	<b>NATO</b>	NORTH ATLANTIC COUNCIL
	<b>OTAN</b>	CONSEIL DE L'ATLANTIQUE NORD

**NATO UNCLASSIFIED**

03 January 2019

**DOCUMENT**  
C-M(2018)0068-AS1

**IBAN AUDIT ON THE 2017 FINANCIAL STATEMENTS OF NATO COORDINATED  
PENSION SCHEME**

**ACTION SHEET**

On 21 December 2018, under the silence procedure, the Council noted the IBAN report on the 2017 financial statements of the NCPS attached to C-M(2018)0068, endorsed the RPPB report, and agreed to the public disclosure of the report, the IBAN audit report and associated 2017 financial statements of the NCPS.

(Signed) Jens Stoltenberg  
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2018)0068.

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14 December 2018

**DOCUMENT**  
C-M(2018)0068  
**Silence Procedure ends:**  
**21 Dec 2018 15:30**

**IBAN AUDIT ON THE 2017 FINANCIAL STATEMENTS OF NATO COORDINATED  
PENSION SCHEME**

**Note by the Secretary General**

1. I attach the International Board of Auditors for NATO (IBAN) report on the audit of the 2017 financial statements of the NATO Coordinated Pension Scheme (NCPS). The IBAN audit produced an unqualified opinion on the financial statements and a qualified opinion on compliance for the NCPS.
2. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB) (see Annex 1).
3. I do not believe this issue requires further discussion. Therefore, **unless I hear to the contrary by 15:30 hours on Friday, 21 December 2018**, I shall assume the Council noted the IBAN report on the 2017 financial statements of the NCPS, endorsed the RPPB report, and agreed to the public disclosure of this report, the IBAN audit report and associated 2017 financial statements of the NCPS.

(Signed) Jens Stoltenberg

1 Annex  
1 Enclosure  
1 Appendix

Original: English



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**IBAN AUDIT ON THE 2017 FINANCIAL STATEMENTS OF NATO COORDINATED  
PENSION SCHEME (NCPS)**

**Report by the Resource Policy and Planning Board (RPPB)**

References:

- |                    |  |
|--------------------|--|
| A. IBA-A(2018)0117 | IBAN Audit on the 2017 Financial Statements of NCPS    |
| B. CM(2015)0025    | NATO Financial Regulations (NFRs)                      |
| C. PO(2015)0052    | Wales Summit tasker on transparency and accountability |

**BACKGROUND**

1. This report addresses the IBAN audits of the 2017 financial statements and compliance of NCPS. The IBAN audits set out an unqualified opinion on the financial statements and a qualified opinion on compliance of NCPS in 2017 (reference A).

**DISCUSSION**

2. The IBAN found the information reflected in the financial statements are in compliance with the NFRs and the NATO Civilian Personnel Regulations; however, the IBAN issued a qualified audit opinion on compliance due to the late submission of the financial statements. NFR Article 35.1 (reference B) states that the Financial Controller (FC) shall submit an annual financial statement for the NATO body not later than 31 March following the end of the financial year and the NCPS financial statements were submitted on 28 June 2018 due to efforts by the FC to clean-up prior year IBAN observations. Refer to the Action Plan at Appendix I for more information.

3. The IBAN followed up on the status of observations from the previous years' and found three were settled, two were partially settled and two remain outstanding. The outstanding and partially settled observations were a result of disclosing the actuarial valuation using 2016 (old) data, having some immaterial uncleared balances, not formally confirming inter-entity balances and the lack of a foreign currency conversion policy. Refer to the Action Plan at Appendix I for more information.

4. The IBAN noted as an Emphasis of Matter<sup>1</sup> in its audit opinion that the actuarial valuation used to assess the value of the NCPS obligation is based on prior year (2016) data because the study based on 2017 data was not yet completed at the time the financial statements were issued. The IBAN acknowledge that this fact was properly disclosed in the notes to the 2017 financial statements. The pension obligation of the NCPS decreased from EUR 7.29 billion disclosed in the financial statements for 2016 to EUR 6.89 billion in 2017, a decrease of 5%. The FC agreed in concept with the recommendation and will explore

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

options to obtain the document prior to 31 March in order to settle the matter in the 2018 financial statements.

## **CONCLUSION**

5. The IBAN have issued an unqualified opinion on the financial statements and a qualified opinion on compliance for financial year 2017. The RPPB is pleased to note that NCPS continues to progress and reduce the number of audit observations. The RPPB stresses the importance of timely issuance of the financial statements and supporting information to the IBAN.

## **RECOMMENDATIONS**

6. The RPPB recommends the Council:
  - 6.1. note the IBAN reports (reference A);
  - 6.2. endorse the conclusion at paragraph 5; and
  - 6.3. approve the public disclosure of this report, the IBAN audit reports and the associated 2017 financial statements of the NCPS.

**Action Plan to Remediate Outstanding Observations**

1. The action plan provides details of the status of the outstanding observations reflected in the IBAN audit report (reference A). Management has assessed each observation as Open, In progress or Closed based on the following definitions:

- 1.1. Open – Management is reviewing how best to address the observation or will address the observation at a later date.
- 1.2. In progress – Management is actively working to resolve the observation and has made progress in resolving the issue.
- 1.3. Settled – Management considers the observation satisfactorily closed or considers it is unable to take further corrective action.

<b>IBAN Opinion Impact &amp; Observation</b>	<b>Action Plan</b>	<b>Current Assessment</b>	<b>Resolution Timeline</b>
<i>Compliance impact</i> Late issuance of the financial statements	The 2018 financial statements will be issued not later than 31 March 2019	In progress	Upon issuance of the 2018 financial statements
<i>No impact on opinion</i> Insufficient controls over financial reporting	The observation was partially settled in 2017. The FC will continue to enhance the financial statements review process in 2018 and 2019. Uncleared balances will be analysed and cleared at year-end 2018. The IS FC will explore options to formally confirm inter-entity balances at year-end 2018.	In progress	Upon issuance of the 2018 financial statements

IBAN Observation	Action Plan	Current Assessment	Resolution Timeline
<i>No impact on opinion</i> Disclosure of Results of the Actuarial Valuation Using 2016 Data	The FC agrees in concept with the recommendation and will explore options to obtain the document prior to 31 March in order to settle the matter in the 2018 financial statements.	Open	Upon issuance of the 2018 financial statements
<i>No impact on opinion</i> Significant delays in providing information required for the audit	IS OFC will improve the timelines in submitting the documentation requested by IBAN related to the 2018 financial statements	In progress	Upon completion of the audit field work related to the 2018 financial statements.
<i>No impact on opinion</i> Unclear foreign currency conversion policy	The observation was partially settled in 2017. The FC will update the "Foreign Currency Transaction" disclosure in Note 2: Significant Accounting Policies in the 2018 financial statements.	In progress	Upon issuance of the 2018 financial statements



NORTH ATLANTIC TREATY ORGANIZATION  
ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD  
INTERNATIONAL BOARD OF AUDITORS  
COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES  
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IBA-A(2018)0117  
29 October 2018

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

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

Subject: ***International Board of Auditors for NATO (Board) Auditor's Report and Letter of Observations and Recommendations on the audit of the Financial Statements of the NATO Coordinated Pension Scheme for the year ended 31 December 2017 – IBA-AR(2018)0029***

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

The Board's report sets out an unqualified opinion on the Financial Statements of the NATO Coordinated Pension Scheme and a qualified opinion on compliance for financial year 2017.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Hervé-Adrien Metzger".

Hervé-Adrien Metzger  
Chairman

Attachments: As stated above.



**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 2017**

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 2017 amounted to EUR 158.5 million (EUR 149.9 million in 2016). The actuarial present value of the pension liability of the scheme at 31 December 2017 was EUR 6.89 billion (EUR 7.25 billion at 31 December 2016).

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 2017.

During the audit, the Board made one observation which impacts the audit opinion on compliance:

1. Late issuance of the financial statements.

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

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



26 October 2018

**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 2017**

**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 2017, which comprised the Statement of Net Assets Available for Benefits, the Statement of Changes in Net Assets Available for Benefits and the Explanatory Notes, including a summary of significant accounting policies.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Accounting Standard (IAS) 26 *Accounting and Reporting by Retirement Benefit Plans*<sup>1</sup> 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 audit opinion.

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

*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 at 31 December 2017, the changes in financial position thereof for the year then ended in accordance with IAS 26.

*Other Matters*

Note 3, Actuarial Valuation, to the financial statements discloses an actuarial obligation of EUR 7.29 billion related to the NATO Coordinated Pension Scheme. The note describes that this valuation amount is based on 2016 data because the actuarial valuation study based on 2017 data was not yet completed at the time the financial statements were issued.

The actuarial liability study using 2017 data is based on IPSAS 39, Employee Benefits whereas the actuarial valuation for 2016 was based on IPSAS 25, Employee Benefits. IPSAS 39 updates and replaces IPSAS 25 and the main differences relates to the removal of the option allowing organisations to recognise the actuarial gains and losses over a period of time.

As of the date of this report, the actuarial valuation study applying IPSAS 39 was performed and results in an actuarial liability of EUR 6.89 billion for 2017 and an actuarial liability of EUR 7.25 billion for 2016 related to the NATO Coordinated Pension Scheme.

Our opinion is not modified as a result of these matters.

**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.

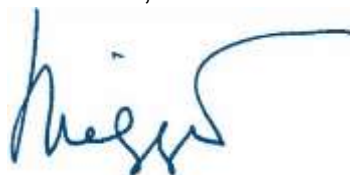
*Basis for Qualified Opinion on Compliance*

The 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 2017, though, were only submitted on 28 June 2018.

*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 October 2018

A handwritten signature in blue ink, appearing to read 'H Metzger', with a long horizontal stroke extending to the right.

Hervé-Adrien Metzger  
Chairman

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ANNEX 3  
IBA-AR(2018)0029

26 October 2018

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**LETTER OF OBSERVATIONS AND RECOMMENDATIONS**

**FOR THE NATO COORDINATED PENSION SCHEME**

**FOR THE YEAR ENDED 31 DECEMBER 2017**

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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 2017, and issued an unqualified opinion on those financial statements. The Board issued a qualified opinion on compliance.

## **Observations and Recommendations**

During the audit, the Board made one observation and recommendation. This observation impacts the audit opinion on compliance:

1. Late issuance of the financial statements.

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

## **OBSERVATIONS AND RECOMMENDATIONS**

### **1. LATE ISSUANCE OF THE FINANCIAL STATEMENTS**

#### **Reasoning**

1.1 Article 35 of the NATO Financial Regulations (NFRs) states that 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**

1.2 The financial statements of the NATO Coordinated Pension Scheme were received by the Board on 28 June 2018, thus not respecting the requirements of the NFRs.

#### **Conclusion**

1.3 The late issuance of the financial statements results in a qualification on compliance for the 2017 NATO Coordinated Pension Scheme Financial Statements.

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

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

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p><b>(1) Pension FY 2016</b>  <b>IBA-AR(2017)31, Paragraph 1</b>  <b>BONDS NOT PROPERLY DISCLOSED IN THE ORIGINALLY ISSUED FINANCIAL STATEMENTS</b></p> <p><b>Board's recommendation</b>  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.</p> <p>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.</p> <p>The Board recommends analysing the market risk related to the investment and disclosing the results of the analysis in the financial statements.</p>	<p>Investments disclosed separately in the financial statements.</p> <p>Sufficient information on investment disclosed in the Financial Statements. The investment was designated as Held-to-maturity.</p> <p>The valuation of investment analysed in the corresponding note to the financial statements.</p>	<p>Observation <b>Settled</b>.</p>
<p><b>(2) Pension FY 2016</b>  <b>IBA-AR(2017)31, Paragraph 2</b>  <b>INSUFFICIENT CONTROLS OVER FINANCIAL REPORTING</b></p> <p><b>Board's recommendation</b>  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.</p> <p>The Board recommends recording income and expense transactions, different by nature, in separate accounts, such as:</p> <ul style="list-style-type: none"> <li>- unrealized gain/loss;</li> </ul>	<p>Sufficient information was kept by accountants in order to support the information disclosed in the financial statements.</p> <p>Different income transactions were still recorded together in a limited number of accounts. However auditors were provided with sufficient supporting details on these transactions.</p>	<p>Observation <b>Partially Settled</b>.</p>



OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<ul style="list-style-type: none"> <li>- gain/loss from foreign currency purchases;</li> <li>- contributions;</li> <li>- inward/outward transfers;</li> <li>- other types of income/expense.</li> </ul> <p>The Board recommends improving the transparency and availability of the accounting data. Where technically possible and practicable, the Board recommends linking transactions in ERP to the specific counterparty in order to be able to trace changes in respective balances receivable and/or payable to these counterparties. Using standard ERP workflows instead of manual adjustments is encouraged. In situations when aggregated data is entered in the accounting program, underlying supporting details (summaries, listings, calculations, etc.) should be available within the ERP and should be subject to proper verification and approval within the system.</p> <p>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.</p> <p>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.</p>	<p>Improvement of the transparency and availability of accounting data noted. Also more extensive use of ERP workflows noted.</p> <p>While significant accounting data cleaning efforts were made in 2017, there were still some immaterial uncleared balances left in the accounting at year-end. These balances need to be analysed and cleared.</p> <p>Overall improvement of the quality of financial statements noted. However, the Board suggests to continue enhancing the financial statements review process. Some insignificant discrepancies noted in the financial statements.</p> <p>No formal inter-entity balance confirmations process between all entities who have financial statements prepared by the IS Office of Financial Control identified. Similarly to prior year, absence of this control led to overstatement of the balance of receivables from International Staff at year-end.</p>	
<p><b>(3) Pension FY 2016</b> <b>IBA-AR(2017)31, Paragraph 3</b> <b>INSUFFICIENT INTERNAL CONTROLS RELATED TO PENSION BENEFITS IN THE FINANCIAL STATEMENTS</b></p> <p><b>Board's recommendation</b> The Board recommends that the IS retains all the information in sufficient details in order to support the accounting entries in the ERP system.</p> <p>The Board recommends performing regular reconciliations of data on Pension Benefits recorded in ERP with Pensions Unit.</p>	<p>Information retained in sufficient details in order to support the accounting entries in the ERP system.</p> <p>The Board was provided with evidence of regular reconciliations of data in ERP with Pensions Unit</p>	<p>Observation <b>Settled.</b></p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
	data.	
<p><b>(4) Pension FY 2016</b>  <b>IBA-AR(2017)31, Paragraph 4</b>  <b>CONTROLS OVER THE RECONCILIATION OF BANK BALANCES NEED TO BE ENFORCED</b></p> <p><b>Board's recommendation</b>  The Board recommends performing and documenting monthly cash reconciliations between the bank balances and the amounts presented in the accounting system. This will help to identify misstatements (if any) on a timely basis. This should include signatures of the preparer and reviewer along with the dates.</p>	<p>Evidence of monthly cash reconciliations provided.</p>	<p>Observation <b>Settled</b>.</p>
<p><b>(5) Pension FY 2016</b>  <b>IBA-AR(2017)31, Paragraph 5</b>  <b>DISCLOSURE OF RESULTS OF THE ACTUARIAL VALUATION USING 2016 DATA</b></p> <p><b>Board's recommendation</b>  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.</p>	<p>Actuarial valuation for the year 2017 was not available prior to the issuance of the Financial Statements for the year ended 31 December 2017. The actuarial valuation was received by the IS on 10 July 2018.</p> <p>Next year, the IS should ensure that they receive the actuarial valuation of NATO Coordinated Pension Scheme prior to the issuance of the financial statements in order to be able to include the data in the financial statements.</p>	<p>Observation <b>Outstanding</b>.</p>
<p><b>(6) Pension FY 2015</b>  <b>IBA-AR(2017)23, paragraph 5</b>  <b>Significant delays in providing information required for the audit</b></p> <p><b>Board's recommendation</b>  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, the financial statements of the NATO Coordinated Pension Scheme were received by the Board on 28 June 2018. Some information necessary for the audit was received after the above-mentioned date.</p>	<p>Observation <b>Outstanding (In Progress)</b>.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p><b>(7) Pension FY 2015</b>  <b>IBA-AR(2017)23, paragraph 8</b>  <b>Unclear foreign currency conversion policy</b></p> <p><b>Board's recommendation</b></p> <p>The Board recommends developing and implementing a comprehensive policy on the accounting and reporting of transactions and balances, stated in foreign currencies.</p> <p>The Board recommends that monetary assets and liabilities at year-end be revalued into EUR at the year-end foreign exchange rates.</p>	<p>The formal policy on the accounting and reporting of transactions and balances, stated in foreign currencies has not been developed.</p> <p>No material variances were identified in the year-end revaluations of balances stated in foreign currency.</p>	<p>Observation  <b>Partially Settled.</b></p>

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

**OBSERVATION 1:  
LATE ISSUANCE OF THE FINANCIAL STATEMENTS**

***International Staff's Formal Comments***

*The draft submitted for comments did not contain any recommendation. The understanding is that the implicit recommendation is to comply with the deadline provided by Article 35 of the NFRs, and the IS agrees.*

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

**(5) Pension FY 2016**

**IBA-AR(2017)31, Paragraph 5**

**DISCLOSURE OF RESULTS OF THE ACTUARIAL VALUATION USING 2016 DATA**

***International Staff's Formal Comments***

*A change in methodology was introduced concerning the calculation of the actuarial liability. For the 2018 figure, the IS will coordinate with the ISRP in order to be able, as much as possible, to have the information in time so that it can be included in the financial statements.*

**NATO COORDINATED PENSION SCHEME  
FINANCIAL STATEMENTS**

For the year ended  
31 December 2017

**Annexes**

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



Jens STOLTENBERG  
Secretary General



Stephane CHAGNOT  
Financial Controller

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

(All amounts in EUR)	Notes	Current Year	Previous Year
		31-Dec-17	31-Dec-16
<b>Assets</b>			
Cash and cash equivalent	4	48,336,753.88	43,358,221.40
Financial investment	5	40,000,000.00	40,000,000.00
Staff member contributions receivable	6	549,197.06	0.00
Employer contribution receivable	7	1,311,689.94	1,323,650.61
Nation contributions receivable	8	113,969,650.36	118,514,990.98
Pension adjustments contribution receivable	9	19,807,575.69	10,403,628.68
Credit for past service to be refunded by staff	10	76,915.45	60,132.35
Other	11	270,127.75	0.00
<b>Total assets</b>		<b>224,321,910.13</b>	<b>213,660,624.02</b>
<b>Liabilities</b>			
Contributions called for y+1	8	154,542,700.00	145,807,300.00
Voluntary advances	8	0.00	1,368,915.73
Pension adjustments called for y+1	9	27,109,100.00	24,107,300.00
Other	12	419,791.48	154,158.16
<b>Total Liabilities</b>		<b>182,071,591.48</b>	<b>171,437,673.89</b>
<b>Net assets available for benefits</b>	<b>13</b>	<b>42,250,318.65</b>	<b>42,222,950.13</b>

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

(All amounts in EUR)	Notes	Current Year	Previous Year
		31-Dec-17	31-Dec-16
<b>Increase in net assets</b>		<b>157,810.10</b>	<b>697,645.48</b>
Interest income	14	-225,121.92	4,622.18
Transfers from other pension funds	15	199,660.66	219,276.28
Bank costs	14		277,063.26
Other	16	183,271.36	196,683.76
<b>Contributions</b>		<b>158,349,731.20</b>	<b>149,525,196.73</b>
Staff members	6	16,231,956.37	17,461,541.04
Employer's	7	550,055.43	300,990.85
Nations	8	141,567,719.40	131,762,664.84
<b>Pension adjustment</b>	<b>9</b>	<b>25,924,447.09</b>	<b>23,974,793.77</b>
<b>Total increase in net assets available for benefits</b>		<b>184,431,988.39</b>	<b>174,197,635.98</b>
<b>Decrease in net assets</b>			
Pension benefits	18	157,977,212.21	149,921,305.36
Leaving allowances	18	148,401.18	0.00
Other costs	17	70,293.06	0.00
Bank costs	14	284,266.33	0.00
<b>Pension adjustment</b>	<b>9</b>	<b>25,924,447.09</b>	<b>23,974,793.77</b>
<b>Total decrease in net assets available for benefits</b>		<b>184,404,619.87</b>	<b>173,896,099.13</b>
<b>Net change for the year</b>		<b>27,368.52</b>	<b>301,536.85</b>
<b>Net assets available for benefits, beginning of year</b>		<b>42,222,950.13</b>	<b>41,921,413.28</b>
<b>Net assets available for benefits, end of year</b>		<b>42,250,318.65</b>	<b>42,222,950.13</b>

**EXPLANATORY NOTES TO THE  
2017 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, based on the number of reckonable years of service. 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 Coordinated Pension Scheme is on a pay-as-you-go basis.

**Staff Contributions**

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

The staff contribution rate is adjusted in accordance with the result of an actuarial study which is carried out every 5 years. This rate has been increasing over time. It was 7.0%



from the inception of the scheme until it was brought to 8.0% in 1995. The rate was further increased to 8.3% in 2000 and to 8.9% in 2005.

As of 1 January 2010, contributions to the NATO DBPS from serving staff increased from 8.9% to 9% of their basic salary, further to a change in the method used to calculate such rates in order to take account of the closure of the pension scheme in certain Coordinated Organisations. 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 (article 40.4 of Civilian Personnel Regulations, Annex IV).

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 coordinated 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 above-mentioned management 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 rather than in a separate set of financial statements.

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

### **NOTE 2: SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of these financial statements are set out below.

#### **Declaration of conformity**

The financial statements of the NATO DBPS have been prepared 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.

### **Changes in accounting policy**

As from 2017, transactions relating to the pension adjustment are reflected in the statement of changes in net assets. Up to now, the reporting in the face of the financial statements of transactions related to the pension adjustment would be limited to their impact on the statement of net assets, in particular receivables from nations, advances called for the following year and amounts to be regularized concerning the calls for contribution process. This change better reflects the nature of the operations of the pension schemes managed by NATO and provides a global view of the pension adjustment process: the pension adjustment is provided for by the Civilian Personnel Regulations, is processed at the same time as the payment of pension benefits (be it for the Coordinated Pension Scheme or the Defined Contributions Pension Scheme), is subject to a specific call for contributions by the Nations concerned and results in material flows of cash. A specific line item was added in the statement of changes in net assets, in amounts equal to the pension adjustment paid so as to avoid any impact on the value of net assets which concerns only the Coordinated Pension Scheme.

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

None in 2017.

### **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 and for the pension adjustment 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 a variety of currencies such as: 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 year-end 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).

## ING Bank Credit Ratings as at 22/02/2018

	Fitch	Moody's	S&P
Short term	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 30/03/2018

	Fitch	Moody's	S&P
Ratings	A-	A2	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.

**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.

The calls for contributions from Nations related to Pension Adjustment are in EUR. Pension Adjustments paid to pensioners are primarily in EUR. There is therefore very little currency risk.

**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 calls for contributions related to the Pension Adjustment tend to be lower than the actual requirement due to difficulties in making accurate forecasts. This situation generates a liquidity risk that is managed through the excess cash on the DBPS side.

#### **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.

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 2017 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 2016, further to the study conducted in 2017, results in a present value of the NATO DBPS obligation of MEUR 7,293 at year end 2016 (including MEUR 40.2 inward transfer of pension rights). The previous evaluation was MEUR 6,499 (including MEUR 40.0 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: 0.89%
- 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 2016 estimated the value of the obligation at the end of 2015 at MEUR 6,459 (excluding inward transfers of rights). The current projection of this liability at the end of 2016 can be obtained as follows:

(Amounts in MEUR – excluding transfers of pension rights)

<b>Evaluation of the obligation at year end 2015</b>	<b>(a)</b>	<b>6,459</b>
Benefits paid	(b)	149
Interest costs	(c)	96
Current service costs	(d)	186
Obligation at year end 2015 projected into 2016	(e)=(a-b+c+d)	6,592
Actuarial loss (gain) on obligation	(f-e)	661
<b>Evaluation of obligation at year end 2016</b>	<b>(f)</b>	<b>7,253</b>

The actuarial loss (i.e. the (positive) difference between the obligation estimated at year end 2016 by the new study and the obligation of 2015 projected into 2016 resulting from the previous study) is MEUR 661. The actuarial loss represents approximately 10% of the obligation projected in 2016.

Assumptions taken into account in the previous actuarial study were:

Discount rate: 1.51%

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 decreased, by 62 basis points, from 1.51% to 0.89%. This reduction in the discount rate resulted in an actuarial loss of MEUR 830.

The discount rate refers to market yields on high quality corporate bonds. For the purpose of this actuarial study, in the absence of a market for Eurozone corporate bonds with maturities longer than 18 years, the Euro area government bond yield curve was used instead as a reference to discount the liabilities of the RMCF. This resulted in the discount rate of 0.89%, compared to the previous 1.51% (and before: 1.33% and 2.77%).

Use of the ever-changing market value reference discount rate is likely to result in substantial changes of the actuarial valuations. 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

Separate bank accounts are held in various currencies (AUD, CAD, CHF, DKK, EUR, GBP, NOK and USD) in order to ensure payments. Payments are made in other currencies (e.g. NZD, SEK, TRY); they are usually made from the EUR bank account

Cash is held on account of third parties in the amount of EUR 58,900.28 (EUR 58,995 end 2016). 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 can be used to fund part of their budgetary contributions to the DBPS.

The increase in the level of cash holdings can be explained by contributions paid faster by Nations.

#### **NOTE 5: FINANCIAL INVESTMENTS**

In 2016, in a market context where low-risk deposits in euro offered 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 2017, that notional market value would have represented an unrealised gain of EUR 142 thousand. The most recent estimated value on 1 June 2018 represented a notional unrealised gain of EUR 127 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. Since 1 January 2015, contributions to the NATO DBPS from serving staff have been 9.5% of 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 is 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 2018.

#### **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, which is in charge of morale and welfare activities. No employer contributions have been made by the Staff Centre since 2001 (staff member 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 and no contributions were received during recent years.

#### NOTE 8: NATIONS' CONTRIBUTION

Contributions due from NATO member Nations to fund the NATO DBPS of a given budget year are called once annually 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 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.

Budget Advances Called		
(in EUR)	2017	2016
Civil Budget	37,842,700.00	35,507,300.00
Military Budget	116,700,000.00	110,300,000.00
Total	154,542,700.00	145,807,300.00

Uncollected budgetary contributions from Nations relate mainly to the call for the 2018 pension budget. The call for contributions was issued in late 2017 which largely explains the level of these receivables.

On occasion, NATO member Nations may voluntarily pay supplementary advance contributions (EUR 0 end 2017; EUR 1,301,153.11 end 2016).

#### 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 65) and were advanced by the DCPS.

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

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

**Pension adjustments paid to pensioners**

(in EUR)	2017	2016
ALBANIA	0.00	0.00
BELGIUM	12,430,463.00	11,585,300.45
BULGARIA	0.00	0.00
CANADA	246,888.02	214,883.44
CROATIA	0.00	0.00
CZECH REPUBLIC	0.00	0.00
DENMARK	1,233,275.20	564,114.72
ESTONIA	0.00	0.00
FRANCE	1,594,300.00	1,597,615.29
GERMANY	2,154,439.00	1,814,920.00
GREECE	165,092.00	151,190.00
HUNGARY	0.00	0.00
ICELAND	0.00	0.00
ITALY	1,867,275.54	1,963,772.00
LATVIA	0.00	0.00
LITHUANIA	0.00	0.00
LUXEMBOURG	1,210,731.00	1,343,881.56
NETHERLANDS	2,846,766.80	2,469,206.00
NORWAY	61,833.05	378,392.53
POLAND	16,472.71	8,982.18
PORTUGAL	135,415.00	154,973.00
ROMANIA	0.00	0.00
SLOVAKIA	0.00	0.00
SLOVENIA	0.00	0.00
SPAIN	260,662.00	254,885.00
TURKEY	0.00	0.00
UNITED KINGDOM OF GREAT BRITAIN	1,211,339.55	1,145,343.51
UNITED STATES OF AMERICA	324,984.51	327,334.09
DCPS regularization	164,509.69	0.00
<b>TOTAL</b>	<b>25,924,447.07</b>	<b>23,974,793.77</b>

Amounts paid to pensioners as reported in Euros in the table above are impacted by a variety of factors, among which: exchange rates, number of pensioners having their tax residence in a given country (which may be different from their country of origin or the country in which the NATO entity for which staff worked is located), household/family situation, level of the pension itself, national taxation policies, etc. As a consequence, amounts due by individual Nations may vary from one year to the other and are not related to their cost shares of the NATO entity for which staff worked.

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 called.

Advances on the next year's payments of the pension adjustment are called towards the end of the current year.

Pension Adjustment Advances Called		
(in EUR)	2017	2016
Civil Budget	9,522,300.00	8,713,000.00
Military Budget	17,586,800.00	15,394,300.00
Total	27,109,100.00	24,107,300.00

Receivables from Nations to fund the Pension Adjustment relate mainly to the call for the advances on 2018 expenses. The call was issued in late 2017 which largely explains the level of these receivables. End 2017, an amount of EUR 1,817,147.09 remained to be called (in 2018) to the Nations concerned since the advances called were insufficient to cover all expenses incurred.

#### **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 or to staff who retroactively became members of the Coordinated Scheme further to NATO Administrative Tribunal decisions.

#### **NOTE 11: OTHER ASSETS**

These are essentially accrued interest, occasional advances to the DCPS and miscellaneous amounts to be regularised.

#### **NOTE 12: OTHER LIABILITIES**

These correspond to amounts relating to bank fees, life insurance capital due and other miscellaneous amounts due to be regularised (including reimbursement to the DCPS of amounts it paid in relation to Pension Adjustment), and an amount of EUR 226K which still requires further analysis.

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 58,900.28 (EUR 58,995 end 2016). 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 credit for past service by staff. As explained in the introductory note on the funding of the DBPS, contrary to most, if not all, of the other Coordinated Organisations, NATO has not set aside funds to be invested to fund future costs and, therefore, NATO's funding of the Coordinated Pension Scheme is on a pay-as-you-go basis.

(in EUR)	2017
Budgetary Surplus at Year End	1,740,373.01
Pension Rights Transferred to the DBPS	40,433,030.19
Credit for Past Service	76,915.45
<b>TOTAL NET ASSETS</b>	<b>42,250,318.65</b>

The surplus at year-end is the difference between the final approved pension 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 2017 will be returned to Nations with the call for the 2019 budget to be issued end 2018).

#### **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. The negative value is due to the correction of past transactions (omission of the reversal of accrued income).

#### **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.

End 2017, the total amount of inward transfers was EUR 40,433,030.19.

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 requests. 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).

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 2017, the inward transfers received amounted to EUR 199,660.66.

In consideration of the fact that these inward transfers of rights are evaluated at the actuarial value of future benefits due to the concerned staff, the corresponding amounts have been considered as a net asset available for future benefits. They have 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 realised exchange gains and to prior years and other miscellaneous operations.

#### **NOTE 17: OTHER DECREASES IN NET ASSETS**

This corresponds mainly to the cost of the actuarial study, realised exchange losses and other miscellaneous operations.

#### **NOTE 18: PENSIONS AND LEAVING ALLOWANCES**

The tables under notes 18 and 21 provide a breakdown of payments according to the kind of pensions paid in 2017.

	CIVIL BUDGET	MILITARY BUDGETS	TOTAL
<b>PAYMENTS / PAIEMENTS</b>			
Retirement Pension / Pension d'Ancienneté	27,097,736.42	82,046,626.96	109,144,363.38
Survivor Pension / Pension de Survie	5,500,424.71	16,248,013.80	21,748,438.51
Orphans Pension / Pension d'Orphelins	186,745.65	623,934.12	810,679.77
Invalidity Pension / Pension d'Invalidité	4,508,153.70	14,040,982.83	18,549,136.53
Family Allowance / Allocations Familiales	1,693,021.42	6,031,572.60	7,724,594.02
Leaving Allowance / Allocations de Départ	148,401.18	0.00	148,401.18
Validation Costs Paid / Coûts de Validation payés	0.00	0.00	0.00
Miscellaneous / Divers	117,261.67	356,542.29	473,803.96
<b>Total Payments / Paiements</b>	<b>39,251,744.75</b>	<b>119,347,672.60</b>	<b>158,599,417.35</b>
<b>RECEIPTS / RECETTES</b>			
Staff Contributions / Contributions des Agents	4,058,952.02	12,173,004.35	16,231,956.37
Employer Contributions / Contributions de l'Employeur	379,826.82	170,228.61	550,055.43
Validation Costs Received / Coûts de Validation reçus	0.00	0.00	0.00
Interests, Profit & Loss / Intérêts, Pertes & Profits	0.00	0.00	0.00
Miscellaneous / Divers	0.00	478.56	478.56
<b>Total Receipts / Recettes</b>	<b>4,438,778.84</b>	<b>12,343,711.52</b>	<b>16,782,490.36</b>
<b>Funding Requirement / Besoin de financement</b>	<b>34,812,965.91</b>	<b>107,003,961.08</b>	<b>141,816,926.99</b>

**NOTE 19: CONTINGENT ASSETS**

Nothing to report.

**NOTE 20: 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 21: 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 2017.

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	IS (28N)	ACO-ACT (16N)	ACO-ACT (17N)	ACO-ACT (28N)	ACO-ACT (Ex-27N)	BGOH (2N)	BGOH (8N)	BGOH (9N)	CEPMA (6N)	CEPMA (7N)	CEPMA (8N)	Ex NACISA (14N)	IMS (28N)	IMS (Ex-27N)
<b>PAYMENTS</b>														
Retirement Pensions	27,097,736.42	12,434,250.23	128,188.90	8,377,891.50	14,935,158.86	331,517.04	34,195.80	1,116,684.02	16,306.68	144,329.76	1,837,966.12	1,001,186.06	4,176,943.12	498,219.84
Survivor Pensions	5,500,424.71	1,737,927.83	9,504.15	1,575,948.68	4,542,741.87	33,209.07	15,090.19	682,122.70	0.00	0.00	697,543.36	406,097.99	645,030.53	242,863.79
Orphans Pensions	186,745.65	72,481.87	0.00	15,408.02	104,158.37	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	31,515.79
Invalidity Pensions	4,508,153.70	5,393,154.44	-14,671.49	571,753.65	1,393,809.87	82,501.22	6,006.12	233,001.34	72,214.14	55,942.98	87,035.28	34,668.89	498,905.32	74,784.78
Family Allowances	1,693,021.42	1,283,098.44	4,189.39	512,058.15	907,342.90	45,166.35	3,494.37	80,713.33	4,077.63	11,542.31	92,694.98	67,218.33	295,563.98	27,684.55
Leaving Allowances	148,401.18	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Validation Costs Paid														
Miscellaneous	117,261.67	62,686.94	381.17	33,119.14	65,570.35	1,475.40	176.15	6,329.91	277.46	634.68	8,135.88	4,522.05	16,828.98	2,622.04
<b>Total Payments</b>	<b>39,251,744.75</b>	<b>20,983,599.75</b>	<b>327,592.32</b>	<b>11,086,179.14</b>	<b>21,948,782.22</b>	<b>493,869.08</b>	<b>58,962.63</b>	<b>2,118,851.30</b>	<b>92,875.91</b>	<b>212,449.73</b>	<b>2,723,975.62</b>	<b>4,519,693.52</b>	<b>5,633,271.93</b>	<b>877,690.79</b>
<b>RECEIPTS</b>														
Staff Contributions	4,058,952.02	0.00	1,803,080.40	1,966,999.45	274,673.88	0.00	0.00	0.00	0.00	0.00	116,965.15	0.00	626,632.58	0.00
Employer Contributions	379,826.82	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	155,119.75	0.00
Validation Costs Received														
Interests														
Miscellaneous	126.58	0.00	51.42	56.09	7.83	0.00	0.00	0.00	0.00	0.00	3.34	0.00	22.29	0.00
<b>Total Receipts</b>	<b>4,438,905.42</b>	<b>0.00</b>	<b>1,803,131.52</b>	<b>1,967,055.54</b>	<b>274,681.71</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>116,968.49</b>	<b>0.00</b>	<b>781,774.62</b>	<b>0.00</b>
<b>Funding Requirement</b>	<b>34,812,839.33</b>	<b>20,983,599.75</b>	<b>-1,675,539.39</b>	<b>9,119,123.59</b>	<b>21,674,100.51</b>	<b>493,869.08</b>	<b>58,962.63</b>	<b>2,118,851.30</b>	<b>92,875.91</b>	<b>212,449.73</b>	<b>2,606,407.14</b>	<b>1,513,693.32</b>	<b>4,851,497.31</b>	<b>877,690.79</b>

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	NAHEMA (5N)	NAMIMA (3N)	NAHSA (25N)	NAPMA (16N)	NC3A (28N)	NCIA	NEFMA (4N)	NETMA (4N)	NSPA	NAMA (12N)	NAMEADMSA (2N)	TOTAL
<b>PAYMENTS</b>												
Retirement Pensions	23,775.96	27,778.99	19,437,286.16	1,784,753.67	9,721,880.23	5,278,322.75	83,938.44	620,134.80	35,918.03	0.00	0.00	109,144,363.38
Survivor Pensions	0.00	81,621.84	3,723,125.34	350,452.17	816,977.07	475,755.94	76,044.12	185,957.16	0.00	0.00	0.00	21,748,438.51
Orphans Pensions	29,326.08	0.00	241,301.90	7,320.00	39,688.57	66,538.32	0.00	16,195.20	0.00	0.00	0.00	810,679.77
Invalidity Pensions	0.00	80,890.44	3,330,600.41	446,759.48	1,099,898.92	318,541.42	87,552.24	187,633.38	0.00	0.00	0.00	18,549,136.53
Family Allowances	2,437.44	2,433.77	1,316,717.56	173,079.69	665,889.26	473,508.81	8,291.64	54,369.72	0.00	0.00	0.00	7,724,594.02
Leaving Allowances	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	148,401.18
Validation Costs Paid	166.42	577.48	84,045.47	8,277.09	36,988.28	19,664.23	766.55	3,189.01	107.62	0.00	0.00	473,803.96
Miscellaneous												
<b>Total Payments</b>	<b>55,705.90</b>	<b>193,302.52</b>	<b>28,133,076.84</b>	<b>2,170,642.10</b>	<b>12,381,322.33</b>	<b>6,502,331.47</b>	<b>256,592.99</b>	<b>1,067,479.27</b>	<b>36,025.65</b>	<b>0.00</b>	<b>0.00</b>	<b>158,599,417.35</b>
<b>RECEIPTS</b>												
Staff Contributions	0.00	0.00	3,337,566.83	137,468.02	2,809,073.91	1,351,044.04	0.00	0.00	-268,515.66	5,661.70	12,354.35	16,231,956.37
Employer Contributions	0.00	0.00	481.25	0.00	0.00	14,627.61	0.00	0.00	0.00	0.00	0.00	550,055.43
Validation Costs Received												
Interests												
Miscellaneous	0.00	0.00	95.19	3.92	80.10	38.94	0.00	0.00	-7.66	0.16	0.35	478.56
<b>Total Receipts</b>	<b>0.00</b>	<b>0.00</b>	<b>3,338,143.27</b>	<b>137,471.94</b>	<b>2,809,154.01</b>	<b>1,365,671.59</b>	<b>0.00</b>	<b>0.00</b>	<b>-268,523.32</b>	<b>5,661.86</b>	<b>12,354.70</b>	<b>16,782,450.96</b>
<b>Funding Requirement</b>	<b>55,705.90</b>	<b>193,302.52</b>	<b>24,794,933.58</b>	<b>2,633,170.16</b>	<b>9,572,168.32</b>	<b>5,216,620.87</b>	<b>256,592.99</b>	<b>1,067,479.27</b>	<b>304,548.97</b>	<b>-5,661.86</b>	<b>-12,354.70</b>	<b>141,816,926.99</b>



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**NOTE 22: BUDGET EXECUTION**

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

<b>Budget Execution 2017</b>				
(amounts in EUR)	Initial Budget	Revised Budget	Actuals	Difference
	(a)	(b)	(c)	(b-c)
<b>CIVIL BUDGET</b>				
<b>PAYMENTS / PAIEMENTS</b>				
Retirement Pension / Pension d'Ancienneté	27,867,000.00	27,867,000.00	27,097,736.42	769,263.58
Survivor Pension / Pension de Survie	5,473,100.00	5,473,100.00	5,500,424.71	-27,324.71
Orphans Pension / Pension d'Orphelins	168,000.00	168,000.00	186,745.65	-18,745.65
Invalidity Pension / Pension d'Invalidité	3,823,100.00	3,823,100.00	4,508,153.70	-685,053.70
Family Allowance / Allocations Familiales	1,806,400.00	1,806,400.00	1,693,021.42	113,378.58
Leaving Allowance / Allocations de Départ	0.00	150,000.00	148,401.18	1,598.82
Validation Costs Paid / Coûts de Validation payés	0.00	0.00	0.00	0.00
Miscellaneous / Divers	0.00	0.00	117,261.67	-117,261.67
<b>Total Payments / Paiements</b>	<b>39,137,600.00</b>	<b>39,287,600.00</b>	<b>39,251,744.75</b>	<b>35,855.25</b>
<b>RECEIPTS / RECETTES</b>				
Staff Contributions / Contributions des Agents	3,423,300.00	3,423,300.00	4,088,254.05	-664,954.05
Employer Contributions / Contributions de l'Employeur	207,000.00	207,000.00	350,524.79	-143,524.79
Validation Costs Received / Coûts de Validation reçus	0.00	0.00	0.00	0.00
Interests, Profit & Loss / Intérêts, Pertes & Profits	0.00	0.00	0.00	0.00
Miscellaneous / Divers	0.00	0.00	0.00	0.00
Contributions due by Staff Center	0.00	0.00	0.00	0.00
<b>Total Receipts / Recettes</b>	<b>3,630,300.00</b>	<b>3,630,300.00</b>	<b>4,438,778.84</b>	<b>-808,478.84</b>
<b>Funding Requirement / Besoin de financement</b>	<b>35,507,300.00</b>	<b>35,657,300.00</b>	<b>34,812,965.91</b>	<b>844,334.09</b>
<b>MILITARY BUDGETS</b>				
<b>PAYMENTS / PAIEMENTS</b>				
Retirement Pension / Pension d'Ancienneté	82,300,000.00	82,300,000.00	82,046,626.96	253,373.04
Survivor Pension / Pension de Survie	17,300,000.00	16,500,000.00	16,248,013.80	251,986.20
Orphans Pension / Pension d'Orphelins	700,000.00	700,000.00	623,934.12	76,065.88
Invalidity Pension / Pension d'Invalidité	15,600,000.00	14,500,000.00	14,040,982.83	459,017.17
Family Allowance / Allocations Familiales	6,800,000.00	6,300,000.00	6,031,572.60	268,427.40
Leaving Allowance / Allocations de Départ	0.00	0.00	0.00	0.00
Validation Costs Paid / Coûts de Validation payés	0.00	0.00	0.00	0.00
Miscellaneous / Divers	0.00	0.00	356,542.29	-356,542.29
<b>Total Payments / Paiements</b>	<b>122,700,000.00</b>	<b>120,300,000.00</b>	<b>119,347,672.60</b>	<b>952,327.40</b>
<b>RECEIPTS / RECETTES</b>				
Staff Contributions / Contributions des Agents	12,300,000.00	12,300,000.00	12,318,154.57	-18,154.57
Employer Contributions / Contributions de l'Employeur	100,000.00	100,000.00	25,078.39	74,921.61
Validation Costs Received / Coûts de Validation reçus	0.00	0.00	0.00	0.00
Interests, Profit & Loss / Intérêts, Pertes & Profits	0.00	0.00	0.00	0.00
Miscellaneous / Divers	0.00	0.00	478.56	-478.56
<b>Total Receipts / Recettes</b>	<b>12,400,000.00</b>	<b>12,400,000.00</b>	<b>12,343,711.52</b>	<b>56,288.48</b>
<b>Funding Requirement / Besoin de financement</b>	<b>110,300,000.00</b>	<b>107,900,000.00</b>	<b>107,003,961.09</b>	<b>896,038.91</b>
<b>TOTAL CIVIL + MILITARY BUDGETS</b>				
<b>TOTAL Funding Requirement</b>	<b>145,807,300.00</b>	<b>143,557,300.00</b>	<b>141,816,926.99</b>	<b>1,740,373.01</b>

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

DBPS funding requirement credits for 2017 for the Civil Budget and the Military Budgets were initially approved at, respectively, EUR 35,507,300 and EUR 110,300,000. The Civil Budget component was revised in the course of the year to EUR 35,657,300. The Military Budget component was revised in the course of the year to EUR 107,900,000. As a consequence, these changes were taken into account with the call issued to Nations end 2017.

There has been exceptionally a payment of a leaving allowance in 2017. This concerns a specific case of a staff member who joined the IS from another Coordinated Organisation, where it was already a member of the Coordinated Pension Scheme, and left the IS in 2017 before completing ten years of service. There are no further cases such as this one foreseen for the future. The Civil Budget component had to be adjusted accordingly.

The difference between approved budgets and actuals for both the Civil Budget and the Military Budgets mainly concern the following items: invalidity pensions and underestimated staff contributions. Invalidity pensions do not follow regular evolution paths and prove to be more difficult to anticipate.

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. Approved budgets are based on a principle of prudence and therefore there is a tendency to underestimate revenue.

#### **NOTE 23: RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT PERSONNEL**

During 2017 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 420K. This includes miscellaneous operating costs and the personnel costs of the full time equivalent of 4 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 2017.

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 24: 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
2017	2,665	684	58	436	3,843

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## 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