SI Financial Group, Inc.
Form 10-Q
May 08, 2014

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, 2014
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 (State or other jurisdiction of incorporation or organization)	80-0643149 (I.R.S. Employer Identification No.)
803 Main Street, Willimantic, Connecticut (Address of principal executive offices)	06226 (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 o	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 2, 2014, there were 12,828,406 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, 2014	December 31, 2013
ASSETS:		
Cash and due from banks:		
Noninterest-bearing	$18,728	$20,554
Interest-bearing	34,999	6,767
Total cash and cash equivalents	53,727	27,321
Available for sale securities, at fair value	169,985	170,220
Loans held for sale	686	1,764
Loans receivable (net of allowance for loan losses of $7,252 at March 31, 2014 and $6,916 at December 31, 2013)	1,042,037	1,047,410
Federal Home Loan Bank stock, at cost	13,109	13,109
Bank-owned life insurance	20,868	20,726
Premises and equipment, net	20,634	21,090
Goodwill and other intangibles	19,402	19,566
Accrued interest receivable	3,920	4,021
Deferred tax asset, net	9,536	9,705
Other real estate owned, net	2,037	2,429
Other assets	7,188	9,018
Total assets	$1,363,129	$1,346,379
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Liabilities:		
Deposits:		
Noninterest-bearing	$136,185	$139,428
Interest-bearing	868,098	845,321
Total deposits	1,004,283	984,749
Mortgagors' and investors' escrow accounts	1,617	3,214
Federal Home Loan Bank advances	169,922	176,272
Junior subordinated debt owed to unconsolidated trust	8,248	8,248
Accrued expenses and other liabilities	24,761	21,054
Total liabilities	1,208,831	1,193,537
Shareholders' Equity:		
Preferred stock ($.01 par value; 1,000,000 shares authorized; none issued)	—	—
Common stock ($.01 par value; 35,000,000 shares authorized; 12,822,157 and 12,798,461 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively)	128	128
Additional paid-in-capital	125,621	125,277
Unallocated common shares held by ESOP	(4,488)	(4,608)
Unearned restricted shares	(1,637)	(1,751)
Retained earnings	35,182	34,644

Accumulated other comprehensive loss	(508)	(848)
Total shareholders' equity	154,298	152,842
Total liabilities and shareholders' equity	$1,363,129	$1,346,379

See accompanying notes to unaudited interim consolidated financial statements.

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

	Three Months Ended March 31,	
	2014	2013
Interest and dividend income:		
Loans, including fees	$11,087	$7,523
Securities:		
Taxable interest	880	1,022
Tax-exempt interest	42	—
Dividends	49	—
Other	13	10
Total interest and dividend income	12,071	8,555
Interest expense:		
Deposits	1,319	1,352
Federal Home Loan Bank advances	682	775
Subordinated debt and other borrowings	83	83
Total interest expense	2,084	2,210
Net interest income	9,987	6,345
Provision for loan losses	430	135
Net interest income after provision for loan losses	9,557	6,210
Noninterest income:		
Service fees	1,718	1,216
Wealth management fees	323	257
Increase in cash surrender value of bank-owned life insurance	142	68
Net gain on sales of securities	35	3
Mortgage banking	160	579
Net gain on fair value of derivatives	17	47
Other	377	270
Total noninterest income	2,772	2,440
Noninterest expenses:		
Salaries and employee benefits	5,200	4,408
Occupancy and equipment	2,107	1,383
Computer and electronic banking services	1,352	868
Outside professional services	449	268
Marketing and advertising	226	130
Supplies	168	100
FDIC deposit insurance and regulatory assessments	349	233
Merger expenses	—	684
Core deposit intangible amortization	164	—
Other real estate operations	169	127
Other	770	380
Total noninterest expenses	10,954	8,581

Income before income tax provision	1,375	69
Income tax provision	469	146
Net income (loss)	$906	$(77)
Earnings (loss) per share:		
Basic	$0.07	$(0.01)
Diluted	$0.07	$(0.01)

See accompanying notes to unaudited interim consolidated financial statements.

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

	Three Months Ended March 31,	
	2014	2013
Net income (loss)	$906	$(77)
Other comprehensive income (loss), net of tax:		
Available for sale securities:		
Net unrealized holding gains (losses)	340	(4)
Reclassification adjustment for gains recognized in net income (loss) [1]	(23)	(2)
Plus: noncredit portion of OTTI loss	—	(35)
Net unrealized gains (losses) on available for sale securities	317	(41)
Net unrealized gain on interest-rate swap derivative	23	28
Other comprehensive income (loss)	340	(13)
Comprehensive income (loss)	$1,246	$(90)

[1] Amounts are included in net gain on the sales of securities in noninterest income on the consolidated statements of operations. Income tax expense associated with the reclassification adjustment for the three months ended March 31, 2014 and 2013 was $12,000 and $1,000, respectively.

See accompanying notes to unaudited interim consolidated financial statements.

SI FINANCIAL GROUP, INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2014
(In Thousands, Except Share Data / Unaudited)

	Common Stock			Unallocated				
	Shares	Dollars	Additional Paid-in Capital	Common Shares Held by ESOP	Unearned Restricted Shares	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at December 31, 2013	12,798,461	$128	$125,277	$(4,608)	$(1,751)	$34,644	$(848)	$152,842
Comprehensive income	—	—	—	—	—	906	340	1,246
Cash dividends declared ($0.03 per share)	—	—	—	—	—	(368)	—	(368)
Equity incentive plan compensation	—	—	75	—	114	—	—	189
Allocation of 12,159 ESOP shares	—	—	22	120	—	—	—	142
Tax benefit from share-based compensation	—	—	3	—	—	—	—	3
Stock options exercised	29,890	—	316	—	—	—	—	316
Common shares repurchased	(6,194)	—	(72)	—	—	—	—	(72)
Balance at March 31, 2014	12,822,157	$128	$125,621	$(4,488)	$(1,637)	$35,182	$(508)	$154,298

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,	
	2014	2013
Cash flows from operating activities:		
Net income (loss)	$906	$(77)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for loan losses	430	135
Employee stock ownership plan expense	142	144
Equity incentive plan expense	189	192
Excess tax benefit from share-based compensation	(3)	(3)
Amortization of investment premiums and discounts, net	282	307
Amortization of loan premiums and discounts, net	322	346
Depreciation and amortization of premises and equipment	629	424
Amortization of core deposit intangible	164	—
Amortization of deferred debt issue costs	46	53
Net gain on sales of securities	(35)	(3)
Net gain on fair value of derivatives	(17)	(47)
Deferred income tax provision (benefit)	(6)	26
Loans originated for sale	(4,307)	(13,136)
Proceeds from sale of loans held for sale	5,410	13,520
Net gain on sales of loans held for sale	(94)	(522)
Net gain on sales of loans held for investment	—	(201)
Net loss on sales or write-downs of other real estate owned	35	25
Increase in cash surrender value of bank-owned life insurance	(142)	(68)
Change in operating assets and liabilities:		
Accrued interest receivable	101	60
Other assets	1,899	(264)
Accrued expenses and other liabilities	3,762	(493)
Net cash provided by operating activities	9,713	418
Cash flows from investing activities:		
Purchases of available for sale securities	(12,297)	(31,359)
Proceeds from sales of available for sale securities	81	1,000
Proceeds from maturities of and principal repayments on available for sale securities	12,684	10,406
Redemption of Federal Home Loan Bank stock	—	325
Loan principal collections, net of originations	5,064	13,190
Purchases of loans	(443)	(3,549)
Proceeds from sales of loans held for investment	—	3,197
Proceeds from sales of other real estate owned	357	552
Purchases of premises and equipment	(173)	(868)
Net cash provided by (used in) investing activities	5,273	(7,106)

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

	Three Months Ended March 31, 2014	2013
Cash flows from financing activities:		
Net increase in deposits	19,534	8,030
Net decrease in mortgagors' and investors' escrow accounts	(1,597)	(1,490)
Proceeds from Federal Home Loan Bank advances	10,000	4,000
Repayments of Federal Home Loan Bank advances	(16,396)	(6,000)
Excess tax benefit from share-based compensation	3	3
Cash dividends on common stock	(368)	(287)
Stock options exercised	316	—
Common shares repurchased	(72)	(6)
Net cash provided by financing activities	11,420	4,250
Net change in cash and cash equivalents	26,406	(2,438)
Cash and cash equivalents at beginning of period	27,321	37,689
Cash and cash equivalents at end of period	$53,727	$35,251
Supplemental cash flow information:		
Interest paid	$2,075	$2,184
Income taxes paid (refunded), net	(1,816)	862
Transfer of loans to other real estate owned	—	283

See accompanying notes to unaudited interim consolidated financial statements.

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SI FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2014 AND 2013 AND DECEMBER 31, 2013

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-six offices in eastern Connecticut and Rhode Island. 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 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.

On September 6, 2013, the Company acquired Newport Bancorp, Inc. ("Newport"), the holding company for Newport Federal Savings Bank. The acquisition added six full-service banking offices located in eastern Connecticut and Rhode Island.

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 10.01 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, 2014 and for the three months ended March 31, 2014 and 2013 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, 2013 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, 2014 are not necessarily indicative of the operating results for the year ending December 31, 2014 or for any other period.

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 impairment of long-lived assets.

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SI FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2014 AND 2013 AND DECEMBER 31, 2013

Reclassifications
Certain amounts in the Company's prior year consolidated financial statements have been reclassified to conform to the current year 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 ("TDR") 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 TDR.

Management considers all nonaccrual loans, with the exception of certain consumer loans, to be impaired. Also, all TDRs are initially classified as 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 and trends 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

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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, classified loans and nonaccrual loans; level of loan charge-offs; trends in volume, nature and terms of loans; existence and effect of/or changes in the level of credit concentrations; 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, national and local economic trends and conditions and impact on value of underlying collateral for collateral dependent loans.

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 but increasing extent, the Bank provides loans to investors in the time share industry, which are secured by consumer receivables, and provides loans for capital improvements to condominium associations, which are secured by the assigned rights to levy special assessments to condominium owners.

Consumer – Loans in this segment primarily include home equity lines of credit (representing both first and second liens), 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. See Note 4 for details.

The majority of the Company's loans are collateralized by real estate located in eastern Connecticut and Rhode Island. 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 local 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, the regulatory agencies, 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. In addition, discounts related to fair value adjustments for loans receivable acquired in a business combination or asset purchase are accreted into earnings over the contractual term as an adjustment of the loan's yield. The Company periodically evaluates the cash flows expected to be collected for loans acquired with deteriorated credit quality. Changes in the expected cash flows compared to the expected cash flows as of the date of acquisition may impact the accretable yield or result in a charge to the provision for loan losses to the extent of a shortfall.

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SI FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2014 AND 2013 AND DECEMBER 31, 2013

Common Share Repurchases
The Company is chartered in the state of Maryland. Maryland law does not provide for treasury shares, rather shares repurchased by the Company constitute authorized but unissued shares. GAAP states that accounting for treasury stock shall conform to state law. Therefore, the cost of shares repurchased by the Company has been allocated to common stock and retained earnings balances.

Recent Accounting Pronouncements
Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure - In January 2014, the Financial Accounting Standards Board ("FASB") issued amended guidance that clarifies when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The amended guidance clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. In addition, the amended guidance requires interim and annual disclosures of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amended guidance may be applied prospectively or through a modified retrospective approach and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2014, with early adoption permitted. The adoption of the amended guidance is not expected to have a material impact on the Company's consolidated financial statements.

NOTE 2. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is calculated by dividing the net income (loss) 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 (loss) per share since the shares participate in dividends and the rights to the dividends are non-forfeitable. Diluted earnings (loss) per share is computed in a manner similar to basic earnings (loss) 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. Repurchased common shares and unallocated common shares held by the Bank's ESOP are not deemed outstanding for earnings (loss) 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 (loss) per share calculations. The Company had anti-dilutive common shares outstanding of 394,497 and 481,254 for the three months ended March 31, 2014 and 2013, respectively. For the quarter ended March 31, 2013, all common stock equivalents were anti-dilutive and were not included in the computation of loss per share because it would result in a reduction in the net loss per share.

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SI FINANCIAL GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2014 AND 2013 AND DECEMBER 31, 2013

The computation of earnings (loss) per share is as follows:

	Three Months Ended March 31,	
	2014	2013
	(Dollars in Thousands, Except Per Share Data)	
Net income (loss)	$906	$(77)
Weighted average common shares outstanding:		
Basic	12,295,225	9,555,940
Effect of dilutive stock options	48,252	—
Diluted	12,343,477	9,555,940
Earnings (loss) per share:		
Basic	$0.07	$(0.01)
Diluted	$0.07	$(0.01)

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, 2014 and December 31, 2013 are as follows:

	March 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Debt securities:				
U.S. Government and agency obligations	$54,887	$388	$(188)	$55,087
Government-sponsored enterprises	22,663	88	(224)	22,527
Mortgage-backed securities:[1]				
Agency - residential	77,645	881	(1,505)	77,021
Non-agency - residential	412	16	(2)	426
Corporate debt securities	2,961	64	—	3,025
Collateralized debt obligation	1,190	—	(9)	1,181
Obligations of state and political subdivisions	4,056	182	(57)	4,181
Tax-exempt securities	6,664	—	(127)	6,537
Total available for sale securities	$170,478	$1,619	$(2,112)	$169,985

[1] 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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	December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
Debt securities:				
U.S. Government and agency obligations	$54,228	$485	$(168)	$54,545
Government-sponsored enterprises	26,551	134	(393)	26,292
Mortgage-backed securities:(1)				
Agency - residential	77,037	889	(1,809)	76,117
Non-agency - residential	530	26	(2)	554
Corporate debt securities	3,708	90	—	3,798
Collateralized debt obligation	1,210	—	(19)	1,191
Obligations of state and political subdivisions	4,063	141	(81)	4,123
Tax-exempt securities	3,841	—	(266)	3,575
Foreign government securities	25	—	—	25
Total available for sale securities	$171,193	$1,765	$(2,738)	$170,220

(1) Agency securities refer to debt obligations issued or guaranteed by government corporations or 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.

The amortized cost and fair value of debt securities by contractual maturities at March 31, 2014 are presented below. Maturities are based on the final contractual payment dates, and do not reflect the impact of potential prepayments or early redemptions. Because mortgage-backed securities ("MBS") are not due at a single maturity date, they are not included in the maturity categories in the following maturity summary.

	Amortized Cost	Fair Value
	(In Thousands)	
Within 1 year	$7,477	$7,569
After 1 but within 5 years	24,141	24,203
After 5 but within 10 years	21,534	21,385
After 10 years	39,269	39,381
	92,421	92,538
Mortgage-backed securities	78,057	77,447
Total debt securities	$170,478	$169,985

The following is a summary of realized gains and losses on the sales of securities for the three months ended March 31, 2014 and 2013:

	Three Months Ended March 31,	
	2014	2013
	(In Thousands)	

Gross gains on sales	$35	$3
Gross losses on sales	—	—
Net gain on sale of securities	$35	$3

Proceeds from the sale of available for sale securities were $81,000 and $1.0 million for the three months ended March 31, 2014, and 2013, respectively.

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The following tables present information pertaining to securities with gross unrealized losses at March 31, 2014 and December 31, 2013, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position.

March 31, 2014:	Less Than 12 Months		12 Months Or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
U.S. Government and agency obligations	$29,614	$164	$760	$24	$30,374	$188
Government sponsored enterprises	14,406	224	—	—	14,406	224
Mortgage-backed securities:						
Agency - residential	37,700	1,123	6,846	382	44,546	1,505
Non-agency - residential	163	2	—	—	163	2
Collateralized debt obligation	—	—	1,181	9	1,181	9
Obligations of state and political subdivisions	1,204	57	—	—	1,204	57
Tax-exempt securities	6,365	127	—	—	6,365	127
Total	$89,452	$1,697	$8,787	$415	$98,239	$2,112

December 31, 2013:	Less Than 12 Months		12 Months Or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In Thousands)					
U.S. Government and agency obligations	$21,921	$142	$883	$26	$22,804	$168
Government-sponsored enterprises	12,376	393	—	—	12,376	393
Mortgage-backed securities:						
Agency - residential	38,119	1,772	2,686	37	40,805	1,809
Non-agency - residential	169	2	—	—	169	2
Collateralized debt obligation	—	—	1,191	19	1,191	19
Obligations of state and political subdivisions	1,187	81	—	—	1,187	81
Tax-exempt securities	3,575	266	—	—	3,575	266
Total	$77,347	$2,656	$4,760	$82	$82,107	$2,738

At March 31, 2014, fifty debt securities with gross unrealized losses had aggregate depreciation of approximately 2.10% of the Company’s amortized cost basis. The majority of the unrealized losses are related to the Company’s agency MBS. There were no impairment charges recognized on investments deemed other-than-temporarily impaired for the three months ended March 31, 2014 and 2013, respectively. The following summarizes, by security type, the basis for management’s determination during the preparation of the financial statements of whether the applicable investments within the Company’s securities portfolio were other-than-temporarily impaired at March 31, 2014.

U.S. Government and Agency Obligations. The unrealized losses on the Company's U.S. Government and agency obligations related primarily to a widening of the rate spread to comparable treasury securities. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell the securities before their anticipated recovery, which may be at maturity, the Company did not consider these securities to be other-than-temporarily impaired at March 31, 2014.

Mortgage-backed Securities - Agency - Residential. The unrealized losses on the Company's agency–residential mortgage-backed securities were caused by increases in the rate spread to comparable treasury securities. The Company does not expect these securities to settle at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before the recovery of their amortized cost basis, which may be at maturity, the Company did not consider these investments to be other-than-temporarily impaired at March 31, 2014.

Collateralized Debt Obligation. The unrealized losses on the Company's collateralized debt obligations relate to one investment in a pooled trust preferred security ("PTPS"). The PTPS market has stabilized at depressed market values as a result of market saturation. Transactions for PTPS have been limited and have occurred primarily as a result of distressed or forced liquidation sales. The securities were widely held by hedge funds and European banks and used to offset interest rate exposure tied to LIBOR. As the positions have unwound, an excess supply of these securities has saturated the market.

Management evaluated current credit ratings, credit support and stress testing for future defaults related to the Company's PTPS. Management also reviewed analytics provided by the trustee. The unrealized loss on the Company's PTPS investment was caused by a lack of liquidity, credit downgrades and decreasing credit support. The increased number of bank and insurance company failures has decreased the level of credit support for this investment. A number of lower tranches have foregone payments or have received payment in kind through increased principal allocations. However, the number of deferring securities has been decreasing and a number of reinstatements have occurred recently. The Company's PTPS was upgraded to investment grade and based on its senior credit profile, management does not believe that this investment will suffer credit-related losses. Because the Company does not intend to sell the investment and it is not more likely than not that the Company will be required to sell the investment before recovery of its amortized cost basis, which may be at maturity, the Company did not record impairment losses at March 31, 2014.

The following table presents a roll-forward of the balance of credit losses on the Company's debt securities for which a portion of OTTI was recognized in other comprehensive income (loss) for the three months ended March 31, 2014 and 2013.

	Three Months Ended March 31,	
	2014	2013
	(In Thousands)	
Balance at beginning of period	$—	$259
Amounts related to credit for which OTTI losses were not previously recognized	—	—
Reduction for securities sold during the period (realized)	—	—
Balance at end of period	$—	$259

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NOTE 4. LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loan Portfolio

The composition of the Company's loan portfolio at March 31, 2014 and December 31, 2013 is as follows:

	March 31, 2014	December 31, 2013
	(In Thousands)	
Real estate loans:		
Residential - 1 to 4 family	$439,970	$449,812
Multi-family and commercial	291,276	285,660
Construction	10,621	10,162
Total real estate loans	741,867	745,634
Commercial business loans:		
SBA and USDA guaranteed	128,433	137,578
Time share	38,022	28,615
Condominium association	18,608	18,442
Other	67,772	69,705
Total commercial business loans	252,835	254,340
Consumer loans:		
Home equity	45,489	44,284
Indirect automobile	5,677	6,354
Other	1,819	2,116
Total consumer loans	52,985	52,754
Total loans	1,047,687	1,052,728
Deferred loan origination costs, net of fees	1,602	1,598
Allowance for loan losses	(7,252)	(6,916)
Loans receivable, net	$1,042,037	$1,047,410

The Company purchased commercial business loans totaling $443,000 during the three months ended March 31, 2014. For the twelve months ended December 31, 2013, the Company purchased commercial business loans totaling $23.0 million.

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Allowance for Loan Losses
Changes in the allowance for loan losses for the three months ended March 31, 2014 and 2013 are as follows:

Three Months Ended March 31, 2014	Residential - 1 to 4 Family	Multi-family and Commercial	Construction	Commercial Business	Consumer	Total
	(In Thousands)					
Balance at beginning of period	$975	$3,395	$169	$1,875	$502	$6,916
Provision for loan losses	33	207	15	130	45	430
Loans charged-off	(74)	—	—	(13)	(29)	(116)
Recoveries of loans previously charged-off	14	—	—	3	5	22
Balance at end of period	$948	$3,602	$184	$1,995	$523	$7,252

Three Months Ended March 31, 2013	Residential - 1 to 4 Family	Multi-family and Commercial	Construction	Commercial Business	Consumer	Total
	(In Thousands)					
Balance at beginning of period	$1,125	$3,028	$22	$1,735	$477	$6,387
Provision (credit) for loan losses	242	71	5	(201)	18	135
Loans charged-off	(266)	—	—	—	(40)	(306)
Recoveries of loans previously charged-off	—	69	—	—	43	112
Balance at end of period	$1,101	$3,168	$27	$1,534	$498	$6,328

Further information pertaining to the allowance for loan losses at March 31, 2014 and December 31, 2013 is as follows:

March 31, 2014	Residential - 1 to 4 Family	Multi-family and Commercial	Construction	Commercial Business	Consumer	Total
	(In Thousands)					
Allowance for loans individually evaluated and deemed to be impaired	$316	$238	$—	$4	$—	$558
Allowance for loans individually or collectively evaluated and not deemed to be impaired	632	3,364	184	1,991	523	6,694
Allowance for loans acquired with deteriorated credit quality	—	—	—	—	—	—
	$948	$3,602	$184	$1,995	$523	$7,252

Total allowance for loan losses						
Loans individually evaluated and deemed to be impaired	$5,830	$2,926	$—	$355	$—	$9,111
Loans individually or collectively evaluated and not deemed to be impaired	433,760	283,956	10,621	252,107	52,985	1,033,429
Amount of loans acquired with deteriorated credit quality	380	4,394	—	373	—	5,147
Total loans	$439,970	$291,276	$10,621	$252,835	$52,985	$1,047,687

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December 31, 2013	Residential - 1 to 4 Family	Multi-family and Commercial	Construction	Commercial Business	Consumer	Total
	(In Thousands)					
Allowance for loans individually evaluated and deemed to be impaired	$341	$185	$—	$4	$—	$530
Allowance for loans individually or collectively evaluated and not deemed to be impaired	634	3,210	169	1,871	502	6,386
Allowance for loans acquired with deteriorated credit quality	—	—	—	—	—	—
Total allowance for loan losses	$975	$3,395	$169	$1,875	$502	$6,916
Loans individually evaluated and deemed to be impaired	$5,695	$3,036	$—	$385	$—	$9,116
Loans individually or collectively evaluated and not deemed to be impaired	443,734	277,483	10,162	252,930	52,754	1,037,063
Amount of loans acquired with deteriorated credit quality	383	5,141	—	1,025	—	6,549
Total loans	$449,812	$285,660	$10,162	$254,340	$52,754	$1,052,728

Past Due Loans

The following represents an aging of loans at March 31, 2014 and December 31, 2013:

March 31, 2014	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total 30 Days or More Past Due	Current	Total Loans
	(In Thousands)					
Real Estate:						
Residential - 1 to 4 family	$3,866	$205	$1,897	$5,968	$434,002	$439,970
Multi-family and commercial	671	42	1,558	2,271	289,005	291,276
Construction	—	—	—	—	10,621	10,621
Commercial Business:						
SBA and USDA guaranteed	3,528	860	—	4,388	124,045	128,433
Time share	—	—	—	—	38,022	38,022
Condominium association	—	—	—	—	18,608	18,608

Other(1)	905	143	338	1,386	66,386	67,772
Consumer:						
Home equity	—	—	—	—	45,489	45,489
Indirect automobile	72	—	—	72	5,605	5,677
Other	—	1	—	1	1,818	1,819
Total	$9,042	$1,251	$3,793	$14,086	$1,033,601	$1,047,687

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December 31, 2013	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total 30 Days or More Past Due	Current	Total Loans
	(In Thousands)					
Real Estate:						
Residential - 1 to 4 family	$5,402	$783	$1,473	$7,658	$442,154	$449,812
Multi-family and commercial	1,057	—	1,388	2,445	283,215	285,660
Construction	—	—	—	—	10,162	10,162
Commercial Business:						
SBA and USDA guaranteed	7,266	1,161	66	8,493	129,085	137,578
Time share	—	—	—	—	28,615	28,615
Condominium association	—	—	—	—	18,442	18,442
Other	—	171	338	509	69,196	69,705
Consumer:						
Home equity	258	36	49	343	43,941	44,284
Indirect automobile	80	47	16	143	6,211	6,354
Other	1	1	—	2	2,114	2,116
Total	$14,064	$2,199	$3,330	$19,593	$1,033,135	$1,052,728

The Company did not have any loans that were past due 90 days or more and still accruing interest at March 31, 2014 or December 31, 2013.

Impaired and Nonaccrual Loans
The following is a summary of impaired loans and nonaccrual loans at March 31, 2014 and December 31, 2013:

	Impaired Loans(1)			
March 31, 2014	Recorded Investment	Unpaid Principal Balance	Related Allowance	Nonaccrual Loans
	(In Thousands)			
Impaired loans without valuation allowance:(2)				
Real Estate:				
Residential - 1 to 4 family	$3,804	$3,983	$—	$3,408
Multi-family and commercial	4,825	5,022	—	376
Commercial business - Other	720	720	—	346
Consumer - Home equity	—	—	—	49
Total impaired loans without valuation allowance	9,349	9,725	—	4,179
Impaired loans with valuation allowance:				
Real Estate:				
Residential - 1 to 4 family	2,406	2,433	316	474
Multi-family and commercial	2,495	2,585	238	1,322
Commercial business - Other	8	8	4	8
Total impaired loans with valuation allowance	4,909	5,026	558	1,804

Total impaired loans	$14,258	$14,751	$558	$5,983

(1) Includes loans acquired with deteriorated credit quality and performing TDRs.
(2) Includes loans acquired with deteriorated credit quality from the Newport merger.

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December 31, 2013	Impaired Loans[1] Recorded Investment	Unpaid Principal Balance	Related Allowance	Nonaccrual Loans
	(In Thousands)			
Impaired loans without valuation allowance:[2]				
Real Estate:				
Residential - 1 to 4 family	$3,641	$3,822	$—	$3,241
Multi-family and commercial	6,853	7,050	—	1,655
Commercial business - Other	1,402	1,402	—	377
Consumer - Home equity	—	—	—	53
Consumer - Indirect automobile	—	—	—	16
Total impaired loans without valuation allowance	11,896	12,274	—	5,342
Impaired loans with valuation allowance:				
Real Estate:				
Residential - 1 to 4 family	2,437	2,448	341	319
Multi-family and commercial	1,324	1,414	185	1,324
Commercial business - Other	8	8	4	8
Total impaired loans with valuation allowance	3,769	3,870	530	1,651
Total impaired loans	$15,665	$16,144	$530	$6,993

(1) Includes loans acquired with deteriorated credit quality and performing TDRs.
(2) Includes loans acquired with deteriorated credit quality from the Newport merger.

The Company reviews and establishes, if necessary, an allowance for certain impaired loans for the amount by which the present value of expected cash flows (or observable market price of loan or fair value of the collateral if the loan is collateral dependent) are lower than the carrying value of the loan. At March 31, 2014 and December 31, 2013, the Company concluded that certain impaired loans required no valuation allowance as a result of management's measurement of impairment. No additional funds are committed to be advanced to those borrowers whose loans are deemed impaired.

Additional information related to impaired loans is as follows:

	Three Months Ended March 31, 2014			Three Months Ended March 31, 2013		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized on Cash Basis
	(In Thousands)					
Real Estate:						
Residential - 1 to 4 family	$6,143	$22	$1	$7,353	$31	$15
Multi-family and commercial	7,716	163	72	4,597	45	—

Commercial business - Other	1,102	17	10	454	6	4
Consumer - Home equity	59	—	—	392	16	15
Total	$15,020	$202	$83	$12,796	$98	$34

Credit Quality Information

The Company utilizes an eight-grade internal loan rating system for all loans in the portfolio, with the exception of its purchased SBA and USDA commercial business loans that are fully guaranteed by the U.S. government, as follows:

- Pass (Ratings 1-4): Loans in these categories are considered low to average risk.
- Special Mention (Rating 5): Loans in this category are starting to show signs of potential weakness and are being closely monitored by management.
- Substandard (Rating 6): Generally, a loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the collateral pledged. There is a distinct possibility that the Company will sustain some loss if the weakness is not corrected.
- Doubtful (Rating 7): Loans classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable.
- Loss (Rating 8): Loans in this category are considered uncollectible and of such little value that their continuance as assets is not warranted.

Management periodically reviews the ratings described above and the Company's internal audit function reviews components of the credit files, including the assigned risk ratings, of certain commercial loans as part of its loan review.

The following tables present the Company's loans by risk rating at March 31, 2014 and December 31, 2013:

March 31, 2014	Not Rated	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(In Thousands)						
Real Estate:							
Residential - 1 to 4 family	$—	$431,375	$1,287	$7,308	$—	$—	$439,970
Multi-family and commercial	—	259,031	16,448	15,797	—	—	291,276
Construction	—	10,621	—	—	—	—	10,621
Total real estate loans	—	701,027	17,735	23,105	—	—	741,867
Commercial Business:							
SBA and USDA guaranteed	128,433	—	—	—	—	—	128,433
Time share	—	38,022	—	—	—	—	38,022
Condominium association	—	18,608	—	—	—	—	18,608
Other	—	63,775	2,172	1,825	—	—	67,772
Total commercial business loans	128,433	120,405	2,172	1,825	—	—	252,835
Consumer:							
Home equity	—	45,329	64	96	—	—	45,489
Indirect automobile	—	5,662	—	15	—	—	5,677
Other	—	1,819	—	—	—	—	1,819
Total consumer loans	—	52,810	64	111	—	—	52,985
Total loans	$128,433	$874,242	$19,971	$25,041	$—	$—	$1,047,687

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December 31, 2013	Not Rated	Pass	Special Mention	Substandard	Doubtful	Loss	Total
	(In Thousands)						
Real Estate:							
Residential - 1 to 4 family	$—	$441,646	$1,296	$6,870	$—	$—	$449,812
Multi-family and commercial	—	250,667	18,363	16,630	—	—	285,660
Construction	—	10,162	—	—	—	—	10,162
Total real estate loans	—	702,475	19,659	23,500	—	—	745,634
Commercial Business:							
SBA and USDA guaranteed	137,578	—	—	—	—	—	137,578
Time share	—	28,615	—	—	—	—	28,615
Condominium association	—	18,442	—	—	—	—	18,442
Other	—	63,959	2,230	3,516	—	—	69,705
Total commercial business loans	137,578	111,016	2,230	3,516	—	—	254,340
Consumer:							
Home equity	—	44,117	66	101	—	—	44,284
Indirect automobile	—	6,338	—	16	—	—	6,354
Other	—	2,116	—	—	—	—	2,116
Total consumer loans	—	52,571	66	117	—	—	52,754
Total loans	$137,578	$866,062	$21,955	$27,133	$—	$—	$1,052,728

Troubled Debt Restructurings
A modified loan is considered a TDR when two conditions are met: 1) the borrower is experiencing documented financial difficulty and 2) concessions are made by the Company that would not otherwise be considered for a borrower with similar risk characteristics. The most common types of modifications include below market interest rate reductions, deferrals of principal and maturity extensions. Modified terms are dependent upon the financial position and needs of the individual borrower. If the modification agreement is violated, the loan is handled by the Company's Collections Department for resolution, which may result in foreclosure. The Company's determination of whether a loan modification is a TDR considers the individual facts and circumstances surrounding each modification.

The Company's nonaccrual policy is followed for TDRs. If the loan was current prior to modification, nonaccrual status would not be required. If the loan was on nonaccrual prior to modification or if the payment amount significantly increases, the loan will remain on nonaccrual for a period of at least six months. Loans qualify for return to accrual status once the borrower has demonstrated the willingness and the ability to perform in accordance with the restructured terms of the loan agreement for a period of not less than six consecutive months.

All TDRs are initially reported as impaired. Impaired classification may be removed after the year of restructure if the borrower demonstrates compliance with the modified terms and the restructuring agreement specifies an interest rate equal to that which would be provided to a borrower with similar risk characteristics at the time of restructuring.

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The following table provides information on loans modified as TDRs during the three months ended March 31, 2014 and 2013.

	Three Months Ended March 31,					
	2014			2013		
	Number of Loans	Recorded Investment	Allowance for Loan Losses (End of Period)	Number of Loans	Recorded Investment	Allowance for Loan Losses (End of Period)
	(Dollars in Thousands)					
Residential - 1 to 4 family	—	$—	$—	1	$413	$72
Multi-family and commercial	1	1,173	55	—	—	—
Total	1	$1,173	$55	1	$413	$72

During the modification process, there were no loan charge-offs or principal reductions for the loans included in the above tables.

The following table provides the recorded investment, by type of modification, during the three months ended March 31, 2014 and 2013 for modified loans identified as TDRs.

	Three Months Ended March 31,	
	2014	2013
	(In Thousands)	
Combination of rate and maturity [1]	$1,173	$413
Total	$1,173	$413

[1] Terms include combination of interest rate adjustments and extensions of maturity.

There were no TDRs in payment default (defined as 90 days or more past due) within twelve months of restructure for the three months ended March 31, 2014 and 2013.

Loans Acquired with Deteriorated Credit Quality
The following is a summary of loans acquired with evidence of credit deterioration from Newport as of March 31, 2014 and December 31, 2013.

	Contractual Required Payments Receivable	Cash Expected To Be Collected	Non-Accretable Discount	Accretable Yield	Loans Receivable
	(In Thousands)				
Balance at December 31, 2013	$7,776	$6,549	$ 1,227	$—	$6,549
Collections	(35)	(35)	—	—	(35)
Dispositions	(1,722)	(1,367)	(355)	—	(1,367)
Balance at March 31, 2014	$6,019	$5,147	$ 872	$—	$5,147

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NOTE 5. PREMISES AND EQUIPMENT

Premises and equipment at March 31, 2014 and December 31, 2013 are summarized as follows:

	March 31, 2014	December 31, 2013
	(In Thousands)	
Land	$4,311	$4,311
Buildings	11,506	11,497
Leasehold improvements	10,766	10,762
Furniture and equipment	12,680	12,549
Construction in process	75	45
	39,338	39,164
Accumulated depreciation and amortization	(18,704)	(18,074)
Premises and equipment, net	$20,634	