

Vhi Healthcare Annual Report & Accounts 2002

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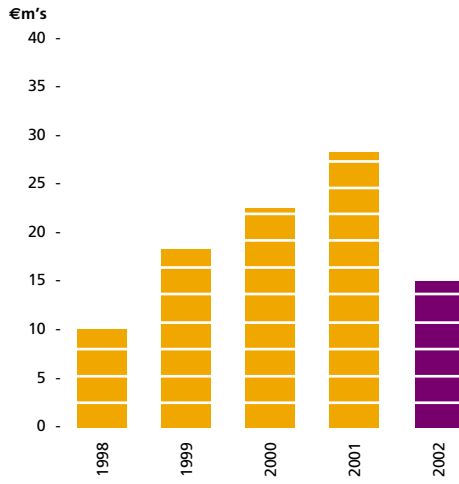
Supporting People Everyday

Operational Statistics

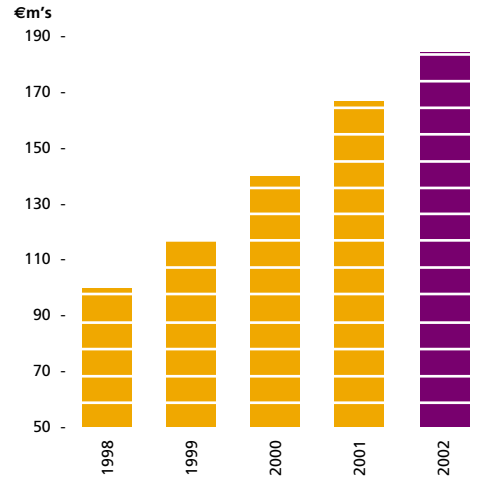
	2001/02 €m's	2000/01 €m's
Earned premium	596.6	548.1
Claims incurred	520.5	471.4
Unexpired Risks Reserve	15.3	-
Operating costs	57.8	64.9
Investment returns	15.9	24.9
Profit carried to general reserve	14.7	28.2
Reserves	181.9	167.2
Minimum solvency requirement	107.2	98.9
Number of in-patient claims assessed	180,320	176,936
Number of day case claims assessed	248,418	192,992
Membership	1,541,572	1,521,337
Number of group schemes	8,067	7,959

Operational Statistics

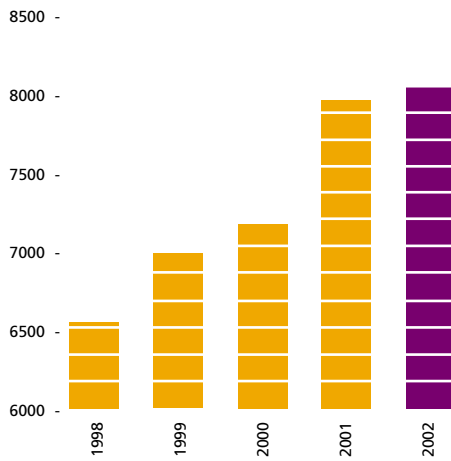
Profit After Tax



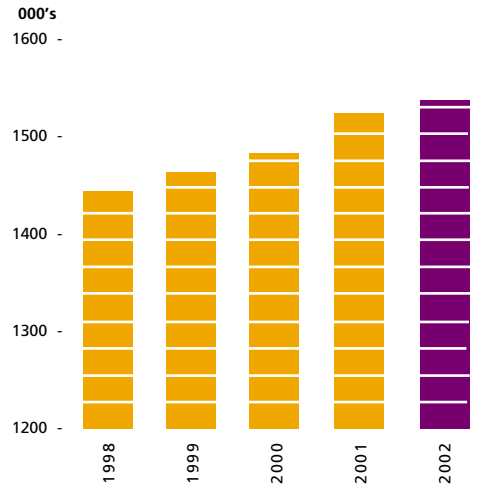
Reserves



Number of Group Schemes



Membership



Board of Directors

1. Mr Derry Hussey B. Comm., F.C.A.

CHAIRMAN

Non Executive Chairman and Director of a number of private companies. (*)

2. Ms Gillian Bowler F.M.I.I., F.Mgt.I.

Chairman, Budget Travel Ltd., President, Institute of Directors, Non-Executive Director, Irish Life & Permanent, plc., Non Executive Director, Tedcastle Holdings Limited, Non-Executive Director, Grafton Group, plc. Member, Forum on Broadcasting. (*)

3. Ms Patricia Ennis B.Arch.M.R.I.A.I.

Managing Director, Kildare Architects Ltd. Member Soroptimists International, Naas, Newbridge & District. (#)

4. Mr Pat Farrell M.M.I.I.

Head of Marketing & Communications, EBS Building Society, Member, Board of Governors, Hume St., Hospital; Member, Executive Committee, Institute of European Affairs, Member, Seanad Eireann 1992/93; Member, Blood Transfusion Service Board; Chairperson, Audit Committee. (#)

5. Mr Phil Flynn

Chairman ICC Investment Bank Limited; Chairman, Bank of Scotland (Irl.), Chairman, Smart Telecom plc, Director, National College of Ireland, Director, Harcourt Developments Ltd.

6. Ms Suzanne Kelly

B.C.L., Barrister-at-Law, A.I.T.I. Tax Lawyer Director, Tax Chambers. Director, Firestation Arts Studio, Deputy President, Institute of Taxation.

7. Dr Peter M Kelly

M.B., B.Ch., B.A.O., D. Phil. (Oxon), F.R.C. Path., F.R.C.P.I., F.F. Path., R.C.P.I.

Consultant Histopathologist, Mater Misericordiae Hospital; Chairman, Joint Working Group on Clinical Medical Laboratory Accreditation in Ireland, Member, Board of the Faculty of Pathology, Royal College of Physicians of Ireland, Chairman, Contract Committee, IHCA, Steering Group and Working Party, National Task Force on Medical Staffing. (*, +)

8. Mr Kevin Moynihan F.C.A.

Principal, Kevin G. Moynihan & Co. Chartered Accountants, Member, Cork/Kerry Committee Institute of Taxation, Member, Management Committee Killarney Technology Innovation Centre, Chairman, Chambers of Commerce of Ireland - Taxation Committee 1993/95 Chairman, Southern Region Chambers of Commerce of Ireland 1992/93, President, Killarney Chamber of Commerce 1991/93.

9. Mr Humphrey Murphy

Managing Director, Global Stainless Ltd., Member of Governing Body, University College Cork 1997 - 2000, 2000 - 2002, Chairman of UCC Audit Committee 2000 - 2002, Member of Cork Chamber of Commerce, Former Member of National Trade Advisory Board, Former Cork Regional Chairman of SFA.

10. Mr Joseph O'Leary F.C.C.A.

Partner - Patrick McNamara & Associates - Auditors, Accountants and Taxation Consultants. Past Member of the National Council for Educational Awards (N.C.E.A), Irish Region President of the Chartered Association of Certified Accountants (A.C.C.A.) 1994/95, Past Member of the Irish Region Executive of the Chartered Association of Certified Accountants.

11. Mr Liam Twohig B.Comm F.C.A.

Managing Partner, O'Hare & Associates, Chartered Accountants and Business Advisors. Past President, German-Irish Chamber of Industry and Commerce. Member, Institute of Chartered Accountants in Ireland, Disciplinary Appeals Committee. (#)

12. Dr Peter Vaughan

M.B., B.Ch., B.A.O., L.R.C.P. & S.I., F.C.A.R.S.C.I. Consultant Anaesthetist, St. James's Hospital, Member I.H.C.A. (#, +)

Chairman's Statement

The rate of inflation in medical costs is consistently and significantly exceeding cost of living increases. Since 1997 the cost of living has risen by 21%. In the same period, expenditure by Government on public health rose by 76% and Vhi premiums increased by 43%. The reasons for the disproportionate escalation in costs are well known; an ageing population, greater use of diagnostic procedures, advances in treatment and technology and pay settlements in the health sector. A further 17% increase in Government spending on health is budgeted in the current year and already there are indications that it may be difficult to maintain services at last year's level despite such an increase.

Medical Inflation and Vhi

Vhi must contend with similar levels of cost escalation. At the same time, it must ensure that first class facilities in treatment are available to its members. Increases in medical costs must, ultimately, be borne by Vhi members in increased premiums.

In the year under review, the Board set out to limit increases in claims costs to a total of 9%. Accordingly, on 1st September 2001 a price increase was introduced at that level. In arriving at that figure, an estimate had to be made of the increases in medical costs which would arise during the ensuing twelve months. The actual cost increases which have occurred since September 2001 are significantly greater than estimated at that time. As a result, premium income on insurance contracts written since September 2001 are now recognised as being insufficient to meet the cost of claims arising from these contracts. This situation will continue until the next price increase is introduced. This is anticipated in September of this year.

Private Hospital Costs

The bulk of the excess in medical costs over the estimates made in September of 2001, relate to increased charges levied by private hospitals. Negotiations with the private hospitals at the end of last year and the beginning of this year were protracted and difficult. It has, however, become clear that the cost containment programmes implemented by Vhi in respect of private hospitals over the years has resulted in many of these hospitals suffering considerable financial strain. Payments from Vhi were pared to the point where the cash flow generated from them was not covering anything more than the hospitals cash outflows. Clearly, this situation cannot continue as no surpluses are being generated for replacement and development of facilities. It is very much in the interests of Vhi members and Vhi that quality and standards in private hospitals are maintained and developed. A balance has to be struck between the quality of medical services and the cost of medical insurance. Striking this balance has resulted in Vhi approving increases in Private Hospital charges considerably in excess of levels granted in previous years.

Derry Hussey
CHAIRMAN



Chairman's Statement continued

Exceptional Provision

In presenting the results for the year ended February 2002, the Board believes that it is obliged to make provision in respect of the anticipated losses which will arise on contracts entered into prior to the next price increase. The provision required to do this is estimated at €15.3 million. This figure has been examined and endorsed by the Board's Actuaries and by its Auditors.

The relative size of the figure has inevitably had a serious negative impact on the results for the twelve months ended 28 February 2002. Instead of achieving a satisfactory growth in underwriting profits from €11.8 million to €18.3million, a reduction to €3 million must be recorded. Total returns from investments amounted to €16 million, compared with €25 million in the previous year. The previous year's number was boosted by €10 million from investment gains and property revaluations. The net profit before tax at just under €19 million compares with a net result for the previous year of €37 million.

Membership Increases

Despite this, many aspects of the year are encouraging. Once again gross membership increased, and the Board continued to retain its very high level of market share. The results, before the provision for anticipated losses, are ahead of budget. Even after the provision is accounted for, reserves increased marginally to 31% of premium income. However, accepted requirement for commercial solvency is 40%, which Vhi must strive to attain.

White Paper

Since the publication of the Government's White Paper in September 1999, Vhi has been preparing for the development of its operations, which were envisaged in that document. The White Paper committed to the introduction of Risk Equalisation, to the incorporation of Vhi with full commercial freedom and to the investment of up to €60 million by Government in the organisation. I have to report that progress during the year on the implementation of these hugely important proposals has been disappointingly slow.

Risk Equalisation

I devoted a considerable part of my report last year to the topic of Risk Equalisation. The Health Insurance Authority has been appointed to advise the Government on the introduction of Risk Equalisation. Legislation is required for this to happen but this has yet to go through the Dail. In these circumstances, it is unlikely that Risk Equalisation will become operable in the current financial year. As I have said previously, this represents a significant injustice to the members of Vhi who are subsidising the only other competitor in the market. BUPA Ireland does not disclose its accounts. Vhi published an estimate of BUPA's results for the current year, which showed a profit of €19 million. The delay in introducing Risk Equalisation adds significantly to the cost of health insurance in the market. It is calculated that in the current year the introduction of Risk Equalisation would lead to a transfer of €15 million from BUPA to Vhi. Were this in place, the increases in premium required by Vhi this year could be reduced substantially. It is

important to stress that international experience shows, conclusively, that a Community Rated health insurance system will collapse in the absence of Risk Equalisation. I must warn that such a collapse will inevitably occur in Ireland and that such a collapse is becoming increasingly likely.

Bed Charges in Public Hospitals

In January 2002, the Government increased the rate of charge to Vhi from public hospitals in respect of private beds by a further 15%. This is part of the implementation of a programme to charge private insurers the 'full economic rate for private beds'. No one has defined what full economic rate means. There is an important policy issue which requires to be clarified. This relates to the treatment of the health levy which most Vhi members pay, on top of their insurance premium. Fairness and equity would suggest that the health levy should be taken into account in arriving at any increase in the cost of private beds in public hospitals. To date it appears this has not happened.

Board

In May last year six of the twelve members of the Board of Directors completed their five-year period of appointment and retired from the Board. Progress made by Vhi during that period is a most eloquent tribute to their contribution. I would however, like to record my own appreciation to Sheila Brazil, Ann Fitzgerald, Phil Flynn, Claire O'Connor, John O'Connor and Lucy Pugh for the quality of their commitment and input.



Vhi Healthcare launched HealthSteps, a complete package designed to promote health and wellbeing covering GP, dental, physiotherapy, alternative health and everyday medical expenses.

I am very pleased that Phil Flynn has been reappointed to the Board and I would like to welcome new directors, Patricia Ennis, Humphrey Murphy, Kevin Moynihan, Joseph O’Leary and Liam Twohig.

Management and Staff

Vhi is well positioned to deal with the difficult operating conditions which lie ahead. The Board is extremely fortunate in the quality and commitment of its management and staff. I would like once again to record the appreciation and thanks of the Board of Directors for this. In doing so, I wish to welcome Vincent Sheridan, who joined Vhi this time last year as Chief Executive, and I look forward to continuing to work closely with him.

Advisory Groups

The operations of Vhi are considerably helped by the voluntary contribution made by the Members’ Advisory Council and the Medical Advice Group and I would like to thank them for their continued input.

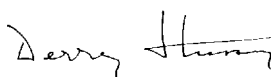
Outlook

The results for the coming year are largely dependent on the price increase which will become effective in September this year. The provision which was made in the accounts for the current year, graphically illustrates the fragility of the surpluses being generated by the Board. It is essential to the interests of the members that surpluses continue to be maintained. A price increase is inevitable and I must regrettably warn that its size will considerably exceed the increases applied in recent years.

The Board is acutely aware that a steep increase in premiums has the potential to cause hardship to some members and may also lead to a reduction in overall membership levels. Vhi must, however, protect the financial viability of the organisation and ensure that the standard of medical care provided to members is preserved and enhanced.

In an effort to mitigate the impact of the anticipated increase, Vhi has decided to accept a reduction in profitability in the current year and therefore postpone further growth in reserves for the time being. This will reduce, to some extent, the increase which will be applied for.

In effect, subsidising from Vhi reserves the premium increase which will be applied next September, is an action which is exceptional and cannot be repeated in future years. Vhi must quickly obtain from Government, implementation of the commitments made in the White Paper. There is no time to lose and no reason for further delay.



Derry Hussey
Chairman



Caroline O Dwyer on receipt of her award from the Irish Institute of Training and Development. Vhi Healthcare was commended for its strong training function and structured career planning process.

Review of Operations

The year ended February 2002 was a year of contrast. On the positive side, significant advances were made in the scale of operations and the quality of service provided to members. On the negative side the medical costs of providing benefits to members exceeded the rate of premium increase and resulted in a reduction in surplus. There is no sign of any reduction in the rate of medical inflation and this has serious implications for Vhi Healthcare and its members. The highlights of the year included:

- Total membership increased to over 1.54 million people.
- €494 million was paid out in claims for members. This involved processing over 446,000 claims and processing 1.1 million invoices from doctors.
- A new stand-alone primary care product, 'Healthsteps', was launched.
- Significant benefit enhancements were made to our core A-E and Options Plans.

- Changeover to the new euro currency was successfully implemented
- Further improvements were made to the already high customer service levels particularly at our Call Centre in Kilkenny which continues to win national Call Centre Awards.
- A sizeable reduction in our operating cost ratio was accomplished, with further reduction planned in the current year.

The need to introduce an Unexpired Risks Reserve at year-end resulted in a reduction in surplus after tax for the year. The fall in surplus underlines the fragile short term nature of our business. Specifically the surplus reduction can be attributed to three factors:

- The inexorable rise in medical costs which will be considered in greater detail later.
- The follow on impact of the refusal of government to sanction a price increase in September 2000. The impact of this – notwithstanding the introduction of two price increases in 2001 - was to reduce income and profits by €24 million in the year under review.

- The continued delay by Government in implementing Risk Equalisation. This impacts not only through a reduction in income but also on provider negotiations and on our ability to develop the core product offering to the market.

Results 2001/02

An increase of 69,845 in new members was an excellent result in the context of the economic and business circumstances that prevailed during the year under review. The slowdown in global economic growth was sharply exacerbated by the events of September 11 and inevitably had an impact on the Irish economy. Our business is strongly influenced by economic conditions, particularly as they relate to employment levels, and so our new membership increase was an excellent achievement.

New members added €30 million to premium income. Total membership now stands at 1.54 million people, the highest recorded to date. The majority of members participate through over 8,000 group schemes, operated either by their employer or an organisation to which they belong.



Ann Mulholland Vhi Healthcare Kilkenny, was awarded Call Centre Agent of The Year at the 6th National Call Centre Awards 2001 (ICCA).

Review of Operations continued

Vhi Healthcare is committed to providing an excellent service to members. During the year the overall number of customer contacts exceeded 1.3 million. Customers can deal with us by telephone, mail, E-mail, mobile text message or by visiting one of our local offices in Dublin, Dun Laoghaire, Cork, Limerick, Galway and Kilkenny. Over 90% of telephone calls to our customer service line are answered within ten seconds and the person who answers the phone takes ownership of the query raised.

Tight control of operating costs continues to be a key feature of management philosophy. Exceptional items increased costs to 11.8% of earned premium income in 2000/01. This has reduced to 9.7% in 2001/02 and is budgeted to fall below 9% in the current year. This level of cost ratio is very low by comparison with other domestic general insurers and also international health insurance companies.

Provider costs i.e. private hospitals, public hospitals and medical consultants, are more difficult to control. We seek to maintain a balance between providing top class, up to date medical procedures to our members and the cost of such procedures. The cost pressures are enormous. These include:

- Public sector wage cost increases which impact directly on private hospital costs;
- The increasing commercialisation of private hospitals as the involvement of religious orders declines;
- Increasing consumption of healthcare due to ageing;
- Increasing volumes of procedures due to enhanced awareness of the benefit of early diagnosis;
- Concern with regard to litigation and the increase in the range of procedures that can be undertaken on a day care basis;
- The ongoing development of technology, new drugs and treatments.

Added to these pressures are two others: the 15% increase in the cost of private beds in public hospitals introduced by the Minister for Health & Children on 1 January 2002; and the continued absence of Risk Equalisation, which apart from the many other negative aspects, undermines our negotiating position with providers.

On average, Vhi Healthcare paid out almost €2 million every working day on behalf of members. For every €100 received in premium, more than €87 was paid out in respect of benefits to members.

At the end of February 2002 it was clear that the premium increase introduced on 1 September 2001 would not be sufficient to cover the rate of medical cost increase until the next premium review on 1 September 2002. Thus, an Unexpired Risk Reserve was provided for at the Balance Sheet date. Rectification of this shortfall will be one of the issues to be addressed in the determination of premium rates from 1 September 2002, but Vhi will be mindful of the impact on members when the increase is determined.

Health Services

Providing our members with access to quality healthcare, appropriate to current best practice and which is both convenient and affordable, continues to be the main objective of Vhi Healthcare. During 2001 full cover agreements were secured with 34 private hospitals, 114 nursing homes, 99% of all hospital consultants and four ambulance companies. In addition, agreements were secured with nine outpatient MRI centres, seven in-patient MRI centres and 13 Laboratory and diagnostic Radiology centres.

Vhi Healthcare constantly evaluates its reimbursement methods and schedules so as to ensure that maximum value is achieved for our members' money. The introduction of a new Package Price Procedure Schedule in August 2001 has helped to maximise the efficiency and cost effectiveness of many high-volume procedures which are performed in private hospitals every day.

A new facility to provide PET Scanning in Blackrock Clinic in Dublin for Vhi Healthcare members was approved on a pilot basis with effect from October 2001. Provision for members seeking modern treatment for prostate cancer was made with the approval of Prostate Brachytherapy at the Mater Private Hospital since September.

Last year Vhi Healthcare paid more than €1.75 million on psychiatric care for teenagers (15-21 year olds) including hospitalisation for psychiatric illness and drug and alcohol abuse treatment programmes. From January 2002 Vhi Healthcare has approved Aislinn Adolescent Addiction Treatment Centre, Co. Kilkenny, for young members referred for treatment of addictions. This centre is the only residential centre in the State providing this kind of service to young people.



Vhi Healthcare's advertising campaign launched in 2001 brought new vitality to the brand.

Review of Operations continued

Products & Services

During the year Vhi Healthcare increased the choice and quality of new products and services available to customers. Significant benefit enhancements were announced for members of our core plans A-E and A-E Options including:

- New cover for Child Home Nursing Care
- New cover for treatment provided by a Dietician, Occupational Therapist, Podiatrist / Chiropodist, or Speech Therapist.
- Increased cover for maternity care hospital accommodation costs. Pre and Post Natal Benefit (payable under the outpatient scheme) and contributions towards the cost of home births have also been increased.
- Cover for other Approved Therapies (previously referred to as Alternative Medicine) has considerably increased.
- Significant additions have also been made for members using Assist from Vhi Healthcare, which provides cover for illness or accident abroad.

The launch of Healthsteps was a significant innovation for Vhi Healthcare, being the first stand-alone primary care product available in Ireland to meet the everyday health needs of customers. The market for primary care insurance products is relatively underdeveloped and has considerable growth potential over the coming years. Our range of products and services was also extended specifically to meet the changing needs of our corporate customers. The rollout of Employee Assistance Programmes commenced, adding to our comprehensive Occupational Health service.

Brand Development

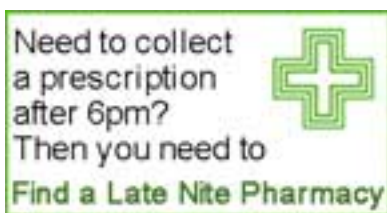
Throughout the year, communication activities continued to support our brand proposition "Its All About Living" and reflect our customer focus. Brand awareness activities in 2001 focused on wellness and lifestyle themes, through television and outdoor campaigns and targeted sponsorships. Sponsorships included children's arts activities in Kilkenny, Waterford and Galway and the Irish 49er sailing team challenge for the Olympics in Athens in 2004.

Programme Office

A programme office was established during the year to ensure that all key projects are properly integrated and aligned with company strategy and its key processes and that dependencies and cross project issues are managed effectively. It will also act to ensure that the benefits planned for are delivered in full.

Partnership Forum

During the year a Vhi Healthcare Partnership Forum was created to facilitate management, employees and union representatives to come together, in an environment of mutual trust and co-operation. Its goal is to improve the performance and competitiveness of the organisation, enhance job security, career development and the quality of working life for employees, while recognising the importance of our customers. The Forum consists of employees chosen to represent all aspects of the organisation.



An SMS messaging facility and Find a Late Nite Pharmacy service were just two of the recent services added to health portal, vhihealth.com.



Vhi Healthcare employee Sarah Lang successfully competed in Liffey Descent in 2001.

Review of Operations continued

E-Business

The year 2001/02 proved to be a most successful year for our health portal www.vhihealth.com which has become invaluable to thousands of Irish consumers who want to access authoritative health and lifestyle information.

During the year the acquisition of a content management system enhanced our ability to manage the company web sites and provided greater efficiencies in the creation of new web applications. A major redesign of the portal was undertaken and new features launched during the year included:

- Find a Late Night Pharmacy - a search facility which enables users of the site to locate pharmacies in their area which are open after 6pm.
- SMS Reminders - users of the site can request text messages to be sent to their mobile phone to remind them of medical appointments or to take their medication every day.
- Ask the Stress Expert - a psychologist joined the team of experts to answer members' questions on stress management.
- Business to Business (B2B) Facilities
- Online Billing - this facility provides Group Secretaries with online access to invoices, staff policy details, and renewal statements. It was provided to 300 companies during 2001/02.
- Tailored Extranets - online Vhi Healthcare product and service information tailored to a particular company and its employees was provided to 113 companies during the year.

Euro Changeover

All our systems and processes were successfully converted for the introduction of Euro and customers, providers, suppliers and staff received comprehensive communications in relation to our Euro changeover plans.

Awards

Our commitment to business excellence and the delivery of outstanding customer service was recognised again this year by the awarding of the following to Vhi Healthcare:

- Q Mark for Quality Business Excellence 2001 - presented by Excellence Ireland
- Call Centre Agent of the Year 2001 - presented by Irish Call Centre Awards

The Future

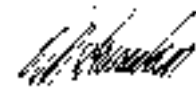
Vhi Healthcare faces many challenges as it looks to the future. The most important can be summarised as follows:

- Managing the increasing cost of private health cover. Health Insurance in Ireland is funded on a Community Rated basis. This is a pay as you go system. The income we raise each year must cover outgoings. Demographic trends in Ireland point to an ageing population, albeit still at a slower rate than the rest of Europe. This has clear implications for the cost of private health insurance.
- Managing medical cost inflation, a subject already covered in some detail in this review.
- The public health system is a matter of concern and political debate. The provision of public and private medicine in Ireland is inextricably linked. Some measures proposed to improve public health could add considerably to the cost of private health premiums which in turn would serve to undermine the improvements in the public system.

- Vhi Healthcare is largely a single product company. Growth prospects for the product in the future are likely to be less buoyant than in the immediate past. There is a clear need to diversify the activities of the business. This will also provide greater support for the core product in the longer term.

Vhi Healthcare is well equipped to meet and overcome these challenges. This confidence is based on the ability, commitment and customer focus of our staff; on the quality of our products and efficiency of our service; on the strength of our distribution system; on the trust in our Brand and not least the loyalty and support of our wide customer base.

Action by Government to deliver on the commitments contained in the 1999 White Paper on Private Health Insurance is also essential and long overdue. Their principal commitments relate to the introduction of Risk Equalisation and the granting of commercial freedom to Vhi Healthcare. The challenges facing Vhi Healthcare simply cannot be overcome without early action on both of these issues.



Vincent Sheridan
Chief Executive



Vhi Corporate Solutions offers a customised package for employers offering services on a range of employee health and well-being issues.

Executive Management Team

1. Vincent Sheridan

CHIEF EXECUTIVE

Vincent Sheridan (53) joined Vhi Healthcare in April 2001, with 28 years experience in the insurance industry. In 1969 he obtained a B.Comm from University College Dublin and is a chartered accountant by profession. He is a past president of the Irish Insurance Federation, the Insurance Institute of Ireland and the Irish Association of Investment Managers. He is currently a director of the Irish Stock Exchange and a council member of both the Institute of Chartered Accountants in Ireland and the International Federation of Health Plans.

2. Dr. Bernadette Carr,

MD, FRCPI, MPH, LFOM

Director - Medical and Claims

Bernadette Carr (43) is an epidemiologist with extensive clinical and research experience. A graduate of UCC, her qualifications include: Fellowship in UCLA 1989, Doctorate in Medicine TCD 1992, Licentiate of Faculty of Occupational Medicine 1991, and Masters Public Health 1994. She was elected to Fellowship of the Royal College of Physicians in Ireland 1996. Bernadette joined Vhi Healthcare in 1994 and her responsibilities include: provider relations, contract negotiations and claims.

3. John Creedon

Director - Information Technology

John Creedon (43) has a BSc. In Computer Applications from Dublin City University and a Diploma in System Analysis from Trinity College Dublin. He held a number of senior positions in Vhi prior to his appointment as IT Director in 1996 and is responsible for Information Services and Technology across the organisation.

4. Tony McSweeney

Director - Individual and Corporate Business

Tony McSweeney (42), a member of the Marketing Institute of Ireland, joined Vhi Healthcare from the life and pensions industry in 1996. He is responsible for customer services, sales and quality management.

5. Declan Moran

Director - Marketing and Business Development

Declan Moran (34) has a BSc. In Computer Science and is a Fellow of the Institute of Actuaries since 1994. He joined Vhi Healthcare in 1997 from the life and pensions industry. He is responsible for Vhi Healthcare's marketing including eBusiness and the development of new products and services.

6. Michael Owens

Director - Human Resources

Michael Owens (44) has a B.A. in Industrial Relations and is a member of the CIPD. He has 25 years experience in human resources management in light engineering, paper and print, commercial retailing and insurance before joining Vhi Healthcare in August 1999.

Report of the Directors

The Directors have pleasure in submitting their 45th Annual Report in accordance with Section 20 (1) of the Voluntary Health Insurance Act 1957. The Accounts of the Board and the related notes which form part of the Accounts are included in this report, and have been prepared in accordance with accounting standards generally accepted in Ireland and comply with the European Communities (Insurance Undertakings: Accounts) Regulations, 1996 .

1. Principal Activities

The Voluntary Health Insurance Board is a statutory corporation established by the Voluntary Health Insurance Act 1957 and has as its objective the provision of a financing system for private health care, carried out on a mutual assistance basis.

2. Results

The results for the year are set out in the Profit and Loss Account.

3. Business Review and Future Developments

A review of business transacted during the year, together with the Board's views of likely future developments is contained in the Chairman's Statement.

4. Directors' Responsibilities

The directors are required to prepare accounts for each financial period, which give a true and fair view of the state of affairs of the Board and of the profit or loss of the Board for that period.

In preparing those accounts, the Directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- Prepare the accounts on the going concern basis unless it is inappropriate to presume that the Board will continue in business.

The Directors are responsible for keeping proper books of account, which disclose with reasonable accuracy at any time the financial position of the organisation and to enable them to ensure that the accounts are prepared in accordance with accounting standards generally accepted in Ireland and comply with the European Communities (Insurance Undertakings: Accounts) Regulations 1996. They are also responsible for safeguarding the assets of the organisation and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

5. Corporate Governance

The Directors support the principles of Corporate Governance outlined in the Combined Code of the Committee on Corporate Governance. While not itself a listed company, the Board has sought to comply with the provisions of the Code that are applicable having regard to the Constitution of Voluntary Health Insurance Board, and hence reports below on compliance throughout the year with the Code published by the Irish Stock Exchange.

The Directors consider that it has in place the procedures to comply with the provisions laid out in section 1 of the Combined Code: Principles of Good Governance and Code of Best Practice, except in respect of the appointment and terms of office of Directors, which are the responsibility of the Minister for Health and Children. For this reason, the Board does not have a Nomination Committee or a Senior Independent Director. All of the Directors of the Board are independent non-Executive Directors.

Board of Directors

The roles of Chairman and Chief Executive are separate and the Board is entirely comprised of non-Executive Directors. All Directors are appointed by the Minister for Health and Children for 5 year terms of office. The current Chairman has completed his first term of office and has been re-appointed for a further three years.

The Board has appointed an Audit Committee which is comprised of three non-Executive Directors. The Audit Committee reviews the annual accounts, internal control and compliance matters and the effectiveness of internal and external audit. The members of the Audit Committee have also been appointed to the Risk Committee, the responsibility of which is to ensure that appropriate risk management procedures and reporting protocols are in place.

The Board has also appointed a Remuneration Committee comprising of three non-Executive Directors. This committee is responsible for recommending candidates for senior management appointments and remuneration policies.

The Board has also drawn up procedures for Directors to take independent professional advice and adopted a schedule of matters specifically reserved for decision by the Board. All Directors have access to the advice and services of the Secretary. The Board meets on a monthly basis throughout the year.

Internal Control

The Board has given effect to the recommendations of Internal Control: Guidance for Directors on the Combined Code (The Turnbull Guidance) which was published in September 1999.

The Directors are responsible for the Board's system of internal control and for reviewing its effectiveness. They have assigned responsibility for the implementation of this system to Executive Management. Such a system can only provide reasonable and not absolute assurance against material misstatement or loss. The key elements of the system are:

- Formal policies, procedures and organisational structures are in place which support the maintenance of a strong control environment.
- The business strategy, planning and budgetary process includes analysis of the major business risks which affect the organisation. Risk assessment is a continuous process on which the Board places significant emphasis.
- A comprehensive set of management information and performance indicators is produced promptly on a monthly basis using a series of interrelated balanced scorecards. This enables progress against longer term objectives and annual budgets to be monitored, trends to be evaluated and variances to be acted upon. Detailed budgets are prepared annually in the context of longer term strategic plans and are updated regularly.
- Accounting procedures are documented, transaction cycles are defined, accounting timetables are detailed, automated interfaces are controlled, review and reconciliation processes are carried out, duties are segregated and authorisation limits are checked. Experienced and qualified staff have been allocated responsibility for all major business functions.

On behalf of the Board, the audit committee has reviewed the effectiveness of the systems of internal control in existence for the year ended 28 February 2002 and up to the date of this report.

Going Concern

The accounts have been prepared on the going concern basis and, in accordance with the requirements of the Combined Code, the directors report that they have satisfied themselves that the Board is a going concern, having adequate resources to continue in operational existence for the foreseeable future. In forming this view the directors have reviewed the Board's budget for 2002/2003 and the medium term plans as set out in the corporate strategy of the Board.

6. Directors' Remuneration

Annual remuneration levels for the Chairman and each Director have been set by Government at €15,237 and €10,158 respectively. The Directors do not receive any other remuneration nor do they have any service agreements or contracts with the Board.

7. Safety, Health & Welfare at Work Act, 1989

The Board has a health and safety policy in existence which is fully in accordance with the specific requirements of the above Act. The Board recognises the value of consultation with staff on matters of health, safety and welfare.

The Directors are pleased to report that no serious accidents occurred to any members of staff or visitors to its premises during the year.

8. Prompt Payment of Accounts Act, 1997

Voluntary Health Insurance Board is included as a listed purchaser of goods and services in the schedule to the Prompt Payments of Accounts Act, 1997. The Directors acknowledge their responsibility for ensuring

compliance, in all material respects, with the provisions of the Act. The Board's payment practice is one of ensuring that properly completed and agreed invoices for goods and services supplied to the Board will be discharged within the prescribed payment period. Procedures have been implemented which provide reasonable assurance against material non-compliance with the Act.

9. Books of Account

The Directors are responsible for ensuring that proper books of account are maintained by the Board and this has been achieved by the employment of appropriately qualified accounting personnel and by maintaining appropriate accounting systems. The books of account are located at the head office of the Board at VHI House, Lower Abbey Street, Dublin 1.

10. Auditors

The auditors Deloitte & Touche, Chartered Accountants, continue in office in accordance with Section 19 (2) of the Voluntary Health Insurance Act 1957.

On behalf of the Board:



Derry Hussey
Chairman



Pat Farrell
Director

23 May 2002

Report of the Auditors

Independent Auditors' report to the Directors of the Board of the Voluntary Health Insurance Board.

We have audited the accounts of Voluntary Health Insurance Board for the year ended 28 February 2002 which comprise of the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the statement of accounting policies and the related notes 1 to 18. These accounts have been prepared under the accounting policies set out therein.

Respective responsibilities of Board and Auditors

The directors are responsible for preparing the Annual Report including, as set out in the Statement of Directors' Responsibilities, the preparation of the accounts in accordance with applicable Irish law and accounting standards. Our responsibilities, as independent auditors, are established in Ireland by statute, the auditing standards as promulgated by the Auditing Practices Board in Ireland and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view.

We review whether the corporate governance statement reflects the Board's compliance with the seven provisions of the Combined Code specified for our review by

those rules and we report if it does not. We are not required to form an opinion on the effectiveness of the Board's corporate governance procedures or its internal controls.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited accounts. The other information comprises only the Report of the Directors, which includes the corporate governance statement, the Chairman's Statement, the Review of Operations and the Comparative Results table. We consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the accounts. Our responsibilities do not extend to other information.

Basis of audit opinion

We conducted our audit in accordance with the auditing standards issued by the Auditing Practice Board and generally accepted in Ireland. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the Board in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the Board, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the affairs of the Board as at 28 February 2002 and of the profit of the Board for the year then ended.

Deloitte & Touche
Chartered Accountants and Registered
Auditors
Dublin

23 May 2002

Accounting Policies

Basis of Preparation

The accounts are prepared in accordance with accounting standards generally accepted in Ireland, the European Communities (Insurance Undertakings:Accounts) Regulations, 1996 and the Statement of Recommended Practice on Accounting for Insurance Business (SORP) as adopted by the Association of British Insurers.

The following are the principal accounting policies adopted:

Basis of Accounting

The accounts are prepared under the historical cost convention modified by the revaluation of investments.

Premiums Written

Gross premiums written consist of the premium income receivable from members in respect of policies commencing in the financial year.

Unearned premiums represent the proportion of premiums written in the year that relate to the un-expired term of policies in force at the balance sheet date, calculated on a time apportionment basis.

Claims Incurred

Claims incurred comprise claims and related expenses paid in the year and changes in provisions for outstanding claims, including provisions for the estimated cost of claims incurred but not reported and related handling expenses. The provisions for outstanding claims are based on actuarial methods of calculation approved by the Board's consulting actuaries, Watson Wyatt LLP.

Unexpired Risks

Provision is made, based on information available at the balance sheet date, for any estimated underwriting losses related to unexpired risks after taking into account relevant investment return.

Tangible Assets

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated so as to write off the cost of the assets over their estimated useful lives on a straight line basis as follows:

Motor vehicles	4 years
Computer equipment and software	4 years
Furniture, fittings and office equipment	5 years

Expenditure incurred on the development of computer systems which is substantial in amount and is considered to have an economic benefit to the Board lasting more than one year into the future is capitalised and depreciated over the period in which the economic benefits are expected to arise. This period is subject to a maximum of four years. In the event of uncertainty regarding its future economic benefit, the expenditure is charged to profit and loss account.

Accounting Policies

Investments

Investments in listed securities, including investments in government and government guaranteed stocks, are stated at market value. Market value represents the middle market price less accrued interest at the balance sheet date.

Land and buildings are valued annually on an open market value basis. Valuations are made by independent professionally qualified valuers. All properties occupied by the Board are maintained in a continual state of sound repair. As a result, the directors consider that the economic lives and residual values of these properties are such that any depreciation is insignificant and is therefore not provided.

Investment Income

Interest on fixed interest stocks and bank deposits is taken to include income as earned on a day-to-day basis. Income from equities is included on the basis of dividends received during the financial year.

Investment Return

Operating profit is reported on the basis of longer term investment return. The longer term investment return is calculated based on rates which are reviewed annually and reflect both historical experience and the directors' current expectations for investment returns. The short term fluctuation in investment return, representing the difference between the longer term return and the actual return, is incorporated in arriving at profit before taxation.

The allocation of investment return from the non-technical account to the technical account is based on the longer term return on investments attributable to the insurance business.

Pension Costs

The expected cost of providing pensions to employees is charged to the profit and loss account, at a substantially level percentage of payroll, over the employees expected service lives. Any difference between the amount so charged and the amount contributed to pension funds is included as a provision in the accounts.

The disclosures required under the transitional arrangements of FRS 17: Retirement Benefits, for the year ended 28 February 2002 are shown in note 18.

Deferred Taxation

Deferred taxation is provided on timing differences between the taxable profits of the Board and its profits as stated in the accounts. The provisions are made at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse.

Profit and Loss Account

Year to end of February 2002

Technical Account: Health Insurance

	Notes	2002 €'000s	2001 €'000s
Continuing Activities			
Earned Premium:	1		
Gross premiums written		647,177	566,528
Change in the provision for unearned premiums		(50,583)	(18,469)
		596,594	548,059
Allocated investment return transferred from the non-technical account		17,121	15,008
		613,715	563,067
Claims incurred:			
Claims paid		494,411	453,178
Change in the provision for claims		26,091	18,191
		520,502	471,369
Other technical provisions:			
Unexpired risk reserve	9	15,279	-
Net operating expenses	2	57,782	64,903
Balance on the health insurance technical account		20,152	26,795

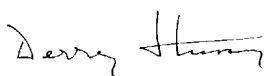
Profit and Loss Account

Year to end of February 2002

Non-Technical Account: Health Insurance

Continuing Activities	Notes	2002 €'000s	2001 €'000s
Balance on the health insurance technical account		20,152	26,795
Longer term investment return	3	17,121	15,008
Allocated investment return transferred to the health insurance technical account		(17,121)	(15,008)
Operating profit		20,152	26,795
Short term fluctuations in investment return	3	(1,257)	9,924
Profit on ordinary activities before taxation		18,895	36,719
Taxation on profit on ordinary activities	4	(4,189)	(8,557)
Profit on ordinary activities after taxation carried to reserves	5	14,706	28,162

The accounts were approved by the Board on 23rd May 2002, and signed on its behalf by:



Derry Hussey
Chairman



Pat Farrell
Director

Balance Sheet

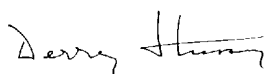
As at 28 February 2002

Assets	Notes	2002 €'000s	2001 €'000s
Investments			
Land and buildings	6	30,822	27,678
Other financial investments	7	366,558	327,116
Debtors			
Debtors from members arising out of insurance operations		270,155	235,413
Other debtors		663	487
Other Assets			
Tangible assets	8	12,715	8,729
Cash at bank and in hand		21,289	3,018
Deferred taxation	11	1,072	-
Prepayments and accrued income			
Accrued interest		5,047	5,743
Total Assets		708,321	608,184

Liabilities

Reserves			
General reserve		181,906	167,200
Technical provisions			
Provision for unearned premiums		310,063	259,479
Claims outstanding		187,127	161,036
Other technical provisions	9	15,279	-
Deferred taxation	11	-	244
Creditors			
Creditors and accruals	10	13,946	20,225
Total Liabilities		708,321	608,184

The accounts were approved by the Board on 23rd May 2002, and signed on its behalf by:



Derry Hussey
Chairman



Pat Farrell
Director

Cash Flow Statement

Year to end of February 2002

	Notes	February 2002 €'000s	February 2001 €'000s
Net cash inflow from operating activities	12	79,484	54,715
Taxation paid		(7,568)	(11,493)
Capital expenditure		(12,830)	(9,170)
		59,086	34,052

Cash flows were invested as follows:

Increase in cash holdings		18,271	3,208
Net portfolio investment	13&15	40,815	30,844
Net investment of cash flows	14	59,086	34,052

Notes to the Accounts

1 Earned Premium

The insurance business of the Board is exclusively health insurance and earned premium relates solely to this class of business.

All business written is in the Republic of Ireland.

2 Net operating expenses

	2002 €'000s	2002 €'000s	2001 €'000s	2001 €'000s
Administrative expenses				
- Euro/systems development expenditure	2,488		11,739	
- eCommerce development initiative	-		4,760	
- Other administrative expenses	42,774	45,262	36,519	53,018
Acquisition costs		12,520		11,885
		57,782		64,903

Employee Information

	2002	2001
The average number of persons, including part time employees, employed by the Board was:	720	668

Staff costs were:

	2002 €'000s	2001 €'000s
Wages and salaries	27,799	21,411
Social security costs	2,829	2,031
Pension costs	1,987	1,362

The recruitment of I.T. staff on a fixed term basis to replace I.T. contractors employed as consultants has contributed to the increase in employee numbers and salaries. The number of I.T. contractors decreased from 90 at 28 February 2001 to 12 at 28 February 2002.

3 Investment return

(a) Longer term investment return

The rates of investment return underlying the calculation of the longer term investment return are set out below.

	2002 %	2001 %
Land and buildings	8.0	8.0
Shares in listed securities	7.5	7.5
Debt securities/fixed interest securities	5.0	5.0
Deposits with credit institutions	3.5	3.5

Notes to the Accounts

3 Investment return continued

(b) Comparison of longer term investment return with actual return	2002 €'000s	2001 €'000s
Actual return:		
Income from land and buildings	67	64
Income from other investments	16,466	14,729
Gains on realisation of investments	963	944
Unrealised (losses)/gains on investments	(1,122)	9,660
Investment management expenses	(510)	(465)
	15,864	24,932
Longer term investment return	17,121	15,008
Short term fluctuations	(1,257)	9,924

A transfer of the full amount of the longer term investment return has been made from the non-technical account to the technical account on the basis that the reserves of the Board are lower than the solvency margin level considered desirable within the health insurance industry and therefore all reserves are deemed to be in support of the technical provisions.

4 Taxation

	2002 €'000s	2001 €'000s
The taxation charge in the profit and loss account comprises:		
Corporation taxation - charge	5,505	7,769
Deferred taxation - (credit)/charge	(1,316)	788
	4,189	8,557

Factors affecting the current taxation charge for the period

The tax assessed for the period is higher than the standard rate of corporation tax in Ireland of 19.34% (2001: 23.33%) for the year ended 28 February 2002.

The differences are explained below:	2002 €'000s	2001 €'000s
Profit on ordinary activities before tax	18,895	36,719
Profit on ordinary activities multiplied by standard rate of corporation tax of 19.34% (2001, 23.33%)	3,654	8,568
<i>Effects of</i>		
Expenses not deductible/(deductible) for tax purposes	1,711	(1,256)
Depreciation in excess of capital allowances for period	237	355
Adjustments to tax charge in respect of previous periods	(97)	102
Current tax charge for period	5,505	7,769

Notes to the Accounts

5 Profit for year

	2002	2001
	€'000s	€'000s
The profit for the year is stated after charging:		
Depreciation of tangible fixed assets	5,950	4,075
Board remuneration	123	63
Audit fee	87	74

6 Investments: land and buildings

	2002	2001
	€'000s	€'000s
Valuation:		
At 1 March	27,678	23,765
Additions	2,895	1,207
Surplus on revaluation	249	2,706
At 28 February	30,822	27,678

Land and buildings included above are occupied by the Board for its own activities and are mainly freehold.

Land and buildings were valued at 28th February 2002 at open market value. These valuations were made by Thornton & Partners, Rooney Auctioneers, Hamilton Osborne King, Cunningham Auctioneers and O'Keefe Auctioneers.

If the land and buildings had not been revalued they would have been included at the following amounts which represent the lower of cost or net realisable value:

	2002	2001
	€'000s	€'000s
At 1 March	12,154	10,947
At 28 February	15,049	12,154

Notes to the Accounts

7 Other financial investments

	2002 Market Value €'000s	2002 Cost €'000s	2001 Market Value €'000s	2001 Cost €'000s
Shares in listed securities	964	428	4,176	2,546
Debt securities/fixed interest securities	347,219	348,556	291,555	292,613
Loans secured by mortgages	229	229	384	384
Deposits with credit institutions	18,146	18,146	31,001	31,001
	366,558	367,359	327,116	326,544

8 Tangible Assets

	Motor vehicles €'000s	Fixtures, furnishings and fittings €'000s	Equipment €'000s	Total €'000s
Cost				
At 1 March 2001	1,651	3,678	16,746	22,075
Additions	664	132	9,254	10,050
Disposals	(513)	(3)	(51)	(567)
At 28 February 2002	1,802	3,807	25,949	31,558
Depreciation				
At 1 March 2001	(808)	(1,766)	(10,772)	(13,346)
Charge for the year	(521)	(560)	(4,869)	(5,950)
Eliminated in respect of disposals	410	2	41	453
At 28 February 2002	(919)	(2,324)	(15,600)	(18,843)
Net book value at 28 February 2002	883	1,483	10,349	12,715
Net book value at 28 February 2001	843	1,912	5,974	8,729

9 Other technical provisions

The amount of €15,279,000 is in respect of losses anticipated on contracts in force at the balance sheet date together with losses anticipated on contracts that the Board will be obliged to accept or renew in the period between 1 March, 2002 and 31 August, 2002 at premium rates applicable since 1 September 2001. The Board's consulting actuaries, Watson Wyatt LLP, have confirmed that the amount of the provision is a reasonable estimate of these expected losses. The next premium rate review is due on 1 September 2002.

Notes to the Accounts

10 Creditors and accruals

	2002	2001
	€'000s	€'000s
Corporation tax	5,602	7,666
PAYE and PRSI	70	122
Other creditors	994	1,296
Accruals	7,280	11,141
	13,946	20,225

11 Deferred Taxation

Provision has been made in respect of deferred taxation for the following timing differences:

	2002	2001
	€'000s	€'000s
Unrealised surplus on investment valuation	(1,032)	(1,991)
Other timing differences	2,104	1,747
Total asset/(liability)	1,072	(244)

12 Reconciliation of operating profit to net cash flow from operating activities

	2002	2001
	€'000s	€'000s
Profit on ordinary activities before taxation	18,895	36,719
Depreciation charges	5,950	4,075
Unrealised losses/(gains) on investments	1,122	(9,660)
Increase in health insurance technical provisions	91,954	36,660
Increase in debtors from members arising out of insurance operations	(34,744)	(20,521)
Decrease in debtors and prepayments	520	429
(Decrease)/increase in creditors and accruals	(4,213)	7,013
Net cash inflow from operating activities	79,484	54,715

13 Movement in opening and closing portfolio investments

	2002	2001
	€'000s	€'000s
Net cash inflow for the period	18,271	3,208
Portfolio investments	40,815	30,844
Movement arising from cash flows	59,086	34,052
Changes in market values	(1,372)	6,955
Total movement in portfolio	57,714	41,007
Portfolio investments and cash in hand at 1 March	330,134	289,127
Portfolio investments and cash in hand at 28 February	387,848	330,134

Notes to the Accounts

14 Movement in cash and portfolio investments

	At 1 March 2001 €'000s	Cash flow €'000s	Changes to market value €'000s	At 28 February 2002 €'000s
Cash at bank and in hand	3,018	18,271	-	21,289
Shares in listed securities	4,176	(2,119)	(1,093)	964
Debt securities and other fixed interest securities	291,555	55,943	(279)	347,219
Loans secured by mortgages	384	(155)	-	229
Deposits with credit institutions	31,001	(12,854)	-	18,147
	330,134	59,086	(1,372)	387,848

15 Analysis of cash flows for headings netted in the cash flow statement

	2002 €'000s	2001 €'000s
Portfolio investments		
Purchase of shares in listed securities	-	-
Purchase of fixed interest securities	983,257	556,759
Purchase of deposits with credit institutions	559,522	537,624
Sale of shares in listed securities	(2,119)	-
Sale of fixed interest securities	(927,314)	(513,972)
Sale of deposits with credit institutions	(572,376)	(549,433)
	40,970	30,978
Repayment of mortgage loans	(155)	(134)
Net cash outflow on portfolio investments	40,815	30,844

16 Capital Commitments

	2002 €'000s	2001 €'000s
Capital expenditure contracted for	-	2,400
Capital expenditure approved but not contracted for	2,000	6,500

Notes to the Accounts

17 Related Party Disclosures

There have been no transactions with related parties which require disclosure under Financial Reporting Standard 8.

18 Retirement benefits

The Board operates a defined benefit pension scheme. The assets of the scheme are held in a separate trustee administered fund. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees working lives with the Board.

The pension charge for the year was €1,987,000 (2001, €1,362,000). The pension cost is determined by an independent qualified actuary, using the projected unit credit method of funding. The most recent actuarial valuation was at 1 May 2000. The principal assumptions used in the actuarial valuation were that investment returns will exceed salary increases by 1.5% and pensioner increases by 2.75%.

At the date of the latest actuarial valuation, 1 May 2000, the market value of the scheme's assets was €60,423,000 and the actuarial value of these assets represented 115% of the benefits that had accrued to members after allowing for expected future increases in earnings and pensions. Actuarial advice confirms that the current levels of contributions payable to the scheme, together with existing assets, are adequate to secure members benefits over the expected remaining service lives of the participating employees.

The actuarial reports are available for inspection by members of the scheme but not for public inspection. An accrual of €189,000 (2001 €452,000) is included in creditors in respect of contributions due at year end.

FRS 17 disclosure

The disclosures required under the transitional arrangements of FRS 17 'Retirement Benefits' have been calculated by qualified independent actuaries. In addition to pension entitlements, the Board also provides certain benefits to retirees in respect of health insurance cover. The disclosures in relation to the pension scheme are based on the most recent full actuarial valuation at 1 May 2000 updated to 28 February 2002.

The major assumptions used in respect of the pension scheme are:

	%
Rate of increase in salaries	4.0
Rate of increase in pensions in payment	3.25
Discount rate	6.0
Inflation assumption	3.0

Notes to the Accounts

18 Retirement benefits continued

The assets in the pension scheme and the expected rates of return at 28 February 2002 were:

	Expected rate of return %	Market value €'000s
Equities	8.5	42,800
Fixed interest	5.5	12,300
Property	7.0	3,900
Other	3.5	1,300
Total market value of assets		60,300
Present value of scheme liabilities		(54,800)
Surplus in the scheme		5,500
Unfunded health insurance premium provision		(3,800)
Net retirement benefits surplus		1,700
Related deferred tax liability		(213)
Net retirement benefits asset		1,487
Net assets		
Net assets excluding retirement benefits asset		708,321
Retirement benefits asset		1,487
Net assets including retirement benefits asset		709,808
Reserves		
General reserve excluding retirement benefits asset		181,906
Retirement benefits reserve		1,487
Adjusted general reserve		183,393

Comparative Results

	1998 €'000s	1999 €'000s	2000 €'000s	2001 €'000s	2002 €'000s
Earned premium	386,503	435,467	489,257	548,059	596,594
Claims incurred	373,746	409,367	422,533	471,369	520,502
Unexpired risks reserve	-	-	-	-	15,279
Operating expenses	23,092	29,381	36,683	64,903	57,782
Investment return	21,877	25,478	(134)	24,932	15,864
Taxation charge	1,754	4,416	7,506	8,557	4,189
Profit for the year	9,788	17,781	22,401	28,162	14,706
Reserves	98,855	116,636	139,038	167,200	181,907
Minimum solvency*	80,079	86,377	91,688	98,901	107,240
Financial Ratios					
Solvency cover times	1.24	1.35	1.52	1.69	1.70
Claims as a % of earned premium	96.7	94.0	86.4	86.0	87.2
Operating expenses as % of earned premium	6.0	6.7	7.5	11.8	9.7

*Minimum solvency margin as shown above is calculated in accordance with the provisions of the 1976 EU Non-Life Regulations, which Vhi Healthcare is not currently required to comply with.

The Board strives to achieve a solvency margin level equivalent to 40% of earned premium (ie solvency cover times of 2.2), which is considered by commercial insurance companies to be the appropriate level.

Company Details

Main Bankers

Allied Irish Banks plc
Bank of Ireland

Auditors

Deloitte & Touche

Solicitors

McCann FitzGerald

Consulting Actuaries

Watson Wyatt LLP

Head Office

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