

for fifty years

when you've needed us

1950's

1960's

1970's



**A TRADITION OF
SERVICE BEGINS**
1957-1958

- 23,238 members
- Not-for profit ethos
- 3 Plans – private, semi, public



**FORMING STRATEGIC
ALLIANCES AT HOME
AND ABROAD**
1959-1968

- 321,777 members
- Vhi Healthcare joins International Federation of Voluntary Health Service Funds
- Plans extended to cover accommodation and professional fees



**EXPANDING SERVICES TO
OFFER MEMBERS MORE
CHOICE**
1969-1978

- 645,165 members
- Online claims assessment system introduced
- Home Scheme introduced to cover Medicines, Home Nursing and X-Rays



1980's

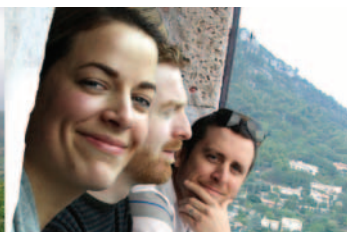
1990's

2000's



**PROVIDING SUPPORT
WHEN IT'S NEEDED
WHERE IT'S NEEDED**
1979-1988

- 1.2 million members
- Customer Service Offices in Dublin, Cork, Galway, Limerick, Dun Laoghaire
- Plans introduced to cover newly developed Private Hospitals



**INTEGRATED STRATEGIC
PARTNERSHIPS**
1989-1998

- 1.44 million members
- Improvements to Member services included:
 - Direct Payment of hospital bills
 - On site claims assessment at all major hospitals
 - Occupational Health Plans introduced
 - Worldwide Cover introduced



**HEALTHCARE
MADE SIMPLE**
To 2007

- 1.57 million members
- Vhi.ie – award winning health portal launched
- Diversification of products and services included:
 - Health cover abroad – Vhi Assist
 - Travel Insurance – Multi Trip from Vhi Healthcare
 - 24 Hour Medical Advice Line – NurseLine 24/7
 - Mother & Baby Advice Line
 - Ireland's first Dental Insurance – Vhi DeCare Dental
 - Vhi SwiftCare Clinics open in Dublin



we've been there

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Vhi Healthcare celebrates the many milestones in our members' lives. For fifty years, when you've needed us, we've been there.



1957 1961 1970 1981

Peter was born in 1957.



1986

1990

2007

Peter was born in 1957 and Vhi Healthcare has provided hospital cover for both Peter and his parents since then. As with Peter and his family, Vhi Healthcare knows that as your life changes, your health and your health needs naturally change. Because of this we offer a host of private health insurance plans specifically designed to meet your needs such as:

Hospital Plans: Vhi Healthcare Plans A-E and Plans A-E Options are designed to provide you with excellent hospital cover. We have a wide range of plans, which means we can find the right plan for you. All Vhi Healthcare Hospital Plans offer excellent benefits including access to over 1,800 Consultants, direct payment arrangements in the majority of hospitals, care when you are abroad in the form of Vhi Assist, excellent maternity cover and much, much more!

Board of Directors



1



2



7



8

1. Bernard Collins

Chairman

Bernard Collins is Chief Executive Officer, Lifemed Consulting Limited. He received a BA Honours in Applied Industrial Psychology/Business from University College Cork, Ireland. He maintains positions at board level on many other companies in Ireland and in the USA. He served for 10 years as Vice President of International Operations at Boston Scientific Corporation until 2003.*

2. Vincent Sheridan

BComm, FCA, Chief Executive

Vincent Sheridan joined Vhi Healthcare in April 2001, with 28 years experience in the insurance industry. He is a Director of FBD Holdings Plc and was formerly a director of the Irish Stock Exchange for nine years to June 2004. He is currently President of the Institute of Chartered Accountants in Ireland and a council member of the International Federation of Health Plans and the Financial Reporting Council in the UK.

3. Pat Farrell

MMII

Fellow, Institute of Bankers; Chief Executive, Irish Banking Federation; Member, Executive Council, European Banking Federation; Member, Business Regulation Forum; Member, Financial Services Consultative Industry; Panel Member, IFSC Clearing House Group; Director, Dormant Accounts Board.

4. Gillian Bowler

FMII FMGT

Chairman, Budget Travel Ltd.; Chairman, Failte Ireland; Chairman, Irish Life & Permanent Plc.; Non-Executive Director, Grafton Group; Non-Executive Director, Clear Channel Ireland; Board Member, Michael Smurfit Graduate School of Business, UCD.*

5. Humphrey Murphy

Managing Director, Global Stainless Ltd.; Member, Governing Body, University College Cork 1997 to date; Chairman, UCC Audit Committee 2003 – to date; Director, Cork Airport Authority.*

6. Liam Twohig

B.Comm, FCA

Managing Partner, Baker Tilly Ryan Glennon; Business Partners & Accountants; Past President, German-Irish Chamber of Industry and Commerce; Member, Institute of Chartered Accountants in Ireland, Disciplinary Appeals Committee.#

7. Jim Kelly

Director, KBC Asset Management; Chairman, Fold Housing Association Ireland; Fellow, Pensions Management Institute; Former Chief Executive, Mercer Human Resource Consulting; Founder Director, Pension & Investment Consultants Ltd.; Former Chairman, Retirement Planning Council of Ireland.#



8. Karen Hickey-Dwyer

FRIAI

Ms. Hickey-Dwyer is currently a Partner with Ivor Fitzpatrick and Company Solicitors, specialising in healthcare, family law, clinical negligence and insurance litigation. She was admitted to the Rolls of the Incorporated Law Society of Ireland in 1998. Member, Dublin Solicitors Bar Association; Member, Family Lawyers Association; Member, Law Society of Ireland; Member, Association of Personal Injury Lawyers; Member, International Bar Association.

9. Christy Cooney

Master of Education

Assistant Director General FÁS; Director, Páirc an Chrocaigh Teoranta; Chairman National Coaching & Games Development GAA; Chairman, Munster GAA Council 2001-2003.

10. Cathal Magee

BA, MSC

Managing Director, *eircom* retail since January 2002; Member, Board of Directors, *eircom* Group Ltd; Director, Employee Share Ownership Trust, ESOT, *eircom*; Chairman, Tetra Ireland Communications Ltd; Non-Executive Director, EBS Building Society. Prior to joining *eircom*, Cathal worked for the National Australian Banking Group in the UK and Ireland.#

11. Baroness Julia Neuberger

DBE

Liberal Democrat Member, House of Lords; Trustee, Booker Prize Foundation; Trustee, Walter and Liesel Schwab Charitable Trust; Chair of Commission on the Future of Volunteering; President, Liberal Judaism; Author of *The Moral State We're In*, a study of morality and public policy in modern Britain; Former Member, Medical Research Council; Former Member, Committee on Standards in Public Life; Former Member, General Medical Council; Former Chief Executive, King's Fund; Former Trustee, British Council; Bloomberg Professor of Divinity, Harvard University, Spring Semester 2006; Honorary Fellow, Royal College of Physicians; Former Rabbi, South London Liberal Synagogue.

12. Joseph O'Leary

FCCA

Partner, Patrick McNamara & Associates (Cork), Auditors, Accountants and Taxation Consultants; Past Member, National Council for Education Awards (NCEA); Irish Region President, Chartered Association of Certified Accountants (ACCA) 1994/95; Past Member, Irish Region Executive of the Chartered Association of Certified Accountants.

Ms. Patricia Ennis, Mr. Kevin Moynihan and Mr. Joseph O'Leary completed their terms of office in July 2006, November 2006 and March 2007 respectively.

* Member of Remuneration Committee

Member of Audit Committee



1957 1961 1970 1981

Peter went on his
first trip abroad
in 1961.

Today Peter's Vhi Healthcare membership would entitle him to a host of travel plans, all designed to maximise the value of his membership.

Assist from Vhi Healthcare: this comes as standard with your Vhi Healthcare Hospital Plan and provides you with access to a 24 hour medical emergency helpline while abroad, valuable medical cover and a range of additional services including access to an English speaking medical expert.



1986

1990

2007

MultiTrip from Vhi Healthcare: this is Ireland's market leading annual worldwide travel insurance policy exclusive to Vhi Healthcare members. It covers you for as many trips as you take in a year and provides cover for pre-existing medical conditions with no waiting periods, and no need for a medical assessment. We have also introduced a new extended trip add-on which members can purchase who are looking to increase their trips to 90 days (3 months) or 180 days (6 months).

Global from Vhi Healthcare: is an international private health insurance product for Irish Residents that are working, travelling or studying abroad for more than six months and who intend to return to live in Ireland at a future date. Global Level 1 is designed for the backpacker/student and includes comprehensive international health cover and travel insurance combined in one plan. Global Level 2 is designed for business professionals or those looking for enhanced medical cover and offers medical expenses up to €1.5 million as well as cover for day to day medical expenses up to €3,000.

Chairman's Review

Introduction

The year under review was extremely eventful in the health insurance market. It was a year in which our industry was subject to more reports, reviews, judicial hearings and media comment than any other sector in the economy. Most of this activity centred on the vexed questions of Community Rating/Risk Equalisation, competition and financial regulation. I will consider these in some detail below.

I am very pleased to report, however, that Vhi Healthcare remained focused on its primary objective of providing service to members. This focus has been rewarded with an increase in membership and a positive financial result, reversing the loss making position incurred in the previous year. These matters are covered in detail in the Operations Review but I will also refer to them briefly here.

Community Rating / Risk Equalisation

In last year's review I welcomed the decision by the Minister for Health and Children, Mary Harney TD to activate the long awaited Risk Equalisation mechanism with effect from 1 January 2006. This decision was generally accepted as a positive one for the health insurance market as it promised to level the market playing field, remove the potential for some insurers to generate substantial windfall profits and encourage competition across the market.

Unfortunately, it is now some 18 months since the Minister made her decision and no Risk Equalisation transfers have yet been made.

This time last year we were aware that BUPA had decided to challenge the decision of the Minister in the High Court. Acting on behalf of members, Vhi Healthcare was a party to the defence of this action. A lengthy hearing of 10 weeks took place in April and May of 2006. In November 2006 Justice McKechnie delivered a very robust judgement in which he ruled in favour of the State and against BUPA on every count. The decision handed down by the Court acknowledged that Community Rating was a public policy priority and found that the Risk Equalisation Scheme was a highly sophisticated mechanism which was "fair, reasonable and proportionate". In a subsequent ruling the judge ordered BUPA to pay all of the costs incurred in the case.

Shortly after losing the case BUPA announced that they were leaving the market. They have, however, appealed the decision of the High Court to the Supreme Court. The appeal is expected to be heard in Autumn 2007.

It is worth noting that BUPA left the market with the benefit of an estimated €100 million in super normal profits acquired at the expense of private health consumers over a ten year period. BUPA have now sold the business to the Quinn Group. The terms of this transaction were not disclosed at the time but the Annual Report of BUPA has since revealed that they received €50 million for the sale of their Irish business, with the possibility of further payments to follow.

Notwithstanding their departure from the market, BUPA are pursuing two further sets of legal proceedings, in addition to the Supreme Court appeal referred to above:

- An action against the European Commission challenging their decision that Risk Equalisation was not in breach of State Aid rules. These proceedings were heard in the European Court of First Instance in Luxembourg and both the Irish State and Vhi Healthcare were parties to the defence of the case. This case has been running for some years and we believe that a judgement is likely in the current year.
- A second action in the High Court challenging both the recommendation made by the Health Insurance Authority and the subsequent decision of the Minister for Health and Children to implement Risk Equalisation. Vhi Healthcare is also a party to the defence of this action. No date has been set for the hearing of this case.

After the purchase of the BUPA business in Ireland by the Quinn Group it quickly became apparent that the latter was seeking a three year exemption from contributing to Risk Equalisation transfers on the basis that they were a new entrant to the market. Clearly this represented a very real threat to the future of Community Rating since the principle of inter-generational support would collapse if approximately 25% of the market was exempted from contributing to the community risk. Thankfully the Government moved swiftly to address the issue and legislation was passed in the Dáil closing off this loophole.

A further, most unwelcome, development in the Community Rating/Risk Equalisation saga occurred in April 2007 when the Minister announced a 20% dilution in the Risk Equalisation formula. There were mixed signals as to why this decision was taken. On the one hand it was seen as a quid pro quo for the removal of the three year exemption for new entrants to the market while on the other hand it was announced on foot of a recommendation to this effect included in the Barrington Report. The problem with the latter recommendation was that the Barrington Group undertook no analysis of the adequacy of the existing Risk Equalisation formula which was particularly strange since all of the evidence supports the Vhi Healthcare contention that the formula, even prior to dilution, significantly under compensated for the financial costs associated with insuring those having the greatest health risks in the community.

Thus we are left with a Risk Equalisation mechanism under which no transfers have yet been made and which materially under compensates for the uneven distribution of the community risk across the market. This is both inequitable and a potential cause of market instability. Vhi Healthcare will continue to lobby for a more robust form of Risk Equalisation to support the public policy objective of Community Rating.

Competition

The Minister for Health and Children requested and has received three reports on the issue of competition in the health insurance market i.e. from the Competition Authority, the Health Insurance Authority and the Barrington Group. Vhi Healthcare has provided detailed observations on each of these reports to the Minister and these responses are available on our website www.vhi.ie. Suffice to say in this review there are some positive recommendations in each of these reports but also, unfortunately, some recommendations which are based on non-existent or flawed analysis and which would certainly not prove to be for the benefit of consumers. Vhi Healthcare has consistently and openly welcomed competition.

We have also given notice that we will continue to compete aggressively in the market as we have done over the past 10 years. Any measures which are designed to restrict or retard Vhi Healthcare from competing are inherently flawed and can not be in the best interest of consumers.

The real problem with seeking robust competition in the health insurance market lies in the fundamental conflict which exists between Community Rating and competition. The former effectively removes risk as a competitive issue but risk is the key competitive factor in other insurance markets. None of the above reports get to grips with this conflict although the Competition Authority report does acknowledge that Community Rating represents a significant constraint to competition. Public policy must be clear with regard to where the priority lies. Since Community Rating is a legal requirement, one must regard this as the priority. There is a major risk that the consumer will lose out if Community Rating is diluted or other measures are introduced which do not fully take account of the conflict referred to above.

It is also true, of course, that competitors exaggerate the difficulty of competing with Vhi Healthcare when their real objective is to maximise the return they can generate from health insurance. This was the position taken by BUPA and was totally exposed when first AXA and then the Quinn Group were prepared to pay a substantial price for control of their Irish business.

Financial Regulation

The derogation which Vhi Healthcare currently holds from solvency requirements, and other regulatory measures imposed by the Financial Regulator, was always going to appear as an anomaly once the decision was made to activate Risk Equalisation. Vhi Healthcare has always acknowledged that the derogation should be withdrawn. The question was what timescale would be allowed to Vhi Healthcare to repair the damage done by the absence of Risk Equalisation over a period of 9 years. At the request of the Minister we had committed to meeting the requirements of the Financial Regulator by 2012. I am pleased to point to the financial results contained in this report as evidence of our determination to meet this commitment.

In April of this year, however, the Government gave notice of their intention to remove the derogation by the end of 2008. We have committed to working with the joint committee of the Department of Health & Children and the Department of Finance to identify the best way to achieve this revised deadline. The challenge is not to add to the many drivers of the cost of health insurance in the process.

It would be a major help, in achieving this objective and in generating greater competition in the health insurance market, if the Financial Regulator was to establish a lower solvency requirement for health insurers in Ireland. Such a move would bring Ireland closer to the requirements of other European Regulators in this regard. The thrust of the new Solvency II Directive, at present in course of preparation in Europe, also points to lower solvency requirements for health insurers. We fully respect the independence of the Financial Regulator in determining the requirements for the grant of an insurance licence. We are encouraged by the fact that the Regulator is currently undertaking a review of the requirements.

Regulation of Vhi Healthcare by the Financial Regulator will remove a major issue of contention in the health insurance market and we welcome this. We do not perceive that the increased focus on capital will be a constraint on our operations. In this context it is worth reflecting on the fact that over our entire 50 years of business to date, Vhi Healthcare has never required access to external capital. Throughout this period we financed enormous growth and built a highly respected and trusted brand entirely from resources generated internally within the business.

Business Performance

As indicated above, the year to 28 February 2007 was successful from a business perspective. Our focus on service to members, the continuous development of operational efficiency and the facilitation of quality healthcare at affordable cost combined to secure impressive membership growth. Our own efforts in this area were augmented by the decision of BUPA to depart from the Irish market.

A landmark was achieved during the year when premium income exceeded €1 billion. Relative to this figure our surplus of €70.3m is quite modest but it represents a very welcome recovery from the deficit of €32.3m reported in the previous year. The surplus of €70.3m comprises of two elements i.e. a €34.7m surplus on day to day operations and the release of €40.7m, less tax of €5.1m, from the unexpired risk reserve.

I am particularly pleased that our initiative in expanding beyond the core health insurance market continues to gain momentum.

Our continuous focus on operational efficiency was reflected in yet another decrease in our operating cost ratio which reduced to 8.1% in 2006/07, down from 8.5% in the previous year. Over the last six years this ratio has decreased by over 30% (11.8% to 8.1%). This is all the more remarkable when one considers that Vhi Healthcare now has an operating cost ratio which is less than half the average of the Irish insurance market.

Board And Advisory Groups

During the year two new appointments to the Board of Vhi Healthcare were made. In July 2006, Ms. Karen Hickey Dwyer commenced her five-year period of office with us, and was followed in November by the appointment of Mr. Vincent Sheridan, our Chief Executive. Ms. Hickey-Dwyer's legal expertise is a welcome addition to our Board. The appointment of Mr. Sheridan to the Board represents an important development in good corporate governance that ensures the Board now comprises of a mix of executive and non-executive Directors. Subsequent to the year end, in March 2007, Mr. David Went was appointed to the Board and, with his expertise and experience, he is very welcome.

The year under review has been a very challenging one for the Board of Vhi Healthcare and I would like to pay tribute to my fellow Board members for their tremendous commitment and support. I would like especially to pay tribute to Ms. Patricia Ennis, Mr. Kevin Moynihan and Mr. Joseph O'Leary, on completion of their terms of office. I am grateful to them for their valuable contribution to the Board of Vhi Healthcare over the last five years.

The Members Advisory Council and The Medical Advisory Group are two voluntary committees who provide communication and expert advice on matters that impact very positively on our service to members. I would like to thank the members of both committees for their support and dedication throughout the year.

Our Employees

The year under review presented many challenges to the employees of Vhi Healthcare. The enthusiasm and determination shown by management and staff to provide our members with the best in quality customer service and innovative products has helped to grow our business to record levels. I would like to record the appreciation and thanks of the Board of Directors to all employees for their efforts.

Tributes

I would especially like to acknowledge the contribution made by our esteemed staff members Ms. Therese McGlinchey and Mr. Martin King both of whom passed away during the year. Our sincere sympathy goes to their families, friends and colleagues in Vhi Healthcare. May they rest in peace.

50 Years Of Voluntary Health Insurance

The year 2007 is very special in that it marks the 50th anniversary of the founding of the Voluntary Health Insurance Board (now trading as Vhi Healthcare). The Ireland of 1957 when Vhi Healthcare was established was a very different place. Prior to this a number of attempts had been made to launch a private health insurance sector but individual company products had all failed to make adequate returns and were withdrawn. The failure of the ordinary insurance market and the fact that 15% of the population had no access to any State assistance for their healthcare needs led to the initiative by the Government of the day to establish Vhi Healthcare. The rest is history. Today, 50 years later:

- A higher proportion of the population purchase health insurance in Ireland than in any other country in the world.
- The primary public policy on health insurance, which is now enshrined in legislation, is that it be community rated. All political parties support this policy and the majority of the population also support Community Rating.
- Health insurance is one of the few products/services in Ireland which remains cheap relative to other countries.
- Vhi Healthcare has become one of the best known, respected and trusted brands in the country and the evidence proves that it is an extremely efficient health insurer by both domestic and international benchmarks.

The fundamental reasons for the popularity of private health insurance in Ireland and Vhi Healthcare are many but include: adoption of Community Rating as a means of ensuring lifelong and affordable insurance; the extraordinary zeal and enthusiasm from the outset among the staff, management and Board of Vhi; a tight rein on costs and efficiency in operation; the ability to liaise and negotiate with medical providers on behalf of members; the constant attention to development and product innovation; the total focus on customers through being a membership based business and finally, the

belief in and support of private health insurance by successive Governments, principally through tax relief on health insurance premiums.

Our 50th anniversary is a time for celebration but even more a time to thank our staff, past and present, for their commitment and to thank our members for their continued support.

The Future

In Vhi Healthcare we face the future with confidence. We have more members than ever before and our financial position is strengthening. It is essential both for Vhi Healthcare and the health insurance market that the remaining barrier to Risk Equalisation transfers is removed quickly. The current Risk Equalisation formula materially under provides for risk differentials in the market and we will continue to lobby both the Health Insurance Authority and the Government for a more robust Risk Equalisation scheme. We will work with the Government to bring about the early removal of the derogation from solvency requirements. It is essential that this be achieved in a way which does not accelerate future increases in the cost of health insurance.

Our confidence in the future is ultimately based on our continuing commitment to facilitate quality healthcare at affordable cost for our members and our assurance to members that "when you need us, we're there".



Bernard Collins

Chairman

14 June 2007

A young man with dark hair, wearing a red and blue long-sleeved shirt and black shorts, is running on a grassy field. He is splashing water as he runs. In the background, another person in an orange shirt is visible. A horizontal line with years is overlaid on the image.

1957 1961 1970 1981

When Peter was 13 he was selected for the school football team.

Vhi Healthcare knows that bumps and bruises are part of everyday life and that many families see an increase in their day-to-day medical expenses as their children grow and become more active. We therefore offer products and services to meet this changing need including:



1986 1990 2007

Day-to-Day Cover: HealthSteps from Vhi Healthcare provides cash back on everyday health expenses including visits to the GP, dentist and physiotherapist. You don't need to have an existing Vhi Healthcare Hospital Plan to buy HealthSteps and can simply buy it to cover your day-to-day medical expenses. Alternatively if you do have a Vhi Healthcare Hospital Plan you can buy HealthSteps in addition.

Vhi SwiftCare Clinic: Vhi SwiftCare Clinics are Ireland's first walk-in urgent care centres, offering treatment for unexpected minor injuries and illnesses that don't pose a serious danger to a person's health such as sports injuries, bumps, bruises and minor burns and cuts. There are two Vhi SwiftCare Clinics in Dublin, one in Dublin City University and one in Balally, both are open from 8am to 10pm, seven days a week, 365 days a year.

Operations Review

Introduction

In his review of the year the Chairman has covered the many reports prepared on the health insurance market and the political, regulatory and judicial interventions with regard to Community Rating/Risk Equalisation, competition and the proposed removal of derogation. The Operations Review will not deal at any length with these issues.

No review of operations, however, could fail to mention the continuing unfair impact on the members of Vhi Healthcare of the unsatisfactory Community Rating/Risk Equalisation system that is in place. In the first instance no receipts have yet been received following the activation of Risk Equalisation on 1 January 2006. This is due to the judicial proceedings being pursued by a competitor who is no longer in the market. No account could be taken of the Risk Equalisation transfers due to Vhi Healthcare in these financial statements. However, even when the issue before the courts is resolved, the Risk Equalisation mechanism does not adequately compensate for the risk differential in the market. This was already the position prior to April of this year when the Minister further diluted the formula by 20%.

Community Rating is all about inter-generational support whereby young people pay higher premiums so that older people can pay lower premiums. The transfers between insurers which facilitate this inter-generational support is referred to as Risk Equalisation. When the Risk Equalisation formula is ineffective or diluted then some of the higher premiums paid by younger people do not go into the community risk pool but go to increase the profits of insurers. This is of immense concern to us in Vhi Healthcare because it means that our members are paying more for health insurance than should be the case and our premiums do not fully reflect the efficiencies which we work so hard to achieve for members. We will continue to lobby for a more equitable Risk Equalisation mechanism. Any improvement will be passed on to members in the form of lower premiums.

Notwithstanding this serious disadvantage we have enjoyed a good year in both financial and operational terms.

Financial Results

The financial highlights can be summarised as follows:

- Total earned premium income increased by 10.9%. This resulted from an increase in premium rates together with an increase in the number of members insured. The increase brought premium income above €1 billion.
- The cost of claims increased by 4.5%. This was a lower increase than had been budgeted mainly due to lower than anticipated usage of private beds in public hospitals and a slower utilisation of new hospital facilities than we had projected. Other positive factors were the increased use of day care as opposed to in-patient accommodation and the increased emphasis placed by us on the audit by members of their hospital/consultant bills.

- Net operating expenses grew by 4.9% and the crucial operating expense ratio (operating expenses as a percentage of earned premium income) fell from 8.5% to 8.1%. Over the last six years this ratio has decreased by over 30% (11.8% to 8.1%).
- Surplus after tax amounted to €70.3m compared to a loss of €32.3m in the previous year. The surplus comprises two elements:
 - an operational surplus of €34.7m which in addition to the favourable premium income and claims experience was further boosted by an increase of €9.1m in investment income.
 - the release of €40.7m from the unexpired risk reserve, less tax of €5.1m. This release was facilitated by the better than expected figures for premium income, claims and expenses outlined above. It was considered prudent to retain the balance of €64.9m in this reserve. This view was fully supported by the consultant actuaries, who provided an independent report on technical reserves and provisions, and the external auditors. We would be hopeful, market conditions permitting, and provided that the judicial stay on Risk Equalisation transfers is lifted, that this can be released in 2007/08.
- The surplus from normal operations of €34.7m amounts to 3.4% of premium income which is less than would be required to maintain the regulatory solvency ratios. Nonetheless the recovery from the loss making position last year is a positive move in the right direction.
- The solvency ratio, i.e. the relationship of free reserves to premium income, has grown from 23.2% to 27.1%. This is evidence of the commitment which we gave to Government in early 2006 that we would meet the solvency requirements of the Financial Regulator by 2012. (The Government has since decided that this target should be achieved by end 2008.)

Operational Highlights

Operations can be considered under a number of headings:

Membership & Sales

Total membership grew by almost 20,000 to 1.57 million, our highest ever membership. Our normal sales activity received an added boost in January/February 2007 after BUPA announced their decision to leave the market. The new range of LifeStage Choices products which was launched in 2004 continued to gain momentum and by year end these plans accounted for almost 200,000 members.

Customer Service

As a membership based organisation, Vhi Healthcare has built a national reputation for the quality, efficiency and empathy of our customer service. The interest of our members lies at the centre of everything we do. Our interaction with members is particularly important to us and during the year we had more than 3.45 million contacts with members through telephone, email, mail, website, text messages or through personal callers to our offices in Dublin, Dun Laoghaire, Cork, Limerick, Galway and Kilkenny.

The launch during the year of our new Policy Manager facility represented a major development in our service to our corporate and group customers. This web based system provides customers with a secure 24 hour, real time, self service facility to access policy information and to make changes to their policies. It provides corporate group schemes with a simpler and more cost efficient way to manage group scheme activity. The facility has been extremely well received and we will continue to roll it out in the current year.

Vhi Healthcare is the only health insurer in the market in a position to offer an integrated, end to end service to customers. We administer our own policies, process our own claims, manage all contact with members, use our own provider management team to get the best deals for members and have a direct relationship with all of our corporate and group schemes through our dedicated team of account managers. We do not allow third parties come between us and our members nor do we offer commissions to insurance brokers or other intermediaries.

Provider Management

Vhi Healthcare has been dealing with healthcare providers on behalf of members since 1957. We engage in a process of continuous discussions and negotiations with providers to agree the keenest prices for services from hospitals, consultants, doctors, ambulance providers, laboratories and many more. Currently we have full cover arrangements with 99% of all hospital consultants and with well over 100 hospitals and treatment centres of which almost 40 are private facilities. In addition we have agreements with six approved diagnostic out-patient centres. The success of our negotiations on behalf of members is reflected in the fact that health insurance in Ireland is one of the few products or services which remains cheap relative to the rest of the world.

Agreements for cover were negotiated with three major new hospitals in 2006/07 i.e. Beacon and Hermitage Hospitals in Dublin and the Whitfield Hospital in Waterford. These hospitals had to satisfy strict quality standards and provide competitive prices relative to the rest of the market in order to qualify for cover. These new hospitals provide significant new facilities for our members. A new day care centre at Auralia hospital in Dublin was also approved for cover.

There has been a significant increase in private hospital capacity and more private hospitals are in course of construction or planning. This development activity has been encouraged by the availability of tax relief for the construction of medical facilities. It remains unclear to what extent the public health system will utilise this increased private bed capacity. There is a real possibility that over capacity will emerge in the private hospital sector. We are monitoring the position closely and will if necessary introduce new negotiation procedures to ensure that excess capacity does not become a cost driver of private health insurance premiums.

A key feature of provider management is to ensure that medical procedures are carried out in the most appropriate setting from both a medical and cost perspective. The impact this can have on bed capacity requirements is best illustrated by the following remarkable statistic: In the 10 years 1997 to 2007 the volume of claims paid for by Vhi Healthcare increased by 70% but in the same period the volume of in-patient claims fell by 6% while the number of day

care claims increased by 165%. Moreover in the same period there was a 3% reduction in the average length of in-patient stay. The debate on bed capacity requirements within the health sector frequently ignores this important dynamic in healthcare delivery.

Detailed processes were undertaken to provide a new Directory of Convalescent Homes with effect from 1 July 2006 and a new Directory of approved MRI Centres with effect from 1 June 2006. Significant savings were achieved as a result of the MRI tender process.

Claims Handling

Vhi Healthcare's claims charge was over €930 million in settlement of members' claims in 2006/07. This is equivalent to almost €4 million paid out every working day.

We work very hard to ensure that only appropriate claims payouts take place. The active involvement of members in the audit of their claims statement is a vital part of this process. To this end we have redesigned the details of the claims statement showing claims paid by us which are sent to members after each payment. A special claims investigation unit exists to investigate any anomalies identified by members and to carry out other investigative work resulting from detailed data analysis.

Work is progressing on the design and implementation of a completely new claims system which will provide for greater automation and more in-depth analysis of claim payments. The new system will go live in 2008.

Healthcare Benefits

There are a wide range of health insurance plans available to meet the specific needs of members. These fall under two main headings i.e.

- our traditional hospital plans i.e. Plans A to E and A to E Options.
- our LifeStage Choice plans, which combine hospital cover with primary care benefits.

A number of benefit enhancements were announced in the course of the year including:

- enhanced maternity benefits for members of both core and LifeStage plans.
- new direct payment agreement for out-patient oncology and CT scans in St. Vincent's Private Hospital.
- cover for MRI and PET/CT scans in Blackrock Clinic and Mater Private for LifeStage plan members.
- enhanced day to day cover for LifeStage Choices plan members plus the option to upgrade to higher cover.

Diversified Products And Services

Over recent years Vhi Healthcare has been extremely innovative in providing a wider range of products and services. These products/services include:

MultiTrip from Vhi Healthcare

MultiTrip from Vhi Healthcare removed the duplication that had previously existed for health cover between health insurance and travel insurance contracts. We are now the market leaders in annual travel insurance with nearly 300,000 people insured with MultiTrip from Vhi Healthcare.

Vhi SwiftCare Clinics

The Vhi SwiftCare concept was the first walk-in urgent care facility for minor injuries in Ireland. The first clinic was opened in Balally in 2005 and a second clinic was added in June 2006 at Dublin City University (Collins Avenue). These clinics have proved to be extremely popular and it is clear that there is a strong and growing demand for the service. Over 40,000 people have been treated at these two centres to date. Further centres are under construction or are at planning stage.

Vhi DeCare Dental

This is the first and only specialised dental insurance plan in Ireland. Part of the objective in launching this plan was to increase awareness and care in the dental area. During the year a number of changes were introduced to the price and product offering. At year end over 30,000 people had dental cover under this product.

Vhi Corporate Solutions

Included under this sub-brand are the occupational health and employee assistance programmes which we provide to corporate Ireland. For example, in November 2006 Vhi Corporate Solutions was contracted by the Department of Education and Science to provide an employee assistance service (EAS) to all teachers employed by the Department.

Global from Vhi Healthcare

This product provides health insurance cover for the growing number of Irish expatriate individuals working abroad. It also facilitates entry back into Vhi health insurance plans on return to Ireland. Membership of Global increased by 14% last year.

HealthSteps from Vhi Healthcare

This is our primary care insurance product. Benefits extend to alternative as well as traditional primary care medicine. Membership of HealthSteps exceeded 55,000 at year end.

Vhi Online Health Shop

Our online shop which can be accessed through our website www.vhi.ie. A wide range of products are available and some prove extremely popular e.g. contact lenses. Over the last year more than 13% of visitors to the site made a purchase and this is one of the highest purchaser/browser ratios in this sector.

New legislation which is due before Oireachtas in 2007 will expand the range of activities that we can engage in. We will use this opportunity to expand the range of product/services available to members and the public at large.

Technology Development

Millions of transactions are processed by Vhi Healthcare each year. We have invested heavily in the development of information technology to maximise operating efficiency and enhance customer experience. A culture of continuous improvement exists throughout the business with the result that change management is a constant feature of our operations.

In addition to the new claims system and the new web based Policy Manager, both referred to previously, work has also progressed on a new out-patient claims system, the production of new-look membership cards for members, a documentation/communication project to simplify and expand our communication with members; the commissioning of systems required at our new outbound communication centre in Gweedore, Co. Donegal and continuous work to enhance our eService capabilities.

Human Resources And Facilities Development

Vhi Healthcare employs 986 (or 909 whole time equivalent) people spread across eight locations in Ireland. The newest of these locations, Vhi Healthcare Gweedore, is based in Donegal and opened in Spring 2007. This state-of-the-art call centre manages outbound communication with our members and will play a very important part in our member retention strategy in the years ahead.

Investing in the training and development of our employees has been crucial to our business success in the past and will continue to be so in the future. During 2006/07 our market research focused on listening carefully to our customers in order to more closely identify what our customers want, and how we can improve the 'customer experience'.

Brand Development

During the year our brand awareness and marketing communication activities continued to reinforce and consolidate the proposition "when you need us, we're there". Every effort was put into simplifying how we communicate with our members and to reassuring our customers that membership of Vhi Healthcare offers both peace of mind and value for money. Such communication included:

Documentation: new high quality membership cards are being issued to adult members on a phased basis.

Advertising: our advertising campaigns highlighted the benefits of our LifeStage Choices and HealthSteps plans and for the first time, the Vhi SwiftCare Clinics – always reinforcing the message that "when you need us, we're there".

Sponsorships: during 2006/07 Vhi Healthcare further developed its highly successful partnership with the GAA through the Vhi Cúl Camps which saw almost 75,000 children nationwide participating. We also commenced a two year sponsorship of the the Ladies Gaelic Football Association All Ireland Club Championships at junior, intermediate and senior levels. We also supported

the 2006 Irish Times Vhi Healthcare Sportswoman of the Year Awards aimed at highlighting the achievements of Ireland's most prominent sportswomen.

Podcasts: In July we launched Ireland's first health podcast – Vhi HealthClub. Available online from www.vhi.ie and www.podcastingireland.ie this fortnightly broadcast covers a range of health related topics and can be listened to on a PC or downloaded onto an MP3 player.

eBusiness: Our website continues to attract large volumes of traffic. With more than 140,000 registered members Vhi Healthcare is by far the most popular health information website in Ireland. On average the site attracts 330,000 visits per month and we currently have 61,000 subscribers to our email newsletter.

Market Development: Recognising the rapidly changing demographic trends in Ireland over recent years Vhi Healthcare has worked closely with the Polish Information and Culture Centre in Dublin to establish a dedicated healthcare information service within the Centre. Vhi Healthcare has employed native Polish speakers in its Contact Centre in Kilkenny to assist Polish citizens with their healthcare queries. In addition, we have also established a Polish webpage www.vhi.ie/polski to assist Polish visitors with online information on health services in Ireland.

Social Responsibility

Vhi Healthcare recognises the importance of nurturing and protecting our country and community in practical ways and engages in many activities to ensure this. Vhi Healthcare is determined to reduce its impact on the environment through recycling all of its waste paper, glass, drink cans, print cartridges, used batteries, redundant equipment and unwanted mobile phones.

During the year Vhi Healthcare donated the sum of €85,000 to help fund the expansion of Crumlin Children's Hospital Ophthalmology service. The funding has assisted in the redevelopment of two clinical examination rooms and a patient waiting area, significantly improving facilities for children with eye diseases, and their families.

Vhi Healthcare employees also raised a total of €14,850 through voluntary salary deduction, for distribution to almost 40 different registered charities based nationally and internationally. Other collections which raised money for different charities included raffles for teddy bears, coffee mornings, jersey days etc.

For a number of years now Vhi has been a supporter of the Junior Achievement/Young Enterprise Programmes. Vhi Healthcare employees volunteer their free time and expertise to assist primary and secondary school students identify their own skills and to coach people in a wide variety of business related disciplines. During 2006/07 Vhi Healthcare employees helped young students from schools based in Dublin (in partnership with IBEC programme) and Kilkenny to maximise their potential in a number of ways by providing coaching on subjects as diverse as personal economics, interview techniques, cv preparation, telephone and customer service skills etc.

Outlook

The achievements of Vhi Healthcare over the past 50 years provide a wonderful base for looking to the future with confidence. The culture of the business has always placed our members as the focus of all activity. The business exists to serve the members.

This culture demands a process of continuous improvement in operating efficiency, service delivery and product enhancement. We will continue to deliver on these objectives in the future as we have in the past.

The immediate challenges are to achieve a more equitable Risk Equalisation mechanism, to achieve the removal of derogation without any follow on threat to the cost of private health insurance and to meet the challenge of increased competition in the market.

We look to the future with confidence.

A handwritten signature in black ink, appearing to read 'Vincent Sheridan', with a long, sweeping underline.

Vincent Sheridan

Chief Executive

14 June 2007



1957

1961

1970

1981

When Peter was 24
he and his wife took
out their own Vhi
Healthcare plan.



1986

1990

2007

As Peter began married life, it was important to put in place the health cover he and his wife required. Today, Vhi Healthcare knows that as your lifestyle changes, so do your healthcare needs. We therefore offer a broad range of cover options to suit every life stage.

LifeStage Choices: LifeStages Choices are a range of plans that offer excellent cover for both hospital care and a wide range of day-to-day medical expenses. Even if you never need to use your hospital benefits, these plans all offer great value because they give you money back on visits to your GP, Consultants, Physiotherapists, Alternative Medical Practitioners etc. We've called them LifeStage Choices, because they are designed to give you the best cover for the healthcare services you are most likely to need at your particular stage of life.

Executive Management Team

1. Vincent Sheridan

BComm. FCA, Chief Executive

Vincent Sheridan joined Vhi Healthcare in April 2001, with 28 years experience in the insurance industry. He is a Director of FBD Holdings Plc and was formerly a director of the Irish Stock Exchange for nine years to June 2004. He is currently President of the Institute of Chartered Accountants in Ireland and a council member of the International Federation of Health Plans and the Financial Reporting Council in the UK.

2. Willie Shannon

BBS, FCA, Director – Finance

Willie Shannon is a graduate of TCD, having obtained his BBS in 1974. He qualified as a chartered accountant in 1977 with Arthur Andersen and joined a large firm of insurance 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. He is also a past Chairman of the Finance Committee of the Insurance Institute of Ireland and Past President of the Financial Executives Association.

3. Tony McSweeney

Director – Individual and Corporate Business

Tony McSweeney, a member of the Marketing Institute of Ireland and a Fellow of the Sales Institute of Ireland, joined Vhi Healthcare from the life and pensions industry in 1996. He is responsible for Customer Services, Customer Administration and Sales.



4. John Creedon

Director – Claims

John is responsible for the overall service, administration and payment of claims. He has held a number of senior positions within Vhi Healthcare, most recently as Director of Information Technology, prior to his current appointment in 2006.

5. Dr Bernadette Carr MD

FRCPI, MPH, LFOM, Director – Medical

Dr Bernadette Carr is a physician and 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 as Medical Director and her responsibilities include provider relations and contract negotiations.

6. Declan Moran

Director – Marketing and Business Development

Declan Moran 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 the management of Vhi Healthcare's product portfolio, development of new products and services and provision of actuarial expertise within the organisation.

7. Mick Furlong

Director – Information Technology

Mick Furlong has over 28 years experience in IT and has held senior positions in TSB Bank, Compaq and Accenture prior to joining Vhi Healthcare. He is responsible for Information Technology Services.

8. Michael Owens

Director – Human Resources

Michael Owens has a BA in industrial relations and is a Chartered Fellow of CIPD. He joined Vhi in August 1999 and has over 27 years experience in human resources management in light engineering, paper and print, commercial retailing and insurance.

A man with grey hair, wearing a blue, red, and green striped shirt, is shown from the chest up in profile, looking out over a calm body of water under a clear blue sky. A white horizontal line with year markers is superimposed over the image.

1957 1961 1970 1981

By 1986 Peter had two children – a boy aged 4 and a girl aged 2.

Today Peter's Vhi Healthcare membership allows him access to a host of unique services designed to provide support and advice, particularly to young families when they need it most. Some such services are:



1986

1990

2007

Maternity Helpline: a helpline staffed by qualified midwives, providing a personalised service to expectant and new mothers. Once registered, the member will receive phonecalls from the midwife at agreed intervals throughout the pregnancy and for up to six months after the baby is born. Mothers can also get advice on a wide range of areas including breastfeeding, immunisations, weaning and developmental check-ups.

Nurseline 24/7: NurseLine 24/7 offers access to qualified nurses by phone 24 hours a day, 365 days a year. Experienced nurses are available to answer queries, provide access to information on medical conditions and provide information on medications and their interactions.

Report of the Directors

The Directors have pleasure in submitting their 50th 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 primary objective the provision of a financing system for private healthcare, carried out on a mutual assistance basis.

2. Results

The results for the year are set out in the Income and Expenditure 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 Review and Operations Review.

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 surplus or deficit 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 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 Corporate Governance. The Financial Reporting Council revised the Combined Code on Corporate Governance in July 2003. 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.

The Directors consider that the Board 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.

Board of Directors

The roles of Chairman and Chief Executive are separate and only the Chief Executive is an Executive member of the Board. All non-executive Directors are appointed by the Minister for Health and Children for 5 year terms of office.

The Board meets at least eight times annually and has a formal schedule of matters specifically reserved to it for decision which includes approval of the overall strategic plan, annual budgets, annual report and accounts and major corporate activities. Board papers are sent to each member in sufficient time before meetings. Appropriate training and briefing is available to all Directors on appointment to the Board, with further training available subsequently, as required. The Board has also drawn up procedures for Directors to take independent professional advice. All Directors have access to the advice and services of the Secretary. The Board has Director's liability insurance cover in place. The Board has put in place a process for appraisal of its performance.

Attendance at Board Meetings

	Board	Audit	Remuneration
Bernard Collins	9		2
Pat Farrell	7		
Gillian Bowler	7		2
Patricia Ennis (Retired July 06)	4	2	
Humphrey Murphy	7		2
Liam Twohig	9	4	
Kevin Moynihan (Retired Nov 06)	5		
Joseph O'Leary (Retired Mar 07)	9		
Christy Cooney	8		
Jim Kelly	9	4	
Baroness Julia Neuberger	6		
Cathal Magee (Appointed to Audit Committee Sept 06)	5	2	
Karen Hickey-Dwyer (Appointed July 06)	4		
Vincent Sheridan (Appointed Nov 06)	3		

The Board reviews the arrangements in place that allow employees to raise any concerns about possible wrongdoings in financial reporting or other matters. If required, it will ensure that appropriate investigation and follow-up action is taken.

The Board has appointed an Audit Committee which is comprised of three non-Executive Directors. The Audit Committee meets at least four times a year and 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 Audit Committee makes recommendations to the Board in relation to the appointment of the external auditors and assesses their objectivity and independence. The external audit plan and findings from the audit of the financial statements are also reviewed. The main roles and responsibilities of the Audit Committee are set out in written terms of reference and are available on request.

The Audit Committee has a process in place to ensure the independence of the audit is not compromised, which includes monitoring the nature and extent of services provided by external auditors through its annual review of fees paid to the external auditors for audit and non-audit services.

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.

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 and revised in 2005.

The Directors are responsible for the Board's system of internal control and for reviewing its effectiveness and meet this responsibility through regular meetings of the Audit Committee. They have assigned responsibility for the implementation of this system to Executive Management.

The system of internal control provides reasonable, but not absolute, assurance of:

- the safeguarding of assets against unauthorised use or disposition; and
- the maintenance of proper accounting records; and
- the reliability of the information they produce, for both internal use and publication.

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. 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.
- the Internal Audit function prepares an Internal Audit plan which is approved by the Audit Committee. Internal Audit reports to the Audit Committee on an ongoing basis.

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 2007/2008 and the medium term plans as set out in the corporate strategy of the Board. In this regard, attention is directed to Note 9 to the accounts.

6. Directors' Remuneration

Annual remuneration levels for the Chairman and each Director have been set by Government at €24,000 and €14,000 respectively. The Chief Executive was appointed to the Board during the last financial year. Non-Executive Directors do not receive any other remuneration nor do they have any service agreements or contracts with the Board.

7. Principal Risks and Uncertainties

Irish company law now requires companies to give a description of the principal risks and uncertainties which they face. Notwithstanding that the Board is not subject to company law provisions the Directors consider it sound corporate governance to provide such a description.

The principal risks facing the business are:

- i. the continuing uncertainty over the activation of the Risk Equalisation scheme (see Note 9 to the accounts and the Report of the Auditors) represents a major threat to the business. The Minister for Health and Children accepted the recommendations of the Health Insurance Authority and declared that the Risk Equalisation scheme be activated with effect from 1 January 2006. This represents a major reduction in the level of risk but uncertainty continues because of a number of legal challenges initiated by a former competitor against this decision. In the event of Risk Equalisation not being activated there is a very high likelihood of Vhi Healthcare incurring significant losses in future years. The Minister for Health and Children has now indicated that Vhi Healthcare will be required to be in a position to apply for an Insurance Licence from the Financial Regulator by end 2008. Consideration is being given to the amount and potential sources of capital that may be required to achieve this.
- ii. a related risk to (i) above is the dependency for profitability on a relatively small number of key group schemes which have very young age profiles. The introduction of an effective Risk Equalisation scheme will significantly reduce this risk.
- iii. there are serious limitations currently imposed on the commercial freedom of Vhi Healthcare which puts it at a significant disadvantage to its competitors, e.g.
 - all product changes/new products are subject to approval by the Minister.
 - proposed price increases must be advised to the Minister one month in advance of application.
 - the types of products and services that can be brought to market by Vhi Healthcare are limited by statute.

The Minister for Health and Children has recently issued a bill which, inter alia, includes provision for the removal of these commercial restrictions. This should remove this risk factor.

- iv. there are enormous pressures on the cost of healthcare which could, by driving up insurance premiums, seriously reduce the take-up of private health insurance in the market. These cost drivers include:
 - a very significant increase in the availability of private bed capacity, because a characteristic of the healthcare market is that demand will expand to match supply.
 - an ageing population.
 - the development of expensive new drugs and technologies both for treatment and diagnostic procedures.
 - higher expectations with regard to quality and access deriving from increased affluence and medical information.
 - medical inflation running ahead of normal inflation.

A related risk is that the actual claims experience shall exceed the carrying amount of the insurance liabilities. This could occur if the frequency and/or cost of claims are greater than estimated. The frequency and cost of claims are impacted by several factors including those noted above. The cost of outstanding claims and unexpired risk reserves are determined using appropriate actuarial techniques to project the claims for which the Board will be liable.

Vhi Healthcare uses a number of KPI's throughout its various activities and the most significant are set out in the Annual Report.

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

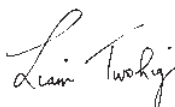
The Directors are responsible for ensuring that proper books of account are maintained by the Board and this has been achieved by the employment of appropriately qualified accounting personnel and by maintaining appropriate accounting systems. The books of account are located at the head office of the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



Bernard Collins
Chairman



Liam Twohig
Director

14 June 2007

1957 1961 1970 1981

When Peter was 33
he knew his growing
family were in safe
hands with Vhi
Healthcare.

With a growing family, Peter and his wife's health cover requirements changed. Vhi Healthcare offer a full range of services designed to offer families a choice of healthcare cover and support options for all stages of their family's development.

Welco
Baby
Lanna



1986

1990

2007

Families today require access to reliable, comprehensive health and lifestyle information therefore Vhi Healthcare members can access one of Ireland's leading health websites.

www.vhi.ie - One of Ireland's most popular and comprehensive healthcare websites giving Vhi Healthcare members free access to a comprehensive online encyclopedia of health information and a host of exclusive services including "Ask the expert", where experts on fitness, diet, stress, health and relationships address topical queries. Members can also access Vhi Healthcare's online HealthShop which offers hundreds of quality health-related products including fitness accessories, mother and baby products, books, contact lenses and online health management programmes with free delivery for all Vhi Healthcare members.

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 2007 which comprise of the Income and Expenditure Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the statement of accounting policies and the related notes 1 to 19. 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 issued by the Accounting Standards Board and published by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland).

Our responsibilities, as independent auditors, is to audit the accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounts give a true and fair view in accordance with generally accepted accounting practice in Ireland and are properly prepared in accordance with the European Communities (Insurance Undertakings: Accounts) Regulations, 1996.

We review whether the corporate governance statement reflects the Board's compliance with the nine provisions of the 2003 FRC Code specified for our review 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 the implications for our report if we become aware of any apparent misstatement or material inconsistencies with the accounts. The other information comprises only the Directors' Report, which includes the corporate governance statement, the Chairman's Statement, the Operations Review and the Comparative Results table.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practice Board. 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 judgements 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 and Contingent Asset

In forming our opinion, we have considered the disclosures in Note 9 to the accounts which set out the assumptions on which the provision for unexpired risk of €64.9m is based and Note 16 dealing with a contingent asset arising from the risk equalisation scheme. We have also considered the disclosures made regarding the financial viability of the Board in the event that risk equalisation is not activated. In view of the significance of these uncertainties and the potential impact of these uncertainties on the Board, 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, in accordance with generally accepted accounting practice in Ireland and the European Communities (Insurance Undertakings: Accounts) Regulations, 1996, of the state of the affairs of the Board as at 28 February 2007 and of the surplus of the Board for the year then ended.

Deloitte & Touche

Chartered Accountants and Registered Auditors
Dublin

14 June 2007

A man with grey hair, wearing a dark suit, a light blue checkered shirt, and a red tie, is shown in profile, looking down and to the right with his hand near his chin in a thoughtful pose. A white horizontal line with four vertical tick marks is overlaid across the middle of the image. The years 1957, 1961, 1970, and 1981 are positioned below the line at each tick mark.

1957 1961 1970 1981

Peter currently runs a successful business employing over 30 people.

Vhi Healthcare is able to provide Peter with a host of healthcare solutions, specifically designed to meet his needs as an employer including:

1986

1990

2007

Vhi Corporate Solutions: a specialist team providing high-quality services on a range of employee health and well-being issues to corporate clients. Vhi Corporate Solutions is one of the leading providers of integrated occupational health and safety services in Ireland, providing programmes and services tailored to meet the individual needs of corporate clients across a wide range of industries.

Vhi DeCare Dental: a range of dental insurance plans offering a host of benefits for Peter's employee's oral care needs. The product is designed to dovetail with existing State benefits for those with PRSI entitlements and to provide benefit for those who do not have PRSI entitlements.

Online services for Groups: Vhi Healthcare now offers a host of services for our Corporate Group members including:

- dedicated employee websites allowing employees to manage their policies online, gain access to health and lifestyle information and enter free promotions and competitions.
- employer reports.
- end-to-end online administration solutions tailored to meet the needs of the individual company in question.

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. The preparation of accounts in accordance with generally accepted accounting principles requires the exercise of judgement in the process of applying the Boards' accounting policies. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the accounts, relate primarily to provisions for claims outstanding and unexpired risks, and are documented in the accounting policies below. The provisions for outstanding claims and unexpired risks are based on actuarial methods of calculation reviewed by the Boards' consulting actuaries, Watson Wyatt LLP.

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 reported but not yet paid, claims incurred but not reported and related handling expenses.

Unexpired Risks

Provision is made, based on information available at the balance sheet date, for any estimated underwriting deficits related to unexpired risks after taking into account relevant investment return. Prudent assumptions are made so that the provision should be sufficient in reasonably foreseeable adverse circumstances, refer Note 9.

Deferred Taxation

Deferred taxation is provided on timing differences between the taxable surplus of the Board and its surplus as stated in the accounts. The provisions are made at the taxation rates which are expected to apply in the periods in which the timing differences are expected to reverse. Deferred tax assets are recognised to the extent that it is probable that they will be recovered.

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 the Income and Expenditure account.

Investments

Investments in 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. Realised gains/losses on investment transactions are determined on an average cost basis and recorded in the Income and Expenditure account.

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 results are 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 surplus/deficit 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.

Retirement Benefits

The cost of providing benefits and the liabilities of defined benefit plans are determined, using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date.

Current service cost, interest cost and return on scheme assets are recognised in the income and expenditure account. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

Past service cost is recognised immediately. The net surplus or deficit on the defined benefit pension scheme is recognised, net of deferred taxation, on the balance sheet.

In addition, the Board also provides benefits to certain retirees in respect of health insurance cover, which are unfunded. The Board's obligation in respect of these benefits is measured using the projected unit credit method and is discounted to present value, with actuarial valuations carried out at each balance sheet date. The full amount of the Board's obligation is recognised on the balance sheet and the charge for the year is included in the income and expenditure account.

Income and Expenditure Account

YEAR TO END FEBRUARY			
TECHNICAL ACCOUNT: HEALTH INSURANCE			
	Notes	2007 €'000s	2006 €'000s
Continuing Activities			
Earned Premium:	1		
Gross premiums written		1,087,892	961,499
Change in the provision for unearned premiums		(67,816)	(41,935)
		1,020,076	919,564
Allocated investment return transferred from the non-technical account		37,446	22,901
		1,057,522	942,465
Claims incurred:			
Claims paid		886,812	843,426
Change in the provision for claims		43,841	47,136
		930,653	890,562
Other technical provisions:			
Unexpired risk reserve	9	(40,676)	1,317
Net operating expenses	2	82,409	78,520
Balance on the health insurance technical account		85,136	(27,934)

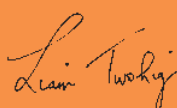
Income and Expenditure Account

		YEAR TO END FEBRUARY	
NON-TECHNICAL ACCOUNT: HEALTH INSURANCE			
	Notes	2007 €'000s	2006 €'000s
Continuing Activities			
Balance on the health insurance technical account		85,136	(27,934)
Longer term investment return	3	37,446	22,901
Allocated investment return transferred to the health insurance technical account		(37,446)	(22,901)
Operating surplus/(deficit)		85,136	(27,934)
Short term fluctuations in investment return	3	(9,648)	(4,252)
Surplus/(deficit) on ordinary activities before taxation		75,488	(32,186)
Taxation on ordinary activities	4	(5,144)	(144)
Surplus/(deficit) on ordinary activities after taxation carried to reserves	5	70,344	(32,330)

The accounts were approved by the Board on 14 June 2007, and signed on its behalf by:



Bernard Collins
Chairman



Liam Twohig
Director

Balance Sheet

AS AT 28 FEBRUARY			
ASSETS			
	Notes	2007 €'000s	2006 €'000s
Investments			
Land and buildings	6	44,750	40,909
Other financial investments	7	774,596	699,965
Debtors			
Debtors from members arising out of insurance operations		469,412	409,372
Other debtors		417	1,296
Other Assets			
Tangible assets	8	25,571	18,272
Cash at bank and in hand		896	221
Prepayments and accrued income			
Prepayments		448	174
Accrued interest		9,825	5,455
Total Assets		1,325,915	1,175,664

Balance Sheet

AS AT 28 FEBRUARY

LIABILITIES

	Notes	2007 €'000s	2006 €'000s
Reserves			
General reserve		291,800	220,220
Technical provisions			
Provision for unearned premiums		533,217	465,401
Claims outstanding		376,339	332,498
Other technical provisions	9	64,857	105,533
Deferred taxation	10	1,139	1,528
Creditors			
Bank overdraft		6,649	4,149
Creditors and accruals	11	20,128	15,357
Retirement Benefits Liability	19	31,786	30,978
Total Liabilities		1,325,915	1,175,664

The accounts were approved by the Board on the 14 June 2007, and signed on its behalf by:



Bernard Collins
Chairman



Liam Twohig
Director

Cash Flow Statement

		YEAR TO END FEBRUARY	
	Notes	2007 €'000s	2006 €'000s
Net cash inflow from operating activities	12	87,137	32,573
Taxation refund		–	5,720
Capital expenditure		(17,157)	(9,144)
		69,980	29,149
Cash flows were invested as follows:			
Decrease in cash holdings		(1,825)	(5,843)
Net portfolio investment	13 & 15	71,805	34,992
Net investment of cash flows	14	69,980	29,149

Statement of Total Recognised Gains and Losses

	Notes	YEAR TO END FEBRUARY	
		2007 €'000s	2006 €'000s
Surplus/(deficit) for the financial year		70,344	(32,330)
Actuarial gain/(loss) on pension fund	19	1,237	(3,269)
Total surplus/(deficit) relating to the year		71,581	(35,599)
Prior year adjustment		—	(26,106)
Total surplus/(deficit) recognised since last annual report		71,581	(61,705)

Notes to the Accounts

1. Earned premium

The insurance business of the Board is substantially health insurance and earned premium relates mainly to this class of business. Amounts from ancilliary products are minimal. All business written is in the Republic of Ireland.

2. Net operating expenses

	2007 €'000s	2006 €'000s
Administrative expenses	66,157	60,229
Acquisition costs	16,252	18,291
	82,409	78,520

	2007	2006
The average number of persons, including part time employees, employed by the Board was:	837	784

	2007 €'000s	2006 €'000s
Staff costs were:		

Wages and salaries	40,457	37,408
Social security costs	4,143	3,862
Retirement benefits	5,965	5,585

The Chief Executive is retained on a consultancy basis. The initial five year period dating from April 2001 has been extended for a further three years to April 2009. Total fees paid to the Chief Executive and included in operating expenses in the year to February 2007 amounted to €422,000. (February 2006: €395,000).

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.

	2007	2006
	%	%
Land and buildings	6.1	6.1
Shares and other variable yield securities	7.2	7.2
Debt securities/fixed interest securities	3.9	3.3
Deposits with credit institutions	2.0	2.0

(b) Comparison of longer term investment return with actual return

	2007	2006
	€'000s	€'000s
Actual return:		
Income from land and buildings	209	105
Income from other investments	22,327	20,547
Losses on realisation of investments	(258)	(6,081)
Unrealised gains on investments	6,667	4,914
Investment management expenses	(1,147)	(836)
	27,798	18,649
Longer term investment return	(37,446)	(22,901)
Short term fluctuations	(9,648)	(4,252)

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 required by the regulator and therefore all reserves are deemed to be in support of the technical provisions.

4. Taxation	2007	2006
	€'000s	€'000s
The taxation charge in the income and expenditure account comprises:		
Corporation taxation - charge/(credit)	5,534	(504)
Deferred taxation - (credit)/charge	(390)	648
	5,144	144

Factors affecting the current taxation charge/(credit) for the period

The current tax for the period is calculated at a rate different to the standard rate of corporation tax in Ireland of 12.5% (2006: 12.5%).

The differences are explained below:	2007	2006
	€'000s	€'000s
Surplus/(deficit) on ordinary activities before tax	75,488	(32,186)
Surplus/(deficit) on ordinary activities multiplied by standard rate of corporation tax of 12.5% (2006, 12.5%)	9,436	(4,023)
Effects of		
Expenses deductible for tax purposes	(657)	(296)
Losses carried forward	(3,722)	3,722
Depreciation in excess of capital allowances for period	487	106
Adjustments to tax charge in respect of previous periods	(10)	(13)
Current tax charge/(credit) for period	5,534	(504)

5. Surplus/(deficit) for year	2007	2006
	€'000s	€'000s
The surplus/(deficit) for the year is stated after charging:		
Depreciation of tangible fixed assets	9,856	7,755
Board remuneration	187	122
Auditors remuneration		
Audit fee	147	128
Audit related fees	71	79
Non audit fees	135	62
6. Investments: land and buildings	2007	2006
	€'000s	€'000s
Valuation:		
At 1 March	40,909	36,700
Disposals	–	(20)
Gain on revaluation	3,841	4,229
At end of year	44,750	40,909

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

Land and buildings were valued at 28 February 2007 at open market value in accordance with Royal Institute of Chartered Surveyors (RICS) appraisal and valuation standards. These valuations were made by Thornton & Partners, Hamilton Osborne King, DTZ Sherry Fitzgerald 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.

	2007	2006
	€'000s	€'000s
Opening cost	19,545	19,565
Closing cost	19,545	19,545

7. Other financial investments				
	2007	2007	2006	2006
	Market value	Cost	Market value	Cost
	€'000s	€'000s	€'000s	€'000s
Shares and other variable yield securities	209,687	205,828	8,591	6,500
Debt securities/fixed interest securities	536,269	536,360	549,929	551,516
Other investments	432	1,205	806	1,142
Loans secured by mortgages	45	45	81	81
Deposits with credit institutions	28,163	28,163	140,558	140,558
	774,596	771,601	699,965	699,797
8. Tangible Assets				
	Motor vehicles	Fixtures, furnishings & fittings	Computer Equip/Software & Office Equipment	Total
	€'000s	€'000s	€'000s	€'000s
Cost				
At 1 March 2006	2,103	7,078	52,539	61,720
Additions	715	563	15,912	17,190
Disposals	(546)	–	–	(546)
At 28 February 2007	2,272	7,641	68,451	78,364
Depreciation				
At 1 March 2006	(1,439)	(4,141)	(37,868)	(43,448)
Charge for the year	(516)	(981)	(8,359)	(9,856)
Eliminated in respect of disposals	511	–	–	511
At 28 February 2007	(1,444)	(5,122)	(46,227)	(52,793)
Net book value at 28 February 2007	828	2,519	22,224	25,571
Net book value at 28 February 2006	664	2,937	14,671	18,272

9. Other technical provisions

The amount of €64.9m provided for at 28 February 2007 is in respect of losses anticipated on unexpired contracts and 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 2007 and anticipated increases in the cost of providing healthcare benefits. These losses are expected to be incurred in the period between March 2007 and August 2009. The credit of €40.7m represents the reduction in the provision from the amount of €105.5m which was included in the Balance Sheet at 28 February 2006.

The estimate of these losses is based on a model using appropriate actuarial practice standards. The principal uncertainty relates to the cost and volume of future claims. Among the factors affecting future costs are:

- a) the availability of private bed capacity, because a characteristic of the healthcare market is that demand will expand to match supply.
- b) the cost of private beds in public hospitals which is determined by the Minister for Health and Children.
- c) the development of new drugs and technologies.
- d) legal challenges to the Risk Equalisation scheme.
- e) medical inflation running ahead of normal inflation.

The assumptions relating to these factors are based on the most up-to-date market information and past experience.

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

The decision with regard to the price increase reflects the factors outlined above and the current healthcare insurance environment.

In December 2005, the Minister for Health & Children activated the Risk Equalisation scheme (RES) with effect from 1 January 2006. The scheme and its activation are the subject of legal proceedings. No account has been taken of any benefit which might arise on the activation of the scheme in calculating the provision and an amount receivable has not been recognised in the Balance Sheet (refer to Note 16).

In the event of a Risk Equalisation scheme not being activated, there is a very high likelihood of Vhi Healthcare incurring continuing significant losses in future years. The Unexpired Risk Reserve provision of €64.9m does not take account of any losses beyond the date of 31 August 2009. In such circumstances, and if the absence of Risk Equalisation continued to be financed out of the reserves of Vhi Healthcare, then a situation would arise where the business could no longer be considered viable.

10. Deferred Taxation	2007	2006
	€'000s	€'000s
Provision has been made in respect of deferred taxation for the following timing differences:		
Unrealised gain on investment valuation	(374)	(21)
Other timing differences	(765)	(1,507)
Total provision	(1,139)	(1,528)
11. Creditors and accruals	2007	2006
	€'000s	€'000s
Corporation tax	5,017	–
Other creditors	3,503	3,361
Accruals	11,608	11,996
	20,128	15,357
12. Reconciliation of operating surplus/(deficit) to net cash flow from operating activities	2007	2006
	€'000s	€'000s
Surplus/(deficit) on ordinary activities before taxation	75,488	(32,186)
Depreciation charges	9,856	7,755
Retirement benefits	2,045	1,606
Unrealised gains on investments	(6,667)	(4,914)
Increase in health insurance technical provisions	70,981	90,388
Increase in debtors from members arising out of insurance operations	(60,040)	(34,698)
(Increase)/decrease in debtors and prepayments	(4,280)	812
(Decrease)/increase in creditors and accruals	(246)	3,810
Net cash inflow from operating activities	87,137	32,573

13. Movement in opening and closing portfolio investments	2007	2006
	€'000s	€'000s
Net cash outflow for the period	(1,825)	(5,843)
Portfolio investments	71,805	34,992
Movement arising from cash flows	69,980	29,149
Changes in market values	2,826	686
Total movement in portfolio	72,806	29,835
Portfolio investments and cash in hand at 1 March	696,037	666,202
Portfolio investments and cash in hand at 28 February	768,843	696,037

14. Movement in cash and portfolio investments

	At 1 March	Cash	Changes to	At 28 February
	2006	flow	market value	2007
	€'0000	€'000s	€'000s	€'000s
Cash at bank and in hand	(3,928)	(1,825)	–	(5,753)
Shares and other variable yield securities	8,591	199,327	1,769	209,687
Debt securities and other fixed interest securities	549,929	(15,156)	1,496	536,269
Other investments	806	65	(439)	432
Loans secured by mortgages	81	(36)	–	45
Deposits with credit institutions	140,558	(112,395)	–	28,163
	696,037	69,980	2,826	768,843

15. Analysis of cash flows for headings netted in the cash flow statement	2007 €'000s	2006 €'000s
Portfolio investments		
Purchase of shares and other variable yield securities	204,759	–
Purchase of fixed interest securities	1,758,960	1,954,275
Purchase other investments	65	1,142
Purchase of deposits with credit institutions	805,100	767,516
Sale of shares and other variable yield securities	(5,432)	–
Sale of fixed interest securities	(1,774,116)	(2,045,690)
Sale of deposits with credit institutions	(917,495)	(642,210)
	71,841	35,033
Repayment of mortgage loans	(36)	(41)
Net cash outflow on portfolio investments	71,805	34,992

16. Contingent Asset

The Risk Equalisation scheme was activated by the Minister for Health and Children with effect from 1 January 2006. Under the scheme each returning insurer submits returns in a prescribed format to the Health Insurance Authority (HIA) on a six monthly basis and the HIA subsequently notify each undertaking as to the amount it should contribute to or receive from the Risk Equalisation fund.

The HIA has notified the Board that it would receive €18.8m from the fund for the 12 month period to 31 December 2006. As returns have not been completed subsequent to December 2006, it is not possible to reasonably estimate the amount due for the two months to 28 February 2007.

The scheme and its activation are the subject of several legal challenges and consequently no account has been taken of these funds.

17. Capital Commitments	2007 €'000s	2006 €'000s
Capital expenditure contracted for	–	–
Capital expenditure approved but not contracted for	14,000	10,024

18. Related Party Disclosures

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

19. Retirement Benefits

The Board operates a defined benefit pension scheme. The assets of the scheme are held in a separate trustee administered fund. In addition to pension entitlements, the Board also provides benefits to certain retirees in respect of health insurance cover. Retirement benefit costs and liabilities are determined by an independent qualified actuary, using the projected unit credit method of funding. The contributions to the scheme amounted to €3,920,000 (2006: €3,982,000) and are based on 12.2% of pensionable pay.

The values used in this disclosure are based on the most recent actuarial valuations, carried out at 28 February 2007, and the amounts have been fully implemented in the accounts in accordance with the requirements of FRS 17: 'Retirement Benefits'.

The actuarial reports are available for inspection by members of the scheme but not for public inspection.

The major assumptions used in respect of the pension scheme are:	2007 %	2006 %
Rate of increase in salaries	4.0	4.0
Rate of increase in pensions in payment	3.25	3.25
Discount rate	4.75	4.50
Inflation assumption	2.25	2.25
Long-term expected rates of return at 28 February were:	2007 %	2006 %
Equities	7.2	7.2
Fixed interest	3.9	3.3
Property	6.1	6.1
Other	2.0	2.0

19. Retirement Benefits (continued)

The assets in the pension scheme at market value were:

	2007	2006
	€'000s	€'000s
Equities	90,829	80,687
Fixed interest	13,323	11,440
Property	6,256	5,467
Other	5,445	3,645
Total market value of assets	115,853	101,239
Present value of scheme liabilities	(141,518)	(127,872)
Deficit in the scheme	(25,665)	(26,633)
Unfunded health insurance premium provision	(10,662)	(8,770)
Net retirement benefits deficit	(36,327)	(35,403)
Related deferred tax asset	4,541	4,425
Net retirement benefit liability	(31,786)	(30,978)
Reserves		
Reserves excluding retirement benefits liability	323,586	251,198
Retirement benefits liability	(31,786)	(30,978)
Reserves after including retirement benefits liability	291,800	220,220
Income and Expenditure account		
Charged to net operating expenses		
Current service cost	(5,460)	(4,484)
Death in service cost	(183)	(172)
Other retirement benefits	(755)	(653)
	(6,398)	(5,309)
Interest in scheme liabilities	(6,303)	(5,420)
Expected return on scheme assets	6,736	5,144
Net change in operating result	(5,965)	(5,585)

19. Retirement Benefits (continued)

Statement of total recognised gains and losses	2007 €'000s	2006 €'000s
Actual return less expected return on scheme assets	3,491	13,854
Experience gains and losses on scheme liabilities	(4,676)	(11,560)
Changes in demographic and financial assumptions	2,307	(6,259)
Actuarial gain/(loss)	1,122	(3,965)
Deferred tax credit	115	696
Total actuarial gain/(loss)	1,237	(3,269)

Movement in net deficit during the year

Net deficit in scheme at start of year	(30,978)	(26,106)
Current service cost	(5,460)	(4,484)
Death in service cost	(183)	(172)
Contributions	3,920	3,982
Interest on scheme liabilities	(6,303)	(5,420)
Expected return on scheme assets	6,736	5,144
Actuarial gain/(loss)	1,122	(3,965)
Other retirement benefits	(755)	(653)
Deferred tax credit	115	696
Net deficit at end of year	(31,786)	(30,978)

History of experience gains and losses	2007	2006	2005	2004	2003
Difference between expected and actual return on assets	3,491	13,854	3,110	8,800	(19,900)
% of scheme assets	3%	14%	4%	13%	(40%)
Experience gains and losses on scheme liabilities	(4,676)	(11,560)	2,119	(6,900)	4,500
% of scheme liabilities	(3%)	(9%)	2%	(8%)	7%
Total actuarial gain/(loss)	1,237	(3,269)	(2,909)	(8,900)	(22,000)
% of scheme liabilities	1%	(3%)	(3%)	(10%)	(35%)

Comparative Results and Graphs

	2003 €'000s	2004 €'000s	2005 €'000s	2006 €'000s	2007 €'000s
Earned premium	687,583	802,992	868,679	919,564	1,020,076
Claims incurred	595,169	663,324	752,449	890,562	930,653
Unexpired risks reserve	19,871	15,641	53,424	1,317	(40,676)
Operating expenses	58,095	66,322	75,569	78,520	82,409
Investment return	24,684	13,980	16,559	18,649	27,798
Taxation charge	5,308	9,379	510	144	5,144
Surplus/(deficit) for the year	33,824	62,306	3,286	(32,330)	70,344
Surplus/(deficit) / Income Ratio	4.9%	7.8%	0.4%	(3.5%)	6.9%
Reserves	215,732	255,026	255,819	220,220	291,800
Minimum statutory solvency	120,860	135,053	152,677	175,939	196,051

Financial Ratios	%	%	%	%	%
*Solvency margin level	29.3	30.5	28.7	23.2	27.1
Claims (including URR) as a % of earned premium	89.4	84.6	92.8	97.0	87.2
Operating expenses as a % of earned premium	8.4	8.3	8.7	8.5	8.1

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

* Solvency requirements imposed by the Financial Regulator come under two headings:

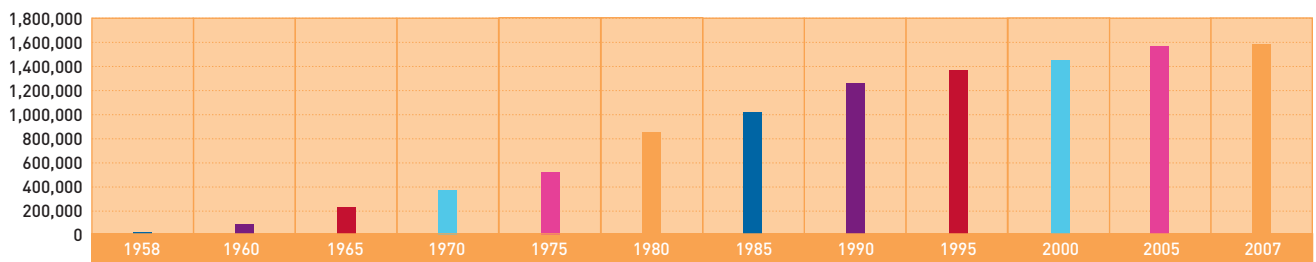
- (i) Minimum solvency margin: currently 150% of the minimum statutory solvency which for Vhi Healthcare at 28 February 2007 would amount to €294m.
- (ii) Solvency ratio: currently 40% of written premium income which for Vhi Healthcare at 28 February 2007 would amount to €435m. We understand that this requirement is currently under review.

New solvency requirements for Insurance Undertakings will apply following the introduction of the new EU Solvency Directive, referred to as 'Solvency II'. It is anticipated that this will apply lower solvency requirements for Health Insurers than at present. This Directive is still being developed and it is not expected to be finalised and to become effective until 2010 at the earliest.

Comparative Results and Graphs

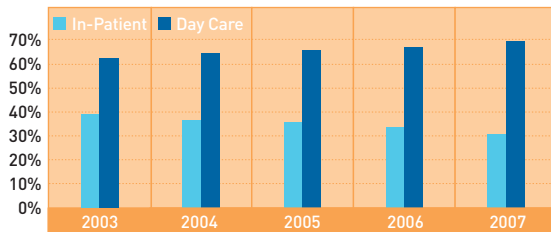
Membership Growth: 50 Years History

Vhi Healthcare's total membership grew by almost 20,000 this year to 1.57 million, our highest ever membership. Our LifeStage Choices plans, launched in 2004, continued to gain momentum and by year end these plans accounted for almost 200,000 members.



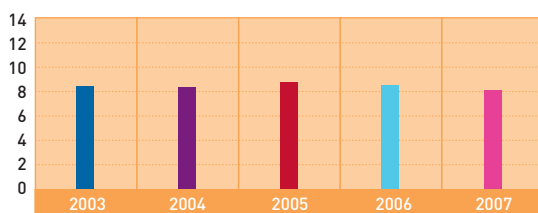
Claims Mix

Over the past five years there has been a significant move to treatment in a day-care rather than in-patient setting. In 2003 the ratio was 62% day-care vs 38% inpatient and in 2007 this was approximately 70% day-care vs 30% inpatient. This has delivered better value for members' premiums - saving the average family on Plan B approximately €800 in premium over the past five years.



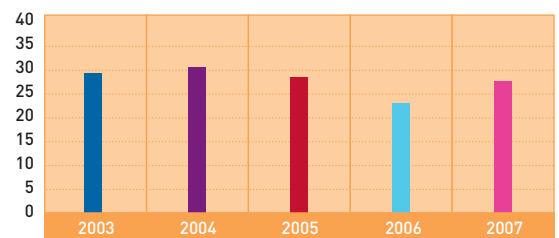
Operating Expenses as % of Earned Income

Vhi Healthcare's operating expense ratio fell from 8.5% to 8.1%. Over the last six years this ratio has decreased by over 30%. The ratio of 8.1% compares to a world-wide norm of 12% and over 13% for some of our competitors.



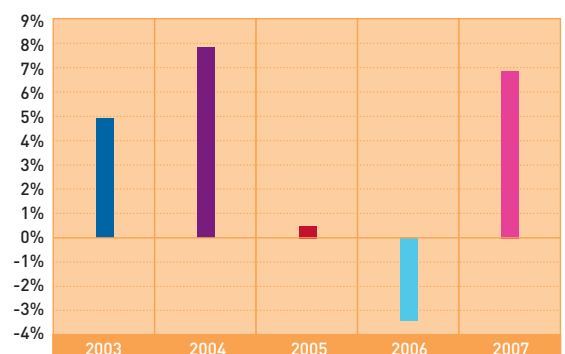
Solvency Margin Level

Vhi Healthcare's solvency ratio has grown from 23.2% to 27.1%. This is evidence of the commitment which we gave to Government in early 2006 that we would meet the solvency requirements of the Financial Regulator by 2012. The Government has since decided that this target be achieved by the end of 2008.



Surplus/Deficit as % of Earned Premium

Vhi Healthcare's surplus after tax for year end February 2007 was €70.3 million compared to a deficit of €32.3 million in the previous year. This surplus consisted of two elements: an operational surplus of €34.7 million and the release of €40.7m (less tax of €5.1m) from the unexpired risk reserve. The recovery from the loss making position of last year is a positive development.



Gallery of Events

1. The 2006 Vhi Cúl Camps, the official GAA summer camps, were the must attend activity for children all over Ireland, with a record 75,000 attending over the summer months. The Vhi Cúl Camps are a nationally co-ordinated programme that aims to encourage children to learn and develop sporting and life-skills by participating in Gaelic Games, in a fun, non-competitive environment. Pictured are Avril Horgan, left, aged 6, and Sarah Kinsella, aged 9, in action during the Official GAA Vhi Cúl Camps, August 2006.
2. Over 9,000 women took to the streets in September 2006 to participate in the 2006 Evening Echo Women's Mini-Marathon sponsored by Vhi Healthcare. This was the 25th anniversary of Munster's premier ladies road race which has previously been won by illustrious athletes such as Sonia O'Sullivan and Anne Keenan Buckley and which raises much needed funds for good causes across the region.
3. Vhi Healthcare was delighted to sponsor the Best Patient Education Project (Non-pharmaceutical) category in the Irish Healthcare Pharmaceutical Awards 2006 as patient education is playing an increasingly pivotal role in the Irish healthcare environment, leading to greater understanding of conditions and improved communication between the medical community and patients. Pictured at the Awards Ceremony is John Church, Arthritis Ireland; Dr Bernadette Carr, Medical Director, Vhi Healthcare; and Paula Guerin, Abbot.
4. 2006 saw Vhi Healthcare and The Irish Times partnering on the Sportswoman of the Year Awards. The Irish Times Vhi Healthcare Sportswoman of the Year Award is the first Irish award of its kind aimed specifically at women in sport and is aimed at creating awareness of their achievements and successes. The Award runs monthly and one overall winner is then crowned Irish Times Vhi Healthcare Sportswoman of the Year Award at the final event each January. Pictured at the final event are the monthly winners.
5. The Department of Education & Science announced details of a new Employee Assistance Service provided by Vhi Corporate Solutions for teachers nation-wide in November 2006. The service is the first stage of an overall Health and Well-being programme being developed for teachers. The Employee Assistance Service (EAS) provides a range of supportive psychological health services to teachers. Services include, single session or short term structured telephone counselling, face to face short term confidential counselling as well as critical incident debriefing. Pictured at the launch of the service are Mary Hanafin T.D., Minister for Education and Science and Vincent Sheridan, Chief Executive, Vhi Healthcare.
6. Vhi Healthcare partnered with The Ladies Gaelic Football Association in 2006 to sponsor the All-Ireland Club Championships for an initial period of two years at junior, intermediate and senior levels. 2006 was the 30th anniversary of the competition and the Vhi Healthcare All-Ireland Club finals took place in late November. Ladies Gaelic Football is acknowledged as the largest female sport in Ireland. There are over 100,000 members of the Association in Ireland and overseas in over 1,000 clubs. Pictured at the launch are, from left, the winning captain from 1996, Leona Tector, Shelmaliers, Wexford, practicing her ball control while the winning captain from 1977 Josie Briody, Mullahoran, Co. Cavan, and 1986 Rita Keenan, The Heath, Co. Laois, hold the Dolores Tyrell Memorial Cup.



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7. Croke Park played host to Ireland's first Lean Healthcare Services Conference, sponsored by Vhi Healthcare. The Conference was the first opportunity for Irish healthcare professionals and administrators to learn more about the Lean Healthcare system, which aims to increase healthcare efficiency. Pictured at the conference are Joe Aherne, Managing Director, Lean Healthcare Services; Dr Bernadette Carr, Medical Director, Vhi Healthcare; and Jeffrey L. Clothier Assistant Chief of Staff of Mental Health Service, Arkansas, USA.
8. Vhi Healthcare was one of the sponsors of the 2007 Private Healthcare Conference & Exhibition. Entitled "The business of health – improving healthcare", the conference provided a unique platform for discussion and debate on a host of topics such as partnership between the public and private sectors; performance management in healthcare and elderly care facilities in Ireland. Pictured at the event are Noel Daly, Managing Director, The Health Partnership, and Vincent Sheridan, Chief Executive, Vhi Healthcare.
9. Ireland's second walk-in urgent care facility, Vhi SwiftCare Clinic in partnership with The Well, opened in June 2006. The second Clinic is located in Dublin City University, Collins Avenue, Dublin 9 and is based in a purpose built facility adjacent to the School of Nursing building in Dublin City University. The Vhi SwiftCare Clinics have treated almost 40,000 patients to date, treating an average of 125 patients per day. A third Vhi SwiftCare Clinic will open in Swords in August 2007. Pictured are Vhi SwiftCare Clinic DCU staff members at the official launch event.

Vhi Healthcare 50th Event



Vhi Healthcare celebrated its 50th anniversary this year and, to mark this momentous occasion, hosted a black-tie event in the Four Season's Hotel, Dublin. The guests included a number of former Chairmen and Chief Executives of Vhi Healthcare as well as members who had joined the organisation in 1957. The guest of honour at the event was Minister for Health & Children, Mary Harney T.D.



1. Helen O'Rourke, Chief Executive, Ladies Gaelic Football Association, Christy Cooney, Board Member, Vhi Healthcare and Geraldine Giles, President, Ladies Gaelic Football Association.
2. Vincent Sheridan, Chief Executive, Vhi Healthcare, and Tom Ryan, Chief Executive, Vhi Healthcare 1983-94.
3. Dr Mary McCaffrey, President, IHCA, and Dr Bernadette Carr, Medical Director, Vhi Healthcare.
4. Bob Graham, former Chief Executive, Vhi Healthcare, 1980-82, and Eileen Graham.
5. Brian Dennis, former Chairman, Vhi Healthcare, 1981-86, Derry Hussey, former Chairman, Vhi Healthcare, 1997-03, Des Cashell, former Chairman, Vhi Healthcare, 1986-91, Bernard Collins, Chairman, Vhi Healthcare, Noel Hanlon, former Chairman, Vhi Healthcare, 1991-96.
6. Trevor, Linda, Vera and Norman Montgomery. Vera and Norman Montgomery joined Vhi Healthcare in 1957 and their son Trevor was born the same year and also joined Vhi Healthcare. Trevor Montgomery is currently Business Development Manager, with Vhi Healthcare.
7. Rory and Philomena O'Gorman. Philomena was born in 1957 and has been a member of Vhi Healthcare since birth.
8. Vincent Sheridan, Chief Executive, Vhi Healthcare, Mary Harney T.D., Minister for Health & Children and Bernard Collins, Chairman, Vhi Healthcare.
9. Maureen and Mike Walsh, Chief Executive DeCare International.
10. Jo and Denis Casey, Group Chief Executive Designate of Irish Life & Permanent plc.

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