amortization expense. Accordingly, the consolidated financial statements for the three-months ended March 31, 2002 do not reflect amortization in the amount of $60,000 that would have been recorded if SFAS No. 147 had not been issued.

In accordance with SFAS No. 147 the Company tested its reclassified goodwill for impairment as of January 1, 2002 and December 31, 2002. The Company determined that its goodwill as of those dates was not impaired.

Also in accordance with paragraph 9 of SFAS No. 147, as of September 30, 2002, the Company reclassified its core deposit intangible ("CDI") asset and accounted for it as an asset apart from the unidentifiable intangible asset and not as goodwill. As of December 31, 2002, the Company tested its CDI asset for impairment and determined that as of that date it was not impaired.

The effect of the Company's adoption of SFAS No. 147 was to increase net income for the three-month period ended March 31, 2002 by $36,000.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation

The following discussion and analysis and the related condensed consolidated financial statements relate to Northway Financial, Inc. and its four wholly-owned subsidiaries, The Berlin City Bank, The Pemigewasset National Bank of Plymouth, Northway Capital Trust I and Northway Capital Trust II (collectively, the "Company").

Forward-Looking Statements

Certain statements in this Form 10-Q are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements can be identified by the use of the words "expect," "believe," "estimate," "will" and other expressions which predict or indicate future trends and which do not relate to historical matters. Forward-looking statements may include, but are not limited to, projections of revenue, income or loss, plans for future operations, including in new markets, and acquisitions, and plans related to products or services of the Company. Such forward-looking statements are subject to known and unknown risks, uncertainties and contingencies, many of which are beyond the control of the Company. The Company's actual results could differ materially from those projected in the forward-looking statements as the result of, among other factors, changes in interest rates, changes in the securities or financial markets, a deterioration in general economic conditions on a national basis or in the local markets in which the Company operates, including changes in local business conditions resulting in rising unemployment and other circumstances which adversely affect borrowers' ability to service and repay our loans, changes in loan defaults and charge-off rates, reduction in deposit levels necessitating increased borrowing to fund loans and investments, the passing of adverse government regulation, changes in assumptions used in making such forward-looking statements, as well as those factors set forth in the Company's Annual Report on Form 10-K for the year ending December 31, 2002, as well as in the Company's other filings with the Securities & Exchange Commission. These forward-looking statements were based on information, plans and estimates at the date of this report, and the Company does not promise to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events or other changes.

Financial Condition

The Company's total assets at March 31, 2003 were $590,022,000 compared to $598,318,000 at December 31, 2002, a decrease of $8,296,000. Cash and cash equivalents decreased $9,754,000 to $17,672,000, compared to $27,426,000 at December 31, 2002, due primarily to a decrease in federal funds sold. In addition, securities available-for-sale decreased $13,816,000 to $77,581,000 due primarily to lower US Government Agency and mortgage-backed security balances partially offset by corporate and municipal security purchases. The decrease in federal funds sold and securities available for sale was partially offset by the increase in net loans, including loans held-for-sale, of $17,241,000 to $455,142,000. The increase in net loans was due to increases in residential mortgage loans, commercial and commercial real estate loans and indirect installment loans, partially offset by a decrease in consumer loans.

Deposits decreased $19,307,000 from December 31, 2002 due to a decrease in all deposit balances. Long-term Federal Home Loan Bank advances increased $10,000,000 to $56,000,000 from December 31, 2002 due to three new advances during the quarter ranging in term from two years to three years and an average interest rate of 2.53%. Total stockholders' equity increased $519,000 from $44,266,000 at December 31, 2002 to $44,785,000 at March 31, 2003 due primarily to an increase in net income of $811,000 and a decrease in accumulated other comprehensive loss of $257,000 which was partially offset by dividends paid of $257,000 and an increase in treasury stock of $292,000. At March 31, 2003, unrealized equity security losses of $759,000 are included in accumulated other comprehensive loss, net of tax. Management does not consider the underlying equity securities to be other than temporarily impaired.

The Company maintains an allowance for loan losses to absorb charge-offs of loans in the existing portfolio. The allowance is increased when a loan loss provision is recorded as an expense. When a loan, or portion thereof, is considered uncollectible, it is charged against this allowance. Recoveries of amounts previously charged-off are added to the allowance when collected. At March 31, 2003 the allowance for loan losses was $4,983,000, or 1.09% of total loans, compared to $4,920,000, or 1.11% of total loans at December 31, 2002. The allowance for loan losses is based on an evaluation by each bank's management and Board of Directors of current and anticipated economic conditions, changes in the diversification, size and risk within the loan portfolio, and other factors. The composition of the allowance for loan losses for the three-month periods ended March 31, 2003 and 2002 is as follows:

Three Months

(Dollars in thousands)	Ended Mar. 31, 2003	2002
Balance at beginning of period	$4,920	$4,642
Charge-offs	(206)	(214)
Recoveries	44	59
Net charge-offs	(162)	(155)
Provision for loan losses	225	225
Balance at end of period	$4,983	$4,712

Nonperforming loans totaled $4,018,000 as of March 31, 2003, compared to $3,619,000 at December 31, 2002. The ratio of nonperforming loans to loans net of unearned income was 0.88% as of March 31, 2003 compared to 0.82% at December 31, 2002. Nonperforming assets, which include nonperforming loans, other real estate owned and other chattels owned, totaled $4,341,000 as of March 31, 2003, compared to $3,892,000 at December 31, 2002. The ratio of nonperforming assets to total assets was 0.74% as of March 31, 2003 compared to 0.65% at December 31, 2002.

Results of Operations

The Company reported net income of $811,000, or $0.54 per common share, for the three months ended March 31, 2003, compared to $1,119,000, or $0.74 per common share, for the three months ended March 31, 2002. The decline in net income for the quarter is due primarily to an increase in operating expenses related to the 2002 fourth quarter branch acquisitions, staff additions to support current loan demand, and the implementation of bank-wide reengineering and new technology initiatives.

Net interest and dividend income for the first quarter of 2003 increased $489,000 to $5,808,000 compared to $5,319,000 for the first quarter of 2002. This is due primarily to an increase in average earning assets of $73,660,000 partially offset by a decrease in the net interest margin of 0.26%.

The provision for loan losses for the first quarter of 2003 remained unchanged at $225,000 compared to the first quarter of last year.

Noninterest income for the first quarter of 2003 increased $90,000 to $1,042,000 compared to $952,000 for the same period last year. Service charges and fees on deposit accounts increased due to increases in overdraft fee income and service charge income resulting from the branch acquisitions in the fourth quarter 2002 as well as increases in income from existing branches. The Company recorded net securities gains for the first quarter of 2003 of $198,000 compared to $246,000 for the same period last year. Loan servicing income decreased $38,000 to $81,000 for the first quarter 2003 compared to $119,000 for the same period last year. Other noninterest income increased due primarily to increases in gains on sales of loans partially offset by a decrease in loan extension fees associated with our skip-a-payment program.

Noninterest expense increased $1,018,000 to $5,347,000 for the first quarter of 2003 compared to $4,329,000 for the same period last year. During the quarter, the Company recorded a $78,000 write-down of equity securities. This write-down was due to the continued sustained overall weakness in the equity market as well as significant declines in certain sectors and specific companies within those sectors whereby the Company determined, through evaluations described below, that the market values of certain of its marketable equity securities were other than temporarily impaired. If a decline in the fair value below the adjusted cost basis of an investment is judged to be other than temporary, the cost basis of the investment is written down to fair value and the amount of the write-down is included in noninterest expense.

As a result of the branch acquisitions in the fourth quarter of 2002, the Company recognized increases in salaries, lease expense, energy expense and the amortization of core deposit intangibles. In addition, due to staff additions to support current loan demand and the implementation of bank-wide reengineering and new technology initiatives, the Company recognized increases in salaries, professional fees, and depreciation expense.

Income Tax Expense

The Company recognized income tax expense of $467,000 and $598,000 for the three- month periods ended March 31, 2003 and 2002, respectively. The effective tax rates were 36.5% and 34.8% for those respective periods.

Liquidity

Liquidity risk management refers to the Company's ability to raise funds in order to meet existing and anticipated financial obligations. These obligations to make payment include withdrawal of deposits on demand or at their contractual maturity, the repayment of borrowings as they mature, funding new and existing loan commitments as well as new business opportunities. Liquidity may be provided through amortization, maturity or sale of assets such as loans and securities available-for-sale, liability sources such as increased deposits, utilization of the Federal Home Loan Bank ("FHLB") credit facility, purchased or other borrowed funds, and access to the capital markets. Liquidity targets are subject to change based on economic and market conditions and are controlled and monitored by the Company's Asset/Liability Committee.

At the subsidiary bank level, liquidity is managed by measuring the net amount of marketable assets, after deducting pledged assets, plus lines of credit, primarily with the FHLB, that are available to fund liquidity requirements. Management then measures the adequacy of that aggregate amount relative to the aggregate amount of liabilities deemed to be sensitive or volatile. These include core deposits in excess of $100,000, term deposits with short maturities, and credit commitments outstanding.

Additionally, Northway Financial, Inc. requires cash for various operating needs, including dividends to shareholders, the stock repurchase program, capital injections to the subsidiary banks, and the payment of general corporate expenses. The primary sources of liquidity for Northway Financial, Inc. are dividends from its subsidiary banks.

Management believes that the Company's current level of liquidity and funds available from outside sources is sufficient to meet the Company's needs.

Capital

The Company's Tier 1 and Total Risk Based Capital ratios were 8.47% and 11.81%, respectively, at March 31, 2003. The Company's Tier 1 leverage ratio at March 31, 2003 was 6.80%. As of March 31, 2003, the capital ratios of the Company and the subsidiary banks exceeded the minimum capital ratio requirements of the "well-capitalized" category under the Federal Deposit Insurance Corporation Improvement Act of 1991.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Since December 31, 2002, there have been no material changes in the

Company's quantitative and qualitative disclosures about market risk. A fuller description of the quantitative and qualitative disclosures about market risk was provided by the Company on pages 11 through 22 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

As required by new Rule 13a-15 under the Securities Exchange Act of 1934, within the 90 days prior to the date of this report, the Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. In connection with the new rules, the Company currently is in the process of further reviewing and documenting its disclosure controls and procedures, including its internal controls and procedures for financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that its systems evolve with its business.

(b) Changes in internal controls.

None.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings - None

Item 2. Changes in Securities and Use of Proceeds- None

Item 3. Defaults upon Senior Securities - None

Item 4. Submission of Matters to a Vote of Security Holders - None

Item 5. Other Information - None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

2.1 Agreement and Plan of Merger, dated as of March 14, 1997, by and among Northway Financial, Inc., The Berlin City Bank, Pemi Bancorp, Inc. and Pemigewasset National Bank (the "Merger Agreement") (incorporated by reference to Exhibit 2.1 to Registration Statement No. 333-33033).

3.1 Amended and Restated Articles of Incorporation of Northway Financial, Inc. (incorporated by reference to Exhibit 3.1 to Registration Statement No. 333-33033).

3.2 By-laws of Northway Financial, Inc (incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).

4 Form of Certificate representing the Company Common Stock (reference is also made to Exhibits 3.1 and 3.2) (incorporated by reference to Exhibit 4 to Registration Statement No. 333-33033).

10.1 Employment Agreement for William J. Woodward (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).

10.2 Employment Agreement for Fletcher W. Adams (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).

10.3 Amendment to the Employment Agreement for William J. Woodward. (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998).

10.4 Amendment to the Employment Agreement for Fletcher W. Adams. (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998).

10.5 Northway Financial, Inc. 1999 Stock Option and Grant Plan (incorporated by reference to Exhibit 4.1 to Registration Statement No. 333-83571 dated July 23,1999).

10.7 Form of Key Employee Agreement (incorporated by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K for the year ended 1999).

10.8 Form of Collateral Assignment Split Dollar Agreement (incorporated by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K for the year ended 2000).

11 Computation of per share earnings(1)

(1) Filed herewith.

(b) Current Report on Form 8-K - None

SIGNATURES

Pursuant to requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

NORTHWAY FINANCIAL, INC.

May 9, 2003 BY:/S/William J. Woodward

William J. Woodward
President & CEO
(Principal Executive Officer)

May 9, 2003 BY:/S/Richard P. Orsillo

Richard P. Orsillo
Senior Vice President & CFO
(Principal Financial and Accounting Officer)

CERTIFICATION

I, William J. Woodward, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Northway Financial, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based upon our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date May 9, 2003 /S/ William J. Woodward

William J. Woodward
Chief Executive Officer

CERTIFICATION

I, Richard P. Orsillo, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Northway Financial, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based upon our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weakness in internal controls; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date May 9, 2003 /S/ Richard P. Orsillo

Richard P. Orsillo
Chief Financial Officer

INDEX OF EXHIBITS

Exhibit Number	Description of Exhibit
2.1	Agreement and Plan of Merger, dated as of March 14, 1997, by and among Northway Financial, Inc., The Berlin City Bank, Pemi Bancorp, Inc. and Pemigewasset National Bank (the "Merger Agreement") (incorporated by reference to Exhibit 2.1 to Registration Statement No. 333-33033).
3.1	Amended and Restated Articles of Incorporation of Northway Financial, Inc. (incorporated by reference to Exhibit 3.1 to Registration Statement No. 333-33033).
3.2	By-laws of Northway Financial, Inc (incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).
4	Form of Certificate representing the Company Common Stock (reference is also made to Exhibits 3.1 and 3.2) (incorporated by reference to Exhibit 4 to Registration Statement No. 333-33033).
10.1	Employment Agreement for William J. Woodward (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).
10.2	Employment Agreement for Fletcher W. Adams (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997).
10.3	Amendment to the Employment Agreement for William J. Woodward. (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998).
10.4	Amendment to the Employment Agreement for Fletcher W. Adams. (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998).
10.5	Northway Financial, Inc. 1999 Stock Option and Grant Plan (incorporated by reference to Exhibit 4.1 to Registration Statement No. 333-83571 dated July 23,1999).
10.7	Form of Key Employee Agreement (incorporated by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K for the year ended 1999).
10.8	Form of Collateral Assignment Split Dollar Agreement (incorporated by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K for the year ended 2000).
11	Computation of per share earnings(1)

(1) Filed herewith.