

# CREDIT OMBUDSMAN SERVICE LIMITED

ACN 104 961 882

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## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 2nd Annual General Meeting (“AGM”) of **Credit Ombudsman Service Limited** (“the company”) will be held at **Terrace Room 1, Novotel Darling Harbour, 100 Murray Street, Darling Harbour, Sydney NSW** on Wednesday, 30<sup>th</sup> November 2005 at 2.15pm.

The business of the AGM is:

- 1 To receive, consider and note the company’s Financial Report, Directors’ Report, Report on Activities and the Auditor’s Report
- 2 To note appointments of Directors.
- 3 To appoint Ruwald & Evans Chartered Accountants as Auditors of the company; and
- 4 To transact any other business required by the company’s Constitution or by law to be transacted at the AGM.

Dated 20<sup>th</sup> October 2005.

By Order  
GW Matthews AM  
Executive Chairman

Note:

1. Every member of the company is entitled to attend the AGM. However, only a “Voting Member” is entitled to vote at the AGM. A Voting Member is entitled to appoint a proxy.
2. A “Voting Member” means a Category A Member of the company who is a Full Member or Life Member of the Mortgage Industry Association of Australia but does not include:
  - (a) A Category A Member who has failed to pay any “Fee”(as defined in the COSL Constitution) due by that member; or
  - (b) A Category A Member who has been suspended from membership pursuant to the COSL Constitution.
3. Every Voting Member who is present at the AGM whether in person or, in the case of a body corporate, by nominated representative, is entitled to one vote on a show of hands and every Voting Member who is present at the AGM whether in person or by nominated representative or by proxy is entitled to one vote on a poll.
4. A proxy holder may be an individual or a body corporate and may, but need not, be a member of the company. An instrument of proxy is deemed to confer authority to demand or join in the demanding of a poll. Every instrument of proxy must be in writing and be signed by the Voting Member or the Voting Member’s attorney duly authorised in writing or where the Voting Member is a body corporate, signed in such manner as permitted by that member’s Constitution and the Corporations Act 2001.
5. Every instrument of proxy (and power of attorney and/or appointment of proxy-holder’s representative or certified copy thereof) must be received by the Secretary at Level 39, 2 Park Street, Sydney NSW 2000 or by fax to (02) 9004 7569 or by email to [admin@creditombudsman.com.au](mailto:admin@creditombudsman.com.au) not less than 24 hours before the time for holding the AGM or any adjourned AGM for which the proxy holder proposes to vote and in default, the instrument of proxy shall be disregarded.

CREDIT OMBUDSMAN SERVICE LIMITED

ACN 104 961 882

PROXY

I, .....being \*a Voting Member of Credit Ombudsman Service Limited ("the company") or \*the duly authorised representative of .....(being a Voting Member of the company) hereby appoint:

- (a) \*the Chairman of the meeting;
(b) \* ..... of ..... as proxy of .....

.....[name of appointor] to vote for and on behalf of the appointor at the 2nd Annual General Meeting of the company to be held on 30th November 2005.

.....

Signature of appointor/Signed by the appointor in accordance with S.127 of the Corporations Act 2001

Note - \*Delete whichever is inapplicable

Note: This instrument of proxy (and power of attorney and/or appointment of proxy-holder's representative or certified copy thereof) must be received by the Secretary at Level 39, 2 Park Street, Sydney NSW 2000 or by fax to (02) 9004 7569 or by email to admin@creditombudsman.com.au not less than 24 hours before the time for holding the AGM or any adjourned AGM for which the proxy holder proposes to vote and in default, the instrument of proxy shall be disregarded.

**Credit Ombudsman Service Limited**

ACN 104 961 882

**Annual Report 2005**

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## Corporate Information

Credit Ombudsman Service Limited (“COSL”) is a company limited by guarantee and not having a share capital. COSL was incorporated as Mortgage Industry Ombudsman Service Limited (“MIOS”) on 18 June 2003 and commenced operations on 1 July 2003. COSL adopted its current name on 17 February 2004. COSL operates as an external dispute resolution scheme known as Credit Ombudsman Service (“COS”) approved by Australian Securities and Investment Commission (“ASIC”) as such under ASIC Policy Statement 139.

## Membership

During the year, membership of COSL comprised:

- Full Members and Life Members of the Mortgage Industry Association of Australia (“MIAA”) - Category A Members
- Accredited Mortgage Consultants registered as such by the MIAA - Category A Members
- Finance Brokers, Mortgage Brokers and other operators in the Credit Industry who are not members of MIAA - Category C Members.

On 29 June 2005, the Board approved the creation of new and varied classes of membership as follows:

**Category A Member** – MIAA Full Member or Life Member to whom the MIAA Code of Practice and Credit Ombudsman Rules apply

**Category B Member** – MIAA Certified Mortgage Consultants;

**Category C Member** –

- Mortgage Broker;
- Finance Broker;
- Employee, agent or independent contractor of a Mortgage Broker or Finance Broker;
- Mortgage Manager;
- Credit Provider;
- Aggregator; or
- Any person who conducts such Credit related business as the Board approves;

and who is not a member of the MIAA

**Category D Member** - as approved by the Board on 27 April 2005 Resolution 2005/12

**Category E Member** - as approved by the Board on 29 June 2005 Resolution 2005/22

**Category F Member** - MIAA Accredited Mortgage Consultants

**Category G Member** - banks and other Credit Providers, and other MIAA Members to whom the MIAA Code of Practice and Credit Ombudsman Rules do not apply but who undertake to contribute to the resources of the company.

Establishment of the new membership categories is to be implemented early in the new financial year.

## **Board of Directors**

The Board of Directors of COSL comprises:

- An independent Chairman appointed by MIAA
- Not less than one and not more than three Member Directors appointed by MIAA to represent Members
- Not less than one and not more than three Consumer Directors appointed by Consumer's Federation of Australia or other consumer representative body approved for the purpose by ASIC to represent consumers.

## **Administration**

Administration and membership functions are carried out by staff of COSL from offices at Level 39, 2 Park Street, Sydney NSW 2000.

## **Scheme Manager**

Day to day administration of consumer complaints to COSL and conciliation functions ("Case Management") are carried out on behalf of COSL by Australian Commercial Disputes Centre from offices at Level 6, 50 Park Street, Sydney NSW 2000.

## **Credit Ombudsman Rules**

Dispute resolution processes are dealt with under the Credit Ombudsman Rules promulgated by the Board of Directors of COSL ("COSL Board").

## **Credit Ombudsman**

The Credit Ombudsman carries out the functions of determination of consumer complaints and the making of binding Awards in appropriate cases. The Credit Ombudsman is a person appointed from a panel of suitably qualified and experienced persons to consider and make binding awards in respect of consumer's complaints coming within the jurisdiction of COSL.

## Consumer and Member Communications

COSL maintains its website at [www.creditombudsman.com.au](http://www.creditombudsman.com.au). The COSL website facilitates:

- Identification by consumers of procedures and prerequisites for making complaints
- Identification of members of COSL
- Providing information about obtaining membership of COSL
- Providing corporate information - the COSL Constitution, Credit Ombudsman Rules and other corporate documents are published on the COSL website.

The COSL Board's **Annual Report on Operations 2005** is published on the COSL website.

## Contact Information

### Membership Office

Level 39, 2 Park Street,  
Sydney NSW 2000.

Phone: (02) 9004 7094

Fax: (02) 9004 7569

Website: [www.creditombudsman.com.au](http://www.creditombudsman.com.au)

Email: [members@creditombudsman.com.au](mailto:members@creditombudsman.com.au)

### Case Management Office

Level 6, 50 Park Street,  
Sydney NSW 2000.

Phone: (02) 9267 0455

Interstate callers: 1300 78 08 08

Fax: (02) 9267 3125

Email: [info@creditombudsman.com.au](mailto:info@creditombudsman.com.au)

## Chairman's Report

On behalf of the Board of Credit Ombudsman Service Limited, I have pleasure in presenting the company's Annual Report for 2005.

### Highlights of 2004/2005

Highlights of the second year of the company's operations are:

- A near doubling in COSL's membership;
- Significant reductions in membership processing times;
- COSL's detailed submission to SCOCA;
- Preparations for COSL's 3 year Review;
- Initiation of a campaign to educate Members about COSL's role and its function as an ASIC approved External Dispute Resolution scheme;
- Member representations about COSL Service Fees; and
- An ongoing and thorough review of COS procedures.

### COSL membership and processing times

When operations commenced on 1<sup>st</sup> July 2003, COSL's membership was approximately 1,200 and comprised Full Members and Life Members of the Mortgage Industry Association of Australia ("MIAA"). At this time, the scheme's jurisdiction was limited to complaints against members who had dealt with consumers in respect of real estate mortgage secured lending.

During 2003/2004, COSL's membership grew to 3,146. The principal factors behind this growth in membership were:

- The expansion in November 2003 of COSL's jurisdiction to include finance brokers, mortgage brokers and other operatives in the credit industry that were not members of MIAA;
- COSL's approval by ASIC as an EDR scheme;
- ASIC's Class Order Exemption in December 2003 in respect of Mortgage Offset Accounts; and
- Further expansion of COSL's jurisdiction in February 2004 to cover a broader range of financial products as well as directly incidental products and services.

In 2004/2005, membership growth continued at an accelerated pace, expanding to now in excess of 5,900. Relevant factors in respect of this growth include:

- Growth in the number of Credit Industry operatives; and
- Requirements of Lenders, large broker organisations and other Credit Industry participants for contracted brokers to be members of an ASIC approved EDR scheme, such as COSL.

Whilst the rapid growth in membership again placed significant pressures on the company's administration, improvements in COSL's membership database and processing systems coupled with a very dedicated staff saw membership processing times significantly reduced. Most membership applications in proper form are now processed within 5 days.

## **SCOCA**

On 15<sup>th</sup> February 2005, COSL made a detailed Submission to SCOCA with respect to proposals for national Finance Broking regulation.

In its Submission, COSL urged a uniform approach to regulation. COSL also recommended limited but carefully defined exemptions from regulation so as to minimise the risk of regulatory exemptions being used as a "portal" for avoidance by operatives who would otherwise be regulated.

COSL's Submission also highlighted the need for the regulatory regime to deal adequately with issues arising from the "value chain", i.e. the differing parties and roles involved in the totality of a loan transaction from initial application to eventual repayment of the loan and discharge of any associated mortgage.

Release of SCOCA's recommendations for establishment of a national regulatory regime for Finance Brokers is awaited with interest.

## **3 Year Review**

Under the terms of its approval by ASIC as an EDR scheme, and in accordance with the COSL Constitution, COSL is obliged to commission an independent review of its operations. This review is to be completed within 3 years of the date of ASIC's approval. Accordingly, the review must be completed by 17 December 2006.

Preparatory work is underway, and it is anticipated that completion of preliminary market research and appointment of the independent reviewer will occur in third quarter 2005.

The cost to COSL of the 3 Year Review is likely to be significant, although a firm assessment of cost cannot yet be made.

## **EDR scheme educational campaign**

During the year, the Board recognised a need to further educate Members about the EDR process in the Credit Industry. Accordingly, a campaign was initiated to educate

Members about COSL's role and functions as an ASIC approved External Dispute Resolution scheme.

It is anticipated that COSL staff will commence visits to Members early in 2005/2006.

### **COSL Service Fees**

As an ASIC approved EDR scheme, COSL is bound to comply with ASIC Policy Statement PS139. This policy statement emphasises that access to an ASIC approved EDR scheme is to be free to consumers. Accordingly, the costs of COSL providing an ASIC approved EDR scheme must be borne by the Members.

There are several alternatives available for funding COSL's operations:

- Membership Fees fully fund operations - i.e. no "fee for service";
- Fee for service principle applies fully – i.e. Service Fees fully fund COSL's operations;
- A mix of Membership Fees and Service Fees.

The COSL Board has adopted the third alternative, namely a mix of Membership Fees and Service Fees. In doing so, the COSL Board has sought to balance a number of competing (if not opposing) interests:

- The need to ensure adequate funding for the scheme, with consistent funds flow;
- A fair recognition that those Members who are not the subject of complaint should not bear an undue burden occasioned by Members who are the subject of complaints;
- The need to provide an "incentive" on Members to ensure they have in place effective Internal Dispute Resolution ("IDR") procedures and to resolve complaints before being referred to COSL; and
- A fair recognition that costs must be met by Members who are the subject of complaints irrespective of actual or perceived "fault".

In 2004/2005, COSL adopted a Service Fee structure that provided an incentive for Members to resolve complaints by their own IDR procedures or at COSL's Initial Referral Phase (i.e. before involvement of the Scheme Manager in Conciliation processes).

COSL has received some representations from Members about COSL's fee structure and in particular, the imposition of Service Fees where the Member regards itself as not being "at fault", eg. because no Award is made against that Member. In responding to these representations, COSL has emphasised the binding effect of PS 139 and the necessity to balance the competing interests referred to above. COSL Board will keep the company's fee structure under review and remain open to proposals for adjustment that balance the competing interests but retain COSL's status as an ASIC approved EDR scheme.

## **COSL Procedures**

Also during the year, the COSL Board commissioned a thorough review of COS procedures. This review was undertaken by a Board Subcommittee and COSL staff. During the course of this review, the NSW Supreme Court decision in *Masu v. FICS* (No.2) was handed down. This decision reinforced the requirement that EDR schemes' Rules and procedures afford "procedural fairness" to all parties to a complaint. The Court's decision has been carefully considered, and the constraints imposed on COSL duly noted, as part of the review of COSL's Rules and procedures.

The Board anticipates presenting proposals for amendment to the Credit Ombudsman Rules and revised COS procedures to ASIC for review early in the new financial year.

## **Conclusion**

I would like to record my appreciation of the efforts of COSL's Administration Manager, Mrs Debbie Lodge, and administration staff Mr Mark Wesker, Mr Steve Coplestone and Ms Michelle Staszak.

I would also like to record my appreciation of the efforts of Mr Peter Robinson, Ms Cynthia Leonard and other staff of Australian Commercial Disputes Centre who as Scheme Manager have continued to professionally and competently deal with COSL's dispute resolution workload.

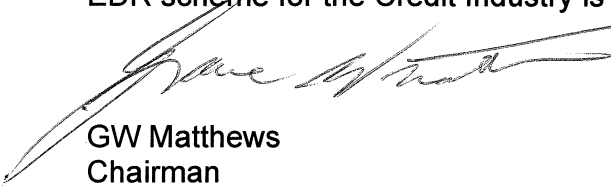
2005/2006 will see further significant challenges for COSL. In particular, COSL, and the Credit Industry, awaits the release of SCOCA's proposals for national Finance Broking regulation. As I noted last year, if SCOCA recommends compulsory membership of an ASIC approved EDR scheme as a condition of operating in the Credit Industry, and if that recommendation is accepted by the various governments and implemented, then depending upon timing issues COSL will need to "gear up" to prepare for a further significant increase in membership and dispute resolution workload.

Finally, I extend my sincere thanks to Ms Katherine Lane and Ms Catherine Uhr (Consumer Directors) and Mr Gary Storkey, Mr Phil Naylor and Mr Jon Denovan (Member Directors) for their contributions to the governance of the company.

During the year, Mr Phil Naylor (CEO MIAA) resigned as a Member Director, and Mr Jon Denovan, a Partner at Gadens Lawyers, was appointed a Member Director. On behalf of the Board, I thank Phil for his significant contribution as a Member Director.

As at the date of this report, Mr Gary Storkey (CEO HomeStart Finance) has resigned as a Member Director and Ms Vicki Edema, Managing Director of Austral Mortgage Corporation, has been appointed a Member Director.

Gary was a Member Director of the company from its inception, as well as being a Member of the Mortgage Industry Review Committee, the precursor to MIOS/COSL. Gary's 5½ year contribution to MIOS/COSL and to the development of an effective EDR scheme for the Credit Industry is greatly appreciated.

A handwritten signature in black ink, appearing to read 'Gary Matthews', written over a thin horizontal line.

GW Matthews  
Chairman

20 October 2005

# Directors Report

Your Directors submit their Directors' Report for the Financial Year ended 30<sup>th</sup> June 2005. This report is made in accordance with a resolution of the Directors passed on 20 October 2005.

## 1. Directors

The names of directors and periods in office during the financial year and on the date of this report are:

- **Graeme William Matthews** (whole year and current) Chairman
- **Katherine Gizelle Lane** (whole year and current) Consumer Director
- **Philip Gordon Naylor** (1 July 2004 to 8 December 2004) Member Director
- **Jonathan Alexander Denovan** (8 December 2004 to 30 June 2005 and current) Member Director
- **Gary David Storkey** (whole year - resigned 31 August 2005) Member Director
- **Catherine Louise Uhr** (whole year and current) Consumer Director
- **Victoria Anne Massey Edema** (31 August 2005 and current) Member Director.

## 2. Nature of the company's operations and principal activities

The principal activity of the company during the financial year was to operate as an external dispute resolution scheme. On 14 November 2003, COSL's membership base expanded to include finance brokers, mortgage brokers, and other operatives in the credit marketplace that were not members of Mortgage Industry Association of Australia ("MIAA"). COSL operated as an ASIC approved EDR scheme as from ASIC's approval of COSL under ASIC Policy Statement 139 on 17 December 2003.

## 3. Review of Operations

The operations of the company during the year resulted in an operating surplus of \$270,659.95.

## 4. Significant changes in the COSL's state of affairs and principal activities

There have been no significant changes in COSL's state of affairs or principal activities other than those referred to in the Chairman's Report above.

## 5. Significant matters or circumstances since balance date

No matter or circumstance has arisen since the end of the financial year that has significantly or may significantly affect COSL's operations in future financial years, or the results of those operations in future financial years, or COSL's state of affairs in future financial years.

## 6. Likely developments in COSL's operations in future financial years

As noted in the Director's Report above, COSL's operations in future financial years and the results of those operations are likely to be affected by changes in regulation of the Credit Industry flowing from the SCOCA report or by reason of other regulatory compliance developments.

## 7. Environmental regulation and performance

COSL is not subject to any particular and significant environmental regulation under a law of the Commonwealth or of a State or Territory.

## 8. Dividends

The COSL Constitution prohibits the paying of any dividend or distribution to members and no dividend or distribution was paid to any member during the financial year.

## 9. COSL Officers

During the year no officer of COSL was a partner in an audit firm or a director of an audit company that is an auditor of COSL.

## 10. Options

COSL is a company limited by guarantee without a share capital and therefore no options were or were able to be granted over unissued share or unissued interests.

## 11. Indemnities and insurance

During the year no indemnities were given for any person who is or has been an officer or auditor of COSL. COSL has paid directors and officers insurance cover for all directors at a cost of \$4,699.58 exclusive of GST. COSL did not pay any insurance premiums in respect of insurance for auditors.

## 12. Remuneration and Benefits

No Director or other officer of COSL has during the year or since the end of the year received or become entitled to receive any benefit other than those benefits included in the aggregate amount of emoluments received or due and receivable by the Directors and other Officers as shown in the COSL accounts.

## 13. Directors and Secretary qualifications, experience and special responsibilities

- GW Matthews AM FAIBF FAICD FAIM AFAMI Executive Chairman.  
Company Director
- J A Denovan Member Director. Partner Gadens Lawyers
- KG Lane BA LLM Consumer Director. Principal Solicitor, Consumer  
Credit Legal Centre (NSW)

- PG Naylor BCom Member Director. Chief Executive Officer, Mortgage Industry Association of Australia
- GD Storkey MBA Member Director. Chief Executive Officer, HomeStart Finance.
- CL Uhr LLB Consumer Director. Solicitor, Legal Aid Queensland.
- G E Horton LLB Company Secretary. Legal Practitioner.

#### 14. Meeting attendance

Name	Meetings held whilst director	Meetings Attended
Graeme William Matthews	7	7
Gary David Storkey	7	5
Katherine Gizelle Lane	7	7
Phillip Gordon Naylor	2	2
Catherine Louise Uhr	7	7
Jonathan Alexander Denovan	5	5

#### 15. Proceedings on Behalf of COSL

During the year no proceedings were either commenced by or against COSL and accordingly no application for leave under section 237 of the Corporations Act 2001 was made.

#### 16. Registered Membership

As at 30th September 2005, registered membership was as follows:

##### Categories of Members

CODE	Category Description	At 30/6/05	At 30/9/05
A1	MIAA Full Members	3,012	3,024
A2	MIAA Accredited Mortgage Consultants	2,470	2,578
C	Non MIAA members	320	396
<b>TOTAL</b>		<b>5,802</b>	<b>5,998</b>
<b>New Categories</b>			
<b>A</b>	Refer pages 2 and 3		
<b>B</b>	Refer pages 2 and 3		
<b>C</b>	Refer pages 2 and 3		
<b>D</b>	Refer pages 2 and 3		
<b>E</b>	Refer pages 2 and 3		
<b>F</b>	Refer pages 2 and 3		
<b>TOTAL</b>			

On behalf of the Board

GW Matthews AM  
Sydney, 20 October 2005

**CREDIT OMBUDSMAN SERVICE LIMITED**

**(A COMPANY LIMITED BY GUARANTEE)**

A.C.N. 104 961 882

**GENERAL PURPOSE FINANCIAL REPORT  
FOR THE YEAR ENDED  
30 JUNE, 2005**

**CREDIT OMBUDSMAN SERVICE LIMITED**  
**A.C.N. 104 961 882**  
**(A COMPANY LIMITED BY GUARANTEE)**

**STATEMENT OF FINANCIAL PERFORMANCE**  
**FOR THE YEAR ENDED 30 JUNE 2005**

	Note	2005 \$	2004 \$
<b>REVENUE FROM ORDINARY ACTIVITIES</b>			
Membership fees		1,186,420.27	510,055.77
Case management		107,989.30	207,454.72
Training income		4,825.00	-
Publication sales		18.18	-
Seeding grant		-	100,000.00
		1,299,252.75	817,510.49
<b>EXPENDITURE</b>			
Salaries, wages and board fees		247,974.00	80,743.53
Superannuation		19,151.88	6,308.18
Other employee expenses		6,121.33	-
Total employee expenses		273,247.21	87,051.71
Case management costs		461,666.93	429,052.10
Consultants		88,847.38	113,769.35
Travel and accommodation		49,138.09	32,522.08
Stationery and office expenses		40,497.98	6,084.67
Rent and occupancy expenses		36,418.38	-
Computer and internet expenses		31,860.45	28,126.00
Accounting and audit		12,840.00	-
Bank fees and charges		12,689.65	1,502.72
Telephone		12,486.32	1,956.98
Other Expenses		29,614.10	17,467.38
		1,049,306.49	717,532.99
<b>SURPLUS FROM ORDINARY ACTIVITIES</b>		249,946.26	99,977.50
<b>NON-OPERATING ACTIVITIES</b>			
Interest income		20,713.69	5,085.29
<b>SURPLUS BEFORE INCOME TAX</b>		270,659.95	105,062.79
Income tax expense	1(c)	-	-
<b>SURPLUS ATTRIBUTABLE TO OPERATIONS</b>		270,659.95	105,062.79

The accompanying notes form part of these financial statements.

**CREDIT OMBUDSMAN SERVICE LIMITED**  
**A.C.N. 104 961 882**  
**(A COMPANY LIMITED BY GUARANTEE)**

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2005**

	Note	2005 \$	2004 \$
<b>CURRENT ASSETS</b>			
Cash assets	1(d)	711,691.66	293,356.80
Receivables	3	65,096.50	77,156.00
Work in progress	4, 1(f)	108,300.00	120,745.45
Prepayments	5	33,457.58	3,477.14
<b>TOTAL CURRENT ASSETS</b>		<u>918,545.74</u>	<u>494,735.39</u>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	6	26,786.76	1,924.27
<b>TOTAL NON-CURRENT ASSETS</b>		<u>26,786.76</u>	<u>1,924.27</u>
<b>TOTAL ASSETS</b>		<u>945,332.50</u>	<u>496,659.66</u>
<b>CURRENT LIABILITIES</b>			
Accounts payable	7	122,958.00	92,628.92
Unearned income	8, 1(f)	439,166.98	298,967.95
Provisions	9	7,484.78	-
<b>TOTAL CURRENT LIABILITIES</b>		<u>569,609.76</u>	<u>391,596.87</u>
<b>TOTAL LIABILITIES</b>		<u>569,609.76</u>	<u>391,596.87</u>
<b>NET ASSETS</b>		<u>375,722.74</u>	<u>105,062.79</u>
<b>MEMBERS' FUNDS</b>			
Opening retained surplus		105,062.79	-
Surplus for the year		270,659.95	105,062.79
<b>TOTAL MEMBERS' EQUITY</b>		<u>375,722.74</u>	<u>105,062.79</u>

The accompanying notes form part of these financial statements.

**CREDIT OMBUDSMAN SERVICE LIMITED**  
**A.C.N. 104 961 882**  
**(A COMPANY LIMITED BY GUARANTEE)**

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

	Note	2005 \$	2004 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers and grants		1,463,956.73	909,403.99
Payments to suppliers and employees		(1,037,472.83)	(619,005.21)
Interest received		20,713.69	5,085.29
Net cash provided by operating activities		<u>447,197.59</u>	<u>295,484.07</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of plant and equipment		<u>(28,862.73)</u>	<u>(2,127.27)</u>
Net cash used in investing activities		<u>(28,862.73)</u>	<u>(2,127.27)</u>
Net increase in cash held		418,334.86	293,356.80
Cash at 1 July, 2004		293,356.80	-
Cash at 30 June 2005	1(d)	<u>711,691.66</u>	<u>293,356.80</u>
<b>Reconciliation of Cash Flows from Operating Activities with Operating Surplus (Deficit) after income tax</b>			
Operating surplus (deficit) after income tax		<u>270,659.95</u>	<u>105,062.79</u>
Non-cash flows in operating surplus			
Depreciation		4,000.24	203.00
Increase/(decrease) in accounts payable		30,329.08	92,628.92
Increase/(decrease) in unearned income		140,199.03	298,967.95
Increase/(decrease) in provisions		7,484.78	-
(Increase)/decrease in receivables		12,059.50	(77,156.00)
(Increase)/decrease in work in progress		12,445.45	(120,745.45)
(Increase)/decrease in prepayments		<u>(29,980.44)</u>	<u>(3,477.14)</u>
Cash Flows from Operations		<u>447,197.59</u>	<u>295,484.07</u>

The accompanying notes form part of these financial statements.

**CREDIT OMBUDSMAN SERVICE LIMITED**  
**A.C.N. 104 961 882**  
**(A COMPANY LIMITED BY GUARANTEE)**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

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**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

The financial report is a general purpose financial report that has been prepared in accordance with applicable Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers the Credit Ombudsman Service Limited. There are no controlled entities. Credit Ombudsman Service Limited is a company limited by guarantee, incorporated and domiciled in Australia.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The following is a summary of the material accounting policies adopted by the company in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

**(a) Plant and equipment**

Plant and equipment are brought to account at cost less any accumulated depreciation. The carrying value of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets.

Depreciation of plant and equipment is calculated on a 'diminishing value' basis at rates which take into account the remaining useful life of the relevant assets and their estimated useful life.

Rates of depreciation used are as follows:

Computer equipment	25% to 37.5%
Computer software	40%
Office equipment	15%

**(b) Employee Benefits**

Provision is made for the company's liability to employees for annual and long service leave, plus related on-costs. Contributions are made by the company to an employee superannuation fund and are charged as expenses when incurred. The company has no legal obligation to cover any shortfall in the fund's obligation to provide benefits to employees on retirement.

**(c) Income Tax**

No taxation has been provided in the financial statements because the income of the company is exempt from the payment of income tax under the Income Tax Assessment Act.

**CREDIT OMBUDSMAN SERVICE LIMITED**  
**A.C.N. 104 961 882**  
**(A COMPANY LIMITED BY GUARANTEE)**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(d) Cash**

For the purpose of the statement of cash flows, cash includes cash on hand, cash at bank and at call deposits. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the balance sheet as follows:

	<b>2005</b>	<b>2004</b>
	\$	\$
Cash Management Account	508,725.85	-
Cheque account	201,848.16	292,356.80
Cheque account	868.20	1,000.00
Petty cash	249.45	-
	711,691.66	293,356.80

**(e) Financial Instruments**

Cash: Cash in the company's bank accounts earn interest at an average rate of approximately 2.9% (2004: 3.4%). Cash in the company's cash management account earns interest at a rate of approximately 5.2% (2004: no account).

Accounts receivable: Member service sales made on credit and due in 7-30 days are included in receivables net of any amounts estimated to be uncollectable. Interest is not charged on outstanding amounts.

Accounts payable: Liabilities are recognised for amounts to be paid in the future for goods or services received whether or not billed. Accounts are normally settled within 30 days from date of invoice and no interest is accrued.

**(f) Income Recognition and work in progress**

Income from member's fees is accounted for as the benefits are provided. A provision for unearned income has been created that recognises the unexpired portion of members' fees received.

Income from mediation cases is brought to account on the closure of each case.

Work in progress has been recognised as income on cases that are in progress at the end of the financial year.

**(g) Impact of IFRS**

The introduction of the IFRS (International Financial Reporting Standards) regime will have no material effect on the company's financial statements.

**CREDIT OMBUDSMAN SERVICE LIMITED**  
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

**2. SURPLUS (DEFICIT) FROM ORDINARY ACTIVITIES**

	<b>2005</b>	<b>2004</b>
	<b>\$</b>	<b>\$</b>
Surplus (deficit) from ordinary activities before income tax expense has been determined after:		
<b>(a) EXPENSES</b>		
Depreciation of property, plant and equipment	4,000.24	203.00
Doubtful debts expense	3,354.27	9,173.00
Remuneration of auditor		
- Audit	7,840.00	-
- Other services	5,000.00	-

**3. RECEIVABLES**

Membership and case management debtors	69,886.50	86,329.00
Less: Provision for doubtful debts	4,790.00	9,173.00
	65,096.50	77,156.00

**4. WORK IN PROGRESS**

Work in progress – incomplete cases	108,300.00	111,850.00
Work in progress – completed cases unbilled	-	8,895.45
	108,300.00	120,745.45

**5. PREPAYMENTS**

Prepaid insurance	5,024.17	3,477.14
Prepaid rent and occupancy expenses	27,225.67	-
Other Prepayments	1,207.74	-
	33,457.58	3,477.14

**CREDIT OMBUDSMAN SERVICE LIMITED**  
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

	<b>2005</b>	<b>2004</b>
	<b>\$</b>	<b>\$</b>
<hr/>		
<b>6. PROPERTY, PLANT &amp; EQUIPMENT</b>		
Computer equipment – at cost	25,134.82	2,127.27
Less: Accumulated depreciation	<u>3,373.84</u>	<u>203.00</u>
	<u>21,760.98</u>	<u>1,924.27</u>
Computer software – at cost	5,737.91	-
Less: Accumulated depreciation	<u>823.52</u>	<u>-</u>
	<u>4,914.39</u>	<u>-</u>
Office equipment – at cost	117.27	-
Less: Accumulated depreciation	<u>5.88</u>	<u>-</u>
	<u>111.39</u>	<u>-</u>
Total property, plant & equipment	<u>26,786.76</u>	<u>1,924.27</u>

**RECONCILIATION OF PROPERTY, PLANT & EQUIPMENT**

	OPENING BALANCE	ADDITIONS	DISPOSALS	CLOSING BALANCE
<hr/>				
Computer equipment	2,127.27	23,007.55	-	25,134.82
Accumulated depreciation	<u>203.00</u>	3,170.84	-	<u>3,373.84</u>
	<u>1,924.27</u>			<u>21,760.98</u>
Computer software	-	5,737.91	-	5,737.91
Accumulated depreciation	<u>-</u>	823.52	-	<u>823.52</u>
	<u>-</u>			<u>4,914.39</u>
Office equipment	-	117.27	-	117.27
Accumulated depreciation	<u>-</u>	5.88	-	<u>5.88</u>
	<u>-</u>			<u>111.39</u>
Total	<u>1,924.27</u>			<u>26,786.76</u>

**CREDIT OMBUDSMAN SERVICE LIMITED**  
**A.C.N. 104 961 882**  
**(A COMPANY LIMITED BY GUARANTEE)**

**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

	<b>2005</b>	<b>2004</b>	
	<b>\$</b>	<b>\$</b>	
<b>7. ACCOUNTS PAYABLE</b>			
Taxes payable	56,057.56	16,458.00	
Other creditors	66,900.44	76,170.92	
	<u>122,958.00</u>	<u>92,628.92</u>	
<b>8. UNEARNED INCOME</b>			
Unexpired membership fees	439,166.98	298,967.95	
<b>9. PROVISION FOR EMPLOYEE ENTITLEMENTS</b>			
Employee benefits	7,484.78	-	
Number of employees at year-end	5	2	
<b>10. DIRECTOR'S REMUNERATION</b>			
Amounts received or due and receivable by directors	80,718.37	56,775.00	
	<u>80,718.37</u>	<u>56,775.00</u>	
	<b>Salary &amp; fees</b>	<b>Superannuation</b>	
	<b>TOTAL</b>		
Graeme Matthews	38,000.00	3,420.00	41,420.00
Jon Denovan	4,963.37	-	4,963.37
Katherine Lane	9,000.00	810.00	9,810.00
Phillip Naylor	4,500.00	405.00	4,905.00
Gary Storkey	9,000.00	810.00	9,810.00
Catherine Uhr	9,000.00	810.00	9,810.00
	<u>74,463.37</u>	<u>6,255.00</u>	<u>80,718.37</u>

No other salaries, fees, commissions, superannuation contributions, cash bonuses, non-cash benefits, post-employment superannuation, equity or other remuneration is paid or payable to directors, with the exception of:

A payment to Graeme Matthews for additional services is payable (but was unpaid as at 30 June 2005) for \$12,065.00 exclusive of GST.

**CREDIT OMBUDSMAN SERVICE LIMITED**  
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2005**

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**11. CAPITAL**

The company is limited by guarantee. The amount of capital that each of the members can be called upon to contribute in the event of the company being wound up is \$116,040.00 (\$20 by each of 5,802 members), (2004: \$62,920).

**12. SEGMENT INFORMATION**

The company operates in the field of dispute resolution for the credit industry, primarily within the geographical area of Australia.

**13. LEASING COMMITMENTS**

The company has no non-cancelable operating or finance lease commitments.

**14. CAPITAL EXPENDITURE COMMITMENTS**

The company has no material capital expenditure commitments.

**15. CONTINGENT LIABILITIES**

The company has no material contingent liabilities, with the exception of:

- The company has a contract for the provision of case management services. The nature of the contract requires a notification period to cancel the contract. The maximum amount payable if the contract were to be cancelled at the date of this report is \$249,466.86 inclusive of GST.
- The company has a contract for the provision of office space, telephone, internet and office-related services. This contract is cancelable on 3 month's notice. The maximum amount payable if the contract were to be cancelled at the date of this report is \$65,654.42 inclusive of GST.
- An ASIC-mandated review process is required before the third anniversary of the company's operations. This will occur during the 2006 financial year. The likely maximum cost of the review is unable to be determined at this point.

**16. EVENTS SUBSEQUENT TO REPORTING DATE**

The company has had no events subsequent to reporting date that require disclosure, which could materially effect the financial position or performance of the company.

**17. COMPANY DETAILS**

The registered office of the company is:  
Credit Ombudsman Service Limited  
Level 6  
50 Park Street  
Sydney NSW 2000

**CREDIT OMBUDSMAN SERVICE LIMITED**  
**A.C.N. 104 961 882**  
**(A COMPANY LIMITED BY GUARANTEE)**

**DIRECTORS' DECLARATION**

The directors of the company declare that:

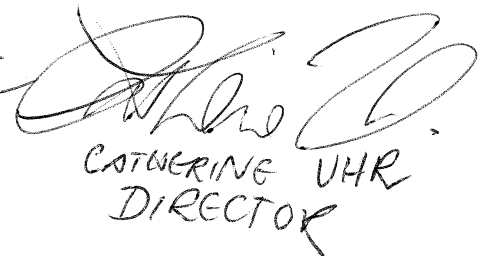
1. The financial statements and notes, as set out on pages 13 to 22 are in accordance with the Corporations Act 2001:
  - (a) Comply with Accounting Standards and the Corporations Regulations 2001; and
  - (b) Give a true and fair view of the financial position as at 30 June 2005 and of the performance for the year ended on that date, of the company.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

**Director**



.....  
G W Matthews



CATHERINE UHR  
DIRECTOR

SYDNEY: Dated this 20<sup>th</sup> day of October, 2005

## INDEPENDENT AUDIT REPORT

To the members of the Credit Ombudsman Service Limited

### Scope

We have audited the financial report of the Credit Ombudsman Service Limited for the year ended 30 June 2005, as set out on pages 13 to 23.

The company's directors are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the company's financial position and performance as represented by the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

### Audit Opinion

In our opinion, the financial report of the Credit Ombudsman Service Limited is in accordance with:

- (a) The Corporations Act 2001, including:
  - (i) Giving a true and fair view of the company's financial position as at 30 June 2005 and of its performance for the year ended on that date; and
  - (ii) Complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) Other mandatory professional reporting requirements.

*Ruwald & Evans*

Ruwald & Evans  
Chartered Accountants



Martin Bocxe  
Partner

SYDNEY: Dated this 20<sup>th</sup> day of October, 2005