

SI Financial Group, Inc.
Form 10-Q
November 08, 2013

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

FORM 10-Q
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the Quarterly Period Ended September 30, 2013

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

For the Transition Period from _____ to _____

Commission File Number: 0-54241

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

Maryland 80-0643149
(State or other jurisdiction of incorporation or (I.R.S. Employer Identification No.)
organization)

803 Main Street, Willimantic, Connecticut 06226
(Address of principal executive offices) (Zip Code)

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

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

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

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

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

Large Accelerated Filer o Accelerated Filer x
Non-Accelerated Filer o Smaller Reporting Company o

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

As of November 1, 2013, there were 12,789,767 shares of the registrant's common stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

SI FINANCIAL GROUP, INC.

CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Share Amounts / Unaudited)

	September 30, 2013	December 31, 2012
ASSETS:		
Cash and due from banks:		
Noninterest-bearing	\$32,997	\$16,364
Interest-bearing	10,247	21,325
Federal funds sold	9,104	—
Total cash and cash equivalents	52,348	37,689
Available for sale securities, at fair value	184,832	176,513
Loans held for sale	1,880	5,069
Loans receivable (net of allowance for loan losses of \$6,322 at September 30, 2013 and \$6,387 at December 31, 2012)	1,031,422	685,163
Federal Home Loan Bank stock, at cost	13,109	8,078
Bank-owned life insurance	20,553	9,060
Premises and equipment, net	21,455	11,216
Goodwill and other intangibles	20,339	3,451
Accrued interest receivable	4,021	3,215
Deferred tax asset, net	6,893	4,639
Other real estate owned, net	1,520	1,293
Prepaid FDIC deposit insurance assessment	—	1,312
Other assets	10,303	6,552
Total assets	\$1,368,675	\$953,250
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Liabilities:		
Deposits:		
Noninterest-bearing	\$140,975	\$89,834
Interest-bearing	860,581	615,314
Total deposits	1,001,556	705,148
Mortgagors' and investors' escrow accounts	1,469	3,207
Federal Home Loan Bank advances	168,641	98,069
Junior subordinated debt owed to unconsolidated trust	8,248	8,248
Repurchase agreement	15,048	—
Accrued expenses and other liabilities	20,978	12,819
Total liabilities	1,215,940	827,491
Shareholders' Equity:		
Preferred stock (\$.01 par value; 1,000,000 shares authorized; none issued)	—	—
Common stock (\$.01 par value; 35,000,000 shares authorized; 12,797,388 and 10,112,310 shares issued; 12,797,226 and 10,112,310 shares outstanding at September 30, 2013 and December 31, 2012, respectively)	128	101
Additional paid-in-capital	125,184	94,810

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Unallocated common shares held by ESOP	(4,728) (5,088)
Unearned restricted shares	(1,854) (2,210)
Retained earnings	33,987	36,733	
Accumulated other comprehensive income	20	1,413	
Treasury stock, at cost (162 shares at September 30, 2013)	(2) —	
Total shareholders' equity	152,735	125,759	
Total liabilities and shareholders' equity	\$1,368,675	\$953,250	

See accompanying notes to unaudited interim consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Interest and dividend income:				
Loans, including fees	\$8,105	\$7,690	\$22,822	\$22,747
Securities:				
Taxable interest	986	1,150	3,078	4,141
Tax-exempt interest	42	1	62	2
Dividends	8	10	15	36
Other	10	11	31	35
Total interest and dividend income	9,151	8,862	26,008	26,961
Interest expense:				
Deposits	1,241	1,479	3,877	4,589
Federal Home Loan Bank advances	736	804	2,227	2,469
Subordinated debt and other borrowings	87	85	253	253
Total interest expense	2,064	2,368	6,357	7,311
Net interest income	7,087	6,494	19,651	19,650
Provision for loan losses	443	1,334	633	2,250
Net interest income after provision for loan losses	6,644	5,160	19,018	17,400
Noninterest income:				
Total other-than-temporary impairment losses	—	(311)	(8)	(272)
Portion of losses recognized in other comprehensive income/loss	—	224	—	149
Net impairment losses	—	(87)	(8)	(123)
Service fees	1,515	1,253	3,964	3,684
Wealth management fees	302	288	846	1,698
Increase in cash surrender value of bank-owned life insurance	90	71	226	213
Net (loss) gain on sales of securities	(922)	(344)	(919)	230
Mortgage banking	69	502	919	1,179
Net gain (loss) on fair value of derivatives	18	(79)	191	(280)
Net loss on disposal of equipment	—	(5)	—	(5)
Net loss on disposal of SI Trust Servicing operations	—	—	—	(698)
Impairment loss on long-lived assets	—	(410)	—	(410)
Other	161	43	526	831
Total noninterest income	1,233	1,232	5,745	6,319
Noninterest expenses:				
Salaries and employee benefits	4,394	3,838	12,923	12,092
Occupancy and equipment	1,417	1,340	4,104	4,158
Computer and electronic banking services	1,057	930	2,896	2,819
Outside professional services	298	296	948	973

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Marketing and advertising	170	162	471	534
Supplies	110	96	316	324
FDIC deposit insurance and regulatory assessments	251	223	714	715
Merger expenses	1,305	—	2,198	—
Other	1,372	523	2,594	1,700
Total noninterest expenses	10,374	7,408	27,164	23,315
(Loss) income before income tax (benefit) provision	(2,497	) (1,016	) (2,401	) 404
(Loss) income tax (benefit) provision	(755	) (316	) (522	) 31
Net (loss) income	\$(1,742	) \$(700	) \$(1,879	) \$373
(Loss) earnings per share:				
Basic	\$(0.17	) \$(0.07	) \$(0.19	) \$0.04
Diluted	\$(0.17	) \$(0.07	) \$(0.19	) \$0.04

See accompanying notes to unaudited interim consolidated financial statements.

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

	Three Months Ended September 30, 2013		2012		Nine Months Ended September 30, 2013		2012	
	(In thousands)							
Net (loss) income	\$ (1,742)		\$ (700)		\$ (1,879)		\$ 373	
Other comprehensive (loss) income, net of tax:								
Net unrealized (loss) gain on available for sale securities:								
Net unrealized holding (loss) gain on available for sale securities	(631	)	340		(2,211	)	1,319	
Reclassification adjustment for losses (gains) recognized in net (loss) income ⁽¹⁾	609		227		607		(152)
Plus: credit portion of OTTI losses recognized in net (loss) income ⁽²⁾	—		57		5		81	
Plus: noncredit portion of OTTI gains on available for sale securities	163		254		124		921	
Net unrealized (losses) gains on available for sale securities	141		878		(1,475	)	2,169	
Net unrealized gain (loss) on interest-rate swap derivative	10		(15	)	82		(33)
Other comprehensive (loss) income	151		863		(1,393	)	2,136	
Comprehensive (loss) income	\$ (1,591)		\$ 163		\$ (3,272)		\$ 2,509	

⁽¹⁾ Amounts are included in net gain (loss) on the sales of securities in noninterest income on the consolidated statements of operations. Income tax expense (benefit) associated with the reclassification adjustment for the three and nine months ended September 30, 2013 was \$(313,000) and \$(312,000), respectively, and \$(117,000) and \$78,000 for the three and nine months ended September 30, 2012, respectively.

⁽²⁾ Amounts are included in net impairment losses recognized in noninterest income on the consolidated statements of operations. Income tax benefit associated with the reclassification adjustment for the three and nine months ended September 30, 2013 totaled \$0 and \$3,000, respectively, and amounted to \$30,000 and \$42,000 for the three and nine months ended September 30, 2012, respectively.

See accompanying notes to unaudited interim consolidated financial statements.

SI FINANCIAL GROUP, INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013
(In Thousands, Except Share Data / Unaudited)

	Common Stock		Unallocated			Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Shareholders' Equity
	Shares	Dollars	Additional Paid-in Capital	Common Shares Held by ESOP	Unearned Restricted Shares				
Balance at December 31, 2012	10,112,310	\$ 101	\$ 94,810	\$ (5,088)	\$ (2,210)	\$ 36,733	\$ 1,413	\$—	\$ 125,759
Comprehensive loss	—	—	—	—	—	(1,879)	(1,393)	—	(3,272)
Acquisition of Newport Federal Savings Bank	2,683,099	27	30,078	—	—	—	—	—	30,105
Cash dividends declared (\$0.09 per share)	—	—	—	—	—	(860)	—	—	(860)
Equity incentive plan compensation	—	—	220	—	356	—	—	—	576
Allocation of 36,477 ESOP shares	—	—	57	360	—	—	—	—	417
Tax benefit from share-based compensation	—	—	4	—	—	—	—	—	4
Stock options exercised	—	—	—	—	—	—	—	—	—