



Midlothian Council
Corporate Services
Buccleuch Street
Dalkeith
Midlothian
EH22 1DJ

For the attention of : Finance Director

10 February 2011

Subject: Your Loan(s)/Bond(s) with Dexia Credit Local (refer to Annex 1 "Details of your Loan(s)/Bond(s))

Dear Sir or Madam,

We have decided to transfer our municipal loan portfolio from DCL's London branch ("DCL London") to our Paris head office ("DCL Paris"). From an operational perspective there will be some minor administrative changes, as explained in this letter, but we want to stress our intention to pursue the close relationship we have with you and continue to provide an excellent service.

It is important to emphasise that none of the administrative changes explained in this letter constitute an assignment, novation or other form of transfer of DCL's rights and obligations under the documentation governing your Loan(s)/Bond(s) (the "**Loan(s)/Bond(s) Documentation**"), as your counterparty for the purposes of the Loan(s)/Bond(s) Documentation will remain DCL.

Your contacts at DCL

Your contacts in the UK within the municipal loan Team will remain, **Des Kerr, Senior Manager**, and any correspondence should be addressed to him assisted by **Steve Bryant, Manager**, and **Janyne Latimer, Manager**.

Your contact details:

- Desmond Kerr (020 7378 1035 – Des.Kerr@dexia.com)
- Steve Bryant (020 7470 7321 – Steve.Bryant@dexia.com)
- Janyne Latimer (020 7470 7310 – Janyne.Latimer@dexia.com)

Dexia Public Finance Bank

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Trade name of Dexia Crédit Local
Incorporated in France with
limited liability – registered in
England & Wales Reg No: BR5713

As mentioned above, DCL London's municipal loan portfolio will be transferred to DCL Paris, with effect from March 11th 2011 (the "Effective Date"). As a result, the back-office administration of this loan portfolio will be managed by DCL Paris with effect from the Effective Date.

From the Effective Date, all payments in relation to your Loan(s)/Bond(s) must be made to:

Account name: DEXIA CREDIT LOCAL

Sort code: 60-00-04

Account number: 10007636

This letter constitutes written notice (to the extent such notice is required to be given) of a change in payment account for the purposes of the Loan(s)/Bond(s) Documentation.

Tax situation and direction provided by HM Revenue and Customs to DCL

With effect from the Effective Date, DCL Paris will become the beneficial owner of interest paid by Midlothian Council under the Loan(s)/Bond(s).

Previously, Midlothian Council was not required to deduct UK income tax ("withholding tax") from payments of interest to DCL London due to a specific exemption provided by UK tax law (this exemption applies because DCL London was subject to UK corporation tax on the interest received). However, given that DCL Paris will not be subject to UK corporation tax on the interest received after the Effective Date, this exemption is no longer automatically available and requires the agreement of HMRC.

Accordingly, DCL Paris has requested from HM Revenue and Customs ("HMRC"), and received, a direction ("the Direction") under Regulation 2 of the Double Taxation Relief (Taxes on Income) (General) Regulations 1970 (SI 1970 no 488). This Direction was provided by HMRC on 3 August 2010 and gives effect to the provisions of the UK/France Double Taxation Treaty, which allows UK borrowers to make payments of interest to France without deduction of UK tax.

The effect of the Direction is that Midlothian Council (and other UK borrowers that borrowed from DCL London) may continue to make gross payments of interest under the Loan(s)/Bond(s) provided. However, we are required by HMRC in granting this Direction to advise all UK borrowers of the existence of the Direction. A copy is attached for your reference.

As a consequence, you are not required to take any action in this regard. The Direction has effect for any payment of interest made up to 3 August 2015. If the term of your Loan(s)/Bond(s) (ies) extends beyond 3 August 2015, we will contact you again before this date to advise you of the measures that will be taken to ensure that interest can continue to be paid by Midlothian Council without deduction of withholding tax beyond this date.

Please do not hesitate to contact us if you have any questions or concerns related to the above.
Yours faithfully,



Bruno Accou
Chief Executive Officer
DCL London Branch

Annex 1 : Details of your Loan(s)/Bond(s) :

- Loan/Bond Agreement dated 15 October 2004, with a maturity of 15 October 2054 and a notional of 5,000,000 GBP between Midlothian Council and Dexia Credit Local.

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**HM Revenue
& Customs**

Large Business Service
Barkley House
Castle Meadow Road
Nottingham
NG2 1BA

Dexia Credit Local
c/o Dexia Public Finance Bank
Bruno Accou
Shakleton House
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London SE1 2RB

Phone 0115 974 0326

Fax 0115 974 0666

www.hmrc.gov.uk

Date 3 August 2010
Our ref 5/D/248589

Dear Sirs

Dexia Credit Local (DCL)

**Direction under Regulation 2 of the Double Taxation Relief (Taxes on Income)
(General) Regulations 1970 (SI 1970 no 488), as amended**

RECEIVED
05 AUG 2010

I direct that the borrowers whose details are to be supplied by Dexia Credit Local, when making UK Source interest payments to Dexia Credit Local to do so without the deduction of tax.

This is to give effect to relief from income tax that is due to Dexia Credit Local under the UK/France Double Taxation Convention.

This Direction takes effect from today and expires on ...**3 August 2015**

It also applies to any payment already made without deduction of tax from **3 August 2010**.....

Please note that this Direction will automatically cease to have effect and the borrowers may need to commence to deduct tax at the full rate, if there is a change in the nature or description of the income or there is any change in the residence status or business details, including changes in name, address or ownership of DCL.

If you are in any doubt about whether any of these conditions are triggered, or if you have any questions about their application, please contact LBS DT Treaty Team using the above contact details.

If payments continue after the expiry date shown above, borrowers should deduct tax at the full rate.

Information is available in large print, audio and Braille formats.
Text Relay service prefix number – 18001

