



CENTRAL BANK OF ANTHELIA (GOTZBORG) GMBH

**Quarterly Report (July 2006)
for the Royal Bank of Commerce**

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Central Bank of Anthelia (Gotzborg) GmbH

Balance Sheet as at 31 July 2006

	GTH
<u>Net Assets</u>	-1735.08
<i>Represented by</i>	
Current Assets	101971.04
Non-Current Assets	0
<i>Less</i>	
Current Liabilities (General)	246.88
Client Accounts	103459.24
Non-Current Liabilities	0

Notes:

1. 'Current Liabilities (General)' refers to all current liabilities that are not part of the balance of clients' accounts. This includes total interest payable, but not yet credited, of GTh246.88.

2. 'Client Accounts' are those liabilities represented by all deposit accounts, itemised below:

4-6101 (Savings)	GTh1789.29
4-6102 (Investment)	GTh50554.23
4-6103 (Savings)	GTh100.80
4-6701 (Interbank)	GTh51014.92

3. 'Current Assets' includes the sum total of all clients' loans owed to the bank, itemised below:

1-6901 (Line of Credit)	GTh3500.00
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4. 'Current Assets' includes the sum total of all interest accrued and owing to the bank, but not yet charged, of GTh55.42

5. 'Current Assets' includes cash of GTh95865.32

Introduction

This report is the July 2006 Quarterly Report of the Central Bank of Anthelia (Gotzborg) GmbH, tendered by order of the Royal Bank of Commerce as per a message in the CBA's Gotzborg forum on 21 July 2006.

The Central Bank of Anthelia (Gotzborg) GmbH (hereinafter referred to as "the CBA") is a wholly-owned subsidiary of the Central Bank of Anthelia, which is itself the state-owned central banker of the Republic of Anthelia. The liabilities of the CBA are fully guaranteed by its parent body and by the government of the Republic.

The CBA began operations in Gotzborg in late April 2006.

The CBA's Gotzborg operations are directly managed by the Governor of the Central Bank, Mr Mark Marks. In the period under review, there were no other employees nor contracted assistants.

The reporting requirements as specified by the Royal Bank of Commerce are –

- Total assets
- Revenue/Expenses totals
- List of individual account balances and types
- Liabilities owing

The Balance Sheet and attached notes on page 2 above, and the following sections of this Report, satisfy these requirements.

Total Assets

The definition of an asset is anything which has future value in use or in exchange, a value measurable in terms of negotiable currency. The assets of the CBA consist of all cash, earnings accrued in the current period but not yet received, commodities and instruments redeemable for cash, investments and other claimable holdings with other banks and institutions, physical possessions of value, and the accumulated value of proprietary names, trademarks, etc.

"Total assets" differs from "net assets" as the latter figure is the amount remaining to the ownership of the company after all liabilities have been subtracted.

As noted on page 2, the greater part of the assets of the CBA consists of cash (GTh95865.32). One loan is outstanding for GTh3500, and interest accrued on that loan at 31 July was GTh55.42. Other assets of the CBA at 31 July were foreign currency holdings, valued according to the cost of acquisition. Changes in the valuation of foreign holdings are not accounted as gains or losses until disposal of the holdings, or until the bank chooses to reassess such valuations due to significant changed circumstances.

Revenue and Expenses

The Revenue of the CBA consists of interest earned on loans, investments and other productive assets, receipts on sales of commodities (such as negotiable instruments or foreign currency), and fees for services.

In the period under review, the income of the CBA was –

Interest.....	55.42
Sales.....	52140.00
Fees.....	50.70
Total.....	52246.12

Expenses of the CBA are interest payable on deposit accounts, cost of commodities sold, and operating expenses such as salaries, advertising and licensing. In the period under review, the CBA (Gotzborg) GmbH did not have any salary expenses as the Governor of the Central Bank undertook all management and operational duties as part of his general workload and his salary is a public sector (government) salary in the Republic of Anthelia, paid by the Treasury.

Actual expenses to the CBA in the period were –

Interest on savings accounts26.52
Interest on investment accounts.....	794.68
Cost of currency sales.....52140.00
Advertising20.00
Licences (Gotzborg business reg.)1000.00
Total.....53981.20

The CBA thus recorded a loss in the July Quarter of GTh1735.08.

List of Individual Account Balances and Types

The CBA offers to general clients two types of deposit accounts – a Basic Savings and an Investment – and one type of loan, a Line of Credit. Clients who request foreign currency accounts are directed to the appropriate non-Gotzborg branch. The CBA also raises an “Interbank” account type to show Gotzborg Thalers held by the CBA for foreign banks, the result of foreign exchange transactions (see Liabilities report below).

Under the procedures adopted by the CBA, interest on any account for any month is credited to that account (or, for a loan, charged against that account) on the first day of the next month. Hence, the figures shown in the Balance Sheet and Income/Expenditure report for interest are indicative of July interest accruals that would not be reflected in the relevant clients’ accounts until the 1st of August; nevertheless, they are included in the CBA’s income and expenditure because they are incomes and expenditures of this period, not of August.

The balances of all clients’ accounts are shown in the notes attached to the Balance Sheet.

Liabilities Owing

The liabilities of the CBA are all amounts of money held on deposit for our clients, any issued bonds or other instruments redeemable for cash, expenses accrued in the current period but not yet paid (including interest owing), and money which is held in transit for an incomplete transaction of any nature.

The Royal Bank of Commerce has called for a report on liabilities only to the extent of “interest accumulation values per account listed”. It is assumed that this is because clients’ account balances were separately reported, but the CBA notes that the total balance of any account is a current liability as well (unless the account carries conditions which prevent the client accessing some or all of the funds in the current period, but such locked-up funds would be a liability nonetheless).

At 31 July 2006, the CBA had a liability for Interest Payable of GTh246.88, due to be paid to the relevant accounts on 1 August.

Although not requested, the CBA herein offers a report on liabilities which arise from foreign exchange transactions.

When executing a transaction to exchange Thalers into another currency, the procedure for the bank is as follows –

1. Receive Thalers from the originating party
2. Acquire the other currency from some source
3. Pay the source that currency
4. Deliver the other currency to the originating party

Step 3 in the above is where the CBA accrues a liability. For example, if Anthelian Stars are acquired from the CBA (Commercial) in Anthelia, the payment to the CBA (Commercial) must be made in a form that that institution can accept. The simplest method is to create a deposit account for that institution and credit that account with the requisite amount. Thus, the CBA (Gotzburg) acquires the ownership of an amount of Stars and the CBA (Commercial) acquires the ownership of an amount of Thalers, but neither amount in in the form of cash (unless or until it gets paid out in some way). In this way, the CBA (Commercial) has accrued a net balance of GTh51014.92. In due course, the flow of currency across that border will ebb and flow as the CBA (Commercial) uses its holdings to satisfy foreign exchange transactions in the other direction. It is to be noted that the CBA (Gotzburg) holds Anthelian Stars (valued at GTh2550.30 according to our ledger) and this is shown in the accounts of the CBA (Commercial) as a liability to that institution.

Conclusions

The CBA is not concerned in the slightest by the losses shown in the first three months of operations in Gotzburg. Some deficits were expected as deposits, and the consequent interest liabilities, grew faster than loans in the startup period. A correction of this negative interest flow can be expected if business growth in Gotzburg results in a demand for credit which the CBA can satisfy.

Also shown in the period under review was a significant outflow of funds from Gotzburg to Anthelia, amounting to a trade deficit for Gotzburg (at least through the agency of the CBA) of more than GTh48000. However, the CBA is aware of at least one large contract for delivery of ships to Anthelia which should result in a return of Thalers in the foreseeable future. The CBA does not see any cause for undue concern at this time.

Looking ahead, the matter of a single currency for the Novasolum group of nations is a matter which would change the operations of this bank completely. If a single currency was adopted, the CBA (Gotsborg) would cease to operate a ledger in Thalers, and the same would be the case for branches in other currency jurisdictions. It can be assumed that a single branch would operate across micronational borders, but neither the Central Bank of Anthelia nor indeed the government of the Republic have yet given any indications of policy in respect of commercial banking operations in those circumstances.

This Report will be available online at

<http://centralbank.anthelia.net/GotzburgReportJuly2006.doc>

Mark Marks

Governor, Central Bank of Anthelia

CEO, Central Bank of Anthelia (Gotsborg) GmbH

1 August 2006