NORTHWAY FINANCIAL INC
Form 10-Q
May 11, 2005

UNITED STATES
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, 2005

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 report)

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 22, 2005, there were 1,507,574 shares of common stock outstanding, par value $1.00 per share.

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NORTHWAY FINANCIAL, INC.

PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements.

NORTHWAY FINANCIAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

Mar. 31,

(Dollars in thousands)	2005
	(Unaudit
Assets:	
Cash and due from banks and interest bearing deposits	12,036
Federal funds sold	-
Securities available-for-sale	100,227
Federal Home Loan Bank stock	5,515
Federal Reserve Bank stock	365
Loans held-for-sale	680
Loans, net before allowance for loan losses	464,991
Less: allowance for loan losses	5,312
Loans, net	459,679
Premises and equipment, net	13,605
Other real estate owned	10
Core deposit intangible	2,711
Goodwill	10,152
Other assets	10,942
Total assets	$615,922
Liabilities and stockholders' equity:	
Liabilities	
Interest bearing deposits	$373,074
Noninterest bearing deposits	71,774
Short-term borrowings	20,994
Long-term debt	96,620
Other liabilities	4,205
Total liabilities	566,667
Stockholders' equity	
Preferred stock, $1.00 par value; 1,000,000 shares authorized; none issued	-
Common stock, $1.00 par value; 9,000,000 shares authorized; 1,731,969 issued at March 31, 2005 and December 31, 2004 and 1,507,574 outstanding at March 31, 2005 and 1,503,574 outstanding at December 31, 2004	1,732
Surplus	2,064
Retained earnings	53,051
Treasury stock, at cost (224,395 shares at March 31, 2005 and 228,395 shares at December 31, 2004)	(5,968
Accumulated other comprehensive loss, net of tax	(1,624
Total stockholders' equity	49,255
Total liabilities and stockholders' equity	$615,922

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

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

Three Months
Ended Mar. 31,

(Dollars in thousands, except per share data)	2005	2004
Interest and dividend income:		
Loans	$ 6,705	$ 6,625
Interest on debt securities:		
Taxable	1,009	643
Tax-exempt	30	31
Dividends	73	47
Federal funds sold	16	25
Total interest and dividend income	7,833	7,371
Interest expense:		
Deposits	811	812
Borrowed funds	1,085	1,015
Total interest expense	1,896	1,827
Net interest and dividend income	5,937	5,544
Provision for loan losses	75	150
Net interest and dividend income after provision for loan losses	5,862	5,394
Noninterest income:		
Service charges and fees on deposit accounts	540	445
Securities gains, net	71	459
Gain on sales of loans, net	49	39
Other	327	353
Total noninterest income	987	1,296
Noninterest expense:		
Salaries and employee benefits	2,883	3,000
Office occupancy and equipment	972	962
Amortization of core deposit intangible	238	238
Other	1,519	1,408
Total noninterest expense	5,612	5,608
Income before income tax expense	1,237	1,082
Income tax expense	414	353
Net income	$ 823	$ 729
Comprehensive net (loss) income	$ (110)	$ 743
Per share data:		
Basic earnings per common share	$ 0.55	$ 0.49
Earnings per common share assuming dilution	$ 0.54	$ 0.49
Cash dividends declared	$ 0.17	$ 0.17
Weighted average number of common shares	1,504,018	1,499,574

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
Cash flows from operating activities:	
Net income	$
Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for loan losses	
Depreciation and amortization	
Gains on sales of securities available-for-sale, net	
Loss on sale, disposal and write-down of premises and equipment	
Amortization of premiums and accretion of discounts on securities, net	
Decrease in unearned income, net	
Amortization of discount on loans acquired	
Loss on sales of other real estate owned and other personal property, net	
(Increase) decrease in loans held-for-sale	
Net change in other assets and other liabilities	
Net cash provided by operating activities	1
Cash flows from investing activities:	
Proceeds from sales of securities available-for-sale	1
Proceeds from maturities of securities available-for-sale	2
Purchases of securities available-for-sale	(4
Purchases of Federal Home Loan Bank stock	
Loan originations and principal collections, net	9
Recoveries of previously charged-off loans	
Proceeds from sales of and payments received on other personal property	
Additions to premises and equipment	
Net cash provided by investing activities	8
Cash flows from financing activities:	
Net decrease in deposits	(30
Net increase in overnight FHLB Advances	11
Net decrease in securities sold under agreements to repurchase	(1
Advances from FHLB	
Repayment of FHLB Advances	(2
Exercise of stock options, net of tax benefit	
Cash dividends paid	
Net cash (used in) provided by financing activities	(22
Net (decrease) increase in cash and cash equivalents	(12
Cash and cash equivalents at beginning of period	24
Cash and cash equivalents at end of period	$12
Supplemental disclosure of cash flows:	
Interest paid	$ 1
Taxes paid	$
Loans transferred to other real estate owned	$
Loans transferred to other personal property	$

Amount due to broker for pending securities purchases	$

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

NORTHWAY FINANCIAL, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2005
(Unaudited)

1. Basis of Presentation

The unaudited condensed consolidated financial statements of Northway Financial, Inc. and its wholly-owned subsidiaries, The Berlin City Bank and The Pemigewasset National Bank of Plymouth, New Hampshire (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, 2005 and 2004 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, 2004.

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. The Company believes that the most critical accounting policies, which are those that are most important to the portrayal of the Company's financial condition and result of operations and require management's most difficult, subjective and complex judgments, relate to the determination of the allowance for loan losses, the impairment analysis of goodwill and core deposit intangibles, determination of the expense and liability related to the Company's pension plan, and determination of mortgage servicing rights.

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, 2005, 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, 2004. The Company accounts for this plan under the recognition and measurement principles of the Accounting Principles 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 Accounting Standards ("SFAS 123R"), Share Based Payment, to stock-based employee compensation.

		($000 Omitted,
		E
		20
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.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), in an effort to expand upon and strengthen existing accounting guidance that addresses when a company should include in its financial statements the assets, liabilities and activities of another entity. In December 2003, the FASB revised Interpretation No. 46, also referred to as Interpretation 46 (R) ("FIN 46(R)"). The objective of this interpretation is not to restrict the use of variable interest entities but to improve financial reporting by companies involved with variable interest entities. Until now, one company generally has included another entity in its consolidated financial statements only if it controlled the entity through voting interests. This interpretation changes that, by requiring a variable interest entity to be consolidated by a company only if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The Company is required to apply FIN 46, as revised, to all entities subject to it no later than the end of the first fiscal year or interim period ending after March 15, 2004. However, prior to the required application of FIN 46, as revised, the Company shall apply FIN 46 or FIN 46 (R) to those entities that are considered to be special-purpose entities as of the end of the first reporting period ending after December 15, 2003. The adoption of this interpretation did not have a material effect on the Company's consolidated financial statements.

In December 2003, the FASB issued SFAS No. 132 (revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits - an amendment of SFAS No. 87, SFAS No. 88 and SFAS No. 106" ("SFAS No. 132 (revised 2003)"). This Statement revises employers' disclosures about pension plans and other postretirement benefit plans. It does not change the measurement or recognition of those plans required by SFAS No. 87, "Employers' Accounting for Pensions," SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." This Statement retains the disclosure requirements contained in SFAS No. 132, "Employers' Disclosures About Pensions and Other Postretirement Benefits," which it replaces. It requires additional disclosures to those in the original Statement 132 about assets, obligations, cash flows and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. This Statement is effective for financial statements with fiscal years ending after December 15, 2003 and interim periods beginning after December 15, 2003. Adoption of this Statement did not have a material impact on the Company's consolidated financial statements.

In December 2003, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position 03-3 ("SOP 03-3") "Accounting for Certain Loans or Debt Securities Acquired in a Transfer." SOP 03-3 requires loans acquired through a transfer, such as a business combination, where there are differences in expected cash flows and contractual cash flows due in part to credit quality be recognized at their fair value. The excess of contractual cash flows over expected cash flows is not to be recognized as an adjustment of yield, loss accrual, or valuation allowance. Valuation allowances cannot be created nor "carried over" in the initial accounting for loans acquired in a transfer on loans subject to SFAS 114, "Accounting by Creditors for Impairment of a Loan." This SOP is effective for loans acquired in fiscal years beginning after December 15, 2004, with early adoption encouraged. The Company does not believe the adoption of SOP 03-3 will have a material impact on the Company's financial position or results of operations.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"). This Statement revises FASB Statement No. 123, "Accounting for Stock Based Compensation" and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and its related implementation guidance. SFAS 123R requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. It establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair-value based measurement method in accounting for share-based payment transactions with employees except for equity instruments held by employee share ownership plans. This Statement was effective for the Company as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. However since the issuance of SFAS 123R the SEC has delayed the effective date. The new effective date for the Company is January 1, 2006. The Company does not believe the adoption of this Statement will have a material impact on the Company's financial position or results of operations.

4. Pension Benefits.

The following summarizes the net periodic benefit cost for the three months ended March 31:

	2005	2004
Service cost	$134	$118
Interest cost	86	76
Expected return on plan assets	(91)	(72)
Amortization of prior service cost	(21)	(21)
Recognized net actuarial loss	34	41
Amortization of transition asset	-	-
Special recognition of prior service costs	-	-
Net periodic benefit cost	$142	$142

The Company previously disclosed in its consolidated financial statements for the year ended December 31, 2004 that it expected pension plan contributions to be $745,000 in 2005. During the first quarter 2005, the Company contributed $295,000 to the pension plan and anticipates contributing an additional $450,000 on or about December 31, 2005.

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

The following discussion and analysis and the related condensed consolidated financial statements relate to 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, expectations regarding the impact on net income of withdrawing from the indirect automobile lending line of business, projections of revenue, income or loss, expectations for impact of new products on noninterest income and expense, 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, 2004, and 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 Form 10-Q, 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, 2005 were $615,922,000 compared to $638,418,000 at December 31, 2004, a decrease of $22,496,000. Net loans, including loans held-for-sale, decreased $9,454,000 to $460,359,000. This was due primarily to a decrease in indirect consumer loans, the result of our decision to exit this line of business effective during the third quarter of 2004. The decrease in indirect consumer loans was partially offset by increases in both residential mortgage loans and direct consumer loans. Cash and cash equivalents decreased $12,733,000 to $12,036,000 compared to $24,769,000 at December 31, 2004, due primarily to a decrease in federal funds sold.

Deposits decreased $30,511,000 to $444,848,000 from $475,359,000 at December 31, 2004 due to a decrease in all deposit categories except savings deposits. Some of this decrease is attributable to short-term deposits held by municipal depositors at year-end that were withdrawn during the first quarter of 2005. Short-term borrowings increased $9,726,000 due to an increase in overnight FHLB advances. Long-term Federal Home Loan Bank advances decreased $2,000,000 to $76,000,000 from $78,000,000 at December 31, 2004 due to the maturity of one advance. Total stockholders' equity decreased $255,000 to $49,255,000 at March

31, 2005 from $49,510,000 at December 31, 2004 due primarily to the recording of an additional comprehensive loss associated with securities available-for-sale of $933,000 as well as dividends paid of $256,000 which were partially offset by net income of $823,000.

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, 2005 the allowance for loan losses was $5,312,000, or 1.14% of total loans, compared to $5,204,000, or 1.10% of total loans at December 31, 2004. 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, 2005 and 2004 is as follows:

(Dollars in thousands)	Three Months Ended Mar. 31, 2005	2004
Balance at beginning of period	$5,204	$5,036
Charge-offs	(91)	(194)
Recoveries	124	65
Net charge-offs	33	(129)
Provision for loan losses	75	150
Balance at end of period	$5,312	$5,057

Nonperforming loans totaled $2,981,000 as of March 31, 2005, compared to $2,867,000 at December 31, 2004. The ratio of nonperforming loans to loans net of unearned income was 0.64% as of March 31, 2005 compared to 0.60% at December 31, 2004. Nonperforming assets, which include nonperforming loans, other real estate owned and other chattels owned, totaled $3,197,000 as of March 31, 2005, compared to $2,949,000 at December 31, 2004. The ratio of nonperforming assets to total assets was 0.52% as of March 31, 2005 compared to 0.46% at December 31, 2004.

Results of Operations

The Company reported net income of $823,000, or $0.55 per common share, for the three months ended March 31, 2005, compared to $729,000, or $0.49 per common share, for the three months ended March 31, 2004, an increase of $94,000, or 12.9%.

Net interest and dividend income for the first quarter increased $393,000, or 7.1%, to $5,937,000 compared to $5,544,000 for the first quarter of 2004. This was the result of an increase of 12 basis points in the net interest margin as well as a $23,119,000 increase in average earning assets. These improvements were due in part to the fact that during the second quarter of 2004, the Company deployed a leverage strategy which resulted in an increase in mortgage backed securities of $20,000,000, which was funded by intermediate term FHLB advances at an attractive spread. Further, amortization from the indirect automobile line of business was redeployed into higher yielding residential mortgage loans and commercial loans.

The provision for loan losses decreased $75,000 to $75,000 for the first quarter of 2005 compared to $150,000 for the first quarter of 2004. The provision for loan losses is based upon a review of the adequacy of the allowance for loan losses, which is conducted on a quarterly basis. This review is based upon many factors including the risk characteristics of the portfolio, trends in loan delinquencies, and an assessment of existing economic conditions. In addition, various regulatory agencies, as part of their examination process, review the banks' allowances for loan losses and such review may result in changes to the allowance based on judgments different from those of management.

Noninterest income decreased $309,000 to $987,000 in the first quarter of 2005 compared to $1,296,000 in the first quarter of 2004 due primarily to a decrease in net securities gains. Net securities gains decreased $388,000 to $71,000 in the first quarter of 2005 compared to $459,000 for the same period last year. During 2004, the Company recorded securities gains as the result of the sale of corporate bonds and equity securities. Service charges and fees on deposit accounts increased $95,000 due principally to increases in overdraft fee income. Other noninterest income decreased $26,000 due to the recording of a loss on the cash surrender value of life insurance of $39,000 compared to a gain of $49,000 for the same period last year. This was partially offset by an increase in the commission on alternative investment products of $60,000 and an increase in debit card income of $39,000 compared to a year ago.

Noninterest expense increased $4,000 to $5,612,000 for the quarter ended March 31, 2005, compared to the $5,608,000 recorded during the same period last year. Included in noninterest expense for the first quarter of 2005 is approximately $150,000 of one-time expenses associated with moving the Company's proof and item processing and data processing to the Berlin facility. This move will streamline back room operations. Salaries and employee benefits decreased $117,000 to $2,883,000 for the first quarter of 2005 compared to $3,000,000 for the first quarter 2004. Salaries and employee benefits for 2005 include $87,000 of one-time expenses resulting from separation expenses associated with relocation of proof operations and data processing from West Plymouth to Berlin. Excluding these one-time expenses, salaries and benefits have decreased $204,000 compared to the same period last year. This decrease was due primarily to three factors: i) a decrease in salaries expense and the related payroll taxes and benefits, ii) a decrease in the expense relating to the liability of deferred compensation on a Supplemental Employee Retirement Plan, and iii) an increase in deferred loan origination costs related to FAS 91, which has the effect of reducing salary expense. Other noninterest expense increased $111,000 over the prior year due in large part to the one-time expenses associated with moving proof and item processing and data processing.

Comprehensive Loss

The Company reported a comprehensive net loss of $110,000 for the quarter ended March 31, 2005 compared to a comprehensive net income of $743,000 for the quarter ended March 31, 2004. Comprehensive income includes net income plus or minus other items required to be reported directly in the equity section of the balance sheet without having been recognized in the determination of net income. These other components include the unrealized holding gains and losses on available-for-sale securities and any adjustments recognized in accordance with the Company's accounting for pensions as an additional liability not yet recognized as net periodic benefit costs.

For the quarter ended March 31, 2005, the Company increased its unrealized loss on available-for-sale securities by $933,000, net of tax. When deducted from the quarterly net income of $823,000 the result is a comprehensive net loss of $110,000. For the quarter ended March 31, 2004, the Company had increased its unrealized gain on available-for-sale securities by $14,000. When added to net income of $729,000, the result was comprehensive net income of $743,000.

The major factor contributing to the increase in the unrealized loss on available-for-sale securities for the quarter is the current interest rate environment, which resulted in the reduction of the valuation of the Company's bond portfolio. In accordance with FAS 115, the negative adjustment to comprehensive income of $933,000 is not expected to impact net income as the Company has the ability and intent to hold available-for-sale securities until cost recovery occurs.

Income Tax Expense

The Company recognized income tax expense of $414,000 and $353,000 for the three months ended March 31, 2005 and 2004, respectively. The effective tax rates were 33.5% and 32.6% 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 and reimbursement for services performed on behalf of the 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 12.32% and 14.57%, respectively, at March 31, 2005. The Company's Tier 1 leverage ratio at March 31, 2005 was 8.72%. As of March 31, 2005, 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, 2004, 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 24 and 25 of Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 and is incorporated by reference as Exhibit 19 of this report.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Company's management conducted an evaluation with the participation of the Company's Chief Executive Officer and Chief Financial Officer, regarding the effectiveness of the Company's disclosure controls and procedures, as of the end of the last fiscal quarter. In designing and evaluating the Company's disclosure controls and procedures, the Company and its management recognize that any controls and procedures, no matter how well designed and operated, can provide only a reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating and implementing possible controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that they believe the Company's disclosure controls and procedures are reasonably 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. We intend to continue to review and document our disclosure controls and procedures, including our internal controls and procedures for financial reporting, and we may from time to time make changes to the disclosure controls and procedures to enhance their effectiveness and to ensure that our systems evolve with our business.

(b) Changes in internal controls.

There were no changes in the Company's internal controls over financial reporting identified in connection with the Company's evaluation of its disclosure controls and procedures that occurred during the Company's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings - None

Item 2. Unregistered Sales of Equity 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

Exhibit Number	Description of Exhibit
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	Supplemental Executive Retirement Plan. (incorporated by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
11	Statement re Computation of per share earnings
19	Company's quantitative and qualitative disclosure about market risk as discussed in the Company's Annual Report of Form 10-K for the fiscal year ended December 31, 2004.
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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, 2005 BY:/S/William J. Woodward

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

May 9, 2005 BY:/S/Richard P. Orsillo

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

INDEX OF EXHIBITS

Exhibit Number	Description of Exhibit
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	Supplemental Executive Retirement Plan. (incorporated by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
11	Statement re Computation of per share earnings
19	Company's quantitative and qualitative disclosure about market risk as discussed in the Company's Annual Report of Form 10-K for the fiscal year ended December 31, 2004.
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