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|  | NATO | NORTH ATLANTIC COUNCIL |
| | OTAN | CONSEIL DE L'ATLANTIQUE NORD |

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09 January 2018

DOCUMENT
C-M(2017)0080-AS1

**IBAN AUDITS ON THE 2015 AND 2016 FINANCIAL STATEMENTS OF THE NATO
COORDINATED PENSION SCHEME**

ACTION SHEET

On 08 January 2018, under the silence procedure, the Council noted the IBAN reports on the 2015 and 2016 financial statements of the Coordinated Pension Scheme attached to C-M(2017)0080 and agreed to the public disclosure of these reports, the IBAN audits and the associated financial statements.

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2017)0080.

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20 December 2017

DOCUMENT
C-M(2017)0080
Silence Procedure ends:
8 Jan 2018 17:30

**IBAN AUDITS ON THE 2015 AND 2016 FINANCIAL STATEMENTS OF THE NATO
COORDINATED PENSION SCHEME**

1. I attach the International Board of Auditors for NATO (IBAN) reports on the audits of the 2015 and 2016 financial statements of the NATO Coordinated Pension Scheme (DCPS).
2. The IBAN reports set out an unqualified opinion on the financial statements and a qualified opinion on compliance for the financial years 2015 and 2016.
3. The IBAN reports have been reviewed by the Resource Policy and Planning Board (RPPB) (see Annex). I do not believe that this matter requires discussion in the Council. Consequently, **unless I hear to the contrary by 17:30 hours on Monday, 8 January 2018**, I shall assume that the Council has noted the IBAN reports on the 2015 and 2016 financial statements of the Coordinated Pension Scheme and agreed to the public disclosure of these reports, the IBAN audits and the associated financial statements.

(Signed) Jens Stoltenberg

1 Annex
4 Enclosures

Original: English

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**IBAN AUDITS ON THE 2015 AND 2016 FINANCIAL STATEMENTS OF THE NATO
COORDINATED PENSION SCHEME**

Report by the Resource Policy and Planning Board

References:

- A. IBA-AR(2017)23 IBAN report on 2015 financial statements
- B. IBA-AR(2017)31 IBAN report on 2016 financial statements
- C. PO(2016)0542

INTRODUCTION

1. This report covers the audits of the 2015 and 2016 financial statements of the NATO Coordinated Pension Scheme (CPS) (references A and B).

DISCUSSION

2. The IBAN have issued an unqualified opinion on the financial statements and a qualified opinion on compliance for both financial years 2015 and 2016.
3. The background to the delays in the production of the 2015 financial statements has already been addressed in full (reference C). Critical staff shortfalls, competing priorities and implementation problems with the new ERP system all contributed to the financial statements only being submitted to the IBAN on 22 September 2016. The Financial Controller of the International Staff agreed with all of the recommendations made by the IBAN who have followed up on the status of the observations in the audit of the 2016 financial statements. Of the four observations which impacted the audit opinion on compliance on the 2015 financial statements two have been settled and two have been superseded by current observations. Of the four other observations which did not impact the 2015 audit opinion only one is outstanding, two have been superseded and one has been partially settled. As a result the focus of this report will now be on the audit findings on the 2016 financial statements. The IBAN made five observations on the 2016 financial statements, four of which impacted the audit opinion on compliance.

Observations that impacted the 2016 audit opinion on compliance

4. The RPPB notes that the IS had to issue a revision to the original financial statements to fix a disclosure issue identified during the audit. This matter is therefore now closed and no further action is required. The RPPB further notes however that the IBAN highlighted that there is no timeframe to cover the duration of short term investments and that the Budget Committee intends to address this as part of its review of the NATO Financial Regulations and Financial Rules and Procedures.
5. The first of the remaining observations that impacted the audit opinion on compliance concerned insufficient controls over financial reporting. The IBAN found a

number of issues (reconciliation of balances, disclosure notes, classification problems) that collectively represent material weaknesses in internal controls over financial reporting. The Financial Controller of the International Staff (IS) who is responsible for the preparation of the financial statements, explained that the weaknesses resulted from issues encountered during the first months of use of the ERP system which still required some cleansing. The IBAN made a number of recommendations to address these weaknesses which have been agreed by the Financial Controller and he is confident that these issues will be resolved before the 2017 financial statements are issued in March 2018.

6. The audit opinion was also affected when the IBAN was unable to obtain sufficient evidence that the IS had performed regular monthly checks to reconcile data between the ERP accounting system and the Pensions Unit. Regular and timely reconciliations form a significant element of internal control over financial reporting. The IS did perform monthly reconciliations between the payment instruction from the Pensions Unit and the ERP bank transactions but has also agreed that the best solution is to install an interface between the ERP and the Personnel Management Information System (PMIS) used by the Pensions Unit which will reduce the workload, limit the number of manual cases and simplify reconciliations. This interface is in the scope of the planned release of the ERP project.

7. The IBAN also identified the need to enforce controls over the reconciliation of bank balances and the IBAN found that monthly checks to reconcile cash balances between the accounting system and bank statements had not been performed. The IS has agreed to add such reconciliations to the current reconciliation between bank statements and the accounting system's cash management module.

Other observations

8. The final observation did not impact the audit opinion although the IBAN did choose to identify as an "emphasis of matter" the actuarial valuation of the NATO CPS. The actuarial valuation is performed on an annual basis and is a paid service. However the 2016 financial statements do not contain the most up to date actuary obligation because the external report was not available before the financial statements were issued. The IBAN acknowledges that this fact was properly disclosed in the notes to the 2016 financial statements. The pension obligation of the NATO CPS has increased from EUR 6.46 billion in 2015 to EUR 7.35 billion in 2016, an increase of 12% due primarily due to a decrease in the discount rate. The Financial Controller will try to align the reporting timelines to ensure the financial statement contains the most up to date actuarial valuation but this may be challenging.

9. The RPPB notes that the final version of the actuarial report is usually available during the audit field work and the suggestion from the FC that a revised version of the financial statements could be issued to incorporate the data from the actuarial report. The RPPB notes that the IBAN believes the financial statements issued on 31 March should be the final version and do not support an approach that would see them be subsequently amended.

CONCLUSIONS

10. The IBAN have issued an unqualified opinion on the financial statements and a qualified opinion on compliance for both financial years 2015 and 2016. The RPPB is pleased to note that the number of audit observations has reduced from 8 that were made on the 2015 financial statements of the NATO CPS to 5 in the audit on the 2016 financial statements. While noting that there is still a qualified audit opinion on compliance the RPPB is satisfied that corrective action has been taken to address audit observations suggesting that implementation of the new ERP system is having the desired effect. The RPPB recognises that further work is still needed to address weaknesses in internal controls on financial reporting and notes that these issues are expected to be resolved before the 2017 financial statements are issued in March 2018.

11. Where it is not possible to align reporting timelines of information provided by an external provider the RPPB believes that the IBAN and the FC should at least consider a more pragmatic approach so that the most complete and up to date financial information is presented and made available for public disclosure for the benefit of users.

RECOMMENDATIONS

12. The RPPB recommends that the Council:

- a) note the IBAN reports (IBA-AR(2017)23 & 31);
- b) endorse the conclusions at paragraphs 10-11; and
- c) approve the public disclosure of this report, the IBAN audits and the associated 2015 and 2016 financial statements.

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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 2015**

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 2015 amounted to EUR 140 million (EUR 135 million in 2014). The actuarial present value of the pension liability of the scheme at 31 December 2015 was EUR 6.5 billion (EUR 6.2 billion at 31 December 2014).

The Board issued an unqualified opinion on the Financial Statements of the NATO Coordinated Pension Scheme and a qualified opinion on compliance for the year ended 31 December 2015.

The Board had eight current year observations to report (Annex 3).

The Board had one observation from the previous year's audit report that was superseded by a current year observation.

For the IS Financial Controller's formal comments, see the Appendix to Annex 3.

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26 September 2017

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 2015

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**AUDITOR'S REPORT TO THE NORTH ATLANTIC COUNCIL AND
STAFF MEMBERS AFFILIATED TO THE
NATO COORDINATED PENSION SCHEME (NATO DBPS)**

Report on the Financial Statements

The International Board of Auditors for NATO (Board) audited the attached financial statements of the NATO Coordinated Pension Scheme for the year ended 31 December 2015, which comprised the Statement of Net Assets Available for Benefits, the Statement of Changes in Net Assets Available for Benefits and the Explanatory Notes, including a summary of significant accounting policies.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Accounting Standard (IAS) 26 *Accounting and Reporting by Retirement Benefit Plans*¹ and the requirements of the NATO Financial Regulations (NFRs) as authorised by the North Atlantic Council. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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

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 2015, the changes in financial position thereof for the year then ended in accordance with IAS 26.

Other Matters

The NATO International Staff (IS) implemented a new accounting software in January 2015. This Enterprise Resource Planning (ERP) software was planned to be used by the IS to perform the 2015 accounting for the NATO Coordinated Pension Scheme. The IS experienced some issues with the ERP software and its implementation, and the software was not fully used for the 2015 accounting for the NATO Coordinated Pension Scheme. However, due to the limited types of transactions related to this retirement plan, the IS manually prepared, outside the new accounting system, the NATO Coordinated Pension Scheme Financial Statements. This was done combining both ERP data and alternative information sources, although not in time to meet the 31 March deadline. We were able to perform audit procedures using the ERP data and these alternative sources of information. Our opinion is not qualified in respect to this matter.

Report on Compliance

Management's Responsibility for Compliance

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

Auditor's Responsibility

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

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

Basis for Qualified Opinion on Compliance

The NFRs require the establishment of a system of internal control. The Board found that the amount of Pension Benefits disclosed as being paid in the financial statements were not reconciled to the supporting documentation from the Pension Unit by the IS before the issuance of the financial statements. Furthermore, the Board found that bank balances were not being reconciled during 2015. These represent material weaknesses in internal control over financial reporting.

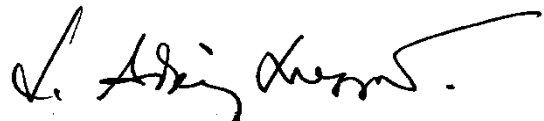
The NFRs require the financial statements to be submitted for audit to the Board by the Financial Controller no later than 31 March following the end of the financial year. The financial statements of the NATO Coordinated Pension Scheme for the year ended 31 December 2015, though, were only submitted on 22 September 2016. Furthermore, the financial statements were not signed by the NATO Secretary General.

Furthermore, the NFRs require the Statement of Internal Control to be signed annually by the NATO Secretary General and the Financial Controller. However, no Statement of Internal Control was issued for 2015.

Qualified Opinion on Compliance

In our opinion, except for the matters and the possible effects of the matters described above in the *Basis for Qualified Opinion on Compliance* paragraph, in all material respects the financial transactions and information reflected in the financial statements are in compliance with the NFRs and the NATO Civilian Personnel Regulations.

Brussels, 26 September 2017



Hervé-Adrien Metzger
Chairman

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26 September 2017

INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS

FOR THE NATO COORDINATED PENSION SCHEME

FOR THE YEAR ENDED 31 DECEMBER 2015

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IBA-AR(2017)23

Introduction

The International Board of Auditors for NATO (Board) audited the NATO Coordinated Pension Scheme Financial Statements for the year ended 31 December 2015, and issued a qualified opinion on those financial statements and on compliance.

The Board also included an Other Matters paragraph in the Auditor's Report (Annex 2) to draw the reader's attention to the fact that the International Staff (IS) manually prepared the 2015 NATO Coordinated Pension Scheme Financial Statements, outside the new Enterprise Resource Planning (ERP) system, and also used alternative information sources.

Observations and Recommendations

During the audit, the Board made eight observations with recommendations which are summarised herein:

Four observations impact the audit opinion on compliance:

1. Insufficient internal controls related to pension benefits in the financial statements.
2. No regular reconciliation of bank balances.
3. Late issuance of the financial statements.
4. No Statement of Internal Control was issued.

The remaining four observations do not impact the audit opinion:

5. Significant delays in providing information required for the audit.
6. Insufficient data transparency and availability in the accounting system.
7. Classification misstatements and omissions in the financial statements.
8. Unclear foreign currency conversion policy.

The Board followed up on the status of an observation from a previous years' audit and found that has been superseded by current year observation 3.

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OBSERVATIONS AND RECOMMENDATIONS

1. INSUFFICIENT INTERNAL CONTROLS RELATED TO PENSION BENEFITS IN THE FINANCIAL STATEMENTS

Reasoning

1.1 Article 12 of the NFRs requires that the Secretary General ensures the necessary internal management functions are in place in the NATO International Staff (IS) to support effective internal control, designed to provide reasonable assurance that the NATO body will achieve its objectives in various categories, including: verify the accuracy and reliability of accounting data and records, establish and maintain comprehensive accounting records of all assets and liabilities, and adequate audit trails and data confidentiality, integrity and availability in information systems.

Observation

1.2 The NATO Coordinated Pension Scheme reported EUR 140.3 million of Pension Benefits in the Statement of Changes in Net Assets Available Benefits for 2015. The Board made several attempts to reconcile the above amount to the external data sources (Pension payslips, generated by Pensions Unit; database of pension benefits from Pensions Unit). The Pension Benefits reported in the Financial Statements were higher by more than EUR 2.5 million compared to the external data sources. The Board made multiple inquiries of such differences to the Office of Financial Control, but no justification for the difference was provided for many months. While a justification for the difference was ultimately provided, the Board found that the IS had not performed a reconciliation of the amount of pension benefits recorded in the financial statements to supporting documentation before the financial statements were issued. This is a material weakness in internal controls over financial reporting.

Recommendation

1.3 The Board recommends that the IS retains all the information in sufficient details in order to support the accounting entries in the ERP system.

1.4 The Board recommends performing regular reconciliations of data on Pension Benefits recorded in ERP with Pensions Unit.

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2. NO REGULAR RECONCILIATION OF BANK BALANCES

Reasoning

2.1 According to paragraph VI 4) (c) of the NATO Financial Rules and Procedures, the Financial Controller shall ensure that all accounts are reconciled and verified on a regular basis, and all activities with financial implications, including multinational and non-appropriated fund activities, controlled by periodic inspection.

Observation

2.2 The Board found that the IS did not perform monthly reconciliations of cash balances between the accounting system and bank statements for 2015. Monthly reconciliations can only be performed after all bank transactions have been recorded and reconciled in the ERP. This did not happen because there were a significant amount of unreconciled and unprocessed bank transactions in the ERP in 2015.

Recommendation

2.3 The Board recommends performing and documenting regular monthly cash reconciliations, which will help to identify misstatements (if any) on a timely basis. This should include signatures of the preparer and the reviewer.

3. LATE ISSUANCE OF THE FINANCIAL STATEMENTS

Reasoning

3.1 Article 35 of the NATO Financial Regulations (NFRs) states that: "An annual financial statement for each NATO body, consolidated where applicable and appropriate, shall be submitted for audit to the International Board of Auditors for NATO by the Financial Controller not later than 31 March following the end of the financial year."

Observation

3.2 The financial statements of the NATO Coordinated Pension Scheme were received by the Board on 22 September 2016, thus not respecting the requirements of the NFRs. Furthermore, the financial statements were not signed by the Secretary General. This represents a material weakness in internal control over financial reporting. As a result, the Board was not able to properly plan and carry out a financial statement audit and to report its results to the Council on a timely basis. This limits, in part, the usefulness of the financial statements.

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Recommendation

3.3 The Board recommends that future financial statements be submitted to the Board by 31 March, respecting the deadline in the NFRs.

4. NO STATEMENT OF INTERNAL CONTROL WAS ISSUED

Reasoning

4.1 According to Article 3 of the NFRs, the Secretary General is responsible and accountable for sound financial management and shall put in place the necessary governance arrangements to ensure and maintain this. This shall include, but is not limited to, the establishment and maintenance of financial governance, resource management practices, internal controls and financial information systems to achieve the efficient and effective use of resources. The adherence to this is confirmed annually by the signature of the financial statements and the Statement of Internal Control. Both documents should be signed by the Head of the NATO body and the Financial Controller.

Observation

4.2 A Statement of Internal Control, to be signed by the Secretary General and the Financial Controller, was not issued.

Recommendation

4.3 The Board recommends that the signed Statement of Internal Control be issued along with the signed Financial Statements.

5. SIGNIFICANT DELAYS IN PROVIDING INFORMATION REQUIRED FOR THE AUDIT

Reasoning

5.1 The Board follows the International Standards of Supreme Audit Institutions (ISSAIs). ISSAI 1260, *Communications with those Charged with Governance*, requires the auditor to communicate significant difficulties encountered during the audit.

Observation

5.2 During the audit of the 2015 financial statements, there were significant delays in the IS Office of Financial Control providing required information for the audit. Furthermore, some of the information requested was never received. This does not enable the Board to properly carry out its financial statement audits and resulted in

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significant delays reporting the results to the Council. This limits the usefulness of the financial statements.

Recommendation

5.3 The Board recommends that the IS Office of Financial Control provide required information to the Board in a timely manner. In order to meet the Board's deadlines, less flexibility will be provided in future audits.

6. INSUFFICIENT DATA TRANSPARENCY AND AVAILABILITY IN THE ACCOUNTING SYSTEM

Reasoning

6.1 According to Article 4.2 of the NFRs, transparency is one of the main principles on which the financial administration of NATO bodies must be based on.

6.2 Article 12.1 part (b) of the NFRs states that the Secretary General shall ensure the necessary internal management functions are in place to support effective internal control, designed to provide reasonable assurance that the NATO body will achieve its objectives in verifying the accuracy and reliability of accounting data and records.

6.3 As set out in Article 12.2 part (c) of the NFRs, in order to meet the desired internal control standards the Financial Controller shall establish and maintain comprehensive accounting records of all assets and liabilities.

6.4 According to Article 12.3 part (c) of the NFRs, the internal control activities shall include, but not be limited to adequate audit trails and data confidentiality, integrity and availability in information systems.

Observations

6.5 The Board found that the financial statements do not directly reconcile to the balances in the ERP accounting system. Moreover, a significant amount of transactions which have occurred during the year had not been captured within the ERP on a transaction-by-transaction basis (for example, there are no revenue accounts in the trial balance and no revenue transactions can be found in the Account Analysis Report). Rather, account transactions were aggregated outside of the system and subsequently manually entered in ERP.

6.6 Keeping accounting records outside the ERP system significantly deteriorated the availability and transparency of the accounting data and underlying supporting documentation, causing inefficiencies in the Board's audit. This also significantly increases the risk over the integrity of the accounting records and the financial statements.

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6.7 In addition, not following standard ERP workflows for individual routine transactions increases the risk of insufficient segregation of duties and as a result, the risk of errors and fraud.

Recommendations

6.8 The Board recommends improving the transparency and availability of the accounting data by recording all individual accounting transactions in the ERP system and using standard workflows for routine transactions. In situations when aggregated data is entered in the accounting program, underlying supporting details (summaries, listings, calculations, etc.) should be available within the ERP and should be subject to proper verification and approval within the system.

6.9 The Board recommends using a trial balance, generated by the ERP, as a main source for the preparation of financial statements. The preparer of the financial statements should keep detailed supporting working papers in order to be able to support any information disclosed in the financial statements.

7. CLASSIFICATION MISSTATEMENTS AND OMISSIONS IN THE FINANCIAL STATEMENTS

Reasoning

7.1 According to best practices, the process of preparation of the financial statements involves a number of actors, performing multi-level review of the financial statements in order to ensure their quality and reduce the risk of material errors.

Observations

7.2 The Board found omission and other errors in the financial statements issued to the Board on 22 September 2016 as follow:

Disclosure of Pension Adjustment Benefits

7.2.1 EUR 22.4 million of post-employment tax adjustments and related revenues of EUR 22.4 million are not disclosed in the Statement of Changes in Net Assets Available for Benefits. Disclosing the post-employment tax adjustments will make financial statements more useful for the users of financial statements.

Disclosure of Receivables from NATO entities

7.2.2 Nations contributions receivable on the Statement of Net Assets Available for Benefits as at 31 December 2015 is EUR 90.0 million. This amount includes also EUR 1.3 million of receivables from NATO Bodies, which should be disclosed separately.

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Accuracy of Note references in the Financial Statements

7.2.3 Some Note numbers disclosed on the Face of financial statements do not correspond to Note numbers in the Annex 3 (for example, Notes 10 to 17).

Information on the number of beneficiaries in the Scheme

7.2.4 Note 22 to the financial statements does not include information on the number of beneficiaries in the NATO Coordinated Pension Scheme in 2015.

Accuracy of Segment information

7.2.5 The segment information disclosed in Note 19 is not fully accurate. For example, receipts for the NATO Airborne Early Warning and Control Programme Management Agency have been indicated as zero, however, according to bank statements there were incoming payments of EUR 172 thousand from NAPMA.

Recommendation

7.3 The Board recommends implementing the multi-level financial statements review process in order to ensure the overall quality of the produced financial statements and supporting documentation.

8. UNCLEAR FOREIGN CURRENCY CONVERSION POLICY

Reasoning

8.1 According to the NATO Accounting Framework, the entity translates foreign currency items into its functional currency, and reports the effects of such translation. Furthermore, it states that a foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transactions.

8.2 According to best practices, entities with significant amount of operations in foreign currencies should develop a policy, explaining the process of accounting for and reporting transactions stated in foreign currencies.

Observations

8.3 Significant portions of NATO Coordinated Pension's incoming and outgoing payments were made in currencies other than the functional currency, which is the EUR. The Board was unable to obtain a policy or detailed explanations regarding conversion of transactions stated in foreign currencies and accounting for the gain or loss from these transactions.

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8.4 The Board found that no foreign exchange rate revaluation was done relating to assets and liabilities presented in the 2015 Financial Statements. This means that monetary assets and liabilities are misstated in the 2015 financial statements. The Board assessed the potential misstatement as immaterial.

Recommendations

8.5 The Board recommends developing and implementing a comprehensive policy on the accounting and reporting of transactions and balances, stated in foreign currencies.

8.6 The Board recommends that monetary assets and liabilities at year-end be revalued into EUR at the year-end foreign exchange rates.

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FOLLOW-UP OF A PREVIOUS YEAR'S OBSERVATION

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

| OBSERVATION / RECOMMENDATION | ACTION TAKEN | STATUS |
|---|---|---|
| Audit Report FY 2014 IBA-AR(2015)24 Late issuance of financial statements Board's recommendation The Board recommends that future financial statements be submitted 31 March, the deadline in the revised NFRs. | The financial statements of the NATO Coordinated Pension Scheme were received by the Board again with delay, not respecting the requirements of the NFRs. | Observation Superseded by current year observation 3. |

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

**OBSERVATION 1:
INSUFFICIENT EVIDENCE TO SUPPORT PENSION BENEFITS IN THE FINANCIAL
STATEMENTS**

International Staff's formal comments

The recommendations concerning support information and reconciliations are agreed.

During the first months of ERP usage in 2015 there was some confusion concerning the archiving of information details of accounting entries. Since then, copies of PMIS (Personnel Management Information System) files are done every month by IS OFC.

IS OFC believes that the best solution is to find a way to reduce the number of manual payments and to put in place an interface between the ERP and the PMIS, similar to the current one concerning salaries, which would reduce the workload, limit the number of manual cases and simplify reconciliations.

**OBSERVATION 2:
NO REGULAR RECONCILIATION OF BANK BALANCES**

International Staff's formal comments

Agreed. Such reconciliations will be added to the current reconciliations between bank statements and the accounting system's cash management module.

**OBSERVATION 3:
LATE ISSUANCE OF THE FINANCIAL STATEMENTS**

International Staff's formal comments

The recommendation is agreed. The issuance of the 2015 financial statements was impacted by specific circumstances linked to difficulties encountered with the implementation of the new ERP, the need to keep day-to-day transactions ongoing, and more generally understaffing of the IS OFC.

The 2016 financial statements were issued on 31 March 2017.

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**OBSERVATION 4:
NO STATEMENT OF INTERNAL CONTROL WAS ISSUED**

International Staff's formal comments

The recommendation is agreed. The 2016 financial statements were issued along with a statement of internal control signed by the IS Financial Controller and the Secretary General.

**OBSERVATION 5:
NO STATEMENT OF INTERNAL CONTROL WAS ISSUED**

International Staff's formal comments

The recommendation is agreed.

**OBSERVATION 6:
INSUFFICIENT DATA TRANSPARENCY AND AVAILABILITY IN THE ACCOUNTING SYSTEM**

International Staff's formal comments

The recommendation is agreed.

The situation concerning the 2015 financial statements was due to a variety of issues encountered further to the implementation of the ERP. The use of data held outside of the ERP enabled the issuance of the financial statements.

**OBSERVATION 7:
CLASSIFICATION MISSTATEMENTS AND OMISSIONS IN THE FINANCIAL STATEMENTS**

International Staff's formal comments

The recommendation is agreed.

Concerning § 7.2.1, it should be noted that NATO-IS serves as a pass-through for tax adjustments disbursed to beneficiaries and fully contributed from individual Nations concerned. While including them would have no impact on year-end assets and liabilities, the Financial Controller agrees that reporting them in the Statement of Changes would give a fuller picture of NATO Coordinated Pensions. The current presentation is a continuation of the method used for many years, probably since the inception of the Coordinated Pension Scheme, with no specific observations by IBAN. So, while the recommendation is fully agreed, it should be noted that it represents a change of approach by IBAN.

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**OBSERVATION 8:
CLASSIFICATION MISSTATEMENTS AND OMISSIONS IN THE FINANCIAL
STATEMENTS**

International Staff's formal comments

The recommendation is agreed.

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THE NATO COORDINATED PENSION SCHEME

FINANCIAL STATEMENTS 2015

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| 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 | Previous Year |
|---|-------|-----------------------|-----------------------|
| | | EBS | |
| | | 31-Dec-15 | 31-Dec-2014 |
| Assets | | | |
| Cash and cash equivalent | 4 | 87,054,759.62 | 113,404,411.86 |
| Staff member contributions receivable | 5 | 267,838.64 | 268,515.66 |
| Employer contribution receivable | 6 | 1,384,387.62 | 1,372,204.92 |
| Nation contributions receivable | 7 | 90,043,565.69 | 55,842,803.49 |
| Pension adjustments contribution receivable | 8 | 22,961,904.11 | 21,396,246.84 |
| Credit for past service to be refunded by staff | 9 | 68,084.87 | 76,037.39 |
| Advance DCPS | 10 | 0.00 | 0.00 |
| Other | 11 | 152,050.35 | 385,890.80 |
| Total assets | | 201,932,590.90 | 192,746,110.96 |
| Liabilities | | | |
| Contributions called for y+1 | 7 | 136,821,900.00 | 127,423,000.00 |
| Pension adjustments called for y+1 | 8 | 22,810,100.00 | 21,238,600.00 |
| Other | 12 | 379,177.58 | 328,205.13 |
| Total Liabilities | | 160,011,177.58 | 148,989,805.13 |
| Net assets available for benefits | 13 | 41,921,413.32 | 43,756,305.83 |

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

| (All amounts in EUR) | Notes | Current Year EBS | Previous Year |
|--|-------|-----------------------|-----------------------|
| | | 31-Dec-15 | 31-Dec-2014 |
| Increase in net assets | | 337,860.58 | 436,233.94 |
| Interest income | 14 | 63,417.12 | 39,623.92 |
| Transfers from other pension funds | 15 | 274,443.46 | 328,987.23 |
| Other | 16 | 0.00 | 67,622.79 |
| Contributions | | 139,201,393.27 | 136,066,026.07 |
| Staff members | 5 | 17,819,658.20 | 17,485,268.03 |
| Employer's | 6 | 410,494.49 | 397,622.94 |
| Nations | 7 | 120,971,240.58 | 118,183,135.10 |
| Total increase in net assets available for benefits | | 139,539,253.85 | 136,502,260.01 |
| Decrease in net assets | | | |
| Pension benefits | 17 | 140,314,987.60 | 131,394,223.39 |
| Leaving allowances | 17 | 1,058,912.11 | 2,942,177.12 |
| Bank costs | 14 | 246.69 | 206,071.04 |
| Total decrease in net assets available for benefits | | 141,374,146.40 | 134,542,471.55 |
| Net change for the year | | -1,834,892.55 | 1,959,788.46 |
| Net assets available for benefits, beginning of year | | 43,756,305.83 | 41,796,517.37 |
| Net assets available for benefits, end of year | | 41,921,413.28 | 43,756,305.83 |

**EXPLANATORY NOTES TO THE
2015 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 recruited between 1 July 1974 and 30 June 2005 become eligible for a retirement pension after 10 years of service; those 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.

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 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%

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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. The rate was increased to 9.5% 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 DCPS have been prepared in accordance with the NATO Financial Regulations and International Accounting Standard 26, "Accounting and Reporting by Retirement Benefit Plans". The NATO Accounting Framework, which is an adapted version of the International Public Sector Accounting Standards (IPSAS), does not have a specific standard for accounting and reporting by retirement benefit plans

The accounting system currently used by the NATO 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.

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Changes in accounting policy

None in 2015.

Reclassification of financial statements of previous year

None in 2015.

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, THB, 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 2015 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 29/03/2016 | | |
|------------|---------------------------------|---------|-----|
| | Fitch | Moody's | S&P |
| Short term | F1 | P1 | A1 |

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 (83%), GBP (8%), NOK (2%), USD (2%) and DKK (2%); the other currencies (AUD, CAD, CHF, NZD, SEK, THB, TRY) each represent less than 1%.

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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 budgetary 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 2016 by the OECD International Service for Remunerations and Pensions (ISRP) to assess the value of the long term NATO pension obligation.

The evaluation of the situation end 2015, further to the study conducted in 2016, results in a present value of the NATO DBPS obligation of MEUR 6,499 at year end 2015 (including MEUR 40.0 inward transfer of pension rights). The previous evaluation was MEUR 6,169 (including MEUR 39.7 inward transfer of pension rights).

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

Endogenous assumptions taken into account are:

- Probability that a staff member leaves the Organization, 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 of pensions: 1.51%
- Price inflation in the long run: 2%
- Rates of mortality for both active staff and pensioners (mortality table International Civil Servant Life Table 2013 – ICSLT2013, source ISRP/EUROSTAT).

The previous actuarial study dated from 2015 estimated the value of the obligation at the end of 2014 at MEUR 6,129 (excluding inward transfers of rights). The current projection of this liability at the end of 2015 can be obtained as follows:

(Amounts in MEUR – excluding transfers of pension rights)

| | | |
|--|---------------|--------------|
| Evaluation of the obligation at year end 2014 | (a) | 6,129 |
| Benefits paid | (b) | 142 |
| Interest costs | (c) | 81 |
| Current service costs | (d) | 178 |
| Obligation at year end 2014 projected into 2015 | (e)=(a-b+c+d) | 6,246 |
| Actuarial loss (gain) on obligation | (e-f) | 213 |
| Evaluation of obligation at year end 2015 | (f) | 6,459 |

The actuarial loss (i.e. the (positive) difference between the obligation estimated at year end 2015 by the new study and the obligation of 2014 projected into 2015 resulting from the previous study) is MEUR 213. The actuarial loss represents 3% of the obligation projected in 2015.

Assumptions taken into account in the previous actuarial study were:

Discount rate: 1.33%

Price inflation: 2%

Future salary increase: 0.27% above inflation

By definition actuarial valuations are largely dependent on the endogenous and exogenous parameters. Therefore any changes to the latter can result in material changes to the final evaluation of the obligation. In this case, the discount rate was increased, by 18 basis points, from 1.33% to 1.51%.

The discount rate refers to market yields on high quality corporate bonds. For the purpose of this actuarial study, in the absence of a market for Eurozone corporate bonds with maturities longer than 18 years, the Euro area government bond yield curve was used instead as a reference to discount the liabilities of the RMCF. This resulted in the discount rate of 1.51%, compared to the previous 1.33% (and before: 2.77%).

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

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.

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.

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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.

Cash is held on account of third parties in the amount of EUR 58,975 (EUR 58,831 end 2014). These funds belong to Nations, members of former NAMSA (now NSPA), 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 decrease in the level of cash holdings can be explained by contributions paid later by Nations.

NOTE 5: STAFF MEMBER CONTRIBUTIONS

Staff member contributions are paid monthly by the NATO payroll centres. As of 1 January 2015, contributions to the NATO DBPS from serving staff were 9.5% of their basic salary (previous contribution rate was 9.0% since 1 January 2010). The reduction in the number of contributing staff, as newly recruited staff are members of the DCPS, results in reductions in the value of staff member contributions. For 2015, this trend was offset by the increase of the contribution rate.

Outstanding amounts are contributions due on staff salaries for December from several NATO entities, which were all received in early 2016.

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 Centre reimburses EUR 25,000 per month (EUR 300,000 per annum) which is about 50% more than its annual dues. According to the initial plan the full amount should be repaid by 2021.

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 134,451,900 was called in late 2015 (EUR 127,423,000 in 2014), as an advance on the next year's pension budget. EUR 32,551,900 was for the Civil Budget and EUR 101,900,000 for the Military Budgets (in 2014, EUR 30,623,000 was for the 2015 Civil Budget and EUR 96,800,000 for the 2015 Military Budgets). These amounts correspond to the 2016 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).

Each annual call takes into account the previous year's surplus or deficit. The budget call issued in 2015 was reduced by the 2014 surplus of EUR 3,940,618.65 (EUR 2,301,864.90 for 2013). Of the 2014 surplus, EUR 3,688,581.66 pertained to the Military Pensions Budget and EUR 252,036.99 to the Civil Pensions Budget. A further adjustment was related to the EUR 520,600 upward revision of the 2015 Civil Pensions Budget and to the EUR 3,000,000 downward revision of the 2015 Military Pensions Budget, which occurred in the course of the year. Therefore the net amounts called from Nations in 2015 were EUR 32,820,463.01 for the Civil Pensions Budget and EUR 95,211,418.34 for the Military Pensions Budget.

Uncollected budgetary contributions from Nations relate mainly to the call for the 2016 pension budget. The call for contributions was issued late 2015 which largely explains the level of these receivables.

Supplementary contributions in the amount of EUR 2,370,000 were made on a voluntary basis.

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 (KEUR 67 in 2015 out of a total of EUR 22.4 million and KEUR 42 in 2014 out of a total of EUR 20.9 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.

| (CPR - ANNEX IV Chapter X, art. 42) | 2015 | 2014 |
|-------------------------------------|---------------|---------------|
| ALBANIA | 0.00 | 0.00 |
| BELGIUM | 10,450,263.06 | 9,737,001.00 |
| BULGARIA | 0.00 | 0.00 |
| CANADA | 180,982.06 | 182,902.76 |
| CZECH REPUBLIC | 0.00 | 0.00 |
| CROATIA | 0.00 | 0.00 |
| DENMARK | 656,746.75 | 644,202.22 |
| ESTONIA | 0.00 | 0.00 |
| FRANCE | 1,548,120.00 | 1,582,755.00 |
| GERMANY | 1,572,796.00 | 1,421,551.00 |
| GREECE | 158,139.00 | 190,297.00 |
| HUNGARY | 0.00 | 0.00 |
| ICELAND | 0.00 | 0.00 |
| ITALY | 1,895,947.00 | 1,911,717.00 |
| LATVIA | 0.00 | 0.00 |
| LITHUANIA | 0.00 | 0.00 |
| LUXEMBOURG | 1,193,454.00 | 1,008,653.00 |
| NETHERLANDS | 2,375,244.00 | 2,058,455.00 |
| NORWAY | 493,774.36 | 507,281.74 |
| POLAND | 2,822.31 | 0.00 |
| PORTUGAL | 170,309.00 | 126,935.00 |
| ROMANIA | 0.00 | 0.00 |
| SLOVAKIA | 0.00 | 0.00 |
| SLOVENIA | 0.00 | 0.00 |
| SPAIN | 275,669.00 | 263,388.00 |
| TURKEY | 0.00 | 0.00 |
| UNITED KINGDOM | 1,072,905.85 | 1,018,465.00 |
| UNITED STATES | 360,872.67 | 283,793.49 |
| TOTAL : | 22,408,045.06 | 20,937,397.21 |

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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 22,810,100 was called in late 2015 (EUR 21,238,600 in 2014), as an advance on the next year's payments of the pension adjustment.

Receivables from Nations as contributions to fund the adjustment of pensions relate mainly to the call for the advances on 2016 expenses. The call was issued late 2015 which largely explains the level of these receivables.

An amount of EUR 1,169,445.06 corresponding to the difference between amounts called for 2015 and actual 2015 payments is to be called in 2016 as a regularisation (EUR 2,091,366.21 for 2014).

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: OTHER RECEIVABLES

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

NOTE 11: OTHER LIABILITIES

These correspond to amounts relating to bank fees, life insurance capital due and other miscellaneous amounts due to be regularised.

This item also includes funds held on behalf of certain Nations corresponding to their share of former NAMSA (now NSPA) staff members' validation costs (EUR 57K end 2015, EUR 59K end 2014). 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.

There is also an amount of EUR 90K corresponding to internal transactions with other entities managed by the IS Office of Financial Control which still needs to be regularised.

NOTE 12: 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 14) 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)

| | 2015 | 2014 |
|-----------------------------------|---------------|---------------|
| End of year surplus | 1,839,235.16 | 3,940,618.65 |
| Inward transfer of pension rights | 40,014,091.10 | 39,739,649.79 |
| Credit for past services | 68,084.87 | 76,037.39 |
| TOTAL : | 41,921,411.13 | 43,756,305.83 |

The change between 2014 and 2015 is mainly due to a decrease in the 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 2015 will be returned to Nations with the call for the 2017 budget to be issued end 2016).

In accordance with NATO Financial Regulations, under the direction of the NAC, some Nations decided on an individual basis to use their share of the 2014 surplus to offset part of the contributions owed by them to fund the financial consequences of the claim related to the New NATO Headquarters project.

| | CURRENT YEAR | PREVIOUS YEAR |
|--------------------------------|----------------|----------------|
| | TOTAL | TOTAL |
| Final Approved Budget (a) | 124,943,600.00 | 120,485,000.00 |
| Actual Funding Requirement (b) | 123,104,364.84 | 116,544,381.35 |
| Surplus (a) - (b) | 1,839,235.16 | 3,940,618.65 |

NOTE 13: 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 14: 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.

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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 million from the Belgian "Office National des Pensions" (EUR 35.714 million as of end 2012, EUR 33.422 million as of 31 December 2011). No contributions were received in 2014 and 2015.

In 2012, the inward 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 inward 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 2014, the inward transfers received amounted to EUR 0.329 million, with the main contributions coming from the following pension systems: Greece (EUR 0.191 million), the Netherlands (EUR 0.034 million) and International Organisations (0.103 million).

In 2015, the inward transfers received amounted to EUR 0.274 million, with the main contribution being the repayment of a Leaving Allowance (EUR 0.222 million) and the rest coming from a pension system of the Netherlands (EUR 0.052 million).

In consideration of the fact that this inward transfer of rights has 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 15: OTHER INCREASES IN NET ASSETS

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

NOTE 16: PENSIONS AND LEAVING ALLOWANCES

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

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| | I.S. | MILITARY BUDGET | TOTAL | I.S. N-1 | MILITARY BUDGET N-1 | TOTAL N-1 |
|---|----------------------|-----------------------|-----------------------|----------------------|------------------------|-----------------------|
| PAYMENTS / PAIEMENTS | | | | | | |
| Retirement Pensions / Pensions d'Ancienneté | 24,091,230.15 | 69,612,162.54 | 93,703,392.69 | 21,912,496.67 | 63,847,600.83 | 85,760,097.50 |
| Survivor's Pensions / Pensions de Survie | 5,140,447.94 | 14,953,496.33 | 20,093,944.27 | 5,045,338.60 | 14,048,388.35 | 19,093,726.95 |
| Orphan's Pensions / Pensions d'Orphelins | 225,970.19 | 565,132.87 | 791,103.06 | 188,006.37 | 616,990.81 | 804,997.18 |
| Invalidity Pensions / Pensions d'Invalidité | 4,276,125.64 | 14,385,996.03 | 18,662,121.67 | 4,588,482.83 | 14,300,963.09 | 18,889,445.92 |
| Family Allowances / Allocations Familiales | 1,638,644.93 | 5,489,611.90 | 7,128,256.83 | 1,461,239.35 | 5,265,818.11 | 6,727,057.46 |
| Leaving Allowances / Allocations de Départ | 353,743.69 | 705,168.41 | 1,058,912.10 | 463,148.28 | 2,479,028.84 | 2,942,177.12 |
| Validation costs paid / Coûts de validation payés | 0.00 | 0.00 | 0.00 | 7,530.38 | 0.00 | 7,530.38 |
| Miscellaneous / Divers | -12,145.17 | -19,944.98 | -32,090.15 | 0.00 | 111,368.00 | 111,368.00 |
| TOTAL PAYMENTS / TOTAL PAIEMENTS | 35,714,017.37 | 105,691,623.10 | 141,405,640.47 | 33,666,242.48 | 100,670,158.03 | 134,336,400.51 |
| RECEIPTS / RECETTES | | | | | | |
| Contributions 9% | 3,944,822.91 | 13,874,835.29 | 17,819,658.20 | 3,987,763.42 | 13,497,504.61 | 17,485,268.03 |
| Employer's Contribution / Contributions Employeur | 120,582.15 | 142,316.56 | 262,898.71 | 112,331.10 | 149,849.46 | 262,180.56 |
| Insurer's Contribution / Contributions Assureur | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Validation costs received / Coûts de validation reçus | 7,952.52 | 0.00 | 7,952.52 | 7,952.52 | 0.00 | 7,952.52 |
| Interests, P/L Exchange / Intérêts, P&P sur change | 15,085.00 | 48,085.42 | 63,170.42 | -39,541.58 | -126,905.54 | -166,447.12 |
| Miscellaneous / Divers | 0.00 | 0.00 | 0.00 | 29,331.63 | 38,291.16 | 67,622.79 |
| Contributions 18% due by Staff center | 147,595.78 | 0.00 | 147,595.78 | 135,442.38 | 0.00 | 135,442.38 |
| TOTAL RECEIPTS / TOTAL RECETTES | 4,236,038.36 | 14,065,237.27 | 18,301,275.63 | 4,233,279.47 | 13,558,739.69 | 17,792,019.16 |
| DEFICIT - SURPLUS / DEFICIT - EXCEDENT | 31,477,979.01 | 91,626,385.83 | 123,104,364.84 | 29,432,963.01 | 87,111,418.34 | 116,544,381.35 |

NOTE 17: CONTINGENT ASSETS

Nothing to report.

NOTE 18: CONTINGENT LIABILITIES

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

NOTE 19: 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).

| | | | | | | | | | | (In / en EUR) |
|---|---------------|--------------|--------------|-------------|-------------|--------------|-----------|------------|--|-----------------|
| | I.S. | NAPMA | BGOH / NHMO | BGOH / NHMO | BGOH / NHMO | CEPMA | NAHEMA | NAMEADSMA | | SOUS-TOTAL |
| | (28 N) | (13 N) | (9 N) | (8 N) | (2 N) | (8 N) | (4 N) | (2 N) | | SUB-TOTAL |
| PAYMENTS / PAIEMENTS | | | | | | | | | | |
| Retirement Pensions / Pensions d'Ancienneté | 24,091,230.15 | 1,493,886.18 | 1,283,927.20 | 34,953.08 | 303,386.23 | 1,868,274.96 | 23,010.36 | 0.00 | | 29,098,668.16 |
| Survivor's Pensions / Pensions de Survie | 5,140,447.94 | 281,865.21 | 650,329.33 | 10,943.71 | 12,086.74 | 693,421.12 | 0.00 | 0.00 | | 6,789,094.05 |
| Orphan's Pensions / Pensions d'Orphelins | 225,970.19 | 7,028.23 | 0.00 | 0.00 | 0.00 | 0.00 | 28,381.68 | 0.00 | | 261,380.10 |
| Invalidity Pensions / Pensions d'Invalidité | 4,276,125.64 | 412,166.19 | 234,032.59 | 5,517.99 | 101,611.90 | 114,573.54 | 0.00 | 0.00 | | 5,144,027.85 |
| Family Allowances / Allocations Familiales | 1,638,644.93 | 164,772.00 | 81,967.06 | 3,371.62 | 42,650.99 | 100,771.53 | 2,358.96 | 0.00 | | 2,034,537.09 |
| Leaving Allowances / Allocations de Départ | 353,743.69 | 705,168.41 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | 1,058,912.10 |
| 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 |
| Miscellaneous / Divers | -12,145.17 | -1,727.06 | 0.00 | 0.00 | 0.00 | -345.00 | 0.00 | 0.00 | | -14,217.23 |
| | | | | | | | | | | |
| TOTAL PAYMENTS / TOTAL PAIEMENTS | 35,714,017.37 | 3,063,159.16 | 2,250,256.18 | 54,786.41 | 459,735.86 | 2,776,696.15 | 53,751.00 | 0.00 | | 44,372,402.12 |
| | | | | | | | | | | |
| RECEIPTS / RECETTES | | | | | | | | | | |
| Contributions 9% | 3,944,822.91 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 2,103.28 | 11,537.39 | | 3,958,463.58 |
| Employer's Contribution / Contributions Employeur | 120,582.15 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | 120,582.15 |
| 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 | 7,952.52 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | 7,952.52 |
| Interests, P/L Exchange / Intérêts, P&P sur change | 15,085.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 7.22 | 39.58 | | 15,131.80 |
| Miscellaneous / Divers | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | 0.00 |
| Contributions 18% due by Staff center | 147,595.78 | | | | | | | | | 147,595.78 |
| | | | | | | | | | | |
| TOTAL RECEIPTS / TOTAL RECETTES | 4,236,038.36 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 2,110.50 | 11,576.97 | | 4,249,725.83 |
| | | | | | | | | | | |
| DEFICIT - SURPLUS / DEFICIT - EXCEDENT | 31,477,979.01 | 3,063,159.16 | 2,250,256.18 | 54,786.41 | 459,735.86 | 2,776,696.15 | 51,640.50 | -11,576.97 | | 40,122,676.29 |

| | | | | | | | | | | | (In / en EUR) |
|---|--------------|--------------|--------------|--------------|------------|------------|--------------|------------|-----------|-----------|-----------------|
| | IMS | | EX-NACISA | NC3A | NAMMA | NEFMA | NETMA | CEPMA | CEPMA | CEPMA | SOUS-TOTAL |
| | ("27" N) | (28 N) | (14 N) | (28 N) | (3 N) | (4 N) | (4 N) | (7 N) | (6 N) | (5 N) | SUB-TOTAL |
| PAYMENTS / PAIEMENTS | | | | | | | | | | | |
| Retirement Pensions / Pensions d'Ancienneté | 856,425.05 | 3,844,541.62 | 974,081.49 | 7,519,174.42 | 30,208.70 | 81,475.92 | 598,326.60 | 137,171.93 | 11,233.38 | 3,744.47 | 43,155,051.73 |
| Survivor's Pensions / Pensions de Survie | 338,411.43 | 565,397.81 | 431,256.14 | 595,721.73 | 79,227.24 | 73,813.20 | 182,261.68 | 0.00 | 0.00 | 0.00 | 9,055,183.28 |
| Orphan's Pensions / Pensions d'Orphelins | 28,980.05 | 0.00 | 0.00 | 32,553.18 | 0.00 | 0.00 | 15,913.16 | 0.00 | 0.00 | 0.00 | 338,826.49 |
| Invalidity Pensions / Pensions d'Invalidité | 96,395.74 | 400,053.87 | 36,838.69 | 873,845.14 | 78,518.04 | 84,983.76 | 178,596.97 | 54,964.56 | 53,218.16 | 17,739.39 | 7,019,182.17 |
| Family Allowances / Allocations Familiales | 54,968.24 | 285,446.37 | 69,060.80 | 511,648.39 | 2,806.86 | 8,048.40 | 49,461.06 | 11,519.21 | 2,774.15 | 924.75 | 3,031,195.31 |
| Leaving Allowances / Allocations de Départ | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1,058,912.10 |
| 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 | 0.00 |
| Miscellaneous / Divers | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -2,524.66 | 0.00 | 0.00 | 0.00 | -16,741.89 |
| TOTAL PAYMENTS / TOTAL PAIEMENTS | 1,375,180.50 | 5,095,439.68 | 1,511,237.12 | 9,532,942.86 | 190,760.84 | 248,321.28 | 1,022,034.81 | 203,655.70 | 67,225.68 | 22,408.60 | 63,641,609.19 |
| RECEIPTS / RECETTES | | | | | | | | | | | |
| Contributions 9% | 0.00 | 645,020.19 | 0.00 | 0.00 | 0.00 | 0.00 | 12,312.93 | 0.00 | 0.00 | 0.00 | 4,615,796.70 |
| Employer's Contribution / Contributions Employeur | 0.00 | 142,316.56 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 262,898.71 |
| 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 | 7,952.52 |
| Interests, P/L Exchange / Intérêts, P&P sur change | 0.00 | 2,700.93 | 0.00 | 0.00 | 0.00 | 0.00 | 42.24 | 0.00 | 0.00 | 0.00 | 17,874.97 |
| Miscellaneous / Divers | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Contributions 18% due by Staff center | | | | | | | | | | | 147,595.78 |
| TOTAL RECEIPTS / TOTAL RECETTES | 0.00 | 790,037.68 | 0.00 | 0.00 | 0.00 | 0.00 | 12,355.17 | 0.00 | 0.00 | 0.00 | 5,052,118.68 |
| DEFICIT - SURPLUS / DEFICIT - EXCEDENT | 1,375,180.50 | 4,305,402.00 | 1,511,237.12 | 9,532,942.86 | 190,760.84 | 248,321.28 | 1,009,679.64 | 203,655.70 | 67,225.68 | 22,408.60 | 58,589,490.51 |

| | | | | | | | | | | (In / en EUR) |
|---|---------------|------------|---------------|--------------|---------------|----------|--------------|---------------|--|-----------------|
| | ACO - ACT | | | | NAMSA | NAMA | NCIA | NSPA | | |
| | (17 N) | (18 N) | ("27" N) | (28 N) | (25 N) | (12 N) | | | | TOTAL |
| PAYMENTS / PAIEMENTS | | | | | | | | | | |
| Retirement Pensions / Pensions d'Ancienneté | 7,356,500.94 | 0.00 | 20,005,080.02 | 2,409,295.81 | 16,065,267.09 | 0.00 | 4,712,197.10 | 0.00 | | 93,703,392.69 |
| Survivor's Pensions / Pensions de Survie | 1,414,739.64 | 0.00 | 5,528,843.21 | 417,610.68 | 3,294,444.83 | 0.00 | 383,122.63 | 0.00 | | 20,093,944.27 |
| Orphan's Pensions / Pensions d'Orphelins | 66,178.84 | 0.00 | 98,620.71 | 14,751.36 | 191,685.74 | 0.00 | 81,039.92 | 0.00 | | 791,103.06 |
| Invalidity Pensions / Pensions d'Invalidité | 5,604,348.56 | 0.00 | 1,962,618.72 | 154,332.49 | 3,619,715.57 | 0.00 | 301,924.16 | 0.00 | | 18,662,121.67 |
| Family Allow ances / Allocations Familiales | 1,062,470.89 | 0.00 | 1,217,563.82 | 166,504.37 | 1,173,222.86 | 0.00 | 477,299.58 | 0.00 | | 7,128,256.83 |
| Leaving Allow ances / Allocations de Départ | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | 1,058,912.10 |
| 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 |
| Miscellaneous / Divers | -6,722.15 | 0.00 | 82.14 | 0.00 | -8,744.22 | 0.00 | 35.97 | 0.00 | | -32,090.15 |
| | | | | | | | | | | |
| TOTAL PAYMENTS / TOTAL PAIEMENTS | 15,497,516.72 | 0.00 | 28,812,808.62 | 3,162,494.71 | 24,335,591.87 | 0.00 | 5,955,619.36 | 0.00 | | 141,405,640.47 |
| | | | | | | | | | | |
| RECEIPTS / RECETTES | | | | | | | | | | |
| Contributions 9% | 2,425,860.81 | 40,064.23 | 0.00 | 2,458,301.63 | 0.00 | 0.00 | 4,595,149.29 | 3,684,485.54 | | 17,819,658.20 |
| Employer's Contribution / Contributions Employeur | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | 262,898.71 |
| 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 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | 7,952.52 |
| Interests,P/L Exchange / Intérêts,P&P sur change | 8,321.84 | 137.44 | 0.00 | 8,433.13 | 0.00 | 0.00 | 15,763.52 | 12,639.52 | | 63,170.42 |
| Miscellaneous / Divers | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | 0.00 |
| Contributions 18% due by Staff center | | | | | | | | | | 147,595.78 |
| | | | | | | | | | | |
| TOTAL RECEIPTS / TOTAL RECETTES | 2,434,182.65 | 40,201.67 | 0.00 | 2,466,734.76 | 0.00 | 0.00 | 4,610,912.81 | 3,697,125.06 | | 18,301,275.63 |
| | | | | | | | | | | |
| DEFICIT - SURPLUS / DEFICIT - EXCEDENT | 13,063,334.07 | -40,201.67 | 28,812,808.62 | 695,759.95 | 24,335,591.87 | 0.00 | 1,344,706.55 | -3,697,125.06 | | 123,104,364.84 |

NATO UNCLASSIFIED

ANNEX 3 to
FC(2015)078**NOTE 20: BUDGET EXECUTION**

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

| | Initial Budget | Revised Budget | Actuals | Difference |
|---|-----------------------|-----------------------|-----------------------|---------------------|
| | (a) | (b) | (c) | (b-c) |
| CIVIL BUDGET | | | | |
| <u>PAYMENTS / PAIEMENTS</u> | | | | |
| Retirement Pension / Pension d'Ancienneté | 23,386,000 | 23,386,000 | 24,091,230.15 | -705,230.15 |
| Survivor Pension / Pension de Survie | 5,178,500 | 5,178,500 | 5,140,447.94 | 38,052.06 |
| Orphans Pension / Pension d'Orphelins | 219,500 | 219,500 | 225,970.19 | -6,470.19 |
| Invalidity Pension / Pension d'Invalidité | 4,818,500 | 4,818,500 | 4,276,125.64 | 542,374.36 |
| Family Allowance / Allocations Familiales | 1,544,500 | 1,544,500 | 1,638,644.93 | -94,144.93 |
| Leaving Allowance / Allocations de Départ | 407,000 | 407,000 | 353,743.69 | 53,256.31 |
| Validation Costs Paid / Coûts de Validation payés | 0.00 | 0 | 0.00 | 0.00 |
| Miscellaneous / Divers | | | 0.00 | 0.00 |
| Total Payments / Paiements | 35,554,000.00 | 35,554,000.00 | 35,714,017.37 | -160,017.37 |
| <u>RECEIPTS / RECETTES</u> | | | | |
| Staff Contributions / Contributions des Agents | 4,131,200 | 4,131,200 | 3,944,822.91 | 186,377.09 |
| Employer Contributions / Contributions de l'Employeur | 279,200 | 279,200 | 120,582.15 | 158,617.85 |
| Validation Costs Received / Coûts de Validation reçus | 0 | 0 | 7,952.52 | -7,952.52 |
| Interests, Profit & Loss / Intérêts, Pertes & Profits | 0 | 0 | 15,085.00 | -15,085.00 |
| Miscellaneous / Divers | 0 | 0 | 0.00 | 0.00 |
| Contributions due by Staff Center | 0.00 | 0 | 147,595.78 | -147,595.78 |
| Total Receipts / Recettes | 4,410,400.00 | 4,410,400.00 | 4,236,038.36 | 174,361.64 |
| Funding Requirement / Besoin de financement | 31,143,600.00 | 31,143,600.00 | 31,477,979.01 | -334,379.01 |
| MILITARY BUDGETS | | | | |
| <u>PAYMENTS / PAIEMENTS</u> | | | | |
| Retirement Pension / Pension d'Ancienneté | 69,700,000 | 69,400,000 | 69,612,162.54 | -212,162.54 |
| Survivor Pension / Pension de Survie | 15,200,000 | 15,200,000 | 14,953,496.33 | 246,503.67 |
| Orphans Pension / Pension d'Orphelins | 700,000 | 700,000 | 565,132.87 | 134,867.13 |
| Invalidity Pension / Pension d'Invalidité | 15,500,000 | 15,800,000 | 14,385,996.03 | 1,414,003.97 |
| Family Allowance / Allocations Familiales | 5,600,000 | 5,900,000 | 5,489,611.90 | 410,388.10 |
| Leaving Allowance / Allocations de Départ | 4,000,000 | 700,000 | 705,168.41 | -5,168.41 |
| Validation Costs Paid / Coûts de Validation payés | 0 | 0.00 | 0.00 | 0.00 |
| Miscellaneous / Divers | 0.00 | 0.00 | -19,944.98 | 19,944.98 |
| Total Payments / Paiements | 110,700,000.00 | 107,700,000.00 | 105,691,623.10 | 2,008,376.90 |
| <u>RECEIPTS / RECETTES</u> | | | | |
| Staff Contributions / Contributions des Agents | 13,200,000 | 13,200,000 | 13,874,835.29 | -674,835.29 |
| Employer Contributions / Contributions de l'Employeur | 100,000 | 100,000 | 142,316.56 | -42,316.56 |
| Validation Costs Received / Coûts de Validation reçus | 300,000 | 300,000 | 0.00 | 300,000.00 |
| Interests, Profit & Loss / Intérêts, Pertes & Profits | 100,000 | 100,000 | 48,085.42 | 51,914.58 |
| Miscellaneous / Divers | 200,000.00 | 200,000.00 | 0.00 | 200,000.00 |
| Total Receipts / Recettes | 13,900,000.00 | 13,900,000.00 | 14,065,237.27 | -165,237.27 |
| Funding Requirement / Besoin de financement | 96,800,000.00 | 93,800,000.00 | 91,626,385.83 | 2,173,614.17 |
| TOTAL CIVIL + MILITARY BUDGETS | | | | |
| TOTAL Funding Requirement | 127,943,600.00 | 124,943,600.00 | 123,104,364.84 | 1,839,235.16 |

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 2015 for the Civil Budget and the Military Budgets were initially approved at, respectively, EUR 31,143,600 and EUR 96,800,000. The Military Budget component was revised in the course of the year to EUR 93,800,000. As a consequence, a reduction to the call issued to Nations end 2015 was made in the amount of EUR 3,000,000.

The credits concerning the Civil Budget Pensions were underestimated and the subsequent funding requirement was higher by EUR 357K, 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 2016 call for nations’ pension contributions. Taking the two budget components together, there was nevertheless a surplus of EUR 1,839,235.16, the smallest seen in recent years.

The difference between approved budgets and actuals for the Civil Budget mainly concerns the following items: retirement pensions and overestimated staff contributions. The difference between approved budgets and actuals for the Military Budgets concerns mainly the following items: invalidity pensions and underestimated staff contributions.

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 2015 of EUR 124,943,600 and the actual amount of EUR 123,104,364.84 amounted to EUR 1,839,235.16 (EUR 3,940,618.65 in 2014) and constitutes the 2015 surplus reimbursable to Nations. It will be returned to Nations with the call to be issued end 2016. This surplus is the smallest in recent years (EUR 3.940 million in 2014, EUR 2.302 million in 2013, 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 21: RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT PERSONNEL

During 2014 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 about EUR 470K for 2015 (EUR 460K for 2014). This includes miscellaneous operating costs and the personnel costs of the full time equivalent of 4.5 staff from the Office of Financial Control and the Human Resources Pension Unit.

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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 for subsequent years has been provided but the amount is estimated to be of the same order of magnitude in 2015.

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 22: STATISTICAL INFORMATION

The following table provides information concerning the number of beneficiaries in the NATO Coordinated Pension Scheme.

| Year | Retirement Pension | Survivor and Reversion Pensions | Orphan and Dependant Pensions | Invalidity Pensions | 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 | 2,022 | 594 | 72 | 479 | 3,167 |
| 2013 | 2,149 | 609 | 64 | 491 | 3,313 |
| 2014 | 2,272 | 624 | 59 | 470 | 3,425 |

* * * * *

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 |
| NSPA: | NATO Support Agency. |
| OECD: | Organisation for Economic Co-operation and Development |
| OFC: | Office of Financial Control |
| RMCF: | Retirees Medical Claims Fund |
| SC: | NATO Headquarters' Staff Centre |

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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 2016**

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 2016 amounted to EUR 149.9 million (EUR 140.3 million in 2015). The actuarial present value of the pension liability of the scheme at 31 December 2016 was EUR 7.25 billion (EUR 6.5 billion at 31 December 2015).

The Board issued an unqualified opinion on the restated financial statements of the NATO Coordinated Pension Scheme and a qualified opinion on compliance for the year ended 31 December 2016.

During the audit, the Board made five observations with recommendations which are summarised herein:

Four observations impact the audit opinion on compliance:

1. Bonds not properly disclosed in the originally issued financial statements.
2. Insufficient controls over financial reporting.
3. Insufficient internal controls related to pension benefits in the financial statements.
4. Controls over the reconciliation of bank balances need to be enforced.

The remaining observation does not impact the audit opinion:

5. Disclosure of results of the actuarial valuation using 2016 data.

The Board followed up on the status of an observation from a previous years' audit and found that two observations were settled, one observation was partially settled, one observation remained outstanding and four observations were superseded by current year observations. The Board expects to see improvements in internal controls over financial reporting in the next year.

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

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27 October 2017

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 2016

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**AUDITOR'S REPORT TO THE NORTH ATLANTIC COUNCIL AND
STAFF MEMBERS AFFILIATED TO THE
NATO COORDINATED PENSION SCHEME**

Report on the Financial Statements

The International Board of Auditors for NATO (Board) audited the attached financial statements of the NATO Coordinated Pension Scheme for the year ended 31 December 2016, which comprised the Statement of Net Assets Available for Benefits, the Statement of Changes in Net Assets Available for Benefits and the Explanatory Notes, including a summary of significant accounting policies.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Accounting Standard (IAS) 26 *Accounting and Reporting by Retirement Benefit Plans*¹ and the requirements of the NATO Financial Regulations (NFRs) as authorised by the North Atlantic Council. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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

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Unqualified 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 2016, the changes in financial position thereof for the year then ended in accordance with IAS 26.

Emphasis of Matter

Note 3, Actuarial Valuation, to the financial statements discloses an actuarial obligation of EUR 6.46 billion related to the NATO Coordinated Pension Scheme. The note describes that this valuation amount is based on 2015 data because the actuarial valuation study based on 2016 data was not yet completed at the time the financial statements were issued. As of the date of this report, the actuarial obligation valuation study using 2016 data was performed and results in an actuarial liability of EUR 7.25 billion related to the NATO Coordinated Pension Scheme. Our report is not modified as a result of this matter.

Report on Compliance

Management's Responsibility for Compliance

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

Auditor's Responsibility

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

Basis for Qualified Opinion on Compliance

The Board identified a number of material weaknesses in internal controls over financial reporting. The details are set out in the observations 1 to 4 in the Letter of Observations and Recommendations at Annex 3.

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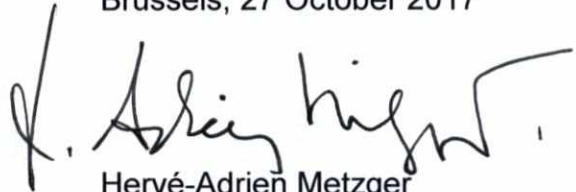
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Qualified Opinion on Compliance

In our opinion, except for the matters and the possible effects of the matters described above in the *Basis for Qualified Opinion on Compliance* paragraph, in all material respects the financial transactions and information reflected in the financial statements are in compliance with the NFRs and the NATO Civilian Personnel Regulations.

Brussels, 27 October 2017

A handwritten signature in black ink, appearing to read 'H. Metzger', with a stylized flourish at the end.

Hervé-Adrien Metzger
Chairman

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27 October 2017

INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS

FOR THE NATO COORDINATED PENSION SCHEME

FOR THE YEAR ENDED 31 DECEMBER 2016

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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 2016, which required a restatement, and issued an unqualified opinion on those restated financial statements. The Board issued a qualified opinion on compliance.

Observations and Recommendations

During the audit, the Board made five observations with recommendations which are summarised herein:

Four observations impact the audit opinion on compliance:

1. Bonds not properly disclosed in the originally issued financial statements.
2. Insufficient controls over financial reporting.
3. Insufficient internal controls related to pension benefits in the financial statements.
4. Controls over the reconciliation of bank balances need to be enforced.

The remaining observation does not impact the audit opinion:

5. Disclosure of results of the actuarial valuation using 2016 data.

The Board followed up on the status of an observation from a previous years' audit and found that two observations were settled, one observation was partially settled, one observation remained outstanding and four observations were superseded by current year observations. The Board expects to see improvements in internal controls over financial reporting in the next year.

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OBSERVATIONS AND RECOMMENDATIONS

1. BONDS NOT PROPERLY DISCLOSED IN THE ORIGINALLY ISSUED FINANCIAL STATEMENTS

Reasoning

1.1 According to the Conceptual Framework for Financial Reporting, issued by the International Accounting Standards Board, one of the objectives of financial reporting is to provide financial information about the reporting entity that is useful to users of financial statements. The above mentioned objective is relevant for both private and public sector entities.

1.2 Paragraph 32 of International Accounting Standard (IAS) 26 "*Accounting and Reporting by Retirement Benefit Plans*" states that retirement benefit plan investments shall be carried at fair value. In the case of marketable securities fair value is market value. As further explained in paragraph 33, in the case of marketable securities fair value is usually market value because this is considered the most useful measure of the securities at the report date and of the investment performance for the period. Those securities that have a fixed redemption value and that have been acquired to match the obligations of the plan, or specific parts thereof, may be carried at amounts based on their ultimate redemption value assuming a constant rate of return to maturity. To the extent that investments are carried at amounts other than market value or fair value, fair value is generally also disclosed.

1.3 Paragraph 35 of IAS 26 stipulates that financial statements provided by retirement benefit plans include details of any single investment exceeding either 5% of the net assets available for benefits or 5% of any class or type of security.

1.4 According to paragraph 7 of IAS 7 "Statement of Cash Flows", Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition.

Observations

1.5 The Board found that the International Staff, using the NATO Coordinated Pension Scheme's funds, purchased a 3-year bond with a fixed redemption value of EUR 40 million if held until its maturity date of 28 June 2019. This fact was not disclosed in the financial statements as required by paragraph 35 of IAS 26. The investment was incorrectly reported within the Cash and Cash Equivalents caption. In addition, the asset was incorrectly classified as short-term. Furthermore, at 31 December 2016, the bond's value decreased to 99.72643%, which resulted in an unrealised loss of EUR 109 thousand. This decrease in the value of investment as at 31 December 2016 and the loss

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of EUR 109 thousand should be recognised in the financial statements unless the purpose of the investment was formally designated by the IS to match the obligations of the plan as stated in paragraph 32 of IAS 26. The Board did not receive any evidence of this intent. Furthermore, the market risk, if any, related to the above mentioned investment was not disclosed in the notes to the financial statements.

Recommendation

1.6 The Board recommends following the requirements of IAS 26 and IAS 7 and disclosing any investments, not meeting the criteria of cash equivalents, separately in the financial statements.

1.7 The Board recommends the IS formally designate the purpose of investments at initial purchase and to disclose all required information in the notes to the financial statements. The subsequent measurement of the investments must be performed in line with the designation of the purpose of the investment.

1.8 The Board recommends analysing the market risk related to the investment and disclosing the results of the analysis in the financial statements.

Formal Comment of the International Staff

The decision to purchase a note issued by a highly rated bank was taken in order to protect the financial assets of the Coordinated Pension Scheme (cash) in a context where negative interest rates were incurred by the Pension Scheme on cash on its current account. NATO IS purchased a low risk note issued by a bank with the following features: guaranteed capital if held to maturity, which is the IS intention, earning the higher of 3- month EURIBOR or 0.03% (the floor). This will generate at least EUR 12,000 per annum in financial revenue. The principal corresponds to funds the IS has no intention to use in the immediate future and relates to inward transfers of pension rights by staff members from their previous pension schemes. As of 02 October, there was a notional unrealised gain of EUR 88,200.

Board Position

The IS issued restated financial statements after the audit in order to disclose the existence and nature of these bonds. The restated financial statements signed by both the NATO Secretary General and the IS Financial Controller were received on 27 October 2017. The Board issued its unqualified audit opinion on these restated financial statements.

The Board notes the IS formal comment that they intend to hold these bonds to maturity. In future, such intentions should be documented before the purchase of the bonds to ensure the proper accounting treatment can be clearly determined. Also, considering this intention, it does not appear that the bonds

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satisfy Article 31 of the NATO Financial Regulations, whereby NATO bodies are only authorised to make short-term investments. A three-year investment is not short-term.

2. INSUFFICIENT CONTROLS OVER FINANCIAL REPORTING

Reasoning

2.1 As set out in Article 12.2 part (c) of the NATO Financial Regulations (NFRs), in order to meet the desired internal control standards the Financial Controller shall establish and maintain comprehensive accounting records of all assets and liabilities.

2.2 According to Article 12.3 part (c) of the NFRs, the internal control activities shall include, but not be limited to, adequate audit trails and data confidentiality, integrity and availability in information systems.

Observations

2.3 The Board found a number of issues that collectively represent material weaknesses in internal controls over financial reporting.

| Financial Statements caption / Issue name | Issue description |
|---|---|
| Pension adjustments contribution receivable EUR 10,403,629 | <ul style="list-style-type: none"> Account 416000 "Cash advances paid interfunds" with a value of minus EUR 1,834,142 (payable) is a part of the caption "Pension adjustments contribution receivable". According to explanations received, the balance of account 416000 is negative due to a manual adjustment of EUR 1.9 million made in the account (Debit: 470812 "Refundable surpluses"; Credit: 416000 "Cash advances paid interfunds"). The International Staff has not provided the Board with a justification for the abovementioned entry. |
| Employer contributions receivable EUR 1,323,651 | <ul style="list-style-type: none"> According to accounting data, the receivable from IS Staff Centre as at 31 December 2016 was EUR 1,048,205. However, according to the financial statements of the Staff Centre as at 31 December 2016 payable to the NATO Coordinated Pension Scheme amounted to EUR 1,286,042. The receivable, recognised by the NATO Coordinated Pension Scheme, was understated by EUR 237,837. No confirmation of the balance has been performed by the Office of Financial Control. Furthermore, the financial statements of both entities have been prepared by the same unit – the Office of Financial Control. Account 400800 "Receivables Pension Fund Staff" of EUR 269 thousand is a part of the caption "Employer contributions receivable". The balance needs to be eliminated, as it was invoiced twice. |
| Other liabilities EUR 154,158 | <ul style="list-style-type: none"> The balance consists of uncleared and unallocated transactions – erroneous bookings (for example, recording NATO Defined Contribution Pension Scheme (DCPS) related transactions to the NATO Coordinated Pension Scheme accounts). The abovementioned balance needs to be analysed by the IS and properly adjusted. |

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| Financial Statements caption / Issue name | Issue description |
|--|---|
| | <ul style="list-style-type: none"> The Board was unable to reconcile balances payable to the DCPS with actual DCPS data at year-end. While balances are immaterial, the accounting for both entities is done by the Office of Financial Control and discrepancies in inter-entity balances represent weaknesses in accounting controls. |
| Other increase in net assets EUR 196,684 | <ul style="list-style-type: none"> No details were provided, and no information was provided on how to link the caption to the Trial Balance accounts. |
| Classification and presentation issues | <ul style="list-style-type: none"> The NATO Coordinated Pension Scheme received an advance from the International Staff in an amount of EUR 53 thousand. The balance was included in Cash and cash equivalent caption as a negative amount. The amount should have been disclosed as an advance received. The NATO Coordinated Pension Scheme has a number of other income and expense accounts, such as realised and unrealised gains and losses, bank charges and interest from deposits and investments. The abovementioned positions are not clearly stated in the financial statements. Instead, they are combined with other balances. Moreover, the NATO Coordinated Pension Scheme has disclosed "Bank costs" of EUR 277 thousands in the "Increase in net assets" caption. The segment information disclosed in Note 19 contains only 2015 data. Information on year 2016 is not disclosed. |

2.4 The Board found that the process of preparing the financial statements involves a high number of manual adjustments, which are poorly supported by documentation and insufficiently explained. The number of financial statements captions does not directly reconcile to the balances in the new Enterprise Resource Planning (ERP) accounting system. In addition, the income and expense transactions, which are different by nature, are not recorded in separate accounts in ERP.

2.5 The Board also found that for a number of asset and liability accounts (for example, other payables, other receivables) in the accounting system there are no reports on balance details at period-end, showing the breakdown of the amount by counterparty. Lack of this functionality significantly reduces the transparency and makes it very difficult to follow-up the changes in individual balances.

Recommendations

2.6 The preparer of the financial statements should keep detailed supporting working papers in order to be able to support any balance presented or information disclosed in the financial statements. Moreover, the IS must be able to provide details for each ERP asset / liability account in order to allow proper follow-up of the balances.

2.7 The Board recommends recording income and expense transactions, different by nature, in separate accounts, such as:

- unrealised gain/loss;

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- gain/loss from foreign currency purchases;
- contributions;
- inward/outward transfers;
- other types of income/expense.

2.8 The Board recommends improving the transparency and availability of the accounting data. Where technically possible and practicable, the Board recommends linking transactions in ERP to the specific counterparty in order to be able to trace changes in respective balances receivable and/or payable to these counterparties. Using standard ERP workflows instead of manual adjustments is encouraged. In situations when aggregated data is entered in the accounting program, underlying supporting details (summaries, listings, calculations, etc.) should be available within the ERP and should be subject to proper verification and approval within the system.

2.9 The Board recommends strengthening the multi-level financial statements review process in order to improve the overall quality of the produced financial statements and their compliance with applicable reporting frameworks.

2.10 The Board recommends performing, at least annually, formal inter-entity balance confirmations between all entities who have financial statements prepared by the IS Office of Financial Control. This will also be aided the recommendation in paragraph 2.8.

Formal Comment of the International Staff

The recommendations are agreed. We believe that the issues mentioned at paragraph 2.3 will be largely solved before the 2017 financial statements are issued. They result from issues encountered during the first months of use of the ERP which still required some cleansing. These corrections will be taken into account, if necessary by a re-statement of the 2016 financial year in the 2017 financial statements.

3. INSUFFICIENT INTERNAL CONTROLS RELATED TO PENSION BENEFITS IN THE FINANCIAL STATEMENTS

Reasoning

3.1 Article 12 of the NFRs requires that the Secretary General ensures the necessary internal management functions are in place in the NATO International Staff (IS) to support effective internal control, designed to provide reasonable assurance that the NATO body will achieve its objectives in various categories, including: verify the accuracy and reliability of accounting data and records, establish and maintain comprehensive accounting records of all assets and liabilities, and adequate audit trails and data confidentiality, integrity and availability in information systems.

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Observation

3.2 The NATO Coordinated Pension Scheme reported EUR 149.9 million of Pension Benefits in the Statement of Changes in Net Assets Available Benefits for 2016. The Board was unable to obtain sufficient evidence that the IS performed regular monthly reconciliations between Pension Unit's provided supporting documentation and ERP in 2016 and followed-up the results of reconciliations before the issuing of the financial statements. Regular and timely reconciliations form a significant element of internal controls over financial reporting.

Recommendation

3.3 The Board recommends that the IS retains all the information in sufficient details in order to support the accounting entries in the ERP system.

3.4 The Board recommends performing regular reconciliations of data on Pension Benefits recorded in ERP with Pensions Unit.

Formal Comment of the International Staff

Payments related to the Coordinated Pension Scheme are exclusively based on payment instructions received from the IS HR Pensions Unit. The related data comes from the PMIS (Personnel Management Information System). The bulk of the payments is done based on an electronic file sent to the bank. A small number of exceptions are paid manually.

Every month in 2016, IS OFC performed monthly reconciliations between the payment instruction from HR Pensions Unit and the ERP bank transactions. This has also been the case in 2017. Hard copy binders contain the monthly "checks" (e.g. by currency). In 2017, these reconciliations are done on a spreadsheet. More explicit proofs, such as physical signature and date, on the documents themselves in addition to the present manual annotations will be requested in future from the staff concerned.

IS OFC believes that the best solution is to find a way to reduce the number of manual payments and to put in place an interface between the ERP and the PMIS, similar to the current one concerning salaries, which would reduce the workload, limit the number of manual cases and simplify reconciliations. This is in the scope of planned releases of the ERP project.

Board Position

The Board maintains its position as it was not presented with sufficient and appropriate evidence that the reconciliations were being performed on a timely basis throughout 2016. The Board will assess the evidence provided to support the 2017 monthly reconciliations during the audit of the 2017 financial statements.

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4. CONTROLS OVER THE RECONCILIATION OF BANK BALANCES NEED TO BE ENFORCED

Reasoning

4.1 According to paragraph VI 4) (c) of NATO Financial Rules and Procedures, the Financial Controller shall ensure that all accounts are reconciled and verified on a regular basis, and all activities with financial implications, including multinational and non-appropriated fund activities, controlled by periodic inspection.

Observation

4.2 The Board found that the IS did not perform monthly reconciliations of cash balances between the accounting system and bank statements during 2016. The IS provided the Board with a spreadsheet showing such a reconciliation as of 31 December 2016, although there was no evidence that this control was performed in a timely basis and it also was not signed by the preparer or reviewer.

Recommendation

4.3 The Board recommends performing and documenting monthly cash reconciliations between the bank balances and the amounts presented in the accounting system. This will help to identify misstatements (if any) on a timely basis. This should include signatures of the preparer and reviewer along with the dates.

Formal Comment of the International Staff

The recommendation is agreed. Such reconciliations will be added to the current reconciliations between bank statements and the accounting system's cash management module.

5. DISCLOSURE OF RESULTS OF THE ACTUARIAL VALUATION USING 2016 DATA

Reasoning

5.1 Paragraph 27 of the International Accounting Standard 26, *Accounting and Reporting by Retirement Benefit Plans*, states that if an actuarial valuation has not been prepared at the date of the financial statements, the most recent valuation is used as a base and the date of the valuation disclosed.

5.2 The Board follows the International Standards of Supreme Audit Institutions (ISSAIs). ISSAI 1560, *Subsequent Events*, which requires the auditor to assess events occurring between the date of the financial statements and the date of the auditor's report.

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Observations

5.3 The actuarial valuation of the NATO Coordinated Pension Scheme pension obligation is performed on annual basis by the Organisation for Economic Co-operation and Development International Services for Remunerations and Pensions (ISRP) by request of the Office of Financial Control, International Staff. This is a paid service.

5.4 According to the ISRP draft report “2016 Year End Accounting of the Defined Benefit Obligations”, the NATO DBPS pension obligation has increased from EUR 6.46 billion in 2015 to EUR 7.25 billion in 2016, an increase of 12% due primarily to a decrease in the discount rate.

5.5 The NATO Coordinated Pension Scheme financial statements for the year ended 31 December 2016 do not contain the information on this updated actuary obligation due to the fact that the actuarial valuation report was available only two months after the issuance of the financial statements. This fact was properly disclosed in the financial statements in accordance with paragraph 27 of IAS 26.

5.6 The Board supports the initiative of the Office of Financial Control to make an annual valuation of the NATO Coordinated Pension Scheme pension obligation. At the same time the Board believes that the abovementioned information is very important for decision making, specifically regarding the future operations of the NATO Coordinated Pension Scheme. Therefore, the timely delivery of this information to the users of financial statements is critical.

Recommendation

5.7 The Board recommends aligning the reporting timelines for the financial statements and the ISRP actuarial valuation of NATO Coordinated Pension Scheme pension obligation in order to ensure that the financial statements include the data on actuarial valuation for the respective year.

Formal Comment of the International Staff

The recommendation is agreed.

OFC will discuss with ISRP the possibility of receiving earlier delivery of the actuarial report. It should be noted, however, that the actuarial report depends on a high volume of NATO-wide data to be submitted by IS Human Resources that may not always be available on time.

There may be another way of aligning the reporting timelines, since the final version of the actuarial report is usually available during the audit field work. At that time a revised version of the financial statements submitted to IBAN could be produced by IS OFC with the data of the final actuarial study. This approach

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would give flexibility in the preparation of the study and would still allow for the public disclosure of complete and up to date information.

Board Position

The Board believes that the financial statements issued on 31 March should be the final financial statements. The Board does not support an approach where the financial statements issued for audit on 31 March would be expected to be subsequently changed every year.

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FOLLOW-UP OF A PREVIOUS YEAR'S OBSERVATION

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

| OBSERVATION / RECOMMENDATION | ACTION TAKEN | STATUS |
|---|---|---|
| Audit Report FY 2015 IBA-AR(2017)23, paragraph 1 Insufficient internal controls related to pension benefits in the financial statements Board's recommendation <ul style="list-style-type: none"> The Board recommends that the IS retains all the information in sufficient details in order to support the accounting entries in the ERP system. The Board recommends performing regular reconciliations of data on Pension Benefits recorded in ERP with Pensions Unit. | <p>In-depth analysis has been performed by the IS Office of Financial Control. As a result, ERP data has been reconciled to Pensions' unit accounting system with immaterial deviations.</p> <p>However, the analysis was only performed after the issuing of financial statements and upon the request of the Board.</p> | <p>Observation Superseded by current year observation 3.</p> |
| Audit Report FY 2015 IBA-AR(2017)23, paragraph 2 No regular reconciliation of bank balances Board's recommendation The Board recommends performing and documenting regular monthly cash reconciliations, which will help to identify misstatements (if any) on a timely basis. This should include signatures of the preparer and the reviewer. | | <p>Observation Superseded by current year observation 4.</p> |
| Audit Report FY 2015 IBA-AR(2017)23, paragraph 3 Late issuance of the financial statements Board's recommendation The Board recommends that future financial statements be submitted to the Board by 31 March, respecting the deadline in the NFRs. | <p>The financial statements for the year ended 31 December 2016 were issued on time. However, there were numerous errors and unsupported balances in the statements, indicating to the Board that they were not fully ready to be issued when they were.</p> | <p>Observation Settled.</p> |

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| OBSERVATION / RECOMMENDATION | ACTION TAKEN | STATUS |
|---|--|---|
| <p>Audit Report FY 2015 IBA-AR(2017)23, paragraph 4 No statement of internal control was issued</p> <p>Board's recommendation The Board recommends that the signed Statement of Internal Control be issued along with the signed Financial Statements.</p> | <p>The signed Statement of Internal Control along with the signed Financial Statements for the year ended 31 December 2016 were issued on time.</p> | <p>Observation Settled.</p> |
| <p>Audit Report FY 2015 IBA-AR(2017)23, paragraph 5 Significant delays in providing information required for the audit</p> <p>Board's recommendation The Board recommends that the IS Office of Financial Control provide required information to the Board in a timely manner. In order to meet the Board's deadlines, less flexibility will be provided in future audits.</p> | <p>The Board noted some improvements in the timeliness of the submission of the information to the Board. However, further improvement is needed in order to enable auditors to finish the audit work on time.</p> | <p>Observation Partially settled.</p> |
| <p>Audit Report FY 2015 IBA-AR(2017)23, paragraph 6 Insufficient data transparency and availability in the accounting system</p> <p>Board's recommendation</p> <ul style="list-style-type: none"> The board recommends improving the transparency and availability of the accounting data by recording all individual accounting transactions in the ERP system and using standard workflows for routine transactions. In situations when aggregated data is entered in the accounting program, underlying supporting details (summaries, listings, calculations, etc.) should be available within the ERP and should be subject to proper verification and approval within the system. The Board recommends using a trial balance, generated by the ERP, as a main source for the preparation of financial statements. The preparer of the financial statements should keep detailed supporting working papers in order to be able to support any information disclosed in the financial statements. | | <p>Observation Superseded by current year observation 2.</p> |

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| OBSERVATION / RECOMMENDATION | ACTION TAKEN | STATUS |
|--|--|---|
| <p>Audit Report FY 2015 IBA-AR(2017)23, paragraph 7 Classification misstatements and omissions in the financial statements</p> <p>Board's recommendation The Board recommends implementing the multi-level financial statements review process in order to ensure the overall quality of the produced financial statements and supporting documentation.</p> | <p>The post-employment tax adjustments and related revenues are still not disclosed in the Statement of Changes in Net Assets Available for Benefits. However, it is planned to be implemented in the next financial statements.</p> | <p>Observation Superseded by current year observation 2.</p> |
| <p>Audit Report FY 2015 IBA-AR(2017)23, paragraph 8 Unclear foreign currency conversion policy</p> <p>Board's recommendation</p> <ul style="list-style-type: none"> The Board recommends developing and implementing a comprehensive policy on the accounting and reporting of transactions and balances, stated in foreign currencies. The Board recommends that monetary assets and liabilities at year-end be revalued into EUR at the year-end foreign exchange rates. | <p>The formal policy on the accounting and reporting of transactions and balances, stated in foreign currencies has not been developed.</p> | <p>Observation Outstanding.</p> |

**NATO COORDINATED PENSION SCHEME
FINANCIAL STATEMENTS**

For the year ended
31 December 2016

Annexes

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


Jens STOLTENBERG
Secretary General


Stéphane CHAGNOT
Financial Controller

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Annex 1 to
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THE NATO COORDINATED PENSION SCHEME
Statement of Net Assets Available for Benefits

| (All amounts in EUR) | Notes | Current Year | Previous Year |
|---|-------|-----------------------|-----------------------|
| | | 30-Dec-16 | 31-Dec-15 |
| Assets | | | |
| Cash and cash equivalent | 4 | 43,358,221.40 | 87,054,759.62 |
| Financial investment | 5 | 40,000,000.00 | |
| Staff member contributions receivable | 6 | | 267,838.64 |
| Employer contribution receivable | 7 | 1,323,650.61 | 1,384,387.62 |
| Nation contributions receivable | 8 | 118,514,990.98 | 90,043,565.69 |
| Pension adjustments contribution receivable | 9 | 10,403,628.68 | 22,961,904.11 |
| Credit for past service to be refunded by staff | 10 | 60,132.35 | 68,084.87 |
| Advance DCPS | | | 0.00 |
| Other | 11 | | 152,050.35 |
| Total assets | | 213,660,624.02 | 201,932,590.90 |
| Liabilities | | | |
| Contributions called for y+1 | 8 | 145,807,300.00 | 136,821,900.00 |
| Voluntary advances | | 1,368,915.73 | |
| Pension adjustments called for y+1 | 9 | 24,107,300.00 | 22,810,100.00 |
| Other | 12 | 154,158.16 | 379,177.58 |
| Total Liabilities | | 171,437,673.89 | 160,011,177.58 |
| Net assets available for benefits | 13 | 42,222,950.13 | 41,921,413.32 |

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Annex 2 to
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THE NATO COORDINATED PENSION SCHEME
Statement of Changes in Net Assets Available for Benefits

| (All amounts in EUR) | Notes | Current Year | Previous Year |
|--|-------|-----------------------|-----------------------|
| | | 30-Dec-16 | 31-Dec-15 |
| Increase in net assets | | 697,645.48 | 337,860.58 |
| Interest income | 14 | 4,622.18 | 63,417.12 |
| Transfers from other pension funds | 15 | 219,276.28 | 274,443.46 |
| Bank costs | | 277,063.26 | |
| Other | 16 | 196,683.76 | 0.00 |
| Contributions | | 149,525,196.73 | 139,201,393.27 |
| Staff members | 6 | 17,461,541.04 | 17,819,658.20 |
| Employer's | 7 | 300,990.85 | 410,494.49 |
| Nations | 8 | 131,762,664.84 | 120,971,240.58 |
| Total increase in net assets available for benefits | | 150,222,842.21 | 139,539,253.85 |
| Decrease in net assets | | | |
| Pension benefits | 17 | 149,921,305.36 | 140,314,987.60 |
| Leaving allowances | 17 | 0.00 | 1,058,912.11 |
| Other costs | | | |
| Bank costs | 14 | | 246.69 |
| Total decrease in net assets available for benefits | | 149,921,305.36 | 141,374,146.40 |
| Net change for the year | | 301,536.85 | -1,834,892.55 |
| Net assets available for benefits, beginning of year | | 41,921,413.28 | 43,756,305.83 |
| Net assets available for benefits, end of year | | 42,222,950.13 | 41,921,413.28 |

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**EXPLANATORY NOTES TO THE
2016 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 recruited between 1 July 1974 and 30 June 2005 become eligible for a retirement pension after 10 years of service; those 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.

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 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%

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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. The rate was increased to 9.5% 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.).

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

The accounting system currently used by the NATO 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.

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Changes in accounting policy

None in 2016.

Reclassification of financial statements of previous year

None in 2016.

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, THB, 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.

Financial Investments

Financial investments with a fixed redemption value, acquired with the intention to be held to maturity, matching DBPS obligations or parts thereof, are recognised at ultimate redemption value.

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 non-derivative financial instruments as part as its normal operations. These financial elements include bank accounts, deposit accounts, accounts receivable and provisions. The NATO DBPS has also invested in a 3-year capital-guaranteed note yielding 3-month Euribor but with a minimum of 0.03%. The note is intended to be held to maturity in order to match obligations of the DBPS.

Cash and equivalents are recognised in the statement of financial position at their fair value. The 3-year note with capital guarantee is recognised at redemption value at maturity.

The maximum exposure as at 31 December 2016 is equal to the total amount of bank balances, short term deposits, the note 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, cash equivalents and a note held with banks, and receivables.

Credit risk on cash and cash equivalents is managed by holding current 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 ratings (short term).

Credit Ratings as at 07/02/2017

| | Fitch | Moody's | S&P |
|----------|-------|---------|-----|
| ING Bank | F1 | NA | A2 |

A "floored floater" 3-year, capital-guaranteed note held with a registered banking institution has the following ratings.

Credit Ratings as at 07/02/2017

| | Fitch | Moody's | S&P |
|---------|-------|---------|-----|
| Ratings | BBB+ | Baa1 | A- |

Credit risk is also 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.

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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 (83%), GBP (8%), NOK (2%), USD (2%) and DKK (2%); the other currencies (AUD, CAD, CHF, NZD, SEK, THB, 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 budgetary surplus shields NATO DBPS from liquidity risk.

Cash, cash equivalents, and the capital-guaranteed note are managed to avoid liquidity risk. The 3-year note does not have an active secondary market so bears some liquidity risk, if it were to be sold before maturity. The intention is, however, to hold the note to maturity.

Interest rate risk

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

Market risk

The bank-guaranteed note yields 3-month Euribor with a minimum of 0.03%. There is no currency risk attached to it since it is in EUR. The capital is guaranteed. Fluctuations in the euro interest rates will affect the market value of the note if sold before maturity, which is not the intention. The principal corresponds to funds the DBPS has no intention to use in the immediate future, it matches DPBS obligations and relates to inward transfers of pension rights by staff members from their previous pension schemes.

NOTE 3: ACTUARIAL VALUATION

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

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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 2016 by the OECD International Service for Remunerations and Pensions (ISRP) to assess the value of the long term NATO pension obligation.

The evaluation of the situation end 2015, further to the study conducted in 2016, results in a present value of the NATO DBPS obligation of MEUR 6,499 at year end 2015 (including MEUR 40.0 inward transfer of pension rights). The previous evaluation was MEUR 6,169 (including MEUR 39.7 inward transfer of pension rights).

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

Endogenous assumptions taken into account are:

- Probability that a staff member leaves the Organization, 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 of pensions: 1.51%
- Price inflation in the long run: 2%
- Rates of mortality for both active staff and pensioners (mortality table International Civil Servant Life Table 2013 – ICSLT2013, source ISRP/EUROSTAT).

The previous actuarial study dated from 2015 estimated the value of the obligation at the end of 2014 at MEUR 6,129 (excluding inward transfers of rights). The current projection of this liability at the end of 2015 can be obtained as follows:

(Amounts in MEUR – excluding transfers of pension rights)

| | | |
|--|---------------|--------------|
| Evaluation of the obligation at year end 2014 | (a) | 6,129 |
| Benefits paid | (b) | 142 |
| Interest costs | (c) | 81 |
| Current service costs | (d) | 178 |
| Obligation at year end 2014 projected into 2015 | (e)=(a-b+c+d) | 6,246 |
| Actuarial loss (gain) on obligation | (e-f) | 213 |
| Evaluation of obligation at year end 2015 | (f) | 6,459 |

The actuarial loss (i.e. the (positive) difference between the obligation estimated at year end 2015 by the new study and the obligation of 2014 projected into 2015 resulting from the previous study) is MEUR 213. The actuarial loss represents 3% of the obligation projected in 2015.

Assumptions taken into account in the previous actuarial study were:

Discount rate: 1.33%

Price inflation: 2%

Future salary increase: 0.27% above inflation

By definition actuarial valuations are largely dependent on the endogenous and exogenous parameters. Therefore any changes to the latter can result in material changes to the final

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evaluation of the obligation. In this case, the discount rate was increased, by 18 basis points, from 1.33% to 1.51%.

The discount rate refers to market yields on high quality corporate bonds. For the purpose of this actuarial study, in the absence of a market for Eurozone corporate bonds with maturities longer than 18 years, the Euro area government bond yield curve was used instead as a reference to discount the liabilities of the RMCF. This resulted in the discount rate of 1.51%, compared to the previous 1.33% (and before: 2.77%).

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

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.

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.

Cash is held on account of third parties in the amount of EUR 58,995 (EUR 58,975 end 2015). These funds belong to Nations, members of former NAMSA (now NSPA), 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 decrease in the level of cash holdings can be explained by contributions paid later by Nations.

NOTE 5: FINANCIAL INVESTMENTS

In 2016, in the current market context where low-risk deposits in euro offer negative interest an amount of EUR 40,000,000 was invested in a Belfius Bank guaranteed capital note maturing in June 2019 yielding the 3-month Euribor rate but with a floor of 0.03%. The 3-year maturity is consistent with a conservative assessment of when these funds might be required for disbursement. The EUR 40 million is related to inward transfers from national pension schemes so are not subject to disbursement in the near term.

This note is recognized at its redemption value because it is held to maturity and corresponds to DBPS future requirements. It is an "over the counter" (OTC) investment, not publicly traded. However, if it were marketable and if it were held for sale, its reported value would be based on current interest rate market conditions. At 31 December 2016, that

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notional market value would have represented an unrealised loss of EUR 109 thousand. The most recent estimated value available mid October 2017 represented a notional unrealised gain of EUR 88 thousand.

This is the only non-cash-equivalent investment held by DBPS.

NOTE 6: STAFF MEMBER CONTRIBUTIONS

Staff member contributions are paid monthly by the NATO payroll centres. As of 1 January 2015, contributions to the NATO DBPS from serving staff were 9.5% of their basic salary (previous contribution rate was 9.0% since 1 January 2010). The reduction in the number of contributing staff, as newly recruited staff are members of the DCPS, results in reductions in the value of staff member contributions. This trend partially offset by the increase of the contribution rate.

Outstanding amounts are contributions due on staff salaries for December from several NATO entities, which were all received in early 2017.

NOTE 7: 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 Centre reimburses EUR 25,000 per month (EUR 300,000 per annum) which is about 50% more than its annual dues. According to the initial plan the full amount should be repaid by 2021. However due to its financial situation the Staff Centre does not fully comply with the plan.

NOTE 8: 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.

The DBPS call for contributions is a single call issued towards the end of the year. It includes an advance on next year's pension budget including any frozen credits, takes into account the previous year's surplus or deficit, and regularises any adjustments done in the course of the budget year such as budget revisions.

Uncollected budgetary contributions from Nations relate mainly to the call for the 2017 pension budget. The call for contributions was issued late 2016 which largely explains the level of these receivables.

On occasion, NATO member nations may make supplementary contributions on a voluntary basis (EUR 1,368,915.73 end 2016, EUR 2,370,000 end 2015).

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NOTE 9: 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 (circa KEUR 60) 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.

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 24,107,300 was called in late 2016 (EUR 22,810,100 in 2015), as an advance on the next year's payments of the pension adjustment.

Receivables from Nations as contributions to fund the adjustment of pensions relate mainly to the call for the advances on 2017 expenses. The call was issued late 2016 which largely explains the level of these receivables.

NOTE 10: 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 11: OTHER RECEIVABLES

These are essentially accrued interest 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 relating to bank fees, life insurance capital due and other miscellaneous amounts due to be regularised.

This item also includes funds held on behalf of certain Nations corresponding to their share of former NAMSA (now NSPA) staff members' validation costs EUR 58,995 (EUR 58,975 end 2015). 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 10). 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

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costs and, therefore, NATO's funding of the Co-ordinated Pension Scheme is on a pay-as-you-go basis.

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 2016 will be returned to Nations with the call for the 2018 budget to be issued end 2017).

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 million from the Belgian "Office National des Pensions" (EUR 35.714 million as of end 2012, EUR 33.422 million as of 31 December 2011).

In 2012, the inward 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 Luxembourg (0.072 million).

In 2013, the inward 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 Luxembourg (0.124 million).

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In 2014, the inward transfers received amounted to EUR 0.329 million, with the main contributions coming from the following pension systems: Greece (EUR 0.191 million), the Netherlands (EUR 0.034 million) and International Organisations (0.103 million).

In 2015, the inward transfers received amounted to EUR 0.274 million, with the main contribution being the repayment of a Leaving Allowance (EUR 0.222 million) and the rest coming from a pension system of the Netherlands (EUR 0.052 million).

In consideration of the fact that this inward transfer of rights has 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 mainly 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 tables under notes 17 and 20 provides a breakdown of payments according to the kind of pensions paid.

| | CIVIL BUDGET | MILITARY BUDGET | TOTAL | CIVIL BUDGET N-1 | MILITARY BUDGET N-1 | TOTAL N-1 |
|---|----------------------|-----------------------|-----------------------|----------------------|------------------------|-----------------------|
| PAYMENTS / PAIEMENTS | | | | | | |
| Retirement Pensions / Pensions d'Ancienneté | 25,862,271.17 | 76,484,592.75 | 102,346,863.92 | 24,091,230.15 | 69,612,162.54 | 93,703,392.69 |
| Survivor's Pensions / Pensions de Survie | 5,320,416.08 | 15,549,426.14 | 20,869,842.22 | 5,140,447.94 | 14,953,496.33 | 20,093,944.27 |
| Orphan's Pensions / Pensions d'Orphelins | 199,819.04 | 609,409.73 | 809,228.77 | 225,970.19 | 565,132.87 | 791,103.06 |
| Invalidity Pensions / Pensions d'Invalidité | 4,337,276.28 | 14,091,557.92 | 18,428,834.20 | 4,276,125.64 | 14,385,996.03 | 18,662,121.67 |
| Family Allowances / Allocations Familiales | 1,589,937.37 | 5,838,779.66 | 7,428,717.03 | 1,638,644.93 | 5,489,611.90 | 7,128,256.83 |
| Leaving Allowances / Allocations de Départ | 0.00 | 0.00 | 0.00 | 353,743.69 | 705,168.41 | 1,058,912.10 |
| Validation costs paid / Coûts de validation payés | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Miscellaneous / Divers | -8,610.52 | 46,429.74 | 37,819.22 | -12,145.17 | -19,944.98 | -32,090.15 |
| TOTAL PAYMENTS / TOTAL PAIEMENTS | 37,301,109.42 | 112,620,195.94 | 149,921,305.36 | 35,714,017.37 | 105,691,623.10 | 141,405,640.47 |
| RECEIPTS / RECETTES | | | | | | |
| Contributions 9.5% | 3,798,116.08 | 13,663,424.96 | 17,461,541.04 | 3,944,822.91 | 13,874,835.29 | 17,819,658.20 |
| Employer's Contribution / Contributions Employeur | 93,222.78 | 207,768.07 | 300,990.85 | 120,582.15 | 142,316.56 | 262,898.71 |
| Insurer's Contribution / Contributions Assureur | 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 | 7,952.52 | 0.00 | 7,952.52 |
| Interests, P/L Exchange / Intérêts, P&P sur change | 0.00 | 546,454.07 | 546,454.07 | 15,085.00 | 48,085.42 | 63,170.42 |
| Miscellaneous / Divers | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Contributions 18% due by Staff center | 0.00 | 0.00 | 0.00 | 147,595.78 | 0.00 | 147,595.78 |
| TOTAL RECEIPTS / TOTAL RECETTES | 3,891,338.86 | 14,417,647.10 | 18,308,985.96 | 4,236,038.36 | 14,065,237.27 | 18,301,275.63 |
| DEFICIT - SURPLUS / DEFICIT - EXCEDENT | 33,409,770.56 | 98,202,548.84 | 131,612,319.40 | 31,477,979.01 | 91,626,385.83 | 123,104,364.84 |

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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).

The data provided below concerns 2015.

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| | | | | | | | | | | (In / en EUR) |
|---|---------------|--------------|--------------|-------------|-------------|--------------|-----------|------------|--|-----------------|
| | I.S. | NAPMA | BGOH / NHMO | BGOH / NHMO | BGOH / NHMO | CEPMA | NAHEMA | NAMEADSMA | | SOUS-TOTAL |
| | (28 N) | (13 N) | (9 N) | (8 N) | (2 N) | (8 N) | (4 N) | (2 N) | | SUB-TOTAL |
| PAYMENTS / PAIEMENTS | | | | | | | | | | |
| Retirement Pensions / Pensions d'Ancienneté | 24,091,230.15 | 1,493,886.18 | 1,283,927.20 | 34,953.08 | 303,386.23 | 1,868,274.96 | 23,010.36 | 0.00 | | 29,098,668.16 |
| Survivor's Pensions / Pensions de Survie | 5,140,447.94 | 281,865.21 | 650,329.33 | 10,943.71 | 12,086.74 | 693,421.12 | 0.00 | 0.00 | | 6,789,094.05 |
| Orphan's Pensions / Pensions d'Orphelins | 225,970.19 | 7,028.23 | 0.00 | 0.00 | 0.00 | 0.00 | 28,381.68 | 0.00 | | 261,380.10 |
| Invalidity Pensions / Pensions d'Invalidité | 4,276,125.64 | 412,166.19 | 234,032.59 | 5,517.99 | 101,611.90 | 114,573.54 | 0.00 | 0.00 | | 5,144,027.85 |
| Family Allow ances / Allocations Familiales | 1,638,644.93 | 164,772.00 | 81,967.06 | 3,371.62 | 42,650.99 | 100,771.53 | 2,358.96 | 0.00 | | 2,034,537.09 |
| Leaving Allow ances / Allocations de Départ | 353,743.69 | 705,168.41 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | 1,058,912.10 |
| 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 |
| Miscellaneous / Divers | -12,145.17 | -1,727.06 | 0.00 | 0.00 | 0.00 | -345.00 | 0.00 | 0.00 | | -14,217.23 |
| TOTAL PAYMENTS / TOTAL PAIEMENTS | 35,714,017.37 | 3,063,159.16 | 2,250,256.18 | 54,786.41 | 459,735.86 | 2,776,696.15 | 53,751.00 | 0.00 | | 44,372,402.12 |
| RECEIPTS / RECETTES | | | | | | | | | | |
| Contributions 9% | 3,944,822.91 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 2,103.28 | 11,537.39 | | 3,958,463.58 |
| Employer's Contribution / Contributions Employeur | 120,582.15 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | 120,582.15 |
| 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 | 7,952.52 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | 7,952.52 |
| Interests, P/L Exchange / Intérêts, P&P sur change | 15,085.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 7.22 | 39.58 | | 15,131.80 |
| Miscellaneous / Divers | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | 0.00 |
| Contributions 18% due by Staff center | 147,595.78 | | | | | | | | | 147,595.78 |
| TOTAL RECEIPTS / TOTAL RECETTES | 4,236,038.36 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 2,110.50 | 11,576.97 | | 4,249,725.83 |
| DEFICIT - SURPLUS / DEFICIT - EXCEDENT | 31,477,979.01 | 3,063,159.16 | 2,250,256.18 | 54,786.41 | 459,735.86 | 2,776,696.15 | 51,640.50 | -11,576.97 | | 40,122,676.29 |

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| | | | | | | | | | | | (In / en EUR) |
|---|--------------|--------------|--------------|--------------|------------|------------|--------------|------------|-----------|-----------|-----------------|
| | IMS | | EX-NACISA | NC3A | NAMMA | NEFMA | NETMA | CEPMA | CEPMA | CEPMA | SOUS-TOTAL |
| | ("27" N) | (28 N) | (14 N) | (28 N) | (3 N) | (4 N) | (4 N) | (7 N) | (6 N) | (5 N) | SUB-TOTAL |
| PAYMENTS / PAIEMENTS | | | | | | | | | | | |
| Retirement Pensions / Pensions d'Ancienneté | 856,425.05 | 3,844,541.62 | 974,081.49 | 7,519,174.42 | 30,208.70 | 81,475.92 | 598,326.60 | 137,171.93 | 11,233.38 | 3,744.47 | 43,155,051.73 |
| Survivor's Pensions / Pensions de Survie | 338,411.43 | 565,397.81 | 431,256.14 | 595,721.73 | 79,227.24 | 73,813.20 | 182,261.68 | 0.00 | 0.00 | 0.00 | 9,055,183.28 |
| Orphan's Pensions / Pensions d'Orphelins | 28,980.05 | 0.00 | 0.00 | 32,553.18 | 0.00 | 0.00 | 15,913.16 | 0.00 | 0.00 | 0.00 | 338,826.49 |
| Invalidity Pensions / Pensions d'Invalidité | 96,395.74 | 400,053.87 | 36,838.69 | 873,845.14 | 78,518.04 | 84,983.76 | 178,596.97 | 54,964.56 | 53,218.16 | 17,739.39 | 7,019,182.17 |
| Family Allow ances / Allocations Familiales | 54,968.24 | 285,446.37 | 69,060.80 | 511,648.39 | 2,806.86 | 8,048.40 | 49,461.06 | 11,519.21 | 2,774.15 | 924.75 | 3,031,195.31 |
| Leaving Allow ances / Allocations de Départ | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1,058,912.10 |
| 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 | 0.00 |
| Miscellaneous / Divers | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -2,524.66 | 0.00 | 0.00 | 0.00 | -16,741.89 |
| TOTAL PAYMENTS / TOTAL PAIEMENTS | 1,375,180.50 | 5,095,439.68 | 1,511,237.12 | 9,532,942.86 | 190,760.84 | 248,321.28 | 1,022,034.81 | 203,655.70 | 67,225.68 | 22,408.60 | 63,641,609.19 |
| RECEIPTS / RECETTES | | | | | | | | | | | |
| Contributions 9% | 0.00 | 645,020.19 | 0.00 | 0.00 | 0.00 | 0.00 | 12,312.93 | 0.00 | 0.00 | 0.00 | 4,615,796.70 |
| Employer's Contribution / Contributions Employeur | 0.00 | 142,316.56 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 262,898.71 |
| 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 | 7,952.52 |
| Interests, P/L Exchange / Intérêts, P&P sur change | 0.00 | 2,700.93 | 0.00 | 0.00 | 0.00 | 0.00 | 42.24 | 0.00 | 0.00 | 0.00 | 17,874.97 |
| Miscellaneous / Divers | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Contributions 18% due by Staff center | | | | | | | | | | | 147,595.78 |
| TOTAL RECEIPTS / TOTAL RECETTES | 0.00 | 790,037.68 | 0.00 | 0.00 | 0.00 | 0.00 | 12,355.17 | 0.00 | 0.00 | 0.00 | 5,052,118.68 |
| DEFICIT - SURPLUS / DEFICIT - EXCEDENT | 1,375,180.50 | 4,305,402.00 | 1,511,237.12 | 9,532,942.86 | 190,760.84 | 248,321.28 | 1,009,679.64 | 203,655.70 | 67,225.68 | 22,408.60 | 58,589,490.51 |

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| | | | | | | | | | | (In / en EUR) |
|---|---------------|------------|---------------|--------------|---------------|----------|--------------|---------------|--|-----------------|
| | ACO - ACT | | | | NAMSA | NAMA | NCIA | NSPA | | |
| | (17 N) | (18 N) | ("27" N) | (28 N) | (25 N) | (12 N) | | | | TOTAL |
| PAYMENTS / PAIEMENTS | | | | | | | | | | |
| Retirement Pensions / Pensions d'Ancienneté | 7,356,500.94 | 0.00 | 20,005,080.02 | 2,409,295.81 | 16,065,267.09 | 0.00 | 4,712,197.10 | 0.00 | | 93,703,392.69 |
| Survivor's Pensions / Pensions de Survie | 1,414,739.64 | 0.00 | 5,528,843.21 | 417,610.68 | 3,294,444.83 | 0.00 | 383,122.63 | 0.00 | | 20,093,944.27 |
| Orphan's Pensions / Pensions d'Orphelins | 66,178.84 | 0.00 | 98,620.71 | 14,751.36 | 191,685.74 | 0.00 | 81,039.92 | 0.00 | | 791,103.06 |
| Invalidity Pensions / Pensions d'Invalidité | 5,604,348.56 | 0.00 | 1,962,618.72 | 154,332.49 | 3,619,715.57 | 0.00 | 301,924.16 | 0.00 | | 18,662,121.67 |
| Family Allow ances / Allocations Familiales | 1,062,470.89 | 0.00 | 1,217,563.82 | 166,504.37 | 1,173,222.86 | 0.00 | 477,299.58 | 0.00 | | 7,128,256.83 |
| Leaving Allow ances / Allocations de Départ | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | 1,058,912.10 |
| 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 |
| Miscellaneous / Divers | -6,722.15 | 0.00 | 82.14 | 0.00 | -8,744.22 | 0.00 | 35.97 | 0.00 | | -32,090.15 |
| | | | | | | | | | | |
| TOTAL PAYMENTS / TOTAL PAIEMENTS | 15,497,516.72 | 0.00 | 28,812,808.62 | 3,162,494.71 | 24,335,591.87 | 0.00 | 5,955,619.36 | 0.00 | | 141,405,640.47 |
| | | | | | | | | | | |
| RECEIPTS / RECETTES | | | | | | | | | | |
| Contributions 9% | 2,425,860.81 | 40,064.23 | 0.00 | 2,458,301.63 | 0.00 | 0.00 | 4,595,149.29 | 3,684,485.54 | | 17,819,658.20 |
| Employer's Contribution / Contributions Employeur | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | 262,898.71 |
| 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 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | 7,952.52 |
| Interests, P/L Exchange / Intérêts, P&P sur change | 8,321.84 | 137.44 | 0.00 | 8,433.13 | 0.00 | 0.00 | 15,763.52 | 12,639.52 | | 63,170.42 |
| Miscellaneous / Divers | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | 0.00 |
| Contributions 18% due by Staff center | | | | | | | | | | 147,595.78 |
| | | | | | | | | | | |
| TOTAL RECEIPTS / TOTAL RECETTES | 2,434,182.65 | 40,201.67 | 0.00 | 2,466,734.76 | 0.00 | 0.00 | 4,610,912.81 | 3,697,125.06 | | 18,301,275.63 |
| | | | | | | | | | | |
| DEFICIT - SURPLUS / DEFICIT - EXCEDENT | 13,063,334.07 | -40,201.67 | 28,812,808.62 | 695,759.95 | 24,335,591.87 | 0.00 | 1,344,706.55 | -3,697,125.06 | | 123,104,364.84 |

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ANNEX 3 to
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Presently the NATO DBPS budgets are not made available to the public. The following table compares approved budgets and actuals.

| Budget Execution 2016 | | | | |
|---|-----------------------|-----------------------|-----------------------|----------------------|
| | Initial Budget | Revised Budget | Actuals | Difference |
| | (a) | (b) | (c) | (b-c) |
| CIVIL BUDGET | | | | |
| <u>PAYMENTS / PAIEMENTS</u> | | | | |
| Retirement Pension / Pension d'Ancienneté | 25,073,500 | 25,623,500 | 25,862,271.17 | -238,771.17 |
| Survivor Pension / Pension de Survie | 5,464,600 | 5,464,600 | 5,320,416.08 | 144,183.92 |
| Orphans Pension / Pension d'Orphelins | 184,000 | 184,000 | 199,819.04 | -15,819.04 |
| Invalidity Pension / Pension d'Invalidité | 4,498,400 | 4,498,400 | 4,337,276.28 | 161,123.72 |
| Family Allowance / Allocations Familiales | 1,609,300 | 1,609,300 | 1,589,937.37 | 19,362.63 |
| Leaving Allowance / Allocations de Départ | 0 | 0 | 0.00 | 0.00 |
| Validation Costs Paid / Coûts de Validation payés | 0.00 | 0 | 0.00 | 0.00 |
| Miscellaneous / Divers | | | -8,610.52 | 8,610.52 |
| Total Payments / Paiements | 36,829,800.00 | 37,379,800.00 | 37,301,109.42 | 78,690.58 |
| <u>RECEIPTS / RECETTES</u> | | | | |
| Staff Contributions / Contributions des Agents | 4,002,000 | 4,002,000 | 3,798,116.08 | 203,883.92 |
| Employer Contributions / Contributions de l'Employeur | 275,900 | 275,900 | 93,222.78 | 182,677.22 |
| Validation Costs Received / Coûts de Validation reçus | 0 | 0 | 0.00 | 0.00 |
| Interests, Profit & Loss / Intérêts, Pertes & Profits | 0 | 0 | 0.00 | 0.00 |
| Miscellaneous / Divers | 0 | 0 | 0.00 | 0.00 |
| Contributions due by Staff Center | 0.00 | 0 | 0.00 | 0.00 |
| Total Receipts / Recettes | 4,277,900.00 | 4,277,900.00 | 3,891,338.86 | 386,561.14 |
| Funding Requirement / Besoin de financement | 32,551,900.00 | 33,101,900.00 | 33,409,770.56 | -307,870.56 |
| MILITARY BUDGETS | | | | |
| <u>PAYMENTS / PAIEMENTS</u> | | | | |
| Retirement Pension / Pension d'Ancienneté | 75,300,000 | 75,300,000 | 76,484,592.75 | -1,184,592.75 |
| Survivor Pension / Pension de Survie | 16,100,000 | 16,100,000 | 15,549,426.14 | 550,573.86 |
| Orphans Pension / Pension d'Orphelins | 700,000 | 700,000 | 609,409.73 | 90,590.27 |
| Invalidity Pension / Pension d'Invalidité | 16,900,000 | 14,900,000 | 14,091,557.92 | 808,442.08 |
| Family Allowance / Allocations Familiales | 6,300,000 | 6,300,000 | 5,838,779.66 | 461,220.34 |
| Leaving Allowance / Allocations de Départ | 0 | 0 | 0.00 | 0.00 |
| Validation Costs Paid / Coûts de Validation payés | 0 | 0.00 | 0.00 | 0.00 |
| Miscellaneous / Divers | 0.00 | 0.00 | 46,429.74 | -46,429.74 |
| Total Payments / Paiements | 115,300,000.00 | 113,300,000.00 | 112,620,195.94 | 679,804.06 |
| <u>RECEIPTS / RECETTES</u> | | | | |
| Staff Contributions / Contributions des Agents | 12,700,000 | 12,700,000 | 13,663,424.96 | -963,424.96 |
| Employer Contributions / Contributions de l'Employeur | 100,000 | 100,000 | 207,768.07 | -107,768.07 |
| Validation Costs Received / Coûts de Validation reçus | 300,000 | 0 | 0.00 | 0.00 |
| Interests, Profit & Loss / Intérêts, Pertes & Profits | 100,000 | 0 | 0.00 | 0.00 |
| Miscellaneous / Divers | 200,000.00 | 0.00 | 546,454.07 | -546,454.07 |
| Total Receipts / Recettes | 13,400,000.00 | 12,800,000.00 | 14,417,647.10 | -1,617,647.10 |
| Funding Requirement / Besoin de financement | 101,900,000.00 | 100,500,000.00 | 98,202,548.84 | 2,297,451.16 |
| TOTAL CIVIL + MILITARY BUDGETS | | | | |
| TOTAL Funding Requirement | 134,451,900.00 | 133,601,900.00 | 131,612,319.40 | 1,989,580.60 |

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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 2016 for the Civil Budget and the Military Budgets were initially approved at, respectively, EUR 32,551,900 and EUR 101,900,000. The Civil Budget component was revised in the course of the year to EUR 33,101,900. The Military Budget component was revised in the course of the year to EUR 100,500,000. As a consequence, these changes were taken into account with the call issued to Nations end 2016.

The credits concerning the Civil Budget Pensions were underestimated and the subsequent funding requirement was higher, 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 2017 call for nations’ pension contributions. Taking the two budget components together, there was nevertheless a surplus.

The difference between approved budgets and actuals for the Civil Budget mainly concerns the following items: retirement pensions and overestimated staff contributions. The difference between approved budgets and actuals for the Military Budgets concerns mainly the following items: invalidity pensions and underestimated staff contributions.

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.

NOTE 22: RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT PERSONNEL

During 2015 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 about EUR 470K. This includes miscellaneous operating costs and the personnel costs of the full time equivalent of 4.5 staff from the Office of Financial Control and the Human Resources Pension Unit.

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 for subsequent years has been provided but the amount is estimated to be of the same order of magnitude in 2016.

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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 NATO Coordinated Pension Scheme.

| Year | Retirement Pensions | Survivor and Reversion Pensions | Orphan's and Dependant's Pensions | Invalidity Pensions | 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 |
| 2014 | 2,272 | 624 | 59 | 470 | 3,425 |
| 2015 | 2,380 | 652 | 58 | 459 | 3,549 |
| 2016 | 2,589 | 665 | 65 | 439 | 3,758 |

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List of acronyms:

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| 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 |
| NSPA: | NATO Support Agency. |
| OECD: | Organisation for Economic Co-operation and Development |
| OFC: | Office of Financial Control |
| RMCF: | Retirees Medical Claims Fund |
| SC: | NATO Headquarters' Staff Centre |