PARTICIPANTS

Corporate Participants

Marliese L. Shaw – Vice President & Investor Relations Officer, Rockville Financial, Inc.
William H. W. Crawford, IV – President, CEO & Director
John T. Lund – Chief Financial Officer, Treasurer & Executive Vice President
Scott C. Bechtle – Chief Risk Officer & Executive Vice President
Mark A. Kucia – Executive Vice President, Commercial Banking

Other Participants

Damon P. DelMonte – Analyst, Keefe, Bruyette & Woods, Inc.
Matt Kelley – Analyst, Sterne, Agee & Leach, Inc.
Julienne R. Cassarino – Analyst, Prospector Partners LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Rockville Financial Fourth Quarter 2011 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. Ms. Shaw, the floor is yours, ma'am.

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

Thank you, Mike. Good morning, everyone. Welcome to our fourth 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 and President.

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

Good morning, and thank you for joining us today and for your continued interest in our company. With me this morning is John Lund, our Chief Financial Officer, along with other members of our management team.

I am very pleased to report that the company had a record fourth quarter with net earnings of $4 million, or $0.14 per share. Significant to our quarterly earnings growth was the $2.2 million, or 16%, increase in revenues year-over-year. This increase in net interest income was primarily attributable to the $2.4 million, or 43%, decrease in interest expense in the fourth quarter of 2011 when compared to the fourth quarter of 2010.

The interest expense decline was partly from realizing the benefit of the second quarter of 2011 balance sheet restructure whereby the company extinguished $122 million of high-cost borrowings and was also, importantly, from our continued focus on decreasing total funding costs in growing low-cost core deposits.

Our franchise cut funding costs 38%, or 65 basis points, to 1.07% for the fourth quarter of 2011 from 1.72% in the fourth quarter of 2010, and reduced costs by 16 basis points from 1.23% in the third quarter of 2011. The cost of interest-bearing deposits declined by 21 basis points year-over-year to 0.92% in the fourth quarter of 2011 and declined by 10 basis points from the linked quarter.

The net interest margin was also influenced by a decline in the cost of funds and improved to 3.77% for the quarter from 3.37% during the same quarter in 2010, and improved from 3.70% in the prior quarter.

Rockville grew demand deposits by $24.8 million, or 13.6%, for the fourth quarter, and by $37.7 million for the year. Total low-cost core deposits grew by $68 million in the fourth quarter of 2011 and grew by $134 million, or 19.9%, for the year.

At Rockville, we remain focused on driving organic growth by taking market share from larger banks.

In addition to achieving deposit growth, we're seeing momentum in our commercial loan pipeline as a result of our third quarter commercial banking team expansion. Commercial loans grew $43 million, or 6.2%, in the fourth quarter of 2011 and by $117 million for the year 2011. Compound annual growth rate of this portfolio over the last three years is 17%. While we've changed the number of commercial bankers on the team, we've not altered the company's commercial banking philosophy whereby it remains our goal to maintain granularity in the portfolio, price loans at a profitable spread, and never waiver on credit quality.

Rockville's asset quality remains strong, and is top among our peer group by nearly every performance metric. Net charge-offs to average loans outstanding at December 31, 2011 were 9 basis points. Total non-performing loans to total loans were 0.86%, and total non-performing assets to total assets were 0.89%. The allowance for loan losses was increased by $1.7 million during 2011 to $16 million at year end. At December 31, 2011, the ratio of allowance for loan losses to non-performing loans was 127%, and the allowance for loan losses to total loans was 1.09%.

You may have observed that while commercial loans have grown, there has been shrinkage in the residential mortgage portfolio. Residential mortgages declined $25.8 million in the fourth quarter of 2011, and $39 million for the year 2011. This is intentional. The company sold residential mortgages totaling $37 million and $57 million in the fourth quarter and the year 2011, respectively, in order to avoid placing low coupon, long duration mortgage assets in the portfolio in this historically low interest rate environment. This is a function of the company's strategy not to take undue interest rate risk across all asset classes. We are additionally restructuring and expanding this business line to drive higher fee income for the company in the future.

Asset growth during the year of $71.8 million, or 4.3%, was diminished by the $122 million pay down of the FHLB advances as well as by the sale of $57 million of residential mortgages during the year.

Non-interest expenses were up $821,000, or 7.5%, in the fourth quarter as compared to the prior period primarily due to the $485,000 increase in salaries and employee benefits related to the investment the company is making in its human capital and infrastructure to prepare prudently for future growth, and other expense increased by $744,000 related also to the infrastructure investment as well as increased costs of being a fully public company. The company will continue to make investments in its infrastructure in order to manage long-term shareholder return and build franchise value.

Rockville continues to be attentive to our cost structure. Our non-interest expense as a percentage of average assets was 2.70% for the fourth quarter of 2011, while the efficiency ratio was 63.20% for the same time period, both attractive performance metrics in comparison to peer institutions. In that regard, the company announced earlier this month that it will consolidate its Big Y East Windsor branch into its full service branch located in East Windsor, Connecticut. This consolidation is expected to provide approximately $290,000 in annualized pre-tax savings for the company.

At Rockville, we remain committed to shareholder return and to executing on sound capital management principles. Capital management is a top priority for the company. We are delighted to announce our second consecutive quarterly dividend increase, providing a 3.19% annualized dividend yield to our shareholders based on the average closing price in the fourth quarter. Furthermore, we look forward to March 2012 when we are permitted to repurchase shares.

While the economy and the interest rate environment create a very difficult operating environment for banks in general, we remain focused on serving customers, winning new customers, and delivering shareholder value.

In the fourth quarter the company generated record profits despite a substantial investment in our future via adds to staff in 2011. This speaks of the earnings power of Rockville Financial. We continue to focus on soundness, profitability, growth, effective capital management, employee engagement, and customer service.

I'd like to take this opportunity to thank the entire Rockville team for delivering another quarter of superior customer service, strong organic growth, and outstanding asset quality. This has been a key to our success for many years, and it's reflective of our goal to be a top-performing community bank and our mission as "Connecticut's Best Community Bank".

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

John T. Lund, Chief Financial Officer, Treasurer & Executive Vice President

Thank you, Bill, and good morning everyone. As Bill indicated, the company reported record fourth quarter earnings. Net income for the quarter ended December 31, 2011 of $4 million, or $0.14 per share, is largely reflective of the company's continued focus on decreasing the cost of funding across all sources.

Improvement in the cost of funding for the fourth quarter of 2011 as compared to the fourth quarter of 2010 is particularly enhanced by 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%. This restructure provided Rockville with an interest expense savings of $5.1 million on an annualized basis.

Equally compelling is the 19% decrease in the cost of deposits over the year, which declined by 21 basis points to 0.92% in the fourth quarter of 2011 from 1.13% in the fourth quarter of 2010. Thoughtful decisions related to the decreases in deposit rates were in consideration of both the competitive and interest rate environment.

The net interest margin was also influenced by the decline in the cost of funds and improved to 3.77% for the quarter from 3.37% during the same quarter in 2010, and improved from 3.70% in the prior quarter. While we are certainly fully engaged and focused on the net interest margin going forward, we are cognizant that based on the near-term economic outlook and the FOMCs intention to maintain a low rate environment for an extended period that growing or maintaining margins will be a 2012 challenge for many banks. In order to meet this challenge, the company will seek opportunities to mitigate interest rate risk through careful management and tools available such as hedging.

Net interest income has benefited from continued organic growth in both loans and deposits. Net loans have increased by $46.9 million during the year to $1.5 billion, contributing to a 7.1% compound annual growth rate over the last five years.

Deposits have increased by $107.5 million during the year to $1.3 billion, contributing to an 8.4% compound annual growth rate in that portfolio over the last five years. Revenues increased by $2.2 million, or 16.0%, and by $4.6 million, or 8.5%, for the quarter and the year compared to the same period of the prior year, respectively. Linked quarter net interest income increased by $216,000, or 1.4%.

Compared to the same period of the prior year, decreased service charge and fee income for the quarter due to low residential mortgage volume at the banks subsidiary, Rockville Bank Mortgage Inc., was more than offset by gains from the secondary mortgage sales activity at the bank.

Linked quarter non-interest income increased by $828,000, primarily as a result of an $846,000 increase in the gain on sales of loans and a $44,000 increase in service charges and fees, partially offset by a $72,000 decrease in gains on the sales of securities.

Expenses were up by $821,000 in the fourth quarter as compared to the prior year period primarily due to the $485,000 increase in salary and employee benefits expense related to the investment the company is making in its human capital and infrastructure to prepare for future growth.

Additionally, other expense increased by $744,000 related to additional expenses associated with being a fully public company as well as the increase in other various costs commensurate with the increase of 45 full-time equivalent employees hired throughout 2011. Partially offsetting these cost increases were the $328,000 decrease in marketing expense and the $152,000 decrease in FDIC expense.

On a linked quarter basis, expenses in the fourth quarter increased by $1.2 million, or 11.1%, and were comprised of a $599,000 increase in other real estate owned expense, a $285,000 increase in FDIC expense following the third quarter accounting adjustment, and a $594,000 increase in other expense for the aforementioned reasons.

Offsetting these increases were a $100,000 decrease in salary and employee benefits expense, a $95,000 decrease in professional fees, and a $59,000 decrease in occupancy and equipment expense. Despite the additional staffing and public company related costs, non interest expense as a percentage of average assets is reported at 2.70% for the fourth quarter 2011.

The company has paid dividends for 23 consecutive quarters. The dividend payout ratio for the quarter ended December 31, 2011 was 55%. 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: Thank you sir. We will now begin the question-and-answer session. [Operator Instructions] The first question we have comes from Damon DelMonte of KBW. Please go ahead.

<Q – Damon DelMonte – Keefe, Bruyette & Woods, Inc.>: Hi, good morning guys. How are you?

<A – Bill Crawford – Rockville Financial, Inc.>: Hey, Damon.

<Q – Damon DelMonte – Keefe, Bruyette & Woods, Inc.>: I guess, Bill, my first question deals with the upcoming one year anniversary. You guys may have mentioned it a couple of times in your remarks, you guys are eligible to buy back stock in March. Just wondering if you could maybe give us a little more color on your thoughts on the buyback. Is there a particular level of pricing that you're sensitive to, is this going to be a tool that you plan to use actively? I guess, just kind of some color around that, please?

<A – Bill Crawford – Rockville Financial, Inc.>: Sure Damon, glad to handle that. Obviously, we have a lot of excess capital, and so I would answer the question this way. Below tangible book value, it's a no-brainer for us to buy back the stock. I believe we should absolutely give it consideration between say 100% and 110% price-to-tangible book. Obviously, over time we want to be able to work the share count down. That's a key part of our strategy along with organic growth. So we look forward to being able to do that in March.

<Q – Damon DelMonte – Keefe, Bruyette & Woods, Inc.>: Okay. That's helpful. Thank you. I guess, my next question has to do with the margin and the positive impact you guys saw this quarter as you were able to repay some higher cost borrowings with deposits. Are there any other further restructuring opportunities for you guys?

<A – Bill Crawford – Rockville Financial, Inc.>: We continue to work cost of funds pretty hard, but obviously with FHLB advances we've gotten through a big bulk of it there. But I do think as we continue to grow our commercial business, our municipal business, cash management business, you may have noticed we're also making good progress changing the mix of the deposit base and I think that's going to be key to continuing to drive down costs. And obviously, from a wholesale perspective we have plenty of capacity there also to work costs down.

<Q – Damon DelMonte – Keefe, Bruyette & Woods, Inc.>: Right. And in the way of maybe on the deposit side, opportunities, what do you have in the way of maturities this year for CDs?

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

<A – John Lund – Rockville Financial, Inc.>: Yeah, I would say historically our maturity levels in CDs are probably what you've seen over the last year or so. So there will be some re-pricing opportunity there, not entirely based on rate, but there is some opportunity there.

<Q – Damon DelMonte – Keefe, Bruyette & Woods, Inc.>: Okay. I guess my last question, and then I can jump back in the queue. Regarding asset quality, looks like total NPAs, there was limited data in the release in the exhibit section, but it looks like NPAs were at $15.6 million, up from $14.2, and it looks like that increase was driven by OREO. Is that correct?

<A – Bill Crawford – Rockville Financial, Inc.>: Our Chief Risk Officer, Scott Bechtle, is here. I'll let him take that question. Scott?

<Q – Damon DelMonte – Keefe, Bruyette & Woods, Inc.>: Okay, great.

<A – Scott Bechtle – Rockville Financial, Inc.>: Good morning, Damon.

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

<A – Scott Bechtle – Rockville Financial, Inc.>: It is driven by ORE. We're up to just shy of $4 million at year end in our ORE. That reflects the aggressive posture that we take on working NPLs in trying to either move those out or move them into OREO so that we can go ahead and dispose of those in a timely manner. But that only translates to 9 basis points overall year-over-year, which we think is still very, very favorable compared to our peers.

<Q – Damon DelMonte – Keefe, Bruyette & Woods, Inc.>: Okay. That near $4 million level is an increase from I think like $300,000 last quarter. Could you give us some color as to what drove that increase? Was it one credit or multiple credits?

<A – Scott Bechtle – Rockville Financial, Inc.>: There was one large credit which was a long-term workout that was carried in our A&D portfolio. That accounted for more than half of that increase.

<Q – Damon DelMonte – Keefe, Bruyette & Woods, Inc.>: Okay. Okay. That's all I had for now. I can jump back in the queue. Thanks.

<A – Bill Crawford – Rockville Financial, Inc.>: Okay, thanks, Damon. I appreciate it.

Operator: [Operator Instructions] The next question we have comes from Matthew Kelley of Sterne Agee.

<Q – Matt Kelley – Sterne, Agee & Leach, Inc.>: Yeah, hi guys. I was wondering if can talk just about your mortgage banking business, talk about the pipeline, what you see for total originations in 2012, the sales group number of hires you've had there, and then maybe some of the gain on sale margins? Add a little color to the mortgage banking.

<A – Bill Crawford – Rockville Financial, Inc.>: Sure. I'll talk a little bit about the business. The key change there is we have overhauled our mortgage process, brought in new software, brought in new leadership, recently hired seven external mortgage bankers from large banks who have extensive contacts in that business, very similar to the strategy we used in commercial banking.

What we want to do there is obviously acquire the capacity to turn loans faster, do more purchase money mortgage with the realtors, and take share. We see this as a great opportunity to generate new customer acquisition. It is a work-in-progress, we are early in getting the system operational. It is up and running now, and we're seeing increase in applications.

John, I'll let you sort of run through the margins on sales, and go from there.

<A – John Lund – Rockville Financial, Inc.>: Yeah. We've enjoyed fairly healthy margins in the past in gain on sales. Certainly as we look to improve the turn time and in some of the investments that Bill alluded to, we'll hopefully see some boost in that area. Certainly this is market-driven depending on where rates are and how quickly we can turn it, but as you probably heard in our prepared remarks, the gain on sale has been healthy to date.

<Q – Matt Kelley – Sterne, Agee & Leach, Inc.>: And what is the pipeline and outlook for total originations in 2012? I mean, if you annualize the fourth quarter, you know, call it $150 million run rate hereon, is that sustainable? Do you think you can grow that?

<A – Bill Crawford – Rockville Financial, Inc.>: It's tough to really put a number on what originations will be. Historically, we've been fairly consistent, but obviously we're adding a lot of capacity in terms of new bankers and a new process, and we're going to have to see how that unfolds. But obviously the mortgage business is volatile, particularly around refinance. I think the key, though, Matt, is we want to become much more effective in the purchase money and that has not been an area where we've been particularly effective in the past.

<Q – Matt Kelley – Sterne, Agee & Leach, Inc.>: Okay, got you. And then maybe talk about expenses from a, obviously, a lot of investment in the franchise in 2011. If we look at the, again, the fourth quarter, call it $12 million, annualized $47 million, $48 million, what do you think we see for growth off of that level?

<A – Bill Crawford – Rockville Financial, Inc.>: Yeah. The good news is we are getting a lot of our expenses sort of through in terms of non-revenue producing type of positions. And so we've got a lot of that expense run rate in there. We'll still have some more, though. We are in the process of taking really what was a sort of a savings bank with a commercial real estate area and some C&I, and really converting that model over to a commercial community bank.

And so we have a lot of projects going on, for example, updating our products and services that we offer, our electronics strategy. Obviously, we're overhauling our mortgage business, we're working on having ability to have an internal earnings model with asset liability capability where we can what-if instantaneously. So there is lot of things we are working on right now.

And so we will have some more expense there. I think what you do see, though, we are very cognizant of non-interest expense to average assets and to efficiency ratio, and we're trying to build revenues to offset that expense growth. And we still have some de novo branches that will be coming online, we've got West Hartford which will come on later in the year, we've got our Glastonbury space. We are also looking at – we are working on an efficiency initiative to look at expenses holistically and work on trying to reduce that run rate.

<Q – Matt Kelley – Sterne, Agee & Leach, Inc.>: Right, okay. I mean, do you think you can hold it to mid to upper single digits, or do you think it will be double digits again on a core basis in terms of growth rate off of that annualized number?

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

<A – John Lund – Rockville Financial, Inc.>: Yeah, I would say probably higher single digits is probably reasonable, but certainly as we go through this expense reduction initiative that we are talking about, we're going to try to keep that to a controlled level.

<Q – Matt Kelley – Sterne, Agee & Leach, Inc.>: Got it, all right, Thank you.

<A – Bill Crawford – Rockville Financial, Inc.>: Thanks, Matt

Operator: The next question we have comes from Julienne Cassarino of Prospector Partners.

<Q – Julienne Cassarino – Prospector Partners LLC>: Hi, good morning.

<A – Bill Crawford – Rockville Financial, Inc.>: Hi, Julienne.

<Q – Julienne Cassarino – Prospector Partners LLC>: Hi. Can you talk a bit about the branch, new branch economics? Like – are you buying or leasing these branches? About how much is it costing to get it off the ground, and what's the break even deposit amount estimate, and about how long do you think to get there?

<A – Bill Crawford – Rockville Financial, Inc.>: Yeah, obviously that's going to change by location. West Hartford was a lease opportunity for us, that's a very strong market. We're also in the process probably more importantly of redesigning how we want our branches to operate. We very much want to target commercial type customers, small business customers, professional executives, and we want to drive very strong deposit growth in those branches. We're going to be very cognizant of the mix that we grow in those branches, and so break even is hard to forecast. They're very different. The West Hartford one is very large because of the size of the market opportunity there. So it's – from my perspective, though, sort of a round number carrying cost on a branch is around $500,000, and break even, roughly $35 million in deposits is where you want to be. And the key is going to be what does that mix look like.

<Q – Julienne Cassarino – Prospector Partners LLC>: And are you thinking like within three years maybe get there, or could be longer than that in this kind of environment?

<A – Bill Crawford – Rockville Financial, Inc.>: I would hope we get there faster than that. Generally, my experience with Wachovia, Wells Fargo, SouthTrust, we were achieving that within 18 months, generally.

<Q – Julienne Cassarino – Prospector Partners LLC>: And you think, I mean, is that feasible here?

<A – Bill Crawford – Rockville Financial, Inc.>: Yeah, 18 to 24 should be good.

<Q – Julienne Cassarino – Prospector Partners LLC>: 18 to 24. Okay, great. Thank you.

<A – Bill Crawford – Rockville Financial, Inc.>: Thanks, Julienne.

Operator: [Operator Instructions] Well, it appears that we have no further questions at this time. We'll go ahead and conclude our question-and-answer session. I would now like to turn the conference back over to management for any closing remarks.

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

Okay, well this is Bill Crawford. We very much appreciate your interest in our company. Obviously, we are very excited about the future, and as always, if there are any questions or anything comes up, please don't hesitate to give us a call. Marliese?

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

Thank you for joining us. As Bill said, please give us a call. My contact information is on the earnings release and we are happy to answer questions for investors at any time.

Operator: We thank you, Ms. Shaw, and gentlemen for your time. The conference is now concluded. We thank you all for attending today's presentation. At this time, you may disconnect your lines. Thank you and have a good day.