

IMPALA HOLDINGS LIMITED

Company Registration Number: 06306909

DIRECTORS' REPORT AND FINANCIAL STATEMENTS
for the year ended 31 December 2016

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IMPALA HOLDINGS LIMITED

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Strategic report

The Directors present the Strategic report of Impala Holdings Limited ('the Company') for the year ended 31 December 2016.

Principal activities

The principal activity of the Company is that of an investment company. This will continue to be the principal activity for the foreseeable future.

Result and dividends

The results of the Company for the year are shown in the statement of comprehensive income on page 6. The profit before tax was £209.5m (2015: £181.8m).

Dividends of £483.9m were paid during the year (2015: £95.6m).

Position as at 31 December 2016

The net assets of the Company at 31 December 2016 were £2,438.1m (2015: £2,283.3m). The increase in the period reflects the profit after taxation arising in the period of £240.6m (2015: £160.2m), capital contributions received of £398.1m (2015: £428.1m) offset by interest paid on subordinated loans net of tax relief taken direct to the statement of changes in equity of £nil (2015: £41.2m), loans that were designated as equity instruments were discharged for £nil (2015: £662.6m) and dividends paid of £483.9m (2015: £95.6m).

Principal risks and uncertainties

The Phoenix Group applies a consistent methodology for the identification, assessment, management and reporting of risk that includes a high level framework for the management of key risks within each business unit.

The principal risks and uncertainties facing the Company are:

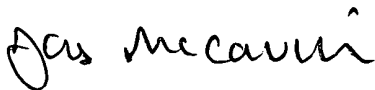
- interest rate risk, since the movement in interest rates will impact the value of interest payable and receivable by the Company;
- liquidity risk, as a result of normal business activities, specifically the risk arising from an inability to meet short-term cash flow requirements; and
- credit risk, arising from the default of the counterparty to a particular financial asset, with the carrying value of the asset representing the Company's maximum exposure to credit risk.

The Company's exposure to all these risks is monitored by the Directors, who agree policies for managing each of these risks on an ongoing basis.

Key Performance Indicators ('KPIs')

Given the straightforward nature of the business, the Company's Directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

On behalf of the Board



J McConville
Director
15 June 2017

IMPALA HOLDINGS LIMITED

Directors' report

The Directors present their report and the financial statements of the Company for the year ended 31 December 2016.

The Company is incorporated in England as a private limited company. Its registration number is 06306909 and its Registered Office is 1 Wythall Green Way, Wythall, Birmingham, B47 6WG.

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS').

Going concern

The Strategic report and the Directors' report summarise the Company's activities, its financial performance and its financial position together with any factors likely to affect its future development. In addition, the Strategic report discusses the principal risks and uncertainties it faces. Note 22 to the financial statements summarises the Company's capital management and risk objectives and policies together with its financial risks.

The Directors have followed the UK Financial Reporting Council's 'Guidance on Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks' (issued April 2016) when performing their going concern assessment. As part of their comprehensive assessment of whether the Company is a going concern, the Directors have prepared cash flow and solvency forecasts for the Company for the foreseeable future.

As a result of this review, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Directors

The names of those individuals who served as Directors of the Company during the year or who held office as at the date of signature of this report are as follows;

F Clutterbuck
J McConville
R Thakrar

Secretary

G A Watson acted as Secretary throughout the year.

Disclosure of indemnity

Qualifying third party and pension scheme indemnity arrangements (as defined in sections 234 and 235 of the Companies Act 2006) were in force for the benefit of the Directors of the Company and other associated companies during the year and remain in place at the date of approval of this report.

Disclosure of information to auditors

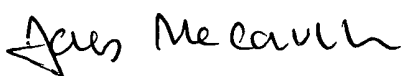
So far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditors are unaware, and each of the Directors has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418(2) of the Companies Act 2006.

Re-appointment of auditors

In accordance with section 487 of the Companies Act 2006, the Company's auditors, Ernst & Young LLP, will be deemed to have been re-appointed at the end of the period of 28 days following circulation of copies of these financial statements as no notice has been received from members pursuant to section 488 of the Companies Act 2006 prior to the end of the accounting reference period to which these financial statements relate.

On behalf of the Board



J McConville
Director
15 June 2017

Statement of Directors' responsibilities

The Directors are required to prepare financial statements for each accounting period that comply with the relevant provisions of the Companies Act 2006 and International Financial Reporting Standards as adopted by the European Union ('IFRS'), and which present fairly the financial performance, financial position and cash flows of the Company for the accounting period. A fair presentation of the financial statements in accordance with IFRS requires the Directors to:

- select suitable accounting policies and verify they are applied consistently in preparing the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance; and
- state that the Company has complied with applicable IFRSs, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for maintaining proper accounting records which are intended to disclose with reasonable accuracy at any time the financial position of the Company. They are also ultimately responsible for the systems of internal control maintained for safeguarding the assets of the Company and for the prevention and detection of fraud and other irregularities.

Independent Auditor's report to the members of Impala Holdings Limited

We have audited the financial statements of Impala Holdings for the year ended 31 December 2016 which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Cash Flow, the Statements of Changes in Equity and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them 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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic Report and Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

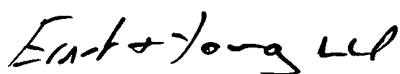
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Ed Jervis (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

19 June 2017

IMPALA HOLDINGS LIMITED

Statement of comprehensive income
for the year ended 31 December 2016

	Notes	2016 £m	2015 £m
Revenue			
Investment income	3	395.8	902.1
Reversal of impairment of investments in subsidiary	19	1.4	-
Total income		<u>397.2</u>	<u>902.1</u>
Impairment of investments in subsidiaries	19	(32.4)	(521.3)
Administrative expenses	4	(11.1)	(13.1)
Total operating expenses		<u>(43.5)</u>	<u>(534.4)</u>
Profit before finance costs and tax		<u>353.7</u>	<u>367.7</u>
Finance costs	8	(144.2)	(185.9)
Profit for the year before tax		<u>209.5</u>	<u>181.8</u>
Tax credit/(charge)	9	31.1	(21.6)
Total comprehensive income for the year attributable to owners		<u><u>240.6</u></u>	<u><u>160.2</u></u>

IMPALA HOLDINGS LIMITED

Statement of financial position
as at 31 December 2016

	Notes	As at 31 December 2016 £m	As at 31 December 2015 £m
Equity attributable to owners			
Share capital	11	478.0	478.0
Share premium	12	1,600.0	1,600.0
Capital contribution	13	814.3	527.8
Subordinated loans	14	-	-
Retained earnings		(454.2)	(322.5)
Total equity		<u>2,438.1</u>	<u>2,283.3</u>
Non-current liabilities			
Long-term borrowings	15	3,780.0	-
Total non-current liabilities		<u>3,780.0</u>	<u>-</u>
Current liabilities			
Current tax	16	1.9	3.7
Accruals	17	-	15.6
Short-term borrowings	15	-	3,645.3
Amounts due to Group entities	18	22.1	13.6
Other payables		1.7	2.1
Total current liabilities		<u>25.7</u>	<u>3,680.3</u>
Total liabilities		<u>3,805.7</u>	<u>3,680.3</u>
Total equity and liabilities		<u>6,243.8</u>	<u>5,963.6</u>
Non-current assets			
Investments in subsidiaries	19	6,049.2	5,712.1
Loans and receivables	20	-	113.4
Total non-current assets		<u>6,049.2</u>	<u>5,825.5</u>
Current assets			
Prepayments and accrued income		-	0.7
Amounts due from Group entities	21	15.4	7.6
Financial assets	22	129.2	129.8
Cash and cash equivalents	23	50.0	-
Total current assets		<u>194.6</u>	<u>138.1</u>
Total assets		<u>6,243.8</u>	<u>5,963.6</u>

On behalf of the Board



J McConville
Director
15 June 2017

IMPALA HOLDINGS LIMITED

Statement of cash flows
for the year ended 31 December 2016

	Notes	2016 £m	2015 £m
Cash flows from operating activities			
Cash generated by operations	24	20.4	81.8
Net cash flows from operating activities		<u>20.4</u>	<u>81.8</u>
Cash flows from investing activities			
Disposal of financial assets	22	1.2	111.7
Dividends received from subsidiaries	3	392.5	144.9
Return of capital contribution by subsidiary	19	30.0	12.0
Capital contribution to subsidiary	19	(372.8)	-
Advances of loans to Group entities	20	-	(82.8)
Repayment of loans made to group entities	20	3.2	31.7
Proceeds from sale of subsidiary	3	-	2.8
Net cash flows from investing activities		<u>54.1</u>	<u>220.3</u>
Cash flows from financing activities			
Proceeds of new borrowings from Group entities	15	74.1	80.4
Proceeds of capital contribution	13	372.8	428.1
Repayment of borrowings from Group entities	15	(34.9)	(654.5)
Dividends paid	10	(372.3)	(95.6)
Interest paid on borrowings from Group entities	15	(64.2)	(79.5)
Interest paid on subordinated loans treated as equity		-	(51.6)
Net cash flows from financing activities		<u>(24.5)</u>	<u>(372.7)</u>
Net increase/(decrease) in cash and cash equivalents		<u>50.0</u>	<u>(70.6)</u>
Cash and cash equivalents at the beginning of the year		-	70.6
Cash and cash equivalents at the end of the year	23	<u>50.0</u>	<u>-</u>
<u>Supplementary disclosures on cash flow from operating activities</u>			
Interest received		<u>1.8</u>	<u>25.2</u>

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Statement of changes in equity
for the year ended 31 December 2016

	Share capital (note 11) £m	Share premium (note 12) £m	Capital contribution (note 13) £m	Sub- ordinated loans (note 14) £m	Retained earnings £m	Total £m
At 1 January 2016	478.0	1,600.0	527.8	-	(322.5)	2,283.3
Total comprehensive income for the year	-	-	-	-	240.6	240.6
Capital contributions received	-	-	398.1	-	-	398.1
Dividends paid (note 10)	-	-	(111.6)	-	(372.3)	(483.9)
At 31 December 2016	478.0	1,600.0	814.3	-	(454.2)	2,438.1

	Share capital (note 11) £m	Share premium (note 12) £m	Capital contribution (note 13) £m	Sub- ordinated loans (note 14) £m	Retained earnings £m	Total £m
At 1 January 2015	478.0	1,600.0	99.7	662.6	(345.9)	2,494.4
Total comprehensive income for the year	-	-	-	-	160.2	160.2
Interest paid on subordinated loans, net of tax relief	-	-	-	-	(41.2)	(41.2)
Net capital contributions received	-	-	428.1	-	-	428.1
Perpetual subordinated loan notes paid	-	-	-	(662.6)	-	(662.6)
Dividends paid (note 10)	-	-	-	-	(95.6)	(95.6)
At 31 December 2015	478.0	1,600.0	527.8	-	(322.5)	2,283.3

The capital contribution is considered a distributable reserve with no restrictions.

Notes to the financial statements**1. Accounting policies****(a) Basis of preparation**

The financial statements have been prepared on a historical cost basis except for those financial assets and financial liabilities that have been measured at fair value.

The financial statements are separate financial statements and the exemptions in paragraph 10 of IAS 27 *Consolidated and Separate Financial Statements* and section 401 of the Companies Act 2006, have been used not to present consolidated financial statements. The results of the Company are consolidated into the accounts of the Company's ultimate parent Phoenix Group Holdings, a company incorporated in the Cayman Islands and resident in Jersey.

The results of the Company are consolidated into the accounts of the Company's parent Phoenix Group Holdings, a company registered at Po Box 309, Ugland House, Grand Cayman Ky1-1104, Cayman Islands and resident in Jersey.

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS').

The financial statements are presented in sterling (£) rounded to the nearest £0.1m except where otherwise stated.

Assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the statement of comprehensive income unless required or permitted by an international financial reporting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

(b) Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Critical accounting estimates are those which involve the most complex or subjective judgements or assessments. The areas of the Company's business that typically require such estimates are the determination of impairment tests for investments in and loans to Group entities, and income taxes.

Fair value of financial assets and liabilities

The fair values of financial assets and liabilities are classified and accounted for as set out in accounting policy (f). Where possible, financial assets and liabilities are valued on the basis of listed market prices by reference to quoted market bid prices for assets and offer prices for liabilities, without any deduction for transaction costs. These are categorised as Level 1 financial instruments and do not involve estimates. If prices are not readily determinable, fair value is determined using valuation techniques including pricing models, discounted cash flow techniques or broker quotes. Financial instruments valued where valuation techniques are based on observable market data at the period end are categorised as Level 2 financial instruments. Financial instruments valued where valuation techniques are based on non-observable inputs are categorised as Level 3 financial instruments. Level 2 and Level 3 financial instruments therefore involve the use of estimates.

Impairment of investments in subsidiaries and loans to Group entities

Investments in subsidiaries and loans to Group entities are subject to regular impairment reviews when management are aware of objective evidence of impairment. Impairments of investments in subsidiaries are measured at the difference between the carrying value of a particular asset and its estimated recoverable amount. Impairments on loans are measured as the difference between the carrying value of the loan and the present value of the estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the loans original effective interest rate. Impairments are recognised in the statement of comprehensive income in the period in which they occur. The Company's policies in relation to impairment testing of investments in subsidiaries and loans to Group entities are detailed in accounting policies (e) and (f) respectively.

1. Accounting policies (continued)

(b) Critical accounting estimates and judgements (continued)

Income taxes

Deferred tax assets are recognised to the extent that they are regarded as recoverable, that is to the extent that, on the basis of all the available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which the losses can be relieved. The UK taxation regime applies separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a capital or trading nature may affect the recognition of deferred tax assets. Any judgements made, and uncertainties considered, in arriving at the carrying values of deferred tax assets and liabilities in the financial statements are discussed in note 16.

The accounting policy for income taxes (both current and deferred taxes) is discussed in more detail in accounting policy (d).

(c) Borrowings

Interest-bearing borrowings are recognised initially at fair value less any attributable transaction costs. The difference between initial cost and the redemption value is amortised through the statement of comprehensive income over the period of the borrowing using the effective interest method.

(d) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised in the statement of changes in equity, in which case it is recognised in that statement.

Current tax is the expected tax payable on the taxable income for the year, using tax rates and laws enacted or substantively enacted at the date of the statement of financial position together with adjustments to tax payable in respect of previous years, except to the extent that it relates to items recognised in the statement of changes in equity, in which case it is recognised in that statement.

Deferred tax is provided for on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not provided in respect of temporary differences arising from the initial recognition of goodwill and the initial recognition of assets or liabilities in a transaction that is not a business combination and that, at the time of the transaction, affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates and laws enacted or substantively enacted at the period end.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(e) Investments in subsidiaries

Investments in shares in subsidiaries are carried in the statement of financial position at cost less impairment.

The Company assesses at each reporting date whether an investment in a subsidiary or group of investments in subsidiaries is impaired. The Company first assesses whether objective evidence of impairment exists. Evidence of impairment needs to be significant or prolonged to determine that objective evidence of impairment exists. Evidence of impairment is obtained by comparing the carrying value of the investment in the subsidiary with the estimate of the recoverable amount of the subsidiary.

(f) Financial assets

Purchases and sales of financial assets are recognised on the trade date, which is the date that the Company commits to purchase or sell the asset.

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortised cost, using the effective interest method.

Equities, fixed and variable rate income securities and open ended investment companies are designated at fair value through profit or loss and accordingly are stated in the statement of financial position at fair value. They are designated at fair value through profit or loss because they are managed and evaluated on a fair value basis in accordance with the Company's stated risk management policies. These instruments are recognised initially at fair value (transaction costs are expensed) and subsequently are re-measured to fair value.

1. Accounting policies (continued)

(f) Financial assets (continued)

Impairment of financial assets

The Company assesses at each period end whether a financial asset or group of financial assets held at amortised cost is impaired. The Company first assesses whether objective evidence of impairment exists for financial assets. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

Fair value estimation

The fair value of financial instruments traded in active markets such as publicly traded securities and derivatives are based on quoted market prices at the period end. The quoted market price used for financial assets is the current bid price on the trade date. The fair value of investments that are not traded in an active market is determined using valuation techniques such as broker quotes, pricing models or discounted cash flow techniques. Where pricing models are used, inputs are based on market related data at the period end. Where discounted cash flow techniques are used, estimated future cash flows are based on contractual cash flows using current market conditions and market calibrated discount rates and interest rate assumptions for similar instruments.

For units in unit trusts and shares in open-ended investment companies, fair value is by reference to published bid-values. The fair value of receivables and floating rate and overnight deposits with credit institutions is their carrying value. The fair value of fixed interest-bearing deposits is estimated using discounted cash flow techniques.

(g) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits with an original maturity term of three months or less at the date of placement.

(h) Share capital and capital contributions

Ordinary share capital

The Company has issued ordinary shares which are classified as equity. Incremental external costs that are directly attributable to the issue of these shares are recognised in the statement of changes in equity, net of tax.

Capital contributions

Capital contributions received by the Company and which contain no restrictions are recognised directly in the statement of changes in equity as a distributable reserve.

(i) Subordinated loans treated as equity

Certain subordinated loans meet the definition of equity for accounting purposes. Accordingly, they are shown at the proceeds of issue and interest payments are recognised on the date of payment and charged directly to the statement of changes in equity, net of tax relief.

Interest income is recognised in the statement of comprehensive income as it accrues using the effective interest method. Dividend income is recognised in the statement of comprehensive income on the date the right to receive payments is established, which in the case of listed securities is the ex-dividend date.

Fair value gains and losses on financial assets at fair value through profit or loss are recognised in the statement of comprehensive income. Realised gains and losses are the difference between the net sale proceeds and the original cost. Unrealised gains and losses are the difference between the valuation at the period end and their valuation at the previous period end or purchase price, if acquired during the year.

(j) Income recognition

Investment income comprises interest, dividends, and fair value gains and losses on financial assets.

(k) Finance costs

Interest payable is recognised in the statement of comprehensive income as it accrues and is calculated using the effective interest method. The treatment of interest payable on subordinated loans treated as equity is set out in accounting policy (i).

1. Accounting policies (continued)

(l) Dividends

Final dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Company's owners. Interim dividends are deducted from equity when they are paid.

Dividends for the year that are approved after the reporting period are dealt with as an event after the reporting period.

Declared dividends are those that are appropriately authorised and are no longer at the discretion of the entity.

(m) Events after the reporting period

The financial statements are adjusted to reflect significant events that have a material effect on the financial results and that have occurred between the period end and the date when the financial statements are authorised for issue, provided they give evidence of conditions that existed at the period end. Events that are indicative of conditions that arise after the period end that do not result in an adjustment to the financial statements are disclosed.

(n) Segmental reporting

The Company has one reportable segment. It is exempt from providing an analysis of operating segments as required by IFRS 8 *Operating Segments*.

(o) Assets held for sale

Assets are classified separately as held for sale in the statement of financial position when their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is only met when the sale is highly probable, the asset is available for immediate sale in its present condition, and management is committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

2. Financial information

The financial statements for the year ended 31 December 2016, set out on pages 6 to 25 were authorised by the Board of Directors for issue on 15 June 2017.

In preparing the financial statements the Company has adopted the following standards, interpretations and amendments which have been issued by the International Accounting Standards Board ('IASB') and have been adopted for use by the EU. None of the following have a material effect on the results of the Company.

- Annual Improvements 2012 – 2014 cycle;
- Disclosure initiative (Amendments to IAS 1 Presentation of Financial Statements); and
- Clarification of acceptable methods of depreciation and amortisation (Amendments to IAS 16 and IAS 38).

The IASB has issued the following new or amended standards and interpretations which apply from the dates shown. The Company has decided not to early adopt any of these standards, interpretations or amendments where this is permitted. The impact on the Group of adopting them is subject to evaluation:

- Disclosure initiative (Amendments to IAS 7 Statement of Cash Flows)(2017);
- Recognition of Deferred tax assets for unrealised losses (Amendments to IAS 12)(2017);
- IFRS 9 Financial Instruments (2018). In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Company believes that the application of IFRS 9 will have limited impact.

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2. Financial information (continued)

- IFRS 15 Revenue from Contracts with Customers (2018). IFRS 15 establishes a single comprehensive framework for determining whether, how and when revenue is recognised. The standard does not apply to insurance contracts and financial instruments within the scope of IAS 39, and the Company anticipates that the application of IFRS 15 in the future is likely to have limited impact on the measurement and presentation of amounts reported in respect of the Company's financial statements.
- IFRS 16 Leases (2019). IFRS 16 will replace IAS 17 Leases. The new standard removes the classification of leases as either operating or finance leases for the lessee, thereby treating all leases as finance leases. The Company anticipates that the application of IFRS 16 in the future is likely to have limited impact on amounts reported in respect of the Company's financial statements.

3. Investment income

	2016	2015
	£m	£m
Investment income		
Interest income on loans and receivables	0.7	16.9
Interest income on financial assets designated at fair value through profit or loss on initial recognition	1.8	3.0
Dividend income	392.5	880.0
	395.0	899.9
Fair value gains/(losses)		
Financial assets at fair value through profit or loss		
Designated upon initial recognition	0.8	(0.6)
Gain on disposal of subsidiaries	-	2.8
	395.8	902.1

Interest income on loans and receivables includes interest of £0.7m (2015: £16.9m) on loans to Group entities.

Dividend income includes dividends received from subsidiaries of £392.5m (2015: £880.0m), all of which was received in cash. In 2015, £144.9m was received in cash and £735.1m was received in specie.

The gain in 2015 of £2.8m on disposal of subsidiaries relates to an adjustment to the sale proceeds of Ignis Asset Management Limited which occurred in 2014.

4. Administrative expenses

	2016	2015
	£m	£m
Recharged service and project costs	11.1	13.1

5. Employee information

The Company has no employees. Services are provided by Pearl Group Management Services Limited and Pearl Group Services Limited.

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6. Directors' remuneration

The Directors received the following for their qualifying services as Directors of the Company.

	2016 £	2015 £
Salaries and other short-term benefits	<u>90,986</u>	<u>79,628</u>
Remuneration (excluding pension contributions and awards under share option schemes and other long-term incentive schemes)	<u>90,986</u>	<u>79,628</u>
Share-based payments	<u>46,111</u>	<u>42,758</u>
Contributions to money purchase pension scheme	<u>1,246</u>	<u>1,143</u>
Number of Directors who are members of a money purchase pension scheme	<u>1</u>	<u>1</u>
Number of Directors who exercised share options during the year	<u>3</u>	<u>3</u>

The Directors are employed by either Pearl Group Management Services Limited or Pearl Group Services Limited. The total compensation paid to the Directors of the Company relates to services to the Company, irrespective of which entity within the Phoenix Group has paid the compensation.

For the purposes of this note an apportionment of the total remuneration paid to the Directors of the Company by the Phoenix Group has been made based on an estimate of the services rendered to the Company.

7. Auditors' remuneration

The remuneration of the auditors of the Company included in the financial statements was £0.1m (2015: £0.1m).

8. Finance costs

	2016 £m	2015 £m
Interest expense on borrowings at amortised cost	<u>144.2</u>	<u>185.9</u>

Interest expense on borrowings at amortised cost includes interest of £144.2m (2015: £185.9m) on loans from Group companies.

9. Tax (credit)/charge

9.1 Current year tax (credit)/charge

	2016 £m	2015 £m
Current tax:		
UK Corporation tax	(29.8)	(29.3)
Adjustments in respect of prior years	<u>(1.3)</u>	<u>29.9</u>
Total current tax	(31.1)	0.6
Deferred tax:		
Origination and reversal of temporary differences	-	21.4
Change in the rate of UK Corporation tax	<u>-</u>	<u>(0.4)</u>
Total deferred tax	-	21.0
Total tax (credit)/charge	<u>(31.1)</u>	<u>21.6</u>

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9. Tax (credit)/charge (continued)

9.2 Reconciliation of tax (credit)/charge

	2016 £m	2015 £m
Profit before tax	209.5	181.8
Tax at standard UK rate of 20% (2015: 20.25%)	41.9	36.8
Non-taxable income and gains	(78.6)	(178.2)
Adjustment to shareholder tax charge in respect of prior years	(1.3)	29.9
Non-taxable impairment of investments in subsidiaries	6.2	105.6
Disallowable expenses	0.7	4.0
Profits taxed at rates other than 20% (2015: 20.25%)	-	1.6
Prior year deferred tax	-	18.0
Deferred tax rate change	-	(0.4)
Group relief for nil payments	-	9.1
Utilisation of tax losses brought forward	-	3.1
Temporary differences not valued	-	(8.2)
Recognition of previously unrecognised deferred tax asset	-	0.3
Total tax (credit)/charge for the year	(31.1)	21.6

The prior year tax credit represents the impact of reaching agreement with HMRC in respect of the Company's uncertain tax position for the years 2008-2014.

10. Dividends paid

	2016 £m	2015 £m
Dividends paid	483.9	95.6

During the year, the Board declared an interim in-specie dividend of £111.6m (2015: £95.6) and an interim cash dividend of £372.3m (2015: £nil) to its parent, Phoenix Life Holdings Limited.

11. Share capital

	2016 £m	2015 £m
Issued and fully paid:		
40,000,200 (2015: 40,000,200) ordinary 'A' shares of £1 each	40.0	40.0
438,000,000 (2015: 438,000,000) ordinary 'B' shares of £1 each	438.0	438.0
2 (2015: 2) ordinary 'C' shares of £1 each	-	-
6 (2015: 6) ordinary 'D' shares of £1 each	-	-
	478.0	478.0

The Company's Articles of Association contain a restriction on the number of shares that may be allotted.

The holders of the A and B ordinary shares are entitled to:

- Receive dividends, at the discretion of the Directors out of the profits of the Company that are available for distribution and are resolved to be distributed;
- One vote for every share of which they are the holder.

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11. Share capital (continued)

The holders of the C and D ordinary shares are entitled to:

- No right to receive dividends out of the profits of the Company and no right otherwise to share in the profits of the Company;
- No right to vote.

On a distribution of the assets of the Company among its members on a winding up or other return of capital (other than a redemption or purchase by the Company of its own Shares) the A ordinary shares, the B ordinary shares, the C ordinary shares and the D ordinary shares shall rank pari passu and accordingly the holders of the A ordinary shares, the B ordinary shares, the C ordinary shares and the D ordinary shares shall out of the remaining assets available for distribution to the holders of such shares be entitled to participate in such proportion of such surplus in proportion to the aggregate Issue Price of the A ordinary shares, the B ordinary shares, the C ordinary shares and D ordinary shares held by each of them as if they were all shares of the same class.

12. Share premium

	2016 £m	2015 £m
At 1 January and 31 December	1,600.0	1,600.0

13. Capital contribution

	2016 £m	2015 £m
At 1 January	527.8	99.7
Additions	398.1	428.1
Distribution	(111.6)	-
At 31 December	814.3	527.8

During the year the Company received capital contributions of £398.1m (2015: £428.1m) from its parent, Phoenix Life Holdings Limited ('PLHL'), of which £372.8m was in the form of cash and £25.3m represented the fair value of derivatives novated by PLHL to the Company. The Company also distributed £111.6m (2015: £nil) to PLHL during the year.

These capital contributions have been treated as a distributable reserve with no restrictions.

14. Subordinated loans

	2016 £m	2015 £m
Carrying value		
At 1 January	-	662.6
Disposals	-	(662.6)
At 31 December	-	-
Fair value at 31 December	-	-

The Company issued perpetual subordinated loan notes of £331.3m each to PGH (LC1) Limited ('LC1') and PGH (LC2) Limited ('LC2') at par at an interest rate of LIBOR plus 15% per annum. These loans had no fixed maturity dates and interest payments were deferred at the option of the Company, they met the definition of equity for financial reporting purposes. On 27 May 2015, the amounts that were due under the subordinated loan to LC1 and LC2 were offset against the amount due by the Company under a £5bn loan facility, and were then cancelled - see note 20. Interest net of tax of £41.2m was paid on these loans during 2015.

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14. Subordinated loans (continued)

Determination of fair value and fair value hierarchy of subordinated loans

Subordinated loans are categorised as Level 3 financial instruments. The fair value of subordinated loans with no external market is determined by internally developed discounted cash flow models using a risk adjusted discount rate corroborated with external market data where possible.

There were no level 1 or level 2 subordinated loans in 2016 or 2015.

There were no fair value gains or losses recognised in other comprehensive income.

15. Borrowings

	Carrying value		Fair value	
	2016 £m	2015 £m	2016 £m	2015 £m
Amounts owed to Group entities :				
(i) Pearl Group Holdings (No. 1) Limited	-	1,550.3	-	1,550.3
(ii) Pearl Group Holdings (No. 1) Limited	-	-	-	-
(iii) Pearl Group Holdings (No. 1) Limited	-	815.8	-	826.5
(iv) Pearl Group Holdings (No. 1) Limited	2,618.2	-	2,588.1	-
(v) Pearl Life Holdings Limited	-	809.0	-	820.7
(vi) Pearl Life Holdings Limited	-	470.2	-	477.0
(vii) Pearl Life Holdings Limited	1,161.8	-	1,148.4	-
(viii) Phoenix (SCP) Limited	-	-	-	-
(ix) PGH (LC1) Limited and PGH (LC2) Limited	-	-	-	-
Total borrowings	3,780.0	3,645.3	3,736.5	3,674.5
Amounts due for settlement within 12 months	-	3,645.3		
Amounts due for settlement after 12 months	3,780.0	-		

Amounts owed to Group entities comprise:

- (i) The Company received a loan from Pearl Group Holdings (No. 1) Limited ('PGH1L'). The loan accrues interest at 6 month LIBOR plus a margin of 3.42% and any unsettled interest is capitalised semi-annually on 30 June and 31 December. The loan is repayable on demand and has a final maturity date of 31 December 2016.

During the year no interest was capitalised (2015: £31.8m) and £64.2m of interest was paid (2015: £33.2m). Advances of £64.2m were made to the Company (2015: £15.5m) and repayments of £14.9m were made during the year (2015: £503.2m).

On 31 December 2016, the Company transferred the full amount outstanding on the loan of £1,599.6m into a new loan – see (iv).

- (ii) The Company received a loan from PGH1L. Interest accrues at six month LIBOR plus a margin of 2.94% and any unsettled interest is capitalised semi-annually on 30 April and 31 October. The loan is repayable on demand and has a final maturity date of 31 December 2016.

There were no loan movements in 2016. During 2015, interest of £0.7m was capitalised, interest of £29.5m was paid and repayments of £41.2m were made.

- (iii) The Company received a loan from PGH1L. The loan accrues interest at twelve month LIBOR plus a margin of 2.94%. The loan has a maturity date of 31 December 2016.

During the year, interest of £32.4m (2015: £31.4m) was added to the value of the loan and repayments of £nil were made (2015: £78.3m).

On 31 December 2016, the Company transferred the full amount outstanding on the loan of £848.2m into a new loan – see (iv).

15. Borrowings (continued)

- (iv) On 31 December 2016, the Company entered into a loan facility with PGH1L. The loan accrues interest of six month LIBOR plus 1.75% and has a maturity date of 31 December 2021.

The Company was advanced £2,618.2m, being £2,447.8m outstanding under loans (i) and (iii) plus £170.4m due from PeLHL to PGH1 – see (vii).

- (v) The Company received a loan from Pearl Life Holdings Limited ('PLHL'). The loan accrues interest at six month LIBOR plus a margin of 2.94% which is capitalised semi-annually on 7 April and 7 October. The loan has a maturity date of 31 December 2016.

Interest of £30.1m was capitalised in the year (2015: £28.6m).

On 31 December 2016, the Company transferred the full amount outstanding on the loan of £839.1m together with interest accrued of £7.0m into a new loan – see (vii).

- (vi) The Company entered into a loan facility with PLHL. The loan accrues interest at six month LIBOR plus a margin of 2.94% and is capitalised semi-annually on 7 April and 7 October. The loan has a maturity date of 31 December 2016.

Interest of £22.1m was capitalised in the year (2015: £37.1m). During the year advances of £9.9m were received under the loan facility (2015: £64.9m), repayments of £20.0m were made (2015: £31.0m) and £nil was repaid via receipt of dividend in specie from PLHL (2015: £600.0m)

On 31 December 2016, the Company transferred the full amount outstanding on the loan of £482.2m together with interest accrued of £3.9m into a new loan – see (vii).

- (vii) On 31 December 2016, the Company entered into a new loan facility with PLHL. The loan accrues interest of six month LIBOR plus 1.75% and has a maturity date of 31 December 2021.

The Company was advanced £1,161.8m, being £1,332.2m outstanding under loans (vi) and (vii), offset by £170.4m due from PeLHL to PGH1 – see (iv).

- (viii) The Company received a loan from Phoenix (SCP) Limited ('PSCP'). On 14 December 2015, PSCP assigned its rights and obligations under the loan of £134.7m together with accrued interest of £0.3m to Pearl Life Holdings Limited ('PLHL'), the assignment being satisfied via in-specie dividend from PSCP. On 14 December 2015 PLHL distributed its loan and the accrued interest to the Company as a dividend in specie, thus discharging the loan

In 2015, interest of £3.8m was capitalised, interest of £1.0m was paid, and repayments of £0.8m were received.

- (ix) The Company had issued subordinated loan notes of £167.5m each to PGH (LC1) Limited ('LC1') and PGH (LC2) Limited ('LC2') at par. On 27 May 2015, the amounts that were due under the subordinated loan to LC1 and LC2 were offset against the amount due by the Company under a £5bn loan facility, and were then cancelled - see note 20.

In 2015, interest of £15.8m was paid on these loan notes.

Determination of fair value and fair value hierarchy of long-term borrowings

Borrowings are categorised as Level 3 financial instruments. The fair value of borrowings with no external market is determined by internally developed discounted cash flow models using a risk adjusted discount rate corroborated with external market data where possible.

There were no level 1 or level 2 borrowings in 2016 or 2015.

There were no fair value gains or losses recognised in other comprehensive income.

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16. Tax assets and liabilities

	2016 £m	2015 £m
Current Tax		
Current tax payable	<u>1.9</u>	<u>3.7</u>

Movement in deferred tax assets and liabilities:

Year ended 31 December 2016

	1 Jan £m	Recognised in the income statement £m	31 Dec £m
Trading losses	<u>-</u>	<u>-</u>	<u>-</u>

Year ended 31 December 2015

	1 Jan £m	Recognised in the income statement £m	31 Dec £m
Trading losses	<u>21.0</u>	<u>(21.0)</u>	<u>-</u>

Deferred income tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable.

	2016 £m	2015 £m
Deferred tax assets have not been recognised in respect of:		
Tax losses carried forward	<u>0.4</u>	<u>0.3</u>

17. Accruals

	2016 £m	2015 £m
Accrued interest on inter-company loans	<u>-</u>	<u>15.6</u>

18. Amounts owed to Group entities

	2016 £m	2015 £m
Other borrowings owed to Group entities	<u>22.1</u>	<u>13.6</u>

Amounts owed to Group entities consists of £1.4m short-term intra-group borrowings (2015: £13.6m) and group relief payable of £20.7m (2015: £nil).

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19. Investments in subsidiaries

	2016 £m	2015 £m
Cost		
At 1 January	6,651.6	6,663.6
Additions	398.1	-
Return of capital contribution by subsidiary	(30.0)	(12.0)
At 31 December	<u>7,019.7</u>	<u>6,651.6</u>
Impairment		
At 1 January	(939.5)	(418.2)
Impairment charge	(32.4)	(521.3)
Reversal of impairment charge	1.4	-
At 31 December	<u>(970.5)</u>	<u>(939.5)</u>
Carrying amount		
At 31 December	<u>6,049.2</u>	<u>5,712.1</u>

The Company paid capital contributions into its subsidiary, Pearl Life Holdings Limited during the year of £398.1m, which comprised cash of £372.8m (2015: £nil) and derivatives with a fair value of £25.3m (2015: £nil), and received £30.0m return of capital contribution from Pearl Group Management Services Limited during the year (2015: £12.0m).

Where indicators of impairment have been identified, the carrying value of the Company's investments in subsidiaries is tested for impairment at the period end. During the year impairments of £32.4m and reversal of impairments of £1.4m were made (2015: £521.3m impairments).

The value in use has been used as the recoverable amount and this has been determined using the present value of the future cash flows of the Company's subsidiaries including the in-force long-term business, the asset management business and the service company. The cash flows used in this calculation are consistent with those adopted by management in the operating plan and, beyond the period of this plan, reflect the anticipated run-off of the in force life insurance business. Future cash flows have been valued using discount rates which reflect the risks inherent to each cash flow. For the other subsidiaries, the value in use has been determined using net assets values.

The subsidiaries of the Company at 31 December 2016 were as follows:

	Country of incorporation and principal place of operation	Class of shares held (wholly-owned unless otherwise indicated)
BA (FURBS) Limited *	UK	Ordinary shares of £1
Britannic Group Services Limited *	UK	Ordinary shares of £1
CH Management Limited ∞	USA	Ordinary shares of \$1
IH (Jersey) Limited ∂	Jersey	Ordinary shares of £1
Pearl Group Holdings (No. 1) Limited †	UK	Ordinary shares of £0.05
Pearl Group Management Services Limited *	UK	Ordinary shares of £1
Pearl Group Secretariat Services Limited *	UK	Ordinary shares of £1
Pearl Life Holdings Limited *	UK	Ordinary shares of £1
Pearl RLG Limited *	UK	Ordinary shares of £1
Phoenix Annuities Limited *	UK	Ordinary shares of £1
Phoenix Customer Care Limited *	UK	Ordinary shares of £1
Scottish Mutual Customer Care Limited *	UK	Ordinary shares of £1

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19. Investments in subsidiaries (continued)

The Company also owns the following principal subsidiaries through the subsidiary companies listed above:

Phoenix Life Limited *	UK	Ordinary shares of £1
Axa Wealth Limited *	UK	Ordinary shares of £1
Phoenix ER1 Limited *	UK	Ordinary shares of £1
Phoenix Unit Trust Managers Limited *	UK	Ordinary shares of £1
PA (GI) Limited *	UK	Ordinary shares of £0.01 and Deferred shares of £0.25

The companies are principally engaged in the transaction of long term insurance or related business. All holdings represent 100% of the normal issued share capital, unless stated otherwise.

* : The registered address of these companies is 1 Wythall Green Way, Wythall, Birmingham, B47 6WG.

∞ : The registered address of this company is 103 Foulk Road ,Suite 202, Wilmington, DE 19803.

∂ : The registered address of this company is 1st Floor, 32 Commercial Street, St Helier, Jersey, JE2 3RU.

† : The registered address of this company is Juxon House, 100 St Pauls Churchyard, London, EC4M 8BU.

20. Loans and receivables

	Carrying value		Fair value	
	2016	2015	2016	2015
	£m	£m	£m	£m
Amounts owed by Group entities				
(i) Loans to PGH (LC1) Limited and PGH (LC2) Limited	-	-	-	-
(ii) Loan to Phoenix Group Holdings	-	3.0	-	3.1
(ii) Loans to PGH (LCA) Limited and PGH (LCB) Limited	-	110.4	-	112.0
Total loans and receivables	<u>-</u>	<u>113.4</u>	<u>-</u>	<u>115.1</u>

- (i) The Company entered into a £5bn facility agreement with PGH (LC1) Limited ('LC1') and PGH (LC2) Limited ('LC2'). Interest accrued at six month LIBOR plus 2.94% which was payable semi-annually on 30 April and 31 October. The loans under this facility mature on 31 December 2016.

There were no loan movements in 2016. During 2015, £31.7m was repaid, £997.6m was offset with subordinated loans (see notes 14 and 15) and interest of £21.4m was received.

Under a sale and purchase agreement dated 27 May 2015, the £5bn facility was novated by LC1 and LC2 to PGH LCA Limited ('LCA') and PGH LCB Limited ('LCB') respectively for an amount equal to its carrying value (see note (iii)).

- (ii) The Company granted a loan to Phoenix Group Holdings ('PGH') of £2.5m. The loan accrues interest at six month LIBOR plus 2% which is capitalised semi-annually on 7 April and 7 October. The loan has a maturity date of 31 December 2016.

Interest of £0.2m was capitalised during the year (2015: £0.1m) and repayments of £3.2m were made (2015: £nil).

- (iii) Under a sale and purchase agreement dated 27 May 2015, LCA and LCB assumed the rights and obligations of LC1 and LC2 under a £5bn loan facility with the Company. At the date of transfer the loan value was £27.6m. The loan accrues interest at a rate of LIBOR plus a margin of 2.94% and the final maturity date is 31 December 2016.

During the year, £nil (2015: £82.8m) was advanced under the agreement and no interest was received (2015: £0.8m). The Company novated the rights and obligations under the facility to Phoenix Life Holdings Limited via an in-specie dividend – see notes 10 and 13.

Unless specifically noted above, no loans are considered to be past due or impaired.

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20. Loans and receivables (continued)

Determination of fair value and fair value hierarchy of loans and receivables

Loans and receivables are categorised as Level 3 financial instruments. The fair value of loans and receivables with no external market is determined by internally developed discounted cash flow models using a risk adjusted discount rate corroborated with external market data where possible.

There were no level 1 or level 2 loans and receivables in 2016 or 2015.

There were no fair value gains or losses recognised in other comprehensive income.

21. Amounts due from Group entities

	2016 £m	2015 £m
Amounts due from Group entities	15.4	7.6

Amounts due from Group entities consists of £15.4m short-term intra-group borrowings (2015: £7.1m) and group relief receivable of £nil (2015: £0.5m).

22. Financial assets

	2016 £m	2015 £m
Financial assets at fair value through profit or loss		
Designated upon initial recognition		
Open ended investment companies – level 1	111.9	113.1
Corporate bonds – level 2	17.3	16.7
	129.2	129.8

All amounts are recoverable within 12 months.

Determination of fair value and fair value hierarchy of financial assets

The open ended investment companies are categorised as Level 1 financial instruments. The fair value of Level 1 financial instruments traded in active markets (such as publicly traded securities and derivatives) is based on quoted market prices at the period end. The quoted market price used for financial assets is the current bid price on the trade date. If the bid price is unavailable a 'last traded' approach is adopted. For units in unit trusts and shares in open ended investment companies, fair value is by reference to published bid values.

The corporate bonds are categorised as Level 2 financial instruments. Financial instruments traded in active markets with less depth or wider bid-ask spreads which do not meet the classification as Level 1 inputs are classified as Level 2. The fair values of financial instruments not traded in active markets are determined using valuation techniques with observable market inputs. Where pricing models are used, inputs are based on market related data at the period end.

There were no level 3 financial assets in 2016 or 2015.

23. Cash and cash equivalents

	2016 £m	2015 £m
Bank and cash balances	50.0	-

The carrying amounts approximate to fair value at the period end.

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24. Cash flows from operating activities

	2016 £m	2015 £m
Profit for the year before tax	209.5	181.8
Adjustments to reconcile profit for the year to net cash inflow from operating activities in respect of:		
Dividends received	(392.5)	(880.0)
Interest income on loans and receivables	(0.8)	5.3
Impairment of investment in subsidiary	32.4	521.3
Reversal of impairment of investment in subsidiary	(1.4)	-
Fair value gains	(0.8)	(2.2)
Interest expense on borrowings	144.2	185.9
Changes in operating assets and liabilities	29.8	69.7
Cash generated by operations	<u>20.4</u>	<u>81.8</u>

25. Capital and risk management

The Company's capital comprises share capital and all reserves. At 31 December 2016, total capital was £2,438.1m (2015: £2,283.3m). The movement in capital in the year comprises the profit after taxation arising in the period of £240.6m (2015: £160.2m), capital contribution received of £398.1m (2015: £428.1m) offset by interest paid on subordinated loans net of tax relief taken direct to the statement of changes in equity of £nil (2015: £41.2m), subordinated loan notes discharged of £nil (2015: £662.6m) and dividends paid of £483.9m (2015: £95.6m).

The Company's capital is monitored by the Directors and managed on an on-going basis via a monthly review process to ensure that it remains positive at all times.

The principal risks and uncertainties facing the Company are:

- interest rate risk, since the movement in interest rates will impact the value of interest payable and receivable by the Company;
- liquidity risk, as a result of normal business activities, specifically the risk arising from an inability to meet short-term cash flow requirements; and
- credit risk, arising from the default of the counterparty to a particular financial asset, with the carrying value of the asset representing the Company's maximum exposure to credit risk. Credit risk is significantly reduced as financial assets are primarily cash, and short term deposits, which are placed with high credit rated banks.

The Company's exposure to all these risks is monitored by the Directors, who agree policies for managing each of these risks on an ongoing basis.

26. Related party transactions

The Company enters into transactions with related parties in its normal course of business. These are at arm's length on normal commercial terms.

In the year ended 31 December 2016 the Company received dividends from its subsidiaries of £392.5m (2015: £144.9m). Interest received by the Company on loans due from fellow subsidiaries amounted to £nil (2015: £22.2m).

Interest paid by the Company on loans due to its subsidiaries amounted to £64.2m (2015: £62.7m), and interest paid on loans to fellow subsidiaries amounted to £nil (2015: £16.8m).

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26. Related party transactions (continued)***Amounts due to related parties***

	2016	2015
	£m	£m
Loans due to subsidiaries	3,780.0	3,645.3
Other amounts due to subsidiaries	1.1	0.7
Other amounts due to fellow subsidiaries	21.0	12.9

Amounts due from related parties

	2016	2015
	£m	£m
Loans due from ultimate parent	-	3.0
Loans due from fellow subsidiaries	-	110.4
Other amounts due from ultimate parent	3.8	0.6
Other amounts due from parent	0.1	0.1
Other amounts due from subsidiaries	3.9	1.9
Other amounts due from fellow subsidiaries	7.6	5.0

Key management compensation

The total compensation payable to employees classified as key management, which comprises the Directors, is disclosed in note 6.

Parent and ultimate parent entity

Information on the Company's parent and ultimate parent is given in note 27.

27. Other information

The Company's principal place of business is the United Kingdom. The Company's immediate parent is Phoenix Life Holdings Limited and its ultimate parent is Phoenix Group Holdings, a company incorporated in the Cayman Islands and resident in Jersey. A copy of the financial statements of Phoenix Group Holdings can be obtained from the Company Secretary, 1st Floor, 32 Commercial Street, St Helier, Jersey, JE2 3RU.