

THE UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

HAROLD H. POWELL TRUST U/A DATED
DECEMBER 21, 1988, And On Behalf Of All
Others Similarly Situated,

Plaintiff,

vs.

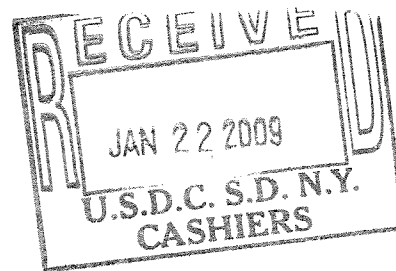
ROYAL BANK OF SCOTLAND GROUP PLC,
THOMAS FULTON WILSON McKILLOP,
FREDERICK ANDERSON GOODWIN,
GORDON FRANCIS PELL, GUY R.
WHITTAKER, COLIN BUCHAN, JAMES M.
CURRIE, LAWRENCE KINGSBAKER FISH,
WILLIAM M. FREIDRICH, ARCHIBALD
SINCLAIR HUNTER, CHARLES JOHN
KOCH, JANIS C. KONG, JOSEPH PATRICK
MACHALE, STEVE ROBSON, ROBERT
AVISSON SCOTT, PETER D. SUTHERLAND,
MERRILL LYNCH, PIERCE, FENNER &
SMITH INCORPORATED, GREENWICH
CAPITAL MARKETS, INC., MORGAN
STANLEY & CO. INCORPORATED, UBS
SECURITIES LLC, WACHOVIA CAPITAL
MARKETS, LLC, BANC OF AMERICA
SECURITIES LLC, and RBC DAIN
RAUSCHER INC.,

Defendants.

Civil Action:

CLASS ACTION COMPLAINT

JURY TRIAL DEMANDED



Plaintiff, individually and on behalf of all other persons similarly situated (the "Class"), by Plaintiff's undersigned attorneys, makes the following allegations on information and belief based upon the investigation of counsel, except as to the allegations pertaining specifically to Plaintiff and Plaintiff's counsel, which are based on personal knowledge. The investigation conducted by Plaintiff's counsel included, *inter alia*, a review and analysis of: (i) publicly-available news articles and reports; (ii) public filings including, but not limited to, the Royal Bank of Scotland Group plc's ("RBS" or the "Company") Securities and Exchange Commission

(“SEC”) filings and prospectuses; (iii) securities analysts’ reports and advisories about the Company; and (iv) press releases issued by Defendants. Plaintiff believes that substantial evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

NATURE OF ACTION

1. This is a securities class action filed on behalf of purchasers of RBS Preferred Series “T” stock, CUSIP # 780097713 and identified by “Yahoo Finance” as “RBS-PT”, by “Google Finance” as “RBS-T”, and by “Bloomberg” as “RBS T”, (“Preferred T”) from the date of the Company’s public offering on September 20, 2007, (the “Offering”), and all purchasers traceable thereto (the “Class Period”). These claims are brought against certain officers and directors of RBS and the lead underwriters of the Offering, (collectively, “Defendants”) for violations of the federal securities laws in connection with the Offering.

2. This action arises under Sections 11 and 15 of the Securities Act of 1933 (the “Securities Act”), 15 U.S.C. §§ 77k, 77l and 77o, which imposes liability on a company’s directors and officers, among others, for failure to draft a registration statement, filed by RBS with the SEC on form F-3 on April 8, 2005, (the “Registration Statement”) and prospectus filed by RBS with the SEC on or about September 18, 2007, (the “Prospectus”) that fully and accurately informs investors of all material facts and industry trends affecting the issuer company. The issuer itself is held strictly liable for any material misrepresentations or omissions found in its Prospectus. Additionally, every person in a position of control over the issuer is held liable.

3. This Complaint asserts that the Company’s Prospectus contained both material misstatements and omissions, which Plaintiff and the Class relied upon to their detriment. The representations made in the Company’s Prospectus were materially false and misleading because

at the time of the Offering, RBS was suffering from several adverse factors that were not revealed, and adequately addressed in the document. These factors include, but are not limited to, (i) the failure to disclose the Company's extensive investments in asset backed securities, including collateralized debt obligations (CDOs), and its exposure to the subprime mortgage market; (ii) the failure to disclose all of the risks associated with the purchase of ABN AMRO's assets; (iii) the insufficient capital levels; (iv) the failure to adequately write-down bad assets; and (v) the failure to prevent and remedy such improper and harmful actions that resulted in the need for the British government to bail-out the Company. .

4. The Defendants could have – and should have – discovered the material misstatements and omissions in the Company's Prospectus prior to its filing with the SEC, and its distribution to the investing public. Defendant, instead, failed to do so as a result of a negligent and grossly inadequate due diligence investigation.

5. The Company's problems began in 2000 when it began to increase its portfolio of CDOs. CDOs are investment vehicles that are created by buying various kinds of debt, pooling them together and using them to back the issuance of new bonds. The majority of the Company's CDOs were based on mortgage backed securities. Once the housing bubble burst, the Company was forced to face the long term consequences of its short term focus. As a result, the Company was forced to write-down billions of dollars of mortgage-related assets and has been forced to raise billions of dollars in order to remain liquid.

6. Additionally, in 2007 the Company along with a consortium of two other banks fought a long and hard battle to purchase the assets of embattled bank ABN AMRO. As a result of that ill advised purchased, RBS acquired various impaired assets that ultimately led it to take significant write-downs and left it in a very precarious capital raising situation.

7. The combined actions of engaging in the unsustainable business practice of expanding its CDO portfolio and the purchase of bad assets from ABN AMRO, which further exposed it to the sub-prime mortgage crises, pushed RBS to the brink of bankruptcy and forced the British Government to step in and bail the Company out.

8. None of these things were revealed in they Company's Prospectus.

9. Plaintiff and the Class have suffered serious financial damage as a result of Defendants' material misstatements and omissions in the Company's Prospectus, and bring this action to recover damages incurred thereby as well as the costs and expenses of this litigation and any further relief as may be just and proper.

JURISDICTION AND VENUE

10. The claims asserted herein arise under and pursuant to Sections 11 and 15 of the Securities Act, 15 U.S.C. §§ 77k, 77l and 77o.

11. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. § 1331 and Section 22(a) of the Securities Act, 15 U.S.C. § 77v(a).

12. Venue is proper in this Judicial District pursuant to Section 22(a) of the Securities Act, 15 U.S.C. § 77v(a), and 28 U.S.C. § 1391(b), because many of the alleged acts, transactions, and conduct constituting violations of law, including the issuance and dissemination of materially false and misleading information to the investing public, occurred, at least in part, in this District. Additionally, Defendants reside, maintain their headquarters or conduct substantial business in this District.

13. In connection with the acts, conduct, and other wrongs alleged in this Complaint, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including but not limited to, the United States mails, interstate telephone communications and the facilities of the national securities exchange.

PARTIES

14. Plaintiff Harold H. Powell Trust U/A dated December 21, 1988, purchased shares of RBS Preferred T stock issued pursuant to the Offering, as shown on the attached Certification, and was damaged thereby.

The Company Defendant

15. RBS is a foreign corporation with its principal executive offices located in Edinburgh, United Kingdom. RBS is a holding company that provides a wide range of banking, insurance and finance-related activities. The Company's subsidiaries include the Royal Bank of Scotland, a clearing bank that operates over 900 branches internationally, the National Westminster Bank, Ulster Bank, Citizens Bank, and Direct Line Insurance.

16. RBS is a sophisticated financial institution that regularly issues American Depository Receipts (ADRs) that trade in the New York Stock Exchange. RBS Preferred T stock is just one of the many securities that RBS sold in the United States in accordance with a Registration Statement the Company filed with the Securities and Exchange Commission (SEC) on Form F-3 on April 8, 2005.

Director Defendants

17. Defendant Thomas Fulton Wilson McKillop ("McKillop") has served as a director of the Company since September 2005. Mr. McKillop is a director responsible for issuing the Company's annual report, filed on Form 20-F with the SEC, for the year ending December 31, 2006, which was incorporated by reference into the Prospectus.

18. Defendant Frederick Anderson Goodwin ("Goodwin") served as Chief Executive Officer and Director of the Company from March 2000 through October 13, 2008. Mr. Goodwin supervised and signed the Company's public financial statements during this period. Mr. Goodwin was a director responsible for issuing the Company's annual report, filed on Form 20-F

with the SEC, for the year ending December 31, 2006, which was incorporated by reference into the Prospectus.

19. Defendant Gordon Francis Pell (“Pell”) has served as a director of the Company since March 2000. Mr. Pell is a director responsible for issuing the Company’s annual report, filed on Form 20-F with the SEC, for the year ending December 31, 2006, which was incorporated by reference into the Prospectus.

20. Defendant Guy R. Whittaker (“Whittaker”) has served as a director of the Company since February 2006. Mr. Whittaker is a director responsible for issuing the Company’s annual report, filed on Form 20-F with the SEC, for the year ending December 31, 2006, which was incorporated by reference into the Prospectus.

21. Defendant Colin Buchan (“Buchan”) has served as a director of the Company since June 2002. Mr. Buchan is a director responsible for issuing the Company’s annual report, filed on Form 20-F with the SEC, for the year ending December 31, 2006, which was incorporated by reference into the Prospectus.

22. Defendant James M. Currie (“Currie”) has served as a director of the Company since November 2001. Mr. Currie is a director responsible for issuing the Company’s annual report, filed on Form 20-F with the SEC, for the year ending December 31, 2006, which was incorporated by reference into the Prospectus.

23. Defendant Lawrence Kingsbaker Fish (“Fish”) has served as a director of the Company since January 1993. Mr. Fish is an American national. Mr. Fish is a director responsible for issuing the Company’s annual report, filed on Form 20-F with the SEC, for the year ending December 31, 2006, which was incorporated by reference into the Prospectus.

24. Defendant William M. Freidrich (“Freidrich”) has served as a director of the Company since in March 2006. Mr. Freidrich is a director responsible for issuing the Company’s annual report, filed on Form 20-F with the SEC, for the year ending December 31, 2006, which was incorporated by reference into the Prospectus.

25. Defendant Archibald Sinclair Hunter (“Hunter”) has served as a director of the Company since September 2004. Mr. Hunter is a director responsible for issuing the Company’s annual report, filed on Form 20-F with the SEC, for the year ending December 31, 2006, which was incorporated by reference into the Prospectus.

26. Defendant Charles John Koch (“Koch”) has served as a director of the Company since September 2004. Mr. Koch is an American national. Mr. Koch is a director responsible for issuing the Company’s annual report, filed on Form 20-F with the SEC, for the year ending December 31, 2006, which was incorporated by reference into the Prospectus.

27. Defendant Janis C. Kong (“Kong”) has served as a director of the Company since January 2006. Ms. Kong is a director responsible for issuing the Company’s annual report, filed on Form 20-F with the SEC, for the year ending December 31, 2006, which was incorporated by reference into the Prospectus.

28. Defendant Joseph Patrick MacHale (“MacHale”) has served as a director of the Company since September 2004. Mr. MacHale is a director responsible for issuing the Company’s annual report, filed on Form 20-F with the SEC, for the year ending December 31, 2006, which was incorporated by reference into the Prospectus.

29. Defendant Steve Robson (“Robson”) has served as a director of the Company since July 2001. Mr. Robson is a director responsible for issuing the Company’s annual report,

filed on Form 20-F with the SEC, for the year ending December 31, 2006, which was incorporated by reference into the Prospectus.

30. Defendant Robert Avisson Scott (“Scott”) has served as a director of the Company since January 2001. Mr. Scott is a director responsible for issuing the Company’s annual report, filed on Form 20-F with the SEC, for the year ending December 31, 2006, which was incorporated by reference into the Prospectus.

31. Defendant Peter D. Sutherland (“Sutherland”) has served as a director of the Company since January 2001. Mr. Sutherland is a director responsible for issuing the Company’s annual report, filed on Form 20-F with the SEC, for the year ending December 31, 2006, which was incorporated by reference into the Prospectus.

32. Defendants McKillop, Goodwin, Pell, Whittaker, Buchan, Currie, Fish, Freidrich, Hunter, Koch, Kong, MacHale, Robson, Scott, and Sutherland are collectively referred to hereinafter as the “Director Defendants.”

The Underwriters

33. Defendant Merrill Lynch, Pierce, Fenner & Smith Incorporated (“Merrill Lynch”) is a subsidiary of Merrill Lynch & Co., a Delaware corporation that is headquartered at 4 World Financial Center, New York, New York 10080. Merrill Lynch was an underwriter of the Offering.

34. Defendant Greenwich Capital Markets, Inc. (“Greenwich”) is a wholly owned subsidiary of Greenwich Capital Holdings, Inc. The Royal Bank of Scotland Group plc is the ultimate parent company of Greenwich Capital Holdings, Inc. Greenwich is a US company and has its principal place of business at 600 Steamboat Road, Greenwich, CT 06830. Greenwich was an underwriter of the Offering.

35. Defendant Morgan Stanley & Co. Incorporated (“Morgan Stanley”) is a subsidiary of Morgan Stanley, a Delaware corporation that is headquartered at 1585 Broadway, New York, New York 10036. Morgan Stanley was an underwriter of the Offering.

36. Defendant UBS Securities LLC. (“UBS”) is a subsidiary of UBS AG, a Swiss corporation headquartered at Bahnhofstrasse 45, Zurich, Switzerland, and Aeschenvorstadt 1, Basel, Switzerland. UBS was an underwriter of the Offering.

37. Defendant Wachovia Capital Markets, LLC. (“Wachovia”) is a subsidiary of Wachovia Corporation, a North Carolina corporation that is headquartered at One Wachovia Center, Charlotte, North Carolina 28288. Wachovia was an underwriter of the Offering.

38. Defendant Banc of America Securities LLC (“BofA”) is a subsidiary of Bank of America Corporation, a Delaware corporation that is headquartered at 100 North Tryon Street, Charlotte, North Carolina 28255. BofA was an underwriter of the Offering.

39. Defendant RBC Dain Rauscher Inc. (“RBC”) is a Minnesota corporation that is headquartered at 60 S Sixth St., Minneapolis, MN 55402. RBC was an underwriter of the Offering.

40. Defendants Merrill Lynch, Greenwich, Morgan Stanley, UBS, Wachovia, BofA and RBC are collectively referred to hereinafter as the “Underwriter Defendants.”

41. Each of the individuals named in paragraphs 15-32 and each of the defendants named in paragraphs 33-40 (the Underwriter Defendants) participated in the drafting, preparation, or approval of various false and misleading statements contained in the Registration Statement/Prospectus in connection with the Offering, as complained of herein. Each of the Defendants was responsible for ensuring the truth and accuracy of the statements contained in the Registration Statement/Prospectus in connection with the Offering.

42. Each of the Defendants, owed to the purchasers, including Plaintiff and the class (defined below), the duty to make a reasonable and diligent investigation of the statements contained in the Registration Statement/Prospectus at the time it became effective. This duty included performing an appropriate investigation to ensure that the statements contained therein were true, and that there were no omissions of material fact required to be stated in order to make the statements contained in the Registration Statement/Prospectus not misleading. As herein alleged, each of the Defendants violated these specific duties and obligations. As a result of these violations, the market price of RBS Preferred T shares was artificially inflated, causing injury to Plaintiff and the class.

FACTUAL ALLEGATIONS

43. On April 8, 2005, the Company filed the Registration Statement on form F-3 with the SEC, indicating its intent to offer to the public the Company's preferred securities.

44. On or about September 18, 2007, in accordance with the terms of the Registration Statement, the Company filed the Prospectus announcing the terms of the Preferred T stock to be issued. The Prospectus stated RBS intended to sell 58 million shares of Preferred T Securities at \$25 per share, for a total value of \$1.45 billion. Due to the underwriting discount granted to the Underwriter Defendants of \$ 0.7875 per share, which amounts to a total discount of \$45,191,856, the total value of the Offering was \$ 1,404,808,144 billion. These securities trade on the New York Stock Exchange and are identified by Yahoo Finance as "RBS-PT", by Google Finance as "RBS-T", and by Bloomberg as "RBS T".

45. The Prospectus directs investors to the Company's previously issued statements as an indication of the Company's health; moreover, it sets forth the risk factors associated with investing in the new security. Neither the past financial statements nor the Company's risk factors detail to the full extent the Company's exposure to the sub-prime mortgage market. As a

result, when the truth about the Company was revealed, the Company's Preferred T share price plummeted as of January 20, 2009, trades at \$6.20 per share. That price is approximately 25% of the original offering price of \$25 per share.

The Company's Exposure to the Subprime Mortgage Arena

46. The Prospectus omits discussion concerning the Company's extensive CDO portfolio even though the Company, through its RBS Greenwich Capital unit, had been steadily increasing its asset backed CDO portfolio since 2000, when it acquired U.K. banker Natwest. Indeed, according to the *Financial Times* RBS Greenwich's CDO volumes jumped 134% in 2006, placing the Company in the top three underwriters of CDO asset backed securities.

47. The Company's prior SEC filings failed to reveal the significant increase to the Company's CDO portfolio. Specifically, the Company's annual reports filed on Form 20-F on April 24, 2007 with the SEC failed to mention the CDOs. The information was similarly omitted from the Prospectus.

48. On December 6, 2007, the first signs of the Company's problems in this area began to reveal themselves when the Company issued its December 2007 results on Form 6-K filed with the SEC. The report listed the following monthly highlights:

- RBS (excluding ABN AMRO) operating profit and earnings per share in 2007 expected to be well ahead of market consensus
- **Group capital ratios at end 2007 expected to be comfortably within our target ranges of 7% to 8% for Tier 1 capital and 11% to 12% for total capital**
- **Credit market deterioration in the second half is expected to result in write-downs of £950 million**
- Gains on planned operating disposals have benefited from strong investor demand
- Excluding the net positive impact of these write-downs and gains, results are still expected to be comfortably ahead of consensus

- ABN AMRO Group adjusted earnings consistent with previous guidance
 - Integration of ABN AMRO progressing well. Transaction benefits, return on investment and earnings accretion slightly higher than forecast
49. Fred Goodwin, the Company's CEO, downplayed the negative results and made

the following comment:

Rarely have the diversity and quality of the Group's business platform been more important in enabling us to deliver consistently strong performance. **Although some of our businesses have been affected by the challenging market conditions, the Group's underlying earnings trajectory has remained comparatively unaffected.** (Emphasis Added)

50. In addition to revealing for the first time that the Company would be required to take a write down of £975 million, the monthly report commented on the Company's subprime exposure as follows:

The Royal Bank of Scotland Group's Global Banking & Markets business (GBM) **has a leading position in structuring, distributing and trading asset-backed securities (ABS). These activities include buying mortgage-backed securities, including securities backed by US sub-prime mortgages, and repackaging them into collateralized debt obligations (CDOs) for subsequent sale to investors. It retains exposure to some of the super senior tranches of these CDOs. There is no exposure to these instruments in the banking book.**

At 30 November, GBM's exposure to these super senior tranches, net of hedges and write-downs, totalled £1.1 billion to high grade CDOs which include commercial loan collateral as well as prime and sub-prime mortgage collateral, and £1.3 billion to mezzanine CDOs based predominantly on residential mortgage collateral. The CDOs are largely based on ABS issued between 2004 and the first half of 2006. GBM also had under £1 billion of exposure to sub-prime mortgages through a trading inventory of mortgage-backed securities and CDOs, and £0.1 billion through securitisation residuals. GBM has no exposure to Structured Investment Vehicles (SIVs) or to SIV-Lites.

In the second half of 2007, rising mortgage delinquencies and expectations of declining house prices in the US have led to a deterioration of the estimated fair value of these exposures. Our

valuations of the ABS CDO super senior exposures take into consideration outputs from our proprietary model, market data and prudent valuation adjustments. Our trading book exposures and residuals are marked to market on the basis of direct prices, where available, or observable market benchmarks, as detailed in the table below. (Emphasis added)

51. Despite the deteriorating market conditions and the Company's exposure to the subprime mortgage market, the Company continued to assure investors that its capital position remained strong.

52. In April 2008, however, the truth about the Company's deteriorating assets was further revealed. On April 22, 2008, the Company filed a Form 6-K with the SEC announcing that that it was forced to launch a record £12 billion rights offering in order to rebuild the Company's deteriorating balance sheet, and also revealing that it would be forced to take write downs of approximately £5.9 billion due to its extensive exposure to CDOs and other asset backed securities.

53. In an April 22, 2008, *Herald Tribune* article entitled "Royal Bank of Scotland seeks \$24 billion from Investors" investors were informed that among the write-downs were £1.9 billion on CDOs, £1.75 billion on exposure to monoline bond insurers, and GBP 1.3 billion on leveraged loans. All related of these securities were exposed to subprime mortgages.

54. As detailed above, a significant percentage of the Company's investment in CDOs were based on sub-prime mortgaged backed securities. Once the housing bubble burst, the Company was forced to write down the value of these assets.

55. Given the widespread discussion with respect to the housing bubble, it is clear that the Individual Defendants recklessly invested in mortgage backed CDOs, ultimately necessitating enormous write-downs of its these securities.

56. Instead of controlling and monitoring the Company's mounting risk associated with its dangerous exposure to the housing bubble, the Individual Defendants utterly failed to monitor its operations. Instead, they remained supine and took no substantive action to address any one of the areas of malfeasance. Consequently, they repeatedly assured investors that the Company's operations were safe.

57. The Company's Prospectus was materially false and misleading because it failed to reveal the Company's significant exposure to asset backed CDOs which unduly exposed the Company to the mortgage crisis. The Prospectus also materially misrepresented the risks associated the purchase of assets from embattled bank ABN AMRO.

The Company purchased bad ABN AMRO assets

58. During the spring and summer of 2007, RBS, along with Fortis and Banco Santander, participated in a protracted bidding war to purchase the assets of ABN AMRO.

59. RBS issued the Prospectus while it was in pursuit of ABN AMRO. The Prospectus put forth following rationale for purchasing ABN AMRO's assets:

We believe that there is a strong strategic fit between our Global Banking & Markets business ("GBM") and ABN AMRO's Global Wholesale Businesses. GBM has considerable strength across a broad range of financing and risk management products and in 2006 had what we believe to be an industry leading cost to income ratio of 40%, reflecting deep client relationships and strong income per customer metrics. However, while GBM has been expanding its international reach in recent years, it still has limited presence outside major financial centers. The acquisition of ABN AMRO's global branch network should enable GBM to accelerate this expansion relative to its current strategy, under which the establishment of a global branch network and customer base would take a significant period and would require significant investment.

ABN AMRO's considerable reach, through its global branch network, supports its strength in transactional products such as international cash management and trade finance. ABN AMRO is also strong in faster growth, but more specialized, areas including equity derivatives and emerging markets. However, we believe that

ABN AMRO's lack of depth and scale in some important products has led to relatively weak income per customer and per employee, resulting in a high estimated cost to income ratio for its Global Wholesale Businesses of 89% in 2006.

Our relationship-driven model and focus on deepening customer relationships enable us to generate high levels of income from our customers. GBM believes that this revenue generation is significantly above the level achieved by ABN AMRO from its Global Clients franchise. For these equivalent customer groups, GBM estimates that it generated more than 50% higher income per customer than ABN AMRO and more than 150% higher income per front office employee than ABN AMRO.

We expect that we will be able to deepen customer relationships and increase revenues per customer and per employee across ABN AMRO's extensive base of large and mid-corporate customers. To achieve this, GBM will apply its relationship-driven model in which relationship managers are enabled and incentivized to deliver the bank's full range of products and services from debt capital markets to cash management. Our model focuses on the overall profitability of customer relationships and encourages a collaborative approach between relationship and product teams. The model is supported by clear client and revenue accountabilities, transparent incentives for collaboration, a focus on higher value added income streams and a simple organization structure which encourages the development of cross-product customer solutions.

In addition to the application of our relationship management model, GBM expects to be able to create additional value from ABN AMRO's customer franchise through leveraging its strengths in the product areas that are both most relevant to large corporate and institutional customers and which offer the highest value revenue streams, for example in structured finance, risk management and securitization. GBM believes that it brings the requisite scale and strength in these key product areas that ABN AMRO currently lacks.

We expect that the combined business will have product leadership across a broad range of corporate banking products, benefiting from the complementary and overlapping product strengths of GBM and ABN AMRO. Based on 2006 data, the combined business will rank third in all bonds and loans globally, first in global securitizations, global project finance and all international bonds, second in emerging markets syndicated credits, third in foreign exchange and fifth in international cash management. We

also expect it to be a leading player in the global interest rate derivatives market, where GBM has had particular success in the distribution of sophisticated risk management products to its large and mid-corporate customers.

We believe that the combined business will be well diversified by geography across the United Kingdom, the rest of Europe, the United States and Asia-Pacific, with a small contribution from Latin America. Within these regions, we anticipate that the combined business will have considerable local presence through which to distribute its strong and broad product offering.

In Europe, including the United Kingdom, we expect that the combined business will consolidate its position as the leading wholesale and fixed income bank. GBM will apply its relationship model and product strengths to deepen ABN AMRO's extensive franchise in Continental Europe with large corporates and financial institutions, while ABN AMRO's international cash management, payments and trade finance products will enable GBM to enhance its customer relationships. ABN AMRO's local presence is expected to enable GBM to extend from the largest corporates and financial institutions to the middle market, and to extend geographically into fast growing markets in Eastern Europe and the Middle East. The combination of the two banks' structured investor product capabilities and distribution platforms is anticipated to create a significantly stronger business with good prospects for growth in an expanding market.

60. Despite the Company's positive spin in the Prospectus, by all accounts, the Company's decision to participate in the acquisition was a mistake and was one of the primary reasons why the financial giant failed.

61. Indeed, going back to as early as August 2007, even before a deal was consummated, many people saw significant risks in the Company's pursuit of ABN AMRO. Specifically, on August 10, 2007, *Bloomberg News* published a story entitled "ABN AMRO Drops as Market Turmoil Raises Doubt on Bids" in which it reported that Sandy Chen, an analyst, wrote "that ABN AMRO's role as 'the leading sponsor of asset-backed commercial paper in Europe, with an estimated \$55 billion in exposure' presents a 'separate risk' for the winner of the take over battle, given the credit market woes."

62. An October 5, 2007, *Wall Street Journal* article entitled “Barclay’s Shareholders Support ABN Bid but Obstacles Abound,” reported that while the transaction appeared to be favorable for Banco Santander and Fortis, “[f]or RBS, the outlook is cloudier.” The article goes on to point out that many of the assets going to RBS are in a slump because of the current market conditions. Moreover, RBS isn’t getting the more lucrative US banking operations that it had originally set its sights on.

63. Defendants strained to portray the acquisition as strategically important from the outset. They then issued a series of false statements designed to cover-up the true state of affairs that were result of the ill-fated decision to acquire ABN AMRO.

64. On November 2, 2007, the Company announced that RBS and its consortium completed the acquisition ABN AMRO for \$97.7 billion.

65. In December 2007, the Company published its monthly financial results on Form 6-k. Touting the recent acquisition of ABN AMRO assets, the Company stated as follows:

ABN AMRO

ABN AMRO’s adjusted* earnings for 2007 are expected to be consistent with the guidance it issued on 17 September 2007. These results include write-downs on US sub-prime mortgage exposures (see Appendix) which have now been valued using the same approach as RBS.

The integration of ABN AMRO is progressing well. Since completion of the acquisition, RBS has validated its plan and now expects to deliver transaction benefits somewhat greater than anticipated in the offer for ABN AMRO announced on 16 July 2007.

Based on RBS’s revised forecasts for business growth and transaction benefits, the acquisition of the ABN AMRO Businesses is now expected to lead to slightly higher earnings accretion and return on investment than previously indicated.

Capital ratios remain in line with previous guidance, and ABN AMRO’s funding and liquidity position remains strong.

Investor demand for commercial paper issued by ABN AMRO's long-established conduits, less than 0.5% of whose assets relate to US sub-prime residential mortgages, remains strong. (Emphasis added)

66. On February 22, 2008, the Company announced its annual results for the period ended December 31, 2007. Once again boasting of the expected benefits of the ABN AMRO acquisition, the announcement, filed on Form 6-K with the SEC, stated as follows:

The acquisition of ABN AMRO gives us the ability to accelerate our existing strategies for growth outside the UK, particularly in rapidly expanding markets, while adding complementary product capabilities and customer franchises to our portfolio of businesses.

As a result of the acquisition, our Global Banking & Markets division can lay claim to be the pre-eminent corporate bank globally for large corporates, financial institutions and governments. It has top 5 rankings across a broad range of products, extended global reach and leading customer franchises in the UK and Continental Europe and top 5 customer franchises in the US and Asia-Pacific.

Underpinning this position is the global transaction banking strength of the enlarged Group, which will deepen customer relationships and provide further opportunities to cross-sell GBM's strong product capabilities. ABN AMRO is one of a small number of banks with global scale and competence in international payments, trade finance and cash management and it would have been extremely difficult to develop an equivalent business organically.

Similarly, while we have over recent years sought to develop our activities in fast-growing markets in Asia, the Middle-East and Eastern Europe and have achieved strong growth in GBM and Wealth Management, **ABN AMRO now significantly expands our presence in many new markets.**

The integration has made a strong start, and we have identified additional cost savings and revenue benefits over and above those we originally anticipated. We now expect to achieve cost savings totalling €1,596 million in three years, 21% more than we originally indicated. We have identified another €100m of net revenue benefits in Global Banking & Markets and €200m in the International Retail businesses, bringing the total for net revenue

benefits we expect to achieve in three years to €688 million. All told, integration benefits are now expected to total €2.3 billion, compared with our original estimate of €1.7 billion.

Applying these increased synergies to the financial targets originally announced in our offer would have yielded increased accretion in adjusted earnings per share of 9%, a return on investment in 2010 of 16% and an internal rate of return of 18%.

We completed our transition plans on schedule and now have the support of the relevant staff bodies for the plan. We expect to make further rapid progress in separating businesses over the course of this year. (Emphasis added).

After reviewing the assets acquired and considering the practicalities and economics of separating them, we transferred the Global Clients activities in Brazil to Santander for a consideration of €750 million, and there may be further smaller adjustments to the original allocation between the Consortium partners.

For 2007 as a whole, the ABN AMRO businesses that will be retained by RBS made an underlying operating profit of £439 million. We have concluded our initial review of the ABN AMRO balance sheet and applying RBS valuation methodologies have recorded a reduction of £978 million in the carrying value of financial instruments we acquired. While credit market activities reflected the prevailing market conditions, equities, currencies and rates all achieved good growth. Transaction banking maintained good momentum and the Asian retail operations achieved very strong growth. (Emphasis added)

67. Despite a steady stream of positive information, the truth was that the ABN AMRO acquisition was proving detrimental to the Company. On April 22, 2008, RBS was forced to launch a record £12 billion rights offering in order to rebuild the Company's deteriorating balance sheet, and also revealed that it would be forced to take write downs of approximately £5.9 million due to its extensive exposure to CDOs and other asset backed securities. The Form 6-K filed with the SEC listed the informational highlights that revealed the Company's deteriorating situation:

- RBS announces increased target capital ratios of 7.5% to 8.5% for Tier 1 capital and in excess of 6% for core Tier 1 capital on a proportional consolidated (“look through”) basis
- RBS takes actions to increase its Tier 1 capital ratio to in excess of 8% and its core Tier 1 capital ratio to in excess of 6% on a proportional consolidated basis by the end of 2008
- Rights issue to raise £12 billion net, fully underwritten
- 11 new shares for every 18 existing shares at 200 pence per share
- Disposals to generate estimated £4 billion of core Tier 1 capital net of tax
- Estimated capital effect of £4.3 billion net of tax (£5.9 billion before tax) from write-downs in respect of credit market exposures in 2008
- Overall underlying performance of the Group has remained satisfactory with the principal exception of a slowdown in capital markets activity in Global Banking & Markets
- ABN AMRO integration synergies on plan
- Following the rights issue, RBS believes that it will be in a strong position to realise the substantial value in its UK and international franchises and to take advantage of the growth opportunities available to it

Defendant McKillop commented as follows:

This is a difficult time for the financial services industry, and it has presented us with specific challenges. Central to these has been the question of our capital ratios, which have been the focus of much attention, both internal and external, over recent months.

It was the Board’s declared intention to rebuild our Tier 1 capital to the middle to upper end of our historic range of 7% to 8% over a three year period, but in light of the current market environment, this level and timing are considered no longer appropriate.

In discussions with shareholders it was clear that many of them had reached a similar conclusion, hence today’s announcement that we are launching a rights issue to re-position our capital ratios and strengthen our capital base.

Naturally, shareholders wish to understand what we have assumed in relation to the prospects for further write-downs and disposals of

non-core assets, and today's announcement seeks to clarify the basis of our capital planning

68. On this news RBS ADRs declined \$6.02 per share and the *Financial Times* reported that some of the Company's major shareholders demanded that Mr. Goodwin, the Company's CEO, resign.

69. While the true reasons for the need to raise capital were not revealed in the Company's filing, on April 23, 2008, the *Financial Times* published an article entitled "RBS finds out the true cost of ABN AMRO deal." The article pointed out that the ABN AMRO transaction "has also left RBS nursing larger losses that in might otherwise have faced. Yesterday's writedowns take the total losses on debt securities to £8.8bn, about a third of which come from ABN AMRO." In the article Defendant McKillop was quoted as saying "[l]ooking back we purchased ABN at a point when bank valuations were way higher than they were today. That is unfortunate. You could call that misjudgment. Who would have known what was going to happen?"

70. On May 11, 2008, the *Times Online* published an article entitled "Americans look into Royal Bank of Scotland sub-prime deals." The article revealed that the SEC was investigating the Company over its exposure to American sub-prime mortgages. Specifically, the article points out that "[t]he probe was launched in March, and covers the bank's interests in securities backed by sub-prime home loans, as well as residential mortgages written by its US subsidiaries."

71. RBS ADRs took another tumble on May 21, 2008, when the *Bloomberg News* published an article entitled "RBS Falls on Speculation Rights Offer Won't Be Fully Taken Up." The article explained that there was significant speculation that the Company's rights offering, necessary to raise the £12 billion needed to shore up capital would not be fully subscribed and as

a result the Company's underwriters would be left with the remaining stock that they would have to sell at a discount.

72. On July 7, 2008, RBS was downgraded by analyst Cazenove who cited the Company's declining credit quality and the cost of the ABN AMRO as the main reasons behind its decision. Similarly, analyst Simon Pilkington cut the Company's future prospects to "underperform" citing many of the same concerns.

73. Conceding the mistake and facing an inability to raise capital, on July 11, 2008, the Company disclosed it was in talks with National Australia Bank Ltd. to sell the former investment and corporate banking units of ABN AMRO.

74. On August 8, 2008, the Company published its interim results for the first half of 2008. On the Form 6-K, the Company reported its first ever loss in its 40 year history. For the first half of 2008, the Company reported a loss of £691 million as compared to a profit of £5.1 billion for the same period in the previous year. The majority of the losses were blamed on the Company's £5.9 billion write down earlier in the year. A defiant Fred Goodwin, the Company's CEO, issued the following statement:

The first half of 2008 has been as difficult an operating environment as we have encountered for some time, presenting both general and specific challenges to RBS. The results we have published today demonstrate progress in a number of important areas, and it is all the more unsatisfactory, therefore, that they record a loss as a result of our credit market write-downs. We are determined to ensure that the inherent strengths of the Group's diverse business model are not obscured in this way again

75. On September 10, 2008, *Bloomberg News* published an article entitled "Banks' Subprime market-related losses, Capital Raised." The article points out that the Company had about \$13.7 billion in losses tied to the subprime mortgage market. The revelation precipitated a sell off in the Company's Preferred T shares, which as a result, lost 59% of their value by

September 17, 2008, falling from \$19.48 per share to \$8.05 per share. Meanwhile, the Company's capital ratio continued to deteriorate.

76. On October 7, 2008, news began to emerge that the British government was in talks with major banks, including the Company, concerning the possibility of government funding. On this news, the Company had its credit ratings cut and RBS Preferred T share price dropped 38%.

77. On October 9, 2008, the Company revealed that it had the lowest capital reserves among its British rivals. The Company's Tier 1 capital ratio of only 5.9% was below that of Barclay's and HBOS Plc whose capital ratios were 6.3% and 6.5% respectively. Tier 1 capital is the core measure of a bank's financial strength from a regulator's point of view. The lower the Tier 1 capital ratio, the weaker the bank and RBS was the weakest amongst Britain's major banks.

78. Ultimately, on October 13, 2008, The Company's precarious financial position forced it to seek a bail out from the British government. The Government provided a £20 billion rescue to the ailing bank after bad investments and significant write-downs forced it into an unsustainable position. It was the biggest bailout in UK history. The terms of the bailout were as follows:

- RBS announces an offer of ordinary shares to raise £15 billion of core tier 1 capital. The offer will be underwritten by HM Treasury at a fixed price of 65.5 pence per share.
- Existing RBS shareholders will be invited to subscribe for all or part of their pro rata entitlements. New institutional shareholders may also be permitted to subscribe for new shares under the offer.
- In addition, HM Treasury will subscribe for £5 billion of Preference Shares, further increasing RBS's Tier 1 capital ratio.
- The capital raising will increase RBS's pro forma core tier 1 and tier 1

capital ratios by approximately 3 percentage points and 4 percentage points respectively, on a proportionally consolidated basis.

- RBS commits to maintain the availability of SME and mortgage lending at least at 2007 levels.
- Tom McKillop will retire as Chairman at the Group's Annual General Meeting in April 2009.
- Fred Goodwin, Chief Executive, will step down and be replaced by Stephen Hester, currently Chief Executive of British Land and a non-executive director of the Group.
- In addition, Johnny Cameron, Chairman Global Markets, will step down from the Board with immediate effect.

79. Despite the bail out, RBS shares continued to decline below the fixed offering price of the new shares. By the date of the offering, the price of the new shares was set at a 28% premium over the price of the existing shares. The result was that on November 28, 2008, the Company issued a press release announcing that investors purchased a mere 0.24% of the new RBS shares issued. Consequently, the British government was forced to purchase the majority of these newly issued shares.

80. Also, On November 28, 2009, the Company announced that the British government, after having acquired a 57.9% stake in RBS, would assume majority control of the Company.

81. Following the Offering, RBS Preferred T shares continued to trade for several months at a price close to the \$25 per share offering price. Thereafter, as the truth regarding the Company's deteriorating financial positions began to emerge, Preferred T shares began to decline. On Friday January 16, 2009, Preferred T shares closed at \$13 per share. That is well below the \$25 per share price the stock's offering price.

82. Markedly missing from the Company's disclosures in the Registration Statement or the "Risk Factors" section of the Prospectus were the true facts regarding:

- (a) The Company's extensive investments in asset backed securities, including collateralized debt obligations (CDOs), and their exposure to the subprime mortgage market;
- (b) The failure to disclose all of the risks associated with the purchase of ABN AMRO's assets;
- (c) The Company's insufficient capital levels;
- (d) The failure to adequately write-down bad assets; and,
- (e) the failure to prevent and remedy such improper and harmful actions that resulted in the Company being bailed out by the British government.

83. The rewards that Defendants reaped in connection with the Offering were unlawfully obtained because Defendants violated Section 11 of the Securities Act. Under Section 11, directors and officers, among others, are liable in negligence for failure to craft a Prospectus which fully and accurately informs investors of all material facts and industry trends affecting the issuer company. The issuer itself is held strictly liable for any material misrepresentations or omissions from the Prospectus.

84. A key policy underlying Section 11 liability is to enable prospective investors, like Plaintiff and the Class, to make informed investment decisions based on the disclosure of adequate and truthful information regarding the issuer, its associated persons, and the offering. This policy is frustrated when a prospectus contains materially false and misleading statements.

CLASS ACTION ALLEGATIONS

85. Plaintiff brings this action individually and on behalf of a Class of purchasers of RBS Preferred T stock issued pursuant and/or traceable to the Company's September 20, 2007, Offering. Excluded from the Class are Defendants, members of the immediate families of each of the Defendants, any person, firm, trust, corporation, officer, director or other individual or entity in which any Defendant has a controlling interest or which is related to or affiliated with

any of the Defendants, and the legal representatives, agents, affiliates, heirs, successors-in-interest or assigns of any such excluded.

86. The members of the Class are so numerous that joinder of all members is impracticable. Approximately 58 million shares of the Company's Preferred stock were sold in the Offering. The precise number of Class members is unknown to Plaintiff at this time but is believed to be in the thousands. In addition, the names and addresses of the Class members can be ascertained from the books and records of RBS or its transfer agent or the underwriters for the Offering. Notice can be provided to such record owners by a combination of published notice and first-class mail, using techniques and a form of notice similar to those customarily used in class actions.

87. Plaintiff will fairly and adequately represent and protect the interests of the members of the Class. Plaintiff has retained competent counsel experienced in class action litigation to further ensure such protection and to prosecute this action vigorously.

88. Plaintiff's claims are typical of the claims of the other members of the Class because Plaintiff and all of the Class members' damages arise from and were caused by the same false and misleading representations and omissions made by or chargeable to Defendants. Plaintiff does not have any interests antagonistic to, or in conflict with, the Class.

89. A class action is superior to other available methods for the fair and efficient adjudication of this controversy. Since the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it virtually impossible for the Class members to seek redress for the wrongful conduct alleged. Plaintiff knows of no difficulty that will be encountered in the management of this litigation that would preclude its maintenance as a class action.

90. Common questions of law and fact exist as to all members of the Class and predominate over any questions affecting solely individual members of the Class. Among the questions of law and fact common to the Class are:

- (a) Whether the Securities Act was violated by Defendants' acts as alleged herein;
- (b) Whether documents, including the Prospectus issued by Defendants to the investing public omitted and/or misrepresented material facts about RBS and its business; and
- (c) The extent of injuries sustained by the Class and the appropriate measure of damages.

FIRST CLAIM FOR RELIEF
Against All Defendants for Violations
of Section 11 of the Securities Act)

91. Plaintiff repeats and realleges each and every allegation above as if fully set forth herein.

92. This claim is brought by Plaintiff against all of the Defendants. This claim does not allege fraud and is based exclusively on the strict liability and negligence standards of § 11 of the Securities Act.

93. The Company issued shares of Preferred T stock and Plaintiff and the members of the Class acquired such shares, pursuant to the Registration Statement and Prospectus.

94. The Registration Statement and Prospectus contained numerous material misrepresentations and omissions including, among other things: (i) the failure to disclose the Company's extensive investments in asset backed securities, including collateralized debt obligations (CDOs), and their exposure to the subprime mortgage market; (ii) the failure to disclose all of the risks associated with the purchase of ABN AMRO's assets; (iii) the

insufficient capital levels; (iv) the failure to adequately write-down bad assets; and, (v) the failure to prevent and remedy such improper and harmful actions that resulted in the Company being bailed out by the British government. As a consequence, the Company is strictly liable to Plaintiff and the members of the Class and Subclass under § 11 of the Securities Act.

95. The Individual Defendants failed to exercise reasonable diligence and/or had no reasonable grounds to believe, that the Registration Statement and Prospectus issued by the Company were free of material misstatements and omissions at the time those documents were filed, and they are therefore also liable to Plaintiff and the members of the Class under § 11.

96. The Underwriter Defendants served as co-managing underwriters for the issuance of the Preferred T shares and are also liable for misstatements and omissions in the Registration Statement and Prospectus and are therefore also liable to Plaintiff and the members of the Class under § 11.

97. Plaintiff and the members of the Class acquired their Preferred T shares pursuant or traceable to the Company's Registration Statement and Prospectus which was rendered false and misleading as a result of Defendants' misrepresentations and omissions.

98. At the time they acquired their Preferred T shares, Plaintiff and the members of the Class were without knowledge of Defendants' misconduct.

SECOND CLAIM FOR RELIEF

(Against the Company and the Underwriter Defendants
for Violations of Section 12(a)(2) of the Securities Act)

99. Plaintiff repeats and realleges each and every allegation above as if fully set forth herein.

100. This claim is brought by Plaintiff against the Company and each of the Underwriter Defendants. This claim does not allege fraud and is based exclusively on the negligence standards of § 12(a)(2) of the Securities Act.

101. Each of the Company and the Underwriter Defendants was a seller, offerer or solicitor of sales of Preferred T stock by means of the Company's Prospectus, all as alleged more fully above. The Company was a seller because it was the issuer of the stock. The Underwriter Defendants were sellers because they participated in, approved, solicited and sold the Preferred T stock to Plaintiff and the members of the Class by means of the Registration Statement and the Prospectus. The Company and the Underwriter Defendants were substantial factors and took affirmative steps to induce Plaintiff and the members of the Class to acquire Preferred T shares.

102. But for RBS's and the Underwriter Defendants' selling and/or solicitation activities by means of the false and misleading Prospectus, Plaintiff and the members of the Class would not have purchased or otherwise acquired Preferred T stock, or would have acquired their shares at a price less than they actually paid.

103. The Company and the Underwriter Defendants are liable for issuing numerous false and misleading statements which were incorporated in the Prospectus pursuant to which Plaintiff and the members of the Class acquired their Preferred T shares. Those misstatements and omissions concerned, among other things (i) Company's extensive investments in asset backed securities, including collateralized debt obligations (CDOs), and their exposure to the subprime mortgage market; (ii) the risks associated with the purchase of ABN AMRO's assets; (iii) the Company's insufficient capital levels; (iv) the Company's failure to adequately write-down bad assets; and, (v) the failure to prevent and remedy such improper and harmful actions

that resulted in the Company being bailed out by the British government all as alleged more fully above.

104. None of the false and misleading statements or omissions alleged herein was known to Plaintiff and the members of the Class and Subclass at the time they purchased or otherwise acquired their Preferred T stock. Plaintiff and the members of the Class did not know, and in the exercise of reasonable diligence could not have known, of the misstatements and omissions alleged herein.

105. By reason of their misconduct alleged herein, the Company and the Underwriter Defendants violated § 12(a)(2) of the Securities Act. As a direct and proximate result of these violations, Plaintiff and the members of the Class have sustained damages.

THIRD CLAIM FOR RELIEF

(Against the Individual Defendants for
Violations of Section 15 of the Securities Act)

106. Plaintiff repeats and realleges each and every allegation above as if fully set forth herein.

107. By virtue of their positions, stock ownership, and/or specific acts described above, each of the Individual Defendants was at the time of the alleged wrongdoing a controlling person of the Company within the meaning of § 15 of the Securities Act.

108. By reason of their misconduct alleged more fully herein, all of the Individual Defendants are liable to Plaintiff and the members of the Class and Subclass for the damages they suffered by purchasing or otherwise acquiring Vonage's common stock.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff, on behalf of himself and the Class, prays for judgment as follows:

(a) declaring this action to be a Class action properly maintained pursuant to the Federal Rules of Civil Procedure, certifying the Class, and certifying their counsel as Class Counsel;

(b) awarding Plaintiff and other members of the Class damages against Defendants, jointly and severally, together with interest thereon;

(c) awarding Plaintiff and other members of the Class their costs and expenses of this litigation, including reasonable attorneys' fees, accountants' fees and experts' fees and other costs and disbursements; and

(d) awarding Plaintiff and the Class such other and further relief as may be just and proper under the circumstances.

Dated: January 22, 2009

**WOLF HALDENSTEIN ADLER
FREEMAN & HERZ LLP**

By: 

Gregory M. Nespole (GN-6820)

David L. Wales (DW-6912)

Martin E. Restituyo (MR-0856)

270 Madison Avenue

New York, New York 10016

Telephone: (212) 545-4600

Facsimile: (212) 545-4653

Email: Nespole@whafh.com

Email: Wales@whafh.com

Email: Restituyo@whafh.com

KOHN, SWIFT, & GRAF, P.C.

Joseph C. Kohn

Denis F. Sheils (DS-8374)

One South Broad Street, Suite 2100

Philadelphia, PA 19107

Telephone: (215) 238-1700

Facsimile: (215) 238-1968

Attorneys for Plaintiff the Howard H. Powell Trust