

SI Financial Group, Inc.  
Form S-1/A  
October 25, 2010  
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As filed with the Securities and Exchange Commission on October 25, 2010

Registration No. 333-169302

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**PRE-EFFECTIVE AMENDMENT NO. 1**

**TO THE**

**FORM S-1**

**REGISTRATION STATEMENT**

*UNDER*

*THE SECURITIES ACT OF 1933*

**SI Financial Group, Inc.**

**and**

**Savings Institute Profit Sharing and 401(k) Savings Plan**

(Exact name of registrant as specified in its charter)

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**Maryland**  
State or other jurisdiction of  
incorporation or organization

**6035**  
(Primary Standard Industrial  
Classification Code Number)  
**803 Main Street**

**80-0643149**  
(IRS Employer Identification No.)

**Willimantic, Connecticut 06226**

**(860) 423-4581**

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**Rheo A. Brouillard**

**President and Chief Executive Officer**

**SI Financial Group, Inc.**

**803 Main Street**

**Willimantic, Connecticut 06226**

**(860) 423-4581**

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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**Approximate date of commencement of proposed sale to the public:** As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

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If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer " Accelerated filer "  
 Non-accelerated filer " (Do not check if a smaller reporting company) Smaller reporting company x

### Calculation of Registration Fee

#### Proposed maximum

Title of each class of securities to be registered	Aggregate offering price (1)	Amount of Registration fee (2)
Common Stock \$0.01 par value	\$112,217,520	
Participation Interests (3)		

- (1) Estimated solely for the purpose of calculating the registration fee pursuant to Regulation 457(o) under the Securities Act.
  - (2) A filing fee of \$8,002 was paid with the initial filing of the Registration Statement on Form S-1 on September 10, 2010.
  - (3) The securities of SI Financial Group, Inc. to be purchased by the Savings Institute Profit Sharing and 401(k) Savings Plan are included in the common stock being registered. Pursuant to Rule 457(h)(2) of the Securities Act of 1933, as amended, no separate fee is required for the participation interests.
- The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.

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**INTERESTS IN THE  
SAVINGS INSTITUTE BANK AND TRUST COMPANY  
PROFIT SHARING  
AND  
401(k) SAVINGS PLAN  
AND  
OFFERING OF 860,950 SHARES OF  
SI FINANCIAL GROUP, INC.  
COMMON STOCK (\$.01 PAR VALUE)**

This prospectus supplement relates to the offer and sale to participants in the Savings Institute Bank and Trust Company Profit Sharing and 401(k) Savings Plan of participation interests and shares of common stock of SI Financial Group, Inc., a newly formed Maryland corporation. SI Financial Group is offering common stock for sale in connection with the conversion of the Savings Institute Bank and Trust Company from the partially public mutual holding company form of organization to the fully public stock holding company structure.

In connection with the stock offering, Savings Plan participants may direct First Bankers Trust Services, Inc., the trustee for the SI Financial Group Stock Fund ( SI Financial Group Stock Fund Trustee ), to use their account balances as of July 31, 2010 (excluding funds already invested in SI Financial common stock) to subscribe for and purchase shares of SI Financial Group common stock through the SI Financial Group Stock Fund. Based upon the value of the Savings Plan assets as of July 31, 2010 the SI Financial Group Stock Fund Trustee may purchase up to 860,950 shares of SI Financial Group common stock at \$8.00 per share.

This prospectus supplement relates to the election of Savings Plan participants to direct the SI Financial Group Stock Fund Trustee to invest all or a portion of their existing Savings Plan accounts (less those amounts currently invested through the SI Financial Group Stock Fund) in SI Financial Group common stock. The SI Financial Group prospectus dated , 2010, which we have attached to this prospectus supplement, includes detailed information regarding the offering of shares of SI Financial Group common stock and the financial condition, results of operations and business of Savings Institute. This prospectus supplement provides information regarding the Savings Plan. You should read this prospectus supplement together with the prospectus and keep both for future reference.

**Please refer to Risk Factors beginning on page of the prospectus.**

**Neither the Securities and Exchange Commission, the Office of Thrift Supervision, the Federal Deposit Insurance Corporation, nor any other state or federal agency or any state securities commission, has approved or disapproved these securities. Any representation to the contrary is a criminal offense.**

**These securities are not deposits or accounts and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.**

This prospectus supplement may be used only in connection with offers and sales by SI Financial Group of participation interests or shares of common stock under the Savings Plan to participants in the Savings Plan. No one may use this prospectus supplement to re-offer or resell interests or shares of common stock acquired through the Savings Plan.

You should rely only on the information contained in this prospectus supplement and the attached prospectus. Neither SI Financial Group, SI Bancorp, MHC, Savings Institute nor the Savings Plan have authorized anyone to provide you with information that is different.

This prospectus supplement does not constitute an offer to sell or solicitation of an offer to buy any securities in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in that jurisdiction. Neither the delivery of this prospectus supplement and the prospectus nor any sale of common stock shall under any circumstances imply that there has been no change in the affairs of Savings Institute or

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the Savings Plan since the date of this prospectus supplement, or that the information contained in this prospectus supplement or incorporated by reference is correct as of any time after the date of this prospectus supplement.

**The date of this Prospectus Supplement is                      , 2010.**

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**THE OFFERING**

**Securities Offered**

The securities offered in connection with this prospectus supplement are participation interests in the Savings Plan. Given the offering price of \$8.00 per share and the value of the Savings Plan assets, the SI Financial Group Stock Fund Trustee may acquire up to 860,950 shares of SI Financial Group, Inc. common stock. Certain subscription rights and purchase limitations govern your investment in the SI Financial Group, Inc. Stock Fund in connection with the Stock offering. See *The Conversion and Offering Subscription Offering and Subscription Rights and Limitations on Purchases of Shares* in the prospectus attached to this prospectus supplement for further discussion of these subscription rights and purchase limitations.

The shares of common stock currently held in the Savings Plan will automatically be exchanged for shares of new SI Financial Group, Inc., a newly formed Maryland corporation, pursuant to an exchange ratio as more fully described in the prospectus attached to this prospectus supplement. See *The Conversion and Offering Share Exchange Ratio for Current Shareholders*. Any new shares you purchase in the stock offering will be added to the shares of new SI Financial Group common stock that you receive in the exchange described above. All of these shares will be held in the SI Financial Group, Inc. Stock Fund.

This prospectus supplement contains information regarding the Savings Plan. The attached prospectus contains information regarding the stock offering and the financial condition, results of operations and business of Savings Institute. The address of the principal executive office of Savings Institute is 803 Main Street, Willimantic, Connecticut 06226. The telephone number of Savings Institute is 860-423-4581.

**Election to Purchase Shares of New SI Financial Group Common Stock in the Stock Offering**

In connection with the stock offering, you may direct the SI Financial Group Stock Fund Trustee to transfer all or part of the funds that represent your current beneficial interest in the assets of the Savings Plan (excluding your current investment in the SI Financial Group Stock Fund) to the SI Financial Group Stock Fund. The trustee will subscribe for the new SI Financial Group common stock in accordance with each participant's direction. **If there is not enough common stock in the stock offering to fill all subscriptions, the common stock will be apportioned and the SI Financial Group Stock Fund trustee may not be able to purchase all of the common stock you requested. In such a case, if you elect, the Trustee will purchase shares in the open market on your behalf, after the close of the stock offering, to fulfill your initial request. The Trustee may make such purchases at prices higher or lower than the \$8.00 offering price.**

**Persons Who May Purchase Shares of New SI Financial Group Common Stock in the Stock Offering**

All plan participants are eligible to direct a transfer of Savings Plan funds that are not currently invested in SI Financial Group common stock to the SI Financial Group Stock Fund. However, transfer directions are subject to subscription rights, purchase priorities and purchase limitations. If you are eligible to order shares in the subscription offering, your order will be filled in the following order of priority:

1. Persons with \$50 or more on deposit at Savings Institute as of June 30, 2009;
2. The Savings Institute Bank and Trust Company Employee Stock Ownership Plan;
3. Persons with \$50 or more on deposit at Savings Institute as of September 30, 2010 who are not in category 1 above; and
4. Except for persons eligible to subscribe for shares under categories 1 and 3, Savings Institute depositors as of the close of business on \_\_\_\_\_, 2010, who were not able to subscribe for shares of new SI Financial Group common stock under categories 1 and 3.

To the extent shares remain available after filling orders in the subscription offering, shares will be available in a community offering to natural persons residing in Hartford, Middlesex, New London, Tolland and Windham Counties in Connecticut, to our existing public shareholders and to the general public.

The limitation of the total amount of new SI Financial Group common stock that you may purchase in the Stock offering, as described in the prospectus (see *The Conversion and Offering Limitations on Purchases of Shares*), will be calculated based on the aggregate amount that you subscribed for: (1) through your Savings Plan account; and (2) through





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your sources of funds outside of the Savings Plan by placing an order in the stock offering using a Stock Order Form. Whether you place an order through the Savings Plan, outside the plan or both, the number of shares of new SI Financial Group common stock, if any, that you receive will be determined based on the total number of subscriptions, your purchase priority and the allocation priorities set forth in the attached prospectus. If, as a result of the calculation, you are allocated insufficient shares to fill all of your orders, available shares will be allocated as described in *The Conversion and Offering Subscription Offering and Subscription Rights* in the prospectus. Available shares will be allocated between your Savings Plan order and your order outside of the Savings Plan. If you so elect, the shares of new SI Financial Group common stock you were unable to subscribe for through the Savings Plan will be purchased by the trustee on the open market immediately following the completion of the stock offering. If you elect to direct the trustee to purchase shares of new SI Financial Group common stock in the open market, you will not be able to direct the trustee as to the timing or price to be paid for the common stock. The trustee has sole discretion regarding the manner in which it will fill open market purchases.

### **Value of Participation Interests**

As of July 31, 2010, the market value of the Savings Plan assets equaled approximately \$6,887,600 (excluding those assets already invested in SI Financial Group common stock). The plan administrator has informed each participant of the value of his or her beneficial interest in the Savings Plan. The value of Savings Plan assets represents past contributions made to the Savings Plan on your behalf, plus or minus earnings or losses on the contributions, less previous withdrawals and loans.

### **Method of Directing Transfer**

Included with this prospectus supplement is an investment form for you to use to direct a transfer of funds to the SI Financial Group Stock Fund (the Investment Form). If you wish to transfer all, or part, in multiples of not less than 5%, of your beneficial interest in the assets of the Savings Plan to the SI Financial Group Stock Fund, you should complete the Investment Form. If you do not wish to make such an election at this time, you do not need to take any action. The minimum investment in the SI Financial Group Stock Fund during the stock offering is \$200.00.

### **Time for Directing Transfer**

**You must submit your direction to transfer amounts to the SI Financial Group Stock Fund in connection with the stock offering by the deadline of 5:00 p.m. on \_\_\_\_\_, 2010.** You should return the Investment Form to *Laurie Gervais* in the Human Resources Department. Former Savings Institute employees who are participants in the Savings Plan should return their forms using the business reply envelope that has been provided with this prospectus supplement.

*If you have any questions regarding the SI Financial Group Stock Fund or completing the Investment Form, please contact Laurie Gervais at ( ) - .*

*Questions about the stock offering or about the prospectus should be directed to the Stock Information Center, toll-free at ( ) - .*

### **Irrevocability of Transfer Direction**

Once you submit your Investment Form, you cannot change your direction to transfer amounts credited to your account in the Savings Plan to the SI Financial Group Stock Fund before the completion of the stock offering. Following the closing of the stock offering and the initial purchase of shares of SI Financial Group common stock through the SI Financial Group Stock Fund, you may change your investment directions, in accordance with the terms of the Savings Plan.

### **Purchase Price of New Shares of SI Financial Group Common Stock**

The SI Financial Group Stock Fund Trustee will pay the same price for shares of new SI Financial Group common stock as all other persons who purchase shares of new SI Financial Group common stock in the stock offering. If there is not enough common stock in the Stock offering to fill all subscriptions, the common stock will be apportioned and the trustee may not be able to purchase all of the common stock you requested. **If you elect, the SI Financial Group Stock Fund Trustee will purchase shares on your behalf after the close of the stock offering in the open market, to fulfill your initial request. The trustee may make such purchases at prices higher or lower than the \$8.00 offering price.**



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### **Nature of a Participant's Interest in New Shares of SI Financial Group Common Stock**

The trustee will hold SI Financial Group common stock in the name of the Savings Plan. The trustee will credit shares of common stock acquired at your direction to your account under the Savings Plan. Therefore, the investment designations of other Savings Plan participants should not affect earnings on your Savings Plan account.

### **Voting and Tender Rights of New Shares of SI Financial Group Common Stock**

The SI Financial Group Stock Fund Trustee generally will exercise voting and tender rights attributable to all SI Financial Group common stock held by the SI Financial Group Stock Fund, as directed by participants with interests in the SI Financial Group Stock Fund. With respect to each matter as to which holders of SI Financial Group common stock have a right to vote, you will have voting instruction rights that reflect your proportionate interest in the SI Financial Group Stock Fund. The number of shares of SI Financial Group common stock held in the SI Financial Group Stock Fund voted for and against each matter will be proportionate to the number of voting instruction rights exercised. If there is a tender offer for SI Financial Group common stock, the Savings Plan allots each participant a number of tender instruction rights reflecting the participant's proportionate interest in the SI Financial Group Stock Fund. The percentage of shares of SI Financial Group common stock held in the SI Financial Group Stock Fund that will be tendered will be the same as the percentage of the total number of tender instruction rights exercised in favor of the tender offer. The remaining shares of SI Financial Group common stock held in the SI Financial Group Stock Fund will not be tendered. The Savings Plan provides that participants will exercise their voting instruction rights and tender instruction rights on a confidential basis.

## **DESCRIPTION OF THE SAVINGS PLAN**

### **Introduction**

Savings Institute adopted the Savings Plan effective January 1, 1990. The Savings Plan was subsequently amended and restated in its entirety effective \_\_\_\_\_, 2010. Savings Institute intends for the Savings Plan to comply, in form and in operation, with all applicable provisions of the Internal Revenue Code and the Employee Retirement Income Security Act of 1974, as amended, or ERISA. Savings Institute may change the Savings Plan from time to time to ensure continued compliance with these laws. Savings Institute may also amend the Savings Plan from time to time to add, modify, or eliminate certain features of the plan, as it sees fit. Federal law provides you with various rights and protections as a participant in the Savings Plan, which is governed by ERISA. However, the Pension Benefit Guaranty Corporation does not guarantee your benefits under the Savings Plan.

**Reference to Full Text of the Plan.** The following portions of this prospectus supplement summarize the material provisions of the Savings Plan. Savings Institute qualifies this summary in its entirety by reference to the full text of the Savings Plan. You may obtain copies of the full Savings Plan document including any amendments to the plan and a summary plan description for the Savings Plan, by contacting Laurie Gervais in the Human Resources Department. You should carefully read the Savings Plan documents to understand your rights and obligations under the plan.

### **Eligibility and Participation**

Eligible employees of Savings Institute who have attained age 21 and completed 90 days of employment with Savings Institute may begin to make pre-tax salary deferrals into the Savings Plan as of the first day of the month after they have satisfied the eligibility requirements.

As of July 31, 2010, 205 of the 252 eligible employees of Savings Institute participated in the Savings Plan.

### **Contributions Under the Savings Plan**

**Employee Pre-Tax Salary Deferrals.** Subject to certain Internal Revenue Service limitations, the Savings Plan permits each participant to make pre-tax salary deferrals to the Savings Plan each payroll period of up to 100% of the participant's pay. For purposes of the Savings Plan, a participant's pay is defined as a participant's base salary, commissions, overtime and bonuses. Participants may change their rate of pre-tax deferrals on a quarterly basis by completing a form and submitting it to the Human Resources Department.

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***Savings Institute Matching Contributions.*** The Savings Plan provides that Savings Institute will make matching contributions on behalf of each participant equal to 50% of the participant's deferral, up to a maximum of 6% of pay. Savings Institute makes matching contributions only for those participants who make pre-tax salary deferrals to the Savings Plan. If a participant stops making pre-tax salary deferrals to the Savings Plan, Savings Institute will cease its matching contributions on the participant's behalf.

***Savings Institute Discretionary Contributions.*** Savings Institute, in its sole discretion, may also make additional discretionary contributions, in amounts specified by the Board of Directors of Savings Institute. These discretionary contributions are allocated to each participant in the Savings Plan who is actively employed by Savings Institute on the last business day of the Plan Year and has completed 1,000 hours of service for Savings Institute during the Plan Year.

***Rollover Contributions.*** Savings Institute allows employees who receive a distribution from a previous employer's tax-qualified employee benefit plan to deposit that distribution into a Rollover Contribution account under the Savings Plan, provided the rollover contribution satisfies IRS requirements.

### **Limitations on Contributions**

***Limitation on Employee Salary Deferrals.*** Although the Savings Plan permits you to defer up to 100% of your pay, by law your total deferrals under the Savings Plan, together with similar plans, may not exceed \$16,500 for 2010. Employees who are age 50 and over may also make additional, "catch-up" contributions to the plan, up to a maximum of \$5,500 for 2010. The Internal Revenue Service periodically increases these limitations. A participant who exceeds these limitations must include any excess deferrals in gross income for federal income tax purposes in the year of deferral. In addition, the participant must pay federal income taxes on any excess deferrals when distributed by the Savings Plan to the participant, unless the plan distributes the excess deferrals and any related income no later than the first April 15th following the close of the taxable year in which the participant made the excess deferrals. Any income on excess deferrals distributed before such date is treated, for federal income tax purposes, as earned and received by the participant in the taxable year of the distribution.

***Limitation on Annual Additions and Benefits.*** As required by the Internal Revenue Code, the Savings Plan provides that the total amount of contributions and forfeitures (annual additions) credited to a participant during any year under all defined contribution plans of Savings Institute (including the Savings Plan and the proposed Savings Institute Bank and Trust Company Employee Stock Ownership Plan) may not exceed the lesser of 100% of the participant's annual compensation or \$49,000 for 2010.

***Limitation on Plan Contributions for Highly Compensated Employees.*** Special provisions of the Internal Revenue Code limit the amount of pre-tax and matching contributions that may be made to the Savings Plan in any year on behalf of highly compensated employees, in relation to the amount of pre-tax and matching contributions made by or on behalf of all other employees eligible to participate in the Savings Plan. If pre-tax and matching contributions exceed these limitations, the plan must adjust the contribution levels for highly compensated employees.

In general, a highly compensated employee includes any employee who (1) was a 5% owner of the sponsoring employer at any time during the year or the preceding year, or (2) had compensation for the preceding year in excess of \$110,000 and, if the sponsoring employer so elects, was in the top 20% of employees by compensation for such year. The preceding dollar amount applies for 2010, and may be adjusted periodically by the Internal Revenue Service.

***Top-Heavy Plan Requirements.*** If the Savings Plan is a Top-Heavy Plan for any calendar year, Savings Institute may be required to make certain contributions to the Savings Plan on behalf of non-key employees. In general, the Savings Plan will be treated as a "Top-Heavy Plan" for any calendar year if, as of the last day of the preceding calendar year, the aggregate balance of the accounts of Key Employees exceeds 60% of the aggregate balance of the accounts of all employees under the plan. A Key Employee is generally any employee who, at any time during the calendar year or any of the four preceding years, is:

- (1) an officer of Savings Institute whose annual compensation exceeds \$160,000;
- (2) a 5% owner of the employer, meaning an employee who owns more than 5% of the outstanding stock of SI Financial Group, or who owns stock that possesses more than 5% of the total combined voting power of all stock of SI Financial Group; or



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- (3) a 1% owner of the employer, meaning an employee who owns more than 1% of the outstanding stock of SI Financial Group, or who owns stock that possesses more than 1% of the total combined voting power of all stock of SI Financial Group, and whose annual compensation exceeds \$150,000.

*The foregoing dollar amounts are for 2010.*

**Savings Plan Investments**

Assets in the Savings Plan Trust are currently invested in the funds specified below. The annual percentage return on these funds (net of fees) for the prior three years was:

<b>Funds</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
Columbia Acorn Select Z Fund	66.17%	-49.18%	9.20%
Harbor Bond Institutional Fund	13.84	3.34	8.69
Vanguard Total Bond Market Index Fund	5.93	5.05	6.92
Vanguard Inflation-Protected Securities Fund	10.80	-2.85	11.59
Harbor International Institutional Fund	38.57	-42.66	21.82
Davis New York Venture Y Fund	32.43	-39.85	5.24
Fidelity Capital Appreciation Fund	36.38	-40.50	6.86
Perkins Mid Cap Value T Fund	30.37	-27.33	7.43
Vanguard Small Cap Value Index Fund	30.34	-32.05	-7.07
Vanguard Target Retirement Income Fund	14.28	-10.93	8.17
Vanguard Target Retirement 2010 Fund	19.32	-20.67	7.70
Vanguard Target Retirement 2015 Fund	21.30	-24.06	7.55
Vanguard Target Retirement 2020 Fund	23.10	-27.04	7.52
Vanguard Target Retirement 2025 Fund	24.81	-30.05	7.59
Vanguard Target Retirement 2030 Fund	26.72	-32.91	7.49
Vanguard Target Retirement 2035 Fund	28.17	-34.66	7.49
Vanguard Target Retirement 2040 Fund	28.32	-34.53	7.48
Vanguard Target Retirement 2045 Fund	28.15	-34.56	7.47
Vanguard Target Retirement 2050 Fund	28.31	-34.62	7.49
Federal US Treasury Cash Reinvestment Fund	-0.02	-1.48	-4.46
Northern Trust Government Money Market Fund	-0.07	-2.00	-4.87
SI Financial Group Stock Fund	-12.50	-37.40	-18.50

**Columbia Acorn Select Z Fund.** This fund seeks long-term capital growth. The fund normally invests in companies with market capitalizations under \$20 billion at the time of initial purchase. It may invest up to 33% of total assets in companies in developed markets (i.e., Japan, Canada and the U. K.) and emerging markets (i.e., China, Brazil and India).

**Harbor Bond Institutional Fund.** This fund seeks total return. The fund invests at least 80% of total assets in a diversified portfolio of bonds, which include all types of fixed-income securities. It primarily invests intermediate bonds with overall portfolio rated high quality. The fund may invest up to 30% of total assets in non-U.S. dollar-denominated securities. It also may invest up to 15% of total assets in securities of issuers based in countries with developing (or emerging markets) economies.

**Vanguard Total Bond Market Index Fund.** This fund seeks to track the performance of a broad, market-weighted bond index. The fund employs a passive management, or indexing investment approach designed to track the performance of the Barclays Capital U.S. Aggregate Float Adjusted Index. It invests by sampling the index. It invests at least 80% of assets in bonds held in the index. The fund maintains a dollar-weighted average maturity consistent with that of the index, ranging between 5 and 10 years.

**Vanguard Inflation-Protected Securities Fund.** This fund seeks to provide inflation protection and income consistent with investment in inflation-indexed securities. The fund invests at least 80% of assets in inflation-indexed bonds issued by the U.S. government. It may invest in bonds of any maturity, though the fund typically maintains a dollar-weighted average maturity of 7 to 20 years.

**Harbor International Institutional Fund** This fund seeks long-term total return, principally from growth of capital. The fund invests primarily (no less than 65% of total assets) in common and preferred stocks of foreign companies that have



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market capitalizations in excess of \$1 billion, including those located in emerging market countries. It invests in a minimum of 10 countries throughout the world. The fund focuses on companies located in Europe, the Pacific Basin and emerging industrialized countries whose economies and political regimes appear more stable.

***Davis New York Venture Y Fund.*** This fund seeks long-term growth of capital. The fund invests the majority of the assets in equity securities issued by large companies with market capitalizations of at least \$10 billion. It has the flexibility to invest a limited portion of assets in companies of any size, to invest in companies whose shares may be subject to controversy, to invest in foreign securities, and to invest in non-equity securities.

***Fidelity Capital Appreciation Fund.*** This fund seeks capital appreciation. The fund invests primarily in common stocks of domestic and foreign issuers. It may invest in either growth stocks or value stocks or both. The fund uses fundamental analysis of each issuer's financial condition and industry position and market and economic conditions to select instruments.

***Perkins Mid Cap Value T Fund.*** This fund seeks capital appreciation. The fund primarily invests in the common stocks of mid-sized companies whose stock prices the portfolio managers believe to be undervalued. It normally invests at least 80% of assets in equity securities of companies whose market capitalization falls, at the time of purchase, within the 12-month average of the capitalization range of the Russell Midcap Value index. The fund may invest in foreign equity and debt securities, which may include investments in emerging markets. It can also invest assets in derivatives.

***Vanguard Small Cap Value Index Fund.*** This fund seeks to track the performance of a benchmark index that measures the investment return of small-capitalization value stocks. The fund employs a passive management investment approach designed to track the performance of the MSCI US Small Cap Value index, a broadly diversified index of value stocks of smaller U.S. companies. It attempts to replicate the target index by investing all, or substantially all, of assets in the stocks that make up the index, holding each stock in approximately the same proportion as its weighting in the index.

***Vanguard Target Retirement Income Fund.*** The investment seeks current income and some capital appreciation. The fund invests in other Vanguard mutual funds according to an asset allocation designed for investors currently in retirement. It allocates approximately 70% of assets to bonds and money market instruments, and 30% of assets to stocks.

***Vanguard Target Retirement 2010 Fund.*** This fund seeks to provide growth of capital and current income. The fund primarily invests in other Vanguard mutual funds according to an asset allocation strategy designed for investors planning to retire in or within a few years of 2010. The fund invests approximately 51% of assets in stocks and 49% in bonds.

***Vanguard Target Retirement 2015 Fund.*** This fund seeks to provide growth of capital and current income. The fund primarily invests in other Vanguard mutual funds according to an asset allocation designed for investors planning to retire within a few years of 2015. It typically allocates approximately 61% of assets to stocks, and 39% to bonds.

***Vanguard Target Retirement 2020 Fund.*** This fund seeks to provide growth of capital and current income. The fund primarily invests in other Vanguard mutual funds according to an asset allocation strategy designed for investors planning to retire in or within a few years of 2020. It allocates approximately 69% of assets to stocks and 31% to bonds.

***Vanguard Target Retirement 2025 Fund.*** This fund seeks to provide growth of capital and current income. The fund primarily invests in other Vanguard mutual funds according to an asset allocation strategy designed for investors planning to retire within a few years of 2025. It allocates approximately 76% of assets to stocks and 24% to bonds.

***Vanguard Target Retirement 2030 Fund.*** This fund seeks to provide growth of capital and current income. The fund primarily invests in other Vanguard mutual funds according to an asset allocation strategy designed for investors planning to retire in or within a few years of 2030. It allocates approximately 84% of assets to stocks and 16% to bonds.

***Vanguard Target Retirement 2035 Fund.*** This fund seeks to provide growth of capital and current income. The fund primarily invests in other Vanguard mutual funds according to an asset allocation strategy designed for investors planning to retire within a few years of 2035. It allocates approximately 90% of assets to stocks and 10% to bonds.

***Vanguard Target Retirement 2040 Fund.*** This fund seeks to provide growth of capital and current income. The fund primarily invests in other Vanguard mutual funds according to an asset allocation strategy designed for investors planning to retire in or within a few years of 2040. It allocates approximately 90% of assets to stocks and 10% to bonds.





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***Vanguard Target Retirement 2045 Fund.*** This fund seeks to provide growth of capital and current income. The fund primarily invests in other Vanguard mutual funds according to an asset allocation strategy designed for investors planning to retire within a few years of 2045. It allocates approximately 90% of assets to stocks and 10% to bonds.

***Vanguard Target Retirement 2050 Fund.*** This fund seeks to provide growth of capital and current income. The fund primarily invests in other Vanguard mutual funds according to an asset allocation strategy designed for investors planning to retire in or within a few years of 2050. It allocates approximately 90% of assets to stocks and 10% to bonds.

***Federal US Treasury Cash Reinvestment Fund.*** This money market fund seeks current income consistent with stability of principal and liquidity by investing only in short-term U.S. Treasury securities.

***Northern Trust Government Money Market Fund.*** The fund seeks to maximize current income to the extent consistent with the preservation of capital and maintenance of liquidity by investing exclusively in high quality money market instruments. This fund seeks to maintain a stable net asset value of \$1.00 per share.

***The SI Financial Group Stock Fund.*** This fund consists of investments in the common stock of SI Financial Group and a small amount of cash. Each participant's proportionate undivided beneficial interest in the SI Financial Group Stock Fund is measured by units. The daily unit value is calculated by determining the market value of the common stock held and adding to that any cash held by the trustee. This total will be divided by the number of units outstanding to determine the unit value of the SI Financial Group Stock Fund.

If cash dividends are paid on SI Financial Group common stock, the Savings Plan trustee will, to the extent practicable, use the dividends held in the SI Financial Group Stock Fund to purchase shares of the common stock. Pending investment in the common stock, assets held in the SI Financial Group Stock Fund will be placed in short-term investments. ***The SI Financial Group Stock Fund is a single stock mutual fund and carries more investment risk than a typical mutual fund, which invests in more than one security.***

### **Benefits Under the Savings Plan**

***Vesting.*** All participants are 100% vested in their pre-tax salary deferral and matching contribution account balances in the Savings Plan. This means that participants have a non-forfeitable right to these funds and any earnings on the funds at all times. Plan participants vest in their discretionary (profit sharing) contributions (if any) at a rate of 25% after the first two years of employment and 25% each additional year thereafter.

### **Withdrawals and Distributions From the Savings Plan**

***Withdrawals Before Termination of Employment.*** You may receive in-service distributions from the Savings Plan under limited circumstances in the form of hardship withdrawals and participant loans.

To qualify for a hardship withdrawal, you must have an immediate and substantial need to meet certain expenses and have no other reasonably available resources to meet the financial need. If you qualify for a hardship distribution, the trustee will make the distribution proportionately from the investment funds in which you have invested your account balances.

Participant loans are approved by the Savings Plan Administrator. If you qualify for a participant loan, the trustee will make a distribution proportionately from the investment funds in which you have invested your account balances. You may obtain information on the participant loan program from the Human Resources Department at Savings Institute.

***Distribution Upon Retirement or Disability.*** The standard form of benefit upon retirement or disability is a lump sum payment. However, if the value of a participant's accounts under the Savings Plan exceeds \$1,000, the participant may elect to defer the lump sum payment until after retirement. However, the Internal Revenue Service requires that participants receive at least a portion of their plan accounts by the April 1<sup>st</sup> of the calendar year following the calendar year in which they retire (or terminate service due to a disability) or the calendar year in which they reach age 70 1/2. Participants may also choose to roll over all or a portion of their plan accounts to an Individual Retirement Account (IRA), or to another employer's qualified plan, if the other employer's plan permits rollover contributions.

***Distribution Upon Death.*** A participant's designated beneficiary will receive the full value of a participant's accounts under the Savings Plan upon the participant's death. If the participant did not make a valid election regarding the form of payment prior to death, the beneficiary will receive a lump sum payment as soon as administratively possible. If the



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participant made a valid payment election, or was otherwise scheduled to receive a deferred lump sum payment, the beneficiary will generally receive a lump sum payment on the date elected by the participant. Under certain circumstances, however, payment may be made on an earlier date.

***Distribution Upon Termination for Any Other Reason.*** If your Savings Plan accounts total \$1,000 or less, you will receive a lump sum payment as soon as administratively possible after your termination of employment. If the value of your Savings Plan accounts exceed \$1,000, you will receive a lump sum payment on your normal retirement date. However, you may elect to receive the value of your vested Savings Plan accounts in a lump sum payment prior to your normal retirement date. You may also request that the trustee transfer the value of your accounts to an Individual Retirement Account (IRA) or to another employer's qualified plan, if the other employer's plan permits rollover contributions.

***Nonalienation of Benefits.*** Except with respect to federal income tax withholding, and as provided for under a qualified domestic relations order, benefits payable under the Savings Plan will not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, charge, garnishment, execution, or levy of any kind, either voluntary or involuntary, and any attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber, charge or otherwise dispose of any rights to benefits payable under the Savings Plan will be void.

**Applicable federal tax law requires the Savings Plan to impose substantial restrictions on your right to withdraw amounts held under the plan before your termination of employment with Savings Institute. Federal law may also impose an excise tax on withdrawals from the Savings Plan before you attain 59 1/2 years of age, regardless of whether the withdrawal occurs during your employment with Savings Institute or after termination of employment.**

## **ADMINISTRATION OF THE SAVINGS PLAN**

### **Trustee**

The trustee of the Savings Plan is the named fiduciary of the Savings Plan for ERISA. The board of directors of Savings Institute appoints the trustee to serve at its pleasure. The board of directors has appointed First Bankers Trust Services, Inc. as the trustee for the SI Financial Group Stock Fund. The Trust Department at Savings Institute is the trustee for all other assets in the Savings Plan.

The trustee receives, holds and invests the contributions to the Savings Plan in trust and distributes them to participants and beneficiaries in accordance with the terms of the Savings Plan and the directions of the plan administrator. The trustee is responsible for the investment of the trust assets, as directed by the participants.

### **Reports to Savings Plan Participants**

The Plan trustee furnishes participants quarterly statements that show the balance in their accounts as of the statement date, contributions made to their accounts during that period and any additional adjustments required to reflect earnings or losses.

### **Plan Administrator**

Savings Institute currently acts as plan administrator for the Savings Plan. The plan administrator handles the following administrative functions: interpreting the provisions of the plan, prescribing procedures for filing applications for benefits, preparing and distributing information explaining the plan, maintaining plan records, books of account and all other data necessary for the proper administration of the plan, preparing and filing all returns and reports required by the U.S. Department of Labor and the Internal Revenue Service and making all required disclosures to participants, beneficiaries and others under ERISA.

### **Amendment and Termination**

Savings Institute expects to continue the Savings Plan indefinitely. Nevertheless, Savings Institute may terminate the Savings Plan at any time. If Savings Institute terminates the Savings Plan in whole or in part, all affected participants become fully vested in their accounts, regardless of other provisions of the Savings Plan. Savings Institute reserves the right to make, from time to time, changes which do not cause any part of the trust to be used for, or diverted to, any purpose other than the exclusive benefit of participants or their beneficiaries. Savings Institute may amend the plan, however, as necessary or desirable, in order to comply with ERISA or the Internal Revenue Code.



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### **Merger, Consolidation or Transfer**

If the Savings Plan merges or consolidates with another plan or transfers the trust assets to another plan, and either the Savings Plan or the other plan is subsequently terminated, the Savings Plan requires that you receive a benefit immediately after the merger, consolidation or transfer that would equal or exceed the benefit you would have been entitled to receive immediately before the merger, consolidation or transfer, if the Savings Plan had terminated at that time.

### **Federal Income Tax Consequences**

The following summarizes only briefly the material federal income tax aspects of the Savings Plan. You should not rely on this summary as a complete or definitive description of the material federal income tax consequences of the Savings Plan. Statutory provisions change, as do their interpretations, and their application may vary in individual circumstances. Finally, applicable state and local income tax laws may have different tax consequences than the federal income tax laws. **Savings Plan Participants should consult a tax advisor with respect to any transaction involving the Savings Plan, including any distribution from the Savings Plan.**

As a tax-qualified retirement plan, the Internal Revenue Code affords the Savings Plan certain tax advantages, including the following:

- (1) The sponsoring employer may take an immediate tax deduction for the amount contributed to the plan each year;
- (2) participants pay no current income tax on amounts contributed by the employer on their behalf; and
- (3) earnings of the plan are tax-deferred, thereby permitting the tax-free accumulation of income and gains on investments.

Savings Institute administers the Savings Plan to comply in operation with the requirements of the Internal Revenue Code as of the applicable effective date of any change in the law. If Savings Institute should receive an adverse determination letter from the IRS regarding the Savings Plan's tax exempt status, all participants would generally recognize income equal to their vested interests in the Savings Plan, the participants would not be permitted to transfer amounts distributed from the Savings Plan to an Individual Retirement Account or to another qualified retirement plan, and Savings Institute would be denied certain tax deductions taken in connection with the Savings Plan.

**Lump Sum Distribution.** A distribution from the Savings Plan to a participant or the beneficiary of a participant qualifies as a lump sum distribution if it is made within one taxable year, on account of the participant's death, disability or separation from service, or after the participant attains age 59 1/2; and consists of the balance credited to the participant under this plan and all other profit sharing plans, if any, maintained by Savings Institute. The portion of any lump sum distribution included in taxable income for federal income tax purposes consists of the entire amount of the lump sum distribution, less the amount of after-tax contributions, if any, made to any other profit-sharing plans maintained by Savings Institute, if the distribution includes those amounts.

**SI Financial Group Common Stock Included in Lump Sum Distribution.** If a lump sum distribution includes SI Financial Group common stock, the distribution generally is taxed in the manner described above. The total taxable amount is reduced, however, by the amount of any net unrealized appreciation on SI Financial Group common stock; that is, the excess of the value of SI Financial Group common stock at the time of the distribution over the cost or other basis of the securities to the trust. The tax basis of SI Financial Group common stock, for computing gain or loss on a subsequent sale, equals the value of SI Financial Group common stock at the time of distribution, less the amount of net unrealized appreciation. Any gain on a subsequent sale or other taxable disposition of SI Financial Group common stock, to the extent of the net unrealized appreciation at the time of distribution, is long-term capital gain, regardless of how long you hold the SI Financial Group common stock, or the holding period. Any gain on a subsequent sale or other taxable disposition of SI Financial Group common stock that exceeds the amount of net unrealized appreciation upon distribution is considered long-term capital gain, regardless of the holding period. The recipient of a distribution may elect to include the amount of any net unrealized appreciation in the total taxable amount of the distribution, to the extent allowed under IRS regulations.

**We have provided you with a brief description of the material federal income tax aspects of the Savings Plan that are generally applicable under the Internal Revenue Code. We do not intend this description to be a complete or definitive description of the federal income tax consequences of participating in or receiving distributions from the Savings Plan. Accordingly, you should consult a tax advisor concerning the federal, state and local tax consequences of participating in and receiving distributions from the Savings Plan.**



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### **Restrictions on Resale**

Any affiliate of SI Financial Group under Rules 144 and 405 of the Securities Act of 1933, as amended, who receives a distribution of common stock under the Savings Plan, may re-offer or resell such shares only under a registration statement filed under the Securities Act of 1933, as amended, assuming the availability of a registration statement, or under Rule 144 or some other exemption from these registration requirements. An affiliate of Savings Institute is someone who directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, Savings Institute. Generally, a director, principal officer or major shareholder of a corporation is deemed to be an affiliate of that corporation.

Any person who may be an affiliate of Savings Institute may wish to consult with counsel before transferring any common stock they own. In addition, participants should consult with counsel regarding the applicability to them of Section 16 of the Securities Exchange Act of 1934, as amended, which may restrict the sale of SI Financial Group common stock acquired under the Savings Plan or other sales of SI Financial Group common stock.

Persons who are *not* deemed to be affiliates of Savings Institute at the time of resale may resell freely any shares of SI Financial Group common stock distributed to them under the Savings Plan, either publicly or privately, without regard to the registration and prospectus delivery requirements of the Securities Act of 1933, as amended, or compliance with the restrictions and conditions contained in the exemptions available under federal law. A person deemed an affiliate of Savings Institute at the time of a proposed resale may publicly resell common stock only under a re-offer prospectus or in accordance with the restrictions and conditions contained in Rule 144 of the Securities Act of 1933, as amended, or some other exemption from registration, and may not use this prospectus in connection with any such resale. In general, Rule 144 restricts the amount of common stock which an affiliate may publicly resell in any three-month period to the greater of one percent of SI Financial Group common stock then outstanding or the average weekly trading volume reported on the Nasdaq Stock Market during the four calendar weeks before the sale. Affiliates may sell only through brokers without solicitation and only at a time when SI Financial Group is current in filing all required reports under the Securities Exchange Act of 1934, as amended.

### **SEC Reporting and Short-Swing Profit Liability**

Section 16 of the Securities Exchange Act of 1934, as amended, imposes reporting and liability requirements on officers, directors and persons who beneficially own more than ten percent of public companies such as SI Financial Group. Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the filing of reports of beneficial ownership. Within ten days of becoming a person required to file reports under Section 16(a), such person must file a Form 3 reporting initial beneficial ownership with the Securities and Exchange Commission. Such persons must also report periodically certain changes in beneficial ownership involving the allocation or reallocation of assets held in their Savings Plan accounts, either on a Form 4 within two days after a transaction, or annually on a Form 5 within 45 days after the close of a company's fiscal year.

In addition to the reporting requirements described above, Section 16(b) of the Securities Exchange Act of 1934, as amended, provides for the recovery by SI Financial Group of profits realized from the purchase and sale or sale and purchase of its common stock within any six-month period by any officer, director or person who beneficially owns more than ten percent of the common stock.

The SEC has adopted rules that exempt many transactions involving the Savings Plan from the short-swing profit recovery provisions of Section 16(b). The exemptions generally involve restrictions upon the timing of elections to buy or sell employer securities for the accounts of any officer, director or person who beneficially owns more than ten percent of the common stock.

Except for distributions of the common stock due to death, disability, retirement, termination of employment or under a qualified domestic relations order, persons who are subject to Section 16(b) may be required, under limited circumstances involving the purchase of common stock within six months of the distribution, to hold the shares of common stock distributed from the Savings Plan for six months after the distribution date.



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**LEGAL OPINION**

The validity of the issuance of the common stock of SI Financial Group will be passed upon by Kilpatrick Stockton LLP, Washington, D.C. Kilpatrick Stockton LLP acted as special counsel for SI Financial Group in connection with the stock offering.

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**SAVINGS INSTITUTE BANK AND TRUST COMPANY**

**PROFIT SHARING AND 401(K) SAVINGS PLAN**

**INVESTMENT FORM**

Name of Plan Participant: \_\_\_\_\_  
 \_\_\_\_\_

Social Security Number: \_\_\_\_\_

**1. Instructions.** In connection with the stock offering, you may direct up to 100% of your current 401(k) Plan account balance, excluding your current investment in SI Financial Group, Inc. common stock ( Common Stock ), into the new SI Financial Group, Inc. Stock Fund ( Employer Stock Fund ). The percentage of your account (up to 100%) transferred into the Employer Stock Fund will be used to purchase shares of Common Stock in the stock offering.

To direct a transfer of the funds credited to your 401(k) Plan account to the Employer Stock Fund, you must complete and submit this form to Laurie Gervais in the Human Resources Department by \_\_\_\_\_. Current Savings Institute Bank and Trust Company employees should return their forms through inter-office mail. Former Savings Institute employees should return their forms using the business reply envelope that has been provided. A representative for the Plan Administrator will retain a copy of this form and return a copy to you. If you need any assistance in completing this form, please contact Laurie Gervais at (860) 456-6569 . If you do not complete and return this form to Laurie Gervais by \_\_\_\_\_, the funds credited to your account under the Plan will continue to be invested in accordance with your prior investment directions, or in accordance with the terms of the Plan if no investment directions have been provided.

**2. Investment Directions.** I hereby authorize the Plan Administrator to direct the Trustee to invest the following percentages (in multiples of not less than 1%) of my 401(k) Plan account balance in the Employer Stock Fund:

**Employer Stock Fund**

Columbia Acorn Select Z Fund	_____%
Harbor Bond Institutional Fund	_____%
Vanguard Total Bond Market Index Fund	_____%
Vanguard Inflation-Protected Securities Fund	_____%
Harbor International Institutional Fund	_____%
Davis New York Venture Y Fund	_____%
Fidelity Capital Appreciation Fund	_____%
Perkins Mid Cap Value T Fund	_____%
Vanguard Small Cap Value Index Fund	_____%
Vanguard Target Retirement Income Fund	_____%
Vanguard Target Retirement 2010 Fund	_____%
Vanguard Target Retirement 2015 Fund	_____%
Vanguard Target Retirement 2020 Fund	_____%
Vanguard Target Retirement 2025 Fund	_____%
Vanguard Target Retirement 2030 Fund	_____%
Vanguard Target Retirement 2035 Fund	_____%
Vanguard Target Retirement 2040 Fund	_____%
Vanguard Target Retirement 2045 Fund	_____%
Vanguard Target Retirement 2050 Fund	_____%
Federal US Treasury Cash Reinvestment Fund	_____%
Northern Trust Government Money Market Fund	_____%
SI Financial Group Stock Fund	_____%

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If there is not enough Common Stock in the stock offering to fill my subscription pursuant to the investment directions above, I hereby instruct the Trustee to purchase shares of Common Stock in the open market after the close of the stock offering to the extent necessary to fulfill my investment directions indicated on this form. I understand that if I do not direct the Trustee by checking the box below, the excess funds will be invested in the same manner as new deposits have been directed.

Yes, I direct the Trustee to purchase stock in the open market, if necessary.

**3. Purchaser Information.** The ability of participants in the 401(k) Plan to purchase Common Stock and to direct their current account balances into the Employer Stock Fund is based upon the participant's subscription rights. Please indicate your status.

Check here if you had \$50.00 or more on deposit with Savings Institute as of June 30, 2009.

Check here if you had \$50.00 or more on deposit with Savings Institute as of September 30, 2010.

Check here if you are not eligible for either category noted above.

**4. Acknowledgment of Participant.** I understand that this Investment Form shall be subject to all of the terms and conditions of the 401(k) Plan. I acknowledge that I have received a copy of the Prospectus and the Prospectus Supplement.

Signature of Participant

Date

**Acknowledgment of Receipt by Administrator.** This Investment Form was received by the Plan Administrator and will become effective on the date noted below.

By: \_\_\_\_\_  
\_\_\_\_\_

Date

**THE PARTICIPATION INTERESTS REPRESENTED BY THE COMMON STOCK OFFERED HEREBY ARE NOT DEPOSIT ACCOUNTS AND ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENT AGENCY AND ARE NOT GUARANTEED BY SI FINANCIAL GROUP, INC. OR SAVINGS INSTITUTE. THE COMMON STOCK IS SUBJECT TO AN INVESTMENT RISK, INCLUDING THE POSSIBLE LOSS OF THE PRINCIPAL INVESTED.**

**PLEASE COMPLETE AND RETURN TO LAURIE GERVAIS IN**

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**THE HUMAN RESOURCES DEPARTMENT**

**AT SAVINGS INSTITUTE BANK AND TRUST COMPANY**

**BY                    ON                    , 2010**

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**PROSPECTUS**

**(Proposed holding company for Savings Institute Bank and Trust Company)**

**Up to 7,546,875 Shares of Common Stock**

**(Subject to increase to 8,678,906 shares)**

SI Financial Group, Inc., a newly formed Maryland corporation, is offering common stock for sale in connection with the conversion of SI Bancorp, MHC from the mutual to the stock form of organization.

**We are offering up to 7,546,875 shares of common stock for sale on a best efforts basis, subject to certain conditions. We must sell a minimum of 5,578,125 shares to complete the offering. All shares are offered at a price of \$8.00 per share.** Purchasers will not pay a commission to purchase shares of common stock in the offering. The amount of capital being raised is based on an independent appraisal of new SI Financial Group. Most of the terms of this offering are required by regulations of the Office of Thrift Supervision. If, as a result of regulatory considerations, demand for the shares or changes in financial market conditions, the independent appraiser determines that our market value has increased, we may sell up to 8,678,906 shares without giving you further notice or the opportunity to change or cancel your order. SI Financial Group, Inc.'s common stock is currently listed on the Nasdaq Global Market under the symbol SIFI. We expect that new SI Financial Group's common stock will trade on the Nasdaq Global Market under the trading symbol SIFID for a period of 20 trading days after the completion of the offering. Thereafter, the trading symbol will be SIFI.

The shares we are offering represent the 61.9% ownership interest in SI Financial Group, a federal corporation, currently owned by SI Bancorp, MHC. The remaining 38.1% interest in SI Financial Group currently owned by public shareholders will be exchanged for shares of common stock of new SI Financial Group. Each share of SI Financial Group owned by public shareholders will be exchanged for between 0.7655 and 1.0357 shares of common stock of new SI Financial Group (subject to increase to 1.1910 if we sell 8,678,906 shares in the offering) so that SI Financial Group's existing public shareholders will own approximately the same percentage of new SI Financial Group common stock as they owned of SI Financial Group's common stock immediately before the conversion. We also intend to make a contribution to SI Financial Group Foundation, Inc., our charitable foundation, of up to \$500,000 in cash in connection with the conversion. Other than shares issued in the exchange, we will not issue any shares of new SI Financial Group common stock to SI Financial Group Foundation in connection with the conversion and offering. The present SI Financial Group and SI Bancorp, MHC will cease to exist upon completion of the conversion and offering.

We are offering the shares of common stock in a subscription offering to eligible depositors of Savings Institute Bank and Trust Company. Shares of common stock not purchased in the subscription offering may be offered for sale to the general public in a community offering, with a preference given to our communities and existing shareholders of SI Financial Group. We also may offer for sale shares of common stock not purchased in the subscription offering or community offering through a syndicated community offering managed by Stifel, Nicolaus & Company, Incorporated. We retain the right to accept or reject, in part or in whole, any order received in the community offering or the syndicated community offering. Stifel, Nicolaus & Company, Incorporated is not required to purchase any shares of common stock that are being offered for sale.

The minimum order is 25 shares. The subscription offering will end at 2:00 p.m., Eastern time, on [Date 1], 2010. We expect that the community offering, if held, will terminate at the same time, although it may continue without notice to you until [Date 2], 2010 or longer if the Office of Thrift Supervision approves a later date. No single extension may exceed 90 days and the offering must be completed by [Date 3], 2012. Once submitted, orders are irrevocable unless the offering is terminated or is extended beyond [Date 2], 2010, or the number of shares of common stock to be sold is increased to more than 8,678,906 shares or decreased to less than 5,578,125 shares. If we extend the offering beyond [Date 2], 2010, all subscribers will be notified and given the opportunity to confirm, change or cancel their orders. If you do not respond to this notice, we will promptly return your funds, with interest calculated at Savings Institute's passbook savings rate or cancel your deposit account withdrawal authorization. If we intend to sell fewer than 5,578,125 shares or more than 8,678,906 shares, we will promptly return all funds and set a new offering range. All subscribers will be notified and given the opportunity to place a new order. Funds received before the completion of the subscription and community offerings will be held in a segregated account at Savings Institute and will earn interest at Savings Institute's passbook savings rate, which is currently 0.20% per annum.

**This investment involves a degree of risk, including the possible loss of principal. Please read Risk Factors beginning on page 17.**

## OFFERING SUMMARY

Price Per Share: \$8.00

	Minimum	Midpoint	Maximum	Maximum, as adjusted
Number of shares	5,578,125	6,562,500	7,546,875	8,678,906
Gross offering proceeds	\$ 44,625,000	\$ 52,500,000	\$ 60,375,000	\$ 69,431,248
Estimated offering expenses, excluding selling agent fees	\$ 1,135,000	\$ 1,135,000	\$ 1,135,000	\$ 1,135,000
Estimated selling agent fees and expenses (1)(2)	\$ 1,863,470	\$ 2,150,120	\$ 2,436,770	\$ 2,766,417
Estimated net proceeds	\$ 41,626,530	\$ 49,214,880	\$ 56,803,230	\$ 65,529,831
Estimated net proceeds per share	\$ 7.46	\$ 7.50	\$ 7.53	\$ 7.55

- (1) Includes: (i) selling commissions payable by us to Stifel, Nicolaus & Company, Incorporated in connection with the subscription and community offerings equal to 1% of the aggregate amount of common stock in the subscription and community offerings (net of insider purchases and shares purchased by our ESOP) or approximately \$235,000 at the adjusted maximum of the offering range, assuming that 40% of the offering is sold in the subscription and community offerings and the remaining 60% of the offering will be sold by a syndicate of broker-dealers in a syndicated community offering; (ii) fees and selling commissions payable by us to Stifel, Nicolaus & Company, Incorporated and any other broker-dealers participating in the syndicated community offering equal to 5.5% of the aggregate amount of common stock sold in the syndicated community offering, or approximately \$2.3 million at the adjusted maximum of the offering range; and (iii) other expenses of the offering payable to Stifel, Nicolaus & Company, Incorporated as selling agent estimated to be \$240,000. For information regarding compensation to be received by Stifel, Nicolaus & Company, Incorporated and the other broker-dealers that may participate in the syndicated community offering, including the assumptions regarding the number of shares that may be sold in the subscription and community offerings and the syndicated community offering to determine the estimated offering expenses, see *Pro Forma Data* on page and *The Conversion and Offering Marketing Arrangements* on page .
- (2) If all shares of common stock are sold in the syndicated community offering, the maximum commissions and expenses payable to Stifel, Nicolaus & Company, Incorporated would be \$2.5 million at the minimum, \$2.9 million at the midpoint, \$3.3 million at the maximum, and \$3.8 million at the adjusted maximum of the offering range.

**These securities are not deposits or savings accounts and are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Neither the Securities and Exchange Commission, the Office of Thrift Supervision nor any state securities regulator has approved or disapproved of these securities or determined if this prospectus is accurate or complete. Any representation to the contrary is a criminal offense.**

## Stifel Nicolaus Weisel

For assistance, please contact the Stock Information Center, toll-free, at ( ) - .

The date of this prospectus is , 2010

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**Summary**

*This summary highlights material information from this document and may not contain all the information that is important to you. To understand the conversion and offering fully, you should read this entire document carefully.*

**Our Company**

**SI Financial Group, Inc.** SI Financial Group, Inc. is, and new SI Financial Group, Inc. following the completion of the conversion and offering will be, the unitary savings and loan holding company for Savings Institute Bank and Trust Company, a federally chartered savings bank. SI Financial Group is a federally chartered corporation and new SI Financial Group is a Maryland chartered corporation. Our common stock is traded on the NASDAQ Global Market under the symbol SIFI. At June 30, 2010, SI Financial Group had consolidated total assets of \$889.4 million, net loans of \$606.5 million, total deposits of \$676.8 million and total shareholders' equity of \$81.2 million. As of the date of this prospectus, SI Financial Group had 11,777,496 shares of common stock outstanding, of which 4,490,521 shares of common stock were owned by public shareholders.

For a description of important provisions in new SI Financial Group's articles of incorporation and bylaws, see *Restrictions on Acquisition of New SI Financial Group*.

**SI Bancorp, MHC.** SI Bancorp, MHC is the federally chartered mutual holding company of SI Financial Group. SI Bancorp, MHC's sole business activity is the ownership of 7,286,975 shares of common stock of SI Financial Group or 61.9% of the common stock outstanding as of the date of this prospectus. After completion of the conversion, SI Bancorp, MHC will cease to exist.

**Savings Institute Bank and Trust Company.** Savings Institute Bank and Trust Company is headquartered in Willimantic, Connecticut and has provided community banking services to customers since 1842. We currently operate 21 full-service locations in Hartford, Middlesex, New London, Tolland and Windham Counties in Connecticut and one trust servicing office in Rutland, Vermont. At June 30, 2010, Savings Institute exceeded all regulatory capital requirements to be considered a well-capitalized institution and was not a participant in any of the U.S. Treasury's capital raising programs for financial institutions.

Our principal executive offices are located at 803 Main Street, Willimantic, Connecticut 06226 and our telephone number is (860) 423-4581. Our web site address is [www.savingsinstitute.com](http://www.savingsinstitute.com). Information on our website should not be considered a part of this prospectus.

**Market Area**

SI Financial Group is headquartered in Willimantic, Connecticut, which is located in eastern Connecticut approximately 30 miles east of Hartford, Connecticut. Savings Institute operates offices in Windham, New London, Tolland, Hartford and Middlesex Counties, which Savings Institute considers its primary market area. The economy in its market area is primarily oriented to the educational, service, entertainment, manufacturing and retail industries.

The major employers in the area include several institutions of higher education, the Mohegan Sun and Foxwoods casinos, General Dynamics Defense Systems and Pfizer, Inc. According to published statistics, Windham County's population in 2009 was 117,328 and consisted of 43,216 households. The population increased 7.6% from 2000. Median household income in Windham County is \$56,000, compared to \$68,000 for Connecticut as a whole and \$51,000 nationally. The surrounding counties of Hartford, Middlesex, New London and Tolland Counties have median household incomes of \$64,000, \$63,000, \$75,000 and \$75,000, respectively.

**Our Business**

We are a full-service retail banking institution. Our primary business lines involve generating funds from deposits or borrowings and investing such funds in loans and investment securities. We currently operate 21 full-service banking locations throughout eastern Connecticut.

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Our operations are managed as a single business segment. Within that segment, our primary business products and services are:

**Commercial Lending.** We continue to place an emphasis on commercial lending, which includes multi-family and commercial real estate loans, construction loans for commercial development projects, and commercial business loans. To supplement originated growth, we also purchase loans from other financial institutions that are guaranteed by the Small Business Administration and the United States Department of Agriculture. Commercial loans constituted 46.8% of our total loan portfolio at June 30, 2010.

**Retail Lending.** We originate one- to four-family residential mortgage loans, loans to individuals for the construction of residential dwellings, home equity loans and consumer loans through our community banking office network. Retail loans constituted 53.2% of our total loan portfolio at June 30, 2010.

**Deposit Products and Services.** We offer a full range of traditional deposit products such as checking accounts, savings accounts, money market accounts, retirement accounts and certificates of deposit. These products can have additional features such as direct deposit, ATM and check card services, overdraft protection, telephone banking and Internet banking, thereby providing our customers multiple channels to access their accounts.

**Wealth Management Services.** In addition to our traditional community banking products and services, we differentiate ourselves from the other community banks in our market area by offering a full array of insurance, investment and trust products and services.

### **Our Business Strategy**

Our mission is to operate and grow a profitable community-oriented financial institution. SI Financial Group plans to achieve this by continuing its strategies of:

**Offering a full range of financial products and services.** We have a long tradition of focusing on the needs of consumers and small and medium-sized businesses in the community and being an active corporate citizen. We believe that our community orientation, quicker decision-making process and customized products are attractive and distinguish us from the larger regional banks that operate in our market area. In this context, we strive to become a financial services company offering one-stop shopping for all of our customers financial needs through banking, investments, insurance and trust products and services. We believe that our broad array of product offerings deepen our relationships with our current customers and entice new customers to begin banking with us, ultimately increasing fee income and profitability.

**Actively managing our balance sheet and diversifying our asset mix.** The current economic recession has underscored the importance of a strong balance sheet. We manage our balance sheet by: (1) prudently increasing the percentage of our assets consisting of multi-family and commercial real estate and commercial business loans, which offer higher yields, shorter maturities and more sensitivity to interest rate fluctuations; (2) managing our interest rate risk by diversifying the type and maturity of our assets in our loan and investment portfolios and monitoring the maturities in our deposit portfolio; and (3) maintaining strong capital levels and liquidity. Multi-family and commercial real estate and commercial business loans increased \$13.3 million for the six months ended June 30, 2010 and \$28.0 million and \$36.7 million for the years ended December 31, 2009 and 2008, respectively, and comprised 46.0% of total loans at June 30, 2010. We intend to continue to pursue the opportunities from the many multi-family and commercial properties and businesses located in our market area.

**Continuing conservative underwriting practices and maintaining a high quality loan portfolio.** We believe that strong asset quality is a key to long-term financial success. We have sought to maintain a high level of asset quality and moderate credit risk by using conservative underwriting standards and by diligent monitoring and collection efforts. Nonperforming loans decreased from \$9.3 million at December 31, 2008 to \$4.3 million at June 30, 2010. At June 30, 2010, nonperforming loans were 0.70% of the total

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loan portfolio and 0.48% of total assets. Although we intend to increase our multi-family and commercial real estate and commercial business lending, we intend to continue our philosophy of managing large loan exposures through conservative loan underwriting and credit administration standards.

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**Increasing core deposits.** Our primary source of funds is retail deposit accounts. At June 30, 2010, 55.2% of our deposits were core deposits, consisting of demand, savings and money market accounts. We value core deposits because they represent longer-term customer relationships and a lower cost of funding compared to certificates of deposit. Core deposits have continued to increase primarily due to the investments we have made in our branch network, new product offerings, competitive interest rates and the movement of customer funds out of riskier investments, including the stock market. We intend to continue to increase our core deposits and to focus on gaining market share in counties outside of Windham County by continuing to offer exceptional customer service, cross-selling our loan and deposit products and trust, insurance and investment services and increasing our commercial deposits from small and medium-sized businesses through additional business banking and cash management products.

**Supplementing fee income through expanded mortgage banking operations.** We view the changing regulatory landscape and historically low interest rate environment as an opportunity to gain noninterest income by leveraging our expertise in originating residential mortgages and selling such increased originations in the secondary market. This strategy enables us to have a much larger lending capacity, provide a more comprehensive product offering and reduce the interest rate, prepayment and credit risks associated with originating residential loans for retention in our loan portfolio. Further, this strategy allows us to be more flexible with the single-family residential loans we maintain for investment. To accelerate this initiative, we hired two additional mortgage originators in 2010 and intend to hire at least one more originator in 2011. The increased capital we raise from this offering may allow us to maintain a greater amount of loans held for sale, which will allow us to increase our mortgage banking operations.

**Grow through acquisitions.** We intend to pursue expansion opportunities in areas in or adjacent to our existing market area in strategic locations that maximize growth opportunities or with companies that add complementary products to our existing business. We believe that the current economic recession will increase the rate of consolidation in the banking industry. We will look to be opportunistic to expand through the acquisition of banks or other financial service companies and believe additional capital will better position us to take advantage of those opportunities. While we periodically conduct informal discussion with other parties, we currently do not have any specific plans for any such acquisitions.

**Description of the Conversion (page )**

In 2000, we reorganized Savings Institute into a stock savings bank with a mutual holding company structure. In 2004, we formed SI Financial Group as the mid-tier holding company for Savings Institute and sold a minority interest in SI Financial Group common stock to our depositors and our employee stock ownership plan in a subscription offering and contributed shares to our charitable foundation. The majority of SI Financial Group's shares were issued to SI Bancorp, MHC, a mutual holding company organized under federal law. As a mutual holding company, SI Bancorp, MHC does not have any shareholders, does not hold any significant assets other than the common stock of SI Financial Group, and does not engage in any significant business activity. Our current ownership structure is as follows:

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The second-step conversion process that we are now undertaking involves a series of transactions by which we will convert our organization from the partially public mutual holding company form to the fully public stock holding company structure. In the stock holding company structure, all of Savings Institute's common stock will be owned by new SI Financial Group, and all of new SI Financial Group's common stock will be owned by the public. We are conducting the conversion and offering under the terms of our plan of conversion and reorganization (which is referred to as the plan of conversion). Upon completion of the conversion and offering, the present SI Financial Group and SI Bancorp, MHC will cease to exist.

As part of the conversion, we are offering for sale common stock representing the 61.9% ownership interest of SI Financial Group that is currently held by SI Bancorp, MHC. At the conclusion of the conversion and offering, existing public shareholders of SI Financial Group will receive shares of common stock in new SI Financial Group in exchange for their existing shares of common stock of SI Financial Group, based upon an exchange ratio of 0.7655 to 1.0357. The actual exchange ratio will be determined at the conclusion of the conversion and the offering based on the total number of shares sold in the offering, and is intended to result in SI Financial Group's existing public shareholders owning the same percentage interest, 38.1%, of new SI Financial Group common stock as they currently own of SI Financial Group common stock, before giving effect to cash paid in lieu of issuing fractional shares and shares that existing shareholders may purchase in the offering. In addition, we intend to make a cash contribution to our existing charitable foundation to provide the foundation with additional liquidity. Other than shares issued in the exchange, we will not issue any shares of new SI Financial Group common stock to the foundation in connection with the conversion and offering.

After the conversion and offering, our ownership structure will be as follows:

We may cancel the conversion and offering with the concurrence of the Office of Thrift Supervision. If cancelled, orders for common stock already submitted will be cancelled, subscribers' funds will be promptly returned with interest calculated at Savings Institute's passbook savings rate and all deposit account withdrawal authorizations will be cancelled.

The normal business operations of Savings Institute will continue without interruption during the conversion and offering, and the same officers and directors who currently serve Savings Institute in the mutual holding company structure will serve the new holding company and Savings Institute in the fully converted stock form.

### **Reasons for the Conversion and Offering (page )**

Our primary reasons for the conversion and offering are the following:

While Savings Institute currently exceeds all regulatory capital requirements to be considered a well capitalized institution, the proceeds from the sale of common stock will increase our capital, which will support continued lending and operational growth. In deciding to conduct the conversion and offering at this time, our Board of Directors considered current market conditions, the amount of capital needed for continued growth, that the offering will not raise an excessive amount of capital and the interests of existing shareholders and customers.

The larger number of shares that will be in the hands of public investors after completion of the conversion and offering is expected to result in a more liquid and active trading market than currently exists for SI Financial Group common stock. A more liquid and active trading market would make it easier for our shareholders to buy and sell our common stock. See *Market for the Common Stock*.

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The stock holding company structure is a more familiar form of organization, which we believe will make our common stock more appealing to investors, and will give us greater flexibility to access the capital markets through possible future equity and debt offerings and to acquire other financial institutions or financial service companies. Our current mutual holding structure limits our ability to raise capital or issue stock in an acquisition transaction because SI Bancorp, MHC must own at least 50.1% of the shares of SI Financial Group. Currently, however, we have no plans, agreements or understandings regarding any additional securities offerings or acquisitions.

We are currently regulated by the Office of Thrift Supervision. The financial regulatory reform legislation will result in changes to our primary bank regulator and holding company regulator, as well as changes in regulations applicable to us, which may include changes in regulations affecting capital requirements, payment of dividends and conversion to stock form. Specifically, under the Dodd-Frank Act, the Federal Reserve Board will become the sole federal regulator of all holding companies, including mutual holding companies, and the Federal Reserve Board historically has not allowed mutual holding companies to waive the receipt of dividends from their mid-tier holding company subsidiaries. Although SI Bancorp, MHC is considered a grandfathered mutual holding company under the Dodd-Frank Act, it is not clear how the Federal Reserve Board will evaluate dividend waivers by grandfathered mutual holding companies and whether the Federal Reserve Board would require any future waived dividends to be taken into account in determining an appropriate exchange ratio, which would result in dilution to the ownership interests of minority stockholders in the event of a second-step conversion to stock form. The reorganization will eliminate our mutual holding company structure and any regulatory uncertainty associated with dividend waivers by our mutual holding company, as well as the treatment of waived dividends in a conversion of our mutual holding company to stock form and better position us to meet all future regulatory capital requirements. See *Regulation and Supervision*.

### **Terms of the Offering**

We are offering between 5,578,125 and 7,546,875 shares of common stock in a subscription offering to eligible depositors of Savings Institute and to our tax-qualified employee benefit plans, including our employee stock ownership plan. To the extent shares remain available, we may offer shares in a community offering to natural persons and trusts of natural persons residing in Hartford, Middlesex, New London, Tolland and Windham Counties in Connecticut, to our existing public shareholders and to the general public. With regulatory approval, we may increase the number of shares to be sold up to 8,678,906 shares without giving you further notice or the opportunity to change or cancel your order. In considering whether to increase the offering size, the Office of Thrift Supervision will consider the level of subscriptions, the views of our independent appraiser, our financial condition and results of operations and changes in financial market conditions. Once submitted, orders are irrevocable unless the offering is terminated or is extended beyond [Date 2], 2010, or the number of shares of common stock to be sold is increased to more than 8,678,906 shares or decreased to less than 5,578,125 shares. If we extend the offering beyond [Date 2], 2010, all subscribers will be notified and given the opportunity to confirm, change or cancel their orders. If you do not respond to this notice, we will promptly return your funds with interest calculated at Savings Institute's passbook savings rate or cancel your deposit account withdrawal authorization. If we intend to sell fewer than 5,578,125 shares or more than 8,678,906 shares, we will promptly return all funds and set a new offering range. All subscribers will be notified and given the opportunity to place a new order.

Shares of our common stock not purchased in the subscription offering or the community offering may be offered for sale to the general public in a syndicated community offering through a syndicate of selected dealers on a best efforts basis. We may begin the syndicated community offering at any time following the commencement of the subscription offering. Stifel, Nicolaus & Company, Incorporated will act as sole book-running manager, which is also being conducted on a best efforts basis. Neither Stifel, Nicolaus & Company, Incorporated nor any other member of the syndicate is required to purchase any shares in the syndicated community offering.

The purchase price is \$8.00 per share. All investors will pay the same purchase price per share. Investors will not be charged a commission to purchase shares of common stock in the offering. Stifel, Nicolaus & Company, Incorporated, our conversion advisor and marketing agent in the offering, will use its best efforts to assist us in selling shares of our common stock. Stifel, Nicolaus & Company, Incorporated is not obligated to purchase any shares of common stock in the offering.

### **How We Determined the Offering Range and Exchange Ratio (page )**

Federal regulations require that the aggregate purchase price of the securities sold in the offering be based upon our estimated pro forma market value after the conversion (*i.e.*, taking into account the expected receipt of net proceeds from the sale of securities in the offering), as determined by an independent appraisal. We have retained RP Financial, LC., which is



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experienced in the evaluation and appraisal of financial institutions, to prepare the appraisal. RP Financial has indicated that in its valuation as of August 26, 2010, our common stock's estimated market value ranged from \$72.1 million to \$97.6 million, with a midpoint of \$84.9 million. Based on this valuation, we are selling the number of shares representing the 61.9% of SI Financial Group currently owned by SI Bancorp, MHC. This results in an offering range of \$44.6 million to \$60.4 million, with a midpoint of \$52.5 million. RP Financial will receive fees totaling \$90,000 for its appraisal report, plus \$10,000 for any appraisal updates (of which there will be at least one) and reimbursement of out-of-pocket expenses.

The appraisal was based in part upon SI Financial Group's financial condition and results of operations, the effect of the net proceeds we will receive from the sale of common stock in this offering, the cash to be contributed to the charitable foundation and an analysis of a peer group of ten publicly traded savings and loan holding companies that RP Financial considered comparable to SI Financial Group. The appraisal peer group consists of the companies listed below. Total assets are as of June 30, 2010.

Company Name and Ticker Symbol	Exchange	Headquarters	Total Assets (In millions)
Beacon Federal Bancorp, Inc. (BFED)	NASDAQ	East Syracuse, NY	\$ 1,072
Central Bancorp, Inc. (CEBK)	NASDAQ	Somerville, MA	527
ESB Financial Corporation (ESBF)	NASDAQ	Ellwood City, PA	1,948
ESSA Bancorp, Inc. (ESSA)	NASDAQ	Stroudsburg, PA	1,067
Harleysville Savings Financial Corporation (HARL)	NASDAQ	Harleysville, PA	867
Hingham Institution for Savings (HIFS)	NASDAQ	Hingham, MA	972
New Hampshire Thrift Bancshares, Inc. (NHTB)	NASDAQ	Newport, NH	993
TF Financial Corporation (THRD)	NASDAQ	Newton, PA	721
United Financial Bancorp, Inc. (UBNK)	NASDAQ	West Springfield, MA	1,545
Westfield Financial, Inc. (WFD)	NASDAQ	Westfield, MA	1,235

In preparing its appraisal, RP Financial considered the information in this prospectus, including our financial statements. RP Financial also considered the following factors, among others:

our historical and projected operating results and financial condition, including, but not limited to, net interest income, the amount and volatility of interest income and interest expense relative to changes in market conditions and interest rates, asset quality, levels of loan loss provisions, the amount and sources of noninterest income, and the amount of noninterest expense;

the economic, demographic and competitive characteristics of our market area, including, but not limited to, employment by industry type, unemployment trends, size and growth of the population, trends in household and per capita income and deposit market share;

a comparative evaluation of our operating and financial statistics with those of other similarly-situated, publicly traded savings associations and savings association holding companies, which included a comparative analysis of balance sheet composition, income statement and balance sheet ratios, credit and interest rate risk exposure;

the effect of the capital raised in this offering on our net worth and earnings potential, including, but not limited to, the increase in consolidated equity resulting from the offering, the estimated increase in earnings resulting from the investment of the net proceeds of the offering, and the estimated impact on consolidated equity and earnings resulting from adoption of the proposed employee stock benefit plans; and

the trading market for SI Financial Group common stock and securities of comparable institutions and general conditions in the market for such securities.

The independent appraisal also reflects the cash contribution to SI Financial Group Foundation. The cash contribution to the charitable foundation will not have a material effect on our estimated pro forma market value.



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Two measures that some investors use to analyze whether a stock might be a good investment are the ratio of the offering price to the issuer's book value and tangible book value and the ratio of the offering price to the issuer's core earnings. RP Financial considered these ratios in preparing its appraisal, among other factors. Book value is the same as total equity and represents the difference between the issuer's assets and liabilities. Tangible book value is equal to total equity minus intangible assets. Core earnings, for purposes of the appraisal, was defined as net earnings after taxes, excluding the after-tax portion of income from nonrecurring items. In applying each of the valuation methods, RP Financial considered adjustments to our pro forma market value based on a comparison of SI Financial Group with the peer group. RP Financial

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made slight downward adjustments for profitability, growth and viability of earnings and for marketing of the issue and made a slight upward adjustment for financial condition.

The following table presents a summary of selected pricing ratios for the peer group companies utilized by RP Financial in its appraisal and the pro forma pricing ratios for us as calculated by RP Financial in its appraisal report, based on financial data as of and for the twelve months ended June 30, 2010. The pricing ratios for SI Financial Group are based on financial data as of or for the twelve months ended June 30, 2010.

	Price to Earnings Multiple	Price to Core Earnings Multiple	Price to Book Value Ratio	Price to Tangible Book Value Ratio
New SI Financial Group (pro forma):				
Minimum	32.80x	36.07x	60.93%	63.14%
Midpoint	38.54	42.37	67.74	70.05
Maximum	44.26	48.65	73.87	76.26
Maximum, as adjusted	50.81	55.85	80.16	82.64
Pricing ratios of peer group companies as of August 26, 2010:				
Average	15.21x	15.83x	85.14%	93.10%
Median	12.02	11.48	86.74	97.68

Compared to the average pricing ratios of the peer group, at the maximum of the offering range our common stock would be priced at a premium of 191.0% to the peer group on a price-to-earnings basis, a premium of 207.3% on a price-to-core earnings basis, a discount of 13.2% on a price-to-book basis and a discount of 18.1% on a price-to-tangible book basis. This means that, at the maximum of the offering range, a share of our common stock would be less expensive than the peer group on a book value and tangible book value basis.

Compared to the average pricing ratios of the peer group, at the minimum of the offering range our common stock would be priced at a premium of 115.6% to the peer group on a price-to-earnings basis, a premium of 129.7% on a price-to-core earnings basis, a discount of 28.4% on a price-to-book basis and a discount of 32.2% on a price-to-tangible book basis. This means that, at the minimum of the offering range, a share of our common stock would be less expensive than the peer group on a book value and tangible book value basis.

Our Board of Directors reviewed RP Financial's appraisal report, including the methodology and the assumptions used by RP Financial, and determined that the offering range was reasonable and adequate. Our Board of Directors has decided to offer the shares for a price of \$8.00 per share. The purchase price of \$8.00 per share was determined by us, taking into account, among other factors, the market price of our stock before adoption of the plan of conversion, the requirement under Office of Thrift Supervision regulations that the common stock be offered in a manner that will achieve the widest distribution of the stock, and desired liquidity in the common stock after the offering. Our Board of Directors also established the formula for determining the exchange ratio. Based upon such formula and the offering range, the exchange ratio ranged from a minimum of 0.7655 to a maximum of 1.0357 shares of new SI Financial Group common stock for each current share of SI Financial Group common stock, with a midpoint of 0.9006. Based upon this exchange ratio, we expect to issue between 3,437,460 and 4,650,682 shares of new SI Financial Group common stock to the holders of SI Financial Group common stock outstanding immediately before the completion of the conversion and offering.

Because of differences in important factors such as operating characteristics, location, financial performance, asset size, capital structure and business prospects between us and other fully converted institutions, you should not rely on these comparative valuation ratios as an indication as to whether or not our common stock is an appropriate investment for you. **The appraisal is not intended, and must not be construed, as a recommendation of any kind as to the advisability of purchasing our common stock. The appraisal does not indicate market value. You should not assume or expect that the appraisal described above means that our common stock will trade at or above the \$8.00 purchase price after the offering.**

Our Board of Directors makes no recommendation of any kind as to the advisability of purchasing shares of common stock in the offering.

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**Possible Change in Offering Range**

RP Financial will update its appraisal before we complete the conversion and offering. If, as a result of regulatory considerations, demand for the shares or changes in financial market conditions, RP Financial determines that our estimated pro forma market value has increased, we may sell up to 8,678,906 shares without further notice to you. If our pro forma market value at that time is either below \$72.1 million or above \$112.2 million, then, after consulting with the Office of Thrift Supervision, we may: terminate the offering and promptly return all funds; promptly return all funds, set a new offering range and give all subscribers the opportunity to place a new order; or take such other actions as may be permitted by the Office of Thrift Supervision and the Securities and Exchange Commission.

**The Exchange of Existing Shares of SI Financial Group Common Stock (page )**

If you are a shareholder of SI Financial Group on the date we complete the conversion and offering, your existing shares will be cancelled and exchanged for shares of new SI Financial Group. The number of shares you will receive will be based on an exchange ratio determined as of the completion of the conversion and offering that is intended to result in SI Financial Group's existing public shareholders owning approximately 38.1% of new SI Financial Group's common stock, which is the same percentage of SI Financial Group common stock currently owned by existing public shareholders. The exchange ratio will not be based on the market price of SI Financial Group common stock. The following table shows how the exchange ratio will adjust, based on the number of shares sold in our offering. The table also shows how many shares a hypothetical owner of 100 shares of SI Financial Group common stock would receive in the exchange, based on the number of shares sold in the offering.

	Shares to be Sold In the Offering		Shares to be Exchanged for Existing Shares of SI Financial Group		Total Shares of Common Stock to be Outstanding	Exchange Ratio	Equivalent	Equivalent	Shares to be Received for 100 Existing Shares (3)
	Amount	Percent	Amount	Percent			Share Value (1)	Pro Forma Book Value Per Share (2)	
Minimum	5,578,125	61.9%	3,437,460	38.1%	9,015,585	0.7655	\$ 6.12	\$ 9.41	76
Midpoint	6,562,500	61.9%	4,044,071	38.1%	10,606,571	0.9006	7.20	9.99	90
Maximum	7,546,875	61.9%	4,650,682	38.1%	12,197,557	1.0357	8.29	10.58	103
Maximum, as adjusted	8,678,906	61.9%	5,348,284	38.1%	14,027,190	1.1910	9.53	11.24	119

- (1) Represents the value of shares of new SI Financial Group common stock received in the conversion by a holder of one share of SI Financial Group common stock at the exchange ratio, assuming an offering price of \$8.00 per share.
  - (2) Represents the pro forma tangible shareholders' equity per share at each level of the offering range multiplied by the respective exchange ratio.
  - (3) Cash will be paid instead of issuing any fractional shares.
- No fractional shares of new SI Financial Group common stock will be issued in the conversion and offering. For each fractional share that would otherwise be issued, we will pay cash in an amount equal to the product obtained by multiplying the fractional share interest to which the holder would otherwise be entitled by the \$8.00 per share offering price.

We also will convert options previously awarded under the 2005 Equity Incentive Plan into options to purchase new SI Financial Group common stock. At June 30, 2010, there were outstanding options to purchase 496,750 shares of SI Financial Group common stock. The number of outstanding options and related per share exercise prices will be adjusted based on the exchange ratio. The aggregate exercise price, term and vesting period of the outstanding options will remain unchanged. If any options are exercised before we complete the offering, the number of shares of SI Financial Group common stock outstanding will increase and the exchange ratio could be adjusted.

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The following table summarizes how we intend to use the proceeds of the offering, based on the sale of shares at the minimum and maximum of the offering range.

(Dollars in thousands)	5,578,125 Shares		7,546,875 Shares	
	At \$8.00 Per Share	Percent of Net Proceeds	At \$8.00 Per Share	Percent of Net Proceeds
Offering proceeds	\$ 44,625		\$ 60,375	
Less: offering expenses	(2,998)		(3,572)	
Net offering proceeds	41,627	100.0%	56,803	100.0%
Less:				
Proceeds contributed to Savings Institute	24,976	60.0	34,082	60.0
Proceeds used for loan to employee stock ownership plan	2,678	6.4	3,623	6.4
Proceeds contributed to SI Financial Group Foundation by SI Financial Group	500	1.2	500	0.9
Proceeds remaining for new SI Financial Group	\$ 13,473	32.4%	\$ 18,598	32.7%

Initially, we intend to invest the proceeds of the offering in short-term investments. In the future, new SI Financial Group may use the funds it retains to invest in securities, pay cash dividends, repurchase shares of its common stock, subject to regulatory restrictions, or for general corporate purposes. Savings Institute intends to use the portion of the proceeds that it receives to fund new loans and expand its mortgage banking activities. We expect that much of the loan growth will occur in our commercial real estate and commercial business portfolios, which we have emphasized in recent years, but we have not allocated specific dollar amounts to any particular area of our loan portfolio. The amount of time that it will take to deploy the proceeds of the offering into loans will depend primarily on the level of loan demand. Savings Institute may also use the proceeds to finance the possible expansion of its business activities, including developing new branch locations, although there are no specific plans for these activities. We may also use the proceeds of the offering to diversify our business or acquire other companies as opportunities arise, primarily in or adjacent to our existing market areas, although we have no specific plans to do so at this time.

**Purchases by Directors and Executive Officers (page            )**

We expect that our directors and executive officers, together with their associates, will subscribe for approximately 18,037 shares, which is 0.3% of the midpoint of the offering. Our directors and executive officers will pay the same \$8.00 per share price as everyone else who purchases shares in the offering. Like all of our depositors, our directors and executive officers have subscription rights based on their deposits and, in the event of an oversubscription, their orders will be subject to the allocation provisions set forth in our plan of conversion. Purchases by our directors and executive officers will count towards the minimum number of shares we must sell to close the offering. Following the conversion and offering, and including shares received in exchange for shares of SI Financial Group, our directors and executive officers, together with their associates, are expected to own 287,115 shares of new SI Financial Group common stock, which would equal 2.7% of our outstanding shares if shares are sold at the midpoint of the offering range.

**Benefits of the Conversion to Management (page            )**

We intend to adopt the stock benefit plans described below. We will recognize additional compensation expense related to the expanded employee stock ownership plan and the new equity incentive plan. The actual expense will depend on the market value of our common stock and will increase as the value of our common stock increases. As reflected under *Pro Forma Data*, based upon assumptions set forth therein, the annual expense related to the employee stock ownership plan and the new equity incentive plan would have been \$554,000 for the year ended

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December 31, 2009, assuming shares are sold at the maximum of the offering range. If awards under the new equity incentive plan are funded from authorized but

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unissued stock, your ownership interest would be diluted by up to approximately 1.9%. See *Pro Forma Data* for an illustration of the effects of each of these plans.

**Employee Stock Ownership Plan.** Our employee stock ownership plan intends to purchase an amount of shares equal to 6.0% of the shares sold in the offering. The plan will use the proceeds from a 20-year loan from new SI Financial Group to purchase these shares. We reserve the right to purchase shares of common stock in the open market following the offering to fund all or a portion of the employee stock ownership plan. We also reserve the right to have the employee stock ownership plan purchase up to 10% of the shares of common stock sold in the offering if necessary to complete the offering at the minimum of the offering range. As the loan is repaid and shares are released from collateral, the shares will be allocated to the accounts of employee participants. Allocations will be based on a participant's individual compensation as a percentage of total plan compensation. Non-employee directors are not eligible to participate in the employee stock ownership plan. We will incur additional compensation expense as a result of this plan. See *Pro Forma Data* for an illustration of the effects of this plan.

**New Equity Incentive Plan.** We intend to implement a new equity incentive plan no earlier than six months after completion of the conversion and offering. We will submit this plan to our shareholders for their approval. Under this plan, we may grant stock options in an amount up to 7.7% of the number of shares sold in the offering and restricted stock awards in an amount equal to 3.1% of the shares sold in the offering. Stock options will be granted at an exercise price equal to 100% of the fair market value of our common stock on the option grant date. Shares of restricted stock will be awarded at no cost to the recipient. We will incur additional compensation expense as a result of this plan. See *Pro Forma Data* for an illustration of the effects of this plan. The new equity incentive plan will comply with all applicable Office of Thrift Supervision regulations. The new equity incentive plan will supplement our existing 2005 Equity Incentive Plan, which will continue as a plan of new SI Financial Group.

The following table summarizes, at the maximum of the offering range, the total number and value of the shares of common stock that the employee stock ownership plan expects to acquire and the total value of all restricted stock awards and stock options that are expected to be available under the new equity incentive plan. At the maximum of the offering range, we will sell 7,546,875 shares and have 12,197,557 shares outstanding. The number of shares reflected for the benefit plans in the table below assumes that Savings Institute's tangible capital will be 10% or more following the completion of the offering and the application of the net proceeds as described under *Use of Proceeds*.

	Number of Shares to be Granted or Purchased			Dilution Resulting from Issuance of Additional Shares	Total Estimated Value
	At Maximum of Offering Range	As a % of Common Stock Sold	As a % of Common Stock Outstanding		
(Dollars in thousands)					
Employee stock ownership plan (1)	452,813	6.0%	3.7%	%	\$ 3,623
Restricted stock awards (1)	232,870	3.1	1.9	1.9	1,863
Stock options (2)	582,176	7.7	4.8	4.6	1,618
Total	1,267,859	16.8%	10.4%	6.3%	\$ 7,104

(1) Assumes the value of new SI Financial Group common stock is \$8.00 per share for determining the total estimated value.

(2) Assumes the value of a stock option is \$2.78. See *Pro Forma Data*.

We may fund our plans through open market purchases, as opposed to new issuances of common stock; however, if any options previously granted under our 2005 Equity Incentive Plan are exercised during the first year following completion of the offering, they will be funded with newly-issued shares as Office of Thrift Supervision regulations do not permit us to repurchase our shares during the first year following the completion of this offering except to fund the grants of restricted stock under the stock-based incentive plan or, with prior regulatory approval, under extraordinary circumstances. The Office of Thrift Supervision has previously advised that the exercise of outstanding options and cancellation of treasury shares in the conversion will not constitute an extraordinary circumstance or a compelling business purpose for satisfying this test.



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The following table presents information regarding our existing employee stock ownership plan, options and restricted stock previously awarded or available for future awards under our 2005 Equity Incentive Plan, additional shares purchased by our employee stock ownership plan, and our proposed new equity incentive plan. The table below assumes that 12,197,557 shares are outstanding after the offering, which includes the sale of 7,546,875 shares in the offering at the maximum of the offering range and the issuance of 4,650,682 shares in exchange for shares of SI Financial Group using an exchange ratio of 1.0357. It is also assumed that the value of the stock is \$8.00 per share.

Existing and New Stock Benefit Plans (Dollars in thousands)	Eligible Participants	Number of Shares at Maximum of Offering Range	Estimated Value of Shares	Percentage of Shares Outstanding After the Conversion and Offering
<b>Employee Stock Ownership Plan:</b>	Employees			
Shares purchased in 2004 offering (1)		498,549(2)	\$ 3,988	4.1%
Shares to be purchased in this offering		452,813	3,623	3.7
Total employee stock ownership plan		951,362	\$ 7,611	7.8
<b>Restricted Stock Awards:</b>	Directors and employees			
2005 Equity Incentive Plan (1)		255,040(3)	\$ 2,040(4)	2.1
New shares of restricted stock		232,870	1,863(4)	1.9
Total shares of restricted stock		487,910	\$ 3,903	4.0
<b>Stock Options:</b>	Directors and employees			
2005 Equity Incentive Plan (1)		637,601(5)	\$ 1,766(6)	5.2
New stock options		582,176	1,618(7)	4.8
Total stock options		1,219,777	\$ 3,384	10.0
Total stock benefit plans		2,659,049	\$ 14,898	21.8%

(1) Number of shares has been adjusted for the 1.0357 exchange ratio at the maximum of the offering range.

(2) As of June 30, 2010, of these shares, 164,065 (158,410 before adjustment) have been allocated to the accounts of participants and 334,484 (322,955 before adjustment) remain unallocated.

(3) As of June 30, 2010, of these shares, 252,347 (243,649 before adjustment) have been awarded and 2,692 (2,600 before adjustment) remain available for future awards. As of June 30, 2010, awards covering 236,149 shares have vested and the shares have been distributed.

(4) The actual value of restricted stock grants will be determined based on their fair value as of the date grants are made. For purposes of this table, fair value is assumed to be the same as the offering price of \$8.00 per share.

(5) As of June 30, 2010, of these shares, options for 514,483 shares (496,750 shares before adjustment) have been awarded and options for 123,116 shares (118,873 shares before adjustment) remain available for future grants. As of June 30, 2010, no options had been exercised.

(6) The fair value of stock options granted and outstanding under the 2005 Equity Incentive Plan has been estimated using the Black-Scholes option pricing model. Before the adjustment for the exchange ratio, there were 496,750 outstanding options with a weighted-average fair value of \$2.87 per option. Using this value and adjusting for the exchange ratio at the maximum of the offering range, the fair value of stock options granted or available for grant under the 2005 Equity Incentive Plan has been estimated at \$2.77 per option.

(7)



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For purposes of this table, the fair value of stock options to be granted under the new equity incentive plan has been estimated at \$2.78 per option using the Black-Scholes option pricing model with the following assumptions: exercise price, \$8.00; trading price on date of grant, \$8.00; dividend yield, 1.0%; expected life, 10 years; expected volatility, 18.21%; and risk-free interest rate, 2.97%.

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**Our Contribution of Cash to the SI Financial Group Foundation**

SI Financial Group Foundation was organized in connection with Savings Institute's mutual holding company reorganization and was funded with 251,275 shares of SI Financial Group common stock on September 30, 2004. As of June 30, 2010, SI Financial Group Foundation had assets of \$1.4 million, no liabilities and net worth of \$1.4 million.

To further our commitment to the communities we serve and may serve in the future, subject to our members' and shareholders' approval, we intend to contribute up to \$500,000 in cash to the charitable foundation to provide the foundation with additional liquidity. Other than shares issued in the exchange, we will not issue any shares of new SI Financial Group common stock to SI Financial Group Foundation in connection with the conversion and offering. As a result of the cash contribution, we expect to record an after-tax expense of approximately \$335,000 during the quarter in which the conversion is completed. SI Financial Group Foundation currently owns 214,653 shares of SI Financial Group common stock. Following completion of the offering and assuming closing at the midpoint of the valuation range and the exchange ratio of 0.9006, the charitable foundation will own 193,316 shares, or 1.8%, of the outstanding shares of SI Financial Group. Pursuant to Office of Thrift Supervision regulations, all shares of SI Financial Group common stock owned by the charitable foundation must be voted in the same ratio as all other shares of SI Financial Group are voted.

SI Financial Group Foundation will continue to support charitable causes and community development activities in the communities in which we operate or may operate. During the six months ended June 30, 2010 and the year ended December 31, 2009, SI Financial Group Foundation made charitable contributions of \$5,440, and \$53,000, respectively.

Under the Internal Revenue Code, a corporate entity is generally permitted to deduct up to 10% of its taxable income (taxable income before the charitable contributions deduction) in any one year for charitable contributions. Any contribution in excess of the 10% limit may generally be deducted for federal income tax purposes over the five years following the year in which the charitable contribution was made. Accordingly, a charitable contribution by a corporate entity to a charitable foundation could, if necessary, be deducted for federal income tax purposes over a six-year period. Our overall charitable contribution deduction could be limited if our future taxable income is insufficient to allow for the full deduction within the 10% of taxable income limitation, which would result in an increase to income tax expense.

SI Financial Group Foundation is governed by a Board of Directors, which currently consists of five employees of Savings Institute, two of our directors, one of our former directors and one individual who is not affiliated with us. The officers and directors of the foundation are as follows:

Rheo A. Brouillard Chairman of the Board of Directors and President

Brian J. Hull Treasurer and Director

Sandra M. Mitchell Secretary and Director

William E. Anderson, Jr. Director

Robert C. Cushman Director

Roger Engle Director

Donna M. Evan Director

Laurie L. Gervais Director

Edward Wosniak Director

None of these individuals receive compensation for their service as a director of the charitable foundation. In addition, some of our employees serve as executive officers of the charitable foundation. None of these individuals receive compensation for their service as an executive officer of the charitable foundation.

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The contribution of cash to the charitable foundation has been approved by the Board of Directors of SI Bancorp, MHC, and must be approved by the members of SI Bancorp, MHC (depositors of Savings Institute) and the shareholders of SI Financial Group at their special meetings being held to consider and vote upon the plan of conversion. If members or shareholders do not approve the contribution to the charitable foundation, we will proceed with the conversion without contributing to the foundation and subscribers for common stock will not be resolicited (unless required by the Office of Thrift Supervision). The contribution to the charitable foundation will not have any material effect on our estimated pro forma valuation.

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RP Financial will update its appraisal of our estimated pro forma market value at the conclusion of the offering. The pro forma market value reflected in that updated appraisal will be based on the facts and circumstances existing at that time, including, among other things, market and economic conditions.

See *Risk Factors* *The contribution to the charitable foundation will adversely affect net income* and *SI Financial Group Foundation*.

### **Persons Who Can Order Stock in the Subscription Offering (page            )**

We are offering shares of new SI Financial Group common stock in a subscription offering to the following persons in the following order of priority:

1. Persons with \$50 or more on deposit at Savings Institute as of the close of business on June 30, 2009.
2. Our employee stock ownership plan.
3. Persons with \$50 or more on deposit at Savings Institute as of the close of business on September 30, 2010 who are not eligible in category 1 above.
4. Savings Institute's depositors as of the close of business on [RECORD DATE], 2010, who are not in categories 1 or 3 above.

Unlike our employee stock ownership plan, the Savings Institute 401(k) Plan has not been granted priority subscription rights. Accordingly, a 401(k) plan participant who elects to purchase shares in the offering through self-directed purchases within the 401(k) plan will receive the same subscription priority, and be subject to the same purchase limitations, as if the participant had elected to purchase shares using funds outside the 401(k) plan.

If we receive subscriptions for more shares than are to be sold in this offering, we may be unable to fill or may only partially fill your order. Shares will be allocated in order of the priorities described above under a formula outlined in the plan of conversion. See *The Conversion and Offering Subscription Offering and Subscription Rights* for a description of the allocation procedure.

### **Subscription Rights are Not Transferable (page            )**

You are not allowed to transfer your subscription rights and we will act to ensure that you do not do so. You will be required to acknowledge that you are purchasing shares solely for your own account and that you have no agreement or understanding with another person to sell or transfer subscription rights or the shares that you purchase. We will not accept any stock orders that we believe involve the transfer of subscription rights. **Eligible depositors who enter into agreements to allow ineligible investors to participate in the subscription offering may be violating federal and state law and may be subject to civil enforcement actions or criminal prosecution.**

### **Purchase Limitations (page            )**

Pursuant to our plan of conversion, our Board of Directors has established limitations on the purchase of common stock in the offering. These limitations include the following:

The minimum purchase is 25 shares.

No individual (or individuals exercising subscription rights through a single qualifying account held jointly) may purchase more than \$500,000 of common stock (which equals 62,500 shares) in the offering.

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No individual, together with any associates, and no group of persons acting in concert, may purchase more than \$1,000,000 of common stock (which equals 125,000 shares) in all the categories of the offering combined. For purposes of applying this limitation, your associates include:

Any person who is related by blood or marriage to you and who either lives in your home or who is a director or officer of Savings Institute;

Companies or other entities in which you are an officer or partner or have a 10% or greater beneficial ownership interest; and

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Trusts or other estates in which you have a substantial beneficial interest or as to which you serve as a trustee or in another fiduciary capacity.

Unless we determine otherwise, persons having the same address and persons exercising subscription rights through qualifying accounts registered to the same address will be subject to this overall purchase limitation. We have the right to determine, in our sole discretion, whether prospective purchasers are associates or acting in concert.

No individual, together with any associates, and no group of persons acting in concert, may purchase shares of common stock so that, when combined with shares of new SI Financial Group common stock received by them in exchange for shares of SI Financial Group common stock, such person or persons would hold more than 5% of the number of shares of new SI Financial Group common stock outstanding upon completion of the conversion and offering. No person will be required to divest any shares of SI Financial Group common stock or be limited in the number of shares of new SI Financial Group to be received in exchange for shares of SI Financial Group common stock as a result of this purchase limitation.

Subject to the Office of Thrift Supervision's approval, we may increase or decrease the purchase limitations at any time. If we increase the maximum purchase limitations to 5% of the shares of common stock sold in the offering, we may further increase the maximum purchase limitation to 9.99%, provided that orders for common stock exceeding 5% of the shares of common stock sold in the offering may not exceed in the aggregate 10% of the total shares of common stock sold in the offering. Our tax-qualified employee benefit plans, including our employee stock ownership plan, are authorized to purchase up to 10.0% of the shares sold in the offering, without regard to these purchase limitations.

### **Conditions to Completing the Conversion and Offering**

We cannot complete the conversion and offering unless:

the plan of conversion is approved by at least *a majority of votes eligible to be cast* by depositors of Savings Institute;

the plan of conversion is approved by at least *two-thirds of the outstanding shares* of SI Financial Group, including shares held by SI Bancorp, MHC;

the plan of conversion is approved by at least *a majority of the outstanding shares* of SI Financial Group, excluding the shares held by SI Bancorp, MHC;

we sell at least the minimum number of shares offered; and

we receive the final approval of the Office of Thrift Supervision to complete the conversion and offering.

Subject to member, shareholder and regulatory approvals, we also intend to contribute cash to our existing charitable foundation, SI Financial Group Foundation, in connection with the conversion. However, member and shareholder approval of the contribution to the charitable foundation is not a condition to the completion of the conversion and offering.

SI Bancorp, MHC, which owns 61.9% of the outstanding shares of SI Financial Group, intends to vote these shares in favor of the plan of conversion and the contribution to the charitable foundation. In addition, as of \_\_\_\_\_, 2010, directors and executive officers of SI Financial Group and their associates beneficially owned 298,783 shares of SI Financial Group or 2.5% of the outstanding shares. They intend to vote those shares in favor of the plan of conversion and the contribution to the charitable foundation.

### **Steps We May Take if We Do Not Receive Orders for the Minimum Number of Shares**

We must sell a minimum of 5,578,125 shares to complete the conversion and offering. Purchases by our directors and executive officers and our employee stock ownership plan will count towards the minimum number of shares we must sell to complete the offering. If we do not receive

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orders for at least 5,578,125 shares of common stock in the subscription, community and/or syndicated community offerings, we may increase the purchase limitations and/or seek regulatory approval to extend the offering beyond [Date 2], 2010 (provided that any such extension will require us to resolicit subscribers). Alternatively, we may terminate the offering, in which case we will promptly return your funds, with interest calculated at Savings Institute's passbook savings rate, which is currently 0.20% per annum, and cancel all deposit account withdrawal authorizations.

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**How to Purchase Common Stock in the Subscription and Community Offerings (page            ) )**

In the subscription offering and the community offering, you may pay for your shares by:

1. personal check, bank check or money order made payable directly to SI Financial Group, Inc. (Savings Institute lines of credit checks and third-party checks of any type will not be accepted. Please do not submit cash.); or
2. authorizing us to withdraw money from the types of Savings Institute deposit accounts identified on the stock order form. Savings Institute is not permitted to lend funds (including funds drawn on a Savings Institute line of credit) to anyone to purchase shares of common stock in the offering.

You may not designate on your stock order form a direct withdrawal from a retirement account at Savings Institute. If you wish to use funds in these accounts, see *Using IRA Funds to Purchase Shares in the Offering*. Additionally, you may not designate on your stock order form a direct withdrawal from Savings Institute accounts with check-writing privileges. Instead, a check must be provided. If you request a direct withdrawal, we reserve the right to interpret that as your authorization to treat those funds as if we had received a check for the designated amount and we will immediately withdraw the amount from your checking account.

Personal checks will be immediately cashed, so the funds must be available within the account when your stock order form is received by us. Subscription funds submitted by check or money order will be held in a segregated account at Savings Institute. We will pay interest calculated at Savings Institute's passbook savings rate from the date those funds are processed until completion or termination of the offering, at which time, subscribers will receive interest checks. Withdrawals from certificate of deposit accounts at Savings Institute to purchase common stock in the offering may be made without incurring an early withdrawal penalty. All funds authorized for withdrawal from deposit accounts with Savings Institute must be available within the deposit accounts at the time the stock order form is received. A hold will be placed on the amount of funds designated on your stock order form. Those funds will be unavailable to you during the offering; however, the funds will not be withdrawn from the accounts until the offering is completed and will continue to earn interest at the applicable contractual deposit account rate until the completion of the offering.

You may deliver your stock order form in one of three ways: by mail, using the stock order reply envelope provided, by overnight delivery to the Stock Information Center at the address indicated on the stock order form or by hand-delivery to Savings Institute's main office, located at 803 Main Street, Willimantic, Connecticut. Stock order forms will not be accepted at our other Savings Institute offices and should not be mailed to Savings Institute. Once submitted, your order is irrevocable. We are not required to accept copies or facsimiles of order forms.

**Using Retirement Account Funds to Purchase Shares in the Subscription and Community Offerings (page            ) )**

You may be able to subscribe for shares of common stock using funds in your individual retirement account, or IRA. If you wish to use some or all of the funds in your Savings Institute IRA or other retirement account, the applicable funds must first be transferred to a self-directed retirement account maintained by an unaffiliated institutional trustee or custodian, such as a brokerage firm. An annual fee may be payable to the new trustee. If you do not have such an account, you will need to establish one and transfer your funds from Savings Institute before placing your stock order. Our Stock Information Center can give you guidance if you wish to place an order for stock using funds held in a retirement account at Savings Institute *or elsewhere*. Because processing retirement account transactions takes additional time, we recommend that you contact our Stock Information Center promptly, preferably at least two weeks before the [Date 1], 2010 offering deadline. Whether you may use retirement funds for the purchase of shares in the offering will depend on timing constraints and, possibly, limitations imposed by the institution where the funds are held.

**Deadline for Ordering Stock in the Subscription and Community Offerings**

The subscription offering will end at 2:00 p.m., Eastern time, on [Date 1], 2010. If you wish to purchase shares, a properly completed and signed original stock order form, together with full payment for the shares of common stock, must be *received* by us (not postmarked) no later than this time. We expect that the community offering, if held, will terminate at the same time, although it may continue until [Date 2], 2010, or longer if the Office of Thrift Supervision approves a later date. No single extension may be for more than 90 days. We are not required to provide notice



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to you of an extension unless we extend the offering beyond [Date 2], 2010, in which case all subscribers in the subscription and community offerings will be notified and given the opportunity to confirm, change or cancel their orders. If you do not respond to this notice, we will

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promptly return your funds with interest calculated at Savings Institute's passbook savings rate or cancel your deposit account withdrawal authorization. If we intend to sell fewer than 5,578,125 shares or more than 8,678,906 shares, we will promptly return all funds and set a new offering range. All subscribers will be notified and given the opportunity to place a new order.

### **Market for New SI Financial Group's Common Stock (page )**

SI Financial Group common stock is listed on the Nasdaq Global Market under the symbol SIFI. We expect that new SI Financial Group's common stock will trade on the Nasdaq Global Market under the trading symbol SIFID for a period of 20 trading days after the completion of the conversion and offering. Thereafter, the trading symbol will be SIFI. After shares of the common stock begin trading, you may contact a stock broker to buy or sell shares. There can be no assurance that persons purchasing the common stock in the offering will be able to sell their shares at or above the \$8.00 offering price, and brokerage firms typically charge commissions related to the purchase or sale of securities.

### **SI Financial Group's Dividend Policy (page )**

SI Financial Group currently pays a cash dividend of \$0.03 per share per quarter, which equals \$0.12 on an annualized basis. After the conversion and offering, we intend to continue to pay a cash dividend of \$0.03 per share per quarter, which represents an annual yield of 1.5% based on a price of \$8.00 per share. However, the dividend rate and continued payment of dividends will depend on a number of factors, including our capital requirements, our financial condition and results of operations, tax considerations, statutory and regulatory limitations and general economic conditions. No assurance can be given that we will continue to pay dividends or that they will not be reduced in the future.

### **Tax Consequences (page )**

As a general matter, the conversion will not be a taxable transaction for purposes of federal or state income taxes to us or persons who receive or exercise subscription rights. Existing shareholders of SI Financial Group who receive cash in lieu of fractional share interests in shares of new SI Financial Group will recognize gain or loss equal to the difference between the cash received and the tax basis of the fractional share. Kilpatrick Stockton LLP and Wolf & Company, P.C. have issued us opinions to this effect, which are summarized on pages through of this prospectus.

### **Delivery of Prospectus**

**To ensure that each purchaser in the subscription and community offerings receives a prospectus at least 48 hours before the offering deadline, we may not mail prospectuses any later than five days before such date or hand-deliver prospectuses later than two days before that date. Stock order forms may only be delivered if accompanied or preceded by a prospectus. We are not obligated to deliver a prospectus or order form by means other than U.S. mail.**

We will make reasonable attempts to provide a prospectus and offering materials to holders of subscription rights. The subscription offering and all subscription rights will expire at 2:00 p.m., Eastern time, on [Date 1], 2010 whether or not we have been able to locate each person entitled to subscription rights.

### **Delivery of Stock Certificates in the Subscription and Community Offerings (page )**

Certificates representing shares of common stock issued in the subscription and community offerings will be mailed by first-class mail by our transfer agent as soon as practicable following completion of the conversion and offering. Certificates will be mailed to purchasers at the registration address provided by them on the order form. **Until certificates for common stock are available and delivered to purchasers, purchasers may not be able to sell their shares, even though trading of the common stock will have commenced.** Your ability to sell the shares of common stock before your receipt of the stock certificate will depend on arrangements you may make with your brokerage firm.

### **How You Can Obtain More Information Stock Information Center**

Our banking office personnel may not, by law, assist with investment-related questions about the conversion and the offering. If you have any questions regarding the conversion or the offering, please call our Stock Information Center. The toll-free telephone number is ( ) - . The Stock Information Center is open Monday through Friday, from 10:00 a.m. to 4:00 p.m., Eastern time. The Stock Information Center will be closed weekends and bank holidays.



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## **Risk Factors**

*You should consider carefully the following risk factors before purchasing shares of new SI Financial Group common stock.*

### **Risks Related to Our Business**

**The economic recession could result in increases in our level of nonperforming loans and/or reduce demand for our products and services, which would lead to lower revenue, higher loan losses and lower earnings.**

Our business activities and earnings are affected by general business conditions in the United States and in our local market area. These conditions include short-term and long-term interest rates, inflation, unemployment levels, real estate values, monetary supply, consumer confidence and spending, fluctuations in both debt and equity capital markets, and the strength of the economy in the United States generally and in our market area in particular. The national economy has recently experienced a recession, with rising unemployment levels, declines in real estate values and an erosion in consumer confidence. Dramatic declines in the U.S. housing market over the past few years, with falling home prices and increasing foreclosures, have negatively affected the credit performance of mortgage loans and resulted in significant write-downs of asset values by many financial institutions. Our local economy has mirrored the overall economy. A prolonged or more severe economic downturn, continued elevated levels of unemployment, further declines in the values of real estate, or other events that affect household and/or corporate incomes could impair the ability of our borrowers to repay their loans in accordance with their terms. Nearly all of our loans are secured by real estate or made to businesses in the counties in which we have offices in Connecticut. As a result of this concentration, a prolonged or more severe downturn in the local economy could result in significant increases in nonperforming loans, which would negatively impact our interest income and result in higher provisions for loan losses, which would hurt our earnings. The economic downturn could also result in reduced demand for credit, which would hurt our revenues.

**Our level of nonperforming loans and classified assets expose us to increased risk of loss. Further, our allowance for loan losses may prove to be insufficient to absorb losses in our loan portfolio.**

At June 30, 2010, loans that were classified as either special mention, substandard, doubtful or loss totaled \$46.8 million, representing 7.7% of total loans, including nonperforming loans of \$4.3 million, representing 0.70% of total loans. If these loans do not perform according to their terms and the value of the collateral is insufficient to pay the remaining loan balance or if the economy and/or the real estate market continues to weaken, we could experience loan losses or be required to add further reserves to our allowance for loan losses, either of which could have a material adverse effect on our operating results. Like all financial institutions, we maintain an allowance for loan losses at a level representing management's best estimate of known losses in the portfolio based upon management's evaluation of the portfolio's collectibility as of the corresponding balance sheet date. However, our allowance for loan losses may be insufficient to cover actual loan losses, and future provisions for loan losses could materially adversely affect our operating results.

At June 30, 2010, our allowance for loan losses totaled \$4.9 million, which represented 0.80% of total loans and 114.32% of nonperforming loans. Our regulators, as an integral part of their examination process, periodically review the allowance for loan losses and may require us to increase the allowance for loan losses by recognizing additional provisions for loan losses charged to income, or to charge-off loans, which, net of any recoveries, would decrease the allowance for loan losses. Any such additional provisions for loan losses or charge-offs, as required by these regulatory agencies, could have a material adverse effect on our operating results.

**Our commercial lending exposes us to lending risks.**

At June 30, 2010, \$280.7 million, or 46.0%, of our loan portfolio consisted of commercial real estate and commercial business loans. We intend to continue to emphasize these types of lending. Commercial loans generally expose a lender to greater risk of non-payment and loss than one- to four-family residential mortgage loans because repayment of the loans often depends on the successful operation of the business and the income stream of the borrowers. Such loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to one- to four-family residential mortgage loans. Also, many of our commercial borrowers have more than one loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss compared to an adverse development with respect to a one- to four-family residential mortgage loan.

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### **Our emphasis on residential mortgage loans and home equity loans exposes us to lending risks.**

At June 30, 2010, \$292.4 million, or 48.0%, of our loan portfolio consisted of one- to four-family residential mortgage loans and \$24.0 million, or 3.9%, of our loan portfolio consisted of home equity lines of credit. Recent declines in the housing market have resulted in declines in real estate values in our market areas. These declines in real estate values could cause some of our mortgage and home equity loans to be inadequately collateralized, which would expose us to a greater risk of loss if we seek to recover on defaulted loans by selling the real estate collateral.

### **Our investment portfolio may suffer reduced returns, material losses or other-than-temporary impairment losses.**

During an economic downturn, our investment portfolio could be subject to higher risk. The value of our investment portfolio is subject to the risk that certain investments may default or become impaired due to a deterioration in the financial condition of one or more issuers of the securities held in our portfolio, or due to a deterioration in the financial condition of an issuer that guarantees an issuer's payments of such investments. Such defaults and impairments could reduce our net investment income and result in realized investment losses.

Our investment portfolio is also subject to increased risk as the valuation of investments is more subjective when markets are illiquid, thereby increasing the risk that the estimated fair value (i.e. the carrying amount) of the portion of the investment portfolio that is carried at fair value as reflected in our financial statements is not reflective of prices at which actual transactions would occur.

Because of the risks set forth above, the value of our investment portfolio could decrease, we could experience reduced net investment income, and we could incur realized investment losses, which could materially and adversely affect our results of operations, financial position and liquidity.

Additionally, we review our securities portfolio at each quarter-end reporting period to determine whether the fair value is below the current carrying value. When the fair value of any of our equity securities has declined below its carrying value, we are required to assess whether the decline is other-than-temporary. We are required to write-down the value of that security through a charge to earnings if we conclude that the decline is other-than-temporary. In the case of debt securities, we are required to charge to earnings any decreases in value that are credit-related. As of June 30, 2010, the amortized cost and the fair value of our securities portfolio each totaled \$182.2 million. Changes in the expected cash flows of these securities and/or prolonged price declines in future periods may result in a charge to earnings to write-down these securities. Any charges for other-than-temporary impairment would not impact cash flow, tangible capital or liquidity. For the six months ended June 30, 2010 and for the year ended December 31, 2009, we recognized other-than-temporary impairment losses for credit-related factors of \$332,000 and \$228,000, respectively, on certain debt securities.

### **Recently enacted regulatory reform may have a material impact on our operations.**

On July 21, 2010, the President signed into law The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act). The Dodd-Frank Act restructures the regulation of depository institutions. Under the Dodd-Frank Act, the Office of Thrift Supervision, which currently regulates Savings Institute, will be merged into the Office of the Comptroller of the Currency, which regulates national banks. Savings and loan holding companies, including SI Financial Group, will be regulated by the Board of Governors of the Federal Reserve System. Also included is the creation of a new federal agency to administer consumer protection and fair lending laws, a function that is now performed by the depository institution regulators. The federal preemption of state laws currently accorded federally chartered depository institutions will be reduced as well and State Attorneys General will have greater authority to bring a suit against a federally chartered institution, such as Savings Institute, for violations of certain state and federal consumer protection laws. The Dodd-Frank Act also will impose consolidated capital requirements on savings and loan holding companies effective in five years, which will limit our ability to borrow at the holding company and invest the proceeds from such borrowings as capital in Savings Institute that could be leveraged to support additional growth. The Dodd-Frank Act contains various other provisions designed to enhance the regulation of depository institutions and prevent the recurrence of a financial crisis such as occurred in 2008-2009. The full impact of the Dodd-Frank Act on our business and operations will not be known for years until regulations implementing the statute are written and adopted. The Dodd-Frank Act may have a material impact on our operations, particularly through increased regulatory burden and compliance costs.

In addition to the enactment of the Dodd-Frank Act, the federal regulatory agencies recently have begun to take stronger supervisory actions against financial institutions that have experienced increased loan losses and other weaknesses as a result of the current economic crisis. These actions include the entering into of written agreements and cease and desist orders that place certain limitations on their operations. Federal bank regulators recently have also been using with more frequency



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their ability to impose individual minimal capital requirements on banks, which requirements may be higher than those imposed under the Dodd-Frank Act or which would otherwise qualify the bank as being well capitalized under the Federal Deposit Insurance Corporation's prompt corrective action regulations. If SI Financial Group or Savings Institute were to become subject to a supervisory agreement or higher individual capital requirements, such action may have a negative impact on their ability to execute their business plans, as well as their ability to grow, pay dividends or engage in mergers and acquisitions and may result in restrictions in their operations. See *Regulation and Supervision - Federal Banking Regulation - Capital Requirements* for a discussion of regulatory capital requirements.

### **Our inability to achieve profitability on new branches may negatively impact our earnings.**

We consider our primary market area to consist of Hartford, Middlesex, New London, Tolland and Windham counties in Connecticut. However, the majority of our facilities are located in and a substantial portion of our business is derived from Windham county, which has the lowest median household income and the highest unemployment rate among the counties in Connecticut. To address this, in recent years, we have expanded our presence throughout our market area and may pursue further expansion through the establishment of additional branches in Hartford, Middlesex, New London and Tolland counties, each of which has more favorable economic conditions than Windham county. The profitability of our expansion policy will depend on whether the income that we generate from the additional branches we establish or purchase will offset the increased expenses resulting from operating new branches. We expect that it may take a period of time before new branches can become profitable, especially in areas in which we do not have an established presence. During this period, operating new branches may negatively impact our operating results.

### **Fluctuations in interest rates could reduce our profitability and affect the value of our assets.**

Like other financial institutions, we are subject to interest rate risk. Our primary source of income is net interest income, which is the difference between interest earned on loans and investments and the interest paid on deposits and borrowings. Changes in the general level of interest rates can affect our net interest income by affecting the difference between the weighted-average yield earned on our interest-earning assets and the weighted-average rate paid on our interest-bearing liabilities, or interest rate spread and the average life of our interest-earning assets and interest-bearing liabilities. Changes in interest rates also can affect: (1) the ability to originate loans; (2) the value of our interest-earning assets and our ability to realize gains from the sale of such assets; (3) the ability to obtain and retain deposits in competition with other available investment alternatives; and (4) the ability of our borrowers to repay adjustable or variable rate loans. Interest rates are highly sensitive to many factors, including government monetary policies, domestic and international economic and political conditions and other factors beyond our control. Although we believe that the estimated maturities of our interest-earning assets currently are well balanced in relation to the estimated maturities of our interest-bearing liabilities, our profitability could be adversely affected during any period of changes in interest rates.

### **Our cost of operations is high relative to our assets. Our failure to maintain or reduce our operating expenses could hurt our profits.**

Our noninterest expenses totaled \$16.3 million and \$31.4 million for the six months ended June 30, 2010 and the year ended December 31, 2009, respectively. We continue to analyze our expenses and achieve efficiencies where available, but we have experienced increased costs, a substantial portion of which are associated with the new full-service branches that we have opened or acquired since 2000. Although we have generated increases in both net interest income and noninterest income, our efficiency ratio remains high as a result of the higher operating expenses. Our efficiency ratio totaled 89.77% and 90.64% for the six months ended June 30, 2010 and the year ended December 31, 2009. Failure to control or maintain our expenses could hurt future profits.

### **Strong competition within our market area could hurt our profits and slow growth.**

We face intense competition both in making loans and attracting deposits. This competition has made it more difficult for us to make new loans and at times has forced us to offer higher deposit rates. Price competition for loans and deposits might result in our earning less on our loans and paying more on our deposits, which reduces net interest income. As of June 30, 2009, we held approximately 1.64% of the deposits in Hartford, Middlesex, New London, Tolland and Windham counties in Connecticut, which represented the 13<sup>th</sup> market share of deposits out of 36 financial institutions in these counties. Some of the institutions with which we compete have substantially greater resources and lending limits than we have and may offer services that we do not provide. We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Our profitability depends upon our continued ability to compete successfully in our market area.

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**We are subject to liquidity risks.**

Market conditions could negatively affect the level or cost of liquidity available to us, which would affect our ongoing ability to accommodate liability maturities and deposit withdrawals, meet contractual obligations and fund asset growth and new business transactions at a reasonable cost, in a timely manner, and without adverse consequences. Core deposits and Federal Home Loan Bank advances are our primary source of funding. A significant decrease in our core deposits, an inability to renew Federal Home Loan Bank advances, an inability to obtain alternative funding to core deposits or Federal Home Loan Bank advances, or a substantial, unexpected, or prolonged change in the level or cost of liquidity could have a negative effect on our business and financial condition.

**Increased and/or special Federal Deposit Insurance Corporation assessments will hurt our earnings.**

The recent economic recession has caused a high level of bank failures, which has dramatically increased Federal Deposit Insurance Corporation resolution costs and led to a significant reduction in the balance of the Deposit Insurance Fund. As a result, the Federal Deposit Insurance Corporation has significantly increased the initial base assessment rates paid by financial institutions for deposit insurance. Increases in the base assessment rate have increased our deposit insurance costs and negatively impacted our earnings. In addition, in May 2009, the Federal Deposit Insurance Corporation imposed a special assessment on all insured institutions. Our special assessment, which was reflected in earnings for the quarter ended June 30, 2009, was \$393,000. In lieu of imposing an additional special assessment, the Federal Deposit Insurance Corporation required all institutions to prepay their assessments for all of 2010, 2011 and 2012, which for us totaled \$3.5 million. Additional increases in the base assessment rate or additional special assessments would negatively impact our earnings.

**If the goodwill recorded in connection with our acquisitions becomes impaired, it could have a negative impact on our profitability.**

Applicable accounting standards require that the acquisition method of accounting be used for all business combinations. Under this method, if the purchase price of an acquired entity exceeds the fair value of its net assets, the excess is carried on the acquirer's balance sheet as goodwill. At June 30, 2010, we had \$4.1 million of goodwill on our balance sheet. Companies evaluate goodwill for impairment at least annually or more frequently if events or changes in circumstances warrant such evaluation. Our annual review of our goodwill occurs in November. Write-downs of the amount of impairment, if necessary, are to be charged to the results of operations in the period in which the impairment occurs. For the six months ended June 30, 2010, we recorded no goodwill impairment. For the year ended December 31, 2009, we recorded goodwill impairment of \$57,000 related to our New London branch acquisition. Future evaluations of goodwill may result in findings of impairment and related write-downs, which could have a material adverse effect on our financial condition and results of operations.

**Turmoil in the financial markets could have an adverse effect on our financial position or results of operations.**

Beginning in 2008, United States and global financial markets experienced severe disruption and volatility, and general economic conditions have declined significantly. Adverse developments in credit quality, asset values and revenue opportunities throughout the financial services industry, as well as general uncertainty regarding the economic, industry and regulatory environment, have had a negative impact on the industry. The United States and the governments of other countries have taken steps to try to stabilize the financial system, including investing in financial institutions, and have implemented programs intended to improve general economic conditions. The U.S. Department of the Treasury created the Capital Purchase Program under the Troubled Asset Relief Program, pursuant to which the Treasury Department provided additional capital to participating financial institutions through the purchase of preferred stock or other securities. Other measures include homeowner relief that encourages loan restructuring and modification; the establishment of significant liquidity and credit facilities for financial institutions and investment banks; the lowering of the federal funds rate; regulatory action against short selling practices; a temporary guaranty program for money market funds; the establishment of a commercial paper funding facility to provide back-stop liquidity to commercial paper issuers; and coordinated international efforts to address illiquidity and other weaknesses in the banking sector. Notwithstanding the actions of the United States and other governments, there can be no assurances that these efforts will be successful in restoring industry, economic or market conditions to their previous levels and that they will not result in adverse unintended consequences. Factors that could continue to pressure financial services companies, including SI Financial Group, are numerous and include (1) worsening credit quality, leading among other things to increases in loan losses, (2) continued or worsening disruption and volatility in financial markets, leading among other things to continuing reductions in asset values, (3) capital and liquidity concerns



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regarding financial institutions generally, (4) limitations resulting from or imposed in connection with governmental actions intended to stabilize or provide additional regulation of the financial system, or (5) recessionary conditions that are deeper or last longer than currently anticipated.

**We own stock in the Federal Home Loan Bank of Boston, which, as a result of its financial difficulties, has suspended its dividend and will negatively affect our net interest income.**

As a member bank, Savings Institute is required to purchase capital stock in the Federal Home Loan Bank in an amount commensurate with the amount of Savings Institute's advances and unused borrowing capacity. This stock is carried at cost and was \$8.4 million at June 30, 2010. In response to unprecedented market conditions and potential future losses, the Federal Home Loan Bank has implemented an initiative to preserve capital by the adoption of a revised retained earnings target, declaration of a moratorium on excess stock repurchases and the suspension of cash dividend payments. If the Federal Home Loan Bank is unable to meet minimum regulatory capital requirements or is required to aid the remaining Federal Home Loan Banks, our holding of Federal Home Loan Bank stock may be determined to be other-than-temporarily impaired and may require a charge to earnings. Additionally, for the six months ended June 30, 2010 and the year ended December 31, 2009, SI Financial Group did not recognize any dividend income from its investment in Federal Home Loan Bank stock. The failure to recognize dividend income from the Federal Home Loan Bank will negatively impact our net interest income.

**We are subject to security and operational risks relating to use of our technology that could damage our reputation and business.**

Security breaches in our internet banking activities could expose us to possible liability and damage our reputation. Any compromise of our security also could deter customers from using our internet banking services that involve the transmission of confidential information. We rely on standard internet security systems to provide the security and authentication necessary to effect secure transmission of data. These precautions may not protect our systems from compromises or breaches of our security measures that could result in damage to our reputation and business. Additionally, we outsource our data processing to a third party. If our third party provider encounters difficulties or if we have difficulty in communicating with such third party, it will significantly affect our ability to adequately process and account for customer transactions, which would significantly affect our business operations.

### **Risks Related to the Offering**

**Our share price may fluctuate, which may make it difficult for you to sell your common stock when you want or at prices you find attractive.**

The market price of our common stock could be subject to significant fluctuations due to changes in sentiment in the market regarding our operations or business prospects. Factors that may affect market sentiment include:

operating results that vary from the expectations of our management or of securities analysts and investors;

developments in our business or in the financial services sector generally;

regulatory or legislative changes affecting our industry generally or our business and operations;

operating and securities price performance of companies that investors consider to be comparable to us;

changes in estimates or recommendations by securities analysts;

announcements of strategic developments, acquisitions, dispositions, financings and other material events by us or our competitors;  
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changes in financial markets and national and local economies and general market conditions, such as interest rates and stock, commodity, credit or asset valuations or volatility.

Beginning in 2008 and through the present, the business environment for financial services firms has been extremely challenging. During this period, many publicly traded financial services companies have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance or prospects of such companies. We may experience market fluctuations that are not directly related to our operating performance but are influenced by the market's perception of the state of the financial services industry in general and, in particular, the market's assessment of general credit quality conditions, including default and foreclosure rates in the industry.

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While the U.S. and other governments continue efforts to restore confidence in financial markets and promote economic growth, we cannot assure you that further market and economic turmoil will not occur in the near- or long-term, negatively affecting our business, financial condition and results of operations, as well as the price, trading volume and volatility of our common stock.

### **Additional expenses following the offering from new equity benefit plans will adversely affect our profitability.**

Following the offering, we will recognize additional annual employee compensation expenses stemming from options and shares granted to employees, directors and executives under new benefit plans. Stock options and restricted stock may be granted under a new equity incentive plan adopted following the offering, if approved by shareholders. These additional expenses will adversely affect our profitability. We cannot determine the actual amount of these new stock-related compensation expenses at this time because applicable accounting practices generally require that these expenses be based on the fair market value of the options or shares of common stock at the date of the grant; however, they may be material. We recognize expenses for our employee stock ownership plan when shares are committed to be released to participants accounts and will recognize expenses for restricted stock awards and stock options over the vesting period of awards made to recipients. Pro forma after-tax expenses related to these plans for the six months ended June 30, 2010 and for the year ended December 31, 2009 were \$335,000 and \$668,000, respectively, at the maximum of the offering range, as set forth in the pro forma financial information under *Pro Forma Data* assuming the \$8.00 per share purchase price as fair market value. Actual expenses, however, may be higher or lower, depending on the price of our common stock, the number of shares awarded under the plans and the timing of the implementation of the plans. For further discussion of these plans, see *Our Management Benefit Plans*.

### **Our stock price may decline when trading commences.**

If you purchase shares in the offering, you might not be able to sell them later at or above the \$8.00 purchase price. After the shares of our common stock begin trading, the trading price of the common stock will be determined by the marketplace, and will be influenced by many factors outside of our control, including prevailing interest rates, investor perceptions, securities analyst research reports and general industry, geopolitical and economic conditions.

### **There may be a limited market for our common stock, which may adversely affect our stock price.**

Although our common stock is listed on the Nasdaq Global Market and will continue to be listed following the conversion and offering, the shares might not be actively traded. If an active trading market for our common stock does not develop, you may not be able to sell all of your shares of common stock on short notice, and the sale of a large number of shares at one time could temporarily depress the market price. There also may be a wide spread between the bid and ask price for our common stock. When there is a wide spread between the bid and ask price, the price at which you may be able to sell our common stock may be significantly lower than the price at which you could buy it at that time.

### **Our return on equity will initially be low compared to other publicly traded financial institutions. A low return on equity may negatively impact the trading price of our common stock.**

Net income divided by average equity, known as return on equity, is a ratio used by many investors to compare the performance of a financial institution with its peers. For the year ended December 31, 2009, our return on equity was 0.58%. Although we expect that our net income will increase following the offering, we expect that our return on equity will remain low as a result of the additional capital that we will raise in the offering. For example, our pro forma return on equity for the year ended December 31, 2009 is 0.54%, assuming the sale of shares at the maximum of the offering range. In comparison, the peer group used by RP Financial in its appraisal had an average return on equity of 6.19% for the twelve months ended June 30, 2010. Over time, we intend to use the net proceeds from the offering to increase earnings per share and book value per share, without assuming undue risk, with the goal of achieving a return on equity that is competitive with other similarly situated publicly held companies. This goal could take a number of years to achieve, and we might not attain it. Consequently, you should not expect a competitive return on equity in the near future. Failure to achieve a competitive return on equity might make an investment in our common stock unattractive to some investors and might cause our common stock to trade at lower prices than comparable companies with higher returns on equity. See *Pro Forma Data* for an illustration of the financial impact of the offering.

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### **We have broad discretion in the manner in which we utilize the proceeds of the offering. Our failure to effectively utilize such proceeds would reduce our profitability.**

We intend to contribute approximately 60% of the net proceeds of the offering to Savings Institute and to use approximately 6.4% of the net proceeds to fund the loan to the employee stock ownership plan. We may use the proceeds retained by the holding company to, among other things, invest in securities, pay cash dividends or repurchase shares of common stock, subject to regulatory restrictions. Savings Institute may use the portion of the proceeds that it receives to fund new loans, repay outstanding borrowings, invest in securities and expand its business activities. We may also use the proceeds of the offering to open new branches, diversify our business and acquire other companies, although we have no specific plans to do so at this time. We have not allocated specific amounts of proceeds for any of these purposes, and we will have significant flexibility in determining how much of the net proceeds we apply to different uses and the timing of such applications. Our failure to utilize these funds effectively would reduce our profitability.

### **Issuance of shares for benefit programs may dilute your ownership interest.**

We intend to adopt a new equity incentive plan following the offering, subject to shareholder approval. We may fund the equity incentive plan through the purchase of common stock in the open market (subject to regulatory restrictions) or by issuing new shares of common stock. If we fund the awards under the equity incentive plan with new shares of common stock, your ownership interest would be diluted by approximately 1.9%, assuming we award all of the shares and options available under the plan. We currently have outstanding options and shares available for future stock options under our 2005 Equity Incentive Plan. If we fund the awards under our existing plan with new shares of stock, your ownership interest would be diluted by approximately 4.6%, assuming we award all of the shares and options available under the plan. See *Pro Forma Data* and *Our Management Benefit Plans*.

### **The contribution to the charitable foundation will adversely affect net income.**

Subject to member, shareholder and regulatory approvals, we intend to contribute \$500,000 in cash to SI Financial Group Foundation in connection with the conversion. The contribution will have an adverse effect on our net income for the quarter and year in which we make the contribution to the charitable foundation. The after-tax expense of the contribution will reduce net income by approximately \$335,000. We had net income of \$1.2 million for the six months ended June 30, 2010 and \$435,000 for the year ended December 31, 2009.

### **The articles of incorporation and bylaws of new SI Financial Group and certain laws and regulations may prevent or make more difficult certain transactions, including a sale or merger of new SI Financial Group.**

Provisions of the articles of incorporation and bylaws of new SI Financial Group, state corporate law and federal banking regulations may make it more difficult for companies or persons to acquire control of new SI Financial Group. As a result, our shareholders may not have the opportunity to participate in such a transaction and the trading price of our common stock may not rise to the level of other institutions that are more vulnerable to hostile takeovers. The factors that may discourage takeover attempts or make them more difficult include:

*Articles of incorporation and bylaws.* Provisions of the articles of incorporation and bylaws of new SI Financial Group may make it more difficult and expensive to pursue a takeover attempt that the Board of Directors opposes. Some of these provisions currently exist in the charter and bylaws of SI Financial Group. These provisions also make more difficult the removal of current directors or management, or the election of new directors. These provisions include:

*A limitation on voting rights.* Our articles of incorporation provide that in no event will any record owner of any outstanding common stock which is beneficially owned, directly or indirectly, by a person who beneficially owns in excess of 10% of the outstanding shares of common stock, be entitled, or permitted to any vote in respect of the shares held in excess of the limit.

*A classified board.* Our board of directors is divided into three classes as nearly as equal in number as possible. The shareholders elect one class of directors each year for a term of three years. The classified board provision is designed to afford anti-takeover protection by making it more difficult and time consuming for a shareholder group to fully use its voting

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power to gain control of the board of directors at a single annual meeting of shareholders without the consent of the incumbent board of directors of new SI Financial Group.

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*Advance notice provisions for shareholder nominations and proposals.* Our bylaws establish an advance notice procedure for shareholders to nominate directors or bring other business before an annual meeting of shareholders. A person may not be nominated for election as a director unless that person is nominated by or at the direction of our board of directors or by a shareholder who has given appropriate notice to us before the meeting. Similarly, a shareholder may not bring business before an annual meeting unless the shareholder has given us appropriate notice of the shareholder's intention to bring that business before the meeting. Advance notice of nominations or proposed business by shareholders gives our board of directors time to consider the qualifications of the proposed nominees, the merits of the proposals and, to the extent deemed necessary or desirable by our board of directors, to inform shareholders and make recommendations about those matters.

*Director qualifications.* Our bylaws provide for director qualifications, including age and integrity requirements, which may prevent shareholders from nominating themselves or persons of their choosing for election to the board of directors.

*Limitations on calling special meetings of shareholders.* Our shareholders must act only through an annual or special meeting. Special meetings of shareholders may only be called by the Chairman, the President, by two-thirds of the total number of directors or by the Secretary upon the written request of the holders of a majority of all the shares entitled to vote at a meeting. The limitations on the calling of special meetings of shareholders may have the effect of delaying consideration of a shareholder proposal until the next annual meeting.

*Elimination of cumulative voting.* Our articles of incorporation provide that no shares will be entitled to cumulative voting. The elimination of cumulative voting may afford anti-takeover protection by preventing a shareholder from electing nominees opposed by the board of directors of new SI Financial Group.

*Limitations on filling of board vacancies and removal of directors.* Our bylaws provide that any vacancy occurring in the board of directors, including a vacancy created by an increase in the number of directors, may be filled only by a vote of a majority of the directors then in office. A person elected to fill a vacancy on the board of directors will serve for the remainder of the full term of the class of directors in which the vacancy occurred and until his or her successor shall have been elected and qualified. Our bylaws provide that a director may be removed from the board of directors before the expiration of his or her term only for cause and only upon the vote of a majority of the shares entitled to vote in the election of directors. These provisions make it more difficult for shareholders to remove directors and replace them with their own nominees.

*Supermajority voting requirement for the amendment of our articles of incorporation.* Our articles of incorporation provide that certain amendments to our articles of incorporation relating to a change in control of us must be approved by at least 75% of the outstanding shares entitled to vote.

*Supermajority voting requirement for the amendment of our bylaws.* Our articles of incorporation provide that our bylaws may not be adopted, repealed, altered, amended or rescinded by shareholders except by the affirmative vote of the holders of at least 75% of the voting stock.

*Authorized but unissued shares of capital stock.* Following the offering, we will have authorized but unissued shares of common and preferred stock. Our articles of incorporation authorize the board of directors to establish one or more series of preferred stock and, for any series of preferred stock, to determine the terms and rights of the series, including voting rights, dividend rights, conversion and redemption rates, and liquidation preferences. Such shares of common and preferred stock could be issued by the board of directors to render more difficult or to discourage an attempt to obtain control of us by means of a merger, tender offer, proxy contest or otherwise.

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*Maryland anti-takeover statute.* Under Maryland law, any person who acquires more than 10% of a Maryland corporation without prior approval of its Board of Directors is prohibited from engaging in any type of business combination with the corporation for a five-year period. Any business combination after the five-year period would be subject to supermajority shareholder approval or minimum price requirements.

*Office of Thrift Supervision regulations.* Office of Thrift Supervision regulations prohibit, for three years following the completion of a mutual-to-stock conversion, including a second-step conversion, the offer to acquire or the acquisition of more than 10% of any class of equity security of a converted institution without the prior approval of the Office of Thrift Supervision. See *Restrictions on Acquisition of New SI Financial Group*.

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**A Warning About Forward-Looking Statements**

This prospectus contains forward-looking statements, which can be identified by the use of words such as believes, expects, anticipates, estimates or similar expressions. Forward-looking statements include, but are not limited to:

statements of our goals, intentions and expectations;

statements regarding our business plans, prospects, growth and operating strategies;

statements regarding the quality of our loan and investment portfolios; and

estimates of our risks and future costs and benefits.

These forward-looking statements are subject to significant risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements due to, among others, the following factors:

general economic conditions, either nationally or in our market area, that are worse than expected;

changes in the interest rate environment that reduce our interest margins or reduce the fair value of financial instruments;

increased competitive pressures among financial services companies;

changes in consumer spending, borrowing and savings habits;

legislative or regulatory changes that adversely affect our business;

adverse changes in the securities and credit markets; and

changes in accounting policies and practices, as may be adopted by bank regulatory agencies or the Financial Accounting Standards Board.

Any of the forward-looking statements that we make in this prospectus and in other public statements we make may later prove incorrect because of inaccurate assumptions, the factors illustrated above or other factors that we cannot foresee. Consequently, no forward-looking statement can be guaranteed.

Further information on other factors that could affect us are included in the section captioned *Risk Factors*.



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The summary financial information presented below is derived in part from our consolidated financial statements. The following is only a summary and you should read it in conjunction with the consolidated financial statements and notes beginning on page F-1. The information at December 31, 2009 and 2008 and for the years ended December 31, 2009, 2008 and 2007 is derived in part from the audited consolidated financial statements that appear in this prospectus. The information presented below does not include the financial condition, results of operations or other data of SI Bancorp, MHC. The information at June 30, 2010 and 2009 and for the six months ended June 30, 2010 and 2009 was not audited, but in the opinion of management, reflects all adjustments necessary for a fair presentation. All of these adjustments are normal and recurring. The results of operations for the six months ended June 30, 2010 are not necessarily indicative of results of operations that may be expected for the year ended December 31, 2010.

	At or For the Six Months Ended June 30,		At or For the Years Ended December 31,				
	2010	2009	2009	2008	2007	2006	2005
(Dollars in thousands, except per share data)							
<b>Selected Financial Condition Data:</b>							
Total assets	\$ 889,435	\$ 872,705	\$ 872,354	\$ 853,122	\$ 790,198	\$ 757,037	\$ 691,868
Cash and cash equivalents	46,093	27,969	24,204	23,203	20,669	26,108	25,946
Securities available for sale	182,210	165,814	183,562	162,699	141,914	119,508	120,019
Loans receivable, net	606,514	627,315	607,692	617,263	587,538	574,111	513,775
Deposits (1)	676,781	652,752	662,378	624,276	551,772	541,922	512,282
Federal Home Loan Bank advances	114,169	128,600	116,100	139,600	141,619	111,956	87,929
Junior subordinated debt owed to unconsolidated trust	8,248	8,248	8,248	8,248	8,248	15,465	7,217
Total shareholders equity	81,160	75,473	77,462	72,927	82,087	82,386	80,043
<b>Selected Operating Data:</b>							
Interest and dividend income	\$ 20,267	\$ 22,204	\$ 43,385	\$ 46,499	\$ 43,347	\$ 40,777	\$ 33,905
Interest expense	7,309	9,882	18,861	22,459	21,783	18,261	12,131
Net interest income	12,958	12,322	24,524	24,040	21,564	22,516	21,774
Provision for loan losses	422	1,930	2,830	1,369	1,062	881	410
Net interest income after provision for loan losses	12,536	10,392	21,694	22,671	20,502	21,635	21,364
Noninterest income	5,550	4,815	10,181	3,136	9,378	8,258	6,310
Noninterest expense	16,302	16,039	31,405	30,040	27,928	25,959	22,588
Income (loss) before income tax provision (benefit)	1,784	(832)	470	(4,233)	1,952	3,934	5,086
Income tax provision (benefit)	578	(269)	35	(1,360)	540	1,156	1,689
Net income (loss)	\$ 1,206	\$ (563)	\$ 435	\$ (2,873)	\$ 1,412	\$ 2,778	\$ 3,397
Basic income (loss) per share	\$ 0.11	\$ (0.05)	\$ 0.04	\$ (0.25)	\$ 0.12	\$ 0.24	\$ 0.28
Diluted income (loss) per share	\$ 0.11	\$ (0.05)	\$ 0.04	\$ (0.25)	\$ 0.12	\$ 0.23	\$ 0.28

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	At or For the Six Months Ended June 30,		At or For the Years Ended December 31,				
	2010	2009	2009	2008	2007	2006	2005
<b>Performance Ratios:</b>							
Return (loss) on average assets	0.28%	(0.13)%	0.05%	(0.34)%	0.18%	0.38%	0.52%
Return (loss) on average equity	3.04	(1.54)	0.58	(3.71)	1.71	3.44	4.19
Interest rate spread (2)	2.91	2.74	2.67	2.61	2.47	2.81	3.19
Net interest margin (3)	3.15	3.04	2.98	3.00	2.98	3.26	3.56
Noninterest expenses to average assets	3.73	3.75	3.61	3.55	3.66	3.56	3.47
Dividend payout ratio (4)	11.19		41.61	(25.63)	57.61	27.98	13.98
Efficiency ratio (5)	89.77	94.16	90.64	88.72	90.57	83.58	80.60
Average interest-earning assets to average interest-bearing liabilities	113.52	112.77	113.28	113.83	117.02	117.07	118.38
Average equity to average assets	9.09	8.55	8.68	9.16	10.88	11.07	12.45
<b>Capital Ratios:</b>							
Total shareholders' equity to total assets	9.12	8.65	8.88	8.55	10.39	10.88	11.57
Total capital ratio	14.84	14.34	14.30	13.32	15.21	15.84	16.79
Tier 1 risk-based capital ratio	13.91	13.37	13.36	12.33	14.37	14.86	15.87
Tier 1 capital ratio	8.08	8.01	8.02	7.59	8.75	8.97	9.31
<b>Asset Quality Ratios:</b>							
Nonperforming assets to total assets	0.68	1.04	0.77	1.09	1.08	0.18	0.08
Nonperforming loans to total loans	0.70	1.36	0.49	1.50	1.29	0.24	0.05
Allowance for loan losses as a percent of total loans	0.80	0.79	0.80	0.97	0.89	0.76	0.71
Allowance for loan losses as a percent of nonperforming loans	114.32	57.92	162.65	64.83	68.72	313.58	1,529.58
Net (charge-offs) recoveries to average outstanding loans during the year	(0.14)	(0.96)	(0.64)	(0.09)	(0.03)	(0.03)	0.01
<b>Other Data:</b>							
Number of full-service offices	21	21	21	21	20	19	17
Full-time equivalent employees	256	264	263	263	241	241	227

- (1) Includes mortgagors' and investors' escrow accounts.
- (2) Represents the difference between the weighted-average yield on average interest-earning assets and the weighted-average cost of interest-bearing liabilities.
- (3) Represents net interest income as a percent of average interest-earning assets.
- (4) Dividends paid divided by basic net income.
- (5) Represents noninterest expense divided by the sum of net interest income and noninterest income, excluding gains or losses on the sale of securities and other-than-temporary impairment on securities.

**Table of Contents****Recent Developments**

The following tables contain certain information concerning the financial position and results of operations of SI Financial Group. The information at September 30, 2010 and for the three and nine month periods ended September 30, 2010 and 2009 was not audited, but in the opinion of management, reflects all adjustments necessary for a fair presentation. All of these adjustments are normal and recurring. The information at December 31, 2009 is derived in part from the audited consolidated financial statements that appear in this prospectus. The results of operations for the three and nine months ended September 30, 2010 are not necessarily indicative of the results of operations that may be expected for the entire year.

(Dollars in thousands, except per share amounts)	At September 30, 2010 (Unaudited)	At December 31, 2009
<b>Financial Condition Data:</b>		
Total assets	\$ 890,318	\$ 872,354
Cash and cash equivalents	51,858	24,204
Securities	182,162	191,950
Loans receivable, net	604,609	607,692
Deposits (1)	675,994	662,378
Federal Home Loan Bank advances	114,169	116,100
Junior subordinated debt owned to unconsolidated trust	8,248	8,248
Total stockholders' equity	81,905	77,462

	Three Months Ended September 30, 2010      2009 (Unaudited)		Nine Months Ended September 30, 2010      2009 (Unaudited)	
<b>Operating Data:</b>				
Interest and dividend income	\$ 9,876	\$ 10,723	\$ 30,143	\$ 32,927
Interest expense	3,357	4,681	10,666	14,563
Net interest income	6,519	6,042	19,477	18,364
Provision for loan losses	270	700	692	2,630
Net interest income after provision for loan losses	6,249	5,342	18,785	15,734
Noninterest income	2,525	2,684	8,075	7,499
Noninterest expenses	7,674	7,607	23,976	23,646
Income (loss) before income tax expense (benefit)	1,100	419	2,884	(413)
Income tax expense (benefit)	262	41	840	(228)
Net income (loss)	\$ 838	\$ 378	\$ 2,044	\$ (185)

<b>Per Share Data:</b>				
Earnings (loss) per share, basic	\$ 0.07	\$ 0.03	\$ 0.18	\$ (0.02)
Earnings (loss) per share, diluted	\$ 0.07	\$ 0.03	\$ 0.18	\$ (0.02)
Dividends	\$ 0.03	\$	\$ 0.06	\$ 0.04

Three Months Ended September 30, 2010      2009		Nine Months Ended September 30, 2010      2009	
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<b>Performance Ratios (2):</b>				
Return (loss) on average assets	0.37%	0.17%	0.31%	(0.03)%
Return (loss) on average equity	4.05	1.97	3.38	(0.33)
Interest rate spread (3)	2.85	2.61	2.89	2.69
Net interest margin (4)	3.08	2.91	3.13	3.00
Noninterest expense to average assets	3.42	3.45	3.62	3.65
Dividend payout ratio (5)	16.11		13.21	
Efficiency ratio (6)	85.20	85.93	88.26	91.35
Average interest-earning assets to average interest-bearing liabilities	114.43	113.38	113.80	112.98
Average equity to average assets	9.20	8.72	9.12	8.61

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	At or For Nine Months Ended September 30,	
	2010	2009
<b>Capital Ratios:</b>		
Total shareholders' equity to total assets	9.20%	8.87%
Total capital ratio	14.96	13.59
Tier 1 risk-based capital ratio	13.99	12.67
Tier 1 capital ratio	8.08	8.02
<b>Asset Quality Ratios:</b>		
Nonperforming assets as percent of total assets	0.73	0.89
Nonperforming loans as a percent of total loans	0.68	1.09
Allowance for loan losses as a percent of total loans	0.81	0.88
Allowance for loan losses as a percent of nonperforming loans	118.73	80.80
Net charge-offs to average outstanding loans during the period	(0.13)	(0.69)

- (1) Includes mortgagors' and investors' escrow accounts.
- (2) Performance ratios are annualized.
- (3) Represents the difference between the weighted average yield on average interest-earning assets and the weighted average cost of interest-bearing liabilities.
- (4) Represents net interest income as a percentage of average interest-earning assets.
- (5) Dividends paid by basic net income.
- (6) Represents noninterest expenses divided by the sum of net interest income and noninterest income, excluding gains or losses on the sale of securities and other-than-temporary impairment on securities.

**Comparison of Financial Condition at September 30, 2010 and December 31, 2009**

Total assets increased \$18.0 million, or 2.1%, to \$890.3 million at September 30, 2010 from \$872.4 million at December 31, 2009, principally due to increases of \$27.7 million in cash and cash equivalents and \$6.7 million in loans held for sale, offset by decreases of \$9.8 million in securities, \$3.1 million in net loans receivable, \$1.4 million in other real estate owned, \$806,000 in net deferred tax assets, \$782,000 in premises and equipment and \$734,000 in prepaid FDIC deposit insurance assessment. Cash and cash equivalents increased as a result of an increase in deposits and security sales. The sale of mortgage-backed securities and U.S. government and agency obligations contributed to the decline in securities. A decline in loan originations and an increase in residential mortgage loan sales contributed to the decrease in net loans receivable. Total loan originations decreased \$42.8 million, or 34.1%, during 2010 versus the comparable period in 2009 due to reduced demand and more stringent underwriting standards as a result of adverse economic conditions. Lower loan originations were offset by the purchase of \$29.3 million in United States Department of Agriculture and Small Business Administration loans that are fully guaranteed by the U.S. government. During the first nine months of 2010, SI Financial Group acquired into other real estate owned ownership of one commercial and six residential properties with an aggregate net carrying value of \$1.5 million and sold from other real estate owned six residential and two commercial properties at a net loss aggregating \$48,000. The increase in net unrealized gains on available for sale securities resulted in a decrease in net deferred tax assets. Accumulated depreciation and amortization expense contributed to the decrease in premises and equipment at September 30, 2010.

Total liabilities were \$808.4 million at September 30, 2010 compared to \$794.9 million at December 31, 2009. Deposits increased \$15.5 million, or 2.4%, which included increases in NOW and money market accounts of \$26.3 million and savings accounts of \$1.5 million, offset by decreases in certificates of deposit of \$11.6 million and noninterest-bearing deposits of \$699,000. Deposit growth was attributable to marketing and promotional initiatives and competitively-priced deposit products. Borrowings decreased \$1.9 million from \$124.3 million at December 31, 2009 to \$122.4 million at September 30, 2010, resulting from net repayments of Federal Home Loan Bank advances.

Total stockholders' equity increased \$4.4 million from \$77.5 million at December 31, 2009 to \$81.9 million at September 30, 2010. The increase in stockholders' equity was attributable to an increase in net unrealized gains on securities aggregating \$2.6 million (net of taxes) and earnings of \$2.0 million, offset by dividends of \$250,000.

**Comparison of Operating Results for the Three and Nine Months Ended September 30, 2010 and September 30, 2009**

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**General.** SI Financial Group reported net income of \$838,000 for the three months ended September 30, 2010, an increase of \$460,000, compared to net income of \$378,000 for the three months ended September 30, 2009. SI Financial

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Group reported net income of \$2.0 million for the nine months ended September 30, 2010, an increase of \$2.2 million, compared to a net loss of \$185,000 for the nine months ended September 30, 2009. The increase in net income was due to an increase in net interest income, a decrease in the provision for loan losses and for the nine-month period, an increase in noninterest income, offset by increases in the provision for income taxes and noninterest expenses.

**Interest and Dividend Income.** For the three months ended September 30, 2010, interest and dividend income decreased \$847,000, or 7.9%, to \$9.9 million due to lower yields earned on interest-earning assets and a decrease in the average balance of loans, offset by an increase in the average balance of securities and other interest-earning assets. The yield on interest-earning assets decreased 50 basis points to 4.66%. SI Financial Group experienced declines in the average balance of loans of \$19.4 million and the yield on loans of 15 basis points. The average balance of securities rose \$13.3 million, offset a decrease in the yield of 106 basis points. For the nine months ended September 30, 2010, interest and dividend income decreased \$2.8 million, or 8.5%, to \$30.1 million due to a lower yield earned on interest-earning assets and a decrease in the average balance of loans, offset by an increase in the average balance of securities and other interest-earning assets. The yield on interest-earning assets decreased 53 basis points to 4.84%, with the yield on securities contributing the largest decrease of 122 basis points to 3.41%. SI Financial Group experienced declines in the average balance of loans of \$19.0 million and the yield on loans of 19 basis points. The decrease in yields were due to lower market interest rates.

**Interest Expense.** For the three months ended September 30, 2010, interest expense decreased \$1.3 million due to lower rates paid on deposits and borrowings and a \$13.0 million decrease in the average balance of Federal Home Loan Bank advances, offset by an increase in the average balance of interest-bearing deposits of \$19.6 million. Rates paid on average deposits decreased 74 basis points from 2.21% to 1.47%. The rates paid on Federal Home Loan Bank advances and subordinated debt decreased 52 basis points and 14 basis points, respectively. Interest expense decreased \$3.9 million for the nine months ended September 30, 2010 versus the comparable period of 2009, resulting from decreases in the rates paid on deposits and borrowings and a \$19.4 million decrease in the average balance of Federal Home Loan Bank advances, offset by an increase in the average balance of interest-bearing deposits of \$25.9 million. Rates paid on average deposits decreased 71 basis points from 2.33% to 1.62%. The rates paid on Federal Home Loan Bank advances and subordinated debt decreased 56 basis points and 86 basis points, respectively. Contributing to the higher average deposits was an increase in predominately NOW and money market accounts of \$36.1 million, offset by a decrease of \$12.1 million in certificates of deposit.

**Provision for Loan Losses.** The provision for loan losses decreased \$430,000 and \$1.9 million for the three and nine months ended September 30, 2010, respectively, compared to the same periods in the prior year. The lower provision in 2010 resulted from declines in nonperforming loans and net loan charge-offs, predominately in commercial real estate loans. At September 30, 2010, nonperforming loans totaled \$4.2 million, compared to \$6.7 million at September 30, 2009. Specific reserves relating to nonperforming loans decreased to \$449,000 at September 30, 2010, compared to \$721,000 at September 30, 2009. Net loan charge-offs were \$152,000 and \$587,000 for the three and nine months ended September 30, 2010, respectively, compared to \$272,000 and \$3.2 million for the three and nine months ended September 30, 2009, respectively. Higher loan charge-offs for the nine months ended September 30, 2009 primarily related to two commercial construction relationships aggregating \$2.3 million.

**Noninterest Income.** The following table shows the components of noninterest income and the dollar and percentage changes for the periods presented.

(Dollars in thousands)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2010	2009	Dollar Change	Percent Change	2010	2009	Dollar Change	Percent Change
Service fees	\$ 1,248	\$ 1,291	\$ (43)	(3.3)%	\$ 3,825	\$ 3,739	\$ 86	2.3%
Wealth management fees	1,011	983	28	2.8	3,065	2,910	155	5.3
Increase in cash surrender value of bank-owned life insurance	73	74	(1)	(1.4)	216	220	(4)	(1.8)
Net gain (loss) on sale of securities	197	(127)	324	(255.1)	878	127	751	591.3
Net impairment losses recognized in earnings	(160)		(160)	n/a	(492)	(150)	(342)	228.0
Mortgage banking fees	221	181	40	22.1	576	519	57	11.0
Net gain (loss) on sale of equipment	(5)	(5)			(5)	99	(104)	(105.1)
Other	(60)	287	(347)	(120.9)	12	35	(23)	(65.7)
<b>Total noninterest income</b>	<b>\$ 2,525</b>	<b>\$ 2,684</b>	<b>\$ (159)</b>	<b>(5.9)%</b>	<b>\$ 8,075</b>	<b>\$ 7,499</b>	<b>\$ 576</b>	<b>7.7%</b>





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Wealth management fees rose \$28,000 and \$155,000, resulting from an increase in trust service fees for the three and nine months ended September 30, 2010, respectively, compared to the same periods in 2009. Service fees increased \$86,000 for the first nine months of 2010 primarily due to higher electronic banking usage, despite a decline of \$43,000 from the comparable quarter in 2009. SI Financial Group recorded other-than-temporary impairment charges on one non-agency mortgage-backed security totaling \$160,000 and \$492,000 for the three and nine months ended September 30, 2010, respectively, compared to \$0 and \$150,000 for the three and nine months ended September 30, 2009, respectively. Higher other noninterest income for the third quarter of 2009 reflected \$291,000 in death benefit proceeds received from a bank-owned life insurance policy. Other noninterest income for the nine months ended September 30, 2010 was offset by impairment charges of \$12,000 to reduce the carrying value in Savings Institute's small business investment company limited partnerships, compared to impairment charges of \$383,000 for the same period in 2009.

**Noninterest Expenses.** The following table shows the components of noninterest expenses and the dollar and percentage changes for the periods indicated.

(Dollars in thousands)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2010	2009	Dollar Change	Percent Change	2010	2009	Dollar Change	Percent Change
Salaries and employee benefits	\$ 3,684	\$ 3,777	\$ (93)	(2.5)%	\$ 11,895	\$ 11,979	\$ (84)	(0.7)%
Occupancy and equipment	1,433	1,376	57	4.1	4,197	4,182	15	0.4
Computer and electronic banking services	958	941	17	1.8	2,852	2,564	288	11.2
Outside professional services	210	235	(25)	(10.6)	746	704	42	6.0
Marketing and advertising	179	215	(36)	(16.7)	569	624	(55)	(8.8)
Supplies	112	119	(7)	(5.9)	377	401	(24)	(6.0)
FDIC deposit insurance and regulatory assessment	321	333	(12)	(3.6)	989	1,205	(216)	(17.9)
Other	777	611	166	27.2	2,351	1,987	364	18.3
<b>Total noninterest expenses</b>	<b>\$ 7,674</b>	<b>\$ 7,607</b>	<b>\$ 67</b>	<b>0.9%</b>	<b>\$ 23,976</b>	<b>\$ 23,646</b>	<b>\$ 330</b>	<b>1.4%</b>

Salary expense and related payroll taxes were lower for 2010 compared to 2009 due to reduced staffing. For both the three and nine months ended September 30, 2010, SI Financial Group experienced increases in costs associated with other real estate owned and in computer and electronic banking services expense as result of increased telecommunications costs and transaction activity. Noninterest expenses for 2009 reflected an FDIC-imposed industry-wide 5 basis point special assessment of \$393,000 and prepayment penalties totaling \$111,000 for the early extinguishment of Federal Home Loan Bank borrowings.

**Income Tax Provision.** For the three and nine months ended September 30, 2010, the provision for income taxes increased \$221,000 and \$1.1 million, respectively, versus the comparable period in 2009. The increase in the provision was due to higher pre-tax net income, offset by a reduction in SI Financial Group's valuation allowance of \$90,000 related to the expiration of unrealized federal charitable contribution and capital loss carry-forwards. The effective tax rate was 23.8% and 29.1% for the three and nine months ended September 30, 2010, respectively. The effective tax rate was 9.8% and 55.2% for the three and nine months ended September 30, 2009, respectively. The lower effective tax rate for the three months ended September 30, 2009 was due to lower pre-tax net income and a non-taxable gain on bank-owned life insurance proceeds.

**Table of Contents****Use of Proceeds**

The following table shows how we intend to use the net proceeds of the offering. The actual net proceeds will depend on the number of shares of common stock sold in the offering and the expenses incurred in connection with the offering. Payments for shares made through withdrawals from deposit accounts at Savings Institute will reduce Savings Institute's deposits and will not result in the receipt of new funds for investment. See *Pro Forma Data* for the assumptions used to arrive at these amounts.

(Dollars in thousands)	Minimum of Offering Range		Midpoint of Offering Range		Maximum of Offering Range		15% Above Maximum of Offering Range	
	5,578,125 Shares at \$8.00 Per Share	Percent of Net Proceeds	6,562,500 Shares at \$8.00 Per Share	Percent of Net Proceeds	7,546,875 Shares at \$8.00 Per Share	Percent of Net Proceeds	8,678,906 Shares at \$8.00 Per Share	Percent of Net Proceeds
Offering proceeds	\$ 44,625		\$ 52,500		\$ 60,375		\$ 69,431	
Less: offering expenses	(2,998)		(3,285)		(3,572)		(3,901)	
Net offering proceeds	41,627	100.0%	49,215	100.0%	56,803	100.0%	65,530	100.0%
Less:								
Proceeds contributed to Savings Institute	24,976	60.0	29,529	60.0	34,082	60.0	39,318	60.0
Proceeds used for loan to employee stock ownership plan	2,678	6.4	3,150	6.4	3,623	6.4	4,166	6.4
Proceeds contributed to SI Financial Group Foundation by SI Financial Group	500	1.2	500	1.0	500	0.9	500	0.8
Proceeds remaining for new SI Financial Group	\$ 13,473	32.4%	\$ 16,036	32.6%	\$ 18,598	32.7%	\$ 21,546	32.8%

We initially intend to invest the proceeds retained from the offering at new SI Financial Group in short-term investments, such as U.S. treasury and government agency securities, mortgage-backed securities and cash and cash equivalents. The actual amounts to be invested in different instruments will depend on the interest rate environment and new SI Financial Group's liquidity requirements. In the future, new SI Financial Group may liquidate its investments and use those funds:

to pay dividends to shareholders;

to repurchase shares of its common stock, subject to regulatory restrictions;

to finance the possible acquisition of financial institutions or other businesses that are related to banking as opportunities arise, primarily in or adjacent to our existing market area; and

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for general corporate purposes, including contributing additional capital to Savings Institute.

Under current Office of Thrift Supervision regulations, we may not repurchase shares of our common stock during the first year following completion of the conversion and offering, except to fund equity benefit plans other than stock options or, with prior regulatory approval, when extraordinary circumstances exist. For a discussion of our dividend policy and regulatory matters relating to the payment of dividends, see *Our Dividend Policy*.

Savings Institute initially intends to invest the proceeds it receives from the offering, which is shown in the table above as the amount contributed to Savings Institute, in short-term investments. Over time, Savings Institute may use the proceeds that it receives from the offering:

to fund new loans;

to invest in securities;

to finance the possible expansion of its business activities; and

for general corporate purposes.

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We may need regulatory approvals to engage in some of the activities listed above.

While we periodically conduct informal discussions with other parties, we currently do not have any specific plans for any expansion or diversification activities that would require funds from this offering. Consequently, we currently anticipate that the proceeds of the offering contributed to Savings Institute will be used to fund new loans and to expand our mortgage banking operations. We expect that much of the loan growth will occur in our commercial real estate and commercial business portfolios, which we have emphasized in recent years but we have not allocated specific dollar amounts to any particular area of our portfolio. The amount of time that it will take to deploy the proceeds of the offering into loans will depend primarily on the level of loan demand.

Except as described above, we have no specific plans for the investment of the proceeds of the offering and have not allocated a specific portion of the proceeds to any particular use. For a discussion of our business reasons for undertaking the offering, see *The Conversion and Offering Reasons for the Conversion and Offering*.

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## **Our Dividend Policy**

SI Financial Group currently pays a cash dividend of \$0.03 per share per quarter, which equals \$0.12 per share on an annualized basis. After the conversion and offering, we intend to continue to pay a cash dividend of \$0.03 per share per quarter, which represents an annual yield of 1.5% based on a price of \$8.00 per share. However, in determining the amount of any dividends, the Board of Directors will take into account our financial condition and results of operations, tax considerations, capital requirements and alternative uses for capital, industry standards and economic conditions. We cannot guarantee that we will pay dividends or that, if paid, we will not reduce or eliminate dividends in the future.

New SI Financial Group is subject to Maryland law, which generally permits a corporation to pay dividends on its common stock unless, after giving effect to the dividend, the corporation would be unable to pay its debts as they become due in the usual course of its business or the total assets of the corporation would be less than its total liabilities. Pursuant to Office of Thrift Supervision regulations, new SI Financial Group may not make a distribution that would constitute a return of capital during the three years following the completion of the conversion and offering. Following the merger of the Office of Thrift Supervision into the Office of the Comptroller of the Currency and the assumption of regulatory authority by the Federal Reserve over savings and loan holding companies, including SI Financial Group, SI Financial Group will not be required to obtain prior Federal Reserve approval to pay a dividend unless the declaration and payment of a dividend could raise supervisory concerns about the safe and sound operation of SI Financial Group and Savings Institute, where the dividend declared for a period is not supported by earnings for that period, and where a company plans to declare a material increase in its common stock dividend.

New SI Financial Group's ability to pay dividends may depend, in part, upon its receipt of dividends from Savings Institute. Under applicable regulations, an application to and the prior approval of the Office of Thrift Supervision is required before any capital distribution can be made by Savings Institute to SI Financial Group if the total capital distributions for the calendar year exceed net income for that year plus the amount of retained net income for the preceding two years. As of June 30, 2010, Savings Institute would be required to obtain prior approval from the Office of Thrift Supervision before it can pay any dividends to SI Financial Group. Any payment of dividends by Savings Institute to new SI Financial Group that would be deemed to be drawn out of Savings Institute's bad debt reserves would require the payment of federal income taxes by Savings Institute at the then current income tax rate on the amount deemed distributed. See *Federal and State Taxation* *Federal Income Taxation* and note 10 of the notes to consolidated financial statements included elsewhere in this prospectus. New SI Financial Group does not contemplate any distribution by Savings Institute that would result in this type of tax liability.

Table of Contents**Market for the Common Stock**

The common stock of SI Financial Group is currently listed on the Nasdaq Global Market under the symbol SIFI. Upon completion of the conversion and offering, the shares of common stock of new SI Financial Group will replace SI Financial Group's common stock. We expect that new SI Financial Group's shares of common stock will trade on the Nasdaq Global Market under the trading symbol SIFID for a period of 20 trading days after completion of the offering. Thereafter, our trading symbol will be SIFI. To list our common stock on the Nasdaq Global Market we are required to have at least three broker-dealers who will make a market in our common stock. SI Financial Group currently has approximately \_\_\_\_\_ registered market makers.

The development of a public market having the desirable characteristics of depth, liquidity and orderliness depends on the existence of willing buyers and sellers, the presence of which is not within our control or that of any market maker. The number of active buyers and sellers of our common stock at any particular time may be limited, which may have an adverse effect on the price at which our common stock can be sold. There can be no assurance that persons purchasing the common stock will be able to sell their shares at or above the \$8.00 price per share in the offering. Purchasers of our common stock should recognize that there are risks involved in their investment and that there may be a limited trading market in the common stock.

The following table sets forth high and low sales prices for SI Financial Group's common stock for the periods indicated.

	High	Low	Dividends Paid Per Share
<b>Year Ending December 31, 2010:</b>			
Fourth Quarter (through _____, 2010)	\$	\$	\$ 0.03
Third Quarter	7.00	5.77	0.03
Second Quarter	6.83	5.90	0.03
First Quarter	7.00	4.80	0.00
<b>Year Ended December 31, 2009:</b>			
Fourth Quarter	\$ 5.35	\$ 4.15	0.00
Third Quarter	5.00	3.80	0.00
Second Quarter	6.58	3.52	0.00
First Quarter	7.95	2.99	0.04
<b>Year Ended December 31, 2008:</b>			
Fourth Quarter	\$ 8.00	\$ 4.90	0.04
Third Quarter	10.00	7.01	0.04
Second Quarter	10.49	8.09	0.04
First Quarter	10.00	9.42	0.04

At \_\_\_\_\_, 2010, SI Financial Group had approximately \_\_\_\_\_ shareholders of record, not including those who hold shares in \_\_\_\_\_ street name. On the effective date of the conversion, all publicly held shares of SI Financial Group common stock, including shares held by our officers and directors, will be converted automatically into and become the right to receive a number of shares of new SI Financial Group common stock determined pursuant to the exchange ratio. See *The Conversion and Offering Share Exchange Ratio*. The above table reflects actual prices and has not been adjusted to reflect the exchange ratio. Options to purchase shares of SI Financial Group common stock will be converted into options to purchase a number of shares of new SI Financial Group common stock adjusted pursuant to the exchange ratio, for the same aggregate exercise price.

Table of Contents**Capitalization**

The following table presents the historical capitalization of SI Financial Group at June 30, 2010 and the capitalization of new SI Financial Group reflecting the offering (referred to as pro forma information). The pro forma capitalization gives effect to the assumptions listed under *Pro Forma Data*, based on the sale of the number of shares of common stock indicated in the table. This table does not reflect the issuance of additional shares as a result of the exercise of options granted under the 2005 Equity Incentive Plan or the proposed new equity incentive plan. **A change in the number of shares to be issued in the offering may materially affect pro forma capitalization.** We must sell a minimum of 5,578,125 shares to complete the offering.

	At June 30, 2010	Pro Forma Capitalization Based Upon the Sale of			
		Minimum of Offering Range 5,578,125 Shares at \$8.00 Per Share	Midpoint of Offering Range 6,562,500 Shares at \$8.00 Per Share	Maximum of Offering Range 7,546,875 Shares at \$8.00 Per Share	15% Above Maximum of Offering Range 8,678,906 Shares at \$8.00 Per Share
<b>(Dollars in thousands)</b>					
Deposits (1)	\$ 676,781	\$ 676,781	\$ 676,781	\$ 676,781	\$ 676,781
Borrowings	122,417	122,417	122,417	122,417	122,417
<b>Total deposits and borrowed funds</b>	<b>\$ 799,198</b>	<b>\$ 799,198</b>	<b>\$ 799,198</b>	<b>\$ 799,198</b>	<b>\$ 799,198</b>
Shareholders' equity:					
Preferred stock:					
1,000,000 shares, \$0.01 par value per share authorized; none issued or outstanding	\$	\$	\$	\$	\$
Common stock:					
35,000,000 shares, \$0.01 par value per share, authorized; specified number of shares assumed to be issued and outstanding (2)	126	90	106	122	140
Additional paid-in capital	52,226	93,889	101,461	109,033	117,742
Retained earnings (3)	39,964	39,964	39,964	39,964	39,964
Mutual holding company capital consolidation					
Accumulated other comprehensive loss, net	(20)	(20)	(20)	(20)	(20)
Less:					
Common stock acquired by employee stock ownership plan (4)	(3,068)	(5,746)	(6,218)	(6,691)	(7,234)
Common stock to be acquired by equity incentive plan (5)	(29)	(1,406)	(1,649)	(1,892)	(2,171)
Treasury stock	(8,039)	(8,039)	(8,039)	(8,039)	(8,039)
After-tax expense of contribution to charitable foundation (6)		(335)	(335)	(335)	(335)
<b>Total shareholders' equity</b>	<b>\$ 81,160</b>	<b>\$ 118,397</b>	<b>\$ 125,270</b>	<b>\$ 132,142</b>	<b>\$ 140,047</b>
<b>Total shareholders' equity as a percentage of total assets</b>	<b>9.12%</b>	<b>12.78%</b>	<b>13.42%</b>	<b>14.05%</b>	<b>14.77%</b>
<b>Total tangible shareholders' equity as a percentage of total assets (7)</b>	<b>8.66%</b>	<b>12.33%</b>	<b>12.97%</b>	<b>13.61%</b>	<b>14.33%</b>

(1) Includes mortgagors' and investors' escrow accounts. Does not reflect withdrawals from deposit accounts for the purchase of common stock in the offering. Withdrawals to purchase common stock will reduce pro forma deposits by the amounts of the withdrawals.

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- (2) Reflects total issued and outstanding shares of 9,015,585, 10,606,571, 12,197,557 and 14,027,190 at the minimum, midpoint, maximum and 15% above the maximum of the offering range, respectively.
- (3) Retained earnings are restricted by applicable regulatory capital requirements.
- (4) Assumes that 6.0% of the common stock sold in the offering will be acquired by the employee stock ownership plan with funds borrowed from new SI Financial Group. Under U.S. generally accepted accounting principles, the amount of common stock to be purchased by the employee stock ownership plan represents unearned compensation and, accordingly, is reflected as a reduction of capital. As shares are released to plan participants' accounts, a compensation expense will be charged, along with related tax benefit, and a reduction in the charge against capital will occur. Since the funds are borrowed from new SI Financial Group, the borrowing will be eliminated in consolidation and no liability or interest expense will be reflected in the financial statements of new SI Financial Group. See *Our Management Benefit Plans Employee Stock Ownership Plan*.
- (5) Assumes the purchase in the open market at \$8.00 per share, for restricted stock awards under the proposed equity incentive plan, of a number of shares equal to 3.1% of the shares of common stock sold in the offering. The shares are reflected as a reduction of shareholders equity. The equity incentive plan will be submitted to shareholders for approval at a meeting following the offering. See *Risk Factors Issuance of shares for benefit programs may dilute your ownership interest, Pro Forma Data and Our Management Benefit Plans Future Equity Incentive Plan*.



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- (6) Represents the expense of the contribution to the charitable foundation based on a 33% tax rate. The realization of the deferred tax benefit is limited annually to a maximum deduction for charitable contributions equal to 10% of our annual taxable income, subject to our ability to carry forward for federal or state tax purposes any unused portion of the deduction for the five years following the year in which the contribution was made.
- (7) Total tangible shareholders' equity as a percentage of total assets is determined by methods other than in accordance with accounting principles generally accepted within the United States, or GAAP. Our management uses this non-GAAP measure in its analysis of our performance. Total tangible shareholders' equity as a percentage of total assets is defined as total equity reduced by recorded goodwill and other intangible assets divided by total assets. This measure is important to investors interested in changes in our equity to assets ratio exclusive of changes in intangible assets. This disclosure should not be viewed as a substitute for results determined in accordance with GAAP, and is not necessarily comparable to non-GAAP performance measures that may be presented by other companies. The following reconciliation table provides a more detailed analysis of this non-GAAP performance measure:

	At June 30, 2010	Pro Forma Capitalization Based Upon the Sale of			
		Minimum of Offering Range 5,578,125 Shares at \$8.00 Per Share	Midpoint of Offering Range 6,562,500 Shares at \$8.00 Per Share	Maximum of Offering Range 7,546,875 Shares at \$8.00 Per Share	15% Above Maximum of Offering Range 8,678,906 Shares at \$8.00 Per Share
(In thousands)					
Total shareholders' equity	\$ 81,160	\$ 118,397	\$ 125,270	\$ 132,142	\$ 140,047
Goodwill and other intangibles	4,179	4,179	4,179	4,179	4,179
Total tangible shareholders' equity	\$ 76,981	\$ 114,218	\$ 121,091	\$ 127,963	\$ 135,868
Total assets	\$ 889,435	\$ 926,672	\$ 933,545	\$ 940,417	\$ 948,322

**Table of Contents****Regulatory Capital Compliance**

At June 30, 2010, Savings Institute exceeded all regulatory capital requirements. The following table presents Savings Institute's capital position relative to its regulatory capital requirements at June 30, 2010, on a historical and a pro forma basis. The table reflects receipt by Savings Institute of 60% of the net proceeds of the offering. For purposes of the table, the amount expected to be borrowed by the employee stock ownership plan has been deducted from pro forma regulatory capital. The amounts in the table are unaffected by the \$500,000 cash contribution to be made by SI Financial Group to SI Financial Group Foundation as that contribution does not affect the amount of proceeds to be received by Savings Institute. For a discussion of the assumptions underlying the pro forma capital calculations presented below, see *Use of Proceeds, Capitalization* and *Pro Forma Data*. The definitions of the terms used in the table are those provided in the capital regulations issued by the Office of Thrift Supervision. For a discussion of the capital standards applicable to Savings Institute, see *Regulation and Supervision Federal Banking Regulation Capital Requirements*.

(Dollars in thousands)	Pro Forma at June 30, 2010									
	Historical at June 30, 2010		Minimum of Offering Range 5,578,125 Shares at \$8.00 Per Share		Midpoint of Offering Range 6,562,500 Shares at \$8.00 Per Share		Maximum of Offering Range 7,546,875 Shares at \$8.00 Per Share		15% Above Maximum of Offering Range 8,678,906 Shares At \$8.00 Per Share	
	Amount	Percent of Assets (1)	Amount	Percent of Assets	Amount	Percent of Assets	Amount	Percent of Assets	Amount	Percent of Assets
Total equity under generally accepted accounting principles	\$ 75,579	8.60%	\$ 96,500	10.68%	\$ 100,338	11.05%	\$ 104,175	11.41%	\$ 108,589	11.83%
Tier 1 leverage capital:										
Actual (2)	\$ 70,633	8.08%	\$ 91,554	10.18%	\$ 95,392	10.56%	\$ 99,229	10.93%	\$ 103,643	11.35%
Requirement	34,967	4.00	35,958	4.00	36,141	4.00	36,323	4.00	36,532	4.00
Excess	\$ 35,666	4.08%	\$ 55,596	6.18%	\$ 59,251	6.56%	\$ 62,906	6.93%	\$ 67,111	7.35%
Tier 1 risk-based capital:										
Actual	\$ 70,633	13.91%	\$ 91,554	17.86%	\$ 95,392	18.61%	\$ 99,229	19.29%	\$ 103,643	20.10%
Requirement	20,311	4.00	20,507	4.00	20,543	4.00	20,579	4.00	20,621	4.00
Excess	\$ 50,322	9.91%	\$ 71,047	13.86%	\$ 74,849	14.61%	\$ 78,650	15.29%	\$ 83,022	16.10%
Total risk-based capital:										
Actual (3)	\$ 75,324	14.84%	\$ 96,245	18.77%	\$ 100,083	19.49%	\$ 103,920	20.20%	\$ 108,334	21.01%
Requirement	40,606	8.00	41,013	8.00	41,086	8.00	41,159	8.00	41,243	8.00
Excess	\$ 34,718	6.84%	\$ 55,232	10.77%	\$ 58,997	11.49%	\$ 62,761	12.20%	\$ 67,091	13.01%
Reconciliation of capital contribution to Savings Institute:										
Net proceeds contributed to Savings Institute			\$ 24,976		\$ 29,529		\$ 34,082		\$ 39,318	
			(2,678)		(3,150)		(3,623)		(4,166)	

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Less common stock acquired by

ESOP

Less common stock acquired by equity incentive plan	(1,377)	(1,620)	(1,863)	(2,142)
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Pro forma increase in GAAP and regulatory capital

\$ 20,921	\$ 24,759	\$ 28,596	\$ 33,010
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- (1) Tier 1 leverage capital level is shown as a percentage of adjusted total assets of \$874.0 million. Risk-based capital levels are shown as a percentage of risk-weighted assets of \$507.7 million.
- (2) Net unrealized losses on available for sale securities and investments in nonincludable subsidiaries account for the difference between capital calculated under generally accepted accounting principles and Tier 1 leverage capital. See note 14 of the notes to the consolidated financial statements for additional information.
- (3) Pro forma amounts and percentages include capital contributed to Savings Institute from the offering and assume net proceeds are invested in assets that carry a 20% risk-weighting.

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**Pro Forma Data**

The following tables illustrate the pro forma impact of the conversion and offering on our net income and shareholders' equity based on the sale of common stock at the minimum, the midpoint, the maximum and 15% above the maximum of the offering range. The actual net proceeds from the sale of the common stock cannot be determined until the offering is completed. Net proceeds indicated in the following tables are based upon the following assumptions:

40% of the shares of common stock will be sold in the subscription and community offerings and 60% of the shares will be sold in a syndicated community offering;

Our employee stock ownership plan will purchase a number of shares equal to 6.0% of the shares sold in the offering with a loan from new SI Financial Group that will be repaid in equal installments over 20 years;

Stifel, Nicolaus & Company, Incorporated will receive an aggregate management fee equal to 1.0% of the aggregate purchase price of the shares sold in the subscription and community offerings, except that no fee will be paid with respect to shares purchased by the employee stock ownership plan or by our officers, directors and employees or members of their immediate families;

The sales commission and management fee for shares sold in the syndicated community offering will be equal to 5.5% of the aggregate purchase price of the shares sold in the syndicated community offering;

Total expenses of the offering, excluding sales commissions and management fees referenced above, will be approximately \$1,375,000; and

We will make a \$500,000 cash contribution to SI Financial Group Foundation.

Actual expenses may vary from this estimate, and the amount of fees paid will depend upon the number of shares sold in the subscription and community offerings, as opposed to the syndicated community offering.

Pro forma net income for the six months ended June 30, 2010 and for the year ended December 31, 2009 has been calculated as if the offering were completed at the beginning of each period, and the net proceeds had been invested at 1.79% and 2.69%, respectively, which represents the rate of the five-year United States Treasury security at June 30, 2010 and December 31, 2009, respectively. We believe that the rate of the five-year United States Treasury security represents a more realistic yield on the investment of the offering proceeds than the arithmetic average of the weighted-average yield earned on our interest-earning assets and the weighted-average rate paid on our deposits, which is the reinvestment rate required by Office of Thrift Supervision regulations.

A pro forma after-tax return of 1.20% and 1.80% is used for the six months ended June 30, 2010 and for the year ended December 31, 2009, respectively, after giving effect to a combined federal and state income tax rate of 33.0%. The actual rate experienced by new SI Financial Group may vary. Historical and pro forma per share amounts have been calculated by dividing historical and pro forma amounts by the number of shares of common stock indicated in the tables.

When reviewing the following tables you should consider the following:

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Since funds on deposit at Savings Institute may be withdrawn to purchase shares of common stock, those funds will not result in the receipt of new funds for investment. The pro forma tables do not reflect withdrawals from deposit accounts.

Historical per share amounts have been computed as if the shares of common stock expected to be issued in the offering had been outstanding at the beginning of the period covered by the table. However, neither historical nor pro forma shareholders' equity has been adjusted to reflect the investment of the estimated net proceeds from the sale of the shares in the offering, the additional employee stock ownership plan expense or the proposed equity incentive plan.

Pro forma shareholders' equity (book value) represents the difference between the stated amounts of our assets and liabilities. Book value amounts do not represent fair market values or amounts available for distribution to shareholders in the unlikely event of liquidation. The amounts shown do not reflect the federal income tax consequences of the restoration to income of Savings Institute's special bad debt reserves for income tax purposes or liquidation accounts, which would be required in the unlikely event of liquidation. See *Federal and State Taxation*.

The amounts shown as pro forma shareholders' equity per share do not represent possible future price appreciation of our common stock.

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The following pro forma data, which are based on SI Financial Group's shareholders' equity at June 30, 2010 and December 31, 2009, and net income for the six months ended June 30, 2010 and for the year ended December 31, 2009, may not represent the actual financial effects of the offering or our operating results after the offering. The pro forma data rely exclusively on the assumptions outlined above and in the notes to the pro forma tables. **The pro forma data does not represent the fair market value of our common stock, the current fair market value of our assets or liabilities, or the amount of money that would be available for distribution to shareholders if we were to be liquidated after the conversion.**

**At or For the Six Months Ended June 30, 2010**

	<b>Minimum of Offering Range 5,578,125 Shares at \$8.00 Per Share</b>	<b>Midpoint of Offering Range 6,562,500 Shares at \$8.00 Per Share</b>	<b>Maximum of Offering Range 7,546,875 Shares at \$8.00 Per Share</b>	<b>15% Above Maximum of Offering Range 8,678,906 Shares at \$8.00 Per Share</b>
<b>(Dollars in thousands, except per share amounts)</b>				
Gross proceeds	\$ 44,625	\$ 52,500	\$ 60,375	\$ 69,431
Plus: shares issued in exchange for shares of SI Financial Group	27,500	32,353	37,205	42,786
Pro forma market capitalization	72,125	84,853	97,580	112,217
Gross proceeds	44,625	52,500	60,375	69,431
Less: estimated expenses	(2,998)	(3,285)	(3,572)	(3,901)
Estimated net proceeds	41,627	49,215	56,803	65,530
Less: common stock acquired by employee stock ownership plan (1)	(2,678)	(3,150)	(3,623)	(4,166)
Less: common stock to be acquired by equity incentive plan (2)	(1,377)	(1,620)	(1,863)	(2,142)
Less: cash contribution to charitable foundation	(500)	(500)	(500)	(500)
Net proceeds	\$ 37,072	\$ 43,945	\$ 50,817	\$ 58,722
<b>Pro Forma Net Income:</b>				
Pro forma net income (3):				
Historical	\$ 1,206	\$ 1,206	\$ 1,206	\$ 1,206
Pro forma income on net proceeds	223	264	305	352
Less: pro forma employee stock ownership plan expense (1)	(45)	(53)	(61)	(70)
Less: pro forma restricted stock award expense (2)	(93)	(109)	(125)	(144)
Less: pro forma stock option expense (3)	(110)	(129)	(149)	(171)
Pro forma net income	\$ 1,181	\$ 1,179	\$ 1,177	\$ 1,174
Pro forma net income per share (3):				
Historical	\$ 0.14	\$ 0.12	\$ 0.10	\$ 0.09
Pro forma income on net proceeds	0.03	0.03	0.03	0.03
Less: pro forma employee stock ownership plan expense (1)	(0.01)	(0.01)	(0.01)	(0.01)
Less: pro forma restricted stock award expense (2)	(0.01)	(0.01)	(0.01)	(0.01)
Less: pro forma stock option expense (3)	(0.01)	(0.01)	(0.01)	(0.01)
Pro forma net income per share	\$ 0.14	\$ 0.12	\$ 0.10	\$ 0.09
Offering price as a multiple of pro forma net income per share (annualized)	28.57x	33.33x	40.00x	44.44x
Number of shares used to calculate pro forma net income per share (4)	8,689,265	10,222,665	11,756,065	13,519,474
<b>Pro Forma shareholders' equity:</b>				
Pro forma shareholders' equity (book value):				
Historical	\$ 81,160	\$ 81,160	\$ 81,160	\$ 81,160
Estimated net proceeds	41,627	49,215	56,803	65,530
Less: common stock acquired by employee stock ownership plan (1)	(2,678)	(3,150)	(3,623)	(4,166)
Less: common stock to be acquired by equity incentive plan (2)	(1,377)	(1,620)	(1,863)	(2,142)

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Less: after-tax expense of contribution to charitable foundation	(335)	(335)	(335)	(335)
Pro forma shareholders equity	118,397	125,270	132,142	140,047
Less: intangible assets	(4,179)	(4,179)	(4,179)	(4,179)
Pro forma tangible shareholders equity	\$ 114,218	\$ 121,091	\$ 127,963	\$ 135,868
Pro forma shareholders equity per share:				
Historical	\$ 9.00	\$ 7.65	\$ 6.65	\$ 5.79
Estimated net proceeds	4.62	4.64	4.66	4.67
Less: common stock acquired by employee stock ownership plan (1)	(0.30)	(0.30)	(0.30)	(0.30)
Less: common stock to be acquired by equity incentive plan (2)	(0.15)	(0.15)	(0.15)	(0.15)
Less: after-tax expense of contribution to charitable foundation	(0.04)	(0.03)	(0.03)	(0.03)
Pro forma shareholders equity per share	13.13	11.81	10.83	9.98
Less: intangible assets	(0.46)	(0.39)	(0.34)	(0.30)
Pro forma tangible shareholders equity per share	\$ 12.67	\$ 11.42	\$ 10.49	\$ 9.68
Offering price as a percentage of pro forma shareholders equity per share	60.93%	67.74%	73.87%	80.16%
Offering price as a percentage of pro forma shareholders tangible equity per share	63.14%	70.05%	76.26%	82.64%
Number of shares used to calculate pro forma shareholders equity per share (4)	9,015,585	10,606,571	12,197,557	14,027,190

**Table of Contents****At or For the Year Ended December 31, 2009**

	<b>Minimum of Offering Range 5,578,125 Shares at \$8.00 Per Share</b>	<b>Midpoint of Offering Range 6,562,500 Shares at \$8.00 Per Share</b>	<b>Maximum of Offering Range 7,546,875 Shares at \$8.00 Per Share</b>	<b>15% Above Maximum of Offering Range 8,678,906 Shares at \$8.00 Per Share</b>
<b>(Dollars in thousands, except per share amounts)</b>				
Gross proceeds	\$ 44,625	\$ 52,500	\$ 60,375	\$ 69,431
Plus: shares issued in exchange for shares of SI Financial Group	27,500	32,353	37,205	42,786
Pro forma market capitalization	72,125	84,853	97,580	112,217
Gross proceeds	\$ 44,625	\$ 52,500	\$ 60,375	\$ 69,431
Less: estimated expenses	(2,998)	(3,285)	(3,572)	(3,901)
Estimated net proceeds	41,627	49,215	56,803	65,530
Less: common stock acquired by employee stock ownership plan (1)	(2,678)	(3,150)	(3,623)	(4,166)
Less: common stock to be acquired by equity incentive plan (2)	(1,377)	(1,620)	(1,863)	(2,142)
Less: cash contribution to charitable foundation	(500)	(500)	(500)	(500)
Net proceeds	\$ 37,072	\$ 43,945	\$ 50,817	\$ 58,722
<b>Pro Forma Net Income:</b>				
Pro forma net income (3):				
Historical	\$ 435	\$ 435	\$ 435	\$ 435
Pro forma income on net proceeds	668	792	916	1,058
Less: pro forma employee stock ownership plan expense (1)	(90)	(106)	(121)	(140)
Less: pro forma restricted stock award expense (2)	(185)	(217)	(250)	(287)
Less: pro forma stock option expense (3)	(220)	(258)	(297)	(342)
Pro forma net income	\$ 608	\$ 646	\$ 683	\$ 724
Pro forma net income per share (3):				
Historical	\$ 0.05	\$ 0.04	\$ 0.04	\$ 0.03
Pro forma income on net proceeds	0.08	0.08	0.08	0.08
Less: pro forma employee stock ownership plan expense (1)	(0.01)	(0.01)	(0.01)	(0.01)
Less: pro forma restricted stock award expense (2)	(0.02)	(0.02)	(0.02)	(0.02)
Less: pro forma stock option expense (3)	(0.03)	(0.03)	(0.03)	(0.03)
Pro forma net income per share	\$ 0.07	\$ 0.06	\$ 0.06	\$ 0.05
Offering price as a multiple of pro forma net income per share (annualized)				
	114.29x	133.33x	133.33x	160.00x
Number of shares used to calculate pro forma net income per share (4)				
	8,697,632	10,232,509	11,767,385	13,532,493
<b>Pro Forma Shareholders' equity:</b>				
Pro forma shareholders' equity (book value):				
Historical	\$ 77,462	\$ 77,462	\$ 77,462	\$ 77,462
Estimated net proceeds	41,627	49,215	56,803	65,530
Less: common stock acquired by employee stock ownership plan (1)	(2,678)	(3,150)	(3,623)	(4,166)
Less: common stock to be acquired by equity incentive plan (2)	(1,377)	(1,620)	(1,863)	(2,142)
Less: after-tax expense of contribution to charitable foundation	(335)	(335)	(335)	(335)



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Pro forma shareholders equity	114,699	121,572	128,444	136,349
Less: intangible assets	(4,195)	(4,195)	(4,195)	(4,195)
Pro forma tangible shareholders equity	\$ 110,504	\$ 117,377	\$ 124,249	\$ 132,154
Pro forma shareholders equity per share:				
Historical	\$ 8.59	\$ 7.30	\$ 6.35	\$ 5.52
Estimated net proceeds	4.62	4.64	4.66	4.67
Less: common stock acquired by employee stock ownership plan (1)	(0.30)	(0.30)	(0.30)	(0.30)
Less: common stock to be acquired by equity incentive plan (2)	(0.15)	(0.15)	(0.15)	(0.15)
Less: after-tax expense of contribution to charitable foundation	(0.04)	(0.03)	(0.03)	(0.02)
Pro forma shareholders equity per share	12.72	11.46	10.53	9.72
Less: intangible assets	(0.47)	(0.40)	(0.34)	(0.30)
Pro forma tangible shareholders equity per share	\$ 12.25	\$ 11.06	\$ 10.19	\$ 9.42
Offering price as a percentage of pro forma shareholders equity per share	62.89%	69.81%	75.97%	82.30%
Offering price as a percentage of pro forma shareholders tangible equity per share	65.31%	72.33%	78.51%	84.93%
Number of shares used to calculate pro forma shareholders equity per share (4)	9,015,585	10,606,571	12,197,557	14,027,190

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- (1) Assumes that the employee stock ownership plan will acquire a number of shares of stock equal to 6.0% of the shares sold in the offering (334,688, 393,750, 452,813 and 520,734 shares at the minimum, midpoint, maximum and 15% above the maximum of the offering range, respectively). The employee stock ownership plan will borrow the funds to acquire these shares from the proceeds retained by new SI Financial Group. The amount of this borrowing has been reflected as a reduction from gross proceeds to determine estimated net proceeds. This borrowing will have an interest rate equal to the prime rate as published in *The Wall Street Journal*, which is currently 3.25%, which will be fixed at the time of the offering and be for a term of 20 years. Savings Institute intends to make contributions to the employee stock ownership plan in amounts at least equal to the principal and interest requirement of the debt. As the debt is paid down, shares will be released for allocation to participants' accounts and shareholders' equity will be increased.

The adjustment to pro forma net income for the employee stock ownership plan reflects the after-tax compensation expense associated with the plan. Applicable accounting principles require that compensation expense for the employee stock ownership plan be based upon shares committed to be released and that unallocated shares be excluded from earnings per share computations. An equal number of shares (1/20 of the total, based on a 20-year loan) will be released each year over the term of the loan. The valuation of shares committed to be released would be based upon the average market value of the shares during the year, which, for purposes of the pro forma tables, was assumed to be equal to the \$8.00 per share purchase price. If the average market value per share is greater than \$8.00 per share, total employee stock ownership plan expense would be greater. See *Our Management Benefit Plans Employee Stock Ownership Plan*.

- (2) Assumes that new SI Financial Group will purchase in the open market a number of shares of common stock equal to 3.1% of the shares sold in the offering (172,122, 202,496, 232,870 and 267,801 shares at the minimum, midpoint, maximum and 15% above the maximum of the offering range, respectively), that will be reissued as restricted stock awards under a new equity incentive plan to be adopted following the offering. Purchases will be funded with cash on hand at new SI Financial Group or with dividends paid to new SI Financial Group by Savings Institute. The cost of these shares has been reflected as a reduction from gross proceeds to determine estimated net proceeds. In calculating the pro forma effect of the restricted stock awards, it is assumed that the required shareholder approval has been received, that the shares used to fund the awards were acquired at the beginning of the respective period and that the shares were acquired at the \$8.00 per share purchase price. The issuance of authorized but unissued shares of the common stock instead of shares repurchased in the open market would dilute the ownership interests of existing shareholders by approximately 1.9%.

The adjustment to pro forma net income for the restricted stock awards reflects the after-tax compensation expense associated with the awards. It is assumed that the fair market value of a share of new SI Financial Group common stock was \$8.00 at the time the awards were made, that shares of restricted stock issued under the equity incentive plan vest 20% per year, that compensation expense is recognized on a straight-line basis over each vesting period so that 20% of the value of the shares awarded was an amortized expense during each year, and that the combined federal and state income tax rate was 33.0%. If the fair market value per share is greater than \$8.00 per share on the date shares are awarded under the equity incentive plan, total equity incentive plan expense would be greater.

- (3) The adjustment to pro forma net income for stock options reflects the after-tax compensation expense associated with the stock options that may be granted under the new equity incentive plan to be adopted following the offering. If the new equity incentive plan is approved by shareholders, a number of shares equal to 7.7% of the number of shares sold in the offering (430,304, 506,240, 582,176 and 669,502 shares at the minimum, midpoint, maximum and adjusted maximum of the offering range, respectively), will be reserved for future issuance upon the exercise of stock options that may be granted under the plan. Compensation cost relating to share-based payment transactions will be recognized in the financial statements over the period the employee is required to provide services for the award. The cost will be measured based on the fair value of the equity instruments issued. Applicable accounting standards do not prescribe a specific valuation technique to be used to estimate the fair value of employee stock options. For purposes of this table, the fair value of stock options to be granted under the new equity incentive plan has been estimated at \$2.78 per option using the Black-Scholes option pricing model with the following assumptions: exercise price, \$8.00; trading price on date of grant, \$8.00; dividend yield, 1.0%; expected life, 10 years; expected volatility, 18.21%; and risk-free interest rate, 2.97%. It is assumed that stock options granted under the equity incentive plan vest 20% per year, that compensation expense is recognized on a straight-line basis over the vesting period so that 20% of the value of the options awarded was an amortized expense during each year, that all of the options awarded are non-qualified options and that the combined federal and state income tax rate was 33.0%. We plan to use the Black-Scholes option-pricing formula; however, if the fair market value per share is different than \$8.00 per share on the date options are awarded under the equity incentive plan, or if the assumptions used in the option-pricing formula are different from those used in preparing this pro forma data, the value of the stock options and the related expense would be different. The issuance of authorized but unissued shares of common stock to satisfy option exercises instead of shares repurchased in the open market would dilute the ownership interests of existing shareholders by approximately 4.6%.

- (4) The number of shares used to calculate pro forma net income per share is equal to the total number of shares to be outstanding upon completion of the offering, and subtracting the employee stock ownership plan shares, which have not been committed for release during the period. See footnote 1 above. The number of shares used to calculate pro forma shareholders' equity per share is equal to the total number of shares to be outstanding upon completion of the offering.

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## **Our Business**

### **General**

SI Financial Group was established on August 6, 2004 to become the parent holding company for Savings Institute upon the conversion of Savings Institute's former parent, SI Bancorp, Inc., from a state-chartered to a federally-chartered mutual holding company. At the same time, Savings Institute also converted from a state-chartered to a federally-chartered savings bank. On September 30, 2004, SI Financial Group completed its minority stock offering with the sale of 5,025,500 shares of its common stock to the public, 251,275 shares contributed to SI Financial Group Foundation and 7,286,975 issued to SI Bancorp, MHC. Savings Institute is a wholly-owned subsidiary of SI Financial Group and management of SI Financial Group and Savings Institute are substantially similar. SI Financial Group neither owns nor leases any property, but instead uses the premises, equipment and other property of Savings Institute with the payment of appropriate rental fees, as required by applicable law and regulations, under the terms of an expense allocation agreement that SI Financial Group and Savings Institute will enter into upon completion of the conversion. The expense allocation agreement generally provides that SI Financial Group will pay to Savings Institute, on a quarterly basis, fees for its use of Savings Institute's premises, furniture, equipment and employees in an amount to be determined by the board of directors of SI Financial Group and Savings Institute. Such fees shall not be less than the fair market value received for such goods or services. In addition, SI Financial Group and Savings Institute will also enter into a tax allocation agreement upon completion of the conversion as a result of their status as members of an affiliated group under the Internal Revenue Code. The tax allocation agreement generally provides that SI Financial Group will file consolidated federal tax income returns with Savings Institute and its subsidiaries. The tax allocation agreement also formalizes procedures for allocating the consolidated tax liability of the group among its members and establishes procedures for the future payments by Savings Institute to SI Financial Group for tax liabilities attributable to Savings Institute and its subsidiaries. The financial information and discussion contained in this prospectus primarily relates to the activities of Savings Institute.

Savings Institute operates as a community-oriented financial institution offering a full range of financial services to consumers and businesses in its market area, including insurance, trust and investment services. Savings Institute attracts deposits from the general public and uses those funds to originate one- to four-family residential, multi-family and commercial real estate, commercial business and consumer loans. Beginning in 2008, substantially all of the fixed-rate one- to four-family residential conforming loans we originate are sold in the secondary market with the servicing retained. Such sales generate mortgage banking fees. The remainder of our loan portfolio is originated for investment.

### **Market Area and Competition**

We conduct business from our headquarters in Willimantic, Connecticut, which is located in eastern Connecticut approximately 30 miles east of Hartford, and 20 full-service branch offices throughout Windham, New London, Tolland, Hartford and Middlesex counties in Connecticut. Our primary lending area is eastern Connecticut and most of our deposit customers reside in the areas surrounding our branch offices. The economy in our market area is relatively diverse and primarily oriented to the educational, service, entertainment, manufacturing and retail industries. The major employers in the area include several institutions of higher education, the Mohegan Sun and Foxwoods casinos, General Dynamics Defense Systems and Pfizer, Inc. In addition, there are also many small to mid-sized businesses that support the local economy.

In view of the current economic downturn, our primary market area has remained a relatively stable banking market. Windham, New London and Tolland Counties have a total population of 536,000 and total households of 204,000 according to SNL Financial. Since 2000, our primary market area has experienced population growth of approximately 7.1% compared to 3.8% for the State of Connecticut and is projected to continue to grow at a rate that exceeds the State of Connecticut average according to SNL Financial. As of June 30, 2009, median household income levels ranged from \$57,890 to \$78,072 in the five counties we maintain branch offices, compared to \$70,340 for Connecticut as a whole and \$54,442 for the United States and is projected to grow at rates slightly below the State of Connecticut average and in line with the United States according to estimates by SNL Financial.

Savings Institute faces significant competition for the attraction of deposits and origination of loans. The most direct competition for deposits has historically come from the several financial institutions operating in Savings Institute's market area and, to a lesser extent, from other financial service companies, such as brokerage firms, credit unions and insurance companies. Savings Institute also faces competition for investors' funds from money market funds and other corporate and government securities. At June 30, 2010, which is the most recent date for which data is available from the Federal Deposit Insurance Corporation, Savings Institute held approximately 20.69% of the deposits in Windham County, which is the largest market share out of 10 financial institutions with offices in this county. Also, at June 30, 2010, Savings Institute held



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approximately 0.96% of the deposits in Hartford, Middlesex, New London and Tolland Counties, which is the 16<sup>th</sup> market share out of 35 financial institutions with offices in these counties. Bank of America Corp., Webster Bank Financial Corporation, TD Banknorth Group, Inc., People's United and Sovereign Bank, all of which are large national or regional bank holding companies, also operate in Savings Institute's market area. These institutions are significantly larger and, therefore, have significantly greater resources than Savings Institute does and may offer products and services that Savings Institute does not provide.

Savings Institute's competition for loans comes primarily from financial institutions in its market area, and to a lesser extent from other financial service providers, such as mortgage companies and mortgage brokers. Competition for loans also comes from the increasing number of non-depository financial service companies entering the mortgage market, such as insurance companies, securities companies and specialty finance companies.

Savings Institute expects competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. Technological advances, for example, have lowered barriers to entry, allowed banks to expand their geographic reach by providing services over the Internet and made it possible for non-depository institutions to offer products and services that traditionally have been provided by banks. Changes in federal law permit affiliation among banks, securities firms and insurance companies, which promotes a competitive environment in the financial services industry. Competition for deposits and the origination of loans could limit SI Financial Group's growth in the future.

### **Lending Activities**

**General.** Savings Institute's loan portfolio consists primarily of one- to four-family residential mortgage loans, multi-family and commercial real estate loans and commercial business loans. To a much lesser extent, the loan portfolio includes construction and consumer loans. Savings Institute historically and currently originates loans primarily for investment purposes. At June 30, 2010, Savings Institute had loans held for sale totaling \$1.8 million.

**One- to Four-Family Residential Loans.** Savings Institute's primary lending activity is the origination of mortgage loans to enable borrowers to purchase or refinance existing homes or to construct new residential dwellings in its market area. Savings Institute offers fixed-rate and adjustable-rate mortgage loans with terms up to 40 years. Borrower demand for adjustable-rate loans versus fixed-rate loans is a function of the level of current and anticipated future interest rates, the difference between the interest rates and loan fees offered for fixed-rate mortgage loans and the initial period interest rates and loan fees for adjustable-rate loans. The relative amount of fixed-rate mortgage loans and adjustable-rate mortgage loans that can be originated at any time is largely determined by the demand for each in a competitive environment and the effect each has on Savings Institute's interest rate risk. The loan fees charged, interest rates and other provisions of mortgage loans are determined on the basis of Savings Institute's own pricing criteria and competitive market conditions. Additionally, Savings Institute offers reverse mortgages to its customers, through a correspondent relationship with another institution, in response to increasing demand for this type of product.

Savings Institute offers fixed-rate loans with terms of 10, 15, 20, 30 or 40 years. Savings Institute's adjustable-rate mortgage loans are based primarily on 30-year amortization schedules. Interest rates and payments on adjustable-rate mortgage loans adjust annually after a one, three, five, seven or ten-year initial fixed period. Interest rates and payments on adjustable-rate loans are adjusted to a rate typically equal to 2.75% (2.875% for jumbo loans) above the one-year constant maturity Treasury index. The maximum amount by which the interest rate may be increased or decreased is generally 2% per adjustment period and the lifetime interest rate cap is generally 6% over the initial interest rate of the loan.

Generally, Savings Institute does not originate conventional loans with loan-to-value ratios exceeding 95% and generally originates loans with a loan-to-value ratio 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. Savings Institute requires all properties securing mortgage loans to be appraised by a board approved independent licensed appraiser and requires title insurance on all first mortgage loans. Borrowers must obtain hazard insurance and flood insurance for loans on property located in a flood zone before closing the loan.

In an effort to provide financing for moderate income and first-time buyers, Savings Institute offers loans insured by the Federal Housing Administration and the Veterans Administration and participates in the Connecticut Housing Finance Authority Program. Savings Institute offers fixed-rate residential mortgage loans through these programs to qualified individuals and originates the loans using modified underwriting guidelines.



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**Multi-Family and Commercial Real Estate Loans.** Savings Institute makes multi-family and commercial real estate loans throughout its market area 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. Savings Institute offers fixed-rate and adjustable-rate mortgage loans secured by multi-family and commercial real estate. At June 30, 2010, 63.3% of Savings Institute's multi-family and commercial real estate loans were secured by owner-occupied properties, including churches, retail facilities and other local properties used for businesses. The remaining percentage are secured by non-owner occupied properties such as condominiums, apartment buildings and single-family subdivisions. Savings Institute intends to continue to emphasize this segment of its loan portfolio, as market conditions permit, as such loans produce yields that are generally higher than one- to four-family residential loans and are more sensitive to changes in market interest rates.

Savings Institute originates adjustable-rate multi-family and commercial real estate loans for terms up to 25 years. Interest rates and payments on these loans typically adjust every five years after a five-year initial fixed-rate period. Interest rates and payments on adjustable-rate loans are adjusted to a rate typically 2.5-3.0% above the classic advance rates offered by the Federal Home Loan Bank of Boston. There are no adjustment period or lifetime interest rate caps. Loans are secured by first mortgages that generally do not exceed 75% of the property's appraised value. At June 30, 2010, the largest outstanding multi-family or commercial real estate loan was \$7.0 million. This loan is secured by a nursing home and rehabilitation facility and was performing according to its terms at June 30, 2010.

Loans secured by multi-family and commercial real estate generally have larger balances and involve a greater degree of risk than one- to four-family residential mortgage loans. Of primary concern in multi-family and commercial real estate lending is the borrower's creditworthiness and the feasibility and cash flow potential of the project. Payments on loans secured by income-producing properties often depend on the successful operation and management of the properties. As a result, repayment of such loans may be subject, to a greater extent than residential real estate loans, to adverse conditions in the real estate market or the economy.

**Construction and Land Loans.** Savings Institute originates loans to individuals, and to a lesser extent, builders, to finance the construction of residential dwellings. Savings Institute also originates construction loans for commercial development projects, including condominiums, apartment buildings, single-family subdivisions as well as owner-occupied properties used for businesses. Residential construction loans generally provide for the payment of interest only during the construction phase, which is usually twelve months. At the end of the construction phase, the loan generally converts to a permanent mortgage loan. Commercial construction loans generally provide for the payment of interest only during the construction phase which may range from three to twenty-four months. Loans generally can be made with a maximum loan-to-value ratio of 80% on residential construction, 75% on construction for nonresidential properties and 80% of the lesser of the appraised value or cost of the project on multi-family construction. At June 30, 2010, the largest outstanding construction loan commitment for the construction of a church was \$2.8 million, of which \$1.7 million was outstanding and the largest residential construction loan commitment was \$1.8 million, of which \$1.2 million was outstanding. These loans were performing according to their terms at June 30, 2010. Primarily all commitments to fund construction loans require an appraisal of the property by a board approved independent licensed appraiser. Also, inspections of the property are required before the disbursement of funds during the term of the construction loan.

Savings Institute also originates land loans to individuals, local contractors and developers only for making improvements on approved building lots, subdivisions and condominium projects within two years of the date of the loan. Such loans to individuals generally are written with a maximum loan-to-value ratio based upon the appraised value or purchase price of the land. Maximum loan-to-value ratio on raw land is 50%, while the maximum loan-to-value ratio for land development loans involving approved projects is 65%. Savings Institute offers fixed-rate land loans and variable-rate land loans that adjust annually. Interest rates and payments on adjustable-rate land loans are adjusted to a rate typically equal to the then current *The Wall Street Journal* prime rate plus a 1.0-2.0% margin. The maximum amount by which the interest rate may be increased or decreased is generally 2% annually and the lifetime interest rate cap is generally 6% over the initial rate of the loan. Land loans totaled \$435,000 at June 30, 2010.

**Commercial Business Loans.** Savings Institute originates commercial business loans to a variety of professionals, sole proprietorships and small businesses primarily in its market area. Savings Institute offers a variety of commercial lending products, the maximum amount of which is limited by Savings Institute's in-house loans to one borrower limit. At June 30, 2010, the largest commercial loan was a \$1.3 million loan, which is secured by a business asset consisting of a waste processing system. This loan was performing according to its terms at June 30, 2010.



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Savings Institute offers loans secured by business assets other than real estate, such as business equipment and inventory. These loans are originated with maximum loan-to-value ratios of 75% of the value of the personal property. Savings Institute originates lines of credit to finance the working capital needs of businesses to be repaid by seasonal cash flows or to provide a period of time during which the business can borrow funds for planned equipment purchases. These loans convert to a term loan at the expiration of a draw period, which is not to exceed twelve months, and will be paid over a pre-defined amortization period. Additional products such as time notes, letters of credit and equipment lease financing are offered. Additionally, Savings Institute purchases the portion of commercial business loans that are fully guaranteed by the Small Business Administration and the United States Department of Agriculture. At June 30, 2010, Small Business Administration and United States Department of Agriculture loans totaled \$90.8 million.

When originating commercial business loans, Savings Institute considers the financial statements of the borrower, the borrower's payment history of both corporate and personal debt, the debt service capabilities of the borrower, the projected cash flows of the business, viability of the industry in which the customer operates and the value of the collateral.

**Consumer Loans.** Savings Institute offers a variety of consumer loans, primarily home equity lines of credit, and, to a lesser extent, loans secured by marketable securities, passbook or certificate accounts, motorcycles, automobiles and recreational vehicles, as well as unsecured loans. Generally, Savings Institute offers automobile loans with a maximum loan-to-value ratio of 100% of the purchase price for new vehicles. Unsecured loans generally have a maximum borrowing limit of \$10,000 and a maximum term of five years.

The procedures for underwriting consumer loans include an assessment of the applicant's payment history on other debts and their ability to meet existing obligations and payments on the proposed loans. Although the applicant's creditworthiness is a primary consideration, the underwriting process also includes a comparison of the value of the collateral, if any, to the proposed loan amount. Home equity lines of credit have adjustable rates of interest that are indexed to the prime rate as reported in *The Wall Street Journal*. Savings Institute will offer home equity loans with a maximum combined loan-to-value ratio of 80%. A home equity line of credit may be drawn down by the borrower for an initial period of five years from the date of the loan agreement. During this period, the borrower has the option of paying, on a monthly basis, either principal and interest or only interest. If the draw period is not extended for an additional 4 years and 10 months, the borrower has to pay back the amount outstanding under the line of credit over a term not to exceed ten years, beginning at the end of the five-year period.

### **Loan Underwriting Risks**

**Adjustable-Rate Loans.** While we anticipate that adjustable-rate loans will better offset the adverse effects of an increase in interest rates as compared to fixed-rate mortgages, the increased mortgage payments required of adjustable-rate loan borrowers in a rising interest rate environment could cause an increase in delinquencies and defaults. The marketability and collateral value of the underlying property also may be adversely affected in a high interest rate environment. In addition, although adjustable-rate mortgage loans help make our loan portfolio more responsive to changes in interest rates, the extent of this interest sensitivity is limited by the annual and lifetime interest rate adjustment limits.

**Multi-Family and Commercial Real Estate Loans.** Loans secured by multi-family and commercial real estate generally have larger balances and involve a greater degree of risk than one- to four-family residential mortgage loans. Of primary concern in multi-family and commercial real estate lending is the borrower's creditworthiness and the feasibility and cash flow potential of the project. Payments on loans secured by income properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject to a greater extent than residential real estate loans to adverse conditions in the real estate market or the economy. To monitor cash flows on income properties, we generally require borrowers and loan guarantors to provide annual financial statements and/or tax returns. In reaching a decision on whether to make a multi-family or commercial real estate loan, we consider the net operating income of the property, the borrower's expertise, credit history and profitability and the value of the underlying property. We have generally required that the properties securing these real estate loans have debt service coverage ratios (the ratio of earnings before debt service to debt service) of at least 1.20x. Environmental screens, surveys and inspections are obtained when circumstances suggest the possibility of the presence of hazardous materials. Further, in connection with our ongoing monitoring of the loan, we typically will review the property, the underlying loan and guarantors annually.

**Construction Loans.** Construction financing is generally considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the property's value at completion of construction, the estimated cost (including interest) of

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construction and the ability of the project to be sold upon completion. During the construction phase, a number of factors could result in delays and cost overruns. If the estimate of construction costs proves to be inaccurate, we may be required to advance funds beyond the amount originally committed to permit completion of the building. If the estimate of value proves to be inaccurate, we may be confronted, at or before the maturity of the loan, with a building having a value that is insufficient to assure full repayment. If we are forced to foreclose on a building before or at completion due to a borrower default, there can be no assurance that we will be able to recover all of the unpaid balance of, and accrued interest on, the loan as well as related foreclosure and holding costs.

**Commercial Business Loans.** Unlike residential mortgage loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment or other income, and which are secured by real property the value of which tends to be more easily ascertainable, commercial loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's underlying business. As a result, the availability of funds for the repayment of commercial loans may depend substantially on the success of the business itself. Further, any collateral securing such loans may depreciate over time, may be difficult to appraise and may fluctuate in value.

**Consumer Loans.** Consumer loans may entail greater risk than residential mortgage loans do, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate rapidly. In such cases, repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and the remaining deficiency often does not warrant further substantial collection efforts against the borrower. In addition, 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. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans.

### **Loan Originations, Purchases, Sales and Servicing**

Loan originations come from a number of sources. The primary source of loan originations are Savings Institute's in-house loan originators, and to a lesser extent, advertising and referrals from customers.

From time to time, Savings Institute will purchase whole participations in loans fully guaranteed by the Small Business Administration and the United States Department of Agriculture. The loans are primarily for commercial and agricultural properties located throughout the United States. Savings Institute purchased \$19.6 million, \$40.9 million and \$12.3 million in loans during the six months ended June 30, 2010 and the years ended December 31, 2009 and 2008, respectively.

At June 30, 2010, we were a participating lender on two loans totaling \$2.9 million, which are secured by commercial real estate. This loan is being serviced by the lead lender. We generally perform our own underwriting analysis before purchasing loans and therefore believe there should not be a greater risk of default on these obligations. However, in a purchased participation loan, we do not service the loan and thus are subject to the policies and practices of the lead lender with regard to monitoring delinquencies, pursuing collections and instituting foreclosure proceedings.

The Bank originates conventional conforming one- to four-family loans, which meet Fannie Mae underwriting standards. Beginning in 2008, substantially all one- to four-family residential conforming loans have been sold in the secondary market on a servicing retained basis. Such loans are sold to Fannie Mae, the Connecticut Housing Finance Authority and the Federal Home Loan Bank under the Mortgage Partnership Finance Program. The decision to sell loans in the secondary market is based on prevailing market interest rate conditions, an analysis of the composition and risk of the loan portfolio, liquidity needs and interest rate risk management. Generally, loans are sold without recourse. We utilize the proceeds from these sales primarily to meet liquidity needs. Proceeds from the sale of loans totaled \$20.1 million, \$56.9 million and \$14.4 million for the six months ended June 30, 2010 and for the years ended December 31, 2009 and 2008, respectively. We intend to continue to originate these types of loans for sale in the secondary market in the future to increase our noninterest income.

At June 30, 2010, Savings Institute retained the servicing rights on \$134.4 million of loans for others, consisting primarily of fixed-rate mortgage loans sold with or without recourse to third parties. Loan repurchase commitments are agreements to repurchase loans previously sold upon the occurrence of conditions established in the contract, including default by the underlying borrower. At June 30, 2010, the balance of loans sold with recourse totaled \$26,000. Loan servicing includes collecting and remitting loan payments, accounting for principal and interest, contacting delinquent mortgagors, processing insurance and tax payments on behalf of borrowers, assisting in foreclosures and property dispositions when necessary and general administration of loans.

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### **Loan Approval Procedures and Authority**

Our lending activities follow written, non-discriminatory, underwriting standards and loan origination procedures established by our Board of Directors and management. All residential mortgages and home equity lines of credit in excess of \$6.0 million or all commercial loans and other consumer loans in excess of \$2.0 million require the approval of the Board of Directors. The Loan Committee of the Board of Directors has the authority to approve: (1) residential mortgage loans and consumer and home equity lines of credit up to \$6.0 million and (2) commercial and other consumer loans up to \$2.0 million. The President and the Senior Credit Officer have approval for: (1) residential mortgage loans that conform to Fannie Mae and Freddie Mac standards up to \$2.0 million or \$417,000 for those that are non-conforming and (2) consumer and commercial loans up to \$250,000 individually or \$2.0 million jointly for home equity lines of credit or \$1.0 million jointly for commercial and other consumer loans. Additionally, certain loan and branch personnel have the authority to approve residential mortgage loans up to \$417,000, home equity lines up to \$250,000 and consumer loans up to \$100,000.

### **Loans to One Borrower**

The maximum amount we may lend to one borrower and the borrower's related entities generally is limited, by regulation, to 15% of our stated capital and reserves. At June 30, 2010, our general regulatory limit on loans to one borrower was approximately \$11.3 million. At that date, our largest lending relationship was \$8.2 million, representing a commercial business loan, two loans secured by a nursing home and rehabilitation facility and a loan to purchase an adjacent property. These loans were performing according to their terms at June 30, 2010.

### **Loan Commitments**

We issue commitments for fixed- and adjustable-rate mortgage loans conditioned upon the occurrence of certain events. Commitments to originate mortgage loans are legally binding agreements to lend to our customers. Generally, our mortgage loan commitments expire in 90 days or less from the date of the application.

### **Investment Activities**

We have legal authority to invest in various types of liquid assets, including U.S. Treasury obligations, securities of various federal agencies, government-sponsored enterprises, state and municipal governments, mortgage-backed securities and certificates of deposit of federally-insured institutions. Within certain regulatory limits, we also may invest a portion of its assets in corporate securities and mutual funds. We are also required to maintain an investment in Federal Home Loan Bank stock. While we have the authority under applicable law and our investment policies to invest in derivative securities, we had no such investments at June 30, 2010.

Our primary source of income continues to be derived from our loan portfolio. The investment portfolio is mainly used to meet our cash flow needs, provide adequate liquidity for the protection of customer deposits and yield a favorable return on investments. The type of securities and the maturity periods are dependent on the composition of the loan portfolio, interest rate risk, liquidity position and our tax strategies. Our investment objectives are to provide and maintain liquidity, to maintain a balance of high quality, diversified investments to minimize risk, to provide collateral for pledging requirements, to establish an acceptable level of interest rate and credit risk, to provide an alternate source of low-risk investments when demand for loans is weak, to generate a favorable return and to assist in the financing needs of various local public entities, subject to credit quality review and liquidity concerns.

Our Board of Directors has the overall responsibility for the investment portfolio, including approval of our Investment Policy and the appointment of the Investment Committee. The Investment Committee is responsible for the approval of investment strategies and monitoring investment performance. The execution of specific investment initiatives and the day-to-day oversight of our investment portfolio is the responsibility of the Chief Executive Officer and the Chief Financial Officer. These officers, and others designated by the Board, are authorized to execute investment transactions up to specified limits based on the type of security without prior approval of the Investment Committee. Transactions exceeding these limitations require the approval of two of these officers, one of whom must be either the Chief Executive Officer or the Chief Financial Officer. Individual investment transactions are reviewed and approved by the Board of Directors on a monthly basis, while portfolio composition and performance are reviewed at least quarterly by the Investment Committee. Management determines the appropriate classification of securities at the date individual securities are acquired, and the appropriateness of such classification is reassessed at each balance sheet date.

Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost. Securities purchased and held principally for the purpose of trading in the near



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term are classified as trading securities. These securities are carried at fair value, with unrealized gains and losses recognized in earnings. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as available for sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss), net of taxes.

At June 30, 2010, our investment portfolio, which consisted solely of available for sale securities, totaled \$182.2 million and represented 20.5% of assets. Our securities consisted primarily of agency mortgage-backed securities issued by Fannie Mae, Freddie Mac and Ginnie Mae with stated final maturities of 30 years or less, U.S. Government and agency obligations, private-label mortgage-backed securities with maturities of 30 years or less and government-sponsored enterprises securities with maturities of 20 years or less and corporate debt securities.

### **Deposit Activities and Other Sources of Funds**

**General.** Deposits, other borrowings, repayments on loans and investment securities are the major sources of our funds for lending and other investment purposes. Loan and investment security repayments are a relatively stable source of funds, while deposit flows and loan and mortgage related investment security prepayments are significantly influenced by general interest rates and money market conditions.

**Deposit Accounts.** Substantially all of our depositors are residents of the State of Connecticut. We attract deposits in our market areas through advertising and through the offering of a broad selection of deposit instruments, including noninterest-bearing demand accounts (such as checking accounts), interest-bearing accounts (such as NOW and money market accounts), regular savings accounts and certificates of deposit. CDARS deposits, which are generally offered to in-market retail and commercial customers, offer our customers the ability to receive Federal Deposit Insurance Corporation insurance on deposits up to \$50.0 million. We also utilize brokered deposits, which were \$3.8 million at June 30, 2010, \$1.8 million of which were CDARS deposits. We do not currently utilize brokered deposits as a primary funding source. Rather, we occasionally maintain a minimal amount of such deposits to ensure our access to another liquidity source should the need arise. Deposit account terms vary according to the minimum balance required, the time periods the funds must remain on deposit and the interest rate, among other factors. In determining the terms of our deposit accounts, we consider the rates offered by our competition, our liquidity needs, profitability to us, matching deposit and loan products and customer preferences and concerns. We generally review our deposit mix and pricing bi-weekly. Our current strategy is to offer competitive rates but not be the market leader in every account type and maturity.

**Cash Management Services.** We also offer a variety of deposit accounts designed for the businesses operating in our market area. Our business banking deposit products include a commercial checking account and checking accounts specifically designed for small businesses and non-profit organizations. We also offer remote capture products for business customers to meet their online banking needs. Additionally, we offer sweep accounts and money market accounts for businesses. We are seeking to increase our commercial deposits through the offering of these types of cash management products.

**Borrowings.** We utilize borrowings from the Federal Home Loan Bank of Boston to supplement our supply of lendable funds and to meet deposit withdrawal requirements. As of June 30, 2010, Savings Institute had outstanding borrowings of \$114.2 million with the Federal Home Loan Bank.

The Federal Home Loan Bank functions as a central reserve bank providing credit for its member financial institutions. As a member, we are required to own capital stock in the Federal Home Loan Bank and are authorized to apply for advances on the security of such stock and certain of our whole first mortgage loans and other assets (principally mortgage related securities which are obligations of, or guaranteed by, the United States), provided certain standards related to creditworthiness have been met. Advances are made under several different programs, each having its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based either on a fixed percentage of an institution's net worth or on the Federal Home Loan Bank's assessment of the institution's creditworthiness.

**Junior Subordinated Debt Owed to Unconsolidated Trust.** In 2006, SI Capital Trust II (the Trust), a business trust, issued \$8.0 million of trust preferred securities in a private placement and issued approximately 248 shares of common stock at \$1,000 par value to SI Financial Group. The Trust has no independent assets or operations and was formed to issue trust preferred securities and invest the proceeds in an equivalent amount of junior subordinated debentures issued by SI Financial Group. The trust preferred securities mature in 30 years and bear interest at three-month LIBOR plus 1.70%. The interest rate on these securities at June 30, 2010 was 2.24%. SI Financial Group may redeem the trust preferred securities, in whole or in part, on or after September 15, 2011, or earlier under certain conditions.

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On July 1, 2010, SI Financial Group entered into an interest rate swap agreement with a third party financial institution with a notional amount of \$8.0 million whereby the counterparty will pay a variable rate equal to three-month LIBOR and SI Financial Group will pay a fixed rate of 2.44%. The agreement becomes effective on December 15, 2010 and terminates on December 15, 2015. This agreement was designated as a cash flow hedge against the trust preferred securities issued by SI Capital Trust II. This effectively fixes the interest rate on the \$8.0 million of trust preferred securities at 4.14% for the period December 15, 2010 through December 15, 2015.

The debentures are the sole assets of the Trust and are subordinate to all of SI Financial Group's existing and future obligations for borrowed money, its obligations under letters of credit and certain derivative contracts and any guarantees by SI Financial Group of any such obligations. The trust preferred securities generally rank equal to the trust common securities in priority of payment, but rank before the trust common securities if and so long as SI Financial Group fails to make principal or interest payments on the debentures. Concurrently with the issuance of the debentures and the trust preferred and common securities, SI Financial Group issued a guarantee related to the trust securities for the benefit of the holders. SI Financial Group's obligations under the guarantee and SI Financial Group's obligations under the debentures, the related indentures and the trust agreement relating to the trust securities, constitute a full and unconditional guarantee by SI Financial Group of the obligations of the Trust under the trust preferred securities. If SI Financial Group defers interest payments on the junior subordinated debt, or otherwise is in default of the obligations, SI Financial Group would be prohibited from making dividend payments to its shareholders.

The debentures are also subject to redemption before September 15, 2011, at a specified price after the occurrence of certain events that would either have a negative tax effect on the Trust or SI Financial Group or would result in the Trust being treated as an investment company that is required to be registered under the Investment Company Act of 1940. Upon repayment of the debentures at their stated maturity or following their redemption, the Trust will use the proceeds of such repayment to redeem an equivalent amount of outstanding trust preferred securities and trust common securities.

**Other Borrowings.** SI Financial Group occasionally utilizes collateralized borrowings, which represent loans sold that do not meet the criteria for derecognition, due primarily to recourse and other provisions that could not be measured at the date of transfer. Such borrowings are derecognized when all recourse and other provisions that could not be measured at the time of transfer either expire or become measurable. SI Financial Group had no collateralized borrowings at June 30, 2010.

## **Trust Services**

Savings Institute's trust department provides fiduciary services, investment management and retirement services, to individuals, partnerships, corporations and institutions. Additionally, Savings Institute acts as guardian, conservator, executor or trustee under various trusts, wills and other agreements. Savings Institute has implemented comprehensive policies governing the practices and procedures of the trust department, including policies relating to investment of trust property, maintaining confidentiality of trust records, avoiding conflicts of interest and maintaining impartiality. Consistent with its operating strategy, Savings Institute will continue to emphasize the growth of its trust business to accumulate assets and increase fee-based income. At June 30, 2010, trust assets under administration were \$136.3 million, consisting of 306 accounts, the largest of which totaled \$11.5 million, or 8.5%, of the trust department's total assets. As of June 30, 2010, SI Trust Servicing provided trust outsourcing services to 14 clients, consisting of 7,839 accounts totaling \$5.5 billion in assets. For the six months ended June 30, 2010 and for the years ended December 31, 2009 and 2008, total trust services revenue was \$2.0 million, \$3.7 million and \$3.6 million, respectively.

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SI Financial Group conducts its business through its executive office at 803 Main Street, Willimantic, Connecticut, its 21 branch offices located in Connecticut and its trust servicing office located in Rutland, Vermont. Of the 22 offices, 4 are owned and 18 are leased. Lease expiration dates range from 2011 to 2028 with renewal options of 5 to 20 years.

Office Locations	Number of Offices
<i>Connecticut:</i>	
New London County	8
Windham County	7
Tolland County	3
Hartford County	2
Middlesex County	1
<i>Vermont:</i>	
Rutland County	1
<b>Total:</b>	<b>22</b>

Additionally, Savings Institute owns or leases three other properties used, in part, for banking operations and an employee training center. The total net book value of the properties at June 30, 2010 was \$9.5 million. *See Notes 6 and 12 in SI Financial Group's Consolidated Financial Statements included in this prospectus for more information.*

**Personnel**

As of June 30, 2010, we had 241 full-time employees and 31 part-time employees. We believe our relationship with our employees is good.

**Legal Proceedings**

Periodically, there have been various claims and lawsuits against us, such as claims to enforce liens, condemnation proceedings on properties in which we hold security interests, claims involving the making and servicing of real property loans and other issues incident to our business. We are not a party to any pending legal proceedings that we believe would have a material adverse effect on our financial condition, results of operations or cash flows.

**Subsidiaries**

SI Financial Group's subsidiaries include Savings Institute Bank and Trust Company and SI Capital Trust II.

The following are descriptions of Savings Institute's wholly-owned subsidiaries.

**803 Financial Corp.** 803 Financial Corp. was established in 1995 as a Connecticut corporation to maintain an ownership interest in a third-party registered broker-dealer, Infinex Investments, Inc. Infinex operates offices at Savings Institute and offers customers a complete range of nondeposit investment products, including mutual funds, debt, equity and government securities, retirement accounts, insurance products and fixed and variable annuities. Savings Institute receives a portion of the commissions generated by Infinex from sales to customers. Due to a regulatory restriction on federally-chartered thrifts, on December 31, 2004, 803 Financial Corp. sold its interest in Infinex to SI Financial Group. As a result, 803 Financial Corp. has no other holdings or business activities.

**SI Realty Company, Inc.** SI Realty Company, Inc., established in 1999 as a Connecticut corporation, holds real estate owned by Savings Institute, including foreclosure properties. At June 30, 2010, SI Realty Company, Inc. had \$4.6 million in assets.

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***SI Mortgage Company.*** In January 1999, Savings Institute formed SI Mortgage Company to manage and hold loans secured by real property. SI Mortgage Company qualifies as a passive investment company, which exempts it from Connecticut income tax under current law. Income tax savings to Savings Institute from the use of a passive investment company was \$89,000 for the six months ended June 30, 2010 and \$2,000 and \$219,000 for the years ended December 31, 2009 and 2008, respectively.



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## **Management's Discussion and Analysis of Results of Operations and Financial Conditions**

The objective of this section is to help potential investors understand our views on our results of operations and financial condition. You should read this discussion in conjunction with the consolidated balance sheets as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2009 and the unaudited consolidated interim financial statements as of June 30, 2010 and 2009 and for the six months periods then ended, that appear at the end of this prospectus.

### **General Overview**

We conduct community banking activities by accepting deposits and making loans in our market area. Our lending products include residential mortgage loans, multi-family and commercial real estate loans and loans guaranteed by the Small Business Administration and United States Department of Agriculture and, to a lesser extent, construction, commercial business and consumer loans. We also maintain an investment portfolio consisting primarily of mortgage-backed securities, U.S. government and agency obligations, securities of government-sponsored enterprises and corporate debt securities, to manage our liquidity and interest rate risk. Our loan and investment portfolios are funded with deposits as well as collateralized borrowings from the Federal Home Loan Bank of Boston and commercial banks.

**Income.** Our primary source of pre-tax income is net interest income. Net interest income is the difference between interest income, which is the income that we earn on our loans and investments, and interest expense, which is the interest that we pay on our deposits and borrowings. Our net interest income is affected by a variety of factors, including the mix of interest-earning assets in our portfolio and changes in levels of interest rates. Growth in net interest income is dependent upon our ability to prudently manage the balance sheet for growth, combined with how successfully we maintain or increase net interest margin, which is net interest income as a percentage of average interest-earning assets.

A secondary source of income is noninterest income, or other income, which is revenue that we receive from providing products and services. The majority of our noninterest income generally comes from service charges (mostly from service charges on deposit accounts and mortgage and electronic banking) and revenue we generate from our wealth management services, which includes our insurance, investment and trust operations. We also generate noninterest income through mortgage banking fees as we originate substantially all of our fixed-rate one- to four-family residential conforming loans for sale in the secondary market with the servicing retained. We also earn income on bank-owned life insurance and recognize income from the sale of securities.

**Provision for Loan Losses.** The allowance for loan losses is maintained at a level representing management's best estimate of known and inherent losses in the loan portfolio, based upon management's evaluation of the portfolio's collectibility. The allowance is established through the provision for loan losses, which is charged against income. Charge-offs, if any, are charged to the allowance. Subsequent recoveries, if any, are credited to the allowance. Allocation of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

**Expenses.** The noninterest expense we incur in operating our business consists of salaries and employee benefits, occupancy and equipment expenses, computer and electronic banking services, outside professional fees, marketing and advertising expenses, Federal Deposit Insurance Corporation premiums and regulatory assessments and various other miscellaneous expenses.

Our largest noninterest expense is for salaries and employee benefits, which consists primarily of salaries and wages paid to our employees, payroll taxes, expenses for health insurance, retirement plans, director and committee fees and other employee benefits, including employer 401(k) plan contributions, employee stock ownership plan allocations and equity incentive awards, such as stock options and shares of restricted stock.

Occupancy and equipment expenses include the fixed and variable costs of buildings such as depreciation charges, maintenance, real estate taxes and costs of utilities. Depreciation of premises and equipment is computed using the straight-line method based on the useful lives of the related assets, which range from three to 40 years. Leasehold improvements are amortized over the shorter of the useful life of the asset or the term of the lease.



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Computer and electronic banking services includes fees to our third-party processing service and fees related to our automatic teller machines and debit cards.

Professional fees include fees paid to our independent auditors, the firm that conducts our internal audit, attorneys, primarily in connection with resolution of problem assets, compensation consultants and certain costs associated with being a public company.

Marketing expenses include expenses for advertisements, promotions and premium items and public relations expenses.

Federal Deposit Insurance Corporation and regulatory assessments are a specified percentage of assessable deposits, depending on the risk characteristics of the institution. Due to losses incurred by the Deposit Insurance Fund in 2008 from failed institutions, and anticipated future losses, the Federal Deposit Insurance Corporation increased its assessment rates for 2009 and charged a special assessment to increase the balance of the insurance fund. Our special assessment amounted to \$393,000. We also are assessed by our banking regulators.

Other expenses include expenses for stationary, printing, supplies, telephone, postage, contributions and donations, insurance premiums, certain public company expenses and other fees and expenses.

## **Our Business Strategy**

Our mission is to operate and grow a profitable community-oriented financial institution. SI Financial Group plans to achieve this by continuing its strategies of:

**Offering a full range of financial products and services.** We have a long tradition of focusing on the needs of consumers and small and medium-sized businesses in the community and being an active corporate citizen. We believe that our community orientation, quicker decision-making process and customized products are attractive and distinguish us from the larger regional banks that operate in our market area. In this context, we strive to become a financial services company offering one-stop shopping for all of our customers financial needs through banking, investments, insurance and trust products and services. We believe that our broad array of product offerings deepen our relationships with our current customers and entice new customers to begin banking with us, ultimately increasing fee income and profitability.

**Actively managing our balance sheet and diversifying our asset mix.** The current economic recession has underscored the importance of a strong balance sheet. We manage our balance sheet by: (1) prudently increasing the percentage of our assets consisting of multi-family and commercial real estate and commercial business loans, which offer higher yields, shorter maturities and more sensitivity to interest rate fluctuations; (2) managing our interest rate risk by diversifying the type and maturity of our assets in our loan and investment portfolios and monitoring the maturities in our deposit portfolio; and (3) maintaining strong capital levels and liquidity. Multi-family and commercial real estate and commercial business loans increased \$13.3 million for the six months ended June 30, 2010 and \$28.0 million and \$36.7 million for the years ended December 31, 2009 and 2008, respectively, and comprised 46.0% of total loans at June 30, 2010. We intend to continue to pursue the opportunities from the many multi-family and commercial properties and businesses located in our market area.

**Continuing conservative underwriting practices and maintaining a high quality loan portfolio.** We believe that strong asset quality is a key to long-term financial success. We have sought to maintain a high level of asset quality and moderate credit risk by using conservative underwriting standards and by diligent monitoring and collection efforts. Nonperforming loans decreased from \$9.3 million at December 31, 2008 to \$4.3 million at June 30, 2010. At June 30, 2010, nonperforming loans were 0.70% of the total loan portfolio and 0.48% of total assets. Although we intend to increase our multi-family and commercial real estate and commercial business lending, we intend to continue our philosophy of managing large loan exposures through conservative loan underwriting and credit administration standards.

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**Increasing core deposits.** Our primary source of funds is retail deposit accounts. At June 30, 2010, 55.2% of our deposits were core deposits, consisting of demand, savings and money market accounts. We value core deposits because they represent longer-term customer relationships and a lower cost of funding compared to certificates of deposit. Core deposits have continued to increase primarily due to the investments we have made in our branch network, new product offerings, competitive interest rates and the movement of customer funds out of riskier investments, including the stock market. We intend to continue to increase our core deposits and to focus on

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gaining market share in counties outside of Windham County by continuing to offer exceptional customer service, cross-selling our loan and deposit products and trust, insurance and investment services and increasing our commercial deposits from small and medium-sized businesses through additional business banking and cash management products.

**Supplementing fee income through expanded mortgage banking operations.** We view the changing regulatory landscape and historically low interest rate environment as an opportunity to gain noninterest income by leveraging our expertise in originating residential mortgages and selling such increased originations in the secondary market. This strategy enables us to have a much larger lending capacity, provide a more comprehensive product offering and reduce the interest rate, prepayment and credit risks associated with originating residential loans for retention in our loan portfolio. Further, this strategy allows us to be more flexible with the single-family residential loans we maintain for investment. To accelerate this initiative, we hired two additional mortgage originators in 2010 and intend to hire at least one more originator in 2011. The increased capital we raise from this offering may allow us to maintain a greater amount of loans held for sale, which will allow us to increase our mortgage banking operations.

**Grow through acquisitions.** We intend to pursue expansion opportunities in areas in or adjacent to our existing market area in strategic locations that maximize growth opportunities or with companies that add complementary products to our existing business. We believe that the current economic recession will increase the rate of consolidation in the banking industry. We will look to be opportunistic to expand through the acquisition of banks or other financial service companies and believe additional capital will better position us to take advantage of those opportunities. While we periodically conduct informal discussion with other parties, we currently do not have any specific plans for any such acquisitions.

### **Critical Accounting Policies**

The discussion and analysis of the financial condition and results of operations are based on our consolidated financial statements, which are prepared in conformity with generally accepted accounting principles in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of income and expenses. We consider the accounting policies discussed below to be critical accounting policies. The estimates and assumptions that we use are based on historical experience and various other factors and are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions, resulting in a change that could have a material impact on the carrying value of our assets and liabilities and our results of operations.

**Allowance for Loan Losses.** Determining the amount of allowance for loan losses necessarily involves a high degree of judgment. Management reviews the level of the allowance on a monthly basis and establishes the provision for loan losses based on the size and the composition of the loan portfolio, delinquency levels, loss experience, economic conditions and other factors related to the collectability of the loan portfolio. The level of the allowance for loan losses fluctuates primarily due to changes in the size and composition of the loan portfolio and in the level of nonperforming loans, classified assets and charge-offs. A portion of the allowance is established by segregating the loans by loan category and assigning allocation percentages based on our historical loss experience, delinquency trends, economic conditions and other qualitative factors. The applied loss factors are re-evaluated quarterly to ensure their relevance in the current economic environment. Accordingly, increases in the size of the loan portfolio and the increased emphasis on commercial real estate and commercial business loans, which carry a higher degree of risk of default and, thus, a higher allocation percentage, increases the allowance. Additionally, a portion of the allowance is established based on the level of specific nonperforming loans and classified assets.

Although management believes that it uses the best information available to establish the allowance for loan losses, which is based on estimates that are susceptible to change, future additions to the allowance may be necessary as a result of changes in economic conditions and other factors. Additionally, our regulators, as a part of their examination process, periodically review our allowance for loan losses and may require us to increase our allowance for loan losses by recognizing additional provisions for loan losses charged to expense, or to decrease our allowance for loan losses by recognizing loan charge-offs. *See Notes 1 and 4 in SI Financial Group's Consolidated Financial Statements for additional information.*

**Other-Than-Temporary Impairment of Securities.** One of the significant estimates related to securities is the evaluation of investments for other-than-temporary impairment. Marketable equity securities are evaluated for other-than-

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temporary impairment based on the severity and duration of the impairment and, if deemed to be other-than-temporary, the declines in fair value are reflected in earnings as realized losses. For those debt securities for which the fair value is less than its amortized cost and SI Financial Group does not intend to sell such security and it is not more likely than not that it will be required to sell such security prior to the recovery of its amortized cost basis (which may be maturity) less any credit losses, the credit-related other-than-temporary impairment loss is recognized as a charge to earnings. Noncredit-related other-than-temporary impairment losses for debt securities are recognized in other comprehensive income (loss), net of applicable taxes.

The evaluation of securities for impairment is a quantitative and qualitative process, which is subject to risks and uncertainties and is intended to determine whether declines in the fair value of investments should be recognized in current period earnings. The risks and uncertainties include changes in general economic conditions, the issuer's financial condition or future prospects, the effects of changes in interest rates or credit spreads and the expected recovery period. Management evaluates securities for other-than-temporary impairment at least on a quarterly basis and more frequently when economic or market conditions warrant such evaluation. *See Notes 1 and 3 in SI Financial Group's Consolidated Financial Statements for additional information.*

**Deferred Income Taxes.** SI Financial Group uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. If current available information raises doubt as to the realization of the deferred tax assets, a valuation allowance is established. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. SI Financial Group exercises significant judgment in evaluating the amount and timing of recognition of the resulting tax assets and liabilities. These judgments require us to make projections of future taxable income. These judgments and estimates, which are inherently subjective, are reviewed periodically as regulatory and business factors change. A reduction in estimated future taxable income may require SI Financial Group to record a valuation allowance against its deferred tax assets. A valuation allowance would result in additional income tax expense in the period, which would negatively affect earnings. *See Notes 1 and 10 in SI Financial Group's Consolidated Financial Statements.*

**Impairment of Long-Lived Assets.** SI Financial Group is required to record certain assets it has acquired, including identifiable intangible assets such as core deposit intangibles, goodwill and certain liabilities that it acquired at fair value, which may involve making estimates based on third-party valuations, such as appraisals or internal valuations based on discounted cash flow analyses or other valuation techniques. Further, long-lived assets, including intangible assets and premises and equipment, that are held and used by us, are presumed to have a useful life. The determination of the useful lives of intangible assets is subjective, as is the appropriate amortization period for such intangible and long-lived assets. Additionally, long-lived assets are reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If impairment is indicated by that review, the asset is written down to its estimated fair value through a charge to noninterest expenses. Testing for impairment is a subjective process, the application of which could result in different evaluations of impairment. *See Notes 1, 6 and 7 in SI Financial Group's Consolidated Financial Statements for additional information.*

## **Balance Sheet Analysis**

**General.** Total assets increased \$17.1 million, or 2.0%, to \$889.4 million at June 30, 2010 from \$872.4 million at December 31, 2009, primarily due to increases of \$21.9 million in cash and cash equivalents and \$1.4 million in loans held for sale, offset by decreases of \$1.9 million in other real estate owned, \$1.4 million in securities, \$1.3 million in net deferred tax assets and \$1.2 million in net loans receivable. Cash and cash equivalents increased as a result of an increase in deposits. During the first half of 2010, SI Financial Group acquired four properties with a net carrying value of \$1.1 million and sold seven other real estate owned properties with an aggregate carrying value of \$2.9 million.

Total assets increased \$19.2 million, or 2.3%, to \$872.4 million at December 31, 2009, as compared to \$853.1 million at December 31, 2008, primarily due to increases in securities, prepaid Federal Deposit Insurance Corporation assessment and other real estate owned, offset by decreases in net loans receivable and net deferred tax assets. The prepaid Federal Deposit Insurance Corporation assessment of \$3.5 million represents the estimated Federal Deposit Insurance Corporation assessment for the years of 2010 through 2012. As assessments are incurred, a charge will be made to earnings with an offsetting credit to the prepaid asset. Other real estate owned increased \$3.7 million, and consists of four residential and four commercial real estate properties. Cash and cash equivalents increased \$1.0 million to \$24.2 million at December 31, 2009.

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Total assets increased \$62.9 million, or 8.0%, to \$853.1 million at December 31, 2008, as compared to \$790.2 million at December 31, 2007, primarily due to increases in net loans receivable, securities, and to a lesser extent, net deferred tax assets, intangible assets and cash and cash equivalents. Net deferred tax assets increased \$4.7 million, to \$7.9 million at December 31, 2008 largely resulting from the deferred taxes associated with the increase in the unrealized holding losses on securities. Intangible assets, consisting of core deposit intangibles and goodwill, increased \$3.7 million, to \$4.3 million at December 31, 2008 due to Savings Institute's Colchester and New London, Connecticut branch acquisitions. Cash and cash equivalents increased \$2.5 million to \$23.2 million at December 31, 2008.

**Loans.** The net loan portfolio decreased \$1.2 million for the first six months of 2010. Loan originations decreased \$40.6 million, or 44.5%, during 2010 as related to the comparable period in 2009 due to reduced demand and more prudent underwriting standards, as a result of adverse economic conditions. Changes in the loan portfolio consisted of the following:

**Residential Mortgage Loans.** Residential mortgage loans continue to represent the largest segment of the loan portfolio at June 30, 2010, comprising 48.0% of the total loan portfolio. Residential mortgage loans decreased \$13.8 million, or 4.5%. Contributing to the decrease was the sale of \$20.0 million of longer-term fixed-rate residential mortgage loans. Loan originations for residential mortgage loans decreased \$43.4 million for the first half of 2010 compared to the same period in 2009.

**Commercial Loans.** At June 30, 2010, the commercial loan portfolio, which includes multi-family and commercial real estate and commercial business loans, represented 46.0% of total loans. Multi-family and commercial real estate loans increased \$2.0 million, or 1.3%. Loan originations for multi-family and commercial real estate loans increased \$1.4 million during the first six months of 2010 compared to the same period in 2009. Commercial business loans increased \$11.3 million, or 10.5%, for 2010 primarily due to the purchase of \$19.6 million in United States Department of Agriculture and Small Business Administration loans that are guaranteed by the U.S. Government. As a result of the reduced loan demand, loan originations for commercial business loans declined \$322,000 during the first half of 2010 compared to the first half of 2009.

**Consumer Loans.** Consumer loans represent 4.5% of the total loan portfolio. Consumer loans increased \$1.4 million during the first half of 2010. Increases in home equity loans of \$1.4 million were offset by decreases in other consumer loans. Loan originations for consumer loans, primarily home equity lines of credit, increased \$1.8 million for the six months ended June 30, 2010 from the comparable period in 2009.

Despite increases in residential mortgage loan originations, net loans receivable decreased \$9.6 million for 2009 from the sale of \$56.3 million in longer-term fixed-rate residential mortgage loans and lower commercial real estate and business loans originations. Overall loan originations increased \$4.7 million, or 3.3%, during the year ended December 31, 2009 compared to the same period in 2008 due primarily to a decrease in market interest rates for residential mortgage loans. The conversion of construction loans to permanent mortgage loans and principal pay-offs contributed to the decrease in construction loans. Changes in the loan portfolio consisted of the following:

**Residential Mortgage Loans.** Residential mortgage loans continue to represent the largest segment of the loan portfolio at December 31, 2009, comprising 50.1% of total loans. Due to residential mortgage loan sales, residential mortgage loans decreased \$26.2 million, despite an increase of \$55.7 million in residential mortgage loan originations over 2008. The increase in residential mortgage loan originations was partially offset by the sale of \$56.3 million in residential mortgage loans from current production during 2009.

**Commercial Loans.** At December 31, 2009, the commercial loan portfolio represented 43.8% of the total loan portfolio. Multi-family and commercial real estate loans increased \$1.1 million, or 0.7%. Commercial business loans increased \$26.9 million for 2009 as a result of the purchase of \$40.9 million in United States Department of Agriculture and Small Business Administration loans that are guaranteed by the U.S. government. SI Financial Group's continued strategy is to increase the percentage of SI Financial Group's assets in commercial loans, including commercial real estate and commercial business loans. To accomplish this goal, SI Financial Group is offering additional banking services to its customers and promoting stronger business development to

obtain new business banking relationships, while maintaining strong credit quality.

**Consumer Loans.** Consumer loans represent 4.3% of the total loan portfolio. Consumer loans increased \$4.0 million, or 18.0%, resulting from an increase in home equity lines of credit.

Net loans receivable increased \$29.7 million, or 5.1%, to \$617.3 million at December 31, 2008. Of the \$29.7 million increase in net loans receivable, \$7.4 million represented primarily commercial loans acquired in connection with the



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Colchester and New London, Connecticut branch acquisitions during the first quarter of 2008. The increase in net loans receivable included increases in multi-family and commercial real estate loans and residential mortgage loans of \$25.9 million and \$2.0 million, respectively, commercial business loans of \$10.8 million and consumer loans of \$1.0 million, offset by a decrease in construction loans of \$9.3 million. The conversion of construction loans to permanent mortgage loans and principal pay-offs contributed to the decrease in construction loans. Loan originations increased \$5.5 million during 2008 from the comparable period of 2007. During the year ended December 31, 2008, we sold \$14.2 million of longer-term fixed-rate residential mortgage loans. Changes in the loan portfolio consisted of the following:

**Residential Mortgage Loans.** Residential mortgage loans continue to represent the largest segment of our loan portfolio as of December 31, 2008, comprising 53.5% of total loans. Despite mortgage loan sales, residential mortgage loans increased \$2.0 million. Loan originations for residential mortgage loans decreased \$6.9 million for 2008 compared to 2007.

**Commercial Loans.** Multi-family and commercial real estate loans increased \$25.9 million, or 19.5%, due to an increase of \$12.7 million in loan originations during 2008. Commercial business loans increased \$10.8 million for 2008 as a result of loan purchases of \$12.3 million and an increase in loan originations of \$2.5 million. Of the \$7.4 million of net loans receivable acquired in the branch acquisitions, \$3.7 million and \$3.5 million represented commercial real estate and commercial business loans, respectively. As of December 31, 2008, the commercial loan portfolio represented 38.5% of the Company's total loan portfolio. Our continued strategy is to increase the percentage of our assets in commercial loans, including commercial real estate and commercial business loans. To accomplish this goal, we are offering additional banking services to our customers and promoting stronger business development to obtain new business banking relationships, while maintaining strong credit quality.

**Consumer Loans.** Consumer loans represent 3.6% of the total loan portfolio. Consumer loans increased \$1.0 million, or 4.8%, despite a decrease of \$2.8 million in loan originations during 2008.

The following table sets forth the composition of our loan portfolio at the dates indicated.

<i>(Dollars in thousands)</i>	At June 30,		2009		2008		At December		2006		2005	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
<b>Real estate loans:</b>												
Residential 1 to 4 family	\$ 292,447	47.95%	\$ 306,244	50.12%	\$ 332,399	53.46%	\$ 330,389	55.87%	\$ 309,695	53.65%	\$ 266,739	51.66%
Multi-family and commercial	161,798	26.53	159,781	26.15	158,693	25.52	132,819	22.46	118,600	20.55	100,926	19.54
Construction	9,327	1.53	11,400	1.87	27,892	4.49	37,231	6.29	44,647	7.73	47,325	9.16
<b>Total real estate loans</b>	<b>463,572</b>	<b>76.01</b>	<b>477,425</b>	<b>78.14</b>	<b>518,984</b>	<b>83.47</b>	<b>500,439</b>	<b>84.62</b>	<b>472,942</b>	<b>81.93</b>	<b>414,990</b>	<b>80.36</b>
<b>Consumer loans:</b>												
Home Equity	23,961	3.93	22,573	3.69	18,762	3.02	17,774	3.01	18,489	3.20	20,562	3.98
Other	3,478	0.57	3,513	0.57	3,345	0.54	3,330	0.56	10,616	1.84	3,294	0.64
<b>Total consumer loans</b>	<b>27,439</b>	<b>4.50</b>	<b>26,086</b>	<b>4.26</b>	<b>22,107</b>	<b>3.56</b>	<b>21,104</b>	<b>3.57</b>	<b>29,105</b>	<b>5.04</b>	<b>23,856</b>	<b>4.62</b>
<b>Commercial business loans:</b>												
SBA and USDA guaranteed	90,777	14.89	77,310	12.65	45,704	7.35	42,267	7.15	51,358	8.90	57,570	11.15
Other	28,075	4.60	30,239	4.95	34,945	5.62	27,583	4.66	23,813	4.13	19,982	3.87
<b>Total commercial business Loans</b>	<b>118,852</b>	<b>19.49</b>	<b>107,549</b>	<b>17.60</b>	<b>80,649</b>	<b>12.97</b>	<b>69,850</b>	<b>11.81</b>	<b>75,171</b>	<b>13.03</b>	<b>77,552</b>	<b>15.02</b>
<b>Total loans</b>	<b>609,863</b>	<b>100.00%</b>	<b>611,060</b>	<b>100.00%</b>	<b>621,740</b>	<b>100.00%</b>	<b>591,393</b>	<b>100.00%</b>	<b>577,218</b>	<b>100.00%</b>	<b>516,398</b>	<b>100.00%</b>

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Deferred loan origination costs, net of deferred fees	1,529	1,523	1,570	1,390	1,258	1,048
Allowance for loan losses	(4,878)	(4,891)	(6,047)	(5,245)	(4,365)	(3,671)
<b>Loans receivable, net</b>	<b>\$ 606,514</b>	<b>\$ 607,692</b>	<b>\$ 617,263</b>	<b>\$ 587,538</b>	<b>\$ 574,111</b>	<b>\$ 513,775</b>

**Table of Contents****Loan Maturity**

The following tables set forth certain information at December 31, 2009 regarding scheduled contractual maturities during the periods indicated. The tables do not include any estimate of prepayments which significantly shorten the average life of all loans and may cause our actual repayment experience to differ from that shown below. Demand loans having no stated schedule of repayments and no stated maturity are reported as due in one year or less. The amounts shown below exclude deferred loan fees and costs.

<i>(In thousands)</i>	Amounts Due In			Total Amount Due
	One Year or Less	More Than One Year to Five Years	More Than Five Years	
Real estate loans:				
Residential 1 to 4 family	\$ 86	\$ 8,611	\$ 297,547	\$ 306,244
Multi-family and commercial	204	4,234	155,343	159,781
Construction	5,933	80	5,387	11,400
<b>Total real estate loans</b>	<b>6,223</b>	<b>12,925</b>	<b>458,277</b>	<b>477,425</b>
Commercial business loans	9,893	9,110	88,546	107,549
Consumer loans	149	1,655	24,282	26,086
<b>Total loans</b>	<b>\$ 16,265</b>	<b>\$ 23,690</b>	<b>\$ 571,105</b>	<b>\$ 611,060</b>

The following table sets forth the dollar amount of all scheduled maturities of loans at December 31, 2009 that are due after December 31, 2010 and have either fixed interest rates or adjustable interest rates. The amounts shown below exclude unearned interest on consumer loans and deferred loan fees.

<i>(In thousands)</i>	Due After December 31, 2010		
	Fixed Rates	Floating or Adjustable Rates	Total
Real estate loans:			
Residential 1 to 4 family	\$ 207,468	\$ 98,690	\$ 306,158
Multi-family and commercial	12,622	146,955	159,577
Construction	4,362	1,105	5,467
<b>Total real estate loans</b>	<b>224,452</b>	<b>246,750</b>	<b>471,202</b>
Commercial business loans	38,264	59,392	97,656
Consumer loans	7,503	18,434	25,937
<b>Total loans</b>	<b>\$ 270,219</b>	<b>\$ 324,576</b>	<b>\$ 594,795</b>

**Securities.** Available for sale securities decreased \$1.4 million, or 0.7%, from \$183.6 million at December 31, 2009 to \$182.2 million at June 30, 2010. The sale of U.S. government and agency obligations contributed to the decline in securities. The reduction in net unrealized losses on available for sale securities resulted in a decrease in net deferred tax assets.

Available for sale securities increased \$20.9 million, or 12.8%, from \$162.7 million at December 31, 2008 to \$183.6 million at December 31, 2009 as a result of purchases of predominately U.S. government and agency obligations.

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Available for sale securities increased \$20.8 million, or 14.6%, from \$141.9 million at December 31, 2007 to \$162.7 million at December 31, 2008 as a result of purchases of predominately mortgage-backed securities with funds received, in part, from our Colchester and New London, Connecticut branch acquisitions.

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The following table sets forth the amortized cost and fair values of our securities portfolio at the dates indicated. All of our securities were classified as available for sale at the dates indicated.

(In thousands)	At June 30, 2010		2009		At December 31, 2008		2007	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Government and agency obligations	\$ 28,028	\$ 28,124	\$ 35,945	\$ 36,229	\$ 2,453	\$ 2,415	\$ 1,156	\$ 1,132
Government-sponsored enterprises	15,075	15,405	13,980	14,035	25,985	26,587	32,551	32,762
Mortgage-backed securities (1):								
Agency residential	92,541	96,480	89,751	93,099	81,383	83,651	74,026	74,758
Non-agency residential	13,889	12,906	18,690	16,219	36,347	30,463	18,158	18,106
Non-agency HELOC	4,157	3,456	4,328	2,196	3,089	2,816		
Corporate debt securities	10,341	10,478	6,979	7,321	5,901	5,958	500	500
Collateralized debt obligations	8,129	5,034	8,153	5,038	6,625	5,392	9,575	9,538
Obligations of state and political subdivisions	5,756	5,980	5,003	5,131	4,000	4,037	2,000	2,018
Tax-exempt securities	3,210	3,218	3,210	3,219	280	280	350	350
Foreign government securities	100	100	100	100	100	100	100	100
Total debt securities	181,226	181,181	186,139	182,587	166,163	161,699	138,416	139,264
Equity securities financial services	1,015	1,029	1,043	975	1,060	1,000	2,734	2,650
<b>Total available for sale securities</b>	<b>\$ 182,241</b>	<b>\$ 182,210</b>	<b>\$ 187,182</b>	<b>\$ 183,562</b>	<b>\$ 167,223</b>	<b>\$ 162,699</b>	<b>\$ 141,150</b>	<b>\$ 141,914</b>

(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.

We had no individual investments that had an aggregate book value in excess of 10% of our shareholders equity at June 30, 2010.

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The following table sets forth the amortized cost, weighted-average yields and contractual maturities of securities at June 30, 2010. Weighted-average yields on tax-exempt securities are not presented on a tax equivalent basis because the impact would be insignificant. Certain mortgage-backed securities and collateralized debt obligations have adjustable interest rates and will reprice periodically within the various maturity ranges. These repricing schedules are not reflected in the table below. At June 30, 2010, the amortized cost of mortgage-backed securities with adjustable rates totaled \$37.3 million.

(Dollars in thousands)	One Year or Less		More than One Year to Five Years		More than Five Years to Ten Years		More than Ten Years		Total	
	Amortized Cost	Weighted- average Yield	Amortized Cost	Weighted- average Yield	Amortized Cost	Weighted- average Yield	Amortized Cost	Weighted- average Yield	Amortized Cost	Weighted- average Yield
U.S. Government and agency obligations	\$ 2	2.30%	\$ 1,849	2.32%	\$ 6,327	2.97%	\$ 19,850	3.19%	\$ 28,028	3.09%
Government-sponsored enterprises	2,000	3.38	10,089	2.23	2,986	2.81			15,075	2.50
Mortgage-backed securities										
Agency residential			5,824	3.89	19,647	4.52	67,070	3.95	92,541	4.07
Non-agency residential							13,889	5.23	13,889	5.23
Non-agency HELOC							4,157	1.08	4,157	1.08
Corporate debt securities			8,430	2.58	911	2.31	1,000	4.67	10,341	2.76
Collateralized debt obligations							8,129	1.40	8,129	1.40
Obligations of state and political subdivisions			4,756	4.69	500	4.73	500	4.98	5,756	4.72
Tax-exempt securities	3,070	1.62	140	3.87					3,210	1.72
Foreign government securities	50	6.04	50	2.39					100	4.22
Total debt securities	5,122		31,138		30,371		114,595		181,226	
Equity securities financial services							1,015	2.17	1,015	2.17
<b>Total available for sale securities</b>	<b>\$ 5,122</b>	<b>2.35%</b>	<b>\$ 31,138</b>	<b>3.02%</b>	<b>\$ 30,371</b>	<b>3.97%</b>	<b>\$ 115,610</b>	<b>3.69%</b>	<b>\$ 182,241</b>	<b>3.58%</b>

During 2009, we adopted new guidance regarding recognition and presentation of other-than-temporary impairments, which makes the guidance more operational and improves the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This guidance does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis and more frequently when economic or market conditions warrant such an evaluation. The evaluation is based upon factors such as the creditworthiness of the issuers/guarantors, the underlying collateral, if applicable, and the continuing performance of the securities. Management also evaluates other facts and circumstances that may be indicative of an other-than-temporary impairment condition. This includes, but is not limited to, an evaluation of the type of security, length of time and extent to which the fair value has been less than cost and near-term prospects of the issuers.

Marketable equity securities are evaluated for other-than-temporary impairments based on the severity and duration of the impairment and, if deemed to be other-than-temporary, the declines in fair value are reflected in earnings as realized losses. For debt securities, other-than-temporary impairment is required to be recognized (1) if we intend to sell the security; (2) if it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis; or (3) the present value of expected cash flows is not sufficient to recover the entire amortized cost basis. For all impaired debt



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securities that we intend to sell, or more likely than not will be required to sell, the full amount of the depreciation is recognized as other-than-temporary impairments through earnings. Credit-related other-than-temporary impairments for all other impaired debt securities is recognized through earnings. Non-credit related other-than-temporary impairments for such debt securities is recognized in other comprehensive income (loss), net of applicable taxes. The adoption of this new guidance resulted in a cumulative effect adjustment of \$2.7 million (net of taxes) to retained earnings with a corresponding adjustment to accumulated other comprehensive loss on January 1, 2009. During the six months ended June 30, 2010 and the year ended December 31, 2009, we recognized additional other-than-temporary impairments for credit losses on debt securities of \$332,000 and \$228,000, 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 SI Financial Group's available for sale portfolio were other-than-temporarily impaired at June 30, 2010.

*U.S. Government and Agency Obligations and Government Sponsored Enterprises.* The unrealized losses on SI Financial Group's U.S. Government and agency obligations and government-sponsored enterprises related primarily to a widening of the rate spread to comparable treasury securities. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the decline in market value is attributable to changes in interest rates and not credit quality and because SI Financial Group does not intend to sell these securities and it is not more likely than not that SI Financial Group will be required to sell the securities before their anticipated recovery, which may be maturity, SI Financial Group does not consider these investments to be other-than-temporarily impaired at June 30, 2010.

*Mortgage-backed Securities Agency Residential.* The unrealized losses on SI Financial Group's agency residential mortgage-backed securities were caused by increases in the rate spread to comparable treasury securities. SI Financial Group does not expect these securities to settle at a price less than the amortized cost basis of the investments. Because SI Financial Group does not intend to sell the investments and it is not more likely than not that SI Financial Group will be required to sell the investments before the recovery of their amortized cost basis, which may be at maturity, SI Financial Group does not consider these investments to be other-than-temporarily impaired at June 30, 2010.

*Mortgage-backed Securities Non-agency Residential.* The unrealized losses on SI Financial Group's non-agency-residential mortgage-backed securities are primarily due to the fact that these securities continue to trade well below historic levels, particularly those backed by jumbo or hybrid loan collateral. In particular, three non-agency mortgage-backed securities displayed market pricing below book value and were rated below investment grade at June 30, 2010. At June 30, 2010, management evaluated credit rating details for the tranche owned, as well as credit information on subordinate tranches, potential future credit losses and loss analyses. Additionally, management reviewed reports prepared by an independent third party for certain non-agency mortgage-backed securities. SI Financial Group recorded other-than-temporary impairment on one of these non-agency mortgage-backed securities totaling \$899,000 related to credit, including \$332,000 during the six months ended June 30, 2010. SI Financial Group did not record any further impairment losses at June 30, 2010 because SI Financial Group does not intend to sell the investments and it is not more likely than not that SI Financial Group will be required to sell the investments before recovery of their amortized cost basis, which may be at maturity. *See the table of non-agency mortgage-backed securities rated below investment grade as of June 30, 2010 for more details.*

*Mortgage-backed Securities Non-agency HELOC.* The unrealized loss on SI Financial Group's non-agency HELOC mortgage-backed security is related to one security whose market has been illiquid. This security is collateralized by home equity lines of credit secured by first and second liens and insured by Financial Security Assurance. At June 30, 2010, management evaluated credit rating details, collateral support and loss analyses. All of the unrealized losses on this security relate to factors other than credit. Because SI Financial Group does not intend to sell this security and it is not more likely than not that SI Financial Group will be required to sell this security before the recovery of its amortized cost basis, which may be at maturity, SI Financial Group did not record an impairment loss at June 30, 2010.

*Collateralized Debt Obligations.* The unrealized losses on SI Financial Group's collateralized debt obligations related to investments in pooled trust preferred securities. The pooled trust preferred securities market continues to experience significant declines in market value as a result of market saturation. Transactions for pooled trust preferred securities have been limited and have occurred primarily as a result of distressed or forced liquidation sales.

Management evaluated current credit ratings, credit support and stress testing for future defaults related to SI Financial Group's pooled trust preferred securities. Management also reviewed analytics provided by the trustee and independent



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other-than-temporary impairment review and associated cash flow analyses performed by an independent third party. The unrealized losses on SI Financial Group's pooled trust preferred securities investments were 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 these investments. A number of lower tranche income issuances have foregone payments or have received payment in kind through increased principal allocations. SI Financial Group previously recorded other-than-temporary impairment losses on three pooled trust preferred securities investments totaling \$1.2 million related to credit factors. At June 30, 2010, based on the existing credit profile, management does not believe that these investments will suffer from any further credit-related losses. Because SI Financial Group does not intend to sell the investments and it is not more likely than not that SI Financial Group will be required to sell the investments before recovery of their amortized cost basis, which may be at maturity, SI Financial Group did not record additional impairment losses at June 30, 2010. See the table of collateralized debt obligations rated below investment grade as of June 30, 2010 for more details.

*Equity Securities.* SI Financial Group's investments in marketable equity securities consist of common and preferred stock of companies in the financial services sector. Management evaluated the near-term prospects of the issuers and SI Financial Group's ability and intent to hold the investments for a reasonable period of time sufficient for an anticipated recovery of fair value. Although the issuers have shown declines in earnings as a result of the weakened economy, no credit issues have been identified that cause management to believe that the declines in market value are other-than-temporary at June 30, 2010.

The following table details SI Financial Group's non-agency mortgage-backed securities that were rated below investment grade at June 30, 2010 (dollars in thousands).

Security	Class (1)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Lowest Credit Rating (2)	Total Credit Related OTTI (3)	Credit Support Coverage Ratios (4)
MBS 1	SSNR,AS	\$ 3,176	\$	\$ 498	\$ 2,678	CCC	\$	1.016
MBS 2	SSUP,AS	606		33	573	CC	899	0.512
MBS 3	PT,AS	511		10	501	CCC		0.878
		\$ 4,293	\$	\$ 541	\$ 3,752		\$ 899	

- (1) Class definitions: PT Pass Through, AS Accelerated, SSNR Super Senior, SSUP Senior Support.
- (2) SI Financial Group utilized credit ratings provided by Moody's, S&P and Fitch in its evaluation of issuers.
- (3) The other-than-temporary impairment amounts provided in the table represent cumulative credit loss amounts through June 30, 2010.
- (4) The credit support coverage ratio, which is the ratio that determines the multiple of credit support, is based on assumptions for the performance of the loans within the delinquency pipeline. The assumptions used are: current collateral support/((60 day delinquencies x .60)+(90 day delinquencies x .70)+(foreclosures x 1.00)+(other real estate x 1.00)) x .40 for loss severity.

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The following table details SI Financial Group's collateralized debt obligations that were rated below investment grade at June 30, 2010 (*dollars in thousands*).

Security	Class	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Lowest Credit Rating (1)	Total Credit-Related OTTI (2)	% of Current Defaults and Deferrals to Total Collateral
CDO 1	B1	\$ 1,000	\$	\$ 363	\$ 637	B+	\$	9.0
CDO 2	B3	1,000		367	633	B+		9.0
CDO 3	MEZ	88	2		90	CC	35	25.9
CDO 4	B	1,480		866	614	CCC+	376	21.1
CDO 5	C	163		122	41	C	809	23.8
CDO 6	A2	2,629		799	1,830	B+		28.4
CDO 7	A1	1,769		580	1,189	BB		31.4
		\$ 8,129	\$ 2	\$ 3,097	\$ 5,034		\$ 1,220	

(1) SI Financial Group utilized credit ratings provided by Moody's, S&P and Fitch in its evaluation of issuers.

(2) The other-than-temporary impairment amounts provided in the table represent cumulative credit loss amounts through June 30, 2010. See Notes 3 and 15 in the Consolidated Financial Statements included in this Prospectus for more details.

**Deposits.** Deposits, including mortgagors' and investors' escrow accounts, increased 2.4% to \$674.4 million at June 30, 2010. Interest-bearing deposits increased \$12.8 million, or 2.2%, which included increases in NOW and money market accounts of \$18.8 million and savings accounts of \$2.3 million, offset by a decrease in certificates of deposit of \$8.3 million. Noninterest-bearing deposits increased \$2.9 million. Deposit growth was the result of marketing and promotional initiatives, as well as competitively-priced deposit products.

Deposits, including mortgagors' and investors' escrow accounts, increased \$38.1 million, or 6.1%, in 2009, which included increases in NOW and money market accounts of \$33.1 million, noninterest-bearing demand deposits of \$7.8 million and savings accounts of \$784,000, offset by a decrease in certificates of deposit of \$3.5 million. The increase in deposits was the result of branch expansion, marketing initiatives and competitively-priced deposit products, such as our e.SI checking product, which increased \$12.7 million during 2009. Certificates of deposit decreased as customers transferred their deposits to certain higher-yielding NOW and money market products.

Deposits increased \$72.5 million, or 13.1%, to \$624.3 million at December 31, 2008. We experienced increases in certificates of deposit and NOW and money market accounts of \$40.9 million and \$36.5 million, respectively, offset by a decrease in savings accounts of \$5.8 million. Contributing to the increase in deposits was \$27.7 million in deposits assumed from our Colchester and New London, Connecticut branch acquisitions. Marketing and offerings of competitively-priced deposit products also contributed to the increase. Savings accounts decreased as customers transferred their deposits to certain higher-yielding NOW and money market products.

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The following table sets forth the balances of our deposit products at the dates indicated.

<i>(Dollars in thousands)</i>	At June 30, 2010		2009		At December 31, 2008		2007	
	Balance	Percent of Total	Balance	Percent of Total	Balance	Percent of Total	Balance	Percent of Total
Noninterest-bearing demand Deposits	\$ 68,259	10.09%	\$ 65,407	9.87%	\$ 57,647	9.23%	\$ 56,762	10.29%
NOW and money market accounts	239,538	35.39	220,759	33.33	187,699	30.07	151,237	27.41
Savings accounts (1)	65,928	9.74	64,903	9.80	64,119	10.27	69,876	12.66
Certificates of deposit (2)	303,056	44.78	311,309	47.00	314,811	50.43	273,897	49.64
<b>Total deposits</b>	<b>\$ 676,781</b>	<b>100.00%</b>	<b>\$ 662,378</b>	<b>100.00%</b>	<b>\$ 624,276</b>	<b>100.00%</b>	<b>\$ 551,772</b>	<b>100.00%</b>

- (1) Includes mortgagors and investors escrow accounts in the amount of \$2.3 million, \$3.6 million, \$3.6 million and \$3.4 million at June 30, 2010 and December 31, 2009, 2008 and 2007, respectively.
- (2) Includes brokered deposits of \$3.8 million, \$1.5 million, \$4.5 million and \$2.1 million at June 30, 2010 and December 31, 2009, 2008 and 2007, respectively.

The following table indicates the amount of jumbo certificates of deposit by time remaining until maturity at June 30, 2010. Jumbo certificates of deposit require minimum deposits of \$100,000.

Maturity Period at June 30, 2010 <i>(In thousands)</i>	Jumbo Certificates of Deposits
Three months or less	\$ 19,038
Over three through six months	22,847
Over six through twelve months	17,964
Over twelve months	41,520
<b>Total</b>	<b>\$ 101,369</b>

The following table sets forth the time deposits classified by rates at the dates indicated.

<i>(In thousands)</i>	At June 30, 2010		At December 31, 2008	
	2010	2009	2008	2007
0.01% 1.00%	\$ 35,327	\$ 29,852	\$ 715	\$ 662
1.01% 2.00%	84,104	51,722	25,106	17,340
2.01% 3.00%	102,215	87,402	50,717	10,751
3.01% 4.00%	36,877	86,632	163,095	21,207
4.01% 5.00%	42,806	50,382	67,869	167,520
5.01% 6.00%	1,727	5,319	7,309	56,293
6.01% greater				124
<b>Total</b>	<b>\$ 303,056</b>	<b>\$ 311,309</b>	<b>\$ 314,811</b>	<b>\$ 273,897</b>

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The following table sets forth the amount and maturities of time deposits classified by rates at June 30, 2010.

<i>(Dollars in thousands)</i>		Less than One Year	One to Two Years	Two to Three Years	Three to Four Years	More than Four Years	Total	Percent of Total Certificate Accounts
0.01%	1.00%	\$ 30,129	\$ 5,198	\$	\$	\$	\$ 35,327	11.66%
1.01%	2.00%	53,460	29,577	284	783		84,104	27.75
2.01%	3.00%	50,168	7,358	31,820	518	12,351	102,215	33.73
3.01%	4.00%	8,030	16,116	975	6,645	5,111	36,877	12.17
4.01%	5.00%	32,644	3,249	3,242	3,235	436	42,806	14.12
5.01%	6.00%	690	555	215	267		1,727	0.57
<b>Total</b>		<b>\$ 175,121</b>	<b>\$ 62,053</b>	<b>\$ 36,536</b>	<b>\$ 11,448</b>	<b>\$ 17,898</b>	<b>\$ 303,056</b>	<b>100.00%</b>

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**Borrowings.** Borrowings decreased \$1.9 million to \$122.4 million at June 30, 2010, resulting from net repayments of Federal Home Loan Bank advances.

Advances from the Federal Home Loan Bank decreased \$23.5 million, or 16.8%, for the year ended December 31, 2009 to \$116.1 million as Savings Institute repaid borrowings with excess cash from the increase of deposits. In addition to repayments and maturities of borrowings, Savings Institute restructured Federal Home Loan Bank borrowings and extended the maturities of certain advances during 2009 and 2010 as a result of the low interest rate environment. These borrowings were used to fund asset growth and increase liquidity.

Federal Home Loan Bank borrowings decreased from \$141.6 million at December 31, 2007 to \$139.6 million at December 31, 2008.

The following table sets forth outstanding balances and weighted-average interest rates for our Federal Home Loan Bank advances and trust preferred securities at and for the periods indicated.

<i>(Dollars in thousands)</i>	At or for the Six Months Ended June 30,		At or For the Years Ended December 31,		
	2010	2009	2009	2008	2007
<b>Maximum amount of advances outstanding at any month-end during the period:</b>					
Federal Home Loan Bank advances	\$ 121,100	\$ 143,600	\$ 143,600	\$ 147,664	\$ 141,619
Subordinated debt	8,248	8,248	8,248	8,248	15,465
<b>Average balance outstanding during the period:</b>					
Federal Home Loan Bank advances	\$ 116,151	\$ 138,893	\$ 131,460	\$ 143,697	\$ 114,960
Subordinated debt	8,248	8,248	8,248	8,248	10,463
<b>Weighted-average interest rate during the period:</b>					
Federal Home Loan Bank advances	3.67%	4.24%	4.15%	4.40%	4.59%
Subordinated debt	1.96	3.18	2.63	4.81	7.42
<b>Balance outstanding at end of period:</b>					
Federal Home Loan Bank advances	\$ 114,169	\$ 128,600	\$ 116,100	\$ 139,600	\$ 141,619
Subordinated debt	8,248	8,248	8,248	8,248	8,248
<b>Weighted-average interest rate at end of period:</b>					
Federal Home Loan Bank advances	3.63%	4.11%	3.61%	4.24%	4.53%
Subordinated debt	2.24	2.33	1.95	3.70	6.69

**Results of Operations for the Six Months Ended June 30, 2010 and 2009**

**General.** SI Financial Group reported net income of \$1.2 million for the six months ended June 30, 2010, an increase of \$1.8 million, compared to a net loss of \$563,000 for the six months ended June 30, 2009. The increase in net income was due to increases in noninterest income and net interest income and a decrease in the provision for loan losses, offset by an increase in noninterest expenses.

**Interest and Dividend Income.** For the six months ended June 30, 2010, interest and dividend income decreased \$1.9 million, or 8.7%, to \$20.3 million due to a lower yield earned on interest-earning assets, offset by an increase in the average balance of interest-earning assets of \$12.7 million, of which average securities increased \$22.9 million. The yield on interest-earning assets decreased 56 basis points to 4.93%, with the yield on securities contributing the largest decrease of 132 basis points to 3.49%. SI Financial Group experienced declines in the average balance of loans of \$18.8 million and the yield on loans of 21 basis points. The decrease in yields were due to lower market interest rates.

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The following table sets forth the extent to which changes in interest rates and changes in volume of interest-earning assets and interest-bearing liabilities have on interest income and interest expense for the periods presented. The rate column shows the effects to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the rate and volume columns. For purposes of this table, changes attributable to both changes in rate and volume that cannot be segregated have been allocated proportionately based on the changes due to rate and the changes due to volume.

<i>(Dollars in thousands)</i>	<b>Six Months Ended June 30, 2010 and 2009</b>		
	<b>Increase (Decrease) Due To</b>		
	<b>Rate</b>	<b>Volume</b>	<b>Net</b>
<b>Interest-earning assets:</b>			
<i>Interest and dividend income:</i>			
Loans (1)(2)	\$ (650)	\$ (533)	\$ (1,183)
Securities (3)	(1,216)	497	(719)
Other interest-earning assets	(56)	28	(28)
<b>Total interest-earning assets</b>	<b>(1,922)</b>	<b>(8)</b>	<b>(1,930)</b>
<b>Interest-bearing liabilities:</b>			
<i>Interest expense:</i>			
Deposits (4)	(1,770)	56	(1,714)
Federal Home Loan Bank advances	(366)	(443)	(809)
Subordinated debt	(50)		(50)
<b>Total interest-bearing liabilities</b>	<b>(2,186)</b>	<b>(387)</b>	<b>(2,573)</b>
<b>Change in net interest income (3)</b>	<b>\$ 264</b>	<b>\$ 379</b>	<b>\$ 643</b>

- (1) Amount is net of deferred loan origination fees and costs. Average balances include nonaccrual loans and loans held for sale.
- (2) Loan fees are included in interest income and are insignificant.
- (3) Securities income and net interest income are presented on a tax equivalent basis using a tax rate of 34%. The tax equivalent adjustment is deducted from tax equivalent net interest income to agree to the amount reported in the statements of income.
- (4) Includes mortgagors' and investors' escrow accounts and brokered deposits.

**Interest Expense.** Interest expense decreased \$2.6 million for the six months ended June 30, 2010 as compared to the same period in 2009, resulting from decreases in the rates paid on deposits and borrowings and a \$22.7 million decrease in the average balance of Federal Home Loan Bank advances, offset by an increase in average interest-bearing deposits of \$29.1 million. Rates paid on average deposits decreased 69 basis points from 2.39% to 1.70%. The rates paid on Federal Home Loan Bank advances and subordinated debt decreased 57 basis points and 122 basis points, respectively. Contributing to higher average deposits were increases in NOW and money market accounts and savings accounts of \$35.7 million and \$1.6 million, respectively, offset by a decrease of \$8.2 million in certificates of deposit accounts.

**Provision for Loan Losses.** The provision for loan losses decreased \$1.5 million for the six months ended June 30, 2010 compared to the same period in 2009. The lower provision in 2010 resulted from declines in nonperforming loans and net loan charge-offs, predominately in commercial real estate loans. At June 30, 2010, nonperforming loans totaled \$4.3 million, compared to \$8.6 million at June 30, 2009. Specific reserves relating to nonperforming loans increased to \$516,000 at June 30, 2010, compared to \$252,000 at June 30, 2009. Net loan charge-offs were \$435,000 for the six months ended June 30, 2010, compared to \$3.0 million for the six months ended June 30, 2009. Higher loan charge-offs during the first half of 2009 primarily related to two commercial construction relationships aggregating \$2.3 million.



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**Noninterest Income.** The following table shows the components of noninterest income and the dollar and percentage changes for the periods presented.

<i>(Dollars in thousands)</i>	Six Months Ended June 30,		Change	
	2010	2009	Dollars	Percent
Service fees	\$ 2,577	\$ 2,448	\$ 129	5.3%
Wealth management fees	2,054	1,927	127	6.6
Increase in cash surrender value of bank-owned life insurance	143	146	(3)	(2.1)
Net gain on sales of securities	681	254	427	168.1
Net impairment losses recognized in earnings	(332)	(150)	(182)	121.3
Mortgage banking fees	355	338	17	5.0
Net gain on sale of equipment		104	(104)	(100.0)
Other	72	(252)	324	(128.6)
<b>Total noninterest income</b>	<b>\$ 5,550</b>	<b>\$ 4,815</b>	<b>\$ 735</b>	<b>15.3</b>

Contributing to higher noninterest income for 2010 were increases in the net gain on the sale of securities, wealth management fees, service fees and other noninterest income. Increases in the net gains on the sale of securities totaling \$427,000 were reported for the six months ended June 30, 2010, compared to the same period in 2009. Higher wealth management fees of \$127,000 resulted from an increase in trust service fees for the six months ended June 30, 2010, compared to the same period in 2009. Service fees increased \$129,000 for the first half of 2010 primarily due to higher electronic banking usage. Other-than-temporary impairment charges on certain securities totaling \$332,000 were recorded for the six months ended June 30, 2010, compared to \$150,000 for the six months ended June 30, 2009. The increase in other noninterest income for the first half of 2010 was the result of impairment charges of \$12,000 for the six months ended June 30, 2010 that were recorded to reduce the carrying value in the investment in two small business investment company limited partnerships compared to \$336,000 for the six months ended June 30, 2009.

**Noninterest Expenses.** The following table shows the components of noninterest expenses and the dollar and percentage changes for the periods presented.

<i>(Dollars in thousands)</i>	Six Months Ended June 30,		Change	
	2010	2009	Dollars	Percent
Salary and employee benefits	\$ 8,211	\$ 8,202	\$ 9	0.1%
Occupancy and equipment	2,764	2,806	(42)	(1.5)
Computer and electronic banking services	1,894	1,623	271	16.7
Outside professional services	536	469	67	14.3
Marketing and advertising	390	409	(19)	(4.6)
Supplies	265	282	(17)	(6.0)
FDIC deposit insurance and regulatory assessments	668	872	(204)	(23.4)
Other	1,574	1,376	198	14.4
<b>Total noninterest expenses</b>	<b>\$ 16,302</b>	<b>\$ 16,039</b>	<b>\$ 263</b>	<b>1.6</b>

We experienced increases in costs associated with other real estate owned and in computer and electronic banking services expense as a result of increased telecommunications costs and transaction activity. Noninterest expenses for the second quarter of 2009 reflected an Federal Deposit Insurance Corporation-imposed industry-wide five basis point special assessment of \$393,000 and prepayment penalties totaling \$111,000 for the early extinguishment of Federal Home Loan Bank borrowings.

**Income Tax Provision.** For the six months ended June 30, 2010, income tax expense increased \$847,000 due to increases in pre-tax income. The effective tax rate for the six months ended June 30, 2010 and 2009 was 32.4% and 32.3%, respectively.





**Table of Contents****Results of Operations for the Years Ended December 31, 2009 and 2008**

**General.** We recorded net income of \$435,000 for the year ended December 31, 2009, an increase of \$3.3 million, compared to a net loss of \$2.9 million for the year ended December 31, 2008. The net loss for the year ended December 31, 2008 was primarily attributable to a \$7.1 million other-than-temporary impairment charge on certain securities to reduce their carrying value to fair value.

**Interest and Dividend Income.** Total interest and dividend income decreased \$3.1 million, or 6.7%, for 2009, primarily due to a lower yield on interest-earning assets, offset by an increase in interest-earning assets. Lower market interest rates contributed to decreases in the yield of 60 basis points and 44 basis points on securities and loans, respectively, during 2009. Additionally, the yield on loans was negatively impacted by the increase in unrecognized interest related to nonaccrual loans. Average interest-earning assets increased \$21.8 million to \$823.0 million in 2009, mainly due to a higher average balance of loans and, to a lesser extent, a higher average balance on federal funds and other interest-earning assets. The average balance of loans increased \$15.8 million while the rate earned on loans decreased to 5.67% for 2009 from 6.11% for 2008.

The following table sets forth the extent to which changes in interest rates and changes in volume of interest-earning assets and interest-bearing liabilities have on interest income and interest expense for the periods presented. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the rate and volume columns. For purposes of this table, changes attributable to both changes in rate and volume that cannot be segregated have been allocated proportionately based on the changes due to rate and the changes due to volume.

<i>(Dollars in thousands)</i>	<b>2009 Compared to 2008</b>		
	<b>Increase (Decrease) Due To</b>		
	<b>Rate</b>	<b>Volume</b>	<b>Net</b>
<b>Interest-earning assets:</b>			
<i>Interest and dividend income:</i>			
Loans (1)(2)	\$ (2,700)	\$ 948	\$ (1,752)
Securities (3)	(1,070)	(27)	(1,097)
Other interest-earning assets	(374)	120	(254)
<b>Total interest-earning assets</b>	<b>(4,144)</b>	<b>1,041</b>	<b>(3,103)</b>
<b>Interest-bearing liabilities:</b>			
<i>Interest expense:</i>			
Deposits (4)	(3,429)	874	(2,555)
Federal Home Loan Bank advances	(343)	(520)	(863)
Subordinated debt	(180)		(180)
<b>Total interest-bearing liabilities</b>	<b>(3,952)</b>	<b>354</b>	<b>(3,598)</b>
<b>Change in net interest income (5)</b>	<b>\$ (192)</b>	<b>\$ 687</b>	<b>\$ 495</b>

- (1) Amount is net of deferred loan origination fees and costs. Average balances include nonaccrual loans and loans held for sale.
- (2) Loan fees are included in interest income and are immaterial.
- (3) Municipal securities income and net interest income are presented on a tax equivalent basis using a tax rate of 34%. The tax equivalent adjustment is deducted from tax equivalent net interest income to agree to the amounts reported in the statements of operations.
- (4) Includes mortgagors and investors escrow accounts.
- (5) Presented on a tax equivalent basis.

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**Interest Expense.** Interest expense decreased \$3.6 million, or 16.0%, to \$18.9 million for 2009 compared to \$22.5 million in 2008, primarily due to lower rates paid on interest-bearing liabilities, offset by a higher average balance of deposits. Overall, average rates declined as a result of the lower interest rate environment during 2009. Average interest-bearing deposits rose \$34.9 million and the average yield decreased 60 basis points. An increase in NOW and money market accounts totaling \$25.3 million contributed the largest increase to the average balance for deposit accounts, as customers shifted from savings accounts to NOW and money market accounts. The average yield on these deposits decreased 68 basis points. The average balance of certificates of deposit increased \$13.7 million and the average rate paid decreased 59 basis

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points to 3.33%. The average balance of Federal Home Loan Bank advances decreased \$12.2 million and the average yield decreased 25 basis points to 4.15% for 2009. Rates on subordinated borrowings decreased 218 basis points due to a reduction in the three-month LIBOR rate.

**Provision for Loan Losses.** The provision for loan losses increased \$1.5 million to \$2.8 million in 2009. The higher provision relates to an increase in charge-offs due to the impact of continued adverse economic and real estate market conditions. For the year ended December 31, 2009, net loan charge-offs totaled \$4.0 million, compared to \$567,000 for the year ended December 31, 2008. Specific reserves relating to impaired loans decreased to \$267,000 at December 31, 2009 compared to \$1.2 million at December 31, 2008. The ratio of the allowance for loan losses to total loans decreased from 0.97% at December 31, 2008 to 0.80% at December 31, 2009. At December 31, 2009, nonperforming loans totaled \$3.0 million, as compared to \$9.3 million at December 31, 2008. The increase in loan charge-offs and the decrease in nonperforming loans and specific reserves for the year ended December 31, 2009 primarily resulted from the charge-off of two commercial construction loan relationships aggregating \$2.9 million that were previously identified as impaired with established specific reserves and the transfer of loans totaling \$5.5 million into other real estate owned. While we have no direct exposure to sub-prime mortgages in its loan portfolio, economic conditions have negatively impacted the residential and commercial construction markets and contributed to the decrease in credit quality for commercial loans.

**Noninterest Income.** Total noninterest income increased \$7.0 million to \$10.2 million in 2009. The following table shows the components of noninterest income and the dollar and percentage changes from 2008 to 2009.

<i>(Dollars in thousands)</i>	Years Ended December 31,		Change	
	2009	2008	Dollars	Percent
Service fees	\$ 5,033	\$ 5,251	\$ (218)	(4.2)%
Wealth management fees	3,912	3,923	(11)	(0.3)
Increase in cash surrender value of bank-owned life insurance	294	304	(10)	(3.3)
Net gain on sales of securities	285	463	(178)	(38.4)
Net impairment losses recognized in earnings	(228)	(7,148)	6,920	(96.8)
Mortgage banking fees	707	202	505	250.0
Net gain on sale of equipment	99		99	n/a
Other	79	141	(62)	(44.0)
<b>Total noninterest income</b>	<b>\$ 10,181</b>	<b>\$ 3,136</b>	<b>\$ 7,045</b>	<b>224.6</b>

An increase in noninterest income for the year ended December 31, 2009 primarily resulted from lower other-than-temporary impairment charges and an increase in mortgage banking fees, offset by decreases in service fees and the net gain on the sale of available for sale securities. For 2009, we reported mortgage banking fees of \$707,000 resulting from the sale of \$56.3 million of fixed-rate longer-term residential mortgage loans, compared to mortgage banking fees of \$202,000 resulting from the sale of \$14.2 million of fixed-rate longer-term residential mortgage loans in 2008. Service fees declined for the year ended December 31, 2009 due to lower overdraft charges on certain deposit products. We realized net gains on the sale of bonds and stocks totaling \$215,000 and \$70,000, respectively, during 2009 compared to a net gain on the sale of bonds totaling \$463,000 for 2008. Other noninterest income included a net gain of \$291,000 in death benefit proceeds received from a bank-owned life insurance policy during 2009, offset by impairment charges of \$383,000 and \$63,000, which were recorded to reduce the carrying value in two small business investment company limited partnerships during the years ended December 31, 2009 and 2008, respectively.

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**Noninterest Expenses.** Noninterest expenses increased \$1.4 million for 2009 as compared to 2008. The following table shows the components of noninterest expenses and the dollar and percentage changes from 2008 to 2009.

<i>(Dollars in thousands)</i>	Years Ended December 31,		Change	
	2009	2008	Dollars	Percent
Salaries and employee benefits	\$ 15,767	\$ 16,211	\$ (444)	(2.7)%
Occupancy and equipment	5,559	5,733	(174)	(3.0)
Computer and electronic banking services	3,477	3,084	393	12.7
Outside professional services	975	842	133	15.8
Marketing and advertising	791	800	(9)	(1.1)
FDIC deposit insurance and regulatory assessments	1,756	567	1,189	209.7
Supplies	524	569	(45)	(7.9)
Other	2,556	2,234	322	14.4
<b>Total noninterest expenses</b>	<b>\$ 31,405</b>	<b>\$ 30,040</b>	<b>\$ 1,365</b>	<b>4.5</b>

Noninterest expenses increased in 2009 primarily due to increases in the Federal Deposit Insurance Corporation assessment, computer and electronic banking services, other noninterest expenses and outside professional services. The increase in the Federal Deposit Insurance Corporation assessment of \$1.2 million for the year ended December 31, 2009 was attributable to the expiration of credits during 2008, an increase in the assessment rate for 2009 and an Federal Deposit Insurance Corporation-imposed industry-wide five basis point special assessment totaling \$393,000. Computer and electronic banking services expense increased due to higher telecommunication costs and transaction activity. Other noninterest expenses increased as a result of higher custodian fees for trust operations of \$167,000, prepayment penalties for the early extinguishment of Federal Home Loan Bank borrowings of \$111,000 and an increase in mortgage appraisal fees of \$122,000, offset by a decrease in the provision for credit losses of \$124,000. Additionally, we recorded an impairment charge of \$57,000 during the fourth quarter of 2009 on the goodwill from our New London branch acquisition in 2008. The decrease in salaries and employee benefits primarily related to higher deferred costs associated with the increase in residential mortgage originations in 2009. Occupancy and equipment expense was impacted by our purchase of the Norwich, Connecticut branch office and the training facility, resulting in lower lease expense for 2009.

**Income Tax Provision.** For 2009, we had an income tax provision of \$35,000 compared to an income tax benefit of \$1.4 million for 2008. The income tax provision for 2009 resulted from an increase in taxable income, offset by a nontaxable gain on bank-owned life insurance proceeds. The effective tax rate was 7.4% and 32.1% for 2009 and 2008, respectively. For the year ended December 31, 2009, the effective tax rate was impacted by an increase in the valuation allowance to \$139,000 from \$118,000 at December 31, 2008 due to the uncertainty of realization of our charitable contribution deduction. For the year ended December 31, 2008, the valuation allowance of \$118,000 was established due to the uncertainty of realization of federal capital loss carry-forwards and other-than-temporary impairment losses on equity securities. As a result of the Emergency Economic Stabilization Act of 2008, which was enacted into law in October 2008, we recorded a deferred tax benefit during the year ended December 31, 2008 associated with the other-than-temporary impairment losses recognized for our preferred stock holdings of Fannie Mae and Freddie Mac. Before the enactment of the Emergency Economic Stabilization Act, such losses were treated as capital losses for both tax and financial reporting purposes. Under the Emergency Economic Stabilization Act, ordinary loss treatment is available to financial institutions for such securities.

**Results of Operations for the Years Ended December 31, 2008 and 2007**

**General.** We recorded a net loss of \$2.9 million for the year ended December 31, 2008, a decrease of \$4.3 million, compared to net income of \$1.4 million for the year ended December 31, 2007. The decrease in net income was attributable to the other-than-temporary impairment charge on securities of \$7.1 million, an increase in noninterest expenses of \$2.1 million and an increase in the provision for loan losses of \$307,000, offset in part by an increase in net interest income of \$2.5 million and a decrease in the provision for income taxes of \$1.9 million.

**Interest and Dividend Income.** Total interest and dividend income increased \$3.2 million, or 7.3%, for 2008. Average interest-earning assets increased \$77.5 million, or 10.7%, to \$801.1 million in 2008, mainly due to higher average balances of securities and loans and, to a lesser extent, a higher average balance on federal funds and other interest-earning assets. The higher yield on securities was, in part, offset by a decrease in the yield on loans. The average balance of securities increased \$47.0 million and the yield increased to 5.02% in 2008 from 4.85% in

2007, due in part to the purchase of higher-yielding

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mortgage-backed securities during 2008. The average balance of loans increased \$24.6 million while the rate earned on loans decreased 17 basis points to 6.11% for 2008 from 6.28% for 2007. The decrease in the average yield on loans was attributable to unrecognized interest related to an increase in nonaccrual loans during the period and lower market interest rates, offset by an increase in higher-yielding commercial loans.

The following table sets forth the extent to which changes in interest rates and changes in volume of interest-earning assets and interest-bearing liabilities have on interest income and interest expense for the periods presented. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the rate and volume columns. For purposes of this table, changes attributable to both changes in rate and volume that cannot be segregated have been allocated proportionately based on the changes due to rate and the changes due to volume.

	2008 Compared to 2007		
	Increase (Decrease) Due To Rate	Volume	Net
<i>(Dollars in thousands)</i>			
<b>Interest-earning assets:</b>			
<i>Interest and dividend income:</i>			
Loans (1)(2)	\$ (1,031)	\$ 1,520	\$ 489
Securities (3)	373	2,210	2,583
Other interest-earning assets	(83)	163	80
<b>Total interest-earning assets</b>	(741)	3,893	3,152
<b>Interest-bearing liabilities:</b>			
<i>Interest expense:</i>			
Deposits (4)	(1,446)	1,453	7
Federal Home Loan Bank advances	(225)	1,273	1,048
Subordinated debt	(236)	(143)	(379)
<b>Total interest-bearing liabilities</b>	(1,907)	2,583	676
<b>Change in net interest income (5)</b>	\$ 1,166	\$ 1,310	\$ 2,476

(1) Amount is net of deferred loan origination fees and costs. Average balances include nonaccrual loans and loans held for sale.

(2) Loan fees are included in interest income and are immaterial.

(3) Municipal securities income and net interest income are presented on a tax equivalent basis using a tax rate of 34%. The tax equivalent adjustment is deducted from tax equivalent net interest income to agree to the amounts reported in the statements of operations.

(4) Includes mortgagors and investors escrow accounts.

(5) Presented on a tax equivalent basis.

**Interest Expense.** Interest expense increased \$676,000, or 3.1%, to \$22.5 million for 2008 compared to \$21.8 million in 2007. We experienced increases in the average balance of deposits and Federal Home Loan Bank borrowings and a decrease in the average rates paid during 2008. Average interest-bearing deposits rose \$58.8 million and the average yield decreased 34 basis points. An increase in NOW and money market accounts totaling \$45.1 million contributed the largest increase to the average balance for deposit accounts, as customers shifted from savings accounts to NOW and money market accounts. The average yield on these deposits increased 29 basis points. The average balance of certificates of deposit increased \$23.4 million and the average rate paid decreased 61 basis points to 3.92%. The average balance of Federal Home Loan Bank advances increased \$28.7 million and the average yield decreased 19 basis points to 4.40% for 2008. Rates on subordinated borrowings decreased 261 basis points due to a reduction in the three-month LIBOR rate. Overall, average rates declined during 2008 as a result of the lower interest rate environment.

**Provision for Loan Losses.** The provision for loan losses increased \$307,000 to \$1.4 million in 2008 from \$1.1 million in 2007. The higher provision reflects an increase in nonperforming loans, charge-offs and the allowance loan factors for commercial real estate, construction and commercial business loan portfolios due to adverse market conditions. Specific reserves relating to impaired loans decreased to \$1.2 million at December 31, 2008 compared to \$1.3 million at December 31, 2007. The ratio of the allowance for loan losses to total loans increased from

0.89% at December 31, 2007 to



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0.97% at December 31, 2008. At December 31, 2008, nonperforming loans totaled \$9.3 million, of which two commercial construction relationships accounted for \$5.5 million of nonperforming loans and \$1.0 million in specific reserves. Nonperforming loans totaled \$7.6 million at December 31, 2007. For the year ended December 31, 2008, net loan charge-offs totaled \$567,000, compared to net loan charge-offs of \$182,000 for the year ended December 31, 2007, due largely to higher charge-offs on commercial business loans. While we have no direct exposure to sub-prime mortgages in its loan portfolio, declining economic conditions have negatively impacted the residential and commercial construction markets and contributed to the decrease in credit quality for commercial loans.

**Noninterest Income.** Total noninterest income decreased \$6.2 million to \$3.1 million in 2008. The following table shows the components of noninterest income and the dollar and percentage changes from 2007 to 2008.

<i>(Dollars in thousands)</i>	Years Ended December 31,		Change	
	2008	2007	Dollars	Percent
Service fees	\$ 5,251	\$ 4,838	\$ 413	8.5%
Wealth management fees	3,923	3,843	80	2.1
Increase in cash surrender value of bank-owned life insurance	304	294	10	3.4
Net gain on sales of securities	463	106	357	336.8
Net impairment losses recognized in earnings	(7,148)		(7,148)	n/a
Mortgage banking fees	202	167	35	21.0
Other	141	130	11	8.5
<b>Total noninterest income</b>	<b>\$ 3,136</b>	<b>\$ 9,378</b>	<b>\$ (6,242)</b>	<b>(66.6)</b>

The decrease in noninterest income for the year ended December 31, 2008 was attributable to \$7.1 million of other-than-temporary impairment charges on certain securities, offset primarily by increases in service fees, net gain on sales of securities and wealth management fees. During 2008, service fees rose as a result of an increase in overdraft charges on certain deposit products and higher electronic banking usage. The increase in the gain on sales of securities was due to \$34.1 million in securities sold or called during 2008 compared to \$17.6 million in securities sold during 2007. Wealth management fees were higher principally due to increases in fees associated with trust servicing and life insurance products. During 2008, an impairment charge of \$63,000 was recorded in other noninterest income to reduce the carrying value of our investment in a small business investment company limited partnership.

**Noninterest Expenses.** Noninterest expenses increased \$2.1 million, for 2008 as compared to 2007. The following table shows the components of noninterest expenses and the dollar and percentage changes from 2007 to 2008.

<i>(Dollars in thousands)</i>	Years Ended December 31,		Change	
	2008	2007	Dollars	Percent
Salaries and employee benefits	\$ 16,211	\$ 15,029	\$ 1,182	7.9%
Occupancy and equipment	5,733	5,379	354	6.6
Computer and electronic banking services	3,084	2,654	430	16.2
Outside professional services	842	1,029	(187)	(18.2)
Marketing and advertising	800	773	27	3.5
FDIC deposit insurance and regulatory assessments	567	264	303	114.8
Supplies	569	509	60	11.8
Other	2,234	2,291	(57)	2.5
<b>Total noninterest expenses</b>	<b>\$ 30,040</b>	<b>\$ 27,928</b>	<b>\$ 2,112</b>	<b>7.6</b>

Higher noninterest expenses were primarily attributable to increased operating costs associated with three additional branch offices. This resulted in higher compensation costs due to increased staffing levels and occupancy expense related to facility leases and other occupancy-related expenses. Computer and electronic banking services expense rose due to increased telecommunication costs and transaction activity. The increase in noninterest expenses in 2008 was offset by a decrease in outside professional services resulting from charges associated

with the termination of the agreement to purchase a mortgage company that were recorded in 2007.

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**Income Tax Provision.** For 2008, we had an income tax benefit of \$1.4 million compared to an income tax provision of \$540,000 for 2007. The income tax benefit for 2008 resulted from the pre-tax operating loss. The effective tax rate was 32.1% and 27.7% for 2008 and 2007, respectively. For the year ended December 31, 2008, the effective tax rate was impacted by a valuation allowance totaling \$118,000, which was established due to the uncertainty of realization of federal capital loss carry-forwards and other-than-temporary impairment losses on equity securities. As a result of the Emergency Economic Stabilization Act of 2008, which was enacted into law on October 3, 2008, we recorded a deferred tax benefit during the year ended December 31, 2008 associated with the other-than-temporary impairment losses recognized for our preferred stock holdings of Fannie Mae and Freddie Mac. Before the enactment of the Emergency Economic Stabilization Act, such losses were treated as capital losses for both tax and financial reporting purposes. Under the Emergency Economic Stabilization Act, ordinary loss treatment is available to financial institutions for such securities.

**Average Balance Sheets.** The following sets forth information regarding average balances of assets and liabilities as well as the total dollar amounts of interest income from average interest-earning assets and interest expense on average interest-bearing liabilities, resulting yields and rates paid, interest rate spread, net interest margin and the ratio of average interest-earning assets to average interest-bearing liabilities for the periods indicated.

	At June 30, 2010		Six Months Ended June 30,				
	Yield/ Rate	Average Balance	2010 Interest and Dividends	Average Yield/ Rate	Average Balance	2009 Interest and Dividends	Average Yield/ Rate
<i>(Dollars in thousands)</i>							
<b>Interest-earning assets:</b>							
Loans (1) (2)	5.64%	\$ 608,308	\$ 16,856	5.59%	\$ 627,156	\$ 18,039	5.80%
Securities (3)	3.26	194,617	3,372	3.49	171,686	4,091	4.81
Other interest-earning assets	0.02	26,164	49	0.38	17,534	77	0.89
<b>Total interest-earning assets</b>	<b>4.88</b>	<b>829,089</b>	<b>20,277</b>	<b>4.93</b>	<b>816,376</b>	<b>22,207</b>	<b>5.49</b>
Noninterest-earning assets		52,648			46,495		
<b>Total assets</b>		<b>\$ 881,737</b>			<b>\$ 862,871</b>		
<b>Interest-bearing liabilities:</b>							
Deposits:							
NOW and money market	0.68	\$ 234,443	904	0.78	\$ 198,718	1,186	1.20
Savings (4)	0.39	64,030	161	0.51	62,408	225	0.73
Certificates of deposit (5)	2.46	307,447	4,052	2.66	315,666	5,420	3.46
<b>Total interest-bearing deposits</b>	<b>1.54</b>	<b>605,920</b>	<b>5,117</b>	<b>1.70</b>	<b>576,792</b>	<b>6,831</b>	<b>2.39</b>
Federal Home Loan Bank advances	3.63	116,151	2,112	3.67	138,893	2,921	4.24
Subordinated debt	2.24	8,248	80	1.96	8,248	130	3.18
<b>Total interest-bearing liabilities</b>	<b>1.87</b>	<b>730,319</b>	<b>7,309</b>	<b>2.02</b>	<b>723,933</b>	<b>9,882</b>	<b>2.75</b>
Noninterest-bearing liabilities		71,310			65,063		
<b>Total liabilities</b>		<b>801,629</b>			<b>788,996</b>		
<b>Total shareholders equity</b>		<b>80,108</b>			<b>73,875</b>		
<b>Total liabilities and shareholders equity</b>		<b>\$ 881,737</b>			<b>\$ 862,871</b>		

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<b>Net interest-earning assets</b>	\$ 98,770		\$ 92,443	
<b>Tax equivalent net interest income (3)</b>		12,968		12,325
<b>Tax equivalent interest rate spread (6)</b>			2.91%	2.74%
<b>Tax equivalent net interest margin as a percentage of interest-earning assets (7)</b>			3.15%	3.04%
<b>Average of interest-earning assets to average interest-bearing liabilities</b>			113.52%	112.77%
<b>Less: tax equivalent adjustment (3)</b>		(10)		(3)
<b>Net interest income</b>	\$ 12,958		\$ 12,322	

(1) Amount is net of deferred loan origination fees and costs. Average balances include nonaccrual loans and loans held for sale.

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- (2) Loan fees are included in interest income and are immaterial.
- (3) Securities income and net interest income are presented on a tax equivalent basis using a tax rate of 34%. The tax equivalent adjustment is deducted from tax equivalent net interest income to agree to the amounts reported in the statements of operations.
- (4) Includes mortgagors and investors escrow accounts.
- (5) Includes brokered deposits.
- (6) Tax equivalent net interest rate spread represents the difference between the weighted-average yield on interest-earning assets and the weighted-average cost of interest-bearing liabilities.
- (7) Tax equivalent net interest margin represents tax equivalent net interest income divided by average interest-earning assets.

	Years Ended December 31,								
	2009			2008			2007		
	Average	Interest	Average	Average	Interest	Average	Average	Interest	Average
(Dollars in thousands)	Balance	and	Yield/	Balance	and	Yield/	Balance	and	Yield/
		Dividends	Rate		Dividends	Rate		Dividends	Rate
<b>Interest-earning assets:</b>									
Loans (1)(2)	\$ 624,647	\$ 35,440	5.67%	\$ 608,838	\$ 37,192	6.11%	\$ 584,237	\$ 36,703	6.28%
Securities (3)	177,609	7,849	4.42	178,146	8,946	5.02	131,100	6,363	4.85
Other interest-earning assets	20,709	112	0.54	14,160	366	2.58	8,339	286	3.43
<b>Total interest-earning assets</b>	<b>822,965</b>	<b>43,401</b>	<b>5.27</b>	<b>801,144</b>	<b>46,504</b>	<b>5.80</b>	<b>723,676</b>	<b>43,352</b>	<b>5.99</b>
Noninterest-earning assets	47,377			44,518			38,609		
<b>Total assets</b>	<b>\$ 870,342</b>			<b>\$ 845,662</b>			<b>\$ 762,285</b>		
<b>Interest-bearing liabilities:</b>									
Deposits:									
NOW and money market	\$ 206,012	2,189	1.06	\$ 180,699	3,149	1.74	\$ 135,568	1,960	1.45
Savings (4)	62,717	408	0.65	66,796	668	1.00	76,517	1,053	1.38
Certificates of deposit (5)	318,029	10,586	3.33	304,361	11,921	3.92	280,924	12,718	4.53
<b>Total interest-bearing deposits</b>	<b>586,758</b>	<b>13,183</b>	<b>2.25</b>	<b>551,856</b>	<b>15,738</b>	<b>2.85</b>	<b>493,009</b>	<b>15,731</b>	<b>3.19</b>
Federal Home Loan Bank advances	131,460	5,461	4.15	143,697	6,324	4.40	114,960	5,276	4.59
Subordinated debt	8,248	217	2.63	8,248	397	4.81	10,463	776	7.42
<b>Total interest-bearing liabilities</b>	<b>726,466</b>	<b>18,861</b>	<b>2.60</b>	<b>703,801</b>	<b>22,459</b>	<b>3.19</b>	<b>618,432</b>	<b>21,783</b>	<b>3.52</b>
Noninterest-bearing liabilities	68,350			64,436			60,952		
<b>Total liabilities</b>	<b>794,816</b>			<b>768,237</b>			<b>679,384</b>		
<b>Total shareholders equity</b>	<b>75,526</b>			<b>77,425</b>			<b>82,901</b>		
<b>Total liabilities and shareholders equity</b>	<b>\$ 870,342</b>			<b>\$ 845,662</b>			<b>\$ 762,285</b>		
<b>Net interest-earning assets</b>	<b>\$ 96,499</b>			<b>\$ 97,343</b>			<b>\$ 105,244</b>		
<b>Tax equivalent net interest income (3)</b>		<b>24,540</b>			<b>24,045</b>			<b>21,569</b>	
			<b>2.67%</b>			<b>2.61%</b>			<b>2.47%</b>

**Tax equivalent interest rate spread (6)**

<b>Tax equivalent net interest margin as a percentage of interest-earning assets (7)</b>	2.98%	3.00%	2.98%
<b>Average interest-earning assets to average interest-bearing liabilities</b>	113.28%	113.83%	117.02%
<b>Less: tax equivalent adjustment (3)</b>	(16)	(5)	(5)
<b>Net interest income</b>	\$ 24,524	\$ 24,040	\$ 21,564

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- (7) Tax equivalent net interest margin represents tax equivalent net interest income divided by average interest-earning assets.

### **Risk Management**

**Overview.** Managing risk is an essential part of successfully managing a financial institution. Our most prominent risk exposures are credit risk, interest rate risk and market risk. Credit risk is the risk of not collecting the interest and/or the principal balance of a loan or investment when it is due. Interest rate risk is the potential reduction of net interest income as a result of changes in interest rates. Market risk arises from fluctuations in interest rates that may result in changes in the values of financial instruments, such as available for sale securities, that are accounted for on a mark-to-market basis. Other risks that we face are operational risks, liquidity risks and reputation risk. Operational risks include risks related to fraud, regulatory compliance, processing errors, technology and disaster recovery. Liquidity risk is the possible inability to fund obligations to depositors, lenders or borrowers due to unforeseen circumstances. Reputation risk is the risk that negative publicity or press, whether true or not, could cause a decline in our customer base or revenue.

**Credit Risk Management.** Our strategy for credit risk management focuses on having well-defined credit policies and uniform underwriting criteria and providing prompt attention to potential problem loans. Further, we have strengthened our oversight of problem assets by maintaining a Managed Assets Committee. The Committee, which consists of our chief executive officer, our chief financial officer and other loan and credit administration officers, meets monthly to review classified and watch list credits to ensure the appropriateness of the current classification and to attempt to identify any new problem loans. The Board of Directors reviews the committee's reports on a quarterly basis.

When a borrower fails to make a required loan payment, we take a number of steps to have the borrower cure the delinquency and restore the loan to current status. We make initial contact with the borrower when the loan becomes 15 days past due. If payment is not then received by the 30<sup>th</sup> day of delinquency, additional letters and phone calls generally are made. When the loan becomes 90 days past due, a letter is sent notifying the borrower that foreclosure proceedings will commence if the loan is not brought current within 30 days. Generally, when the loan becomes 120 days past due, we will commence foreclosure proceedings against any real property that secures the loan or attempt to repossess any personal property that secures a consumer or commercial loan. If a foreclosure action is instituted and the loan is not brought current, paid in full or refinanced before the foreclosure sale, the real property securing the loan is typically sold at foreclosure. We may consider loan repayment arrangements with certain borrowers under certain circumstances.

Management reports to the Board of Directors or a committee of the Board monthly regarding the amount of loans delinquent more than 30 days, all loans in foreclosure and all foreclosed and repossessed property that we own.

**Analysis of Nonperforming and Classified Assets.** We consider repossessed assets and loans that are 90 days or more past due to be nonperforming assets. Loans are generally placed on nonaccrual status when they become 90 days delinquent at which time the accrual of interest ceases and any previously recorded interest is reversed and recorded as a reduction of loan interest and fee income. Typically, payments received on a nonaccrual loan are applied to the outstanding principal and interest as determined at the time of collection of the loan.

Real estate that we acquire as a result of foreclosure or by deed-in-lieu of foreclosure are classified as foreclosed assets until it is sold. When property is acquired, it is initially recorded at the lower of its cost or fair value, less estimated selling expenses. Holding costs and declines in fair value after acquisition of the property result in charges against income.

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Troubled debt restructurings occur when debtors are granted concessions that we would not otherwise consider because of economic or legal reasons pertaining to the debtor's financial difficulties. Such concessions would include, but are not limited to, the transfer of assets or the issuance of equity interest by the debtor to satisfy all or part of the debt, modification of the terms of debt or the substitution or addition of debtor(s).

The following table provides information with respect to our nonperforming assets and troubled debt restructurings as of the dates indicated. The Company had no accruing loans past due 90 days or more at each of the dates indicated.

<i>(Dollars in Thousands)</i>	At June	At December 31,				
	30, 2010	2009	2008	2007	2006	2005
<b>Nonaccrual loans:</b>						
Real estate loans:						
Residential 1-4 family	\$ 2,523	\$ 2,597	\$ 2,795	\$ 755	\$ 392	\$ 149
Multi-family and commercial	949		832	42		75
Construction	375	375	5,483	6,082		
Commercial business loans	420	35	217	733	71	
Consumer loans			1	20	929	16
<b>Total nonaccrual loans</b>	<b>4,267</b>	<b>3,007</b>	<b>9,328</b>	<b>7,632</b>	<b>1,392</b>	<b>240</b>
Other real estate owned, net (1)	1,745	3,680		913		325
<b>Total nonperforming assets</b>	<b>6,012</b>	<b>6,687</b>	<b>9,328</b>	<b>8,545</b>	<b>1,392</b>	<b>565</b>
Accruing troubled debt restructurings	2,574	67	69	71	72	74
<b>Total nonperforming assets and accruing troubled debt restructurings</b>	<b>\$ 8,586</b>	<b>\$ 6,754</b>	<b>\$ 9,397</b>	<b>\$ 8,616</b>	<b>\$ 1,464</b>	<b>\$ 639</b>
<b>Ratios:</b>						
Total nonperforming loans to total loans	0.70%	0.49%	1.50%	1.29%	0.24%	0.05%
Total nonperforming loans to total assets	0.48	0.34	1.09	0.97	0.18	0.03
Total nonperforming assets and troubled debt restructurings to total assets	0.97	0.77	1.10	1.09	0.19	0.09

(1) Other real estate owned balances are shown net of related loss allowance.

The decrease in nonperforming assets was primarily due to a decrease in other real estate owned offset by an increase in nonaccrual loans. Nonaccrual loans increased due to the addition of one commercial real estate loan totaling \$949,000 and two commercial business loans totaling \$387,000, one of which was classified as special mention at December 31, 2009. The remaining nonaccrual loans consisted of 20 residential loans that have all received appraisals in the past year.

Other real estate owned decreased \$1.9 million from December 31, 2009 to June 30, 2010, primarily as a result of the sale of five residential and two commercial properties with an aggregate carrying value of \$2.9 million. During the first half of 2010, we acquired one commercial and three residential properties with a net carrying value totaling \$1.1 million and reduced the carrying value of one commercial property in the amount of \$111,000.

As of June 30, 2010, troubled debt restructurings increased \$3.5 million as a result of interest rate concessions for two commercial real estate loans. As of June 30, 2010, all borrowers are performing in accordance with their loans as restructured. Further, we anticipate that the borrowers will repay all contractual principal and interest in accordance with the terms of their restructured loan agreements.



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The decrease in nonaccrual loans at December 31, 2009 resulted, in part, to the transfer of \$5.5 million in loans to other real estate owned during 2009. Management is proactive in its approach to identifying and resolving problem loans and is focused on working with the borrowers and guarantors of these loans to provide loan modifications when warranted. The level of nonperforming assets is expected to fluctuate in response to changing economic and market conditions, the relative size and composition of the loan portfolio, as well as management's degree of success in resolving problem assets.

Interest income that would have been recorded for the six months ended June 30, 2010 and for the year ended December 31, 2009 had nonaccruing loans and troubled debt restructurings been current in accordance with their original

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terms and had been outstanding throughout the period amounted to \$169,000 and \$554,000, respectively. The amount of interest related to nonaccrual loans and troubled debt restructurings included in interest income was \$78,000 and \$65,000 for the six months ended June 30, 2010 and for the year ended December 31, 2009, respectively.

Federal regulations require us to review and classify our assets on a regular basis. In addition, the Office of Thrift Supervision has the authority to identify problem assets and, if appropriate, require them to be classified. There are three classifications for problem assets: substandard, doubtful and loss. Substandard assets must have one or more defined weaknesses and are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. Doubtful assets have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. An asset classified loss is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted. The regulations also provide for a special mention category, described as assets which do not currently expose us to a sufficient degree of risk to warrant classification but do possess credit deficiencies or potential weaknesses deserving our close attention. If we classify an asset as loss, we allocate an amount equal to 100% of the portion of the asset classified loss.

The following table shows the aggregate amounts of our criticized and classified assets at the dates indicated.