Vhi Healthcare Annual Report & Accounts *(Text Only Version)* **2003**

HEALTHCARE

IT'S ALL ABOUT LIVING

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AWARDS 2003

The delivery of outstanding customer service and our overall commitment to business excellence was recognised during the year by the following awards:

- **Mark Of Excellence (Excellence Ireland)**
  In January 2003 Vhi Healthcare became the first organisation in the Republic to be awarded this prestigious all-Ireland business quality accreditation. Our senior quality analyst Tom Bailey, received the individual award for outstanding contribution to Quality and Business Excellence.

- **Contact Centre Of The Year 2002 and Contact Centre Manager Of The Year 2002 (Annual Irish Contact Centre Awards)**
  Most of our contact with customers is conducted by telephone with our Contact Centre in Kilkenny. This award recognised our innovative, friendly and cutting-edge quality customer service. It was the second occasion in three years that Maurice Whelan (General Manager, Customer Services) won the individual award.

- **Customer Care Team Of The Year 2003 (National Sales & Marketing Awards)**
  This award also went to our customer contact centre in Kilkenny.

- **Best Continuous Improvement Accolade (Kilkenny Chamber Of Commerce)**
  A follow up to the 2001 Kilkenny Business of the Year award for our business centre in Kilkenny.

- **National Training Award (Irish Institute Of Training And Development)**
  Vhi Healthcare received a national training award in the Public Sector Services category in recognition of the diversity of our training programmes and on our commitment to the core development of all employees.

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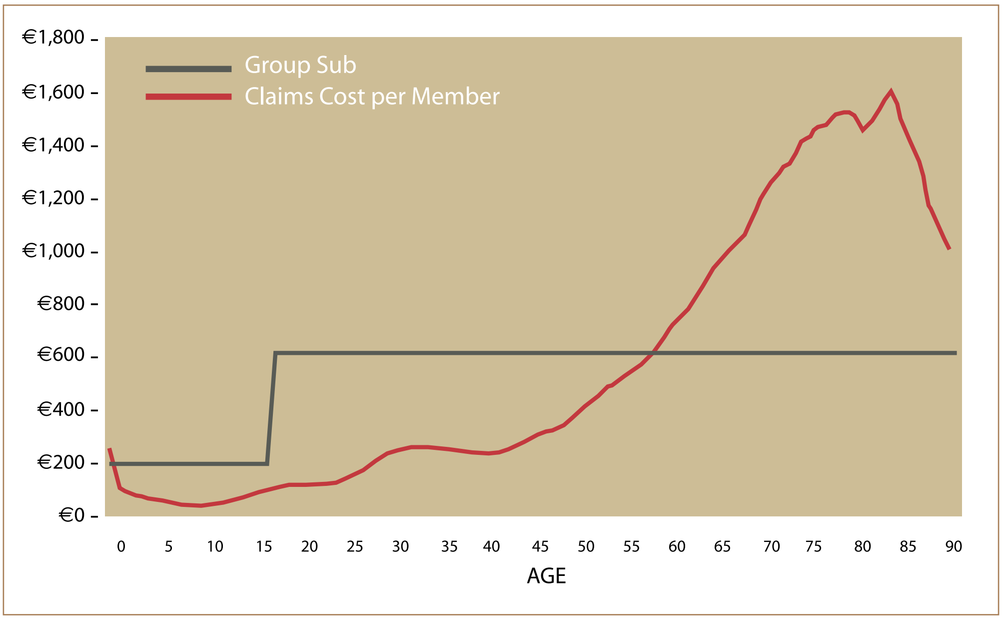
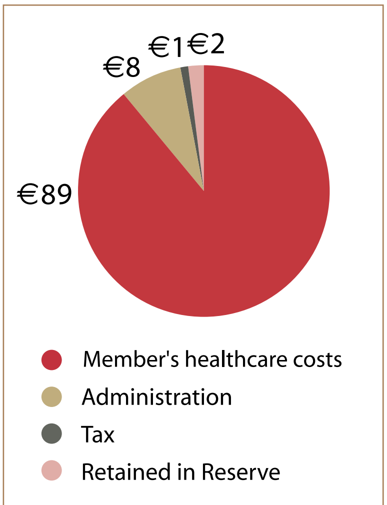
Community Rating Graph
Claims Cost Per Member V Average Subscription *At All Ages YE February 2003*

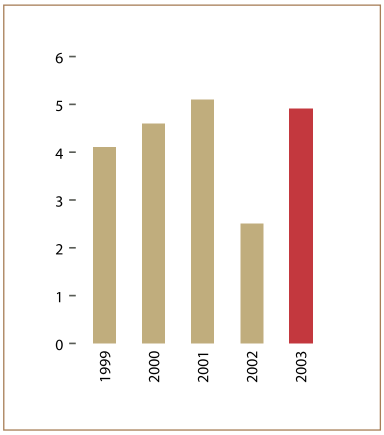


Distribution of each €100 of Earned Premium Year Ended February 2003

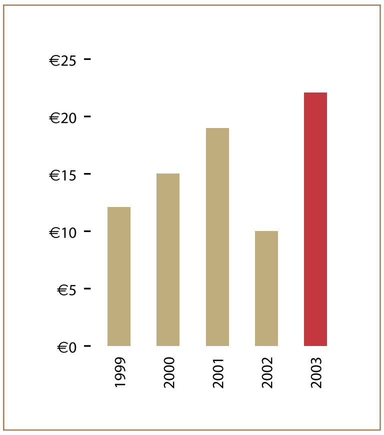


In addition investment income is added to reserves (in 2003 approx €3 per €100 of premium income)

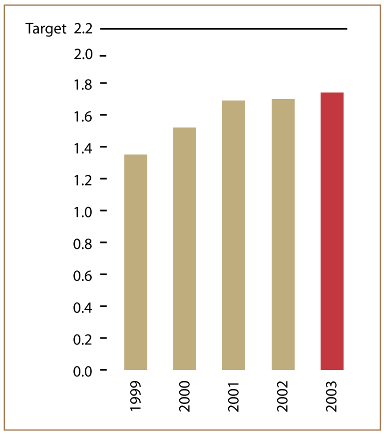
Net Profit as % of Earned Premium



Net Profit per member = €22



Solvency Cover Times



Comparative Results

	1999 €'000s	2000 €'000s	2001 €'000s	2002 €'000s	**2003 €'000s**
Earned premium	435,467	489,257	548,059	596,594	**687,583**
Claims incurred	409,367	422,532	471,370	520,502	**595,169**
Unexpired risks reserve	-	-	-	15,279	**19,871**
Operating expenses	29,381	36,683	64,904	57,782	**58,095**
Investment return	25,478	(133)	24,931	15,864	**24,684**
Taxation charge	4,416	7,506	8,557	4,189	**5,308**
Profit for the year	17,781	22,403	28,159	14,706	**33,824**
Profit / Income Ratio	4.1%	4.6%	5.1%	2.5%	4.9%
Reserves	116,636	139,038	167,200	181,907	**215,732**
Minimum solvency	86,377	91,688	98,901	107,240	**120,860**

Financial Ratios	**%**	**%**	**%**	**%**	**%**
*Solvency cover times	1.35	1.52	1.69	1.70	**1.79**
Claims as a % of earned premium	94.0	86.4	86.0	89.8	**89.4**
Operating expenses as % of earned premium	6.7	7.5	11.8	9.7	**8.4**

*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 (i.e. solvency cover times of 2.2), which is considered by commercial insurance companies to be the appropriate level.

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 Patricia Ennis B.Arch. F.R.I.A.I.
Managing Director,
Kildare Architects Ltd.
Member Soroptimists International, Naas, Newbridge & District (#)

3 Mr Kevin Moynihan F.C.A.
Principal, Kevin G. Moynihan & Co. Chartered Accountants, Vice Chairman, 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.

4 Mr Pat Farrell M.M.I.I.
Head of Marketing & Communications, EBS Building Society
Chairperson, Audit Committee (#)

5 Mr Humphrey Murphy
Managing Director, Global Stainless Ltd., Member of Governing Body, University College, Cork 1997-2000, Chairman of UCC Audit Committee 2000-2004, Member of Cork Chamber of Commerce, Former Member of National Trade Advisory Board, Former Cork Regional Chairman of SFA

6 Ms Suzanne Kelly
B.C.L, Barrister-at-Law, A.I.T.I. Tax Lawyer
Director, Tax Chambers
President, Institute of Taxation

7 Mr Liam Twohig B.Comm. F.C.A.
Managing Partner, Baker Tilly O'Hare, Chartered Accountants and Business Advisors. Past President, German-Irish Chamber of Industry and Commerce. Member, Institute of Chartered Accountants in Ireland, Disciplinary Appeals Committee. (#)

8 Ms Gillian Bowler F.M.I.I., F.Mgt.I.
Chairman, Budget Travel Ltd.
Non-Executive Director, Irish Life & Permanent, plc; Tedcastle Holdings Limited; Grafton Group, plc. Member, Tourist Policy Review Group, Member, Forum on Broadcasting. Past President, Institute of Directors (*)

9 Mr Phil Flynn
Chairman, Bank of Scotland (Irl.) and Smart Telecom plc.
Director National College of Ireland; Harcourt Developments Ltd. and Elliott Holdings Ltd.

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.

(*) denotes Member of Remuneration Committee
(#) denotes Member of Audit Committee

The year under review has seen Vhi Healthcare continue to provide effective and efficient healthcare insurance to the majority of the insured population. However, it was also both a frustrating and challenging year for Vhi Healthcare.

Despite the considerable independent expert support for risk equalisation, frustratingly, we are still waiting for it to be implemented. In the meantime the operation of community rating without risk equalisation since 1996 has meant that our competitor has amassed extra windfall profits of up to €100 million. This should have been available to the risk equalisation fund for the benefit of all those who pay for health insurance - 1.5 million of whom are Vhi Healthcare members. This issue will be fully reviewed later in this statement.

RESULTS

In the year to 28 February 2003 the organisation achieved a level of performance which has allowed it to maintain its solvency margin in an environment which was extremely challenging.

Net profit at €33.8 million or 4.9% of turnover was €19 million ahead of the previous year when the margin achieved was only 2.5%.

The principal reasons for this improvement were:

(a) membership grew slightly, by 1%, and this together with subscription increases resulted in subscription income increasing by €91 million or 15.3%. This compares to a growth in claims of €75 million or 14.3%.

(b) administration costs were held at almost the same level as the previous year, so that they now constitute only 8.4% of premium income, down from 9.7% last year. This ratio compares favourably with any insurance company in the world and is a credit to the management and staff at Vhi Healthcare.

(c) investment income grew by almost €9 million or 55.6%. Because of its inadequate capital base, Vhi Healthcare has pursued a highly conservative investment policy and in the past 12 months this strategy has proved extremely beneficial.

It is important to point out that all surpluses earned by Vhi Healthcare are retained for the benefit of members. Despite the satisfactory results our reserves are still well short of the level of 40% of premium income which in commercial terms is regarded as the minimum level at which insurance companies should operate.

It is also important to note that these results have been achieved following a significant 18% premium increase in September 2002, of which almost a quarter was due to the absence of risk equalisation. Vhi Healthcare would like to acknowledge the support of its members, both individuals and corporate group schemes. Much of the credit for these results is due to their continued loyalty to Vhi Healthcare.

UNEXPIRED RISK RESERVE

In preparing the accounts for the year to 28 February 2002, the Board allocated €15 million to an unexpired risk reserve. This provision was to cover anticipated losses arising from increased claims costs that were not covered by the price increase applied in September 2001. A further

€20 million has been allocated to this reserve at 28 February 2003 bringing the total reserve to €35 million. This reserve is required because the Board has made the decision that it would not be fair or prudent to recover from members the full forecasted rise in claims costs at the next premium review on 1 September 2003.

Without the benefit of risk equalisation the projected increase in claims costs over the next 12 months based on the increased cost of healthcare treatments and services could be a double digit figure. However, the Board is committed to keeping any increase to single digits.

The Board is conscious that there is a risk involved in setting premium rates at less than full economic cost. At the same time, it is unfair to continue to ask members to finance the cost of community rating without risk equalisation. Clearly, this can only be a once-off measure, and has been taken this year, in the belief that during the current year the Government will introduce and implement risk equalisation in the Irish health insurance market.

RISK EQUALISATION

The case for risk equalisation in a community rated market is irrefutable and is in the best interests of consumers as it will reduce the rate of annual increase in health insurance premiums. Without a risk equalisation scheme those who pay for health insurance are effectively subsidising the profits of our competitor.

The EU has been considering the implementation of a risk equalisation system as part of community rating in Ireland in terms of its compliance with EU legislation and has fully endorsed it. The recent EU Commission decision states: "The Commission concludes that the risk equalisation scheme is justified to underpin the principles enforced by the Irish Authorities that concern the private medical insurance market. These principles are (1) community rating: the same charges paid by all adults for the same level of benefits; (2) open enrolment: health insurance companies must accept anyone under 65 who wished to join regardless of age, sex or health status; and (3) lifetime coverage: contracts cannot be renounced by the insurer."

The EU Commission statement also says: "risk equalisation aims to neutralise differences in health insurers' costs that arise due to variations in their risk profiles.... With risk equalisation the Irish authorities aim to prevent new entrants in the market from "cherry picking" of good risks. The measure also aims to enhance competition with respect to administrative costs, profit margins and conditions of the insurance offered".

The conclusion reached by the EU Commission supports that of other independent reports and adds considerable weight to the message I have sent out in my previous statements as Chairman. I cannot emphasise too strongly the need for the immediate implementation of risk equalisation to ensure the survival of community rating and Vhi Healthcare.

COMMERCIAL FREEDOM

Vhi Healthcare operates in a commercial competitive environment and needs to respond quickly and strategically to challenges and opportunities in the market. This is not possible as a statutory body operating in the state sector. We look forward to working with the Government to achieve commercial freedom for Vhi Healthcare as envisaged in the Government's White Paper of 1999.

PRSI ON BENEFIT-IN-KIND

In the Finance Act 2003 the Government introduced a measure which will result in PRSI being applied to all Benefit-in-Kind payments made on behalf of employees with effect from 1 January 2004. This was introduced to counter tax avoidance schemes designed to remunerate employees in a form which was outside the PRSI net. However, it also has the effect of applying PRSI to private health subscriptions paid by employers. Accordingly employers who take out private health insurance on behalf of their employees will now be subject to an additional cost of 10.75%. It seems strange that on the one hand it is Government Policy to encourage people into private healthcare whilst making it more expensive for companies to do just that. We will continue to lobby the Minister for Finance to exclude health insurance premiums from these provisions in the Finance Act.

MANAGEMENT AND STAFF

The results for the year under review are a tribute to the quality and effectiveness of Vhi Healthcare management and staff. The success of the organisation is wholly dependent on the level of services provided to members. The fact that after more than five years of competition Vhi Healthcare retains more than 80% of that market is a very strong endorsement of the efforts and commitment of management and staff. The dedication to quality management and customer service excellence is reflected in the major awards received by the organisation during the past 12 months.

TRIBUTE

During the year, the death occurred of Mr Tom O'Higgins who as Minister for Health in 1957 established the Voluntary Health Insurance Board. Throughout his life he took considerable pride and interest in the development and growth of Vhi and we are all in his debt for his foresight and vision.

MEMBERS' ADVISORY COUNCIL AND MEDICAL ADVISORY GROUP

The Members' Advisory Council provides a very useful vehicle of two-way communication between Vhi Healthcare and its members. Over the years it has made a significant contribution and once again I would like to thank the Chairman and members of the Council for the time and effort which they give.

The Board also relies on expert advice from its Medical Advisory Group and I would also like to acknowledge the very useful work done by this committee.

BOARD

I believe that Vhi Healthcare is well served by its present Board, and I would like to thank my colleagues for their support and valued input in the period under review and going forward.

OUTLOOK

The outlook for Vhi Healthcare's core business is entirely dependent on the time it takes for an effective risk equalisation fund to be established. The fragile and unstable state of the Irish private health insurance market is reflected in the necessity to create a very significant unexpired risk reserve at 28 February 2003. Indeed, the Auditors have made reference to these significant uncertainties in their audit opinion.

We are confident that with risk equalisation and commercial freedom, Vhi Healthcare can continue to develop and improve our products and services. It will also allow us support the development of private medical facilities in Ireland that reflect the interests of current and future members.

Derry Hussey

Derry Hussey
Chairman

Operations Review

Despite the challenges arising from the current structure of the health insurance market, the year ended February 2003 was a successful one for Vhi Healthcare. We increased membership, improved the quality of service to our customers, significantly reduced our operating cost ratio, and marginally strengthened our Balance Sheet. On the negative side, due to the absence of risk equalisation, the rate of premium increase that had to be applied was higher than it should have been.

It is important to thank our members for the support they have shown to us in this difficult environment.

The highlights of the year included:

- Total membership increased to over 1.55 million people.
- Cost of provider claims exceeded €595m i.e. over €11 million paid out per week. This involved processing over 470,000 claims and 1.1 million invoices from doctors.
- The increase in operating costs was restricted to 0.5%. The ratio of expenses to premium income fell from 9.7% to 8.4%.
- Significant benefit enhancements were made to our products and services.
- Investment earnings increased by 56%.
- Our commitment to customer service and quality management processes was recognised by receiving five major awards.

CONSTRAINTS ON OPERATIONS:

The detailed review of operations must be preceded by mention of the significant constraints that impede the operation of Vhi Healthcare and threaten the future of the business. These constraints were recognised in the 1999 White Paper on Private Health Insurance and the Government committed to taking action to deal with these issues. The matters referred to are:

1. RISK EQUALISATION: The operation of community rating without risk equalisation results in higher costs for health insurance (these higher costs subsidise windfall profits and facilitate inefficiency for our competitor), impedes product development and impinges on negotiations with providers.

2. COMMERCIAL FREEDOM: Vhi Healthcare must have the flexibility and autonomy to pursue strategies which will ensure it's continued success and growth in the commercial competitive environment in which it now operates. As indicated above this point has been accepted by Government.

Action by Government to remove these constraints is now long overdue.

MEMBERSHIP:

Despite a slowdown in economic growth and employment creation the business continued to grow and at year-end membership stood at a record 1.55 million people. New member sales of 69,140 generated premium income of €37.22m.

Maintaining growth in the coming year will be difficult. In the second half of 2002/03 the trend line had already turned downwards. Competition is only intense in the corporate market for groups with a younger age profile. Community rating can only work by retaining existing and securing new members in the younger age bracket.

Vhi Healthcare paid out €89 out of every €100 in premium earned in 2002/03. We estimate that our competitor pays out in claims less than half of what is earned in premium! It is this anomaly that risk equalisation would go some way to eliminate.

Vhi Healthcare is renowned for the service it provides to members. In the year to end February 2003 we had more than 1.5 million contacts from our members. This contact was by telephone, e-mail, mail, mobile text message or by calling to one of our offices in Dublin, Dun Laoghaire, Cork, Limerick, Galway or Kilkenny.

HEALTH SERVICES:

The aim of Vhi Healthcare is to provide quality healthcare at affordable prices to our members. This could not be achieved without the partnership of a wide range of healthcare providers, principally hospitals and doctors. Over the past year a total of 99 hospitals had agreements with Vhi Healthcare on fees, of which 34 were private hospitals. In addition, over 99% of all hospital consultants accepted Vhi Healthcare payment structures in full settlement for services provided to members. A further 151 convalescent homes, 13 laboratory and diagnostic radiology centres and seven ambulance companies had agreements with us.

During the year we increased the choice and quality of new products and services available to members. These enhancements included:

- Increased maternity benefit under Plans A to E and A to E Options.
- New benefit for a parent accompanying a sick child to hospital.
- Improvements in child home nursing care.
- The establishment of a Patient Assistance service, which provides advice on possible alternatives to any member experiencing an undue delay for a particular procedure.
- Increase in the number of approved MRI scanners and extension of the list of clinical conditions approved for MRI applications.
- Extension of the list of clinical conditions approved under the pilot cover for the PET scanner introduced into Ireland in the previous year.

Every effort is made to control the spiralling cost of healthcare. Increased costs feed directly into higher premiums. Vhi Healthcare has been to the fore in encouraging clinicians and hospitals to reduce the average length of stay in hospitals and to move as many procedures as possible from in-patient to a day care basis. Day surgery is now considered the best option for 75% of all patients undergoing elective surgical procedures. All the indications suggest that there is still some way to go in reducing in-patient stays and increasing day care procedures. These developments maximise the utilisation of existing facilities and reduce the need for the development of expensive new private facilities.

There is a constant dialogue between Vhi Healthcare and the providers of private bed capacity. We are working in partnership with private hospitals to ensure that a drive for greater efficiency takes precedence over requests for ever increasing prices. For our part we must accept that private hospitals are increasingly becoming commercial enterprises and as such have a requirement to generate a return on investment.

During the year we commissioned a study of private bed capacity over the next five-years. The study was carried out by PricewaterhouseCoopers and it concluded that overall existing capacity would meet projected demands over the period. The study also identified areas where the greatest pressure is likely to exist. It is our intention to update this study on a biannual basis.

We do not control the development of private bed capacity. We can play a part in encouraging or discouraging such development. The conclusions of this report have been widely disseminated in the market. The creation of surplus private bed capacity would constitute a major driver of the cost of medical insurance. The dynamics of competition in the health market are different to those in other markets mainly because the level of demand is potentially inexhaustible. This is an important point, which is often overlooked.

Approximately 50% of the bed capacity utilised by our members is provided within public hospitals. In these hospitals we have no control over price and must accept the increases imposed by Ministerial order. A 15% increase on 1 January 2002 was followed by a further 10% increase on 1 August 2002 and a further 15% was imposed on 1 January 2003. In addition some charges which had been included in the daily rate are now billed separately. We have argued forcefully that such an arbitrary approach completely ignores the fact that all of our members fully contribute to the public health service and are entitled to much of what they consume in public hospitals free of charge. We will continue to represent the interests of our members on this point and seek to lessen the impact that such public hospital cost increases have on premium rates.

Medical consultants are also key partners in the delivery of quality healthcare to our members. Over the past year there has been much discussion on the Government's plans to introduce Enterprise Liability i.e. medical indemnity insurance will be covered by Government for work performed in public hospitals but separate cover will have to be taken out for work performed elsewhere. At the time of writing the issue has not been resolved. The huge cost of medical liability cover makes this a material issue. It is a question of who bears the cost as between Government, practitioners and patients. Our main concern at this point is that the new arrangements could actually increase the overall cost of insurance i.e. if the work of one individual consultant is to be covered by two insurers rather than one (depending on where the work is carried out) the overall cost of the cover will inevitably be higher. We hope that all involved will ensure that such an outcome is avoided.

Under the heading 'health services' it is appropriate to make comment about frequent reference in the media and elsewhere to the impact that increases in health insurance premiums have on inflation. Much of this comment is misguided. A large part of the annual increase in premium rates is related to issues which have nothing to do with monetary inflation e.g. technology developments in diagnostic procedures; treatment applications and drugs; the increasing healthcare requirements of an ageing community; and the current requirement (hopefully short-term) that we must finance the community rated funding system without a risk equalisation fund. Clearly, rising health insurance costs have to be financed out of the earnings of individuals but it serves no purpose to blandly link such increases to inflation. It is a peculiar use of language to term advances in medicine which help people live longer and healthier lives as inflationary! Indeed, it would contribute to economic debate if this point were taken on board in the methodology used to measure inflation.

VHI CORPORATE SOLUTIONS:

This is a relatively new but rapidly developing unit within our business. The objective is to provide additional services to our corporate customers in areas where Vhi Healthcare is ideally placed to add real value to their business. The services offered to date include:

- Occupational Health: A dedicated team of fully trained staff are now providing services to over 100 companies and this number is continuously expanding.

- Employee Satisfaction Surveys and Benchmarking: This service commenced in April 2002.

- Employee Assistance Programmes (EAP's): Vhi Corporate Solutions offer a comprehensive and confidential 24 hours a day, seven days a week support service for employees. This service was launched in September 2002.

We believe that there are other important areas where we can add substantial value to our corporate customers and their employees. We are working to break down the barriers which currently hinder some of these developments.

FINANCIAL RESULTS:

The key elements of the financial results can be summarised as follows:

- profit after tax increased by 129% from €14.7m to €33.8m. This represents a return of less than 5% of premium income and has served to marginally increase the reserve ratio in the balance sheet from 30.5% at 28 February 2002 to 31.4% at 28 February 2003.

- growth in membership and premium rate increases contributed to a 15.3% increase in earned premium income.

- claims costs increased by 14.3%. This was less than had been budgeted mainly because payments to Public hospitals were reduced by the effect of the winter vomiting virus and increased usage of pay beds by public patients admitted through Accident & Emergency departments.

- growth in operating expenses was restricted to 0.5%. The ratio of operating expenses to earned premium has fallen from 9.7% to 8.4% over the year.

- investment income increased by 56%. A move to an even more conservative investment policy at end of 2001 meant that we escaped exposure to falling equity markets and enjoyed gains on fixed interest stocks as interest rates declined. This level of investment return is unlikely to be repeated.

- the Unexpired Risk Reserve has been increased to €35m. This reserve arises from the decision of the Board that the price increase that it is prepared to pass onto members at 1st September 2003 is unlikely to be sufficient to cover costs in the absence of risk equalisation.

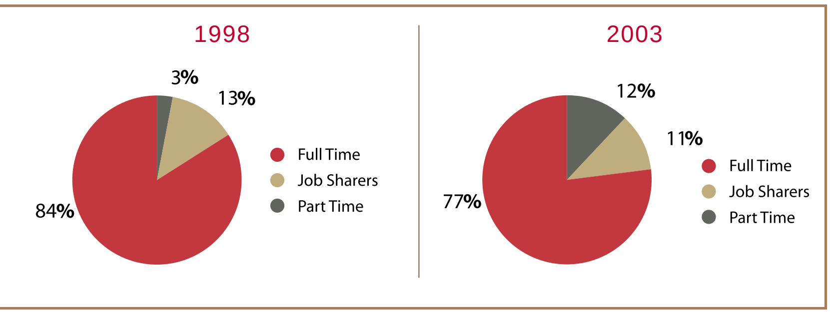
BRAND DEVELOPMENT:

Brand awareness activities focused on wellness and lifestyle themes. The aim is to reflect our strong customer focus and support the proposition 'Its All About Living'. The activities included:

- **'Zest For Life':** A national campaign promoting healthy eating, stress management, exercise and lifestyle. The central event was held in the RDS Dublin and was attended by over 1,400 people. It received widespread media coverage.
- **'Viva – Water For Life':** A campaign to promote the benefits of drinking water involved distributing over 60,000 refillable branded bottles to many of our corporate group schemes.
- **'Its All About Living' Web Campaign:** This was launched in January 2003 to encourage young people to focus on changing to healthier lifestyle habits.
- **'Its All About Living' Magazine:** This is published quarterly and circulated to members at renewal date.
- **Sponsorships:** These included children's arts activities at Kilkenny Arts Festival and Baboro Children's Arts Festival in Galway; a photographic exhibition by children at Waterford International Children's Festival. Sports sponsorships include the Irish 49er sailing team seeking to qualify for the Olympics in Athens in 2004 and international canoeist and staff member, Sarah Lang.

Our health portal www.vhi.ie continues to attract large volumes of online traffic with 55,000 unique visitors to the site each month. It is greatly appreciated by members and was enhanced during the year to provide up-to-date medical advice and help. This included the launch in November 2002 of a new Child Development and Parenting domain.

Employees by Job Type at February 1998 and 2003



EMPLOYEE TRAINING AND DEVELOPMENT:

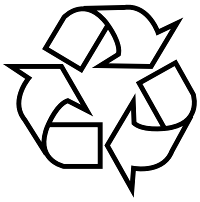
We employ 727 (Whole Time Equivalent) people in six locations throughout the country. Almost 70% of our employees are aged between 18 and 40. Recognising that 'our people make the difference' Vhi Healthcare has over the past year committed training and development resources to support the key business strategy of retention of existing customers and new member sales.

The appointment of a full time Training and Development Manager and the establishment of an organisation-wide training forum has ensured that we deliver in-house training programmes tailor made to fit the needs of all employees. Our training strategy for Contact Centre employees is aimed to ensure that each programme delivers the vision of excellence in customer service delivery that the organisation wishes to pursue. Further programmes have been developed to cater for sales and retention, attendance management, team leader development and 360 degree management feedback.

Vhi Healthcare is also committed to ensuring employees can avail of lifelong training and development programmes. External development through our links with colleges and universities brings new depth to our people. We work in partnership with third level colleges to develop tailored courses to encourage our employees to access further professional qualifications and apply the learning to their current job roles. For example, our in-house trainers have completed a diploma in training with NUI Galway. At present 15% of employees are currently completing modules of study on a range of programmes including insurance, HR practice, ECDL, diplomas, degrees and MBA's all funded by Vhi Healthcare.

Vhi Healthcare is a multi-cultural employer with staff from countries such as India, Bosnia, South Africa, France and Nigeria contributing to our business success.

The investment in our people on training and development is considerable and our employee retention rate of 96% ensures that we are not unnecessarily training new recruits with all of the associated costs.



SOCIAL RESPONSIBILITY AND RECYCLING POLICY:

Vhi Healthcare recognises the importance of sharing responsibility for the continued good health of the environment and the quality of life of people in Ireland. Our Vision Statement (i.e. *Working For The Well Being of Others*) and Corporate Values provide the framework for our position as a responsible citizen. We work with individual members throughout their life stages in a proactive way to encourage healthy living, prevent illness, and in the event of illness, ensure that the best quality appropriate care is available.

We recycle all of our paper, bottles, drink cans and print cartridges. During 2002/03 we recycled enough paper to save 2,500 trees and arranged for more than 750 Kgs of glass and more than 1,000 print cartridges to be safely recycled. In addition, the recycling of print cartridges also generated a payment of €1,000 which was donated to the fund of a Children's Hospital in Dublin.

We support the communities in which we operate by providing support and advice in a number of areas. Examples include providing career support and business awareness information to both primary and secondary schools throughout the country. This support takes the form of providing business coaching in the classroom, 'career evenings', mock interviews, work shadowing, and curriculum vitae preparations. A total of 33 Vhi Healthcare employees also taught Junior Achievement primary and secondary school programmes to encourage schoolchildren to stay in full time education and understand the benefits of education and a career.

Vhi Healthcare also has formal processes to support registered charities and through its Charities Committee raises funds through voluntary employee salary deduction. Last year more than €13,000 was raised by employees and distributed to 20 different registered charities operating nationally and internationally. In addition corporate charitable donations of €17,000 were distributed to over 30 national charities.

OUTLOOK:

Vhi Healthcare has the vision, the skills and the passion to ensure a strong and exciting future for the business. It is totally dependent however on action by Government in two specific areas:

1. Risk Equalisation: A risk equalisation fund must be established without delay. It is scandalous that we are forced to raise our premiums at a rate faster than is justified by medical inflation so as to finance community rating. Risk equalisation would have the effect of channelling the windfall profits earned by our competitor into reducing premium rates in the market.

2. Commercial Freedom: The constraints imposed by rigid statutory powers and controls within the State sector must be removed to permit Vhi Healthcare survive in a commercial competitive market. Regulations to protect the public interest may be necessary but these must apply equally to all market participants.

There are no shortages of challenges in our core health insurance market. Many of these have been referred to in this review. Action on the two issues outlined above would greatly enhance our ability to overcome these challenges on behalf of our members. The Government committed to resolving these problems in the 1999 White Paper on Private health Insurance.

Vincent Sheridan
Chief Executive

Executive Management Team

Vincent Sheridan BComm FCA
Chief Executive
Vincent Sheridan (54) joined Vhi Healthcare in April 2001, with 28 years experience in the insurance industry. He obtained a B.Comm from UCD 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 the Institute of Chartered Accountants in Ireland, the International Federation of Health Plans and the Financial Reporting Council in the UK.

Dr. Bernadette Carr MD, FRCPI, MPH, LFOM
Director - Medical and Claims
Bernadette Carr (44) 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.

John Creedon BSc, MICS
Director - Information Technology
John Creedon (44) 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.

Tony McSweeney MMII
Director - Individual and Corporate Business
Tony McSweeney (43), a member of the Marketing Institute of Ireland, joined Vhi Healthcare from the life and pensions industry in 1996. He is responsible for sales, customer services, policy administration and quality management initiatives.

Declan Moran FIA, BSc
Director - Marketing and Business Development
Declan Moran (35) has a B.Sc 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.

Michael Owens BA, MCIPD
Director - Human Resources
Michael Owens (45) 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 1999.

Willie Shannon BBS, FCA
Director - Finance
Willie Shannon (50) is a graduate of TCD having obtained the BBS in 1974. He joined Arthur Andersen qualifying as a chartered accountant in 1977. He joined Coyle Hamilton Group, insurance and reinsurance brokers in 1987 as group financial controller. He was subsequently appointed Group Finance Director in 1989. He joined Vhi Healthcare as Director of Finance in 2002. He serves on several committees in the Institute of Chartered Accountants and is past Chairman of the Finance Committee of the Insurance Institute of Ireland.

Report of the Directors

The Directors have pleasure in submitting their 46th 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 also address the issue of Risk, the purpose 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 2003 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 2003/2004 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

28 May 2003

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 2003 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.

This report is made solely to the Directors of the Board of Voluntary Health Insurance Board in accordance with Section 19 of the Voluntary Health Insurance Act 1957. Our audit work has been undertaken so that we might state to the Directors those matters we are required to state to them in an auditors' 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 Board and the Directors as a body for our audit work, for this report, or for the opinions we have formed.

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 Directors' Report, 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.

Other Technical Provisions – Unexpired Risk Reserve

In forming our opinion, we have examined the amount of €35.1 million included in other technical provisions and the assumptions on which the provision is based. We have also considered the disclosures made in note 9 to the accounts with regard to both the provision and the likelihood of further significant losses being incurred in future years in the absence of adequate remedial measures in relation to risk equalisation and commercial freedom. In view of the significance of the uncertainties with regard to the assumptions underlying the provision and the likelihood of further significant losses, we consider that these matters should be drawn to your attention. Our opinion is not qualified in this respect.

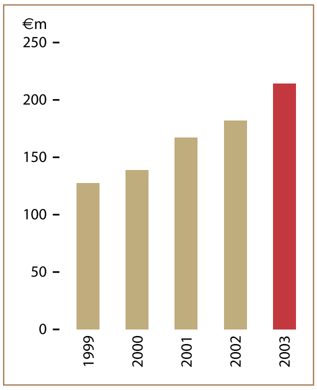
Opinion

In our opinion the accounts give a true and fair view of the state of the affairs of the Board as at 28 February 2003 and of the profit of the Board for the year then ended.

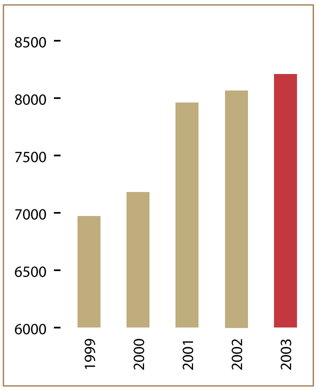
Deloitte & Touche
Chartered Accountants and Registered Auditors
Dublin
28 May 2003

Operational Statistics	2003	2002
Number of In-patient claims assessed	172,777	180,320
Number of day case claims assessed	280,836	248,418
Membership	1,557,706	1,541,572
Number of group schemes	8,209	8,067

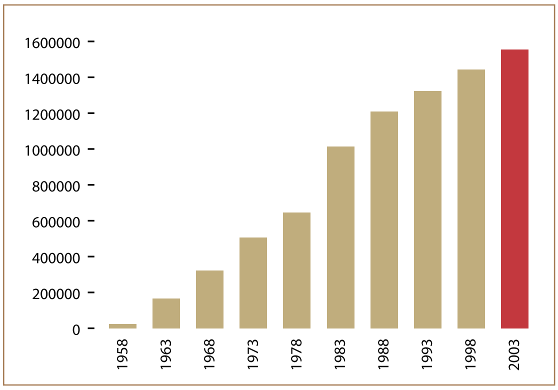
Reserves



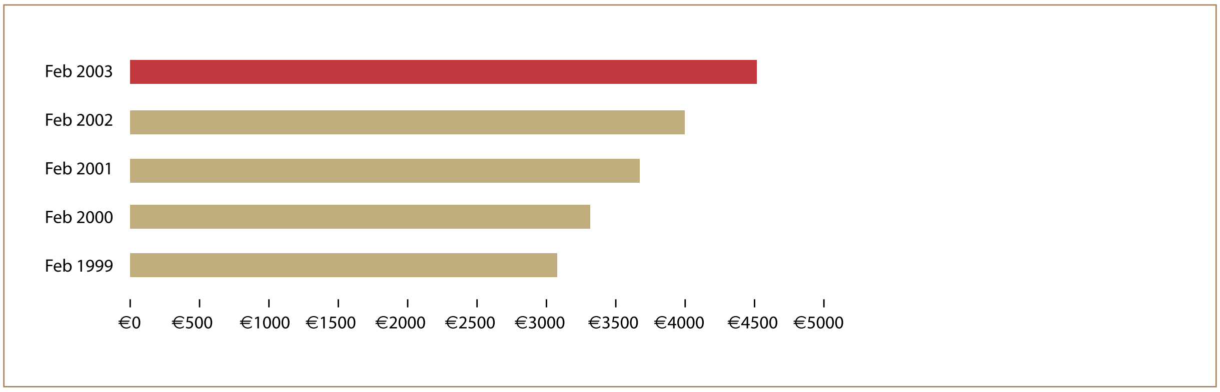
Number of Group Schemes



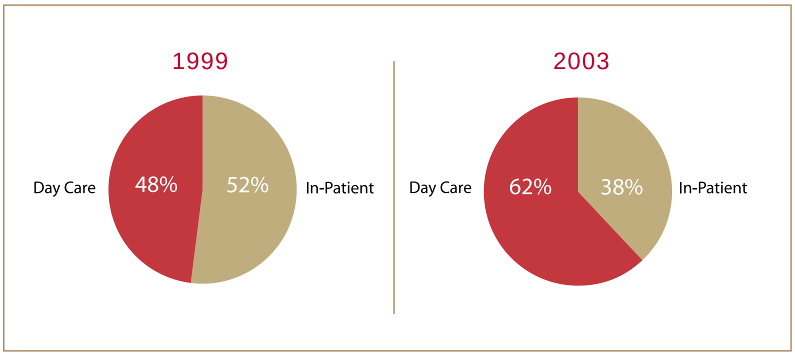
Membership Growth - 45 Years History



Average Cost of a Week's stay in a Private Hospital



Claims Mix



Accounts 2003

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 2003 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.

Technical Account: Health Insurance

Continuing Activities	Notes	2003 €'000s	2002 €'000s
Earned Premium:	1		
Gross premiums written		735,433	647,177
Change in the provision for unearned premiums		(47,850)	(50,583)
		687,583	596,594
Allocated investment return transferred from the non-technical account		**21,737**	17,121
		709,320	613,715
Claims incurred:			
Claims paid		559,043	494,411
Change in the provision for claims		36,126	26,091
		595,169	520,502
Other technical provisions:			
Unexpired risk reserve	9	**19,871**	15,279
Net operating expenses	2	**58,095**	57,782
Balance on the health insurance technical account		**36,185**	20,152

Profit and Loss Account

Year to end of February 2003

Non-Technical Account: Health Insurance

Continuing Activities	Notes	**2003 €'000s**	2002 €'000s
Balance on the health insurance technical account		**36,185**	20,152
Longer term investment return	3	21,737	17,121
Allocated investment return transferred to the health insurance technical account		(21,737)	(17,121)
Operating profit		36,185	20,152
Short term fluctuations in investment return	3	2,947	(1,257)
Profit on ordinary activities before taxation		**39,132**	18,895
Taxation on profit on ordinary activities	4	(5,308)	(4,189)
Profit on ordinary activities after taxation carried to reserves	**5**	**33,824**	14,706

The accounts were approved by the Board on 28th May 2003, and signed on its behalf by:

Derry Hussey Pat Farrell

Derry Hussey
Chairman

Pat Farrell
Director

Balance Sheet

As at 28th February 2003

	Notes	**2003 €'000s**	2002 €'000s
Assets			
Investments			
Land and buildings	6	31,050	30,822
Other financial investments	7	481,637	366,558
Debtors			
Debtors from members arising out of insurance operations		309,018	270,155
Other debtors		1,503	663
Other Assets			
Tangible assets	8	16,041	12,715
Cash at bank and in hand		2,172	21,289
Deferred taxation	11	-	1,072
Prepayments and accrued income			
Accrued interest		8,982	5,047
Total Assets		**850,403**	708,321
Liabilities			
Reserves			
General reserve		215,732	181,906
Technical provisions			
Provision for unearned premiums		357,913	310,063
Claims outstanding		223,253	187,127
Other technical provisions	9	35,150	15,279
Deferred taxation	11	1,703	-
Creditors			
Bank overdraft		2,970	-
Creditors and accruals	10	13,682	13,946
Total Liabilities		**850,403**	**708,321**

The accounts were approved by the Board on 28th May 2003, and signed on its behalf by:

Derry Hussey
Chairman

Pat Farrell
Director

Cash Flow Statement

Year to end of February 2003

	Notes	**2003 €'000s**	2002 €'000s
Net cash inflow from operating activities	12	103,600	79,484
Taxation paid		(5,825)	(7,568)
Capital expenditure		(9,989)	(12,830)
		87,786	59,086
Cash flows were invested as follows:			
(Decrease)/increase in cash holdings		(22,088)	18,271
Net portfolio investment	13&15	109,874	40,815
Net investment of cash flows	14	**87,786**	59,086

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

	2003	2002
	€'000s	€'000s
Administrative expenses	47,199	45,262
Acquisition costs	10,896	12,520
	58,095	57,782

Employee Information	**2003**	2002
The average number of persons, including part time employees, employed by the Board was:	727	720

Staff costs were:	**2003**	2002
	€'000s	€'000s
Wages and salaries	30,109	27,799
Social security costs	3,286	2,829
Pension costs	2,825	1,987

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.	**2003**	2002
	%	%
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

(b) Comparison of longer term investment return with actual return	**2003**	2002
	€'000s	€'000s
Actual return:		
Income from land and buildings	214	67
Income from other investments	17,571	16,466
Gains on realisation of investments	2,797	963
Unrealised gains/(losses) on investments	4,720	(1,122)
Investment management expenses	(618)	(510)
	24,684	15,864
Longer term investment return	21,737	17,121
Short term fluctuations	2,947	(1,257)

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

	2003 €'000s	2002 €'000s
The taxation charge in the profit and loss account comprises:		
Corporation taxation - charge	2,533	5,505
Deferred taxation - charge/(credit)	2,775	(1,316)
	5,308	4,189

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 15.47% (2002: 19.34%) for the year ended 28 February 2003.

The differences are explained below:	2003 €'000s	2002 €'000s
Profit on ordinary activities before tax	39,132	18,895
Profit on ordinary activities multiplied by standard rate of corporation tax of 15.47% (2002, 19.34%)	6,054	3,654
Effects of		
Expenses (deductible)/not deductible for tax purposes	(514)	1,711
Depreciation in excess of capital allowances for period	90	237
Adjustments to tax charge in respect of previous periods	(3,097)	(97)
Current tax charge for period	**2,533**	5,505

5 Profit for year

	2003 €'000s	2002 €'000s
The profit for the year is stated after charging:		
Depreciation of tangible fixed assets	5,950	5,950
Board remuneration	110	123
Audit fee	102	87

6 Investments: land and buildings

	2003 €'000s	2002 €'000s
Valuation:		
At 1 March	30,822	27,678
Additions	713	2,895
(Loss)/surplus on revaluation	(485)	249
At 28 February	**31,050**	30,822

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 2003 at open market value. These valuations were made by Thornton & Partners, Rooney Auctioneers, Hamilton Osborne King, Cunningham Auctioneers and O'Keeffe 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:

	2003 €'000s	2002 €'000s
At 1 March	15,049	12,154
At 28 February	**15,763**	15,049

7 Other financial investments

	2003 Market Value €'000s	**2003 Cost €'000s**	2002 Market Value €'000s	2002 Cost €'000s
Shares in listed securities	2,622	3,000	964	428
Debt securities/fixed interest securities	468,329	463,546	347,219	348,556
Loans secured by mortgages	188	188	229	229
Deposits with credit institutions	10,498	10,498	18,146	18,146
	481,637	**477,232**	366,558	367,359

8 Tangible Assets

	Motor vehicles €'000s	**Fixtures, furnishings and fittings €'000s**	**Equipment €'000s**	**Total €'000s**
Cost				
At 1 March 2002	1,802	3,807	25,949	31,558
Additions	764	478	8,161	9,403
Disposals	(496)	(1)	(256)	(753)
At 28 February 2003	**2,070**	**4,284**	**33,854**	**40,208**
Depreciation				
At 1 March 2002	(919)	(2,324)	(15,600)	(18,843)
Charge for the year	(531)	(619)	(4,800)	(5,950)
Eliminated in respect of disposals	402	1	223	626
At 28 February 2003	**(1,048)**	**(2,942)**	**(20,177)**	**(24,167)**
Net book value at 28 February 2003	**1,022**	**1,342**	**13,677**	**16,041**
Net book value at 28 February 2002	883	1,483	10,349	12,715

9 Other technical provisions

The amount of €35,150,000 provided for at 28 February 2003 is in respect of losses anticipated on contracts that the Board will be obliged to incept or renew, arising from the commitment of the Board to a certain level of price increase effective from 1 September 2003 and anticipated increases in the costs of providing healthcare benefits. The decision with regard to the price increase reflects the current healthcare insurance environment and specifically the continuation of a community rated funding system in Ireland without the creation of an effective risk equalisation fund. Projected cost increases arise from certain changes expected in the healthcare environment in Ireland.

The Board's consulting actuaries, Watson Wyatt LLP, have confirmed that the amount of the provision is a reasonable estimate of these expected losses.

Provision has not been made for further significant losses it is considered may arise in subsequent periods in the absence of adequate remedial measures by Government in relation to risk equalisation and commercial freedom for Vhi Healthcare. Such measures would remove uncertainty not only in relation to financial issues but would also impact positively on the operating environment for the healthcare insurance industry. It is not considered practicable to reliably estimate such losses.

At 28 February 2002, an amount of €15,279,000 was provided in respect of losses anticipated on contracts at that date together with losses anticipated on contracts that the Board were obliged to incept or renew in the period between 1 March 2002 and 31 August 2002 at premium rates applicable since 1 September 2001. This provision is no longer required, and has been written back to the profit and loss account.

10 Creditors and accruals

	2003	2002
	€'000s	€'000s
Corporation tax	2,308	5,602
PAYE and PRSI	751	70
Other creditors	1,058	994
Accruals	9,565	7,280
	13,682	13,946

11 Deferred Taxation

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

	2003	2002
	€'000s	€'000s
Unrealised surplus on investment valuation	(651)	(1,032)
Other timing differences	(1,052)	2,104
Total (liability)/asset	**(1,703)**	**1,072**

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

	2003	2002
	€'000s	€'000s
Profit on ordinary activities before taxation	**39,132**	18,895
Depreciation charges	5,950	5,950
Unrealised (gains)/losses on investments	(4,720)	1,122
Increase in health insurance technical provisions	103,847	91,954
Increase in debtors from members arising out of insurance operations	(38,863)	(34,744)
(Increase)/decrease in debtors and prepayments	(4,776)	520
Increase/(decrease) in creditors and accruals	3,030	(4,213)
Net cash inflow from operating activities	**103,600**	79,484

13 Movement in opening and closing portfolio investments

	2003	2002
	€'000s	€'000s
Net cash (outflow)/inflow for the period	**(22,088)**	18,271
Portfolio investments	109,874	40,815
Movement arising from cash flows	87,786	59,086
Changes in market values	5,205	(1,372)
Total movement in portfolio	92,991	57,714
Portfolio investments and cash in hand at 1 March	387,848	330,134
Portfolio investments and cash in hand at 28 February	**480,839**	387,848

14 Movement in cash and portfolio investments

	At 1 March 2002 €'000s	Cash flow €'000s	Changes to market value €'000s	**At 28 February 2003 €'000s**
Cash at bank and in hand	21,290	(22,088)	-	(798)
Shares in listed securities	964	2,572	(914)	2,622
Debt securities and other fixed interest securities	347,219	114,991	6,119	468,329
Loans secured by mortgages	229	(41)	-	188
Deposits with credit institutions	18,146	(7,648)	-	10,498
	387,848	**87,786**	**5,205**	**480,839**

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

	2003 €'000s	2002 €'000s
Portfolio investments		
Purchase of shares in listed securities	3,000	-
Purchase of fixed interest securities	1,165,895	983,257
Purchase of deposits with credit institutions	561,794	559,522
Sale of shares in listed securities	(428)	(2,119)
Sale of fixed interest securities	(1,050,906)	(927,314)
Sale of deposits with credit institutions	(569,440)	(572,376)
	109,915	40,970
Repayment of mortgage loans	(41)	(155)
Net cash outflow on portfolio investments	**109,874**	40,815

16 Capital Commitments

	2003 €'000s	2002 €'000s
Capital expenditure contracted for	6,500	-
Capital expenditure approved but not contracted for	850	2,000

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 €2,825,000 (2002 €1,987,000). 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. The funding rate was increased with effect from 1 May 2002 to reflect changed investment conditions and 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. A prepayment of €859,000 (2002 accrual €189,000) is included in the balance sheet 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 2003.

The major assumptions used in respect of the pension scheme are:	**2003**	2002
	%	%
Rate of increase in salaries	4.0	4.0
Rate of increase in pensions in payment	3.25	3.25
Discount rate	5.5	6.0
Inflation assumption	2.5	3.0

Long-term expected rates of return at 28 February were:	**2003**	2002
	%	%
Equities	8.0	8.5
Fixed interest	5.0	5.5
Property	6.5	7.0
Other	3.0	3.5

The assets in the pension scheme at market value were:	**2003**	2002
	€'000s	€'000s
Equities	32,500	42,800
Fixed interest	11,800	12,300
Property	3,600	3,900
Other	1,700	1,300
Total market value of assets	49,600	60,300
Present value of scheme liabilities	(62,600)	(54,800)
(Deficit)/surplus in the scheme	(13,000)	5,500
Unfunded health insurance premium provision	(4,500)	(3,800)
Net retirement benefits (deficit)/surplus	(17,500)	1,700
Related deferred tax asset/(liability)	2,188	(213)
Net retirement benefits (liability)/asset	**(15,312)**	1,487

18 Retirement benefits (continued)

	2003	2002
Total assets	**€'000s**	€'000s
Total assets excluding retirement benefits (liability)/asset	850,403	708,321
Retirement benefits (liability)/asset	(15,312)	1,487
Total assets including retirement benefits (liability)/asset	**835,091**	709,808
Reserves		
Reserves excluding retirement benefits (liability)/asset	215,732	181,906
Retirement benefits (liability)/asset	(15,312)	1,487
Reserves including retirement benefits (liability)/asset	**200,420**	183,393

If FRS 17 had been fully adopted, the following amounts would have been reflected in the financial statements

	2003
Profit and loss account	**€'000s**
Charged to net operating expenses	
Current service cost	1,300
Past service cost	-
Death in service cost	-
Other retirement benefits	700
Total operating charge	**2,000**
Credited to other income	
Interest in scheme liabilities	(3,400)
Expected return on scheme assets	4,800
	1,400
Net reduction in operating profit	(600)
Statement of total recognised gains and losses	
Actual return less expected return on scheme assets	(19,900)
Experience gains and losses on scheme liabilities	4,500
Changes in demographic and financial assumptions	(6,600)
Actuarial loss	(22,000)
Deferred tax credit	2,401
Total actuarial loss	(19,599)

18 Retirement benefits (continued)	**2003**
History of experience gains and losses	
Difference between expected and actual return on assets	(19,900)
% of scheme assets	(40%)
Experience gains and losses on scheme liabilities	4,500
% of scheme liabilities	7%
Total actuarial loss	(22,000)
% of scheme liabilities	(35%)
Movement in net surplus/(deficit) during the year	
Net surplus in scheme at start of year	1,487
Current service cost	(1,300)
Contributions	3,400
Past service cost	-
Interest on scheme liabilities	(3,400)
Expected return on scheme assets	4,800
Actuarial loss	(22,000)
Deferred tax credit	2,401
Other retirement benefits	(700)
Net deficit at end of year	(15,312)

Company Details

Main Bankers
AIB Bank plc
Bank of Ireland plc

Auditors
Deloitte & Touche

Solicitors
McCann FitzGerald

Consulting Actuaries
Watson Wyatt LLP

Voluntary Health Insurance Board
An Bord Árachais Sláinte Shaorálaigh

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