

SI Financial Group, Inc.
Form DEF 14A
April 09, 2007

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No. __)

Filed by the registrant

Filed by a party other than the registrant

Check the appropriate box:

Preliminary proxy statement

Confidential, for Use of the Commission only (as permitted by Rule 14a-6(e)(2))

Definitive proxy statement

Definitive additional materials

Soliciting material pursuant to §240.14a-12

SI FINANCIAL GROUP, INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of filing fee (Check the appropriate box):

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n No fee required.

.. Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

N/A

(2) Aggregate number of securities to which transactions applies:

N/A

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

N/A

(4) Proposed maximum aggregate value of transaction:

N/A

(5) Total fee paid:

N/A

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11 (a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

N/A

(2) Form, Schedule or Registration Statement No.:

N/A

(3) Filing Party:

N/A

(4) Date Filed:

N/A

[SI Financial Group, Inc. Logo]

April 9, 2007

Dear Stockholder:

You are cordially invited to attend the annual meeting of stockholders of SI Financial Group, Inc. (the Company). The meeting will be held at The Windham Theatre Guild, Burton Leavitt Theatre, 779 Main Street, Willimantic, Connecticut, on Wednesday, May 9, 2007 at 9:00 a.m., local time.

The notice of annual meeting and proxy statement appearing on the following pages describe the formal business to be transacted at the meeting. During the meeting, we will also report on the operations of the Company. Directors and officers of the Company, as well as a representative of Wolf & Company, P.C., the Company's independent registered public accounting firm, will be present to respond to appropriate questions of stockholders.

It is important that your shares are represented at this meeting, whether or not you attend the meeting in person and regardless of the number of shares you own. To make sure your shares are represented, we urge you to complete and mail the enclosed proxy card. If you attend the meeting, you may vote in person even if you have previously voted.

We look forward to seeing you at the meeting.

Sincerely,

/s/ Rheo A. Brouillard
Rheo A. Brouillard
President and Chief Executive Officer

[SI Financial Group, Inc. Logo]

803 Main Street

Willimantic, Connecticut 06226

(860) 423-4581

NOTICE OF 2007 ANNUAL MEETING OF STOCKHOLDERS

TIME AND DATE

9:00 a.m., local time, on Wednesday, May 9, 2007

PLACE

The Windham Theatre Guild, Burton Leavitt Theatre

779 Main Street

Willimantic, Connecticut

ITEMS OF BUSINESS

(1) To elect two directors to serve for a term of three years and one director to serve for a term of one year.

(2) To ratify the selection of Wolf & Company, P.C. as our independent registered public accounting firm for fiscal year 2007.

(3) To transact such other business as may properly come before the meeting and any adjournment or postponement of the meeting.

RECORD DATE

To vote, you must have been a stockholder at the close of business on March 16, 2007.

PROXY VOTING

It is important that your shares be represented and voted at the meeting. You can vote your shares by completing and returning the proxy card or voting instruction card sent to you. Voting instructions are printed on your proxy or voting instruction card and included in the accompanying proxy statement. You can revoke a proxy at any time before its exercise at the meeting by following the instructions in the proxy statement.

/s/ Sandra M. Mitchell
Sandra M. Mitchell

Corporate Secretary

April 9, 2007

SI FINANCIAL GROUP, INC.

PROXY STATEMENT

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of SI Financial Group, Inc. (SI Financial or the Company) to be used at the annual meeting of stockholders of the Company. The Company is the holding company for Savings Institute Bank and Trust Company (Savings Institute or the Bank) and the majority-owned subsidiary of SI Bancorp, MHC (SI Bancorp). The annual meeting will be held at The Windham Theatre Guild, Burton Leavitt Theatre, 779 Main Street, Willimantic, Connecticut, on Wednesday, May 9, 2007 at 9:00 a.m., local time. This proxy statement and the enclosed proxy card are being first mailed to stockholders on or about April 9, 2007.

Voting and Proxy Procedure

Who Can Vote at the Meeting

You are entitled to vote your shares of SI Financial common stock if the records of the Company show that you held your shares as of the close of business on March 16, 2007. If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in street name and these proxy materials are being forwarded to you by your broker, bank or nominee. As the beneficial owner, you have the right to direct your broker on how to vote your shares. Your broker, bank or nominee has enclosed a voting instruction form for you to use in directing it on how to vote your shares.

As of the close of business on March 16, 2007, 12,421,920 shares of SI Financial common stock were outstanding. Each share of common stock has one vote. The Company's Charter provides that record owners of the Company's common stock (other than SI Bancorp) who beneficially own, either directly or indirectly, in excess of 10% of the Company's outstanding shares are not entitled to any vote in respect of the shares held in excess of that 10% limit.

Attending the Meeting

If you are a stockholder as of the close of business on March 16, 2007, you may attend the meeting. However, if you hold your shares in street name, you will need proof of ownership to be admitted to the meeting. A recent brokerage statement or letter from a bank, broker or other nominee are examples of proof of ownership. If you want to vote your shares of SI Financial common stock held in street name in person at the meeting, you will need a written proxy in your name from the broker, bank or other nominee who holds your shares.

Vote By SI Bancorp

SI Bancorp, the mutual holding company for the Company, owned 58.7% of the outstanding shares of common stock of the Company as of March 16, 2007. All shares of common stock owned by SI Bancorp will be voted in accordance with the instructions of the Board of Directors of SI Bancorp, the members of which are identical to the members of the Board of Directors of the Company. SI Bancorp is expected to vote

such shares **FOR** each nominee for election as a director and **FOR** ratification of the appointment of Wolf & Company, P.C. as the Company's independent registered public accounting firm.

Vote Required

The annual meeting will be held only if there is a quorum. A majority of the outstanding shares of SI Financial common stock entitled to vote, represented in person or by proxy, constitutes a quorum. If you return valid proxy instructions or attend the meeting in person, your shares will be counted for purposes of determining whether there is a quorum, even if you abstain from voting. Broker non-votes also will be counted for purposes for determining the existence of a quorum. A broker non-vote occurs when a broker, bank or other nominee holding shares for a beneficial owner does not vote on a particular proposal because the broker, bank or other nominee does not have discretionary voting power with respect to that item and has not received voting instructions from the beneficial owner.

In voting on the election of directors, you may vote in favor of all nominees, withhold votes as to all nominees or withhold votes as to specific nominees. There is no cumulative voting for the election of directors. Directors are elected by a plurality of the votes cast at the annual meeting.

Plurality means that the nominees receiving the largest number of votes cast will be elected up to the maximum number of directors to be elected at the annual meeting. The maximum number of directors to be elected at the annual meeting is three. Votes that are withheld will have no effect on the outcome of the election.

In voting to ratify the appointment of Wolf & Company, P.C. as the Company's independent registered public accounting firm, you may vote in favor of the proposal, against the proposal or abstain from voting. To be approved, this matter requires the affirmative vote of a majority of the votes present in person or by proxy at the annual meeting and entitled to vote. Abstentions will have the same effect as a negative vote.

Because SI Bancorp owns in excess of 50% of the outstanding shares of SI Financial common stock, the votes it casts will ensure the presence of a quorum and determine the outcome of Proposal 1 (Election of Directors) and Proposal 2 (Appointment of Independent Registered Public Accounting Firm).

Voting by Proxy

This proxy statement is being sent to you by the Board of Directors of SI Financial to request that you allow your shares of SI Financial common stock to be represented at the annual meeting by the persons named in the enclosed proxy card. All shares of SI Financial common stock represented at the meeting by properly executed and dated proxies will be voted according to the instructions indicated on the proxy card. If you sign, date and return a proxy card without giving voting instructions, your shares will be voted as recommended by the Company's Board of Directors. **The Board of Directors recommends that you vote FOR each of the nominees for director and FOR ratification of the appointment of Wolf & Company, P.C. as the Company's independent registered public accounting firm.**

If any matter not described in this proxy statement is properly presented at the annual meeting, the persons named in the proxy card will use their judgment to determine how to vote your shares. This includes a motion to adjourn or postpone the meeting to solicit additional proxies. If the annual meeting is postponed or adjourned, your shares of SI Financial common stock may also be voted by the persons named in the proxy card on the new meeting date, unless you have revoked your proxy. The Company does not know of any other matters to be presented at the meeting.

You may revoke your proxy at any time before the vote is taken at the meeting. To revoke your proxy, you must either advise the Secretary of the Company in writing before your SI Financial common stock has been voted at the annual meeting, deliver a later-dated valid proxy or attend the meeting and vote your shares in person. Attendance at the annual meeting will not in itself constitute revocation of your proxy.

If your SI Financial common stock is held in street name, you will receive instructions from your broker, bank or other nominee that you must follow to have your shares voted. Your broker, bank or other nominee may allow you to deliver your voting instructions by telephone or by the Internet. Please see the instruction form provided by your broker, bank or other nominee that accompanies this proxy statement. If you wish to change your voting instructions after you have returned your voting instruction form to your broker, bank or other nominee, you must contact your broker, bank or other nominee.

Participants in Savings Institute's ESOP or 401(k) Plan

If you participate in the Savings Institute Bank and Trust Company Employee Stock Ownership Plan (the "ESOP") or if you have invested in SI Financial common stock through SI Financial Stock Fund (the "Stock Fund") in the Savings Institute Profit Sharing and 401(k) Savings Plan (the "401(k) Plan"), you will receive a vote instruction card for each plan that will reflect all the shares that you may direct the trustees to vote on your behalf under the respective plans. Under the terms of the ESOP, all allocated shares of SI Financial common stock held by the ESOP are voted by the ESOP trustee, as directed by plan participants. All unallocated shares of SI Financial common stock held by the ESOP and all allocated shares for which no timely voting instructions are received are voted by the ESOP trustee in the same proportion as shares for which the trustee has received voting instructions, subject to the exercise of its fiduciary duties. Under the terms of the 401(k) Plan, participants investing in the Stock Fund through the 401(k) Plan may direct the Stock Fund trustee how to vote the shares credited to their accounts. The Stock Fund trustee will vote all shares for which it does not receive timely instructions from participants based on the final results of the tabulation. **The deadline for returning your voting instruction cards is April 27, 2007.**

Corporate Governance

General

The Company periodically reviews its corporate governance policies and procedures to ensure that the Company meets the highest standards of ethical conduct, reports results with accuracy and transparency and maintains full compliance with the laws, rules and regulations that govern the Company's operations. As part of this periodic corporate governance review, the Board of Directors reviews and adopts best corporate governance policies and practices for the Company.

Code of Ethics and Business Conduct

The Company has adopted a Code of Ethics and Business Conduct that is designed to ensure that the Company's directors, executive officers and employees meet the highest standards of ethical conduct. The Code of Ethics and Business Conduct requires that the Company's directors, executive officers and employees avoid conflicts of interest, comply with all laws and other legal requirements, conduct business in an honest and ethical manner and otherwise act with integrity and in the Company's best interest. Under the terms of the Code of Ethics and Business Conduct, directors, executive officers and employees are required to report any conduct that they believe in good faith to be an actual or apparent violation of the Code of Ethics and Business Conduct. A copy of the Code of Ethics

and Business Conduct can be found in the Governance Documents portion of the Investor Relations section of the Company's website (www.mysifi.com).

As a mechanism to encourage compliance with the Code of Ethics and Business Conduct, the Company has established procedures to receive, retain and treat complaints received regarding accounting, internal accounting controls or auditing matters. These procedures ensure that individuals may submit concerns regarding questionable accounting or auditing matters in a confidential and anonymous manner. The Code of Ethics and Business Conduct also prohibits the Company from retaliating against any director, executive officer or employee who reports actual or apparent violations of the Code of Ethics and Business Conduct.

Meetings and Committees of the Board of Directors

The Company and Savings Institute conduct business through meetings of their Boards of Directors and their committees. During 2006, the Board of Directors of the Company met 15 times and the Board of Directors of Savings Institute met 13 times. No director attended fewer than 75% of the total meetings of the Boards of Directors and committees on which such director served.

The following table identifies the Company's standing committees and their members as of March 16, 2007. All members of each committee are independent in accordance with the listing standards of the Nasdaq Stock Market. The charters of all three committees are available in the Governance Documents portion of the Investor Relations section of the Company's website (www.mysifi.com).

Director	Nominating and		
	Audit Committee	Compensation Committee	Governance Committee
Mark D. Alliod	X		
Rheo A. Brouillard			
Robert C. Cushman, Sr.			X
Roger Engle	X	X*	
Donna M. Evan	X	X	X*
Michael R. Garvey			X
Robert O. Gillard			X
Henry P. Hinckley		X	
Steven H. Townsend	X*		
Number of Meetings in 2006	6	4	8

* Chairperson

Audit Committee. The Audit Committee is responsible for developing and monitoring the Company's internal audit and compliance programs. The committee also receives and reviews all the reports and findings and other information presented to them by the Company's officers regarding financial reporting policies and practices. The Audit Committee selects the independent registered public accounting firm and meets with them to discuss the results of the annual audit and any related matters. The Board of Directors has determined that Messrs. Alliod and Townsend are audit committee financial experts. Messrs. Alliod, Engle and Townsend and Ms. Evan are independent under the listing standards of the Nasdaq Stock Market applicable to audit committee members. The report of the Audit Committee required by the rules of the Securities and Exchange Commission is included in this proxy statement. See *Audit Committee Report*.

Compensation Committee. The Compensation Committee approves the compensation objectives for the Company and the Bank, establishes the compensation for the President and CEO and other executives and establishes personnel policies. The Compensation Committee reviews all components of compensation including base salary, bonus, equity compensation, benefits and other perquisites. Decisions by the Compensation Committee with respect to the compensation of executive officers are approved and ratified by the full Board of Directors. See *Compensation Discussion and Analysis* for more information regarding the role of the Compensation Committee and management in determining and/or recommending the amount or form of executive compensation. The report of the Compensation Committee required by the rules and regulations of the Securities and Exchange Commission is included in this proxy statement. See *Compensation Committee Report on Executive Compensation*.

Nominating and Governance Committee. The Company's Nominating and Governance Committee assists the Board of Directors in identifying qualified individuals to serve as Board members, in determining the composition of the Board of Directors and its committees, in monitoring a process to assess Board effectiveness and in developing and implementing the Company's corporate governance guidelines. The Nominating and Governance Committee also considers and recommends the nominees for director to stand for election at the Company's annual meeting of stockholders. The procedures of the Nominating and Governance Committee required to be disclosed by the rules of the Securities and Exchange Commission are included in this proxy statement. See *Nominating and Governance Committee Procedures*.

Attendance at the Annual Meeting

The Board of Directors encourages directors to attend the annual meeting of stockholders. All directors attended the 2006 annual meeting of stockholders.

Stock Ownership

The following table provides information as of March 16, 2007 with respect to persons and entities known to the Company to be the beneficial owner of more than 5% of the Company's outstanding common stock. A person or entity may be considered to beneficially own any shares of common stock over which the person or entity has, directly or indirectly, sole or shared voting or investing power.

Name and Address	Number of Shares Owned	Percent of Common Stock Outstanding
SI Bancorp, MHC	7,286,975 ⁽¹⁾	58.7%
803 Main Street		
Willimantic, Connecticut 06226		

(1) Acquired in connection with the Company's minority stock offering, which was completed on September 30, 2004. The members of the Board of Directors of SI Financial and Savings Institute also constitute the Board of Directors of SI Bancorp.

The following table provides information as of March 16, 2007 about the shares of SI Financial common stock that may be considered to be owned by each director or nominee for director of the Company, by those executive officers of the Company named in the Summary Compensation Table that follows, and by all directors, nominees for director and executive officers of the Company as a group. A person may be considered to own any shares of common stock over which he or she has, directly or indirectly, sole or shared

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voting or investment power. Unless otherwise indicated, each of the named individuals has sole voting power and sole investment power with respect to the shares shown.

Name	Number of Shares Owned (Excluding Options) (1)(2)(3)	Number of Shares That May Be Acquired Within 60 Days by Exercising Options	Percent of Common Stock Outstanding
Mark D. Alliod	4,600 ⁽⁴⁾	2,000	*
Rheo A. Brouillard	77,765 ⁽⁵⁾	20,000	*
Robert C. Cushman, Sr.	13,000	4,000	*
Sonia M. Dudas	36,359 ⁽⁶⁾	5,400	*
Roger Engle	24,073 ⁽⁷⁾	4,000	*
Donna M. Evan	20,000	4,000	*
Michael R. Garvey	1,600		*
Laurie L. Gervais	31,287	5,400	*
Robert O. Gillard	22,427 ⁽⁸⁾	4,000	*
Henry P. Hinckley	17,000	5,000	*
Brian J. Hull	52,060	8,000	*
Michael J. Moran	32,495	5,400	*
Steven H. Townsend	15,502	4,000	*
All Directors, Nominees and Executive Officers as a group (14 persons)	371,556	76,600	3.6%

* Less than 1% of the shares outstanding

- (1) Includes unvested shares of restricted stock awards held in trust, with respect to which the beneficial owner has voting but not investment power as follows: Messrs. Cushman, Engle, Gillard, Townsend and Ms. Evan 8,000 shares each; Mr. Brouillard 40,000 shares; Ms. Dudas 19,200 shares; Ms. Gervais 15,900 shares; Mr. Hinckley 9,600 shares; Mr. Hull 29,200 shares; and Mr. Moran 19,200 shares.
- (2) Includes shares allocated to the account of the individuals under the ESOP with respect to which the individual has voting but not investment power as follows: Mr. Brouillard 2,056 shares; Ms. Dudas 1,336 shares; Ms. Gervais 1,012 shares; Mr. Hull 1,707 shares; and Mr. Moran 1,361 shares.
- (3) Includes shares held in trust in the 401(k) Plan as to which each individual has investment and voting power as follows: Mr. Brouillard 19,998 shares; Ms. Dudas 7,317 shares; Ms. Gervais 8,974 shares; Mr. Hull 13,027 shares; and Mr. Moran 8,915 shares.
- (4) Includes 250 shares held by Mr. Alliod's daughter and 950 shares held by the individual retirement account of Mr. Alliod's spouse.
- (5) Includes 1,000 shares held by Mr. Brouillard's spouse and 2,850 shares held by the individual retirement account of Mr. Brouillard's spouse.
- (6) Includes 500 shares held by Ms. Dudas' daughter.
- (7) Includes 25 shares and 48 shares held in a custodian account for Mr. Engle's two children, under which Mr. Engle's spouse has voting and investment power.

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(8) Includes 4,409 shares held by the individual retirement account of Mr. Gillard's spouse.

Proposal 1 Election of Directors

The Company's Board of Directors consists of nine members. The Board is divided into three classes with three-year staggered terms, with approximately one-third of the directors elected each year. Messrs. Brouillard and Engle will be elected at the annual meeting to serve for a three-year term and Mr. Garvey will be elected at the annual meeting to serve for a one-year term or until their respective successors have been elected and qualified. All of the directors are independent under the current listing standards of the Nasdaq Stock Market, except for Mr. Brouillard because he is an employee of SI Financial and Savings Institute. In determining the independence of the directors, the Board considered transactions, relationships or arrangements between the Company, the Bank and its directors that are not required to be disclosed in this proxy statement under the heading *Transactions with Related Persons*.

Mr. Garvey was recommended to the Nominating and Governance Committee by a non-management director. The Nominating and Governance Committee then recommended Mr. Garvey's nomination to the full Board of Directors.

It is intended that the proxies solicited by the Board of Directors will be voted for the election of the nominees named above. If any nominee is unable to serve, the persons named in the proxy card would vote your shares to approve the election of any substitute nominee proposed by the Board of Directors. Alternatively, the Board of Directors may adopt a resolution to reduce the size of the board. At this time, the Board of Directors knows of no reason why any nominee might be unable to serve.

The Board of Directors recommends a vote FOR the election of all of the nominees.

Information regarding the nominees and the directors continuing in office is provided below. Unless otherwise stated, each individual has held his or her current occupation for the last five years. The age indicated in each individual's biography is as of December 31, 2006. There are no family relationships among the directors or executive officers. The indicated period for service as a director includes service as a director of Savings Institute.

Nominees for Election of Directors

The following nominees are standing for election for terms ending in 2010:

Rheo A. Brouillard has been the President and Chief Executive Officer of Savings Institute, SI Bancorp and SI Financial since 1995, 2000 and 2004, respectively. Age 52. Director since 1995.

Roger Engle was the President of The Crystal Water Company, a water supplier located in Danielson, Connecticut, from 1973 until his retirement in 2000. Mr. Engle currently serves as the First Selectman for the town of Brooklyn, Connecticut. He is also a director of Connecticut Water Service, Inc., (Nasdaq: CTWS), which delivers water to customers throughout 42 towns in Connecticut and Massachusetts. Age 68. Director since 1998.

The following nominee is standing for election for a term ending in 2008:

Michael R. Garvey is the owner of the certified public accounting firm of Garvey & Associates, LLC. Age 42. Director since March 2007.

Directors Continuing in Office

The following directors have terms ending in 2008:

Mark D. Alliod operates a public accounting firm in South Windsor, Connecticut, which has successfully passed the Profession's Peer Review Program. Age 43. Director since 2005.

Robert C. Cushman, Sr. is a former real estate appraiser with The Cushman Company located in Mystic, Connecticut. Age 72. Director since 1993.

Robert O. Gillard is the owner of the O.L. Willard Company, Inc., a full-service hardware store with locations in Storrs and Willimantic, Connecticut. Age 60. Director since 1999.

The following directors have terms ending in 2009:

Donna M. Evan is a Sales Manager for Nutmeg Broadcasting, the owner of a commercial radio station located in Willimantic, Connecticut. Age 58. Director since 1996.

Henry P. Hinckley is the Chairman of the Board of Directors of SI Bancorp, SI Financial and Savings Institute. Mr. Hinckley also is the President of J.P. Mustard Agency, Inc., an insurance agency located in Willimantic, Connecticut. Age 66. Director since 1984.

Steven H. Townsend is a Managing Partner of Northeast Development Company, LLC and a member of the Board of Directors of SunOpta, Inc. (Nasdaq: STKL). Mr. Townsend has served in various executive positions, including from 2001 to 2005 as Chairman of the Board, President and Chief Executive Officer, with United Natural Foods, Inc. (Nasdaq: UNFI), a distributor of natural and organic food and related products located in Dayville, Connecticut. Age 53. Director since 2003.

Proposal 2 Ratification of Independent Registered Public Accounting Firm

The Audit Committee of the Board of Directors has appointed Wolf & Company, P.C. to be the Company's independent registered public accounting firm for the 2007 fiscal year, subject to ratification by stockholders. A representative of Wolf & Company, P.C. is expected to be present at the annual meeting to respond to appropriate questions from stockholders and will have the opportunity to make a statement should he or she desire to do so.

If the ratification of the appointment of the independent registered public accounting firm is not approved by a majority of the votes present in person or by proxy at the annual meeting and entitled to vote, the Audit Committee of the Board of Directors will consider other independent registered public accounting firms.

The Board of Directors recommends a vote FOR the ratification of the appointment of the independent registered public accounting firm.

Audit and Non-Audit Fees

The following table sets forth the fees billed to the Company for the years ended December 31, 2006 and 2005 by Wolf & Company, P.C.:

	2006	2005
Audit Fees ⁽¹⁾	\$ 143,500	\$ 135,000
Audit Related Fees ⁽²⁾	30,518	11,156
Tax Fees ⁽³⁾	26,000	5,000
All Other Fees		

(1) Includes fees for the financial statement audit and quarterly reviews.

(2) Including audits of the 401(k) Plan and the ESOP.

(3) Represents services rendered for tax compliance, tax advice and tax planning, including the preparation of the annual tax returns and quarterly tax payments.

Pre-Approval of Services by the Independent Registered Public Accounting Firm

The Audit Committee has adopted a policy for pre-approval of audit and permitted non-audit services by the Company's independent registered public accounting firm. The Audit Committee will consider annually and approve the provision of audit services by its independent registered public accounting firm and consider and, if appropriate, pre-approve the provision of certain defined audit and non-audit services. The Audit Committee also will consider on a case-by-case basis and, if appropriate, approve specific engagements.

Any proposed specific engagement may be presented to the Audit Committee for consideration at its next regular meeting or, if earlier consideration is required, to the Audit Committee or one or more of its members. The member or members to whom such authority is delegated shall report any specific approval of services at the next regular meeting of the Audit Committee. The Audit Committee will regularly review summary reports detailing all services being provided to the Company by its independent registered public accounting firm.

During the year ended December 31, 2006, the Audit Committee approved all Audit Related Fees, Tax Fees and All Other Fees set forth above.

Notwithstanding anything to the contrary set forth in any of the Company's previous filings under the Securities Act of 1933 or the Securities Exchange Act of 1934 that might incorporate future filings, including this proxy statement, in whole or in part, the following report of the Audit Committee shall not be incorporated by reference into any such filings.

Audit Committee Report

The Company's management is responsible for the Company's internal control over financial reporting. The Company's independent registered public accounting firm is responsible for performing an independent audit of the Company's consolidated financial statements and issuing an opinion on the conformity of those financial statements with U.S. generally accepted accounting principles. The Audit Committee oversees the Company's internal control over financial reporting on behalf of the Board of Directors.

In this context, the Audit Committee has met and held discussions with management and the independent registered public accounting firm. Management represented to the Audit Committee that the Company's consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles, and the Audit Committee has reviewed and discussed the consolidated financial statements with management and the Company's independent registered public accounting firm. The Audit Committee discussed with the independent registered public accounting firm matters required to be discussed by Statement on Auditing Standards No. 61 (Communication With Audit Committees), including the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments, and the clarity of the disclosures in the financial statements.

In addition, the Audit Committee has received the written disclosures and the letter from the independent registered public accounting firm required by the Independence Standards Board Standard No. 1 (Independence Discussions With Audit Committees) and has discussed with the independent registered public accounting firm the firm's independence from the Company and its management. In concluding that the independent registered public accounting firm is independent, the Audit Committee considered, among other factors, whether the non-audit services provided by the firm were compatible with its independence.

The Audit Committee discussed with the Company's independent registered public accounting firm the overall scope and plans for their audit. The Audit Committee meets with the independent registered public accounting firm, with and without management present, to discuss the results of their examination, their evaluation of the Company's internal control over financial reporting, and the overall quality of the Company's financial reporting process.

In performing all of these functions, the Audit Committee acts only in an oversight capacity. In its oversight role, the Audit Committee relies on the work and assurances of the Company's management, which has the primary responsibility for financial statements and reports, and of the independent registered public accounting firm that, in their report, express an opinion on the conformity of the Company's financial statements to U.S. generally accepted accounting principles. The Audit Committee's oversight does not provide it with an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or policies, or appropriate internal control over financial reporting designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the Audit Committee's considerations and discussions with management and the independent registered public accounting firm do not assure that the Company's financial statements are presented in accordance with U.S. generally accepted accounting principles, that the audit of the Company's financial statements has been carried out in accordance with the standards of the Public Company Accounting Oversight Board (United States) or that the Company's independent registered public accounting firm is in fact independent.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors, and the Board has approved, that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006 for filing with the Securities and Exchange Commission. The Audit Committee has appointed, subject to stockholder ratification, the selection of the Company's independent registered public accounting firm for the fiscal year ending December 31, 2007.

Audit Committee of the SI Financial Group, Inc. Board of Directors

Steven H. Townsend Chairperson

Mark D. Alliod

Roger Engle

Donna M. Evan

Compensation Discussion and Analysis

Our Compensation Philosophy

Our compensation philosophy is based on the premise that the success of SI Financial depends, in a large part, on the dedication and commitment of the people we place in key operating positions to drive our business strategy. We strive to satisfy the demands of our business model by providing our employees with incentives tied to the successful implementation of our corporate objectives. However, we recognize that we operate in a competitive environment for talent. Therefore, our approach to compensation considers the full-range of compensation techniques that enable us to compare favorably with our peers as we seek to attract and retain key personnel.

We base our compensation decisions on the following principles:

Meeting the Demands of the Market Our goal is to compensate our employees at competitive levels that position us as the employer of choice among our peers who provide similar financial services in the markets we serve.

Aligning with Shareholders We use equity compensation as a component of our compensation mix to develop a culture of ownership among our key personnel and to align their individual financial interest with the interests of our shareholders.

Driving Performance We structure compensation around the attainment of company-wide and individual targets that return positive results to our bottom line and are consistent with goals established within our strategic plans.

Reflecting our Business Philosophy Our approach to compensation reflects our values and the way we do business in the communities we serve.

Our compensation program relies on three primary elements: (i) base compensation or salary (ii) cash-based, performance-based compensation and (iii) equity-based long-term incentive compensation. We believe that we can meet the objectives of our compensation philosophy by achieving a balance among these three elements that is competitive with our industry peers and creates appropriate incentives for our management team. To achieve the necessary balance, our management works closely with Eastern Management Group and Bank Financial Services Group, independent compensation consultants, who provide us with their expertise on competitive compensation practices and help us to benchmark our compensation program to our peers.

Base Compensation. The salaries of our executive and other officers are reviewed at least annually to assess their performance, to evaluate our competitive position on base pay and to make any necessary adjustments. Our goal is to maintain salary levels for our officers at a level consistent with base

pay received by those in comparable positions at peer institutions. To further that goal, we obtain peer group information from a variety of sources. We also evaluate salary levels at the time of promotion, other change in responsibilities or as a result of specific commitments made when an officer was hired. Individual performance and retention risk are also considered as part of our annual assessment.

Cash-Based Performance-Based Compensation. The Compensation Committee of the Board of Directors authorizes bonuses for key personnel based on the terms of a cash-based incentive program, referred to as *Pay-for Performance*, which rewards the attainment of annual company-wide financial objectives at specified levels and individual performance relative to the specific tasks we expect an employee to accomplish during the year. Our objective is to drive annual performance at both the Company and individual levels to the highest attainable levels by establishing threshold, target and maximum levels tied to increasing levels of incentive awards. See *Our 2006 Compensation Program* below for a more detailed discussion.

Long-Term Equity-Based Compensation. Our long-term incentive compensation program is based on the delivery of competitive equity awards to our management team. We use an equity-based, long-term incentive compensation program to reward outstanding performance with incentives that focuses our management team on the task of creating long-term shareholder value.

Role of the Compensation Committee

We rely on the Compensation Committee to develop our compensation program and to monitor the success of the program in achieving the objectives of our compensation philosophy. The Committee, which consists of three independent directors, is also responsible for the administration of our compensation programs and policies, including the administration of our cash- and stock-based incentive programs. The Committee operates under the mandate of a formal charter that establishes a framework for the fulfillment of the Committee's responsibilities. The Committee reviews the charter at least annually to ensure that the scope of the charter is consistent with the Committee's expected role. Under the charter, the Committee is charged with the general responsibility for the oversight and administration of our compensation program. During 2006, the Compensation Committee met four times. The members of the Compensation Committee include the following individuals:

Roger Engle Chairperson

Donna M. Evan

Henry P. Hinckley

Role of Compensation Consultants

Our management has utilized the services of Eastern Management Group and Bank Financial Services Group, independent compensation consultants, for compensation-related matters and to help us benchmark our compensation program against our peers and to ensure that our program is consistent with prevailing practice in our industry. During 2006, we paid Eastern Management Group \$4,000 for their services.

Role of Management

Our chief executive officer makes recommendations to the Compensation Committee from time to time regarding the appropriate mix and level of compensation for other officers. Those recommendations consider the objectives of our compensation philosophy and the range of compensation programs authorized

by the Compensation Committee. Our chief executive officer does not participate in Committee discussions or review Committee documents relating to the determination of his own compensation.

Peer Group Analysis

A critical element of our compensation philosophy and a key driver of specific compensation decisions for our management team is the comparative analysis of our compensation mix and levels relative to a peer group of banks and thrifts. We firmly believe that the cornerstone of our compensation program is the maintenance of a competitive compensation program relative to the companies with whom we compete for talent. In 2006, our peer group was selected on the basis of several factors, including geographic location, size, operating characteristics and financial performance.

Severance and Change in Control Benefits

We recognize that an important consideration in our ability to attract and retain key personnel is our ability to minimize the impact on our management team of the possible disruption associated with our analysis of strategic opportunities. Accordingly, we believe that it is in the best interest of SI Financial and its shareholders to provide our key personnel with reasonable financial arrangements in the event of termination of employment following a change in control or involuntary termination of employment for reasons other than cause. Therefore, we have entered into employment agreements with our chief executive officer and chief financial officer. See *Executive Compensation Employment Agreements*. We have also entered into change in control agreements with our other named executive officers. See *Executive Compensation Change in Control Agreements*. The employment agreements provide our chief executive officer and chief financial officer with severance benefits in the event we terminate an executive's employment for reasons other than cause or if they are terminated in connection with a change in control. See *Executive Compensation Potential Post-Termination Benefits Employment Agreements*. Our change in control agreements provide post-termination benefits to our other named executive officers following a change in control of SI Financial or Savings Institute. See *Potential Post-Termination Benefits Change in Control Agreements*.

Tax and Accounting Considerations

In consultation with our advisors, we evaluate the tax and accounting treatment of each of our compensation programs at the time of adoption and on an annual basis to ensure that we understand the financial impact of the program. Our analysis includes a detailed review of recently adopted and pending changes in tax and accounting requirements. As part of our review, we consider modifications and/or alternatives to existing programs to take advantage of favorable changes in the tax or accounting environment or to avoid adverse consequences.

Retirement Benefits; Employee Welfare Benefits

We offer our employees tax-qualified retirement and savings plans. Our primary retirement savings vehicle is our 401(k) Plan. Our 401(k) Plan is complemented by our ESOP, which allows participants to accumulate a retirement benefit in employer stock at no cost to the participant. Consistent with industry practice, we supplement our tax-qualified plans with nonqualified arrangements that provide benefits to certain officers who are affected by Internal Revenue Code limits applicable to tax-qualified plans. We also provide our chief executive officer and other named executive officers with both an executive supplemental retirement arrangement and a split-dollar life insurance agreement. See *Executive Compensation Pension Benefits*, *Executive Compensation Summary Compensation Table* and *Executive Compensation*

Nonqualified Deferred Compensation for a description of the supplemental retirement benefits provided to our named executive officers.

In addition to retirement programs, we provide our employees with coverage under medical, dental, life insurance and disability plans on terms consistent with industry practice. We also maintain an employee severance compensation plan for all eligible employees who do not have a change in control agreement or an employment agreement with SI Financial and Savings Institute. The employee severance compensation plan provides employees with a severance benefit in the event their employment is terminated within one year of a change in control of SI Financial or Savings Institute.

Perquisites

We provide certain of our officers with perquisites similar to those provided to executives employed by our peers. The perquisites are intended to further the officers' abilities to promote the business interests of SI Financial and its subsidiaries in our markets and to reflect competitive practices for similarly situated officers employed by our peers.

Director Compensation

We compensate our outside directors through a combination of retainers, meeting fees and stock option and restricted stock awards. Directors who are also employees of the Company do not receive additional compensation for service on the Board. The level and mix of director compensation is reviewed by the Compensation Committee on a periodic basis to ensure consistency with the objectives of our overall compensation philosophy.

Stock Compensation Grant and Award Practices

Our Compensation Committee considers whether to make stock option grants and/or award other forms of equity during the second quarter of each year. However, grants or awards may be made at other times during the year based on specific circumstances such as a new hire, a specific contractual commitment or a change in position or responsibility. Under our current plan, which was approved by the Company's shareholders in 2005, the exercise price of an option is the closing market price on the date of grant. The grant date is the date the full Board of Directors approves the award and grants the awards to the participants.

As a general matter, the Compensation Committee's process is independent of any consideration of the timing of the release of material nonpublic information, including with respect to the determination of grant dates or the stock option exercise prices. The Compensation Committee's decisions are reviewed and ratified by the full Board of Directors. Similarly, we have never timed the release of material nonpublic information with the purpose or intent to affect the value of executive compensation.

Stock Ownership Requirements

We have not adopted formal stock ownership requirements for our senior officers. However, members of the Company's Board of Directors are required to purchase a minimum of 5,000 shares of the Company's common stock, independent of any stock option or restricted stock awards granted, within five years of joining the Board of Directors.

Our 2006 Compensation Program

The Compensation Committee meets at least annually to approve the salary, short-term incentive compensation plans and stock option grants for officers and executive management. The 2006 compensation plan included merit increases, Pay-for Performance incentive compensation and stock option grants.

Each year, the Human Resources Manager reviews banking industry surveys, inflation, pay adjustments in the market and budgeting issues and provides this information to the Compensation Committee. The Compensation Committee believes the salary portion of an employee's compensation package plays a vital role in retaining and attracting a high quality of staff. The goal of the Board of Directors is to retain our most qualified employees and to attract highly-skilled individuals as we continue to grow. In February 2006, the Compensation Committee reviewed the individual performance of our chief executive officer and granted an annual pay adjustment equal to 5.61% of his annual compensation, based on comparative reports of peer institutions and banking industry surveys. Our other named executive officers also received salary adjustments in February 2006 ranging between 4.0% and 4.9% of their base salary. See *Executive Compensation Summary Compensation Table* for the salaries paid to our named executive officers in 2006.

On October 25, 2006, the Board of Directors renewed the change in control agreements with Mr. Moran, Ms. Dudas and Ms. Gervais for an additional one-year term.

Our Pay-for-Performance incentive compensation plan is based on financial targets established by management and approved by the Board of Directors on an annual basis after the completion of the Company's operating budget. For 2006, the targets consisted of a combination of individual targets (for branch employees only) and Savings Institute financial performance targets to include (1) return on assets and (2) noninterest expenses. Incentive compensation for branch employees only reflects individual targets tied to retail sales goals for products and services offered by Savings Institute. All employees who meet the eligibility requirements of the plan participate in the Company's incentive compensation plan. The objective of this plan is to increase performance of the employees and improve the financial performance of the Company. The Company believes that officers and managers that contribute at a higher level should be recognized for their efforts and be eligible for higher short-term incentive compensation.

In January 2007, the Board of Directors approved the payment of incentive compensation to those individuals who attained their individual performance goals, as well as a portion based on Savings Institute meeting the threshold level for noninterest expenses, for the year ended December 31, 2006. In total, Savings Institute awarded approximately \$341,000 to all employees. In March 2007, the Compensation Committee approved an incentive compensation payment of \$50,100 to our chief executive officer, in recognition of meeting 50% of Savings Institute's financial performance criteria. Our other named executive officers received incentive compensation awards ranging from \$14,308 to \$25,025.

The Compensation Committee made no equity grants to our named executive officers in 2006. However, in connection with our acquisition of SI Trust Servicing, the Compensation Committee elected to grant the trust operations manager an option to purchase 10,000 shares of our common stock.

Our goal is to offer a 401(k) Plan, ESOP and a competitive health benefit plan to attract and retain quality staffing. We believe that our existing programs accomplish this, while rewarding those that exceed expectations.

Executive Compensation

Summary Compensation Table

The following information is furnished for all individuals serving as the principal executive officer and principal financial officer of the Company for the 2006 fiscal year and the next three highest compensated executive officers of the Company for the 2006 fiscal year.

<i>Name and Principal Position</i>	<i>Year</i>	<i>Salary</i>	<i>Bonus</i>	<i>Stock Awards</i>	<i>Option Awards</i>	<i>Change in Pension Value and Nonqualified Deferred Compensation Earnings</i>	<i>All Other Compensation</i>	<i>Total</i>
Rheo A. Brouillard	2006	\$ 263,922	\$ 50,100	\$ 101,000	\$ 57,886	\$84,158	\$22,270	
President and Chief Executive Officer								