

3 September 2014

**IBAN REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF THE NATO  
DEFINED CONTRIBUTION PENSION SCHEME (DCPS)**

**ACTION SHEET**

On 2 September 2014, under the silence procedure, the Council noted the IBAN report IBA-AR(2014)06 attached to C-M(2014)0051 and agreed the RPPB recommendation regarding public disclosure.

NOTE: This Action Sheet is part of, and shall be attached to C-M(2014)0051.

21 August 2014

## **IBAN REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF THE NATO DEFINED CONTRIBUTION PENSION SCHEME (DCPS)**

### **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 NATO Defined Contribution Pension Scheme (DCPS) for the year ended 31 December 2013. The audit report sets out an unqualified opinion.
2. The IBAN report was brought to the attention of the Resource Policy and Planning Board (RPPB) and the Budget Committee (BC).
3. In accordance with the Council decision of June 2012 (C-M(2012)0041), the RPPB recommends that the IBAN report on the audit of the NATO Defined Contribution Pension Scheme (DCPS) 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 18:00 hours on Tuesday, 2 September 2014**, I shall assume that the Council has noted the IBAN report IBA-AR(2014)06 and agreed the RPPB recommendation regarding public disclosure.

18 June 2014

## **RESOURCE POLICY AND PLANNING BOARD**

### **IBAN REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF THE NATO DEFINED BENEFIT PENSION SCHEME (DCPS) FOR 2013**

#### **Note by the Chairman**

Reference: IBA-A(2014)110

1. Council agreed in May 2012 (C-M(2012)0041) that, as of the reporting year 2013, all unclassified IBAN reports, together with any related financial statements, should be disclosed to the public, based on a case-by-case agreement by the Council based on a recommendation by the RPPB.
2. The IBAN issued an unqualified audit opinion on the 2013 financial statements of the NATO Defined Benefit Pension Scheme (DCPS) (IBA-A(2014)110) and the unqualified audit report will be forwarded to Council for notation, as per agreed procedures.
3. The RPPB is invited to confirm that the subject audit report does not contain information which, according to the NATO Policy on Public Disclosure of NATO Information, shall be withheld from public disclosure, and in line with the agreed policy in C-M(2012)0041, to recommend that Council agree to the public disclosure of the IBAN report IBA-A(2014)110, the related financial statements and other component parts.
4. Agreement to the above is sought under the silence procedure and will be assumed unless comments to the contrary are received by **16:00 on Tuesday 24 June 2014**.

### **Note by the Secretary**

On 24 June 2014, under the silence procedure, the RPPB confirmed the recommendation to the Council regarding the public disclosure of the subject IBAN report as proposed in paragraph 3 of AC/335-N(2014)0039.

**Summary Note for Council  
by the International Board of Auditors for NATO (Board)  
on the audit of the Financial Statements of the  
NATO Defined Contribution Pension Scheme (DCPS)  
for the year ended 31 December 2013**

The 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 assets at 31 December 2013 was EUR 191.0 million. The DCPS had 2,782 members by the end of 2013.

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

During the audit, the Board had no observations to be included in the audit report.

The Board followed up on the status on an observation from a previous year's audit and noted that it has been partially settled. This status is summarised in the Letter of Observations and Recommendations (Annex 3).

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14 April 2014

**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 2013**

**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) has audited the accompanying financial statements of the NATO Defined Contribution Scheme (NATO DCPS) for the year ended 31 December 2013, which comprise the Statement of Net Assets Available for Benefits, the Statement of Changes in Net Assets Available for Benefits, the Statements on the NATO-DCPS Retirement and Invalidity Pensions, the Schedule of Net Purchase Costs and Market Values of Investments 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*<sup>1</sup> 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

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<sup>1</sup> 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.



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 opinion.

#### *Opinion on Financial Statements*

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

### **Report on Compliance**

#### *Management's Responsibility for Compliance*

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

#### *Auditor's Responsibility*

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

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

#### *Opinion on Compliance*

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

Brussels, 14 April 2014

Dr Charilaos Charisis  
Chairman

14 April 2014

**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 2013**

## **Introduction**

The International Board of Auditors for NATO (Board) audited the NATO Defined Contribution Pension Scheme Financial Statements for the year ended 31 December 2013, and issued an unqualified opinion on the presentation of those financial statements and on compliance.

## **Observations and Recommendations**

During the audit, the Board had no observations to be included in the audit report.

The Board followed up on the status of an observation from a previous year's audit and noted that it has been partially settled.

## ***Management's formal comments***

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

## FOLLOW-UP OF PREVIOUS YEAR'S OBSERVATION

The Board reviewed the status of the observation and recommendation arising from a previous audit. The observation and its status are summarised in the table below.

### Status of previous year's observation

| OBSERVATION / RECOMMENDATION  | ACTION TAKEN   | STATUS  |
|---|--|---|
| <p><b>Audit Report FY 2009</b><br/> <b>IBA-AR(2011)09, paragraph 5.1</b></p> <p><b>Observation</b><br/> The Board observed that the IS was only partially prepared for the pension benefit payments due to:</p> <ul style="list-style-type: none"> <li>• the lack of the use of any IT application for benefit payments.</li> <li>• the lack of a pension provider.</li> <li>• the need to borrow money from the Coordinated Pension Scheme due to liquidity problems.</li> </ul> <p><b>Board's recommendation</b><br/> 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"> <li>• the still small number of benefit payments allows sufficient control over the payments and the requirements of the future ERP system contain this function.</li> <li>• a procurement procedure of an annuity provider is under way.</li> <li>• 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.</li> </ul> | <p>Observation<br/> <b>Partially Settled.</b></p> |

**NATO DEFINED CONTRIBUTION PENSION SCHEME  
FINANCIAL STATEMENTS AS AT 31/12/2013  
FINANCIAL YEAR 2013**

**Annexes:**

- 1 Statement of Net Assets Available for Benefits
- 2 Statement of Changes in Net Assets Available for Benefits
- 3 Retirement and Invalidity Pensions - Statement of Net Assets Available for Benefits
- 4 Retirement and Invalidity Pensions - Cash Flow Statement
- 5 Schedule - Cost and Market Values of Investments
- 6 Explanatory notes to the financial statements

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

| (All amounts in EUR)                      | Notes | Current Year          | Prior Year            |
|---|-------|-----------------------|-----------------------|
|   |       | 31-Dec-13             | 31-Dec-12             |
| <b>Assets</b>                             |       |                       |                       |
| Cash                                      | 4     | 3,671,362.26          | 3,402,393.41          |
| Investments at market value               | 5     | 187,336,100.65        | 143,692,327.43        |
| Accounts Receivable                       | 6     |                       |                       |
| Contributions receivable from NATO bodies |       | 36,642.73             | 50,000.00             |
| Bank interest accrued                     |       | 5,686.66              | 12,295.68             |
| Other receivable                          |       | 49.50                 | 0.00                  |
| <b>Total Assets</b>                       |       | <b>191,049,841.80</b> | <b>147,157,016.52</b> |
| <b>Liabilities</b>                        |       |                       |                       |
| Accounts Payable                          | 7     |                       |                       |
| Payable to staff members/NATO bodies      |       | 38,042.33             | 61,889.79             |
| Payable to others                         |       | 628.04                | 0.00                  |
| <b>Total Liabilities</b>                  |       | <b>38,670.37</b>      | <b>61,889.79</b>      |
| <b>Net assets available for benefits</b>  | 8     | <b>191,011,171.43</b> | <b>147,095,126.73</b> |

**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-13             | 31-Dec-12             |
| <b>Increase in net assets</b>                              |       |                       |                       |
| Net unrealized gain in market value of investments         | 5     | 17,244,913.78         | 10,901,023.43         |
| Contributions  | 9     | 37,893,843.52         | 35,699,037.55         |
| Inward transfer of pension rights                          | 10    | 1,005,144.50          | 2,501,890.18          |
| Advances to retirement & invalidity pensions               | 6     | 0.00                  | 50,000.00             |
| Impact of change of accounting classification              | 2     | 0.00                  | 11,782.70             |
| Miscellaneous receipts                                     | 11    | 6,179.66              | 19,231.95             |
| <b>Total increase in net assets available for benefits</b> |       | <b>56,150,081.46</b>  | <b>49,182,965.81</b>  |
| <b>Decrease in net assets</b>                              |       |                       |                       |
| Net unrealized loss in market value of investments         | 5     | 0.00                  | 0.00                  |
| Accounts closed (Staff)                                    | 12    | 11,750,323.25         | 11,580,316.72         |
| Outward transfer of pension rights                         | 10    | 471,505.21            | 9,911.87              |
| Transfers to insurance and DCPS retirement account         | 13    | 0.00                  | 193,003.36            |
| Cash advance to DCPS invalidity and retirement pensions    | 6     | 0.00                  | 50,000.00             |
| Miscellaneous payments                                     | 14    | 12,208.30             | 8,211.28              |
| <b>Total decrease in net assets available for benefits</b> |       | <b>12,234,036.76</b>  | <b>11,841,443.23</b>  |
| Net increase for the year                                  |       | 43,916,044.70         | 37,341,522.58         |
| Net assets available for benefits, beginning of year       |       | 147,095,126.73        | 109,753,604.15        |
| <b>Net assets available for benefits, end of year</b>      |       | <b>191,011,171.43</b> | <b>147,095,126.73</b> |

**NATO DCPS RETIREMENT AND INVALIDITY PENSIONS**  
**Statement of Net Assets Available for Benefits**

| (All amounts in EUR)              | Notes | Current Year | Prior Year | Variance   |
|-----------------------------------|-------|--------------|------------|------------|
|                                   |       | 31-Dec-13    | 31-Dec-12  | CY - PY    |
| ASSETS                            |       |              |            |            |
| CURRENT ASSETS                    |       |              |            |            |
| Cash and Cash Equivalents         | 4     |              |            |            |
| Cash                              |       | 0.00         | 0.00       | 0.00       |
| Current bank accounts             |       | 83,408.38    | 40,522.73  | 42,885.65  |
| Cash equivalents                  |       | 0.00         | 0.00       | 0.00       |
| Total Cash and Cash Equivalents   |       | 83,408.38    | 40,522.73  | 42,885.65  |
| Receivables                       |       |              |            |            |
| Receivable from Insurance Company | 3     | 5,203.16     | 16,255.88  | -11,052.72 |
| Tax Adjustment Receivable         |       | 41,394.00    | 4,830.60   | 36,563.40  |
| Receivable from DBPS              |       | 0.00         | 0.00       | 0.00       |
| Miscellaneous receivable          |       | 236.48       | 0.00       | 236.48     |
| Total Receivables                 |       | 46,833.64    | 21,086.48  | 25,747.16  |
| Miscellaneous Assets              |       |              |            |            |
| Bank interest accrued             |       | 229.86       | 246.85     | -16.99     |
| Miscellaneous receipts            |       | 0.00         | 0.00       | 0.00       |
| Total Miscellaneous Assets        |       | 229.86       | 246.85     | -16.99     |
| TOTAL CURRENT ASSETS              |       | 130,471.88   | 61,856.06  | 68,615.82  |
| NON-CURRENT ASSETS                |       | 0.00         | 0.00       | 0.00       |
| TOTAL NON CURRENT ASSETS          |       | 0.00         | 0.00       | 0.00       |
| TOTAL ASSETS                      |       | 130,471.88   | 61,856.06  | 68,615.82  |
| LIABILITIES                       |       |              |            |            |
| CURRENT LIABILITIES               |       |              |            |            |
| Payable                           | 17    |              |            |            |
| Payable to I.S.                   |       | 120,000.00   | 0.00       | 120,000.00 |
| Payable to DCPS                   |       | 0.00         | 50,000.00  | -50,000.00 |
| Net interest payable to DBPS      |       | 0.00         | 687.04     | -687.04    |
| Miscellaneous payable             |       | 49.50        | 0.00       | 49.50      |
| Other payable                     |       | 10,422.38    | 11,169.02  | -746.64    |
| Total Payables                    |       | 130,471.88   | 61,856.06  | 68,615.82  |
| TOTAL CURRENT LIABILITIES         |       | 130,471.88   | 61,856.06  | 68,615.82  |
| NON CURRENT LIABILITIES           |       | 0.00         | 0.00       | 0.00       |
| TOTAL NON CURRENT LIABILITIES     |       | 0.00         | 0.00       | 0.00       |
| TOTAL LIABILITIES                 |       | 130,471.88   | 61,856.06  | 68,615.82  |
| NET ASSETS                        |       |              |            |            |
| Surplus/Deficit of the period     |       | 0.00         | 0.00       | 0.00       |
| Total Net Assets                  |       | 0.00         | 0.00       | 0.00       |
| TOTAL NET ASSETS                  |       | 0.00         | 0.00       | 0.00       |



**NATO DCPS RETIREMENT AND INVALIDITY PENSIONS  
CASH FLOW STATEMENT**

(All amounts in EUR)

|  | Notes    | 2013       | 2012       |
|--|----------|------------|------------|
| <b>RECEIPTS</b>  | 3,13, 17 |            |            |
| DCPS redemptions received                                |          | 0.00       | 147,456.79 |
| Financial revenue relative to Y-1                        |          | 287.10     | 635.81     |
| Third-party insurer settlements received for invalidity  |          | 165,434.57 | 97,739.50  |
| Monthly annuity payments received                        |          | 104,048.31 | 97,709.29  |
| Advances rec'd from I.S.                                 |          | 110,305.24 | 0.00       |
| Advances rec'd from Defined Benefit Pension Scheme       |          | 0.00       | 20,000.00  |
| Advances rec'd from Defined Contribution Pension Scheme  |          | 0.00       | 50,000.00  |
| Other  |          | 1,074.22   | 19,020.95  |
| Tax adjustment rec'd from Defined Benefit Pension Scheme |          | 4,830.60   | 3,833.91   |
| Tax adjustment refunded by Estate                        |          | 0.00       | 2,122.98   |
| Gain on exchange   |          | 21.65      |            |

|  |          |              |              |
|--|----------|--------------|--------------|
| <b>PAYMENTS</b>  | 3,13, 17 |              |              |
| Annuities purchased                                    |          | 0.00         | (147,456.79) |
| Lump sum retirement benefit                            |          | 0.00         | 0.00         |
| Monthly annuity payments paid                          |          | (210,136.84) | (192,408.94) |
| Tax adjustment   |          | (38,274.60)  | (5,921.58)   |
| Contribution paid to DCPS                              |          | (39,229.88)  | (30,214.25)  |
| Insurance  |          | (4,281.13)   | (2,495.71)   |
| Financial costs  |          | (407.99)     | (226.65)     |
| Financial costs relative to Y-1                        |          | (40.25)      | 0.00         |
| Advances repaid to Defined Benefit Pension Scheme      |          | 0.00         | (60,000.00)  |
| Advances repaid to Defined Contribution Pension Scheme |          | (50,000.00)  | 0.00         |
| Interest paid to DBPS                                  |          | (687.04)     | 0.00         |
| Other  |          | (58.31)      | (19,040.90)  |

|   |                  |                    |
|---|------------------|--------------------|
| <b>Net increase (decrease) in cash and cash equivalents</b> | <b>42,885.65</b> | <b>(19,245.59)</b> |
|---|------------------|--------------------|

|   |                  |                  |
|---|------------------|------------------|
| <b>Cash and cash equivalents at beginning of period</b> | <b>40,522.73</b> | <b>59,768.32</b> |
|---|------------------|------------------|

|   |                  |                  |
|---|------------------|------------------|
| <b>Cash and cash equivalents at end of period</b> | <b>83,408.38</b> | <b>40,522.73</b> |
|---|------------------|------------------|

**NATO DEFINED CONTRIBUTIONS PENSION SCHEME**  
**Schedule - Net Purchase Cost and Market Values of Investments**  
(All amounts in EUR)

| <b>Year ended 31-Dec-13</b>              | <b>Net<br/>Purchase Cost</b> | <b>Market Value<br/>31.12.2013</b> |  |
|--|------------------------------|------------------------------------|--|
| EUROLAND BOND FUND EUR C CLASS C         | 2,488,585.11                 | 2,503,683.21                       |  |
| GLOBAL EQUITY FUND EUR C CLASS C         | 8,588,207.45                 | 9,181,560.74                       |  |
| GLOBAL EQUITY FUND USD C CLASS C         | 1,716,092.06                 | 1,896,041.82                       |  |
| GLOBAL BOND FUND EUR C CLASS C           | 2,713,980.64                 | 2,556,534.29                       |  |
| GLOBAL BOND FUND USD C CLASS C           | 437,178.79                   | 424,953.82                         |  |
| UNIVERSAL LIQUIDITY (USD) ACCUMULATION C | 122,570.37                   | 122,581.95                         |  |
| INSTICASH                                | 10,240,037.73                | 10,243,270.57                      |  |
| Difference on exchange rates             | 92,207.29                    |                                    |  |
| <b>TOTAL</b>                             | <b>26,398,859.44</b>         | <b>26,928,626.40</b>               |  |

  

| <b>Year ended 31-Dec-12</b>               | <b>Net<br/>Purchase Cost</b> | <b>Market Value<br/>31.12.2012      31.12.13</b> |                      |
|---|------------------------------|--|----------------------|
| EUROLAND BOND FUND EUR C CLASS C          | 455,326.84                   | 461,069.34                                       | 469,915.56           |
| GLOBAL EQUITY FUND EUR C CLASS C          | 10,137,393.97                | 10,540,481.02                                    | 12,607,639.57        |
| GLOBAL EQUITY FUND USD C CLASS C          | 1,318,966.65                 | 1,392,293.76                                     | 1,663,544.58         |
| GLOBAL BOND FUND EUR C CLASS C            | 3,171,401.98                 | 3,160,046.73                                     | 2,853,486.49         |
| GLOBAL BOND FUND USD C CLASS C            | 1,043,455.45                 | 1,063,615.51                                     | 959,413.52           |
| UNIVERSAL LIQUIDITY (USD) ACCUMULATION C  | 518,920.85                   | 544,576.71                                       | 521,059.36           |
| INSTICASH & UNIVERSAL EURO ACCUMULATION C | 9,397,387.86                 | 37,166,396.57                                    | 37,182,822.93        |
| Difference on exchange rates              | 124,708.94                   |  |                      |
| <b>TOTAL</b>                              | <b>26,167,562.54</b>         | <b>54,328,479.64</b>                             | <b>56,257,882.02</b> |

  

| <b>Year ended 31-Dec-11</b>              | <b>Net<br/>Purchase Cost</b> | <b>Market Value<br/>31.12.2011      31.12.13</b> |                      |
|--|------------------------------|--|----------------------|
| EUROLAND BOND FUND EUR C CLASS C         | 840,417.94                   | 845,370.20                                       | 979,241.30           |
| GLOBAL EQUITY FUND EUR C CLASS C         | 8,284,292.83                 | 8,038,700.19                                     | 11,016,933.99        |
| GLOBAL EQUITY FUND USD C CLASS C         | 1,274,004.96                 | 1,158,702.32                                     | 1,584,818.17         |
| GLOBAL BOND FUND EUR C CLASS C           | 914,383.52                   | 1,009,082.46                                     | 927,128.42           |
| GLOBAL BOND FUND USD C CLASS C           | 615,767.82                   | 628,110.50                                       | 576,461.12           |
| UNIVERSAL EURO ACCUMULATION C            | 10,565,467.52                | 10,616,538.24                                    | 0.00                 |
| UNIVERSAL LIQUIDITY (USD) ACCUMULATION C | 260,685.96                   | 260,709.21                                       | 244,720.50           |
| Difference on exchange rates             | -136,596.46                  |  |                      |
| <b>TOTAL</b>                             | <b>22,618,424.09</b>         | <b>22,557,213.12</b>                             | <b>15,329,303.51</b> |



| Year ended 31/12/2010                    | Net                  | Market Value         |                      |
|--|----------------------|----------------------|----------------------|
|  | Purchase Cost        | 31.12.2010           | 31.12.13             |
| EUROLAND BOND FUND EUR C CLASS C         | 685,573.81           | 687,552.79           | 809,458.01           |
| GLOBAL EQUITY FUND EUR C CLASS C         | 10,585,411.29        | 11,572,370.59        | 14,379,295.38        |
| GLOBAL EQUITY FUND USD C CLASS C         | 916,687.72           | 1,020,229.90         | 1,262,723.78         |
| GLOBAL BOND FUND EUR C CLASS C           | 799,242.42           | 876,567.29           | 889,188.81           |
| GLOBAL BOND FUND USD C CLASS C           | 354,229.65           | 370,910.78           | 375,084.94           |
| UNIVERSAL EURO ACCUMULATION C            | 8,223,420.45         | 8,243,277.75         | 0.00                 |
| UNIVERSAL LIQUIDITY (USD) ACCUMULATION C | 169,720.25           | 169,862.84           | 164,737.69           |
| Difference on exchange rates             | 31,415.26            |                      |                      |
| <b>TOTAL</b>                             | <b>21,765,700.85</b> | <b>22,940,771.94</b> | <b>17,880,488.61</b> |

| Year ended 31-Dec-2009                   | Net                  | Market Value         |                      |
|--|----------------------|----------------------|----------------------|
|  | Purchase Cost        | 31.12.2009           | 31.12.13             |
| EUROLAND BOND FUND EUR C CLASS C         | 408,938.15           | 450,484.49           | 556,120.99           |
| GLOBAL EQUITY FUND EUR C CLASS C         | 14,958,418.64        | 17,259,401.23        | 25,100,040.23        |
| GLOBAL EQUITY FUND USD C CLASS C         | 998,483.78           | 1,190,409.75         | 1,728,270.85         |
| GLOBAL BOND FUND EUR C CLASS C           | 851,907.19           | 860,993.51           | 1,008,960.86         |
| GLOBAL BOND FUND USD C CLASS C           | 14,793.27            | 16,209.69            | 18,962.92            |
| UNIVERSAL EURO ACCUMULATION C            | 4,993,821.62         | 5,009,815.55         | 0.00                 |
| UNIVERSAL LIQUIDITY (USD) ACCUMULATION C | 121,031.70           | 121,101.50           | 126,748.87           |
| Difference on exchange rates             | 3,345.97             |                      |                      |
| <b>TOTAL</b>                             | <b>22,350,752.33</b> | <b>24,908,415.72</b> | <b>28,539,104.73</b> |

| Year ended 31-Dec-2008                   | Net                  | Market Value         |                      |
|--|----------------------|----------------------|----------------------|
|  | Purchase Cost        | 31.12.2008           | 31.12.13             |
| EUROLAND BOND FUND EUR C CLASS C         | 276,803.80           | 290,671.92           | 407,333.33           |
| GLOBAL EQUITY FUND EUR C CLASS C         | 13,884,019.56        | 9,955,185.62         | 18,168,387.68        |
| GLOBAL EQUITY FUND USD C CLASS C         | 1,014,183.32         | 704,902.98           | 1,278,277.04         |
| GLOBAL BOND FUND EUR C CLASS C           | 876,480.71           | 946,097.20           | 1,119,902.44         |
| GLOBAL BOND FUND USD C CLASS C           | 162,970.15           | 165,995.18           | 195,341.86           |
| UNIVERSAL EURO ACCUMULATION C            | 1,336,794.72         | 1,354,185.46         | 0.00                 |
| UNIVERSAL LIQUIDITY (USD) ACCUMULATION C | 89,453.91            | 90,124.52            | 91,329.95            |
| Difference on exchange rates             | -14,317.46           |                      |                      |
| <b>TOTAL</b>                             | <b>17,626,388.71</b> | <b>13,507,162.88</b> | <b>21,260,572.30</b> |

| Year ended 31-Dec-2007                   | Net                  | Market Value         |                      |
|--|----------------------|----------------------|----------------------|
|  | Purchase Cost        | 31.12.2007           | 31.12.13             |
| EUROLAND BOND FUND EUR C CLASS C         | 128,791.70           | 129,294.04           | 196,030.75           |
| GLOBAL EQUITY FUND EUR C CLASS C         | 10,630,792.53        | 11,090,953.86        | 11,411,683.52        |
| GLOBAL EQUITY FUND USD C CLASS C         | 576,140.26           | 651,342.37           | 669,107.58           |
| GLOBAL BOND FUND EUR C CLASS C           | 533,450.12           | 529,496.85           | 692,014.30           |
| GLOBAL BOND FUND USD C CLASS C           | 72,134.39            | 77,529.18            | 101,223.39           |
| UNIVERSAL EURO ACCUMULATION C            | 2,087,907.17         | 2,113,050.69         | 0.00                 |
| UNIVERSAL LIQUIDITY (USD) ACCUMULATION C | 74,245.82            | 76,340.25            | 84,108.11            |
| Difference on exchange rates             | 14,918.83            |                      |                      |
| <b>TOTAL</b>                             | <b>14,118,380.82</b> | <b>14,668,007.24</b> | <b>13,154,167.65</b> |

| Year ended 31-Dec-2006                   | Net                 | Market Value        |                     |
|--|---------------------|---------------------|---------------------|
|  | Purchase Cost       | 31.12.2006          | 31.12.2012          |
| EUROLAND BOND FUND EUR C CLASS C         | 20,156.93           | 20,277.81           | 30,957.36           |
| GLOBAL EQUITY FUND EUR C CLASS C         | 5,422,670.66        | 5,640,017.76        | 6,323,832.38        |
| GLOBAL EQUITY FUND USD C CLASS C         | 364,962.85          | 394,525.50          | 441,105.45          |
| GLOBAL BOND FUND EUR C CLASS C           | 206,209.45          | 205,775.60          | 266,334.72          |
| GLOBAL BOND FUND USD C CLASS C           | 43,970.21           | 45,065.16           | 58,196.36           |
| UNIVERSAL EURO ACCUMULATION C            | 73,976.63           | 74,447.01           | 0.00                |
| UNIVERSAL LIQUIDITY (USD) ACCUMULATION C | 20,001.18           | 20,233.51           | 20,991.60           |
| Difference on exchange rates             | 1,821.28            |                     |                     |
| <b>TOTAL</b>                             | <b>6,153,769.19</b> | <b>6,400,342.35</b> | <b>7,141,417.88</b> |

| Year ended 31-Dec-2005                   | Net                   | Market Value      |                       |
|--|-----------------------|-------------------|-----------------------|
|  | Purchase Cost         | 31.12.2005        | 31.12.13              |
| EUROLAND BOND FUND EUR C CLASS C         | 0.00                  | 0.00              | 0.00                  |
| GLOBAL EQUITY FUND EUR C CLASS C         | 612,871.54            | 640,528.85        | 773,801.99            |
| GLOBAL EQUITY FUND USD C CLASS C         | 36,636.50             | 38,096.79         | 45,784.95             |
| GLOBAL BOND FUND EUR C CLASS C           | 19,953.00             | 20,245.84         | 24,950.62             |
| GLOBAL BOND FUND USD C CLASS C           | 0.00                  | 0.00              | 0.00                  |
| UNIVERSAL EURO ACCUMULATION C            | 0.00                  | 0.00              | 0.00                  |
| UNIVERSAL LIQUIDITY (USD) ACCUMULATION C | 0.00                  | 0.00              | 0.00                  |
| <b>TOTAL</b>                             | <b>669,461.04</b>     | <b>698,871.48</b> | <b>844,537.57</b>     |
| <b>GRAND TOTAL</b>                       | <b>157,869,299.01</b> |                   | <b>187,336,100.67</b> |



## **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 seven 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 2012, there were 2,662 NATO DCPS affiliates (members). During 2013, 310 members joined and 190 left, leaving the membership at 2,782 as at 31 December 2013. Note 19 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.



## **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.

## **Investment Policy**

The Management Board oversees the investment policy of the Scheme.

Members of the NATO DCPS invest in their choice of several funds, consisting of equity, bond and cash funds. Detailed descriptions of each of the funds are provided in Annex 6 to the financial statements. Investments are made in units in the respective funds; the unit price fluctuates according to its market value. With the exceptions of the Mellon Euroland Bond fund and the BNP InstiCash fund, which are only in EUR and the Mellon Universal Liquidity USD which is only in USD, each of the funds is available in EUR and in USD as follows:

### **Equity Funds:**

Mellon Global Equity Portfolio EUR C  
Mellon Global Equity Portfolio USD C

### **Bond Funds:**

Mellon Global Bond Portfolio EUR C  
Mellon Global Bond Portfolio USD C  
Mellon Euroland Bond Portfolio EUR C



#### Cash Funds:

Mellon Universal Liquidity Funds – Liquidity Plus USD  
BNP Paribas InstiCash Fund - EUR

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 will become available to DCPS affiliates in early 2014.

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).

#### Management of the DCPS

Previnet 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. Previnet 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.

Previnet 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 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. Treasury 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 NATO-IS 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 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 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**

There are no changes to report.

### **Reclassification of financial statements of previous years**

None 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.

### **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 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.

The amounts shown in these financial statements are presented in EUR. The following rates of exchange fixed by the European Central Bank as at 31 December 2013 were used to convert the balances of the different currencies into EUR:

|                  |     | <u>EUR</u> |
|------------------|-----|------------|
| Euro             | EUR | 1.0000     |
| Danish Kroner    | DKK | 7.4593     |
| Pound Sterling   | GBP | 0.8337     |
| Norwegian Kroner | NOK | 8.3630     |
| Polish Zloty     | PLN | 4.1543     |
| Turkish Lira     | TRY | 2.9605     |



US Dollar  
Hungarian Forint

USD  
HUF

1.3791  
297.0400

Contributions due in December 2013 and invested in January 2014 are converted using the exchange rates as at 31 December 2013.

### **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 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 31 December 2013 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 31.12.2013 |     |         |                            |
|------------|---------------------------------|-----|---------|----------------------------|
|            | Fitch                           | S&P | Moody's | Date of last rating update |
| Short term | A+                              | A   | 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 bodies' payroll centres. This risk is considered limited since these bodies are primarily funded by member nations which are considered creditworthy.

### **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.

The fact sheets at Annex 6 provide additional information for each fund.

### **Currency risk**

The DCPS is exposed to a very 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.

### **Liquidity risk**

A liquidity risk could arise from a short term liquidity requirement. 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.

### **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.

The fact sheets provided at Annex 6 provide additional information.

### **NOTE 3: PENSION BENEFITS PAYMENTS**

Benefits are paid for retirement (four cases in 2013, four cases in 2012), survivor (three cases in 2013, three cases in 2012) and invalidity (three cases in 2013, two cases in 2012) pensions. They are paid at the end of each month.

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, NATO-DCPS Retirement Pensions.

Benefits received from the insurer pending augmentation by the adjustment related to income tax and further transfer to the disabled beneficiary are held in another separate bank account, NATO-DCPS Invalidity Pensions.

The Statement of Net Assets Available for Benefits of NATO-DCPS Retirement Pensions and Invalidity Pensions is in Annex 3.

The related Cash Flow Statement is in Annex 4.

### **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 CPR, 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 CPR. 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 in relation to 2013 were EUR 41,394.00 (EUR 4,830.60 for 2012). The increase is mainly due to one new specific situation and to the increase in the number of beneficiaries (six in 2013, two in 2012).

#### NOTE 4: CASH AND CASH EQUIVALENTS

The various NATO entities pay their contributions into a custodial account. This account serves to effect the transfers of funds to be invested by the Investment Manager and to receive redemptions for departing staff. The total in the account at year-end was EUR 3,671,362.26.

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

#### NOTE 5: FUNDS HELD BY THE INVESTMENT MANAGER

BNY Mellon is the Investment Manager of six of the funds. BNP Paribas Investment Partners manages the seventh fund, the BNP Paribas InstiCash Fund in euro.

#### Distribution of Assets as of 31 December

|  | 2013                  | 2012                  |
|--|-----------------------|-----------------------|
| Mellon Global Equity Portfolio EUR C           | 108,963,175.47        | 83,421,342.31         |
| Mellon Global Equity Portfolio USD C           | 10,569,674.24         | 7,259,345.16          |
| Mellon Global Bond Portfolio EUR C             | 10,338,500.96         | 8,618,011.12          |
| Mellon Global Bond Portfolio USD C             | 2,709,637.93          | 2,532,823.85          |
| Mellon Euroland Bond Portfolio EUR C           | 5,952,740.52          | 3,384,128.35          |
| Universal Liquidity Funds - Liquidity Plus USD | 1,376,278.03          | 1,310,280.07          |
| BNP Paribas InstiCash EUR                      | 47,426,093.50         | 37,166,396.57         |
| <b>TOTAL</b>                                   | <b>187,336,100.65</b> | <b>143,692,327.43</b> |

#### Unrealized Gain/Loss in Market Value of Investments

Gains and losses in the market value of investments vary according to the volume of contributions invested, currency fluctuations, and changes in the unit prices of the investment funds. The annual unrealized gains and losses for the past two years were as follow:

|   | in EUR | 2013           | 2012           |
|---|--------|----------------|----------------|
| Market value end current year           |        | 187,336,100.65 | 143,692,327.43 |
| less Market value end previous year     |        | 143,692,327.43 | 106,623,741.46 |
| less Investments current year           |        | 38,620,687.89  | 37,966,163.54  |
| plus Redemptions current year           |        | 12,221,828.45  | 11,798,601.00  |
| = Net unrealized gain/loss current year |        | 17,244,913.78  | 10,901,023.43  |

#### Unit Price per Fund

New investments and redemptions may take place within each of 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 follow:



| <u>Fund Name and Currency</u>     | <u>2013</u> | <u>2012</u> | <u>Annualized<br/>Income per<br/>Unit</u> |
|-----------------------------------|-------------|-------------|---|
| Global Equity Fund EUR C Class C  | 1.305800    | 1.091700    | 0.214100                                  |
| Global Equity Fund USD C Class C  | 2.018200    | 1.616000    | 0.402200                                  |
| Global Bond Fund EUR C Class C    | 1.486500    | 1.646200    | -0.159700                                 |
| Global Bond Fund USD C Class C    | 2.279800    | 2.418000    | -0.138200                                 |
| Euroland Bond Fund EUR C Class C  | 1.763600    | 1.730400    | 0.033200                                  |
| Universal Liquidity (USD) Accum C | 1.190847    | 1.190717    | 0.000130                                  |
| BNP Paribas Insticash EUR         | 140.7963    | 140.7341    | 0.062200                                  |

### Schedule

Annex 5 provides a schedule of the net purchase cost and market values of investments since 2005.

### NOTE 6: RECEIVABLES

Contributions are paid on a monthly basis by NATO bodies. There were three NATO body employer and employee contributions receivable at the end of 2013. For a total of EUR 36,642.73 which were received in January 2014.

Bank interest accrued as of year-end amounting to EUR 5,686.66 was credited to the bank account in January 2014.

Other receivables consist of interest to be received from DCPS Invalidity.

### NOTE 7: PAYABLES

Payables totalling EUR 38,670.37 are made up primarily of EUR 38,042.33 due to a leaving member and her NATO body employer pending Pensions Unit's authorization to transfer the funds. Other payables consist of EUR 236.48 in bank charges to be paid to DCPS Retirement and an EUR 391.56 overpayment of the December 2013 contributions by a NATO body.

### NOTE 8: NET ASSETS AVAILABLE FOR BENEFITS

- a) 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 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. Up to now, 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 surplus of EUR 13,974.70 (unchanged from 2013) kept on a suspense account.
- b) Gains and losses on corrective investments effected by the third party administrator are also credited to the suspense account. The cumulative gains as of year end 2012 amounted to EUR 13,782.19. There were no corrective transactions in 2013 so the total remained unchanged as at 31 December 2013.

- c) Cumulated interest earned on the custodial bank account amounted to EUR 89,194.39 end 2013 (EUR 84,040.29 end 2012).

These amounts form part of the Net Assets Available for Benefits and could be used to cover eventual future potential shortfalls of the sort described in Note 2 (Price Risk).

#### NOTE 9: 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 composition of contributions is as follows:

| Contributions                | in EUR | <u>31-Dec-13</u> | <u>31-Dec-12</u> |
|------------------------------|--------|------------------|------------------|
| Employee share received      |        | 15,904,653.00    | 14,978,269.25    |
| NATO bodies shares received  |        | 21,952,547.79    | 20,720,768.30    |
| Contributions to be received |        | <u>36,642.73</u> | <u>0.00</u>      |
|                              |        | 37,893,843.52    | 35,699,037.55    |

#### NOTE 10: 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.

The inward transfers resulted essentially from an agreement given by the Belgian Office National des Pensions in late 2009. The decrease in the amounts transferred is due to settlement of pending files. Other transfers were received mainly from the Netherlands, Belgium and the European Union.

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 11: MISCELLANEOUS RECEIPTS

The composition of the miscellaneous receipts is as follows:

|   | in EUR | <u>31-Dec-13</u> | <u>31-Dec-12</u> |
|---|--------|------------------|------------------|
| Interest earned                         |        | 5,686.66         | 18,626.80        |
| Profit on erroneous and corrected deals |        | 0.00             | 605.14           |
| Foreign exchange profit                 |        | 51.94            | 0.00             |
| Rounding                                |        | 0.00             | 0.01             |
| Misc receipts                           |        | 391.56           | 0.00             |
| Interest from DCPS Invalidity Pensions  |        | <u>49.50</u>     | <u>0.00</u>      |
| TOTAL miscellaneous receipts            |        | 6,179.66         | 19,231.95        |



**NOTE 12: ACCOUNTS CLOSED (STAFF)**

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, or to the insurance company providing the annuity to the former staff member or his or her survivors.

In 2013 because beneficiary account instructions were not provided in time, the EUR 38,042.33 proceeds of a closed account could only be transferred the following year. The composition of Accounts Closed was as follows:

|  | in EUR | <u>31-Dec-13</u> | <u>31-Dec-12</u> |
|--|--------|------------------|------------------|
| Pension benefits paid to leaving members             |        | 11,712,280.92    | 11,518,426.93    |
| Pension benefits to be paid to 1 ex member/NATO body |        | 38,042.33        | 61,889.79        |
| Delayed pension transfer to ex member                |        | <u>0.00</u>      | <u>0.00</u>      |
| Total Accounts Closed                                |        | 11,750,323.25    | 11,580,316.72    |

**NOTE 13: TRANSFERS TO INSURANCE AND RETIREMENT ACCOUNTS**

In 2012, one member left DCPS and took a DCPS retirement pension for which the cost of EUR 147,456.79 was transferred to the DCPS retirement account. Another member died in service and, as described above in Note 8 a), EUR 45,546.57 of the proceeds of the redemption of the affected member's holdings was transferred to the insurer to pay for the related survivor annuity. This brought the total of such transfers during the year to EUR 193,003.36. There were no such transfers in 2013.

|  | in EUR | <u>31-Dec-13</u> | <u>31-Dec-12</u> |
|--|--------|------------------|------------------|
| Pension benefits forwarded to DCPS retirement account      |        | 0.00             | 147,456.79       |
| Pension benefits transferred to the insurance company      |        | <u>0.00</u>      | <u>45,546.57</u> |
| TOTAL transferred to insurance and DCPS retirement account |        | 0.00             | 193,003.36       |

**NOTE 14: MISCELLANEOUS PAYMENTS**

Miscellaneous payments are as follows:

|                       | in EUR | <u>31-Dec-13</u> | <u>31-Dec-12</u> |
|-----------------------|--------|------------------|------------------|
| Foreign exchange loss |        | 6,662.59         | 3,495.31         |
| Bank charges          |        | 4,917.65         | 4,715.97         |
| Other                 |        | <u>628.06</u>    | <u>0.00</u>      |
| Total                 |        | 12,208.30        | 8,211.28         |

**NOTE 15: 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 16: CONTINGENT ASSETS**

None to report.

#### **NOTE 17: 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-IS, 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 270,000 per year reduces the contributions due from Nations to fund the NATO Civil Budget.

In 2013, cash advances of EUR 120,000 were made by NATO International Staff to allow for the timely payment of pension benefits. Conversely, tax adjustment payments were made as an advance to be settled with the related budget (amounts due for tax adjustment advances: EUR 41,394.00 end 2013 and EUR 4,830.60 end 2012).

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. Amounts paid for death in service benefits were EUR 4,496,919 in 2013 (EUR 4,770,584 in 2012); amounts paid for invalidity benefits were EUR 3,627,625 in 2013 (EUR 3,395,533 in 2012).

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

#### **NOTE 18: 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 19: STATISTICAL INFORMATION**

|  |  |  |  |
|--|--|--|--|
| Evolution of DCPS membership<br>(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 | 1273 |
|          | 2008 | Joined     | 511  |
|          | 2008 | Exited     | -43  |
| year-end | 2008 | Affiliates | 1741 |
|          | 2009 | Joined     | 443  |
|          | 2009 | Exited     | -71  |
| year-end | 2009 | Affiliates | 2113 |
|          | 2010 | Joined     | 477  |
|          | 2010 | Exited     | -208 |
| year-end | 2010 | Affiliates | 2382 |
|          | 2011 | Joined     | 454  |
|          | 2011 | Exited     | -260 |
| year-end | 2011 | Affiliates | 2576 |
|          | 2012 | Joined     | 274  |
|          | 2012 | Exited     | -188 |
| year-end | 2012 | Affiliates | 2662 |
|          | 2013 | Joined     | 310  |
|          | 2013 | Exited     | -190 |
| year-end | 2013 | Affiliates | 2782 |

From: Financial Controller, NATO International Staff

Subject: **Statement on Internal Control  
Defined Contribution Pension Scheme (DCPS) 2013**

### **Scope of responsibility**

Attached are the un-audited Defined Contribution Pension Scheme (DCPS) financial statements for 2013 which have been prepared under my responsibility.

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

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

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

### **Purpose of the system of internal control**

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

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



## **Internal control framework**

The key elements of the internal control system include:

- NATO Financial Regulations including the Financial Rules and Procedures applicable to the International Staff
- Civilian Personnel Regulations and in particular Annex VI concerning the NATO Defined Contribution Pension Scheme
- the NATO Code of Conduct
- the NATO Defined Contribution Pension Scheme Management Board
- the status reports by the Investment Manager
- the NATO International Staff IT financial system
- segregation of duties between the functions of approving officer, accountant and treasurer
- management supervision and a system of delegation
- the internal audit function
- annual accounts

## **Review of effectiveness**

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

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

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

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

## **Area for improvement**

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 is planned to begin in 2015 and 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 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 the situation as outlined above had no material impact on the budgetary contributions called from Nations to fund the NATO entities' budgets from which the staff and employer's contributions are paid into the DCPS. Neither did it have any material impact on the preservation of the assets belonging to the Scheme members.

The DCPS financial statements since 2005 (creation of the DCPS) to 2012 have received an unqualified opinion from IBAN.

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