

Registered Number 3331871

BOS (SHARED APPRECIATION MORTGAGES) NO. 3 PLC
DIRECTORS' REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2005



**BOS (SHARED APPRECIATION MORTGAGES) NO. 3 PLC
DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

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BOS (SHARED APPRECIATION MORTGAGES) NO. 3 PLC
DIRECTORS AND COMPANY INFORMATION

DIRECTORS

C W Haresnape
I G Stewart

SECRETARY

S Mayer

REGISTERED OFFICE

Premier House
City Road
CHESTER
CH88 3AN

AUDITORS

KPMG Audit Plc
1 The Embankment
Neville Street
LEEDS
LS1 4DW

BOS (SHARED APPRECIATION MORTGAGES) NO. 3 PLC DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2005.

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

The principal activity of the Company is to finance mortgage lending. In 1998 the Company issued £46.6m fixed rate loan notes. The interest payable on the loan notes is set at 4.5% pa until 2028. The loan notes are secured on the mortgage portfolio. The capital appreciation arising on the sale of a mortgage holder's property is shared between the mortgage holder and the Company as set out in the original loan agreement. The Company pays its entire share of the appreciation to the loan note holders. No changes in the business of the Company are anticipated.

Movements in the mortgage book are disclosed in the notes to the financial statements.

RESULTS FOR THE YEAR TO 31 DECEMBER 2005

No new mortgages were acquired or generated by the Company in the year and no new loan notes were issued.

The profit after taxation for the year, prepared using International Financial Reporting Standards, amounted to £250,925 (2004: £241,041). An interim dividend of £112,320 was paid (2004: £100,834). The directors do not recommend a final dividend (2004: £116,103).

SUPPLIER PAYMENT POLICY

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers. The Company did not, at any time during the year, obtain or seek to obtain credit from any of its suppliers. On this basis no calculation has been made for the average number of days credit taken at the year-end.

FINANCIAL INSTRUMENTS

The Company's main financial instruments are mortgage loans, funds on deposit and loan notes. The principal purpose of these financial instruments is to raise finance for the Company's operations. It is, and has been throughout the year under review, the Company's policy that no trading in financial instruments is undertaken.

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at a different time. The Company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of assets and liabilities are similar.

Credit risk arises on the individual loans within the mortgage portfolio which are secured on the underlying residential properties but the credit risk is considered to be low. The mortgage balances are monitored as part of the HBOS Group impairment process but no impairment provision is considered to be necessary at 31 December 2005.

Further discussion of the Company's approach to financial instruments is set out in note 1 (accounting policies) and in note 16.

**BOS (SHARED APPRECIATION MORTGAGES) NO. 3 PLC
DIRECTORS' REPORT (CONT'D)**

DIRECTORS AND THEIR INTERESTS

The directors who served during the year were as follows:

I G Stewart
J H Lloyd (resigned 2 December 2005)
C W Haresnape (appointed 2 December 2005)

During the year, no director had any beneficial interest in the share capital of the Company or of any other Group undertaking other than in HBOS plc, the ultimate holding company.

The beneficial interests of the directors and their immediate families in HBOS plc shares are set out below. References to "HBOS plc shares" are to ordinary shares of 25p each in HBOS plc.

	At 31.12.04 HBOS plc shares	At 31.12.05 HBOS plc shares
I G Stewart	13,390	13,719

LONG TERM INCENTIVE PLAN

HBOS SCHEME, FORMER BANK OF SCOTLAND SCHEME AND FORMER HALIFAX SCHEME

Share options granted between 1995 and 2000 under the Bank of Scotland Executive Stock Option Scheme 1995 are subject to performance pre-conditions which have now been satisfied. Share options granted under the other plans are not subject to a performance precondition. Details of the options outstanding under these plans are set out below.

	Options outstanding at 31.12.04	Granted(G), lapsed (L) or exercised (E) in year	At 31.12.05
I G Stewart	9,043	-	9,043

ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

The financial statements for the year ended 31 December 2005 have been prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations as endorsed by the EU and effective at 31 December 2005.

IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" only became effective from 1 January 2005. Accordingly, the 2004 comparatives do not reflect the provisions of these standards, but have been prepared in accordance with the applicable UK accounting standards in force for that period.

The main effects of IFRSs for the Company are that dividends previously accrued at 31 December 2004 under UK GAAP have not been reflected in the financial statements until they were declared and paid in 2005; the mortgage portfolio and loan notes have been presented on an amortised cost basis; and the Company's share of the capital appreciation arising on the mortgage portfolio and capital appreciation payable to the loan note holders has been reflected as an embedded derivative asset and liability, respectively.

Full disclosures are given in the notes to these financial statements for the year ended 31 December 2005 which explain the financial effect of transition to IFRSs.

**BOS (SHARED APPRECIATION MORTGAGES) NO. 3 PLC
DIRECTORS' REPORT (CONT'D)**

RATIFICATION OF PREVIOUS UNAPPROVED DIVIDEND PAYMENTS


Dividend payments of the Company were made between 1 January 2003 and 31 December 2004 without the payments having been formally approved by the directors and/or shareholders of the Company.

The directors believe that neither the Company's shareholders nor its creditors were prejudiced, given that at the time the payments were made the Company had sufficient distributable reserves to make such payments. The Company has therefore obtained from the Company's shareholders, retrospective ratification of all previous unapproved dividend payments.

AUDITORS AND ANNUAL GENERAL MEETING

KPMG Audit Plc were re-appointed as auditors of the Company on 22 February 2005 for the forthcoming financial period. KPMG Audit Plc have signified their willingness to continue in office and a resolution for their re-appointment will be proposed at the forthcoming Annual General Meeting on 17 March 2006.

By Order of the Board


S Mayer
Secretary

Premier House
City Road
CHESTER
CH88 3AN

17 March 2006

BOS (SHARED APPRECIATION MORTGAGES) NO. 3 PLC
STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU.

The financial statements are required by law to present fairly the financial position and performance of the company; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF BOS (SHARED APPRECIATION MORTGAGES) NO. 3 PLC**

We have audited the company financial statements (the "financial statements") of BOS (Shared Appreciation Mortgages) NO. 3 PLC for the year ended 31 December 2005 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Directors' Report and the Company financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, are set out in the Statement of Directors' Responsibilities on page 6.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985 and whether, in addition, the financial statements have been properly prepared in accordance with Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Directors' Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF BOS (SHARED APPRECIATION MORTGAGES) NO. 3 PLC (CON'T)**

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Company's affairs as at 31 December 2005 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
1 The Embankment
Neville Street
LEEDS
LS1 4DW

17 March 2006

BOS (SHARED APPRECIATION MORTGAGES) NO. 3 PLC
INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005 £	2004 £
Interest receivable and similar income	2	1,876,336	1,603,145
Interest payable and similar charges	3	(1,469,263)	(1,116,340)
Net interest income		<u>407,073</u>	<u>486,805</u>
Net fair value gains and losses on derivatives	4	-	-
Other operating income	5	5,195	5,756
Operating expenses	6	(53,803)	(148,217)
Profit before tax for the year		<u>358,465</u>	<u>344,344</u>
Income tax expense	7	(107,540)	(103,303)
Profit for the year		<u><u>250,925</u></u>	<u><u>241,041</u></u>
Profit attributable to equity holders		<u><u>250,925</u></u>	<u><u>241,041</u></u>

The profit shown above is derived from continuing operations.

The notes on pages 13 to 35 form part of these financial statements.

BOS (SHARED APPRECIATION MORTGAGES) NO. 3 PLC
STATEMENT OF RECOGNISED INCOME AND EXPENSE
FOR THE YEAR ENDED 31 DECEMBER 2005

	Notes	2005 £	2004 £
Change in accounting policy on adoption of IAS 39		229,150	-
Tax on items taken directly to equity		(68,745)	-
Net income recognised directly in equity	19(d)	<u>160,405</u>	<u>-</u>
Profit for the year		250,925	241,041
Total recognised income and expense for the year attributable to equity holders		<u>411,330</u>	<u>241,041</u>

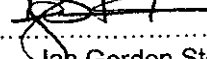
The notes on pages 13 to 35 form part of these financial statements.

BOS (SHARED APPRECIATION MORTGAGES) NO. 3 PLC
BALANCE SHEET AS AT 31 DECEMBER 2005

	Notes	2005 £	2004 £
Assets			
Mortgage portfolio	8	19,711,988	23,472,717
Shared appreciation rights receivable	9	31,132,674	-
Total non-current assets		50,844,662	23,472,717
Other receivables	10	1,130	189,732
Cash and cash equivalents	11	2,857,026	2,226,779
Total current assets		2,858,156	2,416,511
Total assets		53,702,818	25,889,228
Equity			
Called up share capital		50,001	50,001
Retained earnings		2,242,473	2,059,566
Total equity	12	2,292,474	2,109,567
Liabilities			
Interest-bearing loans and borrowings	13	19,558,471	23,444,701
Shared appreciation rights payable	14	31,132,674	-
Deferred tax liability		68,745	-
Total non-current liabilities		50,759,890	23,444,701
Other payables	15	537,553	222,343
Current tax liability	7	107,540	103,303
Bank overdraft	11	5,361	9,314
Total current liabilities		650,454	334,960
Total liabilities		51,410,344	23,779,661
Total equity and liabilities		53,702,818	25,889,228

The notes on pages 13 to 35 form part of these financial statements.

These financial statements were approved by the Board of Directors on 17 March 2006

and were signed on its behalf by:  Director
Ian Gordon Stewart

BOS (SHARED APPRECIATION MORTGAGES) NO. 3 PLC
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2005

Indirect Method	Notes	2005 £	2004 £
Cash flows from operating activities			
Profit before tax for the year		358,465	344,344
<i>Adjustments for:</i>			
Interest income	2	(1,876,336)	(1,603,145)
Interest expense	3	1,416,926	1,116,340
Amortisation of issue costs	3 / 6	52,337	73,163
Shared appreciation income	5	(1,835,800)	(2,151,676)
Shared appreciation expense	5	1,835,800	2,151,676
		<hr/>	<hr/>
Operating profit before changes in working capital and provisions		(48,608)	(69,298)
Increase in other receivables		(410)	(411)
Increase/(decrease) in other payables		16,734	(424,236)
		<hr/>	<hr/>
Cash generated from the operations		(32,284)	(493,945)
Income taxes paid		(103,303)	(118,757)
		<hr/>	<hr/>
Net cash from operating activities		(135,587)	(612,702)
		<hr/>	<hr/>
Cash flows from investing activities			
Mortgage interest received		1,349,389	1,466,001
Bank interest received		147,197	157,593
Repayment of mortgages	8	1,482,229	2,529,609
Shared appreciation received		1,835,800	2,151,676
		<hr/>	<hr/>
Net cash flows from investing activities		4,814,615	6,304,879
		<hr/>	<hr/>
Cash flows from financing activities			
Interest paid on borrowings		(1,034,212)	(1,129,080)
Repayment of borrowings	13	(1,244,869)	(2,346,358)
Dividends paid	12	(228,423)	(229,276)
Shared appreciation paid		(1,537,324)	(2,322,460)
		<hr/>	<hr/>
Net cash flows from financing activities		(4,044,828)	(6,027,174)
		<hr/>	<hr/>
Net increase in cash and cash equivalents		634,200	(334,997)
Cash and cash equivalents at 1 January		2,217,465	2,552,462
		<hr/>	<hr/>
Cash and cash equivalents at 31 December	11	2,851,665	2,217,465
		<hr/>	<hr/>

As explained in the accounting policies on page 13, cash is distributed in accordance with the securitisation transaction agreements.

The notes on pages 13 to 35 form part of these financial statements.

BOS (SHARED APPRECIATION MORTGAGES) NO. 3 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005

1. SIGNIFICANT ACCOUNTING POLICIES

BOS (Shared Appreciation Mortgages) NO. 3 PLC is a company domiciled in the United Kingdom.

The financial statements were authorised for issue by the directors on 17 March 2006.

(a) Statement of compliance

The financial statements for the year ended 31 December 2005 have been prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations as endorsed by the EU and effective at 31 December 2005.

The accounting policies set out below have been applied in respect of the financial year ended 31 December 2005. IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" only became effective from 1 January 2005. Accordingly, the 2004 comparatives do not reflect the provisions of these standards, but have been prepared in accordance with the applicable UK accounting standards in force for that period. Where the implementation of these standards resulted in a change in accounting policy from 1 January 2005, the policy applied in respect of the 2004 comparative information has been set out at the end of each accounting policy. The related 2005 policy has been annotated with an asterisk in the heading to indicate the change in policy. Where there is no asterisk, the policy has been applied consistently in both periods presented in the financial statements.

IFRS 1 "First-time Adoption of IFRSs" has been applied to these financial statements. An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Company is provided in note 19. There has been no material effect on the reported profit for the year ended 31 December 2004, the changes are principally confined to changes in presentation.

(b) Basis of preparation

The financial statements are presented in sterling.

The financial statements have been prepared on the historical cost basis (except that derivative financial instruments are stated at their fair value), and on a going concern basis.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates used in the financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Further information on the assumptions used is given in note 16.

BOS (SHARED APPRECIATION MORTGAGES) NO. 3 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005 (CONT'D)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financial instruments*

The Company's financial instruments comprise a mortgage portfolio, cash and cash equivalents, derivatives, interest-bearing borrowings and various receivables and payables that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Company's operations. These financial instruments are classified in accordance with the principles of IAS 39 as described below.

(c)(i) Mortgage portfolio*

The Company's mortgage portfolio comprises mortgage loans with no fixed maturity date. The individual mortgage loans terminate on the earlier of, the sale of the property or the death of the mortgage account holder.

Under IAS 39, the mortgage portfolio is classified within "loans and receivables". The initial measurement is at fair value (excluding amounts for the shared appreciation referred to in (c)(iv) below). Subsequent measurement is at amortised cost with revenue being recognised using the effective interest method. The discount arising on initial recognition is being amortised over the expected life of the mortgages.

At each reporting period end, the Company assesses whether there is any objective evidence that mortgage loans within the portfolio are impaired. The directors do not consider that a provision for impaired assets is currently required.

For the 2004 financial statements that were prepared under UK GAAP, interest receivable was calculated on an accruals basis using the contractual fixed interest payment terms of the mortgages.

(c)(ii) Cash and cash equivalents*

The Company holds bank accounts with an external provider. These accounts are held in the Company's name and meet the definition of cash and cash equivalents but their use is restricted by a detailed priority of payments set out in the securitisation transaction agreements. The cash can only be used to meet certain specific liabilities and is not available to be used with discretion.

These bank accounts are classified within "loans and receivables" in accordance with IAS 39 and income is being recorded using the effective interest method.

The Statement of Cash Flows has been presented using the indirect method of preparation.

For the 2004 financial statements the interest arising on the bank accounts was recognised on an accruals basis. In practice, this does not give rise to a difference between income recognised on a UK GAAP basis and what would be recognised on an IFRS basis.

(c)(iii) Interest-bearing borrowings*

The Company's interest-bearing borrowings comprise mortgage-backed fixed rate loan notes that have been issued in the capital market.

BOS (SHARED APPRECIATION MORTGAGES) NO. 3 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005 (CONT'D)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c)(iii) Interest-bearing borrowings* (Continued)

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

For the 2004 financial statements, the issue costs, in respect of the fixed rate loan notes, were deferred and were charged to operating expenses over a ten-year period, being the estimated life of the mortgages. Interest payable was calculated on an accruals basis using the contractual fixed interest payment terms of the loan notes.

(c)(iv) Embedded derivatives*

Certain derivatives are embedded within other non-derivative host financial instruments to create a hybrid instrument. Where the economic characteristics and risks of the embedded derivatives are not closely related to the economic characteristics and risks of the host instrument, and where the hybrid instrument is not measured at fair value, the embedded derivative is separated from the host instrument with changes in fair value of the embedded derivative recognised in the income statement. Depending on the classification of the host instrument, the host is then measured in accordance with IAS 39.

The capital appreciation arising on the sale of a mortgage holder's property is shared between the mortgage holder and the Company as set out in the original loan agreement. The Company pays its entire share of the appreciation to the loan note holders.

The economic characteristics and risks of the shared appreciations rights receivable and payable are not viewed as being closely related to those arising on the mortgages and loan notes, respectively. The shared appreciation rights receivable and payable have therefore been valued separately from the mortgages and loan notes using discounted cash flow techniques and taking account of current House Price Inflation ("HPI"). There is uncertainty regarding the timing of any future shared appreciation receipts and the directors do not consider that it is practical to include an estimate of future HPI in these valuations. The resulting fair value movements of these embedded derivatives are recorded in net fair value gains and losses on derivatives in the income statement and the embedded derivatives are shown separately on the face of the balance sheet. The host instruments are valued at amortised cost, as noted above in (c)(i) and (c)(iii).

In the 2004 financial statements that were prepared under UK GAAP, the shared appreciation was accounted for at the point when cash was received from the mortgage customer, with an equal liability recognised at this point.

(c)(v) Other receivables

Other receivables are stated at their cost less impairment losses.

(c)(vi) Other payables

Other payables are stated at cost.

(d) Fees and commissions

Fees and commissions receivable for the continuing service of loans and advances are recognised on the basis of work done. Other fees are recognised when receivable.

BOS (SHARED APPRECIATION MORTGAGES) NO. 3 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005 (CONT'D)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided: the initial recognition of assets and liabilities that affects neither accounting nor taxable profit; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates at the balance sheet date.

Deferred tax has been charged or credited to equity for the adjustments to retained earnings that have been recognised on the adoption of IAS 39 at 1 January 2005.

(f) VAT

Value Added Tax is not recoverable by the Company and is included with its related costs.

(g) Dividends

Dividends on the equity shares of the Company are recognised as a liability in the period in which they are declared.

(h) Related parties

In accordance with the provisions of IAS 24 "Related Party Disclosures", the Company has disclosed details of transactions with its related parties, including those with fellow HBOS group companies.

(i) Standards in issue but not yet adopted

The directors are considering the following standards which are currently in issue but are not mandatory. The directors do not intend to adopt these standards and amendments to standards in the current year financial statements:

IAS 39: Financial Instruments: Recognition and Measurement – amendment to financial guarantee contracts and amendment to the fair value option;

IAS 1: Presentation of Financial Statements – amendment on Capital Management;

IFRS 7: Financial Instruments: Disclosures.

The directors do not consider the financial effect or disclosure of these standards to be material to the financial statements.

BOS (SHARED APPRECIATION MORTGAGES) NO. 3 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005 (CONT'D)

2. INTEREST RECEIVABLE AND SIMILAR INCOME

	2005 £	2004 £
Mortgage interest from customers	1,729,139	1,445,552
Bank interest from group undertakings	19,638	16,705
Bank interest	127,559	140,888
	<hr/>	<hr/>
	1,876,336	1,603,145
	<hr/>	<hr/>

Interest on impaired assets is £nil for the year ended 31 December 2005.

3. INTEREST PAYABLE AND SIMILAR CHARGES

	2005 £	2004 £
Interest payable on loan notes	1,416,926	1,116,340
Amortisation of issue costs	52,337	-
	<hr/>	<hr/>
	1,469,263	1,116,340
	<hr/>	<hr/>

Interest payable comprises amounts arising on the loan notes, calculated on an effective yield basis for the year ended 31 December 2005. For the year ended 31 December 2004, amortisation of issue costs has been included in operating expenses.

4. NET FAIR VALUE GAINS AND LOSSES ON DERIVATIVES

	2005 £	2004 £
Fair value movement on shared appreciation rights receivable	(774,578)	-
Fair value movement on shared appreciation rights payable	774,578	-
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>

BOS (SHARED APPRECIATION MORTGAGES) NO. 3 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005 (CONT'D)

5. OTHER OPERATING INCOME

	2005 £	2004 £
Fees and commissions receivable	4,975	5,756
Shared appreciation receivable	1,835,800	2,151,676
Shared appreciation payable	(1,835,800)	(2,151,676)
Other income	220	-
	<hr/> 5,195	<hr/> 5,756
	<hr/>	<hr/>

6. OPERATING EXPENSES

	2005 £	2004 £
Amortisation of issue costs	-	73,163
Bank administration fees	40,113	43,093
Trustees fee	4,615	6,305
Legal fees	2,350	2,350
Audit fees	4,116	2,292
Other fees	2,609	21,014
	<hr/> 53,803	<hr/> 148,217
	<hr/>	<hr/>

In accordance with IAS 39, the amortisation of issue costs is included in interest payable for the year ended 31 December 2005.

The Company has no employees and none of the directors receive any emoluments from the Company.

BOS (SHARED APPRECIATION MORTGAGES) NO. 3 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005 (CONT'D)

7. INCOME TAX EXPENSE

	2005 £	2004 £
Current Tax		
Corporation tax charge for the year at a rate of 30% (2004:30%)	107,540	103,303
	<u>107,540</u>	<u>103,303</u>
Deferred Tax		
Deferred tax charge for the year at a rate of 30% (2004:30%)	-	-
	<u>107,540</u>	<u>103,303</u>
	<u><u>107,540</u></u>	<u><u>103,303</u></u>
Reconciliation of effective tax rate	2005 £	2004 £
The tax for the year is equal to the standard rate of corporation tax in the UK of 30%.		
Profit before tax	358,465	344,344
	<u>358,465</u>	<u>344,344</u>
Profit multiplied by the standard rate of corporation tax in the UK	107,540	103,303
	<u>107,540</u>	<u>103,303</u>
Deferred tax recognised directly in equity		
Relating to effective yield adjustments on adoption of IAS 39	68,745	-
	<u>68,745</u>	<u>-</u>
Deferred tax balance		
Deferred tax liabilities	68,745	-
	<u>68,745</u>	<u>-</u>
The movement for the year was as follows:		
At 1 January	-	-
Change in accounting policy	68,745	-
	<u>68,745</u>	<u>-</u>
Opening balance restated	68,745	-
Charge for year	-	-
	<u>68,745</u>	<u>-</u>
At 31 December	<u><u>68,745</u></u>	<u><u>-</u></u>

BOS (SHARED APPRECIATION MORTGAGES) NO. 3 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005 (CONT'D)

8. MORTGAGE PORTFOLIO

	2004
	£
At 31 December 2003	26,002,326
Capitalised fees and interest	(73,109)
Mortgage redemptions in the year	(2,456,500)
	<hr/>
At 31 December 2004	23,472,717
	<hr/>
	2005
	£
At 31 December 2004	23,472,717
Adjustment on adoption of IAS 39	(2,658,250)
Capitalised fees and interest	(4,503)
Mortgage redemptions in the year	(1,477,726)
Amortisation of discount	379,750
	<hr/>
At 31 December 2005	19,711,988
	<hr/>

The mortgage loans advanced by the Company have no fixed maturity date but would terminate on the earlier of, the sale of the property, or the death of the mortgage account holder.

9. SHARED APPRECIATION RIGHTS RECEIVABLE

The right for the Company to receive a share of the capital appreciation arising on the individual mortgages, as set out in the original loan agreements, is classified as an embedded derivative, in accordance with the principles of IAS 39. The embedded derivative has been valued separately from the host contract using discounted cash flow techniques. No estimate has been made of the effect of future HPI as the directors consider that this is impractical.

The Company is contractually obliged to pay to the loan note holders any amounts received from mortgage customers for the shared appreciation. A corresponding derivative liability has therefore been recognised in the balance sheet for the same value as the derivative asset (note 14).

BOS (SHARED APPRECIATION MORTGAGES) NO. 3 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005 (CONT'D)

10. OTHER RECEIVABLES

	2005 £	2004 £
Deferred expenditure	-	189,012
Other debtors	1,130	720
	<u>1,130</u>	<u>189,732</u>

11. CASH AND CASH EQUIVALENTS

	2005 £	2004 £
Bank balances	2,857,026	2,226,779
Bank overdraft	(5,361)	(9,314)
	<u>2,851,665</u>	<u>2,217,465</u>

The Company holds bank accounts with an external provider. These accounts are held in the Company's name and meet the definition of cash and cash equivalents but their use is restricted by a detailed priority of payments set out in the securitisation transaction agreements. The cash can only be used to meet certain specific liabilities and is not available to be used with discretion.

12. TOTAL EQUITY

Reconciliation of movement in capital and reserves

	Share Capital £	Retained Earnings £	Total Equity £
Balance at 1 January 2004 (restated)	50,001	2,047,801	2,097,802
Total recognised income and expense (restated)	-	241,041	241,041
Dividends to shareholders	-	(229,276)	(229,276)
	<u>50,001</u>	<u>2,059,566</u>	<u>2,109,567</u>
Balance at 31 December 2004	50,001	2,059,566	2,109,567
Balance at 1 January 2005	50,001	2,059,566	2,109,567
Total recognised income and expense (includes accounting policy changes)	-	411,330	411,330
Dividends to shareholders	-	(228,423)	(228,423)
	<u>50,001</u>	<u>2,242,473</u>	<u>2,292,474</u>
Balance at 31 December 2005	50,001	2,242,473	2,292,474

BOS (SHARED APPRECIATION MORTGAGES) NO. 3 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005 (CONT'D)

12. TOTAL EQUITY (CONTINUED)

Share capital

	2005 £	2004 £
Authorised		
50,000 ordinary shares of £1 each	50,000	50,000
	<hr/>	<hr/>
1 deferred share of £1	1	1
	<hr/>	<hr/>
Allotted, called up and fully paid		
50,000 ordinary shares of £1 each	50,000	50,000
	<hr/>	<hr/>

The deferred share carries no entitlement to any dividend or to any share in any surplus assets of the Company on a winding-up, other than the right to be repaid the amount of any paid up share capital thereon. The right to be repaid any paid up share capital in the deferred share shall be deferred until after all paid up share capital has been first repaid on all other classes of issued share capital in the Company.

The deferred share carries the right to receive notice of all general meetings of the Company but does not carry the right to attend, speak or vote at a general meeting unless a resolution is to be proposed abrogating, varying or modifying any of the rights or privileges of the holder of the deferred share, or for the winding up or administration of the Company under the Insolvency Act 1986, or for the entry by the Company with any other party into a merger, reconstruction, scheme of arrangement or amalgamation of or affecting the Company, in any of which cases such holder shall have the right to attend such general meeting and shall be entitled to speak and vote. Whenever the holder of the deferred share is entitled to vote at a general meeting, such holder shall have one vote and on a poll such number of votes as is equal to 34% of the number of votes attached to all other issued shares of the Company.

Dividends

After the balance sheet date the following dividends were proposed by the directors. The dividends have not been provided for in these financial statements and there are no income taxes consequences.

	2005 £	2004 £
2005 Final dividend	-	-
2004 Final dividend	-	116,103
	<hr/>	<hr/>
	-	116,103
	<hr/>	<hr/>

BOS (SHARED APPRECIATION MORTGAGES) NO. 3 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005 (CONT'D)

13. INTEREST-BEARING LOANS AND BORROWINGS

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings. For more information about the Company's exposure to interest rate risk and the fair value of its financial instruments, see note 16.

	2004
	£
At 31 December 2003	25,701,785
Loan note redemptions	(2,346,358)
	<hr/> 23,355,427
Accrued interest	89,274
	<hr/> 23,444,701
	<hr/>
	2005
	£
At 31 December 2004	23,355,427
Adjustment on adoption of IAS 39	(2,710,054)
Loan note redemptions	(1,244,868)
Amortisation of discount	387,151
	<hr/> 19,787,656
Deferred issue costs	(314,022)
Accrued interest	84,837
	<hr/> 19,558,471
	<hr/>
At 31 December 2005	

The mortgage backed fixed rate loan notes are due in 2073. The interest rate applicable on the loan notes up to and including the period ending 28 February 2028 is 4.50% per annum. Thereafter, the interest rate applicable to the loan notes will be 5.50% per annum. The loan notes carry, in addition to interest, rights to receive certain amounts calculated by reference to the value of shared appreciation proceeds received from redeemed mortgages.

The loan notes are subject to mandatory part redemption from time to time based on the level of redeemed mortgages and can be redeemed in full, in certain circumstances, at the option of the Company. The loan notes are secured on the mortgage portfolio and certain other assets of the Company.

14. SHARED APPRECIATION RIGHTS PAYABLE

The Company is contractually obliged to pay to the loan note holders any amounts received from mortgage customers for the shared appreciation arising on the sale of the property. A derivative liability has therefore been recognised in the balance sheet for the same value as the derivative asset (note 9).

BOS (SHARED APPRECIATION MORTGAGES) NO. 3 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005 (CONT'D)

15. OTHER PAYABLES

	2005 £	2004 £
Accruals and deferred income	537,553	222,343
	<hr/>	<hr/>
	537,553	222,343
	<hr/>	<hr/>

16. FINANCIAL INSTRUMENTS

The Company's financial instruments comprise a mortgage portfolio, cash and cash equivalents, derivatives, interest-bearing borrowings and various receivables and payables that arise directly from its operations. Exposure to credit and interest rate risk arises in the normal course of the Company's business.

16(a) Credit risk

Credit risk arises on the individual loans within the mortgage portfolio which are secured on the underlying residential properties. Mortgage loans are no longer offered by the Company. The maximum loan-to-value of the original advances was 75% and the credit risk is considered to be low. The mortgage balances are monitored as part of the HBOS Group impairment process but no impairment provision is considered to be necessary at 31 December 2005. The maximum exposure to credit risk is represented by the carrying amount of the mortgages.

The Company has no exposure to credit risk on the shared appreciation. In accordance with the legal documents, only amounts actually received by the Company from the borrower are required to be paid over to the loan note holders.

BOS (SHARED APPRECIATION MORTGAGES) NO. 3 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005 (CONT'D)

16. FINANCIAL INSTRUMENTS (CONTINUED)

16(b) Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at a different time. The Company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of assets and liabilities are similar. Both the mortgage portfolio and the loan notes issued by the Company are exposed to fair value interest rate risk as they carry fixed interest rates.

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice, if this is earlier than the maturity date.

2005	Effective interest Rate %	Total £	6 months or less £	6 – 12 months £	1 – 2 years £	2 – 5 years £	More than 5 years £
Mortgage portfolio*	8.48	19,711,988	-	-	-	-	19,711,988
Cash and cash equivalents	6.10	2,857,026	2,857,026	-	-	-	-
Loan notes*	7.00	(19,558,471)	-	-	-	-	(19,558,471)
Bank overdraft	0.00	(5,361)	(5,361)	-	-	-	-
2004	Effective interest Rate	Total	6 months or less	6 – 12 months	1 – 2 years	2 – 5 years	More than 5 years
Mortgage portfolio*	5.90	23,472,717	-	-	-	-	23,472,717
Cash and cash equivalents	4.56	2,226,779	2,226,779	-	-	-	-
Loan notes*	6.24	(23,444,701)	-	-	-	-	(23,444,701)
Bank overdraft	0.00	(9,314)	(9,314)	-	-	-	-

* These assets/liabilities bear interest at a fixed rate.

BOS (SHARED APPRECIATION MORTGAGES) NO. 3 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005 (CONT'D)

16. FINANCIAL INSTRUMENTS (CONTINUED)

16(c) Fair values

The fair values of the Company's financial instruments, together with the carrying amounts shown in the balance sheet are as follows:

	Note	Fair Value 2005 £	Carrying Amount 2005 £	Fair Value 2004 £	Carrying Amount 2004 £
Mortgage portfolio	8	22,661,475	19,711,988	56,605,621	23,472,717
Shared appreciation rights receivable	9	31,132,674	31,132,674	-	-
Other receivables	10	1,130	1,130	189,732	189,732
Cash and cash equivalents	11	2,857,026	2,857,026	2,226,779	2,226,779
Interest-bearing loans and borrowings	13	(22,113,627)	(19,558,471)	(56,605,621)	(23,444,701)
Shared appreciation rights payable	14	(31,132,674)	(31,132,674)	-	-
Other payables	15	(537,553)	(537,553)	(222,343)	(222,343)
Bank overdraft	11	(5,361)	(5,361)	(9,314)	(9,314)

Estimation of fair values

The following comments summarise the main methods and assumptions used in estimating the fair value of financial instruments that are reflected in the table above.

Cash and cash equivalents and bank overdrafts are recognised on an amortised cost basis that is considered to be a close approximation to fair value. Other receivables and other payables have a carrying value that closely approximates to the fair value of the instrument.

The fair value of the mortgage portfolio, shared appreciation rights receivable, interest-bearing loans and shared appreciation rights payable has been calculated by discounting future cash flows at an appropriate market rate. The valuation method is consistent with commonly used market techniques. All inputs into the valuation models are obtained from observable market data.

The fair value of the mortgages as at 31 December 2004 includes the value of house price inflation that would be receivable from borrowers if the loans were terminated at the period end. Similarly, the fair value of the interest-bearing loans as at 31 December 2004 includes the value of house price inflation that would be payable to loan note holders on redemption of the mortgage loans. The current value of house price inflation has been included in the embedded derivative for shared appreciation rights receivable and payable as at 31 December 2005, following the adoption of IAS 39.

BOS (SHARED APPRECIATION MORTGAGES) NO. 3 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005 (CONT'D)

17. RELATED PARTIES

The Company is a subsidiary undertaking of HBOS plc group.

The Company receives interest from Bank of Scotland, a fellow subsidiary undertaking of HBOS plc. and Bank of Scotland administers the mortgage portfolio on behalf of the Company, for which quarterly service fees are paid. Dividends were paid to Uberior Investments PLC, the immediate parent undertaking of the Company. The Company's transactions with related parties are summarised below.

	HBOS plc and subsidiaries 2005 £	HBOS plc and subsidiaries 2004 £
Income Statement		
Interest receivable and similar income	19,638	16,705
Operating expenses	(40,113)	(43,093)
Dividends paid	(228,423)	(229,276)
Balance Sheet		
Assets		
Cash and cash equivalents	549,128	496,207
Liabilities		
Other payables	3,328	3,515
Bank overdraft	5,361	9,314

**BOS (SHARED APPRECIATION MORTGAGES) NO. 3 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005 (CONT'D)**

18. PARENT UNDERTAKINGS

HBOS plc is the ultimate parent undertaking of BOS (Shared Appreciation Mortgages) NO. 3 PLC and heads the largest group into which the accounts of the Company are consolidated. The consolidated accounts of HBOS plc may be obtained from its head office at The Mound, Edinburgh, EH1 1YZ.

The Governor and Company of the Bank of Scotland heads the smallest group into which the accounts of the Company are consolidated. The accounts of The Governor and Company of the Bank of Scotland may be obtained from its head office at The Mound, Edinburgh, EH1 1YZ.

19. EXPLANATION OF TRANSITION TO IFRS

As stated in note 1(a), these are the Company's first financial statements prepared in accordance with IFRSs.

The accounting policies applied in preparing the financial statements are set out in note 1.

In preparing its opening IFRS balance sheet, the Company has reclassified and adjusted amounts reported in previous financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition process from UK GAAP to IFRSs has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

BOS (SHARED APPRECIATION MORTGAGES) NO. 3 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005 (CONT'D)

19. EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

19(a) Balance Sheet as at 1 January 2004 (IFRS GAAP)

	Notes	31.12.2003 UK GAAP £	Transition to IFRS £	1.1.2004 IFRS GAAP £
Assets				
Mortgage portfolio		26,002,326	-	26,002,326
Shared appreciation rights receivable		-	-	-
Deferred tax asset		-	-	-
Total non-current assets		<u>26,002,326</u>	<u>-</u>	<u>26,002,326</u>
Other receivables	1	282,933	-	282,933
Cash and cash equivalents	2	2,559,316	-	2,559,316
Total current assets		<u>2,842,249</u>	<u>-</u>	<u>2,842,249</u>
Total assets		<u>28,844,575</u>	<u>-</u>	<u>28,844,575</u>
Equity				
Called up share capital		50,001	-	50,001
Retained earnings	3	1,919,359	128,442	2,047,801
Total equity		<u>1,969,360</u>	<u>128,442</u>	<u>2,097,802</u>
Liabilities				
Interest-bearing loans and borrowings		25,803,799	-	25,803,799
Shared appreciation rights payable		-	-	-
Deferred tax liability		-	-	-
Total non-current liabilities		<u>25,803,799</u>	<u>-</u>	<u>25,803,799</u>
Other payables	1	817,363	-	817,363
Current tax liability		118,757	-	118,757
Proposed dividend	3	128,442	(128,442)	-
Bank overdraft	2	6,854	-	6,854
Total current liabilities		<u>1,071,416</u>	<u>(128,442)</u>	<u>942,974</u>
Total liabilities		<u>26,875,215</u>	<u>(128,442)</u>	<u>26,746,773</u>
Total equity and liabilities		<u>28,844,575</u>	<u>-</u>	<u>28,844,575</u>

BOS (SHARED APPRECIATION MORTGAGES) NO. 3 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005 (CONT'D)

19. EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

19(a) Balance Sheet as at 1 January 2004 (IFRS GAAP) (Continued)

Notes

1. Other receivables and other payables comprise certain amounts that were previously recognised separately on the face of the balance sheet. Other receivables comprise deferred expenditure and other debtors. Other payables comprise accruals and deferred income.
2. Cash and cash equivalents include certain amounts that were previously recognised separately on the face of the balance sheet as amounts due from group undertakings.
3. Under IFRS, dividends on the Company's equity shares are recognised as a liability in the period in which they are declared. The proposed dividend at 31 December 2003 of £128,442 has therefore been reversed from current liabilities and retained earnings have been increased by the same amount. This is the only change to amounts previously recognised under UK GAAP.

BOS (SHARED APPRECIATION MORTGAGES) NO. 3 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005 (CONT'D)

19. EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

19(b) Balance Sheet as at 31 December 2004 (IFRS GAAP)

	Notes	31.12.2004 UK GAAP £	Transition to IFRS £	31.12.2004 IFRS GAAP £
Assets				
Mortgage portfolio		23,472,717	-	23,472,717
Shared appreciation rights receivable		-	-	-
Deferred tax asset		-	-	-
		<hr/>	<hr/>	<hr/>
Total non-current assets		23,472,717	-	23,472,717
		<hr/>	<hr/>	<hr/>
Other receivables	1	189,732	-	189,732
Cash and cash equivalents	2	2,226,779	-	2,226,779
		<hr/>	<hr/>	<hr/>
Total current assets		2,416,511	-	2,416,511
		<hr/>	<hr/>	<hr/>
Total assets		25,889,228	-	25,889,228
		<hr/>	<hr/>	<hr/>
Equity				
Called up share capital		50,001	-	50,001
Retained earnings	3	1,943,463	116,103	2,059,566
		<hr/>	<hr/>	<hr/>
Total equity		1,993,464	116,103	2,109,567
		<hr/>	<hr/>	<hr/>
Liabilities				
Interest-bearing loans and borrowings		23,444,701	-	23,444,701
Shared appreciation rights payable		-	-	-
Deferred tax liability		-	-	-
		<hr/>	<hr/>	<hr/>
Total non-current liabilities		23,444,701	-	23,444,701
		<hr/>	<hr/>	<hr/>
Other payables	1	222,343	-	222,343
Current tax liability		103,303	-	103,303
Proposed dividend		116,103	(116,103)	-
Bank overdraft		9,314	-	9,314
		<hr/>	<hr/>	<hr/>
Total current liabilities		451,063	(116,103)	334,960
		<hr/>	<hr/>	<hr/>
Total liabilities		23,895,764	(116,103)	23,779,661
		<hr/>	<hr/>	<hr/>
Total equity and liabilities		25,889,228	-	25,889,228
		<hr/>	<hr/>	<hr/>

BOS (SHARED APPRECIATION MORTGAGES) NO. 3 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005 (CONT'D)

19. EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

19(b) Balance Sheet as at 31 December 2004 (IFRS GAAP) (Continued)

Notes

1. Other receivables and other payables comprise certain amounts that were previously recognised separately on the face of the balance sheet. Other receivables comprise deferred expenditure and other debtors. Other payables comprise accruals and deferred income.

2. Cash and cash equivalents include certain amounts that were previously recognised separately on the face of the balance sheet as amounts due from group undertakings.

3. Under IFRS, dividends on the Company's equity shares are recognised as a liability in the period in which they are declared. The proposed dividend at 31 December 2004 of £116,103 has therefore been reversed from current liabilities and retained earnings have been increased by the same amount. This is the only change to amounts previously recognised under UK GAAP.

BOS (SHARED APPRECIATION MORTGAGES) NO. 3 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005 (CONT'D)

19. EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

19(c) Balance Sheet as at 1 January 2005 (IFRS GAAP)

	Notes	31.12.2004 IFRS GAAP £	IAS 39 Adoption £	1.1.2005 IFRS GAAP £
Assets				
Mortgage portfolio	1	23,472,717	(2,658,250)	20,814,467
Shared appreciation rights receivable	2	-	31,907,252	31,907,252
Deferred tax asset		-	-	-
Total non-current assets		<u>23,472,717</u>	<u>29,249,002</u>	<u>52,721,719</u>
Other receivables	3	189,732	(189,012)	720
Cash and cash equivalents	4	2,226,779	-	2,226,779
Total current assets		<u>2,416,511</u>	<u>(189,012)</u>	<u>2,227,499</u>
Total assets		<u>25,889,228</u>	<u>29,059,990</u>	<u>54,949,218</u>
Equity				
Called up share capital		50,001	-	50,001
Retained earnings	5	2,059,566	160,405	2,219,971
Total equity		<u>2,109,567</u>	<u>160,405</u>	<u>2,269,972</u>
Liabilities				
Interest-bearing loans and borrowings	3, 6	23,444,701	(3,076,412)	20,368,289
Shared appreciation rights payable	7	-	31,907,252	31,907,252
Deferred tax liability		-	68,745	68,745
Total non-current liabilities		<u>23,444,701</u>	<u>28,899,585</u>	<u>52,344,286</u>
Other payables		222,343	-	222,343
Current tax liability		103,303	-	103,303
Bank overdraft		9,314	-	9,314
Total current liabilities		<u>334,960</u>	<u>-</u>	<u>334,960</u>
Total liabilities		<u>23,779,661</u>	<u>28,899,585</u>	<u>52,679,246</u>
Total equity and liabilities		<u>25,889,228</u>	<u>29,059,990</u>	<u>54,949,218</u>

BOS (SHARED APPRECIATION MORTGAGES) NO. 3 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005 (CONT'D)

19. EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

19(c) Balance Sheet as at 1 January 2005 (IFRS GAAP) (Continued)

Notes

The comments below explain the adjustments required at 1 January 2005 on adoption of IAS 39 and IAS 32 and noted in the table above. These notes should be read in conjunction with the accounting policies set out in note 1 to the financial statements.

1. The adjustment to the mortgage portfolio represents the adjustment required to recognise the portfolio at its initial fair value, excluding the embedded derivative for shared appreciation. The discount arising is being amortised over the expected life of the mortgages.
2. The right to receive shared appreciation is being accounted for as an embedded derivative that is not closely related to the host contract, being the mortgage loans, and is included in the balance sheet at its fair value at 1 January 2005.
3. Deferred issue costs incurred in raising the loan notes have previously been included in current assets under UK GAAP. On adoption of IAS 39, the balance of attributable transaction costs has been netted against the loan notes included in interest-bearing loans and borrowings.
4. Cash and cash equivalents include certain amounts that were previously recognised separately on the face of the balance sheet as amounts due from group undertakings.
5. The effect on retained earnings of the IAS 39 adjustments is set out in the table below.
6. The loan notes have been adjusted to recognise them at their initial fair value, excluding the embedded derivative for shared appreciation. The discount arising is being amortised over the expected life of the loan notes. The expected life of the loan notes has been revised under IAS 39 and this has necessitated an adjustment to the amortisation charged to date on the issue costs.
7. The obligation to pay shared appreciation is being accounted for as an embedded derivative that is not closely related to the host contract, being the loan notes, and is included in the balance sheet at its fair value at 1 January 2005.

19(d) Effect on Retained Earnings

The effect of the above adjustments on retained earnings is as follows:

	1 January 2004	31 December 2004	1 January 2005
	£	£	£
Amortisation of deferred issue costs	-	-	177,346
Fair value adjustment on mortgages	-	-	(2,658,250)
Fair value adjustment on loan notes	-	-	2,710,054
Shared appreciation rights receivable	-	-	31,907,252
Shared appreciation rights payable	-	-	(31,907,252)
Tax effect of adjustments	-	-	(68,745)
Dividends proposed	128,442	116,103	-
Total adjustment to equity attributable to equity holders of the parent	128,442	116,103	160,405

BOS (SHARED APPRECIATION MORTGAGES) NO. 3 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2005 (CONT'D)

19. EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

19(e) For the year ended 31 December 2004

	Notes	UK GAAP £	Effect of transition to IFRSs £	IFRS GAAP £
Interest receivable and similar income		1,603,145	-	1,603,145
Interest payable and similar charges		(1,116,340)	-	(1,116,340)
Net interest income		486,805	-	486,805
Net fair value gains and losses on derivatives		-	-	-
Fees and commissions receivable		5,756	(5,756)	-
Shared appreciation receivable		2,151,676	(2,151,676)	-
Shared appreciation payable		(2,151,676)	2,151,676	-
Other operating income	1	-	5,756	5,756
Operating expenses		(148,217)	-	(148,217)
Profit before tax for the year		344,344	-	344,344
Income tax expense		(103,303)	-	(103,303)
Profit for the year		241,041	-	241,041
Dividend on equity shares - paid	2	(100,834)	100,834	-
Dividend on equity shares - proposed	2	(116,103)	116,103	-
Retained profit for the year		24,104	216,937	241,041

Notes

1. Other operating income includes £2,151,676 payable and receivable for shared appreciation. These amounts were previously disclosed separately on the face of the profit and loss account.

2. Proposed dividends of £116,103 are not reflected as an obligation under IFRS until they are declared. The distribution has therefore been reversed from the profit and loss account. Paid dividends of £100,834 are now shown as a deduction from retained earnings.

19(f) Cash Flows

Under UK GAAP the Company was exempt from preparing a Cash Flow Statement under paragraph 5(a) of FRS 1(revised 1996) "Cash Flow Statements", as it is a wholly-owned subsidiary and its results are consolidated within the financial statements of HBOS plc which are publicly available. No such exemption exists under IAS 7 and a statement of cash flows has therefore been presented for the first time for the year ended 31 December 2005 and the comparative period.