	NATO	NORTH ATLANTIC COUNCIL
	OTAN	CONSEIL DE L'ATLANTIQUE NORD

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13 December 2018

DOCUMENT
C-M(2018)0063-AS1

IBAN AUDIT ON THE 2017 FINANCIAL STATEMENTS OF THE NATO DEFINED CONTRIBUTION PENSION SCHEME (DCPS), THE NATO PROVIDENT FUND (NPF) AND THE RETIREES MEDICAL CLAIMS FUND (RMCF)

ACTION SHEET

On 12 December 2018, under the silence procedure, the Council noted the IBAN report on the 2017 financial statements of DCPS, NPF and RMCF, endorsed the RPPB report attached to C-M(2018)0063, and agreed to the public disclosure of this report, the IBAN audits and associated 2017 financial statements of DCPS, NPF and RMCF.

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2018)0063.

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4 December 2018

DOCUMENT
C-M(2018)0063
Silence Procedure ends:
12 Dec 2018 17:30

IBAN AUDIT ON THE 2017 FINANCIAL STATEMENTS OF THE NATO DEFINED CONTRIBUTION PENSION SCHEME (DCPS), THE NATO PROVIDENT FUND (NPF) AND THE RETIREES MEDICAL CLAIMS FUND (RMCF)

Note by the Secretary General

1. I attach the International Board of Auditors for NATO (IBAN) reports on the audits of the 2017 financial statements of the NATO Defined Contribution Pension Scheme (DCPS), the NATO Provident Fund (NPF) and the Retirees Medical Claims Fund (RMCF). The IBAN audits produced unqualified opinions on both the financial statements and compliance for DCPS, NPF and RMCF.
2. The IBAN reports have been reviewed by the Resource Policy and Planning Board (RPPB) (see Annex 1).
3. I do not believe this issue requires further discussion. Therefore, **unless I hear to the contrary by 17:30 hours on Wednesday, 12 December 2018**, I shall assume the Council noted the IBAN report on the 2017 financial statements of DCPS, NPF and RMCF, endorsed the RPPB report, and agreed to the public disclosure of this report, the IBAN audits and associated 2017 financial statements of DCPS, NPF and RMCF.

(Signed) Jens Stoltenberg

1 Annex
1 Enclosure

Original: English

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IBAN AUDIT ON THE 2017 FINANCIAL STATEMENTS OF THE NATO DEFINED CONTRIBUTION PENSION SCHEME (DCPS), THE NATO PROVIDENT FUND (NPF) AND THE RETIREES MEDICAL CLAIMS FUND (RMCF)

Report by the Resource Policy and Planning Board (RPPB)

References:

A. IBA-AR(2018)0022	IBAN Audit on the 2017 Financial Statements of DCPS
B. IBA-AR(2018)0086	IBAN Audit on the 2017 Financial Statements of NPF
C. IBA-AR(2018)0014	IBAN Audit on the 2017 Financial Statements of RMCF
D. AC/335-N(2018)0036	Handling of the 2017 Financial Statement audit reports
E. PO(2015)0052	Wales Summit tasker on transparency and accountability
F. AC/335-N(2017)0102	RPPB Report on the 2016 IBAN Audit of DCPS

BACKGROUND

1. This report addresses the 2017 financial statement audits of DCPS (reference A), NPF (reference B) and RMCF (reference C) submitted by IBAN. The IBAN issued an unqualified opinion on both the financial statements and on compliance for all three NATO bodies for the year 2017.

2. In accordance with the handling arrangements agreed by the RPPB (reference D) these audit reports have been grouped together into a single overarching RPPB report.

DISCUSSION

3. The RPPB notes the IBAN made no current year observations on the financial statements or compliance of any of the three NATO bodies.

4. The IBAN also followed up on the status of observations from previous years' audits and found for DCPS two had been settled, three had been partially settled, and one remained outstanding; for NPF, the only two outstanding observations had been settled in 2017; and for RMCF, four had been settled, one had been partially settled, and one remained outstanding. The RPPB notes the following:

4.1. DCPS outstanding observation: The IBAN believes there is a need for a policy on the accounting and reporting of transactions stated in foreign currencies. The International Staff Financial Controller (IS FC) plans to document and clarify such policy in the financial statements, in particular how the systematic calculations of foreign currencies are made in its Enterprise Resource Planning System and expects the observation to be settled in the IBAN's 2018 audit report.

4.2. RMCF observation: The IBAN noted as an Emphasis of Matter¹ in the audit opinion of RMCF that the actuarial valuation used to assess the value of the long term NATO post-employment medical care obligation is based on prior year (2016) data because the study based on 2017 data was not yet completed at the time the financial statements were issued. The post-employment medical care obligation of RMCF increased from EUR 1.80 billion disclosed in the financial statements for 2016² to EUR 2.30 billion disclosed in 2017³, an increase of 28%. The increase was due primarily to a decrease in the discount rate used in the actuarial valuation from 1.60% to 0.98%. The post-employment medical care obligation disclosed in the 2017 financial statements would have been EUR 2.07 billion had the 2017 actuarial valuation been available when the financial statements were submitted to the IBAN. The IBAN recommends RMCF should ensure they receive the actuarial valuation prior to the issuance of the financial statements (31 March). The FC agreed in concept with the recommendation and will explore options to obtain the document prior to 31 March in order to settle the matter in the 2018 financial statements.

5. The RPPB notes the progress made on all other prior year observations and expects DCPS and RMCF to continue working to fully remediate all outstanding issues.

CONCLUSION

6. The RPPB notes the unqualified opinions issued by IBAN on the financial statements and compliance for DCPS, NPF and RMCF's 2017 financial statements. While the results are positive, the RPPB also notes the outstanding or partially settled observations and stresses the importance of leveraging IBAN's recommendations to improve financial processes and financial transparency.

RECOMMENDATIONS

7. The RPPB recommends that Council:

7.1. note the IBAN reports at references A-C;

7.2. note the conclusion in paragraph 6; and,

7.3. agree to the public disclosure of this report, the IBAN audits and the associated 2017 financial statements of DCPS, NPF and RMCF in line with the agreed policy in reference E.

¹ Emphasis of Matter – A paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.

² The value disclosed in the 2016 financial statements is based on the 2015 actuarial valuation.

³ The value disclosed in the 2017 financial statements is based on the 2016 actuarial valuation.



NORTH ATLANTIC TREATY ORGANIZATION
ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD
INTERNATIONAL BOARD OF AUDITORS
COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES



NATO UNCLASSIFIED

IBA-A(2018)0088
27 August 2018

To: Secretary General
(Attn: Director of the Private Office)

Cc: Assistant Secretary General, Executive Management Division
Financial Controller, International Staff (IS)
Chairman, Resource Policy & Planning Board (RPPB)
Branch Head, Plans and Policy Branch, NATO Office of Resources (NOR)
Private Office Registry

Subject: ***International Board of Auditors for NATO (Board) Auditor's Report and Letter of Observations and Recommendations on the audit of the NATO Defined Contribution Pension Scheme (DCPS) Financial Statements for the year ended 31 December 2017 - IBA-AR(2018)0022***

The Board submits herewith its approved Auditor's Report (Annex 2) and Letter of Observations and Recommendations (Annex 3) with a Summary Note for distribution to the Council (Annex 1).

The Board's report sets out an unqualified opinion on the financial statements of the NATO DCPS and an unqualified opinion on compliance for financial year 2017.

Yours sincerely,

Hervé-Adrien Metzger
Chairman

Attachments: As stated above.



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ANNEX 1

**Summary Note for Council
by the International Board of Auditors for NATO
on the audit of the financial statements of the
NATO Defined Contribution Pension Scheme (DCPS)
for the year ended 31 December 2017**

The International Board of Auditors for NATO (Board) audited the NATO Defined Contribution Pension Scheme (DCPS), which is a money purchase pension scheme which includes contributions from staff recruited on or after 1 July 2005 as well as employer contributions from NATO. The value of the NATO DCPS's net assets available for benefits at 31 December 2017 was EUR 377.7 million. The DCPS had 3,668 members by the end of 2017.

The Board issued an unqualified opinion on the 2017 financial statements and an unqualified opinion on compliance for the year ended 31 December 2017.

During the audit, the Board made no observations.

The Board also followed up on the status of observations from previous years' audit reports and found that two observations were settled, three observations were partially settled and one observation was still outstanding.

The outstanding observation on weaknesses in the preparation of pension benefit payments is outstanding since the Board's audit of the 2009 financial statements and needs management focus to address the weaknesses.

The status is summarised in the Letter of Observations and Recommendations (Annex 3).

The Auditor's Report (Annex 2) and the Letter of Observations and Recommendations (Annex 3) were issued to the International Staff, who had no factual or formal comments.

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ANNEX 2
IBA-AR(2018)0022

27 August 2018

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF

THE NATO DEFINED CONTRIBUTION PENSION SCHEME

(NATO DCPS)

FOR THE YEAR ENDED 31 DECEMBER 2017

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ANNEX 2
IBA-AR(2018)0022

**AUDITOR'S REPORT TO THE NORTH ATLANTIC COUNCIL AND
STAFF MEMBERS AFFILIATED TO THE
NATO DEFINED CONTRIBUTION PENSION SCHEME (NATO DCPS)**

Report on the Financial Statements

The International Board of Auditors for NATO (Board) audited the attached financial statements of the NATO Defined Contribution Scheme (NATO DCPS) for the year ended 31 December 2017, which comprised the Statement of Net Assets Available for Benefits, the Statement of Changes in Net Assets Available 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*¹ 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.

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

¹ As the NATO Accounting Framework does not have a standard specific to accounting and reporting by retirement plans, the NATO International Staff presents the DCPS Financial Statements in accordance with IAS 26.

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ANNEX 2
IBA-AR(2018)0022

Opinion on Financial Statements

In our opinion, the financial statements present fairly, in all material respects, the financial position of DCPS as at 31 December 2017, 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

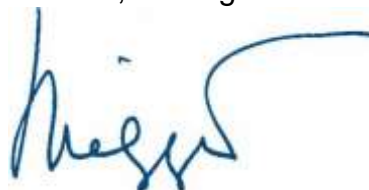
In addition to the responsibility to express an opinion on the financial statements described above, our responsibility includes expressing an opinion on whether the financial transactions and information reflected in the financial statements are, in all material respects, in compliance with the NATO 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 audit opinion on compliance.

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, 27 August 2018



Hervé-Adrien Metzger
Chairman

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ANNEX 3
IBA-AR(2018)0022

27 August 2018

INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS
FOR THE NATO DEFINED CONTRIBUTION PENSION SCHEME
(NATO DCPS)

FOR THE YEAR ENDED 31 DECEMBER 2017

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ANNEX 3
IBA-AR(2018)0022

Introduction

The International Board of Auditors for NATO (Board) audited the NATO Defined Contribution Pension Scheme (DCPS) Financial Statements for the year ended 31 December 2017, and issued an unqualified opinion on the financial statements and on compliance.

Observations and Recommendations

During the audit, the Board made no observations.

The Board also followed up on the status of observations from previous years' audit reports and found that two observations were settled, three observations were partially settled and one observation was still outstanding.

The outstanding observation on weaknesses in the preparation of pension benefit payments is outstanding since the Board's audit of the 2009 financial statements and needs management focus to address the weaknesses.

This Letter of Observations and Recommendations was formally cleared with the International Staff who had no factual or formal comments.

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FOLLOW-UP OF A PREVIOUS YEARS' OBSERVATION

The Board reviewed the status of the observation and recommendation arising from previous years' audit. The observations and their status are summarised in the table below.

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p>(1) NATO DCPS FY 2016 IBA-AR(2017)30, paragraph 1</p> <p>INSUFFICIENT CONTROLS OVER FINANCIAL REPORTING</p> <p>Board's Recommendation</p> <ul style="list-style-type: none"> The preparer of the financial statements should keep detailed supporting working papers in order to be able to support any balance presented or information disclosed in the financial statements. Moreover, the IS must be able to provide details for each ERP asset / liability account in order to allow proper follow-up of the balances. The Board recommends recording income and expense transactions, different by nature, in separate accounts, such as: gain/loss from foreign currency purchases; bank charges; other types of income/expense. The Board recommends improving the transparency and availability of the accounting data. Where technically possible and practicable, the Board recommends linking transactions in ERP to the specific counterparty in order to be able to trace changes in respective balances receivable and/or payable to these counterparties. Using standard ERP workflows instead of manual adjustments is encouraged. In situations when aggregated data is entered in the accounting program, underlying supporting details (summaries, listings, calculations, etc.) should be available within the ERP and should be subject to proper verification and approval within the system. 	<p>The Board noted the following actions:</p> <ul style="list-style-type: none"> Sufficient details provided for requested ERP accounts. Settled Different income and expenses transactions were still recorded in a limited number of accounts (Surplus / Net assets available for benefits). However auditors were provided with sufficient supporting details on these different income and expense transactions. Partially settled Improvement of the transparency and availability of accounting data noted. Also more extensive use of ERP workflows noted. Settled. 	<p>Observation Partially Settled.</p>

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OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<ul style="list-style-type: none"> The Board recommends strengthening the multi-level financial statements review process in order to improve the overall quality of the produced financial statements and their compliance with applicable reporting frameworks. The Board recommends performing, at least annually, formal inter-entity balance confirmations between all entities who have financial statements prepared by the IS Office of Financial Control. The Board recommends implementing additional account dimensions in the ERP system for the Investment management and Retirement and Invalidity segments. 	<ul style="list-style-type: none"> Overall improvement of the quality of financial statements noted. However, the Board suggests to continue enhancing the financial statements review process. Some insignificant errors noted in the financial statements, which usually should be eliminated by multi-level review. Identified deficiencies are immaterial. Partially settled No formal inter-entity balance confirmations between all entities who have financial statements prepared by the IS Office of Financial Control identified. Outstanding Separate set of books (SOB) 310 was created in ERP for the DCPS benefit payments. However, this set of books started to be properly utilized from year 2018. Settled 	
<p>(2) NATO DCPS FY 2016 IBA-AR(2017)30, paragraph 2</p> <p>CONTROLS OVER THE RECONCILIATION OF BANK BALANCES NEED TO BE ENFORCED</p> <p>Board's Recommendation The Board recommends performing and documenting monthly cash reconciliations between the bank balances and the amounts presented in the accounting system. This will help to identify misstatements (if any) on a timely basis. This should include signatures of the preparer and reviewer along with the dates.</p>	<p>Evidence of monthly cash reconciliations provided.</p>	<p>Observation Settled.</p>
<p>(3) NATO DCPS FY 2015 IBA-AR(2016)28, paragraph 3</p> <p>INSUFFICIENT EVIDENCE TO SUPPORT A RECEIVABLE AND PROVISION IN THE FINANCIAL STATEMENTS</p> <p>Board's Recommendation The Board recommends the Secretary General, responsible for the administration and management of the</p>	<p>As of the date of the preparation of this report, no formal decision has been taken regarding which NATO reporting entity has</p>	<p>Observation Partially Settled.</p>

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OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
DCPS, review this situation as soon as possible in order to clarify NATO's agreement to this proposed compensation, which NATO reporting entity has the right to it, and, if received, who the funds should ultimately be returned to (e.g. nations, DCPS participants, etc.).	<p>the right to the abovementioned receivable, and who the funds should ultimately be returned to (e.g. nations, DCPS participants, etc.).</p> <p>The IS requested an independent review of insurance compensation by a Belgian insurance broker. According to the document, the offer of the insurance provider to provide EUR 6 million on the DCPS Risk Benefits is a well-balanced outcome of the negotiations which took place in the course of 2015.</p> <p>On 22 June 2017, the Assistant Secretary General of the EM informed the insurance provider that the IS is now in a position to accept the proposed amount of EUR 6 million on the basis of a single payment to be made in 2018 at the latest.</p> <p>As of the date of preparation of this report the abovementioned amount was not repaid by Allianz.</p>	
<p>(4) NATO DCPS FY 2015 IBA-AR(2016)28, paragraph 4</p> <p>INABILITY TO OBTAIN SUFFICIENT APPROPRIATE AUDIT EVIDENCE IN A TIMELY MANNER</p> <p>Board's Recommendation The Board recommends that the IS provide the Board with the information that it needs for its audits in a timely manner so as to not cause unnecessary delays in the completion and reporting of its audits. This would be helped by ensuring adequate audit trails and data availability in the accounting system.</p>	<p>The Board found significant improvements in preparation of the information requested by auditors and adequate responsiveness of the staff on ad-hoc information requests.</p>	Observation Settled .
<p>(5) NATO DCPS FY 2015 IBA-AR(2016)28, paragraph 7</p> <p>UNCLEAR FOREIGN CURRENCY CONVERSION POLICY</p> <p>Board's Recommendation The Board recommends developing and implementing a comprehensive policy on the accounting and reporting of transactions, stated in foreign currencies.</p>	<p>No formal policy on the accounting and reporting of transactions stated in foreign currencies identified.</p>	Observation Outstanding .

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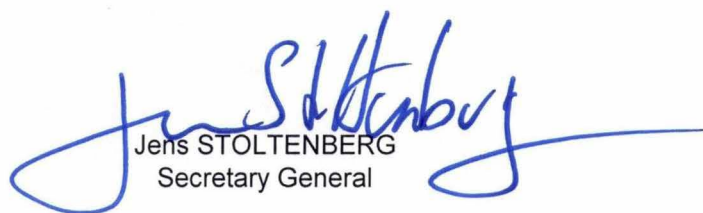
OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p>(6) NATO DCPS FY 2009 IBA-AR(2011)09, paragraph 5.1</p> <p>WEAKNESSES IN THE PREPARATION OF PENSION BENEFIT PAYMENTS</p> <p>Board's Recommendation The Board recommends that the IS ensures the proper preparation to deal with the expected increase in numbers of pension benefit payments of the DCPS, i.e., the application of the IT system for the DCPS benefit payments, the selection of the pension provider(s), the timely collection of amounts needed for the benefit payments from the insurance company and the pension provider(s), and to discontinue the borrowing from the Coordinated Pension Scheme.</p>	<p>The Board noted the following actions:</p> <ul style="list-style-type: none"> • The DCPS paid back the amount borrowed from the Coordinated Pension Scheme and solved the liquidity problem with an internal transfer of money in the DCPS. • Separate set of books (SOB) 310 was created in ERP for the DCPS benefit payments. • The still small number of benefit payments allows sufficient control over the payments and the requirements of the future ERP system contain this function. <p>Further, a procurement procedure of an annuity provider was completed but did not deliver the expected results and thus a pension provider has not yet been selected. This issue is being addressed in the context of the review study of the DCPS.</p>	<p>Observation Partially Settled.</p>

**NATO DEFINED CONTRIBUTION PENSION SCHEME
FINANCIAL STATEMENTS**

For the year ended 31 December 2017

Annexes

- | | |
|---|---|
| 1 | Statement of Net Assets Available for Benefits |
| 2 | Statement of Changes in Net Assets Available for Benefits |
| 3 | Notes to the Financial Statements |



Jens STOLTENBERG
Secretary General



Stéphane CHAGNOT
Financial Controller

NATO DEFINED CONTRIBUTION PENSION SCHEME
Statement of Net Assets Available for Benefits

(All amounts in EUR)	Notes	Current Year			Prior Year		
		Investment	Benefits	Total	Investment	Benefits	Total
		31-Dec-17			31-Dec-16		
Assets							
Cash	3	5,105,638.11	6,883.87	5,112,521.98	4,544,722.74	176,754.41	4,721,477.15
Investments at market value	4	373,126,531.89		373,126,531.89	331,661,002.68		331,661,002.68
Receivables	5	6,000,000.13	249,126.97	6,249,127.10	6,000,110.47	169,425.97	6,169,536.44
Other receivables	5		1.26	1.26		0.76	0.76
Total Assets		384,232,170.13	256,012.10	384,488,182.23	342,205,835.89	346,181.14	342,552,017.03
Liabilities							
Provisions	16	(6,000,000.00)		(6,000,000.00)	(6,000,000.00)		(6,000,000.00)
Payables	6	(412,600.62)	(206,193.73)	(618,794.35)		(314,290.88)	(314,290.88)
Other payables	6		(44,443.52)	(44,443.52)	(18,853.66)	(24,726.90)	(43,580.56)
Surplus inv/disinvestment	7	(80,016.59)		(80,016.59)	(84,443.53)		(84,443.53)
Current year surplus financial results	7	(8,680.56)	(5,374.85)	(14,055.41)	(97,227.50)	(7,163.36)	(104,390.86)
Total Liabilities		(6,501,297.77)	(256,012.10)	(6,757,309.87)	(6,200,524.69)	(346,181.14)	(6,546,705.83)
Net assets available for benefits		377,730,872.36	-	377,730,872.36	336,005,311.20	-	336,005,311.20

NATO DEFINED CONTRIBUTION PENSION SCHEME
Statement of Changes in Net Assets Available for Benefits

(All amounts in EUR)

	Notes	Current Year			Prior Year		
		31-Dec-17			31-Dec-16		
		Investment	Benefits	Total	Investment	Benefits	Total
Increase in net assets							
Net unrealized gain in market value of investments	4	10,319,589.82		10,319,589.82	10,797,979.18		10,797,979.18
Contributions	8	52,202,642.04		52,202,642.04	47,965,018.13		47,965,018.13
Inward transfer of pension rights	9	611,554.36		611,554.36	1,542,465.87		1,542,465.87
Transfers from Insurer	10		598,421.41	598,421.41	0.00	547,778.59	
Transfers from Annuity Provider	10		90,832.67	90,832.67	0.00	82,703.36	
Contribution for Tax Adjustments Due	11		65,212.92	65,212.92	0.00	59,488.77	
Miscellaneous receipts	15		10,820.00	10,820.00		408.11	
Total increase in net assets available for benefits		63,133,786.22	765,287.00	63,899,073.22	60,305,463.18	690,378.83	60,305,463.18
Decrease in net assets							
Net unrealized loss in market value of investments				0.00	0.00		0.00
Accounts closed (Staff)	12	20,736,205.48		20,736,205.48	19,282,107.55		19,282,107.55
Outward transfer of pension rights	12	163,519.58		163,519.58	892,139.18		892,139.18
Transfer to insurer or annuity provider	13	508,500.00		508,500.00	473,491.75		473,491.75
Pension Benefits	14		90,859.38	90,859.38		79,698.05	0.00
Invalidity, Survivor and Dependent Benefits	14		536,463.93	536,463.93		494,688.86	
Tax Adjustment Paid to Beneficiaries	11		65,212.92	65,212.92		59,488.77	
Employer Contributions to DCPS	14		59,498.52	59,498.52		56,503.15	
Miscellaneous Expenses	15		13,252.25	13,252.25			
Total decrease in net assets available for benefits		21,408,225.06	765,287.00	22,173,512.06	20,647,738.48	690,378.83	20,647,738.48
Net increase for the year		41,725,561.16	0.00	41,725,561.16	39,657,724.70	0.00	39,657,724.70
Net assets available for benefits, beginning of year		336,005,311.20	-	336,005,311.20	296,347,586.50	-	296,347,586.50
Net assets available for benefits, end of year		377,730,872.36	0.00	377,730,872.36	336,005,311.20	0.00	336,005,311.20

EXPLANATORY NOTES NATO DEFINED CONTRIBUTION PENSION SCHEME

NOTE 1: GENERAL INFORMATION

Description of the Fund

The NATO Defined Contribution Pension Scheme (DCPS) was implemented with effect from 1 July 2005 based on Council's approval of C-M(2000)53 and C-M(2005)0057. The DCPS aims to provide retirement benefits for NATO staff who are employed for the minimum six-year vesting period and to make cash payments to staff who leave before satisfying the vesting requirement. All new entrants recruited on or after 1 July 2005 are compulsorily affiliated to the NATO DCPS.

The DCPS 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 DCPS.

An account is opened for each member of the Scheme. Contributions are invested according to the member's instructions within the eleven funds currently available, described below. Members can check the status of their accounts and give instructions via a secure web portal.

Upon departure, the member's account is disinvested. Until 20 December 2012, the effective date of changes to related NATO Civilian Personnel Regulations (CPR), if the member had vested in the Scheme and was at least 50 years old, the member could take up to 25% of the proceeds as a cash lump sum and the balance had to be applied to the purchase of a retirement pension from a commercial provider. In 2009, the vesting period was five years; in 2010 the vesting period was increased to six years. Members who leave the NATO employer prior to vesting withdraw the entire proceeds as a cash lump sum.

On 20 December 2012 the NATO Council approved a number of changes to the rules which provided more choice and flexibility for affiliates regarding their retirement benefits. The upper and lower limits on ages at which affiliates could take benefits were abolished. The lump sum is no longer restricted to those aged 50 and over and is no longer limited to 25%. Affiliates leaving the DCPS may take any percentage of their holdings in cash. Affiliates accounts no longer have to be closed when they reach 65. They may remain indefinitely as passive investors, with no further investments or switches until full disinvestment, beyond the age of 65.

As at 31 December 2017, there were 3,668 NATO DCPS affiliates (members). Note 21 provides a summary of the evolution of the membership since inception.

Financing

Staff make a compulsory contribution of 8% of basic salary to the Scheme. Staff may make additional voluntary contributions to the Scheme up to 5% of basic salary. NATO pays employer contributions of 12% of basic salary of each active scheme member. Contributions to the DCPS are part of pay and are made monthly.

Scheme members may, under certain circumstances, transfer into their DCPS account any amounts corresponding to pension rights accrued under the pension scheme to which they were previously affiliated.

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Governance

The DCPS is administered in accordance with NATO Civilian Personnel Regulations (CPRs), Annex VI, governing the DCPS approved by the Council under C-M(2005)0057.

The Secretary General is responsible for the administration and management of the Scheme, assisted by a consultative committee, the DCPS Management Board, whose Chairman is appointed by the Secretary General.

The committee also includes: seven representatives of the Administrative Services for the International Staff, the International Military Staff, the NATO Standardization Agency and the NATO Defence College, the Assistant Secretary General (ASG) Executive Management and the Financial Controller of the International Staff or their representatives; two representatives of the Administrative Services for the NATO Production and Logistics Organisations and other bodies not listed above; a representative from SHAPE J1 Manpower and Personnel, and the Financial Controller, Allied Command Operations, or their representatives; one representative from the Administrative Services of a NATO military body in Allied Command Transformation; six representatives of the staff nominated by the Liaison Committee of the NATO Civilian Staff Associations shall nominate up to six representatives to the Management Board from among the members of the Scheme. At least one representative shall be a member of the NATO International Staff; one representative of retired NATO staff nominated by the Confederation of Retired NATO Staff.

The Assistant Secretary General for Executive Management was appointed Chairperson of the DCPS Management Board in late 2010.

The members of the DCPS Management Board, who are also NATO staff members, receive no additional remuneration or benefits in return for their participation.

Investments

The Management Board oversees the investment options of the Scheme.

Members of the NATO DCPS invest in their choice of several funds, consisting of equity, bond and cash funds. Investments are made in units in the respective funds; the unit price fluctuates according to its market value. Four additional investment funds, passively-managed (indexed) funds offered by Vanguard were selected by the NATO Contract Awards Committee in consultation with the DCPS Management Board in November 2013 and became available to DCPS affiliates in February 2014.

The funds are available in EUR and/or in USD as follows:

Equity Funds:	ISIN
Mellon Global Equity Portfolio EUR C	IE00B82M6789
Mellon Global Equity Portfolio USD C	IE00B7X4LZ98
Vanguard Global Stock Index Fund	IE00B03HD191
Vanguard Global Stock Index Fund	IE00B03HD209
Bond Funds:	ISIN
Mellon Global Bond Portfolio EUR C	IE0003932385
Mellon Global Bond Portfolio USD C	IE0003932492
Mellon Euroland Bond Portfolio EUR C	IE0032722484
Vanguard Global Bond Index Fund USD	IE00B18GCB14
Vanguard Euro Government Bond	IE0007472990
Cash Funds:	ISIN
Mellon Universal Liquidity Funds –	IE0032713202
BNP Paribas InstiCash Fund – EUR	LU0094219127

NATO shall not be held responsible for any losses on investments incurred by movement in the investment markets (Annex VI, Article 10.3 of the NATO Civilian Personnel Regulations).

Benefits

Benefits are paid for retirement, survivor and invalidity pensions. They are paid at the end of each month. The following table gives the number of beneficiaries per category of benefits.

at year end	Retirement	Survivor	Invalidity	Total
2013	4	3	3	10
2014	8	4	6	18
2015	8	5	7	20
2016	9	12	9	30
2017	10	12	10	32

Annuities received from commercial pension providers pending augmentation by the adjustment related to income tax and further transfer to the retired beneficiary are held in a separate bank account separate from that of the Investment element of the DCPS. And so are the benefits received from the insurer pending augmentation by the adjustment related to income tax and further transfer to the disabled beneficiary.

Contributions, in the case of invalidity, are made to the DCPS and invested, until the beneficiary reaches retirement age.

Contributions for medical insurance are also paid as required.

Transfers are made to the pension provider in order to purchase the annuity for members who leave the DCPS and take a DCPS retirement pension. This was also the case, until 1 July 2017, where funds were transferred to the insurance company for staff who died in service.

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Pension Adjustment

The Scheme is not subject to income tax under the terms of Articles IX and X of the Agreement on the Status of the North Atlantic Treaty Organization signed in Ottawa on 20 September 1951 (the Ottawa Treaty).

In accordance with Annex VI, Article 15 of the CPRs, beneficiaries are subject to tax by national authorities on their annuity receipts and receive an adjustment equivalent to 50% of the amount by which the recipient's pension would theoretically need to be increased, were the balance remaining after deduction of the amount of national income tax or taxes on the total to correspond to the amount of the pension calculated in accordance with the CPRs. This adjustment is paid out of the DCPS Retirement Pensions and Invalidity accounts (Annexes 3 and 4) and is funded by one of two specific budgets approved by the North Atlantic Council, one from the Civil Budget and the other from the Military Budget. Related information is disclosed in the Financial Statements of the NATO Coordinated Pension Scheme.

Amounts paid are disclosed in the Statement of Change in Net Assets.

Management of the DCPS

Prevynet SPA (Italy) was selected as the Third Party Administrator of the DCPS at the introduction of the Scheme in July 2005, and has been administering the scheme on behalf of NATO since that date. Prevynet is responsible for the individual accounts administration, benefit administration, reporting, customer services and maintenance of the DCPS web site with on-line facilities for the scheme members.

Prevynet tracks contributions and individual holdings of scheme members. It also provides aggregate accounting data and investment instructions destined for NATO-IS and the Investment Managers.

NATO-IS Office of Financial Control (OFC) receives the monthly contributions from the various NATO body payroll centres in a custodial bank account and converts the funds, on the instructions prepared by the Scheme Administrator, into EUR or USD, as required, for the investment accounts. The OFC is responsible for transfer of the funds from the relevant bank account to the appropriate accounts with the Investment Managers, BNY Mellon, Vanguard and BNP Paribas, based on the Scheme Administrator's reconciliation of the global amount and validation of the amounts to be invested for each staff member.

NATO-IS Executive Management Human Resources Pensions Unit reconciles the number of units per member received from the Scheme Administrator against the leaving scheme members' accounts on the website. OFC then transfers the redemption/lump sum amounts according to the bank instructions provided by the leaving scheme members.

DCPS amounts redeemed for the purchase of pension annuities and amounts due from an outside insurer for invalidity pensions of former DCPS members are administered by the OFC. The member's holdings are transferred to the relevant pension provider when a leaving DCPS member is entitled to purchase an annuity. OFC also transfers monthly invalidity pensions and the adjustments related to income tax to former DCPS members who qualify.

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 NATO DCPS have been prepared in accordance with the NATO Financial Regulations and International Accounting Standard 26, "Accounting and Reporting by Retirement Benefit Plans". The NATO Accounting Framework, which is an adapted version of the International Public Sector Accounting Standards (IPSAS), does not have a specific standard for accounting and reporting by retirement benefit plans.

The accounting system currently used by the NATO DCPS is accrual based.

Basis of presentation

The financial statements have been prepared on a going-concern basis: the DCPS will continue in operation for the foreseeable future.

The amounts shown in these financial statements are presented in EUR.

Changes in accounting policy - Reclassification of financial statements of previous years

As from 2017 transactions related to the payment of benefits are presented in the Statement of Changes in Net Assets, which was not the case until then. This new presentation brings more clarity to the Financial Statements and contributes to a better understanding of the activities related to the DCPS by separating the Investment cycle of staff contributions during their employment by NATO from the payment of benefits, including tax adjustment, to former staff members or their dependants. The transactions, which were treated on a pass-through basis, are now presented by showing the amounts received from the insurer, the pension provider, the DBPS on one side, and the related payment of annuities or benefits, and tax adjustment, on the other.

Restatement of financial statements of previous years

Errors were identified in the financial statements of 2016 concerning mainly the impact of unrealised gains on foreign exchange of the investments, internal bank transactions and the amount of cash advanced by the NATO International Staff.

The tables below analyses the changes to 2016 including the impact of the change in accounting policy described above.

(All amounts in EUR)	RESTATED			INITIAL		
	Current Year			Prior Year		
	Investment	Benefits	Total	Investment	Benefits	Total
	31-Dec-16			31-Dec-16		
Assets						
Cash	4,544,722.74	176,754.41	4,721,477.15	4,499,604.26	176,754.41	4,676,358.67
Investments at market value	331,661,002.68		331,661,002.68	331,800,415.09		331,800,415.09
Accounts Receivable	6,000,110.47	169,426.73	6,169,537.20	6,041,831.37	282,295.06	6,324,126.43
Total Assets	342,205,835.89	346,181.14	342,552,017.05	342,341,850.72	459,049.47	342,800,900.19
Liabilities						
Provisions	(6,000,000.00)		(6,000,000.00)	(6,000,000.00)		(6,000,000.00)
Other Current Liabilities		(24,726.90)	(24,726.90)	(30,575.66)	(119,035.74)	(149,611.40)
Payable	(18,853.66)	(314,290.88)	(333,144.54)	55,363.94	(340,013.73)	(284,649.79)
Surplus	(181,671.03)	(7,163.36)	(188,834.39)	(95,309.69)		(95,309.69)
Total Liabilities	(6,200,524.69)	(346,181.14)	(6,562,141.83)	(6,070,521.41)	(459,049.47)	(6,529,570.88)
Net assets available for benefits	336,005,311.20	-	335,989,875.22	336,271,329.31	-	336,271,329.31

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(All amounts in EUR)	RESTATED			INITIAL	
	31-Dec-16			31-Dec-16	
	Investment	Benefits	Total	Investment	Total
Increase in net assets					
Net unrealized gain in market value of investments	10,797,979.18		10,797,979.18	10,937,391.59	10,937,391.59
Contributions	47,965,018.13		47,965,018.13	47,867,448.63	47,867,448.63
Inward transfer of pension rights	1,542,465.87		1,542,465.87	1,542,465.87	1,542,465.87
Transfers from Insurer	0.00	547,778.59			
Transfers from Annuity Provider	0.00	82,703.36			
Contribution for Tax Adjustments Due	0.00	59,488.77			
Miscellaneous receipts		408.11			
Total increase in net assets available for benefits	60,305,463.18	690,378.83	60,305,463.18	60,347,306.09	60,347,306.09
Decrease in net assets					
Net unrealized loss in market value of investments	0.00		0.00	0.00	0.00
Accounts closed (Staff)	19,282,107.55		19,282,107.55	19,057,932.35	19,057,932.35
Outward transfer of pension rights	892,139.18		892,139.18	892,139.18	892,139.18
Transfer to insurer or annuity provider	473,491.75		473,491.75	473,491.75	473,491.75
Pension Benefits		79,698.05	0.00		
Invalidity, Survivor and Dependent Benefits		494,688.86			
Tax Adjustment Paid to Beneficiaries		59,488.77			
Employer Contributions to DCPS		56,503.15			
Miscellaneous Expenses		0.00			
Total decrease in net assets available for benefits	20,647,738.48	690,378.83	20,647,738.48	20,423,563.28	20,423,563.28
Net increase for the year	39,657,724.70	0.00	39,657,724.70	39,923,742.81	39,923,742.81
Net assets available for benefits, beginning of year	296,347,586.50	0.00	296,347,586.50	296,347,586.50	296,347,586.50
Net assets available for benefits, end of year	336,005,311.20	0.00	336,005,311.20	336,271,329.31	336,271,329.31

Use of estimates

In the application of accounting policies, described below, management is required to make judgments, estimates and assumptions about carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Foreign currency transactions

Contributions are made in the currency of the respective payroll centre. Investments are made in USD and in EUR as chosen by the scheme member. NATO Parity Rates do not apply to purchases or sales in the DCPS. All bank transactions are processed at the market rate. Contributions received in currencies other than EUR and USD are converted in the latter at investment dates and payments to the Investment Managers are made in EUR and USD. Balance sheet amounts at year-end are reported using the NATO Parity Rates in effect on 31 December.

Cash and Cash Equivalents

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

Investments

Investments reported under these DCPS financial statements consist of equity funds, bond funds and cash funds. These investments are non-current assets with respect to the purpose of the DCPS.

Investments are recorded at market value on the reporting date.

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 services provided that remain unpaid. This includes, as required, an estimate of accrued obligation for services provided but not yet invoiced.

Net Assets

The net assets available at year-end correspond to investments at market value plus receivables and contributions awaiting investment less payables. Also included are interest earned on the custodial bank account, surpluses gained on transactions with the insurance company and miscellaneous gains and losses related to corrective transactions

Financial Risks

The DCPS uses only non-derivative financial instruments as part as its normal operations. These financial elements include cash, investment funds, bank accounts and accounts receivable.

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

The DCPS is exposed to a variety of financial risks, including credit risk, market (price) risk and liquidity risk. The maximum exposure as at year end is equal to the total amount of bank balances and receivables. NATO shall not be held responsible for any losses on investments incurred by movement in the investment markets (Annex VI, Article 10.3 of the NATO Civilian Personnel Regulations).

Credit risk

The DCPS 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 equivalent the DCPS 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:

ING Bank Credit Ratings as at 22/02/2018

	Fitch	Moody's	S&P
Short term	F1	NA	A2

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

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Price risk

The DCPS individual member holdings are exposed to equity and bond securities market risk. NATO shall not be held responsible for any losses on investments incurred by movement in the investment markets (Annex VI, Article 10.3 of the NATO Civilian Personnel Regulations).

In cases of death in service, the insurance company who will provide the survivor's annuity has a claim on the proceeds of the redemption of the affected member's holdings in an amount equal to the lesser of the member's holdings on 31 October of the previous year or the insurer's previously established cost of that annuity. While there have been no shortfalls to date, there is a risk that the value of available holdings on the date of transfer to the insurance company could be less than that of the preceding 31 October. Up to now, this has resulted in the available amounts being higher, and the surplus is kept on a suspense account and forms part of the net assets. This provision in the insurance contract was deleted with effect as from 1 July 2017 and therefore this risk which existed in the course of the year no longer exist from that date that date. The proceedings are paid to the person designated by the staff member.

Currency risk

The DCPS is exposed to a limited foreign currency exchange risk arising from fluctuations in currency rates. The contributions received in various currencies are converted into EUR or USD as required by the members' investment decisions. The converted amounts are invested in funds held in EUR or USD accordingly. With regards to benefits there is a limited currency risk since payments are sometimes made in another currency than the amounts received from the insurer or the annuity provider.

Liquidity risk

A liquidity risk could arise from a short term liquidity requirement in relation to amounts due to departing staff. There is a very limited exposure to liquidity risk because the amounts due to departing staff are equal to their holdings, and because amounts transferred to the investment manager are equal to the contributions received from the payroll centres of NATO bodies which receive resources from member states funding the related budgets, or income from their customers which generally are other NATO bodies funded through their approved budgets.

There is a limited liquidity risk in relation to the payment of annuities to eligible members. These transactions are handled on bank accounts separate from those used for investments and disinvestments. Amounts due by the insurers arrive later than when annuities are due to members. Pension Adjustment is paid in advance from contributions due by the Coordinated Pension Scheme. This situation is managed through cash advances from the NATO International Staff (EUR 305,000 end 2016, EUR 200,000 end 2017).

Interest rate risk

The DCPS is restricted from entering into borrowings.

A portion of DCPS is invested in bond funds. The market value of bonds fluctuates according to market perception of the issuer's creditworthiness and to projected interest rates. The value of DCPS individual member accounts is therefore subject to some interest rate risk.

NOTE 3: CASH AND CASH EQUIVALENTS

The various NATO entities pay their contributions into a custodial account. This account serves to effect the transfer of funds to be invested by the Investment Manager and to receive redemptions for departing staff. The total mainly corresponds to contributions received in December and awaiting transfer to the Investment Managers.

Separate bank accounts are held for transactions relating to the payment of pension and invalidity benefits.

NOTE 4: FUNDS HELD BY THE INVESTMENT MANAGER

BNY Mellon is the Investment Manager first six funds listed below; BNP Paribas Investment Partners manages the BNP Paribas InstiCash Fund in Euro; Vanguard Asset Management manages the four index funds.

NATO DCPS holdings at market value		NPR at 31 12.2017 = 1.186		
		2017		2016
Equity Funds:	ISIN	EUR or EUR equivalent of USD	USD	EUR
Mellon Global Equity Portfolio EUR C	IE00B82M6789	191,933,102.34		174,732,350.41
Mellon Global Equity Portfolio USD C	IE00B7X4LZ98	16,760,349.84	19,877,774.91	16,110,502.22
Vanguard Global Stock Index Fund EUR	IE00B03HD191	21,363,661.21		11,679,620.78
Vanguard Global Stock Index Fund USD	IE00B03HD209	7,812,590.19	9,265,731.97	4,207,202.62
Bond Funds:				
Mellon Global Bond Portfolio EUR C	IE0003932385	21,875,553.40		20,325,524.69
Mellon Global Bond Portfolio USD C	IE0003932492	3,686,442.72	4,372,121.07	3,639,177.47
Mellon Euroland Bond Portfolio EUR C	IE0032722484	12,427,228.25		10,655,118.75
Vanguard Global Bond Index Fund USD	IE00B18GCB14	2,232,949.64	2,648,278.27	1,131,177.41
Vanguard Euro Government Bond Index Fund EUR	IE0007472990	5,821,423.35		3,558,600.79
Cash Funds:				
Mellon Universal Liquidity Funds – Liquidity Plus USD	IE0032713202	3,807,905.67	4,516,176.13	3,829,850.64
BNP Paribas InstiCash Fund – EUR	LU0094219127	85,405,325.27		81,791,700.93
TOTAL		373,126,531.89		331,660,826.71

Unrealized Gain/Loss in Market Value of Investments

Unrealized gains and losses in the market value of investments vary according to the volume of contributions invested, redemptions, currency fluctuations, and changes in the unit prices of the investment funds.

Unit Price per Fund

New investments and redemptions may take place between the funds twice per month and the unit price for each fund fluctuates continuously. Income is therefore not reported by fund in absolute terms. The appropriate performance measure per fund is the unit price. The unit prices for each of the funds at year-end and the resulting annualized income per unit were as follows:

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Unit Price per Fund as of 31 December				
	ISIN	2017	2016	Annualized income per unit
Equity Funds:				
Mellon Global Equity Portfolio EUR C	IE00B82M6789	1.099100	1.039100	0.06
Mellon Global Equity Portfolio USD C	IE00B7X4LZ98	1.171800	0.975800	0.20
Vanguard Global Stock Index Fund EUR	IE00B03HD191	22.758800	21.198300	1.56
Vanguard Global Stock Index Fund USD	IE00B03HD209	27.456100	22.463000	4.99
Bond Funds:				
Mellon Global Bond Portfolio EUR C	IE0003932385	1.788600	1.896600	-0.11
Mellon Global Bond Portfolio USD C	IE0003932492	2.388600	2.231000	0.16
Mellon Euroland Bond Portfolio EUR C	IE0032722484	1.143500	2.006200	-0.86
Vanguard Global Bond Index Fund USD	IE00B18GCB14	145.308200	141.035100	4.27
Vanguard Euro Government Bond Index Fund EUR	IE0007472990	221.992700	222.171600	-0.18
Cash Funds:				
Mellon Universal Liquidity Funds – Liquidity Plus USD	IE0032713202	1.208670	1.196607	0.01
BNP Paribas InstiCash Fund – EUR	LU0094219127	139.933000	140.526200	-0.59

NOTE 5: RECEIVABLES

Receivables amounts in EUR	2017			2016		
	Investments	Benefits	Total	Investments	Benefits	Total
Contributions from NATO bodies	0.10	-	0.10	110.47		110.47
Reimbursement of Tax Adjustment Paid	-	212,426.37	212,426.37		166,093.74	166,093.74
Insurer	6,000,000.00	29,156.87	6,029,156.87	6,000,000.00	3,332.25	6,003,332.25
Beneficiaries		7,543.73	7,543.73			-
Others	0.03	1.26	1.29		0.76	0.76
Total	6,000,000.13	249,128.23	6,249,128.36	6,000,110.47	169,426.75	6,169,537.22

Contributions for further investment are paid on a monthly basis by NATO bodies to the DCPS account. The process normally results in no such contributions receivable, or of limited amount, at year-end. Some transactions may still be pending regularisation.

An amount of EUR 6,000,000 is receivable from the insurance company further to an analysis covering the last years of the history of death in service and invalidity risks in relation to premiums paid by the Organisation (see Note on Related Parties for details concerning the insurance premiums). Payment is subject to decisions to be taken concerning the future use of such funds and is expected in 2018. For presentation purposes it has been attributed to the "Investments" segment.

Tax adjustment payments are made to beneficiaries from the DCPS Benefits (Retirement, Invalidity and Survivor) accounts as an advance to be settled by the NATO Coordinated Pension Scheme budget which handles all tax adjustment operations NATO-wide and calls the related contributions by the nations concerned (i.e. in which the beneficiaries paid their income taxes). This resulted in amounts receivable from the NATO Coordinated Pension Scheme.

Amounts receivable from the insurer and the pension provider relate to individual cases to be settled.

Amounts receivable from beneficiaries relate to overpayment of specific allowances attached to their monthly benefits.

NOTE 6: PAYABLES

Payables						
amounts in EUR	Investments	Benefits	Total	Investments	Benefits	Total
NATO International Staff		200,000.00	200,000.00		305,000.00	305,000.00
Departing Staff	412,597.62		412,597.62			-
Insurer		6,193.73	6,193.73		9,290.88	9,290.88
Others		44,443.52	44,443.52		24,726.90	24,726.90
Total	412,597.62	250,637.25	663,234.87	-	339,017.78	339,017.78

Payables to the IS correspond to cash advances made by NATO International Staff to allow for the timely payment of pension and invalidity benefits. In 2016, additional cash advances were made by NATO International Staff to allow for the timely payment of pension and invalidity benefits, bringing the total amount advanced to EUR 305,000 at year-end. In 2017, a partial reimbursement was made leaving the remaining advance at EUR 200,000.

Payables to Departing Staff are transactions pending final payment.

In cases where overpayments were made to beneficiaries, these need to be reimbursed to the insurer.

Other payables and other current liabilities are essentially transactions to be regularised.

NOTE 7: SURPLUS

The custodial account also receives the proceeds of redeemed holdings of deceased DCPS affiliates. In cases of death in service, the insurance company who will provide the survivor's annuity had a claim on the proceeds of the redemption of the affected member's holdings in an amount equal to the lesser of the member's holdings on 31 October of the previous year or the insurer's previously established cost of that annuity. To date, holdings on the date of transfer to the insurance company have been higher than the amount recorded as of the preceding 31 October, and the corresponding amount of EUR 80,016.59 (EUR 84,443.53 end 2016) kept on a suspense account. As from 1 July 2017, the related contract clause with the insurance company no longer applies.

There is also a surplus element resulting from cumulated interest earned on the custodial bank account, bank charges, from miscellaneous gains and losses on exchange rates and corrective investments effected by the third party administrator (EUR 106,953.12 end 2017).

These two amounts have on occasion been used as a reserve to cover eventual future potential shortfalls of the sort described in Note 2 (Price Risk) or other miscellaneous expenses.

There is also an unrealised loss on exchange rates (EUR 92,897.71). Therefore the final surplus amount is EUR 14,055.41 end 2017.

NOTE 8: CONTRIBUTIONS

A minimum of 8% is deducted from staff emoluments monthly and transferred to DCPS together with the NATO employers' contributions of 12% of emoluments. Staff may make additional voluntary contributions.

The increase in contributions is due to the combined effect of increasing membership and salary adjustments.

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There is also an employer contribution to the DCPS, paid by the insurance company, for the cases of invalidity benefits.

NOTE 9: INWARD/OUTWARD TRANSFERS OF PENSION RIGHTS

The NATO Civilian Personnel Regulations (Annex VI, Article 6) provide that staff may, under certain circumstances, arrange for payment to the Organisation of any amounts corresponding to the retirement pension rights accrued under the pension scheme to which the staff member was previously affiliated in so far as that scheme allows such a transfer. These payments are called inward transfers.

Outward transfers are also allowed, in which cases the proceeds of ex-DCPS member's closed account are paid to the eligible pension scheme (CPR Annex VI, Article 11).

NOTE 10: TRANSFERS FROM INSURER AND ANNUITY PROVIDER

Transfers are received from the insurer in relation to amounts due to staff entitled to invalidity survivors' benefits (spouses and dependent children of serving staff who are DCPS members who die in service). As from 1 July 2017, the holdings of deceased DCPS members are no longer used to finance related insurance premiums.

NOTE 11: PENSION ADJUSTMENT

The Scheme is not subject to income tax under the terms of Articles IX and X of the Agreement on the Status of the North Atlantic Treaty Organization signed in Ottawa on 20 September 1951 (the Ottawa Treaty).

In accordance with Annex VI, Article 15 of the CPRs, beneficiaries are subject to tax by national authorities on their annuity receipts and receive an adjustment equivalent to 50% of the amount by which the recipient's pension would theoretically need to be increased, were the balance remaining after deduction of the amount of national income tax or taxes on the total to correspond to the amount of the pension calculated in accordance with the CPRs. This adjustment is paid out of the DCPS Benefits (Retirement Pensions, Invalidity and Survivor Benefits) account and is funded by one of two specific budgets approved by the North Atlantic Council, one from the Civil Budget and the other from the Military Budget. Related information is disclosed in the Financial Statements of the NATO Coordinated Pension Scheme.

NOTE 12: STAFF ACCOUNTS CLOSED

The accounts of former staff members leaving DCPS are closed and the proceeds are paid in whole or in part either to the former staff member, to an outside pension scheme, or to the insurance company providing the annuity to the former staff member or his or her survivors.

NOTE 13: TRANSFERS TO INSURER OR ANNUITY PROVIDER

These correspond to staff holdings transferred to the pension provider in order to purchase the annuity for members who leave the DCPS and take a DCPS retirement pension, or transferred to the insurer in case of death in service (this provision no longer applies as from 1 July 2017).

NOTE 14: PENSION, INVALIDITY and SURVIVOR BENEFITS

Benefits are paid for retirement, survivor and invalidity pensions. They are paid at the end of each month. The following table gives the number of beneficiaries per category of benefits.

at year end	Retirement	Survivor	Invalidity	Total
2013	4	3	3	10
2014	8	4	6	18
2015	8	5	7	20
2016	9	12	9	30
2017	10	12	10	32

In case of invalidity an employer contribution is made to the DCPS holdings of the individual concerned.

NOTE 15: MISCELLANEOUS RECEIPTS AND EXPENSES

Miscellaneous receipts and payments correspond essentially to regularisations.

NOTE 16: PROVISION

An amount of EUR 6,000,000 corresponds to amounts due from the insurance company (see Note on Receivables), pending a decision on the use to be made of such funds.

NOTE 17: CONTINGENT LIABILITIES

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

Adjustments related to income tax may be due to certain annuity recipients. The amounts are yet to be determined but the total of possible obligations relating to this item is not expected to be material.

NOTE 18: CONTINGENT ASSETS

None to report.

NOTE 19: RELATED PARTY TRANSACTIONS

Members of the DCPS Management Board receive no additional remuneration or benefits in return for their participation. The Chairman of the Management Board is the ASG for Executive Management. The NATO-IS Financial Controller is a member of the Management Board.

NATO-International Staff, in particular Executive Management and the Office of Financial Control, are responsible for the day-to-day management of the DCPS. No management fees corresponding to the related costs are charged to the DCPS. In the global framework of the Administrative Support process, the NATO bodies are charged by the IS on a pro rata basis for these costs, including the fees paid to the Third Party Administrator. The related income of approximately EUR 360,000 per year reduces the contributions due from Nations to fund the NATO Civil Budget.

In 2016, additional cash advances were made by NATO International Staff to allow for the timely payment of pension and invalidity benefits, bringing the total amount advanced to EUR 305,000

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at year-end. In 2017, a partial reimbursement was made leaving the remaining advance at EUR 200,000.

Conversely, tax adjustment payments are made to beneficiaries from the DCPS Retirement and Invalidity accounts as an advance to be settled by the Defined Benefit Pension Scheme budget which handles all tax adjustment operations NATO-wide. This resulted in amounts receivable from the latter.

As provided for by the CPRs (Annex VI, articles 13 and 14), survivors' benefits for the surviving spouses and dependent children of serving staff who die in service and invalidity benefits to serving staff are funded (partially for survivor benefits, totally for invalidity benefits) through the payment of insurance premiums which are paid directly by the NATO bodies to the insurance company and are not accounted for in the present financial statements. Insurance premiums paid for death in service benefits were EUR 3,474,786.34 (EUR 3,211,077.00 in 2016); insurance premiums paid for invalidity benefits were EUR 3,822,430.78 (EUR 3,924,086 in 2016).

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

NOTE 20: KEY MANAGEMENT PERSONNEL

For the purposes of these financial statements, Key Management Personnel are considered to be the NATO-IS Assistant Secretary General for Executive Management and the Financial Controller. Their remuneration is totally covered by the NATO International Staff.

Members of the DCPS Management Board do not receive any additional remuneration or benefits in return for their responsibilities. The Management Board is chaired by the Assistant Secretary General for Executive Management. The IS Financial Controller is a member of the Board.

NOTE 21: STATISTICAL INFORMATION

Evolution of DCPS membership (number of affiliates)			
year-end	2004	Affiliates	0
	2005	Joined	274
	2005	Exited	0
year-end	2005	Affiliates	274
	2006	Joined	527
	2006	Exited	-6
year-end	2006	Affiliates	795
	2007	Joined	501
	2007	Exited	-23
year-end	2007	Affiliates	1,273
	2008	Joined	511
	2008	Exited	-43
year-end	2008	Affiliates	1,741
	2009	Joined	443
	2009	Exited	-71
year-end	2009	Affiliates	2,113
	2010	Joined	477
	2010	Exited	-208
year-end	2010	Affiliates	2,382
	2011	Joined	454
	2011	Exited	-260
year-end	2011	Affiliates	2,576
	2012	Joined	274
	2012	Exited	-188
year-end	2012	Affiliates	2,662
	2013	Joined	310
	2013	Exited	-190
year-end	2013	Affiliates	2,782
	2014	Joined	433
	2014	Exited	-214
year-end	2014	Affiliates	3,001
	2015	Joined	345
	2015	Exited	-174
year-end	2015	Affiliates	3,172
	2016	Joined	454
	2016	Exited	-207
year-end	2016	Affiliates	3,419
	2017	Joined	469
	2017	Exited	-220
year-end	2017	Affiliates	3,668



NORTH ATLANTIC TREATY ORGANIZATION
ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD
INTERNATIONAL BOARD OF AUDITORS
COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES

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IBA-A(2018)0086
27 August 2018

To: Secretary General
(Attn: Director of the Private Office)

Cc: Assistant Secretary General, Executive Management Division
Financial Controller, International Staff (IS)
Chairman, Resource Policy & Planning Board (RPPB)
Branch Head, Plans and Policy Branch, NATO Office of Resources (NOR)
Private Office Registry

Subject: ***International Board of Auditors for NATO (Board) Auditor's Report on the audit of the NATO Provident Fund's Financial Statements for the year ended 31 December 2017 – IBA-AR(2018)0010***

The Board herewith submits its approved Auditor's Report (Annex 2) and Letter of Observations and Recommendations (Annex 3) with a Summary Note for distribution to the Council (Annex 1).

The Board's report sets out an unqualified opinion on the NATO Provident Fund's Financial Statements and an unqualified opinion on compliance for financial year 2017.

Yours sincerely,

Hervé-Adrien Metzger
Chairman

Attachments: As stated above.



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ANNEX 1
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**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 2017**

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 net assets available for benefits at 31 December 2017 was EUR 0.4 million. As at that date, there was one member contributing to the Fund. The last member of the fund left in 2018.

The Board issued an unqualified opinion on the NATO Provident Fund's Financial Statements and an unqualified opinion on compliance for the year ended 31 December 2017.

During the audit, the Board made no observations.

The Board followed up on the status of observations from the previous year's audit and noted that all outstanding recommendations were settled.

The Auditor's Report (Annex 2) and the Letter of Observations and Recommendations (Annex 3) were issued to the International Staff, who had no factual or formal comments.

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27 August 2018

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF
THE NATO PROVIDENT FUND
FOR THE YEAR ENDED 31 DECEMBER 2017

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ANNEX 2
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**AUDITOR'S REPORT 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) audited the attached financial statements of the NATO Provident Fund for the year ended 31 December 2017, which comprise the Statement of Net Assets Available for Benefits as at 31 December 2017, the Statement of Changes in Net Assets Available 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*¹ and the requirements of the NATO Financial Regulations as authorized by the North Atlantic Council. 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.

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

¹ As the NATO Accounting Framework does not have a standard specific to accounting and reporting by retirement plans, the NATO International Staff presents the Provident Fund Financial Statements in accordance with IAS 26.

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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 at 31 December 2017 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.

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 audit opinion on compliance.

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, 27 August 2018



Hervé-Adrien Metzger
Chairman

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27 August 2018

INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS

FOR THE NATO PROVIDENT FUND

FOR THE YEAR ENDED 31 DECEMBER 2017

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IBA-AR(2018)0010

Introduction

The International Board of Auditors for NATO (Board) audited the NATO Provident Fund Financial Statements for the year ended 31 December 2017, and issued an unqualified opinion on those financial statements and on compliance.

Observations and Recommendations

During the audit, the Board had no observations.

The Board followed up on the status of observations from the previous year's audit and noted that all outstanding recommendations were settled.

This Letter of Observations and Recommendations was formally cleared with the International Staff who had no factual or formal comments.

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FOLLOW-UP OF THE PREVIOUS YEAR'S OBSERVATIONS

The Board followed up on the status of observations from the previous year's audit and noticed that all outstanding recommendations were settled. The observations and their status are summarized in the table below.

OBSERVATION/RECOMMENDATION	ACTION	STATUS
<p>(1) FY 2016 IBA-AR(2017)24, paragraph 1 MATERIAL WEAKNESSES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING</p> <p>Board's Recommendation The Board recommends improving the system of preventive and detective controls over accounting and financial reporting and payment authorization and execution. The Board recommends implementing the multi-level financial statements review process in order to ensure the mathematical accuracy and overall quality of the produced financial statements and supporting documentation.</p>	<p>Significant improvement in the accounting and financial reporting processes of the Provident Fund noted.</p>	<p>Observation Settled.</p>
<p>(2) FY 2016 IBA-AR(2017)24, paragraph 2 CONTROLS OVER THE RECONCILIATION OF BANK BALANCES NEED TO BE ENFORCED</p> <p>Board's Recommendation The Board recommends performing and documenting monthly cash reconciliations between the bank balances and the amounts presented in the accounting system. This will help to identify misstatements (if any) on a timely basis. This should include signatures of the preparer and reviewer along with the dates.</p>	<p>Evidence of monthly cash reconciliations provided.</p>	<p>Observation Settled.</p>

NATO PROVIDENT FUND

Financial Statements 2017

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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



Jens STOLTENBERG
Secretary General



Stephane CHAGNOT
Financial Controller

Annex 1 to
FC(2018)0037

The NATO Provident Fund
Statement of Net Assets Available for Benefits

(All amounts in EUR)	Notes	Current Year	Prior Year
		31-Dec-2017	31-Dec-2016
Assets			
Cash and Cash Equivalents	(3)	7,543.51	117,775.15
Investments	(4)	405,720.27	2,937,907.38
Accounts Receivable			
Outstanding Contributions	(5)	0.00	0.00
Other Receivables	(6)	0.00	583,874.39
Bank interest accrued	(7)	0.00	0.00
Rounding on Net Asset Value		0.00	0.00
Total assets		413,263.78	3,639,556.92
Liabilities			
Payable to former staff	(8)	0.00	466,759.78
Payable to other NATO bodies	(9)	0.00	915,955.15
Bank charges to be paid	(7)	555.17	104.67
Miscellaneous Gains/Losses	(10)	0.00	0.00
Rounding on Net Asset Value		0.00	0.00
Total Liabilities		555.17	1,382,819.60
Net assets available for benefits		412,708.61	2,256,737.32

The NATO Provident Fund
Statement of Changes in Net Assets Available for Benefits

(All amounts in EUR)	Notes	Current Year	Prior Year
		31-Dec-17	31-Dec-16
Increase in net assets			
Unrealised Change in the Value of the Fund	(11)	26,692.48	114,498.80
Contributions	(12)	16,578.36	78,547.40
Housing loan reimbursements	(13)	0.00	0.00
Net Gains Invested	(14)	0.00	0.00
Miscellaneous	(15)	0.00	20,101.35
Total increase in net assets available for benefits		43,270.84	213,147.55
Decrease in net assets			
Accounts closed (Staff)	(16)	1,579,821.82	2,389,215.45
OAP, Housing Loans and Advances on Full Settlement	(17)	306,916.51	456,680.00
Bank costs	(7)	561.22	121.77
Total decrease in net assets available for benefits		1,887,299.55	2,846,017.22
Net change for the year		-1,844,028.71	-2,632,869.67
Net assets available for benefits, beginning of year		2,256,737.32	4,889,606.99
Net assets available for benefits, end of year		412,708.61	2,256,737.32

**EXPLANATORY NOTES TO THE 2017 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 via a secure web portal.

Upon departure, the member's account is disinvested.

The number of affiliates is decreasing steadily. At end 2017, only one staff member was affiliated to the Fund (3 at the end of 2016). 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 is 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. As a consequence, it has not met since.

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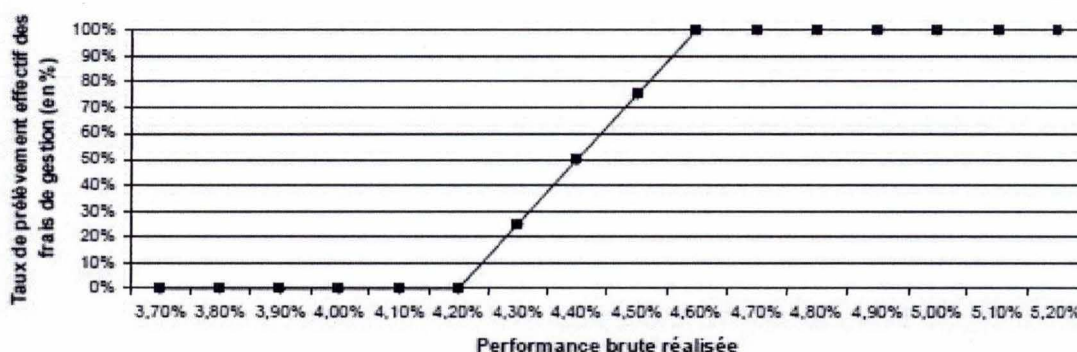
Board members do not receive any additional remuneration for their responsibilities or access to benefits from NATO.

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%.

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%.



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 NATO Provident Fund have been prepared in accordance with the NATO Financial Regulations and International Accounting Standard 26, "Accounting and Reporting by Retirement Benefit Plans". The NATO Accounting Framework, which is an adapted version of the International Public Sector Accounting Standards (IPSAS), does not have a specific standard for accounting and reporting by retirement benefit plans.

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.

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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

A minor correction to bank costs and unrealised gain/losses in the value of the Fund was made for 2016 impacting the Statement of Changes in Net Assets Available for Benefits, with no change in the value of the latter. The following table compares the initial and the reclassified Statements.

(All amounts in EUR)				Reclassified	Initially Issued
				31-Dec-16	31-Dec-16
Increase in net assets					
Unrealised Change in the Value of the Fund				114,498.80	114,394.13
Contributions				78,547.40	78,547.40
Housing loan reimbursements				0.00	0.00
Net Gains Invested				0.00	0.00
Miscellaneous				20,101.35	20,101.35
Total increase in net assets available for benefits				213,147.55	213,042.88
Decrease in net assets					
Accounts closed (Staff)				2,389,215.45	2,389,215.45
OAP, Housing Loans and Advances on Full Settlement				456,680.00	456,680.00
Administrative expenses				0.00	0.00
Bank costs				121.77	17.10
Total decrease in net assets available for benefits				2,846,017.22	2,845,912.55
Net change for the year				-2,632,869.67	-2,632,869.67
Net assets available for benefits, beginning of year				4,889,606.99	4,889,606.99
Net assets available for benefits, end of year				2,256,737.32	2,256,737.32

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.

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Cash and Equivalents

Cash and cash equivalents are defined as short-term assets. They include short term 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 market value.

Contributions

Employer and employee contributions are jointly received on the Provident Fund account from the various NATO payroll centres on a monthly basis. They are received and accounted for in euro. An accrued amount is booked for amounts due but not received by year end.

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, accounts receivable and funds invested with SOGECAP.

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 2017 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 equivalents held with banks and from 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:

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ING Bank Credit Ratings as at 22/02/2018

	Fitch	Moody's	S&P
Short term	F1	P-1	A-2

SOGECAP was rated A for long-term and A-1 for short-term counterparty credit risk and insurer financial strength by S&P on 22 February 2018.

At year-end 2016, SOGECAP had a solvency ratio of 163% (108% at end of 2015). The ratio as of 31 December 2017 was not known at the date of issuance.

SOGECAP is wholly owned by SOCIETE GENERALE which is rated as follows:

Société Générale	Credit Ratings as at 22/02/2018		
	Fitch	Moody's	S&P
Short term	F1	P1	A-1
Long term	A+	A2	A

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 creditworthy.

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 Euro, the investments underlying the insurance contract are in Euro and members' holdings are accounted for in Euro. However, staff may request payment of their holdings in a currency other than Euro and currency fluctuations may occur between the date the staff formally retires and the date the payment is made.

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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. On occasion, NATO-IS makes cash advances to ease-up payment procedures. 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. The contract renews automatically at the end of each year from 31 December 2016 forward unless terminated in writing by one of the parties.

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 at the end of the year is essentially made of the net result of treasury operations with the International Staff and of staff member contributions for the month of December waiting to be transferred.

NOTE 4: INVESTMENTS

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

In 2017 the gross and net returns to NATO were both 3.00% (3.00% in 2016). 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 market value of assets under management of EUR 12.8 billion. At 31 December 2017, the asset distribution was as follows:

Asset Allocation

	% end 2017	% end 2016
Fixed Income (fixed rate)	81.5	79.0
Fixed Income (variable rate)	1.9	1.6
Convertible Bonds	0	0.3
Equities and Equity Mutual Funds	10.0	9.1
Mutual funds (bonds)	0.0	6.2
Real Estate	4.4	4.2
Liquidity	2.2	-0.4
Total	100.0	100.0

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Bond portfolio rating breakdown:

RATING	% end 2017	% end 2016
AAA	8.7	8.9
AA	51.7	50.4
A	23.7	25.4
BBB	13.8	13.0
BB	1.9	2.1
B	0.1	0.2
	100.0	100.0

Sovereign bond allocation by country:

Sovereign bonds country allocation	% end 2017	% end 2016
Australia	0.0	1.3
Austria	0.6	0.3
Belgium	4.4	2.4
Canada	1.9	1.6
Finland	0.2	0.3
France	69.9	59.7
Germany	0.0	0.1
Ireland	1.0	1.9
Italy	0.0	5.8
Luxembourg	6.2	3.3
Netherlands	0.1	3.7
Norway	0.0	0.0
Spain	8.8	5.3
Sweden	0.0	1.5
Other	6.9	5.0
United Kingdom	0.0	4.6
USA	0.0	3.2
	100.0	100.0

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 2017, there were no uncollected contributions for covered parties.

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NOTE 6: OTHER RECEIVABLES

An amount of EUR 583,874.39 was due from the International Staff at the end of 2017 to regularize miscellaneous treasury operations.

NOTE 7: INTERESTS AND BANK CHARGES

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

NOTE 8: 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 from year to year is linked to the number of staff in such situation and their respective holdings.

NOTE 9: PAYABLE TO OTHER NATO BODIES

Corresponds to amounts due to NATO bodies who, in accordance with Provident Fund regulations, have advanced 1/3 of staff members' accounts before final settlement.

Amounts may be due to the NATO International Staff for advances it may make to enable the Provident Fund to settle the accounts of affiliates. There were no such advances end 2017. The advances end 2016 were reimbursed in early 2017.

NOTE 10: MISCELLANEOUS GAINS/LOSSES

This corresponds to the cumulative amount of miscellaneous net income, essentially interest 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 11: UNREALISED GAIN/LOSS IN VALUE OF THE FUND

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

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	2017	2016
Balance beginning of year	2,256,737.32	4,889,606.99
Contributions	16,578.36	78,547.40
Loan reimbursements	0.00	0.00
Accumulated interest invested	0.00	0.00
Accounts closed	-1,579,821.82	-2,389,215.45
OAP, loans and advances	-306,916.51	-456,680.00
Administrative expenses	0.00	0.00
Bank charges	-561.22	-121.77
(a)	386,016.13	2,122,137.17
Net assets available end of year	412,708.61	2,256,737.32
Regularizations	0.00	20,101.35
(b) Net assets available end of year <i>(excluding regularizations)</i>	412,708.61	2,236,635.97
(b) - (a) Change in value of the fund	26,692.48	114,498.80

NOTE 12: CONTRIBUTIONS

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

Contributions (in EUR)	2017	2016
Employer	11,052.24	52,364.93
Employee	5,526.12	26,182.47
TOTAL	16,578.36	78,547.40

NOTE 13: 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 Loan reimbursements are usually handled via deductions from salaries and amounts are re-credited to the member's account. Staff may make exceptional reimbursement.

NOTE 14: NET GAINS 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 after payment of bank fees.

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NOTE 15: MISCELLANEOUS

For 2016, the amount of EUR 20,101.35 corresponds to a regularization of past transactions.

NOTE 16: ACCOUNTS CLOSED

Corresponds to the final settlement for staff who left the Organisation in the course of the year. In the long run, the evolution is driven by the declining membership of the Fund. However, given the small number of departing staff, this evolution can be irregular from one year to the other.

NOTE 17: 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 three months prior to their date of departure). The advance is made by each NATO entity and 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 OAP contributions, housing loans and advances on Full Settlements paid to affiliates at their request is as follows:

In EUR	2017	2016
Old Age Pensions	0.00	0.00
Housing Loans	0.00	0.00
Advances on Full Settlement	306,916.51	456,680.00
TOTAL	306,916.51	287,000.00

NOTE 18: CONTINGENT ASSETS

None to report.

NOTE 19: 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 20: RELATED PARTY TRANSACTIONS

The following party transactions took place during the year ended 31 December 2017.

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 International Staff for the administration of the Fund is charged to other NATO bodies according to a cost share which takes into account

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the number of their affiliates. This includes the cost of International Staff - Office of Financial Control personnel (15% Full Time Equivalent of a B5 grade staff). Costs related to the outsourced administration of affiliates' holdings (including Internet services so that affiliates can see the value of their Fund on a monthly basis) are funded through the NATO Civil Budget.

In specific circumstances cash advances are made by the International Staff to ease-up payment procedures. Reimbursement to the NATO International Staff 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.

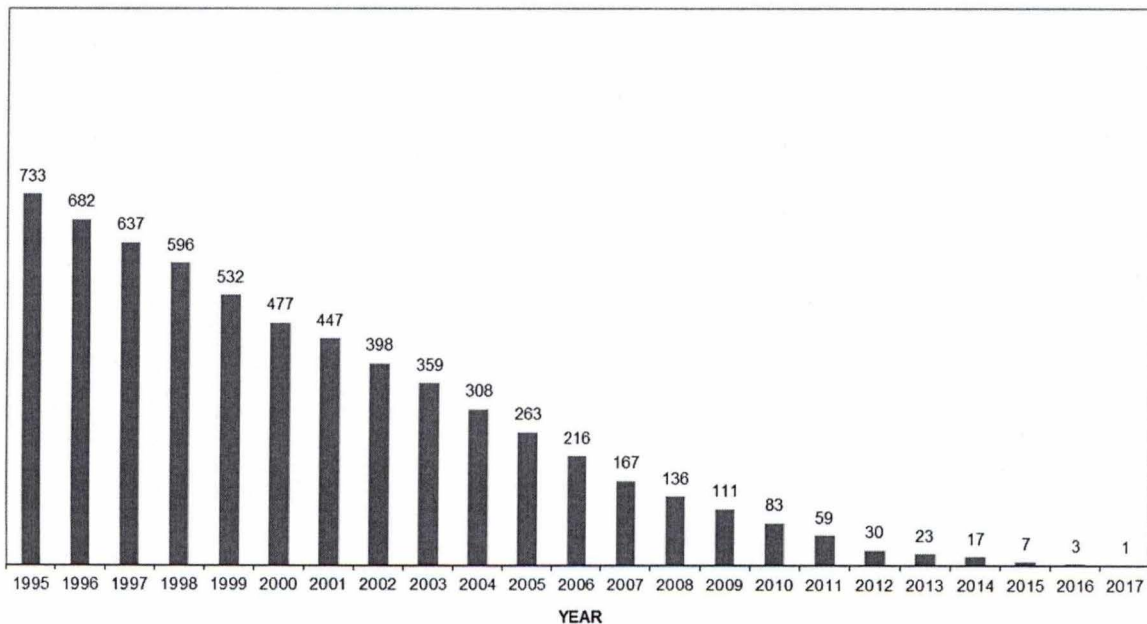
NOTE 21: KEY MANAGEMENT PERSONNEL

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 NATO 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 International Staff Financial Controller is a member of the Board.

NOTE 22: STATISTICAL INFORMATION

NUMBER OF AFFILIATES TO THE PROVIDENT FUND
NOMBRE D'AFFILIES AU FONDS DE PREVOYANCE 1995 - 2017



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List of acronyms:

CPRs: Civilian Personnel Regulations

FTE: Full Time Equivalent

IPSAS: International Public Sector Accounting Standards

OAP: Old Age Pension

PF: Provident Fund



NORTH ATLANTIC TREATY ORGANIZATION
ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD
INTERNATIONAL BOARD OF AUDITORS
COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES

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IBA-A(2018)0083
27 August 2018

To: Secretary General
(Attn: Director of the Private Office)

Cc: Financial Controller, International Staff
Secretary, RMCF Supervisory Committee
Chairman, Resource Policy & Planning Board
Branch Head, Plans and Policy Branch, NATO Office of Resources (NOR)
Private Office Registry

Subject: ***International Board of Auditors for NATO (Board) Auditor's Report and Letter of Observations and Recommendations on the audit of the Retirees Medical Claims Fund (RMCF) Financial Statements for the year ended 31 December 2017 – IBA-AR(2018)0014***

The Board submits herewith its approved Auditor's Report (Annex 2) and Letter of Observations and Recommendations (Annex 3) with a Summary Note for distribution to the Council (Annex 1).

The Board's report sets out an unqualified opinion on the Financial Statements of the RMCF and an unqualified opinion on compliance for financial year 2017.

Yours sincerely,

Hervé-Adrien Metzger
Chairman

Attachments: As stated above.



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**Summary Note for Council
by the International Board of Auditors for NATO (Board)
on the audit of the Financial Statements of the
NATO Retirees Medical Claims Fund (RMCF)
for the year ended 31 December 2017**

The NATO Retirees Medical Claims Fund (RMCF) was set up with effect from 1 January 2001 pursuant to Council approval of PO(2000)123. The purpose was to establish a reserve to ensure that sufficient funds are available for the years to come to enable NATO to meet its obligations to pay the medical expenses of eligible retired staff members and their recognised dependants.

The fund has a Supervisory Committee established to oversee the management of the fund. The Committee meets at least twice a year.

In 2017, receipts from NATO bodies and staff were EUR 23.9 million (in 2016 - EUR 23.0 million). Insurance premiums paid out of these receipts were EUR 21.1 million in 2017 (EUR 19.6 million in 2016). At the end of 2017, the fund manager held EUR 323.2 million on behalf of NATO (at the end of 2016 - EUR 306.9 million). The actuarial present value of the long term post-employment medical care obligation at the end of year 2017 was not available (at the end of 2016 – EUR 2.3 billion).

The Board issued an unqualified opinion on the financial statements and an unqualified opinion on compliance for the year ended 31 December 2017.

During the audit, the Board made no observations.

The Board also followed up on the status of observations from previous years' audit reports and found that four observations were settled, one observation was outstanding and one observation was partially settled.

The Auditor's Report (Annex 2) and the Letter of Observations and Recommendations (Annex 3) were issued to the International Staff whose comments have been included, see the Appendix to Annex 3.

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27 August 2018

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF

THE NATO RETIREES MEDICAL CLAIMS FUND

(RMCF)

FOR THE YEAR ENDED 31 DECEMBER 2017

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**REPORT OF THE INTERNATIONAL BOARD OF AUDITORS
FOR NATO TO THE NORTH ATLANTIC COUNCIL**

Report on the Financial Statements

The International Board of Auditors for NATO (Board) audited the accompanying financial statements of the NATO Retirees Medical Claims Fund (RMCF), which comprised the Statement of Net Assets Available for Benefits as at 31 December 2017 and the Statement of Changes in Net Assets Available for Benefits, and Notes to the Financial Statements, 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 the International Accounting Standard (IAS) 26¹ *Accounting and Reporting by Retirement Benefit Plans* and the requirements of the NATO Financial Regulations as authorized by the North Atlantic Council. 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 RMCF Financial Statements in accordance with IAS 26.

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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 RMCF as at 31 December 2017 and the changes in financial position thereof for the year then ended in accordance with IAS 26.

Emphasis of Matter

Note 3, Actuarial Valuation, to the financial statements discloses an actuarial obligation of EUR 2.3 billion related to the RMCF. The note describes that this valuation amount is based on 2016 data because the actuarial valuation study based on 2017 data was not yet completed at the time the financial statements were issued. As of the date of this report, the actuarial obligation valuation study using 2017 data was not yet available. Our opinion is not modified as a result of this matter.

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.

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.

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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, 27 August 2018



Hervé-Adrien Metzger
Chairman

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27 August 2018

INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS

FOR THE NATO RETIREES MEDICAL CLAIMS FUND FINANCIAL STATEMENTS

(RMCF)

FOR THE YEAR ENDED 31 DECEMBER 2017

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Introduction

The International Board of Auditors for NATO (Board) audited the NATO Retirees Medical Claims Fund (RMCF) Financial Statements for the year ended 31 December 2017, and issued an unqualified opinion on the financial statements and on compliance.

Observations and Recommendations

During the audit, the Board made no observations.

The Board also followed up on the status of observations from previous years' audit reports and found that four observations were settled, one observation was outstanding and one observation was partially settled.

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FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

The Board reviewed the status of the observations and recommendations arising from previous years' audits. These observations and their status are summarised in the table below.

OBSERVATION/RECOMMENDATION	ACTION	STATUS
<p>(1) RMCF FY 2016 IBA-AR(2017)25, paragraph 1</p> <p>DISCLOSURE OF RESULTS OF THE ACTUARIAL VALUATION USING 2016 DATA</p> <p>Board's Recommendation The Board recommends aligning the reporting timelines for the financial statements and the ISRP actuarial valuation of RMCF obligation for post-employment medical care in order to ensure that the financial statements include the data on actuarial valuation for the respective year.</p>	<p>Actuarial valuation for the year 2017 was not available during the issuance of the Financial Statements for the year ended 31 December 2017.</p> <p>Next year, the IS should ensure that they receive the actuarial valuation of RMCF prior to the issuance of the financial statements in order to be able to include the data in the financial statements.</p>	<p>Observation Outstanding.</p>
<p>(2) RMCF FY 2016 IBA-AR(2017)25, paragraph 2</p> <p>NO SUPERVISORY COMMITTEE MEETINGS HELD IN 2016</p> <p>Board's Recommendation In general, the Board recommends compliance with the CPRs. However, if the Committee does not believe that it is necessary or economical to hold a particular meeting, the reasons for this should be clearly documented by the Chair of the Committee and communicated in writing to all members of the Committee for their written agreement. Such documentation should be properly filed in order to demonstrate that the Committee fulfilled its responsibilities in relation to the RMCF.</p>	<p>Two meetings of the Supervisory Committee held in 2017.</p>	<p>Observation Settled.</p>

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OBSERVATION/RECOMMENDATION	ACTION	STATUS
<p>(3) RMCF FY 2016 IBA-AR(2017)25, paragraph 3</p> <p>CONTROLS OVER THE RECONCILIATION OF BANK BALANCES NEED TO BE ENFORCED</p> <p>Board's Recommendation The Board recommends performing and documenting monthly cash reconciliations between the bank balances and the amounts presented in the accounting system. This will help to identify misstatements (if any) on a timely basis. This should include signatures of the preparer and reviewer along with the dates.</p>	<p>Evidence of monthly cash reconciliations provided.</p>	<p>Observation Settled.</p>
<p>(4) RMCF FY 2015 IBA-AR(2016)24 – paragraphs 3.8, 3.9</p> <p>INSUFFICIENT DATA TRANSPARENCY AND AVAILABILITY IN THE ACCOUNTING SYSTEM</p> <p>Board's Recommendations The Board recommends improving the transparency and availability of the accounting data by recording all individual accounting transactions in the ERP system and using standard workflows for routine transactions. In situations when aggregated data is entered in the accounting program, underlying supporting details (summaries, listings, calculations, etc.) should be available within the ERP and should be subject to proper verification and approval within the system.</p> <p>The Board recommends using a trial balance, generated by ERP, as a main source for the preparation of financial statements. Preparer of the financial statements should keep detailed supporting working papers in order to be able to support any information, disclosed in the financial statements.</p>	<p>The Board noted significant improvements in data transparency and availability in the accounting system. Most of Income and Expense transactions, different by nature, were recorded in separate ERP accounts.</p> <p>Transactions related to Unrealized gain were not recorded in a separate account, but were included in the aggregate account "Net assets available for benefits". However, additional calculation (reconciliation) was provided in order to support the amount.</p>	<p>Observation Settled.</p>

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OBSERVATION/RECOMMENDATION	ACTION	STATUS
<p>(5) RMCF FY 2012 IBA-AR(2013)25 – paragraph 5.1</p> <p>RETIREES MEDICAL CLAIMS FUND (RMCF) NET ASSETS INADEQUATE TO FUND PROMISED FUTURE EXPECTED BENEFITS</p> <p>Board's Recommendations The Board draws the attention of the Council that there are currently not sufficient funds available to enable NATO to meet its promised future obligations as was the intention of the plan, and recommends that, as was proposed in SG(2009)0302, on the basis of the results of the asset and liability study presented in the December 2012 Supervisory Committee and the related final report issued dated 30 April 2013, that the IS provides an estimate of the minimum financial injection necessary to make the RMCF sustainable.</p> <p>The Board recommends also that the IS provides all necessary information and any remedial actions undertaken to limit the level of obligations. This should be presented to the nations as soon as possible in order to allow for appropriate remedial actions, where still feasible, to be made.</p>	<p>The ISRP (International Service for Remuneration and Pensions) has presented the Asset & Liability Management Study to the Supervisory Committee.</p> <p>The actuarial study aimed at estimating the future medical expenses of retirees aged sixty five years old and over, under the charge of the Retirees Medical Claims Fund (RMCF).</p> <p>Also ISRP carried out the Estimations of expenses to allow for the evaluation of whether the fund assets will be sufficient to meet obligations. Several scenarios for the return on assets have been explored.</p> <p>The Supervisory Committee still needs to make decisions on remedial actions to limit the level of obligations.</p>	<p>Observation Partially Settled.</p>
<p>(6) Financial years 2010 and 2011 IBA-AR(2013)06 – paragraph 5.3</p> <p>WEAK INTERNAL CONTROLS ON CONTRIBUTION RECEIPTS</p> <p>Board's Recommendation The Board recommends that the IS continue developing control procedures that will allow it, in a timely and systematic manner, to determine that the monthly cash receipts from the Agencies for the RMCF contributions are accurate and complete.</p>	<p>The Board was able to get reasonable assurance over accuracy and completeness of contributions given the existence of complimentary controls.</p>	<p>Observation Settled.</p>

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**INTERNATIONAL STAFF (IS) FORMAL COMMENTS ON THE
LETTER OF OBSERVATIONS AND RECOMMENDATIONS**

International Staff's formal comments

The IS has no formal comments on the subject IBAN report.

FOLLOW-UP OF THE PREVIOUS YEARS' OBSERVATIONS

Observation (1)

RMCF FY 2016

IBA-AR(2017)25, paragraph 1

DISCLOSURE OF RESULTS OF THE ACTUARIAL VALUATION USING 2016 DATA

International Staff's formal comments

The recommendation is agreed.

OFC will negotiate with ISRP in order to have earlier delivery of the actuarial report. It should be noted, however, that the actuarial report depends on a high volume of NATO-wide data to be submitted by IS Human Resources that may not always be available on time since it depends, in turn, from information produced by the insurance company.

There may be another way of aligning the reporting timelines, since the final version of the actuarial report is usually available during the audit field work. At that time a revised version of the financial statements submitted to IBAN could be produced by IS OFC with the data of the final actuarial study. This approach would give flexibility in the preparation of the study and would still allow for the public disclosure of complete and up to date information.

Board's position

The NFRs Article 35 require NATO Bodies to submit annual financial statements not later than 31 March following the end of the financial year. These financial statement shall present a true and fair view of the financial activities of the year. The Board is of the opinion that revised financial statements should be avoided. The Board reiterates its recommendation that the IS should align the reporting timelines for the financial statements and the ISRP actuarial valuation of RMCF obligation for post-employment medical care in order to ensure that the financial statements include the data on actuarial valuation for the respective year.

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Observation (5)

RMCF FY 2012

IBA-AR(2013)25 – paragraph 5.1

**Retirees Medical Claims Fund (RMCF) Net Assets Inadequate to Fund Promised
Future Expected Benefits**

International Staff's formal comments

The IS submitted an "Update on the Financial Status of the Retirees Medical Claims Fund" to the Budget Committee (BC-D(2017)0287) for Nations' consideration.

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**NATO RETIREES MEDICAL CLAIMS FUND
FINANCIAL STATEMENTS**

For the year ended
31 December 2017

Annexes

- | | |
|---|---|
| 1 | Statement of Net Assets Available for Benefits |
| 2 | Statement of Changes in Net Assets Available for Benefits |
| 3 | Notes to the Financial Statements |



Jens STOLTENBERG
Secretary General



Stephane CHAGNOT
Financial Controller

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NATO RETIREES MEDICAL CLAIMS FUND
Statement of Net Assets Available for Benefits

(All amounts in EUR)

	Notes	Current Year	Prior Year
		31-Dec-17	31-Dec-16
Assets			
Cash and cash equivalent	4	3,007,418.90	1,173,366.51
Investments at market value	5	323,158,097.85	306,932,758.14
Accounts Receivable	6	860,707.96	930,224.63
Total Assets		327,026,224.71	309,036,349.28
Liabilities			
Accounts Payable	7	1,943,748.82	0.00
Total Liabilities		1,943,748.82	0.00
Net assets available for benefits		325,082,475.89	309,036,349.28

NATO RETIREES MEDICAL CLAIMS FUND

Statement of Changes in Net Assets Available for Benefits

(All amounts in EUR)	Notes	Current Year 31-Dec-17	Prior Year 31-Dec-16
Increase in net assets			
Net unrealized gain in market value of investments	5	14,223,598.81	14,550,426.62
Contributions for current year	8	23,905,937.44	23,063,297.88
Profit sharing per agreement with insurer	9	0.00	0.00
Fund rebates	5	501,740.90	456,221.74
Interest income	10	0.00	0.00
Miscellaneous	12	0.00	3,868.76
Total increase in net assets available for benefits		38,631,277.15	38,073,815.00
Decrease in net assets			
Insurance premiums	11	21,178,700.00	19,602,102.00
Insurance management fee	11	1,398,625.86	1,299,069.96
Fund purchase fees/financial costs	10	4,226.26	-342.49
Miscellaneous	12	3,598.42	0.00
Total decrease in net assets available for benefits		22,585,150.54	20,900,829.47
Net increase for the year		16,046,126.61	17,172,985.53
Net assets available for benefits, beginning of year		309,036,349.28	291,863,363.75
Net assets available for benefits, end of year		325,082,475.89	309,036,349.28

**EXPLANATORY NOTES TO THE
2017 FINANCIAL STATEMENTS OF THE
NATO RETIREES' MEDICAL CLAIMS FUND**

NOTE 1: GENERAL INFORMATION

The Retirees' Medical Claims Fund (RMCF) was set up with effect from 1 January 2001 pursuant to Council approval of PO(2000)123. The purpose was to establish a reserve to ensure that sufficient funds are available for the years to come to enable NATO to meet its obligations to pay the medical expenses of eligible retired staff members and their recognised dependants.

Description of the Fund

Staff leaving the Organization after 10 consecutive years of service and having reached the age of 55 are eligible to reimbursement of medical costs for themselves and their recognized dependants (Article 51.2 of the Civilian Personnel Regulations (CPR)).

Until 31 December 2000, any staff who had at least 10 years consecutive service and reached 65, was covered for life for their medical expenses through Organization's insurers. However, with the rise in the number of retirees and the increasing medical costs, the insurers were no longer able to cover the expenses. Accordingly, the Organization assumed this responsibility as from 1 January 2001.

For this purpose, the Retirees' Medical Claims Fund was set up with effect from 1 January 2001 pursuant to Council approval of PO(2000)123. The Council agreed to the establishment of a reserve to ensure that sufficient funds are available for the years to come to enable NATO to meet its obligations.

However, on the date of the creation of the RMCF there existed a potential liability towards staff who filled the age and service conditions mentioned above but had not yet retired. No asset was provided to fund this initial liability; therefore, from its inception the RMCF was underfunded.

The Fund only finances retirees from the age of 65. Former staff between the ages of 55 and 65 are insured under a different financing scheme.

The RMCF is maintained primarily by the annual premiums paid as continuing insurance. The surplus funds collected are invested with the Investment Manager.

Financing

The Fund receives the following contributions:

- 4.5% of the active agents' emoluments (1/3 borne by the staff, 2/3 by NATO).
- 5% of the last basic salary of the retirees who are required to contribute (1/3 borne by the staff, 2/3 by NATO). This rate was increased, from 3%, as from 1 January 2013.

In 2015, changes to the Civilian Personnel Regulations were introduced to put an end to situations that enabled staff recruited before 1 January 2001 and having contributed at least 25 years not to pay a premium after the age of 65.

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Governance

The rules and principles governing the RMCF are provided at Annex XIII of the NATO CPRs. A consultative committee, called the Supervisory Committee, oversees the management of the RMCF with the object of ensuring that sufficient funds will always be available to cover medical costs until the last NATO pensioner or his/her dependants die. It acts as advisor to the NATO Secretary General.

The composition of the Supervisory Committee is as follows: a Chair appointed by the Secretary General (Director of Economics or Financial Controller, NATO-IS - the Chair shall be neutral); one representative of the International Staff (Director of Economics or Financial Controller, NATO-IS); two representatives for the NATO Production and Logistics Organisations; one representative for bodies governed by the Paris Protocol; two staff representatives appointed by the Liaison Committee of NATO Staff Associations; two representatives appointed by the Confederation of Retired Civilian Staff Associations.

The Fund, held in the name of NATO, is entrusted to an independent investment manager.

The Supervisory Committee determines the investment strategy and decides in which funds to invest. The Investment Manager executes purchases and sells according to instructions received from NATO-IS Treasury, which are in accordance with Supervisory Committee decisions.

The Investment Manager keeps the Supervisory Committee informed of all matters relating to the composition and performance of the funds through regular meetings with the Committee members.

Members of the RMCF Supervisory Committee do not receive any additional remuneration or benefits in return for their responsibilities.

Investment strategy

For 2017, as since 2009, the Supervisory Committee left unchanged the strategy of investing in index funds and maintaining holdings approximately as follows:

50% in European government (sovereign) bonds
25% in global equities
25% in European equities

Vanguard Investment Series plc, a prominent index-fund manager, buys and sells bonds and equities on behalf of the Fund within the objectives and restrictions set out in the contract signed with the Organisation. Investments are in Euro.

Management of the RMCF

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 RMCF. Financial services are provided by the Office of Financial Control, NATO-IS. Administrative services and secretarial support are provided by Human Resources, Personnel Support.

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 NATO DCPS have been prepared in accordance with the NATO Financial Regulations and International Accounting Standard 26, "Accounting and Reporting by Retirement Benefit Plans". The NATO Accounting Framework, which is an adapted version of the International Public Sector Accounting Standards (IPSAS), does not have a specific standard for accounting and reporting for post-employment benefits.

The accounting system currently used by the NATO RMCF is accrual based.

The financial statements summarize the transactions and net assets of the Fund. The statements do not take into account the liability to pay benefits that fall due after the year end of the reporting period. The actuarial position of the NATO RMCF, which takes these liabilities into account, is presented in Note 3.

Basis of presentation

The financial statements have been prepared on a going-concern basis: the RMCF will continue in operation for the foreseeable future.

The amounts shown in these financial statements are presented in EUR.

Changes in accounting policy

There are no changes to report.

Use of estimates

In the application of accounting policies, which are described below, management is required to make judgments, estimates and assumptions about carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Estimates include, but are not limited to: the long term obligation of the continued medical coverage and contingent assets.

Foreign currency transactions

The insurance premiums are calculated and paid in EUR and the accounting is in EUR. Since mid-2009, contributions are made in EUR; consequently, foreign currency transactions are not material. Realized gains and losses resulting from such transactions appear in the cash flow statement.

Cash and Cash Equivalents

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

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Investments

Investments reported under these RMCF financial statements consist of equities and government bonds in indexed investment funds. These investments are reported as non-current assets reflecting the long term financial strategy of the RMCF.

An index fund is a collective investment scheme that aims to replicate the movements of an index of a specific financial market, regardless of market conditions. It does not aim to outperform the market. Index funds are commonly composed of a representative sample rather than all the securities in a given market, in appropriate weights. They are subject to a form of passive management rather than active management.

At the end of each reporting period a valuation is made by the investment manager at fair value by reference to official prices quoted on the day of valuation. The Account Statement received from Vanguard's transfer agent uses the Generally Accepted Accounting Principles (GAAP) methodology to calculate the Daily Net Asset Value (Daily NAV), a tradable, realisable value on the last trading day of the month. These are the values generally reported in financial statements by fund investors.

Amounts are net of purchase costs and increased by rebates.

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.

Net Assets

The net assets available at year-end correspond essentially to the surplus contributions that were not used to pay the insurance premiums and were invested with the Investment Manager or awaiting transfer.

Financial Risks

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

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

The RMCF is exposed to a variety of financial risks, including credit risk, market (price) risk and liquidity risk. The maximum exposure as at 31 December 2017 is equal to the total amount of bank balances, short term deposits, investment funds, and receivables.

Credit risk

The RMCF 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 equivalent the RMCF 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 as of 7 February 2017:

ING Bank Credit Ratings as at 22/02/2018

	Fitch	Moody's	S&P
Short term	F1	NA	A2

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

Price risk

The RMCF is exposed to equity securities market risk.

The two index equity funds in which RMCF funds are invested are not rated. The European Government Bond Index Fund is comprised of bonds with ratings as indicated below:

Rating	AAA	AA	A	BBB	<BBB	Not rated	Cash
At 31.12.2017	24.3%	36.9%	3.5%	35.0%	0.0%	0.3%	0.0%

Credit ratings are derived from Moody's, S&P and Fitch. When ratings from all three are available, the median rating is used. When ratings are available from two of the agencies, the lower rating is used. When one rating is available, that rating is used.

Currency risk

Since mid-2009, RMCF is not exposed to foreign currency exchange risk arising from fluctuations in currency rates. The scheme receives contributions only in EUR. As explained above, funds are invested in EUR and insurance premiums are due in EUR.

Liquidity risk

A liquidity risk could arise from a short term liquidity requirement. There is a very limited exposure to liquidity risk because contributions from NATO payroll centres are received on a monthly basis, are higher than the insurance premiums and are paid by NATO bodies; the NATO bodies receive either contributions from their member states or income from their customers, generally are other NATO bodies funded through their approved budgets. It is only the excess funds (after payment of insurance premiums) that are invested with Vanguard Investment Series plc with the aim of increasing the assets available for benefits over time.

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Interest rate risk

The RMCF is restricted from entering into borrowings.

A portion of RMCF is invested in bonds. The market value of bonds fluctuates according to market perception of the issuer's creditworthiness and to projected interest rates. The value of assets available for benefits is therefore subject to some interest rate risk.

NOTE 3: ACTUARIAL VALUATION

At the date of submission of these financial statements, the updated actuarial study was not yet available. The information below concerns the evaluation as of end of 2016.

An actuarial study was conducted in 2017 by the OECD International Service for Remunerations and Pensions (ISRP) to assess the value of the long term NATO post employment medical care obligation.

The evaluation of the situation end 2016, further to the study conducted in 2017, results in an overall present value of MEUR 2,298 of which MEUR 2,236 for the obligation related to the continued medical coverage of retirees funded through the RMCF and MEUR 62 for the obligation related to the specific category of staff called "bridgers" (see below).

The methodology is based on the Projected Unit Credit Approach, the method recognised by the IFRS/IPSAS standards.

Endogenous assumptions taken into account are:

- Probability that a staff member leaves the Organisation, retires, or becomes invalid.
- Annual salary increase and impact due to career progression (0.27% above inflation)

Exogenous assumptions taken into account are:

- Discount rate in nominal value for post-employment medical care: 0.98%
- Price inflation in the long run: 2%
- Rates of mortality for both active staff and pensioners (mortality table International Civil Servant Life Table 2013 – ICSLT2013, source ISRP/EUROSTAT).
- Medical inflation in the long run: 4% annually (based on an analysis of medical expenses data for the period 2008-2013).
- Long term expected return on plan assets: 5% annually.

The previous actuarial study dated from 2016 estimated that the value of the obligation for post-employment medical care at the end of 2015 was MEUR 1,801. The current projection of this liability at the end of 2016 can be obtained as follows:

(amounts in MEUR)

Evaluation of the obligation at year end 2015	(a)	1,801
Benefits paid	(b)	19
Interest cost	(c)	29
Current service cost	(d)	129
Obligation at year end 2015 projected into 2016	(e)=(a-b+c+d)	1,939
Actuarial loss (gain) on obligation	(f-e)	359
Evaluation of obligation at year end 2016	(f)	2,298

The value of the obligation includes an amount of MEUR 62.2 corresponding to a specific category of staff referred to as "bridgers" (see below). The obligation corresponding to continued medical coverage of retirees funded through the RMCF is therefore MEUR 2,236.

The actuarial loss (i.e. the positive difference between the obligation of 2015 projected into 2016 resulting from the previous study and the obligation estimated at year end 2016 by the new study) is MEUR 359. The actuarial loss represents 19% of the obligation projected in 2016. The decrease of the discount rate used for the calculations explains most of this actuarial loss.

Assumptions taken into account in the previous actuarial study were:

Discount rate: 1.60%

Price inflation: 2%

Future salary increase: 0.27% above inflation

Medical inflation: 4%

By definition actuarial valuations are largely dependent on the endogenous and exogenous parameters. Therefore any changes to the latter can result in material changes to the final evaluation of the obligation. In this case, the discount rate was decreased, by 62 basis points, from 1.60% to 0.98%. Sensitivity tests were conducted for the purposes of the study showing that a discount rate of 1.98% (i.e. an increase of 100 basis points) would result in a decrease of the actuarial liability of MEUR 556 and that a discount rate of 0.00% (i.e. a decrease of 98 basis points) would result in an increase of the actuarial liability of MEUR 777.

The discount rate refers to market yields on high quality corporate bonds. For the purpose of this actuarial study, in the absence of a market for Eurozone corporate bonds with maturities longer than 18 years, the Euro area government bond yield curve was used instead as a reference to discount the liabilities of the RMCF. This resulted in the discount rate of 0.98%, compared to the previous 1.60% (and before: 1.41% and 2.84%).

Use of the ever-changing market value reference discount rate is likely to result in substantial changes of the actuarial valuations. Considering that the present interest rates used for the actuarial study are historically low, the use of a higher discount rate in the future would result in a decrease in the valuation of the liability.

Sensitivity tests were conducted for the purposes of the study showing that an increase of 100 basis points of the medical inflation rate to 5% would result in an increase of the actuarial liability of MEUR 760 and that a decrease of 100 basis points of the medical inflation rate to 3% would result in a decrease of the actuarial liability of MEUR 547.

The present actuarial study has used a new mortality table developed jointly by ISRP and EUROSTAT (ICSLT2013). It is based on data covering several international organizations in Europe, including NATO and the European Union.

It should be noted that medical claims for eligible former staff between the ages of 55 and 65 (referred to as "bridgers") are not funded through the RMCF. They are insured under the terms of the "bridging-cover" whereby the related annual contributions and reimbursements are included in the medical claims insurance system of active staff. Contributions based on the "bridgers" last salary (5% since 2013 (3% previously), on a 1/3 "bridger" to 2/3 employer proportion) are made to the medical claim insurance company. No specific fund was set up to resource these requirements; they are handled on an annual basis. No payments to the RMCF are required from "bridgers" in the intervening years between their retirement from the

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organization and their reaching the age of 65, at which point they benefit from RMCF insurance coverage and contribute to its funding.

Based on the same actuarial study as above, the potential liability relating to medical coverage for staff pertaining to the "bridging cover" was estimated EUR 62.2 million at year end 2015 (EUR 54.0 million at year end 2015).

NOTE 4: CASH AND CASH EQUIVALENTS

The various NATO entities and pensioners pay their contributions into a suspense account. This account serves to pay insurance premiums and effect the transfers of funds to be invested by the Investment Manager. Short term investments are made as required.

NOTE 5: FUNDS HELD BY THE INVESTMENT MANAGER**Distribution of Assets as of 31 December**

	2017		2016	
	EUR	%	EUR	%
Euro Gov't Bond Index Fund ISIN IE0007472990	150,967,660.72	46.72%	144,331,309.39	47.02%
Europe Stock Index Fund ISIN IE0007987708	86,673,147.79	26.82%	78,353,240.30	25.53%
Global Stock Index Fund ISIN IE00B03HD191	85,517,289.34	26.46%	84,248,208.45	27.45%
TOTAL	323,158,097.85	100.00%	306,932,758.14	100.00%

Details of the changes in investment fund balances available for benefits over the past two year are as follow:

in EUR	Euro Govt Bond Index Fund 281010	Europe Stock Index Fund 280030	Global Stock Index Fund 280000	TOTAL
31 Dec 2015 balance	135,096,566.69	73,103,626.05	80,725,917.04	288,926,109.78
Purchases before purchase fees	5,000,000.00	3,000,000.00	0.00	8,000,000.00
Withdrawals	0.00	0.00	-5,000,000.00	-5,000,000.00
Distributions	0.00	0.00	0.00	0.00
Rebates received	167,612.37	153,423.39	135,185.98	456,221.74
Purchase Fees	0.00	0.00	0.00	0.00
2016 net transactions	5,167,612.37	3,153,423.39	-4,864,814.02	3,456,221.74
Sum of 31 Dec 2015 balance and 2016 net transactions	140,264,179.06	76,257,049.44	75,861,103.02	292,382,331.52
Gain/loss in market value excluding 2016 net transactions	4,067,130.33	2,096,190.86	8,387,105.43	14,550,426.62
31 Dec 2016 balance	144,331,309.39	78,353,240.30	84,248,208.45	306,932,758.14
Purchases before purchase fees	1,500,000.00	5,000,000.00	0.00	6,500,000.00
Withdrawals	0.00	0.00	-5,000,000.00	-5,000,000.00
Distributions	0.00	0.00	0.00	0.00
Rebates received	177,114.40	182,966.43	141,660.07	501,740.90
Purchase Fees	0.00	0.00	0.00	0.00
2017 net transactions	1,677,114.40	5,182,966.43	-4,858,339.93	2,001,740.90
Sum of 31 Dec 2016 balance and 2017 net transactions	146,008,423.79	83,536,206.73	79,389,868.52	308,934,499.04
Gain/loss in market value excluding 2017 net transactions	4,959,236.93	3,136,941.06	6,127,420.82	14,223,598.81
31 Dec 2017 balance	150,967,660.72	86,673,147.79	85,517,289.34	323,158,097.85

Fund's Overall Performance

In 2017, Vanguard Investment Series plc index funds tracked their respective benchmarks during the period. Their returns, net of expenses and including the effect of reinvested dividends, are compared below to that of the corresponding benchmarks for the past two years:

Returns in %					
Vanguard index fund			Benchmark		
	2017	2016		2017	2016
Euro Gov't Bond ISIN IE0007472990	0.04	3.12	Spliced Euro Gov Bond Float Adj Index	0.20	3.13
Europe Stock ISIN IE0007987708	10.62	2.76	MSCI Europe	10.24	2.58
Global Stock ISIN IE00B03HD191	7.54	10.74	MSCI World	7.51	10.73

The number of units and Daily NAV per unit for the RMCF at year end, together with the resulting year-end market values, were as follows:

RMCF Investment Fund Units and NAVs at of 31 December			
	2017		
	Units	NAV in EUR	Market Value in EUR
Euro Govt Bond Index Fund	680,056.87	221.9927	150,967,660.72
Europe Stock Index Fund	4,306,569.07	20.1258	86,673,147.79
Global Stock Index Fund	3,757,548.26	22.7588	85,517,289.34
TOTAL			323,158,097.85
	2016		
	Units	NAV in EUR	Market Value in EUR
Euro Govt Bond Index Fund	649,638.88	222.1716	144,331,309.39
Europe Stock Index Fund	4,297,189.82	18.2336	78,353,240.30
Global Stock Index Fund	3,974,290.79	21.1983	84,248,208.45
TOTAL			306,932,758.15

NOTE 6: ACCOUNTS RECEIVABLE

Contributions are paid on a monthly basis. Receivables at year-end were as follows:

(amounts in EUR)	2017	2016
Contributions	787,600.38	311,037.65
Receivable from insurer	73,107.58	619,186.98
Total accounts receivable	860,707.96	930,224.63

At the date of issuance of these financial statements, no contributions were a year or more past due.

Amounts receivable from the insurance company and the third party administrator relate to the final assessment of the premium and of the management fee, which are paid in monthly advances during the year.

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A profit sharing agreement is in place for the period 2012-2016, and is considered under the contingent asset note.

NOTE 7: ACCOUNTS PAYABLE

Payables end 2017 relate to a monthly instalment due to the insurer in December. There were no payables end 2016.

NOTE 8: CONTRIBUTIONS RECEIVED

Contributions received in the course of the year were as follows:
(amounts in EUR)

Contributions from	2017	2016
Active Staff and NATO Employer	23,410,740.13	22,660,164.69
Retired Staff	495,197.31	403,133.19
Total	23,905,937.44	23,063,297.88

NOTE 9: PROFIT SHARING AGREEMENT WITH INSURER

A profit-sharing arrangement has been entered into, covering the period 2012-2016, whereby NATO would be refunded the totality of the difference Premiums X 97% – Reimbursements, if it is positive. The final settlement was done during the first quarter of 2018 and resulted in no profit to be shared. There is therefore no revenue for the RMCF.

NOTE 10: INTEREST

Interest is earned on the bank account for the period during which cash holdings are pending investment. Amounts presented are netted of bank charges.

NOTE 11: INSURANCE PREMIUMS AND MANAGEMENT FEES

The insurance premium to cover the medical expenses of the retirees is paid monthly to the third party administrator on the basis agreed under the NATO Group Insurance Policy.

The value of the insurance premium paid to the insurance company is essentially based on the number and age of the beneficiaries. The premium includes a management fee of EUR 1,398,625.86 (EUR 1,299,069.96 for 2016).

NOTE 12: MISCELLANEOUS

Corresponds to miscellaneous transactions essentially net financial results (including negative interests paid on the current bank account) and foreign exchange results.

NOTE 13: CONTINGENT ASSETS

As indicated above, there is a profit-sharing agreement with the insurer. The arrangement covers the period 2012-2016, whereby NATO would be refunded the totality of the difference Premiums X 97% – Reimbursements, if it is positive. The final settlement was done during

the first quarter of 2018 and resulted in no profit to be shared. There is therefore no revenue for the RMCF.

NOTE 14: CONTINGENT LIABILITIES

There are no material contingent liabilities arising from legal actions and claims that are likely to result in significant liability to the RMCF. A series of claims were introduced in relation to the deletion of the Civil Personnel Regulation provision concerning staff obtaining free medical coverage after 25 years of contributions. These cases have not yet been addressed by the NATO Administrative Tribunal. The related risk is not considered as having a material impact on these financial statements.

NOTE 15: RELATED PARTY TRANSACTIONS

The following related party transactions took place during the year ended 31 December 2017.

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 RMCF. None of the costs related to the administrative services provided by NATO International Staff are charged to the RMCF.

NOTE 16: 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 RMCF Supervisory Committee do not receive any additional remuneration or benefits in return for their responsibilities. The International Staff Financial Controller was appointed Chairperson of the Supervisory Committee end 2010.

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

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NOTE 17: STATISTICAL INFORMATION

Evolution of RMCF membership (number of affiliates)			
year-end	2000	Affiliates	0
	2001	Joined	166
	2001	Exited	0
year-end	2001	Affiliates	166
	2002	Joined	250
	2002	Exited	-1
year-end	2002	Affiliates	415
	2003	Joined	229
	2003	Exited	-4
year-end	2003	Affiliates	640
	2004	Joined	242
	2004	Exited	-14
year-end	2004	Affiliates	868
	2005	Joined	328
	2005	Exited	-15
year-end	2005	Affiliates	1,181
	2006	Joined	258
	2006	Exited	-27
year-end	2006	Affiliates	1,412
	2007	Joined	259
	2007	Exited	-25
year-end	2007	Affiliates	1,646
	2008	Joined	333
	2008	Exited	-37
year-end	2008	Affiliates	1,942
	2009	Joined	330
	2009	Exited	-32
year-end	2009	Affiliates	2,240
	2010	Joined	316
	2010	Exited	-37
year-end	2010	Affiliates	2,519
	2011	Joined	401
	2011	Exited	-39
year-end	2011	Affiliates	2,881
	2012	Joined	265
	2012	Exited	-27
year-end	2012	Affiliates	3,119
	2013	Joined	268
	2013	Exited	-63
year-end	2013	Affiliates	3,324
	2014	Joined	533
	2014	Exited	-62
year-end	2014	Affiliates	3,795
	2015	Joined	386
	2015	Exited	-187
year-end	2015	Affiliates	3,994
	2016	Joined	729
	2016	Exited	-112
year-end	2016	Affiliates	4,611
	2017	Joined	286
	2017	Exited	-211
year-end	2017	Affiliates	4,686

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