



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

26 February 2015

Sir Howard Davies  
Chairman-elect  
Royal Bank of Scotland  
Gogarburn  
Edinburgh  
EH12 1HQ

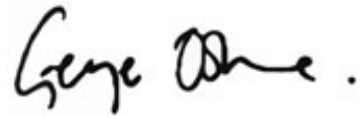
Dear Sir Howard,

I would like to take this opportunity to welcome your appointment as Chairman of RBS.

As today's annual results show, RBS has made substantial progress in implementing the strategy that the Government, the board and management have agreed: shrinking the investment banking and international activities and concentrating on supporting UK customers and the UK real economy. As we have discussed previously, it is vital that RBS continues to implement this strategy with vigour, to put the bank and its business model on a sound footing so that RBS can play its full potential in the British economy, as well as putting in place the foundations for return of the bank, over time, fully to the private sector.

Given the extraordinary support it has enjoyed in the past from taxpayers, I know you recognise that RBS must remain a backmarker on pay and continue to show responsibility and restraint. In the context of RBS's conduct fines in 2014, it is right that the bonus pool is down again. I would also expect that, as in the past, no executive directors or members of the executive committee will receive bonuses, despite improved profitability. It is also essential that RBS is at the forefront in thoroughly addressing past conduct failings; I look to you and Ross McEwan personally to ensure that the entirety of the bank's business is conducted to the very highest ethical standards.

In conclusion, my priorities for RBS are these: it is a British bank focused on the British economy, with lower bonuses and with a plan to get the taxpayers' money back. I look forward to your help in delivering this.

A handwritten signature in black ink that reads "George Osborne." The signature is written in a cursive style with a period at the end.

**GEORGE OSBORNE**