

NATO UNCLASSIFIED

25 March 2022

DOCUMENT
PO(2022)0119-AS1

**IBAN AUDIT REPORT ON THE 2020 FINANCIAL STATEMENTS OF MSIAC, NNHQ,
NCPS, DCPS AND RMCF AND 2020 RESTATED FINANCIAL STATEMENTS OF NFO
AND IS**

ACTION SHEET

On 24 March 2022, under the silence procedure, the Council noted the RPPB report attached to PO(2022)0119, agreed its conclusions and recommendations, noted the IBAN Audit Reports and agreed to the public disclosure of the report, the IBAN Audit Reports on the audit of the 2020 financial statements of DCPS, MSIAC, NCPS, NNHQ and RMCF and on the audit of 2020 restated financial statements of IS and NFO, 2020 financial statements of DCPS, MSIAC, NCPS, NNHQ and RMCF and the 2020 restated financial statements of IS and NFO.

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to PO(2022)0119.

NATO UNCLASSIFIED

10 March 2022

DOCUMENT
PO(2022)0119
Silence Procedure ends:
24 Mar 2022 17:30

To: Permanent Representatives (Council)

From: Secretary General

IBAN AUDIT REPORT ON THE 2020 FINANCIAL STATEMENTS OF MSIAC, NNHQ, NCPS, DCPS AND RMCF AND 2020 RESTATED FINANCIAL STATEMENTS OF NFO AND IS

1. I attach the Resource Policy and Planning Board (RPPB) report on the International Board of Auditors for NATO (IBAN) Audit Reports on the audit of the 2020 financial statements of NATO Defined Contribution Pension Scheme (DCPS), Munitions Safety Information Analysis Center (MSIAC), NATO Coordinated Pension Scheme (NCPS), New NATO Headquarters (NNHQ), Retirees Medical Claims Fund (RMCF) and on the audit of the 2020 restated financial statements of International Staff (IS) and NATO FORACS Office (NFO). These IBAN Audit Reports set out unqualified audit opinions on the 2020 financial statements and on compliance.

2. The IBAN Audit Reports have been reviewed by the RPPB (see Annex 1).

3. I do not believe this issue requires further discussion. Therefore, **unless I hear to the contrary by 17:30 hours on Thursday, 24 March 2022**, I shall assume the Council noted the RPPB report, agreed its conclusions and recommendations, noted the IBAN Audit Reports and agreed to the public disclosure of this report, the IBAN Audit Reports on the audit of the 2020 financial statements of DCPS, MSIAC, NCPS, NNHQ and RMCF and on the audit of 2020 restated financial statements of IS and NFO, 2020 financial statements of DCPS, MSIAC, NCPS, NNHQ and RMCF and the 2020 restated financial statements of IS and NFO.

(Signed) Jens Stoltenberg

1 Annex
1 Enclosure

Original: English

NATO UNCLASSIFIED

-1-



**IBAN AUDIT REPORT ON 2020 FINANCIAL STATEMENTS OF DCPS, MSIAC,
NCPS, NNHQ AND RMCF AND 2020 RESTATED FINANCIAL STATEMENTS OF IS
AND NFO**

Report by the Resource Policy and Planning Board (RPPB)

References:

| | | |
|----|---------------------|---|
| A. | IBA-A(2021)0132 | IBAN Audit Report on the audit of 2020 financial statements of the NATO Defined Contribution Pension Scheme (DCPS) |
| B. | IBA-A(2021)0111 | IBAN Audit Report on the audit of 2020 financial statements of the Munitions Safety Information Analysis Center (MSIAC) |
| C. | IBA-A(2021)0118 | IBAN Audit Report on the audit of 2020 financial statements of the NATO Coordinated Pension Scheme (NCPS) |
| D. | IBA-A(2021)0117 | IBAN Audit Report on the audit of 2020 financial statements of the New NATO Headquarters (NNHQ) |
| E. | IBA-A(2021)0155 | IBAN Audit Report on the audit of 2020 financial statements of the Retirees Medical Claims Fund (RMCF) |
| F. | IBA-A(2021)0154 | IBAN Audit Report on the audit of 2020 restated financial statements of the International Staff (IS) |
| G. | IBA-A(2021)0109 | IBAN Audit Report on the audit of 2020 restated financial statements of the NATO FORACS Office (NFO) |
| H. | C-M(2015)0025 | NATO Financial Regulations (NFR) |
| I. | BC-D(2015)0260-REV1 | Financial rules and procedures (FRP) |
| J. | C-M(2016)0023 | NATO Accounting Framework (NAF) |
| K. | PO(2015)0052 | Wales Summit tasker on transparency and accountability |

INTRODUCTION

1. This report by the RPPB addresses the IBAN Audit Reports on the audit of 2020 financial statements of NATO Defined Contribution Pension Scheme (DCPS), Munitions Safety Information Analysis Center (MSIAC), NATO Coordinated Pension Scheme (NCPS), New NATO Headquarters (NNHQ)¹, Retirees Medical Claims Fund (RMCF) and on the audit of 2020 restated financial statements of International Staff (IS) and NATO FORACS Office (NFO). For the second year in a row, the IBAN Audit Reports set out unqualified opinions on the financial statements and on compliance of the DCPS, MSIAC, NCPS, NNHQ and RMCF and on the restated financial statements and on compliance of the IS and NFO for financial year 2020 (reference A to G).

¹ The Budget Committee decided to close the NNHQ project and accounts as at 31 December 2020. Therefore, the IBAN Audit Report of 2020 financial statements of the NNHQ is the last one submitted to the Council. With the closure of the NNHQ project and accounts, the remaining balances have been transferred to the IS and will form part of the IS financial statements going forward.

AIM

2. This report highlights key issues in the IBAN Audit Reports (reference A to G) to enable the Board to reflect on strategic challenges emanating from the audit of financial statements of NATO entities and to recommend courses of action to Council as applicable, which has the potential to improve transparency, accountability and consistency.

3. In line with Financial Controller responsibilities laid out in Article 35 (FRPXXXV) of the NATO Financial Regulations (NFR) (reference H), the IS Financial Controller is accountable for signing and overseeing the development of the 2020 financial statements for all NATO reporting entities covered under this report.

DISCUSSION

4. In 2020 the IBAN made eight observations with recommendations for the MSIAC, NCPS, RMCF, IS and NFO, these observations did not impact the audit opinions on the financial statements or on compliance. Also, the IBAN followed up on the status of outstanding recommendations from the previous years' audits. As of the date of the respective IBAN Audit Reports a total of nine prior year observations were in-progress, four were open and seven prior year observations were closed.

4.1. MSIAC Observation: The IBAN found minor errors in the MSIAC Statement of Budget Execution and in the notes to the financial statements. In this respect, the Board supports that the MSIAC further improve internal controls and develop practices to cross check and correct potential errors and ensure accuracy of information disclosed in its financial statements.

4.2. NCPS Observation: During its audit, the IBAN found that the General Ledger (GL) account is not reconciled with a physical bank statement. As a result Cash and Cash Equivalents and liabilities "Other" are overstated by EUR 89,811.66. The Board supports that the IS Office of the Financial Controller (OFC) further strengthen its internal controls over the preparation of the financial statements by ensuring that the GL accounts reconcile to the bank statements.

4.3. RMCF Observation 1: The IBAN observed that the increase of the Post-Employment Medical Scheme Obligation (EUR 1,9 billion) was not entirely caused by an actuarial loss as stated in the Note 3 to the 2020 RMCF Financial Statements but that part of the obligation increase was due to the increase of affiliates taken into account in actuarial calculations, part of which had previously been erroneously omitted from the population. Also, the IBAN concluded that Note 3 did not include sufficient information regarding the impact of the increase in the number of affiliates. The Board supports that the IS introduce internal controls over the completeness and accuracy of data provided to the International Service for Remunerations and Pensions (ISRP) and strengthen existing internal controls over the financial reporting process. Although Note 3 includes

disclosure on the nature of the changes in actuarial assumptions, the Board supports the IBAN's recommendation that the IS ensure the availability of a complete audit trail of all data received from NATO entities and sent to the ISRP.

4.4. RMCF Observation 2: During the course of audit, the IBAN found that the RMCF Supervisory Committee only met once in 2020 although in accordance with Article 3 of Annex XIII-2 of the Civilian Personnel Regulations (CPRs), the RMCF Supervisory Committee should meet twice a year. The IBAN also found an absence of written justification or approval from the Supervisory Committee members for not organising a second meeting during the first year of the COVID-19 pandemic. The Board supports the IBAN's recommendation for RMCF Supervisory Committee to comply with Article 3 of Annex XIII-2 of the CPRs and meet at least twice every year, or to justify any deviations from the CPRs in writing with the approval of its Committee members.

4.5. IS Observation 1: During its testing of extra duties allowances, the IBAN found that in 2020, out of 20 staff members that were granted this allowance, nine were performing duties and responsibilities of an incumbent of a higher grade category that requires a university degree, i.e. B and C grades replacing A grade. Subsequently, the IBAN noted that there are no regulations specifying the criteria for assessing whether a staff member is sufficiently competent and experienced to carry out the responsibilities at a higher grade category or at a higher level of the same grade. Also, no limits in duration of the replacement are defined. The Board supports the IBAN's recommendation that the IS Human Resources (HR) issues implementing instructions regarding the extra duties allowances as per Article 32 in the CPRs that should include assessment criteria of the duties and responsibilities that a staff member replacing an incumbent can assume and for what period of time.

4.6. IS Observation 2: The IBAN found manual errors in the figures reported in the table presented in Note 30 to the 2020 Financial Statements². The Board supports that the IS further strengthen internal-controls over the preparation of the financial statements in order to avoid manual errors during the preparation of the financial statements.

4.7. IS Observation 3: After the issuance of the 2020 Financial Statements, the IS OFC reported the presence of a software deficiency to the IBAN that affected the accuracy of the Financial Statements, by overstating commitments within the Statement of Budget Execution and the Statement of Financial Position. Following further audit investigations, the IBAN found that the commitments extracted from the Enterprise Resource Planning (ERP) Projects module affected by the error had not been fully reconciled with the data in the ERP accounting module³. The Board supports the IBAN's recommendation that the IS introduce internal controls over the projects module to ensure that commitments are not overstated by error, until the deficiency in the IT system is fixed

² This misstatement was corrected in the 2020 Restated Financial Statements submitted to the IBAN on 8 September 2021.

³ The IS OFC subsequently performed a reconciliation for the Projects module-related purchase requisitions.

and to reconcile the amounts committed reported in the projects module to the accounting module. The Board acknowledges the ongoing discussion⁴ on the Enterprise Resource Planning (ERP) systems in the NATO Enterprise and believes that any future solution should seek to decrease the need for manual interventions in the course of preparing the financial statements.

4.8. NFO Observation: In the course of the audit, the IBAN found that the NFO incorrectly reported unrealised exchange rate losses that consequently had an impact on the NFO financial statements⁵. The Board supports the IBAN's recommendation that the IS OFC further strengthen its internal controls over the preparation of the financial statements, in particular regarding the disclosure of exchange rate differences.

4.9. Emphasis of Matter⁶ on the Financial Statements: The IBAN draw attention to the errors regarding the billed amounts in the notes to the MSIAC financial statements and to the inconsistencies in the numbering of the explanatory notes in the restated NFO financial statements. The IBAN also raised an Emphasis of Matter regarding Note 3 to the 2020 RMCF Financial Statements on the actuarial valuation.

4.10. Prior year closed observations: Due to its progress, the IBAN closed three observations and recommendations for the NNHQ. They related to financial report for Long Term Programme Budget (LTPB), information related to LTPB contingency credits and accounting misstatement in the reversal of the previous year's provisions for untaken leave. Similar to the latter observation, as the IS OFC adjusted its figures regarding the accounting treatment of the reversal of provision for untaken leave, the IBAN closed this observation for the IS and the NFO. Additionally, for the IS, the IBAN closed an observation on the improvements in the control of budgetary adjustments. As all contributions were received and confirmed, and the records in the accounting system reconciled, the IBAN closed an observation on the improvements in the process of confirming contributions made to the RMCF.

4.11. Prior year open observations: As the overdue accounts receivables and payables were still not monitored, analysed and disclosed in sufficient detail in the notes to the financial statements the IBAN kept the open status for this NCPS observation. In respect of one open observation made for both the NCPS and RMCF, the IBAN reaffirms the need for more progress regards to prior year observation for NATO as a whole to disclose post-employment liabilities on the face of NATO Reporting Entity Statement of Financial Position to comply with the IPSAS 39 (Employee Benefits). This issue of the use of IPSAS 39 for the NCPS and RMCF accounting and reporting will be addressed through a separate RPPB report. In addition, during the course of audit, the IBAN noted that the NFO has not implemented a procedure for identifying related party transactions and

⁴ C-M(2021)0034, BC-D(2021)0142-ADD1

⁵ This misstatement was corrected in the 2020 Restated Financial Statements submitted to the IBAN.

⁶ Emphasis of Matter is used when the IBAN consider it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in its' judgement, is of such importance that it is fundamental to users' understanding of the financial statements.

monitoring the absence of conflicts of interest and that its key management personnel did not sign declarations concerning related party relationships or transactions. The Board notes that the observation regards obtaining related party declarations from key management personnel will be assessed following a NATO-wide review of the interpretation of *key management personnel* in the frame of NAF (reference J) review, scheduled for 2023.

4.12. Prior year observations in-progress: As regards the clarification of the NATO's compensation agreement, the IBAN notes that since the DCPS payments to the affiliates of their part of the compensatory payment from the insurer are still ongoing, the status will be re-assessed as part of the audit of the 2021 Financial Statements. For the NCPS, IBAN recommends additional progress in order to develop more effective internal controls over the financial statements preparation process as during the 2020 audit IBAN found an error in the bank account reconciliation process. The IBAN recommends that the IS OFC still needs to make additional progress in reconciling cash and cash equivalents and providing year-end conformation process between NATO reporting entities. Furthermore, additional progress should be made in the area of risk management, internal controls and internal audit. For the NFO, the IBAN acknowledges the progress made in the accounting of receivables by their reconciliation with the Ranges and third party audit certificates. However, to close the observation the IS OFC still has to update the method of estimating receivables in its accounting policy⁷.

4.13. Prior year observations in-progress or open for more than three years: The Board is generally concerned regarding the qualified opinions and open observations that apply to all NATO reporting entities, especially those that have remained open for more than three years. The Board notes that the subject reports include only unqualified audit opinions and in this case, the concern relates to three outstanding observations for the MSIAC, RMCF and NFO in-progress for more than three years. In this respect, the Board invited the NATO Office of Resources, in coordination with the IBAN, to advise the Board whether further discussion with the management/governance of those entities or more focused Board recommendations to Council are necessary to accelerate actions on those outstanding items. The following paragraph covers three in-progress observations.

4.13.1. For the 2012 financial year, the IBAN made an observation regarding the inadequacy of RMCF net assets to fund future expected benefits. During 2013, the ISRP carried out the estimations of expenses to allow for the evaluation of whether the fund assets will be sufficient to meet obligations. Several scenarios for the return on assets have been explored and 2019 was the first year when the operational costs of the RMCF were higher than the contributions received. The Board acknowledges that the IS is preparing the updated forecast with the ISRP and that the new study of the future expected benefits should be finalised during 2022. In this respect, the Board note that an updated long-term sustainability forecast will be delivered to Nations at the earliest possibility.

⁷ In November 2021, the IS OFC issued the OFC Accounting Polices (ON(2021)0079) that include the accounting of receivables.

4.13.2. For the 2015 financial year, the IBAN recommended for the MSIAC and the NFO to achieve full compliance with the revised NFRs, particularly on internal control, risk management and internal audit. The IBAN acknowledges that progress was made in tackling this observation since previous years, especially regards the adoption of COSO⁸ internal control framework for the MSIAC and in internal control and risk management procedures for the NFO. However, the finalisation of risk management policy and an independent assessment of the COSO internal control framework are still pending for this observation to be closed for the MSIAC. Likewise, the IBAN expects the NFO to ensure its risk management policy and risk registers include financial reporting and compliance risks and strive to assess and document the system of internal control and risk management and enhance internal audit activities.⁹ However, when it comes to the implementation of the COSO framework and associated audit requirements, the Board notices that in accordance with the Article 12.1 of the NFRs, the NATO bodies shall ensure the necessary internal management functions are in place to support effective internal control, designed to provide reasonable assurance that they will achieve their objectives. In that respect, the Board recognises that the effort to resolve an issue of implementation of internal control framework, risk management procedures and internal audit should be commensurate with size of NATO reporting entities and scale of their activities. The Board recommends the RMCF, MSIAC and NFO to pursue with their actions on these outstanding items. Furthermore, the Board recommends that Council invites the RMCF, MSIAC and NFO to provide a clear remedial action plan to the Council with deadlines on the implementation of recommendations, submitted with their response on the IBAN audit of the 2021 financial statements.

CONCLUSIONS

5. The IBAN Audit Reports set out unqualified opinions on the financial statements and on compliance of the DCPS, MSIAC, NCPS, NNHQ, RMCF, IS and NFO. No new observations impacted the audit opinion in 2020. Eight new observations were raised for the MSIAC, NCPS, RMCF, IS and NFO. As of the date of the respective IBAN Audit Report a total of nine prior year observations were in-progress, four were open and seven were closed.

6. The Board welcomes the continued progress to reduce the number of audit observations and encourages the closure of the remaining observations for the MSIAC, NCPS, RMCF, IS and NFO in relation to the introduction, improvement and strengthening of internal controls. However, the Board notes that, in line with the NFR Article 12.1, the internal controls are intended to provide only a reasonable assurance. In addition, the Board recommends that the RMCF take further steps in order to comply with the CPRs and the IS-HR to issue implementing instructions on the extra duties allowance identified

⁸ Committee of Sponsoring Organizations of the Treadway Commission (COSO)

⁹ The IS FC raises that the limited scale of operations and available resources of the MSIAC and NFO create difficulty to achieve full compliance with the NFRs.

in the CPRs. The Board took note of the Emphasis of Matter paragraphs in the IBAN Audit Reports.

7. In respect of prior year open observations, the Board notes that more improvements should be made in the disclosure of overdue accounts receivables and payables for NCPS and further steps taken as regards the disclosure of the post-employment liabilities to comply with the NAF. In this respect, the Board notes that the issue of post-employment liabilities will be addressed through a separate RPPB report. The Board notes that the observation regards the interpretation of key management personnel will be considered in the frame of upcoming NAF review.

8. As regards the prior year observations in-progress, the Board acknowledges the improvements made and supports the IBAN's observation that the DCPS continues its effort to return to the affiliates all of their part of the compensatory payment from the Insurer and the NCPS to strengthen its internal controls. Furthermore, the Board notes that additional progress is expected to be made in the area of risk management, internal controls and internal audit for the IS and in the reconciliation and accounting practices for the IS and the NFO.

9. With regard to the IBAN's in-progress recommendation for the 2012 financial year to the RMCF, the Board recommends the RMCF to deliver an updated long-term sustainability forecast to Nations. In addition, for the IBAN's in-progress recommendation for 2015, as the internal control system must be implemented in all NATO reporting entities, the Board expects the MSIAC and NFO to achieve compliance with the NFRs, particularly on internal control, risk management and internal audit. In this respect, the Board recommends that Council invites the RMCF, MSIAC and NFO to provide an action plan to the Council with deadlines on the implementation of recommendations, submitted with their response on the IBAN audit of the 2021 financial statements.

RECOMMENDATIONS

10. The Resource Policy and Planning Board recommends that the Council;
 - 10.1. note this report and the IBAN Audit Reports at reference A to G;
 - 10.2. agree the conclusions at paragraphs 5 to 9;
 - 10.3. invite the Retirees Medical Claims Fund, Munitions Safety Information Analysis Center and NATO FORACS Office to provide an action plan to the Council with deadlines on the implementation of the outstanding IBAN observations, submitted with their response on the IBAN audit of the 2021 financial statements; and
 - 10.4. agree to the public disclosure of the 2020 financial statements of NATO Defined Contribution Pension Scheme, Munitions Safety Information Analysis, NATO Coordinated Pension Scheme, New NATO Headquarters and Retirees Medical Claims Fund, 2020 restated financial statements of International Staff and NATO FORACS Office, the

associated IBAN Audit Reports (reference A to G) and this report in line with agreed policy at reference K.



NATO UNCLASSIFIED

IBA-A(2021)0132
15 October 2021

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

Cc: NATO Permanent Representatives
Assistant Secretary General, Executive Management Division
Financial Controller, International Staff
Chair, Resource Policy & Planning Board
Branch Head, Secretariat and Finance Branch, NATO Office of Resources
Private Office Registry

Subject: ***International Board of Auditors for NATO (IBAN) Audit Report on the audit of the NATO Defined Contribution Pension Scheme's (DCPS) Financial Statements for the year ended 31 December 2020 – IBA-AR(2021)0032***

IBAN submits herewith its approved Audit Report with a Summary Note for distribution to the Council.

IBAN's report sets out an unqualified opinion on the Financial Statements of the NATO DCPS and on compliance for financial year 2020.

Yours sincerely,

Daniela Morgante
Chair

Attachments: As stated above.

NATO UNCLASSIFIED

**Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Financial Statements of the
NATO Defined Contribution Pension Scheme (DCPS)
for the year ended 31 December 2020**

The International Board of Auditors for NATO (IBAN) audited the NATO Defined Contribution Pension Scheme (DCPS), which is a money purchase pension scheme that includes contributions from staff recruited on or after 1 July 2005, as well as employer contributions from NATO. The value of the NATO DCPS's net assets available for benefits at 31 December 2020 was EUR 595.47 million (at the end of 2019, EUR 524.53 million). The DCPS had 4,795 members at 31 December 2020 (at the end of 2019, 4,352 members).

IBAN issued an unqualified opinion on the Financial Statements and on compliance for the year ended 31 December 2020.

During the audit, IBAN made no observations.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that one remains in progress.

The Audit Report was issued to the International Staff whose comments have been included, with the IBAN's position on those comments where necessary.

The observations and recommendations and the follow-up of the previous years' observations and recommendations that are not in the Audit Report are included in a Management Letter addressed to the NATO Defined Contribution Pension Scheme management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under the NATO Defined Contribution Pension Scheme's executive responsibility.

NATO UNCLASSIFIED

IBA-AR(2021)0032

15 October 2021

INTERNATIONAL BOARD OF AUDITORS FOR NATO

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

FOR THE YEAR ENDED 31 DECEMBER 2020

PUBLICLY DISCLOSED - PDN(2022)0014 - MIS EN LECTURE PUBLIQUE

NATO UNCLASSIFIED

INDEPENDENT EXTERNAL AUDITOR'S REPORT TO THE NORTH ATLANTIC COUNCIL

Financial Statements

Opinion on the Financial Statements

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of the NATO Defined Contribution Pension Scheme, for the 12 month period ended 31 December 2020, issued under document reference FC(2021)0026, and submitted to IBAN on 31 March 2021. These Financial Statements comprise the Statement of Net Assets Available for Benefits as at 31 December 2020, the Statement of Changes in Net Assets Available for Benefits for the period ended 31 December 2020 and the Explanatory Notes, including a summary of significant accounting policies.

In our opinion, the Financial Statements give a true and fair view of the Statement of Net Assets Available for Benefits of the NATO Defined Contribution Pension Scheme as at 31 December 2020, and of its Statement of Changes in Net Assets Available for Benefits for the period ended 31 December 2020, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF) and International Accounting Standard (IAS) 26, Accounting and Reporting by Retirement Benefit Plans.

Basis for Opinion on the Financial Statements

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies and reporting entities pursuant to the North Atlantic Treaty shall be performed by IBAN.

We have conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 2200-2899) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

We are independent in accordance with the INTOSAI Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter.

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

Management's Responsibility for the Financial Statements

Management's responsibility for the financial statements is laid down in the NFRs. The Financial Statements of the NATO Defined Contribution Pension Scheme are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council. The Financial Controller is responsible for submitting the Financial Statements for audit to IBAN not later than 31st March following the end of the financial year.

The Financial Statements are signed by the Head of the NATO reporting entity and the Financial Controller. In signing the Financial Statements, the Head of the NATO reporting entity and the Financial Controller confirm 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.

This confirmation covers the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are auditable and free from material misstatement, whether due to fraud or error. This also covers reporting on the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there are plans to liquidate the entity or to cease its operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgement and maintain professional scepticism throughout the planning and performance of the audit. This involves taking into account Considerations Specific to Public Sector Entities. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to communicate with the bodies charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. Our Independent External Auditor's Report is prepared to assist North Atlantic Council in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

Compliance

Opinion on Compliance

Based on the procedures we performed, nothing has come to our attention, as part of our audit of the Financial Statements that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

Basis for Opinion on Compliance

We have conducted our compliance audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 4000-4899) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

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

Management's Responsibility for Compliance

All NATO staff, military and civilian, are obligated to comply with the NATO Financial Regulations, associated Financial Rules and Procedures and internal implementing directives. These include the NATO Civilian Personnel Regulations.

The Secretary General is responsible and accountable for sound financial management. The financial administration of NATO bodies and reporting entities must incorporate the principles of propriety, sound governance, accountability, transparency, risk management and internal control, internal audit, external audit, and fraud prevention and detection.

Auditor's Responsibilities for Compliance

In addition to the responsibility to provide reasonable assurance about whether the financial statements as a whole are free from material misstatement, the IBAN Charter requires IBAN to provide independent assurance and report annually to the North Atlantic Council about whether funds have been properly used for the settlement of authorised expenditure (propriety) and are in compliance with the regulations in force (regularity). Propriety relates to the observance of the general principles governing sound financial management and the conduct of public officials. Regularity concerns the adherence to formal criteria such as relevant regulations, rules and procedures.

This responsibility includes performing procedures to obtain independent assurance about whether funds have been properly used for the settlement of authorized expenditure and whether they have been used in compliance with the regulations in force. Such procedures include consideration of the risks of material non-compliance.

Brussels, 15 October 2021



Daniela Morgante
Chair

OBSERVATIONS AND RECOMMENDATIONS

IBAN made no observations and recommendations.

IBAN followed up on the status of observations and recommendations from the previous years’ audits and found that one remains in-progress.

The Audit Report was issued to the International Staff whose comments have been included, with the IBAN’s position on those comments where necessary.

The observations and recommendations and the follow-up of the previous years’ observations and recommendations that are not in the Audit Report are included in a Management Letter addressed to the NATO Defined Contribution Pension Scheme management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under the NATO Defined Contribution Pension Scheme executive responsibility.

FOLLOW-UP OF PREVIOUS YEARS’ OBSERVATIONS

IBAN followed up on the status of observations from the previous years’ audit. The observations and recommendations, the actions taken by the auditee as reviewed by IBAN, and their status are summarised in the table below.

The Open status is used for recommendations that are open and for which no notable progress has been achieved to date. The In-progress status is used for open recommendations when the NATO Reporting Entity has started to implement the recommendation or when some (but not all) sub-recommendations are closed. The Closed status is used for recommendations that are closed because they have been implemented, are superseded, or have lapsed. In the case where there are sub-recommendations, the status related to each sub-recommendation is indicated in the Action Taken column.

| OBSERVATION / RECOMMENDATION | ACTION TAKEN BY AUDITEE | STATUS |
|---|---|--|
| <p>(1) DCPS FY 2019 IBA-AR(2016)28, paragraph 3</p> <p>INSUFFICIENT EVIDENCE TO SUPPORT A RECEIVABLE AND PROVISION IN THE FINANCIAL STATEMENTS</p> <p>IBAN’s Recommendation The Board recommends the Secretary General, responsible for the administration and management of the DCPS, review this situation as soon as possible in order to clarify NATO’s agreement to this proposed compensation, which NATO reporting entity has the right to it, and, if received, who the</p> | <p>In December 2018, the Secretary General recommended that one third of the compensatory payment from the Insurer (EUR 1.726 million) should be distributed to those affiliates who actively</p> | <p>Observation In-Progress.</p> |

NATO UNCLASSIFIED

IBA-AR(2021)0032

| OBSERVATION / RECOMMENDATION | ACTION TAKEN BY AUDITEE | STATUS |
|--|---|--------|
| <p>funds should ultimately be returned to (e.g. nations, DCPS participants, etc.).</p> | <p>contributed to the major risk insurance during the period between 1 January 2012 and 31 December 2015. This amount was paid by the Insurer to DCPS in May 2019.</p> <p>The remaining balance to be paid to the affiliates as at 31 December 2020 was EUR 0.55 million). This corresponds to the amounts due towards non-active DCPS members, whereby the NATO Pensions Unit has to reach out to each individual to obtain correct data in order to proceed with the payments. As the payments to the affiliates are still ongoing, the status will be re-assessed as part of the audit of the 2021 Financial Statements.</p> <p>As per BC-DS(2019)0067 (INV) the Budget Committee decided that the employers' contributions share of the Insurer's compensatory payment shall be returned to the respective NATO Reporting Entities (EUR 4.274 million). This amount was paid by the Insurer to DCPS in February and April 2020. The subsequent disbursement to the NATO Reporting Entities was finalised in 2020.</p> | |

**INTERNATIONAL STAFF (IS) FORMAL COMMENTS ON THE AUDIT REPORT
AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS****FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS****(1) DCPS 2019 FY****IBA-AR(2016)28, paragraph 3****INSUFFICIENT EVIDENCE TO SUPPORT A RECEIVABLE AND PROVISION IN
THE FINANCIAL STATEMENTS*****IS's Formal Comments***

Not agreed.

As per BC-DS(2019)0067 (INV) the Budget Committee decided that the employers' contributions share of the Insurer's compensatory payment shall be returned to the respective NATO Reporting Entities (EUR 4.274 million). The Insurer paid this amount to DCPS in February and April 2020.

In December 2018, the Secretary General recommended that one third of the compensatory payment from the Insurer (EUR 1.726 million) should be distributed to those affiliates who actively contributed to the major risk insurance during 1 January 2012 and 31 December 2015. The Insurer paid this amount to DCPS in May 2019.

The Board's recommendation has been fulfilled, the situation has been reviewed and NATO's agreement to this proposed compensation has been clarified.

No further decisions are left pending, consequently IS is proposing the closure of this observation.

IBAN's Position

As the payments to the affiliates are still ongoing (EUR 0.55 million still to be paid as at 31 December 2020), the status will be re-assessed as part of the audit of the 2021 Financial Statements. IBAN's maintains its position and considers that this recommendation is in-progress.

GLOSSARY OF TERMS

In accordance with International Standards of Supreme Audit Institutions (ISSAI 2705), audit opinions on financial statements and on compliance can be unqualified, qualified, a disclaimer, or adverse:

- An unqualified opinion is when IBAN issues an opinion that the financial statements and budget execution report are stated fairly and that nothing has come to our attention that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the rules and regulations.
- A qualified opinion means that IBAN was generally satisfied with the presentation of the financial statements, but that some key elements of the statements were not fairly stated or affected by a scope limitation, or specific issues have come to our attention that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the rules and regulations.
- A disclaimer is issued when the audit scope is severely limited and IBAN cannot express an opinion, or when there are material uncertainties affecting the financial statements or the use of funds.
- An adverse opinion is issued when the effect of an error or disagreement is so pervasive and material to the financial statements that IBAN concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

In accordance with auditing standards, three types of paragraphs may also be communicated in the auditor's report:

- Key Audit Matters (ISSAI 2701): Those matters that, in IBAN's professional judgement, were of most significance in the audit of the financial statements of the current period. Key Audit Matters are addressed to Council.
- Emphasis of Matter (ISSAI 2706): If IBAN considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.
- Other Matter (ISSAI 2706): If IBAN considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in our judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

NATO UNCLASSIFIED

FC(2021)0026

**NATO DEFINED CONTRIBUTION PENSION SCHEME
FINANCIAL STATEMENTS**

For the year ended 31 December 2020

| | |
|---------|---|
| 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


Mirosława BORYCZKA
Financial Controller

NATO UNCLASSIFIED

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

(all amounts in EUR)

| | Notes | Current Year | | Prior Year | | |
|--|-------|-----------------------|---------------------|-----------------------|---------------------|-----------------------|
| | | 31-Dec-20 | | 31-Dec-19 | | |
| | | Investments | Benefits | Investments | Benefits | |
| | | Total | Total | | Total | |
| Assets | | | | | | |
| Cash and cash equivalents | 3 | 7,112,637.82 | 324,810.85 | 7,437,448.67 | 408,319.63 | 7,359,634.81 |
| Funds held by investment manager | 4 | 588,716,610.24 | - | 588,716,610.24 | - | 518,398,036.29 |
| Accounts receivable | 5 | 366.70 | 238,328.24 | 238,694.94 | 108,601.66 | 134,707.75 |
| Other receivables | | - | - | - | - | - |
| Total Assets | | 595,829,614.76 | 563,139.09 | 596,392,753.85 | 516,921.29 | 525,892,378.85 |
| Liabilities | | | | | | |
| Provisions claims and disputes | 6 | - | - | - | - | - |
| Payable | 6 | (560,763.29) | (558,918.50) | (1,119,681.79) | (508,153.76) | (1,271,795.89) |
| Other payables | 7 | - | (456.35) | (456.35) | (10,101.16) | (10,101.16) |
| Surplus investment/desinvestment | 8 | (80,016.59) | - | (80,016.59) | - | (80,016.59) |
| Current year surplus financial results | | 281,965.48 | (3,764.24) | 278,201.24 | 1,333.63 | 1,028.17 |
| Total Liabilities | | (358,814.40) | (563,139.09) | (921,953.49) | (516,921.29) | (1,360,885.47) |
| Net Assets Available for Benefits | | 595,470,800.36 | - | 595,470,800.36 | - | 524,531,493.38 |

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

| Notes | Current Year | | | Prior Year | | |
|--|-----------------------|---------------------|-----------------------|-----------------------|---------------------|-----------------------|
| | 31-Dec-20 | | | 31-Dec-19 | | |
| | Investments | Benefits | Total | Investments | Benefits | Total |
| Increase in Net Assets | | | | | | |
| 9 Net unrealized profit in market value of investments | | | | 76,221,459.15 | - | 76,221,459.15 |
| 10 Contributions | 22,876,185.44 | - | 22,876,185.44 | 63,628,466.40 | - | 63,628,466.40 |
| 11 Inward transfer of pension rights | 72,568,349.50 | - | 72,568,349.50 | 1,633,127.76 | - | 1,633,127.76 |
| 12 Transfers from Insurer | 804,419.51 | - | 804,419.51 | - | 813,293.49 | 813,293.49 |
| 12 Transfers from Annuity Provider | 1,160,555.00 | 1,160,555.00 | 1,160,555.00 | - | 109,118.97 | 109,118.97 |
| 16 Contribution for Tax Adjustments Due | 119,412.52 | 119,412.52 | 119,412.52 | - | 101,149.16 | 101,149.16 |
| 17 Miscellaneous receipts | 128,261.47 | 128,261.47 | 128,261.47 | - | - | - |
| | 11,655.43 | 11,655.43 | 11,655.43 | - | - | - |
| Total Increase in Net Assets Available for Benefits | 96,248,954.45 | 1,419,884.42 | 97,668,838.87 | 141,483,053.31 | 1,023,561.62 | 142,506,614.93 |
| Decrease in Net Assets | | | | | | |
| 9 Net unrealized loss in market value of investments | | | | - | - | - |
| 13 Accounts closed (Staff) | 24,660,836.01 | - | 24,660,836.01 | 24,988,280.76 | - | 24,988,280.76 |
| 13 Outward transfer of pension rights | 648,811.46 | - | 648,811.46 | 350,535.87 | - | 350,535.87 |
| 14 Transfers to insurer and annuity providers | - | - | - | - | 15,479.94 | 15,479.94 |
| 15 Pension Benefits | - | 118,606.91 | 118,606.91 | - | 106,854.24 | 106,854.24 |
| 15 Invalidity, Survivor and Dependant Benefits | - | 1,050,239.66 | 1,050,239.66 | - | 713,555.40 | 713,555.40 |
| 16 Tax Adjustment Paid to Beneficiaries | - | 128,261.47 | 128,261.47 | - | 101,149.16 | 101,149.16 |
| 15 Employer Contributions to DCPS | - | 118,157.66 | 118,157.66 | - | 82,492.09 | 82,492.09 |
| 17 Miscellaneous Expenses | - | 4,618.72 | 4,618.72 | - | 4,030.79 | 4,030.79 |
| Total Decrease in Net Assets Available for Benefits | 25,309,647.47 | 1,419,884.42 | 26,729,531.89 | 25,338,816.63 | 1,023,561.62 | 26,362,378.25 |
| Net Increase for the Year | 70,939,306.98 | - | 70,939,306.98 | 116,144,236.68 | - | 116,144,236.68 |
| Net Assets Available for Benefits, Beginning of Year | 524,531,493.38 | - | 524,531,493.38 | 408,387,256.70 | - | 408,387,256.70 |
| Net Assets Available for Benefits, End of Year | 595,470,800.36 | - | 595,470,800.36 | 524,531,493.38 | - | 524,531,493.38 |

**EXPLANATORY NOTES
NATO DEFINED CONTRIBUTION PENSION SCHEME****NOTE 1: GENERAL INFORMATION****Description of the Fund**

The NATO Defined Contribution Pension Scheme (DCPS) was implemented with effect from 1 July 2005 based on Council's approval of C-M(2000)53 and C-M(2005)0057. The DCPS aims to provide retirement benefits for NATO staff who are employed for the minimum six-year vesting period and to make cash payments to staff who leave before satisfying the vesting requirement. All new entrants recruited on or after 1 July 2005 are compulsorily affiliated to the NATO DCPS.

The DCPS is a cash purchase pension scheme. Both staff and NATO contribute to the Scheme. There is no long-term liability for NATO related to the DCPS.

An account is opened for each member of the Scheme. Contributions are invested according to the member's instructions within the eleven funds currently available, described below. Members can check the status of their accounts and give instructions via a secure web portal.

Upon departure, the member's account is disinvested. Until 20 December 2012, the effective date of changes to related NATO Civilian Personnel Regulations (CPR), if the member had vested in the Scheme and was at least 50 years old, the member could take up to 25% of the proceeds as a cash lump sum and the balance had to be applied to the purchase of a retirement pension from a commercial provider. In 2009, the vesting period was five years; in 2010 the vesting period was increased to six years. Members who leave the NATO employer prior to vesting withdraw the entire proceeds as a cash lump sum.

On 20 December 2012 the NATO Council approved the current disinvestment rules which provide choice and flexibility for affiliates regarding their retirement benefits. There is no upper or lower limits on ages at which affiliates can take benefits. Affiliates leaving the DCPS may take any percentage of their holdings in cash. Affiliates' accounts no longer have to be closed when they reach 65. Affiliates may remain indefinitely as passive investors, with no further investments or switches until full disinvestment, beyond the age of 65.

As at 31 December 2020, there were 4795 NATO DCPS affiliates (members). Note 21 provides a summary of the evolution of the membership since inception.

Financing

Staff make a compulsory contribution of 8% of basic salary to the Scheme. Staff may make additional voluntary contributions to the Scheme up to 5% of basic salary. NATO pays employer contributions of 12% of basic salary of each active scheme member. Contributions to the DCPS are part of pay and are made monthly.

Scheme members may, under certain circumstances, transfer into their DCPS account any amounts corresponding to pension rights accrued under the pension scheme to which they were previously affiliated.

Governance

The DCPS is administered in accordance with NATO Civilian Personnel Regulations (CPRs), Annex VI, governing the DCPS approved by the Council under C-M(2005)0057.

The Secretary General is responsible for the administration and management of the Scheme, assisted by a consultative committee, the DCPS Management Board, whose Chairman is appointed by the Secretary General.

The committee also includes: seven representatives of the Administrative Services for the International Staff, the International Military Staff, the NATO Standardization Agency and the NATO Defense College, the Assistant Secretary General (ASG) Executive Management and the Financial Controller of the International Staff or their representatives; two representatives of the Administrative Services for the NATO Production and Logistics Organizations and other bodies not listed above; a representative from SHAPE J1 Manpower and Personnel, and the Financial Controller, Allied Command Operations, or their representatives; one representative from the Administrative Services of a NATO military body in Allied Command Transformation; six representatives nominated by the Confederation of NATO Civilian Staff Committees from among the members of the Scheme. At least one representative shall be a member of the NATO International Staff; one representative of retired NATO staff nominated by the Confederation of NATO Retired Civilian Staff Associations.

The Assistant Secretary General for Executive Management was appointed permanent Chairperson of the DCPS Management Board in late 2010 and remains as such since then.

The members of the DCPS Management Board, who are also NATO staff members, receive no additional remuneration or benefits in return for their participation.

Investments

The Management Board oversees the investment options of the Scheme.

Members of the NATO DCPS invest in their choice of several funds, consisting of equity, bond and cash funds. Investments are made in units in the respective funds; the unit price fluctuates according to its market value. Four additional investment funds, passively-managed (indexed) funds offered by Vanguard were selected by the NATO Contract Awards Committee in consultation with the DCPS Management Board in November 2013 and became available to DCPS affiliates in February 2014.

The funds are available in EUR and/or in USD, as presented in the table below:

| | ISIN* |
|---|--------------|
| Equity Funds: | |
| Mellon Global Equity Portfolio EUR C | IE00B82M6789 |
| Mellon Global Equity Portfolio USD C | IE00B7X4LZ98 |
| Vanguard Global Stock Index Fund EUR | IE00B03HD191 |
| Vanguard Global Stock Index Fund USD | IE00B03HD209 |
| Bond Funds: | |
| Mellon Global Bond Portfolio EUR C | IE0003932385 |
| Mellon Global Bond Portfolio USD C | IE0003932492 |
| Mellon Euroland Bond Portfolio EUR C | IE0032722484 |
| Vanguard Global Bond Index Fund USD | IE00B18GCB14 |
| Vanguard Euro Government Bond Index Fund EUR | IE0007472990 |
| Cash Funds: | |
| Mellon Universal Liquidity Funds – Liquidity Plus USD | IE0032713202 |
| BNP Paribas InstiCash Fund – EUR | LU0094219127 |

* *International Securities Identification Number*

NATO shall not be held responsible for any losses on investments incurred by movement in the investment markets (Annex VI, Article 10.3 of the NATO Civilian Personnel Regulations).

Benefits

Upon retirement of a staff member, transfers are made to the pension provider in order to purchase the annuity for members who leave the DCPS and choose to take a DCPS retirement pension.

Until 30 June 2017 the insurer's company was responsible for annuity payments in cases of death in service and had a claim on the proceeds of the redemption of the affected deceased staff member's holdings. Nowadays the redemption proceedings are paid to the person(s) designated by the deceased staff member and the survivors' benefits, in cases of eligibility, are covered by the insurance. Since July 2020 the benefits for paid to orphans have increased.

Contributions, in the case of invalidity, are made to the DCPS and invested, until the beneficiary reaches retirement age. In the case of invalidity, contributions for medical insurance are also paid as required.

Retirement annuities received from commercial pension providers pending augmentation by the adjustment related to income tax and further transfer to the retired beneficiary are held in a separate bank account separate from that of the Investment element of the DCPS. The benefits received from the insurer pending augmentation plus the adjustment related to income tax are subject to a follow-on transfer to the survivor or disabled beneficiary.

Benefits are paid for retirement, survivor and invalidity pensions. They are paid at the end of each month.

The following table gives the number of beneficiaries per category of benefits.

| As per end | Retirement | Survivor | Invalidity | Total |
|------------|------------|----------|------------|-------|
| 2013 | 4 | 3 | 3 | 10 |
| 2014 | 8 | 4 | 6 | 18 |
| 2015 | 8 | 5 | 7 | 20 |
| 2016 | 9 | 12 | 9 | 30 |
| 2017 | 10 | 12 | 10 | 32 |
| 2018 | 10 | 12 | 12 | 34 |
| 2019 | 12 | 11 | 11 | 34 |
| 2020 | 12 | 20 | 20 | 52 |

Pension Tax Adjustment

The Scheme is not subject to income tax under the terms of Articles IX and X of the Agreement on the Status of the North Atlantic Treaty Organization signed in Ottawa on 20 September 1951 (the Ottawa Treaty).

In accordance with Annex VI, Article 15 of the CPRs, beneficiaries are subject to tax by national authorities on their annuity receipts and receive an adjustment equivalent to 50% of the amount by which the recipient's pension would theoretically need to be increased, were the balance remaining after deduction of the amount of national income tax or taxes on the total to correspond to the amount of the pension calculated in accordance with the CPRs. This adjustment is paid out of the DCPS Retirement Pensions and Invalidity accounts and is funded by specific calls for contributions handled in the NATO Coordinated Pension Scheme accounts. Related information is disclosed in the Financial Statements of the NATO Coordinated Pension Scheme.

Amounts paid are disclosed in the Statement of Change in Net Assets.

Management of the DCPS

Previnet SPA (Italy) was selected as the Third Party Administrator of the DCPS at the introduction of the Scheme in July 2005, and has been administering the scheme on behalf of NATO since that date. Previnet is responsible for the individual accounts administration, benefit administration, reporting, customer services and maintenance of the DCPS web site with on-line facilities for the scheme members.

Previnet tracks contributions and individual holdings of scheme members. It also provides aggregated accounting data and investment instructions destined for NATO-IS and the Investment Managers.

NATO-IS Office of Financial Control (OFC) receives the monthly contributions from the various NATO body payroll centers in a custodial bank account and its bank converts the funds, based on the instructions prepared by the Scheme Administrator, into EUR or USD, as required, for the investment accounts. The OFC is responsible for transfer of the funds from the relevant bank account to the appropriate accounts with the Investment Managers, BNY Mellon, Vanguard and BNP Paribas, based on the Scheme Administrator's reconciliation of the global amount and validation of the amounts to be invested for each staff member.

NATO-IS Executive Management Human Resources Pensions Unit reconciles the number of units per member received from the Scheme Administrator against the accounts of the staff members leaving the scheme. OFC then transfers the redemption/lump sum amounts as per the bank account instructions provided by the leaving scheme members.

DCPS amounts redeemed for the purchase of pension annuities and amounts due from an outside insurer for invalidity pensions of former DCPS members are administered by the OFC. The member's holdings are transferred to the relevant pension provider when a leaving DCPS member has instructed NATO to purchase an annuity. OFC also transfers monthly invalidity pensions and the adjustments related to income tax to former DCPS members who qualify.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

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

Declaration of conformity

The financial statements of the NATO DCPS have been prepared 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 DCPS is accrual based.

Basis of presentation

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

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

Changes in accounting policy

None in 2020.

Reclassification of financial statements for previous years

None in 2020.

Use of estimates

In the application of accounting policies, described below, management is required to make judgments, estimates and assumptions about carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Foreign currency transactions

Contributions are made in the currency of the respective payroll center. Investments are made in USD and in EUR as chosen by the scheme member. NATO Parity Rates do not apply to

purchases or sales in the DCPS. All bank transactions are processed at the market rate. Contributions received in currencies other than EUR and USD are converted in the latter at investment dates and payments to the Investment Managers are made in EUR and USD. Balance sheet amounts at year-end are reported using the NATO Parity Rates in effect on 31 December.

Cash and Cash Equivalents

Cash and cash equivalents are defined as short-term assets. They include short term deposits held with banks and short term highly liquid investments.

Investments

Investments reported under these DCPS financial statements consist of equity funds, bond funds and cash funds. These investments are non-current assets with respect to the purpose of the DCPS.

Investments are recorded at market value on the reporting date.

Receivables

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

Payables

Payables are amounts due to third parties based on services provided that remain unpaid. This includes, as required, an estimate of accrued obligation for services provided but not yet invoiced.

Net Assets

The net assets available at year-end correspond to investments at market value plus receivables and contributions awaiting investment less payables. Also included are interest earned on the custodial bank account, surpluses gained on transactions with the insurance company and miscellaneous gains and losses related to corrective transactions.

Financial Risks

The DCPS uses only non-derivative financial instruments as part of its normal operations. These financial elements include cash, investment funds, bank accounts and accounts receivable.

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

The DCPS is exposed to a variety of financial risks, including credit risk, market (price) risk and liquidity risk. The maximum exposure as at year end is equal to the total amount of bank balances and receivables. NATO shall not be held responsible for any losses on investments incurred by movement in the investment markets (Annex VI, Article 10.3 of the NATO Civilian Personnel Regulations).

Credit risk

The DCPS incurs credit risks from cash and cash equivalent held with banks and receivables. There is very limited credit risk associated with the realization of these elements.

Concerning cash and cash equivalent the DCPS credit risk is managed by holding current bank accounts and short term liquid deposits that are readily convertible to a known amount of cash held with ING Bank (Belgium) which has the following short-term credit ratings:

| Bank Name | Country of HQ | Short Term Ratings | | | | | |
|-----------|---------------|--------------------|------------------|------------|------------------|------------|------------------|
| | | FITCH | | S&P GLOBAL | | MOODY'S | |
| | | Rating | Last Review Date | Rating | Last Review Date | Rating | Last Review Date |
| ING Bank | Netherlands | F1+ | 15-Oct-2020 | A-1 | 10-Jul-2020 | P-1 | 21-Oct-2020 |

Concerning receivables, the credit risk is managed by maintaining control procedures over receivables. These consist essentially of contributions due by NATO bodies' payroll centers. This risk is considered limited since these bodies are primarily funded by member nations which are considered creditworthy.

Price risk

The DCPS individual member holdings are exposed to equity and bond securities market risk. NATO shall not be held responsible for any losses on investments incurred by movement in the investment markets (Annex VI, Article 10.3 of the NATO Civilian Personnel Regulations).

Currency risk

The DCPS is exposed to a limited foreign currency exchange risk arising from fluctuations in currency rates. The contributions received in various currencies are converted into EUR or USD as required by the members' investment decisions. The converted amounts are invested in funds held in EUR or USD accordingly. With regards to benefits there is a limited currency risk since payments are sometimes made in another currency than the amounts received from the insurer or the annuity provider. However, so far, such costs have been immaterial.

Liquidity risk

A liquidity risk could arise from a short term liquidity requirement in relation to amounts due to departing staff. There is a very limited exposure to liquidity risk because the amounts due to departing staff are equal to their holdings, and because amounts transferred to the investment manager are equal to the contributions received from the payroll centers of NATO bodies which receive resources from member states funding the related budgets, or income from their customers which generally are other NATO bodies funded through their approved budgets.

However, there is a limited liquidity risk in relation to the payment of annuities to eligible members. These transactions are handled on bank accounts separate from those used for investments and disinvestments. Amounts due by the insurers arrive later than when annuities are due to members. Pension Adjustment is paid in advance from contributions due by the Coordinated Pension Scheme. This situation is managed through cash advances from the NATO International Staff (IS).

Below table provides the evolution on the standing advances DCPS has received from IS at year-end for the last 3 years.

| End of Year | Cash Advance in EUR |
|-------------|---------------------|
| 2018 | 320,000.00 |
| 2019 | 500,000.00 |
| 2020 | 550,000.00 |

The increase of the cash advances, used to manage the liquidity risk during the year, is caused by the steady growth of benefits paid under the Defined Contribution Pension Scheme over the last years.

Interest rate risk

The DCPS is restricted from entering into borrowings.

A portion of DCPS is invested in bond funds. The market value of bonds fluctuates according to market perception of the issuer's creditworthiness and to projected interest rates. The value of DCPS individual member accounts is therefore subject to some interest rate risk.

Statement of Net Assets Available for Benefits

NOTE 3: CASH AND CASH EQUIVALENTS

The various NATO entities pay their contributions into a custodial account. This account serves to effect the transfer of funds to be invested by the Investment Manager and to receive redemptions for departing staff. The total presented in the financial statements corresponds mainly to contributions received in December and awaiting transfer to the Investment Managers.

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

NOTE 4: FUNDS HELD BY THE INVESTMENT MANAGER

Investments at Market Value

BNY Mellon is the Investment Manager for six of the funds listed below; BNP Paribas Investment Partners manages the BNP Paribas InstiCash Fund in Euro, while Vanguard Asset Management manages the four index funds.

Table below provides comparative data on the Investments at Market Value for two consecutive years:

| | ISIN | 2020 | | 2019 |
|---|--------------|------------------------------|---------------|-----------------------|
| | | EUR or EUR equivalent of USD | USD | EUR |
| Equity Funds: | | | | |
| Mellon Global Equity Portfolio EUR C | IE00B82M6789 | 263,491,605.67 | - | 241,718,238.90 |
| Mellon Global Equity Portfolio USD C | IE00B7X4LZ98 | 22,128,557.66 | 26,888,410.41 | 21,580,534.98 |
| Vanguard Global Stock Index Fund EUR | IE00B03HD191 | 56,491,507.45 | - | 46,123,072.36 |
| Vanguard Global Stock Index Fund USD | IE00B03HD209 | 17,054,909.39 | 20,723,420.41 | 14,129,434.83 |
| Bond Funds: | | | | |
| Mellon Global Bond Portfolio EUR C | IE0003932385 | 42,842,912.19 | - | 34,289,206.74 |
| Mellon Global Bond Portfolio USD C | IE0003932492 | 6,971,329.53 | 8,470,862.51 | 5,411,881.11 |
| Mellon Euroland Bond Portfolio EUR C | IE0032722484 | 12,894,361.14 | - | 13,721,494.59 |
| Vanguard Global Bond Index Fund USD | IE00B18GCB14 | 6,124,214.43 | 7,441,532.97 | 4,544,621.23 |
| Vanguard Euro Government Bond Index Fund EUR | IE0007472990 | 17,902,114.97 | - | 13,397,981.70 |
| Cash Funds: | | | | |
| Mellon Universal Liquidity Funds – Liquidity Plus USD | IE0032713202 | 7,976,486.10 | 9,692,228.28 | 8,033,128.47 |
| BNP Paribas InstiCash Fund – EUR | LU0094219127 | 134,838,611.71 | - | 115,448,441.38 |
| TOTAL | | 588,716,610.24 | | 518,398,036.30 |

Unit Price per Fund

New investments and redemptions may take place between the funds twice per month and the unit price for each fund fluctuates continuously. Income is therefore not reported by fund in absolute terms. The appropriate performance measure per fund is the unit price. The unit prices for each of the funds at year-end and the resulting annualized income per unit were as follows:

| | ISIN | 2020 | 2019 | Annualized Income per Unit |
|---|--------------|----------|----------|----------------------------|
| Equity Funds: | | | | |
| Mellon Global Equity Portfolio EUR C | IE00B82M6789 | 1.4886 | 1.3841 | 0.1045 |
| Mellon Global Equity Portfolio USD C | IE00B7X4LZ98 | 1.6249 | 1.3821 | 0.2428 |
| Vanguard Global Stock Index Fund EUR | IE00B03HD191 | 30.0772 | 28.3069 | 1.7703 |
| Vanguard Global Stock Index Fund USD | IE00B03HD209 | 36.9723 | 31.9224 | 5.0499 |
| Bond Funds: | | | | |
| Mellon Global Bond Portfolio EUR C | IE0003932385 | 2.0384 | 2.0189 | 0.0195 |
| Mellon Global Bond Portfolio USD C | IE0003932492 | 2.7872 | 2.5251 | 0.2621 |
| Mellon Euroland Bond Portfolio EUR C | IE0032722484 | 1.2599 | 1.1964 | 0.0635 |
| Vanguard Global Bond Index Fund USD | IE00B18GCB14 | 169.6067 | 159.8083 | 9.7984 |
| Vanguard Euro Government Bond Index Fund EUR | IE0007472990 | 248.6867 | 237.6223 | 11.0644 |
| Cash Funds: | | | | |
| Mellon Universal Liquidity Funds – Liquidity Plus USD | IE0032713202 | 1.2646 | 1.258343 | 0.0063 |
| BNP Paribas InstiCash Fund – EUR | LU0094219127 | 138.0671 | 138.7155 | (0.6484) |

NOTE 5: RECEIVABLES

Accounts Receivables in EUR

| | 2020 | | | 2019 | | |
|--------------------------------------|---------------|-------------------|-------------------|------------------|-------------------|-------------------|
| | Investments | Benefits | Total | Investments | Benefits | Total |
| Contributions from NATO bodies | 366.70 | - | 366.70 | - | - | - |
| Reimbursement of Tax Adjustment Paid | - | 128,261.47 | 128,261.47 | - | 101,149.16 | 101,149.16 |
| Insurer | - | 103,572.17 | 103,572.17 | 26,106.09 | 7,452.50 | 33,558.59 |
| Beneficiaries | - | 6,494.60 | 6,494.60 | - | - | - |
| Others | - | - | - | - | - | - |
| Total | 366.70 | 238,328.24 | 238,694.94 | 26,106.09 | 108,601.66 | 134,707.75 |

Contributions for further investment are paid on a monthly basis by NATO bodies to the DCPS account. The process normally results in no such contributions receivable, or of limited amount, at year-end. Some transactions may still be pending regularization.

Tax adjustment payments are made to beneficiaries from the DCPS Benefits (Retirement, Invalidation and Survivor) accounts as an advance to be settled by the NATO Coordinated Pension Scheme budget which handles all tax adjustment operations NATO-wide and calls the related contributions by the nations concerned (i.e. in which the beneficiaries paid their income taxes). This resulted in amounts receivable from the NATO Coordinated Pension Scheme.

Amounts receivable from the insurer and the pension provider relate to individual cases to be settled.

Amounts receivable from beneficiaries relate to overpayment of specific allowances attached to their monthly benefits.

NOTE 6: PAYABLES AND OTHER PAYABLES

Payables in EUR

| | 2020 | | | 2019 | | |
|--------------------------|-------------------|-------------------|---------------------|-------------------|-------------------|---------------------|
| | Investments | Benefits | Total | Investments | Benefits | Total |
| NATO International Staff | 5,030.85 | 550,000.00 | 555,030.85 | 40,459.96 | 500,000.00 | 540,459.96 |
| Departing Staff | - | - | - | 38,320.72 | - | 38,320.72 |
| Insurer | - | 6,496.53 | 6,496.53 | - | 7,004.90 | 7,004.90 |
| Other 3rd parties | 555,732.44 | 2,421.97 | 558,154.41 | 684,861.45 | 1,148.86 | 686,010.31 |
| Total | 560,763.29 | 558,918.50 | 1,119,681.79 | 763,642.13 | 508,153.76 | 1,271,795.89 |

Payables to NATO International Staff (IS) correspond to cash advances made by IS to allow for the timely payment of pension and invalidity benefits and tax adjustments and to the USD account.

Payables to Departing Staff are transactions pending final payment.

In cases where Allianz have made overpayments to beneficiaries, these need to be reimbursed to the insurer. These cases are included under the item Insurer payable.

Payables to the 3rd parties correspond mainly to the payments to former DCPS affiliates for the compensatory payment received from Allianz. In 2020 the distribution of the Allianz compensatory payment to NATO staff who were members of the DCPS during the period 2012-2015 is still ongoing. As per 31 December, the not yet distributed amount was EUR 554,864.59. This amount corresponds to the dues towards non active DCPS members whereby the NATO Pensions Unit has to reach out to each individual to obtain correct data in order to proceed with the payment. The latter has proven to be a cumbersome and lengthy process.

Others payables comprise the outstanding Allianz compensatory payment liability and some minor miscellaneous payables related with returned payments (that need to be re-paid) and banking accruals (interest/fees).

Other Payables in EUR

| | 2020 | | | 2019 | | |
|-------------------|-------------|----------|--------|-------------|-----------|-----------|
| | Investments | Benefits | Total | Investments | Benefits | Total |
| Other 3rd parties | - | 456.35 | 456.35 | - | 10,101.16 | 10,101.16 |
| Total | - | 456.35 | 456.35 | - | 10,101.16 | 10,101.16 |

NOTE 7: SURPLUS INVESTMENT/DESINVESTMENT

Until 1 July 2017, in cases of death in service, the insurance company providing the survivor's annuity had a claim on the proceeds of the redemption of the affected member's holdings in an amount equal to the lesser of the member's holdings on 31 October of the previous year or the insurer's previously established cost of that annuity. Until that date no shortfalls have occurred and the accumulated excess, amounting to EUR 80,016.59, has been kept on a suspense account.

NOTE 8: CURRENT YEAR SURPLUS FINANCIAL RESULTS

The DCPS current year deficit results from the offset between the cumulated realized interest earned on the custodial bank account, bank charges, from miscellaneous profit and loss on exchange rates and corrective investments effected by the third party administrator at year-end with the unrealized profit/loss recognized at 31 December 2020, as part of the mandatory foreign currency assets/liabilities revaluation.

Below we present a table with comparative figures for both realized and unrealized profit/loss:

| Amounts in EUR | 2020 | 2019 |
|--|--------------|--------------|
| Unrealized profit/loss on exchange rates | (430,500.04) | (174,206.41) |
| Realized net financial result | 152,298.80 | 173,178.24 |
| Surplus or (Deficit) | (278,201.24) | (1,028.17) |

Statement of Changes of Net Assets Available for Benefits**NOTE 9: NET UNREALIZED PROFIT OR LOSS IN MARKET VALUE INVESTMENTS**

Unrealized profit or loss in the market value of investments vary according to the volume of contributions invested, redemptions, currency fluctuations, and changes in the unit prices of the investment funds.

Due to the COVID-19 crisis the financial markets plummeted in the beginning of 2020 and only after that time started the slow recovery. This had a direct impact on the unrealized profit for 2020 which is significantly lower compared to 2019.

Below we present a table with comparative figures for the end 2019 and end 2020.

Amounts in EUR

| | 2020 | 2019 |
|---|---------------|---------------|
| Net unrealized profit in market value investments | 22,876,185.44 | 76,221,459.15 |

Table below presents the 2020 evolution for the both bond and equity funds as per period end in absolute value together with the difference compared to the previous month.

| | Bonds | | Equity | |
|---------------|--------------|-----------------------------|---------------|---------------------------|
| | Value | Difference w/Previous Month | Value | Difference Previous Month |
| Dec-19 | 403.17100 | (2.64) | 63.43440 | 1.76 |
| Jan-20 | 412.02530 | 8.85 | 63.03970 | (0.39) |
| Feb-20 | 415.08040 | 3.06 | 57.93040 | (5.11) |
| Mar-20 | 405.64800 | (9.43) | 50.36650 | (7.56) |
| Apr-20 | 409.67870 | 4.03 | 55.90830 | 5.54 |
| May-20 | 410.97600 | 1.30 | 58.11040 | 2.20 |
| Jun-20 | 414.39540 | 3.42 | 59.46210 | 1.35 |
| Jul-20 | 419.08680 | 4.69 | 60.76580 | 1.30 |
| Aug-20 | 415.73080 | (3.36) | 64.49310 | 3.73 |
| Sep-20 | 419.95880 | 4.23 | 62.79240 | (1.70) |
| Oct-20 | 422.19600 | 2.24 | 61.08500 | (1.71) |
| Nov-20 | 423.64110 | 1.45 | 68.04210 | 6.96 |
| Dec-20 | 424.37890 | 0.74 | 70.16300 | 2.12 |

NOTE 10: CONTRIBUTIONS

A minimum of 8% is deducted from staff emoluments monthly and transferred to DCPS together with the NATO employers' contributions of 12% of emoluments. Staff may make additional voluntary contributions up to 5%, therefore bringing to 13% the maximum contribution that a staff member can pay into its DCPS account (8% mandatory + 5% voluntary).

There is also an employer contribution to the DCPS, paid by the insurance company, for the cases of invalidity benefits.

The normal trend is that both contributions increase every year due to the combined effect of increased membership and annual salary adjustments.

NOTE 11: INWARD TRANSFERS OF PENSION RIGHTS

The NATO Civilian Personnel Regulations (Annex VI, Article 6) provide that staff may, under certain circumstances, arrange for payment to the Organization of any amounts corresponding to the retirement pension rights accrued under the pension scheme to which the staff member was previously affiliated in so far as that scheme allows such a transfer. These payments are called inward transfers.

NOTE 12: TRANSFERS FROM INSURER AND ANNUITY PROVIDER

Transfers are received from the insurer in relation to amounts due to staff entitled to invalidity survivors' benefits (spouses and dependent children of serving staff who are DCPS members who die in service).

NOTE 13: ACCOUNTS CLOSED (STAFF) AND OUTWARD TRANSFERS OF THE PENSION RIGHTS

These correspond to accounts of former staff members leaving DCPS that are closed and the proceeds paid in whole or in part either to the former staff member.

Outward transfers are also allowed, in which cases the proceeds of ex-DCPS member's closed account are paid to the eligible pension scheme (CPR Annex VI, Article 11).

NOTE 14: TRANSFERS TO INSURER OR ANNUITY PROVIDER

These correspond to staff holdings transferred to the pension provider in order to purchase the annuity for members who leave the DCPS and take a DCPS retirement pension.

When these transactions occur, they are duly disclosed in the Statement of Changes in Net Assets Available for Benefits.

NOTE 15: PENSION, INVALIDITY, SURVIVOR AND DEPENDANT BENEFITS

Benefits are paid for retirement, survivor and invalidity pensions. They are paid at the end of each month. The following table gives the number of beneficiaries per category of benefits.

| As per end | Retirement | Survivor | Invalidity | Total |
|------------|------------|----------|------------|-------|
| 2013 | 4 | 3 | 3 | 10 |
| 2014 | 8 | 4 | 6 | 18 |
| 2015 | 8 | 5 | 7 | 20 |
| 2016 | 9 | 12 | 9 | 30 |
| 2017 | 10 | 12 | 10 | 32 |
| 2018 | 10 | 12 | 12 | 34 |
| 2019 | 12 | 11 | 11 | 34 |
| 2020 | 12 | 20 | 20 | 52 |

In case of invalidity, for eligible staff, an employer contribution is made to the DCPS holdings of the individual concerned.

NOTE 16: PENSION TAX ADJUSTMENT

More information on this item is provided under Note 1 (Pension Tax Adjustment).

NOTE 17: MISCELLANEOUS RECEIPTS AND EXPENSES

Miscellaneous receipts and payments correspond essentially to regularizations. For 2020, the costs resulting from payments to former DCPS affiliates during 2012-2015 in relation to DCPS group insurance compensatory payment was also booked under these items.

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 DCPS.

Adjustments related to income tax may be due to certain annuity recipients. The amounts are yet to be determined but the total of possible obligations relating to this item is not expected to be material.

NOTE 19: CONTINGENT ASSETS

None to report.

NOTE 20: RELATED PARTY TRANSACTIONS

Members of the DCPS Management Board receive no additional remuneration or benefits in return for their participation. The Chairperson of the DCPS Management Board is the Assistant Secretary General for Executive Management. The NATO International Staff (IS) Financial Controller is a member of the DCPS Management Board.

NATO International Staff, in particular Executive Management and the Office of Financial Control, are responsible for the day-to-day management of the DCPS. No management fees corresponding to the related costs are charged to the DCPS. In the global framework of the Administrative Support process, the NATO bodies are charged by the IS on a pro rata basis for these costs, including the fees paid to the Third Party Administrator. The related income reduces the contributions due from Nations to fund the NATO Civil Budget.

Since DCPS does not have its own cash holdings to pay the benefits, advances are made by NATO IS, to allow the timely payment of annuities for Pensioners, Invalids and Survivors.

The table below provides an overview of the extant Cash advances at year-end, for the last 3 years.

| End of Year | Cash Advance in EUR |
|-------------|---------------------|
| 2018 | 320,000.00 |
| 2019 | 500,000.00 |
| 2020 | 550,000.00 |

Conversely, tax adjustment payments are made to beneficiaries from the DCPS Retirement and Invalidation accounts as an advance to be settled by the Defined Benefit Pension Scheme budget, which handles all tax adjustment operations NATO-wide. This resulted in amounts receivable from the latter.

As provided for by the CPRs (Annex VI, articles 13 and 14), survivors' benefits for the surviving spouses and dependent children of serving staff who die in service and invalidity benefits to serving staff are funded (partially for survivor benefits, totally for invalidity benefits) through the payment of insurance premiums which are paid directly by the NATO bodies to the insurance company and are not accounted for in the present financial statements. The table below provides comparative data on the insurance premiums paid for Death and Invalidation, over last two years:

| Death and Invalidation Premiums in EUR | | |
|--|--------------|--------------|
| | 2020 | 2019 |
| Death | 4,227,589.99 | 3,758,148.31 |
| Invalidity | 4,654,745.96 | 4,234,655.62 |

NOTE 21: KEY MANAGEMENT PERSONNEL

For the purposes of these financial statements, Key Management Personnel are considered to be the NATO International Staff (IS) Assistant Secretary General for Executive Management and the Financial Controller. Their remuneration is totally covered by the NATO International Staff.

Members of the DCPS Management Board do not receive any additional remuneration or benefits in return for their responsibilities. The DCPS Management Board is chaired by the Assistant Secretary General for Executive Management. The IS Financial Controller is a member of the Board.

NOTE 22: STATISTICAL INFORMATION

| Evolution of DCPS memberships (number of affiliates) | | | | |
|---|-----------------------|-------------------------|--------------------------|--------------|
| Calendar Year | Members Joined | Members Departed | Members Cancelled | Total |
| 2005 | 274 | 0 | 0 | 274 |
| 2006 | 527 | 6 | 0 | 795 |
| 2007 | 501 | 23 | 0 | 1,273 |
| 2008 | 511 | 43 | 0 | 1,741 |
| 2009 | 443 | 71 | 0 | 2,113 |
| 2010 | 477 | 208 | 0 | 2,382 |
| 2011 | 454 | 260 | 0 | 2,576 |
| 2012 | 274 | 188 | 0 | 2,662 |
| 2013 | 310 | 190 | 0 | 2,782 |
| 2014 | 433 | 214 | 0 | 3,001 |
| 2015 | 345 | 174 | 0 | 3,172 |
| 2016 | 454 | 207 | 0 | 3,419 |
| 2017 | 469 | 220 | 0 | 3,668 |
| 2018 | 547 | 241 | 0 | 3,974 |
| 2019 | 618 | 240 | 0 | 4,352 |
| 2020 | 644 | 200 | 1 | 4,795 |



NORTH ATLANTIC TREATY ORGANIZATION
ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD
INTERNATIONAL BOARD OF AUDITORS
COLLÈGE INTERNATIONAL DES AUDITEURS EXTERNES DE L'OTAN

NATO UNCLASSIFIED

IBA-A(2021)0111
25 August 2021

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

Cc: NATO Permanent Representatives
Chairman, MSIAC Steering Committee
Project Manager, MSIAC
Financial Controller, International Staff
Chairman, Resource Policy & Planning Board
Branch Head, Secretariat and Finance Branch, NATO Office of Resources
Private Office Registry

Subject: ***International Board of Auditors for NATO (IBAN) Audit Report on the audit of the Munitions Safety Information Analysis Center (MSIAC) Financial Statements for the year ended 31 December 2020 – IBA-AR(2021)0025***

IBAN submits herewith its approved Audit Report with a Summary Note for distribution to the Council.

IBAN's report sets out an unqualified opinion on the Financial Statements of the Munitions Safety Information Analysis Center and on compliance for financial year 2020.

Yours sincerely,

Daniela Morgante
Chair

Attachments: As stated above.

NATO UNCLASSIFIED

-1-

**Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Financial Statements of the
Munitions Safety Information Analysis Center (MSIAC)
for the year ended 31 December 2020**

The Munitions Safety Information Analysis Center (MSIAC) provides a focal point within NATO to assist national and NATO munitions development programmes. The MSIAC project is directed and administered by a Steering Committee and a Project Manager. The final budget for the year 2020 amounted to EUR 1.74 million, while budget expenditure amounted to EUR 1.66 million.

IBAN issued an unqualified opinion on the financial statements and on compliance for the year ended 31 December 2020.

IBAN made one observation and recommendation. This finding does not impact the audit opinion on the financial statements and on compliance.

1. Improvement needed in the internal control process for the preparation of financial statements and the statement of budget execution.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that one remains in progress.

The Audit Report was issued to MSIAC whose comments have been included, with the IBAN's position on those comments where necessary.

The observations and recommendations and the follow-up of the previous years' observations and recommendations that are not in the Audit Report are included in a Management Letter addressed to MSIAC management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under MSIAC's management responsibility.

NATO UNCLASSIFIED

IBA-AR(2021)0025

25 August 2021

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE

MUNITIONS SAFETY INFORMATION ANALYSIS CENTER

(MSIAC)

FOR THE YEAR ENDED 31 DECEMBER 2020

PUBLICLY DISCLOSED - PDN(2022)0014 - MIS EN LECTURE PUBLIQUE

NATO UNCLASSIFIED

INDEPENDENT EXTERNAL AUDITOR'S REPORT TO THE NORTH ATLANTIC COUNCIL***Financial Statements*****Opinion on the Financial Statements**

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of Munitions Safety Information Analysis Center (MSIAC), for the 12 month period ended 31 December 2020], issued under document reference FC(2021)0018, and submitted to IBAN on 31 March 2021. These Financial Statements comprise the Statement of Financial Position as at 31 December 2020, the Statement of Financial Performance, the Statement of Changes in Net Assets/Equity and the Statement of Cash Flow, for the 12 month period ended 31 December 2020, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a Budget Execution Statement for the 12 month period ended 31 December 2020.

In our opinion, the Financial Statements give a true and fair view of the financial position of MSIAC as at 31 December 2020, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2020, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF).

Basis for Opinion on the Financial Statements

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies and reporting entities pursuant to the North Atlantic Treaty shall be performed by IBAN.

We have conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 2200-2899) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

We are independent in accordance with the INTOSAI Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter.

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

Emphasis of Matter on the Financial Statements

We draw attention to errors in the Table in Note 4 “Accounts Receivable” to the 2020 Financial Statements, which presents detailed information on the amounts billed during 2020 to both Member and Partner Nations. For 2020, the amounts billed to Germany is EUR 176,000 and not EUR 88,000, and the amounts billed to Italy is EUR 88,000 and not EUR 176,000. These errors do not affect the total amount billed disclosed in Note 4. This is a presentational issue in the Financial Statements and the underlying balances were correctly accounted for. Our opinion is not modified in this respect.

Management’s Responsibility for the Financial Statements

Management’s responsibility for the financial statements is laid down in the NFRs. The Financial Statements of MSIAC are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council. The Financial Controller is responsible for submitting the Financial Statements for audit to IBAN not later than 31st March following the end of the financial year.

The Financial Statements are signed by the Head of the NATO reporting entity and the Financial Controller. In signing the Financial Statements, the Head of the NATO reporting entity and the Financial Controller confirm 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.

This confirmation covers the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are auditable and free from material misstatement, whether due to fraud or error. This also covers reporting on the entity’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there are plans to liquidate the entity or to cease its operations, or there is no realistic alternative but to do so.

Auditor’s Responsibilities for the Audit of the Financial Statements

The objectives of the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgement and maintain professional scepticism throughout the planning and performance of the audit. This involves taking into account Considerations Specific to Public Sector

Entities. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to communicate with the bodies charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. Our Independent External Auditor's Report is prepared to assist North Atlantic Council in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

Compliance

Opinion on Compliance

Based on the procedures we performed, nothing has come to our attention, as part of our audit of the Financial Statements that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

Basis for Opinion on Compliance

We have conducted our compliance audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 4000-4899) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

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

Management's Responsibility for Compliance

All NATO staff, military and civilian, are obligated to comply with the NATO Financial Regulations, associated Financial Rules and Procedures and internal implementing directives. These include the NATO Civilian Personnel Regulations.

The Project Manager is responsible and accountable for sound financial management. The financial administration of NATO bodies and reporting entities must incorporate the principles of propriety, sound governance, accountability, transparency, risk management and internal control, internal audit, external audit, and fraud prevention and detection.

Auditor's Responsibilities for Compliance

In addition to the responsibility to provide reasonable assurance about whether the financial statements as a whole are free from material misstatement, the IBAN Charter requires IBAN to provide independent assurance and report annually to the North Atlantic Council about whether funds have been properly used for the settlement of authorised expenditure (propriety) and are in compliance with the regulations in force (regularity). Propriety relates to the observance of the general principles governing sound financial management and the conduct of public officials. Regularity concerns the adherence to formal criteria such as relevant regulations, rules and procedures.

NATO UNCLASSIFIED

IBA-AR(2021)0025

This responsibility includes performing procedures to obtain independent assurance about whether funds have been properly used for the settlement of authorized expenditure and whether they have been used in compliance with the regulations in force. Such procedures include consideration of the risks of material non-compliance.

Brussels, 25 August 2021



Daniela Morgante
Chair

OBSERVATIONS AND RECOMMENDATIONS

IBAN made one observation and recommendation. This observation does not impact the audit opinion on the financial statements and on compliance.

1. Improvement needed in the internal control process for the preparation of financial statements and the statement of budget execution.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that one remains in progress.

The Audit Report was issued to MSIAC whose comments have been included, with the IBAN's position on those comments where necessary.

The follow-up of the previous years' observations and recommendations that are not in the Audit Report are included in a Management Letter addressed to MSIAC's management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under MSIAC's executive responsibility.

1. IMPROVEMENT NEEDED IN THE INTERNAL CONTROL PROCESS FOR THE PREPARATION OF FINANCIAL STATEMENTS AND THE STATEMENT OF BUDGET EXECUTION**Reasoning**

1.1 According to IPSAS 1, the Financial Statements shall present fairly the Financial Position, Financial Performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSAS.

1.2 Article 6 of the NATO Financial Regulations (NFRs) requires the Financial Controller to exercise the responsibility of budgeting, accounting and reporting activities of the NATO entity. This includes being responsible for the Financial internal control system established, and for the preparation of the Financial Statements in accordance with the NATO Accounting Framework.

Observations

1.3 We found the following errors in the MSIAC 2020 Financial Statements and related notes:

- a) In the MSIAC Statement of Budget Execution, the total of column "Transfers" should be zero and not equal to EUR 159,000 as disclosed in the Financial Statements. The error is due to the omission of the negative sign for transfers

related to Chapter 2 that should be “EUR -79,500” instead of the positive amount of “EUR 79,500”. The final budget is however disclosed correctly.

- b) The Table in Note 4 “Accounts Receivable” to the 2020 Financial Statements presents detailed information on the amounts billed during 2020 to both Member and Partner Nations. For 2020, the amounts billed to Germany is EUR 176,000 and not EUR 88,000, and the amounts billed to Italy is EUR 88,000 and not EUR 176,000. These errors do not affect the total amount billed disclosed in Note 4. This is a presentational issue in the Financial Statements and the underlying balances were correctly accounted for.

Recommendations

1.4 IBAN recommends that MSIAC improves internal controls and develops cross review procedures of its final Financial Statements before their issuance, to be able to correct potential errors and ensure accuracy of information disclosed in MSIAC Financial Statements.

FOLLOW-UP OF PREVIOUS YEARS’ OBSERVATIONS

IBAN followed up on the status of observations from the previous years’ audit. The observations and recommendations, the actions taken by the auditee as reviewed by IBAN, and their status are summarised in the table below.

The Open status is used for recommendations that are open and for which no notable progress has been achieved to date. The In-progress status is used for open recommendations when the NATO Reporting Entity has started to implement the recommendation or when some (but not all) sub-recommendations are closed. The Closed status is used for recommendations that are closed because they have been implemented, are superseded, or have lapsed. In the case where there are sub-recommendations, the status related to each sub-recommendation is indicated in the Action Taken column.

| OBSERVATION / RECOMMENDATION | ACTION TAKEN BY AUDITEE | STATUS |
|---|---|--|
| <p>(1) MSIAC FY 2015 IBA-AR(2018)0001, paragraph 6</p> <p>EFFORTS TO ACHIEVE COMPLIANCE WITH THE REVISED NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT</p> <p>IBAN’s recommendations The Board recommends that MSIAC:</p> | <p>IBAN acknowledges that progress was made since previous years.</p> | <p>Observation In-Progress.</p> |

| OBSERVATION / RECOMMENDATION | ACTION TAKEN BY AUDITEE | STATUS |
|---|---|--------|
| <p>a) Issues a risk management policy and that risk registers are developed and employed.</p> <p>b) As required by FRP XII 3) (e), chooses a specific internal control framework that it will use to assess its system of internal control. The assessment is required by Article 12 of the NFRs. Since other NATO entities, including ACT and NAPMA, have already adopted COSO as their internal control framework, and it is a framework that can be used by entities of all sizes, MSIAC should consider adopting COSO as their internal control framework.</p> <p>c) In coordination with the International Staff where applicable, begins the work of assessing and documenting the system of internal control and risk management procedures to support compliance with NFR Articles 11 and 12, FRPs XI and XII, and the internal control framework that it chooses.</p> <p>d) Through outsourcing if considered to be more cost effective, ensure internal audit activities are evaluating MSIAC risk management and internal control.</p> | <p>a) A draft risk management policy was prepared but still needs to be finalised. The risk register is prepared by the MSIAC Strategic Planning Group (MSPG) and approved by the MSIAC Steering Committee. In-progress.</p> <p>b) In January 2020 MSIAC adopted the Committee of Sponsoring Organisations of the Treadway Commission (COSO) Integrated Framework (2013). Closed.</p> <p>c) In January 2020, MSIAC adopted the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Framework, which includes elements of risk management in its 17 principles. MSIAC made an assessment of how it was meeting the requirements of the COSO Principles. In-progress.</p> <p>d) The NATO's Office of Internal Audit and Risk Management (OIARM) is able to perform an independent assessment of the COSO Internal Control framework adopted by MSIAC. As the OIARM's Audit Plan is determined on a risk-based methodology, MSIAC may be included at an appropriate time. IBAN will reassess the progress done by MSIAC as part of the audit of the 2021 Financial Statements. In-progress.</p> | |

**MUNITIONS SAFETY INFORMATION ANALYSIS CENTER (MSIAC) FORMAL
COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL BOARD OF
AUDITORS (IBAN) POSITIONS**

MSIAC made no formal comments on the report and previous year observations.

GLOSSARY OF TERMS

In accordance with International Standards of Supreme Audit Institutions (ISSAI 2705), audit opinions on financial statements and on compliance can be unqualified, qualified, a disclaimer, or adverse:

- An unqualified opinion is when IBAN issues an opinion that the financial statements and budget execution report are stated fairly and that nothing has come to our attention that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the rules and regulations.
- A qualified opinion means that IBAN was generally satisfied with the presentation of the financial statements, but that some key elements of the statements were not fairly stated or affected by a scope limitation, or specific issues have come to our attention that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the rules and regulations.
- A disclaimer is issued when the audit scope is severely limited and IBAN cannot express an opinion, or when there are material uncertainties affecting the financial statements or the use of funds.
- An adverse opinion is issued when the effect of an error or disagreement is so pervasive and material to the financial statements that IBAN concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

In accordance with auditing standards, three types of paragraphs may also be communicated in the auditor's report:

- Key Audit Matters (ISSAI 2701): Those matters that, in IBAN's professional judgement, were of most significance in the audit of the financial statements of the current period. Key Audit Matters are addressed to Council.
- Emphasis of Matter (ISSAI 2706): If IBAN considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.
- Other Matter (ISSAI 2706): If IBAN considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in our judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

NATO UNCLASSIFIED

FC(2021)0018

NATO MSIAC
FINANCIAL STATEMENTS
Financial Year 2020

Annexes:

- 1 Statement of Financial Position
- 2 Statement of Financial Performance
- 3 Cash Flow Statement
- 4 Statement of Changes in Net Assets
- 5 Statement of Budget Execution
- 6 Explanatory notes to the Financial Statements



Charles DENHAM
Project Manager MSIAC



Mirosława BORYCZKA
Financial Controller NATO-IS

NATO UNCLASSIFIED

NATO UNCLASSIFIED

ANNEX 1 to
FC(2021)0018

NATO MSIAC
Statement of Financial Position

As at 31 December 2020

(in EUR)

| | Notes | Current Year 2020 | Prior Year 2019 |
|----------------------------------|-------|----------------------|---------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 3 | 986,141.68 | 1,395,389.05 |
| Short term investments | 3 | 0.00 | 0.00 |
| Receivables | 4 | 83,097.75 | 5,000.00 |
| Prepayments | 5 | 0.00 | 918.16 |
| Other current assets | 5 | 90,818.68 | 64,151.21 |
| Inventories | 6 | | |
| | | 1,160,058.11 | 1,465,458.42 |
| Non-current assets | | | |
| Receivables | 8 | 0.00 | 0.00 |
| Property, plant & equipment | 7 | 0.00 | 0.00 |
| Intangible assets | 7 | 0.00 | 0.00 |
| Other non-current assets | 8 | 0.00 | 0.00 |
| | | 0.00 | 0.00 |
| Total assets | | 1,160,058.11 | 1,465,458.42 |
| Liabilities | | | |
| Current liabilities | | | |
| Payables | 9 | 323,451.65 | 590,033.06 |
| Deferred revenue | 10 | 35,000.57 | 0.01 |
| Advances | 11 | 0.00 | 176,000.00 |
| Provisions | 12 | 58,963.38 | 33,212.41 |
| Other current liabilities | 13 | 145,073.57 | 46,501.47 |
| | | 562,489.17 | 845,746.95 |
| Non-current liabilities | | | |
| Payables | 14 | 0.00 | 0.00 |
| Long term provisions | 14 | 0.00 | 0.00 |
| Non Current Deferred revenue | 14 | 0.00 | 0.00 |
| Other non-current liabilities | 14 | 0.00 | 0.00 |
| | | 0.00 | 0.00 |
| Total liabilities | | 562,489.17 | 845,746.95 |
| Net assets | | | |
| Capital assets | | | |
| Reserves | | | |
| Accumulated surplus / (deficit) | | 596,768.94 | 591,711.47 |
| Current year surplus / (deficit) | | 800.00 | 28,000.00 |
| Total net assets/ equity | 15 | 597,568.94 | 619,711.47 |

NATO UNCLASSIFIED

NATO MSIAC
Statement of Financial Performance

As at 31 December 2020

| | | (in EUR) | |
|---|-------|---------------------|---------------------|
| | Notes | Current Year | Prior Year |
| | | 2020 | 2019 |
| Revenue | 16 | | |
| Non exchange revenue | | 1,676,786.19 | 1,723,542.21 |
| Services, Joining Fees and Early Access | | | |
| Contributions | | 800.00 | 28,000.00 |
| Exchange revenue | | 0.00 | 0.00 |
| Other revenue | | 7,849.27 | 10,898.78 |
| Financial revenue | | 1,300.60 | 0.00 |
| Total revenue | | 1,686,736.06 | 1,762,440.99 |
| Expenses | 17 | | |
| Personnel | | 1,346,759.14 | 1,308,315.21 |
| Contractual supplies and services | | 311,917.36 | 413,299.49 |
| Depreciation and amortization | | 0.00 | 0.00 |
| Impairment | | 0.00 | 0.00 |
| Provisions | | 25,750.97 | 12,215.70 |
| Other expenses | | 0.00 | 0.00 |
| Finance costs | | 1,508.59 | 610.59 |
| Total expenses | | 1,685,936.06 | 1,734,440.99 |
| Surplus/(Deficit) for the period | | 800.00 | 28,000.00 |

NATO MSIAC Statement of Cash Flow

As at 31 December 2020

(in EUR)

| | 2020 | Restated 2019 |
|--|---------------------|---------------------|
| Cash flow from operating activities | | |
| Surplus/(Deficit) | 800.00 | 28,000.00 |
| Non-cash movements | | |
| Depreciation/ Amortisation | | |
| Impairment | | |
| Use of Cash Reserves | -22,942.53 | -47,801.21 |
| Increase /(decrease) in payables | -266,581.41 | -117,092.90 |
| Increase/ (decrease) in other current liabilities | -42,427.34 | 185,402.69 |
| Increase/ (decrease) in provisions | 25,750.97 | 12,215.70 |
| (Gains)/losses on sale of property, plant and equipment | | |
| Decrease/ (Increase) in other current assets | -25,749.31 | -42,410.44 |
| Decrease/ (Increase) in receivables | -78,097.75 | -5,000.00 |
| Decrease/ (Increase) in other non-current assets | | |
| Net cash flow from operating activities | -409,247.37 | 13,313.84 |
| Cash flow from investing activities | | |
| Purchase of property plant and equipment / Intangible assets | | |
| Proceeds from sale of property plant and equipment | | |
| Net cash flow from investing activities | 0.00 | 0.00 |
| Cash flow from financing activities | | |
| Net cash flow from financing activities | 0.00 | 0.00 |
| Net increase/(decrease) in cash and cash equivalents | -409,247.37 | 13,313.84 |
| Cash and cash equivalent at the beginning of the period | 1,395,389.05 | 1,382,075.21 |
| Cash and cash equivalent at the end of the period | 986,141.68 | 1,395,389.05 |

NATO MSIAC
Statement of Change in Net Assets/Equity

As at 31 December 2020

(in EUR)

| | |
|---|--------------------------|
| Balance at the beginning of the period 2019 | <u>639,512.68</u> |
| Changes in accounting policy | |
| Restated balance | |
| Net gains/(losses) recognised directly in net assets/equity | |
| Exchange difference on translating foreign operations | |
| Gain on property revaluation | |
| Use of Cash Reserves | -47,801.21 |
| Surplus/(deficit) for the period | <u>28,000.00</u> |
| Change in net assets/equity for the year ended 2019 | <u>619,711.47</u> |
| | |
| Balance at the beginning of the period 2020 | <u>619,711.47</u> |
| Changes in accounting policy | |
| Restated balance | |
| Exchange difference on translating foreign operations | |
| Gain on property revaluation | |
| Use of Cash Reserves | -22,942.53 |
| Surplus/(deficit) for the period | <u>800.00</u> |
| Change in net assets/equity for the year ended 2020 | <u>597,568.94</u> |
| | |
| Balance at the end of the period 2020 | <u>597,568.94</u> |

NATO MSIAC
Statement of Budget Execution
as at 31 December 2020

(Amounts in euro)

| | Initial budget | Transfers | BA2 | Transfers | BA3 | Increase / Decrease | Final budget | Actuals | Carry forward | Lapsed |
|--------------------------|------------------|----------------|------------------|-----------|------------------|------------------------|------------------|------------------|---------------|---------------|
| Budget 2020 | | | | | | | | | | |
| Chapter 1 | 1,280,294 | 79,500 | 1,359,794 | 0 | 1,359,794 | 0 | 1,359,794 | 1,346,759 | 0 | 13,035 |
| Chapter 2 | 460,350 | 79,500 | 380,850 | 0 | 380,850 | 0 | 380,850 | 312,215 | 35,001 | 33,634 |
| Chapter 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Chapter 4 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total FY 2020 | 1,740,644 | 159,000 | 1,740,644 | 0 | 1,740,644 | 0 | 1,740,644 | 1,658,975 | 35,001 | 46,669 |
| Budget 2019 | | | | | | | | | | |
| Chapter 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Chapter 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Chapter 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Chapter 4 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total FY 2019 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Budget 2018 | | | | | | | | | | |
| Chapter 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Chapter 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Chapter 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total FY 2018 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total all budgets | 1,740,644 | 159,000 | 1,740,644 | 0 | 1,740,644 | 0 | 1,740,644 | 1,658,975 | 35,001 | 46,669 |

NATO MSIAC
Statement of Budget Execution
as at 31 December 2019

(Amounts in euro)

| | Initial budget | Transfers | BA2 | Transfers | BA3 | Increase / Decrease | Final budget | Actuals | Carry forward | Lapsed |
|--------------------------|------------------|-----------|------------------|-----------|------------------|------------------------|------------------|------------------|---------------|---------------|
| Budget 2019 | | | | | | | | | | |
| Chapter 1 | 1,280,700 | 0 | 1,280,700 | 0 | 1,280,700 | 30,000 | 1,310,700 | 1,308,315 | 0 | 2,385 |
| Chapter 2 | 434,350 | 0 | 434,350 | 0 | 434,350 | 0 | 434,350 | 413,910 | 0 | 20,440 |
| Chapter 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Chapter 4 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total FY 2019 | 1,715,050 | 0 | 1,715,050 | 0 | 1,715,050 | 30,000 | 1,745,050 | 1,722,225 | 0 | 22,825 |
| Budget 2018 | | | | | | | | | | |
| Chapter 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Chapter 2 | 11,850 | 0 | 11,850 | 0 | 11,850 | 0 | 11,850 | 0 | 0 | 11,850 |
| Chapter 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Chapter 4 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total FY 2018 | 11,850 | 0 | 11,850 | 0 | 11,850 | 0 | 11,850 | 0 | 0 | 11,850 |
| Budget 2017 | | | | | | | | | | |
| Chapter 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Chapter 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Chapter 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total FY 2017 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total all budgets | 1,726,900 | 0 | 1,726,900 | 0 | 1,726,900 | 30,000 | 1,756,900 | 1,722,225 | 0 | 34,675 |

**EXPLANATORY NOTES TO MSIAC
2020 FINANCIAL STATEMENTS****NOTE 1: GENERAL INFORMATION**

At the October 1990 Conference of National Armaments Directors (CNAD) meeting, the MOU establishing NATO Insensitive Munitions Information Centre (NIMIC) as a Project Office under CNAD was signed. The project transitioned to cover the wider aspects of Munition Safety in 2004 becoming the Munitions Safety Information Analysis Centre (MSIAC)

MSIAC is a member nations' funded and directed NATO Project office. Its goal is to help nations reduce and eliminate the risk to personnel and materiel from explosive incidents associated with own munitions. To help nations realise this goal, the project exchanges and analyses information and technology related to munition safety. MSIAC plays a central role in facilitating member nation's efforts to safely store, design, develop, procure and use safer munitions.

At the end of 2017, MSIAC had thirteen participating countries: Australia, Belgium, Canada, Finland, France, Germany, Italy, the Netherlands, Norway, Spain, Sweden, the United Kingdom and the United States. Poland joined MSIAC in 2018 bringing the membership to fourteen, followed by the Republic of Korea bringing the total to fifteen nations.

MSIAC allows other nations to participate in selected MSIAC sponsored courses or training events. These are called MSIAC Partner Nations.

The MSIAC Steering Committee (one representative per member nation) is the governing body of the MSIAC. Steering Committee members are nominated by their respective national authorities.

For administrative purposes only, MSIAC is attached to the Defence Investment Division of the IS.

The member countries pay all operational and administrative costs relating to the Project office, in accordance with an agreed cost-sharing formula which is based on a share value (EUR 84,000 for 2017 and 2018 and EUR 88,000 for 2019 and 2020).

In 2020, there were 11 nations paying 1 share and 4 nations paying 2 shares (total of 19 shares from official members).

ANNEX 6 to
FC(2021)0018

NOTE 2: ACCOUNTING POLICIES

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

Declaration of Conformity

The MSIAC financial statements have been prepared in accordance with NATO Financial Regulations (NFR), the Financial Rules and Procedures (FRP) and the NATO Accounting Framework, which is an adapted version of the International Public Sector Accounting Standards (IPSAS).

Basis of Preparation

These financial statements have been prepared on a going-concern basis. The assumption is that MSIAC is a going concern and will continue in operation and meet its objectives and obligations for the foreseeable future.

The financial year is from 1 January to 31 December.

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

MSIAC applied IPSAS 9 Revenue from exchange transactions and IPSAS 23 Revenue from non-exchange transactions.

The following IPSAS have no material effect on the 2020 MSIAC financial statements:

- IPSAS 5: Borrowing Costs
- IPSAS 6: Consolidated and Separate Financial
- IPSAS 7: Investments in Associates.
- IPSAS 8: Interests in Joint Ventures
- IPSAS 10: Financial Reporting in Hyperinflationary Economies
- IPSAS 11: Construction Contracts
- IPSAS 16: Investment Property
- IPSAS 21: Impairment of non-cash generating assets
- IPSAS 26: Impairment of Cash-Generating Assets
- IPSAS 27: Agriculture
- IPSAS 32: Service Concession Arrangements: Grantor

Changes in accounting policy

In 2020, MSIAC has aligned its accounting policy to the other entities under control of NATO IS Office of Financial Control. The provision for untaken leave is therefore reported under “Provisions” instead of “Other current liabilities” as part of the Liabilities in the Statement of Financial Position

Reclassification of Financial Statements of Previous Years

None.

Restatement of Financial Statements of Previous Years

NATO policy (both Civilian Personnel Regulations and HR directives) is that untaken leave must be paid only as a last recourse (Staff is compelled to take all their leave before retiring), for informative purposes we disclose the amount payable, if MSIAC would shut down its activities at the end of the financial year, i.e. 31 December.

MSIAC recognized, as per 31 December 2018, a provision of EUR 20,996.71 for untaken leave and a provision of EUR 33,212.41 as per 31 December 2019.

In 2019, the 2018 untaken leave provision has been reversed. However, this reversal was not reflected in the Statement of Financial Performance as at 31 December 2019.

MSIAC reported the provision for untaken leave in the Statement of Financial Position under “Other current liabilities” in 2019. In order to align the accounting policy for all entities under control of NATO IS Office of Financial Control, the provision is now reported under “Provisions”.

As a consequence, both the Statement of Financial Position and Statement of Financial Performance as per 31 December 2019 are restated as follows:

Restated Statement of Financial Position as per end December 2019:

| | Notes | Current Year | Prior Year | Prior Year |
|---------------------------|--------------|---------------------|-------------------|-------------------|
| | | 2020 | 2019 | 2019 |
| Liabilities | | | | |
| Current liabilities | | | | |
| Payables | 9 | 323,451.65 | 590,033.06 | 590,033.06 |
| Deferred revenue | 10 | 35,000.57 | 0.01 | 0.01 |
| Advances | 11 | 0.00 | 176,000.00 | 176,000.00 |
| Provisions | 12 | 25,750.97 | 33,212.41 | 0.00 |
| Other current liabilities | 13 | 179,085.98 | 46,501.47 | 79,713.88 |
| | | 563,289.17 | 845,746.95 | 845,746.95 |

NATO UNCLASSIFIED

6-4

ANNEX 6 to
FC(2021)0018

Restated Statement of Financial Performance as per end December 2019:

| | Notes | Prior Year | Prior Year |
|--|-------|---------------------|---------------------|
| | | 2019 Restated | 2019 |
| Revenue | 16 | | |
| Non exchange revenue | | 1,723,542.21 | 1,744,538.92 |
| Services, Joining Fees and Early Access Contributions | | 28,000.00 | 28,000.00 |
| Exchange revenue | | 0.00 | 0.00 |
| Other revenue | | 10,898.78 | 10,898.78 |
| Financial revenue | | 0.00 | 0.00 |
| Total revenue | | 1,762,440.99 | 1,783,437.70 |
| Expenses | 17 | | |
| Personnel | | 1,308,315.21 | 1,308,315.21 |
| Contractual supplies and services | | 413,299.49 | 413,299.49 |
| Depreciation and amortization | | 0.00 | 0.00 |
| Impairment | | 0.00 | 0.00 |
| Provisions | | 12,215.70 | 33,212.41 |
| Other expenses | | 0.00 | 0.00 |
| Finance costs | | 610.59 | 610.59 |
| Total expenses | | 1,734,440.99 | 1,755,437.70 |
| Surplus/(Deficit) for the period | | 28,000.00 | 28,000.00 |

This restatement impacts also the statement of cash flow. The 2019 figures have been updated accordingly in Annex 3.

Use of Estimates

In accordance with generally accepted accounting principles, the financial statements include amounts based on estimates and assumptions by management, according to the most reliable information available, judgement and assumptions. Estimates include accrued revenue and expenses. Actual results could differ from those estimates. Changes in estimates are reflected in the period in which they become known.

Foreign Currency Transactions

The MSIAC budget is authorized and managed in EUR so contributions called are made in EUR. Foreign currency transactions as required are accounted for at the NATO exchange rates prevailing on the date of the transactions. Monetary assets and liabilities at year-end which were denominated in foreign currencies were converted into EUR using the NATO rates of exchange applicable at year end.

NATO UNCLASSIFIED

6-4

Realised and unrealised gains and losses resulting from the settlement of such transactions and from the revaluation of monetary assets at the reporting dates, and liabilities denominated in foreign currencies are recognised in the Statement of Financial Performance.

MSIAC does not have any unrealised gains and losses resulting from the translation of statements.

MSIAC accounting is subject to FC(FAC)(2020)004 which sets out IS/OFC policy for accounting and reporting transactions in foreign Currency.

Financial Risks

MSIAC uses only non-derivative financial instruments as part of its normal operations. These financial instruments include cash, bank accounts and deposit accounts.

All the financial instruments are recognised in the Statement of Financial Position at their fair value.

The organisation is exposed to a variety of financial risks, including foreign exchange risk, credit risk, currency risk, liquidity risk and interest rate risk.

a. Foreign currency exchange risk

The exposure to foreign currency risk is limited as the majority of the NATO-MSIAC's expenditures are made in EUR, the currency of its budget. The current bank accounts are held in EURO.

b. Credit risk

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

The maximum exposure as of year-end 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.

Concerning cash and cash equivalent NATO MSIAC credit risk is managed by holding current bank accounts and short-term, highly liquid deposits that are readily convertible to a known amount of cash held with ING Bank (Belgium) which has the following short-term credit ratings:

| Bank Name | Country of HQ | Short Term Ratings | | | | | |
|-----------|---------------|--------------------|------------------|------------|------------------|------------|------------------|
| | | FITCH | | S&P GLOBAL | | MOODY'S | |
| | | Rating | Last Review Date | Rating | Last Review Date | Rating | Last Review Date |
| ING Bank | Netherlands | F1+ | 15-Oct-2020 | A-1 | 10-Jul-2020 | P-1 | 21-Oct-2020 |

The MSIAC outstanding accounts receivable are managed by maintaining control procedures over receivables. Most cash receivables are due from Member Nations, which are considered credit worthy.

c. Liquidity risk

The liquidity risk, also referred to as funding risk, is based on the assessment as to whether the Organisation will encounter difficulties in meeting its obligations associated with financial liabilities. A liquidity risk could arise from a short-term liquidity requirement. There is a very limited exposure to liquidity risk since MSIAC funding mechanism guarantees contributions in relation to approved budgets. Some limited risk could be

ANNEX 6 to
FC(2021)0018

due to the accuracy of budget forecasts. However, history shows that the budgetary process results in surpluses and, in any case, the applicable rules allow the revision of budgets.

d. Interest rate risk

Except for certain cash and cash equivalent balances, MSIAC's financial assets and liabilities do not have associated interest rates. MSIAC is restricted from entering into borrowings and investments, and, therefore, there is an insignificant interest rate risk. Interest earned is not a budgetary resource but contributes to the surplus owed to Nations. In case of negative interest rates, these are added to the amounts called from Member Nations.

Current Assets

a. Cash and cash equivalents

Cash and cash equivalents are defined as short-term assets. They include cash in hand, short-term deposits held with banks, and other short-term, highly liquid investments.

b. Receivables

Receivables are stated at net realisable value, after provision for doubtful and uncollectible debts.

Contributions receivable are recognised when a call for contribution has been issued to the funding nations. No allowance for loss is recorded with respect to Member countries' assessed contributions receivable.

c. Prepayments

A prepayment is a payment in advance of the period to which it pertains and is mainly in respect of an advance payment made to a third party. This item may include advances made to staff in accordance with Civilian Personnel Regulations (such as advances on salary or on education allowance in consideration of the fact that these are the advances on future staff benefits).

d. Inventories

NATO's adaptations of IPSAS are spelled out in C-M(2016)0023 of April 2016, which includes IPSAS 12 Inventories. Furthermore, C-M(2017)0043 of September 2017, approved the NATO Accounting Policy for Inventory.

When it comes to assessing the control of NATO Inventory, these documents define a set of 10 criteria to be used in assessing the level of control of an inventory asset. A positive response on six of the criteria will lead to the asset being capitalized in the Financial Statements if it is above the capitalization threshold. This is applied from January 2013 under the initial NATO Accounting Framework C-M(2013)0039 of July 2013.

Criteria that may indicate control of an asset:

- The act of purchasing the asset carried out (or resulted from instructions given) by the NATO Reporting Entity.
- The legal title is in the name of the NATO Reporting Entity.
- The asset is physically located on the premises or locations used by the NATO Reporting Entity.
- The asset is physically used by staff employed by the NATO Reporting Entity or staff working under the NATO Reporting Entity's instructions.
- The fact that the NATO Reporting Entity can decide on an alternative use of the asset.
- The fact that the NATO Reporting Entity can decide to sell or to dispose the asset.
- The fact that the NATO Reporting Entity, if it has to remove or destroy the asset, can take the decision to replace it.
- The fact that a representative of the NATO Reporting Entity regularly inspects the asset to determine its current condition.
- The fact that the asset is used in achieving the objectives of the NATO Reporting Entity.
- The fact that the asset will be retained by the NATO Reporting Entity at the end of the activity.

Capitalization thresholds relevant to the financial statement are as follows:

| Category | Threshold | Basis |
|------------------|-----------|------------------------|
| Consumables | €50,000 | Per location/warehouse |
| Spare Parts | €50,000 | Per location/warehouse |
| Ammunition | €50,000 | Per location/warehouse |
| Strategic stocks | €50,000 | Per location/warehouse |

The MSIAC will capitalize inventory which it controls in its financial statements. Where there is a conflict between more than one NATO Reporting Entity as to the control of inventory, only the end-user entity will report the inventory in its financial statements, based on reliable information provided by the NATO services provider entity as defined in individual agreements between the two entities.

The MSIAC will include transportation costs involved in bringing the inventories to their present location and condition in the initial valuation of inventory. These costs will be measured on the actual cost of transportation per item of inventory or by using an apportionment of the global transportation costs of bringing the inventories to their present location and condition across all inventory items in the period. Transportation costs involved in the subsequent movement of inventory which brings them into operational use will not be included in the value of inventory. The method of measuring these costs will be disclosed.

The MSIAC considers inventory acquired prior to 1 January 2013 as fully expensed.

For inventory held prior to 1 January 2013, and not previously recognized as an asset, the MSIAC will provide a brief description of inventory held within their inventory recording systems in the notes to the

ANNEX 6 to
FC(2021)0018

financial statements. Such disclosure will include as a minimum the types of inventories held, locations where inventories are held and the approximate number of items held per asset category.

Where this adaptation conflicts with another requirement of IPSAS this adaptation shall apply. For the remainder, IPSAS 12 shall apply.

The MSIAC assesses inventories under IPSAS 12. The outcome of this assessment is that the value of the inventories is immaterial both in value and in terms of the nature of the items held. Consequently, inventory is fully expensed on receipt. The materiality will be assessed each year.

In consideration of all the above, MSIAC currently has no inventory.

Non-current assets - Fixed assets (Property, Plant & Equipment and Intangible Assets)

a. Property, Plant & Equipment

NATO's adaptation of IPSAS are spelled out in C-M(2016)0023 of April 2016 among which are specific items addressing IPSAS 17 PPE. Furthermore, C-M(2017)0022 (INV) approved the NATO Accounting Policy for Property, Plant and Equipment.

When it comes to assessing the control of NATO over PPE, these documents define a set of 10 criteria to be used in assessing the level of control of a tangible asset. A positive response on six of the criteria will lead to the asset being capitalized in the Financial Statements if it is above the capitalization threshold. This is applied from January 2013 under the initial NATO Accounting Framework C-M(2013)0039 of July 2013.

Capitalization thresholds relevant to the financial statement are as follows:

| Category | Threshold | Depreciation Life | Method |
|-------------------------------|-----------|-------------------|---------------|
| Land | €200,000 | N/A | N/A |
| Buildings | €200,000 | 40 years | Straight line |
| Other infrastructure | €200,000 | 40 years | Straight line |
| Installed equipment | € 30,000 | 10 years | Straight line |
| Machinery | € 30,000 | 10 years | Straight line |
| Vehicles | € 10,000 | 5 years | Straight line |
| Aircraft | €200,000 | Dependent on type | Straight line |
| Vessels | €200,000 | Dependent on type | Straight line |
| Mission equipment | € 50,000 | 3 years | Straight line |
| Furniture | € 30,000 | 10 years | Straight line |
| Communications | € 50,000 | 3 years | Straight line |
| Automated information systems | € 50,000 | 3 years | Straight line |

The MSIAC considers PPE acquired prior to 1 January 2013 as fully expensed. However, existing accounting policies will continue to be applied for any PPE assets already capitalized prior to 1 January 2013. For PPE upgraded after 1 January 2013, only the portion related to the modification will be capitalized.

In consideration of the above thresholds, MSIAC currently has no PPE.

b. Intangible Assets

NATO's adaptations of IPSAS are spelled out in C-M(2017)0023 of April 2013, which includes IPSAS 31 Intangible Assets. Furthermore, C-M(2017)0044 approved the NATO Accounting Policy for Intangible Assets.

When it comes to assessing the control of NATO over Intangible Assets, these documents define a set of 10 criteria to be used in assessing the level of control of an Intangible Asset – they are the same as mentioned above under Inventory. A positive response on six of the criteria will lead to the asset being capitalized in the Financial Statements if it is above the capitalization threshold. This is applied from January, 2013, under the initial NATO Accounting Framework C-M(2013)0039 of July 2013.

MSIAC will capitalize each intangible asset item above the following agreed NATO thresholds:

| Category | Threshold | Depreciation Life | Method |
|--|-----------|-------------------|---------------|
| Computer software (commercial off the shelf) | €50,000 | 4 years | Straight line |
| Computer software (bespoke) | €50,000 | 10 years | Straight line |
| Computer database | €50,000 | 4 years | Straight line |
| Integrated system | €50,000 | 4 years | Straight line |

For anything below the threshold, the MSIAC will have the flexibility to expense specific items.

MSIAC will capitalize integrated systems and include research, development, implementation and can include both software and hardware elements. But the MSIAC will not capitalize the following types of intangible assets in their financial statements:

- rights of use (air, land and water);
- landing rights;
- airport gates and slots;
- historical documents; and,
- publications

ANNEX 6 to
FC(2021)0018

MSIAC will capitalize other types of intangible assets acquired after 1 January 2013 including:

- Copyright
- Intellectual Property Rights
- Software development

MSIAC considers Intangible Assets acquired prior to 1 January 2013 as fully expensed.

MSIAC will report controlled Intangible assets in its financial statements. Where there is a conflict between more than one NATO Reporting Entity as to the control of intangible assets, only the end-use entity will capitalize the intangible asset in its financial statements based on reliable information provided by the NATO services provider entity as defined in individual agreements between the two entities.

For intangible assets held prior to the 1 January 2013, and not previously recognized as an asset, MSIAC will provide a brief description of intangible assets held in its intangible asset recording systems in the notes to the financial statements. Such disclosure will include as a minimum the types of intangible held, locations where intangible assets are held and the approximate number of items held per asset category.

If an intangible asset is upgraded after 1 January 2013, only the portion related to the modification will be capitalized.

Where this adaptation conflicts with another requirement of IPSAS this adaptation will apply. For the remainder, IPSAS 31 shall apply. This adaptation is effective for financial reporting periods beginning on 1 January 2013.

In consideration of the above thresholds, MSIAC has no Intangible Assets.

Non-Current Assets other than PPE

In case there are any non-current assets, these will be disclosed in the Statement of Financial Position.

Current Liabilities

a. Payables

Payables are amounts due to third parties, including Member Nations, based on goods received or services provided that remain unpaid. These include estimates of accrued obligations to third parties for goods and services received but not yet invoiced. Amounts due to Member Nations in the context of their budget contributions are booked under Other Current Liabilities.

b. Advances and Unearned revenue

Advances are contributions received related to future year's budgets. Funds are called in advance of their need because MSIAC has no capital that would allow it to pre-finance any of its activities.

Unearned revenue represents Member Nations contributions which have been called for current budgets but that have not yet been recognised as revenue in the absence of any related budgetary expenditure.

c. Other Current Liabilities

Amounts corresponding to the current budgetary surplus (lapsed credits + net interests + miscellaneous income) are considered a liability towards the Member Nations. The settlement does not follow the normal accounts payable process, since the standard approach is to return them to Member Nations via a deduction of the following year's call for budget contributions. This liability is therefore classified under Other Current Liabilities.

This item may include other liabilities that do not result from the standard procure-to-pay process, such as miscellaneous transactions to be regularized between entities managed by the IS Office of Financial Control.

Non-Current Liabilities

The MSIAC has no non-current liabilities.

Net Assets

Net Assets correspond to MSIAC's Project Accumulated Surplus. Project Accumulated Surplus relates to funds resulting from past years' contributions by MSIAC member Nations in excess of budget execution that the Steering Committee decided not to redistribute to the member nations but keep for the needs of MSIAC. It is held at the direction of the Steering Committee.

Revenue Recognition

Revenue comprises contributions from Member Nations, pro-rated contributions (partial calls), joining fees from new Member Nations and services, such as training sessions, provided.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably. The balance of unspent contributions and other revenues that relate to future periods are deferred accordingly.

Where a transfer is subject to conditions that, if unfulfilled, require the return of the transferred resources, the entity recognises a liability until the condition is fulfilled.

Contributions to be called from Member Nations, based on the budget they approved, are initially recorded as unearned revenue liabilities. They are recognised as revenue in the statement of financial performance when such contributions are used for their intended purpose as envisioned in the approved Budget.

On the other hand, calls related to non-budgeted contributions (new membership early access, access during the year, and Joining Fees from new Member Nations) are recognized when they are issued and as Non-Exchange revenue in the Statement of Financial Performance, considering that it is not possible to directly identify and value the consideration provided by MSIAC directly in return for the resources received. There are no expenses to be matched against these resources which are not refundable to nations.

Segment Reporting

A segment is a distinguishable activity or group of activities for which it is appropriate to separately report financial information. There is no segment in MSIAC.

ANNEX 6 to
FC(2021)0018

Statement of Financial Position

NOTE 3: CASH AND CASH EQUIVALENTS – SHORT TERM INVESTMENTS

The current bank accounts are held in EUR. Cash deposited is immediately available. There are no short-term investments.

Below is a snapshot of MSIAC’s cash and cash equivalents at the year-end:

| Amounts in EUR | 2020 | 2019 |
|---------------------|-------------------|---------------------|
| Cash at bank | 986,141.68 | 1,395,389.05 |
| Petty cash | - | - |
| Total | 986,141.68 | 1,395,389.05 |

NOTE 4: ACCOUNTS RECEIVABLE

Below is a snapshot of MSIAC’s receivables at the year-end:

| Amounts in EUR | 2020 | 2019 |
|--------------------------------|------------------|-----------------|
| Budgetary contributions | - | - |
| Others | 83,097.75 | 5,000.00 |
| Total | 83,097.75 | 5,000.00 |

The receivables correspond to two open invoices to be paid by Partner Nations.

Contributions receivable from Member Nations are funds requested from the Nations to finance the current year MSIAC budget, while Partners are Extraordinary Revenue directly recognized into the surplus/deficit of the period concerned.

NATO UNCLASSIFIED

6-13

ANNEX 6 to
FC(2021)0018

Table below presents the detailed information on the amounts billed during 2020 to both Member and Partner Nations.

| Amounts in EUR | Contributions | Other Revenue | Total |
|---|---------------------|------------------|---------------------|
| <i>1 - Member Nations</i> | <i>1,320,000.00</i> | | <i>1,320,000.00</i> |
| Belgium | 88,000.00 | | 88,000.00 |
| Canada | 88,000.00 | | 88,000.00 |
| France | 176,000.00 | | 176,000.00 |
| Germany | 88,000.00 | | 88,000.00 |
| Italy | 176,000.00 | | 176,000.00 |
| Netherlands | 88,000.00 | | 88,000.00 |
| Norway | 88,000.00 | | 88,000.00 |
| Poland | 88,000.00 | | 88,000.00 |
| Spain | 88,000.00 | | 88,000.00 |
| United Kingdom | 176,000.00 | | 176,000.00 |
| United States | 176,000.00 | | 176,000.00 |
| <i>2 - Partner Nations</i> | <i>352,000.00</i> | <i>83,097.75</i> | <i>435,097.75</i> |
| Australia | 88,000.00 | | 88,000.00 |
| Finland | 88,000.00 | | 88,000.00 |
| Republic of Korea | 88,000.00 | | 88,000.00 |
| Sweden | 88,000.00 | | 88,000.00 |
| Ukraine | | 800.00 | 800.00 |
| United States (DoD Explosives Safety Board) | | 82,297.75 | 82,297.75 |
| Grand Total | 1,672,000.00 | 83,097.75 | 1,755,097.75 |

NOTE 5: PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and Other Current Assets relate to miscellaneous amounts due to the Project Office in relation to services to be received in the following years and advances made to staff in relation to benefits of the following year (essentially advances to staff for education allowances or for travel, etc.).

Other Current Assets include the counterpart of untaken leave as a valuation of the potential budgetary contribution that would be required if this untaken leave were to be paid. Even though NATO policy (both Civilian Personnel Regulations and IS HR directives) is that untaken leave must be paid only as a last recourse (Staff is compelled to take all their leave before retiring), for informative purposes we have chosen to disclose the amount payable, if MSIAC would shut down its activities as of 31 December 2020. For 2020 the recognized Untaken Leave amount is EUR 58,963.38.

This item also includes EUR 28,794.00 of Education Allowance advances and EUR 353.30 related to a cash advance paid by NATO-IS and EUR 2,708 of deferred expenses.

NATO UNCLASSIFIED

6-14

ANNEX 6 to
FC(2021)0018

Following table presents a snapshot of MSIAC's prepayments and other current assets at the year-end:

| Amounts in EUR | 2020 | 2019 |
|--------------------------|------------------|------------------|
| Prepayments to Suppliers | - | 918.16 |
| Prepayments to Staff | - | - |
| Other Current Assets | 90,818.68 | 64,151.21 |
| Total | 90,818.68 | 65,069.37 |

NOTE 6: INVENTORIES

Nothing to report, inventories are not considered material.

NOTE 7: PROPERTY, PLANT AND EQUIPEMENT AND INTANGIBLE ASSETS

MSIAC does not hold any property, plant and equipment. Nor does MSIAC hold any intangible assets.

NOTE 8: NON-CURRENT RECEIVABLES AND OTHER NON-CURRENT ASSETS

MSIAC has registered no non-current receivables or other non-current assets.

NOTE 9: PAYABLES

Payables and accrued expenses may relate to commercial suppliers, staff, other NATO bodies or MSIAC Member Nations.

Payable to suppliers relates to goods and services for which an invoice has been received, checked, and queued for payment but for which payment was still pending at year-end.

Accrued expenses correspond to EUR 15,825.30 and is the estimated accrual obligation to third parties for goods and services received but not yet invoiced. The remainder, EUR 388.40, corresponds to accrued revenue.

Payable to nations

The payable to Member Nations is linked to the reimbursable salaries and represents the amount due to the United States (US) for one civilian staff member who is paid directly by the US government. This amount remains to be regularised. In 2020, the US MSIAC contribution (EUR 176,000.00) was offset with part of this payable item. At the end of the year, this payable account showed a balance of EUR 270,218.98.

NATO UNCLASSIFIED

6-14

Below is a snapshot of MSIAC's payables at the year-end:

| Amounts in EUR | 2020 | 2019 |
|----------------|-------------------|-------------------|
| Suppliers | 37,018.97 | 116,465.92 |
| Personnel | - | 270.50 |
| Member Nations | 270,218.98 | 446,218.98 |
| Accruals | 16,213.70 | 27,077.66 |
| Total | 323,451.65 | 590,033.06 |

NOTE 10: DEFERRED REVENUE

Deferred revenue corresponds to contributions called for the current year or before (received or receivable) that MSIAC intends to use for its initial purpose, but for which corresponding goods or services could not be received in the course of the current budget year but will be incurred after the end of the reporting period. If these amounts carried forward are not spent by the end of the second year following the year for which they were approved, these funds lapse, unless a specific decision is taken by Member Nations for a further carry-forward. At the end of 2020 there were no appropriations subject to a special carry-forward.

NOTE 11: ADVANCES

None.

NOTE 12: PROVISIONS

The provision relates to the staff untaken leave liability as per end December 2020.

The valuation of untaken leave amounts to EUR 58,963.38 (EUR 33,212.41 end 2019). Compared to the 2019 provision, the increase is considerable, mainly due to the COVID-19 crisis as staff postponed their leave due to global travel restrictions.

NOTE 13: OTHER CURRENT LIABILITIES

Other Current Liabilities include the Current Year Budget Surplus. Amounts corresponding to the current year budgetary surplus of MSIAC, i.e. lapsed credits, net interests, miscellaneous income, are considered a liability towards the Member Nations. The settlement does not follow the standard accounts payable process, since the surplus is to be returned to Member Nations via a deduction of the following year's call for budget contributions. To date, the agreed practice of the MSIAC Steering Committee has been to add these amounts to the Project Accumulated Surplus (see note on Net Assets).

ANNEX 6 to
FC(2021)0018

Below is a snapshot of MSIAC's other current liabilities at the year-end:

| (amounts in EUR) | 2020 | 2019 |
|--|-------------------|------------------|
| Lapsed Appropriations | 46,668.88 | 34,674.70 |
| Net Financial Income | 90.07 | 5.43 |
| Miscellaneous Income | 7,849.27 | 11,021.34 |
| Cash Advance Received from Partner Nations | 82,297.75 | |
| Others | 8,167.60 | 800.00 |
| Total | 145,073.57 | 46,501.47 |

NOTE 14: NON-CURRENT LIABILITIES AND LONG TERM UNEARNED REVENUE

The long term unearned revenue is unearned revenue in relation to net carrying amounts of Property, Plant and Equipment and intangible assets. Revenue is recognised over the estimated life cycle of the Property, plant and equipment and the intangible assets.

There are no non-current liabilities.

NOTE 15: TOTAL NET ASSETS / EQUITY

Net Assets correspond to MSIAC's Project Accumulated Surplus from previous years and the surplus (deficit) from the current year.

Project Accumulated Surplus relates to funds resulting from past contributions by MSIAC Member Nations in excess of budget execution that the Steering Committee decided not to redistribute to the Member Nations but keep for the needs of MSIAC. This reserve also includes the former surpluses originating, for instance, from non-budgeted new membership contributions and joining fees paid by incoming Member Nations to contribute to the products and services developed over the entire lifespan of MSIAC operations. It is held at the direction of the Steering Committee. The Steering Committee may use these funds to contribute to future costs associated with MSIAC operations, or in case of emergency funding needs for the Project. The growth in accumulated surplus over previous years reflects more Nations entering the Project but zero growth in Project staff. A five-year plan is agreed yearly and incrementally reduces this fund to target levels agreed by the MSIAC Steering Committee.

In May 2020 a deviation from Articles 24.2 and 29.3 of the NATO Financial Regulations has been approved by Council. As per C-M(2020)0012 the decision entails the use of MSIAC accumulated surpluses in an emergency fund and as an operational reserve up to a limit of EUR 650,000.00.

| Amounts in EUR | 2020 | 2019 |
|--|-------------------|-------------------|
| Cumulated Surplus beginning of the year | 619,711.47 | 639,512.68 |
| + Lapses from previous year | 45,701.47 | 25,248.79 |
| + Net Financial Income (Interest, Bank Fees) previous year | | |
| + Miscellaneous Income previous year | | |
| - Surplus allocated to current year budget | - 68,644.00 | - 73,050.00 |
| Cumulated Surplus end of the year | 596,768.94 | 591,711.47 |
| Current Year Extraordinary Surplus | 800.00 | 28,000.00 |
| Net Assets as off 01 Jan Y+1 | 597,568.94 | 619,711.47 |

Statement of Financial Performance

NOTE 16: REVENUE

| Amounts in EUR | 2020 | 2019 |
|--|---------------------|---------------------|
| Non exchange revenue | 1,676,786.19 | 1,723,542.21 |
| Called from Nations | 1,672,000.00 | 1,672,000.00 |
| Additional budget to be taken from reserve fund | - | 30,000.00 |
| Budget to be taken from refundable surplus | - 20,964.78 | 9,326.51 |
| Provision for Untaken Leave as off 31Dec20 | 25,750.97 | 12,215.70 |
| Services, Joining Fees and Early Access Contributions | 800.00 | 28,000.00 |
| Training fees | 800.00 | 28,000.00 |
| Joining fees | | |
| Other revenue | 7,849.27 | 10,898.78 |
| Over accrual 2019 | 7,849.27 | - |
| DCPS Allianz Compensatory | - | 10,898.78 |
| Financial revenue | 1,300.60 | - |
| Realized Exchange Gains | 1,300.60 | - |
| Total Revenue | 1,686,736.06 | 1,762,440.99 |

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably.

Revenue from Member Nations' budgetary contributions is considered as non-exchange revenue in consideration of the fact that the contributions by Member Nations are based on the number of shares and not in proportion of the service they receive. Non-exchange revenue is matched with expenses stemming from budget execution.

Other contributions such as non-budgeted contributions (new membership early access, access during the year, training fees, and Joining Fees from new Member Nations) whilst being also recognized as Non-exchange revenue, do not follow the matching principle since it is not possible to directly identify and value the consideration provided by MSIAC directly in return for the resources received. There are no expenses

ANNEX 6 to
FC(2021)0018

to be matched against this revenue and thus is not refundable to nations. Therefore, this result miscellaneous revenue must revert directly into Surplus of the period concerned.

NOTE 17: EXPENSES

Wages, Salaries and Employee Benefits

The personnel costs include all civilian personnel expenses as well as other non-salary related expenses in support of funded activities. They also include expenses for salaries and emoluments for approved NATO permanent civilian positions and temporary personnel, for other salary related and non-related allowances including overtime, medical examinations, recruitment, installation and removal, and for contracted consultants and training.

Services rendered, Supplies and Consumables Used

This item may also include expenses attributed to Capital Expenses (Property, Plant and Equipment) from a budget perspective, if they do not meet the criteria of PPE or Intangible Assets.

Provisions

This position reflects the change of the provision of Untaken Leave as of 31 December 2020.

Other Expenses

There are no such expenses in 2020.

Finance Costs

This item comprises miscellaneous financial costs like bank charges, exchange rates losses, etc.

NOTE 18: BUDGET INFORMATION

NATO MSIAC Budget

Presently, the NATO MSIAC Budget is not publicly available.

The actual amounts referred to by IPSAS 24 (“amounts that result from execution of the budget”) are expenses incurred during the execution of the budget and appearing under the heading “Actuals” in the Budget Execution Statement.

Presentation of budget information in the financial statements

An analysis of the budget execution for the current and the previous year carry-forward amounts is provided in Annex 5. The MSIAC budget execution compares the budget’s authorized credits against the amounts committed and expended.

The MSIAC budget classification is based on the economic nature of the expenses broken down into three chapters as follows:

| | | |
|-------------|---|--------------------|
| Chapter I | : | Personnel Expenses |
| Chapter II | : | Operating Expenses |
| Chapter III | : | Capital Costs |

The MSIAC Budget is prepared for the same period (1 January to 31 December) and encompasses the same entity as these financial statements.

Changes to the budgetary regulations were introduced by the North Atlantic Council in 2015 in approving a new set of NATO Financial Regulations. They have in particular instilled an accruals based approach to budget preparation and budget execution, whereas before the approach was largely commitment and cash based.

Despite a stronger emphasis on this principle in annual budgets, the approved and executed budget cannot be considered as fully accruals-based, since the new regulations allow for a number of exceptions, such as carrying forward commitments for goods and services that were expected to be delivered in the course of the year but for various reasons were not, or authority given to the member Nations to allow for special carry forward of appropriations unused at year-end.

The MSIAC budget is prepared and executed as follows:

- 1) The commitment of appropriations is the advance acceptance and recording of the financial consequence resulting from a legal obligation incurred during the financial year. Therefore, appropriations are allocated, and commitments are approved, for goods, services and works to be delivered at a later stage. Commitments are settled when the service is rendered or goods delivered as is the case for expenses under accrual accounting.
- 2) Approved Commitments for which no goods could be received or services rendered at year-end will normally lapse. However, if they are supported by a legal obligation and correspond to goods or services that could not be received during the course of the year for specific reasons, they may be carried forward and added to the budget of the following financial year. Uncommitted appropriations may be subject of a special carry forward to the following year if a specific agreement is given by the Steering Committee. Outstanding commitments can be carried forward for two years. As a consequence, the services or goods received may relate to a commitment of appropriations from previous years' budgets. The carry-forward should be justified by a reason for which the services or goods could not be received in the course of the year. In addition, in accordance with Financial Regulations, Member Nations may agree to a further carry-forward of commitments that were already carried forward twice.
- 3) Commitments, because they are an advance acceptance, and because payments cannot be made above approved appropriations levels, typically include an estimation factor and are (if only slightly) higher than the actual amount eventually paid. This results in commitments being higher than the actual expenses and in appropriations eventually lapsing.
- 4) Commitments are only made in respect of expenses relating to the initial purpose of the commitment. Commitments for capital expenditures are normally made in the year during which

ANNEX 6 to
FC(2021)0018

the purchase order is issued. In accrual accounting, the related costs would not appear in the Statement of Financial Performance but in the Balance Sheet and only upon reception of the works, goods or services. Conversely, there is no budgetary commitment of appropriations for non-cash flow transactions such as capital depreciation or provisions which would normally appear in the Statement of Financial Performance under accrual accounting.

- 5) On an exceptional basis, the Steering Committee may approve the special carry-forward of credits without any prior legal commitment, for instance for projects at their initiation stage or planned expenditures. In accrual accounting there would be no expense recorded.
- 6) The balance of unused budgetary appropriations (not committed) lapses and is returned to Member Nations at year-end. Lapses may include cases where a project was eventually not completed or started, and therefore lead to no expense.
- 7) As per Council decision, C-M(2020)0012, surpluses can be accumulated in an emergency fund and as an operational reserve up to a limit of EUR 650,000.00.

Reconciliation between Budget Execution and Statement of Financial Performance

(amounts in EUR)

| BUDGET EXECUTION | | 2020 | 2019 |
|---|---------------|--------------|--------------|
| Total Budget (including carried-forward from previous year) | (a) | 1,740,644.01 | 1,756,900.00 |
| Credits Carried Forward in Following Year | (b) | 35,000.57 | 0.00 |
| Lapsed Appropriations | (c) | 46,668.88 | 34,674.71 |
| Budget Execution Expenses | (d) = (a-b-c) | 1,658,974.56 | 1,722,225.29 |

| RECONCILIATION | | 2020 | 2019 |
|--|---------------|--------------|--------------|
| Financial Performance Expenses (total) | (e) | 1,685,936.06 | 1,734,440.99 |
| Other net expenses (financial and miscellaneous) | (f) | 26,961.50 | 12,215.70 |
| Increase in Non-Current Assets | (g) | 0.00 | 0.00 |
| Other Elements | (h) | 0.00 | 0.00 |
| Sub-Total | (i)=(e-f+g+h) | 1,658,974.56 | 1,722,225.29 |
| Difference to Budget Expenses | (d-i) | 0.00 | 0.00 |

Budget execution

The MSIAC budget execution for the current year appropriations and previous year carry-forwards is shown at Annex 5, which compares the budget's authorized appropriations against the amounts committed and expended.

Credits are transferred under the authority delegated to the NATO-IS Financial Controller by the NATO Financial Regulations and Financial Rules and Procedures.

Reconciliation between Budget and Calls for Contributions

The funding of the budget is made of a call for contributions, carried over credits and a part of previous years' surplus. There is one call for contributions per year, which is usually issued at the beginning of the year. No advances are called for the following financial year.

In accordance with MSIAC's Steering Committee decision, new Member Nations have to contribute a one-off Joining Fee, besides the normal annual contributions.

There were no new accessions in 2020.

Member Nations' contributions are assessed based on a share value of EUR 88,000. In 2020, f nations paid 1 share and four nations paid 2 shares (total of 19 shares from official and early members).

As directed by the Steering Committee, the calls covered EUR 1,672,000 in 2020.

During 2020, MSIAC also collected 800.00 EUR of training fees, due to training provided to staff of a partner nation.

These proceedings are considered non-budgetary revenue, recognizable directly as a period surplus and will be moved to equity in the beginning of the following year.

The table below reconciles the approved budget and the sources of funding.

| Amounts in EUR | 2020 | 2019 |
|------------------------------------|---------------------|---------------------|
| Initial Budget | 1,740,644.00 | 1,715,050.00 |
| Revised Budget | - | 30,000.00 |
| Total Annual Budget | 1,740,644.00 | 1,745,050.00 |
| Advance called previous year | - | - |
| Call in current year | 1,672,000.00 | 1,672,000.00 |
| Total Cash Calls | 1,672,000.00 | 1,672,000.00 |
| Use of Previous Year's Surplus | - | - |
| Use of Project Accumulated Surplus | 68,644.00 | 73,050.00 |
| Other Funding Sources | 68,644.00 | 73,050.00 |
| Total Funding | 1,740,644.00 | 1,745,050.00 |

NOTE 19: WRITE-OFFS

There are no write-offs to report in 2020.

NOTE 20: LEASES

MSIAC does not have any financial leases.

ANNEX 6 to
FC(2021)0018

NOTE 21: RESTRICTIONS ON FIXED ASSETS

There are no restrictions on fixed assets.

NOTE 22: CONTINGENT LIABILITIES

There have been no contingent liabilities identified that would be expected to result in a material obligation.

NOTE 23: CONTINGENT ASSETS

Nothing to report in 2020.

NOTE 24: EMPLOYEE DISCLOSURE

Accounting for employee benefits is accounting for any liability in relation to all forms of consideration given by an entity in exchange of service rendered by employees.

Paid leave is an employee benefit and as such part of overall personnel expenses. In accordance with personnel regulations, the remaining balance at year-end may be carried forward but must be taken before 30 April of the following year. It can be exceptionally expanded to 31 October in accordance with Civilian Personnel Regulations art. 42.3.5 and 42.3.6. After this date it lapses and is not paid to staff. For these financial statements, untaken leave is specifically reported if its monetary value is more than 10% of the total annual leave entitlement. The cost of untaken leave days is usually absorbed during the year through the monthly salaries; leave to be taken carried forward into the next year constitutes a liability towards the future and would notionally require funding from Member Nations.

End 2020, untaken leave was estimated EUR 58,963.38

MSIAC's employee breakdown as of 31 December 2020, is shown below:

| | Total Approved PE | Total Filled Positions |
|------------------|--------------------------|-------------------------------|
| Civilian (PE) | 10 | 10 |
| VNC | 0 | 0 |
| Short term | 0 | 0 |
| Interns | 0 | 0 |
| Others - explain | 0 | 0 |

For 2020, MSIAC had an approved Personnel Establishment of 10 positions funded by the MSIAC budget.

It should be noted that the NATO-IS is managing centrally two pension programmes, namely the Defined Benefit Pension Scheme (DBPS) and the Defined Contribution Pension Scheme (DCPS) as well as the Retirees Medical Claims Fund (RMCF), covering staff employed by all NATO bodies. NATO-wide financial

statements are issued by NATO-IS Office of Financial Control for the two Pension Schemes and the RMCF, therefore, no post-employment benefit related assets or liabilities are recognised in the MSIAC financial statements.

End 2020, 9 staff members (10 in 2019) participated in the Defined Contribution Pension Scheme (DCPS) administered by NATO. The DCPS provides that the MSIAC budget makes a 12 percent monthly matching contribution to the staff members' contributions for current service.

Furthermore, by end 2020, there was still 1 employee (1 in 2019) participating in NATO's Defined Benefit Pension Scheme (DBPS): a deduction of 11.8% of their salaries is made and contributed to the annual financing of this Plan. In addition, the MSIAC budget makes a monthly matching contribution of 19% to the DBPS. These contributions are expensed during the year concerned and represent the sole pension related obligation of the entity. Consequently, the MSIAC has neither DBPS nor DCPS liabilities for its staff members.

The table below presents a list of contributions paid to the different Pension Schemes:

| Amounts in EUR | | 2020 | 2019 |
|-------------------------------------|--------------|------------|------------|
| Co-ordinated Pension Scheme | Staff | 7,403.64 | 5,866.68 |
| | Employer | 14,807.28 | 11,733.36 |
| | Total | 22,210.92 | 17,600.04 |
| Defined Contribution Pension Scheme | Staff | 81,566.83 | 80,475.37 |
| | Employer | 101,889.82 | 99,271.12 |
| | Total | 183,456.65 | 179,746.49 |
| TOTAL | Staff | 88,970.47 | 86,342.05 |
| | Employer | 116,697.10 | 111,004.48 |
| | Total | 205,667.57 | 197,346.53 |

NOTE 25: KEY MANAGEMENT PERSONNEL

The MSIAC Steering Committee (one representative per Member Nation) is the governing body of the MSIAC. Steering Committee members are nominated by their respective national authorities. They are paid on the basis of applicable national pay scales. The Steering Committee members do not receive from MSIAC or NATO any additional remuneration for Steering Committee responsibilities or access to benefits.

The key management personnel of the MSIAC Office consists of the Project Manager established post (A5). The Project Manager is responsible for the overall operational management of MSIAC.

There are no other remunerations or benefits to key management personnel or their family members.

ANNEX 6 to
FC(2021)0018

NOTE 26: RELATED PARTIES

Key management personnel have no significant party relationships that could affect the operation of the MSIAC Office.

In 2020, NATO International Staff charged MSIAC for the following burden sharing costs:

Burden Sharing Charges

| Amounts in EUR | 2020 | 2019 |
|----------------|-----------|-----------|
| COMOPS | 39,345.00 | 57,921.76 |
| Admin Costs | 44,053.02 | 47,258.50 |

* * * * *

List of acronyms:

| | |
|-------|--|
| CNAD | Conference of National Armaments Directors |
| DBPS | Defined Benefit Pension Scheme |
| DCPS | Defined Contribution Pension Scheme |
| IPSAS | International Public Sector Accounting Standards |
| IS | International Staff |
| MOU | Memorandum of Understanding |
| MSIAC | Munitions Safety Information Analysis Centre |
| NIMIC | NATO Insensitive Munitions Information Centre |
| OFC | Office of Financial Control |
| PPE | Property, Plant and Equipment |
| RPPB | Resource Planning and Prioritization Board |
| NAC | North Atlantic Council |
| RMCF | Retirees Medical Claims Fund |

ANNEX 6 to
FC(2021)0018

| Preparer | Reviewer | Approver |
|-------------|------------------|-----------------|
| Nicolas Iva | Maaïke Deconinck | Christophe Smet |



NORTH ATLANTIC TREATY ORGANIZATION
ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD
INTERNATIONAL BOARD OF AUDITORS
COLLÈGE INTERNATIONAL DES AUDITEURS EXTERNES DE L'OTAN

NATO UNCLASSIFIED

IBA-A(2021)0118
25 August 2021

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

Cc: NATO Permanent Representatives
Assistant Secretary General, Executive Management Division
Financial Controller, International Staff
Chair, Resource Policy & Planning Board
Branch Head, Resource Management Branch, NATO Office of Resources
Private Office Registry

Subject: ***International Board of Auditors for NATO (IBAN) Audit Report on the audit of the NATO Coordinated Pension Scheme's Financial Statements for the year ended 31 December 2020 – IBA-AR(2021)0029***

IBAN submits herewith its approved Audit Report with a Summary Note for distribution to the Council.

IBAN's report sets out an unqualified opinion on the Financial Statements of the NATO Coordinated Pension Scheme and on compliance for financial year 2020.

Yours sincerely,

Daniela Morgante
Chair

Attachments: As stated above.

NATO UNCLASSIFIED

-1-

**Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Financial Statements of the
NATO Coordinated Pension Scheme
for the year ended 31 December 2020**

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 increase in net assets under the Pension Scheme for 2020 amounted to EUR 4.59 million (decrease of EUR 2.78 million in 2019).

IBAN issued an unqualified opinion on the financial statements and on compliance for the year ended 31 December 2020.

IBAN made one observation and recommendation. This finding is listed below and does not impact the audit opinion on the financial statements and on compliance:

1. Error in the bank account reconciliation process.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that one was open and two remain in progress.

The Audit Report was issued to the International Staff whose comments have been included, with the IBAN's position on those comments where necessary.

The observations and recommendations and the follow-up of the previous years' observations and recommendations that are not in the Audit Report are included in a Management Letter addressed to NATO Coordinated Pension Scheme management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under the NATO Coordinated Pension Scheme's executive responsibility.

NATO UNCLASSIFIED

IBA-AR(2021)0029

25 August 2021

INTERNATIONAL BOARD OF AUDITORS FOR NATO

**AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE
NATO COORDINATED PENSION SCHEME
FOR THE YEAR ENDED 31 DECEMBER 2020**

PUBLICLY DISCLOSED - PDN(2022)0014 - MIS EN LECTURE PUBLIQUE

NATO UNCLASSIFIED

INDEPENDENT EXTERNAL AUDITOR'S REPORT TO THE NORTH ATLANTIC COUNCIL

Financial Statements

Opinion on the Financial Statements

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of NATO Coordinated Pension Scheme, for the 12 month period ended 31 December 2020, issued under document reference FC(2021)0030, and submitted to IBAN on 31/03/2021. These Financial Statements comprise the Statement of Net Assets Available for Benefits as at 31 December 2020, the Statement of Changes in Net Assets Available for Benefits for the period ended 31 December 2020, and the explanatory notes.

In our opinion, the Financial Statements give a true and fair view of the statement of Net Assets Available for Benefits of the NATO Coordinated Pension Scheme as at 31 December 2020, and of its Statement of Changes in Net Assets Available for Benefits for the period ended 31 December 2020, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF) and International Accounting Standard (IAS) 26, Accounting and Reporting by Retirement Benefit Plans.

Basis for Opinion on the Financial Statements

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies and reporting entities pursuant to the North Atlantic Treaty shall be performed by IBAN.

We have conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 2200-2899) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

We are independent in accordance with the INTOSAI Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter.

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

Management's Responsibility for the Financial Statements

Management's responsibility for the financial statements is laid down in the NFRs. The Financial Statements of the NATO Coordinated Pension Scheme are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council and International Accounting Standard (IAS) 26, Accounting and Reporting by Retirement Benefit Plans. The Financial Controller is responsible for submitting the Financial Statements for audit to IBAN not later than 31st March following the end of the financial year.

The Financial Statements are signed by the Head of the NATO reporting entity and the Financial Controller. In signing the Financial Statements, the Head of the NATO reporting entity and the Financial Controller confirm 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.

This confirmation covers the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are auditable and free from material misstatement, whether due to fraud or error. This also covers reporting on the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there are plans to liquidate the entity or to cease its operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgement and maintain professional scepticism throughout the planning and performance of the audit. This involves taking into account Considerations Specific to Public Sector Entities. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to communicate with the bodies charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our Independent External Auditor's Report is prepared to assist North Atlantic Council in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

Compliance

Opinion on Compliance

Based on the procedures we performed, nothing has come to our attention, as part of our audit of the Financial Statements that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

Basis for Opinion on Compliance

We have conducted our compliance audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 4000-4899) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

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

Management's Responsibility for Compliance

All NATO staff, military and civilian, are obligated to comply with the NATO Financial Regulations, associated Financial Rules and Procedures and internal implementing directives. These include the NATO Civilian Personnel Regulations.

The Secretary General is responsible and accountable for sound financial management. The financial administration of NATO bodies and reporting entities must incorporate the principles of propriety, sound governance, accountability, transparency, risk management and internal control, internal audit, external audit, and fraud prevention and detection.

Auditor's Responsibilities for Compliance

In addition to the responsibility to provide reasonable assurance about whether the financial statements as a whole are free from material misstatement, the IBAN Charter requires IBAN to provide independent assurance and report annually to the North Atlantic Council about whether funds have been properly used for the settlement of authorised expenditure (propriety) and are in compliance with the regulations in force (regularity). Propriety relates to the observance of the general principles governing sound financial management and the conduct of public officials. Regularity concerns the adherence to formal criteria such as relevant regulations, rules and procedures.

This responsibility includes performing procedures to obtain independent assurance about whether funds have been properly used for the settlement of authorized expenditure and whether they have been used in compliance with the regulations in force. Such procedures include consideration of the risks of material non-compliance.

Brussels, 25 August 2021



Daniela Morgante
Chair

OBSERVATIONS AND RECOMMENDATIONS

IBAN made one observation and recommendation. This observation does not impact the audit opinion on the financial statements and on compliance:

1. Error in the bank account reconciliation process.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that two were open and one remains in progress.

The Audit Report was issued to the International Staff whose comments have been included, with the IBAN's position on those comments where necessary.

The follow-up of the previous years' observations and recommendations that are not in the Audit Report are included in a Management Letter addressed to NATO Coordinated Pension Scheme management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under NATO Coordinated Pension Scheme executive responsibility.

1. ERROR IN THE BANK ACCOUNT RECONCILIATION PROCESS**Reasoning**

1.1 Article 6 of the NATO Financial Regulation (NFRs) requires the Financial Controller to exercise the responsibility of budgeting, accounting and reporting activities of the NATO entity. This includes being responsible for the financial internal control system established and for the preparation of the financial statements in accordance with the NATO Accounting Framework.

1.2 In addition, article 12.3 of the NFRs states that "*Internal control activities shall include, [...] adequate audit trails and data confidentiality, integrity and availability in information systems.*"

1.3 Financial Statements shall be free of misstatements, mathematical errors, non-reconciling items, or any other errors or omissions caused by lack of control during preparation. Entities should have proper internal controls, including reviews and reconciliations in place to ensure the consistency and the accuracy of information presented in the Financial Statements.

1.4 A key part of the system of internal control is to ensure adequate processes are in place for the preparation, review and reporting of the Financial Statements. Adequate review procedures are necessary to provide a reasonable basis for obtaining assurance that financial statements are in compliance with the applicable financial reporting framework.

Observations

1.5 We found that the General Ledger (GL) account 532122 ING – NOK Deposit, shows a balance of EUR 89,811.66, while the physical bank statement and bank reconciliation show a balance of 0 (zero).

1.6 During the audit, we obtained confirmation from the Office of the Financial Controller (OFC) that the balance of this GL account should be zero. The OFC also explained that when performing the year-end foreign exchange revaluation exercise, that amount was booked in an incorrect GL account.

1.7 As a result Cash and Cash Equivalents are overstated by EUR 89,811.66, and the liabilities ‘Other’ are overstated by the same amount.

Recommendations

1.8 IBAN recommends that the Office of the Financial Controller strengthen its internal control over the preparation of the financial statements, in particular by ensuring that the GL accounts reconcile to the physical bank statement.

FOLLOW-UP OF PREVIOUS YEARS’ OBSERVATIONS

IBAN followed up on the status of observations from the previous years’ audit. The observations and recommendations, the actions taken by the auditee as reviewed by IBAN, and their status are summarised in the table below.

The Open status is used for recommendations that are open and for which no notable progress has been achieved to date. The In-progress status is used for open recommendations when the NATO Reporting Entity has started to implement the recommendation or when some (but not all) sub-recommendations are closed. The Closed status is used for recommendations that are closed because they have been implemented, are superseded, or have lapsed. In the case where there are sub-recommendations, the status related to each sub-recommendation is indicated in the Action Taken column.

| OBSERVATION / RECOMMENDATION | ACTION TAKEN BY AUDITEE | STATUS |
|---|-------------------------|------------------------------------|
| <p>(1) DBPS FY 2019 IBA-A(2021)0036, paragraph 1</p> <p>IMPROVEMENTS REQUIRED IN THE MONITORING, PRESENTATION AND DISCLOSURE OF OVERDUE ACCOUNTS RECEIVABLE AND PAYABLE</p> <p>IBAN’s Recommendation IBAN recommends that Office of the</p> | | <p>Observation Open</p> |

| OBSERVATION / RECOMMENDATION | ACTION TAKEN BY AUDITEE | STATUS |
|--|--|------------------------------------|
| <p>Financial Controller:</p> <p>a. Disclose the amount of overdue accounts receivable and payable in the notes to the financial statements for the amounts that are more than 1 year, more than 2 years and more than 5 years old. This will improve the fair disclosure of overdue accounts receivable and payable for the user of the Coordinated Pension Scheme's Financial Statements.</p> <p>b. Finalise the detailed analysis of the overdue accounts receivable and payable, jointly with the NATO Office of the Legal Advisor and determine the necessary actions to be taken.</p> | <p>a) No disclosure of overdue accounts receivables and payables were made in the notes to the financial statements.</p> <p>b) The analysis has not yet been done.</p> | |
| <p>(2) DBPS FY 2018 IBA-AR(2019)0028, paragraph 1</p> <p>NEED FOR NATO AS A WHOLE TO DISCLOSE POST-EMPLOYMENT LIABILITIES TO COMPLY WITH THE NATO ACCOUNTING FRAMEWORK (IPSAS 39 EMPLOYEE BENEFITS)</p> <p>IBAN's Recommendation IBAN recommends that the IS OFC, being the Financial Controller of the NATO Coordinated Pension Scheme, define the recognition criteria for the post-employment liability, ensuring that this liability is recognised in accordance with the NATO Accounting Framework (IPSAS 39 Employee Benefits).</p> | <p>The Financial Statements of the NATO Coordinated Pension Scheme and of the NATO Retirees Medical Claims Fund disclose in Note 3, the post-employment benefits, calculated in line with IPSAS 39 by the International Service for Remunerations and Pensions' (ISRP) actuary. However, the post-employment liabilities are not recognised on the face of any NATO Reporting Entity Statement of Financial Position, which in overall terms is not compliant with IPSAS 39, part of the NATO Accounting Framework. This observation shall remain open until this issue is solved NATO-wide.</p> | <p>Observation Open</p> |

| OBSERVATION / RECOMMENDATION | ACTION TAKEN BY AUDITEE | STATUS |
|---|--|---|
| <p>(3) DBPS FY 2018 IBA-AR(2019)0028, paragraph 2</p> <p>NEED TO DEVELOP MORE EFFECTIVE INTERNAL CONTROLS OVER FINANCIAL REPORTING</p> <p>IBAN's Recommendation IBAN recommends that in order to prevent and detect errors, IS OFC develop more effective internal controls over the financial statements preparation process, such as by documenting verification procedures of information and amounts presented in the financial statements prior to their submission for audit.</p> | <p>During the 2020 audit, IBAN found an error in the bank account reconciliation process. Further internal controls need to be implemented in order to ensure that the financial statements, including disclosure notes, are free from errors.</p> | <p>Observation In-progress</p> |

**INTERNATIONAL STAFF (IS) FORMAL COMMENTS ON THE AUDIT REPORT
AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS**

**OBSERVATION 1:
ERROR IN THE BANK ACCOUNT RECONCILIATION PROCESS**

IS' Formal Comments

Agreed.

OFC takes into account the observation and will implement adequate controls.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(1) DBPS FY 2019

IBA-A(2021)0036, paragraph 1

**IMPROVEMENTS REQUIRED IN THE MONITORING, PRESENTATION AND
DISCLOSURE OF OVERDUE ACCOUNTS RECEIVABLE AND PAYABLE**

IS' Formal Comments

Agreed.

The OFC recognises that the IT system currently used for operations related to pensions cannot fully support the reporting requirements.

This is particularly challenging with the limited human resources allocated to those operations and limited scale of automated processes.

(2) DBPS FY 2018

IBA-AR(2019)0028, paragraph 1

**NEED FOR NATO AS A WHOLE TO DISCLOSE POST-EMPLOYMENT
LIABILITIES TO COMPLY WITH THE NATO ACCOUNTING FRAMEWORK (IPSAS
39 EMPLOYEE BENEFITS)**

IS' Formal Comments

Agreed.

The analysis of the applicability of IPSAS 39 is ongoing.

(3) DBPS FY 2018

IBA-AR(2019)0028, paragraph 2

**NEED TO DEVELOP MORE EFFECTIVE INTERNAL CONTROLS OVER
FINANCIAL REPORTING**

Agreed.

Based on the COSO model the IC is being continuously improved and the new IBAN finding will be implemented accordingly.

GLOSSARY OF TERMS

In accordance with International Standards of Supreme Audit Institutions (ISSAI 2705), audit opinions on financial statements and on compliance can be unqualified, qualified, a disclaimer, or adverse:

- An unqualified opinion is when IBAN issues an opinion that the financial statements and budget execution report are stated fairly and that nothing has come to our attention that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the rules and regulations.
- A qualified opinion means that IBAN was generally satisfied with the presentation of the financial statements, but that some key elements of the statements were not fairly stated or affected by a scope limitation, or specific issues have come to our attention that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the rules and regulations.
- A disclaimer is issued when the audit scope is severely limited and IBAN cannot express an opinion, or when there are material uncertainties affecting the financial statements or the use of funds.
- An adverse opinion is issued when the effect of an error or disagreement is so pervasive and material to the financial statements that IBAN concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

In accordance with auditing standards, three types of paragraphs may also be communicated in the auditor's report:

- Key Audit Matters (ISSAI 2701): Those matters that, in IBAN's professional judgement, were of most significance in the audit of the financial statements of the current period. Key Audit Matters are addressed to Council.
- Emphasis of Matter (ISSAI 2706): If IBAN considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.
- Other Matter (ISSAI 2706): If IBAN considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in our judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

NATO UNCLASSIFIED

FC(2021)0030

**NATO COORDINATED PENSION SCHEME
FINANCIAL STATEMENTS**

For the year ended
31 December 2020

| | |
|---------|---|
| 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


Mirosława BORYCZKA
Financial Controller

NATO UNCLASSIFIED

NATO COORDINATED PENSION SCHEME
Statement of Net Assets Available for Benefits

| (All amounts in EUR) | Notes | Current Year | Previous Year |
|---|-------|-----------------------|-----------------------|
| | | 31-Dec-20 | 31-Dec-19 |
| Assets | | | |
| Cash and cash equivalents | 4 | 109,650,254.86 | 115,465,541.61 |
| Financial investments | 5 | 40,000,000.00 | 0.00 |
| Staff member contributions receivable | 6 | 614,177.17 | 535,961.57 |
| Employer contributions receivable | 7 | 24,098.92 | 32,200.24 |
| Nation contributions receivable | 8 | 83,963,995.69 | 98,683,407.03 |
| Pension tax adjustment contributions receivable | 9 | 28,816,641.36 | 28,675,509.02 |
| Credit for past service to be refunded by staff | 10 | 44,057.89 | 55,010.41 |
| Advance Cash Interfunds receivable | 2,11 | 405,934.93 | 0.00 |
| Other | 2,11 | 524,340.60 | 429,467.63 |
| Total assets | | 264,043,501.42 | 243,877,097.51 |
| Liabilities | | | |
| Contributions called for y+1 | 8 | 177,875,300.00 | 167,472,848.00 |
| Voluntary advances | 8 | 0.00 | 0.00 |
| Pension tax adjustments called for y+1 | 9 | 31,569,900.00 | 31,107,500.00 |
| Other | 12 | 5,848,754.88 | 1,135,978.55 |
| Total Liabilities | | 215,293,954.88 | 199,716,326.55 |
| Net Assets Available for Benefits | 13 | 48,749,546.54 | 44,160,770.96 |

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-20 | 31-Dec-19 |
| Increase in net assets | | 221,225.66 | 1,094,132.42 |
| Interest income | 2,14 | 27,104.36 | 35,478.14 |
| Transfers from other pension funds | 15 | 89,011.19 | 957,205.98 |
| Other | 16 | 105,110.11 | 101,448.30 |
| Contributions | | 185,206,945.16 | 169,939,138.99 |
| Staff members | 6 | 16,879,862.25 | 14,463,111.37 |
| Employers | 7 | 263,020.04 | 270,755.07 |
| Nations | 8 | 168,064,062.87 | 155,205,272.55 |
| Regularizations previous years | | 0.00 | 0.00 |
| Tax adjustments | 9 | 26,577,854.48 | 27,767,387.69 |
| Total increase in net assets available for benefits | | 212,006,025.30 | 198,800,659.10 |
| Decrease in net assets | | 180,839,395.24 | 173,816,097.94 |
| Pension benefits | 19 | 180,623,736.85 | 173,329,282.12 |
| Leaving allowances | 19 | 0.00 | 0.00 |
| Other costs | 2,17 | 123,832.94 | 405,691.78 |
| Bank costs | 2,14 | 91,825.45 | 81,124.04 |
| Tax adjustments | 9 | 26,577,854.48 | 27,767,387.69 |
| Total decrease in net assets available for benefits | | 207,417,249.72 | 201,583,485.63 |
| Net change for the year | | 4,588,775.58 | -2,782,826.53 |
| Net assets available for benefits, beginning of year | | 44,160,770.96 | 46,943,597.49 |
| Net assets available for benefits, end of year | | 48,749,546.54 | 44,160,770.96 |

**EXPLANATORY NOTES TO THE
2020 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 participated 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 organizations, namely:

- The Organization for Economic Co-operation and Development (OECD)
- The Council of Europe
- The European Space Agency (ESA)
- The European Centre for Medium-Range Weather Forecasts (ECMWF)
- The European Organization for the Exploitation of Meteorological Satellites (EUMETSAT)

These Coordinated Organizations 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's 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 Organizations, 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 in order 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 Organizations.

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 Organizations. The rate was further increased to 9.5% as from 1 January 2015.

From January 2020 the staff contribution rate is 11.8%. At the same time the annual pension payment adjustments are no longer connected to the serving staff salary increase, which has been the rule since the inception of the scheme. Instead, the DBPS annual pension payments shall be adjusted in accordance with revaluation coefficients based on the consumer price index for the country of the scale used.

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 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) and, until mid-2020, the New NATO Headquarters Project Office (NHQPO).

Nations' contributions

The member states jointly guarantee the payment of benefits. Should a country, being a member or ex-member of the Organization, fail to comply with its obligations, the other countries shall meet the cost thereof in proportion to their contributions to the budget of the Organization 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 Budget, 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. 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. Copies of the meeting minutes can be found in the IS/EM-HR Pensions Unit.

None of the above-mentioned management services provided by NATO and the ISRP is 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 organization 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, so that the net pension balance remaining after deduction of the amount of national income tax (or taxes) would 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 (IAS 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 summarize the transactions, net assets available for benefits and the changes in net assets available for benefits. In accordance with IAS 26, the actuarial present value of promised retirement benefits of the NATO DBPS is presented in Note 3.

Basis of presentation

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

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

Changes in accounting policy

None in 2020.

Restatement of financial statements of previous year

None in 2020.

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 tax 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 Organizations of which he is a national, or in a member country of one of the Coordinated Organizations of which his spouse is a national, or in a country where he/she has served at least five years in one of the organizations of the Coordinated Organizations. Consequently, 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. Profit and loss 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.

Accounting for the DBPS is subject to FC(FAC)(2020)004 which sets out IS/OFC policy for accounting and reporting transactions in foreign currency.

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 recognized at ultimate redemption value.

In 2020 the Budget Committee authorized as per BC-DS(2020)0002 all NATO common-funded entities a deviation from FRP Article XXXI 1) to allow for exceptional term deposits not to exceed four years and up to MEUR 400, on the condition that the deposited funds can be reclaimed at any time during the investment period with no impact on the original invested amounts. This authorization was granted in the context of negative interest rates imposed by the European Central Bank (ECB).

Under this specific authorization DBPS has deposited MEUR 40 with Credit Agricole.

Receivables

Receivables are stated at their book 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 current bank accounts and deposit accounts.

Credit risk

The NATO DBPS incurs credit risks from cash, cash equivalents, 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 with registered banking institutions with the following ratings (short term).

| Bank Name | Country of HQ | Short Term Ratings | | | | | |
|-----------------|---------------|--------------------|------------------|------------|------------------|------------|------------------|
| | | FITCH | | S&P GLOBAL | | MOODY'S | |
| | | Rating | Last Review Date | Rating | Last Review Date | Rating | Last Review Date |
| ING Bank | Netherlands | F1+ | 15-Oct-2020 | A-1 | 10-Jul-2020 | P-1 | 21-Oct-2020 |
| BNP PF | Belgium | F1 | 21-Oct-2020 | A1 | 23-Apr-2020 | P-1 | 25-Oct-2020 |
| Credit Agricole | France | F1 | 10-Nov-2020 | A1 | 21-Oct-2020 | P-1 | 19-Sep-2020 |

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 these bodies are directly funded by member Nations or indirectly in the case of customer funding.

The NATO Coordinated Pension Scheme holds a bank account with AION but without significant cash holdings.

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. 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 cash equivalents.

The table below provides a breakdown of the DBPS pension related payments by currency during 2020.

| Currency | Percentage/EUR |
|----------|----------------|
| EUR | 84.65% |
| GBP | 7.85% |
| USD | 3.33% |
| NOK | 1.21% |
| CAD | 1.12% |
| DKK | 1.12% |
| TRY | 0.39% |

| Currency | Percentage/EUR |
|--------------|----------------|
| CHF | 0.08% |
| THB | 0.05% |
| AUD | 0.05% |
| MXN | 0.05% |
| NZD | 0.03% |
| SEK | 0.03% |
| CZK | 0.02% |
| PLN | 0.01% |
| Total | 100.00% |

The calls for contributions from Nations related to Pension Adjustments 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 are called in advance, 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, 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 capital-guaranteed financial investments (if any) are managed to avoid liquidity risk.

The calls for contributions related to the Pension Adjustments 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

At the end of 2020, DBPS was not exposed to market risks.

NOTE 3: ACTUARIAL VALUATION**The ISRP Actuarial Study Introduction**

The International Service for Remunerations and Pensions (ISRP) is an organization that provides statistical, mathematical and actuarial support to the following organizations:

- NATO
- Council of Europe
- Organization for Economic Cooperation and Development (OECD)
- European Space Agency (ESA)
- European Centre for Medium-Range Weather Forecast (ECMWF)
- European Organization for the Exploitation of Meteorological Satellites (EUMETSAT)

In accordance with the requirements of the Letter of Mission (LM/SIRP/NATO(2012)35) signed by NATO and the ISRP, the later performed an actuarial study aiming at:

- Estimating the accrued pension and medical coverage liabilities at 31 December 2020 according to the International Public Sector Accounting Standards (IPSAS).
- Producing the IPSAS accounting disclosures related to these liabilities.

The study is based on comprehensive data of the affiliated population at the end of 2020 provided to ISRP by NATO.

NATO has also supplied data regarding DBPS cash flows over 2020.

NATO IS believes that the results of this report represent a reasonable measure of the DBPS underlying liabilities.

The previous full valuation was performed as at 31 December 2019.

The study has been conducted in accordance with generally accepted actuarial practices, in close collaboration with NATO. Whilst the report complies with IPSAS 39, NATO DBPS financial statements are prepared under IAS 26.

Actuarial Valuation Method

ISRP used the Projected Unit Credit approach. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. In addition, where the amount of a benefit is a constant proportion of final salary for each accrued unit of rights, future salary increases will affect the amount required to settle the obligation, therefore the method requires projecting the salary to its final value.

Only the rights accrued up to the valuation date have been taken into account. The rights of employees with less than 10 years of service are taken into account proportionally.

Actuarial Assumptions

Actuarial assumptions can be classified as either financial or demographic assumptions. Financial assumptions impact the amount of benefits to be paid over time and the net present value whilst demographic assumptions reflect the likelihood of payment and factors internal to NATO Financial Assumptions.

The below financial assumptions were considered:

| Assumptions | As at 31 Dec 2019 | As at 31 Dec 2020 |
|-----------------------|--------------------------|--------------------------|
| Discount Rate | | |
| Pension Schemes | 0.27% | -0.23% |
| Price Inflation | 2.00% | 2.00% |
| Salary Inflation | 2.24% | 2.24% |
| Pension Increase Rate | 2.00% | 2.00% |

The discount rate used was the Euro area AAA Government Yield Curve, as at 31 December 2020. The change in discount rate is due to the change in financial market conditions over 2020.

In accordance with past practice, as a long-term inflation rate, the European Central Bank's long-term inflation rate target of 2.0% is used.

Salary inflation is calculated as a 0.24% increase to the derived rate of inflation as used in the most recent actuarial study of the contribution rate for the Co-Ordinated Organizations.

The pension increase rate is in line with price inflation for the DBPS. Up to 1 January 2020, pensioners were increased with salary inflation. As at 31 December 2020, the pension increase rate assumption is set equal to the inflation assumption of 2.0%.

Demographic Assumptions

The demographics at this year-end are the same as those used for the previous year-end.

Mortality tables are a set of probabilities of a person dying within the year at a specific age and are an important assumption for the calculation of pension obligations. The ISRP, have produced mortality tables specific to international civil servants based in Europe since 2008 in order to have more appropriate results, compared to national or regional tables, on the life expectancy of the relevant population. This series of tables is known as the International Civil Servants Life Table (ICSLT).

Set out below is a comparison of life expectancies based on the ICSLT 2018 mortality table projected from 2019 and the ICSLT 2018 projected from 2020:

| | ICSLT 2018 2019 Projection | ICSLT 2018 2020 Projection |
|-----------------------|---------------------------------------|---------------------------------------|
| Males | | |
| 60 year old | 28.4 | 28.5 |
| 40 year old now at 60 | 29.0 | 29.0 |
| Females | | |
| 60 year old | 31.1 | 31.1 |
| 40 year old now at 60 | 31.5 | 31.5 |

Other demographic assumption taken into consideration are:

- Turnover
- Probability to retire
- Probability of becoming invalid
- Career progression
- Probability of being married
- Age difference in couples
- Age of pension suspension for Orphans

NATO UNCLASSIFIED

ANNEX 3 to
FC(2021)0030

3-10

- Family allowances

Results for DBPS current obligation

The DBPS obligation as estimated at the end year 2020 is KEUR 9,294,915. It has increased by approximately 10% compared to the 2019 year-end.

The change in the liability during 2020 can be summarized as follows:

| (amount in KEUR) | 2020 |
|---------------------------------------|------------------|
| Obligation at 1 January 2020 | 8,446,358 |
| Interest Cost | 22,559 |
| Current Service Cost | 192,464 |
| Benefits Paid | -182,148 |
| Actuarial (Gains)/Lossess | 815,681 |
| Obligation at 31 December 2020 | 9,294,915 |

Overall, the pension obligation has increased by KEUR 848,557 during 2020. This is principally due to the reduction in the discount rate. This increase was slightly offset by experience gains due to salary and pension increases being lower than expected.

The breakdown of the pension obligation by member status at 31 December 2020 is shown below:

| (amount in KEUR) | 2020 |
|---------------------------------------|------------------|
| Actives | 3,572,878 |
| Deferreds | 171,123 |
| Pensioners | 5,550,914 |
| Obligation at 31 December 2020 | 9,294,915 |

An actuarial loss of KEUR 815,681 occurred during 2020. This is explained by a number of factors, including the updated population and the decreased discount rate.

The analysis of the impact of the actuarial loss is as follows:

| Impact of Change in ... | Type Loss / (Gain) | Amount in KEUR | % of 2020 YE Liability |
|---------------------------------------|---------------------------|-----------------------|-------------------------------|
| Population | Experience | -92,553 | -1.0% |
| Updated Early Retirement Coefficients | Updated Coefficients | 4,594 | +0.1% |
| Financial Assumptions | Assumption | 903,640 | +9.7% |
| Total Actuarial Loss / (Gain) | | 815,681 | +8.8% |

NOTE 4: CASH AND CASH EQUIVALENTS

Separate bank accounts are held in various currencies (AUD, CAD, CHF, DKK, EUR, GBP, NOK and USD), namely for those currencies that represent most of the pensions paid, in order to ensure the recurring foreign currency payments. However, payments are also made in other currencies (e.g. NZD, SEK, TRY), but these are usually made from the EUR bank account.

Some cash is also held on account of third parties. These funds belong to Nations, members of former NAMSAs (now NSPAs), 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. (see Note 12).

The below table provides an overview of DBPS's cash holdings (incl. short-term deposits) as of 31 December 2020:

| Cash and cash equivalents (EUR) | |
|--|-------------------------|
| As at 31/12/2020 | As at 31/12/2019 |
| 109,656,528.26 | 115,465,541.61 |

In the table below, we provide comparative data for the short-time deposits held over two consecutive years:

| Short-time deposit accounts (EUR) | |
|--|-------------------------|
| As at 31/12/2020 | As at 31/12/2019 |
| 35,089,811.66 | 65,907,518.93 |

NOTE 5: FINANCIAL INVESTMENTS

Under the BC specific authorization (see note 2, Financial investment), the DBPS has invested MEUR 40 with Credit Agricole, MEUR 20 for a maximum period of 3 years and MEUR 20 for a maximum period of 4 years.

NOTE 6: STAFF MEMBER CONTRIBUTIONS

Staff member contributions are paid monthly by the NATO payroll centers. Since 1 January 2020 the staff contribution rate is 11.8% of basic salary while this was 9.0% until the end of 2019. The increase in staff contribution rate in 2020 explains the increase of staff contributions while the number of contributing staff reduces and newly recruited staff are members of the DCPS.

Outstanding amounts at year-end (Receivables) are linked to contributions due on staff salaries for December from several NATO entities, which were all received in early 2021.

The below chart provides an overview of the staff contributions over the last two consecutive years:

| Staff contributions (EUR) | 2020 | 2019 |
|----------------------------------|----------------------|----------------------|
| CIVIL | 3,758,494.15 | 3,316,962.33 |
| MILITARY | 13,121,368.10 | 11,146,149.04 |
| Total | 16,879,862.25 | 14,463,111.37 |

NOTE 7: EMPLOYER CONTRIBUTIONS

Employer contributions are due from the following NATO bodies: MSIAC, FORACS, NAGSMA and the NATO BICES Agency. In 2020 the NHQPO had no employees affiliated to DBPS. The Employer contributions are paid monthly.

The outstanding amounts (Receivables) slightly decreased in 2020.

NATO UNCLASSIFIED

ANNEX 3 to
FC(2021)0030

3-12

The below chart provides an overview of the employer's contributions over the last two consecutive years:

| Employer contributions (EUR) | 2020 | 2019 |
|-------------------------------------|-------------------|-------------------|
| CIVIL | 58,110.00 | 75,940.10 |
| MILITARY | 204,910.04 | 194,814.97 |
| Total | 263,020.04 | 270,755.07 |

The increase in the Military Employers' contribution reflects the salary increases of NATO BICES Agency and NAGSMA, while the decrease in the Civil Employers' contribution is explained by reduced number of entities still contributing (FORACS and MSIAC).

NOTE 8: NATION CONTRIBUTIONS

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 XXIX 8) of the NATO Financial Rules and Procedures, amounts called are to be paid in principle within a period of one month after receipt of the request. Amounts recognized 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 and takes into account the previous year's surplus or deficit, and it also regularizes any adjustments done in the course of the budget year such as budget revisions.

The amounts called at year-end as advances for the following year (Liabilities) are:

| Budget called in Y-1 (EUR) | 2021 | | 2020 | |
|-----------------------------------|----------------|-----------------|----------------|-----------------|
| | CIVIL | MILITARY | CIVIL | MILITARY |
| | 40,725,300.00 | 137,150,000.00 | 38,562,300.00 | 128,910,000.00 |
| | 177,875,300.00 | | 167,472,300.00 | |

In terms of execution (Statements of Changes in Net Assets Available for Benefits), below is provided a reconciliation between the calls and the costs recognized against nations contributions:

| Nation contributions (EUR) | | 2020 | 2019 |
|-----------------------------------|-----------------------|-----------------------|-----------------------|
| CIVIL | Call Y | 38,562,300.00 | 38,134,400.00 |
| | Regul. revised call Y | 2,360,000.00 | 1,000,000.00 |
| | Regul. call Y-1 | 398,193.63 | -585,419.82 |
| | Total | 41,320,493.63 | 38,548,980.18 |
| MILITARY | Call Y | 128,910,000.00 | 125,830,000.00 |
| | Regul. revised call Y | 0.00 | -4,270,000.00 |
| | Regul. call Y-1 | -2,166,430.83 | -4,903,707.66 |
| | Total | 126,743,569.17 | 116,656,292.34 |
| Rounding difference | | 0.07 | 0.03 |
| TOTAL | | 168,064,062.87 | 155,205,272.55 |

Uncollected budgetary contributions from Nations (Receivables) relate mainly to the call for the 2021 pension budget.

Hereunder is a breakdown of such outstanding contributions as at 31 December 2020:

| DBPS Nations outstanding receivables as at 31/12/2020 (EUR) | |
|--|----------------------|
| ALBANIA | 183,767.82 |
| BELGIUM | 4,587,702.21 |
| CANADA | 2,800,066.98 |
| CROATIA | 222,837.60 |
| CZECH REPUBLIC | 430,194.86 |
| DENMARK | 2,283,301.68 |
| FINLAND | -1,216.07 |
| FRANCE | 4,270,018.94 |
| GREECE | 1,334,192.80 |
| HUNGARY | 633,761.20 |
| ITALY | 3,574,445.28 |
| LUXEMBOURG | 443,875.60 |
| MONTENEGRO | 36,487.72 |
| NAMFI | 26,653.50 |
| NETHERLANDS | 6,006,421.69 |
| NORTH MACEDONIA | 52,954.86 |
| NORWAY | 2,994,267.94 |
| PORTUGAL | 1,420,226.30 |
| ROMANIA | 2,514,907.37 |
| SLOVENIA | 442,614.46 |
| SPAIN | 2,135,803.78 |
| SWEDEN | -6,688.25 |
| TURKEY | 5,884,482.66 |
| UNITED STATES | 41,692,914.76 |
| <i>NATO International Staff</i> | 398,193.63 |
| Total | 84,362,189.32 |

The open receivable from NATO International Staff corresponds with the amount agreed by BC, BC-D(2020)0105, to fund the 2019 deficit for civilian's pensions.

On occasion, NATO member Nations may voluntarily pay supplementary advance contributions, table below compares these values over the last two consecutive years:

| DBPS Nations Voluntary Advances (EUR) | |
|--|-------------|
| 2020 | 2019 |
| 6,332,986,04 | 0.00 |

NATO UNCLASSIFIED

ANNEX 3 to
FC(2021)0030

3-14

NOTE 9: PENSION TAX ADJUSTMENT

For practical reasons, the operations relating to the adjustment of pensions for national taxation on NATO pensions income 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 and therefore are included on DBPS's Tax adjustment call and advanced by the DBPS.

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 for Pension Tax Adjustments as disclosed under the Statement of Changes of Net Assets Available for Benefits:

| Tax adjustments payments called under DBPS | | |
|---|----------------------|----------------------|
| Country | 2020 | 2019 |
| ALBANIA | 0.00 | 0.00 |
| BELGIUM | 12,929,837.40 | 13,272,599.60 |
| BULGARIA | 0.00 | 0.00 |
| CANADA | 311,614.72 | 267,570.08 |
| CROATIA | 0.00 | 0.00 |
| CZECH REPUBLIC | 1,617.95 | 981.68 |
| DENMARK | 468,322.05 | 490,933.71 |
| ESTONIA | 0.00 | 0.00 |
| FRANCE | 176,423.00 | 1,529,604.00 |
| GERMANY | 2,573,870.00 | 2,429,179.00 |
| GREECE | 224,558.00 | 188,183.00 |
| HUNGARY | 0.00 | 0.00 |
| ICELAND | 0.00 | 0.00 |
| ITALY | 2,204,389.62 | 2,161,027.38 |
| LATVIA | 0.00 | 0.00 |
| LITHUANIA | 0.00 | 0.00 |
| LUXEMBOURG | 1,640,301.00 | 1,558,720.00 |
| MONTENEGRO | 0.00 | 0.00 |
| NETHERLANDS | 3,143,112.35 | 2,864,784.65 |
| NORTH MACEDONIA | 0.00 | 0.00 |
| NORWAY | 386,877.39 | 402,695.50 |
| POLAND | 17,930.31 | 17,519.67 |
| PORTUGAL | 147,769.00 | 141,462.00 |
| ROMANIA | 0.00 | 0.00 |
| SLOVAKIA | 0.00 | 0.00 |
| SLOVENIA | 0.00 | 0.00 |
| SPAIN | 352,105.00 | 402,397.00 |
| TURKEY | 0.00 | 0.00 |
| UNITED KINGDOM OF GREAT BRITAIN | 1,519,607.15 | 1,559,705.55 |
| UNITED STATES OF AMERICA | 356,670.07 | 368,573.71 |
| <i>DCPS Tax Adjustments</i> | 128,261.47 | 101,149.16 |
| <i>Regularizations</i> | -5,412.00 | 10,302.00 |
| Total | 26,577,854.48 | 27,767,387.69 |

The DCPS tax adjustments, as mentioned in the table above, can be broken down per country as follows:

| DCPS tax adjustments breakdown | 2020 | 2019 |
|---------------------------------------|-------------------|-------------------|
| BELGIUM | 31,464.00 | 32,664.00 |
| CANADA | 19,763.54 | 20,137.88 |
| GERMANY | 22,049.00 | 736.00 |
| SPAIN | 6,072.00 | 6,077.00 |
| UNITED KINGDOM OF GREAT BRITAIN | 6,476.78 | 1,666.18 |
| ITALY | 6,852.00 | 5,652.00 |
| NETHERLANDS | 27,992.00 | 26,176.00 |
| NORWAY | 6,272.22 | 6,647.30 |
| UNITED STATES OF AMERICA | 1,319.93 | 1,392.80 |
| Total | 128,261.47 | 101,149.16 |

Pension Adjustment amounts paid to pensioners as reported in euro in the tables 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.

There are still some pending regularizations. The amount is considered not material (EUR 5,412.00), however it has been properly segregated in the table above "Tax adjustments payments called under DBPS". Proper action will be taken.

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 XXIX 8) of the NATO Financial Rules and Procedures, amounts called are to be paid in principle within one month after receipt of the request. Amounts recognized are those amounts called.

Advances on the next year's payments of the pension adjustment are called towards the end of the current year. At year end the balance of advances (Liabilities) were:

| DBPS budget called in Y-1 (EUR) | 2021 | | 2020 | |
|--|---------------|-----------------|---------------|-----------------|
| | CIVIL | MILITARY | CIVIL | MILITARY |
| | 11,460,600.00 | 20,109,300.00 | 11,208,000.00 | 19,899,500.00 |
| | 31,569,900.00 | | 31,107,500.00 | |

In 2020, the DBPS tax adjustments calls balance (difference between what is called from the nations and what is paid to pensioners) shows an accumulated surplus of EUR 4,391,449.10. This accumulated surplus is the sum of 2019 accumulated deficit (EUR 296,415.69) and 2020 surplus (EUR 4,687,864.79).

Consequently, this accumulated surplus has been classified, in the statement of net assets available for benefits, as other liability.

NATO UNCLASSIFIED

ANNEX 3 to
FC(2021)0030

3-16

The table below provides an overview of Nations' amounts due in terms of tax adjustments at year-end.

| DBPS Nations outstanding tax adjustment receivables as at 31/12/2020 (EUR) | |
|---|----------------------|
| BELGIUM | 15,142,394.00 |
| CANADA | 329,812.61 |
| CZECH REPUBLIC | 2,181.68 |
| DENMARK | 412,558.81 |
| FRANCE | 650,899.00 |
| GERMANY | 2,846,369.00 |
| GREECE | 214,029.00 |
| ITALY | 2,526,867.00 |
| LUXEMBOURG | 2,019,137.00 |
| NETHERLANDS | 3,136,392.00 |
| NORWAY | 429,017.36 |
| PORTUGAL | 117,711.00 |
| SPAIN | 299,146.00 |
| UNITED STATES | 690,126.90 |
| Total | 28,816,641.36 |

NOTE 10: CREDIT FOR PAST SERVICE TO BE REFUNDED BY STAFF

This relates to amounts due from staff who had left the Organization and were paid a leaving allowance but who were later re-employed by the Organization or to staff who retroactively became members of the Coordinated Scheme further to NATO Administrative Tribunal decisions.

The table below provides an overview of such receivables in EUR for the last two consecutive years:

| 2020 | 2019 |
|-----------|-----------|
| 44,057.89 | 55,010.41 |

NOTE 11: OTHER ASSETS

The main positions of the Other Assets include for 393,260.84 EUR pending claims from pensioners and 127,804.50 EUR for tax adjustments due from the DCPS.

NOTE 12: OTHER LIABILITIES

These correspond to amounts relating to bank fees, life insurance capital due and other miscellaneous amounts due to be regularized (including reimbursement to the DCPS of amounts paid in relation to Pension Adjustments and pensions not yet paid), and some accruals.

This item also includes funds held on behalf of certain Nations corresponding to their share of former NAMSA (now NSPA) staff members' validation costs, which date back to the date when

the DBPS was established. By that time, 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. The funds left remained unchanged in 2020.

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 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 Organizations, 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.

| Breakdown of Net Assets Available for Benefits (EUR) | 2020 | 2019 |
|---|----------------------|----------------------|
| Credits for Past Services | 44,057.89 | 55,010.41 |
| Pensions Rights transferred to DBPS | 42,426,534.54 | 42,337,523.35 |
| Budgetary Surplus at End of Year | 6,278,954.11 | 1,768,237.20 |
| Total | 48,749,546.54 | 44,160,770.96 |

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 (the surplus end of 2020 will be returned to Nations with the call for the 2022 budget to be issued end 2021).

NOTE 14: INTERESTS EARNED AND BANK COSTS

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

The table below provides an overview of these costs and revenues over the last two consecutive years:

| (EUR) | 2020 | 2019 |
|-------------------------|-------------|-------------|
| Bank Charges | 91,825.45 | 81,124.04 |
| Financial Income | 27,104.36 | 35,478.14 |

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 Organization of any amounts corresponding to the retirement pension rights accrued under the pension scheme to which the staff member was previously affiliated as 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 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 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 Organizations (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 2018, the total amount of inward transfers received throughout the year was EUR 947,287.18.

End 2019 the total amount of inward transfers received throughout the year was EUR 957,205.98.

In 2020 the DBPS received EUR 89,011.19 of inward transfers, which resulted in an accumulated balance of EUR 42,426,534.54.

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 realized exchange gains and other miscellaneous revenues.

NOTE 17: OTHER DECREASES IN NET ASSETS

This corresponds mainly to realized exchange losses (EUR 90,261.06 in 2020 and EUR 373,004.55 in 2019), the cost of the actuarial study (EUR 22,488.99 in 2020 and EUR 21,707.52 in 2019), and other miscellaneous expenses.

NOTE 18: PENSION BENEFITS

The table below provides a breakdown of payments according to the nature of pensions paid in 2020 per budget:

| (amounts in EUR) | Civil | Military | Total |
|-------------------------------|----------------------|-----------------------|-----------------------|
| Retirement Pensions | 32,064,333.86 | 97,070,727.08 | 129,135,060.94 |
| Survivor's Pensions | 5,600,951.07 | 17,910,093.69 | 23,511,044.76 |
| Orphan Pensions | 99,006.65 | 458,086.46 | 557,093.11 |
| Invalidity Pension | 4,949,470.34 | 14,079,877.26 | 19,029,347.60 |
| Family Allowance | 1,900,353.23 | 6,490,837.21 | 8,391,190.44 |
| Total Pension Benefits | 44,614,115.15 | 136,009,621.70 | 180,623,736.85 |

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 that was the last employer of the retired staff member on the

ANNEX 3 to
FC(2021)0030

3-20

expense side, and the NATO body that is currently employing the contributing staff member on the revenue side).

NATO UNCLASSIFIED

3-21

ANNEX 3 to
FC(2020)0032

PUBLICLY DISCLOSED - PDN(2022)0014 - MIS EN LECTURE PUBLIQUE

| SEGMENT TABLE NATO BODIES 2020 (1/2) | ACO-ACT | ACO-ACT (16N) | ACO-ACT (17N) | BGOH (2N) | BGOH (8N) | BGOH (9N) | CEPMA (6N) | CEPMA (7N) | CEPMA (8N) | Ex NACISA (14N) | IMS |
|---|----------------------|----------------------|-------------------|-------------------|------------------|---------------------|------------------|-------------------|---------------------|---------------------|---------------------|
| PAYMENTS / PAIEMENTS | | | | | | | | | | | |
| Retirement Pension / Pension d'Ancienneté | 24,086,522.77 | 15,542,182.50 | 211,403.40 | 354,953.46 | 36,615.71 | 991,964.11 | 14,730.80 | 178,353.52 | 1,479,459.03 | 909,731.30 | 4,237,736.08 |
| Survivor Pension / Pension de Survie | 6,444,785.10 | 2,210,277.22 | 0.00 | 35,169.20 | 13,363.27 | 611,335.88 | 2,729.79 | 6,629.50 | 804,532.00 | 501,001.46 | 638,708.38 |
| Orphans Pension / Pension d'Orphelins | 92,628.08 | 23,672.64 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Invalidity Pension / Pension d'Invalidité | 2,078,345.10 | 5,365,232.66 | 0.00 | 90,742.34 | 6,392.66 | 192,635.18 | 67,810.06 | 14,266.56 | 38,130.02 | 36,597.09 | 642,847.69 |
| Family Allowance / Allocations Familiales | 1,420,360.94 | 1,400,908.51 | 9,165.60 | 36,346.93 | 2,769.66 | 53,628.89 | 1,642.65 | 9,626.55 | 67,693.23 | 52,106.78 | 251,351.94 |
| Leaving Allowance / Allocations de Départ | 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 / 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 | 13,291.77 | 9,559.93 | 85.92 | 201.47 | 23.04 | 720.46 | 33.86 | 81.36 | 930.90 | 584.07 | 2,247.83 |
| Total Payments / Paiements | 34,135,933.76 | 24,551,833.46 | 220,654.92 | 517,413.40 | 59,164.34 | 1,850,284.52 | 86,947.16 | 208,957.49 | 2,390,745.18 | 1,500,020.70 | 5,772,891.92 |
| RECEIPTS / RECETTES | | | | | | | | | | | |
| Staff Contributions / Contributions des Agents | 2,313,225.90 | 1,932,813.69 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 627,670.69 |
| Employer Contributions / Contributions de l'Employeur | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 171,841.40 |
| 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 | 0.00 |
| Interests, Profit & Loss / Intérêts, Pertes & Profits | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Miscellaneous / Divers | -370.27 | -309.38 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -127.98 |
| Contributions due by Staff Center | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total Receipts / Recettes | 2,312,855.63 | 1,932,504.31 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 799,384.11 |
| Funding Requirement / Besoin de financement | 31,823,078.13 | 22,619,329.15 | 220,654.92 | 517,413.40 | 59,164.34 | 1,850,284.52 | 86,947.16 | 208,957.49 | 2,390,745.18 | 1,500,020.70 | 4,973,507.81 |

NATO UNCLASSIFIED

ANNEX 3 to
FC(2020)0032

3-22

PUBLICLY DISCLOSED - PDN(2022)0014 - MIS EN LECTURE PUBLIQUE

| SEGMENT TABLE NATO BODIES 2020 (2/2) | IS | NAHEMA (5N) | NAMEADSMA (2N) | NAMMA (3N) | NAPMA (16N) | NCIA | NEFMA (4N) | NETMA (4N) | NSPA | Total |
|---|----------------------|------------------|-------------------|-------------------|---------------------|----------------------|-------------------|---------------------|----------------------|-----------------------|
| PAYMENTS / PAIEMENTS | | | | | | | | | | |
| Retirement Pension / Pension d'Ancienneté | 32,064,333.86 | 67,611.84 | 0.00 | 29,578.03 | 2,181,237.12 | 21,852,099.64 | 90,737.28 | 646,841.16 | 24,158,969.33 | 129,135,060.94 |
| Survivor Pension / Pension de Survie | 5,600,951.07 | 0.00 | 0.00 | 39,592.56 | 469,922.88 | 1,684,567.96 | 82,203.48 | 238,754.52 | 4,126,520.49 | 23,511,044.76 |
| Orphans Pension / Pension d'Orphelins | 99,006.65 | 0.00 | 0.00 | 0.00 | 6,545.50 | 107,899.46 | 0.00 | 16,496.88 | 210,843.90 | 557,093.11 |
| Invalidity Pension / Pension d'Invalidité | 4,949,470.34 | 0.00 | 0.00 | 39,592.56 | 402,195.24 | 1,596,255.52 | 94,644.00 | 164,545.14 | 3,249,645.44 | 19,029,347.60 |
| Family Allowance / Allocations Familiales | 1,900,353.23 | 5,220.00 | 0.00 | 2,569.17 | 176,350.05 | 1,481,133.67 | 8,963.28 | 37,345.52 | 1,473,653.84 | 8,391,190.44 |
| Leaving Allowance / Allocations de Départ | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| 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 |
| Miscellaneous / Divers | 17,378.50 | 28.37 | 0.00 | 43.37 | 1,260.61 | 10,408.98 | 107.72 | 430.03 | 12,940.02 | 70,358.23 |
| Total Payments / Paiements | 44,631,493.65 | 72,860.21 | 0.00 | 111,375.69 | 3,237,511.40 | 26,732,365.23 | 276,655.76 | 1,104,413.25 | 33,232,573.02 | 180,694,095.08 |
| RECEIPTS / RECETTES | | | | | | | | | | |
| Staff Contributions / Contributions des Agents | 3,758,494.15 | 0.00 | 16,708.29 | 0.00 | 131,997.40 | 4,490,577.67 | 0.00 | 0.00 | 3,608,374.46 | 16,879,862.25 |
| Employer Contributions / Contributions de l'Employeur | 58,110.00 | 0.00 | 0.00 | 0.00 | 0.00 | 33,068.64 | 0.00 | 0.00 | 0.00 | 263,020.04 |
| 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 |
| Interests, Profit & Loss / Intérêts, Pertes & Profits | 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 | -2.67 | 0.00 | -21.13 | -724.09 | 0.00 | 0.00 | -577.58 | -2,133.10 |
| Contributions due by Staff Center | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total Receipts / Recettes | 3,816,604.15 | 0.00 | 16,705.62 | 0.00 | 131,976.27 | 4,522,922.22 | 0.00 | 0.00 | 3,607,796.88 | 17,140,749.19 |
| Funding Requirement / Besoin de financement | 40,814,889.50 | 72,860.21 | -16,705.62 | 111,375.69 | 3,105,535.13 | 22,209,443.01 | 276,655.76 | 1,104,413.25 | 29,624,776.14 | 163,553,345.89 |

NOTE 22: BUDGET EXECUTION

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

| Budget Execution 2020 | | | | |
|---|-----------------------|-----------------------|-----------------------|---------------------|
| (amounts in EUR) | Initial Budget | Revised Budget | Actuals | Difference |
| | (a) | (b) | (c) | (b-c) |
| CIVIL BUDGET | | | | |
| <u>PAYMENTS / PAIEMENTS</u> | | | | |
| Retirement Pension / Pension d'Ancienneté | 29,406,681.00 | 31,906,681.00 | 32,064,333.86 | -157,652.86 |
| Survivor Pension / Pension de Survie | 5,787,168.00 | 5,812,168.00 | 5,600,951.07 | 211,216.93 |
| Orphans Pension / Pension d'Orphelins | 196,420.00 | 111,420.00 | 99,006.65 | 12,413.35 |
| Invalidity Pension / Pension d'Invalidité | 4,980,009.00 | 4,980,009.00 | 4,949,470.34 | 30,538.66 |
| Family Allowance / Allocations Familiales | 1,843,154.00 | 1,903,154.00 | 1,900,353.23 | 2,800.77 |
| 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 | 17,378.45 | -17,378.45 |
| Total Payments / Paiements | 42,213,432.00 | 44,713,432.00 | 44,631,493.60 | 81,938.40 |
| <u>RECEIPTS / RECETTES</u> | | | | |
| Staff Contributions / Contributions des Agents | 3,588,754.00 | 3,728,754.00 | 3,758,494.15 | -29,740.15 |
| Employer Contributions / Contributions de l'Employeur | 62,378.00 | 62,378.00 | 58,110.00 | 4,268.00 |
| 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 |
| Total Receipts / Recettes | 3,651,132.00 | 3,791,132.00 | 3,816,604.15 | -25,472.15 |
| Funding Requirement / Besoin de financement | 38,562,300.00 | 40,922,300.00 | 40,814,889.45 | 107,410.55 |
| MILITARY BUDGETS | | | | |
| <u>PAYMENTS / PAIEMENTS</u> | | | | |
| Retirement Pension / Pension d'Ancienneté | 100,500,000.00 | 100,500,000.00 | 97,070,727.08 | 3,429,272.92 |
| Survivor Pension / Pension de Survie | 18,750,000.00 | 18,750,000.00 | 17,910,093.69 | 839,906.31 |
| Orphans Pension / Pension d'Orphelins | 610,000.00 | 610,000.00 | 458,086.46 | 151,913.54 |
| Invalidity Pension / Pension d'Invalidité | 15,000,000.00 | 15,000,000.00 | 14,079,877.26 | 920,122.74 |
| Family Allowance / Allocations Familiales | 6,850,000.00 | 6,850,000.00 | 6,490,837.21 | 359,162.79 |
| 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 | 150,000.00 | 150,000.00 | 52,979.78 | 97,020.22 |
| Total Payments / Paiements | 141,860,000.00 | 141,860,000.00 | 136,062,601.48 | 5,797,398.52 |
| <u>RECEIPTS / RECETTES</u> | | | | |
| Staff Contributions / Contributions des Agents | 12,770,000.00 | 12,770,000.00 | 13,121,368.10 | -351,368.10 |
| Employer Contributions / Contributions de l'Employeur | 180,000.00 | 180,000.00 | 204,910.04 | -24,910.04 |
| 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 | -2,133.10 | 2,133.10 |
| Total Receipts / Recettes | 12,950,000.00 | 12,950,000.00 | 13,324,145.04 | -374,145.04 |
| Funding Requirement / Besoin de financement | 128,910,000.00 | 128,910,000.00 | 122,738,456.44 | 6,171,543.56 |
| TOTAL CIVIL + MILITARY BUDGETS | | | | |
| TOTAL Funding Requirement | 167,472,300.00 | 169,832,300.00 | 163,553,345.89 | 6,278,954.11 |

NATO UNCLASSIFIED

ANNEX 3 to
FC(2020)0032

3-24

Miscellaneous payments and receipts are financial and miscellaneous expenses and revenues linked to the payment of pension benefits and to the receipt of pension contributions. Examples of these costs/revenues are:

| TYPES OF DBPS FINANCIAL AND MISCELLANEOUS REVENUES/EXPENSES | |
|--|------------------------------------|
| FINANCIAL | Realized exchange gains and losses |
| | Bank interests and charges |
| | Rounding differences (minor) |
| | Payment differences (minor) |
| MISCELLANEOUS | General admin support expenses |
| | Miscellaneous income |

These miscellaneous expenses and revenues are allocated between civil and military budgets following the proportion of civil and military payments and receipts in the total amounts.

Only the expenses (whether from civil or military budget) incur financial and miscellaneous revenues and costs. For this reason, all revenues/costs have been dispatched on the payments, except for the realized exchange gains and losses. Those are prorated separately because they also regard the military budget receipts (agency contributions received in currency). No revenue/cost is prorated on civil budget receipts because all contributions are received in euros.

The chart below shows details of these proratas:

| BUDGET EXECUTION 2020 (EUR) | | Prorata MISC & FIN expenses | |
|------------------------------------|--------------------|--|-------------|
| | | MISC & FIN except 654/754 & 655/755 | FIN 654/754 |
| | | 41,446.32 | 31,045.08 |
| CIV | | | |
| Payments | | | |
| Main | 44,614,115.15 25% | 25% | 23% |
| Misc | 17,378.52 | 10,237.25 | 7,141.27 |
| Rounding diff | -0.07 | | |
| | 17,378.45 | | |
| Receipts | | | |
| Main | 3,816,604.15 22% | | |
| Misc | | | |
| MIL | | | |
| Payments | | | |
| Main | 136,009,621.70 75% | 75% | 70% |
| Misc | 52,979.78 | 31,209.07 | 21,770.71 |
| Receipts | | | |
| Main | 13,326,278.14 78% | | 7% |
| Misc | 2,133.10 | | 2,133.10 |
| 180,623,736.85 100% | | 17,142,882.29 | 100% |

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.

The table below provides comparative data about the approved budgets and revised budgets for the two last consecutive years:

| (EUR) | 2020 | | 2019 | |
|------------------------------|----------------|----------------|----------------|----------------|
| | CIVIL | MILITARY | CIVIL | MILITARY |
| Budget called in Y-1 | 38,562,300.00 | 128,910,000.00 | 38,134,400.00 | 125,830,000.00 |
| | 167,472,300.00 | | 163,964,400.00 | |
| Regularization in Y | 2,360,000.00 | 0.00 | 1,000,000.00 | -4,270,000.00 |
| | 2,360,000.00 | | -3,270,000.00 | |
| Revised budget in Y | 40,922,300.00 | 128,910,000.00 | 39,134,400.00 | 121,560,000.00 |
| | 169,832,300.00 | | 160,694,400.00 | |
| Regularization in Y+1 | | | 398,193.63 | -2,166,430.83 |
| | | | -1,768,237.20 | |
| Revised budget in Y+1 | | | 39,532,593.63 | 119,393,569.17 |
| | | | 158,926,162.80 | |

The difference between approved budgets and actuals for both the Civil Budget and the Military Budgets mainly concern the following items: invalidity pensions and staff contributions. Invalidity pensions do not follow regular evolution paths and prove to be more difficult to anticipate. Newly recruited staff are automatically members of the DCPS. Consequently, 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 2020, there have been the following related party transactions:

Administrative Expenses

Administrative expenses in relation to the NATO DBPS are not recognized in these financial statements, the management of all pension schemes is performed by NATO IS.

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 in 2020 was EUR 103,677.20.

These administrative expenses are charged to the NATO Civil Budget, which includes the IS. In the framework of the Human Resource Shared Services 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.

NATO UNCLASSIFIED

ANNEX 3 to
FC(2020)0032

3-26

Key Management Personnel

For the purposes of these financial statements, Key Management Personnel are considered to be the NATO-IS Assistant Secretary General for Executive Management and the Financial Controller. Their remuneration is totally covered by the NATO International Staff.

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 Dependent'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 |
| 2018 | 2,759 | 699 | 53 | 432 | 3,943 |
| 2019 | 2,863 | 699 | 41 | 414 | 4,017 |
| 2020 | 2,940 | 716 | 37 | 412 | 4,105 |

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 |
| IPSAS: | International Public Sector Accounting Standards |
| IS: | International Staff |
| ISRP: | International Service for Remunerations and Pensions |
| MSIAC: | Munitions Safety Information Analysis Centre |
| NAGSMA: | NATO Alliance Ground Surveillance Management Agency |
| NHQPO | New Headquarters Program Office |
| NSPA: | NATO Support Agency |
| OECD: | Organization for Economic Co-operation and Development |
| OFC: | Office of Financial Control |

| Internal Control | | |
|-------------------------|-----------------|-----------------|
| Preparer | Reviewer | Approver |
| P. Soler | M. Deconinck | C. Smet |



NORTH ATLANTIC TREATY ORGANIZATION
ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD
INTERNATIONAL BOARD OF AUDITORS
COLLÈGE INTERNATIONAL DES AUDITEURS EXTERNES DE L'OTAN

NATO UNCLASSIFIED

IBA-A(2021)0117
25 August 2021

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

Cc: NATO Permanent Representatives
Assistant Secretary General, Executive Management Division
Deputy Assistant Secretary General, Executive Management Division
Financial Controller, International Staff
Chair, Resource Policy & Planning Board
Branch Head, Resource Management Branch, NATO Office of Resources
Private Office Registry

Subject: ***International Board of Auditors for NATO (IBAN) Audit Report on the audit of the New NATO Headquarters' (NNHQ) Financial Statements for the year ended 31 December 2020 – IBA-AR(2021)0021***

IBAN submits herewith its approved Audit Report with a Summary Note for distribution to the Council.

IBAN's report sets out an unqualified opinion on the Financial Statements of the New NATO Headquarters and on compliance for financial year 2020.

Yours sincerely,

Daniela Morgante
Chair

Attachments: As stated above.

NATO UNCLASSIFIED

-1-

**Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Financial Statements of the
New NATO Headquarters (NNHQ)
for the year ended 31 December 2020**

The International Board of Auditors for NATO (IBAN) audited the New NATO Headquarters (NNHQ) Financial Statements for the year ended 31 December 2020. At the Washington Summit, in April 1999, the Heads of State and Government of NATO countries formally decided to build a new NATO Headquarters in Brussels to meet the Alliance's needs in the twenty-first century. The North Atlantic Council, upon recommendation of the Civil Budget Committee, approves the budget for the New NATO Headquarters. It is funded from national contributions based on a specific cost-share agreement among the NATO nations. The overall programme budget ceiling was EUR 1.18 billion.

The Budget Committee decided to close the NNHQ Project and accounts as at 31 December 2020. IBAN notes that these financial statements are the last ones issued for the NNHQ Project. The NATO Member Nations decided that with the closure of the NNHQ project and accounts on 31 December 2020, the remaining balances will be transferred to the International Staff (IS) and will form part of the IS financial statements going forward.

IBAN issued an unqualified opinion on the financial statements and on compliance for the year ended 31 December 2020.

IBAN made no observations and recommendations.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that three were closed.

The Audit Report was issued to the International Staff whose comments have been included, with the IBAN's position on those comments where necessary.

The observations and recommendations and the follow-up of the previous years' observations and recommendations that are not in the Audit Report are included in a Management Letter addressed to NNHQ management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under NNHQ executive responsibility.

NATO UNCLASSIFIED

IBA-AR(2021)0021

25 August 2021

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE

NEW NATO HEADQUARTERS

(NNHQ)

FOR THE YEAR ENDED 31 DECEMBER 2020

PUBLICLY DISCLOSED - PDN(2022)0014 - MIS EN LECTURE PUBLIQUE

NATO UNCLASSIFIED

INDEPENDENT EXTERNAL AUDITOR'S REPORT TO THE NORTH ATLANTIC COUNCIL***Financial Statements*****Opinion on the Financial Statements**

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of New NATO Headquarters, for the 12 month period ended 31 December 2020, issued under document reference FC(2021)0038, and submitted to IBAN on 31 March 2021. These Financial Statements comprise the Statement of Financial Position as at 31 December 2020, the Statement of Financial Performance, the Statement of Changes in Net Assets/Equity and the Statement of Cash Flow, for the 12 month period ended 31 December 2020, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a Budget Execution Statement for the 12 month period ended 31 December 2020.

In our opinion, the Financial Statements give a true and fair view of the financial position of New NATO Headquarters as at 31 December 2020, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2020, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF).

Basis for Opinion on the Financial Statements

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies and reporting entities pursuant to the North Atlantic Treaty shall be performed by IBAN.

We have conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 2200-2899) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

We are independent in accordance with the INTOSAI Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter.

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

Management's Responsibility for the Financial Statements

Management's responsibility for the financial statements is laid down in the NFRs. The Financial Statements of New NATO Headquarters are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council. The Financial Controller is responsible for submitting the Financial Statements for audit to IBAN not later than 31st March following the end of the financial year.

The Financial Statements are signed by the Head of the NATO reporting entity and the Financial Controller. In signing the Financial Statements, the Head of the NATO reporting entity and the Financial Controller confirm 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.

This confirmation covers the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are auditable and free from material misstatement, whether due to fraud or error. This also covers reporting on the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there are plans to liquidate the entity or to cease its operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgement and maintain professional scepticism throughout the planning and performance of the audit. This involves taking into account Considerations Specific to Public Sector Entities. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to communicate with the bodies charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. Our Independent External Auditor's Report is prepared to assist North Atlantic Council in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

Compliance

Opinion on Compliance

Based on the procedures we performed, nothing has come to our attention, as part of our audit of the Financial Statements that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

Basis for Opinion on Compliance

We have conducted our compliance audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 4000-4899) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

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

Management's Responsibility for Compliance

All NATO staff, military and civilian, are obligated to comply with the NATO Financial Regulations, associated Financial Rules and Procedures and internal implementing directives. These include the NATO Civilian Personnel Regulations.

The Secretary General is responsible and accountable for sound financial management. The financial administration of NATO bodies and reporting entities must incorporate the principles of propriety, sound governance, accountability, transparency, risk management and internal control, internal audit, external audit, and fraud prevention and detection.

Auditor's Responsibilities for Compliance

In addition to the responsibility to provide reasonable assurance about whether the financial statements as a whole are free from material misstatement, the IBAN Charter requires IBAN to provide independent assurance and report annually to the North Atlantic Council about whether funds have been properly used for the settlement of authorised expenditure (propriety) and are in compliance with the regulations in force (regularity). Propriety relates to the observance of the general principles governing sound financial management and the conduct of public officials. Regularity concerns the adherence to formal criteria such as relevant regulations, rules and procedures.

This responsibility includes performing procedures to obtain independent assurance about whether funds have been properly used for the settlement of authorized expenditure and whether they have been used in compliance with the regulations in force. Such procedures include consideration of the risks of material non-compliance.

Brussels, 25 August 2021



Daniela Morgante
Chair

OBSERVATIONS AND RECOMMENDATIONS

IBAN made no observations and recommendations.

IBAN followed up on the status of observations and recommendations from the previous years’ audits and found that three were closed.

The Audit Report was issued to the International Staff whose comments have been included, with the IBAN’s position on those comments where necessary.

The observations and recommendations and the follow-up of the previous years’ observations and recommendations that are not in the Audit Report are included in a Management Letter addressed to New NATO Headquarters management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under New NATO Headquarters executive responsibility.

FOLLOW-UP OF PREVIOUS YEARS’ OBSERVATIONS

IBAN followed up on the status of observations from the previous years’ audit. The observations and recommendations, the actions taken by the auditee as reviewed by IBAN, and their status are summarised in the table below.

The Open status is used for recommendations that are open and for which no notable progress has been achieved to date. The In-progress status is used for open recommendations when the NATO Reporting Entity has started to implement the recommendation or when some (but not all) sub-recommendations are closed. The Closed status is used for recommendations that are closed because they have been implemented, are superseded, or have lapsed. In the case where there are sub-recommendations, the status related to each sub-recommendation is indicated in the Action Taken column.

| OBSERVATION / RECOMMENDATION | ACTION TAKEN BY AUDITEE | STATUS |
|---|--|---------------------------------------|
| <p>(1) NNHQ FY 2019 IBA-AR(2021)0011, paragraph 1</p> <p>NO FINANCIAL REPORT FOR LONG TERM PROGRAMME BUDGET (LTPB) AT YEAR END 2019</p> <p>IBAN’s Recommendation IBAN recommends that the International Staff present the financial status reports for the Long Term Programme Budget (LTPB) without delay, in compliance with the decisions of governing bodies.</p> | <p>IS-EM has not yet issued the Financial status report for the LTPB for 2020. As NNHQ activities next year will be reported as part of the IS 2021 Financial Statements, this observation and recommendation is closed in</p> | <p>Observation Closed.</p> |

| OBSERVATION / RECOMMENDATION | ACTION TAKEN BY AUDITEE | STATUS |
|--|--|--|
| | this Audit Report. | |
| <p>(2) NNHQ FY 2019 IBA-AR(2021)0011, paragraph 2</p> <p>NO INFORMATION RELATED TO LONG TERM PROGRAMME BUDGET (LTPB) CONTINGENCY CREDITS UNDER CONTROL OF HOST NATION BELGIUM</p> <p>IBAN's Recommendation IBAN recommends that IS-OFC improve the disclosure in note 23 to the Financial Statements regarding the status of all Long Term Programme Budget contingency credits.</p> | <p>The status of all Long Term Programme Budget contingency credits were disclosed in note 23 of the 2020 Financial Statements. In August 2020, Council approved to transfer the oversight and control from the Deputy Permanent Representatives Committee to the Budget Committee (BC). The BC approved on 10 March 2021 the transfer of the remaining contingent credits to the NATO Communication and Information Agency.</p> | <p>Observation Closed.</p> |
| <p>(3) NNHQ FY 2019 IBA-AR(2021)011, paragraph 3</p> <p>ACCOUNTING MISSTATEMENT IN THE REVERSAL OF PROVISION FOR UNTAKEN LEAVE</p> <p>IBAN's Recommendation IBAN recommends that NNHQ recognise in the Statement of Financial Performance the reversal of the previous year's provisions for Untaken Leave.</p> | <p>IS OFC has adjusted the figures from 2019 to have a correct comparable basis. As the LTPB ceased to exist after 31/12/2020 and all personnel left, no new provision was booked.</p> | <p>Observation Closed.</p> |

**INTERNATIONAL STAFF (IS) FORMAL COMMENTS ON THE AUDIT REPORT
AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS**

IS made no formal comments on the report and previous year observations.

GLOSSARY OF TERMS

In accordance with International Standards of Supreme Audit Institutions (ISSAI 2705), audit opinions on financial statements and on compliance can be unqualified, qualified, a disclaimer, or adverse:

- An unqualified opinion is when IBAN issues an opinion that the financial statements and budget execution report are stated fairly and that nothing has come to our attention that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the rules and regulations.
- A qualified opinion means that IBAN was generally satisfied with the presentation of the financial statements, but that some key elements of the statements were not fairly stated or affected by a scope limitation, or specific issues have come to our attention that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the rules and regulations.
- A disclaimer is issued when the audit scope is severely limited and IBAN cannot express an opinion, or when there are material uncertainties affecting the financial statements or the use of funds.
- An adverse opinion is issued when the effect of an error or disagreement is so pervasive and material to the financial statements that IBAN concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

In accordance with auditing standards, three types of paragraphs may also be communicated in the auditor's report:

- Key Audit Matters (ISSAI 2701): Those matters that, in IBAN's professional judgement, were of most significance in the audit of the financial statements of the current period. Key Audit Matters are addressed to Council.
- Emphasis of Matter (ISSAI 2706): If IBAN considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.
- Other Matter (ISSAI 2706): If IBAN considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in our judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

NATO UNCLASSIFIED

FC(2021)0038

**NATO NEW HQ
FINANCIAL STATEMENTS**

For the year ended
31 December 2020

Annexes

- 1 Statement of Financial Position
- 2 Statement of Financial Performance
- 3 Cash Flow Statement
- 4 Statement of Changes in Net Assets
- 5 Budgetary Execution Statements
- 6 Explanatory Notes to the Financial Statements


Jens STOLTENBERG
Secretary General


Mirosława BORYCZKA
Financial Controller

NATO UNCLASSIFIED

NATO NEW HQ Statement of Financial Position

As at 31 December 2020

(All amounts in EUR)

| | Notes | 2020 | 2019 |
|---|-----------|----------------------|----------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 3 | 27,158,363.38 | 20,250,908.51 |
| Short term investments | 4 | 5,000,000.00 | 30,600,000.00 |
| Receivables | 5 | 363,218.79 | 616,264.13 |
| Prepayments | 6 | 4,031,144.94 | 8,087,650.70 |
| Other current assets | 7 | 268,810.94 | 47,655.64 |
| Inventories | | 0.00 | 0.00 |
| | | 36,821,538.05 | 59,602,478.98 |
| Non-current assets | | | |
| Receivables | | 0.00 | 0.00 |
| Property, plant & equipment | 8 | 0.00 | 0.00 |
| Intangible assets | | 0.00 | 0.00 |
| Other non-current assets | | 0.00 | 0.00 |
| | | 0.00 | 0.00 |
| Total assets | | 36,821,538.05 | 59,602,478.98 |
| Liabilities | | | |
| Current liabilities | | | |
| Payables | 9 | 14,445,313.31 | 9,696,809.97 |
| Deferred revenue | 10 | 5,001,227.74 | 41,710,212.41 |
| Advances | 11 | 44,843.82 | 3,216,780.51 |
| Short term provisions | 12 | 112.88 | 652,342.53 |
| Other current liabilities | 13 | 16,830,040.30 | 4,326,333.56 |
| | | 36,321,538.05 | 59,602,478.98 |
| Non-current liabilities | | | |
| Payables | | 0.00 | 0.00 |
| Long term provisions | 12 | 500,000.00 | 0.00 |
| Deferred revenue | 14 | 0.00 | 0.00 |
| Other non-current liabilities | | 0.00 | 0.00 |
| | | 500,000.00 | 0.00 |
| Total liabilities | | 36,821,538.05 | 59,602,478.98 |
| Net assets | | | |
| Capital assets | | 0.00 | 0.00 |
| Reserves | | 0.00 | 0.00 |
| Current year Surplus / (Deficits) | | 0.00 | 0.00 |
| Accumulated surpluses / (deficits) prior year | | 0.00 | 0.00 |
| Total net assets/ equity | 17 | 0.00 | 0.00 |

NATO NEW HQ Statement of Financial Performance

As at 31 December 2020

(All amounts in EUR)

| | Notes | 2020 | 2019 |
|---|-------|---------------------|----------------------|
| Revenue | 15 | | |
| Non exchange revenue | | 4,996,604.84 | 12,827,129.77 |
| Exchange revenue | | 0.00 | 0.00 |
| Other revenue | | 268,738.94 | 51,479.91 |
| Financial revenue | | 22,239.96 | 37,671.22 |
| Total revenue | | 5,287,583.74 | 12,916,280.90 |
| Expenses | 16 | | |
| Personnel | | 531,092.47 | 1,530,559.64 |
| Contractual supplies and services | | 4,297,796.81 | 10,727,992.91 |
| Depreciation and amortization | | 0.00 | 0.00 |
| Impairment | | 0.00 | 0.00 |
| Provisions | | 457,663.52 | 652,342.53 |
| Other expenses | | 0.00 | 0.00 |
| Finance costs | | 1,030.94 | 5,385.82 |
| Total expenses | | 5,287,583.74 | 12,916,280.90 |
| Surplus/(Deficit) for the period | 17 | 0.00 | 0.00 |

NATO NEW HQ Statement of Cash Flow

As at 31 December 2020
(All amounts in EUR)

| | Notes | 2020 | Restated 2019 |
|--|-----------|------------------------|------------------------|
| Cash Flow from Operating Activities | 18 | | |
| Surplus/(Deficit) | | - | - |
| Non-cash movements | | | |
| Depreciation/ Amortisation | | | |
| Impairment | | - | - |
| Increase /(decrease) in payables | | 4,748,503.34 | (2,598,094.16) |
| Increase/ (decrease) in other current liabilities | | (27,377,214.62) | (20,679,993.69) |
| Increase/ (decrease) in provisions | | (152,229.65) | 578,960.27 |
| (Gains)/losses on sale of property, plant and equipment | | | |
| Decrease/ (increase) in receivables | | 253,045.34 | 1,784,933.61 |
| Decrease/ (increase) in other current assets | | 3,835,350.46 | 6,370,824.78 |
| Increase/ (decrease) in other non-current liabilities | | - | |
| Net cash flow from operating activities | | (18,692,545.13) | (14,543,369.19) |
| Cash Flow from Investing Activities | 18 | | |
| Purchase of property plant and equipment / Intangible assets | | - | - |
| Proceeds from sale of property plant and equipment | | | |
| Net cash flow from investing activities | | - | - |
| Cash Flow from Financing Activities | 18 | | |
| Net Cash Flow from Financing Activities | | - | - |
| Net Increase/(Decrease) in Cash and Cash Equivalents | 18 | (18,692,545.13) | (14,543,369.19) |
| Cash and Cash Equivalent at the Beginning of the Period | | <u>50,850,908.51</u> | <u>65,394,277.70</u> |
| Cash and Cash Equivalent at the End of the Period | | <u>32,158,363.38</u> | <u>50,850,908.51</u> |

NATO NEW HQ Statement of Changes in Net Assets

As at 31 December 2020
(All amounts in EUR)

| | Accumulated surpluses/(deficits) |
|---|----------------------------------|
| Balance at 31 December 2018 | 0.00 |
| Deficit on revaluation of property | 0.00 |
| Surplus on revaluation of investments (1) | 0.00 |
| Currency translation differences | 0.00 |
| Net gains and losses not recognized in the statement of financial performance | 0.00 |
| Net for the period | 0.00 |
| Balance at 31 December 2019 | 0.00 |
| Balance at 31 December 2019 | 0.00 |
| Deficit on revaluation of property | 0.00 |
| Surplus on revaluation of investments (1) | 0.00 |
| Currency translation differences | 0.00 |
| Net gains and losses not recognized in the statement of financial performance | 0.00 |
| Net for the period | 0.00 |
| Balance at 31 December 2020 | 0.00 |

(1) fixed assets in progress

**EXPLANATORY NOTES TO NEW NATO HEADQUARTERS PROJECT
2020 FINANCIAL STATEMENTS****NOTE 1: GENERAL INFORMATION**

In 1999, Heads of State of the NATO member countries decided at the Washington Summit to build a New NATO Headquarters (NNHQ) to meet Alliance requirements for the 21st century. For this New NATO HQ Project a separate budget was established in 2000.

The budget for the common funded part is approved on an annual basis by the North Atlantic Council, further to screening and recommendation by the Budget Committee and the Resource Policy and Planning Board (RPPB). The project is managed following NSIP procedures.

The main construction project, the electronic security services and the audio-visual infrastructure contracts are managed by the Belgian Ministry of Defence Host Nation Project Management Team (PMT) under the provisions of the NATO-Belgium MOU, signed on 8 December 2004.

NATO Communications and Information Agency (NCIA) acts as Host Nation for the Active Network Infrastructure contract. NATO-International Staff (IS) is the Host Nation for the Furniture contract and for the Business Data and Applications Migration Project (BDAM).

NATO is represented by the IS Defence Investment Division Headquarters Project Office (HQPO), which is in charge of programme management, coordination, approval procedures and the definition of requirements. HQPO also represents the interests of Nations in all dealings with the Host Nation

A Transition Office (TO) within the IS Executive Management (EM) Division was created in 2011 to manage the practical and organisational aspects of the transition from the Previous NATO Headquarters (PNHQ) to the new one.

During the first half of 2018, NATO moved to its new premises further to the handover from the Host Nations (Belgium and NCIA) to NATO of all of the main elements of the projects that enabled operations in the new building. As a consequence, and as per the provisions of the NATO Accounting Framework (C-M(2016)0023), all assets that were recorded as work in progress have been transferred to the NATO International Staff, or the NCIA (for the IT assets).

The move from the PNHQ to the new site triggered the consolidation of the HQ Project Office and the Transition Office, under the dual oversight of the Defence Investment Division and Executive Management of the International Staff.

The transition process encompassed not only the actual move from the previous site to the new facilities (that took place in 2018) but also the maintenance of the PNHQ until its handover to Host Nation Belgium on 1 September 2020.

In light of the forthcoming closure of the Headquarters Project Office and Transition Office (NHQPO/TO) in 2020, the daily management of the LTPB was transferred to EM Division as of 1 May 2020, previously managed by Defence Investment (DI) Division. The New NATO HQ Project closed on 31 December 2020.

NATO Member Nations maintained oversight of the project through the Deputies Committee (DPRC), a Board comprised of the Deputy Permanent Representatives HQPO/TO was responsible for financial management and for coordination with the DPRC, the Budget Committee (BC), the RPPB, and the North Atlantic Council. In August 2020, Council approved to transfer the oversight and control from the DPRC to the BC.

The overall programme budget ceiling was EUR 1,179 million.

NOTE 2: ACCOUNTING POLICIES

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

Declaration of conformity

The New NATO Headquarters financial statements have been prepared in accordance with the NATO Accounting Framework (which adapts a small number of IPSAS standards to better suit the specific requirements of the Alliance) and with the NATO Financial Regulations (NFR), the Financial Rules and Procedures (FRP).

Basis of preparation

These statements have been prepared on a non-going concern basis. In December 2019, with DPRC-N(2019)0067-REV1- AS1 (INV), NATO Member Nations decided not to continue the New NATO HQ Project beyond 30 June 2020. In November 2020, with BC-D(2020)0198, NATO Member Nations revisited their decision of December 2019 and decided to discontinue the New NATO HQ Project as per 31 December 2020. The final financial closure will take place only when all assets and liabilities related with the New NATO HQ Project are settled. These statements disclose information on the assets and liabilities as known at the date of their preparation. The amounts shown in these financial statements are presented in EUR.

In C-M(2020)0058 the NATO Member Nations reconfirmed their decision of C-M(2000)36, BC-D(2000)16 and BC-D(2009)0008-ADD1 that the funds remaining in the LTPB after its final closure will be returned to nations according to individual nations' instructions.

These statements are the last ones issued for the New NATO HQ Project. In C-M(2020)0058 the NATO Member Nations decided that with the closure of the NNHQ project financial books on 31 December 2020, the open balances and net assets of the LTPB will be transferred to earmarked IS accounts to allow proper accounting and reporting during the period needed for its final closure.

The following IPSAS have no material effect on the 2020 financial statements of the New NATO Headquarters Project:

- IPSAS 5: Borrowing Costs.
- IPSAS 6: Consolidated and Separate Financial
- IPSAS 7: Investments in Associates.
- IPSAS 8: Interests in Joint Ventures
- IPSAS 10: Financial Reporting in Hyperinflationary Economies
- IPSAS 11: Construction Contracts
- IPSAS 16: Investment Property
- IPSAS 18: Segment reporting
- IPSAS 21: Impairment of non-cash generating assets
- IPSAS 26: Impairment of Cash-Generating Assets
- IPSAS 27: Agriculture
- IPSAS 32: Service Concession Arrangement: Grantor

The Cash Flow Statement has been prepared using the indirect method.

Segment Reporting

A segment is a distinguishable activity or group of activities for which it is appropriate to separately report financial information. No segments are identified in this project and are therefore not reported in these financial statements.

Changes in Accounting Policy

None.

Restatement of Financial Statements of Previous Years

NATO policy (both Civilian Personnel Regulations and HR directives) is that untaken leave must be paid only as a last recourse (Staff is compelled to take all their leave before retiring), for informative purposes we disclose the amount payable, if the New NATO Headquarters would shut down its activities at the end of the financial year, i.e. 31 December.

New NATO Headquarters recognized, as per 31 December 2018, a provision of EUR 73,382.26 for untaken leave and a provision of EUR 42,336.48 as per 31 December 2019.

In the beginning of 2019, the 2018 untaken leave provision has been reversed. However, this reversal was not properly reflected in the Statement of Financial Performance as at 31 December 2019 and as a result the positions "provision" (non-exchange revenue and expenses) were overstated by EUR 73,382.26 each, with neutral effect on surplus / deficit for the period.

| | Notes | 2019 - Restated | 2019 |
|---|-----------|----------------------|----------------------|
| Revenue | 15 | | |
| Non exchange revenue | | 12,753,747.51 | 12,827,129.77 |
| Exchange revenue | | 0.00 | 0.00 |
| Other revenue | | 51,479.91 | 51,479.91 |
| Financial revenue | | 37,671.22 | 37,671.22 |
| Total revenue | | 12,842,898.64 | 12,916,280.90 |
| Expenses | 16 | | |
| Personnel | | 1,530,559.64 | 1,530,559.64 |
| Contractual supplies and services | | 10,727,992.91 | 10,727,992.91 |
| Depreciation and amortization | | 0.00 | 0.00 |
| Impairment | | 0.00 | 0.00 |
| Provisions | | 578,960.27 | 652,342.53 |
| Other expenses | | | 0.00 |
| Finance costs | | 5,385.82 | 5,385.82 |
| Total expenses | | 12,842,898.64 | 12,916,280.90 |
| Surplus/(Deficit) for the period | 17 | 0.00 | 0.00 |

NATO UNCLASSIFIED

ANNEX 6 to
FC(2021)0038

6-4

The other current assets and liabilities were understated by EUR 42,336.48 in 2019 Financial Statements. The Statement of Financial Position for 2019 is restated as follows:

| | Notes | 2019 - Restated | 2019 |
|----------------------------|--------------|------------------------|----------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 3 | 20,250,908.51 | 20,250,908.51 |
| Short term investments | 4 | 30,600,000.00 | 30,600,000.00 |
| Receivables | 5 | 616,264.13 | 616,264.13 |
| Prepayments | 6 | 8,087,650.70 | 8,087,650.70 |
| Other current assets | 7 | 47,655.64 | 5,319.16 |
| Inventories | | 0.00 | 0.00 |
| | | 59,602,478.98 | 59,560,142.50 |
| Total assets | | 59,602,478.98 | 59,560,142.50 |
| Liabilities | | | |
| Current liabilities | | | |
| Payables | 9 | 9,696,809.97 | 9,696,809.97 |
| Deferred revenue | 10 | 41,710,212.41 | 41,710,212.41 |
| Advances | 11 | 3,216,780.51 | 3,216,780.51 |
| Short term provisions | 13 | 652,342.53 | 652,342.53 |
| Other current liabilities | 12 | 4,326,333.56 | 4,283,997.08 |
| | | 59,602,478.98 | 59,560,142.50 |
| Total liabilities | | 59,602,478.98 | 59,560,142.50 |

Reclassification of Financial Statements of Previous Years

None.

Use of estimates

In accordance with generally accepted accounting principles, the financial statements include amounts based on estimates and assumptions by management, according to the most reliable information available, judgement and assumptions. Estimates include work in progress, provisions, accrued revenue and expenses. Actual results could differ from those estimates. Changes in estimates are reflected in the period in which they become known.

NATO IS will estimate the value of provisions for the following costs:

- A Bad Debts Provision is notionally posted for 0.5% of the long outstanding receivables at year-end, however it is reversed in the beginning of the following year. Debts from Member Nations in lieu with Common Funded calls are excluded, since in case of default they shall be collectively covered (by all Allies) as per NATO's charter;
- A notional Untaken Leave Provision if the number of untaken leave days at year-end, is found to be above 10% of the annual leave entitlement, calculated by the man/day cost of December payroll;
- Other present obligations resulting of a past event if resulting of a possible payment of a foreseeable value (incl. loss of job indemnities, court cases, etc.)

Foreign currency transactions

The New NATO Headquarters Project's budget is authorized and managed in EUR so contribution calls have been made in EUR. Foreign currency transactions as required are accounted for at the NATO parity rates prevailing on the date of the transaction. Monetary assets and liabilities at year-end which were denominated in foreign currencies were converted into EUR using the NATO parity rates applicable at 31 December.

Realised and unrealised profit and loss 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 recognised in Non-Current Liabilities.

New NATO Headquarters accounting is subject to FC(FAC)(2020)004 which sets out IS/OFC policy for accounting and reporting transactions in foreign currency.

Financial risks

The New NATO Headquarters Project Office uses only non-derivative financial instruments as part of its normal operations. These financial elements include cash, bank accounts, deposit accounts, accounts receivable and Funds Managed for Third Parties (National Funding, including Fit-out and EUROCONTROL funds).

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

The New NATO Headquarters Project is exposed to a variety of financial risks, including foreign exchange risk, credit risk, currency risk, liquidity risk and interest rate risk.

Foreign currency exchange risk

The exposure to foreign currency risk is limited as the majority of the New NATO Headquarters Project's expenditures are made in EUR, the currency of its budget. All bank accounts are held in EUR.

Credit risk

The New NATO Headquarters Project incurs credit risks from cash and cash equivalent held with banks and from receivables.

The maximum exposure as at 31 December 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.

Concerning cash and cash equivalent the New NATO Headquarters Project credit risk is managed by holding current bank accounts and short term highly liquid deposits that are readily convertible to a known amount of cash held with the banks: ING, BNP Paribas Fortis and Credit Agricole which have the following short term credit ratings:

| Bank Name | Country of HQ | Short Term Ratings | | | | | |
|-----------------|---------------|--------------------|------------------|------------|------------------|------------|------------------|
| | | FITCH | | S&P GLOBAL | | MOODY'S | |
| | | Rating | Last Review Date | Rating | Last Review Date | Rating | Last Review Date |
| ING Bank | Netherlands | F1+ | 15-Oct-2020 | A-1 | 10-Jul-2020 | P-1 | 21-Oct-2020 |
| BNP PF | Belgium | F1 | 21-Oct-2020 | A 1 | 23-Apr-2020 | P-1 | 25-Oct-2020 |
| Credit Agricole | France | F1 | 10-Nov-2020 | A 1 | 21-Oct-2020 | P-1 | 19-Sep-2020 |

The New NATO Headquarters project is also holding a bank account with AION (former Monte Paschi) but with no significant cash holdings.

The New NATO Headquarters Project's outstanding accounts receivable are managed by maintaining control procedures over receivables. Most cash receivables are due from NATO member nations, which are considered credit worthy.

Liquidity risk

The liquidity risk, also referred to as funding risk, is based on the assessment as to whether the New NATO Headquarters Project will encounter difficulties in meeting its obligations associated with financial liabilities. A liquidity risk could arise from a short term liquidity requirement. There is a very limited exposure to liquidity risk because of the funding mechanism which guarantees contributions in relation to the approved New NATO Headquarters Project budget. Some limited risk could be due to the accuracy of budget forecasts or to late payment of Nations' contributions.

Interest rate risk

Except for certain cash and cash equivalent balances, the New NATO Headquarters' financial assets and liabilities do not have associated interest rates. The New NATO Headquarters is restricted from entering into borrowings and investments, and, therefore, there is an insignificant interest rate risk. Interest earned is not a budgetary resource but contributes to the surplus owed to Nations.

Current Assets**Cash and cash equivalents**

Cash and cash equivalents are defined as short-term assets. They include cash in hand, deposits held with banks, other short term highly liquid investments.

Cash held on behalf of third parties corresponding to amounts called and received in relation to the nationally funded elements and the fit-out of delegations, and amounts corresponding to anticipated contributions, are reported separately.

Receivables

Receivables are stated at net realisable value, after provision for doubtful and uncollectable debts, also known as bad debts. NATO OFC policy is to notionally recognize at year-end, as bad debts all outstanding receivables which are due for more than 360 days. Debts from Member Nations in lieu with Common Funded calls are excluded, since in case of default they shall be collectively covered (by all Allies) as per NATO's charter.

Contributions receivable are recognised when a call for contribution, based on the approved budget, has been issued to the funding Nations. These receivables represent the uncollected contributions from Member Nations. The same policy applies for contributions related to the nationally funded elements and to the fit-out of delegations. No allowance for loss is recorded with respect to Member countries' assessed contributions receivable.

Prepayments

A prepayment is a payment in advance of the period to which it pertains and is mainly in respect of advance payments made to third parties. In the case of the New NATO Headquarters Project, advance payments are essentially related to the pre-financing of PMT and NCIA expenses. The terms of the MOU prevent Host Nation Belgium (PMT) from pre-financing any aspect of the project.

Other Current Assets

Other Current Assets relate to miscellaneous amounts due to the Project such as accrued interest or other assets that do not result from the standard order to cash process, such as miscellaneous transactions to be regularized between NATO New Headquarters Project and PMT or entities managed by the IS Office of Financial Control.

Inventories

NATO has adapted a number of IPSAS Standards to better suit the requirements of the Alliance, resulting the NATO Accounting Framework (NAF) NATO's adaptations of IPSAS are spelled out in C-

M(2016)0023 of April 2016, which included IPSAS 12 Inventories. Furthermore, C-M(2017)0043 of September 2017, approved the NATO Accounting Policy for Inventory.

When it comes to assessing the control of NATO Inventory, these documents define a set of 10 criteria to be used in assessing the level of control of an Inventory asset. A positive response on six of the criteria will lead to the asset being capitalized in the Financial Statements if it is above the capitalization threshold. This is applied from January 2013, under the initial NATO Accounting Framework C-M(2013)0039 of July 2013.

Criteria that may indicate control of an asset:

- The act of purchasing the asset carried out (or resulted from instructions given) by the NATO Reporting Entity.
- The legal title is in the name of the NATO Reporting Entity.
- The asset is physically located on the premises or locations used by the NATO Reporting Entity.
- The asset is physically used by staff employed by the NATO Reporting Entity or staff working under the NATO Reporting Entity's instructions.
- The fact that the NATO Reporting Entity can decide on an alternative use of the asset.
- The fact that the NATO Reporting Entity can decide to sell or to dispose the asset.
- The fact that the NATO Reporting Entity, if it has to remove or destroy the asset, can take the decision to replace it.
- The fact that a representative of the NATO Reporting Entity regularly inspects the asset to determine its current condition.
- The fact that the asset is used in achieving the objectives of the NATO Reporting Entity.
- The fact that the asset will be retained by the NATO Reporting Entity at the end of the activity.

Capitalization thresholds relevant to the financial statement are as follow:

| Category | Threshold | Basis |
|------------------|-----------|------------------------|
| Consumables | €50,000 | Per location/warehouse |
| Spare Parts | €50,000 | Per location/warehouse |
| Ammunition | €50,000 | Per location/warehouse |
| Strategic stocks | €50,000 | Per location/warehouse |

The NNHQ Project capitalizes inventory which it controls in its financial statements. Where there is a conflict between more than one NATO Reporting Entity as to the control of inventory, only the end-user entity will report the inventory in its financial statements, based on reliable information provided by the NATO services provider entity as defined in individual agreements between the two entities.

The NNHQ Project will include transportation costs involved in bringing the inventories to their present location and condition in the initial valuation of inventory. These costs will be measured on the actual cost of transportation per item of inventory or by using an apportionment of the global transportation costs of bringing the inventories to their present location and condition across all inventory items in the period. Transportation costs involved in the subsequent movement of inventory which brings them into operational use will not be included in the value of inventory.

Where this adaptation conflicts with another requirement of IPSAS this adaptation shall apply. For the remainder, IPSAS 12 shall apply.

The introduction of this adaptation to IPSAS 12 has no impact on the way these financial statements are presented. The value of NNHQ inventories is immaterial both in value and in terms of the nature of the items held. Consequently, inventory is fully expensed when goods are received.

Non-Current Assets:**Property, Plant & Equipment and Intangible Assets:**

As mentioned above NATO's adaptation of IPSAS are spelled out in C-M(2016)0023 of April 2016 among which were specific items addressing IPSAS 17 PPE. Furthermore, C-M(2017)0022(INV) approved the NATO accounting policy for Property, Plant and Equipment.

When it comes to assessing the control of NATO over PPE these documents define a set of 10 criteria to be used in assessing the level of control of a tangible asset. A positive response on six of the criteria will lead to the asset being capitalized in the Financial Statements if it is above the capitalization threshold. This is applied from January 2013, under the initial NATO Accounting Framework C-M(2013)0039 of July 2013

Common funded and nationally funded construction works are managed as a single project. At this point, and from an accounting standpoint, the fact remains that the economic benefit or the service potential is measured by the contribution to consensus building and therefore it cannot be separated from NATO's purpose. Therefore, this would not justify a separate accounting treatment.

It should be noted that this approach does not apply to the national fit-out segment, for which four nations have decided to act separately.

Capitalization thresholds relevant to the financial statement are as follow:

| Category | Threshold | Depreciation Life | Method |
|-------------------------------|-----------|-------------------|---------------|
| Land | €200,000 | N/A | N/A |
| Buildings | €200,000 | 40 years | Straight line |
| Other infrastructure | €200,000 | 40 years | Straight line |
| Installed equipment | € 30,000 | 10 years | Straight line |
| Machinery | € 30,000 | 10 years | Straight line |
| Vehicles | € 10,000 | 5 years | Straight line |
| Aircraft | €200,000 | Dependent on type | Straight line |
| Vessels | €200,000 | Dependent on type | Straight line |
| Mission equipment | € 50,000 | 3 years | Straight line |
| Furniture | € 30,000 | 10 years | Straight line |
| Communications | € 50,000 | 3 years | Straight line |
| Automated information systems | € 50,000 | 3 years | Straight line |

The principles of valuing and depreciating fixed assets, according to NATO Accounting Framework, are the following:

Buildings are shown at fair value based on internal valuations at the reporting date. Valuation is done based on judgment using the best available information from relevant sources. With regard to land on which the buildings are erected, see note on Leases.

All other non-current assets, Property, Plant and Equipment (PPE) and intangible assets are recorded at their historical cost less accumulated depreciation and any recognized impairment loss.

The introduction of this adaptation to IPSAS 17 has no impact on the way these financial statements are presented. Although the adaptation to IPSAS allows one to consider PPE acquired prior to 1 January 2013 as fully expensed, it was decided not to do so: amounts considered as PPE work in progress prior to 1 January 2013 remain capitalized in the interest of disclosing relevant and complete information regarding the value of the NATO new site.

In the case of the New NATO Headquarters Project until 2018, PPE has been accounted for as "work in progress". In the course of 2017 and 2018 all of the main elements of the PPE that would enable NATO to move to and operate on the new premises have been handed over from the Host Nations (PMT and NCIA) to HQPO and in turn immediately to NATO International Staff.

Consequently these non-current assets were transferred and will now appear in the books of the latter except for the IT part which in accordance with the NATO Accounting Framework is to be considered an NCIA asset. There are no longer any PPE or IT assets appearing on the statement of financial position of the NNHQ.

Intangible Assets:

As mentioned above, NATO's adaptations of IPSAS are spelled out in C-M(2016)0023 of April 2016, which included IPSAS 31 Intangible Assets. Furthermore, C-M(2017)0044 approved the NATO accounting policy for intangible assets.

When it comes to assessing the control of NATO over Intangible Assets, these documents define a set of 10 criteria to be used in assessing the level of control of an Intangible asset – they are the same as mentioned above under Inventory. A positive response on six of the criteria will lead to the asset being capitalized in the Financial Statements if it is above the capitalization threshold. This is applied from January 2013, under the initial NATO Accounting Framework C-M(2013)0039 of July 2013.

NATO Intangible Assets Capitalization Thresholds - the NNHQ Project will capitalize each intangible asset item that is above the following agreed NATO thresholds:

| Category | Threshold | Depreciation Life | Method |
|--|------------------|--------------------------|---------------|
| Computer software (commercial off the shelf) | €50,000 | 4 years | Straight line |
| Computer software (bespoke) | €50,000 | 10 years | Straight line |
| Computer database | €50,000 | 4 years | Straight line |
| Integrated system | €50,000 | 4 years | Straight line |

The NNHQ Project capitalizes all controlled intangible assets above the NATO Intangible Asset Capitalization Threshold. For anything below the threshold, the NNHQ has the flexibility to expense specific items.

The NNHQ Project capitalizes integrated systems and include research, development, implementation and can include both software and hardware elements. But the NNHQ Project does not capitalize the following types of intangible assets in its financial statements:

- rights of use(air, land and water);
- landing rights;
- airport gates and slots;
- historical documents; and,
- publications

The NNHQ Project capitalized other types of intangible assets acquired after 1 January 2013 including:

- Copyright
- Intellectual Property Rights
- Software development

The NNHQ could consider Intangible Assets acquired prior to 1 January 2013 as fully expensed, however it has decided not to do so, for the sake of consistency with the treatment given to PPE.

The NNHQ Project reported controlled Intangible assets in its financial statements. Where there was a conflict between more than one NATO Reporting Entity as to the control of intangible assets, only the end-user entity capitalized the intangible asset in its financial statements based on reliable information provided by the NATO services provider entity as defined in individual agreements between the two entities.

Where this adaptation conflicts with another requirement of IPSAS, this adaptation will apply. For the remainder, IPSAS 31 shall prevail. This adaptation is effective for financial reporting periods beginning on 1 January 2013.

The introduction of this adaptation to IPSAS 31 has no impact on the way these financial statements are presented.

For the practical consequences resulting from the handovers from Host Nations Belgium and NCIA, please see above under PPE.

Current liabilities

Payables

Payables are amounts due to third parties, including Participating Nations, based on goods received or services provided that remain unpaid. These include estimates of accrued obligations to third parties for goods and services received but not yet invoiced. Amounts due to Participating Nations in the context of their budget contributions are presented under Other Current Liabilities.

Advances and Deferred Revenue

Deferred Revenue represents participating Nations' contributions related to approved annual budgets that have not yet been recognised as revenue in the absence of matching expenses, but which have been called for current common funded budgets and for nationally funded construction works. Funds are called in advance of requirements because the New NATO Headquarters Project has no capital that would allow it to pre-finance any of its activities.

Advances are contributions called related to future years' budgets. Voluntary advances made outside of the call for contributions process are accounted as funds managed for third parties. There have been no such advances called for 2020.

Provisions

Under this item only a provision for receivable invoices that have remained unpaid for longer than one year (bad debt provision) has been recognised.

Other Current Liabilities

Other Current Liabilities include in particular the surplus as per the NATO Financial Regulations, i.e. lapsed credits, financial income and miscellaneous income. In authorizing the New NATO Headquarters Project budget, Nations agreed that it would be a special budget extending over several years. Consequently, it was agreed that credits and the refundable surplus can be maintained with the entity until the Project's completion (C-M(2000)36). Amounts which would have been normally returned to contributing Nations in the framework of the NATO Financial Regulations' provisions – such as net interest earned, miscellaneous receipts, lapsed credits, accumulated surplus – did remain on the entity's accounts.

This item may include other liabilities that do not result from the standard procure-to-pay process, such as miscellaneous transactions to be regularized between entities managed by the IS Office of Financial Control, namely: the surplus from the US sponsored 9/11 Memorial.

As a consequence of the decision to close the NNHQ project on 31 December 2020, lapsed credits, financial income and miscellaneous income identified by this date are presented as accumulated surplus, to be returned to the Nations upon the final closure of the LTPB when all outstanding assets and liabilities have been settled.

Funds Managed for Third Parties (National Funds)

Funds managed on behalf of third parties (national funds) are held in cash or as receivables if they correspond to an unpaid non-budgetary contribution in relation to nationally funded elements. In case of an anticipated/voluntary contribution, they are accounted for when cash is effectively received. The corresponding amounts are presented as a current liability under funds managed for third parties (National and EUROCONTROL funds).

As a consequence of the recognition of the nationally funded elements as non-current assets, contributions called from the Nations with regard to the nationally funded elements are treated in a way comparable to that of budgetary contributions. Amounts called and amounts not converted to unearned revenue, which fund the related works, are included as liabilities

Non-Current Liabilities

The long term unearned revenue is unearned revenue in relation to net carrying amounts of Property, Plant and Equipment and Intangible Assets. Revenue is recognised over the estimated life cycle of the Property, Plant and Equipment and The Intangible Assets.

On 1 September 2020 the previous NATO Headquarters has been handed over to Host Nation Belgium who indicated that some soil is contaminated. The NNHQ liability for the soil decontamination is estimated at EUR 500,000.00 and is expected to be paid in, or after, fiscal year 2022. Hence, this provision is reported under non-current liabilities in the statement of financial position.

Revenue and expense recognition

Up until 2018 all the costs incurred under the New NATO Headquarters Project since its inception, except those related to the Transition Office and furniture, qualified to be capitalized as PPE Work in Progress. This included personnel and operating costs. The matching budget resources provided by Nations to fund these Works in Progress were recognised as a liability in the Statement of Financial Position as Long Term Unearned Revenue. No revenue was recognised in the Statement of Financial Performance, except for the part attributable to the Transition Office and furniture.

The task of the Transition Office was to plan and execute the transition from the previous NATO HQ to the new NATO HQ. After the completion of the move from the PNHQ to the new site, the Transition Office was merged with the NHQPO, becoming the NHQPO/TO. Since then the work of the NHQPO/TO has no longer focused on the NHQ project but rather on the Building Z project, the management of the remnants of the LTPB and the maintenance of the PNHQ until its hand-over to the Host Nation, residual removal actions and some minor works still performed in the NHQ (design corrections, modifications, etc.). Transition Office and NHQPO/TO related costs consisted mainly in salaries of its staff and the costs of consultancy services and they do not fulfil the criteria set by IPSAS 17 to qualify as directly attributable costs of the asset under construction. As a consequence Transition Office and NHQPO/TO costs are expended rather than capitalized. Therefore, as explained in "Changes to Accounting Policies", during 2019 all costs related to NHQPO/TO were expensed, i.e. no longer capitalized into the NHQ building project.

In 2020 the only capitalized costs were works performed by Host Nation and NCIA (see note 8), that were transferred at year-end to NATO IS and NCIA.

Revenue from exchange and non-exchange transactions

There is no revenue from exchange transactions, as the contributions by Nations were based on a fixed cost-share of reimbursable costs for the construction of the New NATO Headquarters Project. The outstanding balances are disclosed as deferred revenue.

Long Term Unearned Revenue

Since 2018 all assets have been transferred to NATO IS and NCIA, thus there is no more long term unearned revenue disclosed under NHQ financial statements.

Statement of Financial Position**NOTE 3: CASH AND CASH EQUIVALENTS**

The current bank accounts are held in EUR. Deposits (see note 4) are held in interest-bearing bank current accounts, immediately available.

Derogations to NATO Financial Regulations were approved by the Council (C-M(2000)36 and BC-D(2000)20). In particular paragraphs 4.4 of the latter document introduce flexible arrangements for national contributions to allow Nations to make anticipated contributions. No ceiling is applicable to the amount of cash holdings.

For the Common funded part of the project the IS Office of Financial Control has issued specific calls for contributions. To meet the Project's payment for the fit-out and nationally funded elements under the NSIP rules and procedures, has issued separate contribution calls. The unspent amounts of Common, National and Fit-Out funding are held as a liability towards the nations.

NNHQ holds also funds from EUROCONTROL (EUR 40,408.94) as the remainder of its contribution to works for a secure pedestrian access between its headquarters and the NNHQ site. This surplus will be returned upon the project closure.

The below table provides comparative data on the NNHQ's Cash Position, over two consecutive years:

| (amounts in EUR) | 2020 | 2019 |
|-------------------|----------------------|----------------------|
| Common Funded | 27,070,299.02 | 12,687,137.66 |
| Nationally Funded | 20,091.02 | 2,593,501.75 |
| Fit-Out | 27,564.40 | 4,929,860.16 |
| Eurocontrol | 40,408.94 | 40,408.94 |
| TOTAL | 27,158,363.38 | 20,250,908.51 |

NOTE 4: SHORT TERM INVESTMENTS

The below table provides comparative data on the NHQ's Short term Investments, over two consecutive years:

| (amounts in EUR) | 2020 | 2019 |
|-------------------|---------------------|----------------------|
| Common Funded | 5,000,000.00 | 30,000,000.00 |
| Nationally Funded | | 600,000.00 |
| Fit-Out | | |
| TOTAL | 5,000,000.00 | 30,600,000.00 |

The MEUR 5 corresponds to short-term investments which are available at 35 days' notice period with ING.

NOTE 5: ACCOUNTS RECEIVABLE

Contributions receivable from member Nations are funds requested from the Nations to finance the Common Funded Budget, the Nationally Funded component and the Fit-Out.

No call for contributions was issued since 2017. Expenses in relation to the project until its completion are covered by credits carried forward. This explains the decrease in budgetary contributions receivables from 2019 to 2020.

There are other receivables from Nations concerning amounts due for cases other than contributions to the NNHQ budget or nationally funded elements.

Other Receivables relate to miscellaneous amounts due to the Project (e.g. reimbursement of operating costs, insurance claims, advances to staff for education allowances etc.).

The below table provides comparative data on the NHQ's Accounts Receivable, over two consecutive years:

| Receivables (in EUR) | 2020 | 2019 |
|-------------------------|-------------------|-------------------|
| Budgetary contributions | 270,413.00 | 543,132.85 |
| Recoverable Expenses | 70,230.39 | 328.64 |
| Long Outstanding Debts | 22,575.40 | 29,010.52 |
| Accruals | - | 43,792.12 |
| Total | 363,218.79 | 616,264.13 |

The budgetary contributions refer to the outstanding debt from Montenegro (acquisition of delegation space).

The recoverable expenses relate to the interest charged to Montenegro in the context of the New NATO Headquarters funding arrangement and the NNHQ regularization of Annex K.

The Long Outstanding Debts disclose receivables that remain open for more than 360 days. The receivable does not relate to a Common Funded call for funds but to security costs (USA).

NOTE 6: PREPAYMENTS

Prepayment are done mainly to Host Nation Belgium (PMT), NCIA (as CIS Host Nation) and some staff related advances.

The terms of the MOU between NATO and Host Nation Belgium, stipulate that there will be no national pre-financing of the Project. Therefore, receivables from the PMT relate to advance payments made which are not regularised at year end as they do not correspond to works completed. The NCIA prepayment correspond to advance payments made in connection to CIS works (mainly ANWI), which are not regularised at year end as they do not correspond to works completed.

The below table provides comparative data on the NHQ's Prepayments, over two consecutive years:

| Prepayments (in EUR) | 2020 | 2019 |
|-----------------------------|---------------------|---------------------|
| Prepayment PMT | 2,898,792.84 | 2,939,029.07 |
| Prepayment NCIA | 1,132,352.10 | 4,918,751.76 |
| Other suppliers | - | 215,823.20 |
| Staff (Education Allowance) | - | 14,046.67 |
| Total | 4,031,144.94 | 8,087,650.70 |

The final liquidation of these outstanding prepayments will be settled after the reporting date.

NOTE 7: OTHER CURRENT ASSETS

Other Current Assets correspond mainly to a reimbursement that New NATO Headquarters will receive as part of an insurance settlement (EUR 268,738.94).

NATO UNCLASSIFIED

ANNEX 6 to
FC(2021)0038

6-14

NOTE 8: NON-CURRENT ASSETS

By early 2018 all of the main elements of the PPE that have enabled NATO to move to and operate on the new premises have been handed over from the Host Nations (PMT and NCIA) to NATO International Staff. Consequently these assets now appear in the books of the latter except for the IT part which in accordance with the NATO Accounting Framework is to be considered an NCIA asset. There are no longer any PPE or IT assets appearing on the statement of financial position of the NNHQ. In the tables below, the reduction in the value of non-current assets under "Other Changes" reflects this transfer of assets between two NATO entities, under the same legal personality, which was done as direct balance sheet transactions, impacting similarly the Long Term Unearned Revenue.

Up until this transfer, costs charged as PPE Work in Progress cover the common funded PPE and the nationally funded construction works held on behalf of the member Nations which during the execution of the project are considered not separable from the overall amount of fixed assets.

The following tables reconcile the evolution of works related with PPE since 2019 until the end of 2020.

| (amounts in EUR) | Carrying Amount end 2018 | Additions | Disposals | Depreciation | Other Changes | Carrying Amount end 2019 |
|------------------------------------|--------------------------|----------------|-----------|--------------|------------------|--------------------------|
| COMMON FUNDED | | | | | | |
| Personnel (chapter 1) | 0 | 0 | | | 0 | 0 |
| Operating Costs (chapter 2) | 0 | 0 | | | 0 | 0 |
| Professional fees (chapter 3) | 0 | 219,860 | | | (219,860) | 0 |
| Works (chapter 4) | 0 | 644,049 | | | (644,049) | 0 |
| Special Equipment (chapter 5) | 0 | 0 | | | 0 | 0 |
| SUB-TOTAL COMMON FUNDED | 0 | 863,909 | 0 | 0 | (863,909) | 0 |
| | | | | | | 0 |
| NATIONALLY FUNDED | | | | | | 0 |
| Works | 0 | 0 | | | 0 | 0 |
| SUB-TOTAL NATIONALLY FUNDED | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | | | 0 |
| TOTAL | 0 | 863,909 | 0 | 0 | (863,909) | 0 |

| (amounts in EUR) | Carrying Amount end 2019 | Additions | Disposals | Depreciation | Other Changes | Carrying Amount end 2020 |
|------------------------------------|--------------------------|----------------|-----------|--------------|------------------|--------------------------|
| COMMON FUNDED | | | | | | |
| Personnel (chapter 1) | 0 | 0 | | | 0 | 0 |
| Operating Costs (chapter 2) | 0 | 0 | | | 0 | 0 |
| Professional fees (chapter 3) | 0 | 0 | | | 0 | 0 |
| Works (chapter 4) | 0 | 361,490 | | | (361,490) | 0 |
| Special Equipment (chapter 5) | 0 | 0 | | | 0 | 0 |
| SUB-TOTAL COMMON FUNDED | 0 | 361,490 | 0 | 0 | (361,490) | 0 |
| | | | | | | 0 |
| NATIONALLY FUNDED | | | | | | 0 |
| Works | 0 | 0 | | | 0 | 0 |
| SUB-TOTAL NATIONALLY FUNDED | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | | | 0 |
| TOTAL | 0 | 361,490 | 0 | 0 | (361,490) | 0 |

For 2020, included is an amount of EUR 361,490 corresponding to costs incurred by the PMT for completed works at end 2020. These assets were transferred to IS at 2020 year-end.

The following table reconciles the ANWI Assets since 2019 until the end of 2020:

| (amounts in EUR) | Carrying Amount end 2018 | Additions | Disposals | Depreciation | Other Changes | Carrying Amount end 2019 |
|-------------------------------|--------------------------|------------------|-----------|--------------|--------------------|--------------------------|
| COMMON FUNDED | | | | | | |
| Personnel (chapter 1) | 0 | 0 | | | | 0 |
| Operating Costs (chapter 2) | 0 | 0 | | | | 0 |
| Professional fees (chapter 3) | 0 | 1,090 | | | (1,090) | 0 |
| Works (chapter 4) | 0 | 12,977 | | | (12,977) | 0 |
| Special Equipment (chapter 5) | 0 | 1,368,172 | | | (1,368,172) | 0 |
| TOTAL COMMON FUNDED | 0 | 1,382,239 | 0 | 0 | (1,382,239) | 0 |

| (amounts in EUR) | Carrying Amount end 2019 | Additions | Disposals | Depreciation | Other Changes | Carrying Amount end 2020 |
|-------------------------------|-----------------------------|-------------------|-----------|--------------|---------------------|-----------------------------|
| COMMON FUNDED | | | | | | |
| Personnel (chapter 1) | 0 | 0 | | | | 0 |
| Operating Costs (chapter 2) | 0 | 0 | | | | 0 |
| Professional fees (chapter 3) | 0 | 32,495 | | | (32,495) | 0 |
| Works (chapter 4) | 0 | 0 | | | 0 | 0 |
| Special Equipment (chapter 5) | 0 | 12,134,525 | | | (12,134,525) | 0 |
| TOTAL COMMON FUNDED | 0 | 12,167,020 | 0 | 0 | (12,167,020) | 0 |

During 2020, an additional EUR 12,167,020.00, were billed by NCIA in relation to the ANWI, which in accordance with the NATO Accounting Framework is to be considered an NCIA and not NNHQ asset.

NOTE 9: PAYABLES

Payables and accrued expenses may be to commercial suppliers, staff, Member Nations and other NATO bodies.

Payable to suppliers

Payable to suppliers relates to goods and services for which an invoice has been received, checked, and queued for payment but for which payment was still pending at year-end.

Payable to personnel

Payable to personnel relates to amounts due to staff in relation to remuneration.

Payable to Nations

A payable of EUR 1,513,305.90 (unchanged compared to 2019) is in relation to the reimbursable salaries due to the United States for a civilian staff member who is paid directly by the United States government.

Under this item we also disclose the unused Fit-Out funds of EUR 27,564.40 that need to be returned in line with Nations instructions.

Accruals

Accrued expenses correspond to the estimated accrual obligation to third parties for goods and services received but not yet invoiced.

Below a table is provided with comparative data on the outstanding payables at year-end for two consecutive years:

| Payables (in EUR) | 2020 | 2019 |
|---|----------------------|---------------------|
| Payable to suppliers | 12,577,684.94 | 1,543,591.62 |
| Payable to staff | 5,309.54 | 9,268.24 |
| Surplus Fit out to reimburse to Nations | 27,564.40 | 4,936,958.72 |
| US Reimbursable | 1,513,305.90 | 1,513,305.90 |
| Accruals | 320,635.50 | 1,693,685.49 |
| Other Nato Entity | 813.03 | |
| Total | 14,445,313.31 | 9,696,809.97 |

NOTE 10: DEFERRED REVENUE**Deferred Revenue from Budgetary Appropriations**

Deferred Revenue from budgetary appropriations corresponds to contributions called in relation to approved budgets but for which corresponding expenses have not incurred before the reporting date of 31 December 2020 and carried-forward in accordance with the NATO Financial Regulations (and the specific waiver thereto applicable to this project) and advances made to the PMT and the NCIA.

At 2020 year-end the deferred revenue from budgetary appropriations amounts to EUR 4,997,454.89 for the Common funded.

Other Deferred Revenue

There are also National Funds corresponding to funds managed on behalf of Nations outside of the standard call for Common Funded budgetary contributions process which are the counterpart of specific contributions called from Nations to meet the Project's payment for the Fit-Out or for Nationally Funded elements. As of 2020 year end there are only EUR 3,772.85 left from the National Funding, corresponding to accumulated interest.

The decision of the use of final balance of Deferred Revenue positions lies with the respective contributors during the final closure of the LTPB.

NOTE 11: ADVANCES**Advances Related to the Budgetary Process**

No advances related with the common funded component of the project were paid/received in 2020. At 2020 year-end, there are only EUR 248.00 of outstanding advances from nations.

Other Advances

The table below provides an overview of the outstanding advances held at year-end for two consecutive years:

| Advances for NF (in EUR) | 2020 | 2019 |
|---------------------------------|------------------|---------------------|
| Advance from Member Nations | 4,434.91 | 3,176,371.60 |
| Advance from Third Parties | 40,408.91 | 40,408.91 |
| Total | 44,843.82 | 3,216,780.51 |

At 2020 year-end, there are no advances left in the Fit-Out program but only in National Funded part of the project. The advance from third party is the surplus reimbursement from PMT related to EUROCONTROL contribution to the NHQ Project

The final balance of these items is to be returned to the respective contributors during the final closure of the NHQ accounts.

NOTE 12: PROVISIONS**Short Term Provisions**

A provision for receivable invoices that have remained unpaid for longer than one year has been registered and is reported under provisions.

Long Term Provisions

A provisions for soil decontamination of the previous NATO Headquarters is estimated at EUR 500,000.00 and is expected to be paid in, or after, fiscal year 2022.

NOTE 13: OTHER CURRENT LIABILITIES**Other Current Liabilities linked to the budget process**

Lapsed credits are budget funds for which no legal liability exists. They cannot be spent in subsequent years. Lapsed credits are normally deducted from the contributions due from Nations in the call of the following year.

Receipts linked to interest, foreign exchange difference profit and bank charges are normally deducted from the contributions due by Nations in the following year.

The standard budgetary process provides that amounts corresponding to the current year budgetary surplus, i.e. lapsed credits, net interests and miscellaneous income, are considered a liability towards the contributing nations. The settlement does not follow the normal accounts payable process, since the standard approach is to return them to contributing nations via a deduction of the following year's call for budget contributions. In the case of the NNHQ Project member nations have decided that this rule would not apply until completion of the project and that all available appropriations at the end of each year would be carried forward. Consequently, calls for contributions were equal to the gross amount of the approved budget with no deductions for any surplus.

As a result of the BC decision to discontinue the NNHQ project per 31 December 2020, the lapsed appropriations have been identified in amount of EUR 15,976,156.30.

Other Types of Current Liabilities

Under this item are disclosed all minor surpluses that do not relate to the budgetary process (common funding, national funding and Fit-Out), but rather to miscellaneous and financial income, including the surplus of the 9/11 Memorial Grant.

The table below provides comparative data year-end balances of other type of current liabilities, for two consecutive years:

| Other Current Liabilities (in EUR) | 2020 | 2019 |
|---|----------------------|---------------------|
| Contribution LTPB to Building Z | - | 3,762,403.00 |
| Lapsed Appropriations | 15,976,156.30 | |
| Surplus Miscellaneous result | 316,176.31 | 47,437.37 |
| Surplus Financial result | 525,450.17 | 504,235.67 |
| Surplus 9/11 Memorial | 12,257.52 | 12,257.52 |
| Other | | |
| Total | 16,830,040.30 | 4,326,333.56 |

NOTE 14: LONG TERM UNEARNED REVENUE

This revenue corresponds to the contributions, budgetary and non-budgetary, that funded fixed assets work in progress.

Since the all fixed assets have been transferred out to either NATO IS or NCIA, the NNHQ accounts no longer hold any non-current assets, and hence there is no Long Term Unearned Revenue.

Statement of Financial Performance**NOTE 15: REVENUE**

Until 2018 budgetary revenue has been matched to recognised expenses relating to the activities of the Transition Office.

In 2019 and 2020, this rationale was also applied to the NHQPO/TO expenses, since as off the hand-over of the building to NATO IS, their work is no longer to be capitalized as PPE Work in Progress.

Any interest gained is attributed to the funding of the construction itself, as a liability towards the nations and is therefore is recognized as a surplus.

Financial revenue originates from bank interests, interests charged to Nations and currency exchange profit, while Other revenue originate from minor cost reimbursements and mainly from the payment to be received from host nation related to reimbursement of insurance claims.

NOTE 16: EXPENSES

The only expenses recognised are those related Headquarters Project Office and Transition Office (NHQPO/TO). They consist mainly of the costs related with operation and maintenance of the PNHQ until its hand-over to the host nation (utilities, security services), removal costs and some minor works still performed in the NHQ building (design corrections, modifications, etc.), together with the salaries of staff, administrative expenses and miscellaneous consultancy studies.

As explained under Note 2 (Revenue and expense recognition), starting 2019 all costs related to NHQPO are totally expensed, i.e. no longer capitalized into the NHQ building project.

Banking costs are not recognised as expenses but are deducted from interests earned. A total of EUR 1,030.94 has been recognized as financial cost deriving mainly from currency exchange rate losses.

There are also Provision costs for the soil decontamination of the previous HQ and for long outstanding receivables.

During 2020, the NHQ project did not purchase any additional items of PPE, except those mentioned in Note 8.

NOTE 17: NET RESULT OF THE PERIOD

Given that revenue stemming from budgetary resources is recognised in an equal amount to expenses, the result of the year is nil.

NOTE 18: CASH FLOW STATEMENT

The cash flow statement is presented following the indirect method.

NOTE 19: BUDGET INFORMATION AND RECONCILIATION WITH CASH FLOWS

Presently, NATO NHQ budgets are not publicly available.

Presentation of budget information in the financial statements

Besides NATO Financial Regulations and Financial Rules and Procedures as well as elements of the NSIP procedure, the New Headquarters Project is governed by the following:

- Project Authorization to Ministry of Defense BE: C-M(2007)0076-AS1;
- MOU between Ministry of Defense BE and NATO: SG(2004)1220-REV4;
- CDT Contract signed between Belgium and CDT in December 2004 (PMT responsibility);
- Council derogation to NATO Financial Regulations (C-M(2000)36) and Budget Committee derogation to NFR (BC-DS(2007)0005). The derogation concerns, in particular: committed, or to be committed credits, which may be carried forward until the closure of the Project; the only limitations to cash holdings being the actual funding requirements.

There are three types of funding:

1. NATO Common Funding (CF) for Common Infrastructure requirements: based on an approved Cost Sharing Formula specific to the New NATO HQ Project (SG(99)1707, C-M(2004)0061 and BC-D(2009)0008-ADD1).
2. National Funding (NF) for Construction of Private Space of Delegations: calculated on the basis of actual 'shell and core' costs based on the number of gross square meters of occupied space,
3. National Funding for Fit-Out of Delegations: based on actual costs to fit-out the occupied space of each Delegation.

The latest New NATO Headquarters Financial Status report (BC-D(2020)0167) shows an amount of EUR 34,310,787 related to credits carried over from previous financial years which remained available to be used under the LTPB. There were no new requirements for National Funding nor for the Fit-Out programme for 2020.

In 2020, the daily management of the New NATO Headquarters Long Term Programme Budget has been transferred from DI to EM on 1 May (DPRC-DS(2020)0037). As per PO(2020)0263-AS1, the oversight and control of the New NATO Headquarters Long Term Programme Budget has been transferred from the Deputies Committee to the Budget Committee.

As per DPRC-N(2019)0067-REV1-AS1 (INV), Nations declared their intent to close the Long Term Programme Budget and to disestablish the HQPO/TO on 30 June 2020. As per BC-D(2020)0198 Nations confirmed to close the LTPB as 31 December.

It should be noted that the credits approved for 2020, as for previous budget years, do not correspond to the full extent of the annual costs, including for Salaries and Operations and Maintenance. Credits carried forward from previous years were used, with the agreement of Nations, to fund 2020 commitments and expenses.

Budget execution statements for 2020 and 2019 are provided at Annex 5, the appendix to Annex 6 provide the last Budget Execution report provide by DI as per document BC-D(2020)0167.

Reconciliation of the Budget Execution Statement and the Financial Performance Statement

The budget is prepared for the same period (1 January to 31 December) and encompasses the same entity as these financial statements but the basis and the presentation format are different.

The New NATO HQ Project budget is prepared and executed on a commitment basis. The commitment of credits is the advance acceptance and recording of the financial consequence resulting from a legal obligation incurred during the financial year. Unliquidated commitments are carried forward and added to the budget of the following financial year to the extent of existing legal liabilities or if a special

NATO UNCLASSIFIED

ANNEX 6 to
FC(2021)0038

6-20

agreement is given by the Budget Committee. The balance of unused budgetary credits (not committed) lapses but is not returned to nations at year-end, in accordance with the derogation agreed by the NAC.

The budget classification is based on the economic nature of the expenses broken down into five chapters as follows:

| | |
|-------------|-------------------------------|
| Chapter I | Personnel Expenses |
| Chapter II | Operating Expenses |
| Chapter III | Intellectual Services |
| Chapter IV | Demolition/Construction Works |
| Chapter V | Special Equipment |

Up until 2018 with the exception of those relating to the Transition Office, all costs were considered as investing activities. In 2020 EUR 12,528,509.90 were capitalized and transferred at year-end to NATO IS (EUR 361,490) and NCIA (EUR 12,167,019.90)

Concerning the budget execution statement, it must be noted that the approved budget concerns exclusively the Common Funded component of the building. The Nationally Funded component is not strictly speaking a budget (see below) but, the execution of its expenses in a quasi-budget context does result in increases of the related non-current assets and changes in related cash advances to the Host Nations.

Also, carried forward credits, in the case of the NNHQ Project, correspond to unused funds only budget expenses have a financial impact. As a consequence the reconciliation of the budget execution statement should be made between the budget expenses on one side, and, on the other side, the statement of financial performance, changes in the level of non-current assets and of advances to Host Nations, taking into account the distinction between the Common Funded and the Nationally Funded components. Such is the purpose of the table below.

The table below reconciles the budget execution with statement of financial performance for 2020.

2020 Reconciliation of Budget to Financial Performance

| BUDGET EXECUTION | | Common Funded | National Funded | Total |
|--|---------------|---------------|-----------------|---------------|
| Total budget (including Carry-forward from Previous year) | (a) | 34,310,786.87 | 0.00 | 34,310,786.87 |
| Credits Carried Forward in Following Year | (b) | 17,033,981.69 | 0.00 | 17,033,981.69 |
| Budget Execution Expenses | (c) = (a-b) | 17,276,805.18 | 0.00 | 17,276,805.18 |
| RECONCILIATION | | Common Funded | National Funded | Total |
| Financial Performance Expenses (excluding Depreciation, Financial and Other costs) | (d) | 4,290,631.76 | 0.00 | 4,290,631.76 |
| Increase in Non-Current Assets | (e) | 12,528,509.90 | 0.00 | 12,528,509.90 |
| Provision decontamination - untaken leave | (f) | 457,663.52 | | 457,663.52 |
| Sub-Total | (g) = (d+e+f) | 17,276,805.18 | 0.00 | 17,276,805.18 |
| Difference to Budget Expenses | (c-g) | 0.00 | 0.00 | 0.00 |

Nationally Funded Component

Although not considered as a common funded budget, specific amounts are approved for the nationally funded component (excluding Fit-Out). Related expenses are apportioned using physical criteria (such as surface, number of parking spaces) rather than the cost-shares applicable to the Common Funded Component. The table below compares the cumulative approved amounts, related advances to the PMT and accrued expenses. There were no changes since 2018.

| | (amounts in EUR) | | | | | | |
|------------------|------------------|------------|-----------|------|------|------|------------|
| | Up to 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | Cumulative |
| Approved Amounts | 97,086,113 | 1,422,252 | 516,950 | 0 | 0 | 0 | 99,025,315 |
| Cash advances | 81,599,999 | 16,908,366 | 516,950 | 0 | 0 | 0 | 99,025,315 |
| Expenses | 77,666,447 | 18,174,145 | 3,184,723 | 0 | 0 | 0 | 99,025,315 |

Fit-Out

Operations related to the Fit-Out of national delegations are not executed in the context of a budget framework; they result in outflows of cash to the PMT and other vendors (ex. move costs) for settlement of related invoices.

NOTE 20: WRITE-OFFS

Nothing to report.

NOTE 21: LEASES

With the completion of the move in 2018 and transfer of the NHQ building to NATO IS, the lease rights granted by Host Nation Belgium over the plot of land where the NHQ is located passed on to NATO IS and therefore no further disclosures are required in this respect under the NHQ financial statements notes.

The New NATO Headquarters Project does not have any financial leases, however in 2020 the following operational lease was funded by the LTPB:

| Contract No | ASSET LEASED | AMOUNT PAID IN 2020 | EXPENSE ACCOUNT CHARGED | AMOUNT TO PAY FOR 2021 |
|-------------|---------------|---------------------|--|------------------------|
| (CPA) | | | | |
| 1980 | Building XRay | 3,000.00 | NH0100-0000-000000-00000-0000-444023-00000-0-0 | - |

NOTE 22: RESTRICTIONS ON FIXED ASSETS

There are no restrictions on fixed assets.

NOTE 23: CONTINGENCY CREDITS AND CONTINGENT LIABILITIES

Contingency credits overview (budgetary approach)

References:

- (a) BC-D(2020)0167
- (b) BC-D(2020)0163-REV1
- (c) BC-D(2020)0169-ADD1-AS1
- (d) BC-D(2020)0218-REV1-AS1

In August 2020, Council approved to transfer the oversight and control from the DPRC to the BC.

At reference (a), the BC noted the financial status report for the LTPB as of 31 December 2019. A financial status report for the LTPB as of 31 December 2020 will be presented to the BC by the EM after the issuance of these financial statements.

At reference (b) the BC was informed about the financial status of the LTPB at 24 September 2020. On 12 November 2020 (reference c) the BC decided to use the remaining contingencies under their control to fund the amounts authorized to the NCI Agency for the correction of JFAI deficiencies impacting operational performance. The relevant budget transfers were approved by the BC on 10 March 2021 (reference d).

Reference (d) provides the latest status of the LTPB contingencies under the BC control:

| Description | Budget 2019 NNHQ Financial Statements | Budget After Transfers | Open Appropriations After Transfers |
|---|--|------------------------|--|
| Contingencies - DPRC control | 10,582,498 | 155,433 | - |
| Contingencies - DPRC control (Transition) | 481,216 | 481,216 | 481,216 |

Contingent Liabilities

The stakeholders of the Project were regularly informed at the DPRC or Budget Committee level about potential claims under discussion between PMT and its suppliers, possible related legal disputes and their financial consequences on the course of the Project.

In accordance with information collected from the Deputy Assistant Secretary General for HQST, no contingent liabilities are known at 2020 year-end.

NOTE 24: CONTINGENT ASSETS

Nothing to report.

NOTE 25: EMPLOYEE DISCLOSURE

By the end of 2020 the New NATO Headquarters project all staff members left the NNHQ Project

Employee Status

At 31 December 2020, New NATO Headquarters Project Office and Transition Office had the below approved Personnel Establishment.

| Position by HQ | NATO Civilians | |
|------------------------|----------------|------------|
| | 31/12/2020 | 31/12/2019 |
| Total Approved PE | 0 | 14 |
| Total Filled Positions | 0 | 7 |
| Arrivals in the year | 0 | 0 |
| Departures in the year | 7 | 7 |

At the end March one temporary staff member left the NNHQ Project. At the end of June, 2 permanent staff members left together with 3 temporary staff members. The contract of the last staff member ended at the end of December 2020, the latter contract had been extended from July onwards, which aligns with the updated revisited decision of the BC to close the NNHQ Project as per 31 December 2020.

Pension Schemes

The NATO-IS centrally manages three pension programs, namely the Defined Benefit Pension Scheme (DBPS) and the Defined Contribution Pension Scheme (DCPS), as well as the Retiree Medical Claims Fund (RMCF), covering staff employed by all NATO bodies. NATO wide financial statements are issued by the NATO-IS Office of Financial Control for the two Pension Schemes and the RMCF; therefore, no related assets or liabilities are recognised in these financial statements.

The DCPS provides that the New NATO Headquarters Project budget makes a 12% monthly matching contribution to the staff members' contributions for current service. As for the DBPS a deduction of 11.8% of their salaries is made and contributed to the annual financing of this plan, in addition, the New NHQPO budget makes a matching contribution to the DBPS equal to 19% of their basic salaries, which in accordance with (BC-WP(83)3(Revised) and C-M(83)34) is deemed to provide the necessary funds for the subsequent pensions liability of the NHQPO. These contributions are expensed during the year in which the services are rendered and represent the total pension obligation of the entity (find reference). Consequently, the NHQPO has neither DBPS nor DCPS liability for its staff members.

The below table provides an overview of the Pension Schemes affiliation to the pension schemes, for the last two consecutive years:

| NHQPO/TO Staff Affiliation Per Pension Scheme | | |
|---|------|------|
| | 2020 | 2019 |
| DCPS | 3 | 3 |
| DBPS | 0 | 1 |

During 2020 the NHQPO/TO paid the following amount as contributions for DBPS and DCPS pension schemes:

| amounts in EUR | 2020 | | | 2019 | | |
|-------------------------------------|-----------------|------------------|------------------|------------------|------------------|-------------------|
| | Staff | Employer | Total | Staff | Employer | Total |
| Co-ordinated Pension Scheme | - | - | - | 14,946.68 | 29,893.36 | 44,840.04 |
| Defined Contribution Pension Scheme | 7,538.11 | 15,883.49 | 23,421.60 | 37,247.68 | 59,157.95 | 96,405.63 |
| TOTAL | 7,538.11 | 15,883.49 | 23,421.60 | 52,194.36 | 89,051.31 | 141,245.67 |

Leave

Paid leave is an employee benefit and as such part of overall personnel expenses. In accordance with personnel regulations, the remaining balance at year end may be carried forward but must be taken before 30 April of the following year. It can be exceptionally expanded to 31 October in accordance with Civilian Personnel Regulations art. 42.3.5 and 42.3.6. After this date it lapses and is not paid to staff. For these financial statements, untaken leave is specifically reported if its monetary value is more than 10% of the total annual leave entitlement. The cost of untaken leave days is usually absorbed during the year through the monthly salaries; leave to be taken carried forward into the next year constitutes a liability towards the future and would notionally require funding from Participating Nations. Estimates end 2019 amount to EUR 42,336.48 (EUR 73,382.26 end 2018). This provision has been released as NHQPO/TO ceased its operations at 31 December and all staff left at 31 December 2020

Loss of Job Indemnities (LOJI)

In 2020, with the closure of the NHQPO/TO some LOJI's have been paid to the respective staff in lieu with the separation. The total amount paid was EUR 609,860.99.

NOTE 26: KEY MANAGEMENT PERSONNEL

The Deputies Committee (DPRC) is responsible for the oversight of the New NATO HQ Project management. The DPRC took over this responsibility from the DPRHQB which was disbanded in 2010. Members of the DPRC are nominated by their respective National Authorities. They are paid on the basis of applicable national pay scales. They do not receive from NATO any additional remuneration for their responsibilities or access to benefits. As per PO(2020)0263-AS1, the oversight and control of the New NATO Headquarters Long Term Programme Budget has been transferred from the Deputies Committee to the Budget Committee.

For the purposes of IPSAS 20 implementation, until 30 June 2020, Key Management Personnel of New NATO HQ Project consisted of the Director of the NHQPO/TO. This position was remunerated in accordance with its NATO A6 grade. From May 2020 the Deputy Assistant Secretary General for HQST is in charge of the LTPB execution, with no additional remuneration for their responsibilities.

There are no other remuneration or benefits to key management personnel and their family members. Key Management Personnel are entitled to receive loans which are also available to other members of the NATO International Staff.

NOTE 27: RELATED PARTIES

NATO Bodies

For administrative purposes the NHQPO/TO is attached to the NATO International Staff Defense Investment Division. The Assistant Secretary General of the Defense Investment Division chairs the DPRC when it addresses issues related to the Project. From May 2020, the daily management of the NHPO/TO has been assumed by the Executive Management (EM) Division

The NCI Agency is the Host Nation in charge of equipping the New NATO HQ with modern and cost effective Information and Communication Technologies solutions, to include voice, video and data management, processing and storage through the Active Network Infrastructure (ANWI) project. As off 31 December 2020, there were still the identified JFAI deficiencies on ANWI that will be settled during 2021 together with some minor elements that have been delayed because of the COVID-19 crisis or other unforeseen events.

Member Nations

NATO Security Investment Programme (NSIP) procedures are the management process for the New NATO HQ. Belgium is the Host Nation for the construction, the passive network infrastructure, the building management system, the electronic security system and audio visual infrastructure. In exchange for this service, Belgium receives fees (National Administrative Expense (NAE) equal to 3% of works) the total amount of which is estimated EUR 21.7 million over the duration of the project.

Each delegation's fit-out is the financial responsibility of the Nation concerned. Twenty four Nations agreed to the have their delegations' fit-out undertaken by the PMT. Specific advance contributions were requested from the Nations concerned to cover the related costs (C-M(2006)0096). The other four Nations have decided to have their fit-out done nationally without the intervention by the PMT. In 2018 the republic of Montenegro became a member of the Alliance, and decided to also delegate their Fit-out works to the PMT. North Macedonia became a member during 2020 of the Alliance and the related works are managed by NATO International Staff.

* * * * *

List of Acronyms:

ANWI: Area Network Infrastructure
EUROCONTROL: European Organization for the Safety of Air Navigation
DPRC: Deputy Permanent Representatives Committee
IS: International Staff
LOJI: Loss of Job Indemnity
LTPB: NHQ Long Term Program Budget
MOU: Memorandum of Understanding
NCIA: NATO Communication and Information Agency
NHQPO: NATO New HQ Program Office
NHQPO/TO: Combined NHQPO+TO
NSIP: NATO Security Investment Programme
PMT: Project Management Team
PNHQ: Previous NATO HQ
PPE: Property, Plant and Equipment
TO: Transition Office

NATO UNCLASSIFIED

Appendix to ANNEX 6 to
FC(2021)0038

6-26

Latest Budget Execution Report as per BC-D(2020)0167

NEW NATO HQ BUDGET EXECUTION REPORT AS OF 31 DECEMBER 2019

| Line | Description | Opening Budget 2019 | Budget Transfers | Budget 2019 | Committed 2019 | Paid 2019 | Available 31 Dec 2019 | Carried Forward on 31 Dec 2019 FC(2020)0040 |
|--------------------------------------|--|---------------------|--------------------|-------------------|-------------------|-------------------|-----------------------|---|
| | | (03) | (04) | (05) | (06) | (07) | (08) | (09) = (06) + (08) |
| 01-01-01-00 | Basic Salaries | 1,498,918 | (174,000) | 1,324,918 | - | 651,088 | 673,830 | 673,830 |
| 01-01-02-00 | Other Emoluments | 231,359 | 174,000 | 405,359 | 377 | 342,613 | 62,369 | 62,746 |
| 01-01-04-00 | Instruction and staff training | 356,162 | | 356,162 | 1,820 | 144 | 354,198 | 356,018 |
| 01-01-06-00 | Staff restructuring | 842,548 | | 842,548 | - | 713,318 | 129,229 | 129,229 |
| 01-01-08-00 | Pensions | 223,198 | | 223,198 | - | 89,051 | 134,147 | 134,147 |
| 01-02-01-00 | Temporary staff | 128,729 | | 128,729 | 2,772 | 88,831 | 37,126 | 39,898 |
| 01-02-02-00 | Consultants | 104,482 | | 104,482 | 5,500 | 19,291 | 79,691 | 85,191 |
| CHAPTER 1 | PERSONNEL COSTS | 3,385,396 | - | 3,385,396 | 10,470 | 1,904,337 | 1,470,589 | 1,481,059 |
| 02-01-00-00 | Travel on official business | 2,326 | | 2,326 | 351 | 84 | 1,891 | 2,242 |
| 02-03-00-00 | Hospitality | 4,341 | | 4,341 | - | 2,007 | 2,334 | 2,334 |
| 02-05-01-00 | Operating expenses | 345,304 | | 345,304 | 182 | 8,854 | 336,267 | 336,450 |
| 02-05-01-01 | Operating Overlap costs (Transition) | 3,496,000 | 2,100,000 | 5,596,000 | 511,852 | 3,879,241 | 1,204,907 | 1,716,760 |
| 02-05-03-00 | Disposal of PNHQ (Transition) | 2,606,627 | | 2,606,627 | 26,086 | 1,768,393 | 812,148 | 838,234 |
| 02-05-04-00 | New HQ launch (Transition) | 814,303 | | 814,303 | 241,118 | 133,430 | 439,754 | 680,872 |
| 02-06-00-00 | Construction Site Guard | 152,625 | | 152,625 | - | 152,625 | (0) | (0) |
| 02-08-00-00 | | 26,062 | | 26,062 | - | - | 26,062 | 26,062 |
| CHAPTER 2 | OPERATING EXPENSES | 7,447,587 | 2,100,000 | 9,547,587 | 779,590 | 5,944,634 | 2,823,364 | 3,602,953 |
| 03-01-04-01 | Legal Consultancy NATO | 150,000 | | 150,000 | - | 141,525 | 8,475 | 8,475 |
| 03-01-13-01 | ICT Prog Mgt | 19,021 | | 19,021 | - | - | 19,021 | 19,021 |
| 03-02-00-00 | Belgian Project Managt Team | 283,842 | | 283,842 | 283,842 | | - | 283,842 |
| 03-02-01-00 | NCIA fees for ICT | 82,844 | | 82,844 | 33,025 | 1,090 | 48,728 | 81,754 |
| 03-04-00-00 | Concept Design Team Fees | 108,319 | | 108,319 | - | 101,190 | 7,129 | 7,129 |
| CHAPTER 3 | INTELLECTUAL SERVICES | 644,026 | - | 644,026 | 316,867 | 243,806 | 83,353 | 400,221 |
| 04-01-02-00 | Construction of new site and PNWI | 12,185,654 | | 12,185,654 | 12,185,654 | - | - | 12,185,654 |
| 04-01-02-01 | Electronic Security System | 25,000 | | 25,000 | 25,000 | - | - | 25,000 |
| 04-01-02-02 | Contingencies - DPRC control | 17,222,614 | (2,100,000) | 15,122,614 | - | 4,540,115 | 10,582,498 | 10,582,498 |
| 04-01-02-04 | Contingencies - DPRC control (Transition) | 481,216 | | 481,216 | 10,784 | - | 470,431 | 481,216 |
| 04-01-02-05 | One-time requirements (Transition) | 1,135,312 | | 1,135,312 | 275,940 | 443,359 | 416,012 | 691,953 |
| 04-01-03-00 | Audio Visual Equipment | 632,087 | | 632,087 | 632,087 | 32,119 | (32,119) | 599,968 |
| 04-01-05-00 | Construction Security equipment | 59,398 | | 59,398 | - | 1,696 | 57,702 | 57,702 |
| CHAPTER 4 | CONSTRUCTION COSTS | 31,741,280 | (2,100,000) | 29,641,280 | 13,129,466 | 5,017,290 | 11,494,525 | 24,623,991 |
| 05-01-01-00 | ICT Active Network Infrastructure (NCIA) | 2,376,811 | | 2,376,811 | 7,032 | 86,125 | 2,283,654 | 2,290,686 |
| 05-01-02-00 | ICT Technical Application Migration & ICTM | 2,534,568 | | 2,534,568 | 723,871 | 1,471,921 | 338,776 | 1,062,647 |
| 05-01-03-00 | Furniture either internal or external | 577,236 | | 577,236 | 22,262 | 145,404 | 409,571 | 431,832 |
| 05-01-03-01 | Sports or recreational equipment | 67,922 | | 67,922 | - | - | 67,922 | 67,922 |
| 05-01-04-00 | Relocation costs | 463,196 | | 463,196 | 56,451 | 113,720 | 293,024 | 349,476 |
| CHAPTER 5 | SPECIAL EQUIPMENT | 6,019,734 | - | 6,019,734 | 809,616 | 1,817,170 | 3,392,947 | 4,202,563 |
| TOTAL BUDGET - COMMON FUNDING | | 49,238,023 | - | 49,238,023 | 15,046,009 | 14,927,236 | 19,264,778 | 34,310,787 |

PUBLICLY DISCLOSED - PDN(2022)0014 - MIS EN LECTURE PUBLIQUE



NORTH ATLANTIC TREATY ORGANIZATION
ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD
INTERNATIONAL BOARD OF AUDITORS
COLLÈGE INTERNATIONAL DES AUDITEURS EXTERNES DE L'OTAN

NATO UNCLASSIFIED

IBA-A(2021)0155
26 November 2021

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

Cc: NATO Permanent Representatives
Assistant Secretary General, Executive Management Division
Financial Controller, International Staff
Chair, Resource Policy & Planning Board
Branch Head, Resource Management Branch, NATO Office of Resources
Private Office Registry

Subject: ***International Board of Auditors for NATO (IBAN) Audit Report on the audit of the NATO Retirees Medical Claims Fund (RMCF) Financial Statements for the year ended 31 December 2020 – IBA-AR(2021)0035***

IBAN submits herewith its approved Audit Report with a Summary Note for distribution to the Council.

IBAN's report sets out an unqualified opinion on the Financial Statements of the International Staff and on compliance for financial year 2020.

Yours sincerely,

Daniela Morgante
Chair

Attachments: As stated above.

NATO UNCLASSIFIED

-1-

**Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Financial Statements of the
NATO Retirees Medical Claims Fund (RMCF)
for the year ended 31 December 2020**

The NATO Retirees Medical Claims Fund (RMCF) was set up with effect from 1 January 2001 pursuant to Council approval of PO(2000)123. The purpose was to establish a reserve to ensure that sufficient funds are available for the years to come to enable NATO to meet its obligations to pay the medical expenses of eligible retired staff members and their recognised dependants.

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

In 2020, contributions from NATO Reporting Entities and staff were EUR 28.6 million (in 2019, EUR 26.5 million). Insurance premiums paid out of these receipts were EUR 27.4 million in 2020 (EUR 26.9 million in 2019). At the end of 2020, the fund manager held EUR 378.6 million on behalf of NATO (at the end of 2019, EUR 369.9 million).

IBAN issued an unqualified opinion on the financial statements and on compliance for the year ended 31 December 2020.

IBAN made two observations and recommendations. These findings are listed below and do not impact the audit opinion on the financial statements and on compliance:

1. Disclosure of prior period errors in the estimation of the Post-Employment Medical Scheme Obligation.
2. Organisation of RMCF Supervisory Committee meetings in accordance with the NATO CPRs.

IBAN raised an Emphasis of Matter regarding Note 3 to the 2020 RMCF Financial Statements on the actuarial valuation, as in our judgement, it is of such importance that it is fundamental to users' understanding of the financial statements.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that one was closed, one remains in progress and one remains open.

The Audit Report was issued to the International Staff whose comments have been included, with the IBAN's position on those comments where necessary.

NATO UNCLASSIFIED

IBA-AR(2021)0035

26 November 2021

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE

NATO RETIREES MEDICAL CLAIMS FUND

(RMCF)

FOR THE YEAR ENDED 31 DECEMBER 2020

PUBLICLY DISCLOSED - PDN(2022)0014 - MIS EN LECTURE PUBLIQUE

NATO UNCLASSIFIED

INDEPENDENT EXTERNAL AUDITOR'S REPORT TO THE NORTH ATLANTIC COUNCIL

Financial Statements

Opinion on the Financial Statements

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of NATO Retirees Medical Claims Fund (RMCF), for the 12 month period ended 31 December 2020, issued under document reference FC(2021)0034, and submitted to IBAN on 31 March 2021. These Financial Statements comprise the Statement of Net Assets Available for Benefits as at 31 December 2020, the Statement of Changes in Net Assets Available for Benefits for the period ended 31 December 2020 and the Explanatory Notes, including a summary of significant accounting policies.

In our opinion, the Financial Statements give a true and fair view of the Statement of Net Assets Available for Benefits of the NATO Retirees Medical Claims Fund as at 31 December 2020, and of its Statement of Changes in Net Assets Available for Benefits for the period ended 31 December 2020, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF) and International Accounting Standard (IAS) 26, Accounting and Reporting by Retirement Benefit Plans.

Basis for Opinion on the Financial Statements

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies and reporting entities pursuant to the North Atlantic Treaty shall be performed by IBAN.

We have conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 2200-2899) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

We are independent in accordance with the INTOSAI Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter.

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

Emphasis of Matter on the Financial Statements

An Emphasis of Matter paragraph is used when we consider it necessary to draw

users' attention to a matter presented or disclosed in the financial statements that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.

Note 3 to the 2020 RMCF Financial Statements on the actuarial valuation includes information in addition to the requirements of the NAF. Although this note is not required by the NAF, we draw attention to the Actuarial Valuation in Note 3 to the Financial Statements. Note 3 states that the increase of the Post-Employment Medical Scheme Obligation by EUR 1.9 billion during 2020, from EUR 3.44 billion at 31 December 2019 to EUR 5.34 billion at 31 December 2020 is mainly due to an actuarial loss of EUR 1.63 billion. However, the Board considers that the main part of this increase was due to the increase of 1,096 affiliates in 2020, from 8,746 affiliates at 31 December 2019 to 9,842 affiliates at 31 December 2020, a significant part of which had previously erroneously omitted from the population, and as such from the estimation of the Post-Employment Obligation. The financial impact of the omitted affiliates on the estimation of the obligation is not reflected in the Obligation at 1 January 2020.

Our opinion is not modified in respect of this matter.

Management's Responsibility for the Financial Statements

Management's responsibility for the financial statements is laid down in the NFRs. The Financial Statements of RMCF are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council. The Financial Controller is responsible for submitting the Financial Statements for audit to IBAN not later than 31st March following the end of the financial year.

The Financial Statements are signed by the Head of the NATO reporting entity and the Financial Controller. In signing the Financial Statements, the Head of the NATO reporting entity and the Financial Controller confirm 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.

This confirmation covers the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are auditable and free from material misstatement, whether due to fraud or error. This also covers reporting on the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there are plans to liquidate the entity or to cease its operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to

fraud or error, and to issue an auditor's report that includes an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgement and maintain professional scepticism throughout the planning and performance of the audit. This involves taking into account Considerations Specific to Public Sector Entities. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to communicate with the bodies charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings,

including any significant deficiencies in internal control that we identify during our audit. Our Independent External Auditor's Report is prepared to assist North Atlantic Council in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

Compliance

Opinion on Compliance

Based on the procedures we performed, nothing has come to our attention, as part of our audit of the Financial Statements that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

Basis for Opinion on Compliance

We have conducted our compliance audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 4000-4899) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

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

Management's Responsibility for Compliance

All NATO staff, military and civilian, are obligated to comply with the NATO Financial Regulations, associated Financial Rules and Procedures and internal implementing directives. These include the NATO Civilian Personnel Regulations.

The Secretary General is responsible and accountable for sound financial management. The financial administration of NATO bodies and reporting entities must incorporate the principles of propriety, sound governance, accountability, transparency, risk management and internal control, internal audit, external audit, and fraud prevention and detection.

Auditor's Responsibilities for Compliance

In addition to the responsibility to provide reasonable assurance about whether the financial statements as a whole are free from material misstatement, the IBAN Charter requires IBAN to provide independent assurance and report annually to the North Atlantic Council about whether funds have been properly used for the settlement of authorised expenditure (propriety) and are in compliance with the regulations in force (regularity). Propriety relates to the observance of the general principles governing sound financial management and the conduct of public officials. Regularity concerns the adherence to formal criteria such as relevant regulations, rules and procedures.

NATO UNCLASSIFIED

IBA-AR(2021)0035

This responsibility includes performing procedures to obtain independent assurance about whether funds have been properly used for the settlement of authorized expenditure and whether they have been used in compliance with the regulations in force. Such procedures include consideration of the risks of material non-compliance.

Brussels, 26 November 2021



Daniela Morgante
Chair

OBSERVATIONS AND RECOMMENDATIONS

IBAN made two observations and recommendations. These observations do not impact the audit opinion on the financial statements and on compliance:

1. Disclosure of prior period errors in the estimation of the Post-Employment Medical Scheme Obligation.
2. Organisation of RMCF Supervisory Committee meetings in accordance with the NATO CPRs.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that one is closed, one remains in progress and one remains open.

The Audit Report was issued to the International Staff whose comments have been included, with the IBAN's position on those comments where necessary.

1. DISCLOSURE OF PRIOR PERIOD ERRORS IN THE ESTIMATION OF THE POST-EMPLOYMENT MEDICAL SCHEME OBLIGATION**Reasoning**

1.1 NATO International Civilians are in accordance with Article 51.2 of the Civilian Personnel Regulations (CPRs) *covered under a group insurance scheme that extends from the commencement of the first day of employment until the close of the last day of employment.* This article also states that *staff members who leave the Organization having completed a minimum of 10 years uninterrupted service and who have reached the age of 55 shall be permanently entitled to the reimbursement of medical expenses for themselves and their recognized dependants within the prescribed limits.*

1.2 The RMCF (Annex XIII of the Civilian Personnel Regulations (CPRs)), was set up with effect from 1 January 2001 as a reserve to ensure that sufficient funds are available for the years to come to enable NATO to meet its obligations under Article 51.2 of the CPRs.

1.3 The IS OFC issues a set of general purpose financial statements for the RMCF. The post-employment medical scheme obligation related to the Fund is not recognised in the RMCF Financial Statements. This accounting treatment is compliant with the NATO Accounting Framework (NAF), as IPSAS 39 only applies to an employer in accounting for all employee benefits and therefore does not apply to the Fund itself, given that the RMCF does not have any employees.

1.4 According to IPSAS 1, *"Entities are encouraged to present additional information to assist users in assessing the performance of the entity, and its stewardship of assets, as well as making and evaluating decisions about the allocation*

of resources.” IPSAS 1 further states that “*The application of IPSASs, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation.*”

1.5 The IS OFC has included, on an annual basis, additional information on the actuarial valuation in Note 3 to the 2020 RMCF Financial Statements. This information covers the International Service for Remunerations and Pensions (ISRP) actuarial study, the actuarial valuation method, actuarial assumptions, and results for the RMCF obligation.

1.6 This information, which comes in addition to the requirements of the NAF, is important for users of general purpose financial statements across NATO, as this is the only externally available information regarding the present value of the post-employment medical scheme obligation. Users of general purpose financial statements include taxpayers and ratepayers, members of the legislature, creditors, suppliers, the media, and employees.

1.7 As disclosed in Note 3 to the 2020 RMCF Financial Statements, the ISRP performed an actuarial study aiming at:

- *Estimating the accrued pension and medical coverage liabilities at 31 December 2020 according to the International Public Sector Accounting Standards (IPSAS).*
 - *Producing the IPSAS accounting disclosures related to these liabilities.*
- The study is based on comprehensive data of the affiliated population at the end of 2020 provided to ISRP by NATO.*

1.8 NATO IS collects all required data such as the number of members, from all NATO entities, and sends the aggregated data to the ISRP prior to the preparation of their annual actuarial report. According to the ISRP Control Process for Actuarial Studies document, *the primary responsibility for data integrity and validity rests with the data providers*, i.e. NATO. It is therefore important that NATO IS ensure that data provided to the ISRP is comprehensive and accurate, as missing data may lead to the risk of errors in the input for the actuarial valuation of post-employment obligations.

1.9 Errors can arise in respect of the recognition, measurement, presentation or disclosure of elements of financial statements, and are sometimes not discovered until a subsequent period. In accordance with paragraph 47 of IPSAS 3 on ‘Accounting policies, changes in accounting estimates and errors’, an entity shall disclose the following information in case of prior period errors:

- a) The nature of the prior period error;
- b) For each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;
- c) The amount of the correction at the beginning of the earliest prior period presented; and

- d) If retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.

1.10 According to paragraph 31 of IPSAS 3, the prior period adjustment is usually made to accumulated surpluses or deficits. However, *any other information about prior periods, such as historical summaries of financial data, is also adjusted as far back as is practicable.*

Observation

1.11 IBAN found that NATO IS does not ensure that the population of beneficiaries of the RMCF sent to the ISRP is comprehensive and accurate. In 2020, the ISRP updated the medical profiles of RMCF affiliates and requested additional data from NATO IS, after which the ISRP noted that the population of affiliates used in the estimation of the Post-Employment Obligation prior to 2020 was significantly incomplete. The population of affiliates to the RMCF used to estimate the Post-Employment Medical Scheme Obligation increased by 1,096 (13%), from 8,746 affiliates at 31 December 2019 to 9,842 affiliates at 31 December 2020. The major part of this increase relates to previously missing information regarding the number of affiliates.

1.12 In this regard, the ISRP actuarial study states the following concerning the 2020 population of affiliates: *This year improved data regarding affiliates of the post-employment medical scheme was provided by NATO. This population included ex-DCPS and ex-Provident Fund members who were not receiving a pension from NATO who had been previously omitted from the valuation of the medical liability. As a consequence of this, the number of members including in the valuation of the liability has increased significantly.*

1.13 The Post-Employment Medical Scheme Obligation at 31 December 2019 and 31 December 2020 was respectively estimated to amount to EUR 3.44 billion and EUR 5.34 billion. The Obligation increased by EUR 1.9 billion during 2020, which according to Note 3 to the RMCF Financial Statements is mainly due to an actuarial loss of EUR 1.63 billion. According to the information disclosed in Note 3, the actuarial loss is explained by changes in population of EUR 392.4 million, in demographics of EUR 578 million and in financial assumptions of EUR 700.8 million. However, the financial impact of the increase of 1,096 affiliates in 2020 was mainly due to the inclusion of affiliates that were previously erroneously omitted from the population sent to the ISRP, and as such from the estimation of the Post-Employment Obligation. The financial impact of the omitted affiliates on the estimation of the obligation is therefore not the result of a change in actuarial assumptions, and as such was not an actuarial loss in the year, as disclosed in Note 3 to the Financial Statements.

1.14 Furthermore, from a financial reporting perspective, IBAN found that Note 3 to the Financial Statements did not include sufficient information in accordance with the NAF (IPSAS 1 and IPSAS 3), regarding the impact of the increase in the number of

affiliates. In particular, although the opening and closing obligations are shown in Note 3, the RMCF Financial Statements at 31 December 2020 do not disclose the amount of the retrospective correction, or if relevant a description of why it was impracticable to present this information for prior periods. Therefore, the net impact of the error on the Post-Employment Obligation related to the number of affiliates is not disclosed in Note 3 to the RMCF Financial Statements. If the impact of the prior period error had been fully disclosed, then the opening Post-Employment Obligation at 1 January 2020 would have been significantly higher and the actuarial loss in the year 2020 equally significantly lower.

Recommendations

1.15 IBAN recommends the IS to strengthen internal controls over the reporting of Post-Employment Obligations by establishing and documenting a procedure which:

- a) Introduces specific internal controls over the completeness and accuracy of data provided to the ISRP for the annual actuarial report;
- b) Ensures the availability of a complete audit trail of all data received from NATO entities and sent to the ISRP as input for the preparation of the annual actuarial report;
- c) Strengthens existing internal controls over the financial reporting process in order to disclose key information included in the annual actuarial report prepared by the ISRP.

2. ORGANISATION OF RMCF SUPERVISORY COMMITTEE MEETINGS IN ACCORDANCE WITH THE NATO CPRS

Reasoning

2.1 Article 3 of Annex XIII-2 of the NATO Civilian Personnel Regulations (CPRs) requires that a Supervisory Committee is set up to oversee the management of the RMCF.

2.2 In accordance with Article 3 of Annex XIII-2 of the CPRs, the RMCF Supervisory Committee '*shall meet twice a year at which time they shall be briefed by the Managers on investment strategy and results.*'

2.3 As per paragraph 2 of IBA-AR(2017)0025, IBAN observed that no Supervisory Committee meetings were held in 2016 and recommended the Committee to ensure the following:

2.4 'In general, the Board recommends the Supervisory Committee to comply with the CPRs. However, if the Committee does not believe that it is necessary or economical to hold a particular meeting, the reasons for this should be clearly

documented by the Chair of the Committee and communicated in writing to all members of the Committee for their written agreement. Such documentation should be properly filed in order to demonstrate that the Committee fulfilled its responsibilities in relation to the RMCF.’

2.5 IBAN’s observation was closed in IBA-AR(2018)0014, as the Committee complied with the CPRs by meeting twice in 2017.

Observations

2.6 In 2020, the RMCF Supervisory Committee met on 26 June. In the minutes of this meeting, the Committee recalled that Article 3 of Annex XIII-2 of the CPRs states that it shall meet twice a year and agreed that a meeting should be arranged for later in the year.

2.7 However, IBAN found that the Supervisory Committee only met once in 2020. According to the IS Office of the Financial Controller, the COVID-19 pandemic forced the IS and the ISRP to re-prioritise their work plans in 2020. During that time the number of meetings was kept to an absolute minimum, which led to the organisation of only one Supervisory Committee meeting as there were no urgent issues requiring the Committee’s attention.

2.8 No written justification for not organising a second meeting is available, nor was there a written approval from the Supervisory Committee members in support of this decision.

Recommendations

2.9 IBAN recommends RMCF Supervisory Committee to comply with Article 3 of Annex XIII-2 of the CPRs by meeting at least twice every year, or to justify any deviations from the CPRs in writing with the approval of all its Committee members.

FOLLOW-UP OF PREVIOUS YEARS’ OBSERVATIONS

IBAN followed up on the status of observations from the previous years’ audit. The observations and recommendations, the actions taken by the auditee as reviewed by IBAN, and their status are summarised in the table below.

The Open status is used for recommendations that are open and for which no notable progress has been achieved to date. The In-progress status is used for open recommendations when the NATO Reporting Entity has started to implement the recommendation or when some (but not all) sub-recommendations are closed. The Closed status is used for recommendations that are closed because they have been implemented, are superseded, or have lapsed. In the case where there are sub-recommendations, the status related to each sub-recommendation is indicated in the Action Taken column.

| OBSERVATION / RECOMMENDATION | ACTION TAKEN BY AUDITEE | STATUS |
|--|---|---------------------------------------|
| <p>(1) RMCF FY 2019 IBA-AR(2021)0008, paragraph 1</p> <p>IMPROVEMENTS NEEDED IN THE PROCESS OF CONFIRMING CONTRIBUTIONS MADE TO THE NATO RETIREES MEDICAL CLAIMS FUND (NATO RMCF)</p> <p>IBAN's Recommendation IBAN recommends that IS OFC ensure that:</p> <p>a) Year-end confirmations are initiated early the following year in order to ensure that all the NATO contributing entities to the NATO RMCF provide their responses in a timely manner.</p> <p>b) A reconciliation is performed between contributions received and the records in the accounting system.</p> | <p>All contributions were confirmed and contributions received and the records in the accounting system reconciled.</p> | <p>Observation Closed.</p> |
| <p>(2) RMCF FY 2018 IBA-AR(2019)0026, paragraph 1</p> <p>NEED FOR NATO AS A WHOLE TO DISCLOSE POST-EMPLOYMENT LIABILITIES TO COMPLY WITH THE NATO ACCOUNTING FRAMEWORK (IPSAS 39 EMPLOYEE BENEFITS)</p> <p>IBAN's Recommendation IBAN recommends that the IS OFC, being the Financial Controller of the RMCF, define the recognition criteria for the post-employment liability, ensuring that this liability is recognised in accordance with the NATO Accounting Framework (IPSAS 39 Employee Benefits).</p> | <p>The Financial Statements of the NATO Coordinated Pension Scheme and of the NATO Retirees Medical Claims Fund disclose in Note 3 the post-employment benefits, calculated in line with IPSAS 39 by the International Service for Remunerations and Pensions' (ISRP) actuary.</p> <p>However, the post-employment liabilities have not been recognised on the face of any NATO Reporting Entity Statement of Financial Position, which in overall terms is not compliant with IPSAS 39, part of the NATO Accounting Framework. This observation shall remain open until this issue is solved</p> | <p>Observation Open.</p> |

| OBSERVATION / RECOMMENDATION | ACTION TAKEN BY AUDITEE | STATUS |
|--|---|---|
| | NATO-wide. | |
| <p>(3) RMCF FY 2012 IBA-AR(2013)25, paragraph 5</p> <p>RETIRES MEDICAL CLAIMS FUND (RMCF) NET ASSETS INADEQUATE TO FUND PROMISED FUTURE EXPECTED BENEFITS</p> <p>IBAN's Recommendation The Board draws the attention of the Council that there are currently not sufficient funds available to enable NATO to meet its promised future obligations as was the intention of the plan, and recommends that, as was proposed in SG(2009)0302, on the basis of the results of the asset and liability study presented in the December 2012 Supervisory Committee and the related final report issued dated 30 April 2013, that the IS provides an estimate of the minimum financial injection necessary to make the RMCF sustainable.</p> <p>The Board recommends also that the IS provides all necessary information and any remedial actions undertaken to limit the level of obligations. This should be presented to the nations as soon as possible in order to allow for appropriate remedial actions, where still feasible, to be made.</p> | <p>The 2013 ISRP (International Service for Remunerations and Pensions) carried out the estimations of expenses to allow for the evaluation of whether the fund assets will be sufficient to meet obligations. Several scenarios for the return on assets have been explored. It proved itself to be accurate and 2019 was the first year when the operational costs of the RMCF were higher than the contributions received.</p> <p>The IS works with the ISRP to prepare the updated forecast. The RMCF Supervisory Committee in April 2021 authorised the IS to order a new study. It is estimated to be finalised by the end of 2021.</p> | <p>Observation In-progress.</p> |

INTERNATIONAL STAFF (IS) FORMAL COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS**OBSERVATION 1:
DISCLOSURE OF PRIOR PERIOD ERRORS IN THE ESTIMATION OF THE POST-EMPLOYMENT MEDICAL SCHEME OBLIGATION*****IS' Formal Comments***

Recommendations a) and b): Agreed.

Data integrity entered into the PMIS is under the responsibility of HR offices in NATO bodies. While IS can access and extract the information from PMIS, there is no background data nor resources available to scrutinize the local situation which is under the authority of each Head of NATO body and specific payroll centre. Each payroll centre closely administers individual data.

With regard to the data concerning the active staff and the one used for the end of year accounting of the coordinated pension scheme, a number of meetings between PMIS/HR/ISRP will take place to improve the current data quality and process (in the context of the transfer of some agencies data from Athena to Magellan).

Recommendation c): Partially agreed.

The actuarial valuation disclosed in note 3 to the RMCF financial statements has no impact on the RMCF deficit or surplus, nor prior/current/future period opening balance nor, being a rolling forecast with annually updated actuarial assumptions, has a cumulative effect. Each of the actuarial assumptions (and the actuarial validation itself) is valid only for the current reporting date (with no impact on the current or prior period) and aims to provide information on future events.

In 2020, RMCF Financial Statement Note 3 includes the disclosure on the nature of the changes in actuarial assumptions. IS OFC agrees on the additional benefit of elaborating on the impracticability of the calculation retrospectively and will put into practice IBAN recommendation if similar situation happens in the future.

**OBSERVATION 2:
ORGANISATION OF RMCF SUPERVISORY COMMITTEE MEETINGS IN ACCORDANCE WITH THE NATO CPRS*****IS' Formal Comments***

Agreed.

The IS takes note and will strive to comply with IBAN recommendation for future periods.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(1) RMCF FY 2019

IBA-AR(2021)0008, paragraph 1

IMPROVEMENTS NEEDED IN THE PROCESS OF CONFIRMING CONTRIBUTIONS MADE TO THE NATO RETIREES MEDICAL CLAIMS FUND (NATO RMCF)

IS' Formal Comments

Agreed.

None.

(2) RMCF FY 2018

IBA-AR(2019)0026, paragraph 1

NEED FOR NATO AS A WHOLE TO DISCLOSE POST-EMPLOYMENT LIABILITIES TO COMPLY WITH THE NATO ACCOUNTING FRAMEWORK (IPSAS 39 EMPLOYEE BENEFITS)

IS' Formal Comments

Agreed.

The analysis of the applicability of IPSAS 39 is ongoing.

(3) RMCF FY 2012

IBA-AR(2013)25, paragraph 5

RETIREES MEDICAL CLAIMS FUND (RMCF) NET ASSETS INADEQUATE TO FUND PROMISED FUTURE EXPECTED BENEFITS

IS' Formal Comments

Agreed.

The updated long-term sustainability forecast will be delivered to nations at the earliest possibility.

GLOSSARY OF TERMS

In accordance with International Standards of Supreme Audit Institutions (ISSAI 2705), audit opinions on financial statements and on compliance can be unqualified, qualified, a disclaimer, or adverse:

- An unqualified opinion is when IBAN issues an opinion that the financial statements and budget execution report are stated fairly and that nothing has come to our attention that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the rules and regulations.
- A qualified opinion means that IBAN was generally satisfied with the presentation of the financial statements, but that some key elements of the statements were not fairly stated or affected by a scope limitation, or specific issues have come to our attention that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the rules and regulations.
- A disclaimer is issued when the audit scope is severely limited and IBAN cannot express an opinion, or when there are material uncertainties affecting the financial statements or the use of funds.
- An adverse opinion is issued when the effect of an error or disagreement is so pervasive and material to the financial statements that IBAN concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

In accordance with auditing standards, three types of paragraphs may also be communicated in the auditor's report:

- Key Audit Matters (ISSAI 2701): Those matters that, in IBAN's professional judgement, were of most significance in the audit of the financial statements of the current period. Key Audit Matters are addressed to Council.
- Emphasis of Matter (ISSAI 2706): If IBAN considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.
- Other Matter (ISSAI 2706): If IBAN considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in our judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

NATO UNCLASSIFIED

FC(2021)0034

**NATO RETIREES MEDICAL CLAIMS FUND
FINANCIAL STATEMENTS**

For the year ended
31 December 2020

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


Mirosława BORYCZKA
Financial Controller

NATO UNCLASSIFIED

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

(All amounts in EUR)

| | Notes | Current Year 31-Dec-20 | Prior Year 31-Dec-19 |
|--|-------|---------------------------|-------------------------|
| Assets | | | |
| Cash and cash equivalents | (4) | 1,235,185.05 | 1,014,435.07 |
| Investments at market value | (5) | 378,594,921.63 | 369,868,416.37 |
| Accounts receivable | (6) | 905,924.17 | 944,473.83 |
| Total Assets | | 380,736,030.85 | 371,827,325.27 |
| Liabilities | | | |
| Accounts payable | (7) | 2,474,985.43 | 4,573,090.31 |
| Total Liabilities | | 2,474,985.43 | 4,573,090.31 |
| Net Assets Available for Benefits | | 378,261,045.42 | 367,254,234.96 |

NATO UNCLASSIFIED

ANNEX 2 to
FC(2021)0034

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

(All amounts in EUR)

| | Notes | Current Year 31-Dec-20 | Prior Year 31-Dec-19 |
|--|-------|---------------------------|-------------------------|
| Increase in net assets | | | |
| Net unrealized gain in market value of investments | (5) | 13,523,008.91 | 54,789,687.99 |
| Contributions for current year | (8) | 28,637,329.45 | 26,476,762.44 |
| Profit sharing per agreement with insurer | (9) | 31,082.00 | - |
| Fund rebates | (5) | 203,496.35 | 509,285.36 |
| Interest income | (10) | - | - |
| Miscellaneous | (12) | 5,269.39 | 2,529.58 |
| Total Increase in net Assets Available for Benefits | | 42,400,186.10 | 81,778,265.37 |
| Decrease in net assets | | | |
| Redemptions | (5) | 2,500,000.00 | - |
| Insurance premiums | (11) | 27,408,482.00 | 26,905,920.00 |
| Insurance management fee | (11) | 1,466,219.52 | 1,615,138.20 |
| Fund purchase fees/financial costs | (10) | 18,442.93 | 7,653.54 |
| Miscellaneous | (12) | 231.19 | 1,626.38 |
| Total Decrease in Net Assets Available for Benefits | | 31,393,375.64 | 28,530,338.12 |
| Net Increase for the Year | | 11,006,810.46 | 53,247,927.25 |
| Net Assets Available for Benefits, Beginning of Year | | 367,254,234.96 | 314,006,307.71 |
| Net Assets Available for Benefits, End of Year | | 378,261,045.42 | 367,254,234.96 |

**EXPLANATORY NOTES TO THE
2020 FINANCIAL STATEMENTS OF THE
NATO RETIREES' MEDICAL CLAIMS FUND****NOTE 1: GENERAL INFORMATION**

The Retirees' Medical Claims Fund (RMCF) was set up with effect from 1 January 2001 pursuant to Council approval of PO(2000)123. The purpose was to establish a reserve to ensure that sufficient funds are available for the years to come to enable NATO to meet its obligations to pay the medical expenses of eligible retired staff members and their recognised dependants.

Description of the Fund

Staff leaving the Organization after 10 consecutive years of service and having reached the age of 55 are eligible to reimbursement of medical costs for themselves and their recognized dependants (Article 51.2 of the Civilian Personnel Regulations (CPR)).

Until 31 December 2000, any staff who had at least 10 years consecutive service and reached the age of 65, was covered for life for their medical expenses through Organization's insurers. However, with the rise in the number of retirees and the increasing medical costs, the insurers were no longer able to cover the expenses. Accordingly, the Organization assumed this responsibility as from 1 January 2001.

For this purpose, the Retirees' Medical Claims Fund was set up with effect from 1 January 2001 pursuant to Council approval of PO(2000)123. The Council agreed to the establishment of a reserve to ensure that sufficient funds are available for the years to come to enable NATO to meet its obligations.

However, on the date of the creation of the RMCF there existed a potential liability towards staff who filled the age and service conditions mentioned above but had not yet retired. No asset was provided to fund this initial liability; therefore, from its inception the RMCF was underfunded.

The Fund only finances retirees from the age of 65. Former staff between the ages of 55 and 65 are insured under a different financing scheme.

The RMCF is maintained primarily by the annual premiums paid as continuing insurance. The surplus funds collected are invested with the Investment Manager.

Financing

The Fund receives the following contributions:

- 4.5% of the active agents' emoluments (1/3 borne by the staff, 2/3 by NATO).
- 5% of the last basic salary of the retirees who are required to contribute (1/3 borne by the staff, 2/3 by NATO).

In 2015, changes to the Civilian Personnel Regulations were introduced to put an end to situations that enabled staff recruited before 1 January 2001 and having contributed at least 25 years not to pay a premium after the age of 65.

Governance

The rules and principles governing the RMCF are provided at Annex XIII of the NATO CPRs. A consultative committee, called the Supervisory Committee, oversees the management of the RMCF with the object of ensuring that sufficient funds will always be available to cover medical costs until the last NATO pensioner or his/her dependants die. It acts as advisor to the NATO Secretary General.

The composition of the Supervisory Committee is as follows: a Chair appointed by the Secretary General (Director of Economics or Financial Controller, NATO-IS - the Chair shall be neutral); one representative of the International Staff (Director of Economics or Financial Controller, NATO-IS); two representatives for the NATO Production and Logistics Organisations; one representative for bodies governed by the Paris Protocol; two staff representatives appointed by the Confederation of NATO Civilian Staff Committees and two representatives appointed by the Confederation of NATO Retired Civilian Staff Associations.

The Fund, held in the name of NATO, is entrusted to an independent Investment Manager.

The Supervisory Committee determines the investment strategy and decides in which funds to invest. The Investment Manager executes purchases and sells according to instructions received from NATO-IS Treasury within the Office of Financial Control, which are in accordance with Supervisory Committee decisions.

The Investment Manager keeps the Supervisory Committee informed of all matters relating to the composition and performance of the funds through regular meetings with the Committee members.

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

Investment strategy

For 2020, as since 2009, the Supervisory Committee left unchanged the strategy of investing in index funds and maintaining holdings approximately as follows:

- 50% in European government (sovereign) bonds
- 25% in global equities
- 25% in European equities

With a tolerance of 3% for equities (22-28%) and 5% for bonds (45-55%).

Vanguard Investment Series plc, a prominent index-fund manager, known as the Investment Manager, buys and sells bonds and equities on behalf of the Fund within the objectives and restrictions set out in the contract signed with the Organization. Investments are in Euro.

Management of the RMCF

NATO International Staff, in particular Executive Management – Human Resources and the Office of Financial Control, are responsible for the day-to-day management of the RMCF. Financial services are provided by the Office of Financial Control, NATO-IS. Administrative services and secretarial support are provided by Human Resources, Personnel Support.

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 RMCF have been prepared in accordance with the NATO Financial Regulations and International Accounting Standard 26 (IAS 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 for post-employment benefits.

The accounting system currently used by the NATO RMCF is accrual based.

The financial statements summarize the transactions and net assets of the Fund. The statements do not take into account the liability to pay benefits that fall due after the year end of the reporting period. The actuarial position of the NATO RMCF, which takes these liabilities into account, is disclosed in Note 3.

Basis of presentation

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

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

Changes in accounting policy

There are no changes to report.

Use of estimates

In the application of accounting policies, which are described below, management is required to make judgments, estimates and assumptions about carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Estimates include, but are not limited to: the long term obligation of the continued medical coverage and contingent assets.

Foreign currency transactions

The insurance premiums are calculated and paid in EUR and the accounting is in EUR. Since mid-2009, contributions are made in EUR; consequently, foreign currency transactions are not material. Realized profit and loss resulting from such transactions appear in the Statement of Changes in Net Assets Available for Benefits.

Accounting for the DBPS is subject to FC(FAC)(2020)004 which sets out IS/OFC policy for accounting and reporting transactions in foreign currency.

Cash and Cash Equivalents

Cash and cash equivalents are defined as short-term assets. They include deposits held with banks and short term highly liquid investments.

Investments

Investments reported under these RMCF financial statements consist of equities and government bonds in indexed investment funds. These investments are reported as non-current assets reflecting the long term financial strategy of the RMCF.

An index fund is a collective investment scheme that aims to replicate the movements of an index of a specific financial market, regardless of market conditions. It does not aim to out-perform the market. Index funds are commonly composed of a representative sample rather than all the securities in a given market, in appropriate weights. They are subject to a form of passive management rather than active management.

At the end of each reporting period a valuation is made by the Investment Manager at fair value by reference to official prices quoted on the day of valuation. The Account Statement received from Vanguard's transfer agent uses the Generally Accepted Accounting Principles (GAAP) methodology to calculate the Daily Net Asset Value (Daily NAV), a tradable, realisable value on the last trading day of the month. These are the values generally reported in financial statements by fund investors.

Amounts are net of purchase costs and increased by rebates.

Receivables

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

Payables

Payables are amounts due to third parties based on goods received or services provided that remain unpaid. This includes, as required, an estimate of accrued obligation for goods received or services provided but not yet invoiced.

Net Assets

The net assets available at year-end correspond essentially to the surplus contributions that were not used to pay the insurance premiums and were invested with the Investment Manager or awaiting transfer.

Financial Risks

The RMCF uses only non-derivative financial instruments as part as its normal operations. These financial elements include cash, indexed investment funds, bank accounts, deposit accounts and accounts receivable.

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

The RMCF is exposed to a variety of financial risks, including credit risk, market (price) risk and liquidity risk. The maximum exposure as at 31 December 2020 is equal to the total amount of bank balances, short term deposits, investment funds, and receivables.

Credit risk

The RMCF incurs credit risks from cash and cash equivalent held with banks and receivables. There is very limited credit risk associated with the realization of these elements.

Concerning cash and cash equivalent the RMCF credit risk is managed by holding current bank accounts and short term highly liquid deposits that are readily convertible to a known amount of cash held with ING Bank (Belgium) which has the following short term credit ratings:

| Bank Name | Country of HQ | Short Term Ratings | | | | | |
|-----------|---------------|--------------------|------------------|------------|------------------|------------|------------------|
| | | FITCH | | S&P GLOBAL | | MOODY'S | |
| | | Rating | Last Review Date | Rating | Last Review Date | Rating | Last Review Date |
| ING Bank | Netherlands | F1+ | 15-Oct-2020 | A-1 | 10-Jul-2020 | P-1 | 21-Oct-2020 |

Concerning receivables, the credit risk is managed by maintaining control procedures over receivables. These consist essentially of contributions due by NATO payroll centers and the NATO Coordinated Pension Scheme. This risk is considered limited since these entities are funded by member nations which are considered credit worthy.

Price risk

The RMCF is exposed to equity securities market risk.

The two index equity funds in which RMCF funds are invested are not rated. The European Government Bond Index Fund is comprised of bonds with ratings as indicated below:

| Rating | AAA | AA | A | BBB | <BBB | Not rated | Cash |
|---------------|--------|--------|--------|--------|-------|-----------|-------|
| At 31.12.2020 | 24.20% | 37.00% | 16.40% | 22.30% | 0.00% | 0.10% | 0.00% |

Credit ratings are derived from Moody's, S&P and Fitch. When ratings from all three are available, the median rating is used. When ratings are available from two of the agencies, the lower rating is used. When one rating is available, that rating is used.

Currency risk

Since mid-2009, RMCF is not exposed to foreign currency exchange risk arising from fluctuations in currency rates. The scheme receives contributions only in EUR. As explained above, funds are invested in EUR and insurance premiums are due in EUR.

Liquidity risk

A liquidity risk could arise from a short term liquidity requirement. There is a very limited exposure to liquidity risk because contributions from NATO payroll centers are received on a monthly basis, are higher than the insurance premiums and are paid by NATO bodies; the NATO bodies receive either contributions from their member states or income from their customers, generally other NATO bodies funded through their approved budgets. It is only the excess funds (after payment of insurance premiums) that are invested with Vanguard Investment Series plc, the Investment Manager, with the aim of increasing the assets available for benefits over time.

In 2020, the RMCF has reached the point where disinvestments are made to pay the due insurance premiums.

Interest rate risk

The RMCF is restricted from entering into borrowings.

A portion of RMCF is invested in bonds. The market value of bonds fluctuates according to market perception of the issuer's creditworthiness and to projected interest rates. The value of assets available for benefits is therefore subject to some interest rate risk.

NOTE 3: ACTUARIAL VALUATION

The ISRP Actuarial Study Introduction

The International Service for Remunerations and Pensions (ISRP) is an organization that provides statistical, mathematical and actuarial support to the following organizations:

- NATO
- Council of Europe
- Organization for Economic Cooperation and Development (OECD)
- European Space Agency (ESA)
- European Centre for Medium-Range Weather Forecast (ECMWF)
- European Organization for the Exploitation of Meteorological Satellites (EUMETSAT)

In accordance with the requirements of the Letter of Mission (LM/SIRP/NATO(2012)35) signed by NATO and the ISRP, the later performed an actuarial study aiming at:

- Estimating the accrued pension and medical coverage liabilities at 31 December 2020 according to the International Public Sector Accounting Standards (IPSAS).
- Producing the IPSAS accounting disclosures related to these liabilities.

The study is based on comprehensive data of the affiliated population at the end of 2020 provided to ISRP by NATO.

NATO has also supplied data regarding RMCF cash flows over 2020 and asset information for the RMCF up to 31 December 2020.

NATO IS believes that the results of this report represent a reasonable measure of the RMCF underlying liabilities.

The previous full valuation was performed as at 31 December 2019.

The study has been conducted in accordance with generally accepted actuarial practices, in close collaboration with NATO. Whilst the report complies with IPSAS 39 NATO, RMCF financial statements are prepared under IAS 26.

Actuarial Valuation Method

ISRP used the Projected Unit Credit approach. This method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. In addition, where the amount of a benefit is a constant proportion of final salary for each accrued unit of rights, future salary increases will affect the amount required to settle the obligation, therefore the method requires projecting the salary to its final value.

Only the rights accrued up to the valuation date have been taken into account. The rights of employees with less than 10 years of service are taken into account proportionally.

For the calculation of NATO's medical liabilities, the expected post-retirement reimbursements of the current DBPS and DCPS population have been estimated, and the expected post-retirement contributions from current and future pensioners have been subtracted.

Actuarial Assumptions

Actuarial assumptions can be classified as either financial or demographic assumptions. Financial assumptions impact the amount of benefits to be paid over time and the net present value whilst demographic assumptions reflect the likelihood of payment and factors internal to NATO.

Financial Assumptions

The below financial assumptions were considered:

| Assumptions | As at 31 Dec 2019 | As at 31 Dec 2020 |
|--------------------------------|-------------------|-------------------|
| Discount Rate | | |
| Post-Employment Medical Scheme | 0.34% | -0.17% |
| Price Inflation | 2.00% | 2.00% |
| Medical Inflation | 4.00% | 4.00% |

The discount rate used was the Euro area AAA Government Yield Curve, as at 31 December 2020. The change in discount rate is due to the change in financial market conditions over 2020.

In accordance with past practice, as a long-term inflation rate, the European Central Bank's long-term inflation rate target of 2.0% is used.

Medical inflation is calculated as a 4.0% increase to the derived rate of inflation.

Demographic Assumptions

The demographics at this year-end are the same as those used for the previous year end.

Mortality tables are a set of probabilities of a person dying within the year at a specific age and are an important assumption for the calculation of pension obligations. The ISRP, have produced mortality tables specific to international civil servants based in Europe since 2008 in order to have more appropriate results, compared to national or regional tables, on the life expectancy of the relevant population. This series of tables is known as the International Civil Servants Life Table (ICSLT).

Set out below is a comparison of life expectancies based on the ICSLT 2018 mortality table projected from 2019 and the ICSLT 2018 projected from 2020:

| | ICSLT 2018 2019 Projection | ICSLT 2018 2020 Projection |
|-----------------------|-------------------------------|-------------------------------|
| Males | | |
| 60 year old | 28.4 | 28.5 |
| 40 year old now at 60 | 29.0 | 29.0 |
| Females | | |
| 60 year old | 31.1 | 31.1 |
| 40 year old now at 60 | 31.5 | 31.5 |

RMCF Specific Assumptions

The medical inflation assumption remains at 4.0%, like last year.

The administrative costs remains estimated at 6.6% of medical reimbursements paid to pensioners.

100% of the current active staff, who become vested deferred members after age 55, are assumed to return to claim medical benefits during their retirement.

Results for RMCF current obligation

The RMCF obligation as estimated at the end year 2020 is KEUR 5,338,722 (55% change compared to the 2019 valuation).

The estimation of the present value of the Post-Employment Medical Scheme Obligation at the end of 2019 was KEUR 3,442,044. The change in the liability during 2020 can be summarized as follows:

| (amount in KEUR) | 2020 |
|---------------------------------------|------------------|
| Obligation at 1 January 2020 | 3,442,045 |
| Interest Cost | 11,666 |
| Current Service Cost | 235,402 |
| Benefits Paid | -21,637 |
| Actuarial (Gains)/Lossess | 1,671,247 |
| Obligation at 31 December 2020 | 5,338,772 |

Overall, the currently estimated medical obligation is higher by KEUR 1,896,677 than estimated last year.

An actuarial loss of KEUR 1,671,247 on the liabilities is calculated for 2020. This is explained by a number of factors including the updated population and the decreased discount rate.

An analysis of the impact of the actuarial loss is included below:

| Impact of Change in ... | Type Loss / (Gain) | Amount in KEUR | % of 2020 YE Liability |
|--------------------------------------|---------------------------|-----------------------|-------------------------------|
| Population | Experience | 392,433 | + 7.4% |
| Demographic | Profiles Update | 578,003 | +10.8% |
| Financial Assumptions | Assumption | 700,810 | +13.1% |
| Total Actuarial Loss / (Gain) | | 1,671,247 | +31.3% |

The 2020 estimations of medical obligations and actuarial loss are not fully comparable with the 2019 ones due to the different populations and financial assumptions. The 2020 calculation includes ex-Defined Contribution Pension Scheme and ex-Provident Fund members who have rights to continuing medical cover as well as the updated medical profiles, which has additionally an impact on different nature of benefits.

NATO UNCLASSIFIED

ANNEX 3 to
FC(2021)0034

3-10

NOTE 4: CASH AND CASH EQUIVALENTS

The various NATO entities and pensioners pay their contributions into a suspense account. This account serves to pay insurance premiums and effect the transfers of funds to be invested by the Investment Manager. Short term investments are made as required.

NOTE 5: FUNDS HELD BY THE INVESTMENT MANAGER

Distribution of Assets as of 31 December

| | 2020 | | 2019 | |
|----------------------------|-----------------------|----------------|-----------------------|----------------|
| | EUR | % | EUR | % |
| Euro Gov't Bond Index Fund | 172,399,712.15 | 45.54% | 164,663,770.78 | 44.52% |
| Europe Stock Index Fund | 95,456,436.14 | 25.21% | 98,489,666.72 | 26.63% |
| Global Stock Index Fund | 110,738,773.34 | 29.25% | 106,714,978.87 | 28.85% |
| TOTAL | 378,594,921.63 | 100.00% | 369,868,416.37 | 100.00% |

Details of the changes in investment fund balances available for benefits over the past two years are as follows:

| in EUR | Euro Govt Bond Index Fund | Europe Stock Index Fund | Global Stock Index Fund | TOTAL |
|---|---------------------------|-------------------------|-------------------------|-----------------------|
| Purchases before purchase fees | 0.00 | 0.00 | 0.00 | 0.00 |
| Withdrawals | 0.00 | 0.00 | 0.00 | 0.00 |
| Distributions | 0.00 | 0.00 | 0.00 | 0.00 |
| Rebates received | 179,786.99 | 175,898.46 | 153,599.91 | 509,285.36 |
| Purchase Fees | 0.00 | 0.00 | 0.00 | 0.00 |
| 2019 net transactions | 179,786.99 | 175,898.46 | 153,599.91 | 509,285.36 |
| Sum of 31 Dec 2018 balance and 2019 net transactions | 155,018,910.45 | 77,889,124.03 | 82,170,693.90 | 315,078,728.38 |
| Profit/loss in market value excluding 2019 net transactions | 9,644,860.33 | 20,600,542.69 | 24,544,284.97 | 54,789,687.99 |
| 31 Dec 2019 balance | 164,663,770.78 | 98,489,666.72 | 106,714,978.87 | 369,868,416.37 |
| Purchases before purchase fees | 0.00 | 0.00 | 0.00 | 0.00 |
| Withdrawals | 0.00 | 0.00 | -2,500,000.00 | -2,500,000.00 |
| Distributions | 0.00 | 0.00 | 0.00 | 0.00 |
| Rebates received | 67,116.15 | 35,284.00 | 101,096.20 | 203,496.35 |
| Purchase Fees | 0.00 | 0.00 | 0.00 | 0.00 |
| 2020 net transactions | 67,116.15 | 35,284.00 | -2,398,903.80 | -2,296,503.65 |
| Sum of 31 Dec 2019 balance and 2020 net transactions | 164,730,886.93 | 98,524,950.72 | 104,316,075.07 | 367,571,912.72 |
| Profit/loss in market value excluding 2020 net transactions | 7,668,825.21 | -3,068,514.58 | 6,422,698.28 | 11,023,008.91 |
| 31 Dec 2020 balance | 172,399,712.15 | 95,456,436.14 | 110,738,773.34 | 378,594,921.63 |

Fund's Overall Performance

In 2020, Vanguard Investment Series plc index funds tracked their respective benchmarks during the period. Their returns, net of expenses and including the effect of reinvested dividends, are compared below to that of the corresponding benchmarks for the past two years:

| Returns | | | | | | |
|---------------------|--|--------|--------|--|--------|--------|
| Vanguard index fund | | | | Benchmark | | |
| ISIN* | Fund name | 2020 | 2019 | | 2020 | 2019 |
| IE0007472990 | Euro Government Bond Index Fund EUR Institutional Shares | 4.66% | 6.35% | Spliced Euro Govt Float Adj Bond Index | 4.72% | 6.34% |
| IE0007987708 | European Stock Index Fund EUR Institutional Shares | -3.12% | 26.73% | MSCI Europe | -3.32% | 26.05% |
| IE00B03HD191 | Global Stock Index Fund EUR Institutional Shares | 6.25% | 30.11% | MSCI World | 6.33% | 30.02% |

* International Securities Identification Number

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

| | 2020 | | | 2019 | | |
|----------------------------|--------------|------------|-----------------------|--------------|------------|-----------------------|
| | Units | NAV in EUR | Market Value in EUR | Units | NAV in EUR | Market Value in EUR |
| Euro Gov't Bond Index Fund | 693,240.58 | 248.6867 | 172,399,712.15 | 692,964.30 | 237.6223 | 164,663,770.78 |
| Europe Stock Index Fund | 4,326,343.19 | 22.064 | 95,456,436.14 | 4,324,596.88 | 22.7743 | 98,489,666.72 |
| Global Stock Index Fund | 3,681,817.90 | 30.0772 | 110,738,773.34 | 3,769,928.14 | 28.3069 | 106,714,978.87 |
| TOTAL | | | 378,594,921.63 | | | 369,868,416.37 |

In 2020 the RMCF disinvested EUR 2,500,000.00 to ensure the fund liquidity.

Although the RMCF started withdrawing funds, there is still a limited growth of the investments at market value as per the end December.

The below table provides comparative data of the profit in market value for the last two consecutive years:

| (amounts in EUR) | 2020 | 2019 |
|-------------------------------|---------------|---------------|
| Profit (Loss) in Market Value | 11,023,008.91 | 54,789,687.99 |

Due to the COVID-19 crisis the financial markets plummeted in the beginning of 2020 and only after that time started the slow recovery. This had a direct impact on the unrealized profit for 2020 which is significantly lower compared to 2019.

NATO UNCLASSIFIED

ANNEX 3 to
FC(2021)0034

3-12

NOTE 6: ACCOUNTS RECEIVABLE

Receivables at year-end were as follows:

| (amounts in EUR) | 2020 | 2019 |
|----------------------------------|-------------------|-------------------|
| Contributions | 874,842.17 | 944,473.83 |
| Receivable from insurer | 31,082.00 | - |
| Total accounts receivable | 905,924.17 | 944,473.83 |

Contributions are paid on a monthly basis. At the date of issuance of these financial statements, no contributions were a year or more past due.

There are profit sharing agreements in place for the periods 2012-2016 and 2017-2021 (see note 9). For 2020 the profit, which will be settled in 2022, is EUR 31,082.

NOTE 7: ACCOUNTS PAYABLE

The table below provides comparative data of the amounts payable at year-end for the last two consecutive years:

| (amounts in EUR) | 2020 | 2019 |
|-------------------------------|---------------------|---------------------|
| Insurance Premiums | 2,623,620.20 | 3,425,556.45 |
| Insurer Management Fee | (148,918.68) | 145,477.85 |
| Cash Advance | - | 1,000,000.00 |
| Miscellaneous | 283.91 | 2,056.01 |
| Total accounts payable | 2,474,985.43 | 4,573,090.31 |

For 2020, the RMCF has net payable position of EUR 2,474,701,52 to the insurer. This equals to the final 2020 settlement whereby the advances paid to the insurer are regularized against the 2020 actual insurance premium and management cost.

Miscellaneous amounts correspond to operations to be regularised with contributors and accrued bank fees.

NOTE 8: CONTRIBUTIONS RECEIVED

Contributions received in the course of the year were as follows:

| Contributions (in EUR) | 2020 | 2019 |
|---|----------------------|----------------------|
| Active Staff and NATO Employer | 27,739,437.32 | 25,721,653.04 |
| Retired Staff from DBPS (Defined Benefit Pension Scheme) | 826,577.38 | 704,692.87 |
| Retired Staff from DCPS (Defined Contribution Pension Scheme) | 12,334.16 | 8,140.43 |
| Other Retired Staff | 58,980.59 | 42,276.10 |
| Total | 28,637,329.45 | 26,476,762.44 |

NOTE 9: PROFIT SHARING AGREEMENT WITH INSURER

A profit-sharing arrangement has been entered into, covering the period 2012-2016, whereby NATO would be refunded the totality of the difference Premiums X 97% – Reimbursements, if it is positive. The final settlement for this period was done during the first quarter of 2018 and resulted in no profit to be shared. There was, therefore, no revenue for the RMCF for the period 2012-2016.

A similar arrangement is in place covering the period 2017-2021, being tacitly renewed annually.

The result of the profit sharing agreement for 2020 amounts to EUR 31,082(difference between 97% of the insurance premiums paid for the year and the reimbursements paid to the beneficiaries).

NOTE 10: INTEREST

Interest is earned on the bank account for the period during which cash holdings are pending investment. Amounts presented are netted of bank charges.

No interests were earned in 2020.

NOTE 11: INSURANCE PREMIUMS AND MANAGEMENT FEES

The insurance premium to cover the medical expenses of the retirees is subject to the NATO Group Insurance Policy agreement.

The value of the insurance premium paid to the insurance company is essentially based on the number and age of the beneficiaries.

The Management Fee is payable annually to the third party administrator, i.e. Allianz.

In accordance with the group insurance contract, NATO IS pays a monthly advance to the third party administrator. Around February of the following year, when the final costs are known, these are offset against the advances paid during the year.

The below table provides comparative data on the insurance premiums and management fee costs over the last two consecutive years:

| (amounts in EUR) | 2020 | 2019 |
|-------------------|---------------|---------------|
| Insurance Premium | 27,408,482.00 | 26,905,920.00 |
| Management Fee | 1,466,219.52 | 1,615,138.20 |

The increase in insurance premiums between 2019 and 2020 is caused by increased number of affiliates and the aging factor. The decrease in management fees between 2019 and 2020 is due to a decrease in the monthly rate per family from EUR 44.85 to EUR 40.62, granted by the insurer.

NATO UNCLASSIFIED

ANNEX 3 to
FC(2021)0034

3-14

The table below provides comparative data for the two last consecutive years:

| (amounts in EUR) | 2020 | 2019 |
|--------------------|---------------------|-----------------------|
| Contributions | 28,637,329.45 | 26,476,762.44 |
| Insurance Premiums | 27,408,482.00 | 26,905,920.00 |
| Management fees | 1,466,219.52 | 1,615,138.20 |
| Net Result | (237,372.07) | (2,044,295.76) |

Although the contributions have increased from 2019 to 2020 by 8.16%, the increase was not sufficient to cover the cost of the insurance premium and management fee.

NOTE 12: MISCELLANEOUS

Corresponds to miscellaneous transactions essentially net financial results and foreign exchange results.

NOTE 13: CONTINGENT ASSETS

None to report.

NOTE 14: CONTINGENT LIABILITIES

There are no material contingent liabilities arising from legal actions and claims that are likely to result in significant liability to the RMCF. A series of claim appeals introduced in relation to the deletion of the Civil Personnel Regulation provision concerning staff obtaining free medical coverage after 25 years of contributions, were dismissed by the NATO Administrative Tribunal in 2020.

NOTE 15: RELATED PARTY TRANSACTIONS

The following related party transactions took place during the year ended 31 December 2019.

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

NOTE 16: KEY MANAGEMENT PERSONNEL

For the purpose of these financial statements, key management personnel are considered to be the Assistant Secretary General for Executive Management and the Financial Controller of the International Staff. Their remuneration is entirely covered by the International Staff.

Members of the RMCF Supervisory Committee do not receive any additional remuneration or benefits in return for their responsibilities. The International Staff Financial Controller is the Chairperson of the Supervisory Committee.

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

NOTE 17: STATISTICAL INFORMATION

| Evolution of RMCF (number of beneficiaries) | | | |
|--|-----------------------|-------------------------|--------------|
| Calendar Year | Members Joined | Members Departed | Total |
| 2001 | 166 | 0 | 166 |
| 2002 | 250 | 1 | 415 |
| 2003 | 229 | 4 | 640 |
| 2004 | 242 | 14 | 868 |
| 2005 | 328 | 15 | 1,181 |
| 2006 | 258 | 27 | 1,412 |
| 2007 | 259 | 25 | 1,646 |
| 2008 | 333 | 37 | 1,942 |
| 2009 | 330 | 32 | 2,240 |
| 2010 | 316 | 37 | 2,519 |
| 2011 | 401 | 39 | 2,881 |
| 2012 | 265 | 27 | 3,119 |
| 2013 | 268 | 63 | 3,324 |
| 2014 | 533 | 62 | 3,795 |
| 2015 | 386 | 163 | 4,018 |
| 2016 | 729 | 136 | 4,611 |
| 2017 | 286 | 211 | 4,686 |
| 2018 | 305 | 146 | 4,845 |
| 2019 | 350 | 214 | 4,981 |
| 2020 | 392 | 227 | 5,146 |

NATO UNCLASSIFIED

ANNEX 3 to
FC(2021)0034

3-16

| Preparer | Reviewer | Approver |
|-----------------|------------------|--------------------|
| Patricia Soler | Maaïke Deconinck | Mirosława Boryczka |



NORTH ATLANTIC TREATY ORGANIZATION
ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD
INTERNATIONAL BOARD OF AUDITORS
COLLÈGE INTERNATIONAL DES AUDITEURS EXTERNES DE L'OTAN

NATO UNCLASSIFIED

IBA-A(2021)0154
3 December 2021

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

Cc: NATO Permanent Representatives
Assistant Secretary General, Executive Management Division
Financial Controller, International Staff
Chair, Resource Policy & Planning Board
Branch Head, Resource Management Branch, NATO Office of Resources
Private Office Registry

Subject: ***International Board of Auditors for NATO (IBAN) Audit Report on the audit of the International Staff's (IS) Restated Financial Statements for the year ended 31 December 2020 – IBA-AR(2021)0034***

IBAN submits herewith its approved Audit Report with a Summary Note for distribution to the Council.

IBAN's report sets out an unqualified opinion on the Financial Statements of the International Staff and on compliance for financial year 2020.

Yours sincerely,

Daniela Morgante
Chair

Attachments: As stated above.

NATO UNCLASSIFIED

-1-

**Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Restated Financial Statements of the
INTERNATIONAL STAFF (IS)
for the year ended 31 December 2020**

The International Staff (IS) supports the work of the North Atlantic Council and its Committees. The total expenses disclosed in the 2020 Restated Financial Statements was approximately EUR 289 million.

IBAN issued an unqualified opinion on the Restated Financial Statements and on compliance for the year ended 31 December 2020.

IBAN made three observations and recommendations. These findings are listed below and do not impact the audit opinion on the Restated Financial Statements and on compliance:

1. Need for instruction on the implementation of extra duties allowance.
2. Need to strengthen internal controls over the preparation of the financial statements.
3. Software deficiency identified affecting the Statement of Budget Execution and the Statement of Financial Position.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that two were closed, and three remain in progress.

The Audit Report was issued to the IS whose comments have been included, with the IBAN's position on those comments where necessary.

The observations and recommendations and the follow-up of the previous years' observations and recommendations that are not in the Audit Report are included in a Management Letter addressed to International Staff management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under the International Staff's executive responsibility.

NATO UNCLASSIFIED

IBA-AR(2021)0034

3 December 2021

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDIT REPORT ON THE RESTATED FINANCIAL STATEMENTS OF THE

INTERNATIONAL STAFF

(IS)

FOR THE YEAR ENDED 31 DECEMBER 2020

PUBLICLY DISCLOSED - PDN(2022)0014 - MIS EN LECTURE PUBLIQUE

NATO UNCLASSIFIED

INDEPENDENT EXTERNAL AUDITOR'S REPORT TO THE NORTH ATLANTIC COUNCIL***Financial Statements*****Opinion on the Restated Financial Statements**

The International Board of Auditors for NATO (IBAN) has audited the Restated Financial Statements of International Staff (IS), for the 12 month period ended 31 December 2020, issued under document reference FC(2021)0042-REV1, and submitted to IBAN on 8 September 2021. These Restated Financial Statements comprise the Statement of Financial Position as at 31 December 2020, the Statement of Financial Performance, the Statement of Changes in Net Assets/Equity and the Statement of Cash Flow, for the 12 month period ended 31 December 2020, including a summary of significant accounting policies and other explanatory notes. In addition, the Restated Financial Statements include a Budget Execution Statement for the 12-month period ended 31 December 2020.

In our opinion, the Restated Financial Statements give a true and fair view of the financial position of International Staff (IS) as at 31 December 2020, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2020, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF).

Basis for Opinion on the Restated Financial Statements

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies and reporting entities pursuant to the North Atlantic Treaty shall be performed by IBAN.

We have conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 2200-2899) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

We are independent in accordance with the INTOSAI Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter.

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

Management's Responsibility for the Financial Statements

Management's responsibility for the financial statements is laid down in the NFRs. The Financial Statements of International Staff (IS) are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council. The Financial Controller is responsible for submitting the Financial Statements for audit to IBAN not later than 31st March following the end of the financial year.

The Financial Statements are signed by the Head of the NATO reporting entity and the Financial Controller. In signing the Financial Statements, the Head of the NATO reporting entity and the Financial Controller confirm 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.

This confirmation covers the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are auditable and free from material misstatement, whether due to fraud or error. This also covers reporting on the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there are plans to liquidate the entity or to cease its operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgement and maintain professional scepticism throughout the planning and performance of the audit. This involves taking into account Considerations Specific to Public Sector Entities. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to communicate with the bodies charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. Our Independent External Auditor's Report is prepared to assist North Atlantic Council in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

Compliance

Opinion on Compliance

Based on the procedures we performed, nothing has come to our attention, as part of our audit of the Financial Statements that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

Basis for Opinion on Compliance

We have conducted our compliance audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 4000-4899) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

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

Management's Responsibility for Compliance

All NATO staff, military and civilian, are obligated to comply with [the NATO Financial Regulations, associated Financial Rules and Procedures and internal implementing directives. These include the NATO Civilian Personnel Regulations.

The Secretary General is responsible and accountable for sound financial management. The financial administration of NATO bodies and reporting entities must incorporate the principles of propriety, sound governance, accountability, transparency, risk management and internal control, internal audit, external audit, and fraud prevention and detection.

Auditor's Responsibilities for Compliance

In addition to the responsibility to provide reasonable assurance about whether the financial statements as a whole are free from material misstatement, the IBAN Charter requires IBAN to provide independent assurance and report annually to the North Atlantic Council about whether funds have been properly used for the settlement of authorised expenditure (propriety) and are in compliance with the regulations in force (regularity). Propriety relates to the observance of the general principles governing sound financial management and the conduct of public officials. Regularity concerns the adherence to formal criteria such as relevant regulations, rules and procedures.

This responsibility includes performing procedures to obtain independent assurance about whether funds have been properly used for the settlement of authorized expenditure and whether they have been used in compliance with the regulations in force. Such procedures include consideration of the risks of material non-compliance.

Brussels, 3 December 2021



Daniela Morgante
Chair

OBSERVATIONS AND RECOMMENDATIONS

IBAN made three observations and recommendations. These observations do not impact the audit opinion on the Restated Financial Statements and on compliance:

1. Need for instruction on the implementation of extra duties allowance.
2. Need to strengthen internal controls over the preparation of the financial statements.
3. Software deficiency identified affecting the Statement of Budget Execution and the Statement of Financial Position.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that two were closed and three remain in progress.

The observations and recommendations and the follow-up of the previous years' observations and recommendations that are not in the Audit Report are included in a Management Letter addressed to International Staff (IS) management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under International Staff (IS) executive responsibility.

1. NEED FOR INSTRUCTION ON THE IMPLEMENTATION OF EXTRA DUTIES ALLOWANCE

Reasoning

1.1 According to Article 32 of the CPRs where a post carrying clearly defined responsibilities is unfilled, either because of recruitment difficulties or because of the prolonged absence of the incumbent, an extra duties allowance may be paid to a staff member of a lower grade who is formally designated, in the interest of the service, to assume the full responsibilities of the higher grade post.

1.2 Duties to be performed by A grade staff members require a university degree as qualifications for the position. For B and C grades, no university degree is required.

1.3 Extra duties as defined by Article 32 of the CPRs are temporary by nature and should therefore be limited in time.

Observations

1.4 As part of the testing of extra duties allowance IBAN found that in 2020, 20 staff members were granted this allowance. Out of 20 staff members, nine were performing duties and responsibilities of an incumbent of a higher grade category, for example, a B4 grade replacing A2, A3, or A4 grades, or a C5 grade replacing an A3 grade.

1.5 A grade staff positions require a university degree. When B or C grade staff members are asked to carry out A grade responsibilities, before going ahead, this needs to be carefully reviewed and assessed against clearly defined criteria, to ensure that they possess the required technical competencies and professional experience.

1.6 However, we noted that there are no regulations specifying the criteria for assessing whether a staff member is sufficiently competent and experienced to carry out the responsibilities at a higher grade category. IS Human Resources confirmed that no instructions exist to determine if a B or C grade can take over the tasks of an A grade or whether an A3 can take over the work of a A5, etc. Furthermore, there are no limits in duration of the replacement of an incumbent specified in the CPRs.

Recommendations

1.7 IBAN recommends that IS Human Resources issues instructions regarding the implementation of extra duties allowances as per Article 32 in the CPRs. The instructions should include clearly defined criteria in order to assess which duties and responsibilities a staff member replacing an incumbent can assume and for what period of time.

2. NEED TO STRENGTHEN INTERNAL CONTROLS OVER THE PREPARATION OF THE FINANCIAL STATEMENTS

Reasoning

2.1 The NATO Financial Regulations (NFRs) require the Financial Controller (FC) to exercise the responsibility of budgeting, accounting and reporting activities of the NATO entity. This includes being responsible for the financial internal control system established, and for the preparation of the financial statements in accordance with the NATO Accounting Framework.

2.2 According to International Public Sector Accounting Standards (IPSAS) 1, the financial statements shall present fairly the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSAS.

2.3 Note 30 of the Financial Statements discloses the following segments: Civil Budget, Reimbursable Expenses, Personnel Management Information System, Extra-Budgetary Funds, Partners' Accommodation, Refurbishment of Building Z (currently known as Manfred Wörner Building) and the Morale and Welfare Recreational Activities (MWR).

Observations

2.4 We found errors and discrepancies in the table presented in Note 30 to the Financial Statements. This includes in particular the figures reported in the segment “Refundable expenses” of the 2020 Financial Statements, which are those actually reported in 2019 (EUR 1,580,748). We understand that this is due to a manual error in the preparation of the 2020 Financial Statements. Based on the information provided during the audit, the total expenses to be reported under this segment amounts to EUR 3,687,503. As a result, expenses as well as revenue were understated by EUR 2,106,755. This misstatement was corrected in the Restated Financial Statements submitted to IBAN on 8 September 2021.

Recommendations

2.5 IBAN recommends that IS strengthen internal controls over the preparation of the financial statements in order to avoid manual errors during the preparation of the financial statements.

3. SOFTWARE DEFICIENCY IDENTIFIED AFFECTING THE STATEMENT OF BUDGET EXECUTION AND THE STATEMENT OF FINANCIAL POSITION

Reasoning

3.1 The NATO Financial Regulations (NFRs) require the Financial Controller (FC) to exercise the responsibility of budgeting, accounting and reporting activities of the NATO entity. This includes being responsible for the financial internal control system, and for the preparation of the financial statements in accordance with the NATO Accounting Framework.

3.2 According to the NATO Accounting Framework’s International Public Sector Accounting Standards (IPSAS) 1, the financial statements shall present fairly the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSAS.

3.3 According to the Financial Rules and Procedures (FRP) VI paragraph 4 b) and c): “*The Financial Controller shall ensure that:*
(b) integrated accounting systems are established and maintained for all funds and property;
(c) 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 (...)”

Observations

3.4 After the issuance of the 2020 Financial Statements, the IS Office of Financial Controller (OFC) informed IBAN about a software deficiency affecting the accuracy of the Financial Statements, namely, the Statement of Budget Execution and the Statement of Financial Position.

3.5 The IS OFC initially reported to IBAN on 16 June an error of EUR 633,378.60 relating to an overstatement of commitments reported in the Statement of Budget Execution. The transactions impacted by the error relate to grants awarded by some divisions within IS. They are reported in Chapter 4 of the Statement of Budget Execution, which contains programme-related expenditure including grants.

3.6 The IS OFC informed IBAN that according to the software provider, the origin of the error is still unknown and this error is non-reproducible, in the sense that it cannot be recreated, in order to simulate its effects in the future.

3.7 Following audit queries and after further investigations conducted by the software provider, the IS OFC updated this error as follows:

- EUR 630,828.60, on 13/08/2021
- EUR 155,828.60, on 13/09/2021

3.8 The IS OFC updated the estimation of the error, as the commitments extracted from the Projects module affected by the error had not initially been fully reconciled with the data in the accounting module. The IS OFC subsequently performed a reconciliation for the Projects module-related purchase requisitions.

3.9 For the management of the grants, IS uses a dedicated Projects module in the ERP system, which follows a different process for the reservation of funds, as compared to other IS activities.

3.10 The error occurs when a purchase requisition is issued for the release of funds to the grantee. In this step, the system is supposed to automatically reverse a purchase requisition. The absence of this reversal results in overstated purchase requisitions and commitments.

3.11 IBAN reviewed and tested the error communicated to us on 13 September 2021 and confirmed that the impact in the 2020 Financial Statement is as follows:

| Statement of Budget Execution | | Statement of Financial Position | |
|--|--------------------------|-----------------------------------|---|
| Overstatement of Total Spent and Carry Forward | Understatement of Lapses | Overstatement of Deferred revenue | Understatement of Other current liabilities (Lapsed Appropriations) |
| 155,828.60 | 155,828.60 | 155,828.60 | 155,828.60 |

Recommendations

3.12 IBAN recommends that IS should:

- a) Introduce specific documented internal controls over the Projects module to ensure that commitments are not overstated by error, until the deficiency in the IT system is fixed by the software provider;
- b) Reconcile the amounts committed reported in the Projects module to the accounting module to ensure accuracy of the financial statements.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

IBAN followed up on the status of observations from the previous years' audit. The observations and recommendations, the actions taken by the auditee as reviewed by IBAN, and their status are summarised in the table below.

The Open status is used for recommendations that are open and for which no notable progress has been achieved to date. The In-progress status is used for open recommendations when the NATO Reporting Entity has started to implement the recommendation or when some (but not all) sub-recommendations are closed. The Closed status is used for recommendations that are closed because they have been implemented, are superseded, or have lapsed. In the case where there are sub-recommendations, the status related to each sub-recommendation is indicated in the Action Taken column.

| OBSERVATION / RECOMMENDATION | ACTION TAKEN BY AUDITEE | STATUS |
|---|-------------------------|---------------------|
| <p>(1) IS FY 2019 IBA-AR(2020)0013, paragraph 1</p> <p>IMPROVEMENTS IN THE CONTROL OF BUDGETARY ADJUSTMENTS</p> <p>IBAN's Recommendation IBAN recommends the IS-OFC to:</p> | | Observation Closed. |

| OBSERVATION / RECOMMENDATION | ACTION TAKEN BY AUDITEE | STATUS |
|--|--|--|
| <p>a) Establish documented internal control procedures that ensure that budgetary adjustments are correctly recorded in the ERP system.</p> <p>b) Establish a documented reconciliation of year-end information reported in the Budget Execution Statement with supporting information provided in the budget information system Hyperion.</p> <p>c) Implement further technical solutions in order to eliminate manual interventions in the ERP system.</p> | <p>a), b) This issue was resolved as the write-back of the budget from Hyperion to E-Business Suite no longer includes the Define Benefit Pension Scheme (DBPS) budget, which was the source of error. Hence the IS Office of the Financial Controller (IS-OFC) no longer needs to perform a manual step to exclude DBPS figures. The IS-OFC has further strengthened the reconciliation procedures between IS-OFC and Budget, Planning and Analysis (BPA).</p> <p>c) The implementation of further technical solutions in order to eliminate manual interventions in the ERP system in general remains a challenge. Resolving the issue requires not only understanding and cooperation of all business owners but is also highly dependent on developments of the technical solutions and available resources. A technical solution is no longer needed for the budgetary adjustments related to the DBPS. This observation is therefore closed.</p> | |
| <p>(2) IS FY 2019 IBA-AR(2020)0013, paragraph 2</p> <p>ACCOUNTING MISSTATEMENT IN THE REVERSAL OF PROVISION FOR UNTAKEN LEAVE</p> <p>IBAN's Recommendation IBAN recommends that IS recognise, in the Statement of Financial Performance in accordance with its accounting policy, the reversal of the previous year's provisions for Untaken Leave.</p> | <p>Corrected in the 2020 Financial Statements.</p> | <p>Observation Closed.</p> |
| <p>(3) IS FY 2019 IBA-AR(2020)0013, paragraph 3</p> <p>UNRECONCILED CASH AND CASH EQUIVALENTS</p> <p>IBAN's Recommendation</p> | | <p>Observation In-progress.</p> |

| OBSERVATION / RECOMMENDATION | ACTION TAKEN BY AUDITEE | STATUS |
|--|--|--|
| <p>IBAN recommends that IS should:</p> <p>a) Verify the amounts reported by NATO Satellite Offices before the issuance of the financial statements.</p> <p>b) Ensure that the month-end petty cash balances of NATO Satellite Offices do not exceed the EUR 500 ceiling and are zero on 31 December each year.</p> <p>c) Write-off the loss in petty cash Account n° 570104, after a full investigation as required by article 17 of the NFRs.</p> | <p>a), b) The IS-OFC is still reviewing their current procedures/practices. Observations: Open.</p> <p>c) The write-off was approved and booked in the 2020 Financial Statements. An investigation took place in accordance with article 17 of the NFRs. Observation: Closed.</p> | |
| <p>(4) IS FY 2018 IBA-AR(2019)0020, paragraph 1.9</p> <p>IMPROVEMENTS REQUIRED IN THE AREA OF RISK MANAGEMENT, INTERNAL CONTROLS AND INTERNAL AUDIT</p> <p>IBAN's Recommendation IBAN recommends that, as a matter of priority, the IS ensure that it complies with all the requirements of the new NFRs and FRPs, namely on Risk Management and Internal Control. This should include, but not be limited to:</p> <p>a) Completing the entity-wide risk management policy throughout the IS and developing a consolidated risk register covering all cross-functional interdependencies.</p> <p>b) Assessing and documenting the system of internal control and risk management to support compliance with the NFRs and</p> | <p>IBAN acknowledges the progress made in internal controls and risk management procedures, namely</p> <p>a) The choice of COSO as the reference internal control framework at the end of 2019, the establishment of the Office of Internal Audit and Risk Management and risk management policy approved in 2020 as well as improvements in internal control and risk management practices. However the consolidated risk register covering all cross-functional interdependencies is still ongoing. Observation: In-progress.</p> <p>b) IS has selected the COSO internal control framework and began the work of assessing</p> | <p>Observation In progress.</p> |

| OBSERVATION / RECOMMENDATION | ACTION TAKEN BY AUDITEE | STATUS |
|---|---|--|
| <p>FRPs.</p> <p>c) Performing audits by the Internal Audit Service in view of evaluating the appropriateness, quality and effectiveness of internal control and risk management throughout the IS.</p> | <p>and documenting the system of internal control and risk management procedures. We will review the progress during next year's audit. Observation: In-progress.</p> <p>c) IBAN notes that the OFC has engaged with the NATO's Office of Internal Audit and Risk Management (OIARM) regarding an independent assessment of the COSO Internal Control framework adopted in 2019. This is still ongoing. IBAN will reassess the progress done as part of the audit of the 2021 Financial Statements. Observation: In-progress.</p> | |
| <p>(5) IS FY 2018 IBA-AR(2019)0020, paragraph 3.4</p> <p>YEAR-END CONFIRMATIONS BETWEEN NATO ENTITIES</p> <p>IBAN's Recommendation IBAN recommends that the IS formalise effective procedures in order to confirm the outstanding asset and liability balances it has with other NATO bodies as part of the preparation of the financial statements. In case of discrepancies, the IS should organise a reconciliation meeting with other NATO Bodies, in order to clarify any outstanding items.</p> | <p>IBAN noted improvements as IS-OFC requested End of year Accounts Payable and Accounts Receivable balance confirmations from the main NATO Reporting Entities concerned. The information provided was then reconciled with a list of invoices in a table.</p> <p>A reconciliation with the Accounts Payable Reports as extracted from the ERP was not provided.</p> <p>No formal year-end confirmation process between NATO Reporting Entities exists yet.</p> | <p>Observation In progress.</p> |

INTERNATIONAL STAFF (IS) FORMAL COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS

**OBSERVATION 1:
NEED FOR INSTRUCTION ON THE IMPLEMENTATION OF EXTRA DUTIES ALLOWANCE**

IS's Formal Comments

Agreed.

The IS concurs with the IBAN's recommendation to issue implementing instructions for the application of the Extra Duties Allowance (EDA). Work is already underway in this regard. The Advisory Panel on Administration will discuss draft guidelines on the application of Article 32 of CPRs which have been prepared by EM-HR for potential application NATO-wide, and which are intended to cover the criteria mentioned in the recommendation.

**OBSERVATION 2:
NEED TO STRENGTHEN INTERNAL CONTROLS OVER THE PREPARATION OF THE FINANCIAL STATEMENTS**

IS's Formal Comments

Agreed.

The OFC constantly works on improving their internal control arrangements. In the pursuit for optimal efficiency of the implemented mechanisms, possible additional improvements to the preparation of the financial statements will be analysed.

**OBSERVATION 3:
SOFTWARE DEFICIENCY IDENTIFIED AFFECTING THE STATEMENT OF BUDGET EXECUTION AND THE STATEMENT OF FINANCIAL POSITION**

IS's Formal Comments

Agreed.

The internal monitoring activities have identified this issue, duly reported it to IBAN and immediate mitigating measures have been adequately implemented by the OFC.

With the software deficiency addressed technically through the ERP upgrade,

and with the additional implemented measures, IS envisages this finding as solved during the 2021 FS audit.

IBAN observation come in full support of all the actions taken.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(1) IS 2019 FY

IBA-AR(2020)0013, paragraph 1

IMPROVEMENTS IN THE CONTROL OF BUDGETARY ADJUSTMENTS

IS's Formal Comments

Agreed.

(2) IS 2019 FY

IBA-AR(2020)0013, paragraph 2

ACCOUNTING MISSTATEMENT IN THE REVERSAL OF PROVISION FOR UNTAKEN LEAVE

IS's Formal Comments

Agreed.

(3) IS 2019 FY

IBA-AR(2020)0013, paragraph 3

UNRECONCILED CASH AND CASH EQUIVALENTS

IS's Formal Comments

Agreed.

IS OFC is reviewing its practices and procedures.

(4) IS 2018 FY

IBA-AR(2019)0020, paragraph 1.9

IMPROVEMENTS REQUIRED IN THE AREA OF RISK MANAGEMENT, INTERNAL CONTROLS AND INTERNAL AUDIT

IS's Formal Comments

a) *Do not agree.*

The consolidated risk register, named High Level Risk Register (HLRR) has been issued by the PO in May 2021 (DC(2021)0055).

Risk management being a dynamic process, the HLRR is continuously reviewed with OIARM's direct support to the risk owners.

In this respect, we propose to close this part of the observation.

IBAN's Position

The High Level Risk Register (HLRR) issued by the Private Office in May 2021 (DC(2021)0055) may form part of a consolidated risk register. However, a consolidated risk register covering all cross-functional independencies also needs to incorporate risks identified by each IS division. We therefore maintain the status of this sub-recommendation as in-progress and we will follow up its implementation during next year's audit.

b) Agreed.

(5) IS 2018 FY

IBA-AR(2019)0020, paragraph 3.4

YEAR-END CONFIRMATIONS BETWEEN NATO ENTITIES

IS's Formal Comments

Agreed.

Since the observation has been raised, the OFC has improved the reconciliation practices within the IS and continues its work with the other NATO entities.

GLOSSARY OF TERMS

In accordance with International Standards of Supreme Audit Institutions (ISSAI 2705), audit opinions on financial statements and on compliance can be unqualified, qualified, a disclaimer, or adverse:

- An unqualified opinion is when IBAN issues an opinion that the financial statements and budget execution report are stated fairly and that nothing has come to our attention that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the rules and regulations.
- A qualified opinion means that IBAN was generally satisfied with the presentation of the financial statements, but that some key elements of the statements were not fairly stated or affected by a scope limitation, or specific issues have come to our attention that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the rules and regulations.
- A disclaimer is issued when the audit scope is severely limited and IBAN cannot express an opinion, or when there are material uncertainties affecting the financial statements or the use of funds.
- An adverse opinion is issued when the effect of an error or disagreement is so pervasive and material to the financial statements that IBAN concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

In accordance with auditing standards, three types of paragraphs may also be communicated in the auditor's report:

- Key Audit Matters (ISSAI 2701): Those matters that, in IBAN's professional judgement, were of most significance in the audit of the financial statements of the current period. Key Audit Matters are addressed to Council.
- Emphasis of Matter (ISSAI 2706): If IBAN considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.
- Other Matter (ISSAI 2706): If IBAN considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in our judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

NATO UNCLASSIFIED


FC(2021)0042-REV1

NATO INTERNATIONAL STAFF
FINANCIAL STATEMENTS

For the year ended
31 December 2020

Annexes

- | | |
|---|---|
| 1 | Statement of Financial Position |
| 2 | Statement of Financial Performance |
| 3 | Cash Flow Statement |
| 4 | Changes in Net Assets |
| 5 | Budgetary Execution Statements |
| 6 | Explanatory Notes to the Financial Statements |



Jens STOLTENBERG
Secretary General



Miroslawa BORYCZKA
Financial Controller

NATO UNCLASSIFIED

NATO UNCLASSIFIED

ANNEX 1 to
FC(2021)0042-REV1NATO INTERNATIONAL STAFF
Statement of Financial Position

As at 31 December 2020

(All amounts in EUR)

| | Notes | 2020 | 2019 |
|---|-------|-------------------------|-------------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 3 | 74,917,635.09 | 95,868,780.40 |
| Short term investments | 4 | 39,500,000.00 | 25.02 |
| Receivables | 5 | 45,101,756.69 | 51,003,663.44 |
| Prepayments | 6 | 1,506,511.85 | 2,376,028.54 |
| Other current assets | 7 | 7,529,461.59 | 3,832,719.02 |
| Inventories | 8 | 570,113.51 | 545,117.25 |
| | | 169,125,478.73 | 153,626,333.67 |
| Non-current assets | | | |
| Receivables | 9 | 0.00 | 0.00 |
| Property, plant & equipment | 10 | 865,368,539.37 | 902,685,826.86 |
| Intangible assets | 11 | 3,204,531.61 | 4,563,548.09 |
| Other non-current assets | 12 | 4,023,619.00 | 16,652,386.00 |
| | | 872,596,689.98 | 923,901,760.95 |
| Total Assets | | 1,041,722,168.71 | 1,077,528,094.62 |
| Liabilities | | | |
| Current liabilities | | | |
| Payables | 13 | 26,056,601.53 | 25,234,508.77 |
| Deferred revenue | 14 | 61,606,872.21 | 69,756,383.65 |
| Advances | 15 | 55,689,504.53 | 55,813,370.11 |
| | | 0.00 | 0.00 |
| Short term provisions | 16 | 5,019,817.01 | 2,044,128.50 |
| Other current liabilities | 17 | 23,751,451.48 | 16,352,530.99 |
| | | 172,124,246.76 | 169,200,922.02 |
| Non-current liabilities | | | |
| Payables | 18 | 0.00 | 0.00 |
| Long term provisions | 18 | 0.00 | 0.00 |
| Deferred revenue | 19 | 868,573,070.98 | 907,249,374.95 |
| Other non-current liabilities | 20 | 0.00 | 0.00 |
| | | 868,573,070.98 | 907,249,374.95 |
| Total Liabilities | | 1,040,697,317.74 | 1,076,450,296.97 |
| Net assets | | | |
| Capital assets | 21 | 0.00 | 0.00 |
| Reserves | | 0.00 | 0.00 |
| Current year Surplus / (Deficits) | | -52,946.68 | 216,611.72 |
| Accumulated surpluses / (deficits) prior year | | 1,077,797.65 | 861,185.93 |
| Total net Assets / Equity | | 1,024,850.97 | 1,077,797.65 |

NATO UNCLASSIFIED

NATO UNCLASSIFIED

ANNEX 2 to
FC(2021)0042-REV1

NATO INTERNATIONAL STAFF
Statement of Financial Performance

As at 31 December 2020

(All amounts in EUR)

| | <u>Notes</u> | <u>2020</u> | <u>2019</u> |
|---|--------------|------------------------------|------------------------------|
| Revenue | | | |
| Non exchange revenue | 22 | 259,744,963.73 | 257,054,229.85 |
| Exchange revenue | 23 | 14,523,221.91 | 12,153,999.79 |
| Other revenue | 24 | 13,950,905.93 | 7,263,636.24 |
| Financial revenue | 25 | 321,961.18 | 225,368.69 |
| Total Revenue | | <u>288,541,052.75</u> | <u>276,697,234.57</u> |
| Expenses | | | |
| Personnel | 26 | 128,270,517.29 | 124,007,060.06 |
| Contractual supplies and services | 26 | 108,687,466.97 | 103,056,514.50 |
| Depreciation and amortization | 26 | 48,258,224.09 | 49,220,361.52 |
| Impairment | 26 | 18,753.70 | 0.00 |
| Provisions | 26 | 2,975,996.17 | 77,151.64 |
| Other expenses | 26 | 0.00 | 501.00 |
| Finance costs | 26 | 383,041.21 | 119,034.13 |
| Total Expenses | | <u>288,593,999.43</u> | <u>276,480,622.85</u> |
| Surplus/(Deficit) for the period | 27 | <u>-52,946.68</u> | <u>216,611.72</u> |

NATO UNCLASSIFIED

NATO INTERNATIONAL STAFF Statement of Cash Flow

As at 31 December 2020
(All amounts in EUR)

| | Notes | 2020 | 2019 |
|---|-----------|-----------------------|------------------------|
| Cash Flow from Operating Activities | | | |
| | 28 | | |
| Surplus/(Deficit) | | (52,946.68) | 216,611.72 |
| Non-cash movements | | (52,946.68) | 216,611.72 |
| Depreciation/ Amortisation | | 48,258,224.09 | 49,220,361.52 |
| Impairment | | | |
| Increase /(decrease) in payables, deferred revenue and advances | | (7,451,284.26) | (3,077,312.26) |
| Increase/ (decrease) in other current and non current liabilities | | (31,277,383.48) | (42,018,210.09) |
| Increase/ (decrease) in provisions | | 2,975,688.51 | 8,901.18 |
| (Gains)/losses on sale of property, plant and equipment | | | |
| Decrease/ (Increase) in other current assets | | (50,780,230.67) | (47,361,929.76) |
| Decrease/ (Increase) in receivables, prepayments and inventories | | 6,746,427.18 | 1,195,804.41 |
| Decrease/ (Increase) in other non current assets | | 51,305,070.97 | 30,938,934.73 |
| Net Cash Flow from Operating Activities | | 19,776,512.34 | (11,093,450.27) |
| Cash Flow from Investing Activities | | | |
| Purchase of property plant and equipment / Intangible assets | | (1,174,735.99) | (2,514,364.91) |
| Proceeds from sale of property plant and equipment | | | |
| Net Cash Flow from Investing Activities | | (1,174,735.99) | (2,514,364.91) |
| Cash Flow from Financing Activities | | | |
| | | - | - |
| Net Cash Flow from Financing Activities | | | |
| | | | |
| Net Increase/(Decrease) in Cash and Cash Equivalents | | 18,548,829.67 | (13,391,203.46) |
| Cash and Cash Equivalent at the Beginning of the Period | | | |
| | | <u>95,868,805.42</u> | <u>109,260,008.88</u> |
| Cash and Cash Equivalent at the End of the Period | | | |
| | | <u>114,417,635.09</u> | <u>95,868,805.42</u> |

NATO UNCLASSIFIED

ANNEX 4 to
FC(2021)0042-REV1

NATO INTERNATIONAL STAFF
Statement of Changes in Net Assets/Equity

As at 31 December 2020

(All amounts in EUR)

| | |
|---|---------------------|
| Balance at the beginning of the period 2019 | <u>861,185.93</u> |
| Changes in accounting policy | |
| Restated balance | |
| Net (gains)/losses recognised directly in net assets/equity | |
| Exchange difference on translating foreign operations | |
| Gain on property revaluation | |
| Surplus/(deficit) for the period | 216,611.72 |
| Change in net assets/equity for the year ended 2019 | <u>216,611.72</u> |
| Balance at the end of the period 2019 | <u>1,077,797.65</u> |
| Balance at the beginning of the period 2020 | <u>1,077,797.65</u> |
| Changes in accounting policy | |
| Restated balance | |
| Net (gains)/losses recognised directly in net assets/equity | |
| Exchange difference on translating foreign operations | |
| Gain on property revaluation | |
| Surplus/(deficit) for the period | -52,946.68 |
| Change in net assets/equity for the year ended 2020 | <u>-52,946.68</u> |
| Balance at the end of the period 2020 | <u>1,024,850.97</u> |

NATO UNCLASSIFIED

INTERNATIONAL STAFF
Statement of Budget Execution as at 31 December 2020

| (amounts in euro) | Initial Budget | Increase / Decrease | Revised Budget | Transfers | Frozen Budget | Final budget | Commitments | Expenses | Total spent | Carry forward | Special carry forward | Lapsed |
|-------------------------------------|-----------------------|------------------------|-----------------------|--------------|---------------------|-----------------------|----------------------|-----------------------|-----------------------|----------------------|-----------------------|----------------------|
| CIVIL BUDGET | | | | | | | | | | | | |
| Chapter 1 | 135,076,580.00 | (208,570.00) | 134,868,010.00 | (191,200.00) | - | 134,676,810.00 | 683,254.96 | 131,464,163.05 | 132,147,418.01 | 683,254.96 | 68,000.00 | 2,461,391.99 |
| Chapter 2 | 59,409,178.00 | (464,598.00) | 58,944,580.00 | (149,698.00) | - | 58,794,882.00 | 1,988,828.54 | 53,700,977.75 | 55,689,806.29 | 1,988,828.54 | 803,283.00 | 2,301,792.71 |
| Chapter 3 | 6,268,842.00 | (699,055.00) | 5,569,787.00 | 403,352.00 | 4,150,260.00 | 5,973,139.00 | 370,496.78 | 1,051,408.17 | 1,421,904.95 | 370,496.78 | 200,000.00 | 4,351,234.05 |
| Chapter 4 | 24,193,470.00 | (987,777.00) | 23,205,693.00 | (62,454.00) | - | 23,143,239.00 | 6,210,260.97 | 15,784,696.67 | 21,994,957.64 | 6,210,260.97 | 85,849.00 | 1,062,432.36 |
| Total FY 2020 | 224,948,070.00 | (2,360,000.00) | 222,588,070.00 | - | 4,150,260.00 | 222,588,070.00 | 9,252,841.25 | 202,001,245.64 | 211,254,086.89 | 9,252,841.25 | 1,157,132.00 | 10,176,851.11 |
| CIVIL BUDGET | | | | | | | | | | | | |
| Chapter 1 | 467,968.95 | - | 467,968.95 | - | - | 467,968.95 | 162,031.07 | 226,676.50 | 388,707.57 | 162,031.07 | - | 79,261.38 |
| Chapter 2 | 1,326,420.06 | - | 1,326,420.06 | - | - | 1,326,420.06 | 335,123.65 | 692,819.39 | 1,027,943.04 | 335,123.65 | - | 298,477.02 |
| Chapter 3 | 369,676.05 | - | 369,676.05 | - | - | 369,676.05 | 20,094.89 | 292,368.34 | 312,463.23 | 20,094.89 | - | 57,212.82 |
| Chapter 4 | 5,531,158.82 | - | 5,531,158.82 | - | - | 5,531,158.82 | 1,211,259.04 | 3,652,178.71 | 4,863,437.75 | 1,211,259.04 | - | 667,721.07 |
| Total FY 2019 | 7,695,223.88 | - | 7,695,223.88 | - | - | 7,695,223.88 | 1,728,508.65 | 4,864,042.94 | 6,592,551.59 | 1,728,508.65 | - | 1,102,672.29 |
| CIVIL BUDGET | | | | | | | | | | | | |
| Chapter 1 | 106,223.57 | - | 106,223.57 | - | - | 106,223.57 | - | 1,450.43 | 1,450.43 | - | - | 104,773.14 |
| Chapter 2 | 123,374.56 | - | 123,374.56 | - | - | 123,374.56 | - | 56,095.82 | 56,095.82 | - | - | 67,278.74 |
| Chapter 3 | 680.01 | - | 680.01 | - | - | 680.01 | - | - | - | - | - | 680.01 |
| Chapter 4 | 1,068,807.01 | - | 1,068,807.01 | - | - | 1,068,807.01 | 46,325.55 | 809,662.75 | 855,988.30 | 46,325.55 | - | 212,818.71 |
| Total FY 2018 | 1,299,085.15 | - | 1,299,085.15 | - | - | 1,299,085.15 | 46,325.55 | 867,209.00 | 913,534.55 | 46,325.55 | - | 385,550.60 |
| SPECIAL CARRY FORWARDS | | | | | | | | | | | | |
| Chapter 1 | 4,244,226.62 | - | 4,244,226.62 | - | 1,122,592.00 | 4,244,226.62 | 150,119.21 | 1,273,073.71 | 1,423,192.92 | 150,119.21 | 1,124,185.55 | 1,696,848.15 |
| Chapter 2 | 2,330,498.83 | - | 2,330,498.83 | - | - | 2,330,498.83 | 79,930.04 | 1,657,594.61 | 1,737,524.65 | 79,930.04 | 54,096.52 | 538,877.66 |
| Chapter 3 | 4,305,111.98 | - | 4,305,111.98 | - | 1,500,000.00 | 4,305,111.98 | 399,716.43 | 1,986,036.45 | 2,385,752.88 | 399,716.43 | 366,805.40 | 1,552,553.70 |
| Chapter 4 | 18,896.38 | - | 18,896.38 | - | - | 18,896.38 | 11,000.01 | (2,171.80) | 8,828.21 | 11,000.01 | - | 10,068.17 |
| Total SPECIAL CARRY FORWARDS | 10,898,733.81 | - | 10,898,733.81 | - | 2,622,592.00 | 10,898,733.81 | 640,765.69 | 4,914,532.97 | 5,555,298.66 | 640,765.69 | 1,545,087.47 | 3,798,347.68 |
| | 244,841,112.84 | (2,360,000.00) | 242,481,112.84 | - | 6,772,852.00 | 242,481,112.84 | 11,668,441.14 | 212,647,030.55 | 224,315,471.69 | 11,668,441.14 | 2,702,219.47 | 15,463,421.68 |

INTERNATIONAL STAFF
Statement of Budget Execution as at 31 December 2019

| (amounts in euro) | Initial Budget | Increase / Decrease | Revised Budget | Transfers | Frozen Budget | Final budget | Commitments | Expenses | Total spent | Carry forward | Special carry forward | Lapsed |
|-------------------------------------|-----------------------|------------------------|-----------------------|--------------|---------------|-----------------------|---------------------|-----------------------|-----------------------|---------------------|-----------------------|---------------------|
| CIVIL BUDGET | | | | | | | | | | | | |
| Chapter 1 | 136,800,663.00 | (311,537.00) | 136,489,126.00 | 609,394.00 | - | 137,098,520.00 | 467,968.95 | 129,517,199.39 | 129,985,168.34 | 467,968.95 | 3,231,457.00 | 3,881,894.66 |
| Chapter 2 | 58,777,850.00 | (889,747.00) | 57,888,103.00 | (664,096.00) | - | 57,224,007.00 | 1,326,420.06 | 54,819,336.61 | 56,145,756.67 | 1,326,420.06 | 838,002.00 | 240,248.33 |
| Chapter 3 | 1,280,759.00 | 86,874.00 | 1,367,633.00 | 531,262.00 | - | 1,898,895.00 | 369,676.05 | 1,025,225.71 | 1,394,901.76 | 369,676.05 | 450,000.00 | 53,993.24 |
| Chapter 4 | 23,795,610.00 | 114,410.00 | 23,910,020.00 | (476,560.00) | - | 23,433,460.00 | 5,531,158.82 | 17,650,784.40 | 23,181,943.22 | 5,531,158.82 | - | 251,516.78 |
| Total FY 2019 | 220,654,882.00 | (1,000,000.00) | 219,654,882.00 | - | - | 219,654,882.00 | 7,695,223.88 | 203,012,546.11 | 210,707,769.99 | 7,695,223.88 | 4,519,459.00 | 4,427,653.01 |
| CIVIL BUDGET | | | | | | | | | | | | |
| Chapter 1 | 339,015.30 | - | 339,015.30 | - | - | 339,015.30 | 106,223.57 | 176,272.33 | 282,495.90 | 106,223.57 | - | 56,519.40 |
| Chapter 2 | 1,830,852.84 | - | 1,830,852.84 | - | - | 1,830,852.84 | 123,374.56 | 1,300,737.44 | 1,424,112.00 | 123,374.56 | - | 406,740.84 |
| Chapter 3 | 95,097.60 | - | 95,097.60 | - | - | 95,097.60 | 680.01 | 95,151.27 | 95,831.28 | 680.01 | - | (733.68) |
| Chapter 4 | 3,056,625.10 | - | 3,056,625.10 | - | - | 3,056,625.10 | 1,068,807.01 | 1,298,360.86 | 2,367,167.87 | 1,068,807.01 | - | 689,457.23 |
| Total FY 2018 | 5,321,590.84 | - | 5,321,590.84 | - | - | 5,321,590.84 | 1,299,085.15 | 2,870,521.90 | 4,169,607.05 | 1,299,085.15 | - | 1,151,983.79 |
| CIVIL BUDGET | | | | | | | | | | | | |
| Chapter 1 | 22,175.99 | - | 22,175.99 | - | - | 22,175.99 | - | 19,007.04 | 19,007.04 | - | - | 3,168.95 |
| Chapter 2 | 46,954.25 | - | 46,954.25 | - | - | 46,954.25 | - | 525.50 | 525.50 | - | - | 46,428.75 |
| Chapter 3 | 154,351.55 | - | 154,351.55 | - | - | 154,351.55 | - | 19,703.55 | 19,703.55 | - | - | 134,648.00 |
| Chapter 4 | 1,250,196.71 | - | 1,250,196.71 | - | - | 1,250,196.71 | - | 1,112,928.74 | 1,112,928.74 | - | - | 137,267.97 |
| Total FY 2017 | 1,473,678.50 | - | 1,473,678.50 | - | - | 1,473,678.50 | - | 1,152,164.83 | 1,152,164.83 | - | - | 321,513.67 |
| SPECIAL CARRY FORWARDS | | | | | | | | | | | | |
| Chapter 1 | 3,710,533.04 | - | 3,710,533.04 | - | - | 3,710,533.04 | 65,091.39 | 1,299,958.76 | 1,365,050.15 | 65,091.39 | 1,986,743.00 | 358,739.89 |
| Chapter 2 | 4,880,381.65 | - | 4,880,381.65 | - | - | 4,880,381.65 | 138,934.10 | 3,458,502.51 | 3,597,436.61 | 138,934.10 | 611,973.75 | 670,971.29 |
| Chapter 3 | 4,388,811.28 | - | 4,388,811.28 | - | - | 4,388,811.28 | 266,404.98 | 718,869.64 | 985,274.62 | 266,404.98 | 3,291,231.00 | 112,305.66 |
| Chapter 4 | 627,186.02 | - | 627,186.02 | - | - | 627,186.02 | 18,896.40 | 594,189.61 | 613,086.01 | 18,896.40 | - | 14,100.01 |
| Total SPECIAL CARRY FORWARDS | 13,606,911.99 | - | 13,606,911.99 | - | - | 13,606,911.99 | 489,326.87 | 6,071,520.52 | 6,560,847.39 | 489,326.87 | 5,889,947.75 | 1,156,116.85 |
| | 241,057,063.33 | (1,000,000.00) | 240,057,063.33 | - | - | 240,057,063.33 | 9,483,635.90 | 213,106,753.36 | 222,590,389.26 | 9,483,635.90 | 10,409,406.75 | 7,057,267.32 |

**NATO HR Shared Services
Statement of Budget Execution as at 31 December 2020**

(amounts in euro)

| | Initial budget | Transfers | BA2 | Transfers | BA3 | Transfers | Final budget | Actuals | Carry forward | Lapsed |
|--------------------------|----------------|-----------|----------------|-----------|----------------|-----------|----------------|----------------|---------------|-----------------|
| HRSS | | | | | | | | | | |
| Chapter 1 | 209,173 | - | 209,173 | - | 209,173 | - | 209,173 | 215,639 | - | (6,466) |
| Chapter 2 | 325,002 | - | 325,002 | - | 325,002 | - | 325,002 | 339,861 | - | (14,859) |
| Chapter 3 | - | - | - | - | - | - | - | - | - | - |
| Total FY 2020 | 534,175 | - | 534,175 | - | 534,175 | - | 534,175 | 555,500 | - | (21,325) |
| HRSS | | | | | | | | | | |
| Chapter 1 | - | - | - | - | - | - | - | - | - | - |
| Chapter 2 | - | - | - | - | - | - | - | - | - | - |
| Chapter 3 | - | - | - | - | - | - | - | - | - | - |
| Total FY 2019 | - | - | - | - | - | - | - | - | - | - |
| HRSS | | | | | | | | | | |
| Chapter 1 | - | - | - | - | - | - | - | - | - | - |
| Chapter 2 | - | - | - | - | - | - | - | - | - | - |
| Chapter 3 | - | - | - | - | - | - | - | - | - | - |
| Total FY 2018 | - | - | - | - | - | - | - | - | - | - |
| Total All Budgets | 534,175 | - | 534,175 | - | 534,175 | - | 534,175 | 555,500 | - | (21,325) |

NATO UNCLASSIFIED

ANNEX 5 to
FC(2021)0042-REV1

**NATO HR Shared Services
Statement of Budget Execution as at 31 December 2019**

(amounts in euro)

| | Initial budget | Transfers | BA2 | Transfers | BA3 | Transfers | Final budget | Actuals | Carry forward | Lapsed |
|--------------------------|----------------|-----------|----------------|-----------|----------------|-----------|----------------|----------------|---------------|---------------|
| HRSS | | | | | | | | | | |
| Chapter 1 | 202,400 | - | 202,400 | - | 202,400 | - | 202,400 | 205,878 | - | (3,478) |
| Chapter 2 | 311,082 | - | 311,082 | - | 311,082 | - | 311,082 | 286,737 | - | 24,345 |
| Chapter 3 | - | - | - | - | - | - | - | - | - | - |
| Total FY 2019 | 513,482 | - | 513,482 | - | 513,482 | - | 513,482 | 492,616 | - | 20,866 |
| HRSS | | | | | | | | | | |
| Chapter 1 | - | - | - | - | - | - | - | - | - | - |
| Chapter 2 | - | - | - | - | - | - | - | - | - | - |
| Chapter 3 | - | - | - | - | - | - | - | - | - | - |
| Total FY 2018 | - | - | - | - | - | - | - | - | - | - |
| HRSS | | | | | | | | | | |
| Chapter 1 | - | - | - | - | - | - | - | - | - | - |
| Chapter 2 | - | - | - | - | - | - | - | - | - | - |
| Chapter 3 | - | - | - | - | - | - | - | - | - | - |
| Total FY 2017 | - | - | - | - | - | - | - | - | - | - |
| Total All Budgets | 513,482 | - | 513,482 | - | 513,482 | - | 513,482 | 492,616 | - | 20,866 |

NATO UNCLASSIFIED

NATO UNCLASSIFIED

6-1

ANNEX 6 to
FC(2021)0042-REV1EXPLANATORY NOTES TO NATO INTERNATIONAL STAFF
2020 FINANCIAL STATEMENTS**NOTE 1: GENERAL INFORMATION**

NATO's essential purpose is to safeguard the freedom and security of its members through political and military means. Politically, NATO promotes democratic values and encourages consultation and cooperation on defense and security issues to build trust and, in the long run, prevent conflict. Militarily, NATO is committed to the peaceful resolution of disputes. If diplomatic efforts fail, it has the military capacity needed to undertake crisis-management operations. These are carried out under Article 5 of the Washington Treaty - NATO's founding treaty - or under a United Nations mandate, alone or in cooperation with other countries and international organizations.

The International Staff (NATO-IS) was created in 1951 to support the North Atlantic Council (NAC) (Council resolution D-D(51)30). The "Agreement on the Status of the North Atlantic Treaty Organization" defined its status, which National Representative and International Staff negotiated and signed in September of 1951.

The IS is an advisory and administrative body whose primary role is to support the national delegations of the 30 member states at NATO Headquarters. It produces policy papers, background notes and reports on issues relevant to NATO's political and military agenda and, in doing so, supports the process of consensus building and decision-making in the Alliance. The IS then helps to implement the decisions taken in NATO's committees and liaises closely with the nations and NATO's International Military Staff (IMS).

Headed by the Secretary General, the IS includes eight divisions, each headed by an Assistant Secretary General and a number of Independent Offices headed by Directors. Some 1,000 civilians work within the IS at NATO Headquarters in Brussels, Belgium. They owe their allegiance to the Alliance throughout the period of their appointment. They are either recruited directly by the Organization or seconded by their governments and each appointment is approved by the Secretary General.

The financial statements cover the budgetary and financial operations relating to the NATO International Staff (IS) budgeted and non-budgeted functions and programs.

NOTE 2: ACCOUNTING POLICIES

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

Declaration of conformity

The NATO-IS financial statements have been prepared in accordance with the NATO Accounting Framework which adapts a small number of IPSAS standards to better suit the specific requirements of the Alliance (as originally approved by nations under C-M(2013)0039 on 26 July 2013 and revised under C-M(2016)0023 on 29 April 2016) and with the NATO Financial Regulations (NFR) and respective Financial Rules and Procedures (FRP).

Basis of preparation

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

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

The financial year begins on 1 January and ends on 31 December of the same year.

NATO UNCLASSIFIED

6-1

NATO UNCLASSIFIED

ANNEX 6 to
FC(2021)0042-REV1

6-2

The following IPSAS have no material effect on the 2019 financial statements of the NATO-IS:

- IPSAS 5: Borrowing Costs
- IPSAS 7: Investments in Associates.
- IPSAS 8: Interests in Joint Ventures
- IPSAS 10: Financial Reporting in Hyperinflationary Economies
- IPSAS 11: Construction Contracts
- IPSAS 16: Investment Property
- IPSAS 21: Impairment of non-cash generating assets
- IPSAS 26: Impairment of Cash-Generating Assets
- IPSAS 27: Agriculture
- IPSAS 32: Service Concession Arrangements: Grantor

Segment Reporting

A segment is a distinguishable activity or group of activities for which it is appropriate to separately report financial information. For NATO IS the segment information is based on principal activities and different sources of financing for different categories of activities of the organisation. To this end, the following segments have been adopted: Civil Budget, Reimbursable Expenses, Human Resources Shared Services (which includes inter alia the Personnel Management Information System and the NATO Talent Acquisition Platform), Extra-Budgetary Funds, Partners' Accommodation, Refurbishment of Building Z (currently known as Manfred Wörner Building) and the Morale and Welfare Recreational Activities.

Building Z Project Financing Model

The Building Z project was initiated in 2012 through DPRC-DS(2012)0012, whereby nations agreed to offer space to partner missions in the Building Z. The projects comprises two strains of works; the Standard and Reinvestment works (refurbishment and security enhancements) and the individual partners missions Optional works. The funding of the latter are a responsibility of the respective partner nations and thus paid upfront. As for the Standard and Reinvestment works, Allies decided through DPRC-DS(2014)0084-REV3 and DPRC-N(2014)0070-REV1, that these will be pre-financed by NATO IS cash liquidity and later reimbursed by Partner Nations.

Morale, Welfare and Recreation

The financial closure of the former NATO Staff Centre took place on 31 December 2018 and as of 1 January 2019 all its assets and liabilities were transferred to the NATO International Staff accounts. The new management model adopted by Nations, as per PO(2018)0329, concerning Morale, Welfare and Recreation (MWR) activities, requires the consolidation of MWR accounts into the NATO International Staff financial statements.

MWR activities are financed from various sources deriving from commercial activities (sport facilities, concessionaires/retailers), special contributions from MWR stakeholder entities (incl. NATO IS, IMS, NCIA) and tax-free fuel operations. The surplus/deficit on the MWR activities is a liability towards the stakeholders.

Changes in Accounting Policy

None.

NATO UNCLASSIFIED

6-2

NATO UNCLASSIFIED

6-3

ANNEX 6 to
FC(2021)0042-REV1

Reclassification of Financial Statements of Previous Years

NATO policy (both Civilian Personnel Regulations and HR directives) is that untaken leave must be paid only as a last recourse (Staff is compelled to take all their leave before retiring), for informative purposes we disclose the amount payable, if NATO-IS would shut down its activities at the end of the financial year, i.e. 31 December.

NATO-IS recognized, as per 31 December 2018, a provision of EUR 1,966,535.32 for untaken leave and a provision of EUR 2,037,071.94 as per 31 December 2019.

In 2019, the 2018 untaken leave provision has been reversed. However, this reversal was not reflected in the Statement of Financial Performance as at 31 December 2019. This incorrect reversal overstated the non-exchange revenue and expenses, however, the effect on the year-end result is neutral.

As a consequence, the Statement of Financial Performance as per 31 December 2019 is restated as follows:

NATO INTERNATIONAL STAFF
Statement of financial performance
As at 31 December 2019
(All amounts in EUR)

| | Notes | 2019 - Restated | 2019 |
|-----------------------------------|-------|-----------------------|-----------------------|
| Revenue | | | |
| Non exchange revenue | 22 | 257,054,229.85 | 259,021,205.03 |
| Exchange revenue | 23 | 12,153,999.79 | 12,153,999.79 |
| Other revenue | 24 | 7,263,636.24 | 7,263,636.24 |
| Financial revenue | 25 | 225,368.69 | 225,368.69 |
| Total revenue | | 276,697,234.57 | 278,664,209.75 |
| Expenses | | | |
| Personnel | 26 | 124,007,060.06 | 124,007,060.06 |
| Contractual supplies and services | 26 | 103,056,514.50 | 103,056,514.50 |
| Depreciation and amortization | 26 | 49,220,361.52 | 49,220,361.52 |
| Impairment | 26 | 0.00 | 0.00 |
| Provisions | 26 | 77,151.64 | 2,044,126.82 |
| Other expenses | 26 | 501.00 | 501.00 |
| Finance costs | 25 | 119,034.13 | 119,034.13 |
| Total expenses | | 276,480,622.85 | 278,447,598.03 |
| Surplus for the period | 27 | 216,611.72 | 216,611.72 |

NATO UNCLASSIFIED

6-3

NATO UNCLASSIFIEDANNEX 6 to
FC(2021)0042-REV1

6-4

Use of estimates

In accordance with generally accepted accounting principles, the financial statements include amounts based on estimates and assumptions by management, according to the most reliable information available, judgement and assumptions. Estimates include accrued revenue and expenses. Actual results could differ from those estimates. Changes in estimates are reflected in the period in which they become known.

NATO IS estimates the value of Provisions for the following costs:

- A Bad Debts Provision is notionally posted for 0.5% of the long outstanding receivables at year-end, however it is reversed in the beginning of the following year. Debts from Member Nations in lieu with Common Funded calls are excluded, since in case of default they shall be collectively covered (by all Allies) as per NATO's charter;
- A notional Untaken Leave Provision is posted if the number of untaken leave days at year-end, is found to be above 10% of the annual leave entitlement;
- Other present obligations resulting of a past event if resulting of a possible payment of a foreseeable value.

Foreign currency transactions

The NATO-IS budget is authorized and managed in EUR so contributions are called in EUR. The same situation prevails for the other segments which are budget driven such as the Personnel Management Information System. Foreign currency transactions as required are accounted for at the NATO exchange rates prevailing on the date of the transaction. Monetary assets and liabilities at year-end which were denominated in foreign currencies were converted into EUR using the NATO exchange rates applicable at 31 December of the fiscal year.

Realised and unrealised profit and loss 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 recognised in the Statement of Financial Performance.

NATO-IS accounting is subject to FC(FAC)(2020)004 which sets out IS/OFC policy for accounting and reporting transactions in foreign Currency.

Financial risks

NATO-IS uses only non-derivative financial instruments as part of its normal operations. These financial elements include cash, bank accounts and deposit accounts.

All the financial instruments are recognised in the Statement of Financial Position at their fair value.

The Organisation is exposed to a variety of financial risks, including foreign exchange risk, credit risk, currency risk, liquidity risk and interest rate risk.

a. Foreign currency exchange risk

The exposure to foreign currency risk is limited as the majority of the NATO-IS's expenditures are made in EUR. The current bank accounts are held in EUR, CAD, CHF, DKK, GBP, NOK and USD. There are transactions in foreign currencies for the Information and Liaison Offices. The currency risk associated with these holdings is considered limited in consideration of the level of the aggregated amount held in these accounts.

The maximum exposure as at year end 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.

NATO UNCLASSIFIED

6-4

NATO UNCLASSIFIED

6-5

ANNEX 6 to
FC(2021)0042-REV1

b. Credit risk

Concerning cash and cash equivalent, the NATO-IS credit risk is managed by holding current bank accounts and short term highly liquid deposits that are readily convertible to a known amount of cash held with accredited banking institutions.

Table below presents the short term credit ratings, for every banking institutions in which IS holds cash and cash equivalents at 2020 year-end:

| Bank Name | Country of HQ | Short Term Ratings | | | | | |
|-----------------|---------------|--------------------|------------------|------------|------------------|---------|------------------|
| | | FITCH | | S&P GLOBAL | | MOODY'S | |
| | | Rating | Last Review Date | Rating | Last Review Date | Rating | Last Review Date |
| ING Bank | Netherlands | F1+ | 15-Oct-2020 | A-1 | 10-Jul-2020 | P-1 | 21-Oct-2020 |
| BNP PF | Belgium | F1 | 21-Oct-2020 | A 1 | 23-Apr-2020 | P-1 | 25-Oct-2020 |
| Credit Agricole | France | F1 | 10-Nov-2020 | A 1 | 21-Oct-2020 | P-1 | 19-Sep-2020 |

NATO-IS holds also a bank account with AION but without significant cash holdings.

c. Liquidity risk

The liquidity risk, also referred to as funding risk, is based on the assessment as to whether the Organisation will encounter difficulties in meeting its obligations associated with financial liabilities. A liquidity risk could arise from a short term liquidity requirement. There is a very limited exposure to liquidity risk because of the funding mechanism which guarantees contributions in relation to the approved budgets. Some limited risk could be due to the accuracy of budget forecasts. However, past history shows that this process results in surpluses, and the budgetary rules provide for revised budgets. Segments relying on revenue from their commercial operations (i.e. MWR) have proven to be more exposed to liquidity risk.

d. Interest rate risk

Except for certain cash and cash equivalent balances, the NATO-IS financial assets and liabilities do not have associated interest rates. NATO-IS is restricted from entering into borrowings and investments, and, therefore, there is an insignificant interest rate risk. Interest earned is not a budgetary resource but contributes to the surplus owed to Nations.

Current Assets

a. Cash and cash equivalents

Cash and cash equivalents are defined as short-term assets. They include cash in hand, deposits held with banks, other short term highly liquid investments. This includes funds managed on behalf of third parties which are held in cash and are presented as a liability. They are accounted for when cash is effectively received.

b. Receivables

Receivables are stated at net realisable value. Contributions receivable are recognised when a call for contribution, based on the approved budget, has been issued to the funding Nations. These receivables represent the uncollected contributions from Member Nations. No allowance for loss is recorded with respect to Member countries assessed contributions receivable.

c. Prepayments

A prepayment is a payment in advance of the period to which it pertains and is mainly in respect of advance payments made to third parties. This item may include advances made to NATO staff in accordance with Civilian Personnel Regulations (such as advances on salaries or on education allowance).

NATO UNCLASSIFIED

6-5

NATO UNCLASSIFIED

ANNEX 6 to
FC(2021)0042-REV1

6-6

d. Other Current Assets

Other Current Assets correspond to miscellaneous amounts due to NATO IS such as accrued income, rent related deposits, and other assets that do not result from the standard order to cash process, such as a counterpart of untaken leave, miscellaneous transactions to be regularized, including between entities managed by the IS Office of Financial Control, and advances made to non-consolidated NATO entities, generally in order to ease their treasury situation.

e. Inventories

As mentioned above, NATO's adaptations of IPSAS are spelled out in C-M(2016)0023 of April 2016, which included IPSAS 12 Inventories. Furthermore, C-M(2017)0043 of September 2017 approved the NATO Accounting Policy for Inventory.

When it comes to assessing the control of NATO Inventory, these documents define a set of 10 criteria to be used in assessing the level of control of an Inventory asset. A positive response on six of the criteria will lead to the asset being capitalized in the financial statements if it is above the capitalization threshold. This is applied from January, 2013, under the initial NATO Accounting Framework C-M(2013)0039 of July 2013.

Criteria that may indicate control of an asset:

- The act of purchasing the asset carried out (or resulted from instructions given) by the NATO Reporting Entity.
- The legal title is in the name of the NATO Reporting Entity.
- The asset is physically located on the premises or locations used by the NATO Reporting Entity.
- The asset is physically used by staff employed by the NATO Reporting Entity or staff working under the NATO Reporting Entity's instructions.
- The fact that the NATO Reporting Entity can decide on an alternative use of the asset.
- The fact that the NATO Reporting Entity can decide to sell or to dispose the asset.
- The fact that the NATO Reporting Entity, if it has to remove or destroy the asset, can take the decision to replace it.
- The fact that a representative of the NATO Reporting Entity regularly inspects the asset to determine its current condition.
- The fact that the asset is used in achieving the objectives of the NATO Reporting Entity.
- The fact that the asset will be retained by the NATO Reporting Entity at the end of the activity.

Capitalization thresholds relevant to the financial statement are as follow:

| Category | Threshold | Basis |
|------------------|-----------|------------------------|
| Consumables | €50,000 | Per location/warehouse |
| Spare Parts | €50,000 | Per location/warehouse |
| Ammunition | €50,000 | Per location/warehouse |
| Strategic stocks | €50,000 | Per location/warehouse |

Slow moving inventory – Assuming turnover of stock is over a 12 month period, any items not used over a 36 month period will be deemed to be slow moving.

Strategic stock – Some complex elements of slow moving stock can be identified as strategic if they are deemed essential to the effective operation of an asset and cannot be readily replaced by commercial off the shelf items or cannot be purchased due to market decisions to close production lines of key inventory items due to the advanced age of the strategic asset to which the stock relates.

NATO IS capitalizes inventory which it controls in its financial statements. Where there is a conflict between more than one NATO Reporting Entity as to the control of inventory, only the end-user entity will report the inventory in its financial statements, based on reliable information provided by the NATO services provider entity as defined in individual agreements between the two entities.

NATO UNCLASSIFIED

6-6

NATO UNCLASSIFIED

6-7

ANNEX 6 to
FC(2021)0042-REV1

NATO IS will include transportation costs involved in bringing the inventories to their present location and condition in the initial valuation of inventory. These costs will be measured on the actual cost of transportation per item of inventory or by using an apportionment of the global transportation costs of bringing the inventories to their present location and condition across all inventory items in the period. Transportation costs involved in the subsequent movement of inventory which brings them into operational use will not be included in the value of inventory.

NATO IS considered inventory acquired prior to 1 January 2013 as fully expensed.

For inventory held prior to 1 January 2013, and not previously recognized as an asset, NATO IS will provide a brief description of inventory held within their inventory recording systems in the notes to the financial statements. Such disclosure will include as a minimum the types of inventories held, locations where inventories are held and the approximate number of items held per asset category.

Where this adaptation conflicts with another requirement of IPSAS this adaptation shall apply. For the remainder, IPSAS 12 shall apply.

At year end, NATO IS assesses its inventories under IPSAS 12, against the materiality Thresholds defined by the NATO policy, based on this assessment NATO IS decides whether to capitalize or fully expense its inventories.

The materiality will be assessed each year in relation to the inventories held across the IS HQ. Inventories in external offices abroad are not considered to be material.

Fixed assets (Property, Plant & Equipment and Intangible Assets)

a. Property, Plant & Equipment

NATO's adaptation of IPSAS are spelled out in C-M(2016)0023 of April 2016 among which were specific items addressing IPSAS 17 PPE. Furthermore, C-M(2017)0022(INV) approved the NATO accounting policy for Property, Plant and Equipment.

When it comes to assessing the control of NATO over PPE these documents define a set of 10 criteria to be used in assessing the level of control of a tangible asset. A positive response on six of the criteria will lead to the asset being capitalized in the financial statements if it is above the capitalization threshold. This is applied from January 2013, under the initial NATO Accounting Framework C-M(2013)0039 of July 2013

Capitalization thresholds relevant to the financial statement are as follow:

| Category | Threshold | Depreciation Life | Method |
|-------------------------------|-----------|-------------------|---------------|
| Land | €200,000 | N/A | N/A |
| Buildings | €200,000 | 40 years | Straight line |
| Other infrastructure | €200,000 | 40 years | Straight line |
| Installed equipment | € 30,000 | 10 years | Straight line |
| Machinery | € 30,000 | 10 years | Straight line |
| Vehicles | € 10,000 | 5 years | Straight line |
| Aircraft | €200,000 | Dependent on type | Straight line |
| Vessels | €200,000 | Dependent on type | Straight line |
| Mission equipment | € 50,000 | 3 years | Straight line |
| Furniture | € 30,000 | 10 years | Straight line |
| Communications | € 50,000 | 3 years | Straight line |
| Automated information Systems | € 50,000 | 3 years | Straight line |

In light of the move to the New NATO HQ in 2018, it was decided, that core PPE relating to the previous HQ and Building Z will be fully expensed as will any fixed equipment and furniture that is not to be

NATO UNCLASSIFIED

6-7

NATO UNCLASSIFIED

ANNEX 6 to
FC(2021)0042-REV1

6-8

transferred to the current HQ. Only movable items purchased with a view to being used again in the current HQ/Building Z environment would continue to be capitalized.

Where and as appropriate, the value of specific pieces of PPE (for example buildings), will be broken down into component parts to allow depreciation of different parts of the asset at different rates. The IS has considered PP&E acquired prior to 1 January 2013 as fully expensed. For PPE held prior to 1 January 2013 and not previously recognized as an asset, the IS provides a brief description under Note 10.

b. Intangible Assets

As mentioned above, NATO's adaptations of IPSAS are spelled out in C-M(2017)0023 of April 2013, which included IPSAS 31 Intangible Assets. Furthermore, C-M(2017)0044 approved the NATO accounting policy for intangible assets.

When it comes to assessing the control of NATO over Intangible Assets, these documents define a set of 10 criteria to be used in assessing the level of control of an Intangible asset – they are the same as mentioned above under Inventory. A positive response on six of the criteria will lead to the asset being capitalized in the Financial Statements if it is above the capitalization threshold. This is applied from January 2013, under the initial NATO Accounting Framework C-M(2013)0039 of July 2013.

NATO Intangible Assets Capitalization Thresholds – NATO-IS will capitalize each intangible asset item that is above the following agreed NATO thresholds:

| Category | Threshold | Depreciation Life | Method |
|--|-----------|-------------------|---------------|
| Computer software (commercial off the shelf) | €50,000 | 4 years | Straight line |
| Computer software (bespoke) | €50,000 | 10 years | Straight line |
| Computer database | €50,000 | 4 years | Straight line |
| Integrated system | €50,000 | 4 years | Straight line |

NATO-IS capitalizes all controlled intangible assets above the NATO Intangible Asset Capitalization Threshold. For anything below the threshold, the IS will have the flexibility to expense specific items. NATO-IS will capitalize integrated systems and include research, development and implementation, and can include both software and hardware elements. But NATO-IS does not capitalize the following types of intangible assets in its financial statements:

- rights of use(air, land and water);
- landing rights;
- airport gates and slots;
- historical documents; and,
- publications

NATO-IS will capitalize other types of intangible assets acquired after 1 January 2013 including:

- Copyright
- Intellectual Property Rights
- Software development

NATO-IS considers intangible assets acquired prior to 1 January 2013 as fully expensed. The IS looked as far back as 2006 in establishing values of work in progress, especially software under development.

NATO-IS reports controlled intangible assets in its financial statements. Where there is a conflict between more than one NATO Reporting Entity as to the control of intangible assets, only the end-use entity will capitalize the intangible asset in its financial statements based on reliable information provided by the NATO services provider entity as defined in individual agreements between the two entities.

NATO UNCLASSIFIED

6-8

NATO UNCLASSIFIED

6-9

ANNEX 6 to
FC(2021)0042-REV1

For intangible assets held prior to the 1 January 2013 and not previously recognized as an asset, NATO-IS should provide a brief description of intangible assets held in its intangible asset recording systems in the notes to the financial statements. Such disclosure will include as a minimum the types of intangible assets held, locations where they are held, and the approximate number of items held per asset category. However NATO does not possess any such items

If an intangible asset is upgraded after 1 January 2013, only the portion related to the modification will be capitalized.

Where this adaptation conflicts with another requirement of IPSAS, this adaptation will apply. For the remainder, IPSAS 31 shall apply. This adaptation is effective for financial reporting periods beginning on 1 January 2013.

Current liabilities

a. Payables

Payables are amounts due to Nations in relation with budget rules or to third parties for goods received and services provided that remain unpaid. This includes an estimate of accrued obligations to third parties for goods and services received but not yet invoiced.

b. Advances and Unearned revenue

Funds are always called in advance of need because NATO-IS has no capital that would allow it to pre-finance any of its activities.

Unearned revenue represents participating Nations' contributions which have been called for current budgets but that have not yet been recognised as revenue in the absence of matching expenses.

Advances are recognised when calls in relation to future year budgets are issued. Advances made by contributing nations outside of the call for contributions process are recorded when cash is received.

c. Provisions

Estimates of present obligations resulting of a past event if resulting of a possible payment or loss of a foreseeable value are presented under Provisions. This item includes, inter alia, an Untaken Leave Provision and a Bad Debts Provision

d. Other Current Liabilities

Amounts corresponding to the current year budgetary surplus, i.e. lapsed credits, net interest and miscellaneous income, are considered a liability towards the contributing nations. The settlement does not follow the normal accounts payable process, since the standard approach is to return them to contributing nations via a deduction of the following year's call for budget contributions. This liability is therefore classified under Other Current Liabilities.

This item may include other liabilities that do not result from the standard procure to pay process, such as miscellaneous transactions to be regularized between entities managed by the IS Office of Financial Control.

Non-Current Liabilities

The long term unearned revenue is unearned revenue in relation to net carrying amounts of Property, Plant and Equipment and Intangible Assets. Revenue is recognised over the estimated life cycle of the Property, Plant and Equipment and the Intangible Assets.

NATO UNCLASSIFIED

6-9

NATO UNCLASSIFIEDANNEX 6 to
FC(2021)0042-REV1

6-10

Net Assets

Net Assets correspond to cumulative surpluses/deficits of non-budgetary activities such as Partner Accommodation where income follows a process that is relatively independent from the actual level of expenses, and does not automatically balance expenses as in the standard NATO budget process. For such activities, the yearly execution results in a surplus or a deficit.

Leases

IS does not enter into financial leases. All IS leases are operational leases. Lease contracts are in place for vehicles, office equipment, etc.

Additionally IS has entered into leases for temporary pre-fabricated buildings that are used to accommodate space requirements from some Allied and Partner delegations located on the previous NATO Headquarter site. With the handover of the previous HQ to the Host Nation Belgium and the move of the Partner Delegations into the refurbished Building Z, the lease contracts came to an end in 2020. The related costs have been charged back to the occupants in relation to the surface they occupy in the leased buildings.

Revenue and expense recognition**a. Revenue from non-exchange transactions**

Revenue from non-exchange transactions comprises contributions from Participating Nations when they are based on officially approved cost shares or on a voluntary basis that are not approximately equal to the proportion of value received. This applies to all budget driven segments or entities (e.g. Civil Budget) and to Extra Budgetary Funds.

Civil Budget contributions to be called from Member Nations, based on the budget approved by the North Atlantic Council, are initially recorded as unearned revenue liabilities. Because contributions are subject to conditions that, if unfulfilled, require the return of the transferred resources, the entity recognises a liability until the condition is fulfilled.

Assessed contributions for the NATO-IS Civil Budget are accounted for as unearned revenue when called; revenue is recognised and the liability is discharged when the conditions are fulfilled. Revenue is recognised in that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably. The balance of unspent contributions and other revenues which relate to future periods are deferred accordingly.

Voluntary contributions such as pledges in relation to Extra Budgetary Funds are accounted for as unearned revenue when confirmed by the donor; revenue is recognised and the liability is discharged when the conditions are fulfilled.

In-kind contributions of services or goods are currently not recognised in the Statement of Financial Performance. The number of Voluntary National Contributions (VNCs) staff is disclosed under note 36 "Employee Disclosure".

b. Revenue from exchange transactions

Resources of revenue from exchange transactions are measured at fair value of the consideration received or receivable and are recognised when goods and services are delivered. This is revenue in relation to the reimbursement of administrative support and common operating costs, Refundable Expenses, Human Resources Shared Services (HRSS) and Partners' Accommodation costs. It also includes revenue from audits performed by IBAN on Multi-nationally funded entities and MWR activities.

c. Long term unearned revenue

The budget resources provided by Nations for the funding of capital expenditure are recognised as a liability in the Statement of Financial Position as long term unearned revenue. Earned revenue will be

NATO UNCLASSIFIED

6-10

NATO UNCLASSIFIED

6-11

ANNEX 6 to
FC(2021)0042-REV1

progressively recognised from long term unearned revenue, in an amount equal to annual depreciation of the related non-current assets, as future economic benefits and service potential will flow to the NATO International Staff when the asset is operational.

NOTE 3: CASH AND CASH EQUIVALENTS

The current bank accounts at NATO HQ are held in EUR, CAD, CHF, DKK, GBP, NOK and USD. Deposits are held in bank current accounts that are immediately available.

NATO-IS has satellite offices in Moldova, Ukraine, Georgia and Russia which holds bank accounts with their local banks.

Cash is also held for Extra Budgetary Funds for which NATO-IS is the executing agent and therefore acts as the principal, or for which NATO-IS acts as Treasurer. These projects are not financed by the common funding principle. These Extra Budgetary Funds managed on behalf of third parties are held in cash or as a receivable if they correspond to an unpaid non-budgetary contribution in relation to nationally funded elements. The corresponding amounts are presented as a current liability.

NATO Reimbursable Expenses, Partners' Accommodation, HRSS and Building Z Refurbishment Project use the same bank account as NATO IS.

While the consolidated NATO IS cash position is positive, the implicit position of some segments may be negative, in case they find themselves in a cash shortage position such as Reimbursable Expenses and the Building Z Refurbishment Project.

The table below presents a breakdown of all Cash and Cash equivalents under the control of NATO IS:

| (amounts in EUR) | 2020 | 2019 |
|---|----------------------|----------------------|
| NATO HQ Civil Budget | 26,837,332.91 | 57,883,306.73 |
| NATO Satellite Offices | 357,247.03 | 629,537.43 |
| NATO Petty Cash | 12.63 | 3,366.78 |
| NATO Reimbursable Expenses | (1,857,246.41) | 175,249.04 |
| HR Shared Services | 180,363.63 | (160,126.29) |
| Office of Shared Services | 829,632.37 | 942,678.71 |
| Extra Budgetary Funds | 48,278,260.60 | 41,254,243.12 |
| Partners Accomodation | 1,461,743.25 | 202,713.88 |
| Refurbishment of Building Z | (1,765,969.45) | (5,543,451.80) |
| Morale and Welfare Recreational Activities (Staff Centre) | 596,258.53 | 481,262.80 |
| Total | 74,917,635.09 | 95,868,780.40 |

Negative balance of Building Z in 2020 is the result of the pre-financing operations with the use of NATO IS cash liquidity and it decreases with time. The negative balance for Reimbursable Expenses is due to expenses that have been charged back but not yet paid.

NOTE 4: SHORT TERM INVESTMENTS

Short term investments are made in highly liquid deposits in consideration of the situation of interest rates. These include cash from NATO IS and also from other segments over which NATO IS exerts control.

In 2020 at year-end there was MEUR 39,5 cash held as short-term investments. In 2019, all cash was deposited in current bank accounts (EUR 25.02 in 2019, referred to the remnants of an investment account (interest gained)).

NATO UNCLASSIFIED

6-11

NATO UNCLASSIFIED

ANNEX 6 to
FC(2021)0042-REV1

6-12

The table below provides comparative data on this item over two consecutive years:

| (amounts in EUR) | 2020 | 2019 |
|----------------------------------|----------------------|--------------|
| NATO IS HQ Civil Budget | 39,500,000.00 | 25.02 |
| NATO IS HQ Reimbursable Expenses | - | - |
| NATO IS External Offices | - | - |
| HR Shared Services | - | - |
| Office of Shared Services | - | - |
| Extra Budgetary Funds | - | - |
| Partners' Accommodation | - | - |
| Refurbishment of Building Z | - | - |
| Total | 39,500,000.00 | 25.02 |

NOTE 5: CURRENT ASSETS: ACCOUNTS RECEIVABLE

Accounts receivable are mainly outstanding contributions for the NATO Civil Budget related to the call issued at the end of the year and amounts due by other bodies and member Nations for services rendered by the International Staff (Accommodation costs, and Administrative Support).

Contributions receivable from NATO Member Nations are essentially funds requested from the Nations to finance the Civil Budget and the advances called in relation to the following year Civil Budget that remain unpaid at year end. In accordance with the standard procedure, one advance for the following year's budget is called at the end of the current year and two calls for contributions are issued during year, usually in February and in November. Other receivables from NATO Member Nations correspond mainly to amounts due in relation to common operating costs, administrative support and rental of office accommodation.

Receivables from Member or Partner Nations and others correspond to amounts due in relation to accommodation costs, administrative support, rental of modular buildings, accommodation fees of Partner buildings, items procured on behalf of third parties, contributions to the Von Karman Institute etc. They also correspond to outstanding amounts in relation to the funding of specific national requirements concerning the refurbishment of Building Z.

Receivables from staff correspond to miscellaneous services and also includes amounts due from the insurer to compensate for salary costs of staff on long term sick leave.

The table below provides comparative data of the Receivables balances, taking into account the eliminations, at year-end, for two consecutive years:

| (amounts in EUR) | 2020 | 2019 |
|-------------------------------|----------------------|----------------------|
| International Staff | 37,148,574.76 | 47,139,153.78 |
| Refundable Expenses | 3,321,620.34 | 578,786.24 |
| HR Shared Services | 27,732.99 | 484,824.96 |
| Extra Budgetary Funds | 267,446.74 | 266,319.53 |
| Partner Accommodation | 387,887.06 | 470,466.28 |
| Building Z Refurbishment | 3,681,908.26 | 1,149,990.00 |
| Moral, Welfare and Recreation | 266,586.54 | 914,122.65 |
| TOTAL | 45,101,756.69 | 51,003,663.44 |

NATO UNCLASSIFIED

6-12

NATO UNCLASSIFIED

6-13

ANNEX 6 to
FC(2021)0042-REV1

NOTE 6: PREPAYMENTS

Prepayments to suppliers relate to expenses paid in advance..

Prepayments to staff members correspond to advances to be regularised (mainly education allowances for the following year but also travel on duty, and loans, as provided by the CPRs).

The tables below provide comparative data of the Prepayment balances at year-end, for two consecutive years:

| 2020 | | | | | |
|-----------------------------|---------------------|------------------------|-----------------------|---------------------|---------------------|
| Prepayments (in EUR) | IS | Partners' Accomodation | Extra Budgetary Funds | Refundable Expenses | Total |
| Suppliers | 22,604.17 | - | - | - | 22,604.17 |
| Staff - Education Allowance | 1,476,430.14 | - | - | 7,005.33 | 1,483,435.47 |
| Staff - Travel | - | - | 472.21 | - | 472.21 |
| TOTAL | 1,499,034.31 | - | 472.21 | 7,005.33 | 1,506,511.85 |

| 2019 | | | |
|----------------------|---------------------|------------------------|---------------------|
| Prepayments (in EUR) | IS | Partners' Accomodation | Total |
| Suppliers | 356,075.54 | 613,894.05 | 969,969.59 |
| Staff | 1,406,058.95 | - | 1,406,058.95 |
| Others | - | - | - |
| TOTAL | 1,762,134.49 | 613,894.05 | 2,376,028.54 |

NOTE 7: OTHER CURRENT ASSETS

These consist essentially of the counterpart of the valuation of untaken leave, cash advances to pension systems (DCPS, RMCF) and a pending litigations receivables that were passed on to NATO IS after the closure of the old site Staff Centre entity.

The counterpart of untaken leave is a valuation of the potential budgetary contribution that would be required if this untaken leave were to be paid. However as indicated in the note on Employee Disclosure, untaken leave is normally never paid.

The below table provides a breakdown of the year-balances for the segment NATO IS, for two consecutive years:

| Other Current Assets (in EUR) | 2020 | 2019 |
|---|---------------------|---------------------|
| Untaken Leave provision | 5,018,851.30 | 2,037,071.94 |
| Warranty | 8,161.59 | 10,836.82 |
| Litige Carrefour and Grand Optical (old SC) | 284,236.86 | 284,236.86 |
| Other | 59,862.35 | 5,075.14 |
| Deferred revenue | 929,440.01 | 0.00 |
| Inter-entity cash advances (DCPS, RMCF) | 550,000.00 | 1,500,000.00 |
| Total | 6,850,552.11 | 3,837,220.76 |

NATO UNCLASSIFIED

6-13

NATO UNCLASSIFIED

ANNEX 6 to
FC(2021)0042-REV1

6-14

NOTE 8: INVENTORIES

The table below provides insight on the movements as well as the balances of Inventories at year-end for two consecutive years:

| Description | EUR Stock Value per 31 Dec 19 | 2020 Yearly Issues (EUR) | 2020 Yearly Purchases (EUR) | EUR Stock Value per 31 Dec 20 |
|-------------------------------------|-------------------------------|--------------------------|-----------------------------|-------------------------------|
| Office Supplies | 238,438.12 | 88,713.62 | 95,141.88 | 245,866.38 |
| Buildings & Infrastructure Supplies | 246,225.23 | 142,881.10 | 141,556.26 | 244,900.39 |
| NOS Consumables | 60,788.02 | 25,745.33 | 44,304.00 | 79,346.69 |
| Total | | | | 570,113.46 |

NOTE 9: NON CURRENT ASSETS: RECEIVABLES

Nothing to report.

NOTE 10: PROPERTY, PLANT AND EQUIPMENT

The following principles have been applied.

Property, Plant and Equipment (PPE)

Infrastructure, plant and equipment are stated under the accounting principles mentioned in Note 2 above.

Land and buildings

Land and buildings are shown at fair value, based on internal valuation and judgment on each reporting date.

Concerning the current NATO HQ:

During the first half of 2018, NATO moved to its new premises further to the handover from the Host Nations (Belgium and NCIA) to NATO of all of the main elements of the projects that enabled operations in the new building. As a consequence, and as per the provisions of the NATO Accounting Framework (C-M(2016)0023), all assets that were recorded as work in progress in the "New NATO HQ" financial statements have been transferred to the NATO International Staff, or the NCIA (for the IT assets).

The value of the current HQ building includes items considered as Common Funded and items considered as Nationally Funded. The reasoning stems from a number of factors. The current HQ building constitutes a coherent and global building whose purpose is to bring together member nations in order to enable an efficient and effective consultation process. This situation whereby dedicated National Representations are present on site is very specific to NATO and does not always exist in other comparable international organizations. The member nations are not considered, from a legal perspective, as having direct property rights on the parts of the building corresponding to their own delegation premises, but rather having an exclusive right of use. In this respect the different funding mechanisms cannot be deemed a factor justifying a specific accounting treatment. The situation also carries certain restrictions, such as the inability to execute works affecting or altering the basic structure of the building, or to use the premises for purposes different than housing their national delegation to NATO, or to independently sell their premises. Additionally, it is difficult to accurately distinguish the value between these common and nationally funded elements. Their inclusion provides useful and clear information which contributes to financial transparency. Common funded and nationally funded construction works were managed as a single project. The economic benefit or the service potential is measured by the contribution to consensus building and therefore it cannot be separated from NATO's purpose. Therefore, this would not justify a separate accounting treatment.

It should be noted that this approach does not apply to the national fit-out segment, for which four nations decided to act separately.

NATO UNCLASSIFIED

6-14

NATO UNCLASSIFIED

6-15

ANNEX 6 to
FC(2021)0042-REV1

Concerning the previous NATO HQ:

Belgium granted to NATO by way of concession a plot of land on which NATO was authorized to erect all necessary buildings and facilities needed to perform its functions. A symbolic price is paid annually for the rent. NATO is the full owner of all structures built thereon. Belgium remains the sole and full owner of the land, which is public domain ("domaine public"). The concession ends 180 days after NATO has left the buildings and facilities. At the end of the concession, there will be no property rights transferred to NATO. As a consequence, given the indefinite economic life of land and the specific nature of concessions, the use of the land is classified as an operational lease. The rent charged by the host nation is recognised as an expense in the Statement of Financial Performance.

The original buildings of the previous HQ site are estimated as having a zero value in consideration of their age, of the terms of the concession agreement, of the limited value for money of an evaluation study and of the move to new premises in 2018.

Items purchased prior to 1 January 2013:

Material and non-recorded items purchased prior to 1 January 2013 are the fourth wing of Building Z, assessed at the historical cost of EUR 2.566 million, and the Secretary General's residence with an assessed market value of EUR 12,000,000 as at October 2020.

PPE and Land and Buildings disclosures

The table below shows the status of the PPE and Land and Buildings in the Civil Budget segment at year-end:

| (amounts in EUR) | Carrying Amount end 2019 | Corrections related to PPE module | Additions | Disposals | Depreciation | Reclass | Impairment | Carrying Amount end 2020 |
|--------------------------|--------------------------|-----------------------------------|-------------------|-----------|------------------------|----------|------------|--------------------------|
| COMMON FUNDED | | | | | | | | |
| Land & Building | 641,168,389.68 | | 361,490.00 | | (16,689,872.54) | | | 624,840,007.14 |
| Installed equipment | 249,067,278.55 | | 150,000.00 | | (29,594,735.51) | | | 219,622,543.04 |
| Machinery | 406,173.58 | | | | (66,014.05) | | | 340,159.53 |
| Transportation Equipment | 277,952.00 | | 147,875.19 | | (106,793.08) | | | 319,034.11 |
| Communications | 211,620.34 | | 83,054.07 | | (74,966.00) | | | 219,708.41 |
| IT Equipment | 109,442.14 | | 180,520.07 | | (115,029.77) | | | 174,932.44 |
| TOTAL | 891,240,856.29 | - | 922,939.33 | - | (46,647,410.95) | - | - | 845,516,384.67 |

As for the Building Z, all expenditures (including the salaries of the project staff) are accrued under a "Fixed Assets Under Construction" account until the finalization of the project when the project accumulated cost will be finally recognized as Land & Buildings.

The table below shows the status of the PPE and Land and Buildings in the Building Z segment at year-end:

| Building Z | 2020 | 2019 |
|---------------------------|---------------|---------------|
| Assets under construction | 19,852,154.70 | 11,444,970.57 |

Total Warranty Contract

In 01/12/2018 NATO IS signed with COFELY a nine years contract (expires in 30/11/2027) for the maintenance of the IS HQ equipment's and technical installations. This contract is referred to as a Total Warranty Contract.

NATO UNCLASSIFIED

ANNEX 6 to
FC(2021)0042-REV1

6-16

The below table disclose the items that were replaced by COFELY during 2020, as part of the contract execution:

| COFELY TOTAL WARRANTY REPLACEMENTS 2020 | |
|---|--------------------|
| ITEMS REPLACED | COST in EUR |
| RPL DES CARTES ELECTRONIQUES UPS 14100380962001 | 4,678.20 |
| RPL MITIGEURS LAVABOS | 10,800.00 |
| ACHAT DISPLAY ASCENSEURS POUR LE STOCK | 17,970.00 |
| RPL DU MOTEUR PRV DU FRIGO 4 | 7,129.79 |
| RPL DU THERMO-CAPILLAIRE FRIGO 2 | 2,404.26 |
| RPL CONDENSATEURS UPS SOCOMEC | 36,174.98 |
| 2X POMP GRUNDFOSS | 3,909.12 |
| FOSSE SEPTIQUE JARDIN JAPONNAIS | 5,101.43 |
| REPLACEMENT CARTES ELECTRONIQUES JAGA | 6,241.20 |
| REPLACEMENTS CONDENSATEURS TGNT C1 01 N | 2,206.85 |
| REPARATION DES RIDEAUX STOBICH-KELLER | 6,550.40 |
| REPARATION SERVEUR KOLLMORGEN | 2,862.12 |
| RPL BATTERIES BLOCS DE SECOURS | 131,466.36 |
| RPL BATTERIES POMPES SPRINKLAGE | 1,867.06 |
| RPL BATTERIES UPS | 2,568.09 |
| TOTAL | 241,929.86 |

After an analysis IS-OFC decided that since all acquired items falls under the consumable/spare part category, in 2020 NATO IS shall not recognize COFELY's replaced items as PP&E.

The contract also stipulates that the difference between the costs paid by COFELY and the contractual annual replacements ceilings are captured under a "Solde du Fonds de Réserve" and that at the end of the ninth year of contract, NATO IS will get back one half of the funds not spent. However, if the balance is negative, NATO will not pay COFELY any compensatory payment.

As per NFR's when and if this income realizes, it shall be returned to Nations as Miscellaneous Income of the year concerned.

The balance of the "Solde du Fonds de Réserve" at 31 December 2020, shows a positive balance of EUR 637,527.02 (EUR 306,692.48 as per end 2019).

However, since the settlement of the "Solde du Fonds de Réserve" is receivable only at the end of the contract (30/11/2027), IS-OFC does not recognize any related asset/liability in lieu with the Total Warranty Contract.

NOTE 11: INTANGIBLE ASSETS

Intangible assets are stated at historical cost minus accumulated depreciation and any recognized impairment loss.

NATO UNCLASSIFIED

6-16

NATO UNCLASSIFIED

6-17

ANNEX 6 to
FC(2021)0042-REV1

The table below shows the status of Intangible Assets in the Civil Budget segment at year-end:

| (amounts in EUR) | Carrying Amount end 2019 | Corrections related to PPE module | Additions | Disposals | Depreciation | Reclass | Impairment | Carrying Amount end 2020 |
|---|--------------------------|-----------------------------------|-------------------|-----------|-----------------------|---------|------------|--------------------------|
| COMMON FUNDED | | | | | | | | |
| Intangible assets | | | | | | | | |
| IS RELATED COSTS: IMPLEMENTATION, SW, PROJECT STAFF | 23,587.58 | | | | (5,896.90) | | | 17,690.68 |
| WCM RELATED COSTS: IMPLEMENTATION, SW, PROJECT STAFF | 499,107.60 | | | | (166,369.20) | | | 332,738.40 |
| PPM RELATED COSTS: IMPLEMENTATION, SW, PROJECT STAFF | - | | | | | | | - |
| EIM RELATED COSTS: IMPLEMENTATION, SW, PROJECT STAFF | 3,456.26 | - | - | - | (3,456.26) | - | - | - |
| DAMS RELATED COSTS: IMPLEMENTATION, SW, PROJECT STAFF (2) | 48,763.50 | - | | | (16,254.50) | - | - | 32,509.00 |
| ERP RELEASE II + OBI | 740,112.54 | | | | (467,439) | | | 272,673.41 |
| ERP RELEASE III (HR, Programs, SharePoint) | 2,895,616.02 | | | | (847,765.58) | | - | 2,047,850.44 |
| OTHER ASSETS | 352,808.56 | - | - | - | (103,541.93) | | - | 249,266.63 |
| TOTAL | 4,563,452.06 | | | | 0 | | 0 | 2,952,728.56 |
| Intangible assets under construction | 6.39 | | 251,796.66 | | | | | 251,803.05 |
| TOTAL | 4,563,548.11 | | 251,796.66 | | (1,610,723.50) | | | 3,204,531.61 |

During 2020, the implementation of a new Travel Management System started. With the go-live scheduled for 2021, the according expenditure is reported under "Assets under construction" for an amount of EUR 251,796.66.

Depreciation

Straight-line depreciation method is used for all categories, with the life cycles in keeping with those stated in the accounting policy.

Impairment of fixed assets

The carrying amounts of fixed assets are reviewed for impairment if events or changes of circumstances indicate that they may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the impairment loss. Any provision for impairment losses is charged against the Statement of Financial Performance in the year concerned.

NOTE 12: OTHER NON-CURRENT ASSETS

The amount of MEUR 4.023 is the balance of pre-financing of the cost of refurbishment and re-investment works in Building Z. Occupancy fees to be charged to future occupants including the NATO International Staff will offset this amount.

NOTE 13: PAYABLES

Payables and accrued expenses may be to commercial suppliers, staff, Member Nations, other NATO bodies and Partner Nations.

Payable to suppliers

Payable to suppliers relates to goods and services for which an invoice has been received, checked, and queued for payment but for which payment was still pending at year-end.

Payable to personnel

Payable to personnel relates to amounts due to staff in relation to travel expenses and hospitalities.

Payable to Nations

There is a payable in relation to the reimbursable salaries due to certain countries (United States, Norway and the Netherlands) for civilian staff members who are paid directly by their governments. This amount payable can be used by the nations in question applying it against any calls for contributions.

NATO UNCLASSIFIED

6-17

NATO UNCLASSIFIED

ANNEX 6 to
FC(2021)0042-REV1

6-18

Payable to other NATO bodies

This includes amounts received from NATO bodies in support of projects funded by the Civil Budget.

Accruals

Accrued expenses correspond to the estimated obligation to third parties for goods and services received but not yet invoiced.

The table below presents detailed breakdown of payables at year-end for the IS segment for two consecutive years:

| (in EUR) | 2020 | 2019 |
|-------------------|----------------------|----------------------|
| Suppliers | 12,321,072.68 | 7,969,687.70 |
| Personnel Related | 482,621.11 | 45,864.76 |
| Member Nations | 4,126,223.85 | 2,963,471.51 |
| Accruals | 849,024.60 | 9,927,387.86 |
| Others | | |
| Total | 17,778,942.24 | 20,906,411.83 |

Morale, Welfare and Recreation

At the end of 2020, the MWR showed a payable position to NATO International Staff amounting to EUR 2,219,503 and corresponding to the unpaid expenses for 2019 and 2020 accommodation costs.

MWR cash holdings are not sufficient to cover this liability.

NOTE 14: DEFERRED/UNEARNED REVENUE

Civil Budget:

Unearned revenue corresponds to contributions called for the current or previous years that NATO IS plans to use as originally intended, but for which corresponding expenses will be incurred after the reporting date.

Unearned revenue includes principally those amounts of contributions which will be spent in subsequent years on the NATO Civil Budget as credits carried-forward resulting from the budget execution in accordance with the NATO Financial Regulations. If the funds are not spent by the end of the second year following the year for which they were approved, these funds will lapse unless a specific decision is taken by member nations for a further carry-forward.

Extra Budgetary Funds:

Unearned Revenue corresponds essentially to contributions received in relation to Trust Funds for which the related project activities are not yet completed. These amounts should be spent in future years as the projects evolve.

Other segments:

Other segments that also present Unearned Revenue balances are the Building Z project (Assets under Construction) and HRSS.

NATO UNCLASSIFIED

6-19

ANNEX 6 to
FC(2021)0042-REV1

The table below presents a breakdown of the Deferred/Unearned Revenue balances at 2020 year-end:

| (in EUR) | 2020 | 2019 |
|-----------------------|----------------------|----------------------|
| NATO IS | 14,363,817.88 | 19,880,367.97 |
| Extra Budgetary Funds | 45,423,806.03 | 39,649,583.25 |
| Building Z | 1,819,248.30 | 10,226,432.43 |
| Total | 61,606,872.21 | 69,756,383.65 |

NOTE 15: ADVANCES

The standard call for budget contributions process includes an advance on the following year's budget. In addition, some Nations may make ad hoc voluntary advances for budget contributions, ahead of the call issue. Under the new MWR mandate there are advances received in lieu with services.

The table below discloses detailed breakdown of the advances at the year-end for the IS segment for two consecutive years:

| Advances | 2020 | 2019 |
|-------------------------------------|----------------------|----------------------|
| Advances called on next year Budget | 53,000,000.00 | 52,000,000.00 |
| Voluntary Advances from nations | 1,357,546.90 | 3,098,884.32 |
| Total | 54,357,546.90 | 55,098,884.32 |

NOTE 16: SHORT TERM PROVISIONS

Included at year end 2020 is an Untaken Leave Provision (which has no impact on the current budgets) in the amount of EUR 5,018,851.30 (EUR 2,037,071.94 end 2019) and Bad Debts Impairments in the IS (EUR 475.38) and in other segments. The Untaken Leave Provision increased considerable in comparison to 2019, mainly due to the COVID-19 crisis, as staff postponed their leave due to global travel restrictions.

NOTE 17: OTHER CURRENT LIABILITIES:

Other Current Liabilities Linked to the Budget Process

Amounts corresponding to the current year budgetary surplus, i.e. lapsed credits, net interest and miscellaneous income, are considered a liability towards the contributing nations. The settlement does not follow the normal accounts payable process, since the standard approach is to return them to contributing nations via a deduction of the following year's call for budget contributions. Nations may also decide that part or all of the budgetary surplus is made available for use in future years (see Note on Budget Information).

Lapsed credits are budget funds for which no legal liability exists. They cannot be spent in subsequent years. Lapsed credits are deducted from the contributions due from Nations to fund the Civil Budget in the second call of the following year. For the HRSS, lapsed credits are deducted from the amounts due by the NATO participating entities for the following year. The other activities do not follow the standard budget process.

For the Civil Budget, receipts linked to interest, realized foreign exchange difference gains and bank charges are deducted from the contributions due by Nations to fund the Civil Budget in the following year; the deduction is made in the second call.

Miscellaneous receipts correspond to amounts collected by NATO-IS for services rendered to staff or services rendered to and works performed for entities, including Delegations, present on the HQ site (e.g. telephone, refurbishment works, cabling). They also include amounts related to Science for Peace and Security grants returned to NATO-IS. These receipts come as a deduction in the calculation of the

NATO UNCLASSIFIED

6-19

NATO UNCLASSIFIED

ANNEX 6 to
FC(2021)0042-REV1

6-20

contributions due from nations to fund the Civil Budget in the following year; the deduction is made in the second call.

There can occasionally be an under-call or over-call of contributions. This was the case in 2018 since the information related to operations and maintenance amounts to be called from occupants of the HQ building was not complete or available at the moment of the issuance of the last call for budget contributions. Amounts concerned are regularised with the following calls for contributions.

The table below discloses year-end comparative data for the IS segment (materiality concern), for two consecutive years:

| (in EUR) | 2020 | 2019 |
|-----------------------|----------------------|----------------------|
| Lapsed Appropriations | 15,463,421.68 | 7,057,267.32 |
| Miscellaneous Income | 5,164,899.96 | 6,576,644.03 |
| Net Financial Income | 46,684.39 | (78,709.09) |
| Total | 20,675,006.03 | 13,555,202.26 |

Other Current Liabilities linked to closed or ad-hoc projects

Other Current Liabilities consist of funds initially contributed by Nations relating to balances of closed Extra Budgetary Funds for which NATO-IS is awaiting instructions on the redistribution of funds and to the settlement of the closure of former NATO entities and projects: HAWK Agency, Office of Shared Services and to ad-hoc contributions by some Nations to specific projects.

Hawk Management Office

On 28 November 2019 the IS –OFC issued to IBAN a report on the financial closure of the former NATO Hawk Management Office (FC(2019)00133). The report discloses an asset of EUR 1,028,655.59, and a breakdown of the individual amounts to be returned to the former members of the HAWK Agency. Once the report is audited, the IS-OFC will send request for instructions to all former HAWK member nations involved on how to proceed for the respective reimbursement.

Office of Shared Services

After the closure of the Office of Shared Services (OSS) in 2016, some residual actions continued to take place, namely under the General Procurement Shared Services initiative under the aegis of NSPA. However, since 2018 there was no further funding requirements to be covered by the OSS budget. Since 2018, EUR 942,678.71 are kept under NATO IS control and remain as such at 2019 year-end.

As per C-M(2017)0063 the BC noted that the OSS pre-financing was put in place with the expectation it would not be required beyond 2018. And in 2018 (BC-D(2018)0197) the BC noted the proposal not to return amounts concerned until further guidance is issued. As a consequence, the funds are held by NATO IS and reported as a liability.

In 2020 a payment of EUR 113,046.34 has been done out of the remaining funds. This has resulted in a balance of EUR 829,632.37 kept under NATO-IS control.

Stikker Fund

The Stikker Fund originates from a donation made by former Secretary General D.U. Stikker in the 1960s. In accordance with the conditions laid down by the donor, the Fund is used for special financial aid to NATO staff in exceptional and distressing circumstances (EUR 75,774.61 as per end 2019). In 2020 a payment of EUR 25,662.22 was done from this fund, as per EM(HR)(2020)0189, reducing the value of this fund to 50,112.39.

NATO UNCLASSIFIED

6-20

NATO UNCLASSIFIED

6-21

ANNEX 6 to
FC(2021)0042-REV1**Global overview**

The table below presents detailed breakdown of Current Liabilities at for the IS segment only, for two consecutive years.

| (in EUR) | 2020 | 2019 |
|-------------------------------------|----------------------|----------------------|
| Current Year Surplus | 20,675,006.03 | 13,555,202.26 |
| Closed Operations (Trust Funds, Pro | 2,626,960.35 | 2,739,309.76 |
| Stikker Fund | 50,112.39 | 75,774.61 |
| Interco Liability | 398,547.30 | - |
| Other | 629,860.56 | 561,641.20 |
| Overcall | | |
| Total | 24,380,486.63 | 16,931,927.83 |

The intercompany liability mainly refers to the contribution of the Civil Budget to cover for the 2019 shortfall of the civilian pensions for which the cash transfer was pending at year-end.

The EUR 629,860.56 ("Other") refers mainly to stock inventory (EUR 570,113.51).

NOTE 18: NON-CURRENT LIABILITIES: LONG TERM PROVISIONS

Nothing to report.

NOTE 19: NON-CURRENT LIABILITIES: DEFERRED REVENUE

Long term unearned revenue is unearned revenue in relation to net carrying amounts of PP&E and intangible assets. Revenue is recognised over the estimated life cycle of the PP&E and the intangible assets when PP&E and intangible assets are recognized.

NOTE 20: OTHER NON-CURRENT LIABILITIES

Nothing to report.

NOTE 21: NET ASSETS

Corresponds to miscellaneous accumulated surpluses/deficits generated outside of the budget execution context, essentially Partners Accommodation.

When the funding policy for Partners Accommodation (referred to as "Annex IV") was established in 1997 (BC-DS(97)18 Revised), Annex IV had budgetary credits authorised to provide for Partner accommodation on site. These were expanded to create offices in the previous Manfred Wörner Building. The Civil Budget Committee then decided to have the Partners reimburse the total rent and operational costs in proportion to the space they occupied. Further, Nations agreed that financing of Annex IV should be treated separately from the Civil Budget. They also agreed that Annex IV would, in future, be funded by Partners' rental payments, therefore Annex IV is not subject to the lapse rules foreseen in NATO's Financial Regulations. Over time, this process resulted in surpluses.

In 2020, the Partners Accommodation produced a deficit of EUR 52,946.68, which results over the years in an accumulated surplus of EUR 1,024,850.97 as of 31 December 2020.

NATO UNCLASSIFIED

6-21

NATO UNCLASSIFIED

ANNEX 6 to
FC(2021)0042-REV1

6-22

NOTE 22: REVENUE FROM NON-EXCHANGE TRANSACTIONS

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the result can be measured reliably.

The total revenue from non-exchange transactions is essentially related to budget (or equivalent) driven segments and the contributions. For MWR segment non-exchange revenue derives from: contributions from the MWR stake holders (NATO entities) and the revenue from Gym membership and tax-free fuel operations.

Budget contributions, when called, are booked as unearned revenue and subsequently recognised as revenue when earned. The revenue recognition is matched with the recognition of expenses against the budgets. For Extra Budgetary Funds: revenue is matched to the costs of activities undertaken.

NOTE 23: REVENUE FROM EXCHANGE TRANSACTIONS

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the result can be measured reliably.

The total revenue from exchange transactions is broken down as follows.

- For the IS: revenue in relation to the reimbursement to the Civil Budget of administrative support and common operating costs, revenue received from concessions, miscellaneous income.
- For the HRSS: contributions from other NATO bodies to cover the expenses of the HRSS operations according to their proportion of established posts.
- For Partners' Accommodation: rent charged principally to Partner Countries for office space at NATO HQ (Buildings VVA/previous Manfred Wörner).
- For MWR: rents from concessionaires and retailers and other miscellaneous operations.

NOTE 24: OTHER REVENUE

In the case of the Building Z Refurbishment, Other Revenue is the balancing element in order to capitalize all expenses related to this project.

In 2020, this item consists also of over-accruals and other miscellaneous revenue from previous years.

NOTE 25: FINANCIAL REVENUE

Financial revenue (principally from the Civil Budget) is measured at fair value received or receivable for interest and foreign exchange gains.

In 2020 the major sources of financial income came from the IS (EUR 190,484.22) and Extra-Budgetary Funds (EUR 131,476.95) segments.

These amounts include EUR 64,762.48 of Unrealized Profit originating from the year-end revaluation of cash and cash equivalents held in foreign currency and EUR 52,589.00 that is charged to Partner Nations who have opted to pay back NATO-IS for the Building Z refurbishment works over multiple years

This source of revenue is impacted by the current context where negative interest rates apply to EUR cash holdings.

NATO UNCLASSIFIED

6-22

NOTE 26: EXPENSES**Wages, salaries and employee benefits**

The personnel related costs include all staff expenses, as well as other non-salary related expenses in support of common funded activities. The amounts include expenses for salaries and emoluments for approved NATO-IS positions and temporary personnel, for other salary related and non-related allowances including overtime, medical exams, recruitment, installation and removal and for contracted consultants and training in accordance with Civilian Personnel Regulations.

Operating costs: rents, supplies and consumables used

The operating costs relate primarily to costs necessary to the day to day operation of the HQ, as well as travel expenses. This item includes expenses classified as Capital expenditure from a budget perspective (to include items such as IT, security, television and radio studios etc.) but that did not qualify as capital according to IPSAS or NATO Accounting Framework.

Programmes and grants

The majority of grants are considered expended upon notification to the beneficiary of the decision to attribute the grant/award. Programmes and grants is a broad term that covers activities with Partners and NATO nations ranging from funding seminars and conferences through NGOs, to bringing groups of experts to NATO HQ for briefings and attributing grants in the framework of the Science for Peace Security Programme (the latter being the main component).

Programmes and grants expenses include advances paid to beneficiaries of grants.

Depreciation and amortization

Depreciation and amortization expenses are not budgeted for.

Financial costs

Financial costs include expenses for banking costs and foreign exchange losses.

Other expenses

Are miscellaneous expenses that do not fall under any of the above categories.

NOTE 27: RESULT OF THE PERIOD (SURPLUS/DEFICIT)

The surplus/deficit is realised from the activities in support of Partner accommodation.

In 2020, the Partners Accommodation produced a deficit of EUR 52,946.68.

NOTE 28: CASH FLOW STATEMENT

In accordance with the new NATO Accounting Framework, the cash flow statement is presented based on the indirect method.

NOTE 29: BUDGET INFORMATION**Presentation of budget information in the financial statements**

For the purposes of these financial statements, the term "budget" is understood as corresponding to a formal approval of expense limits by the North Atlantic Council or the Budget Committee. It does not

NATO UNCLASSIFIED

ANNEX 6 to
FC(2021)0042-REV1

6-24

correspond to situations where the term "budget" may be used for more managerial purposes and/or is used to forecast expenditure rather than limit its allocations.

From a budget perspective, the International Staff Financial Statements include the budget transactions of the following budget entities: the NATO Civil Budget and the HRSS.

Presently, none of these budgets is publicly available.

The actual amounts referred to by IPSAS 24 ("amounts that result from execution of the budget") are considered to be the actuals and the commitment of appropriations when the corresponding services or goods could not be received in the course of the year.

Budget Execution Rules and Principles

The following comments relate to the Civil Budget since it is the most important entity. The analysis and processes apply to a very large extent to the other two budget entities.

The initial approved budget corresponds to total appropriations authorised by the North Atlantic Council, normally at the end of the previous financial year. During the year the budget is adjusted as required. The final authorisation is the approved appropriations' situation as reported at the end of the financial year including budgetary increases/decreases approved by the Budget Committee and transfers approved by the Budget Committee or by the Financial Controller, depending on thresholds.

The budgets are prepared for the same period (1 January to 31 December) and encompass the NATO International Staff and the HRSS (for PMIS and NTAP).

Changes to the budgetary regulations were introduced by the North Atlantic Council in 2015 in approving a new set of NATO Financial Regulations. The new NATO Financial Regulations were made applicable to the 2015 budget year as from 1 May 2015. They have in particular instilled an accruals based approach to budget preparation and budget execution, whereas before the approach was largely commitment and cash based.

Despite a stronger emphasis on the principle of annual budgets, the approved and executed budget cannot be considered as fully accruals-based, since the new regulations allow for a number of exceptions, such as carrying forward commitments for goods and services that were expected to be delivered in the course of the year but for various reasons were not, or authority given to the member Nations to allow for special carry forward of appropriations unused at year-end or a further carry-forward of commitments not expended after having been carried-forward twice.

The Civil Budget is prepared and executed as follows:

- 1) The commitment of appropriations is the advance acceptance and recording of the financial consequence resulting from a legal obligation incurred during the financial year. As a consequence appropriations are allocated, and commitments are approved, for goods, services and works to be delivered at a later stage. Commitments are settled when the service is rendered or goods delivered as is the case for expenses under accrual accounting.
- 2) Unliquidated commitments are carried forward and added to the budget of the following financial year in relation to an existing legal commitment or if a special agreement is given by the Budget Committee. Under the new regulations they correspond to services not received or goods not delivered, at year-end, for specific circumstances. Outstanding commitments can be carried forward for two years. As a consequence, the services or goods received may relate to a commitment of appropriations from previous years' budgets. The carry-forward should be justified by a reason for which the services or goods could not be received in the course of the year. In addition, in accordance with Financial Regulations, member Nations may agree to a further carry-forward of commitments that were already carried forward twice.
- 3) Commitments, because they are an advance acceptance, and because payments cannot be made above approved credit levels, typically include an estimation factor and are (if only

NATO UNCLASSIFIED

6-24

NATO UNCLASSIFIED

6-25

ANNEX 6 to
FC(2021)0042-REV1

slightly) higher than the actual amount eventually paid. This results in commitments being higher than the actual expenses and in appropriations eventually lapsing.

- 4) Commitments are only made in respect of expenses relating to the initial purpose of the commitment. Commitments for capital expenditures are normally made in the year during which the purchase order is issued. In accrual accounting, the related costs would not appear in the Statement of Financial Performance but in the Balance Sheet and only upon reception of the works, goods or services. Conversely, there is no budgetary commitment of appropriations for non-cash transactions such as capital depreciation or provisions which would normally appear in the Statement of Financial Performance under accrual accounting.
- 5) On an exceptional basis, the NATO Member Nations may approve the special carry-forward of appropriations without any prior legal commitment, for instance for projects at their initiation stage or planned expenditures. In accrual accounting there would be no expense recorded.
- 6) The balance of unused budgetary appropriations (not committed) lapses and is returned to Member Nations at year-end, unless differently agreed by Member Nations. Lapses may include cases where a project was eventually not completed or started, and therefore led to no expense.

The NATO Civil Budget

The Civil Budget is based on an Objective Based Budgeting (OBB) system which links financial and human resources to Global Objectives. Contributions to these Global Objectives by IS Divisions and Independent Offices are broken down into Operational Objectives. The OBB system is based on eight Global Objectives which are defined at a political and strategic level of the Organization.

The eight objectives are set out below:

- Crisis Management & Operations
- Collective Defense
- Cooperative Security
- Public Relations
- Consultation Process
- Operational Environment of the Headquarters Site
- Governance and Regulation
- Headquarters Security

The budget classification is also based on the economic nature of the expenses broken down into four Resource Pools as follows:

| | |
|-----------------|----------------------------|
| Resource Pool 1 | Personnel |
| Resource Pool 2 | Operations and Maintenance |
| Resource Pool 3 | Capital |
| Resource Pool 4 | Programmes |

All budget transactions, commitments and expenses are tracked according to a classification by Objective and by Resource Pool.

Initial Civil Budget – Revised Civil Budget

In December 2019, the Council approved the 2020 Civil Budget of EUR 217,917,860 (C-M(2019)0031 (INV)) (excluding the Defined Benefit Pension Scheme (DBPS), which is reported outside the IS Financial Statements). The initial budget comprised the core 2020 Civil Budget of EUR 211,219,160 and contributions to the Defined Contribution Pension Scheme (DCPS) of EUR 6,698,700. The Budget Committee froze EUR 20.2 million for Communication and Information Services (CIS) requirements, including the asset replacements and investments, including the special carry forward of lapsable appropriations for CIS into 2020, pending the Working Group of National Technical Experts (WGNTes)

NATO UNCLASSIFIED

6-25

NATO UNCLASSIFIED

ANNEX 6 to
FC(2021)0042-REV1

6-26

recommendations. In February 2020, the Budget Committee unfroze EUR 20.2 million for 2020 CIS requirements (BC-DS(2020)0009 (INV)). In the context of the revised 2020 Civil Budget, in November 2020, the Budget Committee approved a transfer of EUR 2.06 million from the core 2020 Civil Budget to the DBPS, reducing the core budget to EUR 209,159,160. In the revised budget, the Budget Committee also approved a transfer of EUR 300,000 from the DCPS to the DPBS (BC-D(2020)0183-REV1 +AS1).

At reference C-M(2019)0031 (INV), the Council noted the Budget Committee-approved special carry forward of appropriations from 2015, 2016, 2017, 2018 and 2019 into 2020 of EUR 10,437,507 and estimated (pending the confirmation in the 2019 IS Financial Statements (FS)) lapsable appropriations from 2019 and prior years into 2020 of EUR 7.89 million. The Budget Committee froze the special carry forward of EUR 4.5 million of appropriations and EUR 6.45 million of lapsable appropriations. The 2019 IS FS showed lower lapses than estimated at reference C-M(2019)0031 (INV), resulting in an actual special carry forward of lapsable appropriations of EUR 7,030,210, and a decrease of the frozen lapsable appropriations from EUR 6.45 to EUR 5.59 million. In 2020, the Budget Committee unfroze: (1) EUR 622,000 of lapsable appropriations for the 2020 CIS requirements (BC-DS(2020)0009 (INV), as part of EUR 20.2 million); (2) EUR 398,194 of lapsable appropriations, initially foreseen for the Civil Budget future investments, to pay for the 2019 DBPS deficit (BC-D(2020)0105-ADD1 +AS1); (3) EUR 422,921 of lapsable appropriations to pay for the 2019 MWR deficit (BC-D(2020)0161-ADD1 +AS1); and, (4) a total of EUR 1,877,408 for various NATO Headquarters Functional Review Group 3 requirements (BC-D(2020)0009-REV1+ addenda +AS1 and BC-DS(2020)0019).

An analysis of budget execution for the NATO Civil Budget is provided at Annex 5.

Reconciliation between Budget Execution and Statement of Financial Performance

The tables below provide an overview of the reconciliation of for the two last consecutive years:

2020

| EXPENSES RECONCILIATION | | |
|---|---|----------------|
| | | Amounts |
| Budget Execution Statement Total Costs | | 212,647,030.55 |
| Depreciation & Amotisation Charges + PP&E Recognition | + | 47,083,488.10 |
| Impairments PP&E, Intangible Assets and Stock | + | |
| Impairments Receivables | + | |
| Stock Variation | - | 24,996.26 |
| NBV Fixed Assets Losses | + | |
| Financial Costs | + | 258,426.13 |
| Non-Budgetary Provisions | + | 2,975,947.28 |
| Reconciliation difference | + | |
| Statement of Financial Performance Costs | | 262,939,895.80 |

NATO UNCLASSIFIED

6-26

NATO UNCLASSIFIED

6-27

ANNEX 6 to
FC(2021)0042-REV1

2019

| EXPENSES RECONCILIATION | | |
|---|---|----------------|
| | | Amounts |
| Budget Execution Statement Total Costs | | 213,106,753.36 |
| Depreciation & Amotisation Charges + PP&E Recognition | + | 46,706,025.70 |
| Impairments PP&E, Intangible Assets and Stock | + | |
| Impairments Receivables | + | |
| Stock Variation | - | 184,829.18 |
| NBV Fixed Assets Losses | + | |
| Financial Costs | + | 113,974.27 |
| Non-Budgetary Provisions | + | 2,037,071.94 |
| Reconciliation difference | + | 15.63 |
| Statement of Financial Performance Costs | | 261,778,980.46 |

Human Resources Shared Services

The NATO IS Executive Management Human Resources was appointed as the provider of NATO-wide Human Resources Shared Services. In this context, a wide variety of services will be provided over time. During 2018 in addition to extant services related to the Integrated Payroll Personnel Management Information System (PMIS), operations related to the NATO Talent Acquisition Platform (NTAP) were put in place. In terms of financial reporting, both categories of services are now recorded in this HR Shared Services segment which until 2016 was used to report only on PMIS operations.

In 2020, the Budget Committee approved the following special purpose budgets:

- The 2020 NATO-wide Payroll Management and Information System budget of EUR 245,426 through references BC-D(2020)0008 (INV) and BC-DS(2020)0004 (INV); and,
- The 2020 NATO Talent Acquisition Platform budget of EUR 288,749 through reference BC-D(2020)0031 (INV).

Funding is provided through contributions by the NATO bodies in proportion to their staffing levels for PMIS and in proportion of hires per annum for NTAP. Invoices are reduced by the amount of previous year's surplus.

A budget execution statement is provided at Annex 5.

Building Z Refurbishment Project

In 2020, NATO continued the refurbishment works in Building Z in conjunction with the move to the current NATO Headquarters. Partner Nations have been asked to pay in advance for the works corresponding to their specific requests (called Optional Programme) in addition to the basic refurbishment. NATO Members agreed that the rest of the works would be pre-financed by the IS treasury. During 2020 MEUR 6.4 has been paid back by Partner Nations.

All expenses are capitalized.

The table below provides information about the evolution of the Building Z budget (DPRC-N(2019)0021-REV3 (INV)) which hasn't changed during 2020:

| Building Z Budgetary Ceilings * (EUR) | | |
|---------------------------------------|------------|------------|
| | 2020 | 2019 |
| Optional Programme | 3,801,939 | 3,801,939 |
| NATO Pre-Financed | 17,868,149 | 17,868,149 |

NATO UNCLASSIFIED

6-27

NATO UNCLASSIFIED

ANNEX 6 to
FC(2021)0042-REV1

6-28

*Budgetary ceiling for the totality of the refurbishment project (irrespective of the execution in previous financial years).

NOTE 30: SEGMENTS

The tables below provide segment information for financial performance and financial position statements for two consecutive years. The following segments have been adopted: Civil Budget, Reimbursable Expenses, Personnel Management Information System, Extra-Budgetary Funds, Partners' Accommodation, Refurbishment of Building Z and the Morale and Welfare Recreational Activities (MWR).

In the below Statements of Financial Position and Performance, eliminations or neutralizations correspond essentially to movements between segments.

Statement of Financial Position segment based:

| | Notes | IS | Refundable Expenses | HR Shared Services | Extra Budgetary Funds | PARTNER ACCOMMODATION | BUILDING Z REFINISHMENT | MWR | Elimination | 2020 | 2019 |
|--|-------|-----------------------|---------------------|--------------------|-----------------------|-----------------------|-------------------------|---------------------|---------------------|-------------------------|-------------------------|
| Assets | | | | | | | | | | | |
| Current assets | | | | | | | | | | | |
| Cash and cash equivalents | 3 | 28 024 224.94 | -1,857,248.41 | 160 363.63 | 48 278 260.00 | 1,461,743.25 | -1,765 969.45 | 596 258.53 | | 74,917 635.09 | 95 968 790.49 |
| Short term investments | 4 | 39 500 000.00 | | | | | | | | 39 500 000.00 | 29.02 |
| Receivables | 5 | 39 456 195.36 | 3,321,620.34 | 27 732.59 | 275 388.58 | 387,887.06 | 3 681 808.26 | 1,101 670.54 | 3 150 646.84 | 45 101 758.59 | 51,003 863.44 |
| Prepayments | 6 | 1 490 034.31 | 7 905.33 | 0.00 | 472.21 | 0.00 | | | | 1 506 511.35 | 2 376 028.54 |
| Other current assets | 7 | 6 850 552.11 | | | 678 096.45 | | | 813.00 | | 7 529 461.59 | 3 832 719.02 |
| Inventories | 8 | 570 113.51 | | | | | | | | 570 113.51 | 545 117.25 |
| | | 115,980,129.23 | 1,471,379.26 | 288,896.82 | 49,232,218.24 | 1,849,638.31 | 1,916,781.84 | 1,697,929.87 | 3,159,646.84 | 169,125,678.73 | 152,626,233.87 |
| Non-current assets | | | | | | | | | | | |
| Receivables | 9 | | | | | | | | | 0.00 | 0.00 |
| Property plant & equipment | 10 | 845 516 384.67 | | | | 19 852,154.70 | | | | 865 368 539.37 | 902 645 826.86 |
| Intangible assets | 11 | 3 204 531.51 | | | | | | | | 3 204 531.51 | 4 563 548.09 |
| Other non-current assets | 12 | 4 023 619.00 | | | | | 4 023 619.00 | | 4 023 619.00 | 4 023 619.00 | 16 652,348.00 |
| | | 852,744,525.28 | 0.00 | 0.00 | 0.00 | 0.00 | 4 023 619.00 | 0.00 | 4 023 619.00 | 872,596,689.98 | 923,981,760.95 |
| Total Assets | | 968,664,654.51 | 1,471,379.26 | 288,896.82 | 49,232,218.24 | 1,849,638.31 | 25,792,529.84 | 1,697,929.87 | 7,174,265.84 | 1,841,722,168.71 | 1,877,528,094.82 |
| Liabilities | | | | | | | | | | | |
| Current liabilities | | | | | | | | | | | |
| Payables | 13 | 17 778 942.24 | 3 15 009.1 | 85 731.68 | 3 692 585.33 | 824 371.69 | 4 121 020.54 | 2 389 557.82 | 3 150 646.84 | 26 056 601.53 | 25 234 508.77 |
| Deferred revenue | 14 | 14 263 817.88 | | | 45 423 806.33 | | 1 819 248.30 | | | 61 206 872.21 | 69 758 363.65 |
| Advances | 15 | 54 357 546.90 | 1,156 862.50 | | 15 000.00 | | | 160 895.13 | | 55 589 504.53 | 55 813 370.11 |
| Short term provisions | 16 | 5 019 326.58 | | 82 55 | | 407.63 | | 0 20 | | 5 019 817.01 | 2 044 128.50 |
| Other current liabilities | 17 | 24 380 486.63 | 307.56 | 122 282.39 | 100 626.88 | | 72.00 | -852 524.08 | | 23 751 451.48 | 16 352 530.39 |
| | | 115,980,129.23 | 1,471,379.26 | 288,896.82 | 49,232,218.24 | 824,779.34 | 5,240,379.84 | 1,697,929.87 | 3,159,646.84 | 172,124,246.26 | 169,289,922.82 |
| Non-current liabilities | | | | | | | | | | | |
| Payables | 18 | | | | | | | | | 0.00 | 0.00 |
| Long term provisions | 18 | | | | | | | | | 0.00 | 0.00 |
| Deferred revenue | 19 | 848,720,916.28 | | | | | 19 852,154.70 | | | 868,573 070.98 | 907,249 374.95 |
| Other non-current liabilities | 20 | 4 023 619.00 | | | | | | | 4 023 619.00 | 0.00 | 0.00 |
| | | 852,744,525.28 | 0.00 | 0.00 | 0.00 | 0.00 | 19,852,154.70 | 0.00 | 4,023,619.00 | 868,573,070.98 | 907,249,374.95 |
| Total Liabilities | | 968,664,654.51 | 1,471,379.26 | 288,896.82 | 49,232,218.24 | 824,779.34 | 25,792,529.84 | 1,697,929.87 | 7,174,265.84 | 1,840,697,317.24 | 1,876,458,298.97 |
| Net assets | | | | | | | | | | | |
| Capital assets | 21 | | | | | | | | | 0.00 | 0.00 |
| Reserves | | | | | | | | | | 0.00 | 0.00 |
| Current year Surplus / (Deficit) | | | | | | | -52 946.63 | | | -52 946.58 | 216 611.72 |
| Accumulated surplus / (deficit) prior year | | | | | | | 1,077 797.55 | | | 1,077 797.55 | 861 186.93 |
| Total net Assets / Equity | | 0.00 | 0.00 | 0.00 | 0.00 | 1,024,859.97 | 0.00 | 0.00 | 0.00 | 1,024,859.97 | 1,077,797.85 |

NATO UNCLASSIFIED

6-29

ANNEX 6 to
FC(2021)0042-REV1

| | Notes | IS | Refundable Expenses | HR Shared Services | Extra Budgetary Funds | PARTNER ACCOMMODATION | BUILDING Z REFURBISHMENT | MWR | Neutralisation of Internal Transactions | 2019 | |
|---|-------|-------------------------|---------------------|--------------------|-----------------------|-----------------------|--------------------------|---------------------|---|------|-------------------------|
| | | | | | | | | | | 2020 | 2019 |
| Assets | | | | | | | | | | | |
| Current assets | | | | | | | | | | | |
| Cash and cash equivalents | 3 | 59,458,889.65 | 175,249.04 | -160,126.29 | 41,254,243.12 | 202,713.88 | -5,543,451.80 | 481,262.80 | | | 95,868,780.40 |
| Short term investments | 4 | 25.02 | | | | | | | | | 25.02 |
| Receivables | 5 | 49,282,120.46 | 578,786.24 | 484,824.96 | 266,319.53 | 470,466.28 | 1,149,990.00 | 914,122.65 | 2,122,966.68 | | 51,003,663.44 |
| Prepayments | 6 | 1,757,534.49 | | 4,500.00 | | 613,894.05 | | | | | 2,376,928.54 |
| Other current assets | 7 | 3,837,220.76 | | | 0.00 | | | | | | 3,832,719.02 |
| Inventories | 8 | 545,117.25 | | | | | | | | | 545,117.25 |
| | | <u>114,861,007.63</u> | <u>754,035.28</u> | <u>329,198.67</u> | <u>41,520,562.65</u> | <u>1,287,074.21</u> | <u>-4,393,461.80</u> | <u>1,764,102.03</u> | <u>2,496,185.00</u> | | <u>153,626,333.67</u> |
| Non-current assets | | | | | | | | | | | |
| Receivables | 9 | | | | | | | | | | 0.00 |
| Property, plant & equipment | 10 | 891,240,856.29 | | | | | 11,444,970.57 | | | | 902,685,826.86 |
| Intangible assets | 11 | 4,593,548.09 | | | | | | | | | 4,593,548.09 |
| Other non-current assets | 12 | 12,889,983.00 | | | | | 16,652,386.00 | | 12,889,983.00 | | 16,652,386.00 |
| | | <u>908,694,387.38</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>28,097,356.57</u> | <u>0.00</u> | <u>12,889,983.00</u> | | <u>923,991,768.95</u> |
| Total assets | | <u>1,023,555,395.01</u> | <u>754,035.28</u> | <u>329,198.67</u> | <u>41,520,562.65</u> | <u>1,287,074.21</u> | <u>23,703,894.77</u> | <u>1,764,102.03</u> | <u>15,386,168.00</u> | | <u>1,077,528,094.62</u> |
| Liabilities | | | | | | | | | | | |
| Current liabilities | | | | | | | | | | | |
| Payables | 13 | 20,906,411.83 | 163,679.54 | 258,803.39 | 1,692,313.97 | 208,899.66 | 2,028,629.93 | 2,100,737.13 | 2,122,966.68 | | 25,234,508.77 |
| Deferred revenue | 14 | 19,880,367.97 | | | 39,649,593.25 | | 10,226,432.43 | | | | 69,756,383.65 |
| Advances | 15 | 55,098,884.32 | 590,109.15 | | | | | 124,376.64 | | | 55,813,370.11 |
| | | | | | | | | | | | 0.00 |
| Short term provisions | 16 | 2,043,415.68 | 246.59 | 24.69 | | 376.90 | | | 64.64 | | 2,044,128.50 |
| Other current liabilities | 17 | 16,931,927.83 | | 70,370.59 | 178,665.43 | | 5,861.84 | -461,076.38 | 373,218.32 | | 16,352,530.99 |
| | | <u>114,861,007.63</u> | <u>754,035.28</u> | <u>329,198.67</u> | <u>41,520,562.65</u> | <u>209,276.56</u> | <u>12,258,924.20</u> | <u>1,764,102.03</u> | <u>2,496,185.00</u> | | <u>169,200,922.02</u> |
| Non-current liabilities | | | | | | | | | | | |
| Payables | 18 | | | | | | | | | | 0.00 |
| Long term provisions | 18 | | | | | | | | | | 0.00 |
| Deferred revenue | 19 | 895,804,404.38 | | | | | 11,444,970.57 | | | | 907,249,374.95 |
| Other non-current liabilities | 20 | 12,889,983.00 | | | | | | | 12,889,983.00 | | 0.00 |
| | | <u>908,694,387.38</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>11,444,970.57</u> | <u>0.00</u> | <u>12,889,983.00</u> | | <u>907,249,374.95</u> |
| Total liabilities | | <u>1,023,555,395.01</u> | <u>754,035.28</u> | <u>329,198.67</u> | <u>41,520,562.65</u> | <u>209,276.56</u> | <u>23,703,894.77</u> | <u>1,764,102.03</u> | <u>15,386,168.00</u> | | <u>1,076,450,296.97</u> |
| Net assets | | | | | | | | | | | |
| Capital assets | 21 | | | | | | | | | | 0.00 |
| Reserves | | | | | | | | | | | 0.00 |
| Current year Surplus / (Deficits) | | | | | | 216,611.72 | | | | | 216,611.72 |
| Accumulated surpluses / (deficits) prior year | | | | | | 861,165.93 | | | | | 861,165.93 |
| | | | | | | | | | | | 0.00 |
| Total net assets/ equity | | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | <u>1,077,797.65</u> | <u>0.00</u> | <u>0.00</u> | <u>0.00</u> | | <u>1,077,797.65</u> |

Statement of Financial Performance segment based:

| | Notes | IS | Refundable Expenses | HR Shared Services | Extra Budgetary Funds | Partner Accommodation | BUILDING Z REFURBISHMENT | MWR | Elimination | 2019 | |
|-----------------------------------|-------|-----------------------|---------------------|--------------------|-----------------------|-----------------------|--------------------------|---------------------|---------------------|-----------------------|-----------------------|
| | | | | | | | | | | 2020 | 2019 |
| Revenue | | | | | | | | | | | |
| Non exchange revenue | 22 | 249,308,398.03 | | | 0,014,671.06 | | | 823,896.82 | | 250,744,963.73 | 257,954,229.85 |
| Exchange revenue | 23 | 6,542,257.26 | 3,809,170.21 | 246,904.00 | 56,045.91 | 2,483,201.20 | | 370,956.21 | 1,084,312.40 | 14,523,221.91 | 12,153,999.79 |
| Other revenue | 24 | 4,200,759.27 | | 547,751.72 | | 0.00 | | 7,871,984.48 | 1,330,411.46 | 13,950,905.93 | 7,263,696.24 |
| Financial revenue | 25 | 190,484.22 | | | 111,476.95 | | | | 0.01 | 321,961.16 | 225,968.69 |
| Total Revenue | | <u>262,939,899.80</u> | <u>3,809,170.21</u> | <u>796,655.72</u> | <u>9,202,193.64</u> | <u>2,483,281.20</u> | <u>7,871,984.48</u> | <u>2,626,264.30</u> | <u>1,084,312.40</u> | <u>289,541,652.75</u> | <u>276,697,234.67</u> |
| Expenses | | | | | | | | | | | |
| Personnel | 26 | 128,481,810.25 | 379,342.19 | 215,639.19 | 978,941.87 | | | 128,356.76 | 89,526.93 | 129,270,917.29 | 124,007,069.06 |
| Contractual supplies and services | 26 | 84,985,487.95 | 3,427,828.02 | 580,933.98 | 0,099,927.80 | 2,536,119.90 | | 7,745,927.72 | 2,415,657.00 | 108,987,493.97 | 103,658,114.50 |
| Depreciation and amortization | 26 | 48,258,224.09 | | | | | | | | 48,258,224.09 | 49,220,381.52 |
| Impairment | 26 | | | | | | | | | 18,753.78 | 8.00 |
| Provisions | 26 | 2,975,947.28 | | 82.55 | | 30.76 | | -84.44 | | 2,975,993.17 | 77,151.64 |
| Other expenses | 26 | | | | | | | | 0.00 | | 501.00 |
| Finance costs | 26 | 258,426.13 | | | 123,423.97 | | | | 1,191.11 | 383,041.21 | 119,034.13 |
| Total Expenses | | <u>262,939,899.80</u> | <u>3,809,170.21</u> | <u>796,655.72</u> | <u>9,202,193.64</u> | <u>2,536,147.66</u> | <u>7,871,984.48</u> | <u>2,626,264.30</u> | <u>1,084,312.40</u> | <u>289,693,999.61</u> | <u>276,480,622.85</u> |
| Surplus/(Deficit) for the period | 27 | 0.00 | 0.00 | 0.00 | 0.00 | -52,946.68 | 0.00 | 0.00 | 0.00 | -52,946.68 | 216,611.72 |

NATO UNCLASSIFIED

6-29

NATO UNCLASSIFIED

ANNEX 6 to
FC(2021)0042-REV1

6-30

| | Notes | IS | Refundable Expenses | HR Shared Services | Extra Budgetary Funds | Partner Accommodation | Building Z Returbishment | MWR | Neutralisation of Internal Transactions | 2019 | 2018 |
|-----------------------------------|-------|-----------------------|---------------------|--------------------|-----------------------|-----------------------|--------------------------|---------------------|---|-----------------------|-----------------------|
| Revenue | | | | | | | | | | | |
| Non exchange revenue | 22 | 251,437,898.89 | | | 5,841,825.67 | | | 1,741,680.47 | | 259,021,205.03 | 249,181,944.26 |
| Exchange revenue | 23 | 8,452,497.00 | 1,580,748.14 | 220,882.32 | 48,926.82 | 2,572,835.00 | | 673,730.72 | 1,395,620.31 | 12,153,999.79 | 15,899,501.86 |
| Other revenue | 24 | 1,773,148.53 | | 708,703.65 | | 0.00 | 3,470,303.15 | 1,311,480.91 | | 7,263,636.24 | 1,368,520.99 |
| Financial revenue | 25 | 115,436.04 | | | 109,932.62 | | | 0.03 | | 225,368.69 | 398,177.18 |
| Total revenue | | 261,778,980.46 | 1,580,748.14 | 929,585.97 | 6,000,485.21 | 2,572,835.00 | 3,470,303.15 | 3,726,892.13 | 1,395,620.31 | 278,664,209.75 | 266,848,144.29 |
| Expenses | | | | | | | | | | | |
| Personnel | 26 | 122,539,347.42 | 77,968.32 | 205,878.46 | 975,733.36 | | 186,222.66 | 21,909.84 | | 124,007,060.06 | 123,205,006.76 |
| Contractual supplies and services | 26 | 87,861,610.29 | 1,502,779.82 | 723,707.51 | 5,020,444.96 | 2,355,845.58 | 3,284,080.49 | 3,703,656.16 | 1,395,620.31 | 103,056,514.50 | 103,369,685.87 |
| Depreciation and amortization | 26 | 49,220,361.52 | | | | | | | | 49,220,361.52 | 37,523,899.60 |
| Impairment | 26 | | | | | | | | | 0.00 | 5,251.84 |
| Provisions | 26 | 2,043,686.96 | | | -1.68 | 376.90 | | 64.64 | | 2,044,128.82 | 2,035,229.00 |
| Other expenses | 26 | | | | 336.00 | 0.00 | | 165.00 | | 501.00 | 11,714.27 |
| Finance costs | 26 | 113,974.27 | | | 3,972.57 | 0.80 | | 1,088.49 | | 119,034.13 | 394,050.67 |
| Total expenses | | 261,778,980.46 | 1,580,748.14 | 929,585.97 | 6,000,485.21 | 2,356,223.28 | 3,470,303.15 | 3,726,892.13 | 1,395,620.31 | 278,447,698.03 | 266,544,638.01 |
| Surplus/(Deficit) for the period | 27 | | 0.00 | 0.00 | 0.00 | 216,611.72 | 0.00 | 0.00 | 0.00 | 216,611.72 | 303,506.28 |

NOTE 31: LEASES

An analysis of lease contracts was conducted and it was considered that some of them had characteristics that could have led them to be considered as finance leases (in the IPSAS 13 sense) in particular as relates to the rent of porta cabins for temporary accommodation (e.g. Buildings V, VA) and the previous Manfred Wörner building. However, in consideration of the fact that NATO-IS moved to new premises in 2018, the rental period will be shorter than the remaining economic life of this equipment. As a consequence, all leases in NATO IS are classified as operating leases. Fees payable under these lease agreements are accounted as expenses in the Statement of Financial Performance on a straight-line basis over the relevant lease term.

Host Nation Belgium has granted to NATO by way of concession a plot of land on which NATO is authorized to erect all necessary buildings and facilities needed to perform its functions (previous HQ). A symbolic price is paid annually for the rent. NATO is the full owner of all constructions made. Host Nation Belgium remains the sole and full owner of the land, which is public domain ("domaine public"). The concession ends 180 days after NATO has left the buildings and facilities. At the end of the concession, there will be no property rights transferred to NATO. As a consequence, given the indefinite economic life of land and the specific nature of concessions, the use of the land is classified as an operational lease. The rent charged by the host nation is recognised as an expense in the Statement of Financial Performance. The previous NATO Headquarters has been handed over to Host Nation Belgium on 1 September 2020.

Host Nation Belgium has granted to NATO by way of concession a plot of land on which NATO has been authorized to erect all necessary buildings and facilities related to the NATO New Headquarters Project. The annual fee is EUR 250. NATO is the full owner of all constructions made. Host Nation Belgium remains the sole and full owner of the land, which is military public domain. The concession ends 180 days after NATO has left the buildings and facilities. In such case, if Host Nation Belgium would decide to use the building and facilities, it shall pay a fair indemnity to NATO. If Host Nation Belgium should decide to demolish them, it will not be obliged to pay an indemnity to NATO neither will NATO have to contribute to the demolition cost. At the end of the concession, there would be no property rights transferred to NATO. As a consequence, given the indefinite economic life of land and the specific nature of concessions, the use of the land is classified as an operational lease.

NATO UNCLASSIFIED

6-31

ANNEX 6 to
FC(2021)0042-REV1

The operating leases at the reporting date can be classified into three main categories: temporary offices, transport equipment and photocopiers. The reduction in leases for offices is linked to the move to the current NATO HQ where there is no such requirement.

The table below provides an overview of the existing operational lease contracts as of 31 December 2020:

| Contract No (CPA) | ASSET LEASED | AMOUNT PAID IN 2020 | EXPENSE ACCOUNT CHARGED | AMOUNT TO PAY FOR 2021 | AMOUNT TO PAY IN 2022-2025 | AMOUNT TO PAY AFTER 2025 | RENEWAL OR PURCHASE OPTION/RESTRICTION |
|-------------------|---|---------------------|--|------------------------|----------------------------|--------------------------|--|
| 19180 | Lease Agreement for office space for the NATO liaison office in Chisinau, Moldova | 54,554.18 | IS0100-2020-011110-P.EAP-P003-611700-00000-0-0 | 59,749.72 | - | - | |
| 29964 | HQ Water fountains | 5,065.05 | IS0100-2020-081410-M.HOS-Y160-611200-00000-0-0 | 5,070.00 | 4,940.00 | - | |
| 12331 | Printing machines | 260,916.00 | IS0100-2020-085600-N.N8H-IC02-611001-00000-0-0 | 260,916.00 | 565,318.00 | - | |
| 17273 | Vehicle (CPA no. 43421) | 55,287.00 | IS0100-2020-150120-S.S61-J002-611500-00000-0-0 | 61,715.13 | 47,250.00 | - | |
| 17271 | Vehicle (CPA no. 43419) | 79,200.00 | IS0100-2020-150120-S.S61-J002-611500-00000-0-0 | 126,500.00 | 76,300.00 | - | |
| 17272 | Vehicle (CPA no. 43420) | 79,200.00 | IS0100-2020-150120-S.S61-J002-611500-00000-0-0 | 126,500.00 | 76,300.00 | - | |
| 849 | Vehicle | 18,892.08 | IS0100-2020-150120-S.S61-J002-611500-00000-0-0 | - | - | - | |
| 848 | Vehicle | 18,883.80 | IS0100-2020-150120-S.S61-J002-611500-00000-0-0 | - | - | - | |
| 59 | Vehicle | 22,346.28 | IS0100-2020-150120-S.S61-J002-611500-00000-0-0 | - | - | - | |
| 20356 | Building U | 746,154.35 | IS0300-0000-000000-00000-0000-444023-00000-0-0 | - | - | - | |
| 2920 | Building VA | 128,038.53 | IS0300-2020-081430-M.OSP-Y110-611700-00000-0-0 | - | - | - | |
| 2910 | Building V | 47,816.01 | IS0300-2020-081430-M.OSP-Y110-611700-00000-0-0 | - | - | - | |

NOTE 32: RESTRICTIONS ON FIXED ASSETS

There are no restrictions on fixed assets.

NOTE 33: CONTINGENT LIABILITIES

An assessment was made on the possible provisions, contingent liabilities that could impend over IS.

In line with IPSAS 19, NATO IS discloses contingent liabilities, of an estimated value of KEUR 202 which may derive from Administrative Tribunal litigations.

NOTE 34: WRITE OFF

The table below summarizes the write-off procedures for IS equipment in 2020.

| IS 2020 WRITE-OFF REPORT | | | | | | | | |
|--------------------------|---------------------------------|--------------------------|----------|--------------------|-------------------------|----------------|---|---------------------------|
| Serial | Ref. Document | Date | Location | Type of Items | Acquisition Value (EUR) | Net Book Value | Reason for Write-off | Disposal Method |
| 1 | Dossier 003-2020 | 15/4/2020 | IS HQ | Furniture | 58,408.89 | - | Sold to the Delegation of North Macedonia for the installation of their offices | Sale to the NM Delegation |
| 2 | Dossier 004-2020 BC-D(2020)0088 | 29/04/2020 16/06/2020 | IS HQ | Vehicle (mini-bus) | 26,409.00 | - | Obsolete and no longer matching environmental legislation in the HN | Donation to Hungarian NGO |
| TOTALS | | | | | 84,817.89 | | | |

Under the segment of MWR Activities, a write-off approved by BC under BC-D(2020)0210, took place for EUR 18,753.70. This corresponds to an uncollectable receivable.

NATO UNCLASSIFIED

6-31

NATO UNCLASSIFIED

ANNEX 6 to
FC(2021)0042-REV1

6-32

Under the IS segment, by delegated authority to the Financial Controller, approved by FC(CAF)(2020)008, a cash write-off was done for EUR 792.38, corresponding to cash lost in 2015.

NOTE 35: CONTINGENT ASSETS

Nothing to report

NOTE 36: EMPLOYEE DISCLOSURE

Employee status

There are 5 different hire categories: NATO Civilians, Voluntary National Contributions (VNC), Temporary Staff, Interns and Consultants.

VNC's represent "in kind" services provided by nationally funded personnel. VNCs may work for the IS in the HQ but also at the NATO external offices, or in support of specific projects on-site.

The tables below provide comparative data for two consecutive years:

| Position by HQ | NATO Civilians | |
|------------------------|----------------|------------|
| | 31/12/2020 | 31/12/2019 |
| Total Approved PE | 1137 | 1137 |
| Total Filled Positions | 1054 | 1028 |
| Arrivals in the year | 116 | 75 |
| Departures in the year | 90 | 90 |

| Position by HQ | Total Approved PE | Total Filled Positions |
|-------------------------------|-------------------|------------------------|
| Civilian (PE) | 1137 | 1054 |
| VNC | - | 99 |
| Short term (Temps) | | 144 |
| Interns | | 60 |
| Others – explain (consultant) | - | |

Pension Schemes

The NATO-IS manages centrally three pension schemes, namely the Defined Benefit Pension Scheme (DBPS), the Defined Contribution Pension Scheme (DCPS), as well as the Retirees Medical Claims Fund (RMCF), covering staff employed by all NATO bodies.

As for the DBPS, a deduction of 11.8% of staff salaries is made and contributed to the annual financing of this plan. The funding mechanism of the DBPS provides that Nations contribute, in the course of a given year, for the difference between amounts due to pensioners and staff contributions received.

The DCPS affiliated staff make a compulsory contribution of 8% of basic salary to the Scheme. Staff may make additional voluntary contributions to the Scheme up to 5% of basic salary. NATO pays employer contributions of 12% of the basic salary of each active scheme member. Contributions to the DCPS are part of the payroll and are made monthly.

NATO wide financial statements are issued by the NATO-IS Office of Financial Control for the two remaining pension schemes and the RMCF; therefore, no related assets or liabilities are recognised in IS financial statements.

NATO UNCLASSIFIED

6-32

NATO UNCLASSIFIED

6-33

ANNEX 6 to
FC(2021)0042-REV1

The table below provide comparative data about the staff affiliation to the different pension schemes for two consecutive years:

| IS Staff Pension Schemes Affiliation Statistics | | |
|--|-------------|-------------|
| Pension Scheme | 2020 | 2019 |
| DBPS | 345 | 381 |
| DCPS | 709 | 641 |

The table below indicates the contributions made by IS to the two pension schemes:

| (Amounts in EUR) | | 2020 | 2019 |
|------------------|--------------|----------------------|----------------------|
| DBPS | Staff | 3,729,439.15 | 3,229,395.06 |
| | Employer | - | - |
| | Total | 3,729,439.15 | 3,229,395.06 |
| DCPS | Staff | 4,546,624.65 | 3,969,128.32 |
| | Employer | 6,262,121.35 | 5,670,565.78 |
| | Total | 10,808,746.00 | 9,639,694.10 |
| TOTAL | Staff | 8,276,063.80 | 7,198,523.38 |
| | Employer | 6,262,121.35 | 5,670,565.78 |
| | Total | 14,538,185.15 | 12,869,089.16 |

Reimbursable Staff

Reimbursable staff are employees that are paid by their own nations on a reimbursable basis. Their salary is paid directly by their national governments using national salary scales and accruing pension rights under their national pension systems, in return NATO IS reimburses their countries in an amount corresponding to the grade of the post occupied by the staff member in NATO IS establishment.

Currently IS has active agreements with the US and Norway.

The table below provide comparative data about this type of staff for two consecutive years:

| Statistics on number of IS Reimbursable Staff | | |
|--|-------------|-------------|
| Country | 2020 | 2019 |
| US | 5 | 7 |
| Norway | 4 | 3 |

Leave

Paid leave is an employee benefit and as such part of overall personnel expenses. In accordance with personnel regulations, the remaining balance at year end may be carried forward but must be taken before 30 April of the following year. It can be exceptionally extended to 31 October in accordance with Civilian Personnel Regulations art. 42.3.5 and 42.3.6. After this date it lapses and is not paid to staff. For these financial statements, untaken leave is specifically reported if its monetary value is more than 10% of the total annual leave entitlement. The cost of untaken leave days is usually absorbed during the year through the monthly salaries; leave to be taken carried forward into the next year constitutes a liability towards the future and would notionally require funding from Participating Nations.

NOTE 37: KEY MANAGEMENT PERSONNEL

The North Atlantic Council is the governing body of NATO. It approves the Civil Budget further to screening and recommendation by the Budget Committee (BC) and the Resource Policy and Planning Board (RPPB). Members of the North Atlantic Council, the BC and the RPPB are nominated by their

NATO UNCLASSIFIED

ANNEX 6 to
FC(2021)0042-REV1

6-34

respective national authorities. They are paid on the basis of applicable national pay scales. They do not receive from NATO any additional remuneration for their responsibilities or access to benefits.

For the purposes of IPSAS 20 implementation, key management personnel of the International Staff are the Secretary General, the Deputy Secretary General, the Director of the Private Office, the eight Assistant Secretary Generals, the Senior Civilian Representative in Afghanistan and the three Directors of Independent Offices (Security, Resources and Financial Control). The aggregated remuneration of the 18 staff members considered as Key Managers (20 in 2019) was EUR 3,777,822.82 (EUR 3,398,100.55 in 2019).

A payment in lieu of untaken leave (EUR 17,317.22) is included in the aggregated remuneration. No loss of job indemnity has been paid in 2020.

The variation in the aggregate remuneration is essentially due to the rotation of posts during the year and to changes in the individual situation (e.g. family situation) of newly recruited members.

The Secretary General is provided with accommodation at no cost in premises belonging to the Organisation. The residence is serviced by three established posts. The cost of operations and maintenance of the residence (including renovations), suffer annual variations derived from the residence annual work plan.

The Deputy Secretary General is provided with an approved special allowance to contribute towards the lease of accommodation suitable for representation at the Ministerial and distinguished visitor level. The Secretary General is entitled upon departure to a special leaving allowance, equal to one year's basic salary if a full four year term was served.

On 1 June, 2013, the NAC approved changes to the Representation Allowance system. A key element was that in lieu of monthly allowances being paid out and then reimbursed by the recipients if unused, recipients now submit receipts and are then reimbursed up to the allocated ceiling. The OFC is responsible for the day to day verification, with IBAN able to disallow expenses if deemed necessary. Unused funds and disallowed expenses are returned to the Organization.

Several senior staff positions are entitled to a Representation Allowance, the use of which is subject to a specific control by the OFC. This includes: the Secretary General, Deputy Secretary General, Director of the Private Office, Eight Assistant Secretary Generals, PASP Deputy Assistant Secretary General and the NATO IS Spokesperson. The amount of Representation Allowance paid in 2020 was EUR 16,301.83 (EUR 67,792.99 in 2019).

Key management staff have access to a pool of vehicles and drivers for official business.

There is no other remuneration or benefit to key management personnel and their family members. Key management personnel is entitled to receive loans which are also available to other members of the NATO International Staff.

NOTE 38: RELATED PARTIES

There have been the following related party relations.

Member Nations and NATO bodies

NATO-IS performs certain administrative support and provides charge back common operating costs for which it is reimbursed by National delegations and other NATO entities that share the use of the NHQ compound.

The IS also charges back the Morale and Welfare and Recreation (MWR), Operational and Maintenance (O&M) costs, attributable to the Staff Center and commercial retailers and concessions that operate within the HQ compound.

NATO UNCLASSIFIED

6-34

NATO UNCLASSIFIED

6-35

ANNEX 6 to
FC(2021)0042-REV1

These amounts represent a deduction to the budget contributions due from Nations to fund the Civil Budget and as such are a non-common funded source of income of the Civil Budget.

In 2020 the IS has invoiced under these income categories, the following amounts:

| Type of Income in EUR | 2020 | 2019 |
|--------------------------------|-----------|-----------|
| Accommodation Costs | 8,683,988 | 8,452,497 |
| Admin and HR Shared Services | 2,344,334 | 2,573,689 |
| Morale, Welfare and Recreation | 814,366 | 1,135,191 |
| Commercial Entities | 269,946 | 260,429 |

Host Nation Belgium

Host Nation Belgium provides military personnel in support of activities related to security (Delegation Militaire de la Sécurité Technique), that are charged by the Belgian Ministry of Defence and paid by the Civil Budget. Below there is comparative data of the associated costs for two consecutive years:

| Belgium – Delegation Militaire de la Sécurité Technique | | |
|---|------------|------------|
| Amounts in EUR | 2020 | 2019 |
| Costs | 596,402.50 | 589,375.50 |

There are also personnel provided by nations under a reimbursable basis or as VNCs. (see note 36)

Extra Budgetary Funds

The NATO-IS Office of Financial Control is the Treasurer for the operations related to a number of Extra Budgetary Funds. Trust Funds were authorized under NATO's Partnership for Peace Programme, the Mediterranean Dialogue Programme, the NATO-Russia Council, the NATO-Ukraine Commission and the NATO-Georgia Commission. The OFC also received financial resources on a bilateral ad-hoc basis from nations in support of specific activities conducted by NATO-IS or as a complement to the Civil Budget funding for certain activities. For Extra Budgetary Funds, including Trust Funds, a Lead Nation (NATO member) is normally designated. Partner Nations can also participate in such additional funding. No management fees are charged by the IS to cover the related costs.

Appendix 1 presents a breakdown of the Statements of Financial Position and of Financial Performance for the Extra Budgetary Funds.

Employee Benefits

NATO-IS is responsible for the management at the NATO-wide level for the two pension systems (Defined Benefit Pension Scheme, Defined Contribution Pension Scheme) and the Retirees Medical Claims Fund. Separate financial statements are issued by the NATO-IS Office of Financial Control. No management fees corresponding to the related costs incurred by NATO-IS are charged to these entities.

Staff Centre

The previous HQ Staff Centre, which was a separate NATO entity issuing separate financial statements, was officially closed in September 2018 and therefore it is no longer a going concern. Further to its financial closure on 31 December 2018 its net assets were transferred to the NATO International Staff. All former Staff Centre pending assets/liabilities in 31 December 2018, were settled during 2019 and the remaining receivables related with an old litigation with Grand Optical and Carrefour, were transferred to NATO IS (see Note 7).

NATO UNCLASSIFIED

6-36

APPENDIX 1 to
ANNEX 6 to
FC(2021)0042-REV1

Statement of Financial Position as at 31 December 2020, EBFs.

| | IS0600 | IS0700 | IS0800 | IS0900 | IS1000 | IS1200 | IS2010 | IS2040 | IS2050 | IS2060 | IS2090 | IS2100 | IS2105 | IS2110 | IS2130 |
|---|----------------------|-----------------------|-------------------|-------------------|-------------------|---|-------------------|------------------------------|---------------------|-----------------------|---------------------|-------------------|-------------------|---------------------|--|
| (All amounts in EUR) | Von Karman Institute | Children Summer Camps | US Trami | EW Trial Air | EW Trial Nav | Audit of Multi-Nationally Funded Bodies | TF Moldova III | TF Azarbaïjan (PFP Proj JCP) | TF Armenia | TF Ukraine II Phase 2 | TF CNAD VNCF | TF Jordan III | TF Jordan IV | TF Serbia IV | Global NAF (TFAPM Destruction Belarus) |
| Assets | | | | | | | | | | | | | | | |
| Current assets | | | | | | | | | | | | | | | |
| Cash and cash equivalents | 1,337,512.27 | 0.00 | 603,324.40 | 931,297.76 | 244,293.09 | 179,089.63 | 132,531.01 | 107,060.57 | 1,263,126.51 | 1,918,371.23 | 1,366,306.77 | 897,378.00 | 347,560.16 | 1,524,259.41 | -11,519.95 |
| Short term investments | 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 | 0.00 | 0.00 |
| Receivables | 194,528.68 | 0.00 | 0.00 | 61,000.00 | 13,801.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Prepayments | 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 | 0.00 | 0.00 |
| Other current assets | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 658,496.45 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Inventories | 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 | 0.00 | 0.00 |
| | 1,532,040.95 | 0.00 | 603,324.40 | 992,297.76 | 258,094.09 | 179,089.63 | 132,531.01 | 765,557.02 | 1,263,126.51 | 1,918,371.23 | 1,366,306.77 | 897,378.00 | 347,560.16 | 1,524,259.41 | -11,519.95 |
| Non-current assets | | | | | | | | | | | | | | | |
| Receivables | 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 | 0.00 | 0.00 |
| Property, plant & equipment | 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 | 0.00 | 0.00 |
| Intangible assets | 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 | 0.00 | 0.00 |
| Other non-current assets | 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 | 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 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total assets | 1,532,040.95 | 0.00 | 603,324.40 | 992,297.76 | 258,094.09 | 179,089.63 | 132,531.01 | 765,557.02 | 1,263,126.51 | 1,918,371.23 | 1,366,306.77 | 897,378.00 | 347,560.16 | 1,524,259.41 | -11,519.95 |
| Liabilities | | | | | | | | | | | | | | | |
| Current liabilities | | | | | | | | | | | | | | | |
| Payables | 1,337,512.27 | 0.00 | 231,084.68 | 23,704.00 | 0.00 | 0.00 | 0.00 | 658,496.45 | 158,300.69 | 0.00 | 0.00 | 787,166.84 | 0.00 | 0.00 | 555.89 |
| Deferred revenue | 194,528.68 | 0.00 | 408,900.95 | 953,593.76 | 258,094.09 | 0.00 | 132,531.01 | 107,060.57 | 1,104,825.82 | 1,918,371.23 | 1,366,306.77 | 110,211.16 | 347,560.16 | 1,524,259.41 | 26,749.35 |
| Advances | 0.00 | 0.00 | 0.00 | 15,000.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Short term provisions | 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 | 0.00 | 0.00 |
| Other current liabilities | 0.00 | 0.00 | -36,661.23 | 0.00 | 0.00 | 179,089.63 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -38,825.19 |
| | 1,532,040.95 | 0.00 | 603,324.40 | 992,297.76 | 258,094.09 | 179,089.63 | 132,531.01 | 765,557.02 | 1,263,126.51 | 1,918,371.23 | 1,366,306.77 | 897,378.00 | 347,560.16 | 1,524,259.41 | -11,519.95 |
| Non-current liabilities | | | | | | | | | | | | | | | |
| Payables | 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 | 0.00 | 0.00 |
| Long term provisions | 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 | 0.00 | 0.00 |
| Deferred revenue | 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 | 0.00 | 0.00 |
| Other non-current liabilities | 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 | 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 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total liabilities | 1,532,040.95 | 0.00 | 603,324.40 | 992,297.76 | 258,094.09 | 179,089.63 | 132,531.01 | 765,557.02 | 1,263,126.51 | 1,918,371.23 | 1,366,306.77 | 897,378.00 | 347,560.16 | 1,524,259.41 | -11,519.95 |
| Net assets | | | | | | | | | | | | | | | |
| Capital assets | | | | | | | | | | | | | | | |
| Reserves | | | | | | | | | | | | | | | |
| Current year Surplus / (Deficits) | 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 | 0.00 | 0.00 |
| Accumulated surpluses / (deficits) prior year | 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 | 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 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total net assets/ equity | 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 | 0.00 | 0.00 |

NATO UNCLASSIFIED

6-36

NATO UNCLASSIFIED

6-37

APPENDIX 1 to
ANNEX 6 to
FC(2021)0042-REV1

| | IS2140 | IS2160 | IS2170 | IS2191 | IS2200 | IS2201 | IS2211 | IS2220 | IS2230 | IS2240 | IS2260 | IS2270 | IS2290 |
|---|--------------------------------------|--|------------------------------|------------------------|--------------------------|---------------------------------------|-------------------|---|----------------------|----------------------|---------------------|---|--------------------------|
| (All amounts in EUR) | TF Ukraine II SALW Mun. Destr. | TF NATO DEFENCE CAPACITY BUILDING | TF JWGDR Prof Dev Pgrm | TF Mauritania II | TF Building Integrity | TF Building Integrity - Phase 4 | TF SPS- DEXTER | TF Georgia Professional Development | TF UKRAINE MCT | TF UKRAINE L&S | TF UKRAINE C4 | TF UKRAINE MEDICAL REHABILITATION | TF UKRAINE EO/EDIC |
| Assets | | | | | | | | | | | | | |
| Current assets | | | | | | | | | | | | | |
| Cash and cash equivalents | 813.16 | 22,162,518.07 | 941,452.81 | 73,766.56 | 111,711.82 | 1,121,442.30 | 202,730.29 | 215,844.84 | -3,317.87 | 474,336.85 | 2,522,415.67 | 2,007,204.09 | 561,396.78 |
| Short term investments | 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 |
| Receivables | 0.00 | 0.00 | -148.83 | 0.00 | 2,090.42 | 665.84 | 0.00 | 0.00 | 3,451.87 | 0.00 | 0.00 | 0.00 | 0.00 |
| Prepayments | 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 |
| Other current assets | 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 |
| Inventories | 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 |
| | 813.16 | 22,162,518.07 | 941,303.98 | 73,766.56 | 113,802.24 | 1,122,108.14 | 202,730.29 | 215,844.84 | 134.00 | 474,336.85 | 2,522,415.67 | 2,007,204.09 | 561,396.78 |
| Non-current assets | | | | | | | | | | | | | |
| Receivables | 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 |
| Property, plant & equipment | 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 |
| Intangible assets | 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 |
| Other non-current assets | 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 |
| | 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 |
| Total assets | 813.16 | 22,162,518.07 | 941,303.98 | 73,766.56 | 113,802.24 | 1,122,108.14 | 202,730.29 | 215,844.84 | 134.00 | 474,336.85 | 2,522,415.67 | 2,007,204.09 | 561,396.78 |
| Liabilities | | | | | | | | | | | | | |
| Current liabilities | | | | | | | | | | | | | |
| Payables | 0.00 | 79,896.07 | 0.00 | 10,051.00 | 0.00 | 21,076.41 | 15,194.98 | 0.00 | -15.60 | 331,792.49 | -9,928.77 | 0.00 | 0.00 |
| Deferred revenue | 813.16 | 22,082,563.56 | 941,425.18 | 63,715.56 | 119,853.72 | 1,101,085.36 | 187,535.31 | 216,981.67 | 162.23 | 142,544.36 | 2,532,344.44 | 2,007,204.09 | 561,396.78 |
| Advances | 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 |
| Short term provisions | 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 |
| Other current liabilities | 0.00 | 58.44 | -121.20 | 0.00 | -6,051.48 | -53.63 | 0.00 | -1,136.83 | -12.63 | 0.00 | 0.00 | 0.00 | 0.00 |
| | 813.16 | 22,162,518.07 | 941,303.98 | 73,766.56 | 113,802.24 | 1,122,108.14 | 202,730.29 | 215,844.84 | 134.00 | 474,336.85 | 2,522,415.67 | 2,007,204.09 | 561,396.78 |
| Non-current liabilities | | | | | | | | | | | | | |
| Payables | 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 |
| Long term provisions | 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 |
| Deferred revenue | 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 |
| Other non-current liabilities | 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 |
| | 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 |
| Total liabilities | 813.16 | 22,162,518.07 | 941,303.98 | 73,766.56 | 113,802.24 | 1,122,108.14 | 202,730.29 | 215,844.84 | 134.00 | 474,336.85 | 2,522,415.67 | 2,007,204.09 | 561,396.78 |
| Net assets | | | | | | | | | | | | | |
| Capital assets | | | | | | | | | | | | | |
| Reserves | | | | | | | | | | | | | |
| Current year Surplus / (Deficits) | 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 |
| Accumulated surpluses / (deficits) prior year | 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 |
| | 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 |
| Total net assets/ equity | 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 |

NATO UNCLASSIFIED

6-37

NATO UNCLASSIFIED

6-38

APPENDIX 1 to
ANNEX 6 to
FC(2021)0042-REV1

| | IS2310 | IS2350 | IS2360 | IS2370 | IS2380 | IS2390 | IS5000 | IS5051 | IS5061 | IS5070 | IS5090 | IS6000 | 2020 |
|---|---|--|--|------------------|--|-----------------------|------------------|-------------------------|----------------------|-------------------|--|---------------------------------|----------------------|
| (All amounts in EUR) | | | | | | | | | | | | | |
| | TF NATO Defense & Security Campaign -Pilot phase | TF NATO- UKRAINE PLATFORM ON COUNTERING HYBRIDE WARFARE | TF Communi- cation Activities in W- Balkans | TF DEEP BIH | TF Ukraine Disposal of Radioactive Waste II | Pandemic Relief TF | TF NRC CAI IV | TF Counter Narcotics | TF Montenegr o | TF UK Stratcom | TF MIC- SPS G5395 FR MICR IMAG CURT | Women, Peace and Security | |
| Assets | | | | | | | | | | | | | |
| <i>Current assets</i> | | | | | | | | | | | | | |
| Cash and cash equivalents | 7,145.30 | 308,873.26 | 23,710.90 | 74,949.23 | 600,000.00 | 4,913,549.63 | 98,470.40 | 137,667.79 | 167,960.16 | 233,680.54 | 100,000.00 | 379,347.16 | 48,278,260.60 |
| Short term investments | 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 |
| Receivables | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 275,388.98 |
| Prepayments | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 472.21 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 472.21 |
| Other current assets | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 19,600.00 | 678,096.45 |
| Inventories | 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 |
| | 7,145.30 | 308,873.26 | 23,710.90 | 74,949.23 | 600,000.00 | 4,914,021.84 | 98,470.40 | 137,667.79 | 167,960.16 | 233,680.54 | 100,000.00 | 398,947.16 | 49,232,218.24 |
| <i>Non-current assets</i> | | | | | | | | | | | | | |
| Receivables | 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 |
| Property, plant & equipment | 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 |
| Intangible assets | 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 |
| Other non-current assets | 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 |
| | 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 |
| Total assets | 7,145.30 | 308,873.26 | 23,710.90 | 74,949.23 | 600,000.00 | 4,914,021.84 | 98,470.40 | 137,667.79 | 167,960.16 | 233,680.54 | 100,000.00 | 398,947.16 | 49,232,218.24 |
| Liabilities | | | | | | | | | | | | | |
| <i>Current liabilities</i> | | | | | | | | | | | | | |
| Payables | 0.00 | 0.00 | 0.00 | -2,432.74 | 0.00 | 22,993.04 | 0.00 | 0.00 | 0.00 | 528.45 | 0.00 | 26,609.18 | 3,692,585.33 |
| Deferred revenue | 7,145.30 | 308,873.26 | 23,710.90 | 77,381.97 | 600,000.00 | 4,891,028.80 | 98,470.40 | 133,388.02 | 167,960.16 | 232,890.86 | 100,000.00 | 372,337.98 | 45,423,806.03 |
| Advances | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 15,000.00 |
| Short term provisions | 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 |
| Other current liabilities | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 4,279.77 | 0.00 | 261.23 | 0.00 | 0.00 | 100,826.88 |
| | 7,145.30 | 308,873.26 | 23,710.90 | 74,949.23 | 600,000.00 | 4,914,021.84 | 98,470.40 | 137,667.79 | 167,960.16 | 233,680.54 | 100,000.00 | 398,947.16 | 49,232,218.24 |
| <i>Non-current liabilities</i> | | | | | | | | | | | | | |
| Payables | 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 |
| Long term provisions | 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 |
| Deferred revenue | 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 |
| Other non-current liabilities | 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 |
| | 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 |
| Total liabilities | 7,145.30 | 308,873.26 | 23,710.90 | 74,949.23 | 600,000.00 | 4,914,021.84 | 98,470.40 | 137,667.79 | 167,960.16 | 233,680.54 | 100,000.00 | 398,947.16 | 49,232,218.24 |
| Net assets | | | | | | | | | | | | | |
| <i>Capital assets</i> | | | | | | | | | | | | | |
| Reserves | | | | | | | | | | | | | |
| Current year Surplus / (Deficits) | 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 |
| Accumulated surpluses / (deficits) prior year | 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 |
| | 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 |
| Total net assets/ equity | 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 |

NATO UNCLASSIFIED

6-38

NATO UNCLASSIFIED

6-39

APPENDIX 1 to
ANNEX 6 to
FC(2021)0042-REV1

Statement of Financial Performance as at 31 December 2020, EBFs.

| | IS0600 | IS0800 | IS0900 | IS1000 | IS1200 | IS2010 | IS2040 | IS2050 | IS2060 | IS2090 | IS2100 | IS2105 | IS2110 | IS2130 |
|---|----------------------|---------------------|------------------|------------------|---|-------------------|------------------------------|-------------------|-----------------------|-------------------|---------------------|--------------|--------------|---|
| (All amounts in EUR) | Von Karman Institute | US Tramil | EW Trial Air | EW Trial Nav | Audit of Multi-Nationally Funded Bodies | TF Moldova III | TF Azerbaijan (PPF Proj JCP) | TF Armenia | TF Ukraine II Phase 2 | TF CNAD VNCF | TF Jordan III | TF Jordan IV | TF Serbia IV | Global NAF (TF APM Destruction Belarus) |
| Revenue | | | | | | | | | | | | | | |
| Non exchange revenue | 339,703.27 | 1,414,223.16 | 78,708.84 | 70,000.00 | -55,674.41 | 659,786.02 | 0.00 | 316,674.18 | 0.00 | 154,277.82 | 1,458,806.54 | 0.00 | 0.00 | 19,636.95 |
| Exchange revenue | 0.00 | 0.00 | 0.00 | 0.00 | 56,045.61 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other revenue | 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 | 0.00 |
| Financial revenue | 0.00 | 8,141.91 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | 0.00 | 0.00 | 0.00 | 23,454.11 |
| Total revenue | 339,703.27 | 1,422,365.07 | 78,708.84 | 70,000.00 | 371.20 | 659,786.02 | 0.00 | 316,674.18 | 0.00 | 154,277.82 | 1,458,806.54 | 0.00 | 0.00 | 43,091.06 |
| Expenses | | | | | | | | | | | | | | |
| Personnel | 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 | 0.00 |
| Contractual supplies and services | 339,703.27 | 1,337,725.55 | 78,704.00 | 70,000.00 | 371.20 | 659,786.02 | 0.00 | 316,674.18 | 0.00 | 154,277.82 | 1,458,806.54 | 0.00 | 0.00 | 0.00 |
| Depreciation and amortization | 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 | 0.00 |
| Impairment | 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 | 0.00 |
| Provisions | 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 | 0.00 |
| Other expenses | 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 | 0.00 |
| Finance costs | 0.00 | 84,639.52 | 4.84 | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 43,091.06 |
| Total expenses | 339,703.27 | 1,422,365.07 | 78,708.84 | 70,000.00 | 371.20 | 659,786.02 | 0.00 | 316,674.18 | 0.00 | 154,277.82 | 1,458,806.54 | 0.00 | 0.00 | 43,091.06 |
| Surplus/(Deficit) for the period | 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 | 0.00 |

NATO UNCLASSIFIED

6-39

NATO UNCLASSIFIED

6-40

APPENDIX 1 to
ANNEX 6 to
FC(2021)0042-REV1

| | IS2140 | IS2160 | IS2170 | IS2191 | IS2200 | IS2201 | IS2211 | IS2220 | IS2230 | IS2240 | IS2260 | IS2270 | IS2290 |
|---|--------------------------------------|--|------------------------------|------------------------|-----------------------------|---------------------------------------|-------------------|---|-------------------|---------------------|-------------------|---|------------------------|
| (All amounts in EUR) | TF Ukraine II SALW Mun. Destr. | TF NATO DEFENCE CAPACITY BUILDING | TF JWGDR Prof Dev Pgrm | TF Mauritania II | TF Building Integrity | TF Building Integrity - Phase 4 | TF SPS- DEXTER | TF Georgia Professional Development | TF UKRAINE MCT | TF UKRAINE L&S | TF UKRAINE C4 | TF UKRAINE MEDICAL REHABILITA TION | TF UKRAINE EOD/CIED |
| Revenue | | | | | | | | | | | | | |
| Non exchange revenue | 0.00 | 781,382.85 | 198,543.07 | 248,698.80 | 22.79 | 281,235.73 | 89,344.38 | 165,482.33 | 42,219.61 | 1,079,835.15 | 571,427.05 | 386,844.63 | 107,327.66 |
| Exchange revenue | 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 |
| Other revenue | 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 |
| Financial revenue | 0.00 | 1,446.55 | 6,761.78 | 0.00 | -22.79 | 102.28 | 0.00 | 567.79 | -194.59 | 0.00 | 2,543.11 | 0.00 | 0.00 |
| Total revenue | 0.00 | 782,829.40 | 205,304.85 | 248,698.80 | 0.00 | 281,338.01 | 89,344.38 | 166,050.12 | 42,025.02 | 1,079,835.15 | 573,970.16 | 386,844.63 | 107,327.66 |
| Expenses | | | | | | | | | | | | | |
| Personnel | 0.00 | 195,624.74 | 154,868.37 | 0.00 | 0.00 | 215,830.54 | 89,344.38 | -2,432.95 | 704.44 | 0.00 | 0.00 | 0.00 | 0.00 |
| Contractual supplies and services | 0.00 | 587,194.66 | 49,682.02 | 248,698.80 | 0.00 | 65,189.18 | 0.00 | 168,447.72 | 41,301.95 | 1,079,835.15 | 573,970.16 | 386,844.63 | 107,327.66 |
| Depreciation and amortization | 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 |
| Impairment | 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 |
| Provisions | 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 |
| Other expenses | 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 |
| Finance costs | 0.00 | 10.00 | 754.46 | 0.00 | 0.00 | 318.29 | 0.00 | 35.35 | 18.63 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total expenses | 0.00 | 782,829.40 | 205,304.85 | 248,698.80 | 0.00 | 281,338.01 | 89,344.38 | 166,050.12 | 42,025.02 | 1,079,835.15 | 573,970.16 | 386,844.63 | 107,327.66 |
| Surplus/(Deficit) for the period | 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 |

NATO UNCLASSIFIED

6-40

NATO UNCLASSIFIED

6-41

APPENDIX 1 to
ANNEX 6 to
FC(2021)0042-REV1

| (All amounts in EUR) | IS2310 TF NATO Defense & Security Campaign -Pilot phase | IS2350 TF NATO- UKRAINE PLATFORM ON COUNTERING HYBRIDE WARFARE | IS2360 TF Communication Activities in W- Balkans | IS2370 TF DEEP BIH | IS2380 TF Ukraine Disposal of Radioactive Waste II | IS2390 Pandemic Relief Trust Fund | IS5000 TF NRC CAI IV | IS5051 TF Counter Narcotics | IS5061 TF Montenegro | IS5070 TF UK Stratcom | IS5090 TF MIC-SPS G5395 FR MICR IMAG CURT | IS6000 Women, Peace and Security | 2020 |
|---|---|--|--|-----------------------|--|---|----------------------------|--------------------------------------|----------------------------|-----------------------------|---|---|---------------------|
| Revenue | | | | | | | | | | | | | |
| Non exchange revenue | 19,085.00 | 28,706.89 | 0.00 | 16,088.76 | 0.00 | 23,592.41 | 78,661.93 | -2,278.14 | 0.00 | 170,968.31 | 100,000.00 | 171,339.50 | 9,014,671.08 |
| Exchange revenue | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 56,045.61 |
| Other revenue | 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 |
| Financial revenue | 0.00 | 0.00 | 0.00 | 36.50 | 0.00 | 0.00 | 0.00 | 88,379.07 | 0.00 | 261.23 | 0.00 | 0.00 | 131,476.95 |
| Total revenue | 19,085.00 | 28,706.89 | 0.00 | 16,125.26 | 0.00 | 23,592.41 | 78,661.93 | 86,100.93 | 0.00 | 171,229.54 | 100,000.00 | 171,339.50 | 9,202,193.64 |
| Expenses | | | | | | | | | | | | | |
| Personnel | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 22,993.04 | 0.00 | 0.00 | 0.00 | 172,160.69 | 0.00 | 129,748.62 | 978,841.87 |
| Contractual supplies and services | 19,085.00 | 28,706.89 | 0.00 | 16,126.68 | 0.00 | 0.00 | 78,661.93 | 91,215.91 | 0.00 | 0.00 | 100,000.00 | 41,590.88 | 8,099,927.80 |
| Depreciation and amortization | 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 |
| Impairment | 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 |
| Provisions | 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 |
| Other expenses | 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 |
| Finance costs | 0.00 | 0.00 | 0.00 | -1.42 | 0.00 | 599.37 | 0.00 | -5,114.98 | 0.00 | -931.15 | 0.00 | 0.00 | 123,423.97 |
| Total expenses | 19,085.00 | 28,706.89 | 0.00 | 16,125.26 | 0.00 | 23,592.41 | 78,661.93 | 86,100.93 | 0.00 | 171,229.54 | 100,000.00 | 171,339.50 | 9,202,193.64 |
| Surplus/(Deficit) for the period | 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 |

NATO UNCLASSIFIED

6-41



NORTH ATLANTIC TREATY ORGANIZATION
ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD
INTERNATIONAL BOARD OF AUDITORS
COLLÈGE INTERNATIONAL DES AUDITEURS EXTERNES DE L'OTAN

NATO UNCLASSIFIED

IBA-A(2021)0109
25 August 2021

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

Cc: NATO Permanent Representatives
Chairman, NATO FORACS Office Steering Committee
Project Manager and Technical Director, NATO FORACS Office
Financial Controller, International Staff
Chair, Resource Policy & Planning Board
Branch Head, Resource Management Branch, NATO Office of Resources
Private Office Registry

Subject: ***International Board of Auditors for NATO (IBAN) Audit Report on the audit of the NATO Naval Forces Sensor and Weapons Accuracy Check Sites Office's (NATO FORACS Office (NFO)) Restated Financial Statements for the year ended 31 December 2020 – IBA-AR(2021)0023***

IBAN submits herewith its approved Audit Report with a Summary Note for distribution to the Council.

IBAN's report sets out an unqualified opinion on the Restated Financial Statements of the NATO FORACS Office (NFO) and on compliance for financial year 2020.

Yours sincerely,

Daniela Morgante
Chair

Attachments: As stated above.

NATO UNCLASSIFIED

-1-

**Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Restated Financial Statements of the
NATO Naval Forces Sensor and Weapons Accuracy Check Sites Office
(NATO FORACS Office (NFO))
for the year ended 31 December 2020**

The International Board of Auditors for NATO (IBAN) audited the NATO Naval Forces Sensors and Weapon Accuracy Check Sites Office (NATO FORACS) Financial Statements for the year ended 31 December 2020. The NATO Naval Forces Sensors and Weapon Accuracy Check Sites Office (NATO FORACS) provide a comprehensive calibration of sensors associated with the weapon systems of NATO naval units such as surface ships, submarines and anti-submarines helicopters. These tests are conducted at three FORACS ranges under the jurisdiction of Norway, Greece, and the United States of America.

The overall management of the programme is under the responsibility of the FORACS Steering Committee. The NATO FORACS Office (NFO) is located at the NATO Headquarters in Brussels and serves as the executive staff of the Steering Committee. The NFO budget for 2020 (including brought forward credits) amounted to EUR 2.01 million while budget expenses amounted to EUR 1.18 million.

IBAN issued an unqualified opinion on the restated financial statements and on compliance for the year ended 31 December 2020.

IBAN made one observation and recommendation. This finding is listed below and does not impact the audit opinion on the financial statements and on compliance.

IBAN raised an Emphasis of Matter regarding inconsistencies in the numbering of the explanatory notes to NATO FORACS Office 2020 Restated Financial Statements. We wish to draw users' attention to this matter.

1. Improvement needed in the internal control process for the preparation of financial statements.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that one was closed, one remain open and two remain in progress.

The Audit Report was issued to NFO whose comments have been included, with the IBAN's position on those comments where necessary.

NATO UNCLASSIFIED

IBA-AR(2021)0023

25 August 2021

INTERNATIONAL BOARD OF AUDITORS FOR NATO

**AUDIT REPORT ON THE RESTATED FINANCIAL STATEMENTS OF THE
NATO NAVAL FORCES SENSOR AND WEAPONS ACCURACY CHECK SITES
OFFICE**

(NATO FORACS OFFICE (NFO))

FOR THE YEAR ENDED 31 DECEMBER 2020

PUBLICLY DISCLOSED - PDN(2022)0014 - MIS EN LECTURE PUBLIQUE

NATO UNCLASSIFIED

INDEPENDENT EXTERNAL AUDITOR'S REPORT TO THE NORTH ATLANTIC COUNCIL***Financial Statements*****Opinion on the Restated Financial Statements**

The International Board of Auditors for NATO (IBAN) has audited the Restated Financial Statements of NATO FORACS Office (NFO), for the 12 month period ended 31 December 2020, issued under document reference FC(2021)0022-REV1, and submitted to IBAN on 05 July 2021. These Restated Financial Statements comprise the Statement of Financial Position as at 31 December 2020, the Statement of Financial Performance, the Statement of Changes in Net Assets/Equity and the Statement of Cash Flow, for the 12 month period ended 31 December 2020, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a Budget Execution Statement for the 12 month period ended 31 December 2020.

In our opinion, the Restated Financial Statements give a true and fair view of the financial position of NATO FORACS Office (NFO) as at 31 December 2020, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2020, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF).

Emphasis of Matter on the Restated Financial Statements

We draw your attention to the inconsistencies in the numbering of the explanatory notes to NATO FORACS Office 2020 Financial Statements. The numbering of the notes disclosed in the Statement of Financial Position and Statement of Financial Performance does not correspond to the notes.

Basis for Opinion on the Restated Financial Statements

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies and reporting entities pursuant to the North Atlantic Treaty shall be performed by IBAN.

We have conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 2200-2899) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

We are independent in accordance with the INTOSAI Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter.

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

Management's Responsibility for the Restated Financial Statements

Management's responsibility for the financial statements is laid down in the NFRs. The Financial Statements of NATO FORACS Office (NFO) are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council. The Financial Controller is responsible for submitting the Financial Statements for audit to IBAN not later than 31st March following the end of the financial year.

The Financial Statements are signed by the Head of the NATO reporting entity and the Financial Controller. In signing the Financial Statements, the Head of the NATO reporting entity and the Financial Controller confirm 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.

This confirmation covers the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are auditable and free from material misstatement, whether due to fraud or error. This also covers reporting on the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there are plans to liquidate the entity or to cease its operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Restated Financial Statements

The objectives of the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgement and maintain professional scepticism throughout the planning and performance of the audit. This involves taking into account Considerations Specific to Public Sector Entities. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one

resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to communicate with the bodies charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. Our Independent External Auditor's Report is prepared to assist North Atlantic Council in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

Compliance

Opinion on Compliance

Based on the procedures we performed, nothing has come to our attention, as part of our audit of the Financial Statements that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

Basis for Opinion on Compliance

We have conducted our compliance audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 4000-4899) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

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

Management's Responsibility for Compliance

All NATO staff, military and civilian, are obligated to comply with the NATO Financial Regulations, associated Financial Rules and Procedures and internal implementing directives. These include the NATO Civilian Personnel Regulations.

The Project Manager is responsible and accountable for sound financial management. The financial administration of NATO bodies and reporting entities must incorporate the principles of propriety, sound governance, accountability, transparency, risk management and internal control, internal audit, external audit, and fraud prevention and detection.

Auditor's Responsibilities for Compliance

In addition to the responsibility to provide reasonable assurance about whether the financial statements as a whole are free from material misstatement, the IBAN Charter requires IBAN to provide independent assurance and report annually to the North Atlantic Council about whether funds have been properly used for the settlement of authorised expenditure (propriety) and are in compliance with the regulations in force (regularity). Propriety relates to the observance of the general principles governing sound financial management and the conduct of public officials. Regularity concerns the adherence to formal criteria such as relevant regulations, rules and procedures.

This responsibility includes performing procedures to obtain independent assurance about whether funds have been properly used for the settlement of authorized expenditure and whether they have been used in compliance with the regulations in force. Such procedures include consideration of the risks of material non-compliance.

Brussels, 25 August 2021



Daniela Morgante
Chair

OBSERVATIONS AND RECOMMENDATIONS

IBAN made one observation and recommendation. This observation does not impact the audit opinion on the financial statements and on compliance.

1. Improvement needed in the internal control process for the preparation of financial statements.

The Audit Report was issued to NFO whose comments have been included, with the IBAN's position on those comments where necessary.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that one was closed, one remains open and two were in progress.

1. IMPROVEMENT NEEDED IN THE INTERNAL CONTROL PROCESS FOR THE PREPARATION OF FINANCIAL STATEMENTS**Reasoning**

1.1 Article 6 of the NATO Financial Regulation (NFRs) requires the Financial Controller to exercise the responsibility of budgeting, accounting and reporting activities of the NATO entity. This includes being responsible for the financial internal control system established and for the preparation of the financial statements in accordance with NATO accounting Framework.

1.2 In addition, Article 12.3 of the NFRs states that "*Internal control activities shall include [...] adequate audit trails and data confidentiality, integrity and availability in information systems [...]*".

1.3 Financial Statements shall be free of misstatements, mathematical errors, non-reconciling items, or any other errors or omissions caused by lack of control during preparation. Entities should have proper internal controls, including reviews and reconciliations in place to ensure the consistency and the accuracy of information presented in the Financial Statements.

1.4 A key part of the system of internal control is to ensure adequate processes are in place for the preparation, review and reporting of the Financial Statements. Adequate review procedures are necessary to provide a reasonable basis for obtaining assurance that financial statements are in compliance with the applicable financial reporting framework.

Observations

1.5 We found a material error related to exchange rate differences disclosed in the 2020 NFO Financial Statements. This misstatement was corrected in the 2020 Restated Financial Statements submitted to IBAN on 05 July 2021.

1.6 NFO incorrectly reported in the initial 2020 NFO Financial Statements unrealised exchange rate losses amounting to EUR 16,701 for NATO FORACS Norway (NFN) and EUR 72,877 for NATO FORACS AUTECH (NFA). These exchange rate losses should only be reported in the financial statements when they are realised. This error led to an overstatement of Retained Earnings by EUR 89,578 and an understatement of Other Current Liabilities by the same amount in the Statement of Financial Position. This also impacted the Statement of Cash Flow and the Statement of Changes in Net Assets/Equity.

1.7 IBAN highlights that management takes responsibility for the preparation and presentation of the entity's financial statements. Review procedures are necessary to provide a reasonable basis for obtaining assurance that financial statements are in compliance with the applicable financial reporting framework as well as prevent and detect errors before their issuance.

Recommendations

1.8 IBAN recommends the IS Office of the Financial Controller (OFC) to strengthen its internal controls over the preparation and review of the NFO financial statements before their issuance, in particular regarding the recognition of exchange rate differences.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

IBAN followed up on the status of observations from the previous years' audit. The observations and recommendations, the actions taken by the auditee as reviewed by IBAN, and their status are summarised in the table below.

The Open status is used for recommendations that are open and for which no notable progress has been achieved to date. The In-progress status is used for open recommendations when the NATO Reporting Entity has started to implement the recommendation or when some (but not all) sub-recommendations are closed. The Closed status is used for recommendations that are closed because they have been implemented, are superseded, or have lapsed. In the case where there are sub-recommendations, the status related to each sub-recommendation is indicated in the Action Taken column.

| OBSERVATION / RECOMMENDATION | ACTION TAKEN BY AUDITEE | STATUS |
|---|--|--|
| <p>(1) FORACS FY 2019 IBA-AR(2021)0012, paragraph 1</p> <p>INCONSISTENT RECOGNITION AND DISCLOSURE OF UNCOMMITTED APPROPRIATIONS OF THE RANGES</p> <p>IBAN's Recommendation IBAN recommends that NFO:</p> <p>a) Ensures the completeness and accuracy of receivables by verifying the consistency between the amounts of receivables recognised in the financial statements of NFO and surpluses shown both in the budgetary execution of the Ranges and third party audit certificates, and</p> <p>b) Updates the method of estimating receivables in its accounting policy accordingly.</p> | <p>a) IBAN acknowledges the progress made in the accounting of receivables. The amount of receivables recognised in FORACS Financial Statements 2020 were reconciled with the Ranges and third party audit certificates except for NFA. The audit certificate for NFA was not available for 2020. Observation: Closed.</p> <p>b) We note that the OFC is reviewing the accounting policies for entities in its portfolio. OFC will take this recommendation into consideration when developing new procedures and mechanisms in this area. Observation: In-progress.</p> | <p>Observation In-Progress.</p> |
| <p>(2) FORACS FY 2019 BA-AR(2021)0012, paragraph 2</p> <p>INSUFFICIENT DOCUMENTATION IN SUPPORT OF THE NOTE TO THE FINANCIAL STATEMENTS ON RELATED PARTIES</p> <p>IBAN's Recommendation IBAN recommends that NFO:</p> <p>a) Implements a procedure for identifying related party transactions and monitor the absence of conflicts of interest in support of the disclosure notes to the financial statements.</p> | <p>a) NFO has not yet implemented a procedure for identifying related party transactions and monitoring the absence of conflicts of interest. IBAN notes that NFO as part of the Committee of Sponsoring Organization (COSO) framework periodic assessment plans to assess if any change can be introduced</p> | <p>Observation Open.</p> |

| OBSERVATION / RECOMMENDATION | ACTION TAKEN BY AUDITEE | STATUS |
|---|---|--|
| <p>b) Complies with the NATO Accounting Framework (IPSAS 20) by ensuring that all members of key management personnel, including Steering committee members, complete and sign declarations concerning related party relationships or transactions that could affect the operation of the reporting entity.</p> | <p>to the process of gathering information. Observation: Open.</p> <p>b) Key management personnel did not sign declarations concerning related party relationships or transactions. Observation: Open.</p> | |
| <p>(3) FORACS FY 2019 IBA-AR(2021)0012, paragraph 3</p> <p>ACCOUNTING TREATMENT OF THE REVERSAL OF PROVISION FOR UNTAKEN LEAVE</p> <p>IBAN's Recommendation IBAN recommends that NFO recognises in accordance with its accounting policy, the reversal of the previous year's provision for untaken leave in the Statement of Financial Performance.</p> | <p>International Staff OFC adjusted the figures from 2019 to have a correct comparable basis.</p> | <p>Observation Closed.</p> |
| <p>(4) FORACS FY 2015 BA-AR(2017)22, paragraph 7</p> <p>EFFORT TO ACHIEVE COMPLIANCE WITH THE REVISED NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT</p> <p>IBAN's Recommendation IBAN recommends that NFO:</p> <p>a) Ensure its risk management policy and risk registers include financial reporting and compliance risks.</p> | <p>IBAN acknowledges the progress made in internal controls and risk management procedures.</p> <p>a) NFO established a risk assessment process covering all identified risks whereby the Strategic Planning Group (SPG) reviews the Project Level risk and mitigation at every meeting using a pre-established definition of both 'Likelihood' and 'Consequence'. This is part of the Corporate Plan which is updated annually. The risk</p> | <p>Observation In-Progress.</p> |

| OBSERVATION / RECOMMENDATION | ACTION TAKEN BY AUDITEE | STATUS |
|--|---|--------|
| <p>c) In coordination with the IS where applicable, begin the work of assessing and documenting the system of internal control and risk management procedures to support compliance with NFR Articles 11 and 12, FRPs XI and XII, and the internal control framework that it chooses.</p> <p>d) Through outsourcing if considered to be more cost effective, ensure internal audit activities are evaluating NFO risk management and internal control.</p> | <p>matrix is reviewed and updated at each SPG and is referred to the Steering Committee in the autumn of each year for formal endorsement, after which the revised version is incorporated within the Corporate Plan. Observation: In-progress.</p> <p>c) NFO has selected the COSO internal control framework and began the work of assessing and documenting the system of internal control and risk management procedures. We will review the progress during next year's audit. Observation: In-progress.</p> <p>d) IBAN notes that the NFO Project Manager has engaged with the Head of NATO's Office of Internal Audit and Risk Management (OIARM) regarding an independent assessment of the COSO Internal Control framework adopted by NFO in 2019. As the OIARM's Audit Plan is determined on a risk-based methodology, NFO will be included at an appropriate time. IBAN will reassess the progress done by NFO as part of the audit of the 2021 Financial Statements. Observation: In-progress.</p> | |

NATO FORACS OFFICE (NFO) FORMAL COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS

**OBSERVATION 1:
IMPROVEMENT NEEDED IN THE INTERNAL CONTROL PROCESS FOR THE PREPARATION OF FINANCIAL STATEMENTS**

NFO's Formal Comments

Agreed.

NFO and OFC note the IBAN recommendation regarding improving internal controls in preparing/reviewing NFO Financial Statements.

The OFC will also revise the policy on accounting and reporting of transactions in foreign currencies to ensure that the FORACS transactions in foreign currencies are captured in line with the nature of the operations.

NFO and OFC staff propose to reinvigorate OFC staff attendance for the appropriate elements of NATO FORACS Steering Committee meetings, as well as instituting periodic, informal review meetings to support easier reconciliation of financial statements with NFO business activities.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

**(1) FORACS 2019 FY
IBA-AR(2021)0012, paragraph 1
INCONSISTENT RECOGNITION AND DISCLOSURE OF UNCOMMITTED APPROPRIATIONS OF THE RANGES**

NFO's Formal Comments

a) Agreed.

No further action proposed.

b) Agreed.

OFC is in the course of reviewing Accounting Policies for the entities in its portfolio and will take this recommendation into consideration when developing new procedures and mechanisms in this area.

(2) FORACS 2019 FY**BA-AR(2021)0012, paragraph 2****INSUFFICIENT DOCUMENTATION IN SUPPORT OF THE NOTE TO THE FINANCIAL STATEMENTS ON RELATED PARTIES*****NFO's Formal Comments***

a) *Not agreed.*

NFO notes the IBAN recommendation regarding related party relationships or transactions but believes the information provided is sufficient. Nevertheless, as noted by the IBAN, during periodic COSO framework assessments, we will investigate whether any change can be introduced to the process of gathering information, in terms of improving the effectiveness and efficiency of the administrative process and possible added value. As previously noted, IPSAS 20—Related Party Disclosures does not prescribe any particular method in which the information to be disclosed should be gathered. We believe that the current system of gathering information on related parties is adequate to the governance structure of the entity and that the disclosures in the Financial Statements, being in line with IPSAS 20, provides a reliable and true picture.

b) *Not agreed.*

Equally, the RPPB in their report to the NAC (AC/335-D(2021)0040, noted the IBAN's recommendation and supported that NFO implement a procedure proportional to the NFO operations scale, for identifying related party transactions and monitoring the absence of conflicts of interest.

IBAN's Position

IBAN acknowledges that IPSAS 20 - Related Party Disclosures does not prescribe a specific method in which the information to be disclosed should be gathered. However, in the absence of any document, such as an individual declaration of related party relationships and absence of conflict of interest for key management personnel, NFO cannot demonstrate the accuracy of the financial disclosure and audit trail, as required by the NFRs. Such a declaration would provide at least a minimum assurance that the entity included in its internal control system a procedure to verify the absence of conflicts of interest and is able to identify related party relationships that could affect the operation of NFO.

**(3) FORACS 2019 FY
IBA-AR(2021)0012, paragraph 3
ACCOUNTING TREATMENT OF THE REVERSAL OF PROVISION FOR UNTAKEN
LEAVE**

NFO's Formal Comments

Agreed

No further action proposed.

**(4) FORACS 2015 FY
BA-AR(2017)22, paragraph 7
EFFORT TO ACHIEVE COMPLIANCE WITH THE REVISED NATO FINANCIAL
REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL,
RISK MANAGEMENT AND INTERNAL AUDIT**

NFO's Formal Comments

a) Not agreed.

Action in respect of this recommendation is considered to be complete; NFO and IS have implemented it fully. In line with NRFs/FRPs, management of the financial risks is the responsibility of Financial Controller. The NFO is served by the IS Office of Financial Control, hence the financial reporting and compliance risks are part of the IS risk management policy and risk registers.

c) Not agreed.

Action in respect of this recommendation is considered to be complete. NFO implemented it fully and the work of assessing and documenting the system of internal control and risk management procedures has not only begun but is undergoing a process of continual improvement in line with the COSO principles.

d) Not agreed.

Action in respect of this recommendation is considered to be complete. The NFO Project Manager has engaged with the Head of NATO's Office of Internal Audit and Risk Management (OIARM) regarding an independent assessment of the COSO Internal Control framework adopted by NFO in 2019. As the OIARM's Audit Plan is determined on a risk-based methodology, NFO will be included at an appropriate time.

IBAN's Position

The implementation of COSO following its adoption in 2019 as a framework and the rollout of internal control and risk management tools were not fully effective at the closing date of 31 December 2020. More specifically, at this date:

- a) NFO had not yet sufficiently documented areas of financial reporting and compliance involving the International Staff Office of the Financial Controller.
- c) NFO still needs to fully document the system of internal control and risk management procedures, adapted to the lower level of materiality given the size and limited complexity of the NATO Reporting Entity.
- d) As a separate NATO Reporting Entity, the NFRs require NFO to ensure that internal audit activities are evaluating its own risk management and internal control. NFO should not link the timing of these internal audit activities with the audit plan of the International Staff, which is a separate NATO Reporting Entity.

IBAN therefore reiterates the sub-recommendations above and will reassess its position and reflect progress done by NFO as part of the audit of the 2021 Financial Statements.

GLOSSARY OF TERMS

In accordance with International Standards of Supreme Audit Institutions (ISSAI 2705), audit opinions on financial statements and on compliance can be unqualified, qualified, a disclaimer, or adverse:

- An unqualified opinion is when IBAN issues an opinion that the financial statements and budget execution report are stated fairly and that nothing has come to our attention that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the rules and regulations.
- A qualified opinion means that IBAN was generally satisfied with the presentation of the financial statements, but that some key elements of the statements were not fairly stated or affected by a scope limitation, or specific issues have come to our attention that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the rules and regulations.
- A disclaimer is issued when the audit scope is severely limited and IBAN cannot express an opinion, or when there are material uncertainties affecting the financial statements or the use of funds.
- An adverse opinion is issued when the effect of an error or disagreement is so pervasive and material to the financial statements that IBAN concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

In accordance with auditing standards, three types of paragraphs may also be communicated in the auditor's report:

- Key Audit Matters (ISSAI 2701): Those matters that, in IBAN's professional judgement, were of most significance in the audit of the financial statements of the current period. Key Audit Matters are addressed to Council.
- Emphasis of Matter (ISSAI 2706): If IBAN considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.
- Other Matter (ISSAI 2706): If IBAN considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in our judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

NATO UNCLASSIFIED

FC(2021)0022-REV1

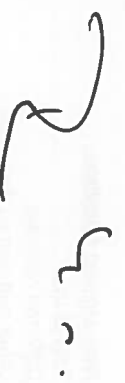
NATO FORACS OFFICE
FINANCIAL STATEMENTS
Financial Year 2020

Annexes:

- 1 Statement of Financial Position
- 2 Statement of Financial Performance
- 3 Statement of Cash Flow
- 4 Statement of Changes in Net Assets/Equity
- 5 Statement of Budget Execution
- 6 Explanatory Notes to the Financial Statements



Michael MAGAN
Project Manager FORACS



Mirosława BORYCZKA
Financial Controller NATO-IS

NATO UNCLASSIFIED

NATO UNCLASSIFIED

ANNEX 1 to
FC(2021)0022-REV1NATO FORACS OFFICE
Statement of Financial Position
As at 31 December 2020

| | (in EUR) | |
|--------------------------------|----------|---------------------|
| | Notes | Prior Year 2019 |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | (3),(4) | 5,398,957.26 |
| Short term investments | (3),(4) | 0.00 |
| Receivables | (5) | 703,063.67 |
| Prepayments | (6) | 1,636,053.33 |
| Other current assets | (6) | 24,386.09 |
| Inventories | (7) | |
| | | 8,020,476.84 |
| Non-current assets | | |
| Receivables | | |
| Property, plant & equipment | (8) | 1,685,581.64 |
| Intangible assets | | 1,685,581.64 |
| | | 9,706,058.48 |
| Total assets | | 9,448,041.99 |
| Liabilities | | |
| Current liabilities | | |
| Payables | (9) | 276,295.49 |
| Deferred revenue | (10) | 100,527.22 |
| Advances | (11) | 5,200,319.15 |
| Provisions | (12) | 20,703.28 |
| Other current liabilities | (13) | 1,713,482.67 |
| | | 7,311,327.81 |
| Non-current liabilities | | |
| Provisions | | 0.00 |
| Deferred revenue | (14) | 1,685,581.64 |
| Other non-current liabilities | | |
| | | 1,685,581.64 |
| | | 8,996,909.45 |
| Total liabilities | | 9,010,578.10 |
| Surplus/Deficit | | 0.00 |
| Retained earnings | (15) | 709,149.03 |
| Reserves | | 437,463.89 |
| | | 709,149.03 |
| Total net assets | | 437,463.89 |

NATO UNCLASSIFIED

NATO UNCLASSIFIED

ANNEX 2 to
FC(2021)0022-REV1

NATO FORACS OFFICE
Statement of Financial Performance

As at 31 December 2020

| | (in EUR) | |
|---|--------------------------|---------------------|
| | Notes | |
| | Current Year | Prior Year |
| | 2020 | 2019 |
| Revenue | | |
| Non-Exchange Revenue | 1,174,157.91 | 1,192,453.76 |
| Exchange revenue | 0.00 | 0.00 |
| Financial revenue | 5,714.71 | 226.06 |
| Other revenue | 13,197.59 | 13,400.56 |
| Total revenue | (16) 1,193,070.21 | 1,206,080.38 |
| Expenses | | |
| Personnel | 701,471.14 | 655,607.37 |
| Contractual supplies and services | 479,499.41 | 527,559.16 |
| Depreciation and amortization | 0.00 | 0.00 |
| Impairment | 0.00 | 0.00 |
| Provisions | 8,026.73 | 12,676.55 |
| Other expenses | 0.00 | 0.00 |
| Finance costs | 4,072.93 | 10,237.30 |
| Total expenses | (17) 1,193,070.21 | 1,206,080.38 |
| Surplus/(Deficit) for the period | 0.00 | 0.00 |

NATO UNCLASSIFIED
2-1

NATO UNCLASSIFIED

ANNEX 3 to
FC(2021)0022-REV1NATO FORACS OFFICE
Statement of Cash Flow

As at 31 December 2020

| | (in EUR) | |
|--|----------------------|---------------------|
| | Current Year 2020 | Prior Year 2019 |
| Cash flow from operating activities | | |
| Surplus/(Deficit) | 0.00 | 0.00 |
| Non-cash movements | | |
| Depreciation/ Amortisation | 0.00 | 0.00 |
| Impairment | 0.00 | 0.00 |
| Use of Cash Reserves | 271,685.14 | 64,565.03 |
| Increase /(decrease) in payables | -225,788.89 | -251,797.47 |
| Increase/ (decrease) in other current liabilities | 204,093.51 | 894,167.48 |
| Increase/ (decrease) in provisions | 8,026.73 | 1,432.97 |
| Increase/ (decrease) in other non current liabilities | 0.00 | 0.00 |
| (Gains)/losses on sale of property, plant and equipment | 0.00 | 0.00 |
| Decrease/ (Increase) in other current assets | 0.00 | 0.00 |
| Decrease/ (Increase) in receivables | -372,907.84 | 356,004.38 |
| Net cash flow from operating activities | -114,891.35 | 1,064,372.39 |
| Cash flow from investing activities | | |
| Purchase of property plant and equipment / Intangible assets | 0.00 | 0.00 |
| Proceeds from sale of property plant and equipment | 0.00 | 0.00 |
| Net cash flow from investing activities | 0.00 | 0.00 |
| Cash flow from financing activities | | |
| Decrease/ (Increase) Deposit | 0.00 | 0.00 |
| Net cash flow from financing activities | 0.00 | 0.00 |
| Net increase/(decrease) in cash and cash equivalents | -114,891.35 | 1,064,372.39 |
| Cash and cash equivalent at the beginning of the period | 5,398,957.26 | 4,334,584.87 |
| Cash and cash equivalent at the end of the period | 5,284,065.91 | 5,398,957.26 |

NATO UNCLASSIFIED

NATO UNCLASSIFIED

ANNEX 4 to
FC(2021)0022-REV1

NATO FORACS OFFICE
Statement of Changes in Net Assets/Equity

As at 31 December 2020

| | |
|---|----------------------------|
| | (in EUR) |
| Balance at the beginning of the period 2019 | <u>(372,898.86)</u> |
| Changes in accounting policy | |
| Restated balance | |
| Net (gains)/losses recognised directly in net assets/equity | |
| Exchange difference on translating foreign operations | |
| Use of cash Reserves | (64,565.03) |
| Gain on property revaluation | |
| Surplus/(deficit) for the period | <u>(437,463.89)</u> |
| Change in net assets/equity for the year ended 2019 | |
| Balance at the beginning of the period 2020 | <u>(437,463.89)</u> |
| Changes in accounting policy | |
| Restated balance | |
| Net (gains)/losses recognised directly in net assets/equity | |
| Exchange difference on translating foreign operations | |
| Use of cash Reserves | (271,685.14) |
| Gain on property revaluation | |
| Surplus/(deficit) for the period | |
| Change in net assets/equity for the year ended 2020 | <u>(709,149.03)</u> |

NATO UNCLASSIFIED
4-1

NATO UNCLASSIFIED

NATO FORACS OFFICE
Statement of Budget Execution
As at 31 December 2020

| | Initial budget | Budget increase | Budget Revision | BA3 | Transfers | Final budget | Expenses | Total spent | Carry forward | Lapsed |
|--------------------------|------------------|-----------------|------------------|----------------|-----------|------------------|------------------|------------------|----------------|----------------|
| Budget 2020 | 779,000 | - | 779,000 | - | 779,000 | 779,000 | 701,471 | 701,471 | - | 77,529 |
| Chapter 1 | 779,000 | - | 779,000 | - | 779,000 | 779,000 | 701,471 | 701,471 | - | 77,529 |
| Chapter 2 | 421,365 | - | 215,000 | 636,365 | - | 636,365 | 291,981 | 291,981 | - | 344,384 |
| Chapter 3 | 55,000 | - | 518,074 | 573,074 | - | 573,074 | 161,026 | 161,026 | 100,527 | 311,521 |
| Chapter 4 | - | - | - | - | - | - | - | - | - | - |
| Total | 1,255,365 | - | 1,255,365 | 733,074 | - | 1,988,439 | 1,154,478 | 1,154,478 | 100,527 | 733,434 |
| Budget 2019 | - | - | - | - | - | - | - | - | - | - |
| Chapter 1 | - | - | - | - | - | - | - | - | - | - |
| Chapter 2 | 1,337 | - | 1,337 | - | - | 1,337 | 1,337 | 1,337 | - | 0 |
| Chapter 3 | 25,155 | - | 25,155 | - | - | 25,155 | 25,155 | 25,155 | - | (0) |
| Chapter 4 | - | - | - | - | - | - | - | - | - | - |
| Total | 26,492 | - | 26,492 | - | - | 26,492 | 26,492 | 26,492 | - | (0) |
| Budget 2018 | - | - | - | - | - | - | - | - | - | - |
| Chapter 1 | - | - | - | - | - | - | - | - | - | - |
| Chapter 2 | (0) | - | - | - | - | - | - | - | - | - |
| Chapter 3 | - | - | - | - | - | - | - | - | - | - |
| Total | (0) | - | (0) | - | - | (0) | (0) | (0) | - | - |
| Total All Budgets | 1,281,857 | - | 1,281,857 | 733,074 | - | 2,014,931 | 1,180,971 | 1,180,971 | 100,527 | 733,434 |

(Amounts in EUR)

NATO UNCLASSIFIED
5-1

NATO UNCLASSIFIED

6-1

ANNEX 6 to
FC(2021)0022-REV1

EXPLANATORY NOTES TO NATO FORACS OFFICE 2020 FINANCIAL STATEMENTS

NOTE 1: GENERAL INFORMATION

NATO FORACS' mission is to measure the bearing, range, position and heading accuracy of sensors and navigation systems and to provide communications systems and interoperability testing in surface ships, submarines and maritime aircraft to satisfy national requirements and to meet NATO material readiness standards.

The NATO FORACS Memorandum of Understanding was signed in 1974 by seven NATO nations: Denmark, Germany, Greece, Italy, Norway, the United Kingdom and the United States. In September 1994, Canada became the eighth signatory. Collectively the eight nations are referred to as the Member Nations.

Three NATO FORACS (Naval Forces Sensor and Weapons Accuracy Check Sites) test Ranges were authorized under the management of a NATO FORACS Steering Committee (NFSC).

NATO FORACS Office (NFO) was established at NATO Headquarters in January 1977. This office provides technical direction for the project, quality control over test procedures, and maintains a data bank of test results for national summary reports.

NATO FORACS Norway (NFN) began routine testing in 1978.

NATO FORACS Greece (NFG) was opened for routine operation in 1985.

In 1994 the US FORACS range at AUTECH (Atlantic Underwater Test and Evaluation Center) became an affiliated NATO FORACS test range called NATO FORACS AUTECH (NFA).

Member Nations maintain oversight of the project through the NATO FORACS Steering Committee. The Steering Committee executes its responsibility through an executive Project Manager at the NFO in Brussels.

Normal operations and maintenance of NATO FORACS activities are funded by the Member Nations on a cost-sharing basis. Non-member nations utilize the resources and capabilities based on a calculated 'day rate' for services. Fixed facilities and capital costs are commonly funded through the NATO Security Investment Programme (NSIP). NATO International Staff Office of Financial Control provides accounting and budgeting for the NFO and handles annual calls to Member Nations to fund operations for the Project.

These financial statements relate only to the NFO. The three NATO FORACS Ranges (NFA, NFG and NFN, referred to also as the Ranges) are responsible for executing their own budgets and issuing their own financial statements under their national budgeting and financial rules.

NATO FORACS conducts tests for Alliance nations in response to NATO's tasking to provide mission capable platforms. This testing also supports Nation's acquisition and upgrade programmes testing ship, submarine and maritime aircraft. Having systems in ships, submarines and maritime aircraft aligned and calibrated to the same common reference and to clearly defined accuracy standards aligns with the Connected Forces Initiative and improves interoperability of maritime systems within

NATO UNCLASSIFIED

6-1

NATO UNCLASSIFIED

ANNEX 6 to
FC(2021)0022-REV1

6-2

and between nations. In 2013, FORACS adopted a strategic tag line: *Operational Confidence Through Accuracy*

The NATO FORACS Project continues to demonstrate a quality management culture based on ISO 9001:2015 and on 22 Dec 2020 achieved recertification for a further three years.

NOTE 2: ACCOUNTING POLICIES

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

Declaration of Conformity

The NFO financial statements have been prepared in accordance with NATO Financial Regulations (NFR), the Financial Rules and Procedures (FRP) and the NATO Accounting Framework, which is an adapted version of the International Public Sector Accounting Standards (IPSAS).

Basis of Preparation

These financial statements relate to the NATO FORACS Office (NFO). They also include transactions with the Ranges only in as much as they relate to the calls for contribution process of their respective budgets and therefore concerns cash, short term investments, receivables, payables, advances, and the Ranges' other current liabilities to the IS OFC on behalf of the NFO. Funds are called from Member Nations; receivables are recorded; funds are transferred to the Ranges upon request of the Range Managers. Cash and cash equivalents are held on separate bank accounts controlled by the IS Office of Financial Control. None of the ensuing financial transactions of the Ranges (commitments, expenses, payments, etc.) are disclosed in these financial statements since they are executed under the exclusive authority and responsibility of the Ranges in accordance with their respective national regulations. The NFO plays no role in this respect.

All budget related decisions are taken by the FORACS Steering Committee, not by the FORACS Office. The latter has no financial authority over the Ranges, which operate under national regulations for all aspects of their management (budget execution, procurement, human resources, health and safety, financial reporting, external audit, etc.). The NFO holds an executive management function but does not exercise any power over the Ranges and it does not have rights over their surpluses or assets, neither can it be considered liable for their obligations. As a consequence, the NFO exercises no control over the Ranges for financial reporting purposes and therefore its financial statements are not consolidated with those of the Ranges.

These financial statements have been prepared on a going-concern basis. The assumption is that NFO is a going concern and will continue in operation and meet its objectives and obligations for the foreseeable future.

The financial year is from 1 January to 31 December.

The amounts shown in these financial statements are presented in EUR

FORACS applied IPSAS 9 Revenue from exchange transactions and IPSAS 23 Revenue from non-exchange transactions.

The following IPSAS have no material effect on the 2020 NFO financial statements:

- IPSAS 5: Borrowing Costs
- IPSAS 7: Investments in Associates.
- IPSAS 8: Interests in Joint Ventures
- IPSAS 10: Financial Reporting in Hyperinflationary Economies
- IPSAS 11: Construction Contracts
- IPSAS 16: Investment Property
- IPSAS 21: Impairment of non-cash generating assets
- IPSAS 26: Impairment of Cash-Generating Assets
- IPSAS 27: Agriculture
- IPSAS 32: Service Concession Arrangements: Grantor

Changes in accounting policy

None.

Restatement of Financial Statements of Previous Years

NATO policy (both Civilian Personnel Regulations and HR directives) is that undertaken leave must be paid only as a last recourse (Staff is compelled to take all their leave before retiring), for informative purposes we disclose the amount payable, if FORACS would shut down its activities at the end of the financial year, i.e. 31 December.

FORACS recognized, as per 31 December 2018, a provision of EUR 11,243.58 for undertaken leave and a provision of EUR 12,676.55 as per 31 December 2019.

In the beginning of 2019, the 2018 undertaken leave provision has been reversed. However, this reversal was not properly reflected in the Statement of Financial Performance as at 31 December 2019 and as a result the positions "provision" (non-exchange revenue and expenses) were overstated by EUR 11,243.58 each, with neutral effect on surplus / deficit for the period.

NATO UNCLASSIFIED

ANNEX 6 to
FC(2021)0022-REV1

6-4

Restated Statement of Financial Performance as per end December 2019:

| | (in EUR) | | |
|---|---------------------|---------------------|-------------------|
| | Restated 2019 | Initial 2019 | Variance |
| Revenue | | | |
| Non-Exchange Revenue | 1,181,210.18 | 1,192,453.76 | -11,243.58 |
| Exchange revenue | - | - | 0.00 |
| Financial revenue | 226.06 | 226.06 | 0.00 |
| Other revenue | 13,400.56 | 13,400.56 | 0.00 |
| Total revenue | 1,194,836.80 | 1,206,080.38 | -11,243.58 |
| Expenses | | | |
| Personnel | 655,607.37 | 655,607.37 | 0.00 |
| Contractual supplies and services | 527,559.16 | 527,559.16 | 0.00 |
| Depreciation and amortization | 0.00 | 0.00 | 0.00 |
| Impairment | 0.00 | 0.00 | 0.00 |
| Provisions | 1,432.97 | 12,676.55 | -11,243.58 |
| Other expenses | 0.00 | 0.00 | 0.00 |
| Finance costs | 10,237.30 | 10,237.30 | 0.00 |
| Total expenses | 1,194,836.80 | 1,206,080.38 | -11,243.58 |
| Surplus/(Deficit) for the period | 0.00 | 0.00 | 0.00 |

Reclassification of Financial Statements of Previous Years

None.

Use of Estimates

In accordance with generally accepted accounting principles, the financial statements include amounts based on estimates and assumptions by management, according to the most reliable information available, judgement and assumptions. Estimates include accrued revenue and expenses. Actual results could differ from those estimates. Changes in estimates are reflected in the period in which they become known.

Foreign Currency Transactions

The NFO's budget is authorized and managed in EUR so the contribution call is made in EUR. Foreign currency transactions as required are accounted for at the NATO exchange rates prevailing on the date of the transactions. Monetary assets and liabilities at year-end which were denominated in foreign currencies were converted into EUR using the NATO foreign currency exchange rates as of 31 December 2020.

Realised and unrealised 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 recognised in the Statement of Financial Performance.

NATO UNCLASSIFIED

6-4

NFO does not have any unrealised gains or losses resulting from the translation of statements. NATO FORACS accounting is subject to FC(FAC)(2020)004 which sets out IS/OFC policy for accounting and reporting transactions in foreign currency.

Financial Risks

NFO uses only non-derivative financial instruments as part of its normal operations. These financial instruments include cash, bank accounts and deposit accounts.

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

The organisation is exposed to a variety of financial risks, including foreign exchange risk, credit risk, currency risk, liquidity risk and interest rate risk.

a. Foreign currency exchange risk

The exposure to foreign currency risk is limited as the vast majority of NFO's expenditures are made in EUR, the currency of its budget. The current bank accounts are held in EUR.

b. Credit risk

NFO incurs credit risks from cash and cash equivalent held with banks and from receivables.

The maximum exposure as at year-end 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.

Concerning cash and cash equivalent NFO credit risk is managed by holding current bank accounts and short term highly liquid deposits that are readily convertible to a known amount of cash held with ING Bank (Belgium) which has the following short term credit ratings:

| Bank Name | Country of HQ | Short Term Ratings | | | | | |
|-----------|---------------|--------------------|------------------|---------|------------------|--------|------------------|
| | | FITCH | S&P GLOBAL | MOODY'S | | | |
| | | Rating | Last Review Date | Rating | Last Review Date | Rating | Last Review Date |
| ING Bank | Netherlands | F1+ | 15-Oct-2020 | A-1 | 10-Jul-2020 | P-1 | 21-Oct-2020 |

The NFO outstanding accounts receivable are managed by maintaining control procedures over receivables. All cash receivables are due from NATO member nations, which are considered credit worthy.

c. Liquidity risk

The liquidity risk, also referred to as funding risk, is based on the assessment as to whether the Organisation will encounter difficulties in meeting its obligations associated with financial liabilities. A liquidity risk could arise from a short term liquidity requirement. There is a very limited exposure to liquidity risk because of the funding mechanism which guarantees contributions in relation to the approved budgets. In addition, the NFO maintains an Operational Reserve. Some limited risk could be due to the inaccuracy of budget forecasts. However, past history shows that this process results in surpluses and since the budgetary rules provide for revised budgets, it also helps risk mitigation.

NATO UNCLASSIFIED

ANNEX 6 to
FC(2021)0022-REV1

6-6

The NFO incurs a liquidity risk since it collects the budget contributions for the Ranges and sends to the Ranges the funds they require, sometimes in advance of the budget year. This transfers the liquidity risk from the Ranges to the NFO and could result in a liquidity issue if contributions from Participating Nations were late.

d. Interest rate risk

Except for certain cash and cash equivalent balances, NFO's financial assets and liabilities do not have associated interest rates. NFO is restricted from entering into borrowings and investments, and, therefore, there is an insignificant interest rate risk. Interest earned is not a budgetary resource but contributes to the surplus owed to Nations. In case of negative interest rates, these are added to the amounts called from Member Nations.

Current Assets

a. Cash and cash equivalents

Cash and cash equivalents are defined as short-term assets. They include cash in hand, deposits held with banks, and other short term highly liquid investments.

b. Funds managed for third parties

Funds managed on behalf of third parties are held in cash and are presented as a liability. They are accounted for when cash is effectively received.

c. Receivables

Receivables are stated at net realisable value, after provision for doubtful and uncollectible debts.

Outstanding budget contributions concerning the Ranges are also recorded as Receivables.

Contributions receivable are recognised when a call for contribution has been issued to the Member Nations. No allowance for loss is recorded with respect to Member Nations' assessed contributions receivable.

d. Prepayments

A prepayment is a payment in advance of the period to which it pertains and is mainly in respect of an advance payment made to a third party. This item may include advances made to staff in accordance with Civilian Personnel Regulations (such as advances on salary or on education allowance in consideration of the fact that these are advances on future staff benefits).

e. Other Current Assets

Other Current Assets relate to miscellaneous amounts due to the FORACS such as accrued interest, counterpart of untaken leave, etc. This item may include other assets that do not result from the standard order to cash process, such as miscellaneous transactions to be regularized between entities managed by the IS Office of Financial Control.

f. Inventories

As mentioned above, NATO's adaptations of IPSAS are spelled out in C-M(2016)0023 of April 2016, which included IPSAS 12 Inventories. Furthermore, C-M(2017)0043 of September 2017, approved the NATO Accounting Policy for Inventory.

When it comes to assessing the control of NATO Inventory, these documents define a set of 10 criteria to be used in assessing the level of control of an Inventory asset. A positive response on six of the criteria will lead to the asset being capitalized in the Financial Statements if it is above the capitalization threshold. This is applied from January, 2013, under the initial NATO Accounting Framework C-M(2013)0039 of July 2013.

Criteria that may indicate control of an asset:

- The act of purchasing the asset carried out (or resulted from instructions given) by the NATO Reporting Entity.
- The legal title is in the name of the NATO Reporting Entity.
- The asset is physically located on the premises or locations used by the NATO Reporting Entity.
- The asset is physically used by staff employed by the NATO Reporting Entity or staff working under the NATO Reporting Entity's instructions.
- The fact that the NATO Reporting Entity can decide on an alternative use of the asset.
- The fact that the NATO Reporting Entity can decide to sell or to dispose the asset.
- The fact that the NATO Reporting Entity, if it has to remove or destroy the asset, can take the decision to replace it.
- The fact that a representative of the NATO Reporting Entity regularly inspects the asset to determine its current condition.
- The fact that the asset is used in achieving the objectives of the NATO Reporting Entity.
- The fact that the asset will be retained by the NATO Reporting Entity at the end of the activity.

Capitalization thresholds relevant to the financial statement are as follow:

| Category | Threshold | Basis |
|------------------|-----------|------------------------|
| Consumables | €50,000 | Per location/warehouse |
| Spare Parts | €50,000 | Per location/warehouse |
| Ammunition | €50,000 | Per location/warehouse |
| Strategic stocks | €50,000 | Per location/warehouse |

Slow moving inventory – Assuming turnover of stock is over a 12 month period, any items not used over a 36 month period will be deemed to be slow moving.

Strategic stock – Some complex elements of slow moving stock can be identified as strategic if they are deemed essential to the effective operation of an asset and cannot be readily replaced by commercial off the shelf items or cannot be purchased due to market decisions to close production lines of key inventory items due to the advanced age of the strategic asset to which the stock relates

NFO capitalizes inventory which it controls in its financial statements. Where there is a conflict between more than one NATO Reporting Entity as to the control of inventory, only the end-user entity reports the inventory in its financial statements, based on reliable information provided by the NATO services provider entity as defined in individual agreements between the two entities.

NATO UNCLASSIFIED

ANNEX 6 to
FC(2021)0022-REV1

6-8

NFO includes transportation costs involved in bringing the inventories to their present location and condition in the initial valuation of inventory. These costs will be measured on the actual cost of transportation per item of inventory or by using an apportionment of the global transportation costs of bringing the inventories to their present location and condition across all inventory items in the period. Transportation costs involved in the subsequent movement of inventory which brings them into operational use will not be included in the value of inventory. The method of measuring these costs will be disclosed.

NFO considers inventory acquired prior to 1 January 2013 as fully expensed.

For inventory held prior to 1 January 2013, and not previously recognized as an asset, NFO will provide a brief description of inventory held within their inventory recording systems in the notes to the financial statements. Such disclosure will include as a minimum the types of inventories held, locations where inventories are held and the approximate number of items held per asset category. Where this adaptation conflicts with another requirement of IPSAS this adaptation shall apply. For the remainder, IPSAS 12 shall apply.

NFO assesses inventories under IPSAS 12. The outcome of this assessment is that the value of the inventories is immaterial both in value and in terms of the nature of the items held. Consequently, inventory is fully expensed on receipt. The materiality will be assessed each year.

In consideration of the above thresholds, the NFO currently has no inventory.

Non-Current Assets - Fixed Assets (Property, Plant & Equipment)

a. Property, Plant & Equipment

As mentioned above NATO's adaptation of IPSAS are spelled out in C-M(2016)0023 of April 2016 among which were specific items addressing IPSAS 17 PPE. Furthermore, C-M(2017)0022(INV) approved the NATO accounting policy for Property, Plant and Equipment.

When it comes to assessing the control of NATO over PPE these documents define a set of 10 criteria to be used in assessing the level of control of a tangible asset. A positive response on six of the criteria will lead to the asset being capitalized in the Financial Statements if it is above the capitalization threshold. This is applied from January 2013, under the initial NATO Accounting Framework C-M(2013)0039 of July 2013

Capitalization thresholds relevant to the financial statement are as follow:

| Category | Threshold | Depreciation Life | Method |
|-------------------------------|-----------|-------------------|---------------|
| Land | €200,000 | N/A | N/A |
| Buildings | €200,000 | 40 years | Straight line |
| Other infrastructure | €200,000 | 40 years | Straight line |
| Installed equipment | € 30,000 | 10 years | Straight line |
| Machinery | € 30,000 | 10 years | Straight line |
| Vehicles | € 10,000 | 5 years | Straight line |
| Aircraft | €200,000 | Dependent on type | Straight line |
| Vessels | €200,000 | Dependent on type | Straight line |
| Mission equipment | € 50,000 | 3 years | Straight line |
| Furniture | € 30,000 | 10 years | Straight line |
| Communications | € 50,000 | 3 years | Straight line |
| Automated information systems | € 50,000 | 3 years | Straight line |

NATO UNCLASSIFIED

6-8

NATO UNCLASSIFIED

6-9

ANNEX 6 to
FC(2021)0022-REV1

NFO considers PPE acquired prior to 1 January 2013 as fully expensed. However, existing accounting policies will continue to be applied for any PPE assets already capitalized prior to 1 January 2013. For PPE upgraded after 1 January 2013, only the portion related to the modification will be capitalized.

In consideration of the above thresholds, the NFO currently has no PPE.

b. Intangible Assets

As mentioned above, NATO's adaptations of IPSAS are spelled out in C-M(2017)0023 of April 2013, which included IPSAS 31 Intangible Assets. Furthermore, C-M(2017)0044 approved the NATO accounting policy for intangible assets.

When it comes to assessing the control of NATO over Intangible Assets, these documents define a set of 10 criteria to be used in assessing the level of control of an Intangible asset – they are the same as mentioned above under Inventory. A positive response on six of the criteria will lead to the asset being capitalized in the Financial Statements if it is above the capitalization threshold. This is applied from January 2013, under the initial NATO Accounting Framework C-M(2013)0039 of July 2013.

NATO Intangible Assets Capitalization Thresholds - the NATO FORACS will capitalize each intangible asset item above the following agreed NATO thresholds:

| Category | Threshold | Depreciation Life | Method |
|--|-----------|-------------------|---------------|
| Computer software (commercial off the shelf) | €50,000 | 4 years | Straight line |
| Computer software (bespoke) | €50,000 | 10 years | Straight line |
| Computer database | €50,000 | 4 years | Straight line |
| Integrated systems | €50,000 | 4 years | Straight line |

NATO FORACS capitalizes all controlled intangible assets above the NATO Intangible Asset Capitalization Threshold. For anything below the threshold, the NATO FORACS will have the flexibility to expense specific items.

NATO FORACS capitalizes integrated systems and include research, development, implementation and can include both software and hardware elements. But NATO FORACS will not capitalize the following types of intangible assets in their financial statements:

- rights of use(air, land and water);
- landing rights;
- airport gates and slots;
- historical documents; and,
- publications

NATO FORACS capitalizes other types of intangible assets acquired after 1 January 2013 including:

- Copyright
- Intellectual Property Rights
- Software development

NATO UNCLASSIFIED

6-9

NATO UNCLASSIFIED

ANNEX 6 to

FC(2021)0022-REV1

6-10

NATO FORACS considers Intangible Assets acquired prior to 1 January 2013 as fully expensed.

NATO FORACS will report controlled Intangible assets in its financial statements. Where there is a conflict between more than one NATO Reporting Entity as to the control of intangible assets, only the end-use entity will capitalize the intangible asset in its financial statements based on reliable information provided by the NATO services provider entity as defined in individual agreements between the two entities.

NATO FORACS has no intangible assets acquired or held prior to 1 January 2013.

If an intangible asset is upgraded after 1 January 2013, only the portion related to the modification is capitalized.

Where this adaptation conflicts with another requirement of IPSAS this adaptation will apply. For the remainder, IPSAS 31 shall apply. This adaptation is effective for financial reporting periods beginning on 1 January 2013.

In 2015, the NFO has initiated a replacement of a software required for its operations.

This new software, denoted as Integrated Data Acquisition and Test System version X (IDATS) has completed development and is undergoing formal acceptance trials before formal introduction into service with NATO FORACS. The finalization of the acceptance trials is anticipated for 2021.

Current Liabilities

a. Payables

Payables are amounts due to third parties, including Participating Nations, based on goods received or services provided that remain unpaid. These include estimates of accrued obligations to third parties for goods and services received but not yet invoiced. Amounts due to Participating Nations in the context of their budget contributions are booked under Other Current Liabilities.

b. Advances and Deferred Revenue

Advances are contributions received related to future year's budgets. Advances include all advances linked to the budget process of the NFO and of the Ranges. This reflects the nature of the transactions since they result from the call for budgetary contributions process, handled by IS OFC, irrespective of the entity, and harmonises the approach between the NFO and the Ranges.

Deferred Revenue represents Participating Nations' contributions which have been called for current NFO budgets but that have not yet been recognised as revenue in the absence of any related budgetary expenses.

c. Other Current Liabilities

Amounts corresponding to the current year budgetary surplus of NFO, i.e. lapsed credits, net financial income and miscellaneous income, are considered a liability towards the Participating Nations. The settlement does not follow the normal accounts payable process, since the standard approach is to return them to Participating Nations via a deduction from the following year's call for budget contributions. This liability is therefore classified under Other Current Liabilities.

This item may include other liabilities that do not result from the standard procure to pay process, such as miscellaneous transactions to be regularized between entities managed by the IS Office of Financial Control.

Non-Current Liabilities

The long term unearned revenue is unearned revenue in relation to net carrying amounts of Property, Plant and Equipment and Intangible Assets. Revenue is recognised over the estimated life cycle of the Property, Plant and Equipment and The Intangible Assets.

Net Assets

Net Assets correspond to NATO FORACS' Project Accumulated Surplus. Project Accumulated Surplus relates to funds resulting from past years contributions by NATO FORACS' Member Nations in excess of budget execution that the Steering Committee decided not to redistribute to the Member Nations but keep for the needs of NATO FORACS as an operational reserve. It is held at the direction of the Steering Committee, with North Atlantic Council approval for the NFRs deviation.

Revenue Recognition

Revenue comprises contributions from NATO FORACS Member Nations and amounts due by beneficiaries of services provided by the NATO FORACS Ranges.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably. The balance of unspent contributions and other revenues that relate to future periods are deferred accordingly.

Where a transfer is subject to conditions that, if unfulfilled, require the return of the transferred resources, the entity recognises a liability until the condition is fulfilled.

Contributions to be called from Member Nations, based on the budget they approved, are initially recorded as unearned revenue liabilities. They are recognised as revenue in the statement of financial performance when such contributions are used for their intended purpose as envisioned in the approved Budget.

Transformational adjustments are made in calculating earned revenue and expenses in the Statement of Financial Performance.

Segment Reporting

A segment is a distinguishable activity or group of activities for which it is appropriate to separately report financial information. There is no segment in NFO. The Ranges are NATO FORACS components but are not NATO entities and do not form part of NFO, so cannot be considered as segments of NFO. Separate information concerning the Ranges is provided when appropriate, but this should not be considered as being done with the intent of complying with IPSAS 18 on Segment Reporting, which is not applicable in the case of these financial statements.

NATO UNCLASSIFIED

6-12

ANNEX 6 to
FC(2021)0022-REV1**Statement of Financial Position****NOTE 3: CASH AND CASH EQUIVALENTS**

The current NFO bank accounts are held in EUR. Deposits (if any) are held in interest-bearing bank accounts, immediately available.

Overview of the cash and cash equivalents held by FORACS:

amounts in EUR

| | 2020 | 2019 |
|--------------|---------------------|---------------------|
| NFO | 2,641,931.12 | 2,686,848.05 |
| Petty Cash | 0.00 | 0.00 |
| TOTAL | 2,641,931.12 | 2,686,848.05 |

Funds managed for third parties

The NATO-IS Office of Financial Control holds funds, in cash, contributed to the NFG, NFA and, NFN budgets. These bank accounts are controlled by the IS Office of Financial Control, in the context of the management of FORACS financial operations, thus the closing balances are reported in the NFO's financial statements. Upon request of the Range Managers, funds are transferred to the Greek, US and Norwegian officials respectively, under the supervision of the Range Managers to execute their budget following their national rules.

The breakdown is as follows:

amounts in EUR

| | 2020 | 2019 |
|--------------------------|---------------------|---------------------|
| NFA | 925,740.26 | 1,003,631.83 |
| NFA - short term deposit | 0.00 | 0.00 |
| NFG | 535,069.00 | 623,427.40 |
| NFN | 1,181,325.53 | 1,085,049.98 |
| TOTAL | 2,642,134.79 | 2,712,109.21 |

NOTE 4: SHORT TERM INVESTMENTS

The FORACS does not hold short term investments as per 31 December 2020.

NOTE 5: ACCOUNTS RECEIVABLE

At the end of 2020 this position consists mostly of the receivable from lapsed Ranges' credits, being part of their yearly budgetary surplus.

Contributions receivable are funds requested from the Nations to finance the current and following year budgets of all the NATO FORACS components. There is normally only one call for contribution, issued during the summer period. As directed by the Steering Committee, the call includes approximately 20% of the current year's budget credits and an advance of approximately 80% for next financial year, at 2020 year-end there was one partial outstanding contribution receivable to report from Member Nation Greece.

NATO UNCLASSIFIED

6-12

NATO UNCLASSIFIED

6-13

ANNEX 6 to
FC(2021)0022-REV1

The amounts recorded as receivables represent the lapses of the Ranges reported in their respective Budget Execution Statements.

The below table provides an overview of open receivables at year-end for two consecutive years:

| | 2020 | 2019 |
|--------------------------|---------------------|-------------------|
| Budgetary contributions | 70,690.00 | - |
| Ranges | 953,106.69 | 703,063.67 |
| Staff | - | - |
| Other NATO bodies | - | - |
| Users of FORACS services | - | - |
| TOTAL | 1,023,796.69 | 703,063.67 |

NOTE 6: PREPAYMENTS

Advances are made to the Ranges based on their respective budget for the following year in accordance with the process of centralisation of all budgetary calls under the NFO umbrella.

Prepayments to staff (typically advances on salaries, advances on education allowances, travel expenses) are done in accordance with the NATO Civilian Personnel Regulations. As per end of 2020, prepayments to staff are only related to education allowances. At the end of 2020, a small prepayment was done for minor expense via the credit card.

Below table gives the breakdown of the different prepayments for the last 2 consecutive years:

| | 2020 | 2019 |
|---------------------------|---------------------|---------------------|
| Prepayments to the Ranges | 1,640,646.63 | 1,630,421.86 |
| Prepayments to Suppliers | 265.48 | 2,433.47 |
| Prepayments to Staff | 20,498.67 | 3,198.00 |
| TOTAL | 1,661,410.78 | 1,636,053.33 |

Amounts in EUR

The advances made to the Ranges are broken down as follows:

| | 2020 | 2019 |
|--------------|---------------------|---------------------|
| NFA | 635,206.98 | 624,964.33 |
| NFG | 363,600.00 | 355,350.00 |
| NFN | 641,839.65 | 650,107.53 |
| TOTAL | 1,640,646.63 | 1,630,421.86 |

amounts in EUR

NATO UNCLASSIFIED

ANNEX 6 to
FC(2021)0022-REV1

6-14

NOTE 7: OTHER CURRENT ASSETS

Other Current Assets include the counterpart of untaken leave as a valuation of the potential budgetary contribution that would be required if this untaken leave were to be paid. However as indicated in the note on Employee Disclosure untaken leave is normally never paid. This item also includes accrued financial revenue and deferred expenses.

Amounts in EUR

| | 2020 | 2019 |
|-----------------------|------------------|------------------|
| Accrual bank interest | 699.94 | 11,709.54 |
| Untaken leave | 20,703.28 | 12,676.55 |
| Deferred expenses | 29,800.74 | - |
| TOTAL | 51,203.96 | 24,386.09 |

NOTE 8: INVENTORIES

Nothing to report, inventories are not considered material.

NOTE 9: INTANGIBLE ASSETS

FORACS intends to replace the data recording and analysis software used for its operations. To this effect, end 2015, a contract was signed with the NATO Communications and Information Agency for the delivery of this project. The software is still undergoing a series of tests before it can be declared available for operational purposes, therefore no depreciation has been recorded in 2020.

In the below chart, it is provided an overview of the project's carrying amount at the year-ends.

| (amounts in EUR) | Carrying Amount end 2016 | Additions | Disposals | Depreciation | Other Changes | Carrying Amount end 2017 |
|---------------------|--------------------------|----------------|-----------|--------------|---------------|--------------------------|
| Software | 796,959 | 601,462 | | | | 1,398,422 |
| TOTAL FORACS | 796,959 | 601,462 | 0 | 0 | 0 | 1,398,422 |

| (amounts in EUR) | Carrying Amount end 2017 | Additions | Disposals | Depreciation | Other Changes | Carrying Amount end 2018 |
|---------------------|--------------------------|----------------|-----------|--------------|---------------|--------------------------|
| Software | 1,398,422 | 287,160 | | | | 1,685,582 |
| TOTAL FORACS | 1,398,422 | 287,160 | 0 | 0 | 0 | 1,685,582 |

| (amounts in EUR) | Carrying Amount end 2018 | Additions | Disposals | Depreciation | Other Changes | Carrying Amount end 2019 |
|---------------------|--------------------------|-----------|-----------|--------------|---------------|--------------------------|
| Software | 1,685,582 | 0 | | | | 1,685,582 |
| TOTAL FORACS | 1,685,582 | 0 | 0 | 0 | 0 | 1,685,582 |

| (amounts in EUR) | Carrying Amount end 2019 | Additions | Disposals | Depreciation | Other Changes | Carrying Amount end 2020 |
|---------------------|--------------------------|-----------|-----------|--------------|---------------|--------------------------|
| Software | 1,685,582 | | | | | 1,685,582 |
| TOTAL FORACS | 1,685,582 | 0 | 0 | 0 | 0 | 1,685,582 |

NATO UNCLASSIFIED

6-14

NATO UNCLASSIFIED

6-15

ANNEX 6 to
FC(2021)0022-REV1

NOTE 10: PAYABLES

Payables and accrued expenses (accruals) are to commercial suppliers, staff, other NATO bodies, NATO FORACS Member Nations or other NATO FORACS entities.

Payable to suppliers relates to goods and services for which an invoice has been processed but for which payment was still pending at year-end. The invoices open in a currency different from the budget currency (EUR) has been revalued on 31 December 2020.

Accrued expenses (accruals) correspond to the estimated accrual obligation to third parties for goods and services received but not yet invoiced.

Below tables provide details of the payables balances for the last 2 financial years at year-end: amounts in EUR

| | 2020 | 2019 |
|-----------------------|-------------------|-------------------|
| Suppliers | 91,912.54 | 102,474.80 |
| Personnel | - | 306.92 |
| Other FORACS entities | 10,063.19 | 57,466.02 |
| Member Nations | 150,300.82 | 147,417.60 |
| Accruals | 44,145.32 | 194,419.04 |
| TOTAL | 276,295.49 | 502,084.38 |

Payable to Participating Nations

A payable of EUR 150,300.82 (EUR 147,417.60 in 2019) is in relation to reimbursable salaries and represents the amount due to the United States (US) for civilian staff members who are or have been employed by FORACS but paid directly by the US government. The amount available at the beginning of 2020 was used to offset the budgetary contribution of the US called in 2020. The net outstanding amount remains to be regularised.

NOTE 11: DEFERRED REVENUE

Deferred Revenue

This item is limited to NFO since it is the only NATO FORACS entity over which the IS Office of Financial Control exercises budgetary control.

Deferred Revenue corresponds to NFO contributions called for the current year budget or before (received or receivable) that NFO intends to use for its initial purpose, but for which corresponding goods or services could not be received in the course of the current budget year but will be incurred after the end of the reporting period. If these amounts carried forward are not spent by the end of the second year following the year for which they were approved, these funds will lapse unless a specific decision is taken by Member Nations for a further carry-forward.

There were no appropriations subject to a special carry-forward, neither to a further carry-forward.

NATO UNCLASSIFIED

6-15

NATO UNCLASSIFIED

ANNEX 6 to
FC(2021)0022-REV1

6-16

NOTE 12: ADVANCES

The standard call for contribution process includes an advance on the following year's budgets for all NATO FORACS components. The NATO FORACS Ranges may in turn request that part or all of the advances be transferred to them. The amounts called as advances at year end were the following:

| | amounts in EUR | |
|--------------|---------------------|---------------------|
| | 2020 | 2019 |
| NFO | 997,305.00 | 1,004,291.00 |
| NFA | 1,546,772.28 | 1,666,571.19 |
| NFG | 969,358.00 | 947,599.00 |
| NFN | 1,686,883.87 | 1,733,620.08 |
| TOTAL | 5,200,319.15 | 5,352,081.27 |

NOTE 13: PROVISIONS

The provision relates to the staff Untaken Leave liability.

The valuation of Untaken Leave (which has no impact on the current budget of NFO) amounts to EUR 20,703.28 (EUR 12,676.55 end 2019).

NOTE 14: OTHER CURRENT LIABILITIES

Amounts corresponding to the current year budgetary surplus of NFO, i.e. lapsed credits, net financial income and miscellaneous income, are considered a liability towards the Participating Nations. The settlement does not follow the normal accounts payable process, since the standard approach is to return them to Participating Nations via a deduction of the following year's call for budget contributions. Up to now, the standard practice of the NATO FORACS Steering Committee has been to use these amounts to fund the NFO Supplementary Budget or to add them to the Project Accumulated Surplus (see note on Net Assets).

Below is a snapshot of NFO's current year surplus at year ends:

| | amounts in EUR | |
|-----------------------|---------------------------------|-------------------|
| | Current Year Budget Surplus NFO | |
| | 2020 | 2019 |
| Lapsed Appropriations | 733,433.03 | 711,011.02 |
| Net Financial Income | 992.38 | - |
| Miscellaneous Income | 13,197.59 | 13,400.56 |
| TOTAL | 747,623.00 | 714,481.06 |

Miscellaneous income is an over-accrual from previous year of EUR 13,197.59.

Financial income is the result of foreign exchange rate differences on the payments of the supplementary budget to the ranges NFN and NFA, payments to suppliers, bank charges and interest collected throughout the year.

Other current liabilities cover also the current year budgetary surplus of the Ranges, i.e. lapsed credits and net financial income.

During the course of 2020, NFN has returned to NFO an amount EUR 136,246 which is part of their 2020 unused credits.

Detailed breakout is presented in the table below.

amounts in EUR

| | 2020 | 2019 |
|---------------------------------|---------------------|---------------------|
| NFO Current Year Budget Surplus | 747,623.00 | 714,481.06 |
| Lapses NFA | 331,613.04 | 308,886.25 |
| Lapses NFG | 187,280.85 | 67,515.00 |
| Lapses NFN | 431,408.83 | 326,662.42 |
| Financial Surplus Ranges | 15,556.95 | 14,117.79 |
| Other | 0.00 | 0.00 |
| TOTAL | 1,713,482.67 | 1,431,662.52 |

NOTE 15: NON CURRENT LIABILITIES AND LONG TERM DEFERRED REVENUE

The long term deferred revenue is unearned revenue in relation to net carrying amounts of Property, Plant and Equipment and Intangible Assets. Revenue is recognised over the estimated life cycle of the Property, Plant and Equipment and the Intangible Assets.

In the future this account will be used as a counterpart of the IDATS, once it becomes available for operational use and thus recognized as an Intangible Asset and subject to yearly depreciations.

NOTE 16: RETAINED EARNINGS

Retained earnings correspond to NATO FORACS' Project Accumulated Surplus.

Project Accumulated Surplus relates to funds resulting from past contributions by NATO FORACS member Nations in excess of budget execution that the Steering Committee decided not to redistribute to the member nations but keep for the needs of the NATO FORACS project. This decision was approved by the NAC (C-M(2018)0032-AS1 dated 26 Jun 2018, under "Approval of FORACS Operational Reserve Fund"). It is an Operational Reserve held at the direction of the Steering Committee essentially in the case of emergency funding needs for the Project to ensure continuity of service and also for reallocation among NATO FORACS entities when the Steering Committee approves their Supplementary Budgets. It originates from previous years' budgetary and financial operations of the various NATO FORACS entities.

NATO UNCLASSIFIED

ANNEX 6 to
FC(2021)0022-REV1

6-18

Statement of Financial Performance

NOTE 17: REVENUE

Non-Exchange Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably. The non-exchange revenue is matched with the expenses stemming from budget execution.

Contributions, when called, are booked as an Unearned Revenue and subsequently recognized as Non-Exchange Revenue when it is earned.

Exchange Revenue may result from services provided by NATO FORACS to entities other than the Participating Nations. This type of revenue is assessed on a calculated day rate for services.

Below there is a snapshot of the 2020 revenue breakdown:

amounts in EUR

| | 2020 | 2019 |
|---|---------------------|---------------------|
| Non Exchange revenue | 1,174,157.91 | 1,181,210.18 |
| Called from Nations | 251,073.00 | 238,335.94 |
| Budget to be taken from refundable surplus | 689,973.00 | 800,636.46 |
| Budget to be taken from Operational Reserve | -43,101.00 | 124,840.00 |
| To be received/paid from/to the ranges | 43,101.00 | -124,840.00 |
| Provision untaken leave | 8,026.73 | 1,432.97 |
| Extra budget to be taken from call | 225,085.18 | 140,804.81 |
| Exchange revenue | 0.00 | 0.00 |
| Services provided by FORACS to non member Nations | 0.00 | 0.00 |
| Financial Revenue | 5,714.71 | 226.06 |
| Exchange gain | 5,714.71 | 226.06 |
| Other revenue | 13,197.59 | 13,400.56 |
| DCPS Allianz Compensatory payment | 0.00 | 2,842.30 |
| Overaccrual | 13,197.59 | 10,558.26 |
| Total Revenue | 1,193,070.21 | 1,194,836.80 |

Exchange Revenue

Nothing to report.

Financial Revenue

This includes exchange rate differences.

Other Revenue

This includes the regularization of overestimated accruals from previous year.

NATO UNCLASSIFIED

6-19

ANNEX 6 to
FC(2021)0022-REV1

NOTE 18: EXPENSES

Wages, Salaries and Employee Benefits

The personnel costs only pertain to all civilian personnel in support of funded activities. They also include expenses for salaries and emoluments for approved NATO permanent civilian positions and temporary personnel, for other salary related and non-related allowances including overtime, medical examinations, recruitment, installation and removal.

Supplies and Consumables Used

This item may also include expenses attributed to Capital Expenses (Property, Plant and Equipment and Intangible Assets) from a budget perspective, if they do not meet the criteria of PPE or Intangible Assets.

Depreciation and Amortization

Nothing to report.

Impairments

Nothing to report.

Provisions

This item includes changes in any provisions disclosed in the financial statements, including a valuation of the untaken leave liability.

Other Expenses

Nothing to report.

Finance Costs

This item includes bank charges and exchange rate differences.

NOTE 19: BUDGET INFORMATION

NATO FORACS Office Budget

Presently, the NATO FORACS Budgets are not publicly available.

The actual amounts referred to by IPSAS 24 ("amounts that result from execution of the budget") are expenses incurred during the execution of the budget and appearing under the heading "Actuals" in the Budget Execution Statement.

Presentation of budget information in the financial statements

In the present financial statements budget information is limited to NFO since it is the only entity over which the IS OFC exercises budgetary control.

NATO UNCLASSIFIED

6-19

NATO UNCLASSIFIED

ANNEX 6 to
FC(2021)0022-REV1
6-20

The NFO budget classification is based on the economic nature of the expenses broken down into three chapters as follows:

| | |
|-------------|--------------------|
| Chapter I | Personnel Expenses |
| Chapter II | Operating Expenses |
| Chapter III | Capital Costs |

The NFO Budget is prepared for the same period (1 January to 31 December) as these financial statements.

These financial statements also include transactions with NFA, NFG and NFN in relation to their funding as components of NATO FORACS (calls for their budgets' contributions, prepayment of advances on their budgets, transfers related to budget adjustments). Their respective budget execution and control are conducted in accordance with their own national regulations. Neither the NFO nor the IS Financial Controller have any responsibility or authority in this respect. As a consequence their budget executions are not reflected in the budget execution statement of the NFO presented in these financial statements.

Changes to the budgetary regulations were introduced by the North Atlantic Council in 2015 in approving a new set of NATO Financial Regulations. The new NATO Financial Regulations were made applicable to the 2015 budget year as from 1 May 2015. They have in particular instilled an accruals based approach to budget preparation and budget execution, whereas before the approach was largely commitment and cash based.

Despite a stronger emphasis on the principle of annual budgets, the approved and executed budget cannot be considered as fully accruals-based, since the new regulations allow for a number of exceptions, such as carrying forward commitments for goods and services that were expected to be delivered in the course of the year but for various reasons were not, or authority given to the member Nations to allow for special carry forward of appropriations unused at year-end.

The NFO budget is prepared and executed as follows:

- 1) The commitment of appropriations is the advance acceptance and recording of the financial consequence resulting from a legal obligation incurred during the financial year. As a consequence appropriations are allocated, and commitments are approved, for goods, services and works to be delivered at a later stage. Commitments are settled when the service is rendered or goods delivered as is the case for expenses under accrual accounting.
- 2) Approved Commitments for which no goods could be received or services rendered at year end normally lapse. However, if they are supported by a legal obligation and correspond to goods or services that could not be received during the course of the year for specific reasons, they may be carried forward and added to the budget of the following financial year. Uncommitted appropriations may be subject of a special carry forward to the following year if a specific agreement is given by the Steering Committee. Outstanding commitments can be carried forward for two years. As a consequence, the services or goods received may relate to a commitment of appropriations from previous years' budgets. The carry-forward should be justified by a reason for which the services or goods could not be received in the course of the year. In addition, in accordance with Financial Regulations, member Nations may agree to a further carry-forward of commitments that were already carried forward twice.
- 3) Commitments, because they are an advance acceptance, and because payments cannot be made above approved appropriations levels, typically include an estimation factor and may

- be (if only slightly) higher than the actual amount eventually paid. This results in commitments being higher than the actual expenses and in appropriations eventually lapsing.
- 4) Commitments are only made in respect of expenses relating to the initial purpose of the commitment. Commitments for capital expenditures are normally made in the year during which the purchase order is issued. In accrual accounting, the related costs would not appear in the Statement of Financial Performance but in the Balance Sheet and only upon reception of the works, goods or services. Conversely, there is no budgetary commitment of appropriations for non-cash flow transactions such as capital depreciation or provisions which would normally appear in the Statement of Financial Performance under accrual accounting.
 - 5) On an exceptional basis, the Steering Committee may approve the carry-forward of credits without any prior legal commitment, for instance for projects at their initiation stage or planned expenditures. In accrual accounting there would be no expense recorded.
 - 6) The balance of unused budgetary appropriations (not committed) lapses and is to be returned to Contributing Nations or added to the Operational Reserve at year-end (the latter being the usual practice). Lapses may include cases where a project was eventually not completed or started, and therefore lead to no expense.

Budget approval

Every year, an initial budget for Operations and Maintenance is requested in order to provide contributors with a stable level of contribution and a significant amount is planned for under the supplementary budget.

amounts in EUR

| | 2020 | 2019 |
|----------------------------|---------------------|---------------------|
| Initial Budget | 1,255,363.00 | 1,192,810.00 |
| Supplementary Budget | 733,076.06 | 675,796.00 |
| Additions/Reductions | 0.00 | 0.00 |
| Total Annual Budget | 1,988,439.06 | 1,868,606.00 |

There were no frozen appropriations.

Budget execution

The NFO budget execution for the current and previous year is shown at Annex 5.

Table below compare the budget's authorized appropriations and the actual amounts committed and expended, i.e. the comparison between the Budget Execution and the Statement of Financial Performance.

NATO UNCLASSIFIED

ANNEX 6 to

FC(2021)0022-REV1

6-22

| BUDGET EXECUTION | | | |
|---|----------------------|--|------------------|
| Total Budget (including carried-forward from previous year) | (a) | | 2,014,931 |
| Credits Carried Forward in Following Year | (b) | | 100,527 |
| Lapsed Appropriations | (c) | | 733,434 |
| Budget Execution Expenses | (d) = (a-b-c) | | 1,180,971 |

| RECONCILIATION | | | |
|--|------------------------|--|------------------|
| Financial Performance Expenses (Excluding financial costs) | (d) | | 1,188,997 |
| Increase in Non-Current Assets | (e) | | - |
| Provisions | (f) | | 8,027 |
| Other Expenses | (g) | | - |
| Sub-Total | (h) = (d+e-f-g) | | 1,180,971 |
| Difference to Budget Expenses | (c-h) | | (0) |

Reconciliation between NFO Budget and Calls for Contributions

The funding of the NFO budget is made of an advance call and a call for contributions, carried over credits, the previous year's surplus, and on occasion, as directed by the Steering Committee, a contribution from/to the Project's Accumulated Surplus and/or a transfer from/to another FORACS entity's current year budget.

One call for contributions is issued every year which includes an advance concerning the budget of the following year and the remainder concerning the current year's budget (i.e. current year budget minus advance called during the previous year and any other adjustments among the FORACS entities).

The table below reconciles the approved budget and the sources of funding.

amounts in EUR

| | 2020 | 2019 |
|--|------------------|------------------|
| Initial Budget | 1,255,363 | 1,192,810 |
| Supplementary Budget | 733,076 | 675,796 |
| Total Annual Budget | 1,988,439 | 1,868,606 |
| Advance called previous year | 1,004,290 | 954,248 |
| Call in current year | 251,073 | 238,562 |
| Total Cash Calls | 1,255,363 | 1,192,810 |
| Use of Previous Year's Surplus | 714,481 | 800,636 |
| Use of (Contribution to) Project Accumulated Surplus | - | - |
| Transfer from (to) other FORACS entities | 18,595 | 124,840 |
| Other Funding Sources | 733,076 | 675,796 |
| Total Funding | 1,988,439 | 1,868,606 |

NOTE 20: WRITE-OFFS

There were no write-offs during 2020.

NOTE 21: LEASES

NFO does not have any financial leases.

NOTE 22: RESTRICTIONS ON FIXED ASSETS

There are no restrictions on fixed assets.

NOTE 23: CONTINGENT LIABILITIES

There have been no contingent liabilities identified that would be expected to result in a material obligation.

NOTE 24: CONTINGENT ASSETS

Nothing to report.

NATO UNCLASSIFIED

ANNEX 6 to
FC(2021)0022-REV1

6-24

NOTE 25: EMPLOYEE DISCLOSURE**Employee Status**

The tables below provide comparative data about FORACS staff for two consecutive years:

| | NATO Civilians | |
|------------------------|----------------|------|
| | 2020 | 2019 |
| Total Approved PE | 4 | 4 |
| Total Filled Positions | 4 | 4 |
| Arrivals in the year | 1 | 0 |
| Departures in the year | 1 | 0 |

| | Total Approved PE | Total Filled Positions |
|------------------|-------------------|------------------------|
| Civilian (PE) | 4 | 4 |
| VNC | 0 | 0 |
| Short term | 0 | 0 |
| Interns | 0 | 0 |
| Others – explain | 0 | 0 |

Leave

Paid leave is an employee benefit and as such part of overall personnel expenses. In accordance with personnel regulations, the remaining balance at year end may be carried forward but must be taken before 30 April of the following year. It can be exceptionally expanded to 31 October in accordance with Civilian Personnel Regulations art. 42.3.5 and 42.3.6. After this date it lapses and is not paid to staff. For these financial statements, untaken leave is specifically reported if its monetary value is more than 10% of the total annual leave entitlement. The cost of untaken leave days is usually absorbed during the year through the monthly salaries; leave to be taken carried forward into the next year constitutes a liability towards the future and would notionally require funding from Participating Nations.

Pension Schemes

NATO-IS is managing centrally three pension programs, namely the Defined Benefit Pension Scheme (DBS), the Defined Contribution Pension Scheme (DCPS) as well as the Retiree Medical Claims Fund (RMCF), covering staff employed by all NATO bodies.

NFO staff is covered by one the two NATO pensions schemes (DCPS or DBPS). The DCPS provides that the NFO budget makes a 12 percent monthly matching contribution to the staff members' contributions for current service. As for the DBPS, a deduction of 11.8% of staff salaries is made and contributed to the annual financing of this Plan. In addition, the NFO budget makes a monthly matching contribution of 19% to the DBPS. These contributions are expensed during the year concerned and represent the sole pension related obligation of the entity. Consequently, the NFO has neither DBPS nor DCPS liabilities for its staff members.

The table below provides comparative data about the staff affiliation to the different pension schemes for two consecutive years:

FORACS STAFF PENSION SCHEME AFFILIATION

| | 2020 | 2019 |
|-------------------------------------|------|------|
| Co-ordinated Pension Scheme | 2 | 2 |
| Defined Contribution Pension Scheme | 1 | 1 |

Out of the 4 permanent staff of the NFO, one is a US reimbursable employee and as such is not affiliated to any of the NATO pension schemes.

The table below indicates the contributions made by NFO to the various pension programs.

amounts in EUR

| Co-ordinated Pension Scheme | 2020 | | 2019 | |
|-------------------------------------|------------------|------------------|------------------|------------------|
| | Staff | Employer | Staff | Employer |
| | 21,651.36 | 43,302.72 | 17,156.64 | 34,313.28 |
| Total | 64,954.08 | 51,469.92 | 16,046.07 | 14,811.69 |
| Defined Contribution Pension Scheme | 2020 | | 2019 | |
| | Staff | Employer | Staff | Employer |
| | 8,826.89 | 14,817.63 | 30,478.25 | 58,120.35 |
| Total | 23,644.52 | 30,857.76 | 33,202.71 | 49,124.97 |
| Total | 88,598.60 | 82,327.68 | | |

NOTE 26: KEY MANAGEMENT PERSONNEL

The NATO FORACS Steering Committee (one representative per member nation) is the governing body of the NFO and of the NFG, NFN and NFA. Steering Committee members are nominated by their respective National Authorities. They are paid on the basis of applicable National pay scales. The Steering Committee members do not receive from NATO any additional remuneration for Steering Committee responsibilities or access to benefits.

The key management personnel of the NFO consists of the Project Manager. The Project Manager is responsible for the overall operational management of NATO FORACS. The Project Manager reviews the three Ranges' budgets, proposed by the Range Managers, and proposes all four budgets to the Steering Committee for approval. The three sites are managed operationally by Range Managers, each nominated by the participating nation where the site is located.

There are no other remuneration or benefits to Steering Committee members or key management personnel or their family members.

NOTE 27: RELATED PARTIES

In reviewing the four budgets on an annual basis, the Steering Committee determines the budgetary credits for the initial and the Supplementary Budgets. It is in this context that funds for the O&M budget are called (Supplementary Budget funds are already held by NFO on behalf of the Project) and held in cash or cash equivalents by the NATO-IS Office of Financial Control to finance three other NATO FORACS budgets, namely NATO FORACS Greece, NATO FORACS AUTECC and

NATO UNCLASSIFIED

ANNEX 6 to
FC(2021)0022-REV1

6-26

NATO FORACS Norway. For more effective cash management purposes, the Steering Committee approved the call procedure whereby funds pertaining to NFG, NFA and NFN are transferred into accounts at NATO Headquarters. These bank accounts are controlled by NFO, thus the closing balances are reported in the NFO's financial statements. Upon request of the Range Managers, funds are transferred to the Greek, US and Norwegian defence authorities respectively, with whom the Range Managers engage to execute their budget following their national rules.

NATO Office of Financial Control holds the surplus funds of all the NATO FORACS entities on the NFO bank account. These funds are not controlled by the NFO Project Manager, but are approved for expenditure by the Steering Committee to enable it to implement its Supplementary Budget authorisations. Remaining funds constitute the Operational Reserve.

Both the Steering Committee members and Key management personnel have no significant party relationships that could affect the operation of the NFO.

In 2020, NATO International Staff charged NATO FORACS for the following cost- sharing:

amounts in EUR

| | Burden Sharing Charges | |
|--------------|-------------------------------|------------------|
| | 2020 | 2019 |
| COMOPS | 18,534.00 | 19,333.37 |
| Admin Cost | 32,436.21 | 31,999.73 |
| Other | 0.00 | 0.00 |
| Total | 50,970.21 | 51,333.10 |

* * * * *

List of acronyms:

| | |
|--------|---|
| AUTEC | Atlantic Underwater Test and Evaluation Center |
| DOD | Department of Defense |
| BC | Budget Committee |
| FORACS | Naval Forces Sensor and Weapon Accuracy Check Sites |
| IPSAS | International Public Sector Accounting Standards |
| IS | International Staff |
| MOD | Ministry of Defense |
| MOU | Memorandum of Understanding |
| NCIA | NATO Communication and Information Agency |
| NFA | NATO FORACS AUTEC |
| NFG | NATO FORACS Greece |
| NFN | NATO FORACS Norway |
| NFO | NATO FORACS Office |
| NFSC | NATO FORACS Steering Committee |
| OFC | Office of Financial Control |
| PPE | Property, Plant and Equipment |

NATO UNCLASSIFIED

ANNEX 6 to
FC(2021)0022-REV1

6-28

| Preparer: | Reviewer: | Approver: |
|---------------|------------------|--------------------|
| Thomas Massin | Maaïke Deconinck | Mirosława Boryczka |