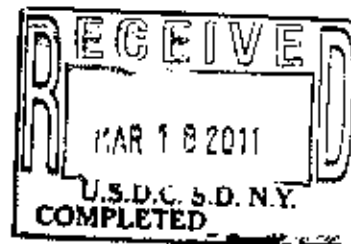


**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK**



**IN RE ROYAL BANK OF SCOTLAND GROUP
PLC SECURITIES LITIGATION**

09 Civ. 300 (DAB)

AMENDED COMPLAINT

TABLE OF CONTENTS

I. INTRODUCTION AND OVERVIEW OF THE CLAIMS 1

II. JURISDICTION AND VENUE 4

 A. Jurisdiction..... 4

 B. Venue 4

III. THE PARTIES..... 5

 A. Plaintiffs..... 5

 B. Defendants 6

 1. RBS 6

 2. The Individual Defendants..... 8

 3. The Underwriter Defendants..... 12

IV. CLASS ACTION ALLEGATIONS 15

V. FACTUAL ALLEGATIONS 17

 A. The Mortgage Industry and How Mortgage Securitization Works 17

 B. RBS Accumulated Billions of Dollars of Subprime Assets While Assuring Investors That the Company Maintained A Strong Capital Base and Controlled for Risk..... 20

 C. RBS Announces Massive Losses Due to its Accumulation of Subprime Assets and Acquisition of ABN AMRO and Is Bailed Out by the British Government..... 24

 D. Preferred Share Purchasers Suffer the Consequences of RBS’s Materially False and Misleading Statements and Material Omissions..... 27

VI. THE MATERIALLY FALSE AND MISLEADING STATEMENTS IN THE PREFERRED SHARE OFFERING MATERIALS 28

 A. The April 8, 2005 Registration Statement 28

 B. May 22, 2006: The Series Q Offering 29

C.	December 18, 2006: The Series R Offering.....	36
D.	June 26, 2007: The Series S Offering.....	38
E.	September 24, 2007: The Series T Offering.....	46
F.	September 28, 2007: The Series U Offering.....	50
COUNT I	AGAINST ALL DEFENDANTS FOR VIOLATIONS OF SECTION 11 OF THE SECURITIES ACT.....	53
COUNT II	AGAINST ALL DEFENDANTS FOR VIOLATIONS OF SECTION 12(A)(2) OF THE SECURITIES ACT.....	55
COUNT III	AGAINST EACH OF THE INDIVIDUAL DEFENDANTS FOR VIOLATIONS OF SECTION 15 OF THE SECURITIES ACT.....	57
VII.	PRA YER FOR RELIEF.....	59

Plaintiffs make the following allegations upon personal knowledge as to their own acts and upon information and belief as to all other matters. Plaintiffs' information and belief are based on their counsels' ongoing investigation. The investigation of counsel is predicated upon, among other things, a review of public filings by the Royal Bank of Scotland Group plc ("RBS" or the "Company"), and its subsidiaries and affiliates, with the United States Securities and Exchange Commission ("SEC"), including, among other things, reports filed on Forms 6-K and 20-F, registration statements, prospectuses and offering circulars published in connection with the public sale of RBS preferred shares, press releases and public statements issued by the Company, media reports about the Company, reports issued by securities analysts who followed RBS, and interviews with knowledgeable third parties.

I. INTRODUCTION AND OVERVIEW OF THE CLAIMS

1. Plaintiffs (identified in ¶¶ 9-11 below) assert claims for violations of Sections 11, 12(a)(2), and 15 of the Securities Act, 15 U.S.C. §§ 77k, 77l(a)(2), and 77o, against Defendants (identified in ¶¶ 12, 23-44 below). Plaintiffs bring these claims individually and on behalf of all persons and entities, except Defendants and their affiliates, who purchased or otherwise acquired RBS Series Q, R, S, T and/or U Non-cumulative Dollar Preference Shares (the "Preferred Shares") issued by RBS pursuant or traceable to RBS's April 8, 2005 Registration Statement.

2. The Preferred Shares were issued pursuant to the following Preferred Share Offerings: Series Q, effective May 22, 2006; Series R, effective December 18, 2006; Series S, effective June 26, 2007; Series T, effective September 24, 2007; and Series U, effective September 28, 2007 (collectively, the "Preferred Share Offerings").

3. The Securities Act claims arising from the Preferred Share Offerings are strict liability and/or negligence claims against Defendants. Plaintiffs expressly exclude and disclaim any allegation that could be construed as alleging fraud or intentional or reckless misconduct, as

these claims are based solely on claims of strict liability and/or negligence under the Securities Act.

4. The offering materials for the Preferred Share Offerings (identified in ¶ 91 below) were materially false and misleading because they contained untrue statements of material fact and omitted to state other material facts required to be stated therein or necessary to make the statements contained therein not misleading. These include, without limitation, the following:

(a) RBS claimed its business philosophy was to maintain a strong capital base, to expand it as appropriate and to utilize it efficiently throughout its activities to optimize the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business. In fact, at all times material to the Preferred Share Offerings, RBS was accumulating billions of dollars of exposure to subprime loans and retaining interests in collateralized debt obligations and other asset-backed securities comprised of U.S., U.K. and European residential real estate loans classified as subprime, non-conforming and Alt-A loans (collectively "subprime assets"). In light of the risks presented by its subprime activities, RBS's representations concerning its business philosophy of maintaining a strong capital base and a prudent relationship between its capital base and the risks underlying its business were false and misleading.

(b) RBS's accumulation of subprime assets created undisclosed material concentrations of risk. RBS was required to disclose these concentrations of risk in the offering documents for the Preferred Share Offerings under U.S. securities law and applicable accounting standards.

(c) RBS claimed in the offering documents for the Preferred Share Offerings to have extensive internal control procedures to review, monitor, and manage the Company's

credit risk. These representations were false. RBS's internal risk control procedures were incapable of accurately reviewing, monitoring, or managing RBS's exposure to credit risk. RBS should have, but failed to disclose that its procedures could not be relied on to limit credit risk because the procedures did not actually exist, were not being followed, or were otherwise ineffective in preventing RBS from developing material concentrations of undisclosed risk.

(d) RBS's financial statements were not fairly presented under applicable accounting standards. RBS did not present the financial statements that formed part of the offering materials for the Preferred Share Offerings in accordance with International Financial Reporting Standards ("IFRS"), including International Accounting Standards ("IAS") and the International Accounting Standards Board Framework ("IASB Framework"), and RBS's internal controls did not ensure that the financial statements were fairly presented.

(e) Dutch bank ABN AMRO had billions of dollars of undisclosed subprime assets on its books. RBS announced the takeover of ABN AMRO, but did not disclose that RBS would take on billions of dollars of additional subprime assets when it acquired ABN AMRO, and that these additional subprime assets would materially increase RBS's existing undisclosed concentration of risky subprime assets. RBS also failed to disclose that it lacked the internal controls to detect, monitor, and manage the increased concentration of credit risk resulting from the acquisition of ABN AMRO's subprime assets.

(f) RBS's representations concerning the economic and strategic benefits of the ABN AMRO acquisition were false and misleading because RBS's risk management systems were incapable of detecting, monitoring, and managing the concentration of existing subprime assets on RBS's books or the additional subprime assets RBS would acquire through the ABN AMRO acquisition.

5. RBS raised more than \$5.3 billion from the Preferred Share Offerings. The Series Q, R, S and T Preferred Shares were offered at \$25 per share and initially traded at that amount after the offerings. The Series U Preferred Shares were offered at \$100,000 per share and initially traded at that amount after the Series U offering. By January 19, 2009, the Preferred Shares had all lost more than 60% of their value.

6. Plaintiffs and all other purchasers of the Preferred Shares in the proposed Class have suffered significant losses as a result of Defendants' materially false and misleading statements and omissions of material fact.

II. JURISDICTION AND VENUE

A. Jurisdiction

7. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §§ 1331 and 1337 and § 22 of the Securities Act, 15 U.S.C. § 77v. In connection with the acts alleged herein, 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 New York Stock Exchange.

B. Venue

8. Venue is proper in this District pursuant to Section 22 of the Securities Act, 15 U.S.C. § 77v, and 28 U.S.C. § 1391(b). Many of the acts alleged herein, including the dissemination of materially false and misleading information in connection with the purchase or sale of a security, occurred in this District. In addition, at all times relevant to Plaintiffs' claims, RBS and many, if not all, of the underwriters named herein, maintained offices in this District.

III. THE PARTIES

A. Plaintiffs

9. Lead Plaintiff the Freeman Group is comprised of five individuals: Jay Freeman, Ravi Srinivasan, Sheldon Cantor, Jeffrey Hathorn, and Michael Mancini. As set forth in the certifications previously filed with the Court, each of the members of the Freeman Group purchased Preferred Shares issued pursuant or traceable to the April 8, 2005 Registration Statement for the Preferred Share Offerings, and suffered damages as a result of the federal securities law violations alleged herein. Plaintiff Srinivasan purchased Series Q Preferred Shares on the Series Q offering directly from Defendant Citigroup. Plaintiff Freeman purchased Series S Preferred Shares on the Series S offering directly from Defendant Merrill Lynch.

10. Plaintiff the Public Employees Retirement System of Mississippi ("MissPERS") is a public pension fund that manages funds for the benefit of the current and retired public employees of the state of Mississippi. As set forth in the certification previously filed with the Court, MissPERS purchased Series U Preferred Shares issued pursuant or traceable to the April 8, 2005 Registration Statement for the Preferred Share Offerings, and suffered damages as a result of the federal securities law violations alleged herein. MissPERS purchased Series U Preferred Shares on the Series U offering directly from Defendant Merrill Lynch.

11. As set forth in the certification attached as an exhibit to this Complaint, Plaintiff Robert Knollenberg, as assignee, purchased Series T Preferred Shares issued pursuant or traceable to the April 8, 2005 Registration Statement for the Preferred Share Offerings, and suffered damages as a result of the federal securities law violations alleged herein. Plaintiff Knollenberg purchased Series T Preferred Shares on the Series T offering directly from Defendant RBC.

B. Defendants

1. RBS

12. Defendant RBS is a British banking and insurance holding company based in Edinburgh, Scotland. In the U.K., its operations include The Royal Bank of Scotland plc, founded in 1727 by a Royal Charter of King George I, the National Westminster Bank ("NatWest"), which can trace its lineage back to 1650, and Ulster Bank in Ireland.

13. In 2000, RBS more than tripled in size with its acquisition of NatWest. This gave it a leading market share in U.K. retail and commercial banking, and made it one of the largest banks in the world. At its peak, it was the largest bank in the world by asset size. By market capitalization, it was the second largest in the U.K. and Europe, behind only HSBC Holdings plc, and the tenth largest company in the world.

14. RBS operates a wide variety of banking brands offering personal and business banking, private banking, insurance and corporate finance throughout its operations located in Europe, North America, and Asia.

15. As of February 28, 2008, RBS announced a new organizational structure, following the acquisition of ABN AMRO in October 2007, intended to incorporate those ABN AMRO businesses to be retained by the Company. RBS divided itself into four primary operating divisions and reported pro-forma operating profits among those divisions on a historical basis: Global Banking & Markets ("GBM"), Regional Markets, RBS Insurance, and Group Manufacturing.

16. RBS's profits and risks were concentrated primarily among the operations of (a) GBM and (b) U.K. Commercial and Retail Banking, which is within the Regional Markets division.

17. GBM focuses on providing debt financing, risk management, and transaction banking services to large businesses and financial institutions in the U.K. and around the world. Its subdivisions include RBS Securities, which was until April 1, 2009, known in the U.S. as Greenwich Capital Markets. GBM subdivisions also include Global Transaction Services, which offers global payments, cash and liquidity management, as well as trade finance, merchant acquiring and commercial card products and services.

18. Regional Markets includes commercial and retail banking services organized by four geographic regions: the U.K., the U.S., Europe and the Middle East, and Asia.

19. Within Regional Markets, U.K. Retail and Commercial Banking includes retail banking, U.K. Wealth Management, and U.K. Corporate Banking. RBS U.K. supplies financial services through both the RBS and NatWest brands, offering a full range of banking products and related financial services to the personal, premium, and small business markets through the largest network of branches and ATMs in the U.K., as well as by telephone and internet. In the U.K. and the Republic of Ireland, the main subsidiary companies are The Royal Bank of Scotland, NatWest, Ulster Bank, Drummonds and Courts & Co.

20. Regional Markets' second geographic division is U.S. Retail and Commercial Banking, which includes Citizens. Citizens provides financial services through the Citizens and Charter One brands as well as through Kroger Personal Finance, its credit card joint venture with the second largest U.S. supermarket group. Through 2003, Charter One operated a subsidiary known as Equity One, headquartered in Cleveland, Ohio, which specialized in the origination of subprime home loans. Those loans were held on Charter One's balance sheet at the time it was acquired by Citizens/RBS in 2004.

21. On or about October 5, 2007, RBS, as part of a consortium with Belgian bank Fortis and Spanish bank Banco Santander (the “Consortium”), acquired ABN AMRO for €71 billion (\$100 billion). In the deal, RBS acquired ABN AMRO’s wholesale and investment banking unit and its Asian businesses. RBS’s share of the purchase price amounted to approximately 38%.

22. For the year ended December 31, 2008, RBS reported a loss of £32.6 billion (\$47.2 billion)¹—reportedly the greatest loss generated by a commercial bank in 2008,² and the greatest loss in U.K. corporate history. To avert the complete collapse of RBS, the U.K. government has acquired a 70% ownership stake in the Company. The three hundred year-old institution lost £47 billion (\$87 billion) of market value from its peak in December 2007.

2. The Individual Defendants

23. Defendant Sir Thomas Filton McKillop (“McKillop”) served as Chairman of the Board of Directors of RBS (the “Board”) from September 2005 until February 2009. Following criticism of the ABN AMRO acquisition and the U.K. government bailout of RBS, McKillop announced his early retirement as Chairman of RBS’s Board on October 18, 2008.

24. Defendant Sir Frederick Anderson Goodwin (“Goodwin”) served as Chief Executive Officer (“CEO”) and a director of RBS until October 2008. He joined RBS in 1998 as deputy CEO to then-Chairman Sir George Mathewson. Goodwin was promoted to CEO in January 2001. Goodwin signed the April 8, 2005 Registration Statement and RBS’s Annual

¹ On January 19, 2009, RBS revealed that it expected to incur a £28 billion loss, a figure which was reiterated in RBS’s Form 6-K filed with the SEC on February 26, 2009. However, on April 29, 2009, RBS reported a £32.6 billion loss as set forth in its 2008 Annual Report on Form 20-F filed with the SEC. As a convenience to the reader, Plaintiffs have endeavored to convert foreign currencies into U.S. dollars throughout this Complaint, at the exchange rate in effect at the relevant times.

² “World’s Biggest Bank Losses” *The Economist* (June 25, 2009).

Reports on Form 20-F filed with the SEC for the years ending December 31, 2005 and December 31, 2006, which were incorporated by reference into selected Preferred Share Offerings. On October 11, 2008, Goodwin resigned as CEO, reportedly as a condition of the British government's bailout of RBS, and announced that he would retire from the RBS Board, effective January 31, 2009. Goodwin's retirement became effective just one month before RBS expected reported a loss of £28 billion (\$41 billion) for 2008—the largest annual loss in U.K. corporate history.

25. Defendant Guy Whittaker ("Whittaker") has been Financial Director and a director of RBS since February 2006. Whittaker was formerly the treasurer at Citigroup Inc., based in New York. At Citigroup, where he had worked since 1980, Whittaker was responsible for managing the balance sheet, including its capital resources, funding strategy, capital markets issuance, aggregate interest rate risk, and liquidity. Whittaker signed RBS's Annual Reports on Form 20-F filed with the SEC for the years ending December 31, 2005 and December 31, 2006, which were incorporated by reference into selected Preferred Share Offerings. On May 5, 2009, RBS announced that Whittaker would resign from the Board and his position as Group Financial Director and leave RBS by October 2009.

26. Defendant John Cameron ("Cameron") was a Director of RBS and the Chief Executive of Corporate Banking & Financial Markets ("CBFM")³, and in that capacity was responsible for GBM and U.K. Commercial Banking at all times relevant hereto. Cameron also was appointed as a director of RBS in March 2006. Cameron joined RBS in 1998. In 2000, Cameron was appointed Deputy Chief Executive of CBFM with responsibility for the integration of the NatWest and RBS Corporate Banking businesses. In October 2001, Cameron was

³ CBFM was renamed Corporate Markets in January 2006.

appointed Chief Executive of CBFM. On October 13, 2008, RBS announced that Cameron had resigned his position as a Director with "immediate effect." RBS has disclosed that, as of February 28, 2009, Cameron was no longer employed by the Company, which RBS characterized as a "retirement." It has been widely reported that Cameron's role in the downfall of RBS caused the U.K.'s Financial Services Authority to "block" Cameron from taking a position at the U.S. investment bank Greenhill, by denying him the necessary regulatory clearances to take that job.

27. Defendant Lawrence Fish ("Fish"), a U.S. citizen, was appointed Chairman and CEO of Citizens in 1992 after serving as Chairman and CEO of the Bank of New England. In January 1993, he was appointed as a director of RBS. Fish signed the April 8, 2005 Registration Statement. In March 2007, he resigned as the CEO of Citizens and was appointed Chairman of RBS America. On December 17, 2007, Fish announced that he would retire from his day-to-day operating duties at Citizens and RBS, but would remain as a non-executive Chairman of Citizens. As of May 1, 2008, Fish relinquished all of his executive functions at RBS and became a non-executive director, while retaining his non-executive Chairman role at Citizens. On August 27, 2008, RBS announced that Fish would be retiring as a director of RBS, effective December 31, 2008, which was reported to be a response to criticisms that RBS's Board lacked independence. On or about March 5, 2009, Fish resigned from his remaining position as Chairman and director at Citizens.

28. Defendant Gordon Francis Pell ("Pell") has been a director of RBS since March 2000. He signed the April 8, 2005 Registration Statement. Pell was identified as a director in RBS's 2005 and 2006 annual reports, which were incorporated by reference into the Preferred Share Offering Materials (defined in ¶ 91-92 below).

29. Defendant Colin Alexander Mason Buchan ("Buchan") has been a non-executive director of RBS since June 2002. Buchan signed the April 8, 2005 Registration Statement. Buchan was identified as a director in RBS's 2005 and 2006 annual reports, which were incorporated by reference into the Preferred Share Offering Materials.

30. Defendant Sir Stephen Arthur Robson ("Robson") was a non-executive director of RBS from July 2001 through February 2009. Robson signed the April 8, 2005 Registration Statement. Robson was identified as a director in RBS's 2005 and 2006 annual reports, which were incorporated by reference into the Preferred Share Offering Materials. He resigned following the bailout of RBS by the British government.

31. Defendant Robert Avisson Scott ("Scott") was a non-executive director of RBS from January 2001 through February 2009. Defendant Scott signed the April 8, 2005 Registration Statement. Scott was identified as a director in RBS's 2005 and 2006 annual reports, which were incorporated by reference into the Preferred Share Offering Materials. He resigned following the bailout of RBS by the British government.

32. Defendant Peter Denis Sutherland ("Sutherland") was a director of RBS from January 2001 through February 2009. Sutherland signed the April 8, 2005 Registration Statement. Sutherland was identified as a director in RBS's 2005 and 2006 annual reports, which were incorporated by reference into the Preferred Share Offering Materials. He resigned following the bailout of RBS by the British government.

33. Defendant Archibald Hunter ("Hunter") has been a director of RBS since September 2004. Defendant Hunter signed the April 8, 2005 Registration Statement. Hunter was identified as a director in RBS's 2005 and 2006 annual reports, which were incorporated by reference into the Preferred Share Offering Materials.

34. Defendant Joseph Patrick MacHale ("MacHale") has been a director of RBS since September 2004. MacHale signed the April 8, 2005 Registration Statement. MacHale was identified as a director in RBS's 2005 and 2006 annual reports, which were incorporated by reference into the Preferred Share Offering Materials.

3. The Underwriter Defendants

35. Defendant Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") provides capital markets services, investment banking and advisory services, wealth management, asset management, insurance, banking and related products and services on a global basis. Merrill Lynch is a subsidiary of Bank of America Corporation and is headquartered in New York, NY. Merrill Lynch was an underwriter of all of the Preferred Share Offerings and a bookrunning manager for the Series T and U offerings.

36. Defendant Greenwich Capital Markets, Inc. ("Greenwich") was a fixed-income capital markets firm providing a full range of debt financing, risk management and investment services to major corporations and financial and governmental institutions around the world. Greenwich was a wholly-owned subsidiary of Greenwich Capital Holdings, Inc., of which RBS was the ultimate parent. Effective April 1, 2009, Greenwich was renamed "RBS Securities Inc." Greenwich was an underwriter of and bookrunning manager for all of the Preferred Share Offerings.

37. Defendant Wachovia Capital Markets, LLC ("Wachovia Capital") was the corporate and investment banking side of brokerage firm Wachovia Securities. The two entities are now doing business as Wells Fargo Securities, LLC and Wells Fargo Advisors, respectively. Wachovia Capital and Wachovia Securities are both subsidiaries of Wachovia Corporation, which is now doing business as Wells Fargo & Company. Wachovia Capital provided financial and corporate advisory services, private capital, debt private placement, mergers and acquisitions

advice, underwriting, and equity investing. At all relevant times herein, Wachovia Corporation has maintained offices in New York, NY. Wachovia Capital was an underwriter of all of the Preferred Share Offerings.

38. Defendant Morgan Stanley & Co. Incorporated ("Morgan Stanley") is a global financial services firm which, through its subsidiaries and affiliates, provides its products and services to corporations, governments, financial institutions and individuals. Morgan Stanley is headquartered in New York, NY. Morgan Stanley was an underwriter of the Series Q, R, S and T offerings.

39. Defendant UBS Securities LLC ("UBS Securities") is the U.S. investment banking and securities arm of UBS Investment Bank, which provides a range of financial products and services worldwide. UBS Securities is headquartered in New York, NY. UBS Securities was an underwriter of the Series Q, R, S and T offerings.

40. Defendant Banc of America Securities LLC ("Banc of America") is the investment banking arm of Bank of America and its subsidiary. Banc of America offers trading and brokerage services, debt and securities underwriting, debt and equity research, and advice on public offerings, leveraged buyouts, and mergers and acquisitions. Banc of America is headquartered in New York, NY. Banc of America was an underwriter of the Series R, S, T and U offerings.

41. Defendant RBC Dain Rauscher Inc. ("RBC") is the corporate and investment banking division of Royal Bank of Canada. In March 2008, RBC was renamed RBC Capital Markets Corp. (also known as RBC Wealth Management). At all relevant times herein, RBC has maintained offices in New York. RBC was an underwriter of the Series Q, S and T offerings.

42. Defendant Citigroup Global Markets Inc. ("Citigroup Global") is a subsidiary of Citigroup Inc. and is headquartered in New York, NY. Citigroup Global was an underwriter for the Series Q and R offerings and a joint bookrunning manager for the Series Q offering.

43. Defendant A.G. Edwards & Sons Inc. ("A.G. Edwards") provided securities and commodities brokerage, asset management, trust services, mutual funds, and insurance to individuals throughout the U.S. and serves government and corporate clients. A.G. Edwards is a wholly-owned subsidiary of Wachovia Corporation and was renamed Wachovia Securities in January 2008. As explained above, Wachovia Corporation is now doing business as Wells Fargo & Company. At all relevant times herein, A.G. Edwards and Wachovia have maintained offices in New York, NY. A.G. Edwards was an underwriter of the Series R offering.

44. Defendant Goldman Sachs & Co. ("Goldman Sachs") is a global financial services firm that provides investment banking, securities and investment management services to a substantial and diversified client base, including corporations, financial institutions, governments and high-net-worth individuals. Goldman Sachs is headquartered in New York, NY. Goldman Sachs was a senior co-managing underwriter for the Series U Offering.

45. The Underwriter Defendants identified above served as underwriters and statutory sellers of the Preferred Share Offerings and were intimately involved in those offerings. As underwriters, these Defendants were responsible for the truth, accuracy and completeness of the documents pursuant to which the Preferred Share Offerings were conducted. The offering materials issued in connection with the Preferred Share Offerings contained material untrue statements and omissions of material facts, as detailed below.

IV. CLASS ACTION ALLEGATIONS

46. This action is brought as a class action under Federal Rules of Civil Procedure 23(a) and (b)(3) on behalf of a class consisting of all persons who purchased or otherwise acquired RBS Series Q, R, S, T and/or U Non-cumulative Dollar Preference Shares issued pursuant or traceable to the April 8, 2005 Registration Statement and were damaged thereby.

47. Excluded from the Class are Defendants; persons who, during the Class Period, were officers and/or directors of any Defendant or its parents, subsidiaries and/or affiliates, as well as members of their immediate families and legal representatives, heirs, successors or assigns; any entity in which any Defendant has or had a controlling interest; and Defendants' liability insurance carriers and any affiliates or subsidiaries thereof.

48. The members of the Class are so numerous that joinder of all members is impracticable. More than 150 million Series Q, R, S, T and U Preferred Shares were issued. While the exact number of Class members is unknown to Plaintiffs at this time, and can only be ascertained through appropriate discovery, Plaintiffs believe that there are at least tens of thousands of members in the Class. Record owners and other members of the Class may be identified from records maintained by RBS or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

49. Plaintiffs' claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by Defendants' wrongful conduct in violation of the federal securities laws.

50. Plaintiffs will fairly and adequately protect the interests of the members of the Class and have retained counsel competent and experienced in class and securities litigation.

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

(a) Whether the federal securities laws were violated by Defendants' acts as alleged herein;

(b) Whether the offering documents issued in connection with the Series Q, R, S, T and U Preferred Share Offerings contained untrue statements of material fact or omitted to disclose material facts in violation of the Securities Act; and

(c) Whether the members of the Class have sustained damages and the proper measure of damages.

52. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

53. Furthermore, even if Class members could afford such individualized litigation, the court system could not. Individualized litigation would create the danger of inconsistent or contradictory judgments and increase the delay and expense to all parties and the court system. By contrast, the class action device presents far fewer management difficulties, is in fact manageable, and provides the benefits of single adjudication, economies of scale, and comprehensive supervision by a single court. The benefits of adjudicating this controversy as a class action far outweigh any difficulties in managing the Class.

V. FACTUAL ALLEGATIONS

A. The Mortgage Industry and How Mortgage Securitization Works

54. Prior to the Preferred Share Offerings, RBS began accumulating significant positions in securities that were backed by home mortgages and related assets, without properly disclosing them to investors. RBS's accumulated positions in assets backed by both subprime and other mortgage loans were the single most significant factor in its subsequent writedowns totaling in excess of £8 billion (\$15 billion) and goodwill impairments totaling £23 billion (\$42.6 billion). To better understand the allegations, some background information regarding the mortgage industry and mortgage securitization is necessary.

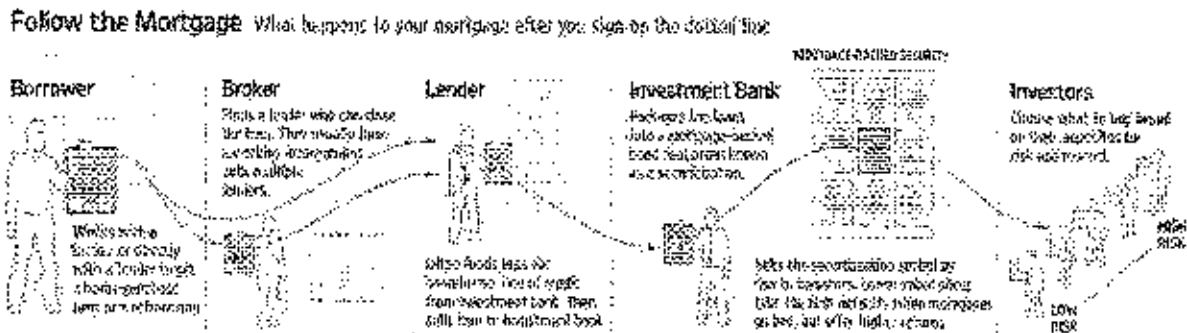
55. Until the 1990s, the mortgage industry had been traditionally characterized by a loan originator (*i.e.*, a bank) holding a direct interest in the property as collateral for a mortgage in the event the borrower defaulted on the loan. Under the traditional model, the loan originator held the note until it matured and was exposed to the concomitant risk that the borrower would fail to repay the loan. As such, under the traditional model, the loan originator had a financial incentive to ensure that its underwriting process properly assessed the borrower's ability to pay. Typically this assessment required disclosure and confirmation of the borrower's income, employment, credit history and assets. In addition, the loan originator had a financial incentive to obtain an accurate property appraisal before issuing a mortgage to ensure that the mortgage was adequately collateralized in the event the borrower defaulted and the property was foreclosed.

56. However, beginning in the 1990s, the traditional model of loan origination changed dramatically. Under the new model, after a loan originator issued a mortgage to a borrower, the loan originator would typically sell the mortgage to third-party financial

institutions. By selling the mortgage, the loan originator obtains fees in connection with the issuance of the mortgage, receives upfront proceeds when it sells the mortgage into the financial markets, and thereby has new capital to issue more mortgages. The mortgages are typically pooled together and securitized into varieties of asset backed securities ("ABSs"). ABSs are often pooled together into collateralized debt obligations ("CDOs"). (See Exhibit B for a detailed description of this process).

57. ABS CDOs vary in structure and underlying assets, but the basic principle is the same. A corporate entity called a "special purpose entity" ("SPE") is constructed to hold assets as collateral and to sell packages of cash flows to investors. The SPE issues ABSs in the form of bonds in different groups, or "tranches," and the proceeds are used to purchase the portfolio of underlying assets. An SPE's portfolio of underlying assets might include residential mortgage loans, student loans, commercial loans or corporate loans.

58. When the SPE's assets are made up of mortgages, the bonds it issues are called "mortgage-backed securities" ("MBS") or "collateralized mortgage obligations" ("CMO"). After receiving proceeds from the sale of the mortgage, the loan originator no longer holds the risk that the borrower may default; that risk is transferred with the mortgages to investors who purchase the MBSs or CMOs. As illustrated below, mortgage securitization is a structured finance process in which mortgage loans are acquired, pooled together, and then sold to investors who acquire rights in the cash flow streams from the mortgage pools.



(Source: *The Wall Street Journal* (June 27, 2007))

59. ABS CDOs are typically constructed from a portfolio of fixed-income assets, such as MBSs, and are used to spread the risk of the underlying assets. The ABS CDO pools together the cash flow received when mortgage borrowers make interest and principal payments as required by the underlying mortgage terms. That cash is then distributed to the holders of the CDO certificates in order of priority based on the specific tranche held by an ABS CDO investor. The highest tranche (also referred to as the senior tranche) is first to receive its share of the cash flow from the mortgage pool. Since the senior tranche is *first* to receive payments, it is also the *last* tranche to absorb any losses should mortgage borrowers become delinquent or default on their mortgages. As a result, the senior tranches of most CDOs were rated AAA by the credit rating agencies (e.g., Moody's, Standard & Poor's and Fitch Ratings). After the senior tranche, the middle tranches (referred to as mezzanine tranches) next receive their share of the payments. In accordance with their order of priority, the mezzanine tranches were generally rated from AA to BB by the credit rating agencies. The process of distributing the cash-flow from the borrowers' mortgage payments continues down the tranches through to the bottom tranches (referred to as equity tranches). This process is repeated each month and all investors receive the interest and principal payments owed to them so long as the mortgage borrowers are current on their mortgages.

60. Different ABSs have different risk/reward characteristics based upon the quality of the underlying loans. In the context of residential mortgage loans, Prime, or "A-paper," loans are considered to be the least risky residential mortgage loans, because, in order to obtain such a loan, the borrower typically must fully document his or her income and assets, inject at least 20% equity into the transaction, and have a credit score of a certain level (usually 680 or higher), a debt to income ratio of 35% or lower and two months of mortgage payments in reserve.

61. "Alt-A" (short for "Alternative A-paper") and "subprime" loans are considered riskier than prime loans, because the borrowers typically have less than full documentation, lower credit scores, higher loan-to-values ratios, or multiple investment properties. CDOs or MBSs backed by subprime assets carry a high risk because they are based on loans made to borrowers who are more likely than others to default on repayment, and, as with any investment, this greater risk is accompanied by a greater potential reward.

62. Importantly, the system only works if the underlying asset-backed securities held by the ABS CDO are uncorrelated -- in other words, they must be unlikely to all go bad at once.⁴ However, ABS CDOs holding only subprime and other mortgage-related investments (e.g., investments that are dependent on mortgages for their value), were highly correlated because they were substantially comprised of subprime securities and were, therefore, extremely vulnerable to a rise in defaults on subprime mortgage loans.

B. RBS Accumulated Billions of Dollars of Subprime Assets While Assuring Investors That the Company Maintained A Strong Capital Base and Controlled for Risk

63. RBS was a conservative regional Scottish bank before Defendant Goodwin became CEO in 2001. Under Goodwin's leadership, RBS completed twenty-six acquisitions by

⁴ See Serena Ng and Carrick Mollenkamp, *Pioneer Helped Merrill Move Into CDOs*, The Wall Street Journal, Oct. 25, 2007.

the end of 2007. By purchasing rival banks and expanding its investment banking division, RBS rapidly grew to become the tenth largest company in the world, with operations throughout Europe, the U.S. and Asia.

64. Throughout its period of rapid growth, RBS represented in public filings that its business philosophy was to maintain a strong capital base that balanced the underlying risks of the business and optimized return to shareholders. RBS claimed to have extensive internal control procedures in place at the Board and senior executive levels to authorize, manage, oversee, assess, and report on RBS's exposure to credit risk (the risk of loss due to non-payment on a loan). These procedures supposedly included the approval, monitoring and review of all credit exposures, and more frequent review of lower-quality exposures. Portfolio analysis and reporting purportedly were used to identify and manage credit risk concentrations and changes in credit risk quality, and an executive-level committee was tasked with undertaking a regular assessment of each of the Company's divisions to ensure that its credit risk management framework complied with RBS's standards and was appropriate for the business being undertaken. RBS represented that its Board was ultimately responsible for RBS's internal controls, which were established to ensure that any significant risks faced by RBS were properly identified, evaluated and managed.

65. A significant part of RBS's expansion occurred in the United States. One of RBS's U.S. affiliates, Greenwich, is an investment bank / broker-dealer based in Connecticut. Beginning in 2003, Greenwich generated vast profits by pooling mortgages and securitizing them into CDOs. The market for mortgage-backed CDOs grew quickly during the U.S. housing boom. Unlike the traditional home loan model in which the loan originator (typically a bank) holds the note until it matures, the risk of borrower default transfers to investors when mortgages

are pooled together into CDOs. CDOs that are backed by subprime assets present a high risk because they are based on loans made to borrowers who are more likely than others to default on repayment.

66. Much of the debt that Greenwich repackaged into CDOs was backed by subprime loan portfolios. In the peak years of underwriting mortgage-backed securities (2005 and 2006), Greenwich was ranked the second largest domestic underwriter. Only Lehman Brothers originated more subprime securities during that time. By 2007, Greenwich had underwritten \$188 billion of subprime mortgage-backed securities.

67. RBS's system of annual cash bonuses encouraged RBS bankers to buy up assets with insufficient regard to the risks involved. The manner in which bonuses were paid – on interest earned on assets – encouraged traders to take on riskier prospects that offered higher rates of return. During the relevant time period, Greenwich executives earned up to \$25 million a year in cash bonuses. The head of Greenwich at the time, Jay Levine, was RBS's highest paid employee, making nearly four times as much as RBS's CEO at the time.

68. Another U.S. subsidiary, Citizens Financial Group, purchased collateralized mortgage obligations ("CMOs") and sold them to Greenwich. Citizens had a CMO portfolio of more than \$25 billion before the first half of 2007.

69. Citizens also acquired Charter One Financial Inc. in 2004. Before the acquisition, Charter One operated an Ohio subsidiary known as Equity One that specialized in the origination of subprime home loans. Charter One kept the loans on its balance sheet and did not sell them to other banks. As a result, these subprime loans were assets that Citizens purchased when it acquired Charter One in September 2004.

70. Between 2003 and 2007, RBS acquired a material concentration of risk in subprime assets. RBS told investors the opposite: that the Company maintained a cautious approach to its retail lending markets and centered its growth on high quality residential mortgages and small business loans, that a fundamental aspect of the Company's business was controlling risk exposure, and that the Company's overall credit profile remained conservative. The extensive internal risk management procedures that were supposed to protect the Company and investors from material concentrations of risky assets did not exist, were not being followed or were otherwise ineffective in allowing RBS to identify and manage concentrations of risk.

71. RBS senior executives were regularly questioned by securities analysts about RBS's exposure to subprime loans and related trading activity. RBS executives consistently responded that investors had no reason to be concerned about RBS's exposure to subprime. In fact, RBS told investors that the Company had a "longstanding aversion to subprime lending, wherever we do business," that Greenwich has "always been very risk averse," and that Citizens does not "do sub-prime."

72. As the market for mortgage-backed securities became increasingly illiquid, RBS was forced to retain interests in many of the CDOs and assume the risks associated with them. By summer 2007, as the market for its CDOs dried up, RBS's subprime exposure had reached at least £34 billion—£20 billion from its investment banking division and £14 billion from Citizens.

73. Despite deteriorating market conditions, RBS announced in April 2007 that it had joined with two other companies, Fortis SA/NV and Santander Central Hispano S.A., to submit a joint proposal for the acquisition of Dutch bank ABN AMRO. The three companies ultimately made a €71 billion (\$100 billion) offer under which RBS would acquire 38% of ABN AMRO,

including its wholesale and investment banking units, for approximately \$38 billion in cash and securities.

74. RBS did not tell investors that ABN AMRO had billions of dollars of undisclosed subprime assets on its balance sheet, that the addition of these assets to RBS's own portfolio would materially increase RBS's existing undisclosed concentration of subprime assets, or that RBS's existing capital base could not withstand the additional risk the Company would take on when it acquired ABN AMRO. Instead, with no reasonable basis for doing so, RBS told investors that the acquisition would result in profitable "synergies" between the companies.

75. RBS conducted minimal due diligence on the ABN AMRO acquisition over a few days in late April and early May 2007. In the months that followed, the U.S. subprime crisis worsened and the credit crisis spread to Europe.

76. RBS nonetheless proceeded to complete the ABN AMRO acquisition on October 17, 2007. Instead of performing additional due diligence following the changes in the market, RBS simply accepted ABN AMRO management's representations regarding ABN AMRO's financial condition, and continued to represent that the acquisition would prove beneficial for RBS and its shareholders.

C. RBS Announces Massive Losses Due to Its Accumulation of Subprime Assets and Acquisition of ABN AMRO, and Is Bailed Out by the British Government

77. The acquisition of ABN AMRO, with its subprime portfolio, in combination with RBS's own growing portfolio of subprime assets and inadequate internal risk controls, ultimately led to the collapse of RBS, with the Company suffering the largest losses in British corporate history and requiring partial nationalization by the British government.

78. In December 2007, RBS announced that RBS and ABN AMRO would be taking writedowns of £950 million and £300 million, respectively, attributable to exposure to the U.S.

subprime mortgage markets. RBS reported that the CDOs that were the subject of the writedown were largely based on asset-backed securities issued between 2004 and June 2006. At the same time, RBS minimized the associated credit risks and RBS's exposure. RBS represented that the integration of ABN AMRO was progressing well and that transaction benefits were higher than forecast. On an investor call the same day, RBS senior executives reassured investors and analysts that despite the "conservative and prudent" writedowns, RBS expected to be comfortably ahead of forecasts of £9.78 billion for the year and that the acquisition of ABN AMRO appeared to be even more attractive and relevant than it was before. Securities analysts and the media viewed the writedown announcement and the accompanying statements of executives as consistent with prior statements of RBS management downplaying RBS's exposure to risky subprime lending and investment activity.

79. When RBS announced additional writedowns of £5.9 billion (nearly \$12 billion) due to the Company's exposure to subprime assets in April 2008, the Company also announced the £12 billion (some \$23.9 billion) Rights Issue to increase RBS's capital base. (A rights issue allows existing shareholders to buy a proportional number of additional securities at a specified price within a fixed time period.) The Rights Issue, which was, at the time, the largest rights issue in European history, succeeded in infusing RBS with additional capital to offset the writedowns. Notwithstanding the writedowns, RBS's management told investors and analysts that the businesses the Company acquired in the ABN AMRO acquisition were good, synergized well with RBS's existing business, and improved RBS's opportunities going forward.

80. In October 2008, RBS confirmed that it would receive a bailout from the British government. The U.K.'s economics and finance ministry, known as HM Treasury, confirmed that the government would recapitalize RBS in order to prevent a possible collapse of the British

banking system. RBS nonetheless continued to report that integration of the ABN AMRO businesses within RBS was "proceeding ahead of schedule."

81. On January 19, 2009, RBS disclosed that it expected to report a 2008 full-year loss as high as £28 billion, in large part due to a write-off of goodwill associated with the ABN AMRO acquisition, as well as an £8 billion writedown associated with subprime loans in the U.S. and elsewhere. When RBS published its financial results for fiscal year 2008 in February 2009, it provided a detailed breakdown of the Company's subprime assets. The Company's losses totaled £26.9 billion, which included charges to goodwill totaling £16.2 billion, broken down for the acquisitions of ABN AMRO (£7.7 billion), Citizens/Charter One (£4.4 billion) and NarWest/Greenwich (£2.7 billion).

82. Until RBS announced these losses in January 2009, it had continued to downplay the combined impact of the Company's exposure to subprime, lack of adequate internal risk controls, and the ABN AMRO acquisition on the Company's bottom line and future business prospects.

83. As part of the government's £20 billion bailout, Defendant Goodwin was replaced as CEO and the retirement of Chairman of the Board, Defendant McKillop, was announced. Nearly all of RBS's board members and senior executives also were ousted from the Company.

84. Former Chairman McKillop has identified two factors that contributed to the Company's downfall. The first was a capital base that was "low relative to the size of our balance sheet." The second was the acquisition of ABN AMRO.

85. New RBS CEO Stephen Hester confirmed that the Company's record losses were due, in equal part, to RBS's significant exposure to subprime loans and the ABN AMRO acquisition. Hester also acknowledged RBS's insufficient internal controls: "With respect to risk

concentrations, I would say to you that, if I've had a negative surprise in getting inside RBS, it is that the – some of the risk concentrations are inappropriate, and we have to work our way through that. That obviously was in part a result of putting two big wholesale banks together at a time when it was then not possible to take the exposures down, given market dislocations post the ABN AMRO acquisition.”

86. The conduct of former RBS executives and the adequacy of the Company's disclosures about its exposure to subprime assets are the subject of ongoing formal investigations by the SEC, the New York State Attorney General, and the U.K. Financial Services Authority, as well as the subject of testimony before the U.K. House of Commons Treasury Committee.

87. On February 10, 2009, Defendant Goodwin testified before the Treasury Committee. He admitted that RBS had a risk calibration issue.

88. RBS CFO Hester testified before the Treasury Committee the next day. Hester stated: “I think, frankly, that the risk-management systems at RBS need a lot of change, and I cannot do it all in a couple of weeks.” He testified that one of the Company's weaknesses had been “some very big elements of control,” including “[c]ontrol of risk and rules on size and concentration, types of risk and amounts of risk....”

D. Preferred Share Purchasers Suffer the Consequences of RBS's Materially False and Misleading Statements and Material Omissions

89. RBS raised more than \$5.3 billion from the Preferred Share Offerings in 2006 and 2007. The Preferred Share Offerings were marketed to and largely purchased by individuals and pension funds, like Plaintiffs, who were looking for conservative fixed income investments. The Series Q, R, S and T Preferred Shares were offered at \$25 per share and initially traded at that amount after the offerings. By January 19, 2009, the Series Q, R, S and T Preferred Shares had lost approximately 80% of their value. The Series U Preferred Shares were offered at \$100,000

per share and initially traded at that amount after the Series U offering. By January 19, 2009, the Series U Preferred Shares had lost 61% of their value.

**VI THE MATERIALLY FALSE AND MISLEADING STATEMENTS
IN THE PREFERRED SHARE OFFERING MATERIALS**

A. The April 8, 2005 Registration Statement

90. The Registration Statement that RBS filed with the SEC on April 8, 2005 was a “shelf” registration, which permitted RBS to sell securities in one or more offerings up to a total dollar amount of \$10 billion. A shelf registration permits the registrant to register offerings of securities in advance of offering those securities to the public on a continuous or delayed basis, amending the registration statement as required to ensure that accurate information is disseminated to purchasers. The issuer is then permitted to offer the securities over time with different pricing and terms, up to the total amount of the original registration. Only “seasoned” issuers with a history of reporting to the SEC and with more than \$700 million in worldwide market value are allowed to use the shelf registration procedure. Shelf registrations require continuing disclosure to ensure that investors receive current information as to each offering despite the gap between registration and selling dates. Issuers may satisfy this requirement by incorporating certain of the company’s other filings with the SEC into the registration statement.

91. The April 8, 2005 Registration Statement incorporated RBS’s comprehensive annual reports on Form 20-F and certain of its periodic Form 6-K updates into each Preferred Share Offering as follows:

- **Series Q:** Annual Report on Form 20-F for 2005, filed with the SEC on April 26, 2006; and Report on Form 6-K, filed with the SEC on May 24, 2006.
- **Series R:** Annual Report on Form 20-F for 2005, filed with the SEC on April 26, 2006; Annual Report on Form 20-F/A for 2005 (as restated), filed with the SEC on September 27, 2006; Report on Form 6-K, filed with the SEC on November 9, 2006; Interim Report on Form 6-K for the first six months of 2006, filed with the

SEC on November 9, 2006; and Report on Form 6-K, filed with the SEC on December 21, 2006.

- **Series S:** Annual Report on Form 20-F for 2006, filed with the SEC on April 24, 2007; and Report on Form 6-K, filed with the SEC on June 27, 2007.
- **Series T:** Annual Report on Form 20-F for 2006, filed with the SEC on April 24, 2007; Interim Report on Form 6-K for the first six months of 2007, filed with the SEC on August 15, 2007; and Report on Form 6-K, filed with the SEC on September 27, 2007.
- **Series U:** Annual Report on Form 20-F for 2006, filed with the SEC on April 24, 2007; Interim Report on Form 6-K for the first six months of 2007, filed with the SEC on August 15, 2007; Report on Form 6-K, filed with the SEC on September 25, 2007; Report on Form 6-K, filed with the SEC on October 4, 2007; and Report on Form 6-K, filed with the SEC on February 28, 2008.

92. As used herein, the term "Preferred Share Offering Materials" refers to the April 8, 2005 Registration Statement and the SEC filings identified in ¶ 91 above, as appropriate for each offering.

B. May 22, 2006: The Series Q Offering

93. On May 16 and 22, 2006, respectively, RBS filed with the SEC the Prospectus and Prospectus Supplement for the Series Q Preferred Share offering. The Series Q Prospectus and Prospectus Supplement form a part of the Registration Statement. The Series Q Prospectus and Prospectus Supplement contained untrue statements of material fact and omitted to state material facts required to be stated therein, or necessary to make the statements contained therein not misleading, for the reasons set forth below.

94. 2005 Form 20-F. The Series Q Prospectus incorporated the 2005 Annual Report on Form 20-F that RBS filed with the SEC on April 26, 2006.

95. With respect to credit quality, the 2005 Form 20-F represented that RBS's "[o]verall credit quality remained strong in 2005" (p. 9), and that "[r]isk elements in lending and potential problem loans represented just 1.6% of gross loans and advances to customers

(excluding reverse repos)" (p. 10). The 2005 Form 20-F also purported to set out and quantify RBS's exposure to credit risk by asset quality, industry sector, geography, product and customer type (pp. 42-44).

96. The foregoing statements were materially false and misleading because they failed to disclose the extent to which RBS had subprime assets in its portfolio. During 2005 and early 2006, RBS acquired billions of dollars of subprime assets through the activities of RBS's Greenwich and Citizens subsidiaries, among others. The 2005 Form 20-F failed to disclose the extent of subprime assets on RBS's books and the Company's potential exposure to subprime assets. Under IFRS, "omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements." (IAS 1, paragraph 7.) The amount of subprime assets that RBS was acquiring during 2005 and early 2006 was material to RBS's financial statements and business prospects and should have been disclosed to investors, as the amount of RBS's subprime assets could have influenced the economic decisions investors made on the basis of RBS's financial statements.

97. RBS's management was questioned by securities analysts and the press about the Company's exposure to subprime loans and related trading activity, and consistently represented that investors had no reason to be concerned about RBS's exposure to subprime. The questions of financial analysts concerning RBS's exposure to subprime in periodic conference calls throughout 2006 and 2007 evidences the materiality to the securities markets of information concerning RBS's exposure to subprime.

98. The foregoing statements were also materially false and misleading because the 2005 Form 20-F failed to disclose any concentration of credit risk arising from the billions of

dollars of subprime assets in RBS'S portfolio. IAS 32 required RBS to disclose certain information that would "assist users of financial statements in assessing the extent of risk related to both recognized and unrecognized financial instruments." Paragraph 66 of IAS 32 stated that "for each class of financial asset, both recognized and unrecognized, an enterprise should disclose information about its exposure to credit risk, including...significant concentrations of credit risk." Paragraph 75 of IAS 32 specified that "[c]haracteristics that may give rise to a concentration of risk include...the level of creditworthiness of group of borrowers." Paragraph 76 of IAS 326 stated that "[d]isclosure of concentrations of credit risk includes a description of the shared characteristic that identifies each concentration and the amount of the maximum credit risk exposure associated with all recognized and unrecognized financial assets sharing that characteristic."

99. RBS's exposure to CDOs and subprime and Alt-A MBS trading inventories represented significant concentrations of credit risk with similar characteristics. The weaker credit quality, unverified borrower income, and sensitivity to increases in interest rates of the loans underlying these asset-backed securities created a specific risk with respect to a potential decline in residential real estate prices and increases in mortgage interest rates, such risk was particularly prevalent in the U.S. where the growth in housing prices had been so dramatic up to mid-2006 after which it began to decline.

100. With respect to RBS's capital base, the 2005 Form 20-F represented that it was RBS's policy to "maintain a strong capital base, to expand it as appropriate and to utilize it efficiently throughout its activities to optimize the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business" (p. 37).

101. The foregoing statement was materially false and misleading because RBS failed to disclose that the Company either lacked any such policy or lacked the means to implement the policy, as RBS had and would continue to acquire billions of dollars of subprime assets from at least 2005 through 2007. The use of RBS's capital base to acquire material amounts of high-risk subprime assets significantly increased RBS's credit exposure and concentration of credit risk. RBS's ongoing acquisition of subprime assets was inconsistent with RBS's stated policy of maintaining a strong capital base, expanding it as appropriate and utilizing it efficiently throughout its activities to optimize the return to shareholders, while maintaining a prudent relationship between the capital base and the underlying risks of the business.

102. With respect to RBS's internal controls and risk management practices, the 2005 Form 20-F represented that all credit exposures, once approved, were effectively monitored, managed and reviewed periodically against approved limits, with lower quality exposures being subject to a greater frequency of analysis and assessment (p. 40); that portfolio analysis and reporting were used to identify and manage credit risk concentrations and credit risk quality migration (p. 40); that RBS had an extensive governance framework at the Board and senior executive levels to manage RBS's exposure to credit and market risks (pp. 38-41); that RBS had established standards for credit risk management (p. 40); that an executive level committee of RBS would undertake a regular assessment of each RBS division's credit risk management framework to ensure that it complied with RBS's standards and was appropriate for the business being undertaken (p. 40); and that the Board was responsible for RBS's internal controls and had established such controls to ensure that significant risks faced by RBS were identified, evaluated, and managed (p. 38).

103. The foregoing statements were materially false and misleading because the internal controls described above either did not exist at RBS or were not being followed. Defendants repeatedly denied or minimized RBS's exposure to subprime and other lower-quality assets or failed to disclose the extent of the Company's exposure to such assets in the Company's financials. It subsequently has been revealed that in 2005 and early 2006, RBS already had billions of dollars of subprime and other lower-quality assets on its books and was continuing to accumulate more of such assets.

104. In connection with its announcement of £5.9 billion in writedown on April 22, 2008, RBS said that 70% of the loans backing RBS's super-senior CDOs were originated prior to 2007. Ultimately, it was revealed that the highest percentage of the Company's exposure to subprime and Alt-A loans were originated in 2005 and 2006.

105. RBS's internal control failures have been confirmed by a number of senior RBS insiders. On a January 19, 2009 conference call, CEO Hester said that he was "negatively surprised" when he joined RBS because some of the risk concentrations were inappropriate.

106. On February 10, 2009, in his testimony before the Treasury Committee, Defendant Goodwin admitted that RBS had a risk calibration issue and that RBS's risk system was wrong when it quantified RBS's exposure to subprime assets as being very small.

107. During his testimony before the Treasury Committee on February 11, 2009, CEO Hester testified that one of the Company's weaknesses had been "some very big elements of control," including "[c]ontrol of risk and rules on size and concentration, types of risk and amounts of risk...."

108. An article in *The Daily Telegraph* on March 23, 2009 revealed that the manner in which bonuses were paid -- on interest earned on assets -- encouraged traders to take on riskier

prospects which offered higher rates of return. One former senior RBS executive stated: "The place was totally dysfunctional. Everywhere you looked they were taking on assets ~ billions of dollars worth of planes, billions of dollars of ships, commercial real estate across America and Britain. They were buying everything to meet Goodwin's targets and his targets were assets."

109. In the 2005 Form 20-F, RBS represented that the 2005 financial statements set forth therein were fairly presented in accordance with IFRS in all material respects and that RBS had sufficient internal controls to ensure that these financial statements were in fact fairly presented.

110. The foregoing statements were materially false and misleading because RBS's 2005 financial statements included within the 2005 Form 20-F failed to comply with IFRS. Specifically, RBS's 2005 financial statements failed to provide information about the financial position, performance, and changes in financial position useful to users (IASB Framework at paragraph 12), failed to provide information that was readily understandable by users (IASB Framework at paragraph 25), failed to provide reliable information that was free from material error and that could be depended upon by users to faithfully represent the financial condition of RBS (IASB Framework at paragraph 31), failed to faithfully present the transactions and other events described in the financial statements (IASB Framework at paragraph 33), and failed to present information neutrally and free from bias (IASB Framework at paragraph 36). RBS's 2005 financial statements also failed to comply with IAS 32, for the reasons discussed above (see ¶ 98).

111. The 2005 Form 20-F contained certifications signed by Defendants Goodwin and Whittaker, as required by the Sarbanes-Oxley Act of 2002. In those certifications, Defendants Goodwin and Whittaker certified that (1) they reviewed the filing; (2) the filing did "not contain

any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the report;" (3) the financial information and statements contained in the report fairly presented, in all material respects, the financial condition and results of operations of the Company; (4) they designed or caused to be designed appropriate internal disclosure controls over financial reporting; (5) they evaluated the effectiveness of such controls; and (6) they disclosed any material change in such controls, and any fraud or material weakness or deficiency in such controls, to the Company's Board and to its independent auditors.

112. The foregoing statements were materially false and misleading at the time they were made because, among other things: (1) RBS's 2005 Form 20-F did contain untrue statements of material fact and omitted to state material facts as alleged herein; (2) the 2005 Form 20-F failed to disclose the extent to which RBS had subprime assets in its portfolio or the concentration of credit risk arising from the subprime assets in its portfolio; and (3) RBS lacked adequate internal controls over financial reporting to prevent the 2005 Form 20-F from being false and misleading.

113. May 24, 2006 Form 6-K. The Series Q Prospectus incorporated the Report on Form 6-K that RBS filed with the SEC on May 24, 2006. The Form 6-K contained the memoranda and articles of association of RBS, samples of the share warrants and ADRs (American depositary receipts, which allow U.S. investors to buy shares in foreign companies) for the Series Q Preferred Shares, and a resolution of the RBS Board regarding the Series Q Preferred Share Offering.

114. The Form 6-K was materially false and misleading because it failed to disclose the extent to which RBS had subprime assets in its portfolio (see ¶¶ 96-97 above), the concentration of credit risk arising from the subprime assets in its portfolio (see ¶¶ 98-99, 105-107 above), and RBS's lack of internal controls to mitigate or properly disclose this exposure in the Company's financial reporting (see ¶¶ 103-108, 110 above).

C. December 18, 2006: The Series R Offering

115. On December 13 and 18, 2006, respectively, RBS filed with the SEC the Prospectus and Prospectus Supplement for the Series R Preferred Share Offering. The Series R Prospectus and Prospectus Supplement form a part of the Registration Statement. The Series R Prospectus and Prospectus Supplement contained untrue statements of material fact and omitted to state material facts required to be stated therein, or necessary to make the statements contained therein not misleading, for the reasons set forth below.

116. 2005 Form 20-F. The Series R Prospectus incorporated the 2005 Annual Report on Form 20-F that RBS filed with the SEC on April 26, 2006. The 2005 Form 20-F was materially false and misleading for the reasons set forth in ¶¶ 95-112 above.

117. 2005 Form 20-F/A. The Series R Prospectus also incorporated the amended Form 20-F/A that RBS filed with the SEC on September 27, 2006. The 2005 amended Form 20-F/A was materially false and misleading for the reasons set forth in ¶¶ 95-112 above.

118. November 6, 2006 Form 6-K Interim Report. The Series R Prospectus also incorporated the Interim Report on Form 6-K for the first six months of 2006, ended June 30, 2006, that RBS filed with the SEC on November 9, 2006. The Form 6-K disclosed RBS's results of operations and financial results for the first six months of 2006. In discussing these results, the Form 6-K was materially false and misleading and omitted material facts because it failed to disclose the extent to which RBS had subprime assets in its portfolio (see ¶¶ 96-97 above), or the

concentration of credit risk arising from the subprime assets in its portfolio (*see* ¶¶ 98-99, 105-106 above).

119. The financial statements included within the Form 6-K were materially false and misleading and failed to comply with IAS 34, which required disclosure of events and transactions that were significant to an understanding of the changes in financial position and performance of RBS since the last annual reporting period. During the interim financial period encompassed with the Form 6-K, RBS's portfolio of subprime assets materially increased, resulting in a corresponding increase in credit risk and concentration of risk that was significant to an understanding of the interim financial statements and that was not disclosed in the interim financial statements for the first six months of 2006.

120. The financial statements included within the Form 6-K also failed to comply with certain provisions of the IASB Framework which requires that financial statements provide information about the financial position, performance and changes in financial position that is useful to users. (IASB Framework at paragraph 12). The interim report further failed to provide reliable information that was free from material error and that could be depended upon by users to faithfully represent what it could reasonably be expected to represent. (IASB Framework at paragraphs 31, 33). Additionally, the interim report failed to present information neutrally and free from bias. (IASB Framework at paragraph 36).

121. November 9, 2006 Form 6-K. The Series R Prospectus also incorporated by reference the Form 6-K filed with the SEC on November 9, 2006 that restated certain segment disclosures contained in RBS's 2005 Form 20-F and 2005 Form 20-F/A. The Form 6-K was materially false and misleading for the reasons set forth in ¶¶ 95-112 above.

122. December 21, 2006 Form 6-K. The Series R Prospectus incorporated the Report on Form 6-K that RBS filed with the SEC on December 21, 2006. The Form 6-K contained the memoranda and articles of association of RBS, samples of the share warrants and ADRs for the Series R Preferred Shares, and a resolution of the RBS Board of Directors regarding the Series R Preferred Share Offering.

123. The Form 6-K was materially false and misleading because it failed to disclose the extent to which RBS had subprime assets in its portfolio (see ¶¶ 96-97 above), the concentration of credit risk arising from the subprime assets in its portfolio (see ¶¶ 98-99, 105-106 above), and RBS's lack of internal controls to mitigate or properly disclose this exposure in the Company's financial reporting (see ¶¶ 103-108, 110 above).

D. June 26, 2007: The Series S Offering

124. On June 20 and 26, 2007, respectively, RBS filed with the SEC the Prospectus and Prospectus Supplement for the Series S Preferred Share Offering. The Series S Prospectus and Prospectus Supplement form a part of the Registration Statement. The Series S Prospectus and Prospectus Supplement contained untrue statements of material fact and omitted to state material facts required to be stated therein, or necessary to make the statements contained therein not misleading, for the reasons set forth below.

125. With respect to the ABN AMRO acquisition, the Series S Prospectus Supplement stated that based on RBS's due diligence and the publicly available information about ABN AMRO, the combination of RBS's Global Banking & Markets group with ABN AMRO's Global Wholesale business would create a "leading corporate and institutional business with both scale and global reach." (p. 9).

126. The foregoing statement was materially false and misleading because (I) RBS failed to disclose that ABN AMRO had billions of dollars of undisclosed subprime assets on its

balance sheet prior to the acquisition; (2) that the addition of the ABN AMRO subprime assets to RBS's own portfolio of subprime assets would materially increase RBS's existing undisclosed concentration of subprime assets; and (3) RBS lacked sufficient internal controls to effectively manage this increased risk concentration.

127. The foregoing statement was also materially false and misleading when made because RBS lacked an adequate basis to make representations about the benefits to RBS from the proposed acquisition. RBS's executives failed to appreciate the risk those assets presented and RBS lacked sufficient internal controls to monitor and manage the increased concentration of credit risk resulting from the acquisition of ABN AMRO's subprime assets.

128. On April 22, 2008, Defendant Whitaker admitted that one-third of the £5.9 billion of subprime assets written down at the end of 2007 (just a few months after the acquisition closed) were on ABN AMRO's balance sheet at the time of the acquisition.

129. On November 20, 2008, Defendant McKillop admitted that "the acquisition increased our exposure to those wholesale markets within which many of the problems have emerged during the course of this financial crisis. In retrospect, the higher exposure to assets, which later became very difficult to trade, and the need to fund an enlarged balance sheet as access to liquidity became increasingly difficult, increased the short-term vulnerability of the Group to the financial crisis as it intensified this year."

130. 2006 Form 20-F. The Series S Prospectus incorporated the Annual Report on Form 20-F for the fiscal year ended December 31, 2006, filed with the SEC on April 24, 2007.

131. The 2006 Form 20-F represented that risk elements in lending and potential problem loans represented just 1.57% of gross loans and advances to customers (excluding reverse repos) (p. 9); that portfolio risk remained stable and the corporate credit environment

remained benign (p. 21); that lending growth was centered on high quality residential mortgages and small business loans (p. 23); and that low impairment losses reflected the prime quality of Citizens' portfolio (p. 28). The 2006 Form 20-F also purported to set out and quantify RBS's exposure to credit risk by asset quality, industry sector, geography, product, and customer type (pp. 43-45).

132. The foregoing statements were materially false and misleading because they failed to disclose the extent to which RBS had subprime assets in its portfolio. During 2006 and early 2007, RBS acquired billions of dollars of subprime assets through the activities of RBS's Greenwich and Citizens subsidiaries, among others. The 2006 Form 20-F failed to disclose the extent of RBS's subprime assets and potential exposure to any subprime assets. Under IFRS, "omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements." The amount of subprime assets that RBS was acquiring during 2006 and early 2007 was material to RBS's financial statements and business prospects and should have been disclosed to investors, as the amount of RBS's subprime assets could have influenced the economic decisions investors made on the basis of RBS's financial statements.

133. RBS's management was questioned by securities analysts about RBS's exposure to subprime loans and related trading activity. The questions of financial analysts concerning RBS's exposure to subprime in periodic conference calls throughout 2006 and 2007 evidences the materiality to the securities markets of information concerning RBS's exposure to subprime.

134. The foregoing statements were also materially false and misleading because the 2006 Form 20-F failed to disclose any concentration of credit risk arising from the billions of dollars of subprime assets in RBS's portfolio. IAS 32 required RBS to disclose certain

information that would “assist users of financial statements in assessing the extent of risk related to both recognized and unrecognized financial instruments.” Paragraph 66 of IAS 32 stated that “for each class of financial asset, both recognized and unrecognized, an enterprise should disclose information about its exposure to credit risk, including...significant concentrations of credit risk.” Paragraph 75 of IAS 32 specified that “[c]haracteristics that may give rise to a concentration of risk include...the level of creditworthiness of group of borrowers.” Paragraph 76 of IAS 32 stated that “[d]isclosure of concentrations of credit risk includes a description of the shared characteristic that identifies each concentration and the amount of the maximum credit risk exposure associated with all recognized and unrecognized financial assets sharing that characteristic.”

135. RBS’s exposure to CDOs and subprime and Alt-A MBS trading inventories represented significant concentrations of credit risk with similar characteristics. The weaker credit quality, unverified borrower income and sensitivity to increases in interest rates of the loans underlying these ABS created a specific risk with respect to a potential decline in residential real estate prices and increases in mortgage interest rates. Such risk was particularly prevalent in the U.S. where the growth in housing prices had been so dramatic up to mid-2006 after which it began to decline.

136. With respect to RBS’s capital base, the 2006 Form 20-F represented that it was RBS’s policy to “maintain a strong capital base, to expand it as appropriate and to utilize it efficiently throughout its activities to optimize the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business” (p. 38).

137. The foregoing statement was materially false and misleading because RBS failed to disclose that RBS either lacked any such policy or lacked the means to implement the policy,

as RBS had and would continue to acquire billions of dollars of subprime assets from at least 2005 through 2007. The use of RBS's capital base to acquire material amounts of high-risk subprime assets significantly increased RBS's credit exposure and concentration of credit risk. RBS's ongoing acquisition of subprime assets was inconsistent with RBS's stated policy of maintaining a strong capital base, expanding it as appropriate and utilizing it efficiently throughout its activities to optimize the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business.

138. The foregoing statement was materially false and misleading because RBS failed to disclose that the ABN AMRO acquisition would further undermine RBS's stated policy of maintaining a strong capital base, utilizing it efficiently to optimize shareholder value, and maintaining a prudent relationship between the capital base and the underlying risks of the business, because RBS would be taking on the subprime assets already held by ABN AMRO presented for RBS in a deteriorating credit environment.

139. With respect to RBS's internal controls and risk management practices, the 2006 Form 20-F represented that all credit exposures, once approved, were effectively monitored, managed and reviewed periodically against approved limits, with lower quality exposures being subject to a greater frequency of analysis and assessment (p. 41); that portfolio analysis and reporting were used to identify and manage credit risk concentrations and credit risk quality migration (p. 41); that RBS had an extensive governance framework at the Board and senior executive levels to manage RBS's exposure to credit and market risks (pp. 39-41); that RBS had established standards for credit risk management (p. 41); that an executive level committee of RBS would undertake a regular assessment of each RBS division's credit risk management framework to ensure that it complied with RBS's standards and was appropriate for the business

being undertaken (p. 41); and that the Board was responsible for RBS's internal controls and had established such controls to ensure that significant risks faced by RBS were identified, evaluated and managed (p. 39).

140. The foregoing statements were materially false and misleading because the internal controls described above either did not exist at RBS or were not being followed. RBS's management repeatedly denied or minimized RBS's exposure to subprime and other lower-quality assets or failed to disclose the extent of RBS's exposure to such assets in the Company's financials. It has been revealed that in 2006 and early 2007, RBS already had billions of dollars of subprime and other lower-quality assets on its books and was continuing to accumulate more of such assets.

141. In connection with its announcement of £5.9 billion in writedown on April 22, 2008, RBS said that 70% of the loans backing RBS's super-senior CDOs were originated prior to 2007. Ultimately, it was revealed that the highest percentage of the Company's exposure to subprime and Alt-A loans were originated in 2005 and 2006.

142. RBS's internal control failures have been confirmed by a number of senior RBS insiders. On a January 19, 2009 conference call, CEO Hester acknowledged that he was "negatively surprised" when he joined RBS because some of the risk concentrations were inappropriate. On February 10, 2009, Defendant Goodwin admitted that RBS had a risk calibration issue and that RBS's risk system was wrong when it quantified RBS's exposure to subprime assets as being very small.

143. During his testimony on February 11, 2009 before Parliament, CEO Hester testified that one of the Company's weaknesses had been "some very big elements of control,"

including “[c]ontrol of risk and rules on size and concentration, types of risk and amounts of risk....”

144. An article in *The Daily Telegraph* on March 23, 2009 revealed that the manner in which bonuses were paid – on interest earned on assets – encouraged traders to take on riskier prospects which offered higher rates of return. One former senior RBS executive stated: “The place was totally dysfunctional. Everywhere you looked they were taking on assets – billions of dollars worth of planes, billions of dollars of ships, commercial real estate across America and Britain. They were buying everything to meet Goodwin’s targets and his targets were assets.”

145. In the 2006 Form 20-F, RBS represented that the 2006 financial statements set forth therein were fairly presented in accordance with IFRS in all material respects and that RBS had sufficient internal controls to ensure that these financial statements were in fact fairly presented.

146. The foregoing statements were materially false and misleading because RBS’s 2006 financial statements included within the 2006 Form 20-F failed to comply with IFRS. Specifically, RBS’s 2006 financial statements failed to provide information about the financial position, performance and changes in financial position useful to users (IASB Framework at paragraph 12), failed to provide information that was readily understandable by users (IASB Framework at paragraph 25), failed to provide reliable information that was free from material error and that could be depended upon by users to faithfully represent the financial condition of RBS (IASB Framework at paragraph 31), failed to faithfully present the transactions and other events described in the financial statements (IASB Framework at paragraph 33), and failed to present information neutrally and free from bias (IASB Framework at paragraph 36). RBS’s

2006 financial statements also failed to comply with IAS 32, for the reasons discussed above (*see* ¶ 98 above).

147. The 2006 Form 20-F contained certifications signed by Defendants Goodwin and Whittaker, as required by the Sarbanes-Oxley Act of 2002. In those certifications, Defendants Goodwin and Whittaker certified that (1) they reviewed the filing; (2) the filing did “not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the report;” (3) the financial information and statements contained in the report fairly presented, in all material respects, the financial condition and results of operations of the Company; (4) they designed or caused to be designed appropriate internal disclosure controls over financial reporting; (5) they evaluated the effectiveness of such controls; and (6) they disclosed any material change in such controls, and any fraud or material weakness or deficiency in such controls, to the Company’s Board and to its independent auditors.

148. The foregoing statements were materially false and misleading at the time they were made because, among other things: (1) RBS’s 2006 Form 20-F did contain untrue statements of material fact and omitted to state material facts; (2) the 2006 Form 20-F failed to disclose the extent to which RBS had subprime assets in its portfolio or the concentration of credit risk arising from the subprime assets in its portfolio; and (3) RBS lacked adequate internal controls over financial reporting to prevent the 2006 Form 20-F from being false and misleading.

149. June 27, 2007 Form 6-K. The Series S Prospectus incorporated the Report on Form 6-K that RBS filed with the SEC on June 27, 2006. The Form 6-K contained the memoranda and articles of association of RBS, samples of the share warrants and ADRs for the

Series S Preferred Shares, and a resolution of the RBS Board regarding the Series S Preferred Share Offering.

150. The Form 6-K was materially false and misleading because it failed to disclose the extent to which RBS had subprime assets in its portfolio (*see* ¶¶ 132-133 above), the concentration of credit risk arising from the subprime assets in its portfolio (*see* ¶¶ 134, 142-143 above), and RBS's lack of internal controls to mitigate or properly disclose this exposure in the Company's financial reporting (*see* ¶¶ 140-144, 146, 148 above).

E. September 24, 2007: The Series T Offering

151. On September 18 and 24, 2007, respectively, RBS filed with the SEC the Prospectus and Prospectus Supplement for the Series T Preferred Share Offering. The Series T Prospectus and Prospectus Supplement form a part of the Registration Statement. The Series T Prospectus and Prospectus Supplement contained untrue statements of material fact and omitted to state material facts required to be stated therein, or necessary to make the statements contained therein not misleading, for the reasons set forth below.

152. With respect to the ABN AMRO acquisition, the Series T Prospectus Supplement stated that based on RBS's due diligence and the publicly available information about ABN AMRO, the combination of RBS's Global Banking & Markets group with ABN AMRO's Global Wholesale business would be a strong strategic fit and would enable RBS to accelerate its expansion relative to its then current strategy. RBS also represented that it had developed a clear and detailed roadmap for the integration of ABN AMRO's business into RBS and that RBS expected to generate significantly higher revenues from ABN AMRO's business. The foregoing statements were materially false and misleading for the reasons set forth in ¶¶ 126-129 above.

153. The Series T Prospectus Supplement set forth, for RBS and ABN AMRO, unaudited condensed combined balance sheets and income statements as of June 30, 2007,

prepared in accordance with IFRS, that assumed the acquisition was completed on its terms. In discussing these combined results, the Series T Prospectus Supplement was materially false and misleading because it failed to disclose the extent to which RBS and ABN AMRO had subprime assets in their portfolios (*see* ¶¶ 126, 132-133 above), or the concentration of credit risk arising from the subprime assets in their portfolios (*see* ¶¶ 126, 134, 142-143 above).

154. 2006 Form 20-F. The Series T Prospectus incorporated the 2006 Annual Report on Form 20-F that RBS filed with the SEC on April 24, 2007. The 2006 Form 20-F was materially false and misleading for the reasons set forth in ¶¶ 130-148 above.

155. August 15, 2007 Interim Report on Form 6-K. The Series T Prospectus also incorporated the Interim Report on Form 6-K for the six months of 2007, which RBS filed with the SEC on August 15, 2007.

156. The Form 6-K represented that RBS's impairment losses actually fell 2% when compared to the same period in 2006 (p. 3); that the risk elements in lending and potential problem loans represented just 1.51% of gross loans and advances to customers (excluding reverse repos), a decline from the prior year (p. 3); that portfolio risk remained stable and the corporate credit environment remained benign (p. 14); and that Citizens was not active in subprime lending and its consumer lending was to prime customers (p. 22).

157. The foregoing statements were materially false and misleading and omitted material facts because they failed to disclose the extent to which RBS had subprime assets in its portfolio (*see* ¶¶ 132-133 above), or the concentration of credit risk arising from the subprime assets in its portfolio (*see* ¶¶ 134, 142-143 above).

158. In discussing the interim results for the first six months of 2007, the Form 6-K discussed RBS's asset quality and credit risks. This discussion was materially false and

misleading and omitted material facts because it did not disclose or attempt to quantify the extent to which RBS had subprime assets in its portfolio (see ¶¶ 132-133 above), the concentration of credit risk arising from the subprime assets in its portfolio (see ¶¶ 134, 142-143 above), or that as a result of the impending acquisition of ABN AMRO, RBS's exposure to and concentration of credit risk from subprime assets in its portfolio would increase dramatically (see ¶ 126 above).

159. The financial statements included within the Form 6-K were materially false and misleading and failed to comply with IFRS. Specifically, RBS's interim 2007 financial statements failed to provide information about the financial position, performance, and changes in financial position useful to users (IASB Framework at paragraph 12), failed to provide information that was readily understandable by users (IASB Framework at paragraph 25), failed to provide reliable information that was free from material error and that could be depended upon by users to faithfully represent the financial condition of RBS (IASB Framework at paragraph 31), failed to faithfully present the transactions and other events described in the financial statements (IASB Framework at paragraph 33), and failed to present information neutrally and free from bias (IASB Framework at paragraph 36).

160. The interim 2006 financial statements included within the Form 6-K also failed to comply with IAS 34, which required disclosure of events and transactions that were significant to an understanding of the changes in financial position and performance of RBS since the last annual reporting period (IAS 34 at paragraph 15), and material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period (IAS 34 at paragraph 16). During the interim financial period encompassed with the Form 6-K, RBS's portfolio of subprime assets materially increased, resulting in a corresponding increase in credit risk and concentration of risk that was not disclosed in the interim financial statements for

the first six months of 2007. In addition, RBS failed to disclose the significant decline in the value of its holdings of subprime assets that had occurred since June 30, 2007. Because of these failures to disclose certain information required by IAS 34, the financial statements included within the Form 6-K also failed to comply with provisions of the IASB Framework. RBS's financial statements failed to provide required information about the financial position, performance and changes in financial position that is useful to users (IAS Framework at paragraph 12), reliable information that was free from material error and that could be depended upon by users to faithfully represent what it could reasonably be expected to represent (IAS Framework at paragraphs 31, 33), and present information neutrally and free from bias (IASB Framework at paragraph 36).

161. In connection with its announcement of £5.9 billion in writedown on April 22, 2008, RBS said that 70% of the loans backing RBS's super-senior CDOs were originated prior to 2007. Ultimately, it was revealed that the highest percentage of the Company's exposure to subprime and Alt-A loans were originated in 2005 and 2006.

162. The financial statements included within the Form 6-K also violated IAS 39 because they failed to properly mark-to-market the true value of RBS's portfolio of subprime assets, particularly the U.S. subprime assets. This was a violation of IAS 39's requirement that RBS consider all available observable market data in determining the value of its CDOs, including declines in the ABX indices. During the first six months of 2007, the key indices in the U.S. tracking the market value of mortgage-backed securities and CDOs, particularly the indices tracking subprime assets, has declined dramatically due to the reported rise in default rates on subprime loans and the announced bankruptcy of several subprime mortgage originators. By June 2007, the indices for subprime loans showed that these assets were being discounted by

as much as 65%. However, in the Form 6-K for the first six months of 2007, RBS continued to value its subprime portfolio at full value, and failed to properly account for the significant reduction in the value of its subprime asset portfolio consistent with what was known in the market.

163. September 27, 2007 Form 6-K. The Series T Prospectus incorporated the Report on Form 6-K that RBS filed with the SEC on September 27, 2006. The Form 6-K contained the memoranda and articles of association of RBS, samples of the share warrants and ADRs for the Series T Preferred Shares, and a resolution of the RBS Board regarding the Series T Preferred Share Offering.

164. The Form 6-K was materially false and misleading because it failed to disclose the extent to which RBS and ABN AMRO had subprime assets in their portfolios (see ¶¶ 126, 132-133 above), the concentration of credit risk arising from the subprime assets in their portfolios (see ¶¶ 126, 134, 142-143 above), and RBS's lack of internal controls to mitigate or properly disclose this exposure in the Company's financial reporting (see ¶¶ 140-144, 146, 148 above).

F. September 28, 2007: The Series U Offering

165. On September 25 and 28, 2007, respectively, RBS filed with the SEC the Prospectus and Prospectus Supplement for the Series U Preferred Share offering. The Series U Prospectus and Prospectus Supplement form a part of the Registration Statement. The Series U Prospectus and Prospectus Supplement contained untrue statements of material fact and omitted to state material facts required to be stated therein, or necessary to make the statements contained therein not misleading, for the reasons set forth below.

166. The Series U Prospectus Supplement is substantially similar to the Series T Prospectus Supplement and contained the same untrue statements of material fact and omissions

of material fact concerning the ABN AMRO acquisition as set forth in the Series T Prospectus Supplement, which are incorporated by reference. The Series U Prospectus Supplement is materially false and misleading for the same reasons set forth above with respect to the Series T Prospectus Supplement.

167. 2006 Form 20-F. The Series U Prospectus incorporated the 2006 Annual Report on Form 20-F that RBS filed with the SEC on April 24, 2007. The 2006 Form 20-F was materially false and misleading for the reasons set forth in ¶¶ 130-148 above.

168. August 15, 2007 Interim Report on Form 6-K. The Series U Prospectus also incorporated an Interim Report on Form 6-K that RBS filed with the SEC on August 15, 2007. The Interim Report on Form 6-K was materially false and misleading for the reasons set forth in ¶¶ 156-162 above.

169. September 25, 2007 6-K. The Series U Prospectus also incorporated a Form 6-K that RBS filed with the SEC on September 25, 2007 containing pro forma unaudited condensed combined financial information related to the proposed acquisition of ABN AMRO. In discussing these combined results, the Form 6-K was materially false and misleading because it failed to disclose the extent to which RBS and ABN AMRO had subprime assets in their portfolios (*see* ¶¶ 126, 132-133 above), the concentration of credit risk arising from the subprime assets in their portfolios (*see* ¶¶ 126, 134, 142-143 above), and RBS's lack of internal controls to mitigate or properly disclose this exposure in the Company's financial reporting (*see* ¶¶ 140-144 above).

170. October 4, 2007 Form 6-K. The Series U Prospectus incorporated the Report on Form 6-K that RBS filed with the SEC on October 4, 2007. The Form 6-K contained the memoranda and articles of association of RBS, samples of the share warrants and ADRs for the

Series U Preferred Shares, and a resolution of the RBS Board regarding the Series U Preferred Share Offering.

171. The Form 6-K was materially false and misleading because it failed to disclose the extent to which RBS and ABN AMRO had subprime assets in their portfolios (see ¶¶ 132-133 above), the concentration of credit risk arising from the subprime assets in their portfolios (see ¶¶ 126, 134, 142-143 above), and RBS's lack of internal controls to mitigate or properly disclose this exposure in the Company's financial reporting (see ¶¶ 140-144, 146, 148 above).

172. February 28, 2008 Form 6-K. The Series U Prospectus also incorporated "any subsequent 6-K furnished to the SEC containing updated or revised pro forma financial information." On February 28, 2008, RBS filed with the SEC a Report on Form 6-K containing pro forma financial information for RBS and ABN AMRO for 2006 and 2007.

173. The Form 6-K was materially false and misleading because it failed to disclose the extent to which RBS and ABN AMRO had subprime assets in their portfolios (see ¶¶ 126, 132-133 above), the concentration of credit risk arising from the subprime assets in their portfolios (see ¶¶ 126, 134, 142-143 above), and RBS's lack of internal controls to mitigate or properly disclose this exposure in the Company's financial reporting (see ¶¶ 140-144, 146, 148 above).

174. The Counts set forth below are not based on and do not sound in fraud. Any allegations of fraud or fraudulent conduct and/or motive are specifically excluded from these Counts. For purposes of asserting these claims under the Securities Act, Plaintiffs do not allege that the Defendants acted with scienter or fraudulent intent. Plaintiffs expressly exclude and disclaim any allegation that could be construed as alleging fraud or intentional or reckless

misconduct, as these Counts are based solely on claims of strict liability and/or negligence under the Securities Act.

COUNT I

**AGAINST ALL DEFENDANTS FOR VIOLATIONS OF SECTION 11 OF THE
SECURITIES ACT**

175. Plaintiffs repeat and reallege each and every allegation contained in Paragraphs 1 to 174 above, including all Sections and Paragraphs incorporated therein, and further allege as follows.

176. This Count is brought pursuant to Section 11 of the Securities Act, 15 U.S.C. §77k, by Plaintiffs on behalf of themselves and all persons who purchased or otherwise acquired RBS Series Q, R, S, T or U Non-cumulative Dollar Preference Shares pursuant or traceable to the April 8, 2005 Registration Statement against all Defendants.

177. The Registration Statement for the Preferred Share Offerings, including the Preferred Share Offering Materials incorporated by reference therein at the time of each Preferred Share Offering, contained untrue statements of material facts and omitted to state other material facts necessary to make the statements made therein not misleading.

178. RBS was the registrant for each of the Preferred Share Offerings. As issuer of the shares, RBS is strictly liable to Plaintiffs and all other persons who purchased or otherwise acquired RBS Preferred Shares pursuant or traceable to the Preferred Share Offerings for the misstatements and omissions in the Registration Statement for the Preferred Share Offerings.

179. The Individual Defendants named herein were responsible for the contents and dissemination of the Registration Statement for the Preferred Share Offerings. Each of the Individual Defendants signed or authorized the signing of the Registration Statement or were identified in the Registration Statement as directors. As such, the Individual Defendants caused

to be issued, and participated in, the issuance of the Registration Statement. By reasons of the conduct alleged herein, each of the Individual Defendants violated Section 11 of the Securities Act.

180. The Underwriter Defendants named herein were responsible for the contents and dissemination of the Registration Statement for the Preferred Share Offerings. The Underwriter Defendants acted negligently and are liable to Plaintiffs and to all other persons who purchased or otherwise acquired RBS Preferred Shares pursuant or traceable to the Registration Statement for the Preferred Share Offerings in which each Underwriter Defendant participated.

181. Defendants owed to purchasers of the Preferred Shares issued in the Offerings the duty to make a reasonable and diligent investigation of the statements contained in the Registration Statement for the Preferred Share Offerings, and any incorporated documents, at the time it became effective to ensure that said statements were true and that there were no omissions of material fact which rendered the statements therein materially untrue and misleading. Defendants did not make a reasonable investigation or possess reasonable grounds to believe that the statements contained in the Registration Statement were true, without omissions of any material facts, and were not misleading. Accordingly, Defendants acted negligently and are therefore liable to Plaintiffs and all other persons who purchased or otherwise acquired RBS Preferred Shares pursuant or traceable to the Registration Statement for the Preferred Share Offerings.

182. Plaintiffs and all members of the Class who purchased or otherwise acquired RBS Preferred Shares pursuant or traceable to the Registration Statement for the Preferred Share Offerings did not know of the negligent conduct alleged herein or of the facts concerning the

untrue statements of material fact and omissions alleged herein, and by reasonable exercise of care could not have reasonably discovered such facts or conduct.

183. None of the untrue statements or omissions alleged herein was a forward-looking statement, but rather, concerned existing facts. Moreover, the Defendants named in this Count did not properly identify any of these untrue statements as forward-looking statements and did not disclose information that undermined the validity of those statements.

184. Less than one year elapsed from the time that Plaintiffs discovered or reasonably could have discovered the facts upon which this Count is based to the time that this action was commenced asserting claims arising out of the falsity of the Registration Statement. Less than three years elapsed from the time that the securities upon which this Count is brought were offered in good faith to the public to the time that this action was commenced.

185. Plaintiffs and all members of the Class have sustained damages. The value of the securities sold pursuant to the Preferred Share Offerings has declined substantially subsequent to and due to the Defendants' violations of Section 11 of the Securities Act.

186. By reasons of the foregoing, the Defendants named in this Count are liable for violations of Section 11 of the Securities Act to Plaintiffs and all members of the Class who purchased or otherwise acquired RBS Preferred Shares pursuant or traceable to the Registration Statement.

COUNT II

AGAINST ALL DEFENDANTS FOR VIOLATIONS OF SECTION 12(A)(2) OF THE SECURITIES ACT

187. Plaintiffs repeat and reallege each and every allegation contained in Paragraphs 1 to 174 above, including all Sections and Paragraphs incorporated therein, and further allege as follows.

188. This Count is brought against all Defendants pursuant to Section 12(a)(2) of the Securities Act, 15 U.S.C. §77l(a)(2), by Plaintiffs on behalf of themselves and all persons who purchased or otherwise acquired RBS Series Q, R, S, T or U Non-cumulative Dollar Preference Shares on one or more of the Preferred Share Offerings.

189. Defendants were sellers, offerors, and/or solicitors of sales of RBS Preferred Shares offered pursuant to the Prospectus and Prospectus Supplement issued in connection with each Preferred Share Offering.

190. The Prospectuses and Prospectus Supplements for the Preferred Share Offerings contained untrue statements of material fact and omitted other material facts necessary to make the statements not misleading.

191. Defendants owed to Plaintiffs and the other members of the Class who purchased RBS Preferred Shares on the Preferred Share Offerings, pursuant to the Prospectuses and Prospectus Supplements, the duty to make a reasonable and diligent investigation of the statements contained in those Prospectuses and Prospectus Supplements to ensure that such statements were true and that there was no omission to state a material fact required to be stated in order to make the statements contained therein not misleading. The Defendants did not make a reasonable investigation or possess reasonable grounds to believe that the statements contained and incorporated by reference in the Preferred Share Offering Prospectuses and Prospectus Supplements at the time of each offering in which they participated were true and without omissions of any material facts and were not misleading. Accordingly, the Defendants are liable to Plaintiffs and the other members of the Class who purchased RBS Preferred Shares on the Preferred Share Offerings in which each Defendant participated.

192. Plaintiffs and other members of the Class purchased or otherwise acquired Preferred Shares on the Preferred Share Offerings pursuant to materially untrue and misleading Prospectuses and Prospectus Supplements and did not know, or in the exercise of reasonable diligence could not have known, of the untruths and omissions contained in the Prospectuses and Prospectus Supplements for the Preferred Share Offerings.

193. Less than one year elapsed from the time that Plaintiffs discovered or reasonably could have discovered the facts upon which this Court is based to the time that this action was commenced asserting claims arising out of the falsity of each of the Preferred Share Prospectuses and Prospectus Supplements. Less than three years elapsed from the time that the securities upon which this Court is brought were offered in good faith to the public to the time that this action was commenced.

194. By virtue of the conduct alleged herein, Defendants violated §12(a)(2) of the Securities Act. Accordingly, Plaintiffs and the other members of the Class who purchased RBS Preferred Shares on the Preferred Share Offerings have the right to rescind and recover the consideration paid for their Preferred Shares, and hereby elect to rescind and tender their shares to the Defendants who participated in the respective offerings in which those Preferred Shares were purchased. Plaintiffs and members of the Class who have sold the Preferred Shares that they purchased on the Preferred Share Offerings are entitled to rescissory damages.

COUNT III

AGAINST EACH OF THE INDIVIDUAL DEFENDANTS FOR VIOLATIONS OF SECTION 15 OF THE SECURITIES ACT

195. Plaintiffs repeat and reallege each and every allegation contained in Paragraphs 1 to 174, including all Sections and Paragraphs incorporated therein, and further allege as follows.

196. This Count is brought pursuant to §15 of the 1933 Act, 15 U.S.C. §77o, by Plaintiffs on behalf of themselves and all persons who purchased or otherwise acquired RBS Series Q, R, S, T or U Non-cumulative Dollar Preference Shares pursuant or traceable to the April 8, 2005 Registration Statement against the Individual Defendants.

197. At all relevant times, the Individual Defendants were controlling persons of RBS within the meaning of Section 15 of the Securities Act. Each of the Individual Defendants served as an executive officer and/or director of RBS prior to and/or at the time of the Preferred Share Offerings.

198. The Individual Defendants at all relevant times participated in the operation and management of RBS, and conducted and participated, directly and indirectly, in the conduct of RBS's business affairs. As officers and directors of a publicly owned company, the Individual Defendants had a duty to disseminate accurate and truthful information with respect to RBS's financial condition and results of operations. Because of their positions of control and authority as officers and directors of RBS, the Individual Defendants were able to, and did, control the contents of the Preferred Share Offering Materials, which contained materially untrue financial information, among other things.

199. By reason of the aforementioned conduct, each of the Individual Defendants is liable under Section 15 of the Securities Act, jointly and severally, to Plaintiffs and the other members of the Class who purchased or acquired Preferred Shares pursuant to the Preferred Share Offerings. As a direct and proximate result of the conduct of RBS and the Individual Defendants, Plaintiffs and the other members of the Class suffered damages in connection their purchase or acquisition of Preferred Shares pursuant to the Preferred Share Offerings.

VII. PRAYER FOR RELIEF

WHEREFORE, Plaintiffs on their own behalf and on behalf of the Class pray for judgment as follows:

- A. Declaring this action to be a proper class action maintainable pursuant to Rule 23 of the Federal Rules of Civil Procedure and Plaintiffs to be proper class representatives;
- B. Awarding Plaintiffs and the Class compensatory damages, together with appropriate prejudgment interest at the maximum rate allowable by law;
- C. Awarding rescission or a rescissory measure of damages on all claims where such remedy or damages are applicable; and
- D. Awarding Plaintiffs and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees;
- E. Granting such other and further relief as this Court deems to be just and proper.

VIII. JURY TRIAL DEMAND

Plaintiffs demand a trial by jury of all issues so triable.

Dated: March 18, 2011

Respectfully submitted,

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Plaintiffs' Counsel

EXHIBIT A

PLAINTIFF'S CERTIFICATION

I, Robert G. Knollenberg, do hereby certify that:

1. I have reviewed the amended complaint and have authorized its filing.
2. I have investment authority and act on behalf of my son, David P. Knollenberg. Pursuant to that authority, I made the investment decisions to purchase securities of **Royal Bank of Scotland Group PLC (NYSE: RBS)**.
3. I have received an assignment of claims from my son, on whose behalf I purchased RBS securities which are the subject of the amended complaint. These purchases were not at the direction of counsel or in order to participate in any private action arising under the Securities Act of 1933 or Securities Exchange Act of 1934, as amended by the Private Securities Litigation Reform Act of 1995.
4. I am willing to serve as a representative party on behalf of a class, including providing testimony at deposition and trial, if necessary.
5. During the three year period prior to the date of this certification, I have sought to serve or served as a representative party on behalf of a class in an action brought under the federal securities laws against Anadigics, Inc.; Cree, Inc.; and Harmonic Inc.
6. The Class Period the transactions in RBS securities are as follows:

Royal Bank of Scotland Preference Shares, Series T (RBS-T)

<u>BUY OR SELL</u>	<u>TRADE DATE</u>	<u>NO. OF SECURITIES</u>	<u>PRICE PER SECURITY</u>
BUY	09/20/07	2,000	\$25.0000
BUY	09/16/08	100	\$10.6195
BUY	09/16/08	500	\$10.5259

7. I will not accept any payment for serving as a representative party on behalf of the Class beyond my *pro rata* share of any recovery, except such reasonable costs and expenses (including lost wages) directly relating to the representation of the Class and my activities in the lawsuit, as ordered or approved by the Court.
8. Nothing herein shall be construed to be or constitute a waiver of my attorney-client privilege.
9. I certify under penalty of perjury that the foregoing is true and correct.

Executed on March ^{16th} 2011
16th

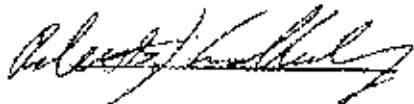
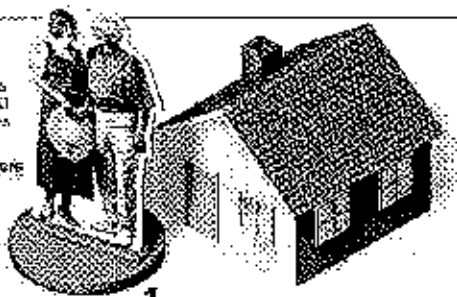
Completed by (Print Name): Robert Knollenberg
Signature: 

EXHIBIT B

Securitization

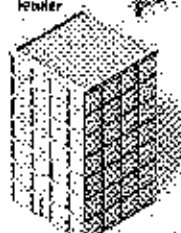
At the heart of the cheap credit binge was a process known as securitization. Before Wall Street began to buy up subprime mortgages and package them as mortgage-backed securities to sell to investors.

Borrowers



Mortgage broker

Subprime mortgage lender



2 Many mortgage brokers prospered in the subprime business, many of them earning above-average income on high fees paid for the thousands of subprime loans.

3

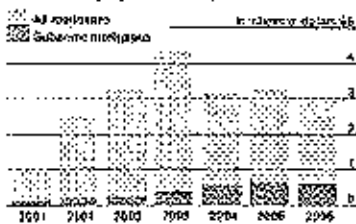
Big companies offering subprime mortgages solicited fees nationwide using Wall Street money. After making a home loan, they quickly sold it to packages, such as investment banks, for more profits.



1

Homeowners, many first-time homebuyers or individuals working to refinance, turned to subprime loans.

New mortgage loans by year



4

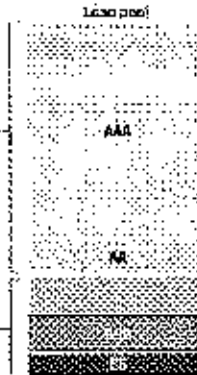
Wall Street investment banks began pooling risky, subprime loans that did not meet the standards of government-sponsored agencies such as Fannie Mae and sold them as "private label" securities.

Structured finance

A financial technique called structured finance provided Wall Street a way to divide subprime mortgage loans into tranches (French for slices). The tranches allowed the risk of a loan pool to be parcelled out to various investors, investors who purchased bonds in the securities packages a portion of the mortgage payments in the pool.

Top-level tranches contain the highest-paying, but lowest-paying bonds. Even though a mortgage-backed security may be funded with a pool containing subprime loans, the top tranche can have investment-grade status of triple-A rated bonds because they are paid first from the pool.

The lowest-level tranches contain the riskiest, highest-paying bonds. They get a low rating and are paid off after the double- and triple-A rated bonds are paid.



Pool of subprime loans

Rating agency



5

Rating agencies such as Standard & Poor's helped investment banks structure the mortgage-backed securities to get the best possible bond ratings, earning healthy fees in the process, and making them attractive to investors, including mutual and pension funds.

Mortgage-backed security

6

Investors worldwide gobbled up the securities.

Source: Mortgage Bankers Association, Wall Street Journal, National Housing Finance Board, Loan Performance Analytics Corporation Co.

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PROOF OF SERVICE

I, Anne von Goetz, hereby declare as follows:

I am employed by Girard Gibbs, A Limited Liability Partnership, 601 California Street, Suite 1400, San Francisco, California 94108. I am over the age of eighteen years and am not a party to this action. On March 18, 2011, I served the within documents:

1. AMENDED COMPLAINT

on:

Paul Adam Engelmayer
David Sapir Lesser
WILMER, CUTLER, HALE & DORR, L.L.P.
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*Attorney for Morgan Stanley & Co.
Incorporated*

XX by placing the document listed above for collection and mailing following the firm's ordinary business practice in a sealed envelope with postage thereon fully prepaid for deposit in the United States mail at San Francisco, California addressed as set forth below.

I declare under penalty of perjury under the laws of the State of California that the above is true and correct. Executed on March 18, 2011, at San Francisco, California.


Anne von Goetz