United Financial Bancorp, Inc.

Second Quarter 2016 Earnings Conference Call

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CORPORATE PARTICIPANTS

William Crawford, *Chief Executive Officer*

Eric Newell, *Chief Financial Officer*

Marliese Shaw, *Executive Vice President, Corporate Secretary/Investor Relations*

PRESENTATION

Operator
Good morning and welcome to the United Financial Bancorp, Inc. Second Quarter 2016 Earnings Call. All participants will be in listen-only mode today. 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 your question, please press star, then 2. These instructions will be repeated. Please note this event is being recorded.

I would now like to turn the conference over to MarlieseShaw, Executive Vice President of Investor Relations. Please go ahead.

Marliese Shaw
Thank you, Nan. Good morning, everyone. Welcome to our second 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.

William Crawford
Thank you, Marliese, and thanks to all of you for joining us on today's call. In the second quarter of 2016, United's operating earnings declined compared to the linked quarter, to 20 cents per diluted share, from 22 cents per diluted share, or by 9 percent. On an annualized basis compared to the linked quarter, operating revenue increased 8 percent, the net interest margin decreased by 1 percent, and non-interest expense to average assets was reported at 2.08 percent. This was the company's worst quarter out of the last five in terms of operating net income; however, I remain optimistic that our results will strengthen from here.

We continue to focus on the four key objectives we discussed last quarter. Compared to the linked quarter on an annualized basis, average balances were up 4 percent for DDA, up 3 percent for total loans, and deposits were up 2 percent. There is some seasonality in the linked quarter period end results for deposits, and we are intentionally running off some higher priced deposits as we slow overall loan growth.

Like all banks, United is battling the 210 spread, which is the difference between the two-year Treasury and the ten-year Treasury. This number has declined from about 2.40 percent at the time we announced the Rockville/United merger, to about 82 basis points today. Lower interest rates drive faster prepayment speeds, and new loans get originated at lower-than-portfolio yields. Our CFO, Eric Newell, will go into more detail on this in a moment.

Over the last 12 months, United Financial has increased tangible book value by 5.3 percent and averaged a 3.74 percent dividend yield. In this low-for-long and highly competitive operating environment, we want to generate the best earnings we can, but we want to do this in a safe and sound manner that is focused on long-term shareholder value. Growing tangible book value per share, paying a solid dividend, maintaining strong asset quality, improving deposit mix, optimizing expense structure, and maintaining strong capital liquidity ratios are within our direct control. What happens to interest rates and prepayment speeds is not within our control. We will not make shortsighted decisions to boost short-term results. It's exactly this type of operating environment where poor decisions to overly extend on duration or reach too far on credit lead to problems down the road.

Our cost saving reorganization plan was completed along with a fee-income initiative in the second quarter of 2016. The benefits of these programs should begin to show over the next few quarters.

The second quarter of 2016, new retail DDA accounts opened were up 29 percent from the linked quarter. Commercial business loan balances were up 37 percent, and we had record investment sales in our United Financial Advisors business, along with strong mortgage banking results. United Bank also launched its new Simpl-E United Checking account, so I can point to strong momentum in all of our core business lines.

Now I'll turn the call over to our CFO, Eric Newell, to discuss the second quarter's results, and then we'll take your questions.

Eric Newell
Thanks, Bill. Operating net income fell to $10 million in the second quarter, from $10.9 million in the previous quarter. Linked quarter deltas among most income and expense categories offset each other; however, the main factor to the decreased operating earnings is a higher level of provision for loan losses from the linked period due to higher prepayment speeds in our purchase portfolios, which has the effect of increasing the size of our covered portfolio. While period-end loan growth was 1.7 percent in the second quarter, the covered portfolio grew periodically 4.7 percent, and this is what drives our provisioning for loan losses. There are no deteriorating leading indicators in asset quality that are driving the provision.

This quarter we saw some improvement in our mortgage banking line, as we reported, $1.1 million of revenue, a 7 percent increase from the first quarter, with commissions paid to our loan officers and the change in the mortgage servicing asset excluded from that number. This is a fundamental performance measure in our mortgage banking unit. Improved mortgage banking income contributed to a 2 percent improvement in our operating revenue compared to the linked period.

Operating expenses showed a linked quarter increase due to higher commissions paid to our mortgage loan officers for an increased level of production and commissions paid to the sales team in our UNFA Financial Advisory Program. Financial advisory services will drive future revenue generation as we have shifted much of our focus to products that are driven by trailing revenue from assets under management. We continue to expect a nice contribution in the second half from UNFA as we are approaching the six-month mark for installing a new leader, acquiring successful and proven talent with deep local relationships, as well as installing Series 6 team members in select branches, which work alongside our retail employees to ensure a cohesive sales approach to meeting the financial needs of our customers.

Finally, I would note that there was limited realized benefit in our reorganization strategy in the second quarter, given the timing of most of those exits were in the latter half of the quarter. We remain committed to the $130 million of non-interest income run rate.

Contributing to the headline earnings decline in the second quarter for our GAAP net income was the previously disclosed one-time expenses associated with the reorganization, which will result in a $3 million reduction of our non-interest expenses from our initial 2016 non-interest expense run rate of $133 million. But more significantly impacting GAAP earnings is the linked quarter change in the purchase accounting contribution to net interest income, which was an unfavorable change of $1.9 million pretax from the first quarter, resulting in essentially no NIM benefit in the quarter.

In our forecast last quarter, I indicated that there would be approximately $4 million to $5 million of net interest income benefit over the 12-months ending June 30, 2017. So what changed? Quite simply, interest rates. Long-term interest rates fell early in the year, and this is causing higher than anticipated prepayment speeds, reducing the weighted-average lives in our purchase portfolios.

We're also seeing a slower transition of the purchase commercial portfolio to our covered portfolio, which means the recognition of the discount associated with this portfolio is also slowing, resulting in less benefit to net interest income. We expect that prepayment speeds will continue to remain elevated over the next two quarters, assuming steady, long-term rates. We believe the recent stepdown in the ten-year Treasury yield subsequent to Brexit will drive further prepayments in the second half.

In an effort to provide more information on the purchase accounting marks, we've adjusted the disclosure in our earnings release deck to provide the remaining mark on loan portfolio segments as well as average life assumptions for each loan category and to show our ratably impacted net interest income line, assuming steady weighted-average lives.

In short, we are currently expecting about $1.2 million of positive impact to net interest income in the second half of 2016. To be clear, this is about half of what we expected just last quarter. The major change here is the effect of prepayments on the weighted-average lives of the portfolio. Now, as you are aware, this is outside of our control.

Along with this new information, we're disclosing our forecast for operating NIM, excluding the effects of mark-to-market adjustments on the margin, and we expect that to remain flat over the second half of 2016 from the 2.94 percent we reported in the second quarter.

In the second quarter, we showed progress with our cost of funds, which declined 1 basis point, to 82 basis points. You will also notice the 3-basis point improvement in NOW and money market costs, improving to 43 basis points. Average balances in this category declined by 2 percent, and period-end balances showed a more significant decline. The majority of this decline was due to seasonality in our municipal deposit business, and we expect those balances to come back to us in our third quarter, but contributing to the improvement in the cost of money market accounts, was our decision to allow higher-cost money markets to price away from us. We're honing our strategy for this product to better respond to competitive pressures in our marketplace, allowing us to respond to some irrational pricing of money market deposits from our competitors but also meet the objectives of growing low-cost core deposits as well as cross-selling those new incremental customers into other products, which increases their propensity to keep the majority of their banking business with United.

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

QUESTIONS AND ANSWERS

Operator
Thank you. 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 speakerphone, please pick up

your handset before pressing the keys. To withdraw your question, please press star, then 2. At this time, we will pause for a moment to assemble our roster.

Our first question comes from Kevin Fitzsimmons of Hovde Group. Please go ahead.

Kevin Fitzsimmons
Hey, good morning, guys.

Eric Newell
Hey, Kevin.

Kevin Fitzsimmons
Appreciate the additional disclosure on the purchase accounting and the core margin. I was just wondering if we can pull back for a second and look at the GAAP margin. So how should we think of the GAAP margin trajectory over the next — the back half of this year and into ’17, assuming we’re still in this kind of rate environment? It sounds like you’d expect the GAAP margin to be higher, given some positive impact from purchase accounting in the back half but not as high as you would have expected, but then how does that translate into when we’re entering ’17? Does that tail — is there still a tail, or does that fall off pretty dramatically if we’re still in this rate environment?

Eric Newell
Yes, several questions in there, but first, yes, I would expect that the GAAP NIM would be higher than the operating NIM, just given the fact that we think that there’s a positive net interest impact of $1.2 million, which is on page 8 of the slide deck.

In terms of 2017, I think that’s why we provided the additional information, so you can look to see the projected quarter net interest income impact at this point if you believe that, ratably, we’re just going to recognize that benefit. You can see, at least on the interest income side, that it’s largely negligible, and those purchase liabilities, while we didn’t give any information on that, those are more contractual, so we can, at the appropriate time, talk about those in 2017, but I think there’s actually disclosure that you could get out of our Q on that. So not really a short answer, but I would say that I think that if there is more prepay speeds or prepay speeds come in faster than what we initially expect, I think that this small negative quarterly impact would probably be a little larger than the 136 that we’re currently showing as just, it’s simple arithmetic, but I think that you will see a slightly higher GAAP NIM than the operating NIM in ’17.

Kevin Fitzsimmons
Okay. Got it. Thanks. And just a follow-up on the fee income space. The net loss on limited partnerships came in steeper than what you all anticipated last quarter. Just if you could give a little color on that, and how should we be thinking about that number going forward?

Eric Newell
Well, we didn’t actually speak specifically about limited partnership losses, because what we do now, rather than speaking specifically to that, Kevin. We actually include it in our non-interest income run rate number, which is on page 7.

Kevin Fitzsimmons
Eric, I don't think it was part of your formal guidance, but I think in last quarter’s call, you all said it was, you would expect about a $2 million annualized pace for it, unless I heard that wrong.

Eric Newell
Well, how about this, Kevin? I would say that the limited partnership expense is included in that second half number, the $24 million to $27 million.

Kevin Fitzsimmons
Okay.

Eric Newell
And so you did see a linked quarter increase; however, you also saw that the effective tax rate was slightly lower than what we guided, and so often times if you see that higher expense in the limited partnership line, you're getting the benefit down in the — in the tax line as well.

Kevin Fitzsimmons
I see. Okay.

Eric Newell
So I'm trying,it might be slightly confusing, but I'm actually trying to simplify it by just including the limited partnerships in that non-interest income line and then also giving you the effective tax rate.

Kevin Fitzsimmons
Right, because there's a linkage there. Right. Okay. Great. Thanks.

Eric Newell
Thank you.

Operator
Our next question comes from Mark Fitzgibbon of Sandler O'Neill & Partners. Please go ahead.

Mark Fitzgibbon
Hey, guys, good morning.

William Crawford
Hey, Mark.

Eric Newell
Hi, Mark.

Mark Fitzgibbon
Just, Eric, a question on that slide 8, the $1.2 million of net interest income benefit in the back half of the year, are you assuming that holding rates flat, is that benefit — does it come in evenly split over the two quarters?
Eric Newell
I think that's a good assumption.

Mark Fitzgibbon
Okay. And then, secondly, to Kevin's question before, the effective tax rate has also been pretty volatile as has the net loss on LP investments. How should we be thinking about that effective tax rate? I know you have 15 percent in your guidance, but is that going to bump around quite a bit in coming quarters?

Eric Newell
Yeah, so the way effective tax rates work is, it takes the year-to-date and then it annualizes it, so sometimes you see, especially in earlier parts of the year where you only have one quarter or two quarters and then you're annualizing it, if there's volatility in the pretax GAAP line, which there was this quarter, you'll see a significant change in how that effective tax rate comes in, but we're still committed that once the year is done, we'll be approximately 15 percent effective tax rate.

Mark Fitzgibbon
So next year, you're saying, the effective tax rate will be 15 percentish?

Eric Newell
Oh, no, I'm sorry, Mark. I was referring to this year.

Mark Fitzgibbon
Oh, I'm sorry.

Eric Newell
Oh, you were talking about next year? I think that we, I don't think I've specifically put out a number for 2017, but I did say last quarter that given the change in the law surrounding alternative energy tax credits, we believe that we can continue to make investments that will keep our effective tax rate in this geography.

Mark Fitzgibbon
Okay. And then I just wondered if you could maybe break down for us a little bit what are the big items of the $3 million of annual expense savings that you're anticipating?

Eric Newell
It's largely people.

Mark Fitzgibbon
Okay.

Eric Newell
Salaries. Salaries and benefits.

Mark Fitzgibbon
Great. Thank you.

William Crawford
Thanks, Mark.

Operator
Our next question comes from Collyn Gilbert of KBW. Please go ahead.

Collyn Gilbert
Thanks. Good morning, gentlemen.

William Crawford
Hi, Collyn.

Eric Newell
Hey, Collyn.

Collyn Gilbert
Just quickly, just to clarify, to follow up on Mark's question, so the — was it the future savings you guys are expecting is to come from people, or is that where — is that what you said?

Eric Newell
Yeah, so, Collyn, when we went into 2016, we were guiding to $133 million of NIE, and now we're down at the $130 million level. That's what our guidance is, and so the reorganization that we completed in the second quarter, the savings, that $3 million, we expect that to be in the salary line.

Collyn Gilbert
Okay. Okay. And how did the $1.4 million in charges that you — well, just while we're talking about that — that you guys saw this quarter, did that — what line items did that come out of? Was that predominantly in the topline as well?

Eric Newell
Predominantly, people. Salaries.

Collyn Gilbert
Okay. Got it. Okay. Okay. And then just also, too, on your — on your outlook for fees, so you're saying $130 million, right, for the full year for '16?

Eric Newell
You mean NIE? You said fees.

Collyn Gilbert
Oh, I'm going back to fees — or, sorry, to your fee — to your fee guidance that you're holding to. That you're still —

Collyn Gilbert
Sorry. Yeah, the —

Eric Newell
The $24 million to $27 million?

Collyn Gilbert
Yeah, the —

Eric Newell
Just making sure we're talking about the same thing.

Collyn Gilbert
Yeah. No, that's good. Thank you, Eric. So you're still comfortable with that, even — because I think you had indicated, right, that you wanted to be less reliant on mortgage banking going forward? Is that right?

Eric Newell
I am. And so, yes, we do want to reduce the reliance on mortgage banking, and we're taking steps to do that, but we also have some benefits that we're expecting in the second half that aren't fully into our run rate on the fee income line. Predominantly, we now have a new schedule of fees for our deposit accounts, and that went into effect July 1, and we're going to see some benefits there. And then also the contribution of our wealth management business, which we call UNFA, that team, that whole business was essentially rebuilt starting in the fourth quarter last year, and we're starting to see some nice benefits there, and I think that we're expecting that to be more meaningfully contributing to fee income.

Collyn Gilbert
Okay. Okay. Okay, that's helpful. And then just on the loan growth that you saw this quarter, that really good C&I growth, if you could just talk a little bit about that, and then was the — should we assume that the reserve build this quarter, was that tied to the commercial loan growth you saw? Could give us a little bit of explanation as to what drove the reserve build.

William Crawford
How about this? Eric will take the reserve build question and I'll take the loan groth question. On the loan growth, that's just the teams we recruited a while back, a year and a half ago or so. They are hitting on all cylinders and doing a great job winning new relationships, and they're winning them at attractive returns on equity and full relationships, and so we feel very good about that. Eric, I'll let you take the reserve build question.

Eric Newell
Yeah, on the reserve build, Collyn, it's more of a function of how our covered portfolio is growing, and we actually disclosed the balances there in our press release, in the tables, but the punchline there is the covered portfolio, which is the nomenclature we use for our covered by the provision, that transition from the purchase portfolio to have no allowance associated with it, into the covered portfolio, that periodic change, linked quarter change, was 4.7 percent, and so that was higher than the stated loan growth of 1.7 percent on the balance sheet. And that transition from the purchase portfolio to the covered portfolio is what's driving our provision.

Collyn Gilbert
Got it. Okay. That makes sense. Okay. And then just one final question on the NIM. So you're talking about the core NIM, sort of seeing stability there, what are the drivers in that? And I guess I ask that, because in this low-rate environment, is it a mix-shift benefit, or do you anticipate the new loans you're putting on going to be at higher yields, or just curious if you could give a little color as to what would be driving that stable NIM outlook on the core NIM.

Eric Newell
I think first off, we have in our four key objectives that's in the press release deck, we talk about matching our deposit growth with our loan growth, so our loan growth is slowing, but that allows us to be more focused on growing the low-cost core deposits, so we anticipate that we're going to see some additional benefits in our cost of funds, because if we're growing fast and we're not able to do it with deposits, we have to go use wholesale funding, which is more expensive. So we think that there's some benefits on the cost-of-funds line, which will help with NIM, and then also it's a mixed shift on the asset side, where we're focused more on owner-occupied commercial real estate, C&I commercial business loans, and also consumer. Focusing on those loan types and with a de-emphasis on investor CRE, and that de-emphasis has nothing to do with our CRE concentration, we are very comfortable with that. Our regulators are happy with that as well, but the ROEs in that business are suboptimal to where we want to be, and, frankly,

it also diminishes our NIM, and so with a de-emphasis on the investor CRE, we think that that's where we can get some stability of our operating NIM in 2016.

Collyn Gilbert
Okay. Great. Okay, I'll leave it there. Thanks, gentlemen.

Operator
Again, if you have a question, please press star and then 1. Our next question comes from Matthew Breese of Piper Jaffray. Please go ahead.

Matthew Breese
Good morning, everybody.

William Crawford
Hey, Matt.

Eric Newell
Hi, Matt.

Matthew Breese
I just wanted to touch on a few items just for a point of clarification. Eric, we talked about the tax rate. In the second half of the year, to get to the full year on the '16 tax rate of 15 percent, that implies that there's going to be some kind of lift in the tax rate in the back half. Is that accurate?

Eric Newell
Yeah, our effective tax rate this quarter, I don't have it handy, but it was sub-15 percent, so, yes, you're correct.

Matthew Breese
Okay. And then at the start of the year, you guys brought on a marine lending team, a portfolio. Could you just give us an update on the balances on the retail segment and then on the floorplan lending segment?

Eric Newell
Well, in the business in its entirety, we've been seeing some more successes in building that out, and we've been building out the floorplan. We're not specifically giving out balances on that line of business, but the purchase portfolio that we did get on the retail side, has been paying down, which is good news and bad news, because that means that they're good borrowers and the credit quality's good, and they have the ability to refinance. The bad news is that they're refinancing at lower rates or they're going somewhere else. So we continue to remain optimistic with that line of business, and I think you're going to see some future more meaningful contributions in the latter half of '16 and into '17 on that line of business.

Matthew Breese
Okay. Where are those balances, in what loan segment?

Eric Newell
They would be, the retail would be in consumer, and the floorplan would be in C&I.

Matthew Breese
Okay. And the bump-up in C&I we saw this quarter, would you say some of that was from marine lending or none of it, or how would you characterize the improvement in C&I loans from marine?

Eric Newell
Deminimis.

Matthew Breese
Okay. Okay. Longer term, obviously the two- to ten-year spread has come down meaningfully, but longer term, what kind of impact will that have on the core margin beyond just the back half of ’16? Could we see that 2.94% trickle down into ’17 if we maintain these kinds of spreads?

Eric Newell
Yes, but I think that the level of the compression we would see would be based on the success rate that we have in improving our cost of funds, because I think that that’s where a lot of our opportunity lies. I’m sure it’s not lost on you guys that our cost of funds is slightly higher than even our local peers, and that’s certainly something that we have most of our focus on at this point, is improving that.

Matthew Breese
Okay. And then you also touched on one of the new fee income drivers or upcoming drivers such as on the wealth management side of things. Could you just give us an update on that business and its overall impact on non-interest income for the quarter?

Eric Newell
You mean the second quarter?

Matthew Breese
Yes.

Eric Newell
I would say it’s favorable. We haven’t really put a box around that yet, and we’re not prepared to, but I would say that we installed a new leader there who ran a region, or maybe more than a region, for First Niagara, and we’ve been able to successfully grab some proven talent that has local ties to our team. In fact, they hit the ground running, and they’re doing amazing, and I think very importantly is one of our main shifts in our strategy is we previously didn’t have Series 6 bankers, Series 6 folks sitting in our branches, and so along with the new head of retail and head of UNFA, they’ve really developed a strong relationship, and they’re ensuring that when a customer comes in, there’s a cohesive sales strategy with the retail banker and the Series 6 banker, so we can make sure that we’re meeting the full financial needs of our customers. So we expect that over time, as those relationships with the Series 6 bankers deepen with our customers, that we’re going to get more share of wallet, and we’re actually going to be able to grow deposits, because, inherently, the initial friction is the retail doesn’t necessarily want to give up those deposits to the Series 6, because that reduces their deposits, but with the expertise of the leaders that we just brought in, they’ve proven, and they’ve been able to actually do this at previous shops that they worked at, that over time as those relationships deepen with the customers, they actually show growth in deposits, and those are low-cost core deposits, because the customer just wants to simplify their financial picture and keep everything with United.

So that's why we're optimistic in the second half of '16 on wealth management. I would say that we had pretty much negligible contribution in the first quarter from this business, because it was being built, and I would say it's improved dramatically in the second quarter, but it's still fairly deminimis, and then in the second half, based off small numbers, it's going to grow, and then we think it's going to be more meaningful in 2017, and we hope to potentially put some additional information, you know, box it out for you guys.

Matthew Breese
Okay.

William Crawford
And, Matt, another key point. In terms of UNFA, this will be sticky, less volatile fee income. What we did on service charges will be sticky, less volatile income, and we're trying, obviously, we're doing less on interest rate swaps now and we're trying to map more of that into net interest income, so on mortgage banking, we're taking steps to make sure that doesn't get too large, and we're even working on things to get the volatility out of that. So on the fee income line, we're just trying to create more stability there, less volatility, and we think that will be helpful as we go forward in time.

Eric Newell
Yeah, Matt, one last thing on UNFA, previously, before that rebuild, we were more positively correlated to sales, the revenue that was coming off one-time sales, whereas this new group is more focused on assets under management, whether it's continued revenue that comes in, and then if there is a change in somebody leaving us for whatever reason, it's not like that revenue goes away. The assets are still here, so it's definitely, as Bill mentioned, it's more stable and consistent.

Matthew Breese
Got it. And then what was the, if any, loan-level hedging fee income this quarter?

Eric Newell
Did we, I don't know if we

David Paulson
For the quarter

William Crawford
I think it was less than a penny.

David Paulson
It was $400,000 and change.

Eric Newell
Yeah, $400,000

David Paulson
It was $434,000

Eric Newell
Pretax. It's down dramatically year over year. And this just comes down to us being — you know, keep in mind, one of the main reasons that we did that last year was we were more liability sensitive going into 2015, and so we were working to get more neutral to even slightly

asset sensitive, because that was was the rage back then, and we're still confident with our positioning on interest rate risk, and we're pretty much neutral, but our bias isn't on shortening duration on the asset side anymore.

Matthew Breese
Got it. Okay. Last question. Bill, you had mentioned that you are more optimistic on forward results. Could you just give us an update on the profitability metrics you're holding yourself and the rest of the management team accountable for?

William Crawford
Yeah, how about this? We're trying to, like I said, I think this was our low quarter, and I think there are a lot of different areas I can see where I think we'll do better than here. But I think you have to look around the geography we operate in. Look at the geography we operate in and where the best banks are in terms of ROA, whether that's Webster or you look at somebody like a People's Bank Connecticut. When you look at where those are, for us to be significantly higher than that would be difficult, but certainly we want to have one of the best ROAs in the geography we operate in.

We also want to be very mindful about risk, Matt. You know the reason we're slowing loan growth, commercial real estate growth, while we have plenty of capacity to do that, the spreads and yields there are terrible, credit's very aggressive, we're being very thoughtful about the risks we're taking in this environment, and I think in this environment, the key thing is to grow tangible book value, produce the best earnings you can, pay a good dividend, and work on those four objectives that we talk about to really enhance the franchise value, but in terms of expense, we've cut expenses down pretty significantly. Our NIE to average assets operating at 2.08% will probably drift a little lower, but that is a very strong number relative to most any peers. We're trying to stabilize NIM, operating NIM. Asset quality remains very solid. Interest rate risk is solid. So I think the bad move in this environment is to try to shoot at some artificial ROA target where you have to take outsized risk to do that, and I think that's going to end badly, and that's sort of where we are.

Matthew Breese
Okay. I appreciate that. Thank you. That's all I had.

Operator
This concludes our question-and-answer session. I would like to turn the conference back over to Bill Crawford for any closing remarks.

CONCLUSION

William Crawford
Okay. Well, thank you for being on the call, and, of course, I want to thank my United Bank teammates for all their hard work, and we're going to go out and work on finishing up strong for 2016. Hope everybody has a good day.

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