

**NATO UNCLASSIFIED**

10 June 2015

**DOCUMENT**  
C-M(2015)0040-AS1

**IBAN REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF THE NATO  
COORDINATED PENSION SCHEME FOR 2013**

**ACTION SHEET**

On 9 June 2015, under the silence procedure, the Council noted the IBAN report IBA-AR(2014)27 and agreed the RPPB recommendation regarding public disclosure contained in the RPPB note enclosed to C-M(2015)0040.

(Signed) Alexander Vershbow  
Deputy Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2015)0040.

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26 May 2015

**NOTICE**  
AC/335-N(2015)0033-REV1-AS1

**RESOURCE POLICY AND PLANNING BOARD**

**IBAN REPORT AND LETTER OF OBSERVATIONS AND RECOMMENDATIONS ON  
THE AUDIT OF THE DBPS, MSIAC and FORACS FOR THE YEAR ENDED 31  
DECEMBER 2013  
ACTION SHEET**

**Note by the Secretary**

On 26 May 2015, under the silence procedure, the RPPB agreed the report to Council (AC-335-N(2015)0033-REV1)

(Signed) R. Strasser

Note: This Action Sheet should be attached to the subject notice as the top sheet.

Original: English  
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15 May 2015

**NOTICE**  
AC/335-N(2015)0033-REV1  
**Silence Procedure ends:**  
26 May 2015 12:00

**RESOURCE POLICY AND PLANNING BOARD**

**IBAN REPORT AND LETTER OF OBSERVATIONS AND RECOMMENDATIONS ON  
THE AUDIT OF THE DBPS, MSIAC and FORACS FOR THE YEAR ENDED 31  
DECEMBER 2013**

**Note by the Chairman**

References: (A) IBA-A(2014)250 & IBA-AR(2014)27  
(B) IBA-A(2014)255 & IBA-AR(2014)25  
(C) IBA-A(2014)247 & IBA-AR(2014)23  
(D) FC(2015)023, dtd. 6 March 2015

1. Council agreed with PO(2015)0052 that, in principle, unclassified IBAN audit reports, together with any related financial statements, should be made publicly available after they have been dealt with by Council.
2. The IBAN issued an unqualified audit opinion on the 2013 audit of the Financial Statements for the Defined Benefits Pension Scheme (DBPS) (Reference (A)), the Munitions Safety Information Analysis Center (MSIAC) (Reference (B)) and the NATO Naval Forces Sensors and Weapon Accuracy Check Sites (FORACS) (Reference (C)). The unqualified audit report will be forwarded to Council for notation, as per agreed procedures
3. The IS Financial Controller does not see any issues with regard to the 10 categories of exemptions and recommends full disclosure.
4. In reference (D), however, he draws Nations' attention to the fact that some contradiction might exist between the decision by Council to publish financial statements, while at the same time not releasing approved budgets to the public (IPSAS 24, Scope, paragraph 3).

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6. The Board discussed the issue at its 7 May 2015 meeting and after due consideration of the IS Financial Controller's concern regarding the potential inconsistency referred to in paragraph 7, noted that this issue had already been addressed and resolved.

7. The Board, in line with PO(2015)0052 therefore recommends to Council the full public disclosure of the 2013 Financial Statements and associated IBAN reports of the Defined Benefits Pension Scheme (DBPS), the Munitions Safety Information Analysis Center (MSIAC) and the NATO Naval Forces Sensors and Weapon Accuracy Check Sites (FORACS) .

(Signed) Giorgio Romano

Action Officer: R. Strasser  
ext. 2617  
Original: English

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ANNEX 1  
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**Summary Note for Council  
by the International Board of Auditors for NATO (Board)  
on the audit of the Financial Statements of the  
NATO Coordinated Pension Scheme  
for the year ended 31 December 2013**

The NATO Coordinated Pension Scheme is an unfunded, defined benefit plan and applies to all NATO Staff recruited between 1 July 1974 and 30 June 2005. Members of staff recruited prior to July 1974 are members of the Provident Fund. Staff members recruited after 1 July 2005 are members of the Defined Contribution Pension Scheme.

The NATO member states jointly guarantee the payment of benefits. The total payments made under the Pension Scheme for 2013 amounted to EUR 129 million. The actuarial present value of the pension liability of the scheme at 31 December 2013 was EUR 4.6 billion.

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

The Board had no current year observations to report.

The Board also followed up on the status of one observation from previous years' audit reports and noted that it was settled (Annex 3).

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IBA-AR(2014)27

19 December 2014

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS**

**OF THE NATO COORDINATED PENSION SCHEME**

**FOR THE YEAR ENDED 31 DECEMBER 2013**

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

**Report on the Financial Statements**

The International Board of Auditors for NATO (Board) audited the accompanying financial statements of the NATO Coordinated Pension Scheme, 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 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) 26<sup>1</sup> *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.

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

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<sup>1</sup> 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 NATO Coordinated Pension Scheme Financial Statements in accordance with IAS 26.

*Opinion on Financial Statements*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the NATO Coordinated Pension Scheme as of 31 December 2013 and 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, 19 December 2014

Dr Charilaos Charisis  
Chairman

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**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**LETTER OF OBSERVATIONS AND RECOMMENDATIONS**

**FOR THE NATO COORDINATED PENSION SCHEME FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2013**

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**Introduction**

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

**Observations and Recommendations**

The Board had no current year observations to report.

The Board also followed up on the status of the observation from previous years' audit reports and noted that it was settled.

**OBSERVATIONS AND RECOMMENDATIONS**

The Board had no current year observations to report.

**FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS**

The Board reviewed the status of the observation and recommendation arising from previous years' audits. This observation and its status is summarised in the table below.

**Status of previous years' observations**

OBSERVATION/RECOMMENDATION	ACTION	STATUS
<p>(1) IBAN Audit Report 2002 IBA-AR(2004)01 paragraph 7</p> <p><b>Late publication of the financial statements</b></p> <p>The fiscal year 2002 financial statements were published on 31 July 2003, three months after the 30 April NFR deadline.</p>	<p>The 2013 financial statements were presented on 30 April 2014. The NFR deadline was fully respected.</p>	<p>Observation <b>Settled.</b></p>

## **THE NATO COORDINATED PENSION SCHEME**

### **FINANCIAL STATEMENTS**

**2013**

#### **Table of Contents**

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

**THE NATO COORDINATED PENSION SCHEME**  
**Statement of Net Assets Available for Benefits**

(All amounts in EUR)	Notes	Current Year	Prior Year
		31-Dec-2013	31-Dec-2012
<b>Assets</b>			
Cash and cash equivalent	4	75,427,587.41	66,024,953.36
Staff member contributions receivable	5	324,908.68	337,295.96
Employer contribution receivable	6	1,606,380.38	1,651,113.00
Nation contributions receivable	7	85,093,448.47	88,950,563.57
Pension adjustments contribution receivable	8	18,824,324.79	15,619,565.12
Credit for past service to be refunded by staff	9	83,989.91	106,525.81
Advance DCPS	10	0.00	0.00
Other	11	486,995.08	552,733.24
<b>Total assets</b>		<b>181,847,634.72</b>	<b>173,242,750.06</b>
<b>Liabilities</b>			
Contributions called for y+1	7	120,735,000.00	114,187,000.00
Pension adjustments called for y+1	8	18,844,400.00	16,552,400.00
Other	12	471,717.35	1,046,474.51
<b>Total Liabilities</b>		<b>140,051,117.35</b>	<b>131,785,874.51</b>
<b>Net assets available for benefits</b>	13	<b>41,796,517.37</b>	<b>41,456,875.55</b>

**THE NATO COORDINATED PENSION SCHEME**  
**Statement of Changes in Net Assets Available for Benefits**

(All amounts in EUR)	Notes	Current Year	Prior Year
		31-Dec-2013	31-Dec-2012
<b>Increase in net assets</b>		<b>3,241,046.62</b>	<b>4,205,523.91</b>
Interest income	14	267,277.92	653,291.10
Transfers from other pension funds	15	2,696,075.27	3,295,932.67
Other	16	277,693.43	256,300.14
<b>Contributions</b>		<b>126,316,198.24</b>	<b>124,324,276.84</b>
Staff members	5	18,910,770.28	19,602,995.59
Employer's	6	452,417.72	532,531.90
Nations	7	106,953,010.24	104,188,749.35
<b>Total increase in net assets available for benefits</b>		<b>129,557,244.86</b>	<b>128,529,800.75</b>
<b>Decrease in net assets</b>			
Pension benefits	17	125,504,782.13	118,796,335.63
Leaving allowances	17	3,525,282.66	4,610,984.36
Bank costs	14	187,538.25	177,719.34
<b>Total decrease in net assets available for benefits</b>		<b>129,217,603.04</b>	<b>123,585,039.33</b>
Net change for the year		339,641.82	4,944,761.42
Net assets available for benefits, beginning of year		41,456,875.55	36,512,114.13
<b>Net assets available for benefits, end of year</b>		<b>41,796,517.37</b>	<b>41,456,875.55</b>

**EXPLANATORY NOTES TO THE  
2013 FINANCIAL STATEMENTS OF THE  
NATO COORDINATED PENSION SCHEME****NOTE 1: GENERAL INFORMATION****Description**

The NATO Coordinated Pension Scheme is a defined benefit retirement plan that applies to NATO staff recruited between 1 July 1974 and 30 June 2005. NATO staff recruited before 1 July 1974 are participants in the NATO Provident Fund, a defined contribution retirement plan. NATO staff recruited after 30 June 2005 are participants in the NATO Defined Contribution Pension Scheme (DCPS), also a defined contribution retirement plan.

NATO IS operates the Coordinated Pension Scheme for all NATO staff. This Scheme is often referred to as the NATO Defined Benefit Pension Scheme, and is hereafter referred to as the NATO DBPS.

The NATO DBPS is coordinated with five other international organisations (the Council of Europe, the European Centre for Medium Range Weather Forecast, the European Space Agency, the Organisation for Economic Cooperation and Development and the Western European Union). These Coordinated Organisations apply a common set of rules concerning the present defined benefit retirement plan. These rules are initiated and recommended by the Coordinating Committee on Remuneration and are approved by the North Atlantic Council. They are embedded in the NATO Civilian Personnel Regulations (CPRs), Annex IV.

The scheme includes provisions for retirement, invalidity, survivor, orphan and dependent pensions. Benefits paid are usually calculated as a proportion of the staff member's final salary. NATO civilian staff become eligible for a retirement pension after 10 years of service. NATO civilian staff who depart before 10 years of service receive a leaving allowance. The details of the conditions and entitlements of each component of the NATO DBPS are laid down in Annex IV of the CPRs.

The NATO DBPS had 3,313 beneficiaries at year-end 2013 (3,167 year-end 2012). More statistical data is provided at the end of these notes.

In 2012, amendments to the Co-ordinated Pension Scheme rules were agreed by the North Atlantic Council (PO(2012)0194) further to the recommendation of the 218<sup>th</sup> Coordinating Committee on Remuneration report. The changes correct some anomalies and clarify certain clauses, in particular following decisions by administrative tribunals. Several articles were made more precise in the interest of the Organisation (Article 18 on the conditions of entitlement to survivor and reversion pensions, Articles 21 and 22 on remarriage and rights of a former spouse, etc.).

**Financing Policy**

The benefits of the NATO DBPS are paid from annual budgets approved by the North Atlantic Council. Funding sources consist of compulsory contributions from active staff, employer contributions of certain NATO bodies, and, as a balancing resource, budgetary contributions by NATO member Nations. Contrary to most, if not all, of the other

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Co-ordinated Organisations, NATO has not set aside funds to be invested to fund future costs and, therefore, NATO's funding of the Co-ordinated Pension Scheme is on a pay-as-you-go basis.

### **Staff Contributions**

The rate of the staff contribution is set so as to represent the cost, in the long term, of one-third of the benefits provided at the coordinated level. Therefore this rate is not specific to NATO; it is the same for all the Coordinated Organisations.

The staff contribution rate is adjusted in accordance with the result of an actuarial study which is carried out every 5 years. This rate has been increasing over time. It was 7.0% from the inception of the scheme until it was brought to 8.0% in 1995. The rate was further increased to 8.3% in 2000 and to 8.9% in 2005.

As of 1 January 2010, contributions to the NATO DBPS from serving staff increased from 8.9% to 9% of their basic salary, further to a change in the method used to calculate such rates in order to take account of the closure of the pension scheme in certain Coordinated Organisations. A specific study to assess the adequacy of the contribution rates was initiated in 2013, for a decision effective as from 1 January 2015.

### **Employer contributions**

In specific cases, and in particular for a few NATO activities, limited either in time or in numbers of personnel, or with a specific financial basis, Nations decided that the pension liability is best discharged through a contribution equal to twice the staff contribution rate from the annual budget of the concerned activity or NATO entity (BC-WP(83)3(Revised) paragraph 5(1) and C-M(83)34). This contribution is considered as an employer's contribution. This contribution, together with the staff's, is deemed to provide the necessary funds for the subsequent pensions liability of the entities concerned. Employer contributions are due from the following NATO bodies: the NATO Headquarters Staff Centre, the New NATO Headquarters Project Office (NHQPO), the Munitions Safety Information Analysis Centre (MSIAC), the NATO Naval Forces Sensor and Weapon Accuracy Check Sites (FORACS), the NATO Battlefield Information Collection and Exploitation Systems (BICES) Agency and the NATO Alliance Ground Surveillance Management Agency (NAGSMA).

### **Nations' contributions**

The member states jointly guarantee the payment of benefits. Should a country, being a member or ex-member of the Organisation, fail to comply with its obligations, the other countries shall meet the cost thereof in proportion to their contributions to the budget of the Organisation as fixed annually from and after the said country's default.

Contributions from member states are called once a year based on the authorized annual budgets. They are calculated as the difference between the anticipated benefits due for the year under review and the main sources of funding, primarily staff contributions and employer's contributions. The NATO DBPS is funded through two separate budgets approved by the North Atlantic Council, one for the International Staff and the other for the Military Budgets which includes NATO agencies.

The related calls for contributions are issued in advance, usually towards the end of the preceding year. Costs are shared among NATO member countries based on the cost-shares

applicable to the NATO body for which the staff member worked before he/she became a beneficiary of the scheme. In practice, the annual call is based on a weighted average of each NATO body's cost-share weighted by the related pension costs as per the latest available financial statements.

### **Management of the DBPS**

Administrative services and secretarial support are provided by the Pensions Unit of NATO-IS Human Resources. In the framework of the Co-ordinated system, this unit is referred to as Computation Unit II. The Pensions Unit assesses the entitlement to benefits payable under the DBPS for the whole NATO community. Financial services are provided by the NATO-IS Office of Financial Control (OFC). The OECD's International Service for Remunerations and Pensions (ISRP) provides overall support concerning the global NATO DBPS (actuarial studies, adjustment calculations, etc.).

An Administrative Committee on Pensions of the Coordinated Organizations (CAPOC) was set up to ensure that provisions of the Pension Scheme Rules are uniformly applied at the coordinated level.

None of the costs related to the administrative services provided by NATO and the ISRP are charged to the NATO DBPS (see note on Related Parties).

### **Pension Adjustment**

The recipient of a pension is entitled to an adjustment applying to the member country of the organisation in which the pension and adjustment relating thereto are chargeable to income taxes under the tax regulations in force in that country. This adjustment (sometimes referred to as "tax adjustment") concerns members of the NATO DBPS and of the DCPS. The adjustment equals 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 rules of the NATO DBPS or of the DCPS.

The adjustment is borne by the country in which the recipient is subject to taxes on income for the period considered and, therefore, separate accounts are drawn up for each individual country.

For practical reasons, the operations relating to the adjustment of pensions are included in the present financial statements.

A specific call for contributions is issued to the countries concerned.

### **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 DBPS have been prepared on the basis of the NATO Financial Regulations, IPSAS (International Public Sector Accounting Standards) specifications, which the North Atlantic Council approved for adoption on 17 July 2002, with

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implementation by 1 January 2006 and IFRS (International Financial Reporting Standards) more specifically International Accounting Standard (IAS) 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 DBPS is accrual based.

The financial statements summarise the transactions, net assets available for benefits and the changes in net assets available for benefits. In accordance with IAS 26 the actuarial present value of promised retirement benefits of the NATO DBPS is presented in Note 3.

### **Basis of presentation**

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

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

### **Changes in accounting policy**

None in 2013.

### **Reclassification of financial statements of previous year**

None in 2013.

### **Use of estimates**

In the application of accounting policies judgments, estimates and assumptions are made 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 NATO DBPS and receivables.

### **Foreign currency transactions**

NATO entities pay their staff's contributions in various currencies (EUR mostly, GBP, USD, NOK, PLN and DKK) normally in the bank accounts denominated in the same currency. Contributions from the nations to the pension budget are exclusively called in EUR at the year-end for the following year and received in the EUR bank account.

Benefits are paid in various currencies. Benefits are calculated by reference to salary scales applicable to the country of the staff member's last posting. However the staff member may opt for the scale applicable to another country if the former staff member settles subsequently: in a member country of one of the Coordinated Organisations of which he is a national, or in a member country of one of the Coordinated Organisations of which his spouse is a national, or in a country where he/she has served at least five years in one of the organisations of the Coordinated Organisations. As a consequence payments are made in the following currencies: EUR, AUD, CAD, CHF, DKK, GBP, NOK, NZD, SEK, TRY and USD.

Foreign currency transactions are accounted for at the NATO exchange rates prevailing on the date of transactions. The monetary assets and liabilities at year-end are reported in EUR using the NATO rates of exchange that were applicable at year-end.

Gains and losses resulting from the settlement of such transactions and from the revaluation at the reporting dates of monetary assets and liabilities denominated in foreign currencies are recognized as expenses and revenues.

### Cash and Cash equivalents

Cash and cash equivalents are defined as short-term assets. They include cash in banks, term deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash.

### Receivables

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

### Payables

Payables are amounts due to third parties based on rights acquired by staff or pensioners, or services provided that remain unpaid. This includes, as required, an estimate of the related accrued obligation for rights not liquidated, or services provided but not yet invoiced.

### Financial instruments

The NATO DBPS uses only non-derivative financial instruments as part as its normal operations. These financial elements include bank accounts, deposit accounts, accounts receivable and provisions.

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

The maximum exposure as at 31 December 2013 is equal to the total amount of bank balances, short term deposits and receivables. There is very limited credit risk associated with the realization of these elements.

### Credit risk

The NATO DBPS incurs credit risks from cash and cash equivalent held with banks and receivables.

Concerning cash and cash equivalent the NATO DBPS 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 a with registered banking institution with the following rating (short term).

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

Credit risk is managed by maintaining control procedures over receivables. These consist essentially of contributions due from NATO member countries. This risk is considered limited since these countries are generally considered creditworthy. Similarly, the risk linked to employer or staff contributions due from NATO bodies is considered limited since, with the exception of the Staff Centre, these bodies are directly funded by member Nations or indirectly in the case of customer funding.

#### **Currency risk**

The NATO DBPS is exposed to foreign currency exchange risk arising from fluctuations in currency rates. The scheme receives contributions in EUR from member Nations. It receives mostly EUR but also GBP, USD, NOK, PLN and DKK from NATO bodies. As explained above, benefits due to participants in the scheme are in various currencies. Payments are made mainly in EUR (84%), GBP (8%), NOK (2%), USD (2%) and DKK (2%); the other currencies (AUD, CAD, CHF, ISK, NZD, SEK, TRY) each represent less than 1%. Foreign currencies are purchased as needed on a monthly basis keeping foreign currency holdings at a minimum. There is therefore very little currency risk because cash and cash equivalent balances on bank accounts in foreign currencies are always a small percentage of the cash and equivalents.

#### **Liquidity risk**

A liquidity risk could arise from an unforeseen short term liquidity requirement. There is a very limited exposure to liquidity risk because contributions ensure funding commensurate with budgeted benefit disbursements and because member states jointly guarantee the funding of this pension scheme. Some limited risk could be due to the validity of forecasts used for the NATO DBPS budget formulation. However, past history shows that this process results in surpluses.

The outflows of cash follow fairly regular paths and so do the staff and employer contributions but the latter are of a smaller amount. While the timing of member Nations' contributions is not entirely predictable, staff and employer contributions as well as benefit outflows are very stable. The surplus shields NATO DBPS from liquidity risk.

#### **Interest rate risk**

The scheme is restricted from entering into borrowings and investments and, therefore, there is no identified interest rate risk.

### **NOTE 3: ACTUARIAL VALUATION**

The new DCPS was created on 1 July 2005 and thereafter the NATO DBPS was closed to new entrants.

An actuarial study was conducted in 2014 by the OECD International Service for Remunerations and Pensions (ISRP).

The evaluation of the situation end 2013, further to the study conducted in 2014, results in a projected present value of the NATO DBPS obligation of MEUR 4,563 at year end 2013 (including MEUR 39 inward transfer of pension rights). The previous evaluation was MEUR 4,774 (including MEUR 37 inward transfer of pension rights)

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: 2.77%
- Price inflation in the long run: 2%
- Rates of mortality for both active staff and pensioners.

The previous actuarial study dated from 2013 estimated the value of the obligation at the end of 2012 at MEUR 4,737 (excluding inward transfers of rights). The current projection of this liability at the end of 2013 can be obtained as follows:

(amounts in MEUR – excluding transfers of pension rights)

<b>Evaluation of the obligation at year end 2012</b>	<b>(a)</b>	<b>4,737</b>
Benefits paid	(b)	133
Interest costs	(c)	107
Current service costs	(d)	170
Obligation at year end 2012 projected into 2013	(e)=(a-b+c+d)	4,882
Actuarial loss (gain) on obligation	(e-f)	(357)
<b>Evaluation of obligation at year end 2013</b>	<b>(f)</b>	<b>4,524</b>

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 357. 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 for pensions: 2.29%

Price inflation: 2%

Future salary increase: 0.35% above inflation

By definition actuarial valuations are largely dependent on the exogenous and endogenous 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 changed, by 48 basis points, from 2.29% to 2.77%.

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 DBPS. This resulted in the discount rate of 2.77%, compared to the previous 2.29%.

Use of the ever-changing market value reference discount rate is likely to result in substantial changes of the actuarial valuation. Considering that the present interest rates

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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.

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 64 to the actuarial obligation.

Any potential liabilities regarding medical expenses for present and future pensioners are reported in the financial statements of the RMCF.

There could be an additional long term obligation in relation to the adjustment of pensions for countries in which pensions are subject to national tax legislation. This obligation is not an obligation of the NATO DBPS and, therefore, it is not reported here.

### NOTE 4: CASH AND CASH EQUIVALENTS

Payments are made in the following currencies: EUR, AUD, CAD, CHF, DKK, GBP, NOK, NZD, SEK, TRY and USD. Separate bank accounts are held in various currencies in order to ensure such payments and the table below provides the breakdown by currency of bank holdings at year end.

<b><u>BANK HOLDINGS :</u></b>		<b>31 December 2013</b>		
		CURRENCIES	EUR	EUR
<b>(Current accounts)</b>				
ING (Brussels)	AUD	35,483	22,973	
ING (Brussels)	EUR		53,967,278	
ING (Brussels)	CAD	162,003	112,690	
ING (Brussels)	CHF	154,561	124,205	
ING (Brussels)	DKK	837,781	110,705	
ING (Brussels)	GBP	413,345	490,268	
ING (Brussels)	NOK	5,585,438	670,440	
ING (Brussels)	USD	163,134	120,438	
ING (Brussels) Namsa	EUR		58,589	
<b>Sub-total :</b>				<b>55,677,587.41</b>
<b>(Short term deposits)</b>				
ING (Brussels) Business acc.	EUR		19,750,000	
<b>Sub-total :</b>				<b>19,750,000.00</b>
<b>TOTAL :</b>				<b>75,427,587.41</b>

<b>BANK HOLDINGS :</b>		<b>31 December 2012</b>		
(Current accounts)		CURRENCIES	EUR	EUR
ING (Brussels)	AUD	41,020	32,092	
ING (Brussels)	EUR		44,846,148	
ING (Brussels)	CAD	99,519	75,934	
ING (Brussels)	CHF	140,714	115,957	
ING (Brussels)	DKK	838,367	110,782	
ING (Brussels)	GBP	312,938	381,679	
ING (Brussels)	NOK	3,483,688	466,888	
ING (Brussels)	USD	248,034	187,252	
ING (Brussels) Namsa	EUR		58,220	
<b>Sub-total :</b>				<b>46,274,953.36</b>
(Short term deposits)				
ING (Brussels) Business acc.	EUR		19,750,000	
<b>Sub-total :</b>				<b>19,750,000.00</b>
<b>TOTAL :</b>				<b>66,024,953.36</b>

Cash is held on account of third parties in the amount of EUR 58,589 (EUR 58,200 end 2012). These funds belong to nations, members of former NAMSA, who decided that amounts credited to them further to the transfer of staff from the Provident Fund to the DBPS (validation costs) would be kept at their disposal. Five nations are concerned. These funds are typically used to fund part of their budgetary contributions to the DBPS.

The increase in the level of cash holdings can be explained by additional transfers of pension rights and by early contributions by nations.

#### **NOTE 5: STAFF MEMBER CONTRIBUTIONS**

As of 1 January 2010, contributions to the NATO DBPS from serving staff were 9% of their basic salary. Staff member contributions are paid monthly by the NATO payroll centres. The decrease in staff member contributions between 2012 and 2013 is explained by the reduction in the number of contributing staff, as newly recruited staff are members of the DCPS.

Outstanding amounts are contributions due on staff salaries for December from several NATO entities, which were all received in January 2014.

#### **NOTE 6: EMPLOYER CONTRIBUTIONS**

Employer contributions are due from the following NATO bodies: MSIAC, FORACS, NAGSMA, the NATO BICES Agency, the New NATO Headquarters Project Office and the NATO Headquarters Staff Centre. Employer contributions are paid monthly.

Outstanding amounts are essentially employer contributions due by the NATO Headquarters Staff Centre. No employer contributions have been made by the Staff Centre since 2001 (employee contributions were paid). A recovery plan was established in 2011 and the Staff

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Centre reimburses EUR 25,000 per month (EUR 300,000 per annum) which is about 50% more than its annual dues.

The liability of the NATO Staff Center concerning its employer contributions is fully disclosed as an asset in the statement of net assets.

#### **NOTE 7: NATIONS' CONTRIBUTION**

Contributions due from NATO member nations to fund the NATO DBPS of a given budget year are called towards the end of the preceding year. In accordance with Article 15.5 of the NATO Financial Regulations, amounts called are to be paid in principle within a period of one month after receipt of the request. Amounts recognised are those amounts effectively called.

An amount of EUR 120,735,000 was called in late 2013 (EUR 114,187,000 in 2012), as an advance on the next year's pension budget. EUR 29,935,000 was for the Civil Budget and EUR 90,800,000 for the Military Budgets (in 2012: EUR 28,207,000 was for the 2013 Civil Budget and EUR 85,980,000 for the 2013 Military Budgets). These amounts correspond to the 2014 initially approved budgets including any frozen credits. Further adjustments done in the course of the budget year such as budget revisions are taken into account with the next call for contributions (i.e. in the following year).

The calls also included, as a deduction, the surplus as of end 2012 amounting to EUR 4,633,989.76 (EUR 2,969,250.65 end 2011). Of this total amount, EUR 454,608.07 were for the Civil Budget and EUR 4,179,381.69 for the Military Budgets (for 2011, the respective figures were EUR 670,532.08 and EUR 2,298,718.57). There was also an adjustment to take into account downwards revisions of the 2013 budgets which occurred in the course of the year (EUR 850,000 for the Civil Budget and EUR 1,750,000 for the Military Budgets). Therefore the net amounts called from nations in 2013 were EUR 28,630,391.93 for the Civil Budget and EUR 84,870,618.31 for the Military Budgets.

Uncollected budgetary contributions from nations amounted to EUR 85,093,448.37 at year end 2013 (EUR 88,950,563.57 at year end 2012) and relate mainly to the call for the 2014 pension budget. End 2013, there were no contributions still due for 2012 budget year or before.

#### **NOTE 8: PENSION ADJUSTMENT**

For practical reasons, the operations relating to the adjustment of pensions are included in the present financial statements. Members of the DCPS are also entitled to such an adjustment. DCPS related payments are a very small fraction of the total (EUR 41,394 in 2013 out of a total of EUR 19.6 million) and were advanced by the DCPS.

The adjustment is paid monthly by way of advance at the same time as the pension.

The table below provides the breakdown of actual payments by country.

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(CPR - ANNEX IV Chapter X, art. 42)	2013	2012
ALBANIA	0.00	0.00
BELGIUM	9,194,001.00	8,778,110.00
BULGARIA	0.00	0.00
CANADA	141,211.93	119,561.52
CZECH REPUBLIC	0.00	0.00
CROATIA	0.00	0.00
DENMARK	675,167.07	655,851.82
ESTONIA	0.00	0.00
FRANCE	1,514,565.00	1,440,300.00
GERMANY	1,309,756.00	1,236,640.00
GREECE	166,554.00	108,148.00
HUNGARY	0.00	0.00
ICELAND	0.00	0.00
ITALY	1,774,607.00	1,551,747.00
LATVIA	0.00	0.00
LITHUANIA	0.00	0.00
LUXEMBOURG	937,935.00	765,878.00
NETHERLANDS	1,945,011.00	1,674,790.00
NORWAY	549,504.22	585,306.10
POLAND	0.00	0.00
PORTUGAL	110,610.00	119,690.00
ROMANIA	0.00	0.00
SLOVAKIA	0.00	0.00
SLOVENIA	0.00	0.00
SPAIN	215,147.00	148,069.00
TURKEY	0.00	0.00
UNITED KINGDOM	871,084.05	912,111.90
UNITED STATES	208,115.43	212,835.70
TOTAL :	19,613,268.70	18,309,039.04

Contributions due by nations concerned to fund the Pension Adjustment of a given budget year are called towards the end of the preceding year. In accordance with Article 15.5 of the NATO Financial Regulations, amounts called are to be paid in principle within one month after receipt of the request. Amounts recognised are those amounts effectively called.

An amount of EUR 18,844,400 was called in late 2013 (EUR 16,552,400.00 in 2012), as an advance on the next year's payments of the pension adjustment.

Receivables from nations as contributions to fund the adjustment of pensions amounted to EUR 18,824,324.79 as at 31 December 2013 (EUR 15,619,565.12 as at 31 December 2012). Of the advance called in late 2013 for the 2014 pension adjustments, EUR 12,683,700.00 was outstanding as of 31 December 2013. An amount of EUR 3,064,056.70 corresponding to the difference between amounts called for 2013 and actual 2013 payments is to be called in 2014 as a regularisation. An amount of EUR 3,076,568.09 corresponds to amounts due in relation to prior fiscal years (before 2013), part of which was called in late 2013 as a regularisation of 2012 operations. Regarding calls issued before 2013, the outstanding amount was EUR 1,382,618.33 of which EUR 839,617.00 had been paid at the date of the present financial statements.

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**NOTE 9: CREDIT FOR PAST SERVICE TO BE REFUNDED BY STAFF**

This relates to amounts due from staff who had left the Organisation and were paid a leaving allowance but who were later re-employed by the Organisation. Said staff members must reimburse the leaving allowance through monthly instalments.

**NOTE 10: ADVANCE TO THE DCPS**

Advances were made in the past to the DCPS to allow for the timely payment of annuities due to DCPS retirees. These were reimbursed in 2012.

**NOTE 11: OTHER RECEIVABLES**

These are essentially accrued interest (EUR 313,584.08), and miscellaneous amounts to be regularised (for instance linked to successions further to the death of beneficiaries).

**NOTE 12: OTHER LIABILITIES**

These correspond to amounts due to staff departing in December (mainly Leaving Allowances) and paid the following January (EUR 199,893.80), bank fees (EUR 15,837.22) and other miscellaneous amounts due to be regularised (life insurance capital due).

This item also includes funds held on behalf of certain nations corresponding to their share of former NAMSA staff members' validation costs (EUR 58,851.41). When the DBPS was established, staff who decided to transfer from the Provident Fund had to return the value of their accounts to the DBPS. The related holdings were returned to the nations but certain nations decided to keep the funds in the DBPS accounts.

**NOTE 13: NET ASSETS AVAILABLE FOR BENEFITS**

The net assets available for benefits at year-end correspond essentially to the surplus linked to the budgetary process, the inward transfer of pension rights (Note 15) and the amounts corresponding to the credit for past service due by staff (Note 9). As explained in the introductory note on the funding of the DBPS, contrary to most, if not all, of the other Co-ordinated Organisations, NATO has not set aside funds to be invested to fund future costs and, therefore, NATO's funding of the Co-ordinated Pension Scheme is on a pay-as-you-go basis.

(amounts in EUR)

	2013	2012
End of year surplus	2,301,864.90	4,633,989.76
Inward transfer of pension rights	39,410,662.56	36,716,359.98
Credit for past services	83,989.91	106,525.81
<b>TOTAL :</b>	<b>41,796,517.37</b>	<b>41,456,875.55</b>

The limited change between 2012 and 2013 is mainly due to the additional inward transfer of pension rights (2,694,302.58), offset by a smaller budget surplus.

The surplus at year-end is the difference between the final approved budgets and actual amounts required to ensure the payment of benefits due for the period covered by these financial statements. It therefore normally contains excess funding from nations. The surplus is due to the budgetary context under which the NATO DBPS operates and normally results from prudent estimation of the net funding requirements and unforeseen net revenue (such as the net result from interest revenue, foreign exchange profit and loss, bank charges and other miscellaneous income and expenditure).

This surplus is not invested into a fund from which future benefits would be paid: it is returned to contributing nations. The surplus is taken into account, as a deduction, in the assessment of the net contributions to be called from member nations for the budgets of the second year after the reporting period (e.g. the surplus end of 2013 will be returned to nations with the call for the 2015 budget to be issued end 2014).

	CURRENT YEAR	PREVIOUS YEAR
	TOTAL	TOTAL N-1
Final Approved Budget (a)	111,587,000.00	107,158,000.00
Actual Funding Requirement (b)	109,285,135.10	102,524,010.24
Surplus (a) - (b)	2,301,864.90	4,633,989.76

#### NOTE 14: INTEREST EARNED AND BANK CHARGES

This corresponds to expenses and revenues related to financial operations, interest earned on cash holdings and bank charges paid on transactions.

#### NOTE 15: INWARD TRANSFER OF PENSION RIGHTS FROM PENSION SYSTEMS

The NATO Civilian Personnel Regulations (Annex IV, Article 12) 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. Agreements can be signed with other pension systems to establish the conditions under which such transfers apply to staff in given conditions.

For the individuals concerned, the related amount is converted into a number of years of reckonable service with which the staff member concerned has been credited under his/her own pension scheme.

In 2009, the Belgian Authorities allowed such inward transfers to NATO and accordingly gave the then-active staff a limited period of time, from 1 December 2009 to 31 May 2010, to make their request. For 2010 and 2011, the Belgian "Office National des pensions" was the sole case concerned, with contributions amounting to respectively EUR 22.507 million and EUR 10.914 million. As of 31 December 2013, NATO-IS OFC had received EUR 36.025 from the Belgian "Office National des Pensions" (EUR 35.714 million as of end 2012, EUR 33.422 million as of 31 December 2011). There were a small number of cases still to be settled by end 2013.

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In 2012, the in-ward transfers received amounted to EUR 3.294 million, with the main contributions coming from the following national pension systems: Belgium (EUR 2.291 million), Greece (EUR 0.471 million), the Netherlands (EUR 0.369 million) and Luxemburg (0.072 million).

In 2013, the in-ward transfers received amounted to EUR 2.694 million, with the main contributions coming from the following national pension systems: Belgium (EUR 0.311 million), Greece (EUR 0.232 million), the Netherlands (EUR 2.026 million) and Luxemburg (0.124 million).

In consideration of the fact that these inward transfer of rights have been evaluated at the actuarial value of future benefits due to the concerned staff, the corresponding amount has been considered as a net asset available for future benefits. It has also been included in the actuarial value of the future obligation of the NATO DBPS.

The Budget Committee approved, per BC-DS(2011)0055, that the related budgetary receipts be applied not as a lump sum to the current year but rather spread over time and should offset expenses when they occur.

**NOTE 16: OTHER INCREASES IN NET ASSETS**

This corresponds to income related to the pension costs component of fees charged by NCIA to non-NATO or single nation customers.

**NOTE 17: PENSIONS AND LEAVING ALLOWANCES**

The table below provides a breakdown of payments according to the kind of pensions paid.

	I.S.	MILITARY BUDGET	TOTAL	I.S. N-1	MILITARY BUDGET N-1	TOTAL N-1
<b>PAYMENTS / PAIEMENTS</b>						
Retirement Pensions / Pensions d'Ancienneté	20,755,398.05	59,905,034.54	<b>80,660,432.59</b>	19,330,085.55	56,177,825.60	75,507,911.15
Survivor's Pensions / Pensions de Survie	4,933,871.16	13,630,971.82	<b>18,564,842.98</b>	4,749,488.18	12,916,107.27	17,665,595.45
Orphan's Pensions / Pensions d'Orphelins	215,800.80	646,959.65	<b>862,760.45</b>	222,696.27	661,685.39	884,381.66
Invalidity Pensions / Pensions d'Invalidité	4,476,865.28	14,285,340.67	<b>18,762,205.95</b>	4,375,766.18	13,401,650.66	17,777,416.84
Family Allowances / Allocations Familiales	1,415,059.17	5,194,043.21	<b>6,609,102.38</b>	1,357,260.73	4,886,723.05	6,243,983.78
Leaving Allowances / Allocations de Départ	408,085.84	3,117,196.82	<b>3,525,282.66</b>	1,244,277.69	3,366,706.67	4,610,984.36
Validation costs paid / Coûts de validation payés	45,437.78	0.00	<b>45,437.78</b>	171,720.24	545,326.51	717,046.75
Miscellaneous / Divers	0.00	0.00	<b>0.00</b>	0.00	0.00	0.00
<b>TOTAL PAYMENTS / TOTAL PAIEMENTS</b>	<b>32,250,518.08</b>	<b>96,779,546.71</b>	<b>129,030,064.79</b>	<b>31,451,294.84</b>	<b>91,956,025.15</b>	<b>123,407,319.99</b>
<b>RECEIPTS / RECETTES</b>						
Contributions 9%	4,294,723.63	14,616,046.65	<b>18,910,770.28</b>	4,707,828.08	14,895,167.51	19,602,995.59
Employer's Contribution / Contributions Employeur	118,815.20	147,783.72	<b>266,598.92</b>	125,573.28	176,760.12	302,333.40
Insurer's Contribution / Contributions Assureur	0.00	0.00	<b>0.00</b>	0.00	0.00	0.00
Validation costs received / Coûts de validation reçus	22,779.93	1,528.66	<b>24,308.59</b>	14,506.00	1,404.36	15,910.36
Interests, P/L Exchange / Intérêts, P&P sur change	18,334.13	61,405.54	<b>79,739.67</b>	132,797.05	342,774.71	475,571.76
Miscellaneous / Divers	7,732.82	269,960.61	<b>277,693.43</b>	0.00	256,300.14	256,300.14
Contributions 18% due by Staff center	185,818.80	0.00	<b>185,818.80</b>	230,198.50	0.00	230,198.50
<b>TOTAL RECEIPTS / TOTAL RECETTES</b>	<b>4,648,204.51</b>	<b>15,096,725.18</b>	<b>19,744,929.69</b>	<b>5,210,902.91</b>	<b>15,672,406.84</b>	<b>20,883,309.75</b>
<b>DEFICIT - SURPLUS / DEFICIT - EXCEDENT</b>	<b>27,602,313.57</b>	<b>81,682,821.53</b>	<b>109,285,135.10</b>	<b>26,240,391.93</b>	<b>76,283,618.31</b>	<b>102,524,010.24</b>

**NOTE 18: CONTINGENT ASSETS**

Nothing to report.

**NOTE 19: CONTINGENT LIABILITIES**

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

**NOTE 20: SEGMENT INFORMATION**

Although there are only two main sources of funding (Civil Budget and Military Budgets), each of the NATO bodies has its own individual funding cost share which is taken into account when calculating the final contributions for each individual country. Segment information is developed in the following tables to show income and expenditure by NATO body (i.e. the NATO body which was the last employer of the retired staff member on the expense side, and the NATO body which is currently employing the contributing staff member on the revenue side).

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	I.S.	NAPMA	BGOH / NHMO	BGOH / NHMO	BGOH / NHMO	CEPMA	NAHEMA	NAMEADSMA		( In / en EUR )
	( 28 N )	( 13 N )	( 9 N )	( 8 N )	( 2 N )	( 8 N )	( 4 N )	( 2 N )		SUB-TOTAL
<b>PAYMENTS / PAIEMENTS</b>										
Retirement Pensions / Pensions d'Ancienneté	20,755,398.05	1,228,919.46	1,307,396.55	30,666.42	266,873.49	1,863,493.16	13,253.24	0.00		25,466,000.37
Survivor's Pensions / Pensions de Survie	4,933,871.16	224,900.67	642,016.18	9,700.69	10,775.48	784,355.35	0.00	0.00		6,605,619.53
Orphan's Pensions / Pensions d'Orphelins	215,800.80	0.00	0.00	0.00	0.00	0.00	28,022.73	0.00		243,823.53
Invalidity Pensions / Pensions d'Invalidité	4,476,865.28	396,393.32	271,931.20	5,480.53	103,457.00	167,894.80	0.00	0.00		5,422,022.13
Family Allowances / Allocations Familiales	1,415,059.17	129,840.44	87,515.14	3,220.78	40,504.12	104,026.73	1,358.69	0.00		1,781,525.07
Leaving Allowances / Allocations de Départ	408,085.84	646,220.50	0.00	0.00	0.00	0.00	0.00	95,836.95		1,150,143.29
Validation costs paid / Coûts de validation payés	45,437.78	0.00	0.00	0.00	0.00	0.00	0.00	0.00		45,437.78
Miscellaneous / Divers	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		0.00
<b>TOTAL PAYMENTS / TOTAL PAIEMENTS</b>	<b>32,250,518.08</b>	<b>2,626,274.39</b>	<b>2,308,859.07</b>	<b>49,068.42</b>	<b>421,610.09</b>	<b>2,919,770.04</b>	<b>42,634.66</b>	<b>95,836.95</b>		<b>40,714,571.70</b>
<b>RECEIPTS / RECETTES</b>										
Contributions 9%	4,294,723.63	0.00	0.00	0.00	0.00	0.00	33,806.76	8,662.90		4,337,193.29
Employer's Contribution / Contributions Employeur	118,815.20	0.00	0.00	0.00	0.00	0.00	0.00	0.00		118,815.20
Insurer's Contribution / Contributions Assureur	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00		0.00
Validation costs received / Coûts de validation reçus	22,779.93	0.00	0.00	0.00	0.00	0.00	0.00	0.00		22,779.93
Interests, P/L Exchange / Intérêts, P&P sur change	18,334.13	0.00	0.00	0.00	0.00	0.00	139.07	35.64		18,508.84
Miscellaneous / Divers	7,732.82	0.00	0.00	0.00	0.00	0.00	0.00	0.00		7,732.82
Contributions 18% due by Staff center	185,818.80									185,818.80
<b>TOTAL RECEIPTS / TOTAL RECETTES</b>	<b>4,648,204.51</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>33,945.83</b>	<b>8,698.54</b>		<b>4,690,848.88</b>
<b>DEFICIT - SURPLUS / DEFICIT - EXCEDENT</b>	<b>27,602,313.57</b>	<b>2,626,274.39</b>	<b>2,308,859.07</b>	<b>49,068.42</b>	<b>421,610.09</b>	<b>2,919,770.04</b>	<b>8,688.83</b>	<b>87,138.41</b>		<b>36,023,722.82</b>

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	IMS		EX-NACISA	NC3A	NAMMA	NEFMA	NETMA	CEPMA	CEPMA	CEPMA	( In / en EUR )
	( "27" N )	( 28 N )	( 14 N )	( 28 N )	( 3 N )	( 4 N )	( 4 N )	( 7 N )	( 6 N )	( 5 N )	SOUS-TOTAL
											SUB-TOTAL
<b>PAYMENTS / PAIEMENTS</b>											
Retirement Pensions / Pensions d'Ancienneté	815,894.54	3,235,076.31	1,062,280.30	6,301,053.45	26,359.43	86,579.09	495,518.41	108,183.04	9,547.29	3,182.43	37,609,674.66
Survivor's Pensions / Pensions de Survie	310,811.00	479,034.69	411,438.69	430,628.76	76,603.16	71,368.27	149,810.99	0.00	0.00	0.00	8,535,315.09
Orphan's Pensions / Pensions d'Orphelins	29,588.19	0.00	0.00	42,969.81	0.00	0.00	0.00	0.00	0.00	0.00	316,381.53
Invalidity Pensions / Pensions d'Invalidité	86,574.09	347,957.63	33,100.11	986,630.92	75,917.22	74,367.17	140,728.08	49,910.05	48,324.44	16,108.15	7,281,639.99
Family Allowances / Allocations Familiales	39,800.93	196,493.68	83,688.77	512,320.37	2,323.75	7,781.83	16,662.87	9,061.99	2,383.01	794.32	2,652,836.59
Leaving Allowances / Allocations de Départ	0.00	168,218.64	0.00	1,224,553.93	0.00	0.00	0.00	0.00	0.00	0.00	2,542,915.86
Validation costs paid / Coûts de validation payés	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	45,437.78
Miscellaneous / Divers	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>TOTAL PAYMENTS / TOTAL PAIEMENTS</b>	<b>1,282,668.75</b>	<b>4,426,780.95</b>	<b>1,590,507.87</b>	<b>9,498,157.24</b>	<b>181,203.56</b>	<b>240,096.36</b>	<b>802,720.35</b>	<b>167,155.08</b>	<b>60,254.74</b>	<b>20,084.90</b>	<b>58,984,201.50</b>
<b>RECEIPTS / RECETTES</b>											
Contributions 9%	0.00	666,144.84	0.00	0.00	0.00	0.00	16,405.92	0.00	0.00	0.00	5,019,744.05
Employer's Contribution / Contributions Employeur	0.00	128,165.88	0.00	19,617.84	0.00	0.00	0.00	0.00	0.00	0.00	266,598.92
Insurer's Contribution / Contributions Assureur	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Validation costs received / Coûts de validation reçus	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	22,779.93
Interests, P/L Exchange / Intérêts, P&P sur change	0.00	3,267.60	0.00	499.51	-22.48	0.00	67.49	0.00	0.00	0.00	22,320.96
Miscellaneous / Divers	0.00	0.00	0.00	269,960.61	0.00	0.00	0.00	0.00	0.00	0.00	277,693.43
Contributions 18% due by Staff center											185,818.80
<b>TOTAL RECEIPTS / TOTAL RECETTES</b>	<b>0.00</b>	<b>797,578.32</b>	<b>0.00</b>	<b>290,077.96</b>	<b>-22.48</b>	<b>0.00</b>	<b>16,473.41</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>5,794,956.09</b>
<b>DEFICIT - SURPLUS / DEFICIT - EXCEDENT</b>	<b>1,282,668.75</b>	<b>3,629,202.63</b>	<b>1,590,507.87</b>	<b>9,208,079.28</b>	<b>181,226.04</b>	<b>240,096.36</b>	<b>786,246.94</b>	<b>167,155.08</b>	<b>60,254.74</b>	<b>20,084.90</b>	<b>53,189,245.41</b>

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	ACO - ACT				NAMSA	NAMA	NCIA	NSPA			( In / en EUR )
	( 17 N )	( 18 N )	( "27" N )	( 28 N )	( 25 N )	( 12 N )					TOTAL
<b>PAYMENTS / PAIEMENTS</b>											
Retirement Pensions / Pensions d'Ancienneté	5,312,647.30	0.00	20,647,049.18	2,531,319.76	14,559,741.69	0.00	0.00	0.00			80,660,432.59
Survivor's Pensions / Pensions de Survie	1,222,738.49	0.00	5,562,283.63	405,276.93	2,839,228.84	0.00	0.00	0.00			18,564,842.98
Orphan's Pensions / Pensions d'Orphelins	40,057.94	0.00	193,861.73	28,304.71	284,154.54	0.00	0.00	0.00			862,760.45
Invalidity Pensions / Pensions d'Invalidité	5,766,680.56	0.00	2,319,742.60	197,062.23	3,197,080.57	0.00	0.00	0.00			18,762,205.95
Family Allowances / Allocations Familiales	992,907.53	0.00	1,573,448.44	214,580.55	1,175,329.27	0.00	0.00	0.00			6,609,102.38
Leaving Allowances / Allocations de Départ	378,002.34	0.00	414,819.36	0.00	189,545.10	0.00	0.00	0.00			3,525,282.66
Validation costs paid / Coûts de validation payés	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00			45,437.78
Miscellaneous / Divers	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00			0.00
<b>TOTAL PAYMENTS / TOTAL PAIEMENTS</b>	<b>13,713,034.16</b>	<b>0.00</b>	<b>30,711,204.94</b>	<b>3,376,544.18</b>	<b>22,245,080.01</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>			<b>129,030,064.79</b>
<b>RECEIPTS / RECETTES</b>											
Contributions 9%	2,471,186.07	36,335.18	0.00	2,795,383.06	0.00	0.00	4,643,876.02	3,944,245.90			18,910,770.28
Employer's Contribution / Contributions Employeur	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00			266,598.92
Insurer's Contribution / Contributions Assureur	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00			0.00
Validation costs received / Coûts de validation reçus	1,528.66	0.00	0.00	0.00	0.00	0.00	0.00	0.00			24,308.59
Interests, P/L Exchange / Intérêts, P&P sur change	10,172.14	149.47	232.50	11,499.52	35.80	0.00	19,103.76	16,225.52			79,739.67
Miscellaneous / Divers	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00			277,693.43
Contributions 18% due by Staff center											185,818.80
<b>TOTAL RECEIPTS / TOTAL RECETTES</b>	<b>2,482,886.87</b>	<b>36,484.65</b>	<b>232.50</b>	<b>2,806,882.58</b>	<b>35.80</b>	<b>0.00</b>	<b>4,662,979.78</b>	<b>3,960,471.42</b>			<b>19,744,929.69</b>
<b>DEFICIT - SURPLUS / DEFICIT - EXCEDENT</b>	<b>11,230,147.29</b>	<b>-36,484.65</b>	<b>30,710,972.44</b>	<b>569,661.60</b>	<b>22,245,044.21</b>	<b>0.00</b>	<b>-4,662,979.78</b>	<b>-3,960,471.42</b>			<b>109,285,135.10</b>

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**NOTE 21: BUDGET EXECUTION**

Presently the NATO DBPS budgets are not made available to the public. The following table compares approved budgets and actuals.

<b>Budget Execution 2013</b>				
	Initial Budget	Revised Budget	Actuals	Difference
	(a)	(b)	(c)	(b-c)
<b>CIVIL BUDGET</b>				
<u>PAYMENTS / PAIEMENTS</u>				
Retirement Pension / Pension d'Ancienneté	20,638,000	20,640,000	20,755,398.05	-115,398.05
Survivor Pension / Pension de Survie	4,620,000	4,940,000	4,933,871.16	6,128.84
Orphans Pension / Pension d'Orphelins	185,000	210,000	215,800.80	-5,800.80
Invalidity Pension / Pension d'Invalidité	4,555,000	4,450,000	4,476,865.28	-26,865.28
Family Allowance / Allocations Familiales	1,397,000	1,337,000	1,415,059.17	-78,059.17
Leaving Allowance / Allocations de Départ	1,400,000	280,000	408,085.84	-128,085.84
Validation Costs Paid / Coûts de Validation payés	0.00	0	45,437.78	-45,437.78
Miscellaneous / Divers			0.00	0.00
<b>Total Payments / Paiements</b>	<b>32,795,000.00</b>	<b>31,857,000.00</b>	<b>32,250,518.08</b>	<b>-393,518.08</b>
<u>RECEIPTS / RECETTES</u>				
Staff Contributions / Contributions des Agents	4,117,000	4,130,000	4,294,723.63	-164,723.63
Employer Contributions / Contributions de l'Employeur	471,000	370,000	118,815.20	251,184.80
Validation Costs Received / Coûts de Validation reçus	0	0	22,779.93	-22,779.93
Interests, Profit & Loss / Intérêts, Pertes & Profits	0	0	18,334.13	-18,334.13
Miscellaneous / Divers	0	0	7,732.82	-7,732.82
Contributions due by Staff Center	0.00	0	185,818.80	-185,818.80
<b>Total Receipts / Recettes</b>	<b>4,588,000.00</b>	<b>4,500,000.00</b>	<b>4,648,204.51</b>	<b>-148,204.51</b>
<b>Funding Requirement / Besoin de financement</b>	<b>28,207,000.00</b>	<b>27,357,000.00</b>	<b>27,602,313.57</b>	<b>-245,313.57</b>
<b>MILITARY BUDGETS</b>				
<u>PAYMENTS / PAIEMENTS</u>				
Retirement Pension / Pension d'Ancienneté	61,500,000	61,000,000	59,905,034.54	1,094,965.46
Survivor Pension / Pension de Survie	13,900,000	13,900,000	13,630,971.82	269,028.18
Orphans Pension / Pension d'Orphelins	730,000	730,000	646,959.65	83,040.35
Invalidity Pension / Pension d'Invalidité	14,200,000	14,500,000	14,285,340.67	214,659.33
Family Allowance / Allocations Familiales	5,300,000	5,300,000	5,194,043.21	105,956.79
Leaving Allowance / Allocations de Départ	5,000,000	4,000,000	3,117,196.82	882,803.18
Validation Costs Paid / Coûts de Validation payés	0	0.00	0.00	0.00
Miscellaneous / Divers	0.00	0.00	0.00	0.00
<b>Total Payments / Paiements</b>	<b>100,630,000.00</b>	<b>99,430,000.00</b>	<b>96,779,546.71</b>	<b>2,650,453.29</b>
<u>RECEIPTS / RECETTES</u>				
Staff Contributions / Contributions des Agents	13,500,000	14,000,000	14,616,046.65	-616,046.65
Employer Contributions / Contributions de l'Employeur	150,000	200,000	147,783.72	52,216.28
Validation Costs Received / Coûts de Validation reçus	300,000	300,000	1,528.66	298,471.34
Interests, Profit & Loss / Intérêts, Pertes & Profits	400,000	400,000	61,405.54	338,594.46
Miscellaneous / Divers	300,000.00	300,000.00	269,960.61	30,039.39
<b>Total Receipts / Recettes</b>	<b>14,650,000.00</b>	<b>15,200,000.00</b>	<b>15,096,725.18</b>	<b>103,274.82</b>
<b>Funding Requirement / Besoin de financement</b>	<b>85,980,000.00</b>	<b>84,230,000.00</b>	<b>81,682,821.53</b>	<b>2,547,178.47</b>
<b>TOTAL CIVIL + MILITARY BUDGETS</b>				
<b>TOTAL Funding Requirement</b>	<b>114,187,000.00</b>	<b>111,587,000.00</b>	<b>109,285,135.10</b>	<b>2,301,864.90</b>

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The “actual amounts” referred to by IPSAS 24 (“amounts that result from execution of the budget”) are considered to be the commitment of credits. In the case of the NATO DBPS there are no differences between the budget and accounting bases. The notion of commitments used for the NATO DBPS budget execution corresponds to expenses incurred during the course of the year. In this respect the NATO DBPS budget should be considered as prepared and executed on an accrual basis. There are no timing or entity differences.

DBPS funding requirement credits for 2013 for the Civil Budget and the Military Budgets, were initially approved at, respectively, EUR 28,207,000 and EUR 85,980,000. Both budgets were revised in the course of the year to respectively EUR 27,357,000 and EUR 84,230,000. As a consequence, reductions to the calls issued to nations end 2013 were required in the amounts of EUR 850,000 and EUR 1,750,000 respectively.

The adjustment concerning the Civil Budget Pensions credits was overstated and the subsequent funding requirement was higher by EUR 245,144.31, resulting in a negative surplus. Given the compulsory nature of pension expenses, it was not possible to reduce pension payments to comply with this funding limit. The difference will be taken into account in the 2014 call for nations’ pension contributions. Taking the two budgets together, there was nevertheless a surplus of EUR 2,301,864.90, the smallest seen in recent years.

The difference between approved budgets and actual expenditures for the Military Budgets concerns mainly the following items: retirement pensions (extrapolations made for the 2nd quarterly review were conservative in projecting the impact of the in-year adjustment of pensions), and leaving allowances (due to the difficulty of accurately predicting the number, grade and seniority of staff entitled to leaving allowances in a given year).

With regard to receipts, the main difference between approved budgets and actuals concerns staff contributions. Newly recruited staff are automatically members of the DCPS. As a consequence, the number of staff contributing to the NATO DBPS is declining. The impact of this trend has proven difficult to forecast.

The difference between the overall final funding requirement estimate (budget) for 2013 of EUR 111,587,000 and the actual amount of EUR 109,285,135.10 amounted to EUR 2,301,862.90 (EUR 4,633,989.76 in 2012) and constitutes the 2013 surplus reimbursable to nations. It will be returned to Nations with the call to be issued end 2014. This surplus is smaller than in preceding years (EUR 4,633,989.76 in 2012, EUR 2,969,250.65 in 2011, EUR 6.498 million in 2010 and EUR 12.962 million in 2009).

## **NOTE 22: RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT PERSONNEL**

During 2013 there have been the following related party transactions:

### **Administrative Expenses**

Administrative expenses in relation to the NATO DBPS are not recognised in these financial statements.

The administrative expenses related to the management of the scheme by NATO IS are estimated at EUR 454,000 for 2013 (EUR 460,000 for 2012). This includes miscellaneous operating costs and the personnel costs of the full time equivalent of 4.5 staff from the Office

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of Financial Control and the Human Resources Pension Unit. Most of the individuals concerned are participants to the NATO DBPS.

NATO's contribution towards the annual administrative costs of the International Service for Remunerations and Pensions (ISRP which took over, among others, the activities of the former Joint Pensions Administrative Section) paid to the OECD was EUR 128,919 in 2011. No similar breakdown was provided since but the amount is estimated to be of the same order of magnitude in 2013.

These administrative expenses are charged to the NATO Civil Budget, which includes the IS. In the framework of the Administrative Support Costs process applied by NATO IS to all of the other NATO bodies to which such kind of services are provided, NATO-IS charges these expenses to the other individual NATO bodies in proportion to the number of NATO established posts. The related income is returned to NATO member Nations as a deduction to the Civil Budget contributions called from them.

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.

**NOTE 23: STATISTICAL INFORMATION**

The following table provides information concerning the number of beneficiaries in the NCPS.

Year	Retirement Pension	Survivor's and Reversion Pension	Orphan's and Dependant's Pension	Invalidity Pension	Total
1995	830	330	88	155	1,403
1996	878	340	91	168	1,477
1997	926	374	97	188	1,585
1998	967	395	98	202	1,662
1999	1,020	409	104	224	1,757
2000	1,096	424	96	229	1,845
2001	1,134	432	102	248	1,916
2002	1,187	448	98	275	2,008
2003	1,243	461	103	293	2,100
2004	1,344	479	96	313	2,232
2005	1,417	500	99	336	2,352
2006	1,469	515	96	379	2,459
2007	1,548	515	90	406	2,559
2008	1,629	523	77	419	2,648
2009	1,715	537	79	452	2,783
2010	1,838	543	71	472	2,924
2011	1,950	561	68	480	3,059
2012	2,023	592	72	480	3,167
2013	2,149	609	64	491	3,313

\* \* \* \* \*

List of acronyms:

BICES:	Battlefield Information Collection and Exploitation Systems Agency
CPR:	Civilian Personnel Regulations
DCPS:	Defined Contribution Pension Scheme
DBPS:	Defined Benefit Pension Scheme
FORACS:	NATO Naval Forces Sensor and Weapons Accuracy Check Sites
IFRS:	International Financial Reporting Standards
IPSAS:	International Public Sector Accounting Standards
IS:	International Staff
ISRP:	International Service for Remunerations and Pensions
JPAS:	Joint Pensions Administrative Section
MSIAC:	Munitions Safety Information Analysis Centre
NAGSMA:	NATO Alliance Ground Surveillance Management Agency
NAC:	North Atlantic Council
NCIA:	NATO Communication and Information Agency
OECD:	Organisation for Economic Co-operation and Development
OFC:	Office of Financial Control
RMCF:	Retirees Medical Claims Fund
SC:	NATO Headquarters' Staff Centre