SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF WESTCHESTER

MBIA Insurance Corporation and LaCrosse Financial Products, LLC, Plaintiffs, -against- Royal Bank of Canada, RBC Capital Markets Corporation, and Royal Bank of Canada Europe Limited, Defendants.	Index No. 12238/09 **COMPLAINT**

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Plaintiffs MBIA Insurance Corporation ("MBIA Insurance") and LaCrosse Financial Products, LLC ("LaCrosse") (collectively "MBIA"), by their attorneys Quinn Emanuel Urquhart Oliver & Hedges, LLP, for their complaint against Defendants Royal Bank of Canada, RBC Capital Markets Corporation ("RBCCMC"), and Royal Bank of Canada Europe Limited ("RBC Europe," and collectively "RBC"), allege the following:

NATURE OF THE ACTION

1. This action arises from RBC's fraud and breaches of contract in connection with three credit default swaps entered between September 2005 and July 2007 with an aggregate face value of $4.425 billion. Under these contracts (the "Logan CDS"), MBIA protected RBC against the super-senior risk of loss on pools of securities referenced by three collateralized debt obligations, or CDOs, arranged and marketed by RBC: Logan CDO I, Ltd. ("Logan I"), Logan CDO II, Ltd. ("Logan II"), and Logan CDO III, Ltd. ("Logan III") (the "Logan CDOs" and, together with the Logan CDS, the "Logan Transactions").

2. By 2007, when RBC was marketing and negotiating the Logan III Transaction, RBC held substantial balance sheet risk on residential mortgage backed securities ("RMBS") and CDO positions that it knew were deteriorating and did not warrant existing credit ratings. Similarly, the performance of the underlying collateral referenced by Logan I and II was also declining, which RBC knew would result in downgrades on both transactions and limit its ability to offload further risk.

3. To solve these problems, RBC embarked on the two-part fraud and breach of contract scheme giving rise to the claims in this action. First, RBC arranged Logan III as a vehicle to synthetically invest in a complex pool of its balance sheet CDO and RMBS positions, and fraudulently induced MBIA to write credit protection on the super-senior risk in that pool by (a) knowingly providing false and inflated 2007 valuations of the performance of Logan I and II, and (b) falsely representing that the Logan III CDS referenced "high grade" collateral and itself constituted a "super senior" AAA risk. MBIA would not have entered into the Logan III CDS absent RBC's false representations about its track record in Logan I and II and about the credit quality of Logan III.

4. RBC targeted MBIA for the Logan III scheme because it knew that MBIA had developed a relationship of trust with RBC based on the parties' history of transactions. In 2001 and 2002, respectively, MBIA had already written credit protection for the "super-senior" risk (i.e., risk senior to at least one senior AAA tranche) of RBC's Maple VII and Maple XVI CDOs. Both the Maple VII and Maple XVI transactions were "high grade" deals (backed by collateral with A- or better credit quality) and both demonstrated credit quality consistent with RBC's representations. Further, RBC had successfully marketed to MBIA the similarly structured Logan I and II Transactions in 2005 and 2006. RBC knew that MBIA would rely

upon its representations regarding the Logan III Transaction, and that it was not feasible for MBIA to independently reproduce RBC's loan-level data as to the credit quality of the referenced collateral in the Logan III Transaction.

5. Having successfully implemented the first part of its strategy, RBC embarked upon the second: Beginning in late 2007, RBC systematically breached all three Logan CDS to trigger early payment obligations under the CDS. Specifically, RBC launched a campaign to provide literally scores of defective notices of default and other "credit events" in the referenced collateral pools, ignoring contractual preconditions to such notices as well as failing to respect procedures to settle the value of any losses in the collateral pools. RBC's notices claim hundreds of millions of dollars of loss, including the complete elimination of the subordination protection to the supposed "super senior" Logan III CDS. MBIA has already paid in excess of $145 million to RBC.

6. Accordingly, MBIA brings this action (a) as to the Logan III Transaction, for fraud, aiding and abetting fraud, negligent misrepresentation, and promissory estoppel, and (b) as to all three Logan Transactions, for breach of contract and the implied covenant of good faith and fair dealing. Plaintiffs seek rescission of the Logan III CDS, a declaration that the RBC notices are without legal effect, and recovery, in an amount to be determined at trial, of all payments and losses incurred under the CDS and related financial guaranty insurance policies.

PARTIES

7. Plaintiff MBIA Insurance Corporation is a New York corporation with its principal place of business in Armonk, New York. MBIA Insurance is a monoline credit insurer and provides financial guaranty insurance and other forms of credit protection predominately on financial obligations that are newly issued and sold or otherwise sold and

transferred in secondary markets. Monoline insurers provide insurance on bonds against the risk of nonpayment of principal and/or interest by the issuer, or other defined loss.

8. Plaintiff LaCrosse Financial Products, LLC is a subsidiary of MBIA, Inc. which is organized in Delaware and has its principal place of business in New York. LaCrosse was established in December 1999 to act as a counterparty for structured derivative products, primarily credit default swaps. MBIA Insurance, through financial guaranty policies, guarantees the obligations of LaCrosse under its credit default swaps.

9. Defendant Royal Bank of Canada is a chartered bank incorporated under the laws of Canada, with its principal place of business in Montreal, Canada. Royal Bank of Canada, London Branch, is the named counterparty to LaCrosse on the Logan CDS. Defendant Royal Bank of Canada maintains offices at 71 Queen Victoria Street, London EC4V 4DE, United Kingdom.

10. Defendant RBC Capital Markets Corporation is a Minnesota corporation and a wholly-owned subsidiary of Royal Bank of Canada. RBCCMC is registered with the U.S. Securities and Exchange Commission as a broker-dealer and as an investment adviser, and is a member of the Financial Industry Regulatory Authority. RBCCMC maintains its principal executive offices in New York, New York. RBCCMC does business under the name "RBC Capital Markets."

11. Defendant Royal Bank of Canada Europe Limited is a wholly-owned subsidiary of Royal Bank of Canada and is registered to do business in England and Wales. Like RBCCMC, it operates under the business name "RBC Capital Markets." RBC Europe maintains a registered office at 71 Queen Victoria Street, London EC4V 4DE, United Kingdom.

JURISDICTION AND VENUE

12. This action was initiated in the Supreme Court of the State of New York for the County of Westchester, on or about May 22, 2009, upon the filing of a Summons with Notice. The Summons with Notice was brought on behalf of Plaintiffs MBIA Insurance and LaCrosse against Defendants Royal Bank of Canada and RBCCMC. On May 28, 2009, RBC removed this action to the United States District Court for the Southern District of New York, invoking the federal court's diversity jurisdiction on the basis of a meritless assertion that non-diverse defendant RBCCMC—the entity that marketed the Logan Transactions—had "nothing to do" with this action. Following briefing and oral argument on MBIA's motion to remand, on December 30, 2009, the United States District Court remanded this action to this Court.

13. The Supreme Court of the State of New York has jurisdiction over this Complaint pursuant to CPLR §§ 301 and 302. RBCCMC has its principal place of business in New York, and has appointed an agent for service of process and consented to the jurisdiction of Courts within this State. Each Defendant regularly transacts business within this State. Each Defendant participated in the Logan Transactions and the negotiations and other activities within this State that led to the transactions giving rise to the claims in this Complaint.

14. Venue is proper under CPLR § 503 because Plaintiff MBIA Insurance's principal office is in this County and many of the wrongful acts alleged in this Complaint occurred in this County.

FACTUAL ALLEGATIONS

I. RBC's Fraudulent Inducement of the Logan III CDS with MBIA

A. Background of RBC and Its Businesses

15. RBC is one of North America's largest banks. As it represented in the Logan Preliminary Investor Presentations (commonly referred to as "Pitchbooks"), Royal Bank of

Canada has assets of approximately $492 billion, a market capitalization of $59 billion, and 60,000 employees. RBC's business lines extend around the globe and include full-service brokerage, wealth management and capital markets activities, and retail and commercial banking, as well as mortgage origination, servicing, and securitization.

16. RBCCMC and RBC Europe are wholly-owned subsidiaries of Defendant Royal Bank of Canada. As the Pitchbooks for the Logan CDOs explained, RBCCMC, RBC Europe, and other RBC affiliates do business under the business name "RBC Capital Markets." The Pitchbooks described "RBC Capital Markets" as the group that conducted all of the "international corporate and investment banking business" of Royal Bank of Canada, including through its structured finance products unit, RBC Principal Finance ("RBC PF").

17. RBC also originates residential loans (*i.e.,* qualifies homeowners for mortgages and other loans), services such loans (*i.e.*, collects on loans during their pendency), and securitizes them (*i.e.*, bundles them into pools with other loans, which issue bonds backed by the pool). In the United States, RBC conducts its mortgage origination and servicing operations through banking subsidiaries which manage RBC's multi-billion dollar loan portfolio and earn millions of dollars in fees annually through its residential and commercial lending businesses. As it noted in its 2006 Annual Report, RBC "securitize[s] residential mortgage loans through the creation of mortgage-backed securities (MBS)," and sells those securities while "continu[ing] to service the mortgages underlying these MBS." Through its mortgage origination, servicing, and securitization businesses, as well as through its investment banking and trading operations, RBC had access to representative loan-level performance data relevant to the hundreds of thousands of underlying loans and other collateral that made up the

RMBS and CDO securities on RBC's balance sheet and trading book, including the securities referenced by the Logan CDOs.

B. Overview of the Logan Transactions

18. This case involves three credit default swaps on CDOs—Logan I, II, and III—arranged, underwritten, and marketed by RBC between March 2005 and July 2007. A credit default swap is a trade in which one party, the credit protection seller, agrees to assume the risk of loss or defined credit event for a "reference" asset (or pool of assets, as in the case of the Logan CDS) in exchange for a stream of premium payments from the other party—the protection buyer—during the period of the swap. The risk assumed by the protection seller depends directly upon the risk of loss of the reference assets. When, as here, the pool of reference assets is comprised of CDOs, RMBS, and other structured finance products, the protection seller's risk—and hence the amount of premium charged under the swap—depends on the quality of the collateral and protections against loss built into the structure of the CDO. If the arranging bank (here, RBC) misrepresents the credit characteristics of the collateral by inflating its value and/or credit quality, the premiums charged will not adequately cover the risk of loss inherent in the credit default swaps.

19. As "synthetic" CDOs, the Logan CDOs do not actually purchase or hold their underlying collateral but instead enter into swaps with RBC which specify reference pools of securities and receive returns (or suffer losses) as if they owned these securities. Here, the securities referenced by the Logan CDOs are securities on RBC's trading book, which consist of RMBS and CDO securities, with some of the CDO securities themselves containing securities of still other CDOs.

20. Under their swap contracts, the Logan CDOs, in exchange for premium payments by RBC, issue credit protection in the event the referenced assets on RBC's trading book

("Reference Obligations" in the terminology of the Logan CDS) default or suffer a defined credit event. To the extent that the referenced securities perform well, the Logan CDOs are entitled to premium payments from RBC without having any payment obligations in return. However, in the event that the referenced securities default or suffer a defined credit event, then the Logan CDOs (and ultimately its investors) bear the risk of loss and owe payment to RBC. When MBIA entered into separate credit default swaps with RBC on the super-senior risk of the collateral pools referenced by the Logan CDOs, it took a position similar to the "long" position taken by the Logan CDOs, meaning that MBIA bore the risk of loss in the event that securities in the collateral pools defaulted or suffered credit events. RBC took the opposite, "short" position under the Logan CDS, meaning that it financially benefited from the securities' poor performance. As RBC admitted in its 2006 Annual report, its CDOs, like the Logan CDOs, were arranged to "distribute credit risk" and make others, including investors and credit protection providers, "ultimately bear the costs of any payments made by" the CDO.

21. MBIA Insurance is a financial guarantor. At the time that it entered into the Logan CDS, its products and services included providing coverage for the payment obligations of CDO securities. The Logan CDS are structured as contracts between RBC and LaCrosse through which LaCrosse agrees to assume the super-senior risk of default, or other defined credit events in the reference collateral pool, in exchange for premium payments. MBIA Insurance entered into insurance agreements with LaCrosse pursuant to which it issued financial guaranty insurance policies to RBC guaranteeing LaCrosse's payments under the Logan CDS. In the event of default or other defined credit event, LaCrosse's obligation to pay under the Logan CDS passes to MBIA Insurance through the insurance policies. The insurance policies make clear that (a) MBIA Insurance's obligations under the insurance policies are

separate and independent from LaCrosse's obligations under the swaps; (b) payment obligations arise under the policies only to the extent conditions to payment under the swaps are satisfied; and (c) none of the waivers of defenses to payment in the policies limit MBIA's right to enforce the terms of the swaps.

22. The Logan CDS include a standard pre-printed form ISDA Master Agreement between LaCrosse and RBC, which governs the basic terms of the swap. The parties separately execute a supplementary Schedule to the ISDA Master Agreement and a swap Confirmation, both of which set out the negotiated terms of the swaps and which govern in the event of any inconsistency with the ISDA Master Agreement. For each of the Logan swaps, in addition to the credit default swaps, the parties also entered into a Verification Agency Agreement ("Verification Agreement") with Deutsche Bank AG ("Deutsche Bank"). Under the Verification Agreements, Deutsche Bank's duties and responsibilities include, among other things, issuing notices (hereinafter "Verification Notices") verifying the Credit Event Notices ("CE Notices") and accompanying notices which confirm the occurrence of a Credit Event through at least two publicly available sources of information, which must include a Trustee Report ("Public Information Notice").

23. To arrange and market structured finance products such as the Logan CDOs, arranger banks, like RBC, submit the CDOs to rating agencies—including Standard & Poor's ("S&P") and Moody's Investor Service ("Moody's")—and work closely with the agencies to secure their highest ratings. As RBC knew in the 2005-2007 time period, ratings were broadly accepted in the financial community as reliable indicia of the likelihood that a security would default and the amount of value an investor could expect to recover in the event of default. In recognition of this fact, both S&P and Moody's have been designated by the Securities and

Exchange Commission ("SEC") as "nationally recognized statistical rating organizations" ("NRSROs"). According to the SEC, the "single most important criterion" to granting NRSRO status is that "the rating organization is recognized in the United States as an issuer of credible and reliable ratings by the predominant users of securities ratings."

24. Arranger banks market notes in their CDOs and credit default swaps through materials such as Pitchbooks that describe, among other things, the ratings assigned or expected to be assigned to the deal; the credit quality of the collateral; the structural characteristics of the CDO, including subordination thresholds; the collateral selection and management process; and the historical default rates and other performance metrics of comparable securities.

C. RBC's Marketing of the Logan Transactions

25. Between 2005 and 2007, RBC approached MBIA to write credit protection for the three Logan CDOs. RBCCMC and RBC Europe took a leading and active role in marketing each of the Logan Transactions to MBIA and negotiating the terms of the Logan CDS. For each of the Logan Transactions, MBIA and RBC negotiated over the course of several months and had numerous face-to-face and telephonic discussions as well as email communications regarding the structure, nature, and terms of the Logan Transactions, including the criteria by which assets would be selected for inclusion in the CDOs' collateral pool. Many of those communications occurred in, or were transmitted to, MBIA employees based in Armonk, New York.

26. MBIA's negotiations with RBC were primarily conducted with executives of "RBC Capital Markets," the business name used by RBCCMC and RBC Europe. Some of those executives worked out of RBC's New York offices and identified themselves as RBCCMC employees. Using "RBC Capital Markets" email addresses (e.g.

[NAME]@rbccm.com), they prepared and delivered deal documents, Pitchbooks, collateral lists, modeling analyses, rating agency letters, and other marketing materials to MBIA which memorialized the terms of the negotiations for each of the Logan Transactions.

27. RBCCMC and RBC Europe helped Royal Bank of Canada prepare and present to MBIA the Logan Pitchbooks which extolled the creditworthiness of the Logan CDOs. Their business name and logo, "RBC Capital Markets," appear on each of the Pitchbooks' pages as well as on other key transaction documents, including the first page of the Logan I and III Confirmations and a January 18, 2006 marketing presentation for Logan II in which RBC represented that its structured financial products unit, RBC PF, would "purchase[] tranched protection on portfolio from Super Senior counterparty [i.e., MBIA] and Logan II." Representing that it was the true party in interest to the Logan CDS and intended to be bound to them, RBCCMC stated on the first page of the Pitchbooks that "RBC" (an acronym defined there to include RBCCMC but not Royal Bank of Canada) reserved the right to take "actions under the credit default swap(-s) . . . ."

28. Throughout the course of the parties' negotiations, RBC made repeated representations about its purportedly successful track record of performance, expertise in structured finance products, and strict credit selection criteria for the purpose of fostering MBIA's trust. For each of the Logan Transactions, MBIA's due diligence focused on the expertise and integrity of RBC as an arranger and collateral manager, as well as the terms, conditions, and credit quality of the deals. MBIA's ability to repose trust and confidence in RBC was of vital importance because each of the Logan CDS contemplated a highly intertwined business relationship between the parties that could carry on for decades. The Scheduled Termination Dates for Logan II and III were, respectively, May 4, 2046 and July 5,

2057. The Scheduled Termination Date for Logan I, subject to contractually specified early termination events, was September 16, 2045.

D. MBIA Enters into the Logan I and II CDS

29. RBC and MBIA's relationship pre-dated the first Logan Transaction in 2005 by several years. In 2001 and 2002, MBIA wrote "super-senior" credit protection for two "high grade" CDOs, Maple VII and Maple XVI, which were arranged by RBC. Given the satisfactory performance of the two Maple CDOs, RBC knew that MBIA had developed trust and confidence in RBC's approach to structuring and managing CDOs and relied upon its expertise and experience concerning collateral selection and quality.

30. Since 2004, MBIA's business strategy had been to offer protection for only the most senior layers of CDO structures, or layers featuring low levels of ratings volatility, extremely low default propensity and, in the unlikely event of default, extremely low loss severity. MBIA generally had ceased writing protection on riskier "mezzanine" CDOs (CDOs with collateral consisting primarily of BBB-rated securities). Thus when RBC approached MBIA to provide credit protection for Logan I in 2005 and Logan II in 2006, MBIA repeatedly expressed that it was interested in providing protection only of a "super-senior" status, supported by "high grade" collateral and above-average subordination protection.

31. MBIA's strict credit criteria were memorialized by RBC in the Logan I and II CDS. The contracts provided that MBIA's exposure would attach at "super-senior" thresholds, with substantial subordination protection in the amounts of $200 million and $150 million, respectively. The Logan CDS also provided that the CDOs' collateral would be composed exclusively of "high grade" quality assets, or assets qualified to earn a credit rating of A- or above. In recognition of RBC's superior knowledge and expertise regarding the collateral's value and performance, each of Logan I's and II's Confirmations obligated RBC "to provide to

[MBIA] . . . the current market value of each of the Reference Obligations, if available, on a quarterly basis."

32. MBIA's strict credit selection criteria and its emphasis on providing protection for (or "wrapping") only the most creditworthy securities were expressed in numerous other provisions of the Logan CDS, including, in the Logan II CDS, a requirement that all securities in the reference pools as of the closing date, and when later added to the collateral pools, would be trading at a dollar price of a minimum of 98% of par. Furthermore, Annex 1 to each of the Logan I and II Confirmations represented that the securities comprising the collateral pool referenced by each CDO would be "high grade." The Annexes listed each of the securities and represented that each had credit quality sufficient to qualify for a rating of A- or above. Following the closing of each deal, RBC, from time to time, delivered to MBIA updated Annexes for the Logan I and II Transactions which confirmed the "high grade" credit quality of each of the securities in the collateral pools.

33. On September 26, 2005, LaCrosse and RBC closed the Logan I CDS and executed an ISDA Master Agreement, Schedule, and Confirmation. LaCrosse issued credit protection in the amount of $1.8 billion and received subordination protection (referred to in the Logan CDS as the "Participation Threshold") of $200 million, for a total "Maximum Portfolio Size" of $2.0 billion. As with all three Logan CDS, to ensure that contractually specified procedures were observed in connection with RBC's declaration and presentation of credit events to MBIA, Deutsche Bank was appointed as Verification Agent to verify and confirm credit events. The parties executed the Verification Agreement with Deutsche Bank on September 26, 2005. On November 27, 2007, the Logan I Confirmation was amended and restated.

34. On May 4, 2006, LaCrosse and RBC closed the Logan II CDS and executed an ISDA Master Agreement, Schedule, and Confirmation. LaCrosse wrote $1.35 billion of credit protection and received subordination protection of $150 million, for a total "Maximum Portfolio Size" of $1.5 billion. The parties executed the Verification Agreement with Deutsche Bank on May 4, 2006.

35. For both the Logan I and II Transactions, RBC served as collateral manager. Moreover, for both the Logan I and II CDS, and as MBIA required, RBC secured AAA/Aaa ratings from S&P and Moody's.

36. Sections 4 and 5 of the Confirmations to each Logan CDS govern the process by which defaults or write downs of securities within the collateral pool (i.e., Credit Events) are brought to the attention of MBIA and then valued. Section 4, entitled "Conditions of Settlement," includes the terms under which CE Notices and other notices confirming the occurrence of credit events are to be issued. Section 4 provides that a CE Notice is to be accompanied by a Public Information Notice, which must include a Trustee Report. Section 4 also requires the issuance of a Verification Notice from Deutsche Bank. Section 5, entitled "Settlement Terms," sets forth the means by which defaulted Reference Obligations are valued and cash settlement amounts—effectively, loss—are determined. As each of the Confirmations provides, the satisfaction of the Conditions to Settlement and Settlement Terms are conditions precedent to any obligation to pay arising between MBIA and RBC.

E. RBC's Fraudulent Misrepresentations and Omissions in Connection with the Marketing of the Logan III Transaction

37. The CDO and RMBS positions on RBC's trading books and in the Logan CDOs securitized hundreds of thousands of mortgages. Through its superior and exclusive access to representative loan-level performance data, RBC monitored the performance of those

mortgages, including default and delinquency rates, in order to assess the value of its CDO and RMBS positions. In April 2007, when RBC presented the Logan III Pitchbook to MBIA, RBC knew that increases in the rates of mortgage default and delinquencies had caused its CDO and RMBS positions (including those referenced in Logan I and II) to lose value and that those securities faced increasing risks of default well in excess of the historic rates of default implied by their credit ratings. RBC further knew it was only a matter of time before the rating agencies took into account the problems in the underlying loans in their ratings of the securities on RBC's trading book and in the Logan Transactions.

38. To divest itself of its exposure to these potentially massive losses, RBC embarked on a scheme to re-package part of its underperforming CDO and RMBS holdings into Logan III and transfer that risk to investors and credit protection providers. RBC arranged Logan III as a highly complex vehicle to synthetically invest in a complex pool of debt securities from its own balance sheet, including RMBS as well as tranches of other CDOs—some of which also contained tranches of other CDOs. This CDO-squared and CDO-cubed structure meant that the performance of the CDO (like the prior two Logan CDOs) turned on the performance of hundreds of underlying debt securities, which in turn relied upon the performance of tens of thousands of underlying mortgages.

39. In 2007, RBC approached MBIA to write credit protection on the super-senior risk for Logan III. MBIA was an inviting target for RBC's scheme given their relationship of trust and confidence forged over four prior deals (the two Logan and two Maple deals). RBC tailored its pitch of the Logan III CDS to MBIA to capitalize upon that relationship of trust and confidence. Its marketing of the Logan III Transaction was premised on (a) representing to MBIA that Logan I and II were strong, creditworthy CDOs that had sustained no appreciable

losses and were performing "within expectations" for purportedly "high grade" deals; (b) crediting that performance to RBC's skills as an arranger and manager of CDOs and its rigorous collateral selection procedures; and (c) providing terms in the Logan III CDS similar to those provided for the prior two Logan CDS. RBC knew that if it could convince MBIA that Logan I and II were strong deals, then MBIA would continue to rely upon RBC's skills as an arranger and manager of Logan III and enter into the Logan III CDS. RBC was aware that concealing the declining performance of the securities in Logan I and II was vital to inducing MBIA to participate in the Logan III CDS.

40. To induce MBIA's trust and confidence in its skills as an arranger and collateral manager, the Logan III Pitchbook touted RBC's expertise and superior knowledge in both collateral selection and management, and took particular care to emphasize its rigorous collateral screening procedures and ongoing post-closing monitoring of deal performance. The Pitchbook (on pages 5 and 8) stated that RBC "is highly experienced in the asset classes within Logan, with US $10.97bn of assets acquired since 1999," and that RBC had a broad track record of profitability, experiencing "no defaults and only 2.4% of its portfolio has experienced a downgrade." Furthermore, RBC assured MBIA of its rigorous collateral selection and screening criteria, representing on pages 8, 21, and 22, that RBC used "[s]tate of the art quantitative methodologies," including a "proprietary cash-flow model, and Monte-Carlo simulation model for deal analysis" which "screened for suitability across a number of different hedging/funding strategies."

41. RBC also assured MBIA that once Logan III closed and the Logan III CDS was executed, RBC would remain actively involved in monitoring Logan III's performance to safeguard MBIA against loss. According to RBC on pages 8, 11, and 25 of the Pitchbook, its

entire portfolio was marked to market "on a regular basis;" it engaged in "[d]iligent monitoring of investments," using "both proprietary systems and third party software to analyse and monitor transactions and manage all associated risks;" its "entire portfolio of assets [was] reviewed in the monthly Investment Review Committee ('IRC')," and "[e]ach transaction [was] reviewed formally at least annually, according to grade."

42. Throughout the Logan III Transaction negotiations, knowing MBIA's strict credit criteria, and in response to MBIA's inquiries, RBC made repeated representations to MBIA as to:

(a) Performance of Prior Logan CDOs: That Logan I and II were performing "within expectations" and, on a mark-to-market valuation basis, had sustained virtually no deterioration as to credit quality;

(b) Collateral Quality: That the overall credit quality of the collateral referenced by Logan III was "high grade"—a level even higher than investment grade;

(c) AAA Creditworthiness: That S&P and Moody's had assigned AAA/Aaa ratings, respectively, to the Logan III CDS and those ratings reflected its true credit quality;

(d) Participation Thresholds: That MBIA's credit protection would attach at a "super-senior" threshold, making MBIA's risk of loss extremely remote, and that the Participation Threshold amount of $225 million would exceed industry standards for AAA-rated securities;

(e) Historical Default Rates: That the past performance of securities comparable in credit quality to Logan III and its collateral exhibited extremely low default and impairment rates, with low loss severity in the event of default; and

(f) Conditions Precedent to Loss of Subordination: That MBIA's high subordination protection would only be eroded upon the occurrence of strictly defined credit events and upon the fulfillment of contractually mandated conditions precedent.

43. Each of RBC's representations in the categories above directly related to the likelihood of losses arising under the Logan III Transaction, through agreed-upon Credit

Events, and therefore whether MBIA would be likely to incur payment obligations under the Logan III CDS. RBC, through its ratings-based marketing, took advantage of the broad acceptance of ratings in the financial community as independent, expert analysis of credit risk. As RBC knew, the AAA/Aaa ratings assigned to the Logan III CDS by S&P and Moody's were the highest ones possible. RBC wanted MBIA to believe, based on these ratings as well as the "high grade" ratings on the assets referenced by the Logan III Transaction, that the CDO was an extraordinarily safe financial product.

44. Moreover, and as RBC knew and intended to convey, its representations about Logan I and II's purportedly strong performance and Logan III's AAA, "high grade" credit quality were material to MBIA's decision to assume the risk of credit events arising in the Logan III collateral pool. Consistent with the low expected losses on what were represented to be conservative transactions, RBC offered very low premiums to MBIA for the Logan III CDS, amounting to 0.12% annually of the face amount of the Logan III CDS.

45. Each of RBC's representations in the categories above was false.

1. RBC Misrepresented the Performance of the Logan I and II CDOs

46. To inflate RBC's track record as a CDO arranger and manager and thereby induce MBIA's entry into the Logan III CDS, the Logan III Pitchbook, dated April 18, 2007, falsely extolled the performance of the Logan I and II CDOs. The Pitchbook represented to MBIA that Logan I and II had performed very well since their inception and had sustained no appreciable decline. On pages 28-31 of the Pitchbook, RBC represented that, on a weighted average mark-to-market basis, Logan I and II were valued as of March 31, 2007 at 99.10% and 99.12% of par, respectively, "despite spreads widening over the period 1Q 2007."

47. RBC also represented that (a) Logan I and II were "performing according to expectations"; (b) both Logan I and II's portfolios and "HEL" (i.e., home equity loan) positions "continue to perform within," and "in line with expectations"; (c) there were "[n]o material credit concerns for any obligor at present"; (d) there were "[n]o rating actions in the portfolio[s]" during the quarter or since closing for Logan I and II, respectively; and (e) as for both Logan I and II, "[n]o obligor in the portfolio is on credit-watch by any rating agency." RBC, as the arranger and collateral manager of the Logan CDOs, as well as the broker-dealer of the collateral referenced in the CDOs, was in the best position to make these representations as to the performance of the Logan I and II CDOs.

48. As RBC knew, however, based on its roles as arranger and manager of the Logan CDOs and broker-dealer in the underlying securities, and from its loan-level performance data, the representations about Logan I and II's performance were false. As of March 31, 2007, neither CDO was performing "within expectations" and each had experienced tens of millions of dollars in embedded losses (the expected losses resulting from deterioration of the collateral). The deterioration in Logan II was particularly pronounced. The expected recovery value of its collateral was approximately 93% of par, representing an embedded loss of approximately $105 million. Similarly, the expected recovery value of Logan I's collateral was only 96.5% of par, representing an embedded loss of approximately $70 million.

49. RBC knew that its market valuations of Logan I and II did not accurately reflect the significant and material decline in the performance of the tens of thousands of loans securitized by the RMBS and CDO securities in their collateral pools. As RBC knew, the Logan II CDS contained a 98% of par trading threshold for collateral securities as of the date the CDS closed and whenever collateral securities were added to the reference pool. RBC

knew that if it revealed that approximately seven percent of Logan II's value had been eroded less than a year after the deal closed, MBIA would reject the proposed Logan III Transaction. RBC's inflated representations about Logan I and II's purportedly superior performance were direct misrepresentations of its track record as a CDO arranger and manager which were intended to induce MBIA to enter into the Logan III CDS.

2. RBC Misrepresented the Logan III CDO's Credit Quality

50. Like Logan I and II, RBC represented in the Pitchbook, including on page 5, that the collateral supporting Logan III would be "high grade" (that is, of A- credit quality or better) and the "target" rating allocation of the collateral would be 51.7% AAA-rated, 29.4% AA-rated, and 19% single A-rated. As RBC knew, the true credit quality of Logan III's collateral was substantially below "high grade" and even below investment grade. The expected recovery value of the collateral was approximately 82% of par; these embedded losses amounting to 18% of the collateral's value rendered the collateral akin to a pool of junk-grade securities. RBC knew of this deterioration in the value of the collateral but nevertheless falsely marketed the Logan III Transaction based on its purportedly "high grade" credit quality.

3. RBC Misrepresented the Creditworthiness of the Logan III Transaction

51. In conjunction with marketing the deal to MBIA, RBC submitted the Logan III Transaction to the rating agencies. RBC knew, based on the published methodologies of the rating agencies and their extensive prior collaboration on other deals, that the rating agencies would not look through the RMBS and CDO collateral to the performance of the underlying mortgage loans when rating the deal. Instead, the rating agencies' methodology and modeling techniques derived expected default and recovery rates largely based upon cash flow and other statistics historically associated with similar asset-backed securities. Because the rating

agencies did not analyze the real-time performance of the tens of thousands of mortgage loans underlying the collateral securities, RBC knew their credit ratings often lagged behind and falsely inflated the true credit quality of the rated notes. Intending to market the Logan III Transaction based on those false and misleading ratings, RBC did not disclose to the rating agencies its knowledge of the deteriorating loan-level performance of Logan III's collateral pool.

52. Instead, to secure the high ratings which were necessary to fulfill the terms of its swap agreement with MBIA, RBC described the "high grade" credit quality of the deal to the rating agencies, including information about the collateral and Participation Threshold supporting the Logan III CDS. Based on RBC's representations and non-disclosure to the rating agencies of the deterioration in the loan-level performance of the collateral referenced by Logan III, S&P and Moody's assigned their highest ratings of AAA/Aaa, respectively, to the Logan III CDS, which RBC in turn represented to MBIA, in letters from S&P and Moody's on or about June 21, 2007.

53. These ratings, as RBC knew, were false and misleading. Based on its knowledge of the declining performance of the underlying loans, RBC knew that the Logan III collateral pool carried significant losses rendering the collateral akin to a pool of junk bonds, but failed to disclose this deterioration to the rating agencies. RBC thus knew that the AAA/Aaa ratings issued by the rating agencies materially understated the risks of the Logan III CDS.

4. RBC Misrepresented the True Amount of the Participation Threshold

54. The Logan III Pitchbook represented that MBIA was protected against loss by substantial subordination protection. For example, on pages 28 through 38 of the Pitchbook and in other materials, RBC represented that the "Participation Threshold" amounts for the

Logan I, II, and III CDOs were $200 million, $150 million, and $225 million, respectively (or 10%, 10%, and 15% of their respective reference pools). MBIA's exposure to the collateral pools thus attached at super-senior thresholds, with a risk profile even more conservative than the AAA-rated notes issued by the CDOs.

55. In fact, the level of protection promised by RBC was false because, as RBC knew, the embedded losses in the collateral pool of Logan III amounting to at least 18% of its value (or approximately $270 million) effectively wiped out the subordination threshold as of the closing date of the Logan III CDS, exposing MBIA to an immediate risk of loss. As a direct result of the inclusion of inferior collateral, MBIA was left with none of the first-loss Participation Threshold protection it was promised, and the risk profile of the Logan III CDS was fundamentally different than that which RBC represented.

5. RBC Misrepresented that the Logan III CDO and Its Collateral Were Comparable to Historic "High Grade" Securities

56. In a discussion of "High Grade CDO & RMBS Asset Classes" in Appendix A of the Logan III Pitchbook, RBC represented that "high grade" RMBS securities had historically exhibited high ratings stability, low default rates, and low loss severity rates when defaults did occur. RBC made similar representations concerning high grade CDO securities. Based on these and other representations, RBC meant for MBIA to understand that Logan III and its collateral would perform in a similar fashion. However, these representations were false and misleading because, as RBC knew, these historical performance metrics did not apply to Logan III and its collateral securities as the collateral's degradation had effectively lowered its credit quality to the point where it was no longer performing as a pool of "high grade" securities which could support a AAA rating for the deal.

6. RBC Misrepresented Its Use of Credit Event Notices

57. Each of the Logan Pitchbooks assured MBIA that only qualified losses, valued in accordance with terms set forth in the Logan III CDS, would impair the subordination protection and contribute to triggering MBIA's obligation to pay. Like the Logan I and II Pitchbooks, the Logan III Pitchbook summarized aspects of the "Conditions to Settlement" and "Settlement Terms" contained in the Logan CDS, including the eligible credit events and RBC's obligation to employ a valuation process to determine the value of defaulted Reference Obligations. According to the Pitchbook at page 43, the "[v]aluation process safeguards against early cash settlements at excessive discounts." The Pitchbooks for each Logan Transaction expressly referred MBIA to the "final documentation" for a complete description of the Conditions to Settlement and Settlement Terms.

58. These representations were knowingly false as well. RBC knew that as part of its scheme to offload to MBIA the risks from its rapidly deteriorating portfolio, it would submit purported Credit Event Notices for non-qualifying events, and fail to satisfy both the Conditions to Settlement and the represented valuation processes, all of which resulted in a premature impairment of the promised subordination protection. Furthermore, as RBC knew, the procedures related to the presentation and settlement of credit events would not "safeguard" MBIA against "early cash settlements at excessive discounts." In fact, RBC knew that deficiencies in those procedures provided none of the "safeguards" and protection promised to MBIA.

F. RBC's Access to Loan-Level Information Gave It Superior Knowledge and Expertise Concerning the True Credit Quality of the Logan III CDO

59. The Logan CDOs were highly complex structures that included hundreds of RMBS and CDO securities. Further, each RMBS was composed of thousands of mortgages,

and each inner CDO security was composed of hundreds of tranches of other RMBS and CDOs (each of which was composed of yet more mortgage loans and other securities).

60. By virtue of its role as the arranger of the CDOs and its proprietary interest in the collateral pools as a broker-dealer and collateral manager, RBC was uniquely situated to evaluate the true value and credit quality of the collateral referenced by the Logan CDOs. Through all periods relevant to this Complaint, and from its mortgage origination, servicing, and securitization businesses, as well as investment banking and trading operations, RBC had superior access to representative loan-level performance data relevant to the tens of thousands of mortgages that made up the collateral securities referenced by the Logan CDOs. RBC actively monitored that information to assess the value and credit quality of its deals. By 2007, RBC's loan-level performance data provided it with real-time information about the declining value of mortgage loans referenced in the Logan collateral pools—information which was not reflected in their ratings. In fact, RBC's access to and use of this loan-level information gave it knowledge concerning the true credit quality of the securities in its CDOs which was superior to (a) the rating agencies which, as RBC knew, did not analyze loan-level performance data, and (b) MBIA which, as RBC knew, did not have first-hand access to data about the collateral's performance and could not reasonably acquire and analyze loan-level data given the low premiums offered for MBIA's credit protection.

61. Thus, in 2007, as it pitched the Logan III Transaction to MBIA, RBC knew that the Logan I and II portfolios were not performing "within expectations" and in fact had sustained material losses, and that the market valuation of the portfolios did not reflect the true, real-time deterioration in mortgage loan performance. Moreover, RBC knew that the "high grade" credit ratings of the collateral and the overall AAA/Aaa rating of the Logan III CDS on

which it sold the Logan III Transaction to MBIA were materially misleading and inaccurate. The actual loan-level performance data demonstrated that likelihoods of default in the collateral were far higher, and likelihoods of recovery far lower, than reflected in the credit ratings (which serve as statements of present fact that reflect estimated default and recovery rates on debt securities).

62. Nevertheless, the primary thrust of RBC's marketing of the Logan III Transaction to MBIA was based on Logan I and II's performance and the purportedly "high grade" credit quality of Logan III's collateral and the AAA quality of the deal as a whole. While marketing the Logan III Transaction based upon ratings as well as related indicia of credit quality (including the subordination threshold), the undisclosed data of the real-time performance of the tens of thousands of mortgages comprising the Logan III collateral gave RBC a true picture of its profit and loss.

63. With this information at its disposal, and with its extensive experience arranging CDOs, RBC was aware that its representations about Logan I and II's performance and the credit quality of the Logan III Transaction were false. RBC's representations about Logan I and II's purportedly strong performance were intended to reassure MBIA about Logan III's creditworthiness and induce MBIA to rely upon RBC's valuations. Moreover, as RBC knew, the problems presented by its use of complex and opaque CDO-squared and CDO-cubed structures, the illiquidity of the collateral, the occurrence of "ratings lag," and its nondisclosure of the declining performance of the underlying loans referenced in the Logan III collateral pool as of the inception of the transaction, all made it virtually certain that reasonable and ordinary due diligence performed at the "super-senior" level by a credit protection provider would not uncover RBC's false representations as to the value and credit quality of Logan III's collateral.

G. MBIA Entered into the Logan III CDS in Reliance on RBC's Misrepresentations

64. On June 21, 2007, LaCrosse and RBC executed the Logan III Confirmation and on July 5, 2007, the ISDA Master Agreement and Schedule. LaCrosse agreed to provide credit protection in the amount of $1.275 billion and LaCrosse received subordination protection in the amount of $225 million, for a total Maximum Portfolio Size of $1.5 billion. The parties executed the Verification Agreement with Deutsche Bank on July 5, 2007.

65. The Logan III CDS memorialized the representations in the Logan III Pitchbook. The Confirmation provides that the assets or "Reference Obligations" included in Logan III's collateral pool would be of A- credit quality or better (i.e., that all of the securities in the collateral pools would be "high grade"). In recognition of RBC's superior knowledge and expertise concerning collateral performance and value, the Logan III Confirmation required RBC to deliver to MBIA "the current market values of each of the Reference Obligations, if available, on a quarterly basis." In terms materially identical to the Logan I and II CDS, sections 4 and 5 of the Logan III Confirmation set out the conditions for presenting and settling CE Notices relating to the CDO. Furthermore, Annex 1 to the Confirmation listed and described each of the assets referenced in the Logan III collateral pool and represented that each was of "high grade" credit quality. Following the closing of the Logan III CDS, RBC from time to time delivered to MBIA revised versions of Annex 1, including on September 17, 2007, which reaffirmed the "high grade" credit quality of each security in the collateral pool.

66. On the basis of RBC's representations, MBIA accepted annual premiums of 12 basis points— 0.12% of the total amount of risk covered to enter the Logan III CDS—to wrap $1.275 billion of assets referenced in the Logan III collateral pool. The premiums payable to MBIA—approximately $1.5 million per year— were extremely small relative to its total

exposure and even the subordination protection afforded to MBIA. These circumstances reflect the fact that the Logan III CDS was supposedly written to cover exposure of low-risk, extremely conservative, "high grade" transactions. In total, for the three Logan Transactions, MBIA wrote $4.425 billion of credit protection in return for premium payments averaging less than 9 basis points (0.09%) annually, or a total of approximately $4 million per year.

H. RBC Intended that MBIA Rely upon Its Misrepresentations, and MBIA's Reliance Was Reasonable

67. MBIA's reliance on RBC's false representations in entering the Logan III CDS conformed to industry practice and was justified. Based on its overall market experience with monolines as well as its specific experience with MBIA in deals prior to the Logan III Transaction (including the Logan I and II Transactions and the Maple deals), RBC was well aware of MBIA's due diligence approach. In 2005-2007, the due diligence standard for a monoline insurer that, like MBIA, provided credit protection at a "super-senior" subordination threshold included (a) due diligence on the expertise and integrity of the arranger and collateral manager; (b) in-depth review of the characteristics of the reference collateral, including its sector distribution, vintage, and credit quality as represented by its ratings; and (c) cash-flow ratings-based modeling and stress testing of the CDO tranches and collateral.

68. Apart from conducting an in-depth review of the reference collateral's characteristics, it was not the industry standard for a credit protection provider at a "super-senior" level to perform a complete loan-level, forensic revaluation of a complex CDO by assessing the hundreds of underlying securities and tens of thousands of loans that made up the collateral of a CDO (including inner CDOs) in order to verify the representations of the arranger. As MBIA expressed in an investor conference call on August 2, 2007, it often lacked first-hand access to such data, making the acquisition, review and modeling of such data an

extraordinarily expensive and time consuming process. MBIA's conservative underwriting philosophy, which depended on transacting at the most senior AAA levels of high grade transactions, was based in part on its limited access to granular information about collateral securities:

> [W]e made a pretty important business decision back in 2000, which related to attachment points and credit support required in these transactions. In 2000, we made the decision to only transact CDOs at a minimum AA level. In reality, the vast majority of deals we do in the current market are transacted at AAA or what we would call super AAA levels which are really multiples of the loss coverage required for AAA rating. This decision was really driven by a desire for ratings stability in this product. CDOs, by their very nature, lack a level of granularly [sic] that can be present in other structured credit products, because of that lack of granularity, rating stability or instability could be present in these deals, and that was obvious from early vintage CDOs. Moving up in the credit rating spectrum protected us, we feel, a little better from rating instability.

69. In its Form 10-K for the fiscal year ending December 28, 2007, MBIA again described its limited access to underlying loan data, particularly as to CDO-squared and CDO-cubed structures:

> [T]he modeling of multi-sector CDOs requires analysis of both direct ABS as well as CDO collateral within the multi-sector CDOs, known as "inner securitizations," and we do not consistently have access to all the detailed information necessary to project every component of each inner securitization. Such "inner securitizations" may themselves include CDO collateral. Therefore, in some cases we put greater reliance on the models and analysis of third party market participants and are not able to fully, independently and precisely verify each data point.

70. Knowing that MBIA's conservative underwriting philosophy was driven, in part, by its lack of granular information about CDO collateral pools, RBC deliberately marketed the Logan III Transaction on the basis of representations as to the CDO's AAA, "high grade" quality and MBIA's "super-senior" subordination protection. As expressed in MBIA's Form 10-K, RBC knew that it was customary and reasonable for monoline insurers and other

investors at the "super-senior" levels of high grade deals to rely upon the truthfulness of the representations of arranging banks as to the credit quality of the CDOs' collateral.

71. RBC further knew that the economics of the Logan III Transaction—based on the risks represented and the corresponding premiums paid by RBC—did not reasonably permit MBIA to acquire and assess the performance data of the thousands of loans comprising each RMBS, and the loans and other collateral underlying the multiple additional RMBS, CDOs, and other debt securities in each inner CDO. Instead, as RBC knew, MBIA relied upon RBC to bring to its attention problems in the loan-level performance of the collateral pools. Absent such notification, RBC knew that MBIA would perform its due diligence in accordance with industry standards, which focused on ratings as the primary measure of credit quality. Because, as RBC knew, the rating agencies did not take into consideration the loan-level performance of securities in issuing their ratings and because the ratings often failed to reflect the securities' true credit quality, RBC knew that MBIA's due diligence would not expose RBC's misrepresentations.

72. To reassure MBIA that its industry standard due diligence was sufficient, RBC repeatedly and falsely represented to MBIA that Logan I and II had sustained virtually no losses and that Logan III was of AAA/Aaa credit quality and backed by "high grade" collateral. RBC knew that MBIA would rely upon these representations and, absent notification of problems in the collateral pool, would not expend the extraordinary time and expense required to conduct a forensic re-engineering of Logan III's loan-level performance. To ensure that MBIA did not undertake this revaluation, RBC misrepresented Logan I and II's supposedly stand-out performance and did not disclose to MBIA the losses in the Logan CDOs' collateral pools.

73. MBIA properly performed its due diligence according to industry standards based upon the available information, including RBC's representations of its skills and superior knowledge in arranging and managing CDOs; the credit quality of Logan III's collateral; the Logan III Transaction's subordination threshold; Logan I and II's purportedly strong performance as of March 31, 2007; and the historical default rates of ostensibly comparable securities. This due diligence included: (a) a portfolio analysis that focused on the sector distribution and credit ratings of the collateral; (b) a cash-flow analysis that took into account default rates of the collateral based on its credit ratings as well as the subordination structure of the deal as a whole; and (c) a thorough review of RBC as the collateral manager through interviews and background checks.

74. RBC was aware of the customary due diligence practices of monoline insurers, and specifically aware that MBIA, absent RBC's disclosure of problems in the Logan collateral pools, would not perform the reverse-engineering of the CDOs necessary to uncover its fraud. By virtue of the long-standing relationship between the two companies and the extensive course of dealing across multiple prior transactions, RBC knew that MBIA would rely upon its representations, that MBIA's due diligence was performed in accordance with industry standards, and that MBIA would not detect RBC's fraudulent misrepresentations of Logan III's credit quality. By failing to disclose to MBIA the deterioration in the loan-level performance of the collateral pools, RBC specifically intended to deter MBIA from conducting the extraordinary due diligence procedures which would expose RBC's fraud.

II. RBC Systematically Breached the Terms of Each Logan CDS

75. Since mid-2007, when the Logan III CDS was completed, RBC has compounded the consequences of its fraud by undertaking, through means disallowed by the Logan CDS, to impair the subordination for which MBIA strenuously bargained in each of the three Logan

Transactions. Following the close of the Logan CDS, MBIA has received scores of CE and Public Information Notices via email from RBC employees using "RBC Capital Markets" email addresses (e.g., [NAME]@rbccm.com) asserting the occurrence of myriad credit events. Each of these CE Notices has been accompanied by a Verification Notice issued by Deutsche Bank purporting to verify and confirm the credit event. For the Logan III Transaction alone, which was fully executed in July 2007, RBC and Deutsche Bank have served at least 27 purported CE, Public Information and Verification Notices. Each of the CE, Public Information, and Verification Notices has failed to satisfy some or all of the Conditions to Settlement and Settlement Terms.

A. RBC Violates the Conditions to Settlement and Settlement Terms

76. There are three sets of conditions precedent which must be satisfied before losses on a Reference Obligation (referred to in the CDS as a Cash Settlement Determination) may be included in the aggregate Cash Settlement Determination for the purpose of determining whether MBIA's subordination protection is breached and payment under the swap is required: (a) a defined Credit Event must have occurred; (b) RBC must fulfill the notification procedures set forth in the Conditions to Settlement; and (c) RBC must fulfill the valuation procedures set forth in the Settlement Terms.

1. RBC Has Improperly Delivered CE Notices to MBIA for Purported Credit Events Which Are Not Credit Events Under the Terms of the Logan CDS

77. RBC may only claim payment with respect to a Reference Obligation that has sustained one of three defined Credit Events. The three applicable Credit Events are Failure to Pay Principal, Failure to Pay Interest, and Irreversible Loss Writedown.

78. Each of these three Credit Events is defined in the Confirmation. In summary, a Failure to Pay Principal arises when the Reference Obligation fails to make a required payment

of principal upon the Reference Obligation's maturity or early redemption. A Failure to Pay Interest arises when the Reference Obligation fails to make a scheduled interest payment. And an Irreversible Loss Writedown arises when there has been a redemption or cancellation of all or part of a Reference Obligation's outstanding principal. RBC has violated the CDS Contracts by submitting CE Notices—including for a "Downgrade Credit Event"—which purport to declare credit events which are not permitted under the Logan CDS.

2. RBC Has Persistently Breached the Conditions to Settlement

79. There are at least three Conditions to Settlement that RBC must satisfy for each purported Credit Event.

80. First, RBC must serve a timely CE Notice. The CE Notice must among other things identify the type of Credit Event, the name of the Reference Obligation affected by the Credit Event, and the date of the Credit Event, and provide a description in reasonable detail of the facts relevant to the determination that a Credit Event has occurred.

81. Second, RBC must serve a Public Information Notice. The Public Information Notice requires information that reasonably confirms any of the acts relevant to the determination that the Credit Event described in the CE Notice has occurred. The information must be of a type and from a source described in the definitions contained in Annex 6 to the Confirmations. Under the Logan CDS, RBC is required to provide at least two sources of Publicly Available Information, one of which must be a Trustee Report.

82. Third, Deutsche Bank, as the Verification Agent, must issue a Verification Notice which verifies the contents of the CE Notices and Public Information Notices within 10 business days of the date that the notice or information was sent by RBC to MBIA. For Irreversible Loss Writedowns, the Verification Agent is required to confirm RBC's calculation

of the amount of the writedown and its determination that the writedown has, in fact, become irreversible. The Verification Agent must make these determinations solely using information provided by RBC. RBC is obligated to provide Deutsche Bank all information necessary for Deutsche Bank to carry out its duties.

83. RBC's persistent failures to comply with the Conditions of Settlement include, but are not limited to:

(a) RBC's failure to provide required information and reasonable detail in the CE Notices to support the determination that a Credit Event has occurred;

(b) RBC's issuance of purported CE Notices falsely declaring credit events;

(c) RBC's failure to issue valid Public Information Notices which include at least two qualifying sources of information, one of which must be a Trustee Report; and

(d) RBC's failure to notify MBIA of Credit Events or notify MBIA of Credit Events in a timely manner.

84. RBC's persistent breaches extend to false declarations of Irreversible Loss Writedown Credit Events. Under each of the Logan Confirmations, Irreversible Loss Writedowns may be declared under certain limited conditions, including only where an underlying "asset" of the Reference Obligation is subject to "liquidation." Furthermore, to determine whether the writedown is, in fact, "irreversible," RBC is required to apply a number of contractually specified assumptions, including the assumptions that future annual rates of repayment and prepayment in respect of the underlying assets of the Reference Obligation "shall be equal to such rates determined in respect of the previous calendar year" and that future annual rates of delinquency and default "shall be zero." In breach of these and other terms of the Logan Confirmations, RBC has declared Irreversible Loss Writedowns (a) with respect to Reference Obligations that are synthetic CDOs, although synthetic CDOs, by their very nature, do not own "assets" that are subject to "liquidation"; and (b) using improperly

high repayment and prepayment rates which are derived, in part, from repayments and prepayments arising from defaults, in violation of the required assumption that future annual rates of delinquency and default "shall be zero." As a result of such breaches, RBC has declared numerous false Irreversible Loss Writedowns and subjected MBIA to millions of dollars in improper payment demands. RBC has further breached its contractual obligations by persistently refusing to explain or withdraw these improper Irreversible Loss Writedowns in the face of repeated objections and information requests by MBIA.

85. Moreover, contrary to the terms of the Confirmation, RBC has failed to procure compliant Verification Notices. Deutsche Bank has consistently violated its obligations under Verification Agreements to verify and confirm the CE and Public Information Notices and has "rubber stamped" each one, notwithstanding their clear breaches of the Logan CDS. RBC, moreover, has persistently failed to supply information to Deutsche Bank necessary for it to carry out its duties. Deutsche Bank is paid by RBC under the Verification Agreements and has favored improperly RBC's interests over MBIA's. Deutsche Bank has verified and confirmed each of RBC's defective CE and Public Information Notices, failing to reject them or bring their deficiencies to MBIA's or RBC's attention, because it wishes to continue to earn fees under the Verification Agreements as well as avoid harming its lucrative relationship with RBC on the Logan CDOs and other RBC deals.

86. The numerous defects which plague RBC's Credit Event and Public Information Notices—including RBC's declaration of false Irreversible Loss Writedowns, failure to provide sufficient information concerning the determination that a Credit Event has occurred, and failure to supply the requisite sources of information for the Public Information

Notices—demonstrate that none of the accompanying Verification Notices were properly issued or satisfy the Conditions to Settlement in the Logan CDS.

3. RBC Has Persistently Breached the Settlement Terms

87. For Irreversible Loss Writedowns, the Cash Settlement Determination is an amount equal to the irreversible writedown amount. In the case of a Failure to Pay Principal or Interest, the Cash Settlement Determination requires a calculation of the final price for the Reference Obligation (except in the case of a Failure to Pay Principal arising from an early redemption). This in turn requires that RBC follow a contractually specified dealer polling process that includes obtaining six dealer quotations on contractually mandated days over a period of up to fifteen months from the date on which both the CE Notice and Public Information Notice were effective. Following the issuance of CE and Verification Notices for each of the Logan Transactions, MBIA has received via email scores of dealer polling notices from RBC employees using "RBC Capital Markets" email addresses (e.g. [NAME]@rbccm.com).

88. RBC has persistently failed to comply with the valuation and Cash Settlement Determination procedures set forth in the Settlement Terms. Among other things, RBC has failed to comply with dealer polling procedures, including conducting valuations on contractually mandated dates to derive Final Prices. Moreover, RBC has erroneously determined irreversible loss writedown amounts as well as liquidation values where a Failure to Pay Principal arose from an Early Redemption.

89. MBIA has objected to defects in the CE Notices and Public Information Notices served by RBC. MBIA has also notified RBC and Deutsche Bank in writing that the Verification Notices for the defective CE Notices and Public Information Notices were

improper, constitute manifest error, and/or were unauthorized. RBC in certain cases has responded by serving revised CE Notices and Public Information Notices or schedules which have purported to supplement and/or correct the information contained in the defective CE Notices and Public Information Notices. None of these purported revisions, however, have satisfied the required conditions for the presentation and settlement of credit events. In any event, the Logan CDS do not permit RBC to cure defective CE Notices, Public Information Notices, Verification Notices, or other failures to satisfy the Conditions to Settlement and Settlement Terms.

90. Because each of the CE Notices, Public Information Notices, and Verification Notices issued to date failed to satisfy the conditions precedent set forth in the Confirmations, any purported Cash Settlement Determination related to the defective CE Notices, Public Information Notices, and Verification Notices may not be applied toward calculating the aggregate Cash Settlement Determination or determining whether the related Participation Threshold has been exceeded.

B. RBC Has Required over $145 Million Payment on the Logan III CDS

91. As previously noted, the Participation Threshold Amounts for the Logan I, II, and III Transactions are $200 million, $150 million, and $225 million, respectively. To date, based on a purported aggregate Cash Settlement Determination of over $370 million, RBC has submitted to MBIA payment demands totaling over $145 million on the Logan III CDS. Under the terms of its financial guaranty, MBIA has complied with these payment demands, subject to and reserving all of its rights under the Logan III CDS and the financial guaranty, and in this action. Without this Court's intervention, as additional reference obligations default, RBC will continue to make payment demands on LaCrosse under the Logan III CDS and on MBIA Insurance through its financial guaranty.

92. RBC has also purported to calculate the total aggregate Cash Settlement Determination for the Logan I and II Transactions. According to RBC, to date, the aggregate Cash Settlement Determination for the Logan I and II Transactions is approximately $82 million and $124 million, respectively. Because the Logan I and II subordination thresholds are $200 million and $150 million, by RBC's calculation, the subordination protection for those deals will be exceeded when future Cash Settlement Determinations, in the aggregate, exceed $118 million and $26 million, respectively.

93. Accordingly, as a direct result of RBC's fraud and other wrongful acts, both LaCrosse and MBIA have been subjected to loss, and are exposed to further loss.

CAUSES OF ACTION

FIRST CAUSE OF ACTION: FRAUD BASED UPON AFFIRMATIVE MISREPRESENTATIONS (Against All Defendants for the Logan III Transaction)

94. MBIA repeats and realleges the allegations set forth above as though fully set forth herein.

95. This is a claim for fraud brought against RBC arising from misrepresentations it made concerning the Logan III CDS in the Logan III Pitchbook; the Logan III CDS, including Annex 1 to the Confirmation; and rating agency letters.

96. As detailed above, RBC made material misrepresentations of fact and failed to disclose material facts necessary in order to make its statements not materially misleading, in connection with MBIA's participation in the Logan III CDS. In furtherance of its scheme to unload onto MBIA a portion of its subprime exposure which had materially deteriorated in value, unbeknownst to MBIA, RBC misrepresented to MBIA, among other things, that: (a) as of March 31, 2007, Logan I and II were performing "within expectations" and had sustained no

appreciable loss in value on a mark-to-market valuation basis; (b) the overall credit quality of the collateral underlying Logan III was "high grade"—a level even higher than investment grade; (c) the creditworthiness of the Logan III CDS was of AAA/Aaa quality; (d) MBIA would be protected from loss by a subordination threshold amount of $225 million, making MBIA's risk of loss extremely remote; (e) the past performance of securities comparable in credit quality to Logan III and its collateral securities exhibited extremely low default and impairment rates, with low loss severity in the event of default; and (f) strict conditions precedent for the presentation and settlement of Credit Events would protect MBIA against loss.

97. RBC knew that its statements were false and misleading or, at minimum, was reckless in not knowing whether the statements were true when the statements were made. RBC made its false and misleading statements with the intent and expectation that MBIA would rely on them.

98. As a result of RBC's misrepresentations, the characteristics of the Logan III CDS were fundamentally different than what was presented to MBIA. RBC's misrepresentations were material as to the purportedly conservative risk profile of the Logan III CDS and the purported "high grade" credit quality of Logan III. MBIA entered into and priced the Logan III CDS based on RBC's representations.

99. MBIA reasonably relied on RBC's misrepresentations and omissions regarding the Logan III CDS. Without these material misrepresentations and omissions, MBIA would not have entered into the transaction.

100. RBC's conduct, as alleged herein, was willful, malicious, reckless, and without regard to MBIA's interests. Specifically, RBC engaged in its deceptive conduct in order to

avoid losses it knew it would suffer if the Logan III CDS did not close and to transfer those losses to MBIA.

101. As a direct, proximate, and foreseeable result of RBC's conduct, MBIA has suffered and will continue to suffer harm. Accordingly, the Logan III CDS should be rescinded and the parties restored to the status quo ante, and MBIA should be awarded damages incurred under the Logan III CDS in an amount to be determined at trial, including, at a minimum, all payments made under the Logan III CDS and financial guaranty. As a result of RBC's conduct, MBIA is also entitled to punitive damages.

SECOND CAUSE OF ACTION:
FRAUDULENT OMISSION
(Against All Defendants for the Logan III Transaction)

102. MBIA repeats and realleges the allegations set forth above as though fully set forth herein.

103. This is a claim for fraud brought against RBC arising from its non-disclosure of material facts that it was under a duty to disclose relating to the Logan III CDS.

104. In connection with marketing the Logan III Transaction to MBIA, RBC held itself out as having a superior market position and special expertise through its extensive experience in the industry as an arranger, broker-dealer, and collateral manager. As arranger of the Logan CDOs, RBC was uniquely situated to explain the details, attributes, and conditions of the Logan III Transaction as well as the performance of Logan I and II. Moreover, as a broker-dealer of the Logan III collateral, which was sourced synthetically from RBC's trading book, RBC was uniquely situated to explain and understand the true credit quality of the collateral.

105. RBC knew that as a result of the parties' long-standing relationship, which was fostered during the course of the parties' negotiation over and entry into the Maple and Logan

CDS, MBIA placed trust and confidence in RBC. Each of the Logan CDS contemplated a highly intertwined business relationship over the course of many decades, and RBC knew that MBIA's entry into the Logan CDS was predicated on its trust and confidence in RBC's expertise and integrity.

106. In 2007, seeking to capitalize upon the long-standing relationship of trust and confidence forged with MBIA over the course of four prior CDO transactions (the two Maple and Logan I and II deals), RBC approached MBIA about issuing credit protection on Logan III. RBC knew that MBIA's entry into the Logan III CDS, and the premiums it charged, would be determined in part by MBIA's perception of the performance of Logan I and II. Accordingly, to induce MBIA to enter into the Logan III CDS, RBC determined that it would conceal from MBIA Logan I and II's poor performance and substantial losses as of March 2007.

107. Based on its expertise, superior knowledge, and long-standing relationship of trust and confidence with MBIA, and in light of its false, incomplete, and misleading representations, RBC owed a duty to MBIA to disclose material facts about the Logan III CDO on which the Logan III CDS was based.

108. RBC should have disclosed, among other things: (a) that neither Logan I nor II were performing "within expectations" as of March 31, 2007 and that each had, in truth, sustained significant embedded losses and declines in credit quality; (b) material facts concerning the credit quality of the collateral and its substantial deterioration prior to the closing of the Logan III CDS—including that the collateral was not in fact of "high grade" quality; (c) that the AAA/Aaa ratings assigned to the Logan III CDS did not accurately reflect the risk of loss to MBIA; (d) that the deterioration in the collateral deprived MBIA entirely of the promised subordination protection and exposed MBIA to immediate loss; (e) that the low

default and impairment rates of securities purportedly comparable in credit quality to Logan III and its collateral did not accurately reflect the risk of default; (f) purportedly strict conditions precedent for the presentation and settlement of Credit Events would not protect MBIA against loss; and (g) that MBIA's risk of loss was not commensurate to the small premiums it was receiving. RBC should have also disclosed its unique knowledge of Logan III's collateral, valuation and modeling techniques, and facts about Logan III's performance that made clear that its ratings did not fairly reflect the true risk inherent in the transaction.

109. Such information was known to RBC but not known or readily available to MBIA, and RBC knew or should have known that MBIA was acting in reliance on the false, misleading, and inaccurate information provided by RBC in the Logan III Pitchbook; the Logan III CDS, including Annex 1 to the Confirmation; and rating agency letters, yet RBC made no attempt to update or correct that information.

110. As a result of RBC's fraudulent omissions described above, the characteristics of the Logan III CDS were fundamentally different than what was presented to MBIA. RBC's fraudulent omissions were material as to the purportedly conservative risk profile of the Logan III CDS and the purported "high grade" credit quality of Logan III. MBIA entered into and priced the Logan III CDS based on incomplete knowledge.

111. MBIA reasonably relied on RBC's misrepresentations and omissions regarding the Logan III CDS. Without these material misrepresentations and omissions, MBIA would not have entered into the transaction.

112. RBC's conduct, as alleged herein, was willful, malicious, reckless, and without regard to MBIA's interests. Specifically, RBC engaged in its deceptive conduct in order to

avoid losses it knew or was reckless in not knowing it would suffer if the Logan III CDS did not close and to transfer those losses to MBIA.

113. As a direct, proximate, and foreseeable result of RBC's conduct, MBIA has suffered and will continue to suffer harm. Accordingly, the Logan III CDS should be rescinded and the parties restored to the status quo ante, and MBIA should be awarded damages incurred under the Logan III CDS in an amount to be determined at trial, including, at a minimum, all payments made under the Logan III CDS and financial guaranty. As a result of RBC's conduct, MBIA is also entitled to punitive damages.

THIRD CAUSE OF ACTION:
AIDING AND ABETTING FRAUD
(Against RBCCMC and RBC Europe for the Logan III Transaction)

114. MBIA repeats and realleges the allegations set forth above as though fully set forth herein.

115. This is a claim for aiding and abetting fraud brought against RBCCMC and RBC Europe, arising from the intentional and substantial assistance they rendered to Royal Bank of Canada to advance its fraud on MBIA.

116. Royal Bank of Canada's underlying fraud on MBIA, as detailed above, took the form of misrepresentations and omissions concerning (a) the purportedly exceptional performance of Logan I and II as of March 2007; (b) the "high grade" credit quality of Logan III's collateral; (c) the purported AAA creditworthiness of the Logan III CDS; (d) the subordination threshold that purportedly protected MBIA from loss; (e) the performance of securities purportedly comparable to Logan III and its collateral; and (f) the strict conditions precedent for the presentation and settlement of Credit Events, which were supposed to protect MBIA against loss. These fraudulent statements and omissions were reflected in the Logan III

Pitchbook; the Logan III CDS, including Annex 1 to the Confirmation; and rating agency letters.

117. RBCCMC and RBC Europe knew of Royal Bank of Canada's fraud through their leading and active role in arranging and managing each of the Logan CDOs, their negotiating and marketing of the Logan III Transaction, their access to loan-level performance data, and their service as broker-dealer of the collateral and CDO notes. As a result of these various functions and sources of information, RBCCMC and RBC Europe knew and learned of, and assisted in conveying, Royal Bank of Canada's fraudulent statements and omissions to MBIA. RBCCMC and RBC Europe also knew of the fraud because they are wholly-owned subsidiaries of Royal Bank of Canada, and their businesses and personnel closely overlapped with Royal Bank of Canada's, leading to a fluid transfer of information among the parties perpetrating Royal Bank of Canada's fraud.

118. RBCCMC and RBC Europe knowingly assisted in Royal Bank of Canada's fraud, helped conceal Royal Bank of Canada's misrepresentations and omissions, and failed to correct them, thereby substantially assisting in carrying out the fraud. RBCCMC's and RBC Europe's substantial assistance to Royal Bank of Canada came in the form of, among other conduct, taking a leading and active role in arranging and managing the Logan III CDO, selecting collateral of inferior quality for placement into Logan III, marketing and negotiating the terms of the Logan III CDS based upon false and misleading representations and omissions, and preparing and delivering to MBIA Pitchbooks, deal documents, and marketing materials which contained those fraudulent representations and omissions. MBIA would not have entered into the Logan III CDS had it known the truth about Royal Bank of Canada's fraudulent statements

and omissions, and therefore MBIA's damages arising from the fraud were proximately caused by RBCCMC's and RBC Europe's substantial assistance.

119. As a direct, proximate, and foreseeable result of RBCCMC's and RBC Europe's intentional and reckless conduct, MBIA has suffered and will continue to suffer harm. Accordingly, the Logan III CDS should be rescinded and the parties restored to the status quo ante, and MBIA should be awarded damages incurred under the Logan III CDS in an amount to be determined at trial, including, at a minimum, all payments made under the Logan III CDS and financial guaranty. As a result of RBCCMC's and RBC Europe's conduct, MBIA is also entitled to punitive damages for the wrongdoing alleged herein.

FOURTH CAUSE OF ACTION:
NEGLIGENT MISREPRESENTATION
(Against All Defendants for the Logan III Transaction)

120. MBIA repeats and realleges the allegations set forth above as though fully set forth herein.

121. This is a claim for negligent misrepresentation brought against RBC in connection with representations made in the Logan III Pitchbook; the Logan III CDS, including Annex 1 to the Confirmation; and rating agency letters.

122. RBC made misrepresentations which it knew or was negligent in not knowing at the time to be false, in order to induce MBIA to participate in the Logan III CDS. RBC falsely represented, among other things, that: (a) as of March 31, 2007, Logan I and II were performing "within expectations" and had sustained no appreciable loss in value on a mark-to-market valuation basis; (b) the overall credit quality of the collateral underlying Logan III was "high grade"—a level even higher than investment grade; (c) the creditworthiness of the Logan III CDS was of AAA/Aaa quality; (d) MBIA would be protected from loss by a subordination

threshold amount of $225 million, making MBIA's risk of loss extremely remote; (e) the past performance of securities comparable in credit quality to Logan III and its collateral securities exhibited extremely low default and impairment rates, with low loss severity in the event of default; and (f) strict conditions precedent for the presentation and settlement of Credit Events would protect MBIA against loss.

123. At the time it made these misrepresentations, RBC knew, or at a minimum was negligent in not knowing, that these statements were false, misleading, and incorrect. Such information was not known, readily known, or readily available to MBIA; and RBC knew or was negligent in not knowing that MBIA was acting in reliance on mistaken information.

124. RBC held itself out as having a superior market position and special expertise with respect to the proposed transaction through its experience in the area. As the structurer and arranger of the Logan CDOs, and a broker-dealer in its collateral, RBC was uniquely situated to explain the details, attributes, and conditions of the Logan III Transaction. Moreover, RBC knew that as a result of the parties' long-standing relationship, which was fostered during the parties' negotiation over and entry into the Maple and Logan swaps, MBIA placed trust and confidence in RBC. Each of the Logan CDS contemplated a highly intertwined business relationship over the course of many decades, and RBC knew that MBIA's entry into the Logan CDS was predicated on its trust and confidence in RBC's expertise and integrity.

125. RBC made these misrepresentations to induce MBIA to enter into the Logan III CDS. In particular, RBC knew that if it revealed the truth about Logan I and II's poor performance as of March 2007, MBIA would reject the Logan III CDS. Based on its expertise,

superior knowledge, and relationship with MBIA, RBC owed a duty to MBIA to disclose material facts about Logan III on which the Logan III CDS was based.

126. MBIA reasonably relied on RBC's misrepresentations, which RBC undertook no attempt to correct. Without these material misrepresentations, MBIA would not have entered into the Logan III CDS.

127. As a direct, proximate, and foreseeable result of RBC's conduct, MBIA has suffered and will continue to suffer harm. Accordingly, the Logan III CDS should be rescinded and the parties restored to the status quo ante, and MBIA should be awarded damages incurred under the Logan III CDS in an amount to be determined at trial, including, at a minimum, all payments made under the Logan III CDS and financial guaranty.

FIFTH CAUSE OF ACTION:

BREACH OF CONTRACT

(Against All Defendants for the Logan III Transaction)

128. MBIA repeats and realleges the allegations set forth above as though fully set forth herein.

129. This is a claim for breach of contract brought against Defendants Royal Bank of Canada, RBCCMC, and RBC Europe under the Logan III CDS. The Logan III CDS is governed by an ISDA Master Agreement, which is accompanied by a Confirmation and Schedule.

130. Defendant Royal Bank of Canada executed the Logan III CDS and is a party to the agreement. Defendants RBCCMC and RBC Europe are liable under the Logan III CDS as, during the course of its negotiation, as well as the negotiation of the prior Logan Transactions, RBCCMC and RBC Europe manifested orally and in writing an intention to be bound by its terms. RBCCMC and RBC Europe were the architects of Defendants' efforts to market the

Logan Transactions to MBIA and they undertook the leading and primary role in selling the deals. RBC did much of its work in arranging and marketing the deals out of RBCCMC's New York offices and through employees who identified themselves as RBCCMC employees. RBCCMC's and RBC Europe's intention to be bound by the Logan CDS was expressed, through, among other things, (a) the imprint of their business name and logo on the Logan marketing materials, Pitchbooks, and deal documents, including the Logan I and III Confirmations; (b) each of the Logan Pitchbooks under which RBCCMC reserved for itself the right to take action under the Logan CDS; and (c) the CE Notices and dealer polling notices which were issued to MBIA by employees of "RBC Capital Markets."

131. Despite having entered into the Logan III CDS together, none of the Defendants have complied with its terms. All of the Defendants promised to deliver to MBIA "high grade" collateral and subordination threshold protection in the amount of $225 million. Both promises are memorialized in the Logan III Confirmation and Annex 1 which specified that all collateral securities would have credit quality of A- or better and that the Participation Threshold amount would be $225 million.

132. The Defendants together have materially breached the Logan III CDS by failing to deliver (a) legitimate "high grade" collateral with the credit quality meriting a minimum rating of A- and (b) Participation Threshold protection in the amount of $225 million. To the contrary, as of the date the Logan III CDS closed, embedded losses in the collateral pool had reduced the credit quality of securities referenced in the Logan III collateral pool to junk grade, far below the required minimum credit quality of A-. Moreover, embedded losses amounting to at least 18% of the collateral's par value (or approximately $270 million) had wiped out the subordination protection promised to MBIA and exposed it to immediate loss.

133. RBC, for its own profit and at the direct expense of MBIA, arranged the Logan III collateral pool with deteriorated collateral that materially changed the risk profile of the deal by its closing date. As a result, the credit quality of the Logan III collateral pool did not warrant its "high grade" rating and RBC breached its promise to deliver securities with the credit quality indicated by a minimum rating of A-. Moreover, given the embedded losses in the collateral pool which effectively wiped out the subordination protection promised to MBIA, RBC breached its promise to deliver Participation Threshold protection of $225 million.

134. These material breaches of the Logan III CDS have exposed MBIA to risks that are materially greater than it had bargained for and are grossly out of proportion with what it is being paid. As a result, MBIA has been denied the benefit of its bargain, and there has been a material failure of consideration under the Logan III CDS.

135. MBIA has performed all of the material conditions, covenants, and promises required to be performed in accordance with the terms and conditions of the Logan III CDS. By contrast, RBC has failed to satisfy its material obligations to deliver collateral securities with the credit quality and Participation Threshold protection represented in the Logan III CDS.

136. As a result of RBC's material breaches of the Logan III CDS, MBIA has suffered harm and should be awarded damages in an amount to be determined at trial, including, at a minimum, all payments made under the Logan III CDS and financial guaranty. The Logan III CDS should be rescinded and the parties restored to the status quo ante.

SIXTH CAUSE OF ACTION:

BREACH OF CONTRACT

(Against All Defendants for All Logan Transactions)

137. MBIA repeats and realleges the allegations set forth above as though fully set forth herein.

138. This is a claim for breach of contract brought against RBC under each of the Logan CDS, which are governed by an ISDA Master Agreement and its accompanying Confirmation and Schedule. Defendant Royal Bank of Canada executed each of the Logan CDS and is a party to the agreements. As discussed above in the Fifth Cause of Action for the Logan III CDS, Defendants RBCCMC and RBC Europe are liable under each of the Logan I and II CDS as, during the course of their negotiation, RBCCMC and RBC Europe manifested orally and in writing an intention to be bound by their terms in a manner materially identical to that alleged with respect to the Logan III CDS.

139. Moreover, each of the Defendants is liable for the breaches of the Logan CDS. Defendant Royal Bank of Canada, with the assistance of RBCCMC and RBC Europe, issued each of the defective CE Notices, Public Information Notices, and dealer polling notices. The participation of all three Defendants in the breaches of contract is reflected on the face, and by the delivery method, of each defective Notice. While Defendant Royal Bank of Canada executed each Notice, employees of RBCCMC and RBC Europe, using "RBC Capital Markets" email addresses, delivered the Notices to MBIA. Moreover, the "RBC Capital Markets" logo (which is the name under which RBCCMC and RBC Europe do business) is reflected prominently on the first page of each CE Notice and Public Information Notice.

140. The Confirmation to each Logan CDS specifies Conditions to Settlement and Settlement Terms, the satisfaction of which are conditions precedent to the inclusion of a Cash

Settlement Determination arising from a CE Notice in the aggregate Cash Settlement Determination amount and/or a payment demand from RBC to MBIA. These conditions precedent include: (a) the occurrence of one of three contractually specified Credit Events; (b) the issuance of a contractually compliant CE Notice, Public Information Notice, and Verification Notice; and (c) compliance with the Settlement Terms governing the procedures for the valuation of defaulted collateral securities and calculation of Cash Settlement Determinations. RBC's breach or failure to comply with any of the Conditions to Settlement and Settlement Terms results in the exclusion of the Reference Obligation that is the subject of the CE Notice, Public Information Notice, and Verification Notice from the aggregate Cash Settlement Determination and/or from a payment demand once the aggregate Cash Settlement Determination equals or exceeds the Participation Threshold.

141. Since the closing of the Logan CDS, RBC has issued to MBIA defective or false CE Notices and Public Information Notices and procured defective Verification Notices and has proposed valuations obtained through procedures that fail to comply with the conditions precedent contained in the Confirmations. RBC's breaches include its: (a) failure to provide required information and reasonable detail in the CE Notices to support the determination that a Credit Event has occurred; (b) issuance of purported CE Notices identifying false credit events; (c) failure to issue valid Public Information Notices which include at least two qualifying sources of information, one of which must be a Trustee Report; (d) failure to notify MBIA of Credit Events or notify MBIA of Credit Events in a timely manner; (e) failure to comply with the valuation and Cash Settlement Determination procedures set forth in the Settlement Terms, including the failure to comply with dealer polling procedures; (f) declaration of false Irreversible Loss Writedowns for synthetic CDOs and based on the

incorrect application of contractually mandated assumptions; (g) failure to procure valid Verification Notices; and (h) its failure to respond to MBIA's objections and information requests.

142. MBIA has objected to defects in RBC's CE Notices, Public Information Notices, Verification Notices, and defective settlement procedures and calculations, and none may be included in the aggregate Cash Settlement Determination. The Logan CDS do not permit RBC to cure defective CE Notices, Public Information Notices, or Verification Notices, or to cure other failures to satisfy the Conditions to Settlement and Settlement Terms.

143. These material breaches of the Logan CDS have exposed MBIA to risks and losses that are materially greater than it had bargained for and are grossly out of proportion with what it is being paid. As a result, MBIA has been denied the benefit of its bargain, and there has been a material failure of consideration under the Logan CDS.

144. MBIA has performed all of the material conditions, covenants, and promises required to be performed in accordance with the terms and conditions of the Logan CDS. By contrast, RBC has failed to satisfy its material obligations to comply with the Conditions to Settlement and Settlement Terms.

145. Accordingly, as a result of RBC's material violations of the Conditions to Settlement and Settlement Terms, MBIA seeks a declaration that: (a) the CE Notices, Public Information Notices, and Verification Notices that RBC has served to date are ineffective and cannot be cured; (b) none of the Reference Obligations referenced in the CE Notices have satisfied the Conditions to Settlement and Settlement Terms in sections 4 and 5 of the Confirmations, respectively; (c) none of the Reference Obligations that have been the subject of a CE Notice can be the subject of a Cash Settlement Determination under the Logan CDS;

and (d) none of these Reference Obligations may be included in the calculation of the aggregate Cash Settlement Determination.

146. In the alternative, because MBIA has and will suffer harm as a result of RBC's failures to satisfy the Conditions to Settlement and Settlement Terms, MBIA seeks and should be awarded damages in an amount to be determined at trial, including, at a minimum, all payments made under the Logan CDS and financial guaranties.

SEVENTH CAUSE OF ACTION:

BREACH OF COVENANT OF GOOD FAITH AND FAIR DEALING

(Against All Defendants for All Logan Transactions)

147. MBIA repeats and realleges the allegations set forth above as though fully set forth herein.

148. This is a claim for breach of the implied covenant of good faith and fair dealing brought under each of the Logan CDS.

149. Implied in each of the contracts governing the Logan CDS is a covenant that the parties would deal with each other in good faith and would not engage in any conduct to deprive the other of the benefits of those agreements.

150. In breach of the implied covenant, RBC, among other things (a) deliberately and knowingly selected collateral for reference in the Logan III CDO that, as of day one of the transaction, had the effect of destroying the represented "high grade" credit quality of the CDO collateral, AAA quality of the deal overall, and the represented subordination protection for MBIA, and (b) in bad faith, persistently and willfully breached the Conditions to Settlement and Settlement Terms of each of the Logan CDS so as to pierce the subordination thresholds and subject MBIA to payment demands at the earliest possible opportunity.

151. As a direct and proximate result of RBC's knowing, intentional, and bad faith violations of the covenant of good faith and fair dealing implied in the Logan CDS, MBIA has suffered harm and should be awarded damages in an amount to be determined at trial, including, at a minimum, all payments made under the Logan CDS and financial guaranties.

EIGHTH CAUSE OF ACTION:

PROMISSORY ESTOPPEL

(Against Defendants RBCCMC and RBC Europe for All Logan Transactions)

152. MBIA repeats and realleges the allegations set forth above as though fully set forth herein.

153. RBCCMC and RBC Europe marketed and negotiated the Logan III Transaction with MBIA. Through Pitchbooks, deal documents, including the Confirmations and Annex 1, rating agency letters, email communications, and telephonic and face-to-face discussions, RBCCMC and RBC Europe made material representations to MBIA regarding the Logan III Transaction, including that (a) the overall credit quality of the collateral underlying Logan III was "high grade"—a level even higher than investment grade; (b) the creditworthiness of the Logan III CDS was of AAA/Aaa quality; (c) MBIA would be protected from loss by first-loss Participation Threshold protection of $225 million, making MBIA's risk of loss extremely remote; and (d) strict conditions precedent in the presentation and settlement of Credit Events would protect MBIA against loss. At the time they made these representations to MBIA, RBCCMC and RBC Europe knew or should have known that all of these representations were false.

154. Similarly, RBCCMC and RBC Europe marketed and negotiated the Logan I and II Transactions with MBIA. Through Pitchbooks, deal documents, including the Confirmations and Annex 1, email communications, and telephonic and face-to-face

discussions, RBCCMC and RBC Europe made material representations to MBIA that strict conditions precedent for the presentation and settlement of Credit Events would protect MBIA against loss. At the time they made these representations to MBIA, RBCCMC and RBC Europe knew or should have known that all of these representations were false.

155. RBCCMC and RBC Europe knew and intended, or reasonably should have expected, that their actions and representations would induce action or forbearance on the part of MBIA. MBIA relied upon RBCCMC's and RBC Europe's representations, to its detriment, by entering into the Logan CDS. Had MBIA known that RBCCMC's and RBC Europe's representations were false, it would not have entered into the Logan CDS.

156. As a direct and proximate result of RBCCMC's and RBC Europe's failure to honor their promises and representations, MBIA has been injured. Equity and good conscience require that RBCCMC and RBC Europe be held liable for any injuries they have caused to MBIA by failing to fulfill the contractual promises they made in connection with the Logan CDS, and that they be estopped from claiming an excuse for the failure to honor those promises.

NINTH CAUSE OF ACTION

ACTION TO ENFORCE CONTRACTUAL RIGHTS

(Against Defendant Royal Bank of Canada for All Logan Transactions)

157. MBIA repeats and realleges the allegations set forth above as though fully set forth herein.

158. This is a claim by MBIA Insurance to enforce the terms of the three insurance policies that MBIA Insurance issued for the benefit of Defendant Royal Bank of Canada guaranteeing LaCrosse's payment obligations under the related Logan CDS.

159. Each financial guaranty insurance policy, pursuant to its terms, insures only defined Insured Amounts that the Obligor, LaCrosse, is obligated to pay to the Beneficiary, Royal Bank of Canada, under each of the Logan CDS. If LaCrosse has no payment obligation, then no demand for payment can properly be made on MBIA Insurance under the insurance policies. Plaintiffs allege herein that the Logan III CDS between LaCrosse and RBC is unenforceable. Plaintiffs further allege herein that the CE Notices, Public Information Notices, and Verification Notices issued or procured by RBC, and related Cash Settlement Determinations, are ineffective and may not be included in the aggregate Cash Settlement Determinations under any of the Logan CDS.

160. RBC has asserted and continues to assert that the defective CE Notices, Public Information Notices, and Verification Notices comply with all conditions precedent set forth in the Logan CDS and have purported to include their related Cash Settlement Determinations in the calculation of aggregate Cash Settlement Determination amounts. Under RBC's calculation of the aggregate Cash Settlement Determination amount for the Logan III Transaction, the Participation Threshold has been exceeded and MBIA has been required to make payment.

161. As a result of RBC's improper conduct, MBIA Insurance has been harmed and will continue to be harmed, including through reserving for future payment demands. MBIA Insurance seeks and should be awarded damages in an amount to be determined at trial, including, at a minimum, all payments made under the Logan CDS and financial guaranties.

PRAYER FOR RELIEF

WHEREFORE, MBIA demands judgment against Defendants as follows:

(i) rescission of the Logan III CDS;

(ii) a declaration that: (a) the CE Notices, Public Information Notices, and Verification Notices that RBC has served to date are ineffective and cannot be cured; (b) none of the Reference Obligations referenced in the CE Notices has satisfied the Conditions to Settlement and Settlement Terms, set forth in sections 4 and 5 of the Confirmations, respectively; (c) none of the Reference Obligations that has been the subject of a CE Notice issued to date can be the subject of a Cash Settlement Determination under the Logan CDS; and (d) none may be included in the calculation of the aggregate Cash Settlement Determination;

(iii) compensatory and punitive damages incurred under all the Logan CDS, including all payments and losses that have been incurred or will be incurred, in amounts to be determined at trial, together with pre-judgment interest at the maximum rate allowable by law;

(iv) compensatory damages incurred under the three financial guaranty insurance policies, including all payments and losses that have been incurred or will be incurred, in amounts to be determined at trial, together with pre-judgment interest at the maximum rate allowed by law;

(v) reasonable costs and expenses incurred in this action, including, to the extent applicable, counsel fees and such other relief as the Court deems just and proper.

DATED: New York, New York
January 21, 2009

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