OCEANFIRST FINANCIAL CORP
Form S-4
February 18, 2016
Table of Contents

As filed with the Securities and Exchange Commission on February 18, 2016

Registration No. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-4

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

OCEANFIRST FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

Delaware	**6035**	**22-3412577**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

975 HOOPER AVENUE, TOMS RIVER, NEW JERSEY 08753

(732) 240-4500

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant s Principal Executive Offices)

Christopher D. Maher

President and Chief Executive Officer

975 Hooper Avenue

Toms River, New Jersey 08753

(732) 240-4500

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies to:

Steven J. Tsimbinos, Esq.	**Michael D. Devlin**
OceanFirst Financial Corp.	**Cape Bancorp, Inc.**
975 Hooper Avenue	**225 North Main Street**
Toms River, New Jersey 08753	**Cape May Court House, New Jersey 08210**
Phone: (732) 240-4500	**Phone: (609) 465-5600**
David C. Ingles, Esq.	**Marc P. Levy, Esq.**
Skadden, Arps, Slate, Meagher & Flom LLP	**Luse Gorman, PC**
4 Times Square	**5335 Wisconsin Avenue, NW, Suite 780**
New York, New York 10036	**Washington, D.C. 20015**
Phone: (212) 735-3000	**Phone: (202) 274-2000**

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective and the conditions to the closing of the merger described herein have been satisfied or waived.

If the securities being registered on this Form are to be offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box: ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer) ¨

Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer) ¨

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	**Amount to be registered**	**Proposed maximum offering price per share**	**Proposed maximum aggregate offering price**	**Amount of registration fee**
Common Stock, $0.01 par value per share	9,271,224 shares(1)	N/A	$150,139,404.25(2)	$15,119.04(3)

(1) Represents the maximum number of shares of the common stock of OceanFirst Financial Corp. (OceanFirst) estimated to be issuable upon completion of the merger of Justice Merger Sub Corp., a wholly-owned subsidiary of OceanFirst (Merger Sub), with and into Cape Bancorp, Inc. (Cape). This number represents the sum of (a) the product of (i) 0.6375, the exchange ratio representing the stock portion of the merger consideration and (ii) 13,602,894, which is the sum of (A) 13,540,875, the number of shares of Cape s common stock outstanding as of February 12, 2016, and (B) 62,014, the number of shares of Cape s common stock underlying Cape s restricted stock awards as of February 12, 2016, and (b) the product of (i) 0.75 and (ii) 799,171, the number of shares of Cape s common stock reserved for issuance upon the exercise of the outstanding Cape stock options, in each case, pursuant to the terms of the Agreement and Plan of Merger, dated as of January 5, 2016, by and among Cape, OceanFirst and Merger Sub, which is attached to the joint proxy statement/prospectus as Annex A.

(2) Estimated solely for the purpose of calculating the registration fee required by Section 6(b) of the Securities Act of 1933, as amended, and computed pursuant to Rules 457(f) and 457(c) under the Securities Act, based upon the market value of shares of Cape common stock in accordance with Rules 457(c) and 457(f) under the Securities Act as follows: (a) the product of (i) $12.55, the average of the high and low prices per share of Cape s common stock as reported on the NASDAQ Global Select Market on February 12, 2016 and (ii) 14,402,065, the estimated maximum number of shares of Cape common stock that may be exchanged for shares of OceanFirst common stock minus (b) $30,606,511.50, the estimated aggregate amount of cash to be paid by OceanFirst in exchange for shares of Cape common stock.

(3) Determined in accordance with Section 6(b) of the Securities Act of 1933, as amended, at a rate equal to $100.70 per $1,000,000 of the proposed maximum aggregate offering price.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This document shall not constitute an offer to sell or the solicitation of any offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

PRELIMINARY SUBJECT TO COMPLETION DATED FEBRUARY 18, 2016

Proxy Statement **Prospectus**

MERGER AND SHARE ISSUANCE PROPOSED YOUR VOTE IS VERY IMPORTANT

Dear Stockholder:

On January 5, 2016, OceanFirst Financial Corp., a Delaware corporation (which we refer to as OceanFirst), Cape Bancorp, Inc., a Maryland corporation (which we refer to as Cape), and Justice Merger Sub Corp., a Maryland corporation and a wholly-owned subsidiary of OceanFirst (which we refer to as Merger Sub), entered into an Agreement and Plan of Merger (which we refer to as the merger agreement) that provides for the combination of OceanFirst and Cape. Under the terms of the merger agreement, (i) Merger Sub will merge with and into Cape (which we refer to as the first-step merger), with Cape continuing as the surviving corporation in the first-step merger and as a wholly-owned subsidiary of OceanFirst, (ii) immediately following the completion of the first-step merger, Cape will merge with and into OceanFirst (which we refer to as the second-step merger and, together with the first-step merger, the integrated mergers), with OceanFirst continuing as the surviving corporation in the second-step merger and (iii) immediately following the completion of the integrated mergers, Cape Bank, a New Jersey-chartered stock savings bank and a wholly-owned subsidiary of Cape (which we refer to as Cape Bank), will merge with and into OceanFirst Bank, a federally-chartered capital stock savings bank and a wholly-owned subsidiary of OceanFirst (which we refer to as OceanFirst Bank), with OceanFirst Bank being the surviving bank (which we refer to as the bank merger and, together with the integrated mergers, the Transactions).

At the effective time of the first-step merger, each outstanding share of the common stock, par value $0.01 per share, of Cape (which we refer to as Cape common stock), except for specified shares of Cape common stock owned by Cape or OceanFirst, will be converted into the right to receive $2.25 in cash, without interest (which we refer to as the cash consideration), and 0.6375 shares (such number being referred to as the exchange ratio and such shares being referred to as stock consideration) of the common stock, par value $0.01 per share, of OceanFirst (which we refer to as the OceanFirst common stock), together with cash in lieu of fractional shares. The cash consideration and the stock consideration are collectively referred to as the merger consideration.

Although the number of shares of OceanFirst common stock that holders of Cape common stock (which we refer to as the Cape stockholders) will be entitled to receive is fixed, the market value of the stock consideration will fluctuate with the market price of OceanFirst common stock and will not be known at the time Cape stockholders vote on the first-step merger. Based on the $19.95 closing price of OceanFirst common stock on the NASDAQ Global Select Market (which we refer to as the NASDAQ) on January 5, 2016, the last full trading day before the public announcement of the Transactions, the per share value of the stock consideration was equal to approximately $12.72 and the per share value of the merger consideration was equal to approximately $14.97. Based on the $[ ] closing price of OceanFirst common stock on the NASDAQ on [ ], 2016, the latest practicable trading day before the printing of this joint proxy statement/prospectus, the per share value of the stock consideration was equal to approximately $[ ] and the per share value of the merger consideration was equal to approximately $[ ]. Based on the 0.6375 exchange ratio and the number of shares of Cape common stock outstanding as of [ ], 2016, together with the number of shares of Cape common stock underlying Cape s restricted stock awards as of [ ], 2016, the maximum number of shares of OceanFirst common stock estimated to be issuable at the effective time of the first-step merger is [ ]. **We urge you to obtain current market quotations for OceanFirst (trading symbol OCFC) and Cape (trading symbol CBNJ).**

OceanFirst will hold a special meeting of its stockholders (which we refer to as the OceanFirst special meeting) in connection with the issuance of the shares of OceanFirst common stock representing a portion of the merger consideration (which we refer to as the OceanFirst share issuance). At the OceanFirst special meeting, the holders of OceanFirst common stock (which we refer to as the OceanFirst stockholders) will be asked to vote to approve the OceanFirst share issuance. Approval of the OceanFirst share issuance requires the affirmative vote of a majority of the total votes cast by the OceanFirst stockholders at the OceanFirst special meeting.

Cape will hold a special meeting of its stockholders (which we refer to as the Cape special meeting) in connection with the first-step merger. At the Cape special meeting, Cape stockholders will be asked to vote to approve the merger agreement and related matters as described in this joint proxy statement/prospectus. Under Maryland law, approval of the merger agreement requires the affirmative vote of the holders of a majority of the total number of outstanding shares of Cape common stock entitled to vote at the Cape special meeting.

The OceanFirst special meeting will be held on [ ], 2016 at [ ], at [ ] local time. The Cape special meeting will be held on [ ], 2016 at [ ], at [ ] local time.

The Cape board of directors unanimously recommends that Cape stockholders vote FOR the approval of the merger agreement and the transactions contemplated thereby, including the first-step merger, and FOR the other matters to be considered at the Cape special meeting.

The OceanFirst board of directors unanimously recommends that OceanFirst stockholders vote FOR the OceanFirst share issuance and FOR the other matter to be considered at the OceanFirst special meeting.

This joint proxy statement/prospectus describes the Cape special meeting, the OceanFirst special meeting, the Transactions, the OceanFirst share issuance, the documents related to the Transactions and other related matters. **Please carefully read this entire joint proxy statement/prospectus, including Risk Factors, beginning on page [ ], for a discussion of the risks relating to the proposed merger and the OceanFirst share issuance.** You also can obtain information about OceanFirst and Cape from documents that each has filed with the Securities and Exchange Commission.

Christopher D. Maher	Michael D. Devlin
President and Chief Executive Officer	*President and Chief Executive Officer*
OceanFirst Financial Corp.	Cape Bancorp, Inc.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued in the first-step merger or passed upon the adequacy or accuracy of this joint proxy statement/prospectus. Any representation to the contrary is a criminal offense.

The securities to be issued in the first-step merger are not savings or deposit accounts or other obligations of any bank or non-bank subsidiary of either OceanFirst or Cape, and they are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

The date of this joint proxy statement/prospectus is [ ], and it is first being mailed or otherwise delivered to the stockholders of OceanFirst and Cape on or about [ ], 2016.

Table of Contents

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

To the Stockholders of OceanFirst:

OceanFirst will hold the OceanFirst special meeting at [ ] local time, on [ ], 2016, at [ ] to consider and vote upon the following matters:

- a proposal to approve the issuance of shares of OceanFirst common stock in connection with the first-step merger (which we refer to as the OceanFirst share issuance proposal); and

- a proposal to adjourn the OceanFirst special meeting, if necessary or appropriate, to solicit additional proxies in favor of the OceanFirst share issuance proposal (which we refer to as the OceanFirst adjournment proposal).

We have fixed the close of business on [ ], 2016 as the record date for the OceanFirst special meeting (which we refer to as the OceanFirst record date). Only OceanFirst stockholders of record as of the OceanFirst record date are entitled to notice of, and to vote at, the OceanFirst special meeting, or any adjournment of the OceanFirst special meeting. Approval of the OceanFirst share issuance proposal requires the affirmative vote of a majority of the total votes cast by the holders of OceanFirst common stock at the OceanFirst special meeting. The OceanFirst adjournment proposal will be approved if a majority of the votes cast by the holders of OceanFirst common stock at the OceanFirst special meeting are voted in favor of the adjournment proposal.

The OceanFirst board of directors has unanimously approved the merger agreement and the transactions contemplated thereby, including the integrated mergers and the OceanFirst share issuance, and unanimously recommends that OceanFirst stockholders vote FOR the OceanFirst share issuance proposal and FOR the OceanFirst adjournment proposal.

Your vote is very important. We cannot complete the integrated mergers unless the OceanFirst stockholders approve the OceanFirst share issuance proposal.

Regardless of whether you plan to attend the OceanFirst special meeting, please vote as soon as possible. If you hold stock in your name as a stockholder of record of OceanFirst, please complete, sign, date and return the accompanying proxy card in the enclosed postage-paid return envelope. You may also vote through the Internet or by telephone. If you hold your stock in street name through a bank or broker, please follow the instructions on the voting instruction card furnished by the record holder.

This joint proxy statement/prospectus provides a detailed description of the OceanFirst special meeting, the Transactions, the OceanFirst share issuance, the documents related to the Transactions and other related matters. We urge you to read this entire joint proxy statement/prospectus, including any documents incorporated in the joint proxy statement/prospectus by reference, and its annexes carefully and in their entirety.

BY ORDER OF THE BOARD OF DIRECTORS,

Christopher D. Maher

President and Chief Executive Officer

Table of Contents

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

To the Stockholders of Cape:

Cape will hold the Cape special meeting at [ ] local time, on [ ], 2016, at [ ] to consider and vote upon the following matters:

- a proposal to approve the merger agreement and the first-step merger, pursuant to which Merger Sub will merge with and into Cape, each as more fully described in this joint proxy statement/prospectus (which we refer to as the Cape merger proposal);
- a proposal to approve, on an advisory (non-binding) basis, the compensation that certain executive officers of Cape may receive in connection with the first-step merger pursuant to existing agreements or arrangements with Cape (which we refer to as the Cape merger-related compensation proposal); and
- a proposal to adjourn the Cape special meeting, if necessary or appropriate, to solicit additional proxies in favor of the Cape merger proposal (which we refer to as the Cape adjournment proposal).

We have fixed the close of business on [ ], 2016, as the record date for the Cape special meeting (which we refer to as the Cape record date). Only Cape stockholders of record as of the Cape record date are entitled to notice of, and to vote at, the Cape special meeting, or any adjournment of the Cape special meeting. Under Maryland law, approval of the Cape merger proposal requires the affirmative vote of the holders of a majority of the total number of outstanding shares of Cape common stock entitled to vote at the Cape special meeting. The Cape merger-related compensation proposal will be approved if a majority of the votes cast on such proposal at the Cape special meeting are voted in favor of such proposal. The Cape adjournment proposal will be approved if a majority of the votes cast on such proposal at the Cape special meeting are voted in favor of such proposal.

The Cape board of directors has unanimously approved the merger agreement, has determined that the merger agreement and the transactions contemplated thereby, including the first-step merger, are advisable and in the best interests of Cape and its stockholders, and unanimously recommends that Cape stockholders vote FOR the Cape merger proposal, FOR the Cape merger-related compensation proposal and FOR the Cape adjournment proposal.

Your vote is very important. We cannot complete the integrated mergers unless the Cape stockholders approve the Cape merger proposal.

Regardless of whether you plan to attend the Cape special meeting, please vote as soon as possible. If you hold stock in your name as a stockholder of record of Cape, please complete, sign, date and return the accompanying proxy card in the enclosed postage-paid return envelope. You may also vote through the Internet or by telephone. If you hold your stock in street name through a bank or broker, please follow the instructions on the voting instruction card furnished by the record holder.

This joint proxy statement/prospectus provides a detailed description of the Cape special meeting, the Transactions, the documents related to the Transactions and other related matters. We urge you to read the joint proxy statement/prospectus, including any documents incorporated in the joint proxy statement/prospectus by reference, and its annexes carefully and in their entirety.

BY ORDER OF THE BOARD OF DIRECTORS,

Michael D. Devlin

President and Chief Executive Officer

Table of Contents

REFERENCES TO ADDITIONAL INFORMATION

This joint proxy statement/prospectus incorporates important business and financial information about OceanFirst and Cape from documents filed with the Securities and Exchange Commission (which we refer to as the SEC) that are not included in or delivered with this joint proxy statement/prospectus. You can obtain any of the documents filed with or furnished to the SEC by OceanFirst and/or Cape at no cost from the SEC s website at http://www.sec.gov. You may also request copies of these documents, including documents incorporated by reference in this joint proxy statement/prospectus, at no cost by contacting the appropriate company at the following address:

OceanFirst Financial Corp.	**Cape Bancorp, Inc.**
975 Hooper Avenue	225 North Main Street
Toms River, New Jersey 08753	Cape May Court House, New Jersey 08210
(732) 240-4500	(609) 465-5600

You will not be charged for any of these documents that you request. To obtain timely delivery of these documents, you must request them no later than five business days before the date of your meeting. This means that OceanFirst stockholders requesting documents must do so by [ ], 2016, in order to receive them before the OceanFirst special meeting, and Cape stockholders requesting documents must do so by [ ], 2016, in order to receive them before the Cape special meeting.

You should rely only on the information contained in, or incorporated by reference into, this document. No one has been authorized to provide you with information that is different from that contained in, or incorporated by reference into, this document. This document is dated [ ], 2016, and you should assume that the information in this document is accurate only as of such date. You should assume that the information incorporated by reference into this document is accurate as of the date of such document, and neither the mailing of this document to Cape stockholders or OceanFirst stockholders nor the issuance by OceanFirst of shares of OceanFirst common stock in connection with the first-step merger will create any implication to the contrary.

This document does not constitute an offer to sell, or a solicitation of an offer to buy, any securities, or the solicitation of a proxy, in any jurisdiction to or from any person to whom it is unlawful to make any such offer or solicitation in such jurisdiction. Except where the context otherwise indicates, information contained in this document regarding Cape has been provided by Cape and information contained in this document regarding OceanFirst has been provided by OceanFirst.

See Where You Can Find More Information beginning on page [ ] for more details.

Table of Contents

TABLE OF CONTENTS

Table of Contents

Table of Contents

Annexes

Table of Contents

QUESTIONS AND ANSWERS

The following are some questions that you, as an OceanFirst stockholder or a Cape stockholder, may have about the Transactions, the OceanFirst share issuance, the OceanFirst special meeting or the Cape special meeting, as applicable, and brief answers to those questions. We urge you to read carefully the remainder of this joint proxy statement/prospectus because the information in this section does not provide all of the information that might be important to you with respect to the Transactions, the OceanFirst share issuance, the OceanFirst special meeting or the Cape special meeting, as applicable. For details about where you can find additional important information, please see the section of this joint proxy statement/prospectus entitled Where You Can Find More Information beginning on page [ ].

Unless the context otherwise requires, references in this joint proxy statement/prospectus to OceanFirst refer to OceanFirst Financial Corp., a Delaware corporation, and its affiliates, and references to Cape refer to Cape Bancorp, Inc., a Maryland corporation, and its affiliates.

Q: What are the Transactions?

A: OceanFirst, Cape and Merger Sub entered into the merger agreement on January 5, 2016. The first-step merger is the first step in a series of transactions to combine OceanFirst and Cape, and their respective subsidiary banks, OceanFirst Bank and Cape Bank.

Under the terms of the merger agreement:

- Merger Sub will merge with and into Cape, with Cape continuing as the surviving corporation in such merger and as a wholly-owned subsidiary of OceanFirst (which we refer to as the first-step merger).

- Immediately following the completion of the first-step merger, Cape, as the surviving corporation in the first-step merger, will merge with and into OceanFirst, with OceanFirst being the surviving corporation (which we refer to as the second-step merger and, together with the first-step merger, the integrated mergers).

- Immediately following the completion of the integrated mergers, Cape Bank will merge with and into OceanFirst Bank, with OceanFirst Bank being the surviving bank (which we refer to as the bank merger , and together with the integrated mergers, the Transactions).

A copy of the merger agreement is included in this joint proxy statement/prospectus as Annex A.

The integrated mergers cannot be completed unless, among other things:

- The holders (which we refer to as the OceanFirst stockholders) of the common stock, par value $0.01 per share, of OceanFirst (which we refer to as the OceanFirst common stock) approve the issuance of the shares of OceanFirst common stock in connection with the first-step merger (which we refer to as the OceanFirst share issuance).

The holders (which we refer to as the Cape stockholders) of the common stock, par value $0.01 per share, of Cape (which we refer to as the Cape common stock) approve the merger agreement and the transactions contemplated thereby, including the first-step merger.

Additional conditions to completing the integrated mergers are discussed in the section entitled The Merger Agreement Conditions to Complete the Integrated Mergers beginning on page [ ].

Q: Why am I receiving this joint proxy statement/prospectus?

A: We are delivering this document to you because it is a joint proxy statement being used by both the OceanFirst board of directors (which we refer to as the OceanFirst board) and the Cape board of directors

1

(which we refer to as the Cape board) to solicit proxies of their respective stockholders in connection with approval of the OceanFirst share issuance and the first-step merger, as applicable, and related matters.

In order to approve the OceanFirst share issuance, OceanFirst has called a special meeting of the OceanFirst stockholders (which we refer to as the OceanFirst special meeting). In order to approve the merger agreement and the transactions contemplated thereby, including the first-step merger, Cape has called a special meeting of the Cape stockholders (which we refer to as the Cape special meeting). This document serves as a joint proxy statement for the OceanFirst special meeting and the Cape special meeting and describes the proposals to be presented at each special meeting.

In addition, this document is also a prospectus that is being delivered to Cape stockholders because OceanFirst is offering shares of its common stock to Cape stockholders in connection with the first-step merger. It also constitutes a notice of special meeting with respect to the OceanFirst special meeting and the Cape special meeting.

This joint proxy statement/prospectus contains important information about the Transactions, the OceanFirst share issuance and the other proposal being voted on at the OceanFirst special meeting and the Cape special meeting, respectively. You should read this carefully and in its entirety. The enclosed materials allow you to have your shares voted by proxy without attending your special meeting. **Your vote is important.** We encourage you to submit your proxy as soon as possible.

Q: In addition to the OceanFirst share issuance, what else are OceanFirst stockholders being asked to vote on at the OceanFirst special meeting?

A: In addition to a proposal to approve the OceanFirst share issuance (which we refer to as the OceanFirst share issuance proposal), OceanFirst is soliciting proxies from the OceanFirst stockholders with respect to a proposal to adjourn the OceanFirst special meeting, if necessary or appropriate, to solicit additional proxies in favor of the OceanFirst share issuance proposal (which we refer to as the OceanFirst adjournment proposal). Completion of the integrated mergers is not conditioned upon approval of the OceanFirst adjournment proposal.

Q: In addition to the approval of the merger agreement and the first-step merger, what else are Cape stockholders being asked to vote on at the Cape special meeting?

A: In addition to a proposal to approve the merger agreement and the transactions contemplated thereby, including the first-step merger (which we refer to as the Cape merger proposal), Cape is soliciting proxies from the Cape stockholders with respect to a proposal to approve, on an advisory (non-binding) basis, the compensation that certain executive officers of Cape may receive in connection with the first-step merger pursuant to agreements or arrangements with Cape (which we refer to as the Cape merger-related compensation proposal) and a proposal to adjourn the Cape special meeting, if necessary or appropriate, to solicit additional proxies in favor of the Cape merger proposal (which we refer to as the Cape adjournment proposal). Completion of the integrated mergers is not conditioned upon approval of the Cape merger-related compensation proposal or the Cape adjournment proposal.

Q: What will Cape stockholders be entitled to receive in the first-step merger?

A: If the first-step merger is completed, each outstanding share of Cape common stock except for certain shares of Cape common stock owned by Cape or OceanFirst, will be converted into the right to receive $2.25 in cash, without interest, and 0.6375 shares of OceanFirst common stock, together with cash in lieu of fractional shares. OceanFirst will not issue any fractional shares of OceanFirst common stock in the first-step merger. Cape stockholders who would otherwise be entitled to receive a fractional share of OceanFirst common stock upon the completion of the first-step merger will instead be entitled to receive an amount in cash (rounded to the nearest cent) based on the average closing-sale price per share of OceanFirst common stock for the five full trading days ending on the day preceding the day on which the first-step merger is completed.

Table of Contents

Q: What will OceanFirst stockholders be entitled to receive in the first-step merger?

A: OceanFirst stockholders will not be entitled to receive any merger consideration and will continue to hold the shares of OceanFirst common stock that they held immediately prior to the completion of the first-step merger.

Q: How will the first-step merger affect Cape equity awards?

A: The Cape equity awards will be affected as follows:

Restricted Stock Awards: At the effective time of the first-step merger (which we refer to as the effective time), each restricted stock award granted by Cape (or assumed by Cape from a prior acquisition) will become fully vested and each holder of such restricted stock awards will be entitled to receive the per share merger consideration for each share of Cape common stock held by such holder.

Stock Options: Also at the effective time, each stock option granted by Cape (or assumed by Cape from a prior acquisition) will be assumed and converted into an option to purchase a number of shares of OceanFirst common stock (rounded down to the nearest whole share) determined by multiplying (i) the number of shares of Cape common stock subject to such stock option by (ii) 0.75, at a per share exercise price (rounded up to the nearest whole cent) equal to the quotient obtained by dividing (a) the per share exercise price for each share of Cape common stock subject to such stock option by (b) 0.75.

Q: Will the value of the merger consideration change between the date of this joint proxy statement/prospectus and the time that the first-step merger is completed?

A: Yes. Although the exchange ratio is fixed, the value of the stock portion of the merger consideration will fluctuate between the date of this joint proxy statement/prospectus and the closing date because the market value for OceanFirst common stock fluctuates. The cash consideration is fixed.

Q: How does the OceanFirst board recommend that I vote at the OceanFirst special meeting?

A: The OceanFirst board unanimously recommends that you vote FOR the OceanFirst share issuance proposal and FOR the OceanFirst adjournment proposal.

Q: How does the Cape board recommend that I vote at the Cape special meeting?

A: The Cape board unanimously recommends that you vote FOR the Cape merger proposal, FOR the Cape merger-related compensation proposal and FOR the Cape adjournment proposal.

Q: When and where are the meetings?

A: The OceanFirst special meeting will be held at [ ] on [ ], 2016, at [ ] local time.

The Cape special meeting will be held at [ ] on [ ], 2016, at [ ] local time.

Q: What do I need to do now?

A: After you have carefully read this entire joint proxy statement/prospectus and have decided how you wish to vote your shares, please vote your shares promptly so that your shares are represented and voted at your special meeting. If you hold your shares in your name as a stockholder of record, you must complete, sign, date and mail your proxy card in the enclosed postage-paid return envelope as soon as possible. Alternatively, you may vote through the Internet or by telephone. Information and applicable deadlines for voting through the Internet or by telephone are set forth in the enclosed proxy card instructions. If you hold your shares in street name through a bank or broker, you must direct your bank or broker how to vote in accordance with the instructions you have received from your bank or broker. Street name stockholders who wish to vote in person at their special meeting will need to obtain a legal proxy from the institution that holds their shares.

Table of Contents

Q: What constitutes a quorum for the OceanFirst special meeting?

A: The presence at the OceanFirst special meeting, in person or by proxy, of holders representing at least a majority of the outstanding shares of OceanFirst common stock entitled to be voted at the OceanFirst special meeting will constitute a quorum for the transaction of business at the OceanFirst special meeting. Once a share is represented for any purpose at the OceanFirst special meeting, it is deemed present for quorum purposes for the remainder of the OceanFirst special meeting or for any adjournment(s) thereof. Abstentions and broker non-votes, if any, will be included in determining the number of shares present at the meeting for the purpose of determining the presence of a quorum.

Q: What constitutes a quorum for the Cape special meeting?

A: The presence at the Cape special meeting, in person or by proxy, of holders representing at least a majority of the issued and outstanding shares of Cape common stock entitled to be voted at the Cape special meeting will constitute a quorum for the transaction of business at the Cape special meeting. Once a share is represented for any purpose at the Cape special meeting, it is deemed present for quorum purposes for the remainder of the Cape special meeting or for any adjournment(s) thereof. Abstentions and broker non-votes, if any, will be included in determining the number of shares present at the meeting for the purpose of determining the presence of a quorum.

Q: What is the vote required to approve each proposal at the OceanFirst special meeting?

A: *OceanFirst share issuance proposal*:

Standard: Approval of the OceanFirst share issuance proposal requires the affirmative vote of a majority of the total votes cast by the holders of OceanFirst common stock at the OceanFirst special meeting.

Effect of abstentions and broker non-votes: If you mark ABSTAIN on your proxy, fail to submit a proxy or vote in person at the OceanFirst special meeting, or fail to instruct your bank or broker how to vote with respect to the OceanFirst share issuance proposal, it will have no effect on the OceanFirst share issuance proposal.

OceanFirst adjournment proposal:

Standard: The OceanFirst adjournment proposal will be approved if a majority of the votes cast by the holders of OceanFirst common stock at the OceanFirst special meeting are voted in favor of the OceanFirst adjournment proposal.

Effect of abstentions and broker non-votes: If you mark ABSTAIN on your proxy, fail to submit a proxy or vote in person at the OceanFirst special meeting, or fail to instruct your bank or broker how to vote with respect to the OceanFirst adjournment proposal, it will have no effect on the proposal.

Q: What is the vote required to approve each proposal at the Cape special meeting?

A: *Cape merger proposal*:

Standard: Approval of the Cape merger proposal requires the affirmative vote of the holders of a majority of the total number of outstanding shares of Cape common stock.

Effect of abstentions and broker non-votes: If you mark ABSTAIN on your proxy, fail to submit a proxy or vote in person at the Cape special meeting, or fail to instruct your bank or broker how to vote with respect to the Cape merger proposal, it will have the same effect as a vote AGAINST the Cape merger proposal.

Table of Contents

Cape merger-related compensation proposal:

Standard: The Cape merger-related compensation proposal will be approved if a majority of the votes cast on such proposal at the Cape special meeting are voted in favor of such proposal.

Effect of abstentions and broker non-votes: If you mark ABSTAIN on your proxy card, fail to submit a proxy card or vote in person at the Cape special meeting or fail to instruct your bank or broker how to vote with respect to the Cape merger-related compensation proposal, it will have no effect on such proposal.

Cape adjournment proposal:

Standard: The Cape adjournment proposal will be approved if a majority of the votes cast on such proposal at the Cape special meeting are voted in favor of such proposal.

Effect of abstentions and broker non-votes: If you mark ABSTAIN on your proxy card, fail to submit a proxy card or vote in person at the Cape special meeting, or fail to instruct your bank or broker how to vote with respect to the Cape adjournment proposal, it will have no effect on such proposal.

Q: Why is my vote important?

A: If you do not vote, it will be more difficult for OceanFirst or Cape to obtain the necessary quorum to hold their respective special meetings. In addition, if you are a Cape stockholder, your failure to submit a proxy or vote in person, or failure to instruct your bank or broker how to vote, or abstention with respect to the Cape merger proposal will have the same effect as a vote AGAINST approval of the Cape merger proposal. Separately, if you are an OceanFirst stockholder, your failure to submit a proxy or vote in person, or failure to instruct your bank or broker how to vote, or abstention with respect to the OceanFirst share issuance proposal will not be counted as a vote cast and will have no effect on the approval of such proposal, even though such approval is a condition to the completion of the integrated mergers. The merger agreement must be approved by the affirmative vote of at least a majority of the outstanding shares of Cape common stock. The OceanFirst share issuance must be approved by the affirmative vote of at least a majority of the total votes cast by the OceanFirst stockholders at the OceanFirst special meeting. The OceanFirst board unanimously recommends that the OceanFirst stockholders vote FOR the OceanFirst share issuance proposal and the Cape board unanimously recommends that the Cape stockholders vote FOR the Cape merger proposal.

Q: If my shares of common stock are held in street name by my bank or broker, will my bank or broker automatically vote my shares for me?

A: No. Your bank or broker cannot vote your shares without instructions from you. You should instruct your bank or broker how to vote your shares in accordance with the instructions provided to you. Please check the voting form used by your bank or broker.

Q: If I am a participant in Cape s ESOP or Cape s 401(k) Plan, how will shares owned through such plans be voted?

A: If you participate in the Cape Bank Employee Stock Ownership Plan (which we refer to as the Cape ESOP) or if you hold shares of Cape common stock through the Cape Bank Employees Savings & Profit Sharing Plan (which we refer to as the Cape 401(k) Plan) or the Colonial Bank 401(k) Savings Plan that was assumed by Cape (which we refer to as the Colonial 401(k) Plan, and together with the Cape 401(k) Plan, the 401(k) Plans), you will receive a proxy card for each plan in which you have an interest in Cape common stock that reflects all of the shares you may direct the trustee to vote on your behalf under the plans. Under the terms of the Cape ESOP, the Cape ESOP trustee votes all shares held by the Cape ESOP, but each 0; 2

SEC Form 20-F cross reference

11	**Quantitative and Qualitative Disclosures about Market Risk**	25-77
12	**Description of Securities other than Equity Securities**	Not applicable
PART II		
13	**Defaults, Dividends, Arrearages and Delinquencies**	Not applicable
14	**Material Modifications to the Rights of Security Holders and use of Proceeds**	Not applicable
15	**Controls and Procedures**	89
16A	**Audit Committee Financial Expert**	80,84,87
16B	**Code of Ethics**	84, 170
16C	**Principal Accountant Fees and Services**	88, 110
16D	**Exemptions from the Listing Standards for Audit Committees**	Not applicable
16E	**Purchases of Equity Securities by the Issuer and Affiliated purchases**	Not applicable
16F	**Change in Registrant's Certifying Accountant**	Not applicable
16G	**Corporate Governance**	78-89
16H	**Mine Safety Disclosure**	Not applicable
PART III		
17	**Financial statements**	Not applicable
18	**Financial statements**	90-165
19	**Exhibits**	205

Chairman's statement

Five years ago The Royal Bank of Scotland Group plc ("RBSG") embarked on a strategic restructuring designed to correct the aspects of its business that made it particularly vulnerable to the financial crisis of 2008. The execution of that restructuring has transformed the financial position of RBS Group: the balance sheet has been reduced by more than £1 trillion, and it has repaid hundreds of billions of Government funding support and removed the imminent threat that its size, risk and complexity posed to the UK economy.

In 2013, further steps were taken to resolve remaining legacy balance sheet issues by announcing the creation of RBS Capital Resolution Group, with the aim of accelerating the removal of these legacy assets and releasing the capital they are still tying up. With the creation of the RCR, RBS Group has announced its aspiration to remove all of these assets from its balance sheet in three years. RCR commenced on 1 January 2014 with an initial pool of c. £29 billion of assets, of which £1.5 billion related to RBSH Group. RBSH Group expects to further run down or dispose substantially of the remainder of the businesses, assets and portfolios previously managed under its Non-Core division and not transferred to the RBS Capital Resolution Group.

In February 2014, RBSG announced the results of a business review which was undertaken by Ross McEwan, Chief Executive Officer of RBS Group. The outcome was that RBSG needs a strategy that will address the weakness in performance for customers, so that it can provide acceptable returns to shareholders. The business review that has been conducted revealed the key challenges of RBSG, but it has also given a clear path to improve the bank. There is now a strategy to deliver a sustainable bank with a clear ambition: RBSG wants to be number one for customer service, trust and advocacy, in every one of its chosen business areas by 2020.

Seven operating divisions will be collapsed into three customer businesses that can understand customers' needs and provide appropriate, consistent services far better than across current silos. The three customer businesses will cover Personal & Business Banking, Commercial & Private Banking, and Corporate & Institutional Banking.

Support functions will be smaller, more expert and dedicated to helping the businesses succeed for customers. Highly disciplined and well managed conduct and risk functions will maintain safety and soundness.

Only 30% of staff today deal directly with the customer. By 2017 more than half will deal directly with the customer and all staff will be measured against success in improving customer advocacy.

The announced restructure has no impact on RBS Holdings N.V.'s clients. The impact on the divisional structure of RBSH will be announced in due course.

On 19 April 2011, it was announced that a substantial part of the business activities of RBS N.V. would transfer to RBS plc. The majority of the transfers were concluded in 2011 and 2012. In 2013, the assets and liabilities relating to businesses in Russia, Korea, Romania and North America were successfully transferred. A few businesses remain, including China, India, Thailand and Indonesia. The intention is to transfer the assets and liabilities of these locations to RBS plc as well. Furthermore, as announced on 19 April 2011, RBSG is committed to provide the necessary support to ensure that RBS N.V. continues to meet its commitments during and after the transfer's.

At 31 December 2013, RBSG Group had 2,500 employees, of which 62 are employed in the Netherlands.

Results of operations in 2013

Operating loss before tax was €142 million compared with a loss of €887 million in 2012. This was largely due to decreased expenses as a result of staff transferring as part of the business transfers to RBS plc and business divestments and partly offset by lower income due to the transfers of business.

Net interest income decreased due to further transfers to RBS plc and the continued low interest rate environment, while non-interest income increased due to the lower loss on own credit adjustments.

Total equity as at 31 December 2013 was €2.9 billion, an increase of €1.1 billion compared with 31 December 2012, mainly due to increased unrealised gains on available-for-sale assets.

Capital

The RBSH Group continues to be well capitalised. At 31 December 2013, the RBSH Group's Total capital ratio was 26.1%, the Tier 1 capital ratio was 23.2% and the Core Tier 1 capital ratio was 20.5%.

Outlook

The outlook for the global economy over the near to medium-term is for steady growth. Risks to growth and stability stem mainly from continued imbalances - among and within countries - and from uncertainty about how economies will respond as the extraordinary monetary policy measures implemented during the crisis are unwound.

Also in 2014, we will continue to de-risk RBS N.V. and transfer its assets and liabilities to RBS plc.

On behalf of my fellow Managing Board members, I would like to thank all our employees and clients for their continued commitment during 2013.

Jan de Ruiter

Chairman of the Managing Board of RBS Holdings N.V.

Amsterdam, 30 April 2014

Business review

Presentation of information

In this document and unless specified otherwise, the terms 'company' and 'RBS Holdings' mean RBS Holdings N.V.. RBS Holdings N.V. is the parent company of The Royal Bank of Scotland N.V. (RBS N.V.) consolidated group of companies and associated companies (RBSH Group). The Royal Bank of Scotland Group plc (RBSG) is the ultimate holding company of RBSH Group. RBS Group refers to RBSG and its consolidated subsidiaries and associated companies. RBS plc refers to The Royal Bank of Scotland plc. The terms 'Consortium' and 'Consortium Members' refer to RBSG, Stichting Administratiekantoor Beheer Financiële Instellingen (the Dutch State, successor to Fortis) and Banco Santander S.A. (Santander) who jointly acquired RBS Holdings on 17 October 2007 through RFS Holdings B.V. (RFS Holdings).

The company publishes its financial statements in 'euro', the European single currency. The abbreviations '€m' and '€bn' represent millions and thousands of millions of euros, respectively. Reference to '$' is to United States of America (US) dollars. The abbreviations '$m' and '$bn' represent millions and thousands of millions of dollars, respectively.

Certain information in this report is presented separately for domestic and foreign activities. Domestic activities consist of transactions within the Netherlands. Geographic analysis has been compiled based on location of office.

The results, assets and liabilities of individual business units are classified as trading or non-trading based on their predominant activity. Although this method may result in some non-trading activity being classified as trading, and vice versa, any resulting misclassification is not material.

All annual averages in this report are based on month-end figures. Management does not believe that these month-end averages present trends materially different from those that would be presented by daily averages.

International Financial Reporting Standards

Unless otherwise indicated, the financial information contained in this Annual Report has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and IFRS as issued by the International Accounting Standard Board (IASB).

Glossary

A glossary of terms is detailed on pages 198 to 203.

Forward-looking statements

Certain sections in this document contain ‘forward-looking statements’ as that term is defined in the United States Private Securities Litigation Reform Act of 1995, such as statements that include the words ‘expect’, ‘estimate’, ‘project’, ‘anticipate’, ‘believe’, ‘should’, ‘intend’, ‘plan’, ‘could’, ‘probability’, ‘risk’, ‘Value-at-Risk (VaR)’, ‘target’, ‘goal’, ‘objective’, ‘will’, ‘endeavour’, ‘outlook’, ‘optimistic’, ‘prospects’ and similar expressions or variations on such expressions.

In particular, this document includes forward-looking statements relating, but not limited to: the RBS Group’s and the Group’s restructuring and new strategic plans, divestments, capitalisation, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets (RWAs), return on equity (ROE), profitability, cost:income ratios, leverage and loan:deposit ratios, funding and risk profile; discretionary coupon and dividend payments; implementation of legislation of ring-fencing and bail-in measures; sustainability targets; litigation, regulatory and governmental investigations; the Group’s future financial performance; the level and extent of future impairments and write-downs; and the Group’s exposure to political risks, including the impact on the RBS Group of the referendum on Scottish independence, credit rating risk and to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity and equity price risk. These statements are based on current plans, estimates and projections, and are subject to inherent risks, uncertainties and other factors which could cause actual results to differ materially from the future results expressed or implied by such forward-looking statements. For example, certain market risk disclosures are dependent on choices about key model characteristics and assumptions and are subject to various limitations. By their nature, certain of the market risk disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated.

Other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this document include, but are not limited to: global economic and financial market conditions and other geopolitical risks, and their impact on the financial industry in general and on the Group in particular; the ability to implement strategic plans on a timely basis, or at all, including the simplification of the RBS Group’s structure and the exiting of assets in RBS Capital Resolution; the achievement of capital and costs reduction targets; RBSH group’s reliance on the RBS Group; ineffective management of capital or changes to capital adequacy or liquidity requirements; organisational restructuring in response to legislation and regulation in the European Union (EU) and the United States (US); the implementation of key legislation and regulation including the proposed EU Recovery and Resolution Directive; the ability to access sufficient sources of capital, liquidity and funding when required; deteriorations in borrower and counterparty credit quality; litigation, government and regulatory investigations including investigations relating to the setting of LIBOR and other interest rates and foreign exchange trading and rate setting activities; costs or exposures borne by the RBS Group arising out of the origination or sale of mortgages or mortgage-backed securities in the US; the extent of future write-downs and impairment charges caused by depressed asset valuations; unanticipated turbulence in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices, equity prices and basis, volatility and correlation risks; changes in the credit ratings of the Group; changes to the valuation of financial instruments recorded at fair value; competition and consolidation in the banking sector; the ability of the Group to attract or retain senior management or other key employees; regulatory or legal changes (including those requiring any restructuring of the Group's operations) in the US and other countries in which the Group operates; changes to regulatory requirements relating to capital and liquidity; the execution of the approved transfers of a substantial part of the business activities of RBS N.V. to RBS; changes to the legal recourse available to investors resulting from the legal demerger of ABN AMRO Bank N.V.; changes to the monetary and interest rate policies of central banks and other governmental and regulatory bodies; general operational risks; reputational risk; the conversion of the B Shares issued by the RBS Group in accordance with their terms; and the success of the Group in managing the risks involved in the foregoing.

The forward-looking statements contained in this document speak only as of the date of this announcement, and the RBSH Group does not undertake to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

The information, statements and opinions contained in this document do not constitute a public offer under any applicable legislation or an offer to sell or solicitation of any offer to buy any securities or financial instruments or any advice or recommendation with respect to such securities or other financial instruments.

Business review

Description of business

Introduction

RBS Holdings N.V. offers a range of banking products and financial services, principally in Europe and Asia.

In 2007, RFS Holdings, which was jointly owned by RBSG, Fortis (succeeded by the Dutch State in 2008) and Santander (together, the 'Consortium Members') completed the acquisition of RBS Holdings.

RBS Holdings has one direct subsidiary, RBS N.V., a fully operational bank within RBSH Group. RBS N.V. is independently rated and regulated by the Dutch Central Bank. Certain assets within RBS N.V. continue to be owned by the Dutch State or shared by the Consortium Members.

As at 31 December 2010, RBSG's shareholding in RFS Holdings was increased to 97.72%. RFS Holdings is controlled by RBSG, which is incorporated in the UK and registered at 36 St. Andrew Square, Edinburgh, Scotland. RBSG is the ultimate parent company of RBSH Group. The consolidated financial statements of RBSH Group are included in the consolidated financial statements of RBS Group.

*interest is held by Stichting Administratiekantoor Beheer Financiële Instellingen

RBSH Group had total assets of €39.8 billion and owners' equity of €2.9 billion at 31 December 2013. RBSH Group's capital ratios were a Total capital ratio of 26.1%, a Core Tier 1 capital ratio of 20.5% and a Tier 1 capital ratio of 23.2%, as at 31 December 2013.

Organisational structure and business overview

RBSH Group's activities are organised on a divisional basis as follows:

Markets is an origination, sales and trading business across debt finance, fixed income and currencies. The division offers a unified service to RBSH Group's corporate and institutional clients. The Markets' origination, sales and research teams build strong ongoing client partnerships, provide market perspective and access, and work with the division's trading and structuring teams to meet the client's objectives across financing, risk management, investment, securitisation and liquidity.

International Banking provides financing, transaction services and risk management. International Banking serves as the delivery channel for Markets' products to corporate clients.

Central items comprises group and corporate functions, such as treasury, capital management and finance, risk management, legal, communications and human resources.

Non-Core manages separately assets that RBSH Group intends to run-off or dispose, in line with RBS Group strategy for Non-Core assets. It also includes the remaining assets and liabilities in RBS N.V. that have not yet been sold, wound down or transferred to the Consortium Members, referred to as 'Shared Assets', in which each of the consortium shareholders has a joint and indirect interest.

Transfers of a substantial part of the business activities of RBS N.V. to RBS plc

Following the announcements in April 2011 by the Boards of RBSG, RBS plc, RBS Holdings N.V. and RBS N.V., a substantial part of the business activities of RBS N.V. have been successfully transferred to RBS plc (the “Transfers”).

During the last quarter of 2011 RBS N.V. transferred to RBS plc a large part of its UK activities including the Equities & Structured Retail, Markets, Lending and former GTS businesses as well as part of the UK Non-Core portfolio.

In the first half of 2012, assets and liabilities largely relating to businesses in Singapore, Hong Kong and Kazakhstan were transferred to RBS plc by a combination of local schemes of arrangement, novations and subsidiary share sales.

In September 2012, through a statutory demerger and cross-border merger (the “Dutch Scheme”), RBS N.V. transferred net assets of €868 million to RBS plc, related largely to Transaction Services business and Lending deals. The transferred Markets business included most Dutch, German and Italian law governed securitised products and a number of over the counter transactions.

Business review

In the latter half of 2012, other eligible businesses in the Netherlands and certain EMEA countries, and businesses in Malaysia, Turkey and the United Arab Emirates were transferred via novations, market mechanisms and subsidiary share sales.

In 2013, assets and liabilities relating to businesses in Russia, Romania, Korea and North America were transferred to RBS plc by a combination of local schemes of arrangement, cross-border merger, novations and subsidiary share sales.

RBS NV US branches

The RBS N.V. US branches will be closed once the remaining tail assets have been transferred and applicable regulatory approval has been received.

Competition

RBSH Group faces strong competition in all the markets it serves. Banks' balance sheets have strengthened whilst loan demand has been subdued as many customers have sought to delever and the economy has remained weak.

Competition for corporate and institutional customers in the Netherlands and abroad is from Dutch banks and from large foreign universal banks that offer combined investment and commercial banking capabilities. In addition, RBSH Group's Markets division faces strong competition from dedicated investment banks. In asset finance, RBSH Group competes with banks and specialist asset finance providers, both captive and non-captive. In European and Asian corporate and institutional banking markets RBSH Group competes with the large domestic banks active in these markets and with the major international banks.

Recent developments

Cap on variable remuneration

The fourth EU Capital Requirements Directive (CRD IV), implemented for banks in the UK by the Prudential Regulatory Authority, imposes a 1:1 cap on variable remuneration in relation to salary; however with shareholder approval it is possible to award variable remuneration up to 200% of fixed pay (i.e. a 2:1 cap).

All of the RBS Group's major competitors have indicated that they will seek approval from their shareholders to introduce a 2:1 cap and the RBS Group Board believes the best commercial solution for RBS Group would be to have the flexibility on variable compensation which is now emerging as the sector norm. This would also allow RBS Group to maintain the maximum amount of compensation that could be subject to performance conditions including claw back for conduct issues that may emerge in future.

On 24 April UKFI informed the RBS Group board that it would vote against any resolution which proposes a 2:1 ratio. In these circumstances, the RBS Group Board expects that such a resolution would fail and will therefore not be brought to the Annual General Meeting. HM Treasury has commented that it considers an increase to the cap on variable remuneration cannot be justified whilst RBS Group has yet to complete its restructuring and remains a majority publicly-owned bank, and notes that as a result of its pay policy RBS Group will remain a 'back-marker' in its overall remuneration compared to other banks.

The RBS Group Board acknowledges that this outcome creates a commercial and prudential risk which it must try to mitigate within the framework of a 1:1 fixed to variable compensation ratio.

Business review

Risk factors

Set out below are certain risk factors which could affect RBSH Group's future results and cause them to be materially different from expected results. RBSH Group's results are also affected by competition and other factors. These risk factors, discussed in more detail on pages 186 to 195, should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties.

- RBSH Group is reliant on the RBS Group.

- RBSH Group is subject to a number of legal and regulatory actions and investigations. Unfavourable outcomes in such actions and investigations could have a material adverse effect on RBSH Group's operating results or reputation.

- RBSH Group could fail to attract or retain senior management, which may include members of RBSH Group's Supervisory Board and Managing Board, or other key employees, and it may suffer losses if it does not maintain good employee relations.

- The execution and/or any delay in the execution (or non-completion) of the approved transfers of a substantial part of the business activities of RBS N.V. to RBS plc may have a material adverse effect on RBSH Group.

- Operational risks are inherent in RBSH Group's businesses.

- RBSH Group operates in markets that are highly competitive and its business and results of operations may be adversely affected.

- RBSH Group's businesses and performance can be negatively affected by actual or perceived global economic and financial market conditions.

- RBSH Group has significant exposure to a weakening of the nascent economic recovery in Europe.

- RBSH Group is subject to other global risks.

- RBSH Group's business performance could be adversely affected if its capital is not managed effectively or as a result of changes to capital adequacy and liquidity requirements.

- An extensive restructuring and balance sheet reduction programme of the RBS Group is ongoing and may adversely affect RBSH Group's business, results of operations, financial condition, capital ratios and liquidity.

- RBSH Group's ability to meet its obligations including its funding commitments depends on RBSH Group's ability to access sources of liquidity and funding.

- RBSH Group's borrowing costs, its access to the debt capital markets and its liquidity depend significantly on its credit ratings.

- Each of RBSH Group's businesses is subject to substantial regulation and oversight. Significant regulatory developments and changes in the approach of RBSH Group's key regulators could have a material adverse effect on how RBSH Group conducts its business and on its results of operations and financial condition.

- RBSH Group's operations are highly dependent on its information technology systems.

- RBSH Group's operations have inherent reputational risk.

- RBSH Group may suffer losses due to employee misconduct.

- The financial performance of RBSH Group has been, and continues to be, materially affected by deteriorations in borrower and counterparty credit quality and further deteriorations could arise due to prevailing economic and market conditions and legal and regulatory developments.

- Changes in interest rates, foreign exchange rates, credit spreads, bond, equity and commodity prices, basis, volatility and correlation risks and other market factors have significantly affected and will continue to affect RBSH Group's business and results of operations.

- The value of certain financial instruments recorded at fair value is determined using financial models incorporating assumptions, judgements and estimates that may change over time or may ultimately not turn out to be accurate.

- RBSH Group's earnings and financial condition have been, and its future earnings and financial condition may continue to be, materially affected by depressed asset valuations resulting from poor market conditions.

- The regulatory capital treatment of certain deferred tax assets recognised by RBSH Group depends on there being no adverse changes to regulatory requirements.

- The recoverability of certain deferred tax assets recognised by RBSH Group depends on RBSH Group's ability to generate sufficient future taxable profits and there being no adverse changes to tax legislation or accounting standards.

- The legal demerger of ABN AMRO Bank N.V. (as it was then named) has resulted in a cross liability that changes the legal recourse available to investors.

Business review

Key financials			
	2013	2012	2011
for the year ended 31 December	€m	€m	€m
Total income	437	708	4,006
(Loss)/profit before impairment losses	(100)	(822)	1,579
Operating loss before tax	(142)	(887)	(186)

	2013	2012	2011
at 31 December	€m	€m	€m
Total assets	39,808	70,954	146,776
Funded balance sheet (1)	35,026	63,399	127,638
Loans and advances to customers	3,784	6,380	29,578
Deposits	23,094	37,103	86,121
Equity attributable to controlling interests	2,942	1,799	3,395
Capital ratios - Core Tier 1	20.5%	11.7%	8.6%
- Tier 1	23.2%	13.9%	12.0%
- Total	26.1%	19.8%	17.5%

Note:

(1) Funded balance sheet represents total assets less derivatives.

Business review

Summary consolidated income statement			
	2013	2012	2011
	€m	€m	€m
Net interest income	238	605	688
Fees and commissions receivable	119	469	1,039
Fees and commissions payable	(49)	(198)	(367)
Other non-interest income	129	(168)	2,646
Non-interest income	199	103	3,318
Total income	437	708	4,006
Operating expenses	(537)	(1,530)	(2,427)
(Loss)/profit before impairment losses	(100)	(822)	1,579
Impairment losses	(42)	(65)	(1,765)
Operating loss before tax	(142)	(887)	(186)
Tax charge	(12)	(129)	(449)
Loss from continuing operations	(154)	(1,016)	(635)
Profit from discontinued operations, net of tax	19	17	40
Loss for the year attributable to controlling interests	(135)	(999)	(595)

2013 compared with 2012

Operating loss before tax was €142 million compared with a loss of €887 million in 2012. This decrease was due to lower operating expenses partially offset by lower income.

Total income decreased by €271 million to €437 million. This is mainly due to lower net interest income.

Net interest income decreased by €367 million to €238 million, reflecting further reductions in interest income, in particular in International Banking, due to further business transfers to RBS plc and the continued low interest rate environment.

Non-interest income increased by €96 million to €199 million compared with €103 million in 2012. This increase is mainly due to the €776 million lower loss on own credit adjustment resulting from the widening of credit spreads of UK banks. This was partially offset by lower net fees and commissions as a result of business transfers to RBS plc, and lower profit on sales of subsidiaries and associates and securities.

Operating expenses decreased by €993 million to €537 million due to reduced staff and non-staff costs as a result of staff transferring as part of business transfers to RBS plc and business divestments.

Impairment losses decreased by €23 million to €42 million the 2013 charge is driven by a small number of individual cases. The reduction reflects business transfers to RBS plc.

Tax

The tax charge for 2013 was €12 million compared with €129 million in 2012. The higher rate for 2012 was mainly the result of the reduction in carrying value of the deferred tax asset in respect of losses in Australia.

2012 compared with 2011

Operating loss before tax was €887 million compared with a loss of €186 million in 2011. This decrease was due to lower total income partially offset by lower operating expenses and lower impairment losses.

Total income decreased by €3,298 million to €708 million. This is mainly due to a lower own credit adjustment in non-interest income.

Net interest income decreased by €83 million to €605 million, reflecting further reductions in interest income, in particular in International Banking, mainly due to business transfers to RBS plc.

Non-interest income decreased by €3,215 million to €103 million compared with €3,318 million in 2011. This decrease is mainly due to the €2,155 million lower own credit adjustment resulting from to the tightening of credit spreads. In addition, fee and trading income were lower as a result of business transfers to RBS plc.

Operating expenses decreased by €897 million to €1,530 million due to reduced activities as a result of business transfers to RBS plc.

Impairment losses decreased by €1,700 million to €65 million this decrease mainly relates to Greek sovereign available-for-sale bond impairments and related interest rate hedge adjustments, which decreased by €1,428 million from €1,463 million.

Tax

The tax charge for 2012 was €129 million compared with €449 million in 2011. The higher charge for 2011 was mainly the result of losses on Greek sovereign available-for-sale bonds being not recoverable for tax purposes.

Business review

Analysis of results			
Net interest income			
	2013	2012	2011
	€m	€m	€m
Interest receivable	768	1,628	2,352
Interest payable (1)	(493)	(1,023)	(1,664)
Net interest income	275	605	688
Yields, spreads and margins of the banking business	%	%	%
Gross yield on interest-earning assets of the banking business (2)	1.8	2.1	2.1
Cost of interest-bearing liabilities of the banking business	(1.3)	(1.4)	(1.5)
Interest spread of the banking business (3)	0.5	0.7	0.6
Benefit from interest-free funds	0.2	0.1	—
Net interest margin of the banking business (4)	0.7	0.8	0.6
Gross yield (2)			
- Group	1.8	2.1	2.1
- Domestic	1.1	1.4	1.8
- Foreign	3.2	2.8	2.4
Interest spread (3)			
- Group	0.5	0.7	0.6
- Domestic	0.4	(0.1)	(0.1)
- Foreign	1.0	1.6	1.2
Net interest margin (4)			
- Group	0.7	0.8	0.6
- Domestic	0.5	(0.2)	(0.1)
- Foreign	1.0	1.8	1.2

Notes:

(1) Interest payable has been decreased by €37 million (2012 and 2011 - nil) in respect of non-recurring adjustments.

(2) Gross yield is the interest rate earned on average interest-earning assets of the banking business.

(3) Interest spread is the difference between the gross yield and the interest rate paid on average interest-bearing liabilities of the banking business.

(4) Net interest margin is net interest income of the banking business as a percentage of average interest-earning assets of the banking business.

(5) The analysis into Domestic and Foreign has been compiled on the basis of location of the entity in which the transaction takes place.

Business review

Average balance sheet and related interest							
		2013			2012		
		Average			Average		
		balance	Interest	Rate	balance	Interest	Rate
		€m	€m	%	€m	€m	%
Assets							
Loans and advances to banks	- Domestic	6,130	51	0.8	7,779	59	0.8
	- Foreign	5,755	49	0.9	15,615	148	0.9
Loans and advances to customers	- Domestic	1,002	32	3.2	6,691	154	2.3
	- Foreign	6,386	307	4.8	16,677	711	4.3
Amounts due from ultimate holding company	- Domestic	2,805	183	6.5	2,091	114	5.5
Debt securities	- Domestic	18,014	53	0.3	24,274	272	1.1
	- Foreign	1,876	93	5.0	4,086	170	4.2
Interest-earning assets	- banking business	41,968	768	1.8	77,213	1,628	2.1
	- trading business	2,021			5,623		
Interest-earning assets		43,989			82,836		
Non-interest-earning assets		17,493			32,904		
Total assets		61,482			115,740		
Percentage of assets applicable to overseas operations		41.0%			50.5%		
Liabilities							
Deposits by banks	- Domestic	20,711	117	0.6	26,210	283	1.1
	- Foreign	7,064	71	1.0	15,613	129	0.8
Customer accounts: demand deposits	- Domestic	—	—	—	7,090	60	0.8
	- Foreign	2,733	11	0.4	12,900	66	0.5
Customer accounts: savings deposits	- Foreign	554	21	3.8	768	28	3.6
Customer accounts: other time deposits	- Domestic	547	16	2.9	1,372	44	3.2
	- Foreign	1,950	82	4.2	3,767	140	3.7

Debt securities in issue	- Domestic	115	4	3.5		4,258	63	1.5
	- Foreign	641	13	2.0		1,038	22	2.1
Subordinated liabilities	- Domestic	3,488	41	1.2		4,375	70	1.6
	- Foreign	2,089	125	6.0		2,776	162	5.8
Internal funding of trading business	- Foreign	(779)	(8)	1.0		(4,429)	(44)	1.0
Interest-bearing liabilities	- banking business (1)	39,113	493	1.3		75,738	1,023	1.4
	- trading business	2,694				11,934		
Interest-bearing liabilities		41,807				87,672		
Non-interest-bearing liabilities:								
Demand deposits	- Domestic	311				706		
	- Foreign	861				2,084		
Other liabilities		11,775				21,466		
Owners' equity		6,728				3,812		
Total liabilities and owners' equity		61,482				115,740		
Percentage of liabilities applicable to overseas operations		40.1%				54.9%		

For notes to this table refer to page 13.

Business review

Average balance sheet and related interest continued				
		2011		
		Average balance	Interest	Rate
		€m	€m	%
Assets				
Loans and advances to banks	- Domestic	4,707	126	2.7
	- Foreign	25,521	207	0.8
Loans and advances to customers	- Domestic	9,234	193	2.1
	- Foreign	28,463	1,058	3.7
Amounts due from ultimate holding company	- Domestic	238	13	5.5
Debt securities	- Domestic	34,764	560	1.6
	- Foreign	6,610	195	3.0
Interest-earning assets	- banking business	109,537	2,352	2.1
	- trading business	19,958		
Interest-earning assets		129,495		
Non-interest-earning assets		62,071		
Total assets		191,566		
Percentage of assets applicable to overseas operations		67.5%		
Liabilities				
Deposits by banks	- Domestic	23,503	440	1.9
	- Foreign	30,657	125	0.4
Customer accounts: demand deposits	- Domestic	9,853	217	2.2
	- Foreign	21,378	270	1.3
Customer accounts: savings deposits	- Domestic	209	—	—
	- Foreign	197	5	2.5
Customer accounts: other time deposits	- Domestic	3,394	64	1.9
	- Foreign	5,796	175	3.0
Debt securities in issue	- Domestic	9,613	146	1.5
	- Foreign	3,049	53	1.7

Tax

Subordinated liabilities	- Domestic	3,335	79	2.4
	- Foreign	3,281	151	4.6
Internal funding of trading business	- Foreign	(3,424)	(61)	1.8
Interest-bearing liabilities	- banking business (1)	110,841	1,664	1.5
	- trading business	34,431		
Interest-bearing liabilities		145,272		
Non-interest-bearing liabilities:				
Demand deposits	- Foreign	4,503		
Other liabilities		37,266		
Owners' equity		4,525		
Total liabilities and owners' equity		191,566		
Percentage of liabilities applicable to overseas operations		68.8%		

For notes to this table refer to page 13.

Business review

Analysis of change in net interest income – volume and rate analysis

Volume and rate variances have been calculated based on movements in average balances over the period and changes in interest rates on average interest-earning assets and average interest-bearing liabilities. Changes due to a combination of volume and rate are allocated pro rata to volume and rate movements.

	2013 over 2012				2012 over 2011		
	Increase/(decrease) due to changes in:				Increase/(decrease) due to changes in:		
	Average volume	Average rate	Net change		Average volume	Average rate	Net change
	€m	€m	€m		€m	€m	€m
Interest-earning assets							
Loans and advances to banks							
Domestic	(13)	5	(8)		54	(121)	(67)
Foreign	(85)	(14)	(99)		(90)	31	(59)
Loans and advances to customers							
Domestic	(166)	44	(122)		(57)	18	(39)
Foreign	(485)	81	(404)		(486)	139	(347)
Amounts due from ultimate holding company							
Domestic	44	25	69		101	—	101
Debt securities							
Domestic	(57)	(162)	(219)		(143)	(145)	(288)
Foreign	(105)	28	(77)		(89)	64	(25)
Total interest receivable of the banking business							
Domestic	(192)	(88)	(280)		(45)	(248)	(293)
Foreign	(675)	95	(580)		(665)	234	(431)
	(867)	7	(860)		(710)	(14)	(724)
Interest-bearing liabilities							
Deposits by banks							
Domestic	51	115	166		(46)	203	157
Foreign	82	(24)	58		82	(86)	(4)
Customer accounts: demand deposits							
Domestic	30	30	60		49	108	157
Foreign	43	12	55		82	122	204
Customer accounts: savings deposits							

Foreign	8	(1)	7		(20)	(3)	(23)
Customer accounts: other time deposits							
Domestic	24	4	28		50	(30)	20
Foreign	75	(17)	58		70	(35)	35
Debt securities in issue							
Domestic	96	(37)	59		79	4	83
Foreign	8	1	9		41	(10)	31
Subordinated liabilities							
Domestic	13	16	29		(21)	30	9
Foreign	41	(4)	37		26	(37)	(11)
Internal funding of trading business							
Foreign	(37)	1	(36)		15	(32)	(17)
Total interest payable of the banking business							
Domestic	214	128	342		111	315	426
Foreign	220	(32)	188		296	(81)	215
	434	96	530		407	234	641
Movement in net interest income							
Domestic	22	40	62		66	67	133
Foreign	(455)	63	(392)		(369)	153	(216)
	(433)	103	(330)		(303)	220	(83)

.

RBS Holdings N.V.
16

Business review

Divisional performance

The results of each division are set out below. Business Services directly attributable costs have been allocated to the operating divisions, based on their service usage. Where services span more than one division an appropriate measure is used to allocate the costs on a basis which management considers reasonable. Business Services costs are fully allocated and there are no residual unallocated costs.

	2013	2012	2011
Operating profit/(loss) before tax	€m	€m	€m
Markets	23	(503)	1,342
International Banking	(18)	182	81
Central items	(359)	(535)	(1,270)
Core	(354)	(856)	153
Non-Core	212	(31)	(339)
	(142)	(887)	(186)

Employee numbers at 31 December			
(full time equivalents rounded to the nearest hundred)			
	2013	2012	2011
Markets	700	2,900	6,300
International Banking	1,100	5,500	6,600
Central items	100	300	600
Core	1,900	8,700	13,500
Non-Core	600	2,600	4,200
	2,500	11,300	17,700

Business review

Divisional performance continued			
Markets			
	2013	2012	2011
	€m	€m	€m
Net interest income	35	142	66
Non-interest income	239	70	2,589
Total income	274	212	2,655
Direct expenses			
- staff costs	(26)	(363)	(696)
- other	(133)	(318)	(511)
Indirect expenses	(34)	1	(53)
Total expenses	(193)	(680)	(1,260)
Profit/(loss) before impairment losses	81	(468)	1,395
Impairment losses	(58)	(35)	(53)
Operating profit/(loss) before tax	23	(503)	1,342
	€bn	€bn	€bn
Balance sheet			
Third party assets	15	30	72
Third party liabilities	15	36	77

2013 compared with 2012

Operating profit before tax was €23 million compared with a loss of €503 million in 2012. This improvement of €526 million was mainly due to lower operating expenses.

Total income increased by €62 million to €274 million mainly attributable to an increase in non-interest income.

Net interest income decreased by €107 million to €35 million compared with €142 million in 2012. This reflects the transfer of businesses to RBS plc.

Tax

Non-interest income increased by €169 million to €239 million in 2013 compared with €70 million in 2012, primarily due to lower losses in other operating income. This was offset by lower fee and trading income as a result of the transfer of businesses to RBS plc.

Total expenses decreased by €487 million to €193 million compared with €680 million in 2012. This reflects the continuing transfer of businesses to RBS plc.

Impairment losses increased by €23 million to €58 million compared with €35 million in 2012. The impairments in 2013 and 2012 reflect a small number of single name provisions.

2012 compared with 2011

Operating loss before tax was €503 million compared with a profit of €1,342 million in 2011. This decrease of €1,845 million was mainly due to lower total income partly offset by lower operating expenses.

Total income decreased by €2,443 million to €212 million mainly due to the decrease in non-interest income.

Net interest income increased by €76 million to €142 million compared with €66 million in 2011. This reflects lower funding costs after the transfer of businesses to RBS plc.

Non-interest income decreased by €2,519 million to €70 million in 2012 compared with €2,589 million in 2011, primarily due a €1,602 million decrease in other operating income. This is mainly due to the €1,390 million lower own credit adjustment attributable to the tightening of credit spreads. The remaining decrease in other operating income is largely due to a lower gain on the currency translation reserve release related to the transfer of businesses to RBS plc of €167 million compared with €404 million in 2011. In addition, fee and trading income were €893 million lower as a result of the transfer of businesses to RBS plc.

Total expenses decreased by €580 million to €680 million compared with €1,260 million in 2011. This reflects the continuing transfer of businesses to RBS plc.

Impairment losses decreased by €18 million to €35 million compared with €53 million in 2011. Impairments in both 2012 and 2011 reflect a small number of single name provisions.

RBS Holdings N.V.
18

Business review

.

Divisional performance continued			
International Banking			
	2013	2012	2011
	€m	€m	€m
Net interest income	77	280	490
Non-interest income	87	444	548
Total income	164	724	1,038
Direct expenses			
- staff costs	(44)	(239)	(323)
- other	(47)	(339)	(455)
Indirect expenses	(97)	12	33
Total expenses	(188)	(566)	(745)
(Loss)/profit before impairment losses	(24)	158	293
Impairment recoveries/(losses)	6	24	(212)
Operating (loss)/profit before tax	(18)	182	81
	€bn	€bn	€bn
Balance sheet			
Third party assets	2	4	24
Third party liabilities	2	7	35

2013 compared with 2012

Operating loss before tax was €18 million compared with a profit of €182 million in 2012. This decrease of €200 million was mainly due to lower total income partially offset by lower operating expenses.

Total income decreased by €560 million to €164 million due to decreases in both net interest income and non-interest income.

Net interest income decreased by €203 million to €77 million compared with €280 million in 2012. This reflects further reductions in lending mainly due to the transfer of businesses to RBS plc.

Non-interest income decreased by €357 million to €87 million compared with €444 million in 2012. This is mainly due to the transfer of businesses to RBS plc.

Total expenses decreased by €378 million to €188 million compared with €566 million in 2012 as a result of the transfer of businesses to RBS plc.

Impairment recoveries decreased by €18 million to €6 million compared with €24 million in 2012.

2012 compared with 2011

Operating profit before tax was €182 million compared with €81 million in 2011. This increase of €101 million was mainly due to lower operating expense and higher impairment recoveries partly offset by lower total income.

Total income decreased by €314 million to €724 million due to decreases in both net interest income and non-interest income.

Net interest income decreased by €210 million to €280 million compared with €490 million in 2011. This reflects further reductions in lending mainly due to the transfer of businesses to RBS plc.

Non-interest income decreased by €104 million to €444 million compared with €548 million in 2011. This is mainly due to the transfer of businesses to RBS plc.

Total expenses decreased by €179 million to €566 million compared with €745 million in 2011 as a result of the transfer of businesses to RBS plc.

Impairments improved by €236 million to a recovery of €24 million compared with a loss of €212 million in 2011. The impairments in 2011 were largely driven by a single name provision.

19

Business review

Divisional performance continued			
Central items			
	2013	2012	2011
	€m	€m	€m
Net interest income	(12)	(34)	(110)
Non-interest income	(233)	(396)	407
Total income	(245)	(430)	297
Direct expenses			
- staff costs	(74)	(62)	(69)
- other	(145)	(17)	(49)
Indirect expenses	151	(3)	14
Total expenses	(68)	(82)	(104)
(Loss)/profit before impairment losses	(313)	(512)	193
Impairment losses	(46)	(23)	(1,463)
Operating loss before tax	(359)	(535)	(1,270)
	€bn	€bn	€bn
Balance sheet			
Third party assets	16	29	39
Third party liabilities	14	20	25

2013 compared with 2012

Operating loss before tax was €359 million compared with a loss of €535 million in 2012. The reduced loss is largely due to lower total income losses.

Total income losses improved by €185 million to a loss of €245 million, mainly reflecting lower non-interest income losses.

Net interest income improved by €22 million to a loss of €12 million. This mainly reflects the lower funding costs as a result of third party funding being replaced by funding from RBS plc as part of the transfer of businesses to RBS plc.

Non-interest income losses decreased by €163 million to a loss of €233 million compared with a loss of €396 million in 2012. This is mainly due to lower own credit adjustment attributable to the tightening of credit spreads.

Total expenses decreased by €14 million to €68 million compared with €82 million in 2012.

Impairment losses increased by €23 million to €46 million compared with €23 million in 2012.

2012 compared with 2011

Operating loss before tax was €535 million compared with a loss of €1,270 million in 2011. The reduced loss is largely due to lower impairment losses partly offset by lower total income.

Total income decreased by €727 million to a loss of €430 million, mainly reflecting lower non-interest income.

Net interest income increased by €76 million to a loss of €34 million. This mainly reflects the lower funding costs as a result of third party funding being replaced by funding from RBS plc as part of the transfer of businesses to RBS plc.

Non-interest income decreased by €803 million to a loss of €396 million compared with a gain of €407 million in 2011 primarily due to the decrease in other operating income. This is mainly due to the €765 million lower own credit adjustment attributable to the tightening of credit spreads.

Total expenses decreased by €22 million to €82 million compared with €104 million in 2011 due to a litigation recovery.

Impairment losses decreased by €1,440 million to €23 million compared with €1,463 million in 2011. This decrease mainly relates to Greek sovereign available-for-sale bonds impairment and related interest rate hedge adjustments, which decreased by €1,428 million, from €1,463 million in 2011 to €35 million in 2012.

RBS Holdings N.V.
20

Business review

Divisional performance continued			
Non-Core			
	2013	2012	2011
	€m	€m	€m
Net interest income	138	217	242
Non-interest income	106	(15)	(226)
Total income	244	202	16
Direct expenses			
- staff costs	(31)	(77)	(122)
- other	(38)	(115)	(197)
Indirect expenses	(19)	(10)	1
Total expenses	(88)	(202)	(318)
Profit/(loss) before impairment losses	156	—	(302)
Impairment losses	56	(31)	(37)
Operating profit/(loss) before tax	212	(31)	(339)
	€bn	€bn	€bn
Balance sheet			
Third party assets	7	8	12
Third party liabilities	6	5	7

2013 compared with 2012

Operating profit before tax was €212 million compared with a loss of €31 million in 2012, largely due to higher total income, lower expenses and impairment recoveries.

Total income increased by €42 million to €244 million compared €202 million in 2012 mainly due to higher non-interest income.

Net interest income decreased by €79 million to €138 million compared with €217 million in 2012 following continuing Non-Core disposals.

Non-interest income increased by €121 million to €106 million compared with a loss of €15 million in 2012.

Total expenses decreased by €114 million to €88 million compared with €202 million in 2012, reflecting continuing disposals.

Impairment recoveries were €56 million compared with losses of €31 million in 2012.

2012 compared with 2011

Operating loss before tax was €31 million compared with a loss of €339 million in 2011, largely due to higher total income and lower expenses.

Total income increased by €186 million to €202 million mainly due to a lower loss in non-interest income.

Net interest income decreased by €25 million to €217 million compared with €242 million in 201,1 following continuing disposals.

Non-interest income improved by €211 million to a loss of €15 million compared with a loss of €226 million in 2011. The increase is mainly due to lower losses on sale and revaluation of assets compared with 2011.

Total expenses decreased by €116 million to €202 million compared with €318 million in 2011. The decrease reflects continuing disposals.

Impairment losses decreased by €6 million to €31 million compared with €37 million in 2011.

Business review

Consolidated balance sheet at 31 December 2013			
	2013	2012	2011
	€m	€m	€m
Assets			
Cash and balances at central banks	3,193	2,294	12,609
Net loans and advances to banks	5,642	12,138	16,817
Reverse repurchase agreements and stock borrowing	53	68	9,100
Loans and advances to banks	5,695	12,206	25,917
Net loans and advances to customers	3,782	6,375	29,295
Reverse repurchase agreements and stock borrowing	2	5	283
Loans and advances to customers	3,784	6,380	29,578
Amounts due from ultimate holding company	2,820	2,949	1,136
Debt securities	15,288	22,655	39,645
Equity shares	295	1,127	3,093
Settlement balances	10	31	2,608
Derivatives	4,782	7,555	19,138
Deferred tax	40	420	444
Prepayments, accrued income and other assets	1,853	1,533	5,913
Assets of disposal groups	2,048	13,804	6,695
Total assets	39,808	70,954	146,776
Liabilities			
Bank deposits	7,233	21,841	29,988
Repurchase agreements and stock lending	11,710	12,624	16,532
Deposits by banks	18,943	34,465	46,520
Customers deposits	4,118	2,620	38,842
Repurchase agreements and stock lending	33	18	759
Customer accounts	4,151	2,638	39,601
Debt securities in issue	1,319	2,602	17,714
Settlement balances and short positions	105	107	3,409
Derivatives	5,862	9,644	19,868
Accruals, deferred income and other liabilities	1,065	1,782	3,895
Deferred tax	63	40	201
Subordinated liabilities	4,951	6,851	6,859
Liabilities of disposal groups	407	11,026	5,293
Total liabilities	36,866	69,155	143,360

Non-controlling interests	—	—	21
Controlling interests	2,942	1,799	3,395
Total equity	2,942	1,799	3,416
Total liabilities and equity	39,808	70,954	146,776

Commentary on consolidated balance sheet

2013 compared with 2012

Total assets were €39.8 billion at 31 December 2013, a decrease of €31.2 billion, or 44%, when compared with €71.0 billion at 31 December 2012.

Cash and balances at central banks increased by €0.9 billion or 39% to €3.2 billion at 31 December 2013.

Loans and advances to banks decreased by €6.5 billion, or 53%, to €5.7 billion at 31 December 2013 principally due the transfer of businesses to RBS plc during the year.

Loans and advances to customers declined €2.6 billion, or 41%, to €3.8 billion. This reflected the transfer of businesses to RBS plc during the year, in particular within International Banking division.

Debt securities decreased by €7.4 billion to €15.3 billion, reflecting bond maturities, the transfer of businesses to RBS plc and the sale of part of the liquidity portfolio.

Equity shares decreased by €0.8 billion to €0.3 billion. This reflected the transfer of businesses to RBS plc.

Derivative assets decreased by €2.8 billion, or 37%, to €4.8 billion, and Derivative liabilities decreased by €3.8 billion, or 39%, to €5.9 billion, this was largely attributable to the transfer of businesses to RBS plc.

The decrease in assets and liabilities of disposal groups is due to the completion of transfers to RBS plc in 2013. These businesses were held for disposal as at 31 December 2012.

Deposits by banks decreased by €15.5 billion, 45%, to €18.9 billion, with lower repurchase agreements and stock lending (repos), down €0.9 billion, 7%, to €11.7 billion. This reduction is mainly due to the transfer of businesses to RBS plc during the year. In addition the decrease is due to planned reductions in funding from RBS plc.

Customer accounts were up €1.5 billion, 57%, to €4.1 billion.

Debt securities in issue declined €1.3 billion, 49%, to €1.3 billion largely decreases in notes and commercial paper reflecting reduced positions in Markets and Group Treasury.

Owners equity increased by €1.1 billion, 64%, to €2.9 billion, largely due to favourable mark-to-market movements on available-for-sale debt securities, offset by the attributable loss in the year.

Business review

2012 compared with 2011

Total assets were €71.0 billion at 31 December 2012, a decrease of €75.8 billion, or 52%, compared with €146.8 billion at 31 December 2011.

Cash and balances at central banks decreased by €10.3 billion or 82% to €2.3 billion due to reduced liquidity requirements following the transfer of businesses to RBS plc during the year, in particular the Dutch Scheme. In addition the decrease is due to the 2013 Transfers being classified as assets of disposal groups (€3.5 billion).

Loans and advances to banks decreased by €13.7 billion, or 53%, to €12.2 billion principally due the transfer of businesses to RBS plc during the year, in particular the Dutch Scheme. In addition the decrease is due to the 2013 Transfers being classified as assets of disposal groups (€1.2 billion) and a decline in bank placings.

Loans and advances to customers declined €23.2 billion, or 78%, to €6.4 billion. This reflected the transfer of businesses to RBS plc during the year, in particular the International Banking businesses included within the Dutch Scheme. In addition the decrease is due to the 2013 Transfers being classified as assets of disposal groups (€2.3 billion).

Debt securities decreased by €17.0 billion to €22.7 billion, reflecting a reduction in holdings of eurozone government and financial institution bonds (€9.8 billion), the transfer of businesses to RBS plc as part of the Dutch Scheme and the 2013 Transfers being classified as assets of disposal groups (€2.7 billion).

Equity shares decreased by €2.0 billion to €1.1 billion. This reflected the transfer of businesses to RBS plc as part of the Dutch Scheme.

Derivative assets decreased by €11.6 billion, or 61%, to €7.6 billion, and Derivative liabilities decreased by €10.2 billion, or 52%, to €9.6 billion this was largely attributable to the transfer of businesses to RBS plc as part of the Dutch Scheme.

The increase in assets and liabilities of disposal groups is due to the inclusion of the 2013 Transfers. These businesses are part of the Transfers for 2013 that meet the IFRS 5 definition of being held for disposal as at 31 December 2012.

Deposits by banks decreased by €12.1 billion, or 26%, to €34.5 billion, with lower repurchase agreements and stock lending (repos), down €3.9 billion, 24%, to €12.6 billion. This reduction is mainly due to the transfer of businesses to RBS plc during the year, in particular the Dutch Scheme. In addition the decrease is due to the downsizing of the fiduciary business in Markets and planned reductions in funding from RBS plc. This was partially offset by an increase in funding provided by the European Central Bank’s Long Term Refinancing Operation (LTRO).

Customer accounts were down €37.0 billion, or 93%, to €2.6 billion, mainly due to the transfer of businesses to RBS plc during the year, in particular the Dutch Scheme.

Debt securities in issue declined €15.1 billion, or 85%, to €2.6 billion, largely as a result of the transfer of businesses to RBS plc during the year, in particular the Dutch Scheme and a decrease in notes and commercial paper outstanding reflecting positions maturing in Markets and Group Treasury.

Owners equity decreased by €1.6 billion, or 47%, to €1.8 billion, largely driven by the Dutch Scheme.

Risk and balance sheet management

***Business review** Risk and balance sheet management*

Introduction

Risk and balance sheet management are conducted on an overall basis within RBS Group. Therefore the discussion on risk and balance sheet management on pages 25 to 77 refers principally to policies and procedures in RBS Group that also apply to RBSH Group.

Risk governance*

Governance structure

Risk and balance sheet management strategies are owned and set by the Managing Board of RBSH Group and are implemented by the executive management. A number of committees and executives support the execution of the business plan and strategy. Two of these committees are dedicated to RBSH Group and report to the RBSH Group Managing Board. These are depicted and described in the structure chart and table below. Matters not specifically delegated are reserved for the Managing Board.

There are also risk functions and committees that cover RBS Group and (parts of) RBSH Group reflecting the integrated manner in which the business is managed within RBS Group. Service level agreements are in place between RBSH Group and RBS Group to accommodate this integrated risk management oversight, including escalation procedures to the RBSH Group Managing Board as appropriate.

The management of risk in RBS Group is carried out through two independent risk management functions - RBS Risk Management and Group Conduct and Regulatory Affairs - which manage risk through independent oversight and challenge of the customer-facing businesses and support functions. The functions provide an overarching risk control framework.

A number of key committees specifically consider risk across RBS Group including RBSH Group.

RBS Group Board - Sets and owns RBS Group's risk appetite, which is cascaded across its divisions, functions and material legal entities. It also sets RBS Group's strategic direction and carries out regular assessments to ensure that strategic plans are consistent with risk appetite.

RBS Board Risk Committee - Provides oversight and advice on current and potential risk exposures, risk strategy and tolerance. The Committee also promotes a risk awareness culture within RBS Group.

RBS Group Executive Committee - Operates under delegated authority from Group Board and considers emerging issues material to both the Group's strategy and risk exposures. The Group Executive Committee also oversees control frameworks.

RBS Executive Risk Forum - Provides executive input to the Group Board and the Group Executive Committee on risk management issues such as risk appetite, risk policies and risk management strategies.

It has full authority to act on all material and/or enterprise-wide risk and control matters across the Group and implements Group Board and Group Executive Committee risk management decisions.

Risk management

The RBS Group Chief Risk Officer leads the RBS Risk Management function through the strategic setting and execution of its responsibilities reports to the RBS Group Chief Executive and the RBS Group Board Risk Committee. The Group Chief Risk Officer also has a right of access to the RBSG Chairman.

RBS Risk Management is designed to align as closely as possible with the customer-facing businesses and support functions while maintaining an appropriate level of independence, which underpins RBS Group's approach to risk management and is reinforced through RBS Group by appropriate reporting lines from divisions to RBS Risk Management and from RBS Risk Management to senior executives, boards and committees.

In RBS Risk Management, the following RBS Group functional heads report directly to the RBS Group Chief Risk Officer and are responsible for firm-wide risk appetite and standards under their respective disciplines:

- RBS Group Head of Operational Risk;
- RBS Group Chief Credit Officer;
- Head of Enterprise Risk Management;
- Head of Global Country Risk; and
- Chief Operating Officer, RBS Risk Management;

The RBSH Group Chief Risk Officer also has a reporting line into the RBS Group Chief Risk Officer.

Risk management within RBSH Group focuses on all material risks including credit, market, operational, regulatory and country risk and business activities. Liquidity risk and the day-to-day management of liquidity and funding of the book are the responsibility of RBSH Group Treasury (refer to page 38).

For a summary of the main risk types faced by RBSH Group and how it manages each of them, refer to pages 30 to 32.

unaudited

RBS Holdings N.V.
26

The following table shows details of the key Boards and Committees and their responsibilities.

Board/Committee	**Responsibilities**
Supervisory Board Membership Consists of five members. Three are executives of RBS Group.	The Supervisory Board is responsible for supervising RBSH Group's management and RBSH Group's general affairs and the business connected with it and for advising the Managing Board.