

# CREDIT OMBUDSMAN SERVICE LIMITED

ACN 104 961 882

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## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 3rd Annual General Meeting ("AGM") of **Credit Ombudsman Service Limited** ("the company") will be held at **Novotel Darling Harbour, 100 Murray Street, Darling Harbour, Sydney NSW** on Wednesday, 29<sup>th</sup> November 2006 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 11<sup>th</sup> October 2006.

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 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 Member who has failed to pay any "Fee"(as defined in the COSL Constitution) due by that member; or
  - (b) 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 7, 287 Elizabeth Street, Sydney NSW 2000 or by fax to (02) 9261 2792 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 3rd Annual General Meeting of the  
company to be held on 29<sup>th</sup> November 2006.

.....

*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 7, 287 Elizabeth Street, Sydney NSW 2000 or by fax to (02) 9261 2792 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

**Annual Report 2006**

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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:

**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.

## **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 being carried out by staff of COSL from offices at Level 7, 287 Elizabeth Street, Sydney NSW 2000 from 3<sup>rd</sup> October 2006.

## **Scheme Manager**

Day to day administration of consumer complaints to COSL and conciliation functions ("Case Management") were carried out on behalf of COSL by Australian Commercial Disputes Centre from offices at Level 6, 50 Park Street, Sydney NSW 2000. From 11<sup>th</sup> October 2006 administration of complaints are carried out by COSL staff at Level 7, 287 Elizabeth 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 2006** is published on the COSL website.

## **Contact Information**

### **Membership Office**

Level 7, 287 Elizabeth Street  
Sydney NSW 2000.

Phone: (02) 9273 8455

Fax: (02) 9261 2792

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

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

### **Case Management Office**

Level 7, 287 Elizabeth Street  
Sydney NSW 2000.

Phone: (02) 9273 8400

Interstate callers: 1300 78 08 08

Fax: (02) 9261 2798

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 2006.

### **Highlights of 2005/2006**

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

- A continuing increase in COSL's membership;
- COSL's 3 year Review;
- Continuation 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
- Completion of a thorough review of COSL procedures.

### **COSL membership**

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 an excess of 5,800. Relevant factors in respect of this growth include the 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.

In 2005/2006 the rapid growth in membership again placed significant pressures on the company's administration. As at 11 October 2006 the company's membership is 7105 (2005: 5802).

## **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 an opportunity 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.

The imminent release of SCOCA's recommendations for establishment of a uniform regulatory regime for Finance Brokers is awaited.

## **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 was completed. For this purpose COSL engaged The Navigator Company Pty Limited. This process involved extensive surveying of COSL members and consumers who had lodged complaints with COSL, interviews with key stakeholders and a review of COSL cases management procedures. The Reviewer made a number of recommendations that the COSL Board has accepted and is currently implementing. The final report from this review will be available at [www.creditombudsman.com.au](http://www.creditombudsman.com.au) in the near future.

## **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.

COSL staff made regular appearances at Professional Development Days and frequent newsletters have been sent to members.

## **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.

The COSL Board has kept this matter under review and specifically asked that it be addressed in the 3 Year Review. The Review made certain recommendations that the Board has under consideration.

## **COSL Procedures**

Also during the year, the COSL Board undertook a thorough review of COS procedures. This review was undertaken by a Board Subcommittee and COSL staff in consultation with the industry, consumer organisations and ASIC. The Board approved amendments to the Credit Ombudsman Rules and revised COS procedures in February 2006. The Board has further changes under consideration in the light of recommendations in the 3 Year Review Report.

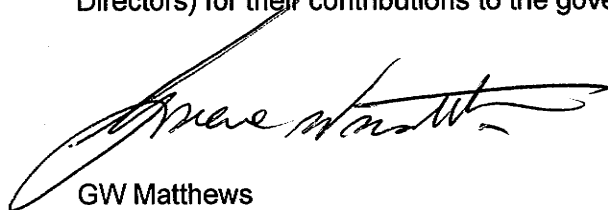
## **Conclusion**

I would like to record my appreciation of the efforts of COSL's Administration Manager, Mrs Debbie Lodge, Mr Mark Wesker, Ms Julita Agudilla, Ms Bernadette Brigden and Ms Kelly Brandon.

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.

2006/2007 will see further significant challenges for COSL. In particular, COSL, and the Credit Industry, awaits the release of SCOCA's proposals for uniform 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, 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 Ms Victoria Edema and Mr Jon Denovan (Member Directors) for their contributions to the governance of the company.



GW Matthews  
Chairman  
11 October 2006

# Directors Report

Your Directors submit their Directors' Report for the Financial Year ended 30<sup>th</sup> June 2006. This report is made in accordance with a resolution of the Directors passed on 11 October 2006.

## 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
- **Jonathan Alexander Denovan** (whole year and current) Member Director
- **Gary David Storkey** (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 \$206,632.54.

## 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 \$8069.38 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
- VAM Edema BA LLB Member Director. Company Director
- KG Lane BA LLM Consumer Director. Principal Solicitor, Consumer Credit Legal Centre (NSW)
- CL Uhr LLB Consumer Director. Solicitor, Legal Aid Queensland.

#### 14. Meeting attendance

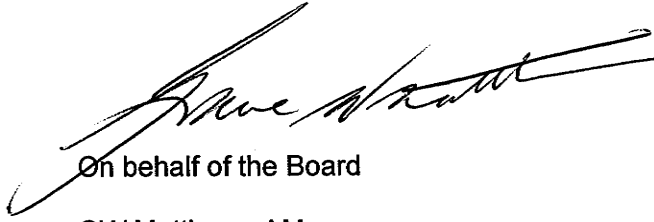
Name	Meetings held whilst director	Meetings Attended
Graeme William Matthews	6	6
Gary David Storkey	1	1
Katherine Gizelle Lane	6	6
Catherine Louise Uhr	6	5
Jonathan Alexander Denovan	6	6

#### 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 2006, registered membership was 7105 (2005: 5802)



On behalf of the Board

GW Matthews AM  
Sydney, 11 October 2006

**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, 2006**

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

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**AUDITOR'S INDEPENDENCE DECLARATION**

**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE  
CORPORATIONS ACT 2001 TO THE DIRECTORS OF THE CREDIT OMBUDSMAN SERVICE  
LIMITED**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2006 there have been:

- No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- No contraventions of any applicable code of professional conduct in relation to the audit.

*Ruwald & Evans*

Ruwald & Evans



Martin Bocxe, Partner

*11 October, 2006*  
Level 1, 1 Alfred Street  
SYDNEY COVE NSW 2000

**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 2006**

	<b>Note</b>	<b>2006</b>	<b>2005</b>
		<b>\$</b>	<b>\$</b>
<b>REVENUE FROM ORDINARY ACTIVITIES</b>			
Membership fees		1,590,158.71	1,186,420.27
Case management		94,704.10	107,989.30
Training income		-	4,825.00
Other income		156.80	18.18
		1,685,019.61	1,299,252.75
<b>EXPENDITURE</b>			
Salaries, wages and board fees		324,076.94	247,974.00
Superannuation		24,217.32	19,151.88
Other employee expenses		25,636.47	6,121.33
Total employee expenses		373,930.73	273,247.21
Case management costs		538,837.82	461,666.93
Three year review		158,968.51	-
Consultants		115,783.49	88,847.38
Rent and occupancy expenses		81,204.39	36,418.38
Stationery and office expenses		65,183.20	40,497.98
Travel and accommodation		53,786.18	49,138.09
Computer and internet expenses		42,001.06	31,860.45
Telephone		19,473.47	12,486.32
Bank fees and charges		15,352.48	12,689.65
Insurance		14,909.28	9,972.38
Depreciation		11,101.00	4,000.24
Accounting and audit		10,800.00	12,840.00
Other expenses		24,417.67	15,641.48
		1,525,749.28	1,049,306.49
<b>SURPLUS FROM ORDINARY ACTIVITIES</b>		159,270.33	249,946.26
<b>NON-OPERATING ACTIVITIES</b>			
Interest income		47,362.21	20,713.69
<b>SURPLUS BEFORE INCOME TAX</b>		206,632.54	270,659.95
Income tax expense	1(c)	-	-
<b>SURPLUS ATTRIBUTABLE TO OPERATIONS</b>		206,632.54	270,659.95

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 2006**

	Note	2006 \$	2005 \$
<b>CURRENT ASSETS</b>			
Cash assets	1(d)	1,022,936.47	711,691.66
Receivables	3	53,489.70	65,096.50
Work in progress	4, 1(f)	63,303.18	108,300.00
Prepayments	5	56,499.39	33,457.58
<b>TOTAL CURRENT ASSETS</b>		<u>1,196,228.74</u>	<u>918,545.74</u>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	6	52,853.08	26,786.76
<b>TOTAL NON-CURRENT ASSETS</b>		<u>52,853.08</u>	<u>26,786.76</u>
<b>TOTAL ASSETS</b>		<u>1,249,081.82</u>	<u>945,332.50</u>
<b>CURRENT LIABILITIES</b>			
Accounts payable	7	62,451.93	122,958.00
Unearned income	8, 1(f)	592,835.48	439,166.98
Provisions	9	11,439.13	7,484.78
<b>TOTAL CURRENT LIABILITIES</b>		<u>666,726.54</u>	<u>569,609.76</u>
<b>TOTAL LIABILITIES</b>		<u>666,726.54</u>	<u>569,609.76</u>
<b>NET ASSETS</b>		<u>582,355.28</u>	<u>375,722.74</u>
<b>MEMBERS' FUNDS</b>			
Opening retained surplus		375,722.74	105,062.79
Surplus for the year		206,632.54	270,659.95
<b>TOTAL MEMBERS' EQUITY</b>		<u>582,355.28</u>	<u>375,722.74</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 2006**

	Note	2006 \$	2005 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers and grants		1,895,291.73	1,463,956.73
Payments to suppliers and employees		(1,594,241.81)	(1,037,472.83)
Interest received		47,362.21	20,713.69
Net cash provided by operating activities		<u>348,412.13</u>	<u>447,197.59</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of plant and equipment		<u>(37,167.32)</u>	<u>(28,862.73)</u>
Net cash used in investing activities		<u>(37,167.32)</u>	<u>(28,862.73)</u>
Net increase in cash held		311,244.81	418,334.86
Cash at 1 July, 2005		<u>711,691.66</u>	<u>293,356.80</u>
Cash at 30 June 2006	1(d)	<u>1,022,936.47</u>	<u>711,691.66</u>
<b>Reconciliation of Cash Flows from Operating Activities with Operating Surplus (Deficit) after income tax</b>			
Operating surplus after income tax		<u>206,632.54</u>	<u>270,659.95</u>
Non-cash flows in operating surplus			
Depreciation		11,101.00	4,000.24
Increase/(decrease) in accounts payable		(60,506.07)	30,329.08
Increase/(decrease) in unearned income		153,668.50	140,199.03
Increase/(decrease) in provisions		3,954.35	7,484.78
(Increase)/decrease in receivables		11,606.80	12,059.50
(Increase)/decrease in work in progress		44,996.82	12,445.45
(Increase)/decrease in prepayments		<u>(23,041.81)</u>	<u>(29,980.44)</u>
		<u>141,779.59</u>	<u>176,537.64</u>
Cash Flows from Operations		<u>348,412.13</u>	<u>447,197.59</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 2006**

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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**  
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2006**

**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>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
Cash Management Account	797,587.71	508,725.85
Cheque account	224,076.26	201,848.16
Cheque account	968.20	868.20
Petty cash	304.30	249.45
	1,022,936.47	711,691.66

**(e) Financial Instruments**

**Cash:** Cash in the company's cheque accounts earn interest at an average rate of approximately 3.9% (2005: 2.9%). Cash in the company's cash management account earns interest at a rate of approximately 6.0% (2005: 5.2%).

**Accounts receivable:** Member service sales are made on credit and due in 7-30 days and 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.

**Provisions:** Liabilities are recognised for amounts to be paid into employees in the future for employment liabilities already incurred. Such liabilities are paid during the normal course of employment or upon termination of employment. No interest is accrued.

The maximum exposure to credit risk at balance date to recognised financial assets is the carrying amount of those assets, net of any provisions for doubtful debts, as disclosed in the notes to the financial statements.

Assets and liabilities are carried at an amount that is approximately net fair value. There is no material risk exposure to and single debtor or group of debtors under any financial instruments.

**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 2006**

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

**(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, accounted for at estimated recoverable value.

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

	<b>2006</b>	<b>2005</b>
	\$	\$
Surplus (deficit) from ordinary activities before income tax expense has been determined after:		
<b>(a) EXPENSES</b>		
Depreciation of property, plant and equipment	11,101.00	4,000.24
Doubtful debts expense (as a reduction in revenue)	61,377.29	3,354.27
Remuneration of auditor		
- Audit	5,800.00	7,840.00
- Other services	5,000.00	5,000.00
<b>3. RECEIVABLES</b>		
Membership and case management debtors	62,820.00	69,886.50
Less: Provision for doubtful debts	(30,480.00)	(4,790.00)
Refundable bonds paid	21,149.70	-
	<u>53,489.70</u>	<u>65,096.50</u>
<b>4. WORK IN PROGRESS</b>		
Work in progress – incomplete cases at realisable value	<u>63,303.18</u>	<u>108,300.00</u>
<b>5. PREPAYMENTS</b>		
Prepaid insurance	8,341.14	5,024.17
Prepaid rent and occupancy expenses	46,364.25	27,225.67
Other prepaid expenses	1,794.00	1,207.74
	<u>56,499.39</u>	<u>33,457.58</u>

**CREDIT OMBUDSMAN SERVICE LIMITED**  
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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2006**

	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
<b>6. PROPERTY, PLANT &amp; EQUIPMENT</b>		
Computer equipment – at cost	52,639.14	25,134.82
Less: Accumulated depreciation	<u>11,479.84</u>	<u>3,373.84</u>
	<u>41,159.30</u>	<u>21,760.98</u>
Computer software – at cost	12,177.91	5,737.91
Less: Accumulated depreciation	<u>3,454.52</u>	<u>823.52</u>
	<u>8,723.39</u>	<u>4,914.39</u>
Office equipment – at cost	3,340.27	117.27
Less: Accumulated depreciation	<u>369.88</u>	<u>5.88</u>
	<u>2,970.39</u>	<u>111.39</u>
Total property, plant & equipment	<u>52,853.08</u>	<u>26,786.76</u>

**RECONCILIATION OF PROPERTY, PLANT & EQUIPMENT**

	OPENING BALANCE	ADDITIONS	DISPOSALS	CLOSING BALANCE
Computer equipment	25,134.82	27,504.32	-	52,639.14
Accumulated depreciation	<u>3,373.84</u>	8,106.00	-	<u>11,479.84</u>
	<u>21,760.98</u>			<u>41,159.30</u>
Computer software	5,737.91	6,440.00	-	12,177.91
Accumulated depreciation	<u>823.52</u>	2,631.00	-	<u>3,454.52</u>
	<u>4,914.39</u>			<u>8,723.39</u>
Office equipment	117.27	3,223.00	-	3,340.27
Accumulated depreciation	<u>5.88</u>	364.00	-	<u>369.88</u>
	<u>111.39</u>			<u>2,970.39</u>
Total	<u>26,786.76</u>			<u>52,853.08</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 2006**

	<b>2006</b>	<b>2005</b>	
	<b>\$</b>	<b>\$</b>	
<b>7. ACCOUNTS PAYABLE</b>			
Taxes payable	25,100.44	56,057.56	
Other creditors	37,351.49	66,900.44	
	<u>62,451.93</u>	<u>122,958.00</u>	
<b>8. UNEARNED INCOME</b>			
Unexpired membership fees	<u>592,835.48</u>	<u>439,166.98</u>	
<b>9. PROVISION FOR EMPLOYEE ENTITLEMENTS</b>			
Employee benefits	<u>11,439.13</u>	<u>7,484.78</u>	
Number of employees (excluding directors) at year-end	5	5	
<b>10. DIRECTOR'S REMUNERATION</b>			
Amounts received or due and receivable by directors	<u>80,473.93</u>	<u>80,718.37</u>	
	<b>Salary &amp; fees</b>	<b>Superannuation</b>	<b>TOTAL</b>
Graeme Matthews	38,000.00	3,195.00	41,195.00
Jon Denovan	9,810.00	-	9,810.00
Victoria Edema	7,214.28	649.29	7,863.57
Katherine Lane	9,000.00	810.00	9,810.00
Gary Storkey	1,821.43	163.93	1,985.36
Catherine Uhr	9,000.00	810.00	9,810.00

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.

**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 2006**

**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 \$142,100 (\$20 by each of 7,105 members).

**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 the following non-cancellable lease commitment that is not capitalised in the financial statements. The property lease is a non-cancellable lease with three year terms, with rent payable monthly in advance. The lease has commenced since the end of the financial year. An option exists on the lease to renew the term for a period of up to three years.

	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
Payable not later than one year	79,842.42	65,654.42
Payable later than one year but not later than 5 years	182,875.33	-
Payable later than 5 years	-	-
	<u>262,717.75</u>	<u>65,654.42</u>

**14. CAPITAL EXPENDITURE COMMITMENTS**

The company has no material capital expenditure commitments.

**15. CONTINGENT LIABILITIES**

The company has no material contingent liabilities.

**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 and principal place of business of the company is:  
Credit Ombudsman Service Limited  
Level 7  
287 Elizabeth Street  
Sydney NSW 2000

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

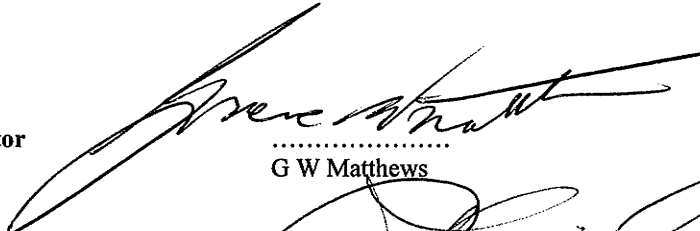
**DIRECTORS' DECLARATION**

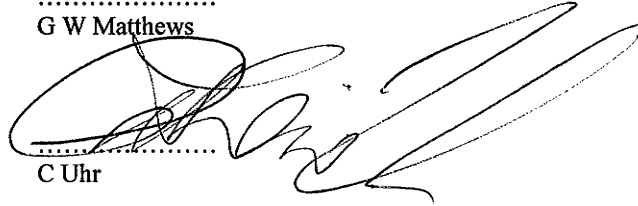
The directors of the company declare that:

1. The financial statements and notes, as set out on pages 10 to 20 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 2006 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

  
.....  
C Uhr

SYDNEY: Dated this 11<sup>th</sup> day of October, 2006

## INDEPENDENT AUDIT REPORT

To the members of the Credit Ombudsman Service Limited

### Scope

#### The financial report and Directors' responsibility

The financial report comprises the income statement, balance sheet, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Credit Ombudsman Services Limited, for the year ended 30 June 2006. The Directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

### Audit Approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report is presented fairly in accordance with the Corporation Act 2001, including compliance with Accounting Standards and other mandatory professional reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

### Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

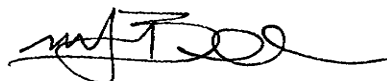
### Audit opinion

In our opinion, the financial report of Credit Ombudsman Services 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 2006 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 financial reporting requirements in Australia.

*Ruwald & Evans*

Ruwald & Evans  
Chartered Accountants



Martin Bocxe  
Partner

SYDNEY: Dated this 11<sup>th</sup> day of October, 2006