SI Financial Group, Inc.
Form 10-Q
May 09, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2012
OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from _______ to ______

Commission File Number: 0-54241

SI FINANCIAL GROUP, INC.
(Exact name of registrant as specified in its charter)

Maryland	80-0643149
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
803 Main Street, Willimantic, Connecticut	06226
(Address of principal executive offices)	(Zip Code)

(860) 423-4581
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

Large Accelerated Filer o Accelerated Filer x

Non-Accelerated Filer ¨ Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of May 4, 2012, there were 10,575,776 shares of the registrant's common stock outstanding.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements.
SI FINANCIAL GROUP, INC.
CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Share Amounts / Unaudited)

	March 31, 2012	December 31, 2011
ASSETS:		
Cash and due from banks:		
Noninterest-bearing	$13,911	$13,980
Interest-bearing	43,877	34,432
Total cash and cash equivalents	57,788	48,412
Available for sale securities, at fair value	232,519	230,814
Loans held for sale	1,645	5,558
Loans receivable (net of allowance for loan losses of $5,378 at March 31, 2012 and $4,970 at December 31, 2011)	632,198	618,626
Federal Home Loan Bank stock, at cost	8,078	8,388
Bank-owned life insurance	9,085	9,012
Premises and equipment, net	11,789	12,651
Goodwill and other intangibles	3,459	4,105
Accrued interest receivable	3,473	3,539
Deferred tax asset, net	4,199	4,614
Other real estate owned, net	384	976
Prepaid FDIC deposit insurance assessment	1,774	1,974
Other assets	7,641	6,378
Total assets	$974,032	$955,047
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Liabilities:		
Deposits:		
Noninterest-bearing	$88,079	$85,958
Interest-bearing	633,108	615,968
Total deposits	721,187	701,926
Mortgagors' and investors' escrow accounts	1,750	3,291
Federal Home Loan Bank advances	100,069	100,069
Junior subordinated debt owed to unconsolidated trust	8,248	8,248
Accrued expenses and other liabilities	11,197	10,996
Total liabilities	842,451	824,530
Shareholders' Equity:		
Preferred stock ($.01 par value; 1,000,000 shares authorized; none issued)	—	—
Common stock ($.01 par value; 35,000,000 shares authorized; 10,576,849 shares issued; 10,575,776 and 10,576,302 shares outstanding at March 31, 2012 and December 31, 2011, respectively)	106	106
Additional paid-in-capital	94,649	94,612
Unallocated common shares held by ESOP	(5,448)	(5,568)
Unearned restricted shares	(35)	(38)

Retained earnings	42,188	42,085
Accumulated other comprehensive income (loss)	132	(675)
Treasury stock, at cost (1,073 and 547 shares at March 31, 2012 and December 31, 2011, respectively)	(11)	(5)
Total shareholders' equity	131,581	130,517
Total liabilities and shareholders' equity	$974,032	$955,047

See accompanying notes to unaudited interim consolidated financial statements.

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SI FINANCIAL GROUP, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands, Except Per Share Amounts / Unaudited)

	Three Months Ended March 31, 2012	2011
Interest and dividend income:		
Loans, including fees	$7,635	$7,908
Securities:		
Taxable interest	1,557	1,561
Tax-exempt interest	1	1
Dividends	16	20
Other	12	30
Total interest and dividend income	9,221	9,520
Interest expense:		
Deposits	1,595	1,897
Federal Home Loan Bank advances	849	1,012
Subordinated debt	107	83
Total interest expense	2,551	2,992
Net interest income	6,670	6,528
Provision for loan losses	484	210
Net interest income after provision for loan losses	6,186	6,318
Noninterest income:		
Total other-than-temporary impairment losses on securities	(409)	—
Portion of losses recognized in other comprehensive income	373	—
Net impairment losses recognized in earnings	(36)	—
Service fees	1,210	1,180
Wealth management fees	1,067	1,066
Increase in cash surrender value of bank-owned life insurance	72	72
Net gain on sale of securities	317	35
Mortgage banking	279	169
Net (loss) gain in fair value on trading securities and derivatives	(49)	27
Net loss on disposal of equipment	—	(7)
Net loss on disposal of SI Trust Servicing operations	(486)	—
Other	387	107
Total noninterest income	2,761	2,649
Noninterest expenses:		
Salaries and employee benefits	4,238	4,144
Occupancy and equipment	1,486	1,535
Computer and electronic banking services	993	956
Outside professional services	364	267
Marketing and advertising	152	160
Supplies	137	135

FDIC deposit insurance and regulatory assessments	272	305
Contribution to SI Financial Group Foundation	—	500
Other	708	711
Total noninterest expenses	8,350	8,713
Income before income tax provision	597	254
Income tax provision	194	45
Net income	$403	$209
Earnings per share:		
Basic	$0.04	$0.02
Diluted	$0.04	$0.02

See accompanying notes to unaudited interim consolidated financial statements.

SI FINANCIAL GROUP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands / Unaudited)

	Three Months Ended March 31,	
	2012	2011
Net Income	$403	$209
Other comprehensive income, net of tax:		
Net unrealized gain on available for sale securities:		
Net unrealized holding gain on available for sale securities	627	499
Less: reclassification adjustment for gains recognized in net income	(209)	(23)
Plus: credit portion of OTTI losses recognized in net income	24	—
Plus: noncredit portion of OTTI gains on available for sale securities	360	80
Net unrealized holding gains on available for sale securities	802	556
Net unrealized gain on interest-rate swap derivative	5	49
Other comprehensive income	807	605
Comprehensive income	$1,210	$814

See accompanying notes to unaudited interim consolidated financial statements.

SI FINANCIAL GROUP, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2012
(In Thousands, Except Share Amounts / Unaudited)

	Common Stock			Unallocated			Accumulated		
	Shares	Dollars	Additional Paid-in Capital	Common Shares Held by ESOP	Unearned Restricted Shares	Retained Earnings	Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
Balance at December 31, 2011	10,576,849	$106	$94,612	$(5,568)	$(38)	$42,085	$(675)	$(5)	$130,517
Net income	—	—	—	—	—	403	—	—	403
Other comprehensive income	—	—	—	—	—	—	807	—	807
Cash dividends declared ($.03 per share)	—	—	—	—	—	(300)	—	—	(300)
Equity incentive plan compensation	—	—	26	—	3	—	—	—	29
Allocation of 12,159 ESOP shares	—	—	8	120	—	—	—	—	128
Tax benefit from share-based compensation	—	—	3	—	—	—	—	—	3
Treasury stock purchased (526 shares)	—	—	—	—	—	—	—	(6)	(6)
Balance at March 31, 2012	10,576,849	$106	$94,649	$(5,448)	$(35)	$42,188	$132	$(11)	$131,581

See accompanying notes to unaudited interim consolidated financial statements.

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SI FINANCIAL GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands / Unaudited)

	Three Months Ended March 31,	
	2012	2011
Cash flows from operating activities:		
Net income	$403	$209
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	484	210
Employee stock ownership plan expense	128	114
Equity incentive plan expense	29	20
Excess tax benefit from share-based compensation	(3)	(2)
Amortization of investment premiums and discounts, net	325	103
Amortization of loan premiums and discounts, net	206	204
Depreciation and amortization of premises and equipment	501	461
Amortization of core deposit intangible	3	5
Net gain on sale of securities	(317)	(35)
Net loss (gain) on trading securities and derivatives	49	(27)
Loans originated for sale	(7,002)	(14,249)
Proceeds from sale of loans held for sale	11,049	19,785
Net loss on disposal of SI Trust Servicing operations	486	—
Net gain on sale of loans held for sale	(218)	(124)
Net loss on disposal of equipment	—	7
Net loss on sales or write-downs of other real estate owned	11	62
Increase in cash surrender value of bank-owned life insurance	(72)	(72)
Gain on bank-owned life insurance proceeds	—	(120)
Other-than-temporary impairment losses on securities	36	—
Change in operating assets and liabilities:		
Accrued interest receivable	66	(244)
Other assets	(99)	1,134
Accrued expenses and other liabilities	136	(608)
Net cash provided by operating activities	6,201	6,833
Cash flows from investing activities:		
Purchases of available for sale securities	(27,712)	(47,374)
Proceeds from sales of available for sale securities	9,336	1,065
Proceeds from maturities of and principal repayments on available for sale securities	18,150	9,917
Net (increase) decrease in loans	(14,381)	14,633
Purchases of loans	—	(17,419)
Proceeds from sale of other real estate owned	700	473
Purchases of premises and equipment	(335)	(866)
Proceeds from bank-owned life insurance	—	600
Net cash used in investing activities	(14,242)	(38,971)
Cash flows from financing activities:		
Net increase in deposits	19,261	10,660
Net decrease in mortgagors' and investors' escrow accounts	(1,541)	(1,634)
Proceeds from Federal Home Loan Bank advances	—	14,000

Repayments of Federal Home Loan Bank advances	—	(19,000)
Net proceeds from common stock offering	—	2,769
Excess tax benefit from share-based compensation	3	2
Purchase of shares by ESOP pursuant to reorganization	—	(3,141)
Cash dividends on common stock	(300)	(298)
Treasury stock purchased	(6)	(5)
Net cash provided by financing activities	17,417	3,353

SI FINANCIAL GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Concluded)
(In Thousands / Unaudited)

	Three Months Ended March 31,	
	2012	2011
Net change in cash and cash equivalents	9,376	(28,785)
Cash and cash equivalents at beginning of period	48,412	78,321
Cash and cash equivalents at end of period	$57,788	$49,536
Supplemental cash flow information:		
Interest paid	$2,513	$3,009
Income taxes paid, net	13	—
Transfer of stock offering escrow for issuance of common shares	—	47,556
Transfer of loans to other real estate owned	119	80

See accompanying notes to unaudited interim consolidated financial statements.

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SI FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011 AND DECEMBER 31, 2011

NOTE 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

SI Financial Group, Inc. (the "Company") is the holding company for Savings Institute Bank and Trust Company (the "Bank"). Established in 1842, the Bank is a community-oriented financial institution headquartered in Willimantic, Connecticut. The Bank provides a variety of financial services to individuals, businesses and municipalities through its twenty-one offices in eastern Connecticut. Its primary products include savings, checking and certificate of deposit accounts, residential and commercial mortgage loans, commercial business loans and consumer loans. In addition, wealth management services, which include trust, financial planning, life insurance and investment services, are offered to individuals and businesses through the Bank's Connecticut offices. The Company does not conduct any material business other than owning all of the stock of the Bank and making payments on the subordinated debentures held by the Company.

Effective January 12, 2011, the Company completed its public stock offering and the concurrent conversion of the Bank from the mutual holding company form of organization to the stock form of organization (the "Conversion"). A total of 6,544,493 shares of common stock were sold in the subscription and community offerings at $8.00 per share, including 392,670 shares purchased by the Savings Institute Bank and Trust Company Employee Stock Ownership Plan (the "ESOP"). Additional shares totaling 4,032,356 were issued in exchange for shares of the former SI Financial Group, Inc. at an exchange ratio of 0.8981. Shares outstanding after the stock offering and the exchange totaled 10,576,849. Proceeds received from the stock offering totaled $50.3 million, net of costs of $2.0 million. Earnings per share and the weighted average common shares outstanding reflect the conversion exchange ratio.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company, its wholly-owned subsidiary, the Bank, and the Bank's wholly-owned subsidiaries, 803 Financial Corp., SI Mortgage Company and SI Realty Company, Inc. All significant intercompany accounts and transactions have been eliminated.

Basis of Financial Statement Presentation

The interim consolidated financial statements and related notes have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information, with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X of the Securities and Exchange Commission ("SEC") and general practices within the banking industry. Accordingly, certain information and footnote disclosures required by GAAP for complete financial statements have been omitted. Information in the accompanying interim consolidated financial statements and notes to the financial statements of the Company as of March 31, 2012 and for the three months ended March 31, 2012 and 2011 is unaudited. These unaudited interim consolidated financial statements and related notes should be read in conjunction with the audited financial statements of the Company and the accompanying notes for the year ended December 31, 2011 contained in the Company's Form 10-K.

In the opinion of management, the accompanying unaudited interim consolidated financial statements reflect all of the adjustments, consisting only of normal and recurring adjustments, necessary for a fair presentation of the financial condition, results of operations and cash flows as of and for the period covered herein. The results of operations for the three months ended March 31, 2012 are not necessarily indicative of the operating results for the year ending December 31, 2012.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities, as of the date of the balance sheets and reported amounts of revenues and expenses for the periods presented. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, other-than-temporary impairment ("OTTI") of securities, deferred income taxes and the valuation of intangible assets.

Reclassifications

Certain amounts in the Company's 2011 consolidated financial statements have been reclassified to conform to the 2012 presentation. Such reclassifications had no effect on net income.

Loans Receivable

Loans receivable are stated at current unpaid principal balances, net of the allowance for loan losses and deferred loan origination fees and costs. Management has the ability and intent to hold its loans receivable for the foreseeable future or until maturity or pay-off.

A loan is impaired when, based on current information and events, it is probable the Company will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Impairment is measured on a loan by loan basis for residential and commercial mortgage loans and commercial business loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Company does not typically identify individual consumer loans for impairment disclosures, unless such loans are subject to a troubled debt restructuring agreement.

The Company periodically may agree to modify the contractual terms of loans. When a loan is modified and concessions have been made to the original contractual terms, such as reductions of interest rates or deferral of interest or principal payments due to the borrower's financial condition, the modification is considered a troubled debt restructuring ("TDR"). All TDRs are initially classified as impaired.

Management considers all nonaccrual loans and TDRs to be impaired. In most cases, loan payments less than 90 days past due are considered minor collection delays and the related loans are generally not considered impaired.

Allowance for Loan Losses

The allowance for loan losses, a material estimate which could change significantly in the near-term, is established through a provision for loan losses charged to earnings to account for losses that are inherent in the loan portfolio and estimated to occur, and is maintained at a level that management considers adequate to absorb losses in the loan portfolio. Loan losses are charged against the allowance for loan losses when management believes that the uncollectibility of the principal loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance for loan losses when received. In the determination of the allowance for loan losses, management may obtain independent appraisals for significant properties, if necessary.

Management's judgment in determining the adequacy of the allowance is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance for loan losses is evaluated on a monthly basis by management and is based on the evaluation of the known and inherent risk characteristics and size and composition of the loan portfolio, the assessment of current economic and real estate market conditions, adverse situations that may affect the borrower’s ability to repay, estimated value of any underlying collateral, historical loan loss experience, the level of nonperforming loans, delinquencies, classified assets and loan charge-offs and evaluations of loans and other relevant factors.

The allowance for loan losses consists of the following key elements:

- Specific allowance for identified impaired loans. For loans that are identified as impaired, an allowance is established when the present value of expected cash flows (or observable market price of the loan or fair value of the collateral if the loan is collateral dependent) of the impaired loan is lower than the carrying value of that loan.

- General valuation allowance. The general component represents a valuation allowance on the remainder of the loan portfolio, after excluding impaired loans. For this portion of the allowance, loans are segregated by category and assigned an allowance percentage based on historical loan loss experience adjusted for qualitative factors stratified by the following loan segments: residential one- to four-family, multi-family and commercial real estate, construction, commercial business and consumer. Management uses a rolling average of historical losses based on the time frame appropriate to capture relevant loss data for each loan segment. This historical loss factor is adjusted for the following qualitative factors: levels/trends in delinquencies; level of loan charge-offs and nonperforming loans; trends in terms of volume, nature and terms of loans; effects of changes in risk selection, underwriting standards and other changes in lending policies, procedures and practices; experience/ability and depth of lending management and staff and national and local economic trends and conditions.

The qualitative factors are determined based on the following various risk characteristics for each loan segment. Risk characteristics relevant to each portfolio segment are as follows:

Residential – One- to Four-Family – The Bank primarily originates conventional loans with loan-to-value ratios less than 95% and generally originates loans with loan-to-value ratios in excess of 80% only when secured by first liens on owner-occupied one- to four-family residences. Loans with loan-to-value ratios in excess of 80% generally require private mortgage insurance or additional collateral. All loans in this segment are collateralized by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality of this segment.

Multi-family and Commercial – Loans in this segment are originated for the purpose of acquiring, developing, improving or refinancing multi-family and commercial real estate where the property is the primary collateral securing the loan, and the income generated from the property is the primary repayment source. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, will have an effect on the credit quality in this segment. Payments on loans secured by income-producing properties often depend on the successful operation and management of the properties. Management continually monitors the cash flows of these loans.

Construction – This segment includes loans to individuals, and to a lesser extent builders, to finance the construction of residential dwellings. The Bank also originates construction loans for commercial development projects. Upon the completion of construction, the loan generally converts to a permanent mortgage loan. Credit risk is affected by cost overruns, time to sell at an adequate price and market conditions.

Commercial Business – Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy and reduced viability of the industry in which the customer operates will have a negative impact on the credit quality in this segment. To a lesser extent, the Bank finances capital improvements for condominium associations which are secured by the assigned rights to levy special assessments.

Consumer – Loans in this segment primarily include home equity lines of credit (representing both first and second liens) and indirect automobile loans and, to a lesser extent, loans secured by marketable securities, passbook or certificate accounts, motorcycles, automobiles and recreational vehicles, as well as unsecured loans. Consumer loan collections depend on the borrower's continuing financial stability, and therefore are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy.

In computing the allowance for loan losses, we do not assign a general valuation allowance to the Small Business Administration ("SBA") and United States Department of Agriculture ("USDA") loans that we purchase as such loans are fully guaranteed. These loans are included in commercial business loans.

The majority of the Company's loans are collateralized by real estate located in eastern Connecticut. To a lesser extent, certain commercial real estate loans are secured by collateral located outside of our primary market area. Accordingly, the collateral value of a substantial portion of the Company's loan portfolio and real estate acquired through foreclosure is susceptible to changes in market conditions.

Although management believes that it uses the best information available to establish the allowance for loan losses, future adjustments to the allowance for loan losses may be necessary and the Company's results of operations could be adversely affected if circumstances differ substantially from the assumptions used in making the determinations. Furthermore, while management believes it has established the allowance for loan losses in conformity with GAAP, our regulators, in reviewing the loan portfolio, may request us to increase our allowance for loan losses based on judgments different from ours. In addition, because future events affecting borrowers and collateral cannot be predicted with certainty, the existing allowance for loan losses may not be adequate or increases may be necessary should the quality of any loans deteriorate as a result of the factors discussed above. Any material increase in the allowance for loan losses would adversely affect the Company's financial condition and results of operations.

Interest and Fees on Loans

Interest on loans is accrued and included in net interest income based on contractual rates applied to principal amounts outstanding. Accrual of interest is discontinued when loan payments are 90 days or more past due, based on contractual terms, or when, in the judgment of management, collectibility of the loan or loan interest becomes uncertain. Subsequent recognition of income occurs only to the extent payment is received subject to management's assessment of the collectibility of the remaining interest and principal. A nonaccrual loan is restored to accrual status when it is no longer delinquent and collectibility of interest and principal is no longer in doubt and the borrower has made regular payments in accordance with the terms of the loan over a period of at least six months. Interest collected on nonaccrual loans is recognized only to the extent cash payments are received, and may be recorded as a reduction to principal if the collectibility of the principal balance of the loan is unlikely.

Loan origination fees and direct loan origination costs are deferred, and the net amount is recognized as an adjustment of the related loan's yield utilizing the interest method over the contractual life of the loan.

Recent Accounting Pronouncements

Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements – In May 2011, the Financial Accounting Standards Board ("FASB") amended its standard related to fair value measurement and disclosure requirements in accordance with GAAP and International Financial Reporting Standards. The amendments (1) change the wording used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurement, (2) clarify the intent of the application of existing fair value measurement requirements and (3) change the requirements for measuring fair value and for disclosing information about fair value. The amendments are not intended to change the application of existing requirements for fair value measurement. The amendments should be applied prospectively effective during the first interim and annual periods beginning after December 15, 2011. The adoption of these amendments did not have a material impact on the Company’s consolidated financial statements.

Presentation of Comprehensive Income – In June 2011, the FASB amended its standard related to the presentation of comprehensive income. Under this amendment, an entity will have the option to present the total of comprehensive income, the components of net income and the components of other comprehensive income in a single continuous statement or in two separate but consecutive statements. The Company adopted this amendment as of December 31, 2011 with the presentation of separate consolidated statements of comprehensive income.

Testing of Goodwill for Impairment – In September 2011, the FASB amended its standard related to how entities test goodwill for impairment. Under this amendment, an entity is now permitted to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. If after assessing the totality of events and circumstances, an entity determines it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. Under this amendment, an entity is no longer permitted to carry forward its detailed calculation of a reporting unit’s fair value from a prior year. The amendments in this update are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company adopted this amendment as of December 31, 2011 and it did not have a material impact on the Company’s consolidated financial statements.

Disclosures about Offsetting Assets and Liabilities – In December 2011, the FASB amended its standard related to disclosure requirements for offsetting assets and liabilities. Under this amendment, an entity will be required to disclose both gross and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. This scope would include derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. The amendments in this update are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by these amendments retrospectively for all comparative periods presented. The adoption of this amendment is not expected to have a material impact on the Company's consolidated financial statements.

NOTE 2. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net income available to common shareholders by the weighted average number of common shares outstanding during the period. Unvested restricted shares are considered outstanding in the computation of basic earnings per share since the shares participate in dividends and the rights to the dividends are non-forfeitable. Diluted earnings per share is computed in a manner similar to basic earnings per share except that the weighted average number of common shares outstanding is increased to include the incremental common shares (as computed using the treasury stock method) that would have been outstanding if all potentially dilutive common stock equivalents were issued during the period. The Company’s common stock equivalents relate solely to stock options. Treasury shares and unallocated common shares held by the Bank’s ESOP are not deemed outstanding for earnings per share calculations.

Anti-dilutive shares are common stock equivalents with weighted average exercise prices in excess of the weighted average market value for the periods presented, and are not considered in diluted earnings per share calculations. The

Company had 343,807 and 416,677 anti-dilutive common shares outstanding for the three months ended March 31, 2012 and 2011, respectively.

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SI FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2012 AND 2011 AND DECEMBER 31, 2011

The computation of earnings per share is as follows:

	Three Months Ended March 31,	
	2012	2011
	(In Thousands, Except Share Amounts)	
Net income	$403	$209
Weighted average common shares outstanding:		
Basic	9,971,292	10,114,324
Effect of dilutive stock options	27,023	18,751
Diluted	9,998,315	10,133,075
Earnings per share:		
Basic	$0.04	$0.02
Diluted	$0.04	$0.02

NOTE 3. SECURITIES

Available for sale securities:
The amortized cost, gross unrealized gains and losses and approximate fair values of available for sale securities at March 31, 2012 and December 31, 2011 are as follows:

	March 31, 2012			
	Amortized Cost (1)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Debt securities:				
U.S. Government and agency obligations	$81,230	$802	$(40)	$81,992
Government-sponsored enterprises	26,335	450	(5)	26,780
Mortgage-backed securities:(2)				
Agency - residential	90,009	2,871	(183)	92,697
Non-agency - residential	7,052	46	(429)	6,669
Non-agency - HELOC	2,964	—	(511)	2,453
Corporate debt securities	11,574	254	(165)	11,663
Collateralized debt obligations	6,206	—	(2,728)	3,478
Obligations of state and political subdivisions	6,318	289	—	6,607
Tax-exempt securities	70	1	—	71
Foreign government securities	75	—	—	75
Total debt securities	231,833	4,713	(4,061)	232,485
Equity securities:				
Equity securities - financial services	33	1	—	34
Total available for sale securities	$231,866	$4,714	$(4,061)	$232,519

(1) Net of OTTI write-downs recognized in earnings.
(2) Agency securities refer to debt obligations issued or guaranteed by government corporations or government-sponsored enterprises ("GSEs"). Non-agency securities, or private-label securities, are the sole obligation of their issuer and are not guaranteed by one of the GSEs or the U.S. Government.

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