On 27 August 2014, under the silence procedure, the Council noted the IBAN report IBA-AR(2014)08 attached to C-M(2014)0050 and agreed the RPPB recommendation regarding public disclosure.

(Signed) Alexander Vershbow
Deputy Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2014)0050.
1. I attach the International Board of Auditors for NATO (IBAN) report on the audit of the financial statements of the NATO Provident Fund for the year ended 31 December 2013. The audit report sets out an unqualified opinion.

2. The IBAN report was brought to the attention of the Resource Policy and Planning Board (RPPB) and the Budget Committee (BC).

3. In accordance with the Council decision of June 2012 (C-M(2012)0041), the RPPB recommends that the IBAN report on the audit of the NATO Provident Fund for the year 2013, the related financial statements and other component parts, should be made available to the public.

4. I consider that no further discussion regarding this report is required. Consequently, unless I hear to the contrary by **17:30 on Wednesday, 27 August 2014**, I shall assume that the Council has noted the IBAN report IBA-AR(2014)08 and agreed the RPPB recommendation regarding public disclosure.

(Signed) Alexander Vershbow

Original: English
18 June 2014

NOTICE
AC/335-N(2014)0038
Silence Procedure ends:
24 Jun 2014 16:00

RESOURCE POLICY AND PLANNING BOARD

IBAN REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF THE NATO PROVIDENT FUND FOR 2013

Note by the Chairman

Reference: IBA-A(2014)111

1. Council agreed in May 2012 (C-M(2012)0041) that, as of the reporting year 2013, all unclassified IBAN reports, together with any related financial statements, should be disclosed to the public, based on a case-by-case agreement by the Council based on a recommendation by the RPPB.

2. The IBAN issued an unqualified audit opinion on the 2013 financial statements of the NATO Provident Fund (IBA-A(2014)111) and the unqualified audit report will be forwarded to Council for notation, as per agreed procedures.

3. The RPPB is invited to confirm that the subject audit report does not contain information which, according to the NATO Policy on Public Disclosure of NATO Information, shall be withheld from public disclosure, and in line with the agreed policy in C-M(2012)0041, to recommend that Council agree to the public disclosure of the IBAN report IBA-A(2014)111, the related financial statements and other component parts.

4. Agreement to the above is sought under the silence procedure and will be assumed unless comments to the contrary are received by 16:00 on Tuesday 24 June 2014.

(Signed) Giorgio Romano

Action Officer: Helene Ronning
Original: English
Note by the Secretary

On 24 June 2014, under the silence procedure, the RPPB confirmed the recommendation to the Council regarding the public disclosure of the subject IBAN report as proposed in paragraph 3 of AC/335-N(2014)0038.
Summary Note for Council
by the International Board of Auditors for NATO (Board)
on the audit of the Financial Statements of the NATO Provident Fund
for the year ended 31 December 2013

The Board audited the NATO Provident Fund which provides retirement benefits to civilian staff who joined NATO before 1 July 1974, and who are not members of the NATO Pension Scheme. The value of the Fund’s assets at 31 December 2013 was EUR 12.0 million. As at that date, there were 23 members contributing to the Fund.

The Board issued an unqualified opinion on the presentation of the NATO Provident Fund’s Financial Statements and on compliance for the year ended 31 December 2013.

There are no observations or recommendations.
INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDITOR’S REPORT ON THE FINANCIAL STATEMENTS OF

THE NATO PROVIDENT FUND

FOR THE YEAR ENDED 31 DECEMBER 2013
REPORT OF THE INTERNATIONAL BOARD OF AUDITORS
FOR NATO TO THE NORTH ATLANTIC COUNCIL AND STAFF MEMBERS
AFFILIATED TO THE NATO PROVIDENT FUND

Report on the Financial Statements

The International Board of Auditors for NATO (Board) has audited the accompanying financial statements of NATO Provident Fund, which comprise the Statement of Net Assets Available for Benefits as at 31 December 2013, the Statement of Changes in Net Assets for Benefits and the Explanatory Notes, including a summary of significant accounting policies.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Accounting Standard (IAS) 26 Accounting and Reporting by Retirement Benefit Plans and the requirements of the NATO Financial Regulations as authorised by the North Atlantic Council (NAC). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit, which is conducted in accordance with our Charter and international standards on auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, due to fraud or error. In making those risk assessments, internal control relevant to the entity’s preparation and presentation of financial statements is considered in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. An audit also includes evaluating the appropriateness of accounting policies used, the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

1 As the NATO Accounting Framework does not have a standard specific to accounting and reporting by retirement benefit plans, the NATO International Staff presents the Provident Fund’s Financial Statements in accordance with IAS 26.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion on Financial Statements**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the NATO Provident Fund as of 31 December 2013, and the changes in financial position thereof for the year then ended in accordance with IAS 26.

**Report on Compliance**

*Management’s Responsibility for Compliance*

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the financial transactions and information reflected in the financial statements are in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations as authorised by the North Atlantic Council (NAC).

*Auditor’s Responsibility*

In addition to the responsibility to express an opinion on the financial statements described above, our responsibility includes expressing an opinion on whether the financial transactions and information reflected in the financial statements are, in all material respects, in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations. This responsibility includes performing procedures to obtain reasonable assurance about whether the funds have been used for the settlement of authorised expenditure and whether their operations have been carried out in compliance with the financial and personnel regulations in force. Such procedures include the assessment of the risks of material non-compliance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion on Compliance**

In our opinion, in all material respects the financial transactions and information reflected in the financial statements are in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

Brussels, 14 April 2014

Dr Charilaos Charisis
Chairman
The NATO Provident Fund

FINANCIAL STATEMENTS
2013

Table of Contents

Annex 1  Net Assets Available for Benefits
Annex 2  Statement of Changes in Net Assets Available for Benefits
Annex 3  Notes to the Financial Statements
# The NATO Provident Fund

## Statement of Net Assets Available for Benefits

(All amounts in EUR)

<table>
<thead>
<tr>
<th>Notes</th>
<th>Current Year</th>
<th>Prior Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31-Dec-2013</td>
<td>31-Dec-2012</td>
</tr>
</tbody>
</table>

### Assets

- **Cash and Cash Equivalents**: (3) 38,196.26
- **Investments at market value**: (4) 13,559,312.17
- **Accounts Receivable**
  - Outstanding Contributions: (5) 0.00
  - Bank interest accrued: (6) 614.24
- **Rounding on Net Asset Value**: 0.00

**Total assets**: 13,598,122.67

**Total assets**: 17,919,138.12

### Liabilities

- **Payable to former staff**: (7) 1,590,255.49
- **Payable to the IS**: (8) 0.00
- **Bank charges to be paid**: (6) 14.52
- **Miscellaneous Gains/Losses**: (9) 13,154.40
- **Rounding on Net Asset Value**: 0.05

**Total Liabilities**: 1,603,424.46

**Total Liabilities**: 3,320,522.18

### Net assets available for benefits

11,994,698.21

**Net assets available for benefits**: 14,598,615.94
The NATO Provident Fund
Statement of Changes in Net Assets Available for Benefits

(All amounts in EUR)

<table>
<thead>
<tr>
<th>Notes</th>
<th>Current Year</th>
<th>Prior Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31-Dec-2013</td>
<td>31-Dec-2012</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in net assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Changes in value of the Fund</td>
<td>(10)</td>
<td>573,919.22</td>
</tr>
<tr>
<td>Contributions</td>
<td>(11)</td>
<td>284,622.99</td>
</tr>
<tr>
<td>Housing loan reimbursements</td>
<td>(12)</td>
<td>85,195.06</td>
</tr>
<tr>
<td>Gains/Losses invested</td>
<td>(13)</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>Total increase in net assets available for benefits</strong></td>
<td></td>
<td><strong>943,737.27</strong></td>
</tr>
<tr>
<td>Decrease in net assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts closed (Staff)</td>
<td>(14)</td>
<td>3,499,241.70</td>
</tr>
<tr>
<td>OAP, Housing Loans and Advances on Full Settlement</td>
<td>(15)</td>
<td>47,000.00</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td></td>
<td>1,296.98</td>
</tr>
<tr>
<td>Bank costs</td>
<td></td>
<td>116.32</td>
</tr>
<tr>
<td><strong>Total decrease in net assets available for benefits</strong></td>
<td></td>
<td><strong>3,547,655.00</strong></td>
</tr>
<tr>
<td>Net change for the year</td>
<td></td>
<td>-2,603,917.73</td>
</tr>
<tr>
<td>Net assets available for benefits, beginning of year</td>
<td></td>
<td>14,598,615.94</td>
</tr>
<tr>
<td><strong>Net assets available for benefits, end of year</strong></td>
<td></td>
<td><strong>11,994,698.21</strong></td>
</tr>
</tbody>
</table>
EXPLANATORY NOTES TO THE 2013 FINANCIAL STATEMENTS OF THE NATO PROVIDENT FUND

NOTE 1: GENERAL INFORMATION

Description of the Provident Fund

The NATO Provident Fund (the Fund) is a defined contribution pension scheme which provides retirement benefits to civilian staff recruited by NATO before 1 July 1974 and who decided not to join the defined benefit pension scheme set up at this date. Benefits are paid upon retirement as one lump sum, being the total of the individual right acquired.

The Provident Fund is a cash purchase pension scheme. Both staff and NATO contribute to the Scheme. There is no long term liability for NATO related to the Provident Fund.

An account is opened for each member of the Fund. Contributions are invested according to a strategy approved by the Provident Fund Board of Supervisors and applicable to all members. Contributions are invested in a single fund, currently transferred to an insurance company which guarantees a minimum rate of return. Members can check the status of their accounts and give instructions via a secure web portal.

Upon departure, the member's account is disinvested.

The number of affiliates is decreasing steadily. At end 2013, 23 staff members were affiliated to the Fund (30 at end 2012). It is forecast that all members will have left the Fund by 2019.

The rules and principles governing the Provident Fund are provided under Annex VII of the NATO Civilian Personnel Regulations.

Financing

Monthly contributions are made by staff and NATO, being 7% and 14% respectively of basic salary.

Governance

The Fund is administered in accordance with the NATO Civilian Personnel Regulations (CPRs), Annex VII (A, B and C). The NATO Secretary General is responsible for its administration and is assisted by a consultative committee (Board of Supervisors) to carry out this task.

The CPRs (Annex VII.A. Article 3) state that the Board is chaired by the Assistant Secretary General, Executive Management, as Chairman of the Board and responsible for the administration and management of the Fund.

The Board consists of the Chair, six representatives of the administrative services of various NATO bodies, and six representatives of staff affiliated to the Provident Fund.

In 2013, in consideration of the reduced number of members, the Board decided it would only meet in cases of significant or unforeseen events affecting the Fund.
All 2013 fund manager reports and approved records of the Board meetings are available on the Fund’s website.

Board members do not receive any additional remuneration for their responsibilities or access to benefits from NATO.

**Investment Strategy**

In 2007, per PO(2007)0059), Council approved rules adapting the governance of the Fund as well as a new financial management approach in order to address the issue of the decreasing number of affiliates.

Throughout the years, the Fund has consistently been managed with the aim of obtaining a steady return against a low degree of risk. In 2008, the Board approved a solidarity-based investment strategy to address the investment needs of the Fund and following an open call for bids, an insurance company, SOGECAP, was selected on 4 June 2009. SOGECAP’s insurance contract guarantees the capital and a minimum net annual return of 3% through 2016.

SOGECAP is contractually committed to reduce its fees if the gross return is below 4.6%. The diminution is gradual (see graph below) if the gross return is lower. No management fees are charged if the gross return is less than 4.2%.

![Graph showing fees vs. performance](image)

**NOTE 2: SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of these financial statements are set out below.

**Declaration of conformity**

The financial statements of the Provident Fund have been prepared on the basis of the NATO Financial Regulations and IPSAS (International Public Sector Accounting Standards) specifications, which the North Atlantic Council approved for adoption on 17 July 2002, with implementation by 1 January 2006, and IFRS (International Financial Reporting Standards) more specifically International Accounting Standard 26, “Accounting and Reporting by Retirement Benefit Plans” for which no specific IPSAS standard has been developed.

The accounting system currently used by the Fund is accrual based.
Basis of presentation

The financial statements have been prepared on a going-concern basis: the Provident Fund will continue operating for the foreseeable future.

In accordance with the Regulations of the Provident Fund all amounts are expressed in Euro.

Changes in accounting policy

There are no changes to report.

Reclassification of financial statements of previous years

There are no changes to report.

Foreign currency transactions

All contributions are made and accounted for in Euro.

The amounts standing to the credit of affiliates should be paid in the currency of the country where the body employing them is located. All affiliates are currently employed in bodies based in the Euro zone. However, depending on their nationality, staff might request the redemption of their holdings in a currency other than Euro. Transfers are made at the NATO parity rates prevailing on the date the account is closed.

Cash and Equivalents

Cash and cash equivalents are defined as short-term assets. They include deposits held with banks and short term highly liquid investments.

Invested Funds

At the end of each reporting period, a valuation of the Fund is made by the insurance company at book value.

Receivables

Receivables are stated at net realisable value. No allowance for loss is recorded for receivables relating to NATO bodies' statutory contributions.

Payables

Payables are amounts due to third parties based on goods received or services provided that remain unpaid. This includes, as required, an estimate of accrued obligation for goods received or services provided but not yet invoiced.
Financial Risks

Financial instruments

The Provident Fund uses only non-derivative financial instruments as part as its normal operations. These financial elements include cash bank accounts, deposit accounts and accounts receivable.

All financial instruments are recognised in the statement of financial position at their fair value.

The Provident Fund is exposed to a variety of financial risks, including credit risk, market (price) risk and liquidity risk. The maximum exposure as at 31 December 2013 is equal to the total amount of bank balances, short term deposits, investment funds, and receivables.

Credit risk

The Provident Fund incurs credit risks from cash and cash equivalent held with banks and receivables. There is very limited credit risk associated with the realization of these elements.

Concerning cash and cash equivalents, the Provident Fund credit risk is managed by holding current bank accounts and short term highly liquid deposits that are readily convertible to a known amount of cash held with ING Bank (Belgium) which has the following short term credit ratings:

<table>
<thead>
<tr>
<th>ING Bank</th>
<th>Credit Ratings as at 31/12/2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fitch</td>
</tr>
<tr>
<td>Short Term</td>
<td>A+</td>
</tr>
</tbody>
</table>

French insurance companies are not required to be rated by third party credit rating agencies. They are closely regulated by the French government and must periodically report certain capital ratios to prove their solvency.

At year end 2012, SOGECAP had a solvency ratio 120% (105% in 2011). The solvency ratio for 2013 was not available at the date of issuance of these financial statements.

SOGECAP is wholly owned by SOCIETE GENERALE which is rated as follows at year-end 2013:

<table>
<thead>
<tr>
<th>Société Générale</th>
<th>Credit Ratings as at 31/12/2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fitch</td>
</tr>
<tr>
<td>Short Term</td>
<td>F1</td>
</tr>
<tr>
<td>Long Term</td>
<td>A</td>
</tr>
</tbody>
</table>

Concerning receivables, the credit risk is managed by maintaining control procedures over receivables. These consist essentially of contributions due by NATO agency payroll centres. This risk is considered limited since these agencies are funded by member nations which are considered credit worthy.
Currency risk

The Provident Fund is exposed to foreign currency exchange risk arising from fluctuations in currency rates. This risk is limited since the scheme receives contributions only in EUR, the investments underlying the insurance contract are in EUR and members' holdings are accounted for in Euro. However, staff may request payment of their holdings in a currency other than EUR and currency fluctuations may occur between the date the staff formally retires and the date the payment is made.

Liquidity risk

A liquidity risk could arise from a short term liquidity requirement. There is a very limited exposure to liquidity risk because contributions needed to pay the insurance premiums are paid by NATO bodies which receive contributions from member states funding the related budgets, or income from their customers which generally are other NATO bodies funded through their approved budgets. With regard to capital, the insurance contract guarantees the payment of the affiliates' accounts due upon closure of their account in the Provident Fund.

Interest rate risk

The Provident Fund is restricted from entering into borrowings.

The contract with the insurance company guarantees a minimum rate of return of 3% per annum for each year until 2016.

NOTE 3: CASH AND CASH EQUIVALENTS

Besides the funds managed by SOGECAP, the Provident Fund holds one bank account to collect contributions to be transferred to SOGECAP for investment and to transfer funds to the affiliates after redemption by SOGECAP. This amount corresponds to the funds held on the bank account at the year end.

Cash held end 2013 is essentially made of staff member contributions for the month of December 2013 waiting to be transferred.

NOTE 4: INVESTMENTS AT MARKET VALUE

The decrease in the invested amounts is due to the reduction in the number of Provident Fund members.

In 2013 the gross and net returns to NATO were both 4.20% (as in 2012), and consequently, in accordance with the contract, SOGECAP received no management fee.

The funds underlying the insurance contract are invested in the "Top Croissance 6" mutual fund, which had a total amount of assets under management of EUR 9 billion. At 31 December 2013, the asset distribution was as follows:
Asset Allocation

<table>
<thead>
<tr>
<th>Asset class</th>
<th>% Weight in the fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Income (Fixed rate)</td>
<td>82.5</td>
</tr>
<tr>
<td>Fixed Income (variable rate)</td>
<td>2.3</td>
</tr>
<tr>
<td>Convertible bonds</td>
<td>0.5</td>
</tr>
<tr>
<td>Equities and equity mutual funds</td>
<td>7.4</td>
</tr>
<tr>
<td>Real estate</td>
<td>2.2</td>
</tr>
<tr>
<td>Liquidity</td>
<td>5.1</td>
</tr>
</tbody>
</table>

Bonds portfolio rating breakdown

<table>
<thead>
<tr>
<th>RATING</th>
<th>Sovereign</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA</td>
<td>3%</td>
<td>9%</td>
<td>12%</td>
</tr>
<tr>
<td>AA</td>
<td>31%</td>
<td>13%</td>
<td>43%</td>
</tr>
<tr>
<td>A</td>
<td>0%</td>
<td>26%</td>
<td>26%</td>
</tr>
<tr>
<td>BBB</td>
<td>11%</td>
<td>7%</td>
<td>18%</td>
</tr>
<tr>
<td>BB</td>
<td>0%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td></td>
<td>43%</td>
<td>57%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Sovereign bond allocation by country:

<table>
<thead>
<tr>
<th>Sovereign bonds country allocation</th>
<th>As of 31/12/2011</th>
<th>As of 31/12/2012</th>
<th>As of 31/12/2013</th>
<th>Variation since last reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>2%</td>
<td>2.3%</td>
<td>1.99%</td>
<td>-0.31%</td>
</tr>
<tr>
<td>Austria</td>
<td>4%</td>
<td>0.5%</td>
<td>0.43%</td>
<td>-0.07%</td>
</tr>
<tr>
<td>Belgium</td>
<td>3%</td>
<td>3.0%</td>
<td>2.95%</td>
<td>-0.05%</td>
</tr>
<tr>
<td>Canada</td>
<td>1%</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>3%</td>
<td>2.0%</td>
<td>2.63%</td>
<td>0.63%</td>
</tr>
<tr>
<td>Finland</td>
<td>0%</td>
<td>0.5%</td>
<td>0.45%</td>
<td>-0.05%</td>
</tr>
<tr>
<td>France</td>
<td>51%</td>
<td>58.6</td>
<td>61.20%</td>
<td>2.60%</td>
</tr>
<tr>
<td>Germany</td>
<td>3%</td>
<td>2.6%</td>
<td>2.11%</td>
<td>-0.49%</td>
</tr>
<tr>
<td>Ireland</td>
<td>1%</td>
<td>0.8%</td>
<td>0.66%</td>
<td>-0.14%</td>
</tr>
<tr>
<td>Italy</td>
<td>10%</td>
<td>9.8%</td>
<td>8.87%</td>
<td>-0.93%</td>
</tr>
<tr>
<td>Luxemburg</td>
<td>1%</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Netherlands</td>
<td>3%</td>
<td>3.2%</td>
<td>2.95%</td>
<td>-0.25%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>4%</td>
<td>3.0%</td>
<td>3.14%</td>
<td>0.14%</td>
</tr>
<tr>
<td>Spain</td>
<td>9%</td>
<td>8.6%</td>
<td>7.76%</td>
<td>-0.84%</td>
</tr>
<tr>
<td>Sweden</td>
<td>1%</td>
<td>1.0%</td>
<td>1.14%</td>
<td>0.14%</td>
</tr>
<tr>
<td>Supranational</td>
<td>3%</td>
<td>2.9%</td>
<td>2.65%</td>
<td>-0.25%</td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
<td>1.1%</td>
<td>1.06%</td>
<td>0.04%</td>
</tr>
</tbody>
</table>
NOTE 5: OUTSTANDING CONTRIBUTIONS RECEIVABLE

Contributions are paid on a monthly basis. Receivables relate to outstanding contributions due at the end of the year but paid in the following year. As at 31 December 2013, there were no uncollected contributions for covered parties.

NOTE 6: INTERESTS AND BANK CHARGES

This corresponds to interests earned on the transition bank account and received during the following year and to related bank charges due.

NOTE 7: PAYABLE TO FORMER STAFF - CLOSED ACCOUNTS TO BE SETTLED.

This corresponds to the value of the affiliates’ accounts closed in December and loans to current affiliates to be paid to them at the beginning of the following year.

The reduction of the amount between 2012 and 2013 is linked to the holdings of staff in such situation.

NOTE 8: PAYABLE TO THE IS

This corresponds to amounts due to the NATO International Staff (IS) for advances it may make to settle the accounts of affiliates who leave in December. There were no such advances at end 2013.

There were no other amounts payable to third parties.

NOTE 9: MISCELLANEOUS GAINS/LOSSES

This corresponds to the cumulative amount of miscellaneous net income, essentially interests net of bank charges and fees on premiums. The Board of Supervisors agreed that the balance of bank interest above Euro 5,000.00 be distributed to affiliates’ accounts rather than be used for payment of bank fees. (CSCP-R(2011)0001 dated 4 March 2011).

NOTE 10: UNREALISED CHANGE IN VALUE OF THE FUND

The change in the value of the Fund is calculated as follows:

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance beginning of year</td>
<td>14,598,615.94</td>
<td>25,763,829.14</td>
</tr>
<tr>
<td>Staff members contributions</td>
<td>284,622.99</td>
<td>514,958.68</td>
</tr>
<tr>
<td>Loan reimbursements</td>
<td>85,195.06</td>
<td>164,159.84</td>
</tr>
<tr>
<td>Accumulated interest invested</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Accounts closed</td>
<td>-3,499,241.70</td>
<td>-12,304,021.78</td>
</tr>
<tr>
<td>O.A.P., Loans and advances</td>
<td>-47,000.00</td>
<td>-499,720.00</td>
</tr>
<tr>
<td>Charges on investments Fund Manager</td>
<td>-1,296.98</td>
<td>-366.60</td>
</tr>
<tr>
<td>Bank charges</td>
<td>-116.32</td>
<td>-192.55</td>
</tr>
<tr>
<td>(a)</td>
<td>10,109,304.17</td>
<td>13,638,646.73</td>
</tr>
<tr>
<td>(b) Net assets available end of year</td>
<td>11,994,698.21</td>
<td>14,598,615.94</td>
</tr>
<tr>
<td>(b) - (a)</td>
<td>573,919.22</td>
<td>959,969.21</td>
</tr>
</tbody>
</table>
NOTE 11: CONTRIBUTIONS

Monthly contributions are made by staff and NATO, being 7% and 14% (netted from any OAP contribution, as required) respectively of basic salary. They are to be transferred as premiums to the insurance company and are credited to the individual account of the affiliates. The decrease in contributions is due to the reducing membership of the Provident Fund.

NOTE 12: HOUSING LOAN REIMBURSEMENTS BY STAFF

According to the CPRs, Articles 54.1 and 54.2, each member of the Fund is entitled to withdraw an amount from his (her) account: for payment to an old-age pension scheme (OAP) or the pension scheme applying in his (her) national administration; or to ease a housing problem.

Housing Loans reimbursements by staff amounted to EUR 85,195.06 in 2013 (EUR 164,159.84 in 2012, EUR 250,281.83 in 2011). They are usually handled via deductions from their salaries and amounts are re-credited to the member's account. Staff may make exceptional reimbursement (EUR 0 in 2013, EUR 0 in 2012).

NOTE 13: GAINS/LOSSES INVESTED

The Board of Supervisors' decision (CSCP-R(2011)0001 dated 4 March 2011) stated that the balance of bank interest above Euro 5,000.00 should be distributed to affiliates’ accounts rather than be used for payment of bank fees. No amount was invested in 2012.

NOTE 14: ACCOUNTS CLOSED

Corresponds to the final settlement for staff who left the Organisation in the course of the year.

NOTE 15: OLD AGE PENSIONS, HOUSING LOANS AND ADVANCES ON FULL SETTLEMENT PAID TO STAFF

Staff can request, to have one-third of the amount of their individual account, paid in advance (not earlier than 3 months prior to their date of departure). The advance is made by each NATO entity, which is reimbursed when the affiliates' portfolio is disinvested.

According to the CPRs, Articles 54.1 and 54.2, each member of the Fund is entitled to withdraw an amount from his (her) account: for payment to an Old Age Pension scheme (OAP) or the pension scheme applicable in his (her) national administration, or to ease a housing problem.

The breakdown between Old Age Pensions contributions, housing loans and advances on Full Settlements paid to affiliates at their request is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Old Age Pensions</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Housing Loans</td>
<td>47,000.00</td>
<td>23,620.00</td>
</tr>
<tr>
<td>Advances on Full Settlement</td>
<td>0.00</td>
<td>476,100.00</td>
</tr>
</tbody>
</table>

3-8
NOTE 16: MISCELLANEOUS EXPENSES

These are essentially fees on premiums (0.18%).

NOTE 17: CONTINGENT ASSETS

None to report.

NOTE 18: CONTINGENT LIABILITIES

There are no material contingent liabilities arising from legal actions and claims that are likely to result in significant liability to the Provident Fund.

NOTE 19: RELATED PARTY TRANSACTIONS

The following party transactions took place during the year ended 31 December 2013.

NATO International Staff, in particular Executive Management – Human Resources and the Office of Financial Control, are responsible for the day-to-day management of the Provident Fund.

Administrative support provided by NATO-IS for the administration of the Fund is charged to other NATO bodies according to a cost share which takes into account the number of their affiliates. This includes the cost of IS- Office of Financial Control personnel (50% Full Time Equivalent of an A2/A3 grade staff). Costs related to the outsourced administration of affiliates' holdings (including Internet services service so that affiliates can see the value of their Fund on a monthly basis) are funded through the Civil Budget.

In specific circumstances cash advances are made by the International Staff to ease-up payment procedures. Reimbursement to the NATO-IS account is done as soon as technically possible.

The Fund does not hold any securities of the employer sponsor or, directly, of its related parties.

NOTE 20: KEY MANAGEMENT PERSONNEL

For the purpose of these financial statements, key management personnel are considered to be the Assistant Secretary General for Executive Management and the Financial Controller of the International Staff. Their remuneration is entirely covered by the International Staff.

Members of the Provident Fund Board of Supervisors do not receive any additional remuneration or benefits in return for their responsibilities. The Board of Supervisors is chaired by the Assistant Secretary General for Executive Management. The IS Financial Controller is a member of the Board.
NOTE 20: STATISTICAL INFORMATION

NUMBER OF AFFILIATES TO THE PROVIDENT FUND
NOMBRE D'AFFILIES AU FONDS DE PREVOYANCE 1994 - 2013

List of acronyms:

CPR: Civilian Personnel Regulations
DCPS: Defined Contribution Pension Scheme
FTE: Full Time Equivalent
IPSAS: International Public Sector Accounting Standards
NAV: Net Asset Value
OAP: Old Age Pension
From: Financial Controller, NATO International Staff

Subject: Statement on Internal Control
NATO Provident Fund 2013

Scope of responsibility

Attached are the un-audited NATO Provident Fund financial statements for 2013 which have been prepared under my responsibility.

As Financial Controller, as provided by NATO's Financial Regulations (Article 21), I have responsibility for administration of the financial and budgetary control system that supports the achievement of the NATO Provident Fund’s mission. I am personally responsible for the correct use of all international appropriated funds made available to the Organization.

It is my responsibility to ensure that an effective system of internal control is maintained and operated by NATO International Staff (IS). The system is applied to several NATO budgets and entities for which the IS manages the budget and financial operations and in particular for the NATO Provident Fund.

The NATO IS internal control system is designed to manage rather than eliminate the risk of failure to achieve the organisation’s mission; it can therefore only provide reasonable and not absolute assurance of effectiveness.

Purpose of the system of internal control

The system of internal control is designed to support the achievement of the Provident Fund mission by providing reasonable assurance of the achievement of objectives as to: the effectiveness and efficiency operations, the reliability of financial information, and compliance with applicable rules and regulations. This includes safeguarding the organisation's funds and assets.

The system of internal control is an ongoing process designed to identify the principal risks to the achievement of the NATO Provident Fund mission, to evaluate the nature and extent of those risks, and to manage them efficiently, effectively and economically. This process was in place for the financial year ended 31 December 2013 and up to the date of the issuance of the Financial Statements.
Internal control framework

The key elements of the internal control system include:

- NATO Financial Regulations
- Civilian Personnel Regulations and in particular its Annex VII concerning the NATO Provident Fund
- the NATO Code of Conduct
- the NATO Provident Fund Board of Supervisors
- status reports by the insurance company to which the funds have been entrusted
- the NATO International Staff IT financial system
- segregation of duties between the functions of approving officer, accountant and treasurer
- management supervision and a system of delegation
- the internal audit function
- annual accounts

Review of effectiveness

My review of the effectiveness of the system of internal control is informed by the work of the Office's internal auditors and the executive managers within the organization who have responsibility for the development and maintenance of the internal control framework, the decisions and recommendations of the NATO Provident Fund Board of Supervisors. It also relies on observations made by the external auditors in their reports, not only relative to the NATO Provident Fund but also to other entities for which the IS Office of Financial Control exercises similar functions.

The contract by which the funds were transferred to the insurance company guarantees a minimal level of return to the NATO Provident Fund participants and with which it has complied.

Observations made by IBAN up until the last audited NATO Provident Fund financial statements (2012) have been taken into account. IBAN observations on other financial statements issued by the IS OFC are considered because the related internal control system is very similar.

During 2013, including IBAN's field audit work and report on the financial statements for the year ended 31 December 2012, no material instances of failure of the internal control system were reported that should be brought to Nations' attention.

Based on the information from these sources, internal control is in general adequate. There is however an issue which needs to be addressed.

Area for improvement

The main weakness of the internal control system relates to financial reporting: the present IT accounting system does not enable the production of IPSAS compliant financial statements.
This IT financial system, implemented in the early 1990s, was conceived to track budget execution and make payments, but was not designed to be an accounting system. It has never been updated. The implementation of an Enterprise Resource Planning system is planned for 2015 and should contribute to solving this issue. In the meantime, manual adjustments are required, constituting a risk factor for errors. In addition the present IT system is not connected to any Human Resources database, which also constitutes a risk factor for errors. As a consequence the internal control system relies greatly on the control environment, in particular on knowledge acquired and values shared by the staff.

For the period 2000 to 2012, the financial statements of the NATO Provident Fund have received an unqualified opinion from IBAN. Achieving this requires a significant effort, impacting the overall process of generating the financial statements of the NATO bodies for which I am responsible.

My assessment is nevertheless that this situation had no material impact on the budgetary contributions called from Nations to fund the NATO entities’ budgets from which the staff and contributions are paid into the Providend Fund. Neither did it have a material impact on the preservation of the assets belonging to the affiliates.

In my opinion these financial statements provide a true and fair view of the financial activities of the NATO Provident Fund for 2013.

Signed

Stéphane CHAGNOT