

NORTHWAY FINANCIAL INC
Form PRER14A
June 20, 2007

Preliminary Copy

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
(Rule 14a-101)

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934 (Amendment No. 1)

Filed by the Registrant
Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
 Confidential, For Use of the Commission Only
(as permitted by Rule 14a-6(e)(2))
 Definitive Proxy Statement
 Definitive Additional Materials
 Soliciting Material Pursuant to §240.14a-12

Northway Financial, Inc.
(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
 Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.
1) Title of each class of securities to which transaction applies:
2) Aggregate number of securities to which transaction applies:
3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
4) Proposed maximum aggregate value of transaction:
5) Total fee paid:
 Fee paid previously with preliminary materials:
 Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
1) Amount previously paid:
2) Form, Schedule or Registration Statement No.:
3) Filing Party:
4) Date Filed:
-

July 19, 2007

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders ("Annual Meeting") of Northway Financial, Inc. ("Northway"), to be held on Tuesday, August 28, 2007 at 2:00 p.m. at The Town and Country Motor Inn, Route 2, Shelburne, New Hampshire 03581.

At the Annual Meeting you will be asked to consider and act upon the following:

- (1) To consider and vote on a proposal to amend the amended and restated articles of incorporation ("the Articles") of Northway to effect a 1-for-400 reverse split of Northway's common stock. The primary purpose and effect of this transaction is to reduce the number of holders of record of Northway's common stock below 300, thereby permitting Northway to apply to the Securities and Exchange Commission (the "SEC") to terminate registration of Northway's stock and suspend Northway's reporting obligations with the SEC. The text of the proposed amendment is attached as Appendix A-1 to the accompanying Proxy Statement;
- (2) To consider and vote on a proposal to amend the Articles to effect an 800-for-1 forward split of Northway's common stock. The text of the proposed amendment is attached as Appendix A-2 to the accompanying Proxy Statement;
- (3) to elect three (3) class I Directors to serve until the 2010 Annual Meeting and one (1) class III Director to serve until the 2009 Annual Meeting or until their respective successors are duly elected and qualified; and
- (4) to transact such other business as may properly come before the meeting and any adjournments or postponements thereof.

If approved at the Annual Meeting, the reverse/forward stock split transaction (the "Split Transaction") will affect our stockholders as follows:

STOCKHOLDER POSITION PRIOR TO SPLIT TRANSACTION	EFFECT OF SPLIT TRANSACTION
Stockholders holding in registered name 400 or more shares of common stock	Stockholders will ultimately hold twice as many shares of common stock.
Stockholders holding in registered name fewer than 400 shares of common stock	Shares will be converted into \$37.50 per share of common stock as a result of the reverse stock split.
Stockholders holding common stock in "street name" through a nominee (such as a bank or broker)	Northway intends for the Split Transaction to affect stockholders holding shares in street name in the same manner as those stockholders whose nominees will be asked to effect the Split Transaction. A stockholder whose beneficial owner is not considered the stockholder of record for purposes of the proposed charter amendments would operate only as a beneficial owner who held fewer than 400 shares of common stock before the reverse stock split would not have his or her shares converted. However, as a part of the Split Transaction, we plan to convert shares held in street name in the same manner as shares held in registered name. Accordingly, we will instruct nominees to convert Split Transaction shares held in street name in accounts held in the name of the nominee would not be legally obligated to follow our instructions with respect to the Split Transaction with respect to shares held by you in street name.

effect on any shares you hold in street name, you should ensure that your nominee effects the Split Transaction with respect to such shares to ensure that such shares will be subject to the Split Transaction and that you have such shares taken out of street name and registered.

If you hold shares of Northway common stock in “street name” through a nominee (such as a broker or a bank), the effect of the split transaction on your shares of common stock may be different than for record holders. Your nominee may or may not effect the split transaction on your shares of common stock held in street name. You should contact your nominee to determine how the split transaction will affect you.

The primary effect of this transaction is expected to reduce our total number of stockholders of record to below 300. As a result, we expect to terminate the registration of our common stock under federal securities laws, upon such termination, our reporting obligations with the SEC will be suspended, and we will no longer be eligible for trading on the NASDAQ Global Market.

We are proposing this transaction because our Board of Directors (the “Board”) has concluded, after careful consideration, that the costs and other disadvantages associated with being an SEC-reporting company outweigh the advantages. The reasons the Board reached this conclusion include:

- we estimate that we can eliminate current costs of approximately \$232,000 on an annual basis by eliminating the requirement to make periodic reports and reducing the expenses of stockholder communications;
- operating as a non-SEC reporting company will reduce the burden on our management that arises from increasingly stringent SEC reporting requirements, including requirements of the Sarbanes-Oxley Act of 2002 (“SOX”), thus allowing management to focus more of its attention on our customers and the communities in which we operate;
- at least 815 of our 1,087 record stockholders own fewer than 400 shares and the elimination of those small stockholders can be expected to reduce significantly our costs of stockholder communications; and
- these costs of being a public company outweigh the benefits to a well-capitalized company of our size, and terminating our public company status will free up management to focus more on long-term business opportunities beneficial to stockholders and customers.

The enclosed Proxy Statement includes a discussion of the alternatives and factors considered by the Board in connection with its approval of the reverse/forward stock split, and we encourage you to read carefully the Proxy Statement and its appendices. Your Board believes the terms of the proposed transaction are fair and are in the best interest of our stockholders, and unanimously recommends that you vote “FOR” the proposal to amend the Articles.

I, along with the other members of the Board, look forward to greeting you personally at the Annual Meeting. However, whether or not you plan to attend personally and regardless of the number of shares you own, it is important that your shares be represented. **You are urged to promptly sign, date and mail the enclosed proxy in the postage-paid envelope provided for your convenience.**

This will not prevent you from voting in person but will assure that your vote is counted if you are unable to attend.

Very truly yours,

William J. Woodward
Chairman of the Board

9 Main Street, Berlin, New Hampshire 03570/Telephone 603-752-1171

NORTHWAY FINANCIAL, INC.
9 Main Street
Berlin, New Hampshire 03570
Telephone 603-752-1171

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON TUESDAY, AUGUST 28, 2007

NOTICE IS HEREBY GIVEN THAT the Annual Meeting of Stockholders of Northway Financial, Inc. will be held on Tuesday, August 28, 2007 at 2:00 p.m. at The Town and Country Motor Inn, Route 2, Shelburne, New Hampshire 03581 for the following purposes:

- (1) to consider and vote on a proposal to amend the amended and restated articles of incorporation (the "Articles") of Northway Financial Inc. ("Northway") to effect a 1-for-400 reverse split of Northway's common stock. The primary purpose and effect of this transaction is to reduce the number of holders of record of Northway's common stock below 300, thereby permitting Northway to apply to the Securities and Exchange Commission (the "SEC") to terminate registration of Northway's common stock and suspend Northway's reporting obligations with the SEC. The text of the proposed amendment is attached as Appendix A-1 to the accompanying Proxy Statement;
- (2) to consider and vote on a proposal to amend the Articles to effect an 800-for-1 forward split of Northway's common stock. The text of the proposed amendment is attached as Appendix A-2 to the accompanying Proxy Statement;
- (3) to elect three (3) class I Directors to serve until the 2010 Annual Meeting of Stockholders and one (1) class III Director to serve until the 2009 Annual Meeting of Stockholders or until their respective successors are duly elected and qualified; and
- (4) to transact such other business as may properly come before the meeting and any adjournments or postponements thereof.

Although the reverse stock split and forward stock split are two separate proposals on which you may vote, unless both the reverse and forward stock splits are approved by stockholders, neither of the splits will be implemented. Thus, a vote in favor of one of stock splits but not the other effectively acts as a vote against both of the splits and the transactions described in this document. We cannot complete the stock splits unless both amendments are approved by holders of a majority of the outstanding shares of common stock. Approximately 15.1% of the shares of common stock are held by Directors and Executive Officers of Northway who have indicated they will vote in favor of the amendments.

Under New Hampshire Law, dissenters' rights are available to stockholders who receive cash for their fractional shares and take certain other steps to perfect their rights. Please see "THE SPLIT TRANSACTION -- SPECIAL FACTORS - Dissenters' Rights" for more information.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE STOCK SPLITS, PASSED UPON THE MERITS OR FAIRNESS OF THE STOCK SPLITS, OR PASSED UPON THE ADEQUACY OR ACCURACY OF THE DISCLOSURE IN THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

NO PERSON IS AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION NOT CONTAINED IN THIS PROXY STATEMENT AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION SHOULD NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY NORTHWAY.

The foregoing items are more fully described in the Proxy Statement accompanying this Notice.

The Board of Directors has fixed the close of business on June 29, 2007 as the record date for determining stockholders entitled to notice of and to vote at the Annual Meeting and any adjournments or postponements thereof. Only holders of common stock of record at the close of business on that date will be entitled to notice of and to vote at the Annual Meeting and any adjournments or postponements thereof.

By Order of the Board of Directors

Joseph N. Rozek
Secretary
Berlin, New Hampshire
July 19, 2007

YOUR VOTE IS IMPORTANT

WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING IN PERSON, YOU ARE REQUESTED TO COMPLETE, DATE, SIGN AND RETURN THE ENCLOSED PROXY CARD IN THE ENCLOSED ENVELOPE, WHICH REQUIRES NO POSTAGE IF MAILED IN THE UNITED STATES. IF YOU ATTEND THE ANNUAL MEETING, YOU MAY VOTE IN PERSON IF YOU WISH, EVEN IF YOU HAVE PREVIOUSLY RETURNED YOUR PROXY CARD.

NORTHWAY FINANCIAL, INC.
9 Main Street
Berlin, New Hampshire 03570
Telephone 603-752-1171

PROXY STATEMENT

**ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON TUESDAY, AUGUST 28, 2007**

This Proxy Statement and accompanying form of proxy are furnished in connection with the solicitation of proxies on behalf of the Board of Directors ("Board") of Northway Financial, Inc., a New Hampshire corporation ("Northway"), for use in voting at the Annual Meeting of Stockholders (the "Annual Meeting") to be held at 2:00 p.m. on August 28, 2007, at The Town and County Motor Inn, Route 2, Shelburne, New Hampshire 03581 and at any postponements or adjournments thereof. This Proxy Statement and accompanying form of proxy were mailed on or about July 19, 2007 to stockholders of record at the close of business on June 29, 2007 in connection with the solicitation.

This Proxy Statement provides detailed information about a proposal to amend Northway's amended and restated articles of incorporation (the "Articles") to effect a 1-for-400 reverse stock split of Northway's common stock, followed immediately by an 800-for-1 forward stock split of Northway's common stock (collectively the "Split Transaction"). If the Split Transaction is completed:

- Each holder of fewer than 400 shares of common stock immediately before the reverse stock split will receive \$37.50, without interest, for each share of common stock held immediately before the reverse stock split and will no longer be a stockholder of Northway; and
- Each holder of 400 or more shares of common stock immediately before the reverse stock split will participate in an 800-for-1 forward stock split, which will result in such holder owning twice as many shares of common stock after the forward stock split as such holder owned immediately before the reverse stock split.

At the close of business on June 29, 2007, there were outstanding and entitled to vote 1,494,174 shares of Northway's common stock, par value of \$1.00 per share.

Each stockholder is entitled to one vote per share upon each matter submitted at the Annual Meeting. Only stockholders of record at the close of business on June 29, 2007 shall be entitled to vote at the Annual Meeting.

The proxies of holders of common stock are being solicited by the Board. Stockholders are requested to complete, date, sign and promptly return the accompanying proxy card in the enclosed envelope. Shares represented by a properly executed proxy received prior to the vote at the Annual Meeting and not revoked will be voted at the Annual Meeting as directed in the proxy. **IF A PROXY IS SUBMITTED AND NO DIRECTIONS ARE GIVEN, THE PROXY WILL BE VOTED "FOR" THE APPROVAL OF THE PROPOSALS TO BE CONSIDERED AT THE ANNUAL MEETING.**

A person giving the enclosed proxy may revoke it by filing an instrument of revocation with Joseph N. Rozek, Secretary, Northway Financial, Inc., 9 Main Street, Berlin, New Hampshire 03570. Any such person may also revoke a proxy by filing a duly executed proxy bearing a later date, or by appearing at the Annual Meeting in person, notifying the Secretary, and voting by ballot at the Annual Meeting. Any stockholder of record attending the Annual Meeting may vote in person whether or not a proxy has been previously given, but the mere presence (without notifying the Secretary) of a stockholder at the Annual Meeting will not constitute revocation of a previously given

proxy.

Northway will bear the cost of soliciting proxies from the stockholders, including mailing costs, and will pay all printing costs in connection with this Proxy Statement. Northway has retained The Altman Group, Inc. to help the Board solicit proxies and expects to pay a base fee of \$5,000, fees based upon the number of stockholder contacts plus reasonable out-of-pocket expenses for its help. In addition to the use of the mails, proxies may be solicited on Northway's behalf by the Directors, officers, and certain employees of Northway and Northway Bank, and by personal interviews, telephone and facsimile. Such Directors, officers and employees will not receive additional compensation for such solicitations but may be reimbursed for reasonable out-of-pocket expenses incurred in connection therewith. Northway may also make arrangements with brokerage houses and other custodians, nominees, and fiduciaries for the forwarding of solicitation material to the beneficial owners of its common stock. Northway may reimburse such custodians, nominees, and fiduciaries for reasonable out-of-pocket expenses incurred in connection therewith.

The presence in person or by proxy of the holders of a majority of the issued and outstanding shares entitled to vote at the Annual Meeting is required to constitute a quorum. Abstentions and “broker non-votes” (as defined below) will be counted as present for purposes of determining the presence or absence of a quorum for the transaction of business at the Annual Meeting, but as unvoted for purposes of determining the approval of any matter submitted to the stockholders for a vote. A “broker non-vote” is a proxy from a broker or other nominee indicating that such person has not received instructions from the beneficial owner or other person entitled to vote the shares which are the subject of the proxy on a particular matter and with respect to which the broker or other nominee does not have discretionary voting power.

Northway is a New Hampshire corporation and the parent of Northway Bank, a New Hampshire-chartered bank based in Berlin, New Hampshire, Northway Capital Trust I, a Delaware statutory business trust, Northway Capital Trust II, a Delaware statutory business trust, and Northway Capital Trust III, a Delaware statutory business trust. Unless the context otherwise requires, references herein to the “Company” include Northway Financial, Inc. and its consolidated subsidiary, Northway Bank.

FORWARD-LOOKING STATEMENTS

Certain statements in this report are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995; however, any statements made in connection with the Split Transaction are specifically excluded from the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act. Such forward-looking statements may include, but are not limited to, projections of revenue, income or loss, plans for future operations and acquisitions, projections based on assumptions regarding market and liquidity risk, 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. To the extent any such risks, uncertainties and contingencies are realized, the Company’s actual results, performance or achievements could differ materially from anticipated results, performance or achievements. Factors that might affect such forward-looking statements include, among other factors, overall economic and business conditions, economic and business conditions in the Company’s market areas, interest rate fluctuations, a prolonged continuation of the current interest rate environment, the demand for the Company’s products and services, competitive factors in the industries in which the Company competes, changes in government regulations, and the timing, impact and other uncertainties of future acquisitions.

In addition to the factors described above, the following are some additional factors that could cause our financial performance to differ from any forward-looking statement contained herein: i) changes in interest rates over the past year and the relative relationship between the various interest rate indices that the Company uses; ii) a deterioration in the financial markets affecting the valuation of securities held in the Company’s investment portfolio; (iii) a change in product mix attributable to changing interest rates, customer preferences or competition; iv) a significant portion of the Company’s loan customers are in the hospitality business and therefore could be affected by a slower economy, adverse weather conditions and/or rising gasoline prices; and v) the effectiveness of advertising, marketing and promotional programs.

The words “believe,” “expect,” “anticipate,” “intend,” “estimate,” “project” or the negative of such terms and other similar expressions which are predictions of or indicate future events and trends and which do not relate to historical matters identify forward-looking statements. Reliance should not be placed on forward-looking statements because they involve known or unknown risks, uncertainties or other factors, which may cause the actual results, performance or achievements of the Company to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. Northway expressly disclaims any obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Though the Company has attempted to list comprehensively the factors which might affect forward-looking statements, the Company wishes to caution you that other factors may in the future prove to be important in affecting the Company’s results of operations. New factors emerge from time-to-time and it is not possible for management to anticipate all of such factors, nor can it assess the impact of each such factor, or combination of factors, which may cause actual results to differ materially from forward-looking statements.

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SUMMARY TERM SHEET

This summary provides an overview of material information from this Proxy Statement. However, it is a summary only. To better understand the reverse stock split and forward stock Split Transaction and for a more complete description of its terms, and for a description of other matters to be considered at the Annual Meeting, we encourage you to read carefully this entire document and the documents to which it refers before voting.

In this Proxy, the term "non-continuing stockholders" of Northway means all holders of common stock of Northway with fewer than 400 shares at the effective time of the reverse stock Split Transaction who will be cashed out as a result of the Split Transaction. The term "continuing stockholders" means all holders of common stock of Northway with at least 400 shares at the effective time of the reverse stock Split Transaction. References to "common stock" or "shares" refer to the Northway's common stock, par value \$1.00 per share. Northway intends for the Split Transaction to affect "street name" stockholders in the same way as those holding shares in a record account, and nominees will be asked to effect the Split Transaction for their beneficial owners. However, nominees may choose not to effect the Split Transaction on street name shares. See "SUMMARY TERM SHEET -- Treatment of Shares Held in 'Street Name'".

Proposals to be Considered at the Annual Meeting

At the Annual Meeting, stockholders will be asked:

- (1) To consider and vote on a proposal to amend Northway's articles of incorporation to effect a 1-for-400 reverse split of Northway's common stock. The primary purpose and effect of this transaction is to reduce the number of holders of record of Northway's common stock below 300, terminate the registration of the common stock, and suspend Northway's reporting obligations with the SEC. The text of the proposed amendment is attached as Appendix A-1 to the accompanying Proxy Statement;
- (2) To consider and vote on a proposal to amend Northway's articles of incorporation to effect an 800-for-1 forward split of Northway's common stock. The text of the proposed amendment is attached as Appendix A-2 to the accompanying Proxy Statement;
- (3) to elect three (3) class I Directors to serve until the 2010 Annual Meeting and one (1) class III Director to serve until the 2009 Annual Meeting or until their respective successors are duly elected and qualified; and
- (4) to transact such other business as may properly come before the meeting and any adjournments or postponements thereof.

Stockholders are also being asked to consider and vote upon any other matters that may properly be submitted to a vote at the meeting or any adjournment or postponement of the Annual Meeting. See "ABOUT THE ANNUAL MEETING."

Record Date

You may vote at the Annual Meeting if you owned Northway common stock at the close of business on June 29, 2007, which has been set as the record date. At the close of business on the record date, there were 1,494,174 shares of Northway's common stock, par value of \$1.00 per share, outstanding and entitled to vote. You are entitled to one vote on each matter considered and voted upon at the Annual Meeting for each share of common stock you held of record at the close of business on the record date.

Vote Required for Approval

The Reverse/Forward Stock Split. Approval of the Split Transaction requires the affirmative vote of the holders of a majority of all outstanding shares of our common stock entitled to vote at the Annual Meeting, or 747,088 of the 1,494,174 outstanding shares. Although the reverse stock split and forward stock split are two separate proposals on which stockholders may vote, unless both of the proposals are approved by stockholders, neither of the splits will be implemented. Because the Directors and Executive Officers of Northway have the power to vote a total of 225,111 shares and all of such Directors and Executive Officers have indicated they will vote in favor of the transaction, we believe that a total of 521,977 shares held by stockholders who are not Executive Officers or Directors of Northway will be required to vote in favor of the transaction for it to be approved. Because the Directors and Executive Officers of Northway own only approximately 15.1% of the voting power of our outstanding common stock, there is no assurance that the Split Transaction will be approved.

Election of Directors. Directors will be elected by a plurality of the votes cast at the Annual Meeting. Plurality means that the individuals who receive the largest number of votes cast are elected up to the maximum number of Directors to be elected at the meeting.

The Company

Northway is a New Hampshire corporation and the parent of Northway Bank (the "Bank"), a New Hampshire-chartered bank with a business address of 9 Main Street, Berlin, New Hampshire, 03570 and a business telephone number of (603) 752-1171. Northway derives substantially all of its revenue and income from the furnishing of bank and bank-related services, principally to individuals and small and medium-sized companies in New Hampshire. The Bank operates as a typical community banking institution and does not engage in any specialized finance or capital market activities. Northway functions primarily as the holder of stock of the Bank and assists the management of the Bank as appropriate.

The Bank is engaged in a general commercial banking business and offers commercial and construction loans, real estate mortgages, consumer loans, including personal secured and unsecured loans, and lines of credit. The Bank accepts savings, time, demand, NOW and money market deposit accounts, and offers a variety of banking services including safe deposit boxes, credit cards, official checks and money orders, overdraft lines of credit, alternative investments, commercial cash management, and wire transfer services.

Introduction and Overview of the Split Transaction

If approved, the Split Transaction will consist of the following steps:

- A 1-for-400 reverse stock split of Northway common stock will occur on the date that the New Hampshire Secretary of State accepts for filing articles of amendment to the Articles (such date, the "Effective Date"). As a result:

Each record holder of less than 400 shares of common stock immediately before the reverse stock split will receive from Northway cash in the amount of \$37.50, without interest, for each share of common stock held immediately before the reverse stock split and will no longer be a stockholder of Northway; and

Each record holder of 400 or more shares of common stock immediately prior to the reverse stock split will own one one-four-hundredth of the number of shares of common stock the stockholder immediately before the reverse stock split. We will not purchase any fractional shares of common stock (i.e., less than one whole common share) held by record holders of 400 or more shares of common stock on the Effective Date and we will not make any payments to holders of 400 or more shares of our common stock.

- After completion of the reverse stock split, each holder of 400 or more shares of common stock immediately before the reverse stock split will participate in a 800-for-1 forward stock split, which will result in such holder owning twice the number of shares of common stock after the forward stock split as such holder owned immediately before the reverse stock split.
- If you are a record holder who holds less than 400 shares of common stock but do not want to be cashed out in the Split Transaction, you may remain a stockholder of Northway by purchasing a sufficient number of shares of common stock in the open market, to the extent available, far enough in advance of the Split Transaction so that you hold at least 400 shares of common stock on the Effective Date. Conversely, if you are a record holder of 400 or more shares of common stock and want to be cashed out in the Split Transaction, you may do so by selling a sufficient number of shares of common stock in the open market far enough in advance of the Split Transaction so that you hold less than 400 shares of common stock on the Effective Date. However, given the limited trading volume in our shares of common stock, you may not be able to purchase or sell enough shares of common stock to remain a stockholder of Northway or liquidate shares of common stock, as the case may be. In the absence of an active trading market for the common stock, you would have to acquire or sell Northway shares in a privately negotiated transaction, which would require you to identify one or more additional holders of Northway common stock who desire to sell or purchase Northway common stock.
- If you hold shares of Northway common stock in "street name" through a nominee (such as a broker or a bank), the effect of the Split Transaction on your shares of common stock may be different than for record holders. Northway intends for the Split Transaction to affect "street name" stockholders the same as stockholders holding shares in a record account, and nominees will be asked to effect the Split Transaction for their beneficial owners. See "SUMMARY TERM SHEET -- Treatment of Shares Held in 'Street Name'".

A record holder is a stockholder who is listed as the registered owner on the books and records of Northway. Record holders have been issued stock certificates evidencing their ownership of shares in Northway. By contrast, "street name" holders are stockholders who hold their shares through a nominee (such as a broker or a bank). Street name holders will not have stock certificates issued by Northway; rather, their ownership is noted on the nominee's records.

Based upon an analysis of Northway's stockholder base as of March 28, 2007, we expected to pay a total of approximately \$4,889,000 to stockholders in the reverse stock split and we anticipated that the number of outstanding shares of our common stock would decrease by approximately 8.7%, from 1,494,174 shares to approximately 1,363,797 shares as a result of the Split Transaction. Based upon recent trading activity, Northway believes that these numbers and amounts will change, and the cost of the transaction could increase significantly, as a result of further

trading activity in our shares between the date hereof and the effective date of the Split Transaction. See “THE SPLIT TRANSACTION--SPECIAL FACTORS--Overview of the Split Transaction.”

Background of the Split Transaction

For a description of the events leading to the approval of the Split Transaction by our Board and the reasons for its approval, you should refer to “THE SPLIT TRANSACTION--SPECIAL FACTORS--Background of the Split Transaction,” “--Reasons for the Split Transaction”, “--Fairness of the Split Transaction,” and “--Board Recommendation” on pages 10 through 19. As we explain more fully in these sections, our Board considered and rejected various alternative methods of effecting a transaction that would enable us to become a non-SEC reporting company, while remaining an independently-owned, community-based bank.

Reasons for the Split Transaction

Northway is undertaking the Split Transaction at this time to terminate its SEC reporting obligations, which will save Northway and our stockholders the substantial costs associated with being a reporting company. The following are the principal reasons for the Split Transaction:

- To achieve cost savings, including estimated annual cost savings of approximately \$232,000, by eliminating the requirement to make periodic reports under the Securities Exchange Act of 1934 and reducing the expenses of stockholder communications, and estimated cost savings of approximately \$10,000 in 2007 and \$85,000 in 2008 as a result of not having to comply with Section 404 of the Sarbanes-Oxley Act.
- To give stockholders who own fewer than 400 shares of common stock immediately prior to the Split Transaction the opportunity to liquidate their shares of common stock at a fair price and with minimal transaction costs.
- The Split Transaction constitutes the most expeditious, efficient, cost effective and fair method to convert Northway from a public reporting company to a privately-held, non-reporting company of the alternatives considered by the Board.
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Preliminary Proxy

- Northway has not realized many of the benefits normally associated with being a public reporting company, such as access to capital markets and an active trading market for our shares of common stock.

Please see the sections of this document entitled “THE SPLIT TRANSACTION--SPECIAL FACTORS -- Reasons for the Split Transaction” and “THE SPLIT TRANSACTION--SPECIAL FACTORS - Effects of the Split Transaction” for a more detailed discussion of the principal reasons for the Split Transaction

Fairness of the Split Transaction

Based on a careful review of the facts and circumstances relating to the Split Transaction, our Board believes that the Split Transaction and the terms and provisions of the Split Transaction, including the cash to be paid to the non-continuing stockholders, are substantively and procedurally fair to our unaffiliated stockholders, including unaffiliated stockholders that are continuing stockholders and unaffiliated stockholders that are non-continuing stockholders. Our Board unanimously approved the Split Transaction. See “THE SPLIT TRANSACTION--SPECIAL FACTORS--Fairness of the Split Transaction.”

For a complete discussion of the positive and negative factors considered by the Board, please see pages 16 through 18.

Fairness Opinion of Northeast Capital & Advisory, Inc.

In deciding to approve the Split Transaction and recommend it to our stockholders, our Board considered the opinion of Northeast Capital & Advisory, Inc. (“Northeast Capital”) that the \$37.50 per share consideration proposed to be paid to the non-continuing stockholders, whether affiliated or unaffiliated, is fair from a financial point of view to those stockholders.

The full text of the fairness opinion is attached to this Proxy Statement as Appendix B-1, and you are encouraged to read it carefully. See “THE SPLIT TRANSACTION--SPECIAL FACTORS--Fairness Opinion of Northeast Capital.”

Structure of the Split Transaction

The Split Transaction has been structured as a two-step stock split because the reverse stock split will enable us to reduce the number of our stockholders of record to fewer than 300, while the forward stock split will bring the trading price per share of our common stock to a level more typical for a community bank holding company. See “THE SPLIT TRANSACTION--SPECIAL FACTORS--Background of the Split Transaction” beginning on page 10. See SUMMARY TERM SHEET -- Treatment of Shares Held in ‘Street Name’”.

If you hold shares of Northway common stock in “street name” through a nominee (such as a broker or a bank), the effect of the Split Transaction on your shares of common stock may be different than for record holders. Northway intends for the Split Transaction to affect stockholders holding common stock through a nominee (such as a broker or bank) the same as those holding shares in a record account and nominees will be asked to effect the Split Transaction for their beneficial owners. However, a beneficial owner is not considered the stockholder of record of shares held in street name. The proposed charter amendments would operate only at the record holder level. As a result, a beneficial owner who held fewer than 400 shares of common stock in street name immediately before the reverse stock split would not have his or her shares cashed out in the transaction. However, as a part of the Split Transaction, we plan to work with nominees to treat stockholders holding shares in street name in the same manner as stockholders whose shares are registered in their names. Accordingly, we will instruct nominees to submit to us to be cashed out in the Split Transaction shares held in street name in accounts holding fewer than 400 shares. However, your nominee would not be legally obligated to follow our instructions or work with us to effect the Split Transaction with respect to shares

held by you in street name. To determine the Split Transaction's effect on any shares you hold in street name, you should contact your nominee. Whether or not your nominee effects the Split Transaction with respect to shares you hold in street name, you may ensure that such shares will be subject to the Split Transaction by working through your nominee to have such shares taken out of street name and registered directly in your name.

Effects of the Split Transaction

The Split Transaction is a "going private" transaction for Northway, meaning it will allow us to deregister with the SEC and suspend our reporting obligations under federal securities laws.

For a further description of how the Split Transaction will affect our stockholders, including the different effects on the affiliated and unaffiliated continuing and non-continuing stockholders, please see "THE SPLIT TRANSACTION--SPECIAL FACTORS--Fairness of the Split Transaction--Substantive Fairness" on pages 16 and 17.

For more information on the effects on Northway of the Split Transaction, see "THE SPLIT TRANSACTION--SPECIAL FACTORS--Effects of the Split Transaction on Northway."

Interests of Certain Persons in the Split Transaction

You should be aware that the Directors and Executive Officers of Northway have interests in the Split Transaction that may present actual or potential, or the appearance of actual or potential, conflicts of interest in connection with the Split Transaction. Although it is not anticipated that the Split Transaction will have any effect on the Board and Executive Officers of Northway, other than with respect to their relative share ownership, because total outstanding shares will be reduced, the Directors and Executive Officers as a group will hold a larger relative percentage of Northway following the transaction. As of the record date, the Directors and Executive Officers collectively beneficially held 252,611 shares, or 16.9% of our common stock. Based upon our estimates, taking into account the effect of the Split Transaction on our outstanding shares as described above, the Directors and Executive Officers will beneficially hold 18.5% of our common stock following the Split Transaction.

See "THE SPLIT TRANSACTION--SPECIAL FACTORS--Interests of Certain Persons in the Split Transaction."

Financing of the Split Transaction

We estimate that the total funds required to fund the payment of the Split Transaction consideration to the non-continuing stockholders and to pay fees and expenses relating to the Split Transaction will be approximately \$5,112,000. This amount may increase as a result of trading activity in our shares between the date hereof and the effective date of the Split Transaction. Northway has sufficient working capital to pay this amount or reasonably anticipated increases in this amount.

Material Federal Income Tax Consequences of the Split Transaction

We believe that the Split Transaction, if approved and completed, will have the following federal income tax consequences:

- the Split Transaction should result in no material federal income tax consequences to us;
- the continuing stockholders, whether affiliated or unaffiliated, will not recognize any gain or loss or dividend income in connection with the Split Transaction; and
- the receipt of cash in the Split Transaction by non-continuing stockholders, whether affiliated or unaffiliated, will be taxable to those stockholders, who will generally recognize gain or loss in the Split Transaction in an amount determined by the difference between the cash they receive and their adjusted tax basis in their common stock surrendered. Any such recognized gain will be treated as capital gain unless, in the case of the particular stockholder, the receipt of the cash is deemed to have the effect of a dividend.
- Northway has not realized many of the benefits normally associated with being a public reporting company, such as access to capital markets and an active trading market for our shares of common stock.

Please see the sections of this document entitled “THE SPLIT TRANSACTION--SPECIAL FACTORS -- Reasons for the Split Transaction” and “THE SPLIT TRANSACTION--SPECIAL FACTORS - Effects of the Split Transaction” for a more detailed discussion of the principal reasons for the Split Transaction. Because determining the tax consequences of the Split Transaction can be complicated, you should consult your own tax advisor to understand fully how the Split Transaction will affect you. See “THE SPLIT TRANSACTION--SPECIAL FACTORS--Federal Income Tax Consequences.”

Dissenters' Rights

Under New Hampshire law, non-continuing stockholders will have dissenters' rights in connection with the Split Transaction. In order to exercise dissenters' rights, a stockholder (i) must deliver a written notice to Northway, prior to the annual meeting, stating that the stockholder intends to exercise his dissenters' rights and demanding payment for his shares if the Split Transaction is completed, and (ii) must not vote his shares in favor of the Split Transaction. Any stockholder who does not deliver the required notice prior to the meeting, or who votes in favor of the Split Transaction, will not have dissenters' rights under New Hampshire Law.

Although you will not have appraisal rights in connection with the Split Transaction if you are a continuing stockholder, you may pursue all available remedies under applicable law. See “THE SPLIT TRANSACTION -- SPECIAL FACTORS - Dissenters' Rights.”

Termination of Stock Splits

The Board may, in its discretion, at any time prior to filing the Articles with the Secretary of State of New Hampshire, decide not to implement the Split Transaction if it believes the Split Transaction would not be in the best interests of

Northway. The Board intends to complete the Split Transaction if it is approved by Northway's stockholders, and the Board is unaware of any circumstance that would cause it to abandon the Split Transaction, other than (i) an unacceptable increase in transaction costs resulting from purchases or sales of shares prior to the effective date of the Split Transaction apparently made solely for the purpose of receiving the premium to be paid to holders of fewer than 400 shares or (ii) a determination that the 1-for-400 reverse split will not reduce the number of stockholders of record to fewer than 300 (unless the Board determines that further reduction of the number of stockholders of record is likely to result in fewer than 300 stockholders of record within a reasonable period of time). The Board will not make its final determination whether to implement the Split Transaction until it has received a conclusive tally of the number of shares to be repurchased, the cost of the repurchase and the number of stockholders of record who would remain if the Split Transaction were implemented. See "THE SPLIT TRANSACTION -- SPECIAL FACTORS -- Overview of the Split Transaction"

Recommendation of the Board

Our Board has determined that the Split Transaction is advisable and in the best interests of Northway's stockholders, including affiliated and unaffiliated stockholders. The Board concluded that the Split Transaction was substantively and procedurally fair to our non-continuing stockholders based upon the premium to be received in the transaction as well as the fact that no brokerage or other transaction costs are to be incurred. The Split Transaction was deemed to be substantively and procedurally fair to our continuing stockholders due to the fact that they will continue to participate in our future growth and earnings and they will recognize the benefits of reduced expenses associated with becoming a non-SEC-reporting company. Our Board has unanimously approved the Split Transaction and recommends that you vote "FOR" approval of the Split Transaction at the Annual Meeting by voting "FOR" the proposed amendments to the Articles that will effect the Split Transaction.

Our Board also recommends that you vote "FOR" the Director Nominees, namely Fletcher W. Adams, Arnold P. Hanson, Jr., John H. Noyes and William J. Woodward.

**QUESTIONS AND ANSWERS ABOUT THE
SPLIT TRANSACTION AND THE ANNUAL MEETING**

Q: What is the date, time and place of the Annual Meeting?

A: The Annual Meeting of our stockholders will be held at 2:00 p.m. on August 28, 2007 at The Town and Country Motor Inn, Route 2, Shelburne, New Hampshire 03581.

Q: Why is 400 shares the cutoff number for determining which stockholders will be cashed out and which stockholders will remain as stockholders of Northway?

A: The purpose of the Split Transaction is to reduce the number of our stockholders of record to fewer than 300, which will allow us to de-register as an SEC-reporting company. Our Board selected 400 shares as the “cutoff” number in order to enhance the probability that after the Split Transaction, if approved, we will have fewer than 300 stockholders of record.

Q: What is the difference between being a stockholder of record and holding shares in “street name”?

A: Many of our stockholders hold their shares through a nominee (such as a broker or bank) rather than directly in their own name. If your shares are registered directly in your name with our transfer agent, Computershare, you are considered, with respect to those shares, the stockholder of record. If you received a stock certificate evidencing your ownership of Northway, then you are a stockholder of record. However, if your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the “beneficial owner” of shares held in “street name” with respect to those shares.

Q: If I am a beneficial owner and hold shares in street name, how will the Split Transaction affect me?

A: If you are a beneficial owner holding 400 or more shares in street name in an account with a nominee, you will not be cashed out in the Split transaction. If you are a beneficial owner holding fewer than 400 shares in street name in an account with a nominee, you may or may not have your shares cashed out in the Split Transaction. Under New Hampshire law, a beneficial owner is not considered the stockholder of record of shares held in street name. The proposed charter amendments would operate only at the record holder level. As a result, a beneficial owner who held fewer than 400 shares in street name immediately before the reverse stock split would not have his or her shares cashed out in the transaction. However, as a part of the Split Transaction, we plan to work with nominees to treat stockholders holding shares in street name in the same manner as stockholders whose shares are registered in their names. Accordingly, we will instruct nominees to submit to us to be cashed out in the transaction shares held in street name in accounts holding fewer than 400 shares. However, your nominee will not be legally obligated to follow our instructions or work with us to effect the transaction with respect to shares held by you in street name. Therefore, to determine the transaction’s effect on any shares you hold in street name, you should contact your broker, bank or other nominee. Whether or not your nominee effects the Split Transaction with respect to shares you hold in street name, you may ensure that such shares will be subject to the transaction by working through your nominee to have such shares taken out of street name and registered directly in your name.

Q: What is the recommendation of our Board regarding the proposal?

A: Our Board has determined that the Split Transaction is advisable and in the best interests of Northway’s stockholders, including affiliated and unaffiliated stockholders. The Board concluded that the Split Transaction was substantively and procedurally fair to our non-continuing stockholders based upon the premium to be received on the transaction as well as the fact that no brokerage or other transaction costs are to be incurred. The Split

Transaction was deemed to be substantively and procedurally fair to our continuing stockholders due to the fact that they will continue to participate in our future growth and earnings and they will recognize the benefits of reduced expenses associated with becoming a non-SEC-reporting company. Our Board has unanimously approved the Split Transaction and recommends that you vote "FOR" approval of the Split Transaction at the Annual Meeting.

Q: What percentage of shares held by insiders are expected to vote for the proposals?

A: As of the record date, Directors and Executive Officers collectively beneficially held 225,111 shares, or approximately 15.1% of our common stock, and have indicated they will vote in favor of the proposals.

Q: When is the Split Transaction expected to be completed?

A: If the proposed amendments to the Articles are approved at the Annual Meeting, we expect the Split Transaction to be completed as soon as practicable thereafter. We need to file the amendments with the New Hampshire Secretary of State for the Split Transaction to become effective. Prior to authorizing the filing of the amendments, however, the Board will review a conclusive tally of the number of shares to be repurchased, the cost of the repurchase and the number of stockholders of record who would remain if the Split Transaction were implemented. At that time, the Board may determine not to proceed with the Split Transaction because the resulting transaction costs are unacceptably higher than expected or that the number of stockholders of record will not be reduced below 300, which would likely be due to trading activity prior to the effective date of the Split Transaction. Conversely, the Board may determine to proceed with the Split Transaction despite the fact that the costs are higher than expected or where the resulting number of stockholders of record will be greater than 300; but in circumstances where the number of such stockholders of record may fall below 300 within a reasonable period of time. In any event, the Board will only authorize the filing of the amendments if after such a review the Board continues to believe that the Split Transaction is in the best interests of Northway.

Q: Who is entitled to vote at the Annual Meeting?

A: Holders of record of our common stock as of the close of business on June 29, 2007, are entitled to vote at the Annual Meeting. Each of our stockholders is entitled to one vote for each share of our common stock owned at the record date.

Q: What vote is required for our stockholders to approve the Split Transaction?

A: For the amendments to the Articles to be adopted and the Split Transaction to be approved, holders of a majority of the outstanding shares entitled to vote at the Annual Meeting must vote “FOR” the Split Transaction.

Q: What if the proposed Split Transaction is not completed?

A: It is possible that the proposed Split Transaction will not be completed. The proposed Split Transaction will not be completed if, for example, the holders of a majority of our common stock do not vote to adopt the proposed amendments to the Articles and approve the proposed Split Transaction. Alternatively, as noted above, even if stockholder approval is received, if the Board determines that it is not in the best interests of Northway’s stockholders to complete the transaction, the Board may decide to abandon it. If the Split Transaction is not completed, we will continue our current operations, and we will continue to be subject to the reporting requirements of the SEC.

Q: What happens if I do not return my proxy card?

A: Because the affirmative vote of the holders of a majority of the shares of our common stock outstanding on the record date is required to approve the Split Transaction, unless you vote in person, a failure to return your proxy card will have the same effect as voting against the Split Transaction proposal.

Q: If my shares are held for me by my broker, will my broker vote those shares for me?

A: Your broker will vote your shares only if you provide instructions to your broker on how to vote. You should instruct your broker on how to vote your shares using the voting instruction card provided by your broker.

Q: Can I change my vote after I have mailed my proxy card?

A: Yes. You can change your vote at any time before your proxy is voted at the Annual Meeting by following the procedures outlined in this Proxy Statement.

Q: Do I need to attend the Annual Meeting in person?

A: No. You do not have to attend the Annual Meeting to vote your Northway shares.

Q: Will I have appraisal or dissenters’ rights in connection with the Split Transaction?

A: Under New Hampshire law, which governs the Split Transaction, if you are a non-continuing stockholder you will have the right to demand the appraised value of your shares or any other dissenters’ rights if you vote against the proposed Split Transaction. If you are a continuing stockholder, or you do not vote against the proposed transaction, you will not have the right to demand the appraised value of your shares. Your rights are described in more detail under “THE SPLIT TRANSACTION--SPECIAL FACTORS--Dissenters’ Rights” at page 29.

Q: If I am a stockholder of record, should I send in my stock certificates now?

A: No. If you are the registered owner of fewer than 400 shares of common stock on the date the Split Transaction is completed, our transfer agent will send you a Letter of Transmittal with written instructions for exchanging your stock certificates for cash. You will not receive your cash payment until you tender your stock certificates together with a completed and signed copy of the Letter of Transmittal. Please do not send your stock certificates until you receive your Letter of Transmittal. All amounts owed to you will be subject to state abandoned property laws. If

you are the registered owner of 400 or more shares of our common stock, no action is required. Our transfer agent will send you a cover letter with a new stock certificate representing the additional shares issued on your behalf.

Q: If I am the registered owner of fewer than 400 shares and cannot locate my stock certificates, what should I do?

A: If you are a registered owner of fewer than 400 shares on the date the Split Transaction is completed, you will be sent a Letter of Transmittal with instructions for tendering your stock certificates for cash. Those instructions will explain what to do if you cannot find your stock certificates. Generally, you will need to submit a lost share affidavit and a fee for a surety bond in lieu of submitting the lost, misplaced or destroyed stock certificate. You will not receive your cash payment until you submit a lost share affidavit and fee. All amounts owed to you will be subject to state abandoned property laws.

Q: Where can I find more information about Northway?

A: We file periodic reports and other information with the SEC. You may read and copy this information at the SEC's public reference facilities. Please call the SEC at 1-800-SEC-0330 for information about these facilities. This information is also available at the Internet site maintained by the SEC at <http://www.sec.gov>. General information about us is available at our Internet site at www.northwaybank.com; the information on our Internet site is not incorporated by reference into this Proxy Statement and does not form a part of this Proxy Statement. For a more detailed description of the information available, please see page 45.

Q: Who can help answer my questions?

A: If you have questions about the Split Transaction after reading this Proxy Statement or need assistance in voting your shares, you should contact Richard P. Orsillo, our Chief Financial Officer, at (603) 752-1171.

ABOUT THE ANNUAL MEETING

Date, Time and Place of Annual Meeting

Our Board is asking for your proxy for use at our Annual Meeting of stockholders to be held at 2:00 p.m. on August 28, 2007 at The Town and Country Motor Inn, Route 2, Shelburne, New Hampshire 03581, and at any adjournments or postponements of that meeting.

Matters to be Considered at the Annual Meeting

The purpose of the Annual Meeting is for you to consider and vote upon:

Proposal 1: The adoption of an amendment to the Articles that will result in a reverse stock split in which each 400 shares of our common stock held in the record name of a stockholder at the effective time of the reverse stock split will be converted into one share of common stock. Each record stockholder owning fewer than 400 shares of common stock immediately prior to the reverse stock split will receive a cash payment of \$37.50 per share on a pre-split basis.

Proposal 2: The adoption of an amendment to the Articles of incorporation that will result in a forward stock split, in which each share of common stock outstanding after completion of the reverse stock split will be converted into 800 shares of common stock.

Proposal 3: The election of three Directors to serve until 2010 and one Director to serve until 2009.

Stockholders are also being asked to consider and vote upon any other matters that may properly be submitted to a vote at the Annual Meeting or any adjournment or postponement of the Annual Meeting. The Board is not aware of any other business to be conducted at the Annual Meeting.

Record Date; Voting Power

You may vote at the Annual Meeting if you were the record owner of shares of our common stock at the close of business on June 29, 2007, which has been set as the record date. At the close of business on the record date, there were 1,494,174 outstanding shares of our common stock, par value of \$1.00 per share. You are entitled to one vote on each matter considered and voted upon at the Annual Meeting for each share of common stock you held of record at the close of business on the record date.

Quorum

The presence, in person or by proxy, of a majority of our outstanding shares is necessary to constitute a quorum at the Annual Meeting. Abstentions and broker non-votes are counted for purposes of establishing a quorum at the Annual Meeting.

Vote Required for Approval

Approval of the Split Transaction (Proposal 1 and Proposal 2) requires the affirmative vote of the holders of a majority of all outstanding shares of our common stock entitled to vote at the Annual Meeting, or 747,088 of the 1,494,174 outstanding shares. Because the Directors and Executive Officers of Northway have the power to vote a total of 225,111 shares and because we believe that all of the Directors and Executive Officers will vote in favor of the transaction, this means a total of 521,977 shares held by stockholders who are not Executive Officers or Directors of

Northway will be required to vote in favor of the transaction for it to be approved. Because the Directors and Executive Officers hold only approximately 15.1% of the voting power of our outstanding common stock, there is no assurance that the Split Transaction will be approved. Approval of the amendments and the Split Transaction do not require the separate vote of a majority of our unaffiliated stockholders, and no separate vote will be conducted. Because broker non-votes and abstentions are not affirmative votes, they will have the effect of a vote against the Split Transaction.

The election of Directors (Proposal 3) will be determined by a plurality of the votes cast at the Annual Meeting. Plurality means that the individuals who receive the largest number of votes cast are elected up to the maximum number of Directors to be elected at the meeting. Broker non-votes, abstentions and instructions to withhold votes for one or more Directors will result in that nominee receiving fewer votes but will not count as a vote against the nominee.

Voting and Revocation of Proxies

You may vote your shares in person by attending the Annual Meeting, or by mailing us your completed proxy if you are unable or do not wish to attend. If a proxy card is submitted without instructions, the proxies will be voted "FOR" the proposal to approve the Split Transaction, the Director Nominees, and the proposal to adjourn or postpone the Annual Meeting, if necessary.

You can revoke your proxy at any time before the vote is taken at the Annual Meeting by filing an instrument of revocation with Joseph N. Rozek, Secretary, Northway Financial, Inc., 9 Main Street, Berlin, New Hampshire 03570. Any such person may also revoke a proxy by filing a duly executed proxy bearing a later date, or by appearing at the Annual Meeting in person, notifying the Secretary, and voting by ballot at the Annual Meeting. Any stockholder of record attending the Annual Meeting may vote in person whether or not a proxy has been previously given, but the mere presence (without notifying the Secretary) of a stockholder at the Annual Meeting will not constitute revocation of a previously given proxy.

Solicitation of Proxies; Expenses of Solicitation

We are mailing this proxy material to our stockholders on or about July 19, 2007.

The enclosed proxy is solicited on behalf of our Board. We will bear the cost of soliciting proxies from the stockholders, including mailing costs, and will pay all printing costs in connection with this Proxy Statement. Northway has retained The Altman Group, Inc. to help the Board solicit proxies and expects to pay a base fee of \$5,000, fees based upon the number of stockholder contacts, plus reasonable out-of-pocket expenses for its help. In addition to the use of the mails, proxies may be solicited by the Directors, officers, and certain employees of Northway, and by personal interviews, telephone and facsimile. Such Directors, officers and employees will not receive additional compensation for such solicitation but may be reimbursed for reasonable out-of-pocket expenses incurred in connection therewith. Northway may also make arrangements with brokerage houses and other custodians, nominees, and fiduciaries for the forwarding of solicitation material to the beneficial owners of its common stock. Northway may reimburse such custodians, nominees, and fiduciaries for reasonable out-of-pocket expenses incurred in connection therewith.

Other Matters to be Considered at Annual Meeting

As of the date of this Proxy Statement, the only business that our Board expects to be presented at the Annual Meeting is that set forth above. If any other matters are properly brought before the Annual Meeting, or any adjournments thereof, it is the intention of the persons named in the accompanying form of proxy to vote the proxy on such matters in accordance with their best judgment.

THE SPLIT TRANSACTION -- SPECIAL FACTORS**Overview of the Split Transaction**

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Northway and is to be used at an Annual Meeting at which our stockholders, among other things, will be asked to consider and vote upon proposals to amend the Articles. If approved, the amendments will result in a 1-for-400 reverse split of our common stock, followed immediately by an 800-for-1 forward split of our common stock.

If the reverse and forward stock splits are approved as described below, holders of fewer than 400 shares of our common stock prior to the reverse split will no longer be stockholders of Northway. Instead, those stockholders will be entitled only to receive payment of \$37.50 per share of common stock held prior to the reverse split. Stockholders holding 400 or more pre-split shares will remain stockholders. We intend, immediately following the Split Transaction, to terminate the registration of our shares, and our registration and further reporting under the Securities Exchange Act of 1934.

If approved by our stockholders at the Annual Meeting and implemented by our Board, the Split Transaction will generally affect our stockholders as follows:

STOCKHOLDER POSITION PRIOR TO SPLIT TRANSACTION	EFFECT OF SPLIT TRANSACTION
Stockholders holding in registered name 400 or more shares of common stock	Stockholders will ultimately hold twice as many shares of common stock.
Stockholders holding in registered name fewer than 400 shares of common stock	Shares will be converted into \$37.50 per share of common stock as a result of the reverse stock split.
Stockholders holding common stock in "street name" through a nominee (such as a bank or broker)	Northway intends for the Split Transaction to affect stockholders holding common stock through a nominee (such as a broker or bank) the same as those stockholders. The nominee will be asked to effect the Split Transaction.

beneficial owner is not considered the stockholder of record for purposes of the proposed charter amendments would operate only if you are the beneficial owner who held fewer than 400 shares of common stock before the reverse stock split would not have his or her name on the record. However, as a part of the Split Transaction, we plan to transfer all shares held in street name to the beneficial owner in the same manner as we transfer shares held in street name to their names. Accordingly, we will instruct nominees to transfer all Split Transaction shares held in street name in accounts held in the name of the nominee would not be legally obligated to follow our instructions with respect to the Split Transaction with respect to shares held by you in street name. In effect on any shares you hold in street name, you should instruct your nominee to ensure that such shares will be subject to the Split Transaction and have such shares taken out of street name and registered in the name of the

The Board will have the discretion to determine if and when to effect the Split Transaction, and reserves the right to abandon the transaction even if it is approved by the stockholders. Under applicable New Hampshire law, the Board has a duty to act in the best interests of the corporation. Accordingly, the Board reserves the right to abandon the Split Transaction after stockholder approval and before the effective time of the Split Transaction, if for any reason the Board determines that, in the best interest of Northway's stockholders, it is not advisable to proceed with the Split Transaction. The Board intends to complete the Split Transaction if it is approved by Northway's stockholders, and the Board is unaware of any circumstance that would cause it to abandon the transaction, other than (i) a significant increase in transaction costs resulting from purchases of shares prior to the effective date of the split apparently made solely for the purpose of receiving the premium to be paid to holders of fewer than 400 shares or (ii) a determination that the 1-for-400 reverse split will not reduce the number of stockholders of record to fewer than 300 (unless the Board determines that further reduction of stockholders of record is likely to result in fewer than 300 stockholders of record within a reasonable period of time). The Board will not make its final determination until it has received a conclusive tally of the number of shares to be repurchased, the cost of the repurchase and the number of stockholders of record who would remain if the Split Transaction were implemented.

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Preliminary Copy

The Split Transaction will become effective upon the filing of the necessary amendments to the Articles with the New Hampshire Secretary of State or a later date specified in that filing. The forms of the amendments to the Articles are attached to this Proxy Statement as Appendix A-1 and Appendix A-2. Under no circumstances would the Board consummate the reverse stock split and not the forward stock split, for the reasons set forth in “THE SPLIT TRANSACTION--SPECIAL FACTORS--Fairness of the Split Transaction.”

Although there is no date by which the Split Transaction must occur, we expect that if the stockholders approve and the Board elects to effect the Split Transaction, the Split Transaction will be completed as soon as practicable after the Annual Meeting.

Background of the Split Transaction

As an SEC-reporting company, we are required to prepare and file with the SEC, among other items, the following:

- Annual Reports on Form 10-K;
- Quarterly Reports on Form 10-Q;
- Proxy Statements and related materials; and
- Current Reports on Form 8-K.

In addition to the burden on management, the costs associated with these reports and other filing obligations comprise a significant corporate overhead expense. These costs include securities counsel fees, auditor fees, costs of printing and mailing stockholder documents, and EDGAR filing costs. For 2006, the total costs of being a public company were approximately \$232,000. These costs have been increasing over the years, and we believe they will continue as a significant expense of Northway, particularly as a result of the additional reporting and disclosure obligations imposed on SEC-reporting companies by the Sarbanes-Oxley Act of 2002 (“SOX”). We estimate that our costs and expenses incurred in connection with being a public company increased from approximately \$222,000 in 2005. We are projecting additional increases in such costs in 2007 to approximately \$250,000 and to approximately \$325,000 in 2008.

Becoming a non-SEC-reporting company will allow us to avoid these costs and expenses. We expect to continue printing and mailing annual reports to our stockholders, but anticipate the cost to be substantially less as a non-SEC-reporting company. In addition, once our SEC reporting obligations are suspended, we will not be subject to the provisions of SOX, and CEO and CFO will not be required to certify the accuracy of our financial statements under SEC rules. However, we will continue to be subject to the rules and regulations imposed by the Board of Governors of the Federal Reserve System (“FRB”), the Federal Deposit Insurance Corporation (“FDIC”) and the New Hampshire Bank Commissioner (“Commissioner”), including those relating to financial reporting.

There can be many advantages to being a public company, including a more active trading market and the enhanced ability to use company stock to raise capital or make acquisitions. However, there is a limited market for our common stock, and we have therefore not been able to effectively take advantage of these benefits. This may be due, in part, to the relatively small number of stockholders owning Northway’s common stock and the fact that our Directors and Executive Officers beneficially own approximately 15.1% of our outstanding shares. In the past twelve months ending March 31, 2007, our common stock was not traded at all on 125 of the trading days. On the days traded during such period, our common stock had an average trading volume of 903 shares. Moreover, our limited trading market makes it difficult for our stockholders to liquidate a large number of shares of our stock without negatively affecting the per share sale price. In contrast, the Split Transaction will allow our small stockholders to sell their shares at a fixed price that will not decline based upon the number of shares sold, and allow them to do so without incurring typical

transaction costs.

Another potential advantage of being a public company is the ability to access capital markets to meet additional capital needs. However, since becoming a public company in 1997, we have had no additional capital needs that required us to access the public markets. We have also not made any additional public offerings of common stock or any other equity or debt securities since our organization in 1997. In addition, we have not used our common stock as consideration for any acquisition since we first became a public company in 1997. Currently, we do not anticipate issuing additional shares of common stock in either public or private transactions. We have, however, accessed additional regulatory capital by issuing trust preferred securities through our business trust affiliates.

For these and other reasons noted below, the Board and management have concluded that the benefits of being an SEC-reporting company are substantially outweighed by the burden on management and the expense related to the SEC reporting obligations.

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In September 2005, Northway's management began a project to enhance stockholder value by increasing its market capitalization and liquidity. Northeast Capital was engaged to address these issues. With Northeast Capital's help, management considered various strategies, including stock splits/dividends, increasing cash dividends, creating investor interest in Northway by developing a research following, and stock buybacks, among other steps in order to increase market capitalization and liquidity. Reviewing the stockholder profile in early 2006, discussions centered on how the profile had evolved and based on other comparable organizations, how it might evolve. Upon management's request, on June 21, 2006, Northeast Capital updated the stockholder profile. The analysis, entitled "Investor Relations Analysis," identified the top ten, the top twenty-five and the top fifty known stockholders, as well as the smallest known stockholders and their geographic concentration. The June 21, 2006 report also considered several options, including:

- Maintaining the status quo;
- Remaining public and augmenting the trend toward non-local stockholders;
 - Remaining public and focusing on local stockholder growth;
 - Becoming a non-SEC-reporting company;
 - Pursuing a strategic affiliation.

This analysis noted that more than 37% of all of Northway's stockholders individually held less than 100 shares of Northway. Steps that could be taken to become a non-SEC-reporting company, including a reverse stock split, stock repurchases or a tender offer were examined. In addition, as a result of discussions held with several known brokerage firms who historically had clients buying or selling shares of Northway, it was determined that most of these firms were no longer active in the stock. In this context, management and Northeast Capital discussed, over several meetings, the benefits of a broad-based trading market for the stock as well as the advantages and disadvantages of becoming a non-SEC-reporting company.

Between June and October 2006, the impact of a reverse stock split was quantified as to costs and benefits. Management also researched the implications that a reverse stock split might have on smaller investors and the extent of those individuals' relationships with banking products and services at Northway. Northeast Capital provided management several reports to assist in this impact analysis. On August 2, 2006, a report entitled "Cost-Benefit Analysis - Reverse Stock Split" expanded upon the June 21, 2006 report by attempting to quantify advantages and disadvantages of one alternative method to go private through a reverse stock split. Preliminary cost estimates and cost savings of 1 for 50 or 1 for 100 share reverse split used to compute pro forma impacts. A Report entitled "Typical Community Bank Shareholder Profile" also expanded upon the June 21, 2006 report to compare NWFI's institutional or retail shareholder mix to a peer group median of 21 other entities and to all New England based banks or thrifts that are publicly held. Finally, a report entitled "Summary of Key Findings" was prepared to assist management in its preparation for the October 2006 Board meeting.

In a new report dated October 9, 2006 entitled "The Advantages and Disadvantages of Going Private," Northeast Capital reviewed the advantages and disadvantages of becoming a non-SEC-reporting company in further detail. The report analyzed the process that Northway could follow and the various methods a bank holding company could use to become a non-SEC-reporting company. The report also included financial analyses that specified the assumptions used and estimated the implications on earnings per share and tangible book value per share.

Management presented the key findings of these reports to the Board at its meeting on October 31, 2006.

In December 2006, Northeast Capital provided management with data from 1990 and subsequent years concerning the price changes for 28 publicly-traded New England based banks and thrifts sixty days after a stock split or stock dividend was paid.

On December 18, 2006, Northway's management, Goodwin Procter LLP ("Goodwin Procter"), Northway's legal counsel, and Northeast Capital participated in a conference call in which all available options were discussed. After an extensive discussion, Northeast Capital was asked to quantify the cost of becoming a non-SEC-reproting company and to prepare a presentation for the Board in late January 2007. A Discussion Agenda was prepared by Northeast Capital to enable management to review an outline for the January 2007 Board presentation.

On January 30, 2007, the Board invited representatives of Northeast Capital and Goodwin Procter to discuss the different available options. Northeast Capital's presentation, entitled "Enhancing Shareholder Value through a Reverse Stock Split," included a background of Northway's stock performance and an overview and evaluation of the advantages and disadvantages of becoming a non-SEC-reporting company. The burdens and costs and potential liabilities associated with filing reports as a public company, including risks associated with the officer certifications required by SOX, were discussed at that meeting. Such potential liabilities make it more difficult to attract and retain Directors and Executive Officers and generally result in higher costs, including increased compensation, director fees, and director and officer liability insurance premiums. The Board focused on the strategic direction of Northway and prospects for growth in our market area. They noted that Northway's financial performance was below its peers. The Board considered possibilities for growth as a bank holding company, through branch acquisitions within and outside of Northway's current market area and through offering other products, including attractive deposit products, to existing and potential customers.

A representative of Goodwin Procter made a presentation of the advantages and disadvantages of becoming a non-SEC-reporting company and available methods of reducing the number of our record stockholders to allow us to suspend SEC reporting requirements, including open market stock repurchases, a tender offer, a cash-out merger or reverse stock split, and a reverse/forward stock split. For a more detailed discussion of the alternative methods of effecting a transaction that would result in Northway becoming a non-SEC-reporting company were discussed by the Board see "--Reasons for the Split Transaction." The Board discussed the fact that the Annual Meeting of stockholders, which is normally held in May of each year, would need to be delayed if the Split Transaction were to be presented to a vote of stockholders at that meeting.

The Board also discussed possible stock split ratios, referring to Northeast Capital's report entitled "Impact of a Reverse Split," which could be used to reduce the number of Northway's record stockholders to less than 300, concluding that a 1-for-350 share split made the most sense given Northway's objectives.

On February 27, 2007, the Board invited representatives of Northeast Capital and Goodwin Procter to meet, and once again considered the option of becoming a non-SEC-reporting company.

At this meeting, the Board discussed the fact that from a management time, cost and liability standpoint, it appeared that it would be in the best interests of Northway and its stockholders to become a non-SEC-reporting company. The Board resolved to initiate the process of moving forward with a possible transaction that would result in Northway becoming a non-SEC-reporting company, including consulting with legal counsel on the specific methods that could be taken to cause the number of Northway stockholders to fall below 300. In addition, the Board authorized management to hire Northeast Capital to render a fairness opinion and to continue to refine the analysis of the cost of remaining public compared to becoming a non-SEC-reporting company, and assist legal counsel in drafting a Proxy Statement.

On March 27, 2007, management reviewed Northeast Capital's analysis of Northway's stockholder list, using data as of March 26, 2007, and determined that a split ratio of 1-for-400 more optimally balanced the Board's goals of reducing the number of stockholders to a level sufficiently below the 300 stockholder threshold at which time reporting obligations would be suspended, while minimizing the number of stockholders who would be cashed out.

At a regular Board meeting on April 9, 2007, a representative of Goodwin Procter reviewed with the Board a summary of the draft Proxy Statement for the Annual Meeting, the steps that would need to be taken to effect a reverse/forward stock split as recommended by management, and the Schedule 13E-3 that would be filed with the SEC for the Split Transaction. Following the legal presentation, a representative of Northeast Capital presented the March 27, 2007 analysis, a report entitled "the Potential Impact of a Going Private Reverse Stock Split," and the fairness opinion. He discussed with the Board Northeast Capital's valuation analysis with respect to the common stock. He presented the Board with information regarding (i) a review of the market performance of the bank equity market, (ii) trading history, including volume and prices, of the common stock, (iii) a review of historical pricing and performance of companies comparable to Northway, (iv) premiums paid with respect to similar transactions, and (v) a dividend discount analysis. He stated that the current trading price of Northway shares as a percentage of tangible book value was below its peers, but as a multiple of earnings was above the median value of its peers. The Board discussed the pros and cons of paying a premium above the current trading price. In determining the premium to be paid to non-continuing stockholders, the Board particularly focused on the fact that the Split Transaction would not be a voluntary transaction for Northway stockholders. After presenting the relevant financial information, Northeast Capital advised the Board that, in its opinion, a price between \$36.88 and \$39.80 would be a reasonable range of the fair value of Northway's common stock to be paid to those stockholders being cashed out, from a financial point of view. The fairness opinion also included a discussion of the assumptions made by Northeast Capital in preparing the opinion. See "-- fairness opinion."

After reviewing the fairness opinion of Northeast Capital and considering the review by Goodwin Procter and following lengthy discussion, the Board unanimously approved the Split Transaction by means of a 1-for-400 reverse stock split followed by an 800-for-1 forward stock split, pursuant to which stockholders owning fewer than 400 shares would receive \$37.50 in cash for their pre-split shares of our common stock. Following the Board's determination of the \$37.50 per share price, Northeast Capital delivered its oral opinion that the \$37.50 per share cash consideration to be paid to stockholders holding fewer than 400 shares of our common stock prior to the reverse stock split was fair from a financial point of view to our non-continuing stockholders who will be cashed out in the transaction.

Reasons for the Split Transaction

Northway is undertaking the Split Transaction at this time to end its SEC reporting obligations, which will enable us to save Northway and our stockholders the substantial costs associated with being a reporting company. The specific factors considered in electing at this time to undertake the Split Transaction and become a non-SEC reporting

company are as follows:

- By reducing the share base by approximately 130,377 shares, basic earnings per share will increase.
- Based on 2006 data, we estimate that we will eliminate costs of approximately \$232,000 on an annual basis by eliminating the requirement to make periodic reports and reducing the expenses of stockholder communications. These expenses include:

Legal expense	\$ 90,000
Staff expense	50,000
A u d i t i n g a n d accounting expense	40,500
NASDAQ listing expense	24,500
T r a n s f e r a g e n t expense	10,000
Printing expense	8,500
EDGAR expense	6,000
Press release expense	2,500
	\$232,000

- Under Section 404 of SOX, starting in the 2007 fiscal year, Northway would be required to include a report of management on Northway's internal control over financial reporting. Additionally, in 2008, an attestation report of Northway's independent auditors on management's assessment of Northway's internal control over financial reporting will be required. The incremental cost of such compliance is estimated to be \$10,000 in 2007 and \$85,000 in 2008. These costs will be avoided if the stockholders approve the reverse/forward stock split described in the accompanying Proxy Statement.
- We believe that, as a result of the recent disclosure and procedural requirements resulting from SOX, the legal, accounting and administrative expense, and diversion of our Board, management and staff effort necessary to continue as an SEC-reporting company will remain significant, particularly in view of the requirements of Section 404, without a commensurate benefit to our stockholders. We expect to continue to provide our stockholders with company financial information by disseminating our annual reports, but we anticipate that the costs associated with these reports will be substantially less than those we incur currently.
- In the Board's judgment, little justification exists for the continuing direct and indirect costs of registration with the SEC, which costs have recently increased as a result of SOX, given the low trading volume in our common stock and that our earnings are sufficient to support growth and we therefore do not depend on raising capital in the public market, and do not expect to do so in the near future. If it becomes necessary to raise additional capital, we believe that there are adequate sources of additional capital available, whether through borrowing or through private or institutional sales of equity or debt securities, although we recognize that there can be no assurance that we will be able to raise additional capital if required, or that the cost of any required additional capital will be attractive.

- The expense of administering accounts of small stockholders is disproportionate to their ownership in Northway. As of the record date, approximately 815 of our 1,087 stockholders of record beneficially own fewer than 400 shares of our common stock. These stockholders owned less than 6.5% of our shares of common stock on the record date. A disproportionate amount of our administrative expenses relating to stockholder accounts and reporting requirements is attributable to those stockholders.
- The Split Transaction allows non-continuing stockholders to receive fair value and cash for their shares, in a simple and cost-effective manner, particularly given the possible ineffectiveness and inefficiencies of a tender offer, an open market share repurchase or a cash-out merger. Stockholders owning fewer than 400 shares may find it uneconomical to dispose of those shares due to minimum brokerage commissions which are often charged.
- The Split Transaction will allow the non-continuing stockholders to realize what our Board has determined to be fair value for their Northway common stock, without incurring brokerage commissions. In addition to the fairness opinion of Northeast Capital, the Board considered the following specific factors in reaching its conclusion that the price to be paid in the reverse stock split to certain unaffiliated stockholders in lieu of fractional shares is fair to such stockholders. Individual Directors may have given differing weights to different factors. Due to the relative illiquidity of the common stock, the Board as a whole generally placed more emphasis on the fairness opinion than on the stock prices as quoted on NASDAQ, and the Board ultimately relied on the findings of Northeast Capital in determining that the \$37.50 price per share is fair to unaffiliated stockholders.

Current and Historical Market Prices of Northway's Common Stock

The Board took into consideration that, historically, there has been a limited trading market in Northway's common stock. Over the past three years, Northway's common stock traded in the range of \$31.00-\$39.00 per share with only ten trading days of share volume in excess of 5,000 shares. The Board noted that the daily volume of trades in Northway's common stock averaged just 430 shares over the past year, that trading activity occurred on just 119 of 251 trading days, that there were only four trading days on which more than 5,000 shares traded, and that a total of only 107,900 shares traded. In determining the fairness of the \$37.50 per share value, the Board also reviewed the high and low trading prices for Northway's shares of common stock over the past twelve months, noting that the weighted average price was \$34.70 and the high and low prices were \$39.00 and \$31.00, respectively.

Based on these observations, the Board concluded a \$37.50 per share purchase price is at the high end of all historic trading activity in the past year and represents an 8% premium to the weighted average trading price in the past year.

Premium Over Market Price

In order to increase the value of the transaction to those unaffiliated stockholders who hold fewer than 400 shares pre-split and thus will be cashed out in the reverse stock split, the Board decided to add a premium over current market price in determining the price to be paid for fractional shares. The \$37.50 price to be paid for fractional shares includes a \$7.39 (24.5%) per share premium over the last closing trading price of \$30.11 prior to the announcement of the Split Transaction on April 13, 2007, and a \$5.85 (18.50%) per share premium over the average closing trading price of \$31.65 for the thirty calendar days prior to April 13, 2007.

Net Book Value

As of March 31, 2007 the book value and tangible book value (equity less goodwill and intangibles) per share of Northway's common stock were \$35.38 and \$26.80, respectively. The Board considered the premium to tangible book value based on input from management and Northeast Capital that tangible book value was the more relevant industry metric of value. Although the Board determined that net book value in general is not directly relevant because book value approximates liquidation value and is a historic figure, the Board noted that the \$37.50 per share price

represented a 40% premium over tangible book value and a 6% premium over book value.

Going Concern Value

The Board also reviewed the valuation of Northway's shares as a going concern. This value reflects, among other things, Northway's business reputation, its established customer base, its employees and management, and its future earnings prospects. The Board believes that comparable companies' multiples and the dividend discount model generated by Northeast Capital are indicators of Northway's value as a going concern. The Board considered Northeast Capital's analyses regarding (i) Northway's peer group and the comparison of Northway's key pricing ratios compared to those of its peer group and (ii) a dividend discount analysis which computed the likely present value of Northway's common stock based upon future earnings to be generated and net of any retained earnings required to support required capital levels. Both analyses are discussed later in this Proxy Statement under the heading "Fairness Opinion of Northeast Capital." The Board reviewed and concurred with Northeast Capital's analyses which reflect that (i) Northway's pricing multiples are consistent with those of the selected peer group and (ii) the present value range of Northway's common stock, given the assumptions utilized, were consistent with recent trading activity.

Liquidation Value

The Board did not consider the liquidation value of Northway when selecting the \$37.50 per share price. A liquidation analysis is not believed to be a relevant factor because the liquidation of a bank or discontinuance of a bank's operations is not considered to be a viable alternative. Historically, banks have generally only been liquidated in the event of insolvency or receivership. Neither Northway's management nor the Board has any intention of liquidating the Bank.

Stock Repurchases

In reaching its determination as to fairness of the \$37.50 per share price, the Board considered the purchase prices paid by the Northway in previous purchases pursuant to its stock repurchase programs. See "Common Stock Purchase Information." In the past two years, those prices ranged from \$32.50 to \$35.80 per share. The Board did not consider these prices to be a material factor in their consideration of the fairness of the Split Transaction, because these purchase prices generally approximated the then-market value of our common stock. As discussed above, given the relatively low number of trades in our common stock, the Board believes that market price is not necessarily the most applicable measure of our common stock's fair value.

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We considered that some stockholders may prefer to continue as stockholders of Northway as an SEC-reporting company, which is a factor weighing against the Split Transaction. However, we believe that the disadvantages of remaining a public company subject to the registration and reporting requirements of the SEC outweigh the advantages. We have no present intention to raise capital through sales of securities in a public offering in the future or to acquire other business entities using stock as the consideration for such acquisition. Accordingly, we are not likely to make use of the advantages that our status as an SEC-reporting company may offer.

In view of the wide variety of factors considered in connection with its evaluation of the Split Transaction, our Board did not find it practicable to, and did not, quantify or otherwise attempt to assign relative weights to the specific factors it considered in reaching its determinations.

We considered various alternative transactions to accomplish the proposed transaction, but ultimately elected to proceed with the Split Transaction. The following were the alternative transactions considered, but rejected:

- **Tender Offer to Stockholders.** The Board determined that it would require more funds to effect a tender offer. In addition, there might not be a sufficient number of record stockholders tendering their shares to reduce the number of stockholders of record below 300.
- **Open Market Stock Repurchase.** The Board considered announcing a new or expanded stock buy-back plan and purchasing shares on the open market. Although the expenses associated with such a transaction would be low, it might not result in the desired reduction of stockholders of record. The Board determined that an open market stock repurchase might not achieve the record stockholder reduction objective.
- **Cash-Out Merger.** The Board considered a cash-out merger of Northway into a newly-formed corporation, with the conversion of the outstanding shares occurring in the same general manner and ratios as in the Split Transaction. This type of merger would have the same net effect on our stockholders as the Split Transaction. However, the Board determined that a cash-out merger was not a preferable option because it did not offer any advantages over the Split Transaction, but would have required the formation of a new corporation, more documentation than the Split Transaction, including a plan of the merger, regulatory approval and likely increased costs.
- **Business Combination.** Although during the last 12 months, the Board considered possible affiliations with other financial institutions, it concluded that Northway's stockholders would be better served if Northway achieved the cost savings attributable to becoming a non-SEC-reporting company and focused on business strategies to enhance stockholder value as an independent customer-oriented and community-based financial institution.
- **Maintaining the Status Quo.** The Board considered maintaining the status quo. In that case, we would continue to incur the significant expenses, as outlined above, of being an SEC-reporting company without the expected commensurate benefits. Thus, the Board considered maintaining the status quo not to be in our best interests or the best interests of our stockholders and rejected this alternative.

Fairness of the Split Transaction

Based on a careful review of the facts and circumstances relating to the Split Transaction, the Board believes that the Split Transaction and the terms and provisions of the split transaction, including the cash to be paid to non-continuing stockholders, are substantively and procedurally fair to our affiliated and unaffiliated stockholders.

The Board concluded that the Split Transaction was substantively and procedurally fair to our non-continuing stockholders based upon the premium to be received on the transaction and that no brokerage or other transaction costs are to be incurred.

The Split Transaction was deemed to be substantively and procedurally fair to our continuing stockholders as they will continue to participate in our future growth and earnings and they will recognize the benefits of reduced expenses associated with becoming a non-SEC-reporting company.

Accordingly, the Board unanimously approved the Split Transaction.

Substantive Fairness

In concluding that the terms and conditions of the Split Transaction, including the cash to be paid to the non-continuing stockholders, are substantively fair to our unaffiliated stockholders, the Board considered a number of factors.

A positive factor the Board considered for all unaffiliated stockholders, including both those that are continuing and non-continuing stockholders was that our smaller stockholders who prefer to remain as stockholders of Northway, despite the Board's recommendation, may elect to do so by acquiring sufficient shares so that they hold at least 400 shares of common stock in their own names immediately prior to the Split Transaction, understanding that the opportunity to buy shares prior to the time of the transaction may be limited as a result of the limited trading volume in the stock.

In addition to the the positive factors applicable to all of our stockholders set forth above, the factors that the Board considered beneficial for the unaffiliated stockholders that are non-continuing stockholders included:

- the cash price of \$37.50 represents a 7.2% premium over the book value of our common stock as of December 31, 2006, and a 19.5% premium over the ten-day average of the market prices of our common stock on April 12, 2007, the day before the Split Transaction was announced, and represents 17.4 times earnings for 2006;
- the factors relating to the fairness of the \$37.50 per share price set forth on pages 19 through 25 hereof;
- no brokerage or other transaction costs are to be incurred by them in connection with the transfer of their shares to Northway.

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The factors that the Board considered positive for the affiliated and unaffiliated stockholders that are continuing stockholders included:

- they will continue to have the opportunity to participate in our future growth and earnings;
- they will realize the potential benefits of termination of registration of our common stock, including reduced expenses as a result of no longer needing to comply with SEC reporting requirements; and
- the fact that we anticipate that our shares will continue to be traded on the OTC Bulletin Board (“OTCBB”) or in the pink sheets electronic quotation system after the Split Transaction, which will provide opportunities for continuing stockholders to trade their shares in the future.

The Board also considered the per-share purchase price to be fair from the perspective of continuing stockholders, as it was based on a price that willing buyers and sellers pay for the shares on the market (adjusted to reflect the involuntary nature of the stock Split Transaction and other factors described below), and that the purchase of shares in the Split Transaction at this price to be a good use of Northway’s excess capital at this time.

The Board is aware of, and has considered, the impact of certain potentially countervailing factors on the substantive fairness of the Split Transaction to the unaffiliated non-continuing stockholders, including that:

- they will be required to surrender their shares involuntarily in exchange for the cash-out price determined by the Board without the opportunity to liquidate their shares at a time and for a price of their choosing;
 - they will not have the opportunity to participate in any of our future growth, earnings and dividends; and
 - they will be required to pay income tax on the receipt of cash in the Split Transaction.

The factors that the Board considered as potentially negative for the affiliated and unaffiliated stockholders that are continuing stockholders included:

- they will have reduced access to our financial information once we are no longer an SEC-reporting company, including forms filed by our Directors and Executive Officers reporting changes in their beneficial ownership. As an SEC-reporting company, we currently provide to our stockholders quarterly current reports on Form 10-Q and Form 10-K filings as well as current information, as applicable, in Form 8-K filings. We do intend to continue to provide the continuing stockholders with our annual reports and basic quarterly financial information, and Northway and the Bank will continue to be subject to the filing requirements of the FRB, the FDIC and the Commissioner. The filing requirements of the FRB and the FDIC require the completion of quarterly FR Y-9 and Consolidated Reports of Condition and Income (Call Reports), respectively. These reports, which are publicly available two days after the filing deadline in the case of FR Y-9 filings and 15 days after filing in the case of the Call Report, are a compilation of schedules relating to the respective entity's balance sheet and income statement and do not provide any of the analysis presented in the SEC reports.
- the fact that future business partners might require more information from us before entering into a business relationship due to the lack of publicly available information about us;
- the fact that we may have a lower public profile in our community, which may be a negative factor with some of our customers;
- the fact that continuing stockholders will lose certain protections currently provided under the Securities Exchange Act of 1934, such as limitations on short-swing transactions by Directors and Executive Officers under Section 16 of that Act;

- the liquidity of our shares of common stock held by continuing stockholders may be further reduced by the termination of the registration of the common stock under the Securities Exchange Act of 1934 and the delisting of the common stock from the NASDAQ market. Future trading in our shares after we become a non-SEC-reporting company, if it occurs, will only occur in the OTCBB, the pink sheets electronic quotation system or in privately negotiated sales;
- Northway expects to pay approximately \$5,112,000 (including expenses) to effect the Split Transaction. This amount may change as a result of trading activity in our shares between the date hereof and the effective date of the Split Transaction. Northway anticipates that the book value per share of common stock as of December 31, 2006, will be reduced from \$34.97 per share on a historical basis to \$34.75 per share on a pro forma basis, which represents a 0.6% decrease in the book value per share of our common stock as a result of the Split Transaction; and
- net income for the year ended December 31, 2006 would decrease from \$3,215,000 (\$2.15 basic earnings per common share) on a historical basis to approximately \$3,073,000 (\$2.26 basic earnings per common share) on a pro forma basis as a result of the Split Transaction. The increase in basic earnings per common share is the result of the reduction in the number of shares outstanding.

The Board believes that these potentially countervailing factors did not, individually or in the aggregate, outweigh the overall substantive fairness of the Split Transaction to our affiliated and unaffiliated stockholders, whether they be continuing or non-continuing stockholders and that the foregoing factors are