PARTICIPANTS

Corporate Participants

Marliese L. Shaw – Vice President & Investor Relations Officer, Rockville Bank
William H. W. Crawford – President, CEO & Director
John T. Lund – Chief Financial Officer, Treasurer & Executive VP
Mark A. Kucia – Chief Commercial Banking Officer & Executive VP

Other Participants

Damon P. DelMonte – Analyst, Keefe, Bruyette & Woods, Inc.
Laurie K. Hunsicker – Analyst, Stifel, Nicolaus & Co., Inc.
Matthew Breese – Analyst, Sterne, Agee & Leach, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon and welcome to the Rockville Financial Third Quarter 2011 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Marliese Shaw, VP, Investors Relations Officer.

Please go ahead.

Marliese L. Shaw, Vice President & Investor Relations Officer, Rockville Bank

Thank you, good afternoon everyone. Welcome to our Third Quarter Conference Call. Before we begin, we would like to remind you to read our Safe Harbor advisement on forward-looking statements on our earnings announcement. Forward-looking statements by their nature are subject to risks and uncertainties. Certain factors could cause actual results to differ materially from expected results.

Our comments today are intended to qualify for the Safe Harbor afforded by that advisement. And now I would like to introduced Bill Crawford, our Chief Executive Officer and President.

William H. W. Crawford, President, CEO & Director

Good afternoon and thanks to everyone for joining us. The management team at Rockville Financial is committed to timely and transparent communications with the investor and analyst community, which is the reason why we're introducing earnings calls at this time.

With me this afternoon is John Lund, our Chief Financial Officer along with other members of our management team. I'd like to take this opportunity to thank the entire Rockville team for delivering another quarter of superior customer service and outstanding asset quality. This has been a key to our success for many years. I'm very pleased to report that the Company had a record quarter having begun to realize the net interest income benefit of the second quarter 2011 balance sheet restructure and our continued focus on decreasing total funding costs and growing low cost core deposits. In addition to achieving deposit growth, we're seeing solid momentum in our commercial loan and mortgage loan pipelines.

We made meaningful adds to staff in risk management, information technology, finance, branch administration and commercial banking. The NewAlliance First Niagara merger created a unique opportunity for Rockville to attract experienced local banking talent in a short period of time and without the use of an executive recruiting firm.

Our commercial banking team added eight individuals with an average of 25 years of experience, most of that in the local market, while the other members that have joined us average about 23 years in experience, so we feel great about the individuals we've recruited to our team. Having made a significant investment in the Company's human capital infrastructure, management is currently in the process of completing a comprehensive enterprise wide multi-year strategic plan with our Board of Directors, which we expect to be finalized in December.

At Rockville, we remain focused on driving organic growth and executing on sound capital management principles. We look forward to March 2012 when we're permitted to repurchase shares. At September of 30, 2011, Rockville's closing price was $9.48. Tangible book value was $11.32. Therefore, price to tangible book value was 84% at that time.

In the third quarter, we made a substantial investment in our future via adds to staff while generating record earnings. This speaks to the earnings power of Rockville Financial. We remain focused on providing superior customer service, serving our communities, financial discipline and asset quality. These remain the keys to Rockville Banks' performance success as we continue our mission as Connecticut's Best Community Bank.

At this time I'm going to ask John to provide some further detail on the quarter's results.

John T. Lund, Chief Financial Officer, Treasurer & Executive VP

Thank you, Bill and good afternoon everyone. I would like to comment firstly that the Company is taking a walk before you can run approach to the earnings release and earnings call presentation. Our goal is to always have a good relationship with our analysts and investors and to provide transparency on our disclosures. Therefore you can expect expansion and more transparency in the presentation as the quarters transpire.

With that said I will take a few minutes to describe the quarterly results and then would like to open up the call for questions following my remarks. As, Bill indicated, the Company reported record earnings in the third quarter 2011. Net income for the quarter ended September 30, 2011 of $4.1 million or $0.14 per share represents our first quarter this year without significant one-time expense events.

Improvements in the cost of funding was a major factor impacting the quarterly results, particularly due to the Company's extinguishment at the end of the second quarter of $122.2 million of Federal Home Loan Bank advances with a weighted average cost of 4.17%. Decreases in the cost of funding across all sources will continue to be a key focus for the Company going forward.

The net interest margin was also influenced by the decline in the cost of funds and improved to 3.70% from the quarter from 3.53% during the same quarter in 2010, and improved from 3.08% in the prior quarter.

Net interest income has benefited from continued organic growth in both loans and deposits. Net loans have increased by $35 million during the year to $1.4 billion contributing to a 6.9% compound annual growth rate over the last five years. Deposits have increased by $78 million during the year to $1.3 billion contributing to an 8% compound annual growth rate in that portfolio over the last five years.

Fees have decreased due to the lower residential mortgage volume at the Bank subsidiary Rockville Bank Mortgage, Inc. and also lower secondary mortgage sales activity at the Bank. Expenses were up in the quarter primarily due to the $1.1 million increase in salaries and employee benefits expense related to the investment in the Company is making in its human capital and infrastructure to prepare for future growth. Specifically, the Company has reported staffing expansions in the risk management, information technology, finance, branch administration, and commercial banking areas. Despite the additional staffing, non-interest expense as a percent of average assets is reported at 2.44% for the third quarter 2011. The Company has paid dividends for 21 consecutive quarters. The dividend payout ratio for the quarter ended September 30, 2011 was 51%. Stock buybacks will become available as an option at the end of Q1 2012 per State of Connecticut Department of Banking Mutual Conversion Banking regulations.

To conclude, we are pleased with the strong operating results for the quarter and the resulting robust net interest margin. Going forward, we continue to focus on prudent growth, maintaining asset quality and on seeking opportunities to decrease the cost of funds.

Thank you. And now Bill and I would be happy to answer any questions you may have.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Damon DelMonte at KBW.

<Q – Damon DelMonte – Keefe, Bruyette & Woods, Inc.>: Hi. Good afternoon, everyone. How are you?

<A – William Crawford – Rockville Financial, Inc.>: Hi, Damon.

<Q – Damon DelMonte – Keefe, Bruyette & Woods, Inc.>: I guess, I'll start off with my first question regarding the margin. Quite a nice bump this quarter; obviously reflective of the restructuring that you did last quarter. Can you kind of help us think about the margin as we go forward? I mean, I can't imagine you guys with such a large increase again going forward. But maybe you could just give us a little guidance?

<A – William Crawford – Rockville Financial, Inc.>: John, I'll let you take that one?

<A – John Lund – Rockville Financial, Inc.>: Yes. I think from the restructure standpoint, certainly we have some benefit there. And we do have a number of FHLB advances that we're going to be paying off in the fourth quarter. Those will total approximately $29 million with a weighted average rate on those about 3.6%. So I think directionally that will help and certainly as we mentioned in our prepared comments, driving down cost of funds on the retail side as well is an emphasis for the company. So...

<Q – Damon DelMonte – Keefe, Bruyette & Woods, Inc.>: Okay. So we can – it sounds like we can expect a continued positive trend in the margin, then?

<A – John Lund – Rockville Financial, Inc.>: I would say that statement is reasonable.

<Q – Damon DelMonte – Keefe, Bruyette & Woods, Inc.>: Okay, great. And then on the expense front, it looks like linked quarter not really a material change on the operating expense line, if you back out the non-recurring expense from last quarter. What can we expect in the way of the new salaries from all these hires this quarter and how is that going to impact the fourth quarter?

<A – John Lund – Rockville Financial, Inc.>: Well, certainly as we said in our prepared remarks, the bulk of the expense increase for this quarter was in salary and employee benefits expense. There wasn't any one-time items, so I think from a quarter standpoint this was fairly clean. But as opportunities present themselves with new hires, we would certainly consider it.

<A – William Crawford – Rockville Financial, Inc.>: And Damon it's Bill. We feel like we've gotten the big chunks through there and we still have – and may have some more coming. But obviously we think about investing in the company, we also think about how we're going to finance that through growing revenue and I think you'll see in this quarter we did a nice job of growing revenue to cover that expense run rate build.

<Q – Damon DelMonte – Keefe, Bruyette & Woods, Inc.>: All right, okay. Great and then the FDIC assessment was a credit this quarter for $29,000. What would you – just from a modeling standpoint what should we be thinking about going forward?

<A – John Lund – Rockville Financial, Inc.>: That was a timing difference. Essentially what happens was all the banks were asked to pre-pay some years – three years in advance as you know the FDIC then changed their calculation based on equity. So, yes, you're right, there was a credit from that standpoint. I would expect that that was a one-time event, we would not be having to credit ourselves for the timing difference.

<Q – Damon DelMonte – Keefe, Bruyette & Woods, Inc.>: Okay. So what's a good run rate then? Is that last quarter's 500,000 a fair level you think?

<A – John Lund – Rockville Financial, Inc.>: Generally speaking, yes.

<Q – Damon DelMonte – Keefe, Bruyette & Woods, Inc.>: Okay. That's helpful. And then I guess maybe, Bill, for you, could you kind of help quantify some of your expectations for loan growth, now that you've hired these two teams of commercial lenders?

<A – William Crawford – Rockville Financial, Inc.>: Yes. I think it's an interesting opportunity for us if you look back, we hired the leadership obviously of commercial banking for NewAlliance and they had about $500 million in C&I book and about $1.2 billion in a CRE book, so there's $1.7 billion there of opportunity. Obviously it takes a while to build those relationships. We're seeing very nice build in our commercial loan pipeline and we're very optimistic that this is going to work out well. So, so far we feel very good about this.

<Q – Damon DelMonte – Keefe, Bruyette & Woods, Inc.>: Okay, great. Okay I will jump out now and see if there is anybody else out that would like to ask some questions. Thank you.

<A – William Crawford – Rockville Financial, Inc.>: Thanks, Damon.

Operator: The next question comes from Laurie Hunsicker at Stifel Nicolaus.

<Q – Laurie Hunsicker – Stifel, Nicolaus & Co., Inc.>: Hi, Bill, John, good morning.

<A – William Crawford – Rockville Financial, Inc.>: Good morning.

<Q – Laurie Hunsicker – Stifel, Nicolaus & Co., Inc.>: Just a follow-up on what Damon started with margin, do you have a month end margin for the month of September?

<A – Marliese Shaw – Rockville Bank>: We don't report that in our 10-Q. We report the quarterly average.

<A – John Lund – Rockville Financial, Inc.>: Yes.

<Q – Laurie Hunsicker – Stifel, Nicolaus & Co., Inc.>: Okay. And then the borrowings that you mentioned, the 3.60%, the payoff, where in the quarter will those occur?

<A – John Lund – Rockville Financial, Inc.>: They would be frontloaded I would say for the most part. So this month is almost closing and then November. So I would say they are more frontloaded to the quarter.

<Q – Laurie Hunsicker – Stifel, Nicolaus & Co., Inc.>: They're more frontloaded. Okay, and then just sort of going back to my notes, the re-structuring probably was about 30 basis points in your linked quarter pickup?

<A – John Lund – Rockville Financial, Inc.>: Approximately.

<Q – Laurie Hunsicker – Stifel, Nicolaus & Co., Inc.>: So then the rest is kind of coming from the fact that you were sitting in cash from still or basically cash from the conversion?

<A – John Lund – Rockville Financial, Inc.>: Yes. I mean that was the beauty of the trade – we felt as we reduced that opportunity cost of cash earning 0% to .25% and taking down the weighted average cost to 4.17%.

<Q – Laurie Hunsicker – Stifel, Nicolaus & Co., Inc.>: Right.

<A – John Lund – Rockville Financial, Inc.>: Yes.

<Q – Laurie Hunsicker – Stifel, Nicolaus & Co., Inc.>: Beautiful. Okay. And then tax rate, obviously depends then on what you make, right at this run rate, 34.5% is good to use going forward?

<A – John Lund – Rockville Financial, Inc.>: Yes. I would say it is.

<Q – Laurie Hunsicker – Stifel, Nicolaus & Co., Inc.>: Okay. And then, I mean your credit looks great. If there is any way you could just give us an update on the non-performers, the million dollar increase and obviously really again, your credit is great, but where – did that fall under resi or commercial?

<A – Mark Kucia – Rockville Financial, Inc.>: This is Mark Kucia speaking. That's primarily residential the increase there, but overall the asset quality we view as stable and strong.

<Q – Laurie Hunsicker – Stifel, Nicolaus & Co., Inc.>: Okay. And then again as we look at your commercial real estate, is there any change in the regional portfolio, it was right around $185 million?

<A – Mark Kucia – Rockville Financial, Inc.>: That portfolio did increase over the quarter. The portfolio paid as agreed and we saw an increase of about $35 million over the quarter.

<Q – Laurie Hunsicker – Stifel, Nicolaus & Co., Inc.>: $35 million net?

<A – Mark Kucia – Rockville Financial, Inc.>: Yes.

<Q – Laurie Hunsicker – Stifel, Nicolaus & Co., Inc.>: Okay. So we're up to $220 million and the delinquency is still zero?

<A – Mark Kucia – Rockville Financial, Inc.>: Correct.

<Q – Laurie Hunsicker – Stifel, Nicolaus & Co., Inc.>: Okay. And you are still containing it in the northeast?

<A – Mark Kucia – Rockville Financial, Inc.>: That's correct. Yes.

<Q – Laurie Hunsicker – Stifel, Nicolaus & Co., Inc.>: Okay. And then the new stuff that you added you're still keeping at very discounted LTVs of less than 60, give or take?

<A – Mark Kucia – Rockville Financial, Inc.>: It depends on the loan. There are some full loans in there in the existing – the portfolio that was on the books prior to June 30 and some low LTVs and that's consistent with what we booked throughout the quarter.

<Q – Laurie Hunsicker – Stifel, Nicolaus & Co., Inc.>: Okay. So, do you have an LTV on the new stuff that you added, the $35 million?

<A – Mark Kucia – Rockville Financial, Inc.>: Well, the weighted average on the portfolio is about 64%.

<Q – Laurie Hunsicker – Stifel, Nicolaus & Co., Inc.>: 64%, okay.

<A – Mark Kucia – Rockville Financial, Inc.>: For the entire portfolio with a 170x coverage.

<Q – Laurie Hunsicker – Stifel, Nicolaus & Co., Inc.>: Okay, okay. And then one last thing, just to go back to something that you opened with Bill, near and dear to my heart, share buybacks you said I guess "we're committed to repurchase the shares, which you'd like to hear" any other color on that, obviously you can't yet, but...?

<A – William Crawford – Rockville Financial, Inc.>: Yes. I mean the real issue is we can do this in March. Obviously, from my perspective I believe we're undervalued and when I think about, from an operating perspective we want to be the best bank in our community and the best operator when it comes to what do we do with our excess capital, we want to be the most efficient user of that excess capital. And so obviously buybacks when you're trading below tangible book value is very – that's a no-brainer for a EV to think about. And I think about when the buyback opportunity is say between 100% and 110% of tangible book value that's something we will be thinking about. So we very much look forward to March and we want to be very efficient users of capital.

<Q – Laurie Hunsicker – Stifel, Nicolaus & Co., Inc.>: Perfect, great. Thank you all.

<A – William Crawford – Rockville Financial, Inc.>: Thank you.

Operator: [Operator Instructions] And our next question comes from Matthew Kelley at Sterne Agee.

<Q – Matthew Breese – Sterne, Agee & Leach, Inc.>: Hi, guys, this is Matt Breese.

<A – William Crawford – Rockville Financial, Inc.>: Hi, Matt.

<Q – Matthew Breese – Sterne, Agee & Leach, Inc.>: Just a quick question on M&A. Could you comment on where that kind of fits into the overall strategy these days?

<A – William Crawford – Rockville Financial, Inc.>: Yes, while we think about at being an efficient user of excess capital, when we're trading at whatever 90%, 95% of price to tangible book and you see the average deal in Connecticut for New England at 150% price to tangible book. There's nothing compelling about that for us and so we are focused on organic growth and share repurchases, somewhere down the road maybe that will become an effective use of excess capital for us, but that day is not today and we're like I said we are very encouraged with what we think we're going to be able to do organically and we're committed to be at efficient users of capital.

<Q – Matthew Breese – Sterne, Agee & Leach, Inc.>: All right. Thanks, guys.

Operator: We show no further questions at this time. So this concludes our question-and-answer session. I would like to turn the conference back over to Mr. Crawford for any closing remarks.

William H. W. Crawford, President, CEO & Director

Okay. I just want to thank everybody for joining us. We want to continue with these earnings calls. As we stated before our goal is to provide full and transparent disclosures and so we really appreciate everybody joining us, and have a great day.

Operator: To access a digital replay of this conference, you may dial 187-7344-7529 or 141-2317-0088 beginning at 2:30 PM Eastern Time today. You will be prompted to enter a conference number which will be 10006044, please record your name and company when joining. The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.