

Credit Ombudsman Service Limited

ACN 104 961 882

ANNUAL REPORT 2007

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Chairman's Report

On behalf of the Directors of the Credit Ombudsman Service Limited, I have pleasure in presenting the Company's Annual Report for 2007.

Highlights of 2006/2007

Highlights of the fourth year of the Company's operations are:

- COSL Membership reaches 7,869 (up 36% from 2005/2006)
- 338 new complaints received (up 17% from 2005/2006)
- 85% of review recommendations implemented in the first year
- In-house single Chief Executive and Ombudsman structure established

Membership

COSL is a reasonably large EDR scheme with 7,869 Members (5,802 in the previous year), comprising mostly mortgage brokers and some non-bank lenders, mortgage originators, trustee companies, mortgage insurers, aggregators, mortgage managers and finance brokers.

When its operations commenced on 1 July 2003, COSL's membership was only about 1,200 and comprised Full Members and Life Members of the Mortgage and Finance Association of Australia ('MFAA').

The impressive growth in membership in the last four years can be attributed to the MFAA requiring certain categories of its members to be members of COSL. Other relevant factors include lenders, large broker organisations and other credit industry participants requiring their contracted brokers to be members of an ASIC-approved EDR scheme such as COSL.

National broker legislation

The continued growth in COSL's membership has meant that it now covers even more of the credit industry.

However, the nature of the credit marketplace continues to cause difficulties in resolving complaints where a chain of different credit industry participants may be involved in arranging credit, each of which bears responsibility for the performance of different, but interdependent, roles. Unless each participant is a member of COSL or another EDR scheme, the consumer may be left without a remedy. This hinders comprehensive coverage of the credit marketplace.

Of particular concern is that the percentage of 'unfinancial' members in 2006/2007, as that bears to the total number of COSL Members in the same period, is almost 10%. These 'unfinancial' members (that is, members who did not renew their COSL membership) are presently operating in the industry without any EDR coverage.

Consequently, COSL has been urging State and Territory governments to legislate such that all participants to a credit transaction are required to become members of an approved EDR scheme.

Progress towards a national approach to broker regulation has been slow, but nonetheless encouraging and keenly awaited.

COSL's independent review

An independent review of the Company's operations was completed last year by the Navigator Group. Its report made a number of significant recommendations, all of which were adopted by the Board.

The report acknowledged that COSL operates effectively as an independent EDR scheme and that, in the interests of its relationship with Members, COSL should ensure that it maintains an independent identity and branding.

Indeed, there are a number of aspects that are unique to COSL and which differentiate COSL from the other EDR schemes in the finance sector.

For example, the licensing regime of the Corporations Act 2001 does not generally apply to COSL Members. They do not hold Australian Financial Services ('AFS') licences because they deal almost exclusively with credit. Credit, unlike other financial services, is not regulated by the Corporations Act. It remains a State/Territory-regulated activity.

While a holder of an AFS licence is required under the Corporations Act to join an ASIC-approved EDR scheme, there is, by contrast, no legislative requirement for finance intermediaries and non-deposit taking lenders to join or remain in an EDR scheme such as COSL. The membership of COSL is entirely voluntary. This also distinguishes it from all other finance sector EDR schemes.

The absence of EDR coverage for non-deposit taking lenders and finance intermediaries represents a gaping hole in the coverage, and therefore the effectiveness, of the consumer dispute resolution regime in Australia.

Other key recommendations of the Navigator Report that have been adopted by the Board in the last 12 months include:

- integrating COSL's complaints and membership functions, co-locating them and drawing them together under a Chief Executive Officer
- moving to a single Ombudsman/CEO structure
- developing a long-term membership relationship strategy, with the aim of establishing COSL as a recognised value proposition for members
- developing best practice complaint-handling processes and fee structures
- continuing to lobby governments to effect national licensing legislation for credit providers and finance brokers, with membership of an ASIC-approved dispute resolution scheme as a precondition to the granting of a licence.

Appointment of CEO and Ombudsman

Mr Raj Venga was appointed to the role of Credit Ombudsman and Chief Executive Officer in October last year. Raj has an extensive background in banking and finance law, policy and regulatory affairs, and holds honours and masters degrees in law.

Communications

The Credit Ombudsman and Case Managers meet with Members and consumer representatives (including financial counsellors) at every opportunity. They attend

Members' professional development days with the aim of explaining the COSL process and receiving valuable input for the membership.

COSL also works collaboratively with industry so it understands emerging trends, industry workings and membership issues, and better serve both Members and Consumers in the process.

Brochures about how COSL can help Consumers have been sent to financial counsellors, consumer agencies, parliamentarians and local councils across Australia to raise COSL's profile and suggest an effective means by which complaints about COSL Members can be resolved.

COSL's new fee structure

A necessary consequence of ASIC's RG 139 is that COSL and other approved schemes must provide their services without charge to consumers.

However, it was apparent to the COSL Board that complaint fees based on a user-pay model represented a significant financial impost to small operators who comprised the majority of COSL's membership, but who rarely received complaints from their clients.

Consequently, COSL introduced an innovative way of significantly reducing the cost burden on members, while continuing to provide as much coverage of the credit market as possible. It did this by introducing a more equitable fee structure and a 'free complaint' voucher.

Provided a Member has promptly renewed its COSL membership and is not in arrears of complaint fees previously invoiced, the first three complaints dealt with at the referral stage of the COSL process are now without charge to the Member, while significantly reduced complaint fees are only payable at the conciliation and determination stages of the COSL process. Even in those circumstances the voucher can be used to off-set the complaint fees.

The new fee structure and voucher have been warmly welcomed by industry and serves as a significant plank in developing a long-term membership relationship strategy, with the aim of establishing COS as a recognised value proposition for members.

COSL's governing rules

Also during the year, the COSL Board undertook a thorough review of COSL's Constitution, Rules, Procedures and Guidelines. This review was undertaken by a Board subcommittee and COSL staff in consultation with the industry, consumer organisations and ASIC.

In light of the recommendations arising out of COSL's independent review, the Board approved amendments to COSL's Rules, Procedures and Guidelines, and a special resolution was passed by Members to adopt a new Constitution, effective 27 April 2007.

Conclusion

2007/2008 will see further significant challenges for the Company. COSL is already gearing up for a further significant increase in its membership and dispute resolution workload in preparation of the national finance broker legislation. The

legislation is expected to require mandatory membership of an ASIC-approved EDR scheme as a condition of a finance broker operating in the credit industry.

Acknowledgements

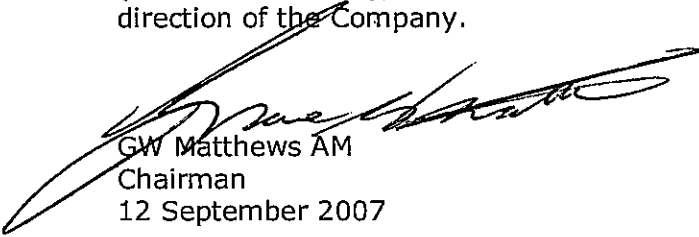
I would like to record my thanks to the Australian Commercial Disputes Centre ('ACDC') which acted as COSL's scheme manager until the appointment of COSL's own Chief Executive Officer and Case Management team in October last year.

My thanks also go to Mr Geoff Horton, Company Secretary, and Ms Debby Lodge, Office Manager, who have left the Company to pursue other interests.

It would be remiss of me not to also thank Ms Theresa Anderson and Mr Rod Smith who acted as Ombudsmen to the scheme before the appointment of Mr Venga as COSL's in-house Ombudsman in October last year.

I express my sincere appreciation for the sustained commitment, professionalism, enthusiasm and diligence that COSL staff bring to their roles every day.

Finally, I would like to extend my thanks to my colleagues, Ms Katherine Lane and Ms Catherine Uhr (Consumer Directors) and Mr Jon Denovan and Mrs Vicky Edema (Member Directors), for their valuable contributions to the governance and strategic direction of the Company.



GW Matthews AM
Chairman
12 September 2007

Directors' Report

Your Directors submit their Directors' Report for the Financial Year ended 30 June 2007. This report is made in accordance with a resolution of the Directors passed on 12 September 2007.

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 AM** (whole year and current) - Chairman
- **Katherine Gizelle Lane** (whole year and current) - Consumer Director
- **Jonathan Alexander Denovan** (whole year and current) - Member Director
- **Catherine Louise Uhr** (whole year and current) - Consumer Director
- **Victoria Anne Massey Edema** (whole year 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 in the credit industry. On 14 November 2003, the Company's membership base expanded to include finance brokers, mortgage brokers, and other operatives in the credit marketplace who were not members of the Mortgage and Finance Industry Association of Australia ("MFAA"). The Company has operated as an ASIC-approved EDR scheme since 17 December 2003.

3. Review of Operations

The operations of the Company during the year resulted in an operating surplus of \$278,783.74.

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

There have been no significant changes in the Company'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 the Company's operations in future financial years, or the results of those operations in future financial years, or the Company's state of affairs in future financial years.

6. Likely developments in the Company's operations in future financial years

As noted in the Chairman's Report, the Company's operations in future financial years and the results of those operations are likely to be affected by the enactment of national finance broker legislation.

7. Environmental regulation and performance

The Company 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 Company's 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. Company Officers

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

10. Options

The Company is a company limited by guarantee without a share capital and therefore no options were or were able to be granted over unissued shares 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 the Company. The Company has paid directors and officers insurance cover for all directors at a cost of \$7,470.43 exclusive of GST. The Company did not pay any insurance premiums in respect of insurance for auditors.

12. Remuneration and Benefits

No Director or other officer of the Company 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 - Chairman. Company Director
- JA Denovan LL.B - Member Director. Partner Gadens Lawyers
- VA M Edema BA LL.B - Member Director. Company Director
- KG Lane BA LL.M - Consumer Director. Principal Solicitor, Consumer Credit Legal Centre (NSW).
- CL Uhr LL.B - Consumer Director. Solicitor, Legal Aid Queensland.
- RA Venga LL.B(Hons) LL.M – Company Secretary.

14. Meeting attendance

Name	Meetings held whilst a Director	Meetings Attended
Graeme William Matthews	5	5
Victoria Anne Massey Edema	5	5
Katherine Gizelle Lane	5	5
Catherine Louise Uhr	5	4
Jonathan Alexander Denovan	5	4

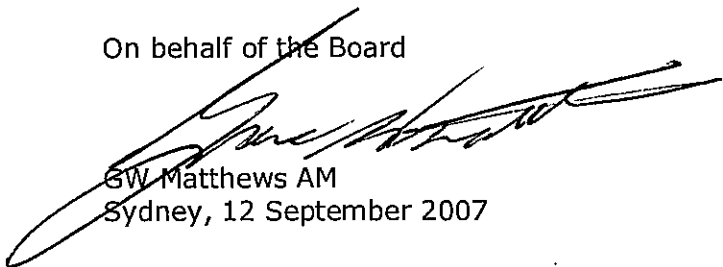
15. Proceedings on behalf of the Company

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

16. Registered Membership

As at 12 September 2007, the registered membership of the Company was 7,931.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'GW Matthews', written over the typed name and date.

GW Matthews AM
Sydney, 12 September 2007