UNITED FINANCIAL BANCORP, INC.
“First Quarter 2014 Earnings Conference Call”

May 8, 2014, 10:00 AM Eastern
William H.W. Crawford, IV
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OPERATOR: Good day, and welcome to the United Financial Bancorp, Inc. first quarter 2014 earnings conference call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star, then 1 on your telephone keypad. To withdraw a question, please press star, then 2. Please note this event is being recorded.

I would now like to turn the conference over to Marliese Shaw. Please go ahead, ma'am.

MARLIESE SHAW: Thank you. Good morning, everyone. Welcome to our first 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 introduce Bill Crawford, our Chief Executive Officer.

BILL CRAWFORD: Thanks Marliese. Good morning and thank for joining us on today's call and for your continued interest in our company during this very exciting time in our history. Yesterday afternoon we released first quarter 2014 earnings, and, more importantly, last week we announced that United Financial Bancorp, Inc. and Rockville Financial completed their transformational merger of equals. This morning I will provide an update on the progress the company is making towards its post-close goals, and then Eric Newell, our CFO, will provide a brief overview of the quarter. In addition to Eric, with me this morning is Marino Santarelli, our Chief Operating Officer; Scott Bechtle, our Chief Risk Officer; Mark Kucia, our Chief Credit Officer; and Brandon Lorey, Head of Consumer Lending.

The company achieved legal close as of the end of business April 30, 2014, and our team is diligently working toward a fourth quarter data conversion. We have every reason to believe data integration will be completed as scheduled and the subsequent targeted cost savings will be achieved. United will be transformed over the coming year into a highly efficient growth company focused on providing a differentiated customer experience. The company is intensely focused on achieving the 2015 performance metric goals communicated to our investors at the time the merger was announced.

During the first quarter of 2014, the company continued to enjoy strong loan and deposit growth. We had 10 percent annualized loan growth and 17 percent annualized deposit growth, and our commercial, industrial, and residential pipelines remain solid.

Especially commendable is the strong organic growth that was experienced despite our team's emphasis over the past quarter directed toward obtaining regulatory approval and shareholder approvals, achieving legal close and working toward data integration. I would like to thank my United Bank teammates and the Board of Directors for their dedication and hard work to execute on our united vision to combine these two great companies. I am very bullish for our prospects in the years ahead.

Now I'd like to turn the call over to Eric Newell, our CFO, to provide some further detail on the quarter's results.

ERIC NEWELL: Thank you Bill, and good morning. Yesterday afternoon we reported core net income of $2.1 million, or 8 cents per share, for the standalone legacy Rockville Financial first quarter results. Our GAAP net income results continue to be influenced by merger and acquisition expense which totaled $1.8 million pre-tax in the quarter. At the time of our merger announcement in November, we disclosed one-time merger expenses for the transaction estimated to total $34 million pre-tax, and we will continue to see merger expenses recognized throughout the remainder of 2014. Despite having the ability to categorize eligible expenses as merger and acquisition costs in our financial statements, there are actions related to the merger which will provide future benefits to the company, and thereby are not considered one-time in nature and influence other reported expense categories. Consequently, these items negatively impacted our core net income.

Salaries and benefits expense is a good example of this impact. During the quarter, we announced the onboarding of David Paulson and Sam Patel, who have respectively been chosen to lead our Wholesale Banking and Information Technology business lines in the combined company. Furthermore, we onboarded top producing mortgage loan officers from within the Connecticut region as well as Southern Massachusetts. Both of these actions, which will better position the combined company for growth, had one-time onboarding expenditures influencing our core net income. Other factors responsible for the linked-quarter rise in salaries and benefits expense were higher health insurance costs driven by claims experience and seasonality of employment taxes.

During the quarter, interest rates declined nearly 30 basis points when using the ten-year treasury as a proxy. Given our decision to fair value our mortgage servicing portfolio in 2013, our results will be impacted by changes in the value of the mortgage-servicing rights. In the quarter, the value of the MSR was reduced by $138,000 compared to a $244,000 benefit in the linked quarter due to the significant increase in rates during that period. This $382,000 unfavorable delta is driven purely by the change in interest rates during the two linked periods.

Legacy Rockville was able to grow its residential mortgage purchase volume during the first quarter to $39 million, which was $23 million better than in the first quarter of the prior year. We attribute this increased growth to onboarding and continued contribution of top producing loan officers with strong and deep relationships in the communities they serve, as well as a highly efficient and responsive underwriting and originations team allowing us to reduce the overall application to close timeframe by over 36 percent compared to a year ago. The gain on sale of loans increased on a linked-quarter basis to $456,000, which is attributable to a disciplined pricing strategy within our local communities which will better position the company for selling mortgages in the secondary market at spreads that add more shareholder value than if we were to portfolio the loan.

As I stated on our fourth quarter earnings call, we continue to generally see better opportunities for shareholder value creation when we portfolio loans versus selling them into the secondary market. Consequently, a majority of our mortgage loan originations were placed in the portfolio during the quarter. In looking forward to the second quarter, we see more opportunity to sell into the secondary market, which may drive gain on sale income, with one caveat. Since the rise of interest rates in the middle of 2013, we have seen a strong preference for adjustable-rate mortgages in our markets. If we continue to see this preference over fixed rate mortgages, we may experience lower than expected gain on sale income due to our intent to portfolio adjustable rate mortgages.

Our net interest margin was impacted by some one-time items, as discussed in our earnings release. We experienced accelerated premium amortization from a SBA guarantee takeout, reducing interest income and the yield on the investment portfolio, as well as non-core timing of interest recognition in the commercial portfolio from a pre-payment of a large loan as well as associate pre-payment income which positively impacted the net interest margin. We estimate that when each of these non-core items are removed, the net interest margin would have been relatively stable from the fourth quarter versus the 6-basis point compression the company reported.

Importantly, however, will be what the company will report going forward with the combined balance sheet. In our due diligence process, we had a negligible interest rate mark on the legacy United balance sheet, meaning purchase accounting would not obfuscate the margins of the legacy United book when combined with legacy Rockville. While the level of interest rates are largely unchanged since our due diligence process, we continue to work with an independent firm to provide interest rate marks on the legacy United balance sheet and will be able to share more about the results of that process in our second quarter disclosures.

As Bill mentioned, our focus for the remainder of the year is multi-faceted. First, we will continue our conversion work to ensure a positive experience for our customers during what looks to be a fourth quarter event. Next, we will provide our producers the tools needed to support sales and production that adds value to our shareholders. And, finally, we will begin to implement identified cost savings and be determined in our identification and elimination of inefficient processes, all with the goal of achieving our stated 2015 goals.

Thank you for your time this morning, and now the management team and I would be happy to answer any questions you have.

OPERATOR: We will now begin the question-and-answer session. To ask a question, you may press star, then 1 on your telephone keypad. If you are using a speaker phone, please pick up your handset prior to pressing the keys. To withdraw your question, please press star, then 2. At this time we will pause momentarily to assemble our roster.

We have a question from Chris Jackson from Sterne Agee. Please go ahead.

CHRIS JACKSON: Good morning, everybody.

BILL CRAWFORD: Hey, Chris.

CHRIS JACKSON: Hi. I just have one question. I wanted to touch on the expenses a bit. In addition to the $1.8 million in merger-related expenses, were there any other non-recurring merger-related expenses?

BILL CRAWFORD: Eric, I'll let you take that one.

ERIC NEWELL: Yeah, in the — in the salaries and the benefits line, I mean, the onboarding of executives and loan officers in the prepared commentary, a lot of that was taken in anticipation of the merger, and I would say that, that's definitely related, and we also had some, marketing spend that was related to the merger as well.

CHRIS JACKSON: Okay. Great. That's all I had. Thanks a lot.

OPERATOR: Our next question is from Mark Fitzgibbon from Sandler O'Neill. Please go ahead, sir. Sir? Mark?

Our next question is from Travis Lan from KBW. Please go ahead.

TRAVIS LAN: Thanks. Good morning, guys.

BILL CRAWFORD: Hey, how are you doing?

TRAVIS LAN: Okay. Would you be able — I'm assuming not based on the answer to the last question, but could you quantify for us in any way, what those kind of non-recurring but non-merger charges would be, just to get a better idea of what the kind of core run rate was for the expenses?

BILL CRAWFORD: I would say we're probably looking at like $700,000 of spend pre-tax in the quarter that wasn't in the M&A line.

TRAVIS LAN: Okay. And then those onboarding costs that you're referring to, I mean, those are kind of search and, one-time payments as opposed to — I mean, that runs off, basically?

BILL CRAWFORD: Yes. Yes.

BILL CRAWFORD: Those are sign — like sign-on bonuses, search bonuses, bridge payments to mortgage lenders, so one time in nature.

TRAVIS LAN: Gotcha. Okay. Helpful. And then the press release indicates that you guys are satisfied kind of with the addition of some of the adjustable loans that you saw last year and this quarter as well and that now you'll kind of turn back to some longer-duration, higher-yielding stuff. Should we take that to mean that we could see a kind of acceleration of loan growth here, not that it was — I mean, it was very strong as it was, but, just any kind of —

BILL CRAWFORD: Yeah, on legacy Rockville, what I would say about that is first quarter is usually our slowest quarter, and so we would expect commercial on legacy Rockville to be stronger in the second quarter, and we have momentum in our residential mortgage and consumer business. We're still getting our hands around United as we just merged a couple of days ago.

TRAVIS LAN: Sure. Sure.

BILL CRAWFORD: But we also —the pipeline's there too.

TRAVIS LAN: Right. Right. And I know it's only been a couple of days, so I don't know if there's any answer for this question or not, but just talk a little bit about loan pricing in your market, specifically, if there's any difference that you're seeing between Connecticut and Springfield, again understanding it's only been a week, but then also just if you would kind of quantify where new CRE and C&I yields are coming on the books.

BILL CRAWFORD: Sure. Mark, I'll let you take that one.

MARK KUCIA: I would say that, you know, the overall yield, et cetera, pricing are pretty similar between Connecticut and Massachusetts. The market remains competitive, whether you're in Connecticut or Massachusetts, so we're not seeing any real big differentials there. Rates right now, you're probably looking at 5's — five-year rates, somewhere high 3's to low to mid 4's, and ten-year rates are low 5's to mid 5's, somewhere in that range.

TRAVIS LAN: Okay. All right. That's helpful. Thank you, guys.

BILL CRAWFORD: Thanks.

OPERATOR: Again, if you would like to ask a question, please press star, then 1 on your touchtone phone.

Our next question is from Mark Fitzgibbon from Sandler O'Neill. Please go ahead, sir.

MARK FITZGIBBON: Hey, guys, good morning.

BILL CRAWFORD: Hey, Mark.

MARK FITZGIBBON: I apologize. I got on the call a little bit late, so if these questions have been asked, I apologize. First, I wondered if you could share with us your outlook for the NIM for the combined company going forward.

BILL CRAWFORD: Sure. Eric, I'll let you take that.

ERIC NEWELL: Well, I think it's a little premature to kind of talk about the NIM on a combined basis, just because I don't have the purchase — or the interest marks on the Legacy United portfolio yet. So, even though rates are kind of at the same level during the due diligence process, it would be a lot better for me to probably wait to answer that question.

MARK FITZGIBBON: Okay.

ERIC NEWELL: But how about this? I think if we saw a ten-year, that was higher than the — I think the 260 that was, the last couple of days, which would mean a steeper yield curve, that's obviously going to be much more beneficial for us than maybe the shape of the curve that we're seeing today.

MARK FITZGIBBON: Okay. And then, secondly, for the combined company, with more of the revenues coming from Massachusetts, do you think the effective tax rate will sort of nudge up from the 33 percent level in 1Q?

ERIC NEWELL: We — a very good question. Again, I apologize. I don't have a good answer for you at this point, but we just recently onboarded some talent there to help us kind of manage that effective tax rate, so we're definitely going to be looking at that.

MARK FITZGIBBON: Okay. And then, lastly, I don't know if I saw it in the release anywhere, but how much of your mortgage volume was fixed rate, and how much of it was hybrid ARMs?

BILL CRAWFORD: Eric's getting that for you.

ERIC NEWELL: It's about 50/50.

BRANDON LOREY: So about — I would say about 60 percent plus or minus. We're fixed rate, with the rest ARM.

MARK FITZGIBBON: Okay. Thank you.

BRANDON LOREY: And there's a standard ARM, so we're not offering any of the —they're just 7-10 type ARMs, nothing outside the norm there.

MARK FITZGIBBON: Thank you.

BILL CRAWFORD: Thanks, Mark.

OPERATOR: And showing no further questions, this will conclude our question-and-answer session. I would now like to turn the conference back over to Bill Crawford for any closing remarks.

BILL CRAWFORD: Okay. Well, thank you for the interest in the company — your interest in the company. Day one went very well, and we're working very diligently to get the cost saves we outlined when we announced the deal, and we're doing a lot of work on the culture with these two companies, and we're working very diligent towards our Q4 integration.

Thanks for your interest, and if you ever have any questions, let us know. Have a great day.

OPERATOR: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.