CPP ANNUAL USE OF CAPITAL SURVEY - 2010

NAME OF INSTITUTION
(Include Holding Company Where Applicable)

Northway Financial, Inc. / Northway Bank

Point of Contact:	Richard P. Orsillo	RSSD: (For Bank Holding Companies)	2582827
UST Sequence Number:	581	Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	10,000,000	FDIC Certificate Number: (For Depository Institutions)	14240
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	January 30, 2009	City:	Berlin
Date Repaid[1]:	N/A	State:	New Hampshire

[1] If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

[X] **Increase lending or reduce lending less than otherwise would have occurred.**

In 2010, Northway Financial, Inc. ("Northway") through its wholly-owned affiliate Northway Bank (the "Bank"), had another solid year as the Bank originated loans totaling $216.9 million. • Loans secured by residential real estate including loans sold to Freddie Mac, and home equity loans totaled $90.0. • Commercial loans originated, including lines of credit were $61.5 million.• Commercial real estate loans originated were $33.4 million.• Municipal loans originated were $28.7 million.• Consumer loans originated were $3.3 million.

[ ] **To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).**

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X **Increase securities purchased (ABS, MBS, etc.).**

Despite the level of loans originated in 2010, Northway experienced a decrease in gross loans of $65.4 million. This decrease resulted primarily from the level of residential real estate loans originated and sold to Freddie Mac which totaled $68.1 million. This decrease in loan balances outstanding when added to an increased level of deposits resulted in increased levels of overnight funds and investment securities in the amounts of $49.8 million and $38.5 million, respectively. The $49.8 million in overnight funds was on deposit at the Federal Reserve Bank of Boston. During 2010 the Bank purchased $94.3 million in mortgage-backed and agency securities and $20.0 million in US Treasury securities.

☐ **Make other investments.**

X **Increase reserves for non-performing assets.**

Nonperforming assets at December 31, 2010 amounted to $20.6 million and were $1.8 million more than at December 31, 2009. At December 31, 2010 nonperforming loans represented 81% of nonperforming assets compared to 63% at December 31, 2009. The increase in the level of nonperforming loans resulted from continued weakness in the hospitality sector of the Bank's loan portfolio. Northway's allowance for loan losses increased $581,000 over the prior year and at December 31, 2010 was 1.66% of gross loans compared to 1.38% at December 31, 2009. The provision for loan loss expense of $3.3 million was $1.2 million more than 2009.

☐ **Reduce borrowings.**

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X **Increase charge-offs.**

Net charge-offs for 2010 totaled $2.8 million due primarily to charge-offs related to the hospitality sector.

☐ **Purchase another financial institution or purchase assets from another financial institution.**

☐ **Held as non-leveraged increase to total capital.**

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What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

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What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

The additional capital allowed us to work with those borrowers who were experiencing difficulty in making loan payments. Assisting these troubled customers, we believe, is consistent with the U. S. Treasury's objectives.

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Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.

The Bank was able to restructure its loan portfolio by reducing its reliance on long-term fixed rate loans and increasing balances in commercial and commercial term loans, which have a higher risk-weighting and use more capital. Continued deposit growth was achieved as we had sufficient capital to support our expansion strategy in the southern tier of New Hampshire.