IBAN REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF THE RETIREES MEDICAL CLAIMS FUND FOR 2013

ACTION SHEET

On 24 March 2015, under the silence procedure, the Council noted the IBAN report IBA-AR(2014)13 attached to C-M(2015)0015 and agreed the RPPB recommendation regarding public disclosure.

NOTE: This Action Sheet is part of, and shall be attached to C-M(2015)0015.

IBAN REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF THE RETIREES MEDICAL CLAIMS FUND FOR 2013

Note by the Deputy Secretary General

- 1. I attach the International Board of Auditors for NATO (IBAN) report on the audit of the financial statements of the Retirees Medical Claims Fund (RMCF) for the year ended 31 December 2013. The audit report sets out an unqualified opinion.
- 2. The IBAN report was brought to the attention of the Resource Policy and Planning Board (RPPB) and the Budget Committee (BC).
- 3. In accordance with the Council decision of June 2012 (C-M(2012)0041), the RPPB recommends that the IBAN report on the audit of the RMCF for the year 2013, the related financial statements and other component parts should be made available to the public.
- 4. I consider that no further discussion regarding this report is required. Consequently, unless I hear to the contrary **by 16:00 hours on Friday, 13 March 2015,** I shall assume that the Council has noted the IBAN report IBA-AR(2014)13 and agreed the RPPB recommendation regarding public disclosure.

3 Annexes

Original: English

RESOURCE POLICY AND PLANNING BOARD

IBAN REPORT AND LETTER OF OBSERVATIONS AND RECOMMENDATIONS ON THE AUDIT OF THE RETIREES MEDICAL CLAIMS FUND (RMCF) FOR THE YEAR ENDED 31 DECEMBER 2013

Note by the Chairman

References: IBA-A(2014)152 IBA-AR(2014)13

- 1. You will recall that silence was broken by one nation on AC/335-N(2014)0072 concerning the public disclosure of the subject IBAN report. Following consultations, an additional paragraph has been added to this revised notice giving more details on the involvement of the entity concerned (see paragraph 4 below).
- 2. Council agreed in May 2012 (C-M(2012)0041) that, as of the reporting year 2013, all unclassified IBAN reports, together with any related financial statements, should be disclosed to the public, based on a case-by-case agreement by the Council based on a recommendation by the RPPB.
- 3. The IBAN issued an unqualified audit opinion on the 2013 audit of the Retirees Medical Claims Fund and the unqualified audit report will be forwarded to Council for notation, as per agreed procedures.
- 4. The IS Financial Controller has reviewed the financial statements in accordance with agreed policies (C-M(2012)0041 and C-M(2008)0116) and does not have any issues which he wishes to highlight for consideration by the RPPB before it concludes its recommendations to Council.
- 5. The RPPB is invited to confirm that the subject audit report does not contain information which, according to the NATO Policy on Public Disclosure of NATO Information, shall be withheld from public disclosure, and in line with the agreed policy in C-M(2012)0041, to recommend that Council agree to the public disclosure of the IBAN report IBA-A(2014)152, the related financial statements and other component parts.

6. I do not believe it is necessary for the RPPB to discuss this matter at a meeting and accordingly agreement will be assumed unless comments to the contrary are received by 18:00 on Monday 9 February 2015 .
Original: English
Original: English
Note by the Secretary
On 9 February 2015, under the silence procedure, the RPPB confirmed the recommendation to the Council regarding the public disclosure of the subject IBAN report as proposed in paragraph 5 of AC/335-N(2014)0072-REV1.

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 2013

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.

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

In 2013, receipts from NATO bodies and staff remained constant at EUR 22.2 million. Insurance premiums paid out of these receipts were EUR 14.8 million in 2013. At the end of 2013 the fund manager held EUR 232.1 million on behalf of NATO.

The Board issued an unqualified opinion on RMCF Financial Statements and on compliance for the year ended 31 December 2013.

During the audit, the Board made one observation and recommendation related to better documenting the reasons why no Supervisory Committee meetings were held in 2013 as required by the NATO Civilian Personnel Regulations, which is in the Letter of Observations and Recommendations (Annex 3).

The Board followed up on the status of observations from previous years' audits and noted that one is settled and two remain still outstanding. The status is summarised in the Letter of Observations and Recommendations (Annex 3).

The report has been reviewed by the RMCF Supervisory Committee whose comments have been incorporated in the report.

This page is intentionally left blank

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 2013

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 2013 and the Statement of Changes in Net Assets Available for Benefits, the Cash Flow Statement for the year then ended, 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 (NAC). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

_

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

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

Opinion on Financial Statements

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

Report on Compliance

Management's Responsibility for Compliance

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

Auditor's Responsibility

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

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

Opinion on Compliance

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

Brussels, 27 June 2014

Dr Charilaos Charisis

Chairman

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 2013

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 2013, and issued an unqualified opinion on the financial statements and on compliance.

Observations and Recommendations

During the audit, the Board had one observation pertaining to better documenting the reasons why no Supervisory Committee meetings were held in 2013 as required by the NATO Civilian Personnel Regulations.

The Board also followed up on the status of observations from previous years' audit reports and noted that one has been settled and two are still outstanding.

OBSERVATIONS AND RECOMMENDATIONS

1. NO SUPERVISORY COMMITTEE MEETINGS HELD IN 2013

Reasoning

Article 3 of Annex XIII-2 of the NATO Civilian Personnel Regulations (CPRs) requires that a Supervisory Committee be set up to oversee the management of the RMCF. It is required that two Committee meetings be held each year. At these meetings, the Committee shall be briefed by the Investment Managers on investment strategy and results.

Finding

The Board found that no meetings of the Supervisory Committee were held in 2013 as required by the CPRs. The Chair of the Committee stated to the Board that there were no such meetings because:

- 1) No changes were made to the investment strategy during the year, including that all funds continued to be held in index funds,
- 2) Each member of the Committee received monthly statements from the Investment Manager, and
- 3) No other business was required to be discussed.

Furthermore, the results of the asset and liability management study that had been ordered in 2012 had still not yet been received as of the date of this letter. As a result, the Committee did not feel it was necessary or economical to hold such meetings in 2013.

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 has fulfilled its responsibilities in relation to the RMCF.

Comment of the RMCF Supervisory Committee

During the audit, the Board had one observation pertaining to better documenting the reasons why no Supervisory Committee meetings were held in 2013 as required by the NATO Civilian Personnel Regulations.

From a factual perspective, it should also be noted that the funds are under a passive management mandate. It is, therefore, easy to see from the reports provided by the fund manager whether the invested funds are indeed following the benchmark. This also contributes to a lesser requirement in terms of overheads and formal meetings by the RMCF Supervisory Committee.

The observation is noted and will be addressed by the RMCF Supervisory Committee.

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.

Status of previous years' observations

OBSERVATION/RECOMMENDATION	ACTION	STATUS
(1) Financial year 2012 IBA-AR(2013)25 – para. 5.3		
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. 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.	Comments from Financial Controller in letter FC(2014)027: In 2006 the Advisory Group of Financial Counsellors (AGFC-N(2006)0028) assessed that the RMCF best suits NATO's needs to cover retirees' medical care and proposed that the viability of the RMCF be assessed every five years. An actuarial study was ordered by the Supervisory Committee and conducted in 2008. Council was subsequently updated on the financial status of the RMCF (SG(2009)0302) wherein it was noted that there remained sufficient time for correction of any shortfall. In this framework, an asset and liability management study was ordered in 2012 and will be finalized this year. The purpose is to re-assess the financial situation, including the adequacy of the investment strategy and to examine the various margins for manoeuvre (injection of funds, contribution rates etc.). The conclusions of this study will be presented to the Budget Committee for further action as required. Comment from IBAN: The asset and liability management study referenced by the Financial Controller has not yet been issued.	Observation Outstanding.

OBSERVATION/RECOMMENDATION	ACTION	STATUS
	Paragraph 19 of IAS 26 specifically requires that the financial statements present explanations of the relationship between the actuarial present value of promised retirement benefits and the net assets available for benefits.	

Comment of the RMCF Supervisory Committee

Financial year 2012

The Board draws the attention of the Council to this issue, 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. 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.

The first version of the Asset and Liability Management Study is planned to be presented to the RMCF Supervisory Committee in June and, further to eventual acceptance by them, to the Budget Committee.

(2) Financial year 2012 IBA-AR(2013)25 – para. 5.1 The Board recommends that the RMCF Financial Statements disclose the number of shares and the Net Asset Value per share in each Fund the RMCF has invested in.	The Board found that the recommendation was agreed and that Note 5 to the 2013 RMCF Financial Statements included this information.	Observation Settled.
(3) Financial years 2010 and 2011 IBA-AR(2013)06 – para. 5.3 Weak internal controls on contribution receipts 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.	The Treasury team is currently not being provided with sufficient information by the NATO Agencies and NATO Bodies to confirm the completeness and accuracy of the contributions received from each Agency. Therefore the internal control introduced by the Treasurer is ineffective as the Agencies are not providing the required information. There is a risk that amounts received during the year are not accurate or	Observation Outstanding.

OBSERVATION/RECOMMENDATION	ACTION	STATUS
	detected by the IS in a timely manner.	

Comment of the RMCF Supervisory Committee

Financial years 2010 and 2011

The Board recommends that the IS continue developing control procedures that will allow it, in a timely and systematic matter, to determine that the monthly cash receipts from the Agencies for the RMCF contributions are accurate and complete.

NATO-IS Human Resources calculates contributions due from most NATO bodies through the Personnel Management Information System (PMIS). This IT system allows for a coherent approach to the payroll process for its NATO body members, therefore, the risk that contributions are not paid or erroneous is very low and is an essential component of the internal control system. For other contributing agencies, not part of the PMIS, NATO-IS is dependent on the quality of information provided by the remitters.

The NATO-IS Treasury has increased its controls and instructed payroll centres to provide monthly information in a standard and coherent manner. Compliance with these instructions has improved. E-mails are sent when the information has still not been provided.

The IS OFC has also introduced an end-of-year process to check mutual balances with NATO bodies which are not part of the PMIS system.

Board's position

The Board notes the introduction of internal control procedures by the IS. In respect to the receipt of timely information requested from other NATO bodies not using PMIS, the Board will further monitor the extent of compliance with the IS's instructions as part of its audit of the 2014 RMCF Financial Statements.

NATO RETIREES MEDICAL CLAIMS FUND FINANCIAL STATEMENTS

For the year ended 31 December 2013

Annexes

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

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

Notes	Current Year	Prior Year
	31-Dec-13	31-Dec-12
4	1,484,004.56	1,410,335.19
5 6	232,110,197.88 4,552,455.91	203,822,524.45 348,388.00
	238,146,658.35	205,581,247.64
7	226,714.84	1,443,441.26
	226,714.84	1,443,441.26
	237,919,943.51	204,137,806.38
	4 5 6	31-Dec-13 4

NATO RETIREES MEDICAL CLAIMS FUND CASH FLOW STATEMENT

(All amounts in EUR)	Notes	Current Year	Prior Year
		31-Dec-13	31-Dec-12
Opening cash balance	4	1,410,335.19	2,649,791.20
Contributions received	8	22,279,089.07	22,191,721.39
Financial Results		8,379.28	14,011.57
Contributions invested		-5,200,000.00	-11,800,000.00
Insurance - premiums, fees & studies	9	-17,008,479.92	-11,645,188.97
Miscellaneous Receipts/(Disbursements)		-5,319.06	0.00
Ending cash balance	4	1,484,004.56	1,410,335.19
Net cash flow		73,669.37	-1,239,456.01

NATO RETIREES MEDICAL CLAIMS FUND

Statement of Changes in Net Assets Available for Benefits

(All amounts in EUR)	Notes	Current Year	Prior Year	
		31-Dec-13	31-Dec-12	
Increase in net assets				
Net unrealized gain in market value of investments	5	22,604,657.46	22,666,143.00	
Contributions for current year	8	22,226,989.20	22,503,841.86	
Contributions for future years	8	19,129.88		
Profit sharing per agreement with insurer	10	4,239,661.00	0.00	
Fund rebates	5	486,413.97	407,707.49	
Interest income		5,756.18	10,015.80	
Impact of change of accounting estimate	5	0.00	1,266.91	
Total increase in net assets available for benefits		49,582,607.69	45,588,975.06	
Decrease in net assets				
Insurance premiums	9	14,770,498.04	12,184,420.21	
Insurance management fee	9	1,007,444.64	902,123.00	
Fund purchase fees	5	3,398.00	13,380.00	
Impact of change of accounting estimate	5	0.00	0.00	
Contributions for future years	7	19,129.88		
Total decrease in net assets available for benefits		15,800,470.56	13,099,923.21	
Net increase for the year		33,782,137.13	32,489,051.85	
Net assets available for benefits, beginning of year		204,137,806.38	171,648,754.53	
Net assets available for benefits, end of year		237,919,943.51	204,137,806.38	

EXPLANATORY NOTES TO THE 2013 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 a 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 the 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.

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, which represent the bulk of contributions, 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.

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 conveys its thoughts on the investment strategy to the Investment Managers, who, while fully accepting responsibility for all aspects of the investment management, will take into account any views expressed by the Committee.

The Investment Manager keeps the Supervisory Committee informed of all matters relating to present and intended investment policy, through regular meetings, so allowing discussion and the views of Committee members to be considered.

This exchange of views helps the Committee to learn of any suggestions or concerns of the Investment Manager and the members of the Supervisory Committee have the opportunity to compare the current investment strategy with that of other clients of the Investment Manager who must follow the guidelines expressed by the Committee.

The Supervisory Committee, in consultation with the Investment Manager and taking into account the results of actuarial studies, determines the investment strategy for the Fund.

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

Investment strategy

For 2013, as since 2009, the Supervisory Committee decided to maintain the strategy of investing in index funds and to maintain 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.

An asset-liability study was initiated in order to reassess the investment strategy and funding of the Fund.

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 since January 2009.

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

The accounting system currently used by the 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.

Based on additional information on the valuation of financial assets, management decided to change the basis for these estimates. To conform with the current year assessment method, some comparative figures have been restated.

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.

Investments

Investments reported under these RMCF financial statements consist of equities and government bonds in index 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.

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

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 2013 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 31 December 2013:

ING Bank	Credit Ratings as at 31.12.2013				
	Fitch S&P Moody's Date of last rating update				
Short term	A+	Α	A2	31.10.2013	

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 agencies 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	Α	BBB	<bbb< th=""><th>Not rated</th><th>Cash</th></bbb<>	Not rated	Cash
At 31.12.2013	11.67%	7.63%	12.35%	57.63%	10.73%	0.0%	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 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. 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.

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

An actuarial study was conducted in 2014 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 2013, further to the study conducted in 2014, results in an overall present value of MEUR 1,084, of which MEUR 1,040 for the obligation related to the continued medical coverage of retirees funded through the RMCF and MEUR 44 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 pensions: 2.84%
- Price inflation in the long run: 2%
- Rates of mortality for both active staff and pensioners.
- Medical inflation in the long run: 4% annually (based on an analysis of medical expenses data for the period 2008-2011).
- Long term expected return on plan assets: 5% annually.

The previous actuarial study dated from 2013 estimated that the value of the obligation for post-employment medical care at the end of 2012 was MEUR 1,239. The current projection of this liability at the end of 2013 can be obtained as follows:

(amounts in MEUR)

Evaluation of the obligation at year end 2012	(a)	1,239
Benefits paid	(b)	15
Interest costs	(c)	29
Current service costs	(d)	70
Obligation at year end 2012 projected into 2013	(e)=(a-b+c+d)	1,323
Actuarial loss (gain) on obligation	(e-f)	(239)
Evaluation of obligation at year end 2013	(f)	1,084

The value of the obligation includes an amount of EUR 44.5 million 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 EUR 1,040 million.

The actuarial gain (i.e. the difference between the obligation of 2012 projected into 2013 resulting from the previous study and the obligation estimated at year end 2013 by the new study) is MEUR 239. The increase of the discount rate used for the calculations explains most of this actuarial gain.

Assumptions taken into account in the previous actuarial study were:

Discount rate: 2.35% Price inflation: 2%

Future salary increase: 0.35% 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 increased, by 49 basis points, from 2.35% to 2.84%. Sensitivity tests were conducted for the purposes of the study showing that a discount rate of 3.84% (i.e. an increase of 100 basis points) would result in a decrease of the actuarial liability of MEUR 238 and that a discount rate of 1.84% (i.e. a decrease of 100 basis points) would result in an increase of the actuarial liability of MEUR 330.

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 2.84%, compared to the previous 2.35%.

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 322 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 237.

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. The impact of these new parameters can be estimated as resulting in an increase of about MEUR 37 to the actuarial obligation.

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 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 44.5 million at year end 2013 (EUR 58.4 million at year end 2012).

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 affect 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

	2013		2012 restated		2012	
	EUR	<u>%</u>	EUR	<u>%</u>	EUR	<u>%</u>
Euro Govt Bond Index Fund	108,495,531.27	46.74%	101,172,333.80	49.64%	101,172,333.80	49.64%
Euro Stock Index Fund	62,450,652.99	26.91%	52,204,053.35	25.61%	52,204,459.47	25.61%
Global Stock Index Fund	61,164,013.62	26.35%	50,446,137.30	24.75%	50,444,464.27	24.75%
TOTAL	232,110,197.88	100.00%	203,822,524.45	100.00%	203,821,257.54	100.00%

Fund values are reported to RMCF in two ways. 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 and now reported herein for year-end 2013.

Previously, values were reported using Vanguard's month-end reports, which employ the "Investment Company Act" methodology to calculate the "Month-End NAV." This value is sometimes determined later than the Daily NAV. It has been decided to adopt the Daily NAV method (transfer agent reports) for RMCF reporting from now on. The impact of the change on the value of RMCF investments at year-end 2012 is an increase of EUR 1,266.91.

Details of the changes in investment fund balances available for benefits (Annex 3) over the past two years are as follow:

in EUR	Euro Stk Indx Fund INS Euro Shares	Euro Govt Bond INS Euro Shares	Global Stk Index Fund INS Euro Shares	TOTAL	
31 Dec 2011 balance	41,039,776	85,401,480	42,519,532	168,960,787	
Purchases before purchase					
fees	3,480,000	6,420,000	1,900,000	11,800,000	
Withdrawals	0	0	0	C	
Distributions	0	0	0		
Rebates received	148,394		148,669	407,707	
Purchase Fees	-6,960	-6,420	0	-13,380	
2012 net transactions	3,621,434	6,524,224	2,048,669	12,194,327	
Sum of 31 Dec 2011 balance					
and 2012 net transactions	44,661,210	91,925,704	44,568,201	181,155,115	
excluding 2012 net					
transactions	7,543,250	9,246,630	5,876,263	22,666,143	
31 Dec 2012 balance	52,204,459	101,172,334	50,444,464	203,821,258	
Changes in accounting					
estimates (see Note 5)	-406		1,673	1,267	
31 Dec 2012 balance, restated	52,204,053	101,172,334	50,446,137	203,822,524	
Purchases before purchase			00,110,101		
fees	0		0	5,200,000	
Withdrawals	C		0		
Distributions	C		0	100 11	
Rebates received	181,489		179,586	486,414	
Purchase Fees			0	-3,398	
2013 net transactions	181,489	5,321,941	179,586	5,683,016	
Sum of 31 Dec 2012 balance					
and 2013 net transactions	52,385,542	106,494,275	50,625,723	209,505,540	
Gain/loss in market value excluding 2013 net	40.005.444	2 004 256	10,538,291	22,604,65	
transactions	10,065,111				
31 Dec 2013 balance	62,450,653	108,495,531	61,164,014	232,110,19	

Fund's Overall Performance

In 2013, Vanguard Investment Series plc index funds closely 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:

		Retu	urns in %		
Vanguard index fund		Benchmark			
	2013	2012	Spliced Euro Gov Bond Float Adj	2013	2012
Euro Gov't Bond	2.07	10.55	Index	2.13	10.55
European Stock	20.05	17.79	MSCI Europe	19.82	17.29
Global Stock	21.25	14.13	MSCI World Free	21.20	14.05

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

RMCF Investment Fund Units and NAVs as of 31 December

- 5 5 3 7	2013			
		<u>Units</u>	NAV in EUR	Market Value in EUR
Euro Gov't Bond Index				
Fund		571,620.89	189.8033	108,495,531.27
Euro Stock Index Fund		4,074,099.76	15.3287	62,450,652.99
Global Stock Index Fund		4,195,839.67	14.5773	<u>61,164,013.62</u>
TOTAL				232,110,197.88
	2012			
		Units	NAV in EUR	Market Value in EUR
Euro Gov't Bond Index				
Fund		543,372.58	186.1933	101,172,333.80
Euro Stock Index Fund		4,061,213.24	12.8543	52,204,053.35
Global Stock Index Fund		4,182,583.31	12.0610	<u>50,446,137.30</u>
TOTAL				203,822,524.45

NOTE 6: ACCOUNTS RECEIVABLE

Contributions are paid on a monthly basis. Receivables at the end of 2013 were as follows:

(amounts in EUR)

	2013	2012
Contributions	306,567.88	339,537.87
Receivable from insurer under profit sharing agreement	4,239,661.00	0.00
Interest receivable	6,227.03	8,850.13
Total accounts receivable	4,552,455.91	348,388.00

At the date of issuance of these financial statements, no contributions were a year or more past due. In 2012, an estimate of the amount potentially receivable from the insurer under a profit sharing agreement was indicated as a Contingent Asset. In the meantime, the exact amount has been determined and will be paid to RMCF in early 2014. This explains the large increase in accounts receivable.

NOTE 7: ACCOUNTS PAYABLE

Accounts payable consisted of EUR 190,964.00 due to the insurer for insurance premiums (EUR 1,310,291.00 at year end 2012), EUR 16,620.96 to the third party administrator for management fees (EUR 127,831.20 at year end 2012) and EUR 19,129.88 in contributions received for future years (EUR 0 in 2012).

The decrease in insurance premiums payable is explained by the change of third party administrator in 2012 which resulted in the postponement of the calculation of the annual adjustment of the contributions and management fees.

NOTE 8: CONTRIBUTIONS RECEIVED

Contributions received in the course of the year on a cash basis were as follows: (amounts in EUR)

Contributions from	2013	2012
Active Staff and NATO Employer for current year	21,540,670.71	21,631,015.32
Active Staff and NATO Employer for future years	19,129.88	
Active Staff and NATO Employer for Y-1	348,666.64	83,292.36
Active Staff and NATO Employer for Y-2	0.00	140,152.98
Active Staff and NATO Employer for Y-3	0.00	106,026.60
Active Staff and NATO Employer for Y-4	0.00	15,801.94
Retired Staff from Def Benefit Pension Scheme	364,487.46	214,191.57
Retired Staff from Def Contribution Pension Scheme	1,485.05	634.62
Other Retired Staff	4,649.33	973.80
Total	22,279,089.07	22,192,089.19

NOTE 9: INSURANCE PREMIUMS

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 1,007,444.64 for 2013 (EUR 902,123 in 2012). The increase is due to a larger number of beneficiaries.

NOTE 10: PROFIT SHARING AGREEMENT WITH INSURER

According to a profit-sharing agreement with the insurer, a portion of the excess of premiums over reimbursements is refunded to the RMCF. For the years 2006-2011, the formula for the refund was Refund = [(Premiums X 97%) – Reimbursements X 85%]. This formula was renegotiated, effective 2012, to the advantage of RMCF, reducing the premium per covered party and raising the final multiplier to 100%.

RMCF's share of profits for the period 2006-2011 amounts to EUR 4,239,661.00, recorded as a receivable as at 31 December 2013. It had been paid at the date of issuance of these financial statements.

ANNEX 4 to FC(2014)092-REV1

A similar arrangement has been entered into, covering the period 2012-1016, whereby NATO would be refunded the totality of the difference Premiums X 97% – Reimbursements, if it is positive. The final settlement is foreseen during the first quarter of 2018. At this stage it is not possible to assess whether this would result in any inflow of cash to NATO.

NOTE 11: 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.

NOTE 12: RELATED PARTY TRANSACTIONS

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

NATO International Staff, in particular Executive Management – Human Resources and the Office of Financial Control, are responsible for the day-to-day management of the RMCF. None of the costs related to the administrative services provided by NATO International Staff are charged to the RMCF.

NOTE 13: 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 IS 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.

NOTE 14: STATISTICAL INFORMATION

Evolution of RM affiliates)	CF memb	ership (number of	
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
- 1	2007	Joined	259
1 15 YE AND	2007	Exited	-25
year-end	2007	Affiliates	1,646
	2008	Joined	333
5 6 6	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

Area for improvement

The main weakness of the internal control system relates to financial reporting: the present IT accounting system does not enable the production of IPSAS compliant financial statements. This IT financial system, implemented in the early 1990s, was conceived to track budget execution and make payments, but was not designed to be an accounting system. It was never updated. The system does not generate financial statements and much work and analysis relies on spreadsheets. The implementation of an Enterprise Resource Planning system, which began in 2013 and is planned to be operational in 2015, should contribute to solving this issue. In the meantime, manual adjustments are necessary, requiring a significant effort impacting the overall process of generating the financial statements of the NATO bodies for which I am responsible. As such they constitute a risk factor for errors.

In addition, the present IT system is not connected to any Human Resources database, which also constitutes a risk factor for errors.

As a consequence the internal control system relies greatly on the control environment, in particular on knowledge acquired and values shared by the staff. In this context, any existing single point of failure could become an issue.

My assessment is nevertheless that this situation had no material impact on the budgetary contributions called from Nations to fund the NATO entities' budgets from which the staff, employer's and pensioners' contributions are paid into the Retirees' Medical Claims Fund. Neither does it have any material impact on the invested funds.

The financial statements of the NATO Retirees' Medical Claims Fund have received a qualified opinion from IBAN for 2001, 2002, 2003, 2006 and 2008 and an unqualified opinion for 2004, 2005, 2007, 2009, 2010, 2011 and 2012.

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