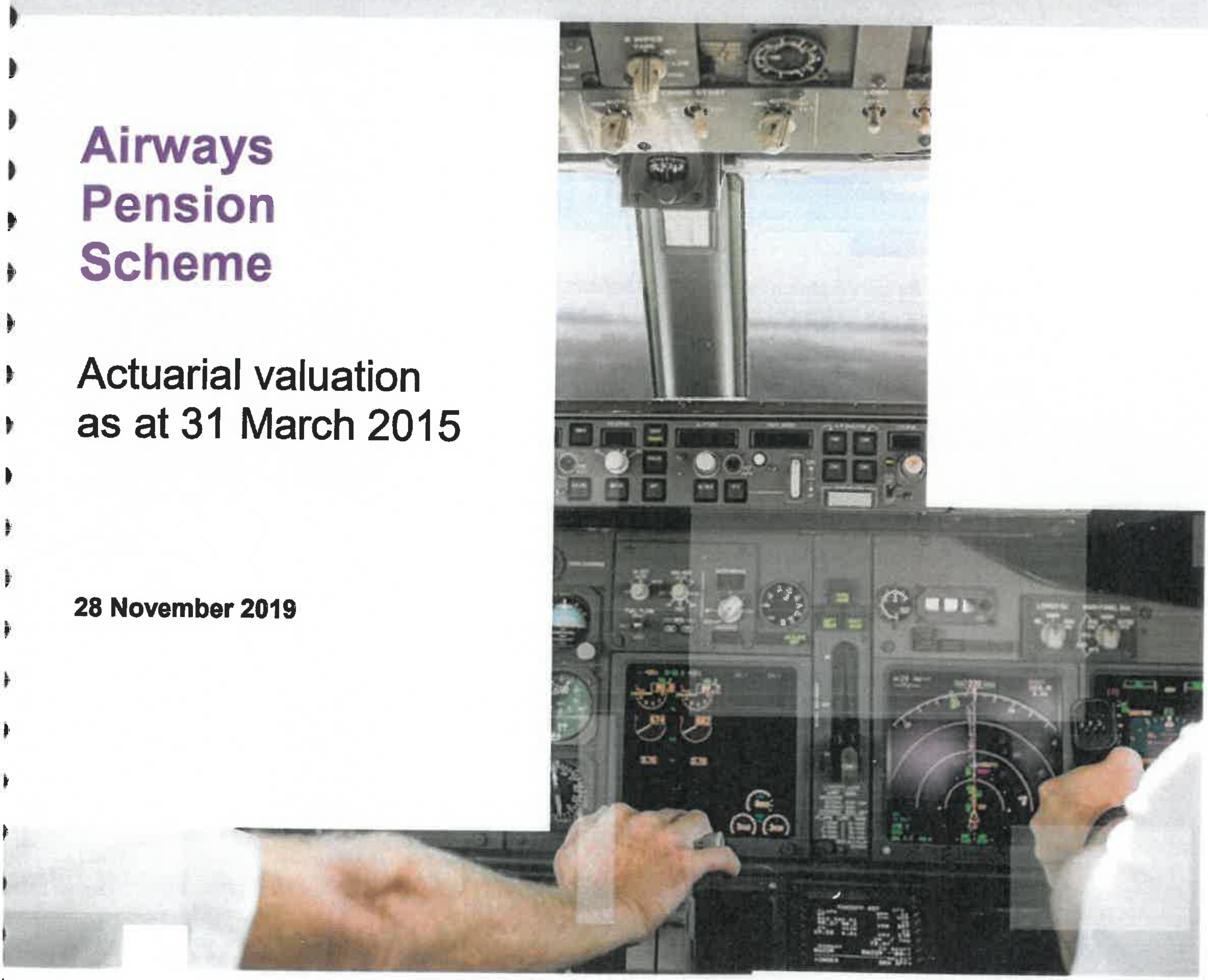
Willis Towers Watson

Airways Pension Scheme

Actuarial valuation as at 31 March 2015

28 November 2019



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Summary

The main results of the Scheme's actuarial valuation are as follows:

- Technical provisions funding level as at 31 March 2015 has increased to 98.0% (2012: 91.5%)

- Deficit of assets relative to technical provisions has decreased to £150m (2012: £680m)

- The Scheme Actuary's statutory estimate of solvency as at 31 March 2015 has increased to 84.3% (2012: 82.6%)

- Pending the outcome of the litigation between the Company and the Trustee, the Company continued to pay ongoing contributions and deficit reduction contributions in line with those agreed as part of the 31 March 2012 valuation until 31 December 2018.

- Taken together with the cash sweep payments made since 31 March 2015, it is expected at the valuation date that the Scheme will be fully funded on the technical provisions assumptions by 31 December 2018 (significantly before 31 March 2023, i.e. the end of the previous Recovery Plan dated 28 June 2013).

Contents

Throughout this report the following terms are used:

Scheme
Airways Pension Scheme

Trustee
Airways Pension Scheme Trustee Limited

Company
British Airways plc and other participating employers

Trust Deed & Rules
The Scheme's Trust Deed and Rules dated 1 April 2008, as subsequently amended by supplemental deeds executed between 1 April 2008 and the valuation date

Scope

This report is the actuarial valuation of the Airways Pension Scheme as at 31 March 2015. I have prepared it for the Trustee, who should forward a copy to the Company along with any recommendations in accordance with Clause 11(a) of the Trust Deed. The actuarial valuation is required under the terms of Clause 11 of the Scheme Rules and Part 3 of the Pensions Act 2004. The main purposes of the actuarial valuation are to review the financial position of the Scheme relative to its statutory funding objective and to determine the appropriate level of future contributions.

The report explains the financial position of the Scheme at 31 March 2015 using several different measures of its liabilities and how it has changed since the previous valuation at 31 March 2012. It also describes how the Scheme has been financed since the valuation date, and provides commentary on how the funding position is expected to have evolved since 31 March 2015 valuation. Finally, it sets out additional information related to the actuarial valuation of the Scheme as at 31 March 2015, including risks faced by the Scheme, membership data and asset information.

This report and the work involved in the actuarial valuation are within the scope of and comply with the Financial Reporting Council's Technical Actuarial Standards 100: Principles for Technical Actuarial Work and 300: Pensions.

Next steps

Due to litigation between the Trustee and the Company that has only recently been settled, this valuation was not completed within the statutory timescales and the Pensions Regulator was kept informed of the position by the Trustee.

The financial position of the Scheme and the level of Company contributions to be paid is being reviewed as part of the next actuarial valuation, with an effective date of 31 March 2018, which is being completed contemporaneously with this actuarial valuation.

Michael J Pardoe
Fellow of the Institute and Faculty of Actuaries
Towers Watson Limited, a Willis Towers Watson company
28 November 2019

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Limitations

Third parties

This report has been prepared for the Trustee for the purpose indicated. It has not been prepared for any other purpose. As such, it should not be used or relied upon by any other person for any other purpose, including, without limitation, by individual members of the Scheme for individual investment or other financial decisions, and those persons should take their own professional advice on such investment or financial decisions. Neither I nor Towers Watson Limited accepts any responsibility for any consequences arising from a third party relying on this report.

Except with the prior written consent of Towers Watson Limited, the recipient may not reproduce, distribute or communicate (in whole or in part) this report to any other person other than to meet any statutory requirements.

Data supplied

The Trustee bears the primary responsibility for the accuracy of the information provided, but will, in turn, have relied on others for the maintenance of accurate data, including the Company who must provide and update certain membership information. Even so it is the Trustee's responsibility to ensure the adequacy of these arrangements. I have taken reasonable steps to satisfy myself that the data provided is of adequate quality for the purposes of the investigation, including carrying out basic tests to detect obvious inconsistencies. These checks have given me no reason to doubt the correctness of the information supplied. It is not possible, however, for me to confirm that the detailed information provided, including that in respect of individual members and the asset details, is correct.

This report has been based on data available to me as at the effective date of the actuarial valuation and takes no account of developments after that date except where explicitly stated otherwise.

Some of the member data (such as date of birth and salary) required for the running of the Scheme, including for paying out the right benefits, is known as 'personal data'. The use of this data is regulated under the Data Protection Act (DPA) and the General Data Protection Regulation (GDPR), which places certain responsibilities on those who exercise control over the data (known as 'data controllers' under the DPA and GDPR). Data controllers would include the Trustee of the Scheme and may also include the Scheme Actuary and Willis Towers Watson, so we have provided further details on the way we may use this data on our website at http://www.willistowerswatson.com/personal-data.

Assumptions

The choice of long-term assumptions, as set out in the Scheme's Statement of Funding Principles dated 28 November 2019, is the responsibility of the Trustee, in agreement with the Company, after taking my advice. They are only assumptions; they are not predictions and there is no guarantee that they will be borne out in practice. In fact I would expect the Scheme's experience from time to time to be better or worse than that assumed. The Trustee and the Company must be aware that there are uncertainties and risks involved in any course of action they choose based on results derived from these assumptions.

The funding of the Scheme is subject to a number of risks and it is not possible to make an allowance for all such risks in providing our advice. Unless stated, no explicit allowance has been made for any particular risk. In particular, no explicit allowance has be made for climate-related risks.

Funding

Statutory funding objective

The Trustee's formal funding objective is the statutory funding objective under the Pensions Act 2004, which is to have sufficient and appropriate assets to cover the Scheme's technical provisions.

The technical provisions are calculated by projecting the benefits (which are mostly pension payments) expected to be paid in each year after the valuation date and then discounting the resulting cashflows to obtain a present value. Benefits accrued in respect of service only up to the valuation date are taken into account in this calculation (although an allowance is made for an assumed level of future pensionable earnings increases for employed members). The main benefits taken into account in this actuarial valuation are summarised in the Additional Information section of this report.

The projections allow for benefit payments being made from the Scheme over the next 50 or so years. Most of these payments depend on future increases in price inflation statistics subject to specified limits.

The method and assumptions for calculating the technical provisions as at 31 March 2015 have been agreed between the Trustee and Company and are documented in the Statement of Funding Principles dated 28 November 2019. These methods and assumptions implicitly assume that the Scheme is not discontinued.

The benefits covered by insurance and hedging contracts are treated consistently within both the assets and the liabilities with their valuation based on the values in the audited Report and Accounts.

Subsidiary funding objective

The Trustee has previously also had a subsidiary funding objective, as set out in the Statement of Funding Principles agreed as part of the 2012 valuation. Following the Settlement Agreement with BA, this subsidiary objective has been removed from the revised Statement of Funding Principles, as the Trustee consider that it is no longer required.

Financial assumptions

The table below summarises the main assumptions used to calculate the Scheme's technical provisions for this and the previous actuarial valuation.

Financial assumptions	31 March 2015 % pa	31 March 2012 % pa
Discount rate	**Willis Towers Watson gilt yield curve**	Willis Towers Watson gilt yield curve plus a margin of 0.4% pa
RPI inflation	**Willis Towers Watson gilt yield break-even inflation curve**	Willis Towers Watson gilt yield break-even inflation curve
CPI inflation	**RPI less 0.75% pa**	RPI less 0.75% pa
Pay increases	**RPI[1]**	RPI (with zero increase for the first year)
Pension increases[2]		
– Pensions Increase Review Orders (in deferment and payment)	**Pension increases are assumed to be in line with CPI inflation[3]**	Pension increases are assumed to transition linearly from CPI in April 2013 to RPI from April 2023 onwards with an additional margin of 0.1% per annum from April 2023 onwards to allow for the possible impact of the 0% floor on RPI pension increases in any subsequent year
– Post 1988 GMP in payment with an annual cap of 3% and a floor of 0%.	**Pension increases are assumed to be in line with CPI inflation[4]**	Pension increases are assumed to be in line with CPI inflation
– APS I-V pensions in payment with an annual cap of 2.5% and floor of 0%	**Pension increases are assumed to be in line with CPI inflation[4]**	Pension increases are assumed to be in line with CPI inflation

[1] Pay increases for members who have not elected to link their Pay for Pension Purposes to increases in their Pay are assumed to be in line with Pensions Increase (Review) Orders.

[2] For the 31 March 2015 valuation, these assumptions are derived from the RPI assumption and the long-term expected differential between RPI and pension increases, adjusted for the known timing of the actual pension increase and the relevant caps and floors for each pension increase type applied to the forward rates. Allowance has been made for the known pension increase in the April immediately following the valuation date (with no allowance for any known increases being different from those assumed thereafter).

[3] Income streams in respect of pensions covered by the Artemis and Concerto contracts are assumed to increase in line with RPI with no adjustment, subject (where relevant) to the annual floor applied to the forward rates.

[4] Income streams in respect of pensions covered by the Artemis and Concerto contracts are assumed to increase in line with RPI with no adjustment, subject (where relevant) to the annual caps and floors applied to the forward rates.

Demographic assumptions

The key demographic assumptions used to calculate the technical provisions are the mortality rates that are assumed to apply in the year following the valuation date (the 'base table' of mortality) and the allowance for future reductions in mortality rates. The base tables of mortality assumed at 31 March 2015 and 31 March 2012 are summarised below. These are based on standardised tables of mortality rates which are determined by reference to historic experience of occupational pension schemes. These tables have been calibrated, based on the results of a Generalised Linear Model (GLM) 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).

Demographic assumptions	31 March 2015	31 March 2012
Male non-pensioners with:		
- Low pensions*	**103% of S2PMA**	87% of S1PML
- High pensions*	**107% of S2PMA_L**	113% of S1PMA_L
Female non-pensioners	**83% of S2PFA_L**	85% of S1PFA
Male dependants of non-pensioners	**85% of S2PMA_H**	124% of S1PMA
Female dependants of non-pensioners	**93% of S2DFA**	90% of S1DFL
Male pensioners with:		
- Low pensions*	**101% of S2PMA**	88% of S1PML
- High pensions*	**82% of S2PMA_L**	91% of S1PMA_L
Female pensioners	**91% of S2PFA_L**	93% of S1PFA
Male dependants of pensioners	**88% of S2PMA_H**	123% of S1PMA
Female dependants of pensioners	**94% of S2DFA**	87% of S1DFL
Future improvements in longevity	**2014 CMI core projections model subject to a long-term improvement rate of 1.5% pa**	2011 CMI core projections model subject to a long-term improvement rate of 1.5% pa
Allowance for commutation	**Members are assumed to commute 15% of their pension for cash at retirement on terms 5% higher than the rates applicable at the valuation date, based on a 2.5% pa real (relative to RPI) discount rate**	Members are assumed to commute 15% of their pension for cash at retirement on terms 5% higher than the rates applicable at the valuation date
Expenses	**1% of the technical provisions****	1% of the technical provisions**

*Low pensions are classed as being lower than £25,100 pa at 31 March 2015 and lower than £23,600 pa at 31 March 2012; high pensions are higher than the specified limits
**Prior to any adjustment for Artemis deferred premium buy-in and longevity swap contracts

For those benefits covered by the longevity swap contract, the demographic assumptions (including the marital statistics) are based on the assumptions used for the valuation of this contract within the Scheme's accounts. At 31 March 2015 this approach was equivalent to a net decrease of 2.9% to the value of the benefits covered by the longevity hedge swap compared with the value using the demographic assumptions specified in this report.

Details of the other demographic assumptions used for this actuarial valuation are documented in the Statement of Funding Principles.

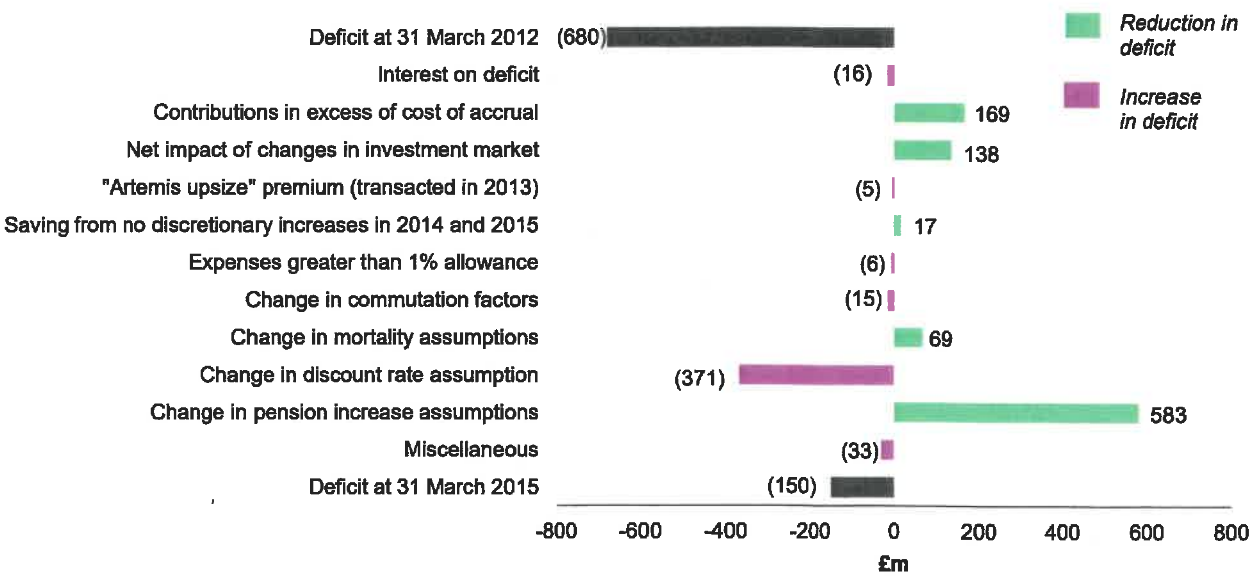
Past service results

The table below compares the Scheme's technical provisions as at the date of the actuarial valuation (31 March 2015) with the market value of the Scheme's assets and the corresponding figures from the previous actuarial valuation:

Valuation statement	31 March 2015 £m	31 March 2012 £m
Amount required to provide for the Scheme's liabilities in respect of:		
Employed members	**559**	627
Deferred pensioners	**254**	251
Pensioners and dependants	**6,718**	6,998
Expenses	**80**	78
AVCs and other money purchase benefits	**48**	41
Technical provisions	**7,659**	7,995
Market value of assets	**7,509**	7,315
Past service (deficit)/surplus (technical provisions less assets)	**(150)**	(680)
Funding level (assets ÷ technical provisions)	**98.0%**	91.5%

Developments since the previous valuation

The funding deficit has decreased to £150m from £680m at the previous valuation. The main factors contributing to this decrease are shown below.



Note: The figures in this analysis are approximate and depend on the order in which the items are analysed

The effect of the change in the pension increase assumption shown above reflects the technical provisions assumption for pension increases now reflecting only the guaranteed increases under the Scheme rather than also making allowance for any future discretionary increases (as it did for the 2012 valuation). This change was agreed with the Company as part of the Settlement Agreement dated 8 April 2019.

Contribution requirements

Future accrual of benefits

Under the method and assumptions described in the Statement of Funding Principles, the Company contribution rate that would have been required, in addition to Scheme members' normal contributions, to provide the benefits expected to accrue between this valuation and the next valuation was 53.0% of Pay for Contribution Purposes. An allowance of 1.0% of Pay for Contribution Purposes is included in this contribution rate for administration expenses, but not for Pension Protection Levies as these are paid to the Scheme in full by the Company following receipt of the relevant invoices from the PPF Board.

The change in the required Company contribution rate is predominantly due to the significant reduction in gilt yields since the previous valuation, together with a lower margin over gilts used in the discount rate for future service, offset in part by a lower pension increase assumption.

As the Scheme is closed to new entrants, the cash amount required to meet the cost of the accrual of future benefits will fall because the number of members to whom the rate applies will fall as active members leave service, retire or die.

Due to the valuation not being completed until now, the required contribution rate set out above has not been paid over the intervaluation period. In practice, the Company contribution rate paid over the intervaluation period is that agreed at the 31 March 2012 valuation of 34.7% of Pay for Contribution Purposes.

Recovery plan

The 31 March 2015 valuation was put on hold pending the outcome of the litigation between the Company and the Trustee. Since the valuation date, the Company has continued to pay additional contributions to the Scheme at a rate of £4,583,333 per month, in line with the recovery plan agreed for the 31 March 2012 valuation, which targeted full funding on a technical provisons basis by 31 March 2023.

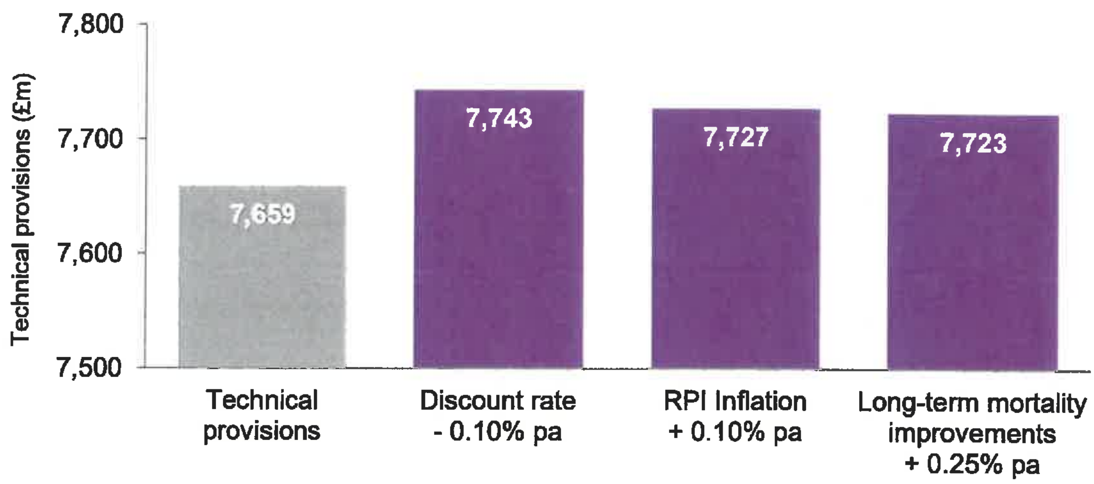
As part of the 2012 valuation, The Trustee and the Company also agreed a package of additional security and other measures aimed at improving the funding position and members' benefit security over time, which were documented in a separate legal agreements. As part of these arrangements, payments of £25.3m, £31.4m, £36.0m and £40.0m were paid in June 2015, 2016, 2017 and 2018 respectively as part of the cash sweep arrangement.

Therefore, the contributions required from 31 March 2015 to remove the Scheme's deficit of £150m have in practice already been paid at the time of writing this report. Consequently, the recovery plan for this actuarial valuation records those contributions which have been paid and the Scheme can be expected to be fully funded by 31 December 2018 based on the contributions which have been received by that date and the assumptions as at 31 March 2015.

Projections and sensitivities

Over the period from 31 March 2015 to 31 March 2018, based on the assumptions underlying the calculation of the Scheme's technical provisions as at 31 March 2015, the ongoing contributions paid by the Company are not expected to have been sufficient to cover the cost of accrual. However, taken together with the deficit reduction contributions and the cash sweep payments made over the same period as described above, the funding level was expected to improve considerably over the period to 31 March 2018, and is expected to exceed 100% by 31 December 2018.

The chart below illustrates the impact on the Technical Provision liabilities as at 31 March 2015 from variations of individual assumptions. Please note that for some of the changes illustrated below, the risk is partially hedged by the Scheme's assets. (If more than one of these assumptions is varied, the effect may be greater than the sum of the changes from varying individual assumptions.)



Solvency

Discontinuance

In the event that the Scheme is discontinued, the benefits of employed members would crystallise and become deferred pensions in the Scheme. There would be no entitlement to further accrual of benefits.

If the Scheme's discontinuance is not the result of the Company's insolvency, the Company would ultimately be required to pay to the Scheme any deficit between the Scheme Actuary's estimate of the full cost of securing Scheme benefits with an insurance company (including expenses) and the value of the Scheme's assets – the "employer debt". The Trustee would then normally try to buy insurance policies to secure future benefit payments. However, the Trustee may decide to run the Scheme as a closed fund for a period of years before buying such policies, for example if there are practical difficulties with buying insurance policies, such as a lack of market capacity.

If the Scheme's discontinuance is a result of the Company's insolvency, the "employer debt" would be determined as above and the Scheme would also be assessed for possible entry to the Pension Protection Fund ("PPF").

If the assessment concluded that the assets (including any funds recovered from the Company) were not sufficient to secure benefits equal to the PPF compensation then the Scheme would be admitted to and members compensated by the PPF. Otherwise the Scheme would be required to secure a higher level of benefits with an insurance company.

Statutory estimate of solvency

The Pensions Act 2004 requires that I provide the Trustee with an estimate of the solvency of the Scheme at the valuation date. Normally, this means an estimate of the proportion of the accrued benefits that could have been secured by buying insurance policies with the assets held by the Scheme at the valuation date. For this purpose I have assumed that no further payments are received from the Company, although in practice certain payments and guarantees set out in a separate legal agreement may have been available in such circumstances.

I have assumed that the insurance company price would be calculated on an actuarial basis similar to that implied by bulk annuity quotations seen by Willis Towers Watson at around the valuation date. However, there is very limited capacity in the market for annuities that provide increases in line with Pensions Increase (Review) Orders, and having considered the limited evidence available I have assumed that PIRO increases might have been secured on terms broadly equivalent to those available for RPI increases. I have assumed the cost of implementing the winding-up to be £137m (2012: £112m).

The table below summarises how the main assumptions used to estimate the Scheme's solvency position at this and the previous actuarial valuation differ from the assumptions used to calculate the technical provisions liabilities.

Financial assumptions	**31 March 2015 % pa**	31 March 2012 % pa
Pensioner discount rate	**Willis Towers Watson gilt yield curve less a margin of 0.15% pa**	Willis Towers Watson gilt yield curve plus a margin of 0.1% pa
Non-pensioner discount rate	**Willis Towers Watson gilt yield curve less a margin of 0.55% pa**	Willis Towers Watson gilt yield curve less a margin of 0.4% pa
Pensions Increase Review Orders (in deferment and payment)(1)	**RPI plus 0.25% pa**	RPI plus 0.25% pa

(1) The RPI assumption is derived from the difference between the full index-linked and nominal gilt curves at the valuation date with an addition of 0.25% at all durations to allow for the expected cost of purchasing annuities with floor of 0%

The demographic assumptions used in the solvency estimate are as set out in the relevant Statement of Funding Principles, except that no allowance is made for the impact of members commuting pension for cash at retirement.

In calculating the solvency estimate I have used a similar approach to that used for the technical provisions in respect of Artemis and Concerto.

My estimate of the solvency position of the Scheme as at 31 March 2015 is that the assets of the Scheme would have met 84.3% of the cost of buying insurance policies to secure the benefits at that date, based on the assumptions described above. Further details are set out in the table below alongside the corresponding details as at the previous valuation date:

Valuation statement	31 March 2015 £m	31 March 2012 £m
Estimated cost of buying insurance policies to cover:		
Employed members	**780**	839
Deferred pensioners	**354**	332
Pensioners and dependants	**7,589**	7,529
Expenses	**137**	112
AVCs and other money purchase benefits	**48**	41
Total estimated cost	**8,908**	8,853
Market value of assets	**7,509**	7,315
Solvency (deficit)/surplus (total estimated cost less assets)	**(1,399)**	(1,538)
Solvency level (assets ÷ total estimated cost)	**84.3%**	82.6%

The change in the solvency level from 82.6% to 84.3% is due mainly to the receipt of deficit reduction contributions from the Company.

The solvency estimate should not be relied upon to indicate the position on a future winding-up. Changes in market interest rates and in the supply and demand for annuities mean that the actual position at any particular point in time can be established only by obtaining specific quotations for buying the insurance policies required to secure the benefits.

The coverage for particular benefits depends on where they fall in the statutory priority order below. However, money purchase liabilities, such as those arising from members' Additional Voluntary Contributions (AVCs), are excluded from the statutory priority order; their treatment is determined by the Scheme's own rules and would normally be that they are secured in full before any other benefits.

- category 1 – benefits relating to certain pension annuities secured by the Scheme before 6 April 1997;
- category 2 – the cost to the Scheme of securing the compensation that would otherwise be payable by the PPF if the Company became insolvent;
- category 3 – benefits in respect of defined benefit AVCs not dealt with above;
- category 4 – all other pensions and benefits due under the Scheme, including pension increases (where these exceed those under the PPF).

As the Scheme assets covered the Section 179 liabilities as at 31 March 2015 but were less than the estimated cost of securing benefits with an insurer, the Scheme would probably not have qualified for entry to the PPF had the Company become insolvent at 31 March 2015, in which case members would have received more than the PPF compensation but only 84%, on average, of the entitlements described above.

Relationship between the cost of securing benefits and the technical provisions

My estimate of the cost of securing benefits with an insurance company of £8,908m is £1,249m higher than the Scheme's technical provisions of £7,659m.

The technical provisions are intended to be a prudent assessment of the assets required under the Scheme's investment strategy to meet future benefit payments as and when they fall due but with reliance placed on the Company being able to support the Scheme in future if the assumptions are not borne out in practice. By contrast the estimated cost of securing benefits with an insurance company is based on the price that an insurer might be likely to charge to take on the risks associated with operating the Scheme without having recourse to future contributions from the Company.

If the statutory funding objective had been exactly met on 31 March 2015 (ie there had been no funding surplus or deficit), I estimate that the solvency level of the Scheme would have been 86.0%. This compares with 90.3% at the 31 March 2012 actuarial valuation.

Projections and sensitivities

Based on the assumptions underlying the calculation of the Scheme's technical provisions as at 31 March 2015 and allowing for contributions to be paid to the Scheme summarised in the Funding section of this report, the solvency level is projected to increase steadily over the recovery period.

The impact of small changes to the key assumptions will be proportionate to those stated in respect of the technical provisions deficit in the Funding section of this report.

Additional Information

Risks

The table below summarises the main risks to the financial position of the Scheme and the actions taken to manage them:

Risk	Approach taken to risk
Company unable to pay contributions or make good deficits in the future	At each valuation the Trustee takes advice from an independent specialist on the ability of the Company to pay contributions to the Scheme and, in particular, to make good any shortfall that may arise if the experience of the Scheme is adverse. This advice is taken into account when determining the level of technical provisions and in considering the appropriateness of any recovery plan to remove a deficit relative to the technical provisions. Between valuations the Trustee monitors the Company's financial strength regularly. Following the Settlement Agreement, the reliance on the covenant has reduced significantly and the monitoring requirements are under review.
Investment returns on the existing assets could be insufficient to meet the Trustee's funding objectives	The Trustee takes advice from the Scheme Actuary on possible assumptions for future investment returns. For the calculation of the Scheme's technical provisions, the Trustee has adopted discount rates that are lower than the expected returns on the Scheme assets. The Trustee is able to agree further contributions with the Company at subsequent valuations if future returns prove insufficient.
Investment returns on future income could be lower than the returns available at the valuation date	The Trustee takes this risk into account when determining the Scheme's technical provisions, by incorporating a level of prudence into the investment return assumptions. The Scheme currently hedges most of its exposure to changes in interest rates.
Price inflation could be different from that assumed which could result in higher liabilities	The Trustee invests in assets that are expected to be correlated to future inflation in the longer term (sometimes referred to as "real" assets). This means that, over the longer term, such assets are expected to keep pace with inflation. Such assets include equities, property and index-linked bonds. The Scheme currently hedges most of its exposure to inflation risk.
Falls in asset values might not be matched by similar falls in the value of the Scheme's liabilities	The Trustee considers this risk when determining the Scheme's investment strategy. It consults with the Company in order to understand the Company's appetite for bearing this risk and takes advice on the Company's ability to make good any shortfall that may arise. To the extent that such falls in asset values result in deficits at future valuations, the Company would be required to agree a recovery plan with the Trustee to restore full funding over a period of time.
Scheme members live longer than assumed	For the calculation of the technical provisions, the Trustee has adopted mortality assumptions that it regards as prudent estimates of the life expectancy of members so that higher reserves are targeted in respect of the risk than are expected to be necessary. The Artemis and Concerto contracts provide partial protection against the Scheme's mortality risk and further hedging has been completed since this valuation.
Options exercised by members could lead to increases in the Scheme's liabilities	The Trustee sets the terms for converting benefits in respect of member options on the basis of actuarial advice with the view to avoiding strains on the Scheme's finances as far as is reasonably possible without disadvantaging members. The terms are kept under regular review, generally following each actuarial valuation.
Legislative changes could lead to increases in the Scheme's liabilities	The Trustee takes legal and actuarial advice on changes in legislation and consults with the Company, where relevant.

Economic risk   Demographic risk   Legal risk

Benefits summary

The Scheme is a registered pension scheme under the Finance Act 2004 and was contracted out of the State Second Pension. The following is a summary of the benefits valued to determine the technical provisions at the valuation date:

Definitions	
Normal Retirement Age (NRA)	General Staff (60), Pilots and Air Cabin Crew (55)
Pay for Pension Purposes	Remuneration designated by the Employer as pay for these purposes.
Retiring Pay	The average of members' Pay for Pension Purposes during the best two years of the last five years of Contributory Service.
Contributory Service	Service in respect of which contributions have been paid to the Scheme.

Benefits	
Retirement at NRA	General Staff – a pension of 1/56th of Retiring Pay for each year of Contributory Service. Pilots and Air Cabin Crew – a pension of 1/52nd of Retiring Pay for each year of Contributory Service.
Retirement on ill health	An immediate pension calculated as for retirement at NRA but including one-half of potential future pension service as Contributory Service.
Lump sum on retirement	On retirement, part of the pension may be exchanged for a lump sum on terms decided by the Actuary from time to time.
Death after retirement	A spouse's pension of two-thirds of member's pension (accrued while Higher Rate contributions were made) which would have been in payment at the date of death assuming no pension was commuted at retirement. Children's allowances are also payable.
Death in service	A lump sum of three times the member's pay is payable. A dependant's pension equal to two-thirds of the pension which the member would have received at NRA had they not died in service, and for a Higher Rate contributor including one-half of future potential service as Contributory Service.
Leaving service	A deferred pension is payable from NRA based on Retiring Pay at date of leaving and past Contributory Service. Deferred pensions are revalued up to date of retirement in line with Pensions Increase (Review) Orders.
Pension increases in payment	Pensions in excess of any Guaranteed Minimum Pension (GMP) are increased in line with the Pensions Increase (Review) Orders.

GMPs arising from service after 5 April 1988 are increased in line with GMP Increase orders.

Members' contributions

	Higher Rate	Lower Rate*
General Staff	7.25%	5.75%
Pilots and Air Cabin Crew	8.50%	7.00%

In addition, members may elect to pay Additional Voluntary Contributions (AVCs) on the Trustee's published AVC terms.

* The Lower Rate is payable if spouses' benefits are excluded.

In addition, for those members who elect to link increases in their "Pay for Pension Purposes" to increases in their Pay, contributions are paid at 4.5% of "Pay for Contribution Purposes" from the date the election is effective

Members who participate in the Scheme's salary sacrifice arrangement pay nil member contributions. Instead the employers contribute to the Scheme an amount equal to the normal contributions that would otherwise be payable by these members.

In addition, from 6 April 2016 for members under State Pension Age and who are not 2016 Lower Accrual Members, additional contributions of 3.1% of Band Earnings are payable.

Changes to the benefits

Since the valuation as at 31 March 2012 no changes have been made to the Scheme's benefits.

Discretionary benefits

The Rules were amended in March 2011 to make available the option to award discretionary pension increases and this Rule change has subsequently been the subject of the recently settled litigation. The technical provisions are calculated assuming that no discretionary pension increases are awarded, i.e. pension increases are awarded in line with Pensions Increase (Review) Orders (for the 2012 valuation, pension increases were assumed to transition linearly from CPI in April 2013 to RPI plus 0.1% pa from April 2023 onwards). Following the recent Settlement Agreement with BA, the Trustee will consider in future whether discretionary increases may be awarded under Rule 15 and the Discretionary Increase Protocol agreed with the Company.

Uncertainty about the benefits

No allowance has been made in the calculation of the technical provisions or the statutory estimate of solvency for possible changes to the benefits that may be required to ensure that the Scheme provisions in respect of Guaranteed Minimum Pensions do not unlawfully discriminate between male and female members.

Membership data

A summary of the Scheme's membership information supplied by BA Pensions is shown below.

Members in service	31 March 2015 Number	31 March 2015 Annual pay (£m pa)	31 March 2015 Average age	31 March 2012 Number	31 March 2012 Annual pay (£m pa)	31 March 2012 Average age
Males						
General Staff	336	13.5	56.2	546	21.5	54.7
Air Cabin Crew	32	1.1	53.9	66	2.2	52.2
Pilots and Officers	2	0.1	54.7	5	0.4	53.8
Total males	370	14.7	56.0	617	24.1	54.5
Females						
General Staff	58	2.1	55.6	97	3.4	54.3
Air Cabin Crew	16	0.4	53.6	40	0.9	52.3
Total females	74	2.5	55.3	137	4.3	53.9
Total members in service	444	17.2	55.8	754	28.4	54.3

Crystallised members	31 March 2015 Number	31 March 2015 Crystallised pension (£m pa)	31 March 2015 Average age	31 March 2012 Number	31 March 2012 Crystallised pension (£m pa)	31 March 2012 Average age
Crystallised pensioners	217	6.1	61.1	192	5.3	60.4

Deferred pensioners	31 March 2015 Number	31 March 2015 Deferred pension (£m pa)	31 March 2015 Average age	31 March 2012 Number	31 March 2012 Deferred pension (£m pa)	31 March 2012 Average age
Deferred pensioners (excluding EPBs)	1,459	8.5	58.6	2,117	9.8	56.8

Pensioners and dependants	31 March 2015 Number	31 March 2015 Annual pension (£m pa)	31 March 2015 Average age	31 March 2012 Number	31 March 2012 Annual pension (£m pa)	31 March 2012 Average age
In own right	18,315	299.8	72.7	19,552	301.0	70.8
Dependants	6,833	65.0	80.4	7,151	61.6	79.0
Total pensioners	25,148	364.8	74.1	26,703	362.6	72.2

Notes on data tables:

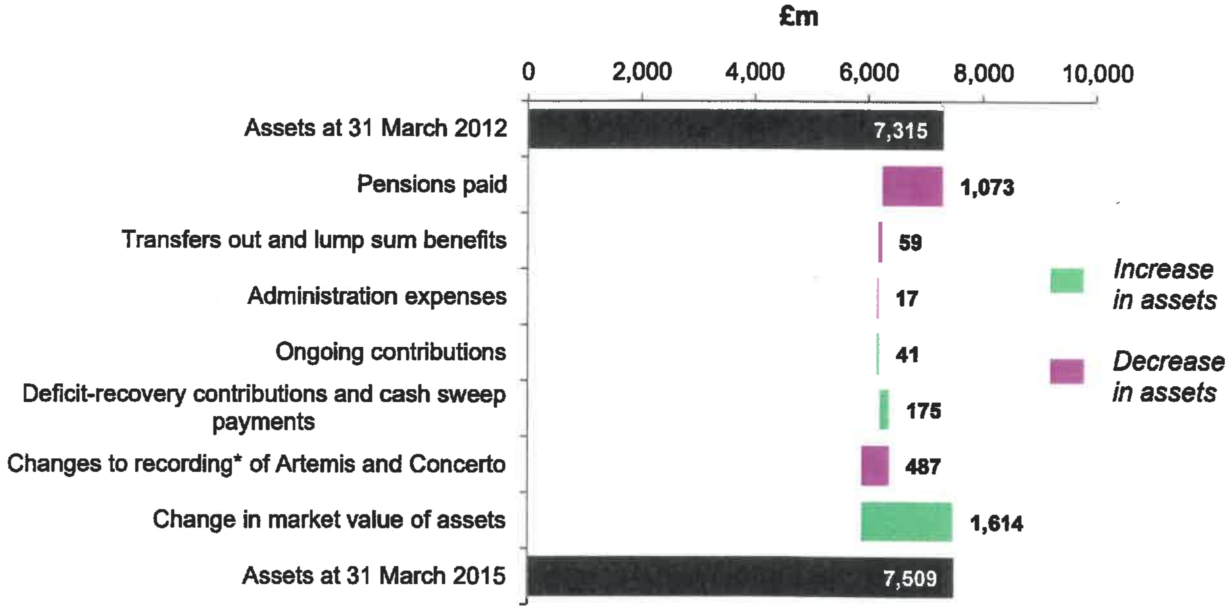
- Deferred pensions include revaluation up to the valuation date.
- Deferred pensions and pensions in payment include the pension increase in the April immediately following the respective valuation dates.
- Dependant pensions and number of dependants include children, however average age is in respect of adult depandants only.
- Average ages are weighted by accrued pension at the respective valuation dates.

Asset information

Movements in the market value of assets

The audited accounts supplied as at 31 March 2015 show that the market value of the Scheme's assets was £7,509m. This includes Additional Voluntary Contributions (AVCs) which amounted to £48m.

The change in the Scheme's assets (including AVCs) from £7,315m as at 31 March 2012 to £7,509m as at 31 March 2015 is detailed in the Trustee's Report and Financial Statements over that period. The chart below summarises a broad reconciliation of the change (including AVCs):



*The method used to value assets held in connection with Artemis and Concerto was changed in the 2015 Trustee's Report and Accounts to reflect changes in the new accounting standard FRS102 and new Statement of Recommended Practice (SORP). There is no change to the economic value of these policies, but as a result of the new SORP the value of the Scheme's assets at 31 March 2015 reduced by £487m. A corresponding reduction in the technical provisions has been applied, which maintains consistency with the assets. The funding deficit on the technical provisions basis is therefore unaffected by this accounting change, although there is a marginal reduction in funding level when expressed as a percentage of the revised liabilities.

The asset value at 31 March 2015 includes AVCs of £48m but excludes the cash sweep payment of £25.3m received by the Scheme on 29 June 2015.

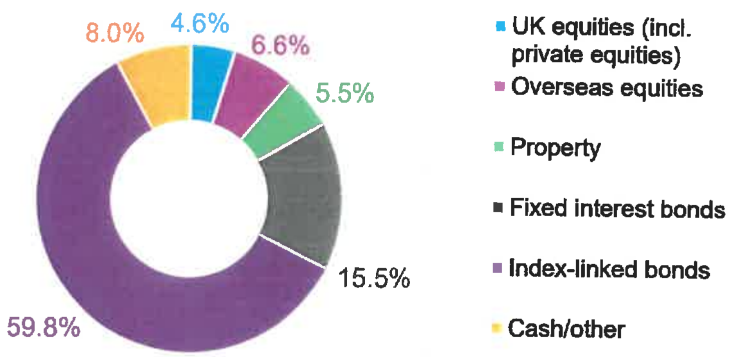
Investment strategy

The assets, including AVCs, were invested as summarised below as at 31 March 2015 and 31 March 2012:

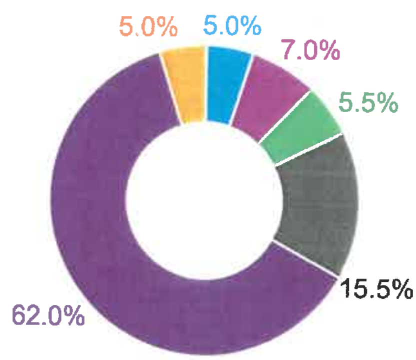
	Market value as at 31 March 2015		Market value as at 31 March 2012	
	£m	%	£m	%
Index linked securities	**3,584.7**	**47.7**	3,390.1	46.3
Fixed interest securities	**965.8**	**12.9**	999.1	13.7
UK equities	**253.8**	**3.4**	311.9	4.3
Overseas equities	**551.0**	**7.3**	473.6	6.5
Property	**322.0**	**4.3**	283.0	3.9
Cash and other investments	**513.9**	**6.8**	317.6	4.3
Artemis deferred premium buy-in contract	**1,318.0**	**17.6**	1,539.8	21.0
Total	**7,509.2**	**100.0**	7,315.1	100.0

A summary of the Scheme's strategic investment benchmark at 31 March 2015 and 31 March 2012 is set out below:

31 March 2015 (net of Artemis)



31 March 2012 (net of Artemis)



In 2013, the Artemis deferred premium buy-in contract was increased to cover 24% of the actual pension payments payable to the relevant members covered by the contract.

Statutory Certificate

Actuarial certification for the purposes of regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of scheme: **Airways Pension Scheme**

Calculation of technical provisions

I certify that, in my opinion, the calculation of the Scheme's technical provisions as at 31 March 2015 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Scheme and set out in the Statement of Funding Principles dated 28 November 2019.

Michael J Pardoe
Fellow of the Institute and Faculty of Actuaries
Towers Watson Limited, a Willis Towers Watson company
28 November 2019

Towers Watson Limited
Watson House
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Reigate
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Certificate for the purposes of Clause 11(b)

Certificate for the purposes of Clause 11(b) of the Trust Deed of the Airways Pension Scheme

Name of scheme: **Airways Pension Scheme**

As at the 31 March 2015 valuation date, the outstanding payments of the current Clause 11 schemes are £10.5 million on 31 March 2019, then £41.4 million pa from 31 March 2020 to 2033.

The value of these existing Clause 11 Schemes is £476.1 million as at 31 March 2015, which is comfortably in excess of the £150m deficit revealed in this valuation.

Furthermore, the present value of the various contributions and cash sweep payments made over the period from 31 March 2015 to 31 December 2018 is sufficiently greater than the £150m deficit at 31 March 2015.

I therefore certify that a new Clause 11 deficit Scheme in respect of the 31 March 2015 valuation is not required, and that all existing Clause 11 Schemes can be terminated. Given there is no need for a Clause 11 Scheme I have not apportioned the £150m deficit at 31 March 2015 between the participating employers.

Michael J Pardoe
Fellow of the Institute and Faculty of Actuaries
Towers Watson Limited, a Willis Towers Watson company
28 November 2019

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Glossary

This glossary describes briefly the terminology of the regime for funding defined benefit pension schemes as introduced by the Pensions Act 2004.

Actuarial report: A report prepared by the Scheme Actuary in years when an actuarial valuation is not carried out that provides an update on developments affecting the Scheme's assets and technical provisions over the year.

Actuarial valuation: A report prepared by the Scheme Actuary that includes the results of the calculation of the technical provisions based on the assumptions specified in the Statement of Funding Principles and assesses whether the assets are sufficient to meet the statutory funding target.

Artemis: The deferred premium buy-in contract entered into between Rothesay Life Limited and British Airways Pension Trustees Limited on 18 June 2010, upsized in December 2013.

Concerto: The longevity swap entered into between Rothesay Life Limited and British Airways Pension Trustees Limited on 15 December 2011.

Contingent asset: An arrangement separate from the assets already held by the trustees under trust (or agreed and documented in the schedule of contributions) that provides for the trustees to receive certain assets should certain pre-defined events take place.

Covenant: This represents an employer's legal obligation and its ability to provide the financial support to a scheme that may be required now and in the future. The trustees' assessment of the sponsor's covenant will inform both investment and funding decisions.

Demographic assumptions: Assumptions relating to social statistics for Scheme members, which can affect the form, level or timing of benefits members or their dependants receive. This can include levels of mortality experienced by the Scheme and the proportion of members electing to exercise benefit options.

Discount rates: Assumptions used to place a capital value at the valuation date on projected future benefit cash flows from the Scheme. The lower the discount rate the higher the resulting capital value.

Financial assumptions: Assumptions relating to future economic factors which will affect the funding position of the Scheme, such as inflation and investment returns.

Funding target/objective: An objective to have a particular level of assets relative to the accrued liabilities of the Scheme. See also statutory funding objective.

Pension Protection Fund (PPF): Provides compensation to members of an eligible occupational scheme in the event that it is wound up with insufficient assets and the employer is insolvent. The level of PPF compensation provided would not usually be at the full level of the benefits that would otherwise have been due.

Prudence: Regulations require that assumptions are chosen prudently when assessing the level of technical provisions, although they do not define this term. I have interpreted prudence to be the level of conservatism in the assumptions. Where this is interpreted quantitatively, assumptions said to be prudent would result in higher technical provisions than a "best estimate" assumption (where a "best estimate" assumption is one where there is a 50% chance that the actual outcome will be higher or lower than assumed).

The Pensions Regulator: The regulatory supervisor for occupational pension schemes with statutory objectives to protect members' benefits and the Pension Protection Fund, and statutory powers to take interventionist action.

Recovery plan: A document required where an actuarial valuation discloses that the statutory funding objective is not met (ie the assets held are less than the technical provisions). It is a formal agreement between the trustees and the employer that sets out the steps to be taken to achieve the statutory funding objective by the end of an agreed period (the "recovery period").

Schedule of contributions: A document that sets out in detail the agreed contributions payable to a scheme by members and the employers and the dates by which such contributions are to be paid. It includes, but is not limited to, contributions agreed under a recovery plan.

Scheme Actuary: The individual actuary appointed (under the Pensions Act 1995) by the trustees to perform certain statutory duties for the Scheme.

Scheme-Specific Funding Regime: A term used to refer to the legislative and regulatory rules that stem from the Pension Act 2004 and which govern the funding of occupational defined benefit pension schemes in the UK.

Statement of Funding Principles (SFP): The SFP sets out the trustees' policy for ensuring that the statutory funding objective and any other funding objectives are met and, in particular, the assumptions for calculating the technical provisions at the effective date of the actuarial valuation. The trustees are responsible for preparing and maintaining this document, taking into account the advice of the Scheme Actuary and in many cases seeking the agreement of the employer.

Statement of Investment Principles (SIP): The SIP sets out the trustees' policy for investing the Scheme's assets. The trustees are responsible for preparing and maintaining this document, taking into account written investment advice from the appointed investment advisor and consulting the employer before any changes are made.

Statutory estimate of solvency: An estimate of the cost of discharging a scheme's liability to pay benefits through the purchase of insurance policies in respect of each member's full benefit entitlement under the Scheme (unless the actuary considers that it is not practicable to make an estimate on this basis, in which case the estimate of solvency can be prepared on a basis that the actuary considers appropriate).

Statutory funding objective: To have sufficient and appropriate assets to cover the Scheme's technical provisions.

Statutory priority order: The order in which the assets of a scheme must be applied in securing the benefits of different members in the event of it being wound up. The order is consistent with the Pension Protection Fund (PPF) because benefits covered by the PPF are the highest priority class of defined benefit liabilities.

Summary funding statement: An update sent to members following the completion of each actuarial valuation or actuarial report informing them of the assessed financial position of the Scheme.

Technical provisions: The amount of assets required to make provision for the accrued liabilities of the scheme. The technical provisions are calculated using the method and assumptions set out in the Statement of Funding Principles.

Winding-up: This is a particular method of discharging a scheme's liability to pay benefits. It typically arises where the employer no longer provides financial support to it (for example if it becomes insolvent) and would usually involve using the scheme's assets to buy insurance policies that pay as much of the scheme's benefits as possible in accordance with the statutory priority order.