

Following our usual practice, the information in this newsletter is based on our last scheduled quarterly Main Board meeting which, for the last quarter, was 1 July 2015. Since then, we have learnt of some planned changes in respect of two of the Trustees appointed by British Airways – further details are provided below. We have held an extra unscheduled meeting to consider these changes and are currently in the process of discussing these with British Airways.

Trustee Changes

As you know, the Trustee Board consists of six Trustees appointed by British Airways (including an independent Chairman) and six Trustees elected by the membership. British Airways have informed us that Paul Spencer will be concluding his term as Chair of NAPS and APS with effect from 30 September 2015. Please see our August communication to you available on the 'other news' page of the member website www.mybapension.com. It is anticipated that British Airways will announce a new Chair before 1 October 2015 and we will keep you informed.

A further change to employer appointed Trustees is that Alan Buchanan will also cease to serve as an employer appointed Trustee for NAPS and APS at the end of September 2015. We have been advised that British Airways expect to be able to announce a replacement for Alan in September.

Valuation

We reported in the May newsletter that work had commenced on the formal valuation to assess the Scheme's funding position at 31 March 2015. This will remain a significant project for the Trustees over the coming months. Legislation requires the valuation to be completed by June 2016.

PricewaterhouseCoopers (PwC) presented their findings to the Trustee board following a detailed review of British Airways' financial strength. This is a key piece of information to assist us in our discussions with the Company during the valuation period.

We continued our discussions with the Scheme's actuary, James Wintle from Towers Watson, reviewing life expectancy and other demographic assumptions for the 2015 valuation, based on updated mortality experience for the Scheme. Predictions for future investment returns are also important to consider as these influence the amount of money estimated to be available for future benefit payments. We analysed models of future expectations of investment return and how quickly returns on bonds may or may not revert from the historical lows currently being experienced.

Another key work stream within the valuation process is the review of Scheme factors used to calculate member and deferred pensioner retirement options including exchanging pension for cash, early payment of pension before Normal Retirement Age and transfer value calculations. Factors are reviewed from time to time and at least every three years, usually at the end of the formal valuation process. We are discussing whether we can update factors sooner during the valuation process but, as changes generally reflect any updated assumptions, it is often the case that a final conclusion cannot be reached until later in the valuation process. We recognise that members require a period of notice before any changes to factors are implemented. Whilst it is not possible at this early stage to say which factors may change and how and when they will change, once any changes together with an implementation date have been agreed, a period of notice will be given.

Scheme Audit

The Scheme is audited on an annual basis to make sure its financial processes and controls are in order and to ensure it complies with the financial requirements of the Pensions Acts 1995 and 2004 and related regulations together with relevant Pension Regulator's (tPR) guidance.

The Scheme's auditors, KPMG, have reported on their audit for the year ending 31 March 2015 and we were pleased to note that no significant audit issues had been identified and that there remains a strong overall financial control environment with no regulatory breaches. This work will feed into the Scheme's Annual Report and Accounts due to be published later this year. We noted that a new Statement of Recommended Practice (SORP) had been issued by the Pensions Research Accountants Group in November 2014 and that this could potentially change how certain assets have to be represented in scheme accounts in future. We are discussing this with our auditors, KPMG.

In addition to the annual audit, the Scheme also has an ongoing programme of further audit assurance work. This allows the Trustees to direct the auditors to examine certain key control areas in further detail on a rotational basis. We agreed that the next review to be undertaken will be in the area of data quality and accuracy. This is an area already monitored by the Trustees using tPR's record keeping guidelines for measuring and monitoring member data. The quality of member data is considered to be a key objective for the Scheme and an external review is considered good practice alongside the measures already in place.

AGENDA WATCH

At the July 2015 Quarterly meeting:

- We received our quarterly investment update from BAPIML and details of various financial transactions that had been considered and, where appropriate, actioned. In 2010, the Trustees agreed to protect 25% (approximately £1billion as at 2010) of the NAPS quoted equity exposure. The strategy sought to provide protection against the equity market downside risk. This protection strategy was due to expire in June 2015 and the Trustees decided to replace the strategy. BAPIML has implemented the replacement of the downside protection. The Trustees have also continued to focus on the level of liability hedging. As explained in the Statement of Investment Principles (SIP), the aim of the liability hedging programme is to better align the Scheme's assets with the liabilities by hedging the Scheme's exposure to interest rates and inflation which are the key drivers in relation to the value placed on the liabilities.
- A payment of £227.33m was received from the Company in respect of the March 2015 cash sweep payment. This is in addition to normal scheme contributions which continue to be paid to the Scheme by the Company.
- We noted the annual bonus declaration for investments held in the Equity Biased (EBF) AVC Fund of 7.5% as at 31 March 2015 for the period to 31 March 2016. We undertook the annual check of the methodology for calculating this return and agreed the investment strategy remained appropriate and we ensured the level of cost for providing the guaranteed returns remained reasonable.
- The Scheme has in place an Internal Disputes Resolution Process (IDRP). Members who are not satisfied with the service they have received from the Scheme are encouraged, in the first instance, to write to the Head of Technical Pensions and Operations at Whitelocke House. If the complaint is not satisfactorily resolved the two stage IDRP process can then be initiated. We reviewed the service levels for our IDRP and agreed they should remain at four months for the first and second stage responses. We will continue to review this annually.
- The Trustees follow a set of confidentiality and communications principles when discussing Scheme matters. New Trustees are issued with the principles document on appointment and reviews are carried out periodically. A review by the Governance and Audit Committee and the legal advisers had been scheduled, following which we agreed the principles remained appropriate.
- The Pensions Regulator's (tPR) code of practice on Trustee Knowledge and Understanding (TKU) formalises knowledge requirements for trustees. All NAPS Trustees follow these requirements and undertake appropriate training and review. We also encourage all new Trustees to complete tPR's Trustee Toolkit within 6 months of appointment. Records of Trustee training are maintained and a full review is undertaken every two years to agree future training plans. The 2015 review has been completed and training plans will be issued over the summer.
- As you will be aware, we carry out quarterly reviews of our risk framework to confirm risks are being appropriately managed. From time to time we undertake a full and detailed workshop review of the framework itself to ensure the risks we monitor continue to fit the current business environment, business processes and the Trustees' corporate objectives. We recently completed such a review, the recommendations from which are currently being implemented.

Glossary

BAPIML – British Airways Pension Investment Management Ltd. who manage the day to day investment of the Scheme's assets on our behalf.

Statement of Investment Principles – legislation requires the Trustees to maintain a statement describing the investment policy being pursued by the Trustees, including the principles to be followed when making investment decisions.

Availability of Information

The Trustees meet quarterly with additional meetings being held as required. Much of the detailed work is undertaken by the Committees (Governance and Audit, Operations and Investment). In addition, sub groups are convened to look at specific issues.

We will seek to provide information on as many items as we can; however, there are some issues we won't be able to disclose. For example, if it involves an individual member, if the matter is commercially sensitive, if disclosure could undermine the Trustees' negotiations with third parties or where the information concerns planned investment actions.