

Trustee update to NAPS members - 31 March 2018 funding valuation

We are pleased to be able to tell you that we have reached an agreement with British Airways (BA) on the 31 March 2018 funding valuation, which has been submitted to The Pensions Regulator.

IAG today made a regulatory news announcement on the agreement, which can be viewed on the [IAG website](#).

Funding valuations must be carried out at least every three years and the previous valuation was as at 31 March 2015.

The key conclusions from the 2018 valuation are:

Funding

- ◆ The Scheme's assets have increased to £16.93 billion (2015: £13.28 billion).
- ◆ The Scheme's liabilities (the pension benefits the Scheme expects to pay out over time) have increased to £19.33 billion (2015: £16.07 billion).
- ◆ The Scheme's funding deficit is £2.4 billion (2015: £2.8 billion).
- ◆ The funding level has improved since the last formal valuation to 87.3% (2015: 82.7%).

Contributions

We have also agreed a new recovery plan with BA. Under the new recovery plan:

- ◆ BA will increase its fixed deficit contributions to £450 million a year from April 2020 until March 2023.
- ◆ BA will make an additional one-off contingency payment of £250 million to NAPS. This relates to a contingent payment mechanism agreed with Airways Pension Scheme (APS) and NAPS in 2010. As part of the settlement in April 2019 between BA and APS (which is currently awaiting court approval), the payment of these funds will be made to NAPS.
- ◆ An overpayment protection mechanism has also been agreed under which BA's deficit contributions would be suspended, if the funding deficit is cleared, and diverted to escrow if the funding level reaches 97% or higher. Should a deficit re-emerge then contributions would restart, along with catch-up payments for any missed contributions.
- ◆ This replaces the existing recovery plan under which BA was due to pay £300 million a year until March 2027, with further payments of up to £150 million each year depending on various financial circumstances.

Other Matters

BA dividend payments

BA has increased its flexibility to make dividend payments to IAG in return for an agreed mechanism to either accelerate contributions or provide a guarantee. For the next three years, if BA pays a dividend to IAG higher than 50% of its pre-exceptional profit after tax (PAT), it will either provide

the Scheme with a guarantee for 100% of the dividend amount above 50% of PAT, or 50% of that amount as an additional cash contribution (subject to the conditions under the overpayment protection mechanism above). These payments would automatically count as a pre-payment of the fixed deficit contributions which would otherwise be due at the end of the recovery plan.

Reducing NAPS investment risks (“de-risking”)

The agreement is based on an assumed de-risking path, with three percent of the Scheme’s assets being switched each year from return seeking assets (such as equities) to liability matching assets (such as bonds). If funding progress is better than expected, half of this excess performance will be used to reduce the Scheme’s deficit and the other half used to reduce volatility by accelerating de-risking.

Next steps

The Trustee is now working to finalise the actuarial report and we will publish this on our website www.mybapension.com once complete. In the meantime, we hope this update gives you a helpful overview of the agreement.