



# New Airways Pension Scheme

## Trustee's Report & Financial Statements

For the Year Ended 31 March 2020

## CONTENTS

CHAIR'S REVIEW.....	1-2
TRUSTEE DIRECTORS AND ADVISERS.....	3
TRUSTEE'S REPORT.....	4-9
STATEMENT OF TRUSTEE'S RESPONSIBILITIES.....	10
INVESTMENT REPORT.....	11-15
INDEPENDENT AUDITOR'S REPORT.....	16-17
FUND ACCOUNT.....	18
STATEMENT OF NET ASSETS.....	19
NOTES TO THE FINANCIAL STATEMENTS.....	20-34
INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS.....	35
TRUSTEE'S SUMMARY OF CONTRIBUTIONS.....	36
SCHEDULE OF CONTRIBUTIONS.....	37-39
ACTUARIAL CERTIFICATE.....	40-41
REPORT ON ACTUARIAL LIABILITIES.....	42-43
MEMBERSHIP INFORMATION.....	44
COMPLIANCE STATEMENT.....	45

As Chair of the New Airways Pension Scheme ('NAPS'), it is my pleasure to report the year's key events to you. This report covers issues around funding, investment, governance and administration during the Scheme year as well as updating you on some important events since the year-end. Throughout the year, we have kept members informed about Scheme developments; with articles in both In Focus and quarterly online newsletters/bulletins as well as regular updates on the service to members during the COVID-19 pandemic.

### COVID-19

The COVID-19 pandemic has meant significant disruption to the routine running of the Scheme over an extended time period. Transitioning to remote-working has been challenging, and during the UK-wide lockdown, it was necessary to prioritise essential services, but a return to our usual service standards is steadily progressing. British Airways ('BA') commenced discussions with the Trustee in March 2020 around the potential to defer its deficit repair contributions. An interim one-month deferral of the March 2020 contribution was agreed with BA while these discussions took place. The March 2020 contribution was then paid alongside the April 2020 contribution. No further deferral was agreed, and BA has continued to pay the subsequent deficit repair contributions required under the current Recovery Plan. We will continue to keep BA's financial position under close review and take advice as appropriate.

### Funding and investment

It is a requirement that the Scheme Actuary carries out an actuarial valuation of the Scheme at least every three years. The valuation reviews the financial position of the Scheme. It helps to establish the contributions payable to the Scheme in future and other actions that should be taken by the Trustee and BA. The 31 March 2018 actuarial valuation was finalised in October 2019.

The Trustee's report on page 4 shows how the funding has evolved since the 31 March 2018 actuarial valuation by reference to the annual interim updates. The 31 March 2019 interim update is summarised in our 2019 Summary Funding Statement. It is published together with the full actuarial valuation report for the 31 March 2018 valuation on the '[Scheme documents](#)' page of the member website.

The headline results of the 31 March 2018 actuarial valuation show that the funding level on the Technical Provisions basis improved since the last formal valuation to 88% (2015: 83%). The Scheme's assets increased to £16.93bn (2015: £13.28bn). While the Scheme's liabilities also increased to £19.33bn (2015: £16.07bn), overall the Scheme's funding deficit had fallen to £2.4bn (2015: £2.8bn).

At the time of the 31 March 2019 interim annual update the deficit was £1.88bn and the funding level was 91%, with the improvement since 31 March 2018 largely due to the investment returns achieved over the year and deficit contributions received from BA. This more than offset the expected reduction in future interest rates and investment returns. Since 31 March 2019, BA has also made an additional one-off payment of £250m to the Scheme (in December 2019) relating to a contingent payment mechanism agreed between the Airways Pension Scheme ('APS') and NAPS in 2010. As part of the out-of-court settlement in April 2019 of the discretionary increase litigation between BA and APS, payment of these funds was made to NAPS.

The interim annual update as at 31 March 2020 is in progress and will be finalised shortly, with members receiving a Summary Funding Statement setting out the details.

A Long-Term Funding Target ('LTFT') was established through the 31 March 2018 actuarial valuation, which sets a target asset portfolio for 2030. Progress towards the LTFT is supported by a framework in place to dynamically manage investment risk as funding levels improve. The annual de-risking programme continues, allowing us to make members' benefits more secure by reducing our exposure to investment risk.

Following the conclusion of the 31 March 2018 actuarial valuation, we have started work on refining the Journey Plan and hedging framework to build alignment with the LTFT. At 31 March 2020, liability matching assets made up 55.5% of our benchmark portfolio.

An update on investments is provided on pages 11 to 15.

### Governance matters

During the year, we started a detailed review of our risk management framework. We also revised our Conflicts of Interest Policy.

### Brexit

The UK formally left the European Union on 31 January 2020 and immediately entered into an 11-month transition period which will soon be drawing to a close. The Trustee, BA, and advisers will continue to monitor this and the potential impact any developments may have on the Scheme.

**Trustee Directors**

During the Scheme year, BA made changes to the Employer Nominated Trustee Directors serving the NAPS Trustee Board.

BA appointed Jude Winstanley on 8 August 2019, Melanie Birch and Sarah Hunt on 1 January 2020 and Tim Richardson on 17 March 2020 as NAPS Trustee Directors. Sian Davies, William Francis, Karen Slinger and Jude Winstanley ceased to serve as NAPS Trustee Directors with effect from 8 August 2019, 31 December 2019, 1 January 2020 and 17 March 2020 respectively.

On behalf of the NAPS Trustee Board, I would like to thank Sian, William, Karen and Jude for their valuable contribution and extend a warm welcome to Melanie, Sarah and Tim.

**Acknowledgements**

In September 2019, John Harrison joined BAPIML as interim Chief Investment Officer ('CIO'). From February 2020 John handed over the CIO role to David Stewart. David has 20 years' experience in key strategic leadership roles in sovereign wealth funds, banking, insurance, private wealth and institutional asset management organisations in Europe, North America and the Middle East. This encompasses both internal and multi-manager investment platforms across all major asset classes both public and private markets. I am grateful to John for serving as interim CIO and welcome David.

To close, I would like to thank all the Trustee Directors for the significant achievements that have been realised from their work and service to the Scheme over the year and commend the BA Pensions team for the exceptional support they have provided during an extraordinarily challenging and difficult year.

**Virginia Holmes**  
**Chair of the Trustee**  
**29 September 2020**

**Appointed by British Airways Plc (BA)**

**Virginia Holmes  
(Chair)**  
Independent Trustee

**Melanie Birch**  
Director of Heathrow  
BA Plc  
Appointed 1 January 2020

**Sarah Hunt**  
Head of Audit UK &  
Ireland  
IAG  
Appointed 1 January  
2020

**Caroline Mellor**  
Senior Commercial  
Lawyer  
BA Plc

**Tim Richardson**  
Head of Property  
BA Plc  
Appointed 17 March 2020

**Ben Sehovic**  
Head of Global Operations  
BA Plc

**Elected by pensioners/members**

**Neil Blackburn**  
Cabin Crew Purser

**Ian Bretherton**  
Captain

**Christopher Daw**  
Section Leader

**Graham Fowler**  
Pensioner elected

**Dave Southcott**  
Senior Customer Service Agent

**John Wheale**  
Pensioner

**Left office during the year**

**Sian Davis**  
Ceased 8 August 2019

**William Francis**  
Ceased 31 December 2019

**Karen Slinger**  
Ceased 1 January 2020

**Jude Winstanley**  
Appointed 8 August  
2019 and ceased 17  
March 2020

**Administration & investment management (BA Pensions)**

British Airways Pension Services Ltd ('BAPSL') – Trustee support and member services  
British Airways Pension Investment Management Ltd ('BAPIML') – investment management

Fraser Smart- Chief Executive Officer & Scheme Secretary, BA Pensions and Chief Executive Officer, BAPIML from 2 September 2019

Michelle McGregor Smith – Chief Executive Officer and Chief Investment Officer, BAPIML until 30 August 2019

John Harrison – Chief Investment Officer, BAPIML from 2 September 2019 until 27 February 2020

David Stewart – Chief Investment Officer, BAPIML from 28 February 2020

**Advisers\***

**Scheme Actuary**  
Aaron Punwani  
Lane Clark & Peacock

**Legal Advisers**  
CMS Cameron McKenna  
Nabarro Olswang LLP

**Bankers**  
BNY Mellon

**External Custodian**  
State Street Bank and  
Trust Co

**Investment Advisers**  
Mercer

**Auditor**  
KPMG LLP

**Covenant Adviser**  
PricewaterhouseCoopers LLP

\* In addition to the Scheme's principal advisers the Trustee has appointed other advisers to provide advice on specific matters as required.

**The New Airways Pensions Scheme – Pension Scheme Registry Number: 10057029**

This report provides information about the management of the Scheme and provides more detail concerning the main activities undertaken during the year. There are sections on the funding position of the Scheme, investments, governance, changes and pension administration matters.

The financial statements of the Scheme for the year ended 31 March 2020, as set out on pages 18 to 34, have been prepared and audited in accordance with Sections 41(1) and (2) of the Pensions Act 1995.

### SCHEME FUNDING POSITION

It is a requirement that the Scheme Actuary carries out an actuarial valuation of the Scheme at least every three years. The valuation reviews the financial position of the Scheme. It helps to establish the contributions payable to the Scheme in future and other actions that should be taken by the Trustee and BA. The last formal actuarial valuation at 31 March 2018 was finalised in October 2019. In the years between formal valuations, the Scheme Actuary provides an interim update which is reported to the membership in an annual funding statement to show how the funding position is evolving. Following the completion of the 31 March 2018 valuation, the Scheme Actuary provided an interim update as at 31 March 2019 and the associated 'summary funding statement' has been issued to members.

The 31 March 2019 interim annual update showed that the Technical Provisions ('TPs') funding level had improved to 91% (2018: 88%) and the deficit had decreased to £1.88bn (2018: £2.40bn).

The funding positions are shown below:

	31 March 2019 (£m)	31 March 2018 (£m)	31 March 2017 (£m)
Liabilities*	(19,935)	(19,330)	(19,809)
Assets	18,055	16,931	16,062
(Deficit)	(1,880)	(2,399)	(3,747)
Funding level	91%	88%	81%

\*The liabilities as at 31 March 2018 and 2019 are based on the TPs agreed between the Trustee and BA at the 31 March 2018 valuation, updated by the Scheme Actuary to reflect the passage of time and changes in market conditions for the 31 March 2019 reporting date. The liabilities as at 31 March 2017 are based on the TPs agreed between the Trustee and BA at the 31 March 2015 valuation, updated by the Scheme Actuary to reflect the passage of time and changes in market conditions to 31 March 2017.

The Scheme Actuary is finalising the latest interim annual update as at 31 March 2020 and the associated 'summary funding statement' will shortly be issued to members.

In the meantime, the Trustee continues to monitor the development of the funding position, which deteriorated towards the end of the year to 31 March 2020. This was largely due to shocks in the financial markets arising from late February 2020 in the wake of the global spread of COVID-19. The market has since shown some signs of recovery, with around half of the losses over that period now recovered.

### The Recovery Plan

The Scheme has a Recovery Plan in place under the 2018 valuation to address the funding deficit. Under the terms of the Recovery Plan, the Trustee and BA have agreed to repair the deficit such that:

- BA will pay deficit contributions of £37.5m from 1 April 2020 until 31 March 2023. Contributions paid up to 31 March 2020 were in line with the 2015 valuation agreement.
- If the assumptions in the Recovery Plan are borne out in practice, the deficit as at 31 March 2018 is expected to be eliminated by 31 March 2023.
- In addition, the Trustee and BA have agreed a package of protections which are documented in separate legal agreements. These include dividend protections to protect the Scheme from any leakage in employer covenant value and an over-funding mechanism which diverts BA's deficit contributions to an Escrow account in the event that the Scheme's TPs funding level reaches 97%.
- In the 2010 valuation, BA agreed that if APS was not fully funded by 2019, it would make a cash payment to APS of up to £250m. To the extent this payment was not required by APS, it was agreed it would be paid to NAPS. APS reached a settlement with BA in relation to its discretionary increase litigation, and the High Court approved the proposed settlement in November 2019. As such, the full £250m was paid to NAPS in December 2019.

PwC LLP ('PwC') is engaged by the Trustee to carry out extensive and ongoing reviews of BA's financial position and future cash flows and thus assess the employer covenant of BA. PwC advised the Trustee, as part of the 2018 valuation, that the contributions that BA had committed to pay to the Scheme (and, as applicable, to APS) were set at a level that BA could reasonably afford.

BA paid £150m in respect of the 31 March 2019 cash sweep payment, which is accounted for in these 2019/20 financial statements. A cash sweep arrangement does not form part of the current Recovery Plan agreed in October 2019.

As the impact of COVID-19 became apparent in March 2020, The Pensions Regulator released new guidance on 27 March 2020 for trustees around deferral, reduction or suspension of deficit contributions. In line with this guidance, BA commenced discussions with the Trustee in relation to deferring some of the deficit reduction contributions due to the Scheme. While these discussions were ongoing, an interim one-month deferral of the £25m deficit contribution in respect of March 2020 was agreed. The discussions between the Trustee and BA did not result in an agreement for a longer deferral of deficit contributions and accordingly the deferred £25m in respect of March 2020 was paid alongside the £37.5m in respect of April 2020.

### Scheme investment

The broad strategic asset allocations for the Scheme as at 31 March 2020 are shown below:

Investment category	Allocation
Return seeking	44.5%
Liability matching	55.5%

Return seeking assets are those chosen with long-term returns expected to exceed risk-free assets, which compensates for the higher risk exposure. Equities (UK and overseas), private equity, property and alternatives are examples of the return seeking assets used by the Scheme. Liability matching assets are those held to be aligned with the Scheme's future benefit payments and are intended to reduce the amount of investment risk. Government bonds are an example of a liability matching asset used by the Scheme.

### Dynamic de-risking framework

The Trustee has put in place suitable arrangements to dynamically manage risk by moving the weighting from return seeking assets towards liability matching assets gradually over time and as funding levels improve. Such weighting adjustments will be made by reference to daily monitoring of the Scheme's funding ratio and market conditions. The de-risking framework was agreed following the 2018 valuation alongside a liability hedging programme to better align movements in the Scheme's assets with those of the liabilities.

### Statement of Investment Principles (SIP)

A SIP has been prepared by the Trustee of the Scheme in compliance with the requirements of Section 35 of the Pensions Act 1995. The SIP is reviewed at least annually, and updated SIPs were adopted in September 2019 and September 2020. A copy of the latest version of the SIP is available on the '[Scheme documents](#)' page of the member website.

### Measuring investment performance

The Trustee has adopted a customised strategic benchmark as this ensures that the investment performance objectives are related directly to the circumstances of the Scheme.

The Trustee monitors investment performance by comparing the returns achieved against this benchmark. The performance of each asset category is measured against an index; for example, UK equity is measured relative to the performance of the FTSE All Share Index.

BAPIML is the in-house investment manager to the Scheme. BAPIML's expenses are charged to the Scheme at cost, and day-to-day investment decisions are delegated to them. The Trustee has set BAPIML the target of performance of 0.5% per annum above the weighted average of the agreed strategic benchmark over a rolling five-year period. However, the Trustee will continue to monitor performance over a range of different time periods.

Details of the investment performance can be found on pages 11 and 15.

## SCHEME GOVERNANCE

### Trustee knowledge and understanding (TKU)

The Trustee has a formal training policy, the foundation of which is TPR's TKU regime. Since the Scheme year-end, the Trustee has reviewed and revised its approach to training.

An induction programme is provided for new Trustee Directors on appointment. The amount of material covered in the induction programme is significant and will usually take several months to complete. This is consistent with the law on TKU, which allows six months for a new Trustee Director to be trained before they are expected to have achieved the required level of knowledge and understanding. Trustee Directors are required to undertake either TPR's "toolkit" or the Award in Pension Trusteeship, a formal pensions qualification.

The content, frequency and level of ongoing training are related to the Committee(s) on which the Trustee Director serves, and the business being undertaken by the Committees and Trustee Board. The Trustee Board and each of its Committees produce an annual Committee calendar which identifies the topics and issues that are to be discussed and determined during the year. Appropriate training sessions are then scheduled to support these activities. Additional ongoing training may be undertaken to address each Trustee Director's particular learning needs.

Training is provided in a range of formats by a variety of providers. The advisers provide training to some or all of the Trustee Directors either in routine Main Board or Committee meetings or in specially arranged sessions. BAPIML and BAPSL also provide bespoke training, and Trustee Directors are actively encouraged to supplement this formal training plan by accessing other resources including TPR's Trustee Toolkit, pensions related publications and, where appropriate, industry conferences, seminars and publications. Records of all training undertaken are maintained in respect of each Trustee Director.

### Risk management and reporting

During the Scheme year, the Trustee started a substantial review of its approach to risk management and reporting. The Trustee identified key risks which it will keep under review through the new risk reporting framework. The assessment of these risks will be supported by input from risk owners at BAPSL and BAPIML. Work to refine the new risk management framework is expected to continue throughout the next Scheme year.

### Conflicts of interest

The Trustee understands that it is in a position of trust and needs to have policies and arrangements in place to identify, monitor and manage conflicts. The previous Conflicts of Interest Policy had been in place at a time when the same ENDS sat on both the APS and NAPS trustee boards and APS and NAPS shared a primary legal adviser. The Trustee conducted a review of the Conflicts of Interest during the Scheme year and adopted a new version of the policy after the Scheme year end. The new Conflicts of Interest Policy addresses the appointment by BA in 2018 of separate ENDS to the boards of APS and NAPS and the appointment of separate primary legal advisers to APS and NAPS in 2019. Since the Scheme Year end one APS END has also been appointed to NAPS and this scenario is specifically addressed in the new Policy.

### Monitoring of the employer covenant

The Trustee considers it critical that it understands and monitors the financial strength and covenant of the employer on a continuing basis and in order to achieve this PwC acts as advisers to the Trustee on employer covenant issues. There is a reporting framework, which has been agreed with BA to ensure that the Trustee receives regular updates on the business activities and financial position of BA.

### Trustee arrangements

The Trustee Board consists of twelve Trustee Directors.

- Six of the Trustee Directors, including the independent Chair, are appointed by BA.
- Four of the Trustee Directors are elected by employed deferred members of the Scheme. As part of the closure of NAPS to accrual on and from 1 April 2018 the Scheme Rules for Trustee arrangements were amended, replacing the

active member category with employed deferred members (i.e. members of NAPS not yet in receipt of pension who remain employed with BA). The Trustee Directors in office at the time of closure were carried forward. Each came from a different occupational group. These Trustee Directors must be employed deferred members of NAPS.

- Two of the Trustee Directors are elected by pensioner members\* of the Scheme and must be pensioner members\* of NAPS.
- A Trustee Director may remain in office for a minimum of five years and a maximum of five and a half years and is eligible for re-appointment (provided that he/she still meets the eligibility criteria for the relevant vacancy).
- Nominations for elected employed deferred Trustee Directors must be supported by at least twenty employed deferred members in the relevant constituency and nominations for pensioner member\* Trustee Directors must be supported by ten pensioner members. If there is more than one nomination for a vacancy a ballot of the relevant members is held. The result is decided on a simple majority of the votes cast.
- Members taking flexible retirement cannot apply to be a pensioner member\* Trustee Director and an employed deferred Trustee Director at the same time, however flexible retirement members are eligible to vote in both employed deferred and pensioner member\* Trustee Director elections.
- An elected Trustee Director may be removed from office following a ballot in which two thirds of the votes cast by members in the relevant constituency are in favour of removal. A ballot may be held on written request to the Trustee Directors by fifty of the relevant members.
- The Trustee may, at any time, use electronic communications to communicate with, give notice to, or ballot employed deferred members or pensioners.

\* For this purpose, 'pensioner members' do not include pensioners whose benefits have not yet come into payment or contingent beneficiaries.

In light of potential large-scale redundancies being made by BA due to the impact of COVID-19, the Trustee anticipates that it will need to review the Trustee Board composition and member-nominated Trustee Director ('MND') constituencies in due course. In the interim, to provide continuity and maintain ongoing Scheme business, the Trustee has made changes to allow existing MND appointments to continue in office on redundancy (subject to a one year long stop) until such time as replacement MNDs can be appointed.

**Committees**

Much of the Trustee business is undertaken by Trustee Committees who are able to review matters in detail before making recommendations to the Main Board where the majority of Trustee decisions are made. Each committee operates under clear Terms of Reference which govern its activities. Each committee constructs a forward-looking annual business plan which is used to allocate budgetary resources and informs the development of the Trustee training programme.

The Governance and Audit Committee is principally concerned with legislative compliance, audit and risk management. It monitors the management of the risks to which the Scheme is exposed and oversees audit activity (including the work of both the external and internal auditors appointed by the Trustee). It is also responsible for the establishment of training programmes, reviewing the performance of the Scheme advisers, budget reviews and internal procedures, such as ballot processes.

The Operations Committee considers a range of matters requiring Trustee discretion (e.g. payment of death-in-service benefits) and second stage applications under the internal dispute resolution procedures. In addition, the Operations Committee considers certain proposed Rule changes, monitors legislative developments, oversees the Scheme's communication strategy and monitors levels of service.

The Investment Committee, which is supported by independent investment experts and investment advisers, deals with investment approval and reporting arrangements, the monitoring of investment performance and consideration of the various investment options available to the Scheme. As part of a formal actuarial valuation it also undertakes a detailed review of the Scheme's investments in the context of its liabilities which includes an asset liability modelling study.

The Environmental, Social and Governance ('ESG') Committee, which is also supported by independent investment experts and investment advisers, is responsible for supporting the Main Board in the development of its ESG policy, strategy and initiatives, ensuring it is in line with regulatory and industry standards.

In addition to the four main Trustee Committees, sub-committees are established where a small number of Trustee Directors are tasked with a detailed investigation into one of more defined issues.

**Performance of Trustee Directors**

Attendance records for Trustee and Committee meetings have been maintained and are shown below for the Scheme year to 31 March 2020.

	Governance Committee	Investment Committee	Operations Committee	ESG Committee	Main Board	Period of Appointment to Main Board
Virginia Holmes (Chair)	4/4	4/4	-	2/3	4/4	Whole Year
Melanie Birch	-	-	-	1/1	0/1	Part Year
Neil Blackburn	-	-	6/9	-	4/4	Whole Year
Ian Bretherton	-	3/4	-	-	4/4	Whole Year
Sian Davies	1/1	-	-	-	0/1	Part Year
Christopher Daw	4/4	-	-	-	4/4	Whole Year
Graham Fowler	4/4	-	-	-	3/4	Whole Year
William Francis	-	-	6/6	-	3/3	Part Year
Sarah Hunt	-	-	1/2	-	1/1	Part Year
Caroline Mellor	-	-	7/9	-	4/4	Part Year
Tim Richardson	-	-	-	-	1/1	Part Year
Ben Sehovic	-	4/4	-	-	3/4	Whole Year
Karen Slinger	-	-	-	2/2	3/3	Part Year
Dave Southcott	-	4/4	-	2/3	4/4	Whole Year
John Wheale	-	-	6/9	3/3	4/4	Whole Year
Jude Winstanley	2/3	-	-	-	1/2	Part Year

Although the Main Board is scheduled to meet quarterly, the number of matters requiring the Trustee Directors' attention necessitated the convening of additional meetings which were often called at short notice.

On occasions that Trustee Directors are not able to attend a meeting, the Rules provide for them to appoint an alternate to attend and vote for them. During the period under review this has been standard practice. In addition, some Trustee Directors attended, as observers, meetings of Committees to which they were not formally appointed. Such occurrences are not included in the attendance list.

**Security of assets**

The Custodian Trustee of the Scheme, British Airways Pension Trustees Ltd, holds the assets of the Scheme on behalf of the Trustee; however physical custody of the Scheme's securities (i.e. bonds and shares) has been delegated to independent external custodians, State Street Bank and Trust Co.

**Defined contribution ('DC') governance statement**

Additional Voluntary Contributions ('AVCs') are considered in some respects to be DC benefits by The Pensions Regulator ('TPR'). In this regard the Trustee annually reviews and assesses the systems, processes

and controls across key governance functions (the "controls") to ensure that they are consistent with the Standards of Practice set out in TPR's DC Code of Practice and Regulatory Guidance. The Trustee is satisfied that the controls are consistent with that Code, however, were the annual review to identify any areas where those Standards of Practice are not met, the Trustee would consider the reason for those differences and whether any changes to current practice are required.

## SCHEME CHANGES

### Factor Review

The Scheme's Actuary regularly reviews the factors used to work out specific pension options. Following conclusion of the 31 March 2018 valuation, the factors were reviewed with the cash exchange factors updated with effect from 1 October 2019 and the remainder of the factors updated with effect from 1 April 2020.

## TRUST DEED AMENDMENTS

A consolidated copy of the Trust Deed and Rules was signed in June 2019 to replace the last consolidation in April 2008.

The following amendments were made during the year:

British Caledonian Scheme – the requirement for the payment of certain spouse pensions to cease on remarriage of the spouse, has been removed.

A copy of the Deed implementing these changes can be viewed via the '[Scheme documents](#)' page of the member website.

## PENSION ADMINISTRATION MATTERS

### Cash equivalent transfer values

Transfer values paid during the year were calculated and verified in the manner prescribed by the regulations under Section 97 of the Pension Schemes Act 1993. Discretionary benefits are not included in the calculation of transfer values. The provision of transfer out quotations was temporarily delayed from 22 April 2020 to 18 May 2020 to prioritise essential services during the transition of BA Pensions to remote working.

### Pension increases

The Scheme Rules provide that the annual increase for most pensions shall be the percentage specified in the Pensions Increase (Review) Orders ('the Orders'), subject to a maximum of 5% per year. The Orders currently reflect the rise in the Consumer Prices Index ('CPI') over a twelve-month period measured up to the end of the preceding September. The 2020 Order was 1.7% and in accordance with the Scheme Rules, qualifying pensions were increased by 1.7% on 6 April 2020. Increases apply to indexed pensions payable under the Rules of the Scheme (whether in deferment or currently in payment).

Pensions in deferment and in payment under the Rules of the British Caledonian, Dan Air, Davies and Newman, Arrowsmith and British Airways Associated Companies Scheme, which are paid by the Scheme, have been increased as variously provided for under the Rules of the relevant inherited scheme.

All pension increases are a right under the Scheme and are not discretionary.

### Internal dispute resolution procedure ('IDRP')

The Trustee is required by law to operate an IDRP. This is a mechanism by which a member may request a designated person to adjudicate on a disagreement with their scheme. The designated person to deal with the first stage adjudication is Richard Pilsworth, Head of Risk & Legal, BAPSL. In the event that the complainant is not satisfied with the outcome, the matter is then referred to the Trustee's Operations Committee for second stage adjudication. Complaints made under this procedure must be in writing and a leaflet giving full details is available from BAPSL.

### Tax

From 6 April 2020 the standard Lifetime Allowance increased to £1,073,100.

The Government also increased the threshold income and adjusted income above which individuals are affected by the Tapered Annual Allowance. From 6 April 2020, those individuals with a threshold income of between £110,000 and £200,000 and adjusted income between £150,000 and £240,000 will no longer be impacted by the tapered annual allowance.

For individuals who continue to be affected by the tapered annual allowance, the minimum Tapered Annual Allowance is £4,000 from 6 April 2020.

### Online communications

Improvements have continued to be made to our online communications. To make it easier for members to get in touch with the pensions team a new online contact form has replaced the email address. For members registered to manage their pension online the pensions team can now issue pension quotations through an encrypted email system.

This report was approved by the Trustee Board on 29 September 2020 and was signed on its behalf by:

**Fraser Smart**  
**Scheme Secretary**

**(Forming part of the Trustee's Report)**

The audited financial statements, which are to be prepared in accordance with the UK Generally Accepted Accounting Practice (UK GAAP), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which:

- (i) show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- (ii) contain the information specified in the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice Financial Reports of Pension Schemes.

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. They are also responsible for:

- (i) assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- (ii) using the going concern basis of accounting unless they either intend to wind up the Scheme, or have no realistic alternative but to do so; and
- (iii) making available each year, commonly in the form of a Trustee's annual report, information about the Scheme prescribed by pensions legislation, which they should ensure is consistent with the financial statements it accompanies.

The Trustee also has certain responsibilities in respect of contributions which are set out in the statement of Trustee's responsibilities accompanying the Trustee's summary of contributions.

The Trustee is responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities.

The Trustee is responsible for the maintenance and integrity of the Scheme and financial information included on the Scheme's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

(Forming part of the Trustee's Report)

### Review of the year to March 2020

The twelve months to March 2020 divides very much into two periods. Until the end of 2019, markets were focused on the ageing economic cycle and the potential for a trade war between the US and China to derail further growth. However, with the US Federal Reserve ('the Fed') having decided over the summer to expand its balance sheet and lower interest rates, the outlook was broadly benign for most asset classes. Unemployment was low or falling in most economies, and inflation appeared to be contained.

However, in February 2020, the focus of financial markets shifted. With evidence of significant domestic transmission of COVID-19 in Asian countries outside of China, in Europe and the United States, wide-spread economic disruption became a near-term possibility. As the scale of the required "lockdowns" became clear, the market became increasingly worried that the worst economic slowdown since the 1930s would also spark a second financial crisis. In early March, equity markets fell sharply, bond markets dislocated, and the US dollar strengthened rapidly against most other currencies.

The policy response was, however, rapid. Central banks set up numerous programmes to ensure that markets remained liquid and that companies had access to the borrowing they needed at reasonable interest rates. Central banks, including the Bank of England, committed to buying large amounts of government and other debt to ensure that fixed income markets remained open to those needing to issue bonds. The Fed also put special measures in place to ensure that banks globally had access to the US dollars they needed.

As a result, government bonds rallied into the end of the fiscal year, with both short-term and long-term interest rates dropping significantly. Corporate bonds remained more volatile, but prices recovered materially as it became clear that most companies would have access to short-term financing and longer-term capital despite the near-term disruption.

Equity markets troughed in late March, having declined nearly 35% from their pre-COVID levels. Companies in the technology and healthcare sectors were the first to see their share prices recover, stocks exposed to energy prices and travel remained depressed.

Much now depends on what happens in the real economy over the next six months. The policy response has been robust. Interest rates are expected to remain low for the foreseeable future, and economies are slowly reopening. A second wave of infections would however be challenging for growth and could result in a second round of unconventional policy actions. At that point, investors may need to revise their opinions on what the "new normal" looks like.

(Forming part of the Trustee's Report)

## Asset allocation

The NAPS strategic benchmark is composed of assets which are broadly categorised as being either return seeking or liability matching. Return seeking assets are those where long-term returns are expected to exceed liability matching assets, which compensates for them being higher risk.

Liability matching assets are those most aligned with the Scheme's future benefit payments and are held to reduce risk.

The Trustee Directors' Investment Committee ('IC') is responsible for monitoring the strategic benchmark. It may, where possible and from time-to-time, recommend an update to the benchmark asset allocation with the intention of improving the risk return profile of the Scheme's assets.

The IC currently also has in place a dynamic trigger and time-based de-risking framework to reduce risk over time and to take advantage of market opportunities to reduce risk. This is overseen and monitored by the IC and implemented by the Scheme's investment manager, BAPIML. In the year to 31 March 2020, the Scheme has moved

0.75% of its assets from return seeking assets into liability matching assets each quarter, predominantly from equities into corporate bonds. As part of the Scheme's de-risking process, some investments were also made into a new category within liability matching assets called diversified illiquid income ('DII'). DII is made up of individual assets or funds which have an illiquidity premium and that are expected to have specific matching characteristics over the longer term.

The Trustee Directors and their advisers set bandwidths around the strategic benchmark, which allows BAPIML to make tactical asset allocation decisions to take advantage of valuation differentials between asset classes which may occur from time-to-time.

The allocation of the Scheme's assets as at 31 March 2020 is shown below and was within the allowed bandwidths.

	Asset category	Actual % 31 March 2020	Benchmark % 31 March 2020	Actual % 31 March 2019	Benchmark % 31 March 2019
Return seeking	Equities	28.1	30.3	35.1	33.7
	UK	8.5	8.5	10.4	10.1
	Overseas	19.6	21.8	24.7	23.6
	Private equity	4.9	3.0	4.3	3.1
	Alternatives	4.0	3.5	4.3	3.6
	Property	8.5	7.7	8.1	7.8
Liability matching	Real assets	2.4	3.0	2.3	3.0
	Diversified Illiquid Income	1.8	0.8	-	-
	Bonds	49.1	48.7	44.1	45.8
	UK fixed	25.6	25.6	22.0	22.7
	UK index-linked	23.4	23.1	21.6	23.1
	Overseas index-linked	0.1	-	0.5	-
	Cash	1.2	3.0	1.8	3.0
	<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

The Scheme's triennial valuation as at 31 March 2018 was completed in October 2019. As a result, BAPIML is currently working with the Trustee and the Scheme's advisers to develop a new Journey Plan and update the Scheme's investment strategy where necessary.

(Forming part of the Trustee's Report)

## Fund performance including strategic hedging

Table 1 shows the performance of the Scheme's assets, including the strategic hedging portfolio, which includes derivatives held to reduce interest rate and inflation risk. Over the year to 31 March 2020, the Scheme's assets returned (1.18)%.

Fiscal years to 31 March 2020	1 year % p.a.	3 years % p.a.	5 years % p.a.	10 years % p.a.
Fund return	(1.18)	3.95	6.17	7.79

## Fund performance excluding strategic hedging

Table 2 shows the performance of the Fund, excluding strategic hedging, which is the measure by which BAPIML is judged. The portfolio managers are set an outperformance target of 0.50% per annum relative to the strategic benchmark over a five-year rolling period. The aim is to achieve this outperformance via a combination of both tactical asset allocation and stock selection within individual portfolios.

Fiscal years to 31 March 2020	1 year % p.a.	3 years % p.a.	5 years % p.a.	10 years % p.a.
Fund return	2.06	5.15	6.91	8.35
Benchmark	0.38	3.84	5.97	7.93
Relative performance	1.68	1.26	0.89	0.39

In the year under review, 1 April 2019 to 31 March 2020, the Fund returned a total of 2.06% excluding strategic hedging, which means that it outperformed the benchmark by 1.68% for the year and has outperformed by 0.89% per annum averaged over the last five years.

The Fund has outperformed its benchmark over five years and has met its target of outperforming by 0.5% per annum over a rolling five-year period.

In the 12 months to 31 March 2020, the key drivers of outperformance were Private Equity and Property. The Fund's Private Equity holdings are revalued more slowly than the benchmarks they are measured against. This meant that some of the Private Equity outperformance could be attributed to the sharp fall in the equity markets in the quarter to 31 March 2020. The Property portfolio continued to be a strong source of outperformance having posted positive gains in nine out of the last ten years.

## The Fund's 10 largest quoted holdings as at 31 March 2020

Stock name	Security type	£m	Portfolio
Network Rail Infrastructure Finance 2027	Government Bond*	405	2.3
UK Treasury 3.5% Fixed Interest 2045	Government Bond	375	2.1
UK Treasury 3.25% Fixed Interest 2044	Government Bond	319	1.8
UK Treasury 0.750% Index-Linked 2034	Government Bond	308	1.7
UK Treasury 0.375% Index-Linked 2062	Government Bond	296	1.7
UK Treasury 0.125% Index-Linked 2046	Government Bond	281	1.6
UK Treasury 0.125% Index-Linked 2065	Government Bond	281	1.3
ISHARES CORE S&P 500 ETF	Equity	268	1.5
UK Treasury 3.5% Fixed Interest 2068	Government Bond	261	1.5
UK Treasury 0.75% Index-Linked 2047	Government Bond	243	1.4

\*Government guaranteed corporate bond

(Forming part of the Trustee’s Report)

## Additional Voluntary Contributions (‘AVCs’)

The Mixed Portfolio Fund (‘MPF’) had a negative return of (8.34)% for the year ending 31 March 2020.

The Trustee Directors set a benchmark for each type of asset class held within the MPF and use this to monitor the MPF’s performance. The benchmark returned (8.05)% over the year, meaning that the MPF underperformed its benchmark by 0.32%. The MPF has not achieved its target, which is to beat its benchmark by 0.5% per annum over a five-year period, due largely to weak performance in 2016, but also the declining equity markets in March 2020.

The (8.34)% return on the MPF was slightly below the average achieved by other large AVC providers in the

market place over the year. The MPF has however outperformed similar funds over longer time periods with higher returns over three, five and ten years.

In the year to March 2020, the Short-dated Gilts Fund (‘SGF’) returned 0.48%, and the Equity Biased Fund (‘EBF’) returned 6.85%. Further information on the performance of the AVC funds can be found in the annual AVC Investment Commentary on the ‘[Scheme documents](#)’ page of the member website.

The long-term returns for the AVC funds are shown in the chart and table below. The chart shows how £100 invested in the AVC funds in 2010 would have changed in value over time.

## AVC funds total growth over 10 years



## AVC funds performance returns

Annualised fiscal year return over period to 31 March 2020

Fiscal years to 31 March 2020	1 year % p.a.	3 years % p.a.	5 years % p.a.	10 years % p.a.
MPF (Actual)	(8.34)	0.78	3.18	6.16
MPF (Benchmark)	(8.05)	0.53	3.47	6.17
MPF Comparable External Funds	(7.98)	(0.84)	2.83	5.68
EBF	6.85	7.39	7.15	6.10
SGF	0.48	0.59	0.59	0.83

(Forming part of the Trustee's Report)

### Corporate governance

In 2019 the Trustee adopted an updated Responsible Investment Policy which includes the following mission statement:

“Environmental (including climate change), social and governance ('ESG') issues are multifaceted and represent long-term systemic risks.”

“We recognise that ESG risks are financially material and need to be managed as we have a long-term payment horizon. We therefore seek to integrate ESG considerations into our decision-making and reporting processes across all asset classes.”

“Where consistent with our fiduciary duties, and applicable to our investment strategy, we will actively engage and use our voting rights to drive up ESG standards in the organisations in which we invest.”

The Scheme's Responsible Investment Policy and the Responsible Investment Annual Report, which details how the policy has been implemented by the Scheme's investment manager, can be found in the Responsible Investment section of our website.

The Scheme's investment manager is required to adhere to the Scheme's Responsible Investment Policy and follows the UK Stewardship Code, which aims to improve and enhance the quality of engagement between companies and institutional investors.

In exercising the voting and other rights attached to the Scheme's investments, the investment manager is required to consider recommendations on voting from specialist service providers but may follow an alternative course of action based on their informed view of the investee company and knowledge of the issue.

Voting records are available at [www.mybapension.com](http://www.mybapension.com).

The investment manager is required to pro-actively monitor investments on an on-going basis to help identify a situation where long-term risk-adjusted returns may be compromised by ESG issues or could place the reputation of the Scheme at risk.

Source: All performance shown is calculated independently by either State Street or BAPSL. External Fund comparisons are sourced from Willis Towers Watson.

## Independent auditor's report to the Trustee, of the New Airways Pension Scheme

### Opinion

We have audited the financial statements of New Airways Pension Scheme ("the Scheme") for the year ended 31 March 2020 which comprise the fund account and the statement of net assets (available for benefits) and related notes, including the accounting policies in note 2.

### In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year ended 31 March 2020 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- contain the information specified in Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Scheme in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### Material Uncertainty related to going concern

We draw attention to note 1 to the financial statements which indicates the effects of COVID-19 on the Principal Employer and the aviation and airline industry. Due to COVID-19, the global demand for flights have seen a steep decline due to both the fears of COVID-19 and the travel restrictions as part of the efforts to stop the spread of the virus. This has had severe impact on the cashflow of the Principal Employer. In its half year results (six months to 30 June 2020), International Airlines Group (IAG) (parent of British Airways Plc) highlighted the existence of a material uncertainty related to going concern caused by COVID 19. Were the Principal Employer to cease trading there is a risk that the Scheme will enter the Pensions Protection Fund (PPF) and cease to operate. These events and conditions, along with the other matters explained in note 1, constitute a material uncertainty that may cast significant doubt on the Scheme's ability to continue as a going concern. Our opinion not modified in respect of this matter.

### Going concern

The Trustee has prepared the financial statements on the going concern basis as they do not intend to wind up the Scheme, and as they have concluded that the Scheme's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Trustees conclusions, we considered the inherent risks to the Scheme and analysed how those risks might affect the Scheme's financial resources or ability to continue operations over the going concern period.

As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Scheme will continue to operate.

### Other information

The Trustee is responsible for the other information, which comprises the Trustee's report (including the report on actuarial liabilities and the summary of contributions) and the actuarial certification of the Schedule of Contributions. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon in this report.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on this work we have not identified material misstatements in the other information.

### Trustee's responsibilities

As explained more fully in their statement set out on page 10, the Scheme Trustee is responsible for: supervising the preparation of financial statements which show a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Scheme'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 they either intend to wind up the Scheme, or have no realistic alternative but to do so.

**Auditor's responsibilities**

Our objectives 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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

**The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the Scheme Trustee in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Scheme Trustee those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme for our audit work, for this report, or for the opinions we have formed.

**Fang Fang Zhou****For and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants  
15 Canada Square, Canary Wharf  
London E14 5GL

Date: 30 September 2020

	Note	31 March 2020 £'m	31 March 2019 £'m
<b>Contributions and Benefits</b>			
Employer contributions	3	706.2	460.0
Employee contributions	3	-	85.0
<b>Total contributions</b>		<u>706.2</u>	<u>545.0</u>
Transfers in	4	3.8	0.8
		<u>710.0</u>	<u>545.8</u>
Benefits paid or payable	5	(428.7)	(447.7)
Payments to and on account of leavers Administrative expenses	6 7	(218.2) (8.5)	(276.3) (9.6)
		<u>(655.4)</u>	<u>(733.6)</u>
<b>Net additions/(withdrawals) from dealings with members</b>		<u>54.6</u>	<u>(187.8)</u>
<b>Returns on Investments</b>			
Investment income	8	312.9	329.4
Investment management expenses	9	(16.3)	(16.6)
Change in market value of investments	10	(617.3)	999.2
<b>Net return on investments</b>		<u>(320.7)</u>	<u>1,312.0</u>
<b>Net (decrease)/increase in the fund during the year</b>		(266.1)	1,124.2
<b>Net assets of the Scheme at 1 April</b>		18,054.8	16,930.6
<b>Net assets of the Scheme at 31 March</b>		<u><u>17,788.7</u></u>	<u><u>18,054.8</u></u>

The notes on pages 20 to 34 form part of these financial statements.

# STATEMENT OF NET ASSETS

New Airways Pension Scheme

(available for benefits)

	Note	31 March 2020 £'m	31 March 2019 £'m
<b>Investment assets:</b>			
Equities	10	4,716.5	5,992.8
Fixed interest bonds	10	4,957.1	4,210.0
Index-linked bonds	10	4,268.6	3,903.4
Property	10	1,558.4	3.2
Pooled arrangements			
Property	11	100.3	1,427.3
Alternative investments	11	1,318.3	1,187.1
Private equity	11	898.8	773.4
Derivatives	13	891.8	532.8
AVC mixed portfolio fund	14	137.7	168.8
Cash		206.0	180.2
Other investment balances		351.8	153.8
		19,405.3	18,532.8
<b>Investment liabilities:</b>			
Derivatives	13	(1,555.1)	(376.3)
Other investment balances		(80.4)	(89.3)
<b>Total net investments</b>		17,769.8	18,067.2
External AVC investments	16	0.4	0.3
<b>Total investments</b>		17,770.2	18,067.5
Current assets	21	35.1	2.2
Current liabilities	21	(16.6)	(14.9)
<b>Net assets of the Scheme at 31 March</b>		<b>17,788.7</b>	<b>18,054.8</b>

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which takes into account such obligations, is dealt with in the report on actuarial liabilities on pages 42 and 43 and these financial statements should be read in conjunction with this report.

The notes on pages 20 to 34 form part of the financial statements.

**These financial statements were approved by the Trustee Board on 29 September 2020 and were signed on their behalf by:**

Virginia Holmes                      Trustee Director

John Wheale                              Trustee Director

## 1. Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 – the Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and the guidance set out in the Statement of Recommended Practice (revised July 2018). This is the first year that this revision of the SORP has been implemented.

The financial statements are prepared on a going concern basis, which the Trustee believes to be appropriate as they believe that the Scheme has adequate resources to realise its assets and meet pension payments for at least the next twelve months.

In order to do so, the Scheme relies on income and capital growth from its assets and on such contributions as may be necessary from the Principal Employer, British Airways PLC and its participating subsidiaries. If the Employer were unable fund the deficit and other future contributions, then the Scheme would be at risk of being wound up and its assets transferred to the Pension Protection Fund.

At 31 March 2019 the Scheme was in a deficit position on the TPs basis with its assets amounting to approximately 91% of its liabilities. Subsequent to the year end the COVID 19 outbreak has resulted in a deterioration in the Scheme's funding level to around 87.2% as at 31 March 2020. This has been primarily driven by a fall in the value of the Scheme's assets. This potentially increases the need for support from the Principal Employer.

COVID-19 has created significant challenges and high levels of uncertainties for all companies, especially those operating in the airline and aviation industry. Due to COVID-19, the global demand for flights saw a steep decline due to both fears of COVID-19 and travel restrictions, as part of the effort to stop the spread of the virus. This has had a severe impact on the cashflow of the Principal Employer. It is currently expected that it will take a few years for the aviation industry to return to the level of activities seen prior to the COVID-19 pandemic. The Trustee recognises that an extended period of low activity would potentially affect the ability of the Principal Employer to continue its operations and may therefore impact on the Principal Employer's ability to support the Scheme. Due to the continued uncertainty created by COVID-19, the potential for future waves of the pandemic and the impact on travel restrictions and/or demand, IAG will likely need to secure additional funding over and above that which is contractually committed at 31 July 2020. This has resulted in a material uncertainty on the going concern basis adopted by IAG in their half year results (six months to 30 June 2020). The Trustee is aware that the Principal employer continues to identify various mitigation strategies, some of which are not wholly within the control of the Principal employer. However, were the principal employer to cease trading there is a risk that the Scheme will enter the Pensions Protection Fund (PPF) and cease to operate.

On this basis, whilst the impact of the COVID-19 outbreak cannot be accurately predicted, the Trustee considers that the Scheme will nevertheless continue to operate, and therefore the Trustee believes that it remains appropriate to prepare the financial statements on a going concern basis. However, the circumstances of the COVID-19 pandemic constitute a material uncertainty on the Principal Employer that may cast significant doubt on the Scheme's ability to continue as a going concern and to realise its assets and meet pension payments within the normal course of affairs. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

## 2. Accounting policies

**The principal accounting policies of the Scheme are as follows:**

### a. Contributions

- I. Employee contributions, including AVCs, are accounted for when they are deducted from pay by the Employer and in accordance with the Schedule of Contributions in force during the year.
- II. Employer normal contributions are accounted for on the same basis as the employees' contributions, in accordance with the Schedule of Contributions in force during the year. Employer normal contributions include contributions payable to the Scheme under salary sacrifice arrangements.
- III. Employer augmentation contributions are accounted for in accordance with the agreement under which they are payable.
- IV. Employer deficit funding contributions are accounted for on the due dates on which they are payable under the Schedule of Contributions or on receipt if earlier with the agreement of the Employer and the Trustee.
- V. Income from cash and short-term deposits is accounted for on an accruals basis.

## 2. Accounting policies - continued

### b. Payments to members

- I. Pensions in payment are accounted for in the period to which they relate.
- II. Benefits are accounted for in the period in which the member notifies the Trustee of their decision on the type or amount of benefit to be taken, or if there is no member choice, the date of retiring or leaving.
- III. Individual transfers out of the Scheme are accounted for when member liability is discharged which is normally when the transfer amount is paid.

### c. Administrative and investment management expenses

Expenses are accounted for on an accruals basis.

### d. Investment income

- I. Dividends from equities are accounted for on the ex-dividend date.
- II. Income from bonds is accounted for on an accruals basis and includes interest bought and sold on investment purchases and sales.
- III. Rental income is accounted for on an accruals basis.
- IV. Income from pooled arrangements is accounted for when declared by the fund manager, net of any associated management fees.
- V. Receipts from annuity policies are accounted for as investment income on an accruals basis.

### e. Investment change in market value

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year.

### f. Investments

Investments are included at fair value as described below:

- I. Quoted securities in active markets are usually valued at either the current bid price or the last traded price as at year end, depending on the convention of the stock exchange on which they are quoted, at the reporting date.
- II. Accrued interest is excluded from the market value of fixed income securities and is included in investment income receivable.
- III. Exchange traded derivatives are stated at market value determined using market quoted prices.
- IV. Over the counter ('OTC') derivatives are stated at fair value using pricing models and relevant market data as at the year-end date.
- V. Swaps are valued by taking the current value of future cash flows arising from the swap determined using discounted cash flow models and relevant market data at the reporting date.
- VI. Annuity policies are deemed to be immaterial and so have not been included in the financial statements.

### g. Pooled arrangements

The private equity, alternative and indirect property are invested in externally pooled funds. A proportion of the private equity, alternatives and all the property investments (direct and indirect) are pooled internally and held jointly in unitised funds on behalf of the Airways Pension Scheme and the New Airways Pension Scheme.

Direct and indirect investment properties have been valued in accordance with the Royal Institution of Chartered Surveyors' ('RICS') Valuation – Global Standards, taking into consideration the current estimate of the rental values and market yields. The valuations for the direct properties have been carried out by Cushman & Wakefield, chartered surveyors, who have the appropriate knowledge and experience to value such assets. Indirect properties are valued by the manager of the pooled funds.

Private equity and alternative investments are valued at the best estimate of fair value taking the latest available valuations issued by the managers and adjusting for any cash movements occurring between the date of the valuation and the Scheme year end.

### h. Foreign currencies

Monetary items denominated in foreign currency are translated into sterling using the closing exchange rates at the Scheme year end. Foreign currency transactions are recorded in sterling at the spot exchange rate at the date of the transaction.

**3. Contributions**

	<b>2020</b>	<b>2019</b>
	<b>£'m</b>	<b>£'m</b>
<b>Employer contributions</b>		
Normal	-	0.1
Deficit funding-regular	300.0	300.0
Deficit funding-cash sweep	150.0	150.0
Deficit funding-contingent contribution	251.5	-
Administration	4.4	9.6
Augmentation	0.3	0.3
<b>Employee contributions</b>		
Additional Voluntary Contributions	-	85.0
	<b>706.2</b>	<b>545.0</b>

Deficit funding contributions as set out in the Schedule of Contributions on pages 37 to 39 are due until 31 March 2023 in order to improve the Scheme's funding position.

Further details regarding contributions are included in the summary of contributions on page 36.

**4. Transfers in**

	<b>2020</b>	<b>2019</b>
	<b>£'m</b>	<b>£'m</b>
Individual transfers in from other schemes	<b>3.8</b>	<b>0.8</b>

**5. Benefits paid or payable**

	<b>2020</b>	<b>2019</b>
	<b>£'m</b>	<b>£'m</b>
Pensions	327.7	317.9
Commutations of pensions and lump sum retirement benefits	83.3	108.5
Lump sum death benefits	1.3	0.8
Taxation where Lifetime or Annual Allowance exceeded	16.4	20.5
	<b>428.7</b>	<b>447.7</b>

Taxation arising on benefits paid or payable is in respect of members whose benefits exceeded the lifetime or annual allowance and who elected to take lower benefits from the Scheme in exchange for the Scheme settling their tax liability.

**6. Payments to and on account leavers**

	<b>2020</b>	<b>2019</b>
	<b>£'m</b>	<b>£'m</b>
Individual transfers out to other schemes	<u><b>218.2</b></u>	<u><b>276.3</b></u>

**7. Administrative expenses**

The Scheme bears the cost of administration. However, the levies required by the Pension Protection Fund are payable by BA. The New Airways Pension Scheme bears an allocation of the overall costs of BAPSL except where a cost relates specifically to the Scheme, in which case the cost is met by the Scheme in full. The administrative expenses include the in-house costs of running the BAPSL team who provide member services, finance operations and trustee support. They also include the costs of external advisers engaged by the Trustee including the auditor, actuary, financial advisers, legal advisers and compliance costs. The split of costs at the year-end are as follows:

	<b>2020</b>	<b>2019</b>
	<b>£'m</b>	<b>£'m</b>
BAPSL in-house administration and processing	4.4	5.6
External professional fees	4.1	4.0
	<u><b>8.5</b></u>	<u><b>9.6</b></u>

**8. Investment income**

	<b>2020</b>	<b>2019</b>
	<b>£'m</b>	<b>£'m</b>
Dividends from equities	168.5	181.3
Income from fixed interest bonds	111.9	99.9
Income from index-linked bonds	15.9	26.8
Swap income	9.2	13.6
Annuity income	4.7	4.7
Interest on cash deposits	3.2	2.0
Other income	(0.5)	1.1
	<u><b>312.9</b></u>	<u><b>329.4</b></u>

**9. Investment management expenses**

The Scheme bears the cost of investment management expenses. The Scheme bears an allocation of the overall costs of BAPIML, based on the use of resources, except where a cost relates specifically to the Scheme, in which case the cost is met by the Scheme in full.

## 10. Reconciliation of investments

	Value at 31 March 2019	Purchases at cost & derivative payments	Sales proceeds & derivative receipts	Change in market value	Value at 31 March 2020
	£'m	£'m	£'m	£'m	£'m
Equities	5,992.8	2,250.3	(2,894.8)	(631.8)	4,716.5
Fixed interest bonds	4,210.0	3,283.2	(2,925.1)	389.0	4,957.1
Index-linked bonds	3,903.4	1,941.7	(1,720.8)	144.3	4,268.6
Property	3.2	1,624.9	(94.0)	24.3	1,558.4
Pooled arrangements					
- Property	1,427.3	2.8	(1,377.8)	48.0	100.3
- Alternative Investments	1,187.1	347.1	(270.0)	54.1	1,318.3
- Private equity	773.4	138.4	(155.4)	142.4	898.8
Derivatives					
- Inflation-linked swaps	(91.7)	-	(116.8)	(984.4)	(1,192.9)
- Interest rate swaps	52.5	-	-	379.9	432.4
Total return swaps	179.6	-	-	14.8	194.4
- Futures	6.2	44.1	(32.8)	(16.7)	0.8
- Forward foreign exchange	9.9	390.9	(328.3)	(170.5)	(98.0)
AVC mixed portfolio fund	168.8	-	(19.3)	(11.8)	137.7
External AVC investments	0.3	-	-	0.1	0.4
	<b>17,822.8</b>	<b>10,023.4</b>	<b>(9,935.1)</b>	<b>(618.3)</b>	<b>17,292.8</b>
Cash	180.2	25.3	-	0.5	206.0
Other investments	64.5	206.4	-	0.5	271.4
	<b>18,067.5</b>	<b>10,255.1</b>	<b>(9,935.1)</b>	<b>(617.3)</b>	<b>17,770.2</b>

There were no individual investments which comprised greater than 5% of the net assets of the Scheme (2019: none).

Transaction costs are included in the cost of purchases and deducted from sale proceeds, however due to MiFID II, research costs have been unbundled and are now included within investment management expenses. Direct transaction costs analysed by main asset class and type of cost are as follows:

	Fees	Commission	Taxes	2020 Total	2019
	£'m	£'m	£'m	£'m	£'m
Equities	0.6	2.1	2.5	5.2	6.9
Other	-	0.2	-	0.2	0.2
2020	0.6	2.3	2.5	5.4	7.1
2019	1.3	2.7	3.1	7.1	-

In addition to the transaction costs disclosed above, indirect costs in relation to bonds are incurred through the bid-offer spread. Indirect costs are also incurred in relation to external pooled arrangements, through charges made to those vehicles.

**11. Pooled arrangements****Property/Alternatives/Private equity**

The indirect property, alternatives and private equity investments are invested in externally pooled funds. A proportion of the private equity and alternatives, and all the property investments (direct and indirect) are pooled internally and held jointly in unitised funds on behalf of the Airways Pension Scheme and the New Airways Pension Scheme. The remainder are held directly on behalf of the Scheme. As at 31 March 2020 the value of these funds are as follows:

<b>Property</b>	<b>% held</b>	<b>2020</b>	<b>2019</b>
		<b>£'m</b>	<b>£'m</b>
Externally pooled indirect funds		84.7	525.1
Direct UK property fund		15.6	902.2
<b>Total property unitised</b>	<b>82.20%</b>	<b>100.3</b>	<b>1,427.3</b>
<b>Alternatives</b>			
	<b>% held</b>	<b>2020</b>	<b>2019</b>
		<b>£'m</b>	<b>£'m</b>
Alternative unitised fund	49.37%	0.3	1.5
Direct investment funds		1,318.0	1,185.6
<b>Total</b>		<b>1,318.3</b>	<b>1,187.1</b>
<b>Private equity</b>			
	<b>% held</b>	<b>2020</b>	<b>2019</b>
		<b>£'m</b>	<b>£'m</b>
Private equity unitised fund	49.37%	9.8	10.4
Direct investment funds		889.0	763.0
<b>Total</b>		<b>898.8</b>	<b>773.4</b>

**12. Taxation**

The Scheme is a registered pension scheme for tax purposes under the Finance Act 2004. The Fund is therefore exempt from taxation except for certain withholding taxes relating to overseas investment income.

**13. Derivatives**

The Scheme uses derivative instruments for both investment purposes and to manage exposures to financial risks, such as interest rate, foreign exchange and liquidity risks arising in the normal course of business.

A summary of the Scheme's outstanding derivative contracts at the year-end aggregated by key characteristics were as follows:

**Over the counter swaps**

<b>Nature</b>	<b>Duration</b>	<b>Nominal Amount £'m</b>	<b>Asset value £'m</b>	<b>Liability value £'m</b>
Inflation-linked swaps	<10 years	800.8	13.3	(6.8)
Inflation-linked swaps	10-20 years	788.9	13.4	(69.8)
Inflation-linked swaps	20-30 years	813.0	17.3	(309.9)
Inflation-linked swaps	30-40 years	1,001.6	13.6	(783.9)
Inflation-linked swaps	>40 years	61.4	5.1	(85.2)
Interest rate swaps	<10 years	51.9	0.9	-
Interest rate swaps	10-20 years	361.1	40.9	-
Interest rate swaps	20-30 years	1,388.0	112.7	(94.5)
Interest rate swaps	30-40 years	410.3	154.6	(16.1)
Interest rate swaps	>40 years	586.9	285.7	(51.8)
Total return swaps	<10 years	637.1	194.4	-
<b>Total 2020</b>		<b>6,901.0</b>	<b>851.9</b>	<b>(1,418.0)</b>
<b>Total 2019</b>		<b>6,096.3</b>	<b>495.1</b>	<b>(354.7)</b>

**Futures**

The Scheme had exchange-traded stock index futures outstanding at the year-end relating to its equity portfolio as follows:

<b>Nature</b>		<b>Notional Amount / Contract Size</b>	<b>Duration</b>	<b>Fair Value £'m</b>
FTSE 100 stock futures	Buy	3,451	June 2020	4.7
Total UK futures				
S&P500 stock futures	Buy	1,178	June 2020	(4.2)
Tokyo stock futures	Buy	713	June 2020	0.3
EMINI S&P stock futures	Buy	2,664	June 2020	-
Total overseas futures				
			<b>Total 2020</b>	<b>0.8</b>
			<b>Total 2019</b>	<b>6.2</b>

Included within index-linked bond balances as disclosed in note 10 are £14.7m (2019: £11.2m) in respect of initial and variation margins arising on open futures contracts at the year end.

**13. Derivatives - continued****Forward foreign exchange contracts**

The Scheme holds investments in a number of currencies and their policy is to hedge within agreed limits.

The Scheme enters into over the counter foreign exchange forward contracts to offset the impact of currency fluctuations in foreign currency. The open FX contracts at the year-end were as follows:

<b>Contract</b>	<b>Maturity Date</b>	<b>Nominal value m</b>	<b>Asset value £'m</b>	<b>Liability value £'m</b>
<b>EUR</b>				
Forward to buy EUR	Apr 20-Jun 20	€36.2	0.9	-
Forward to sell EUR	Apr 20-Jun 20	€642.9	2.7	(20.2)
<b>JPY</b>				
Forward to buy JPY	Apr 20-Jun 20	¥5,874	1.2	-
Forward to sell JPY	Apr 20-Jun 20	¥50,813.1	2.3	(19.8)
<b>USD</b>				
Forward to buy USD	Apr 20-Jun 20	\$303.3	4.7	(4.5)
Forward to sell USD	Apr 20-Jun 20	\$2,971.5	23.1	(88.4)
<b>Total 2020</b>			<b>34.9</b>	<b>(132.9)</b>
<b>Total 2019</b>			<b>31.5</b>	<b>(21.6)</b>

**14. Collateral**

Collateral is used by the Scheme to manage counterparty risk. The collateral balances at the year-end are as follows:

<b>Counterparty</b>	<b>Collateral type</b>	<b>Pledge £'m</b>	<b>Derivative position</b>
Goldman Sachs	UK Gilt	(465.5)	Swaps & FX Forwards
JP Morgan	UK Gilt	(107.8)	Swaps & FX Forwards
RBS	UK Gilt	(89.5)	Swaps & FX Forwards
Barclays	UK Gilt	(77.7)	Swaps
Lloyds	UK Gilt	(16.8)	FX Forwards
Morgan Stanley	UK Gilt	(11.6)	Swaps & FX Forwards
Nomura	UK Gilt	(10.5)	Swaps
HSBC	Cash	0.2	Swaps
HSBC	UK Gilt	24.1	Swaps
JP Morgan	Cash	73.0	Swaps & FX Forwards
UBS	Cash	116.2	Swaps & FX Forwards
		<b>(565.9)</b>	

Collateral pledged with counterparty is reflected as a negative value. However, they are included in the statement of net assets as part of the Scheme assets. The collateral balances at the 2019 year end amounted to £189m.

**15. Additional Voluntary Contributions (AVCs)**

The Trustee holds assets to secure additional benefits on a defined contribution basis for those defined benefit section members electing to pay AVCs. Members participating in this arrangement each year receive an annual statement confirming the amounts held in their account and the movements in the year.

There are three AVC funds. The mixed portfolio fund, which is a separately managed unitised fund, the short-dated gilts fund and the equity biased fund, which are held within the investments. The aggregate amounts of AVC investments are as follows:

	% held	2020 £'m	2019 £'m
<b>Mixed Portfolio Fund</b>			
Equities		109.4	141.2
Bonds		24.5	24.7
Cash		3.8	2.9
Total Mixed Portfolio Fund	90.88%	137.7	168.8
<b>Short-Dated Gilts Fund</b>			
		21.1	24.8
<b>Equity Biased Fund</b>			
		201.8	198.0
		<b>360.6</b>	<b>391.6</b>

**16. External AVC investments**

In addition to the AVCs shown in note 15 above, there are four external AVC schemes. They are run for members who transferred from the British Caledonian Group Pension & Life Assurance Scheme ('British Caledonian'), the Davies & Newman Holdings Plc Pension and Life Assurance Scheme ('Davies & Newman') and the Dan Air Services Ltd Pension and Life Assurance Scheme ('Dan Air'). These funds have been separately invested for the benefit of the individuals. The values of these funds are as follows:

	2020 £'m	2019 £'m
<b>British Caledonian</b>		
Prudential	0.3	0.2
<b>Davies &amp; Newman and Dan Air</b>		
Equitable Life Assurance	0.1	0.1
	<b>0.4</b>	<b>0.3</b>

**17. Defined contribution scheme**

Within NAPS is the British Airways Money Purchase Section ('BAMPS'). This section was closed to further benefit accrual on 30 September 2012. Some of the members transferred out and any remaining members are deferred. These assets are not held separately, but members receive an annual statement informing them of the value of their entitlement. The total figures are shown below:

	<b>2020</b>	<b>2019</b>
	<b>£'m</b>	<b>£'m</b>
Balance of BAMPS at 1 April	5.3	4.9
Interest	0.3	0.4
Retirements	-	-
Balance of BAMPS at 31 March	<u><u>5.6</u></u>	<u><u>5.3</u></u>

**18. Fair value determination**

The fair value of financial instruments has been estimated using the following fair value hierarchy:

**Level (1)** The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

**Level (2)** Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

**Level (3)** Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The Scheme's investment assets and liabilities have been fair valued using the above hierarchy levels as follows:

	<b>As at 31 March 2020</b>			
	<b>Level (1)</b>	<b>Level (2)</b>	<b>Level (3)</b>	<b>Total</b>
	<b>£'m</b>	<b>£'m</b>	<b>£'m</b>	<b>£'m</b>
Equities	4,716.4	0.1	-	4,716.5
Bonds	7,693.2	1,532.5	-	9,225.7
Property	-	-	1,558.4	1,558.4
Pooled arrangements	-	-	2,317.4	2,317.4
Derivatives	0.8	(664.1)	-	(663.3)
AVC mixed portfolio fund	129.8	7.9	-	137.7
External AVCs	0.4	-	-	0.4
Cash	180.5	25.5	-	206.0
Other investment balances	271.4	-	-	271.4
	<u><u>12,992.5</u></u>	<u><u>901.9</u></u>	<u><u>3,875.8</u></u>	<u><u>17,770.2</u></u>

**18. Fair value determination -continued**

	As at 31 March 2019			Total £'m
	Level (1) £'m	Level (2) £'m	Level (3) £'m	
	Equities	5,990.3	2.5	
Bonds	8,113.4	-	-	8,113.4
Property	-	-	3.2	3.2
Pooled arrangements	-	-	3,387.8	3,387.8
Derivatives	6.2	150.3	-	156.5
AVC mixed portfolio fund	168.8	-	-	168.8
External AVCs	0.3	-	-	0.3
Cash	105.1	75.1	-	180.2
Other investment balances	61.4	-	-	64.5
	<b>14,448.6</b>	<b>227.9</b>	<b>3,391.0</b>	<b>18,067.5</b>

Interest, inflation and discount rate assumptions were based on the prevailing market rates at the year end.

**19. Investment risk disclosures****Investment risks**

The disclosure of information in relation to certain investment risks are as follows:

**Credit risk:** this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

**Market risk:** this comprises currency risk, interest rate risk, inflation risk, and other price risk.

- **Currency risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- **Interest rate risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- **Inflation risk:** The Trustee has chosen to disclose inflation risk as this is considered a key risk. Inflation risk is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in inflation.
- **Other price risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk, inflation risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

**Regulatory Risk:** this arises from investing in a market environment where the regulatory regime may change.

**Concentration Risk:** this arises when a high proportion of the Scheme's assets are invested in instruments of the same or related issuers.

**ESG Risk:** this arises from investing in assets exposed to ESG-related matters, including climate change, which could have a material negative impact on the asset's value.

## 19. Investment risk disclosures - continued

**Active risk:** in that the combination of assets held will differ from the benchmark and may give rise to underperformance relative to passive management.

**Tracking error risk:** in that a passive approach may not track the benchmark index within an appropriate degree of accuracy.

**Manager selection risk:** due to the potential for selecting (or failing to de-select in a timely manner) an active manager that fails to generate sufficient return in excess of the benchmark to justify the active risk taken and the higher fees charged than for passive management.

The Scheme has exposure to investment risks as a result of the investments it makes to implement its investment strategy described in the Trustee's Report. The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment manager and monitored by the Trustee by regular reviews of the investment portfolios.

Further information on the Trustee's approach to risk management and the Scheme's exposures to credit and market risks is set out below. This does not include AVC investments as these are not considered significant in relation to the overall investments of the Scheme.

### (i) Investment strategy

The investment objective of the Scheme is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet, together with future deficit repair contributions, the benefits payable under the Trust Deed and Rules as they fall due.

The Trustee sets the investment strategy for the Scheme taking into account considerations such as the strength of the employer covenant, the long-term liabilities and the funding agreed with the employer. The investment strategy is set out in its Statement of Investment Principles ('SIP') which can be viewed on the member website.

The current strategy is to hold:

- Liability matching assets – 55.5% in investments that move in line with the long-term liabilities of the Scheme. This is referred to as liability matching investments and comprises UK and overseas Government and corporate bonds and inflation and interest rate swaps, the purpose of which is to hedge against the impact of interest rate and inflation movements on long-term liabilities.
- Return seeking assets – 44.5% in return seeking investments comprising UK and overseas equities, equities futures, investment property, alternatives and private equity.

29.7% of the above investments are in overseas currencies. To minimise the currency risk the Trustee has put in place a currency hedging strategy using forward foreign exchange contracts.

### (ii) Credit risk

The Scheme is subject to credit risk because the Scheme invests in bonds, OTC derivatives, holds cash balances and undertakes stock lending activities.

Credit risk arising on bonds is mitigated by investing predominantly in Government bonds where the credit risk is minimal or investment grade corporate bonds which are rated BBB or above. The Trustee manages the associated credit risk by requesting that the investment manager diversifies the portfolio to minimise the impact of default by any one issuer. Credit risk arising on other investments is mitigated by investment mandates requiring counterparties to have predominantly investment grade credit quality.

Credit risk arising on derivatives depends on whether the derivative is exchange traded or OTC. Exchange traded derivatives are guaranteed by a regulated exchange where OTC is not; therefore, the Scheme is subject to risk of failure of the counterparty. The credit risk for OTC derivatives is reduced by collateral arrangements (see note 14).

Cash is held with financial institutions which are at least investment grade credit rated. This was the position at the year end.

**19. Investment risk disclosures - continued**

The Scheme lends certain fixed interest and equity securities under a Trustee-approved stock lending program which is managed at the discretion of, and is fully indemnified by, the custodian State Street Bank and Trust Company. The Trustee manages the credit risk arising from stock lending activities by restricting the amount of overall stock that may be lent, only lending to approved borrowers, limiting the amount that can be lent to any one borrower and putting in place collateral arrangements. At the year end, the Scheme had lent £320.5 million (2019: £226.1 million) of public sector securities and £251.7 million (2019: £361.9 million) of quoted securities and held collateral in the form of cash and fixed interest securities with a value of 109.1% (2019: 104.3%) of stock lent.

The Scheme invests in private equity, alternatives, real assets, and indirect property funds through pooled arrangements and some of these investments are exposed to credit risk and leverage. This risk is mitigated through active management of the funds, the regulatory environments in which the pooled arrangements operate, and diversification of investments amongst a number of funds.

The Trustee carries out due diligence checks on the appointment of a new fund and on an on-going basis monitors any changes to the management, regulatory, and operating environment of the funds. The Scheme's holdings in pooled investment vehicles are unrated and predominantly held through shares of limited liability partnerships.

**(iii) Currency risk**

The Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets, either as segregated investments or via pooled arrangements. The Trustee limits overseas currency exposure through a currency hedging policy.

The Scheme's total net unhedged exposure by major currency at the year end was as follows:

	<b>2020</b>	<b>2019</b>
	<b>£'m</b>	<b>£'m</b>
US Dollar	927.5	577.8
Euro	272.0	156.3
Other	1,207.6	1,499.8
	<b><u>2,407.1</u></b>	<b><u>2,233.9</u></b>

**(iv) Interest rate risk**

The Scheme is subject to interest rate risk because some of the Scheme's investments are held in bonds and interest rate swaps. The Trustee has set an interest rate target hedge ratio to decrease the impact of adverse interest rate movements against liability as part of their liability matching investment strategy. Under this strategy, if interest rates fall, the value of liability matching investments will rise to help match the expected increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, the liability matching investments will fall in value, as the actuarial liabilities are expected to because of an increase in the discount rate.

**(v) Inflation risk**

The Scheme is subject to inflation risk on the liability matching investments comprising index-linked bonds and inflation swaps. The Trustee has set an inflation target hedge ratio to decrease the impact of adverse movements in inflation against liability as part of their liability matching investment strategy. Under this strategy, if inflation rates rise, the liability matching investments will rise to help match the increase in actuarial liabilities arising from future pension increases. Similarly, if inflation rates fall, the value of liability matching investments will fall in value, as will the actuarial liabilities because the future pension increases will be expected to be lower.

**19. Investment risk disclosures - continued****(vi) Other price risk**

Other price risk arises principally in relation to the Scheme's return seeking portfolio which includes directly held equities, investments held in pooled arrangements including private equity, alternatives, real assets, investment properties and equity futures. The Scheme has set a target asset allocation of 44.5% of investments in return seeking assets. This was the position at the year end.

The Scheme manages this exposure to other price risk by constructing a diverse portfolio of investments across various markets.

**20. Contingent liabilities and contractual commitments**

The following contractual commitments existed at the year-end:

	<b>2020</b>	<b>2019</b>
	<b>£'m</b>	<b>£'m</b>
Property	199.2	108.6
Alternative investments	506.5	392.0
Private equity	349.7	405.1
	<u>1,055.4</u>	<u>905.7</u>

**21. Self-investment**

The Scheme holds no direct investment in BA Plc or in International Consolidated Airline Group SA, or any shares or other securities as defined by section 40 of the Pensions Act 1995.

**22. Current assets and current liabilities**

	<b>2020</b>	<b>2019</b>
	<b>£'m</b>	<b>£'m</b>
<b>Current assets</b>		
Cash balances	0.1	0.2
Sundry debtors and prepayments	35.0	2.0
	<u>35.1</u>	<u>2.2</u>
	<u><u>35.1</u></u>	<u><u>2.2</u></u>
	<b>2020</b>	<b>2019</b>
	<b>£'m</b>	<b>£'m</b>
<b>Current liabilities</b>		
Unpaid benefits	7.1	13.2
Accrued expenses	9.5	1.7
	<u>16.6</u>	<u>14.9</u>
	<u><u>16.6</u></u>	<u><u>14.9</u></u>

### 23. Related party transactions

The Corporate Trustee of NAPS is New Airways Pension Scheme Trustee Limited ('NAPSTL'). This company is dormant, and its set up cost was paid by the Scheme.

BAPTL, a company limited by guarantee, holds the assets on behalf of the Scheme as Custodian Trustee, including the assets of the pooled arrangements. The directors of BAPTL are all Directors of either Airways Pension Scheme Trustee Limited ('APSTL') or NAPSTL. The companies described below are all wholly owned by BAPTL.

BAPSL provides administration services and BAPIML provides investment management services to the Scheme. The Scheme is recharged for these services, as shown in the fund account, and in notes 7 and 9. BA provide occasional services to the Scheme (e.g. recruitment, advice on contracts for the purchase of equipment) for which the Scheme is not recharged.

On 29 November 2019 the Scheme purchased £259.4m of property assets from APS. The assets were independently valued at fair value, less transaction costs of £8.1m. The transaction was fully settled before the year end.

The Trustee Directors of the Scheme are considered to be key management personnel. Virginia Holmes was remunerated by BA in respect of her services as Chair of the Trustee Companies. Pensioner elected Trustee Directors were also paid by the Employer.

In addition to the member nominated Trustee Directors, five (2019: three) of the Trustee Directors of NAPSTL appointed by BA Plc that served during the year were deferred members or pensioners of NAPS. If a Trustee Director is a member or a pensioner, then their pension rights are on terms normally granted to members.

### 24. Guaranteed Minimum Pension (GMP) equalisation

On 26 October 2018 the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should equalise pension benefits for the effect of unequal GMP so that equal benefits are provided for men and women in respect of GMP earned between 17 May 1990 and 5 April 1997. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. The Trustee of the Scheme is aware that the issue will affect the Scheme and has already received advice from its Scheme Actuary to understand the potential financial impact on the Scheme. The Trustee is awaiting the outcome of one subsequent Court hearing before it takes any further action. Under the ruling schemes are required to backdate benefit adjustments in relation to GMP equalisation and may need to provide interest on the backdated amounts. Based on an initial assessment of the likely backdated amounts and related interest the Trustee does not expect these to be material to the financial statements and therefore have not included a liability in respect of these matters in these financial statements. They will be accounted for in the year they are determined.

### 25. Post Balance Sheet Events

COVID-19 has caused disruption to economic activity which has been reflected in recent fluctuations in global stock markets and, in turn, in the valuation of Fund's assets. However, the Scheme's NAV has not suffered as a result of a decline in stock market values. The Trustees have designed and implemented the Fund's investment strategy taking a long-term view and have built in resilience to withstand short term fluctuations and will work closely with Fund investment advisors and managers to assess the potential impact and adjust the Fund's investment strategy if necessary.

## Independent Auditor's Statement about Contributions to the Trustee of the New Airways Pension Scheme

### Qualified statement about contributions under the Schedule of Contributions

We have examined the summary of contributions payable under the Schedules of Contributions to the New Airways Pension Scheme in respect of the Scheme year ended 31 March 2020 which is set out on page 36.

In our opinion, except for the departure described in the basis for qualified statement about contributions section of our report, contributions for the Scheme year ended 31 March 2020 as reported in the summary of contributions and payable under the Schedules of Contributions have in all material respects been paid at least in accordance with the Schedules of Contributions certified by the Actuary on 28 March 2018 and 25 October 2019.

### Basis for qualified statement about contributions

As explained in the Trustee's Report on page 4 deficit recovery contributions in respect of March 2020 totalling £25 million were received 30 days later than required under the Schedule of Contributions.

### Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have in all material respects been paid at least in accordance with the Schedules of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedules of Contributions.

### Respective responsibilities of Trustee and auditor

As explained more fully in the Statement of Trustee's Responsibilities set out on page 10, the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedules of Contributions.

It is our responsibility to provide a statement about contributions paid under the Schedules of Contributions to the Scheme and to report our opinion to you.

### The purpose of our work and to whom we owe our responsibilities

This statement is made solely to the Scheme's Trustee, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to it in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee, for our work, for this statement, or for the opinions we have formed.

**Fang Fang Zhou**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
**Chartered Accountants**

15 Canada Square  
London  
E14 5GL

Date: 30 September 2020

**Statement of Trustee's responsibilities in respect of contributions**

The Scheme's Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Scheme's Trustee is also responsible for keeping records of contributions received in respect of any active member of the Scheme and for procuring that contributions are made to the Scheme in accordance with the Schedule.

**Trustee's summary of contributions payable under the Schedules in respect of the Scheme year ended 31 March 2020**

This summary of contributions has been prepared on behalf of and is the responsibility of, the Trustee. It sets out the employer and employee contributions payable to the Scheme under the Schedules of Contributions certified by the actuary on 28 March 2018 and 25 October 2019 in respect of the Scheme year ended 31 March 2020. The Scheme auditor reports on contributions payable under the Schedules in the auditor's statement about contributions.

<b>Contributions payable under the schedule in respect of the Scheme year</b>	<b>£'m</b>
Employer normal contributions	-
Employer deficit funding – regular	300.0
Employer deficit funding – cash sweep	150.0
Employer administration contributions- contingency	251.5
Employer administration contributions	4.4
<b>Contributions payable under the Schedule (as reported on by the Scheme auditor)</b>	<b>705.9</b>

**Reconciliation of contributions**

Reconciliation of contributions payable under the Schedules to contributions reported in the financial statements in respect of the Scheme year:

	<b>£'m</b>
Contributions payable under the schedule (as above)	705.9
Contributions payable in addition to those due under the schedules:	
Employer augmentation	0.3
<b>Total contributions reported in the financial statements</b>	<b>706.2</b>

This report was approved by the Trustee Board on 29 September 2020 and was signed on their behalf by:

**Fraser Smart**  
Scheme Secretary

3309225 *New Airways Pension Scheme*Page 1 of 3 *Schedule of Contributions*

Name of Employer: British Airways plc ("BA") as the Principal Employer for and on behalf of the Participating Employers of the Scheme

This Schedule of Contributions has been prepared in accordance with Part 3 of the Pensions Act 2004 and the Occupational Pension Schemes (Scheme Funding) Regulations (SI 2005/3377). It sets out the contributions payable to the New Airways Pension Scheme ("the Scheme") over the period of 5 years from the date that the Actuary certifies the Schedule.

It also shows the contributions that are payable to the Scheme between the effective date of the valuation (31 March 2018) and the date that the Actuary certifies the Schedule.

New Airways Pension Scheme Trustee Limited, the Trustee of the Scheme, and BA have agreed this Schedule, as indicated below by authorised signatories (all other Participating Employers of the Scheme have nominated the Principal Employer to agree the Schedule of Contributions on their behalf).

**Deficit reduction contributions payable by BA**

Timing	Amount	Frequency
1 April 2018 to 31 March 2019	£450m	Payable in equal monthly instalments of £25m in arrears, plus a lump sum payment of £150m payable in June 2018. (Paid)
1 April 2019 to 30 September 2019	£300m	Payable in equal monthly instalments of £25m in arrears, plus a lump sum payment of £150m payable in June 2019. (Paid)
31 December 2019	£250m	Lump sum payment of £250m (defined as the Special Contribution in and subject to the terms of the separate legal agreement referred to below) .
1 October 2019 to 31 March 2020	£150m	Payable in equal monthly instalments of £25m in arrears.
1 April 2020 to 31 March 2023	£450m pa	Payable in equal monthly instalments of £37.5m in arrears.

In relation to the above deficit reduction contributions, the Trustee and BA have agreed a mechanism whereby:

- If the Technical Provisions funding level equals or exceeds 97%, some of the above contributions may be paid into an escrow account rather than the Scheme.
- The funds in escrow would subsequently be paid to the Scheme or returned to BA depending on whether the Scheme is fully funded against its Technical Provisions at future assessment points.

- 3309225**
- Payments may cease if the Scheme is funded above 100% of Technical Provisions over the recovery plan period and would restart if a funding deficit re-emerges.

Page 2 of 3

This mechanism is documented in a separate legal agreement.

#### Other payments

In addition to the deficit recovery payments, BA will pay:

- any additional contributions as decided by the Trustee, on the advice of the Actuary, and in accordance with the Scheme Rules, to meet benefit augmentations;
- between 1 April 2018 and 30 September 2019, £600,000 each calendar month as an allowance for recurring administrative and non-investment expenses. Invoices for expenses incurred over this period in excess of this allowance shall be submitted for reimbursement by BA Pensions no less frequently than quarterly and, subject to being properly incurred by the Trustee, will be settled by BA within one calendar month; and
- all Pension Protection Fund levies, either directly or by reimbursing the Scheme.

The Trustee and BA have agreed a package of additional security and other measures aimed at further improving the funding position and members' benefit security over time, which are documented in a separate legal agreement. Under these arrangements, additional payments may be made to the Scheme from time to time, on dates determined pursuant to that agreement, including as mitigation of special distributions. In some circumstances, as documented in the legal agreement, these additional payments shall be treated as pre-payments of the fixed deficit contributions which are furthest in the future and are still due for payment and payable under the Recovery Plan.

This Schedule incorporates all sums payable to the Scheme from time to time under that legal agreement, and BA and the Trustee will amend this Schedule of Contributions document to reflect any such presentational difference as soon as reasonably practicable after it has been identified.

#### Due date for payment of contributions deficit recovery contributions payable by BA

Deficit recovery payments labelled as being payable in equal month instalments are payable monthly and are due by the 19th day of the month following that to which the contributions relate. This includes any contributions payable to the escrow account rather than the Scheme.

The lump sum payment of £250m is expected by 31 December 2019. In some circumstances the timing of the £250m lump sum payment may vary and it may be payable in instalments. To the extent that the £250m lump sum payment is received by the Scheme after 31 December 2019, additional interest will be added to the payment, to compensate the Scheme for late payment. This is documented in a separate legal agreement.

**3309225** Any other contributions to the Scheme will be paid within 19 days of the due date notified by the Trustee.

Page 3 of 3

This Schedule of Contributions replaces the Schedule of Contributions dated 28 March 2018 with effect from the date of certification.

**This Schedule of Contributions is agreed:**

on behalf of the Trustee of the Scheme

Signature: ..... authorised signatory

Name: .....

Position: ..... Date: .....

for and on behalf of the Participating Employers of the Scheme

Signature: ..... authorised signatory

Name: .....

Position: ..... Date: .....



**3314071** *Actuary's certification of Schedule of Contributions*

Page 1 of 2

**This certificate is provided for the purpose of Section 227(5) of the Pensions Act 2004 and Regulation 10(6) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005**

Name of scheme                      New Airways Pension Scheme ("the Scheme")

**Adequacy of rates of contributions**

I certify that, in my opinion, the rates of contributions shown in this Schedule of Contributions are such that the Statutory Funding Objective could have been expected on 31 March 2018 to be met by the end of the period specified in the Recovery Plan dated 25 October 2019.

I also certify that the rates of contributions shown in this Schedule are not lower than I would have provided for had I had responsibility for preparing or revising the Schedule of Contributions, the Statement of Funding Principles and any Recovery Plan.

**Adherence to statement of funding principles**

I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the Statement of Funding Principles dated 25 October 2019.

The certification of the adequacy of the rates of contributions for the purpose of securing that the Statutory Funding Objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were to be wound up.

**Signature:** ..... **Date:** 25 October 2019

**Name:** Aaron Punwani **Qualification:** FIA

**Address:** Lane Clark & Peacock LLP  
95 Wigmore Street  
London  
W1U 1DQ

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**3314071**      **Notes not forming part of the certification**

Page 2 of 2

In giving the above opinion I have interpreted the phrase “could have been expected to be met” as being satisfied by consideration of the proposed contributions under the economic and demographic scenario implied by Trustee’s funding assumptions as set out in the Statement of Funding Principles dated 25 October 2019, and the Recovery Plan dated 25 October 2019 and without any further allowance for adverse contingencies that may arise in the future. My opinion does not necessarily hold in any other scenarios.

Furthermore, I have taken no account of either adverse or beneficial outcomes that have become known to me since the effective date of the valuation. However, I have taken account of contributions that are payable to the Scheme between the effective date of the valuation and the date that I have certified this Schedule as documented in the Schedule of Contributions.

(Forming part of the Trustee's Report)

**New Airways Pension Scheme  
Report on Actuarial Liabilities**

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to, based on their pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustee and the Employer which are set out in the Statement of Funding Principles, which is available to Scheme members as an appendix to the 2018 valuation, via the member website.

The most recent full actuarial valuation of the Scheme was carried out as at 31 March 2018. This showed that on that date:

The value of the technical provisions was: £19,330 million

The value of the assets at that date was: £16,931 million

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Appendix to the Statement of Funding Principles):

**Method**

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

**Significant actuarial assumptions**

Assumption	Value
Discount rate	A term-dependent margin equivalent to a single equivalent margin of approximately 0.65% p.a. over the full nominal gilt yield curve as at 31 March 2018.
Retail Prices Index (RPI) inflation	Term-dependent rates derived from the difference between the full index-linked and nominal gilt yield curves.
Deferred pension revaluation Pension increases in payment: - PIRO - GMP (as specified)	RPI-0.9% p.a.* Fixed rate or Escalation of S148 rates assumed to be in line with RPI + 1.5% p.a.*
Pension increases in payment: - PIRO (capped at 5% p.a.) - Dan Air (floored at 3% p.a. and capped at 5% p.a.) - Post 88 GMP (capped at 3% p.a.)	RPI-0.9% p.a.* RPI-0.9% p.a.* RPI-0.9% p.a.*

\*With relevant annual caps and floors applied to the forward rates.

(Forming part of the Trustee's Report)

**Mortality:** the base table of mortality assumed at 31 March 2018 is summarised below. This is based on standardised tables of mortality rates which are determined by reference to historic experience of occupational pension schemes. These tables are then calibrated, based on the results of mortality analysis to reflect the demographic profile of the Scheme (by reference to age, gender, category of membership, category of occupation, pension amount and postcode).

Group	
Male non-pensioners with: - Low pensions* - High pensions*	93% of S2NMA 71% of S2NMA
Female non-pensioners	85% of S2NFA
Male pensioners with: - Low pensions* - High pensions*	108% of S2NMA 83% of S2NMA
Female pensioners	88% of S2NFA
Male dependents of pensioners	114% of S2NMA
Female dependents of pensioners	102% of S2NFA

\*Low pensions are classed as being lower than £25,100 p.a. at 31 March 2015. High pensions are higher than the specified limit.

The tables above were adjusted to incorporate improvement factors from 2007 based on the latest consistent CMI core projection model. As at 31 March 2018, this was the CMI2018 core projection model.

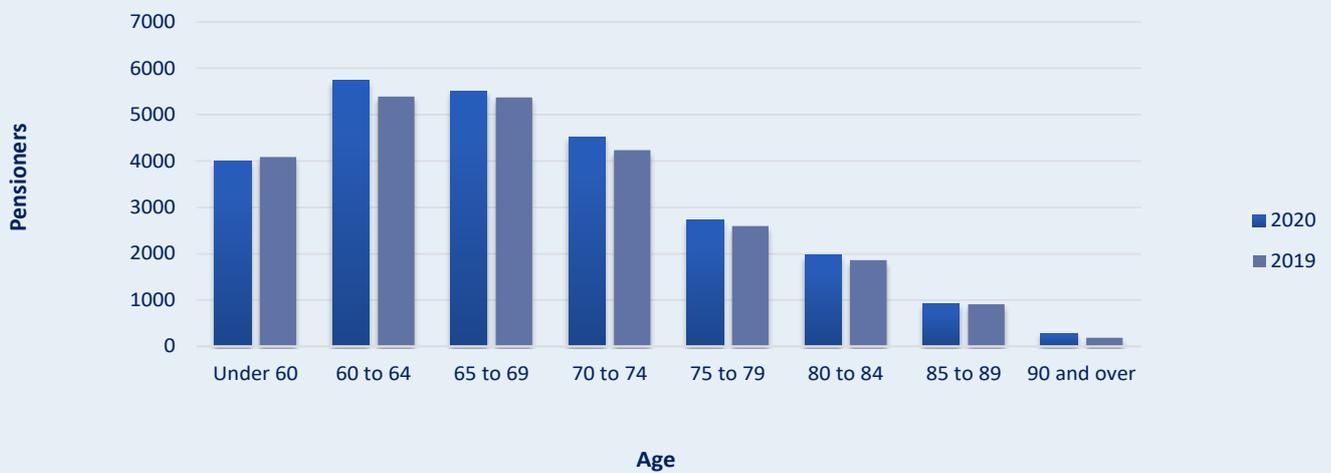
To address future improvements in mortality from 2007 an explicit allowance for long-term trend reductions in mortality rates of 1.5% p.a. has been applied to the CMI's core projection model. The core smoothing parameter ("S") of 7 at 31 March 2018 and an initial additional improvements parameter ("A") of 0.5% p.a. were applied from 2007.

Members who left the Scheme on the closure date (31 March 2018) are classified in accordance with the size of their Additional Voluntary Contribution (AVC) / British Airways Pension Plan (BAPP) fund value. Members assessed to have high, medium and low AVC / BAPP fund values are assumed to commute 10%, 13% and 18% of their pension upon retirement respectively, i.e. exchange the relevant proportion of their pension for a lump sum at retirement. Other deferred members are assumed to commute 20% of pension on retirement. Commutation is assumed to take place on the following terms:

- for known retirements and exits up to 31 March 2019 and non-pensioners assumed to retire between 1 April and 30 September 2019, on the terms in force at 31 March 2018; and
- for other non-pensioners, on factors which are 22.5% above those in force for NAPS members as at 31 March 2018, broadly representing agreed updated terms effective from October 2019.

	2020	2019
Active members	-	-
Pensioners in payment	25,655	24,635
Dependant pensioners	4,471	4,315
Deferred pensioners	33,216	35,182
	<b>63,342</b>	<b>64,132</b>

Pensioner Age Analysis 2019/20



## The Scheme

The Scheme provides retirement benefits for employees of BA and some of its subsidiary and associated companies and benefits for dependants of members and pensioners who die.

The Scheme was established under a Trust Deed dated 16 March 1984 and was the Scheme offered to eligible new employees of BA between 1 April 1984 and 31 March 2003. On 1 April 1993 the British Airways Money Purchase Section ('BAMPS'), a section within the Scheme, was established. The original section of the Scheme is referred to as the Final Salary Section ('FSS').

On 15 May 1996 the Trustees of the Scheme resolved to amend the Rules of the Scheme to introduce a new sub-section of the FSS, to be known as 'NAPS2'. The original FSS is now called 'NAPS1'.

The Scheme ceased to be offered to employees joining after 31 March 2003.

The Scheme's benefits structure for benefits earned from 1 April 2007 was amended to provide a choice of two arrangements: Scheme 60 and Scheme 65.

From 1 October 2010 the standard accrual within the Scheme was reduced from 1/60th to 1/75th and maximum contributions were increased to 50%.

BAMPS contributions and BAMPS Contributory Service ceased from 1 October 2012.

The Scheme was "exempt approved" by the Inland Revenue and is now a registered scheme under the Finance Act 2004. NAPS FSS was contracted-out of the State Second Pension (formerly known as the State Earnings-Related Pension Scheme) until contracting-out ceased with effect from 6 April 2016. NAPS BAMPS was not contracted-out of the State Second Pension.

The Scheme closed to future accrual on 1 April 2018, and no further benefits will accrue. A number of employed deferred members, however, opted for transitional options allowing salary linkage to continue for a limited period. The salary linkage arrangements will end on 31 December 2021. In addition, special conditions apply in respect of Senior First Officer pilots who gain Command on or before 31 December 2023.

Following the closure of NAPS to future accrual, employed deferred members of NAPS may be automatically enrolled into the British Airways Pension Plan, a defined contribution pension scheme, offered by BA.



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