Vhi Healthcare Annual Report & Accounts 2010

Company Details

Main Bankers
AIB Bank plc
Bank of Ireland

Auditors
Deloitte & Touche

Solicitors
McCann Fitzgerald

Consulting Actuaries
Towers Watson

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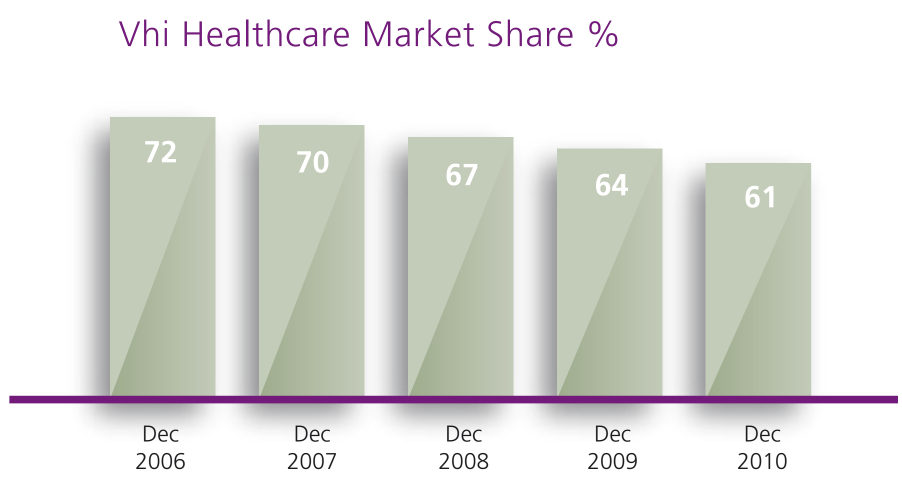
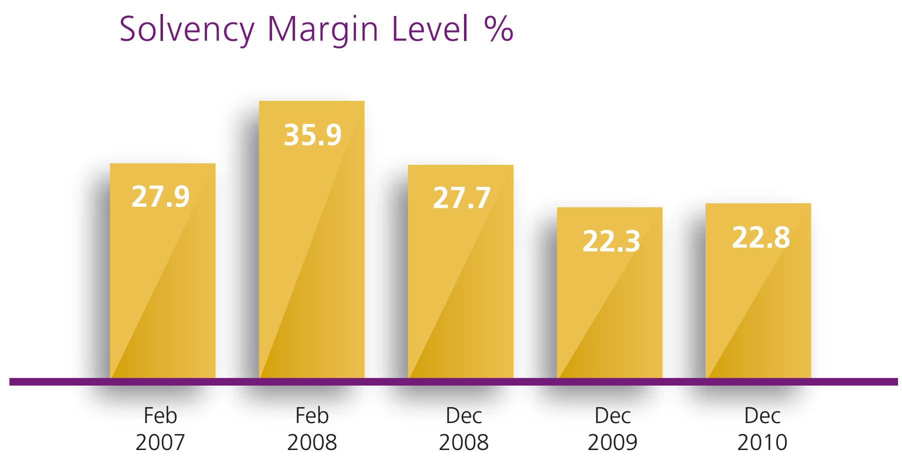
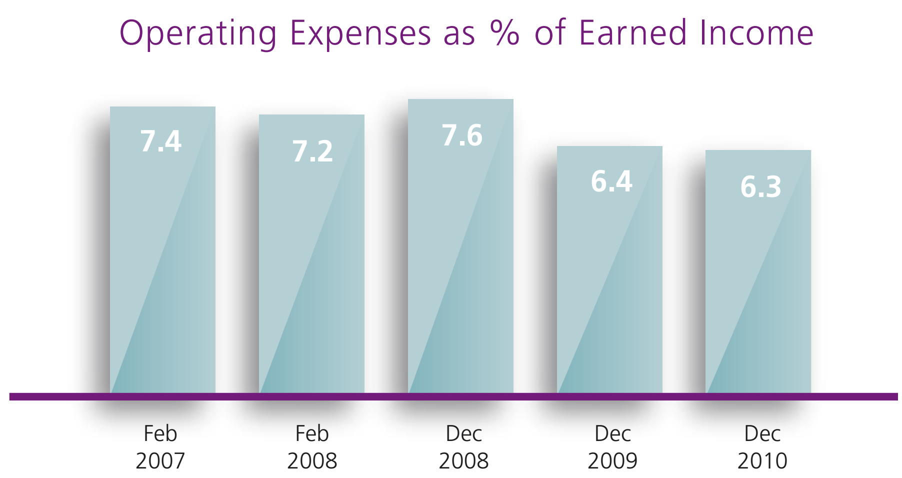
Vhi HEALTHCARE

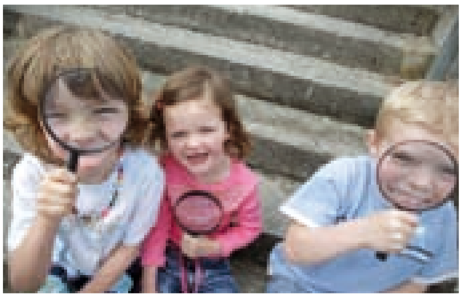
Operational Statistics







In 2010, Vhi Healthcare invested additional resources in its Special Claims Investigation Unit (SIU) and its continued promotion has resulted in a significant increase in the volume of cases being investigated and an associated increase in the level of monies being recouped from providers. The SIU recovered over €3.9 million in 2010 and investigated approximately 2,000 queries raised by customers regarding claims paid on their behalf. Vhi Healthcare processes over half a million claims each year and it is vital, particularly in these tough economic times, that customers continue to help us ensure every cent we pay on their behalf is paid out correctly.



Special Investigation Unit


Bernard Collins


Gillian Bowler


Seamus Creedon


Jimmy Tolan


Liam Downey


Christy Cooney

Board of Directors

Bernard Collins
Chairman

Bernard Collins is Chief Executive Officer of Lifemed Consulting Limited. Mr Collins received a BA Honours in Applied Industrial Psychology/Business from University College Cork, Ireland. Mr Collins 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.*

Jimmy Tolan BComm FCA
Chief Executive

Jimmy Tolan joined Vhi Healthcare as Chief Executive in May 2008. Mr Tolan was Chief Executive Officer of Fyffes plc since January 2007 and managed Fyffes acquisition function since 1993. Jimmy Tolan is a qualified accountant, having trained with KPMG. He has a BComm Degree and a Diploma in Professional Accounting from University College Dublin.

Gillian Bowler
FMII FMgt, Hon. Doctorate of Law

Chairman, Irish Life & Permanent, Plc., Non-Executive Director, Grafton Group.*

Christy Cooney (Criostóir Ó Cuana), Master of Education

GAA President (An-t-Uachtarán).[#]

Seamus Creedon

Seamus Creedon is a qualified actuary and holds a number of non executive positions at life assurance, general insurance and reassurance companies in Ireland and the UK. He leads the European Actuarial Profession contribution to "Solvency II'. He was a partner at KPMG, London where he led the UK actuarial practice and was Deputy Leader of its Global actuarial practice. Prior to this he was Chief Executive of Lifetime, Bank of Ireland's Life Assurance Company and Head of Corporate Development, Europe for Bank of Ireland.

Liam Downey

Liam Downey is a former Chief Executive Ireland of Becton Dickinson, a leading global medical technology company. He was Chairperson of the Health Service Executive, President of the Federation of Irish Employers, a trustee and member of the board of the Irish Business and Employers Confederation (IBEC), Chairman of the Irish Medical Devices Association and a member of the Labour Relations Commission. He is a graduate of University College Dublin, a chartered member of the Institute of Personnel Development and a Fellow of the Irish Management Institute.*

Celine Fitzgerald

Celine Fitzgerald is CEO of Rigney Dolphin Group, employing over 1,200 people. Prior to joining Rigney Dolphin she was an Executive Director at Vodafone Ireland for over seven years. Celine is a CRM and customer service expert and has served in a number of senior roles in the telecommunications and BPO sectors.#*

Cathriona Hallahan FCCA

Cathriona Hallahan joined Microsoft in 1986 and became Managing Director of the Microsoft EMEA Operations Centre (EOC) in 2008. She leads a team of 600 that manages operations across 120 countries. She is a qualified Executive Coach and is passionate about Change Management and Leadership Development. She currently sits on the Council of the PSI (Pharmaceutical Society of Ireland), the board of the American Chamber of Commerce, the board of Kanchi Network and was named as the 2009 O2 WMB Businesswoman of the Year.

Karen Hickey-Dwyer FRIAI

Karen Hickey-Dwyer is currently a consultant with Hickey-Dwyer, Solicitors, specialising in healthcare, family law, clinical negligence and insurance litigation. She was admitted to the Rolls of the Incorporate 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 and Member, International Bar Association.#

Declan Moran

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 and was appointed to the Vhi Board of Directors in 2008. 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.

Humphrey Murphy

Chairman, Hygienic Stainless Steels Ltd UK, Member of Governing Body University College Cork 1997 to date, Chairman of UCC Audit Committee 2003-to date, Director of Cork Airport Authority.*

Liam Twohig BComm FCA

Senior Partner, Baker Tilly Ryan Glennon, Business Partners and Accountants, Past President, German-Irish Chamber of Industry and Commerce.#

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

Bernard Collins, Chairman

Chairman's Review

Introduction

The year under review has been a challenging one for Vhi Healthcare and sadly it is now very clear that Community Rating has been overwhelmed by market forces primarily due to the failure of Government to set the age related tax credits at a level which would properly equalise the health insurance market and in turn protect older members of society. This has resulted in a dysfunctional health insurance market with very significant competition for profitable younger lives and corporate schemes and no competition for loss making older health insurance customers. The goal of a Community Rated private health insurance market is unsustainable in the absence of the full implementation of the necessary support mechanisms to which the previous Government committed. The past number of years have seen the health insurance market segment from a product perspective and, if this issue is left unresolved, we expect that the health insurance market will in time fully segment from a pricing perspective which means that older people will pay significantly more for their health insurance than younger members of society. Vhi Healthcare does not believe that this is in society's best interest.

Market Regulation, Government Interactions and the Pricing Decision

In May 2010 the Government announced their intention to implement a comprehensive set of measures designed to sustain Community Rating. However, subsequent to this announcement both the Health Insurance Authority and the Department of Health and Children have failed to make the necessary decisions in order to ensure this policy was achieved.

In December 2010 the Department of Health and Children increased the cost of private accommodation in public hospitals by an average of 21% without perhaps fully appreciating the significant adverse impact on the health insurance marketplace. Also the Health Insurance Authority failed to recommend an increase in the age related tax relief to a level which would protect older members of society. The consequences of these decisions by the Department of Health and Children and the Health Insurance Authority is that Vhi Healthcare was facing losses of €147m in 2011 on its customers over the age of sixty and faced losses of over €100m on Plan B and B Options prior to the price increases announced on the 6th January 2011.

In order to be sustainable and meet its legal obligations to match income and expenditure, Vhi Healthcare had no option but to increase the price of Plan B by 35% and Plan B Options by 45%. These increases would have been avoided if the Health Insurance Authority and the Department of Health & Children had made decisions consistent with the goals which were clearly articulated in May 2010 and which appear to be supported in principle by all political parties.

Vhi Healthcare deeply regrets the need to implement these price increases. However, the unfortunate reality is that they are necessary to cover the cost of funding the healthcare costs of our customers over the next 12 months.

Under the legislation that governs us, Vhi Healthcare must ensure that our income matches our expenditure and, over the last two years, we have taken many steps to contain the rising costs of meeting our customers' healthcare needs.

One Plans from Vhi Healthcare are new and innovative health insurance solutions designed to reduce costs for Irish families in these challenging times, while still providing the excellent, trusted health cover that people expect from Vhi Healthcare. Since launching in April 2010, the suite of One Plans from Vhi Healthcare have proven to be immensely popular, attracting almost 130,000 customers to date.

One Plans provide excellent hospital cover including full cover for a private room and treatment in all public hospitals and full cover for a wide range of treatments in semi-private accommodation in most private hospitals (excluding Blackrock Clinic and Mater Private Hospital), subject to an excess of €125 per claim. In addition, the plans provide benefits toward mental health assessments and therapy for stress related conditions at Dean Clinics and towards two visits to Vhi SwiftCare Clinics for treatment of minor injuries and illnesses.

Vhi One Plans

These amount to €100 million of annual savings and include:

- 15% reduction in consultant fees,
- 6% reduction in private hospital fees,
- An annual reduction in administration costs of €14 million.

We have also agreed maximum revenue levels with private hospitals and we currently are not covering any new private facilities unless they provide innovative medical services for our customers and significant value for Vhi Healthcare. We also believe there is sufficient private hospital capacity in Ireland for our customers.

Between September 2009 – 31st December 2010 Vhi Healthcare had almost 100 interactions with different parts of Government, 60 of which specifically related to how best to protect older members of society. Vhi Healthcare must achieve sustainability regardless of the regulatory environment but we will also continue to lobby the new Government to set tax credits at the level necessary to support the healthcare costs of older members of our society.

I believe there is a solution but the Health Insurance Authority (HIA) and the Government are ultimately responsible for deciding the level of tax credits necessary to provide support for older insured people. For as long as the tax credits do not deal with the losses produced by covering older customers Vhi must instead, each year, increase its prices much more than it wishes to, or than Vhi thinks is fair to any of its customers.

Failure of Competition in the Health Insurance market

Since deregulation in 1996 the health insurance market has had one key characteristic - *Younger lives have been highly profitable and older lives have been significantly loss-making*. Given this key market characteristic new entrants have focused on insuring younger lives and avoiding older lives. This is rational market behaviour. However this behaviour is inconsistent with the objectives of a community rated marketplace where risks are equalised.

The Health Insurance Authority has set out the fundamental attributes of current market.

1. Insurers will design and market products attractive to better risks.
2. Insurers with more favourable risk profiles are protected from insurers with less favourable risk profiles.
3. The most profitable insurers will be those that can best use market strategy to attract healthy lives and avoid unhealthy lives.
4. Insurers with worse risk profiles are obliged to charge higher premiums or incur losses.

Despite these attributes, the HIA recommended only modest adjustments to the Minister for Health & Children for the levy and tax relief at source (TRS) system.

Vhi Healthcare's competitors have successfully focused on and pursued younger profitable lives since 1996. Their strategy to date has been to match Vhi Healthcare's healthcare benefits at a lower price and market to younger groups.

Aviva Healthcare as the newest entrant with significant resources has exploited its superior risk profiles and over the last two years Vhi Healthcare has lost almost 170,000 customers. Aviva Healthcare generated pre-tax profits of €22m in 2010 and this represents a return on capital employed of over 100%, Bupa also generated super-normal profits, three times what it made in the UK prior to exiting the market in 2007.

Under the 2011 levy/TRS system the older the customer group, the higher the average losses. Vhi Healthcare has to fund the healthcare needs of 129,000 customers over the age of seventy while its competitors have to fund 13,000 customers. Vhi Healthcare faced losses of €110m on its customers over the age of seventy while its competitors faced losses of €8m.

The new age related tax relief system which was amended in December 2010 is only 55% effective which encourages competitors to focus on attracting and retaining younger profitable lives. Unfortunately this means that the primary focus within the Irish health insurance market is on attracting better risks rather than improving healthcare outcomes or redefining healthcare delivery. Unless this situation is addressed the reality is that the Irish health insurance market will move towards the broken American model at a time when ironically America is attempting to redesign its healthcare model. This type of competition is not in the best interests of Irish society and has no utility value for society as competition within health insurance should primarily be focused on improving healthcare outcomes and delivering care in the most appropriate and efficient setting.

Solution

Even at this very late stage it remains possible to solve this issue.

This would involve the proposed levy and age related TRS being adjusted so that older members of society are funded by younger members of society. The age related tax relief needs to be increased for older members of society and this should be funded by an increase in the levy payable by adults from the current rate of €205 to €295. This modest increase would help move us towards a fully functioning Community Rated system which would encourage competition across all age groups.

Age	2011 Age Related TRS	Required Age Related TRS
60 – 69	€625	€945
70 – 79	€1,275	€2,110
80+	€1,725	€2,880

If no progress is made then the social goal of Community Rating will not be met and market forces will result in a quasi risk rated market place. This will result in lower prices for younger members but in turn will lead to higher prices for older members as this is how markets operate. We believe an opportunity exists for the new Government to address and resolve this issue in a manner which protects older members of society.

Ireland's Healthcare Funding Challenges and the Role of Vhi Healthcare

Ireland faces very significant challenges in how to fund its population's healthcare needs over the next ten years. Our population did not significantly age over the past twenty years. However that is set to change dramatically in the coming years with an estimated increase of 280,000 additional members of society over the age of 65 in the next ten years and an additional 500,000 people over the age of 65 in the next twenty years. The greatest increase in percentage terms is in older members of society over 85 years of age, which is estimated to increase by 120% over the next ten years.

It is expected that the number of adults with chronic conditions will increase significantly in the years ahead, particularly in areas such as chronic heart disease, strokes and diabetes. Also the amount of cancer care required is expected to grow by 7% per annum. Quite simply people will live far longer with more chronic diseases and this will result in a significant increase in demand for hospital services, long-term care services and care within a community services including home care and community based chronic disease management services.

Vhi Healthcare estimates that the current average healthcare costs for members of society over the age of sixty five is approximately €14,000 per annum with an annual cost of €7 billion and that over 80% of this expenditure is funded through the taxation system. Based on the current funding and delivery model Vhi Healthcare estimates that the total cost of meeting the healthcare needs of members of society over the age of sixty five will increase to €11 billion by 2016 and €16 billion by 2021. Funding this additional healthcare expenditure will represent a real challenge for Irish society.

Vhi Healthcare anticipates and hopes that it will play a pivotal and strategically critical role in both the funding and delivery of these services in the years ahead, particularly if a universal health insurance system is implemented. We have started to put some of the requisite building blocks in place including a recently launched hospital in the home service, together with the establishment of two medical screening clinics initially focused on Type II Diabetes and cardiovascular risk.

Vhi Healthcare's Funding Challenge

Almost 25% of our customers are now over the age of sixty and over 50% of Vhi Healthcare's expenditure is accounted for by meeting the healthcare needs of our customers over the age of sixty. Our customers will continue to age over the next ten years and our older customers will continue to live longer with more chronic conditions thus requiring more medical care. While Vhi Healthcare has a 60% market share we actually fund 82% of private health insurance care. Our competitors fund 18% of this but have a 40% market share. We are four times the size of Aviva Health yet our spend on cancer care and treatment of cardiac conditions is twenty times their level. Our average healthcare expenditure per customer is twice the level of our competitors due to differences in the age and risk profile of Vhi Healthcare customers compared to its competitors.

Future Roadmap – Financial Regulation

It remains a strategic imperative that Vhi Healthcare achieves financial regulation but the key to achieving financial regulation is that there is a sustainable long-term community rated system which equalises the risks and costs for all health insurance companies.

Healthcare Innovation

Vhi Healthcare is committed to developing innovative and value added healthcare services. Over the last year we have developed a hospital in the home service which we expect will treat over 800 customers in 2011 and we have also developed two medical screening centres primarily focused on measuring cardiovascular risk and the risk of developing Type II Diabetes. Vhi Healthcare intends to devote greater resources in the years ahead to trying to improve the health status of our customers who are pre-diabetic.

We also intend to develop community based chronic disease management programmes and have plans for other community based services.

Tribute

I would especially like to acknowledge the contribution made by our esteemed staff member Ms. Mary Sharkey who passed away during the year. Our sincere sympathy goes to her family, friends and colleagues in Vhi Healthcare. May she rest in peace.

Acknowledgements

I would like to record the appreciation and thanks of the Board members to all the employees for their dedication throughout last year and for their commitment to Vhi Healthcare. I would also like to thank my fellow Board members and members of our Advisory groups for their commitment and support. I would also like to thank former Board members Baroness Julia Neuberger, Mr. David Went, Mr. Cathal Magee and Mr. Jim Kelly for their contribution to Vhi Healthcare. I would also like to welcome the new Board members who joined Vhi Healthcare during 2010 – Seamus Creedon, Celine Fitzgerald, Liam Downey and Cathriona Hallahan.

Bernard Collins
CHAIRMAN


Jimmy Tolan


Dr Bernadette Carr


John Creedon


Tony McSweeney

Executive Management Team

Jimmy Tolan BComm, FCA
Chief Executive

Jimmy Tolan joined Vhi Healthcare as Chief Executive in May 2008. Mr Tolan was Chief Executive Officer of Fyffes plc since January 2007 and managed Fyffes acquisition function since 1993. Jimmy Tolan is a qualified accountant, having trained with KPMG. He has a BComm Degree and a Diploma in Professional Accounting from University College Dublin.

Dr Bernadette Carr MD, FRCPI, MPH, LFOM
Director – Medical

Bernadette Carr is a physician and epidemiologist with extensive clinical and research experience. A graduate of UCC, her qualifications include Fellowship in UCLA, Doctorate in Medicine TCD, Licentiate of Faculty of Occupational Medicine, Masters Public Health and Diploma in Practical Dermatology (Cardiff).

She was elected to Fellowship of the Royal College of Physicians in Ireland in 1996. Bernadette joined Vhi Healthcare in 1994 as Medical Director and her responsibilities include: provider relations and contract negotiations; medical and healthcare development, medical services provision and wellness.

John Creedon
Director – Claims

John Creedon has a BSc in Computer Applications from Dublin City University. He is responsible for the overall service, administration and payment of claims. John has held a number of senior positions within Vhi Healthcare prior to his appointment as a Director in 1996.

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.

Margaret Molony
Director – Information Technology

Margaret Molony has over 25 years experience in Vhi Healthcare and is responsible for Information Technology Services in the organisation. Margaret has held a number of senior positions within Vhi Healthcare prior to her appointment as a Director in 2008.

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 and was appointed to the Vhi Healthcare Board of Directors in 2008. 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.

Michael Owens
Director – Human Resources

Michael Owens has a BA in industrial relations and is a Chartered Fellow of CIPD. He joined Vhi Healthcare in August 1999 and has over 30 years experience in human resources management in light engineering, paper and print, commercial retailing and insurance.

Willie Shannon BBS, FCA
Director – Finance

Willie Shannon is a graduate of TCD, having obtained his BBS in 1974 and qualified as a chartered accountant in 1977. He joined a large firm of insurance brokers in 1987 and was subsequently appointed Group Finance Director. 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.

Jimmy Tolan, Chief Executive

Operations Review

As stated by the Chairman in his review, 2010 was another challenging year for Vhi Healthcare. 2011 will be no less challenging as we are faced with the difficulty of trying to reconcile the need to continue funding our older customers' healthcare needs and at the same time to ensure our income exceeds expenditure while operating in a health insurance sector which does not adequately support older members of society but which continues to encourage cherry-picking and favours new entrants.

Vhi Healthcare currently spends €1.3 billion annually in meeting its customers' healthcare needs. We fund over 80% of the private health insurance sector's healthcare expenditure but currently have a 60% market share. We directly employ 878 people and our customers' premium income is the primary funder of 9,000 employees in the private hospital sector and indirectly funds 5,000 employees in the public hospital sector. We currently have 1.29 million customers compared to 1.51 million two years ago and we also have more customers over the age of sixty than two years ago.

Vhi Healthcare faces very significant healthcare funding challenges as our customers continue to age. We anticipate that we will have to deliver significantly more care in critical healthcare areas such as cancer, cardiac, orthopaedic and managing chronic conditions in the years ahead. All of this healthcare will need to be funded. Achieving this will be extremely difficult given that the current age related tax relief system is only 55% effective and this encourages our competitors to focus on attracting and retaining younger profitable lives while avoiding insuring older members of society who are significantly loss making.

Financial Results

The key financial results for 2010 are as follows:

- Earned premium for the twelve months to 31st December 2010 came to €1.335 billion, up 1.6% on premium income earned of €1.314 billion the previous year.
- The business recorded a deficit after tax of €3.1 million in 2010 compared with a deficit of €41.7 million in 2009. While this constituted an improved performance we still incurred a €33m underwriting loss in our core health insurance business and we will need to generate an underwriting surplus of at least €30m in order to ensure we are sustainable.
- Total claims incurred during 2010 amounted to €1.307 billion. This figure is down almost 1.4% on the previous year principally because of reductions in rates per procedure paid to private hospitals (3%) and consultant fees (5% with effect from July 09 and a further 10% with effect from July 10) and the fact that there was no increase in the cost of private beds in public hospitals in 2010.
- Our Claims Ratio of 95.1% (versus 98.7% in 2009) means that of every €100 received in premium income over €95 pays for the medical care needs of our customers. This ratio is significantly higher than those of our competitors.
- Operating Expenses at €90.3 million were 2.2% below 2009 which itself was 9% below 2008. Our operating expenses as a percentage of premium income are significantly lower than our competitors.

Parenting Support

2010 saw Vhi Healthcare host a series of free parenting seminars nationwide, given by well known parenting expert and Clinical Psychologist David Coleman. Targeted at parents of children in primary school, the seminars provided down-to-earth, practical advice and examples of how parents can build closer relationships with their children. The events are part of Vhi Healthcare's continued commitment to providing access to information and expert advice for its members.

Another key service to parents, Vhi Healthcare's NurseLine, fielded over 67,000 calls from customers worried about their health in 2010. The service provides 24 hour access to qualified nurses by phone and is available exclusively to Vhi Healthcare customers. Top medical concerns from parents included queries about vomiting, diarrhoea, high temperatures and rashes. Vhi NurseLine's pregnancy support service was as popular as ever with nearly 6000 calls received and the Vhi NurseLine midwives answered nearly 600 email queries over the course of the year.

- The ratio of free reserves to premium income (Solvency Ratio) currently stands at 22.8%, up by half of one per cent from 2009. Our free reserves amounted to €308 million which are considerably higher than any other health insurer in Ireland.

Cost containment

Over the last two years Vhi Healthcare has taken many steps to contain the rising costs of meeting our customers' healthcare needs. These include:

- a 15% reduction in consultant fees
- 6% reduction in private hospital fees
- an annual reduction in internal administration costs of €14 million.

Notwithstanding these actions we anticipate that our customers will require more healthcare in 2011 compared to 2010. In addition the recently announced increases in public hospitals of 21% will increase our healthcare costs by €60 million in 2011 and we are aware that there are also plans for additional increases for public hospitals in 2012.

Vhi Healthcare already has the lowest administration costs in our sector, the Irish health insurance market, and also compares favourably with international private health insurers. All costs are continuously under review and we are engaged in a range of cost containment initiatives right across the organisation.

Special Claims Investigation Unit (SIU)

In 2010, Vhi Healthcare invested additional resources in its SIU and its continued promotion has resulted in a significant increase in the volume of cases being investigated and an associated increase in the amount of money being recouped from providers. Last year the SIU recovered over €3.9 million and investigated over 2,000 cases raised by customers regarding claims paid on their behalf.

The most common anomalies identified were:

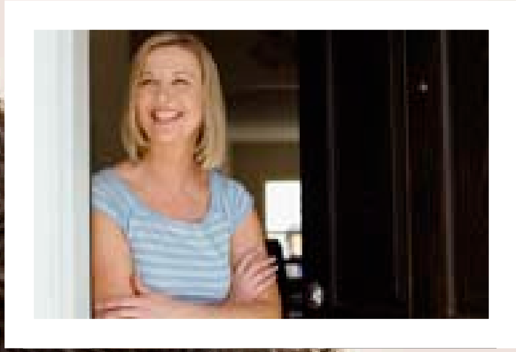
- Incorrect accommodation fees being invoiced by a hospital i.e. private room billed where the patient occupied a semi-private room.
- Incorrect consultant charges i.e. charges being raised for cancelled surgical procedures.
- Private fees being raised for patients who were treated in a public capacity.
- Incorrect data being entered on a claim form by providers.

It is our intention to continue to widen the scope of the SIU and we are confident that this will yield the targeted savings in the coming years.

Funding Our Customers Key Healthcare Needs in 2010

In 2010 Vhi Healthcare spent almost €1.3 billion in funding the healthcare needs of our customers. Our most significant healthcare expenditure in 2010 was for treatment of the following conditions:

1. Cancer & related care – €227.9 million
2. Orthopaedic care (including hip replacements etc) – €168.4 million
3. Heart & circulatory system – €160.3 million
4. Digestive system – €122.8 million
5. Investigation of undefined conditions, symptoms – €107.8 million.



Vhi HomeCare is an innovative new clinical service available exclusively to Vhi Healthcare customers, providing hospital-in-the-home care for a variety of conditions. This allows suitable patients requiring domiciliary clinical care including intravenous antibiotic therapy to be treated by doctors and nurses in the comfort and safety of their own homes, where previously admission to hospital was the only option. The service was launched at the start of 2010 and was availed of by approximately 450 customers over the past 12 months, equating to a saving of almost 5,500 hospital bed days. In the coming year Vhi Healthcare is aiming to treat over 1,000 customers using the HomeCare service, saving an estimated 10,000 hospital bed days.

Vhi HomeCare

Cancer and related care in 2010

Cancer care represents the biggest expenditure area for Vhi Healthcare. Our top three healthcare expenditure area for cancer related care are in breast cancer, colorectal cancer and prostate cancer which accounted for approximately 46% of our total spend on cancer care.

- Breast cancer spend in 2010 – €47.2 million on behalf of 3,129 customers.
- Prostate cancer spend in 2010 – €20.5 million on behalf of 2,086 customers.
- Colorectal cancer spend in 2010 – €37.7 million on behalf of 2,185 customers.

Orthopaedic care in 2010

Orthopaedic care represents the second biggest healthcare expenditure area for Vhi Healthcare.

- Hip replacements in 2010 – €37.5 million on behalf of 2,996 customers.
- Knee replacements in 2010 – €29.9 million on behalf of 1,888 customers.

Heart and Circulatory System

Cardiac care is the third largest healthcare expenditure area for Vhi Healthcare. The top five high spend areas within cardiac care in 2010 were as follows:

- Angiography – €32.2 million on behalf of 10,068 customers.
- Angioplasty – €21.9 million on behalf of 2,325 customers.
- Bypass – €16.2 million on behalf of 605 customers.
- Pacemakers including defibrillators – €13.2 million on behalf of 1,099 customers.

The Community Rating Regulatory Environment and Funding our Older Customers' Healthcare Needs

Healthcare expenditure is primarily a function of the ageing process and the average cost of meeting the healthcare needs of a seventy year old costs over ten times that of a twenty five year old. For a community rated environment to operate successfully, the cost of meeting the healthcare needs of the twenty five year old and the seventy year old must be equalised in a manner so that it is financially as attractive to insure the seventy year old as the twenty five year old.

The current community rated system is delivered through an age based tax relief system which is funded by a levy on all health insurance companies. The current system is only 55% effective and, while the Health Insurance Authority believes that it is 65% effective, the reality is that the older the age group the greater the level of losses and this is not a rational way of sustaining Community Rating and protecting older members of society.

The consequence of such an approach is that it remains highly profitable to insure customers in the 18-49 age bracket and significantly loss-making to insure customers over the age of seventy. This has driven market behaviours whereby our competitors pursue younger, profitable lives and seek to avoid insuring older lives.

Vhi Healthcare believes that it will have to re-direct a reasonable proportion of its customers' premium income into community based care, prevention services and chronic disease management services in the years ahead. As part of this strategy Vhi has developed two medical screening clinics initially focused on cardiovascular risk and Type II Diabetes risk assessment. To date Vhi has screened almost 15,000 customers free of charge. The results of these screenings indicate that approximately 12% of customers in the 45-75 age band face significant risks of developing Type II Diabetes and approximately 2% of them may have the condition and were previously undiagnosed. Given the results Vhi intends to develop lifestyle intervention services with the goal of improving the health status of our high risk customers.

Vhi Healthcare's Screening Programme

	Age Band 18 – 49	Age Band 70+	Ratio of Profitable/Significantly Loss Making
Vhi Healthcare	549,000	129,000	4.3:1
Competitors	430,000	13,000	33:1

Above is the relevant ratio of profitable younger lives to significantly loss-making older lives.

The ineffectiveness of the age related tax relief at source system meant that, prior to implementing the recent price increases, Vhi Healthcare faced losses of €110m on its customers over the age of seventy while its competitors faced losses of €8m.

It is against this background that Vhi Healthcare had no option but to increase the price of Plan B and Plan B Options by 35% and 45% respectively. Notwithstanding these increases Vhi Healthcare will still incur significant losses on its customers over the age of seventy in 2011 and will have to significantly further increase the price of Plan B and Plan B Options in 2012 in the event that the age related tax relief at source is not increased to a level that older members are no longer significantly loss-making.

Vhi Healthcare has to achieve sustainability regardless of the effectiveness of age related tax credit system but it is our profound wish that we will finally see a proper community rated market place. The need for a proper Risk Equalisation scheme was first debated almost twenty years ago. The failure to implement such a system allowed Bupa to generate super-normal profits prior to exiting the market in 2007 and currently allows Aviva Healthcare to generate annual profits in excess of €22m in 2010 notwithstanding that their operating cost/income ratio is over four times the level of Vhi Healthcare and they had approximately 270,000 customers in 2010.

Community Based Care, Prevention Services and Chronic Disease Management Services

It is the view of Vhi Healthcare that it will have to re-direct a reasonable proportion of its customers' premium income into community based care, prevention services and chronic disease management services in the years ahead. We also believe that we need to move from being a funder of hospital based services to becoming a healthcare partner to our customers. We are not unique in pursuing this route as the largest health insurers in UK, Australia, Holland and also some not for profit health insurers in the US are also pursuing similar strategies.

Over the last few years we have started to put a number of building blocks in place. We have developed on a partnership basis three Vhi SwiftCare clinics which currently treat approximately 70,000 people annually and we now provide part cover for this service in our Parents & Kids, LifeStages and Corporate plans.

We have also developed two medical screening clinics initially focused on cardiovascular risk and Type II Diabetes risk assessment. The reason for this focus is that these conditions can be prevented through lifestyle alterations. Recent research has indicated that an individual who develops Type II Diabetes will live on average six years less than those who do not develop this condition.

Vhi SwiftCare Clinics

The Vhi SwiftCare Clinics are walk in, urgent care centres which are run as a joint initiative between Vhi Healthcare and Centric Health, a primary care medical company. The Clinics aim to treat patients with minor injuries and illnesses within one hour. The first Vhi SwiftCare Clinic opened in 2005 and there are currently three clinics nationwide, two in Dublin (Dundrum and Swords) and one in Cork (City Gate, Mahon). The clinics have been a great success and treated approximately 70,000 patients in 2010. As well as providing urgent care services the Vhi SwiftCare Clinics also offer a host of additional, appointment-led services including access to Orthopaedic Consultants, physiotherapy, general dentistry and paediciatrician services.

To date we have screened almost 15,000 customers free of charge and this wellness screening benefit is now available for customers who purchase our traditional B - E Plans. The results of these screenings indicate that approximately 12% of our customers in the 45-75 age band face significant risks of developing Type II Diabetes and circa 2% of them may have the condition and were previously undiagnosed. Given the results we intend to develop lifestyle intervention services with the goal of improving the health status of our high risk customers. We also intend to further broaden the screening and wellness packages in the years ahead.

We have also launched a hospital in the home service and we expect to treat over 800 customers in a home setting in 2011. To date there have been some difficulties with public hospitals in terms of referring our customers to this service but notwithstanding these start-up difficulties we anticipate that this service will be very important in the years ahead. In 2011 we intend to broaden the service to start monitoring patients with chronic heart failure after their treatment has been concluded in a hospital setting with the goal of reducing avoidable re-admissions. Given the expected growth in the number of customers with chronic conditions we believe it will be vital to deliver community based services in the years ahead.

We also have plans to develop a community based secondary care service for children in 2012.

Diversified Business

Over recent years Vhi Healthcare has focussed on innovating when providing a wider range of products and services. These products and services include:

MultiTrip from Vhi Healthcare

Launched in February 2004, MultiTrip from Vhi Healthcare has quickly been established as market leader of the multi trip travel insurance sector with approximately 31% market share in this area and almost 340,000 customers. Nearly 5,500 Vhi Healthcare customers required emergency medical treatment while abroad in 2010, with 1,600 of the claims involved hospitalisation of the customer and nearly 400 repatriations.

Global from Vhi Healthcare

Our Global product offers expatriate insurance to thousands of Vhi Healthcare customers who have moved abroad to study, live or work abroad for more than six months. Launched over 10 years ago, Vhi Global was our first diversified product.

Vhi DeCare Dental

Ireland's first and only stand-alone dental insurance scheme, Vhi DeCare Dental launched a new starter product called Vhi DeCare Dental Starter in April 2010. Costing from as little as €10 per month, this Plan offers broad level, basic dental cover with no waiting period to serve. The product greatly enhances the range of benefits available to customers in the PRSI sector, given the changes to dental entitlement announced in the budget of December 2009.

As part of its sponsorship of the Irish Cancer Society's 2010 Breast Cancer Awareness Month, Vhi Healthcare ran a very successful Send A Ribbon campaign. Members of the public were asked to send pink ribbons to friends, family and loved ones throughout the month of October via www.sendaribbon.ie, with a view to raising up to €100,000. The campaign was launched by Coronation Street's Sally Dynevor who was treated for breast cancer in the soap. In an amazing coincidence, the actress was also diagnosed with breast cancer at the same time as her character was diagnosed on the small screen. The 2010 Send A Ribbon campaign was an immense success and saw over 365,000 ribbons sent to women throughout Ireland.

Breast Cancer Awareness Month

Vhi Corporate Solutions

We offer a range of high quality services and solutions on employee health and wellbeing issues to hundreds of companies across a wide spectrum of industries. During 2010 over 250,000 individuals had the benefit of access to counselling services, legal and financial information and many other employee assistance services to help them cope with the worst effects of issues such as redundancy, changes in work practices, pay cuts, removal of benefits, pay freezes and reduced working hours. Our Occupational Health services saw a marked increase in absence referrals with the highest percentage attributed to "stress". The integration of our Occupational Health and Employee Assistance Programmes has been successful in tackling these issues.

Human Resources

Given the importance which Vhi Healthcare places on not outsourcing its key activities such as claims processing, customer contacts, policy administration and group scheme management, the organisation has invested heavily in the training and development of its 878 (full time equivalent) employees spread throughout eight locations throughout Ireland. Vhi Healthcare considers that our employees make the difference when it comes to customer service and that fully trained and highly motivated employees are crucial to winning and retaining business both now and in the years ahead.

Sponsorships

2010 marked the fifth year of the highly successful Vhi GAA Cúl Camps which saw 80,000 children participating in over 1,000 camps nationwide.

In October, Vhi Healthcare partnered with the Irish Cancer Society to raise both awareness and money for Breast Cancer by being the main sponsor for Breast Cancer Awareness Month. The Vhi Healthcare Send A Ribbon Campaign was launched by Coronation Street's Sally Dynevor, who had recently undergone treatment for breast cancer and saw 365,000 virtual ribbons sent over the course of the month, resulting in a Vhi Healthcare donation of €100,000 to cancer research.

Outlook

As mentioned at the start of this review, we anticipate another challenging year in 2011. The key issue will be how to fund the increasing healthcare needs of our customers in a market, where the key characteristic is that younger lives are highly profitable and older lives are significantly loss-making. As the Chairman has stated this characteristic is inconsistent with the objectives of a Community Rated market where risk should be equalised.

We wish the new Government well and recognise that they have set very ambitious goals for the Irish healthcare system in general and Vhi Healthcare believes it can play a very significant role in funding and delivering top class healthcare services for our customers.

Jimmy Tolan
CHIEF EXECUTIVE

Report of the Directors

The Directors have pleasure in submitting their 54th Annual Report in accordance with Section 20 (1) of the Voluntary Health Insurance Act 1957. The Accounts of the Board and the related notes which form part of the Accounts are included in this report, and have been prepared in accordance with accounting standards generally accepted in Ireland and comply with the European Communities (Insurance Undertakings: Accounts) Regulations, 1996.

1. Principal Activities

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

2. Results

The results for the 12 months to 31 December 2010 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 Statement.

4. Directors' Responsibilities

The Directors are required to prepare financial statements 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 financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements 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 financial statements 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 June 2008. While not itself a listed company, the Board has sought to comply with the provisions of the Code that are applicable.

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: Code of Corporate 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. All non-executive Directors are appointed by the Minister for Health and Children for 5 year terms of office.

The Board meets at least seven 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 held during the financial year

	Board	Audit	Remuneration	Investment	Solvency	Strategy
Bernard Collins*	8		3			4
Gillian Bowler	5		3			
Humphrey Murphy	7		3			
Liam Twohig**	7	4		1		
Christy Cooney	7	2				
Cathal Magee (Retired June 2010)	2	1	2			3
Karen Hickey-Dwyer	6	3				
David Went (Retired May 2010)	3					4
Jimmy Tolan	8			1	1	4
Declan Moran	8					4
Celine Fitzgerald (Appointed February 2010)	7	3				
Seamus Creedon (Appointed February 2010)***	7				1	2
Liam Downey (Appointed October 2010)	2					
Cathriona Hallahan (Appointed November 2010)	1					

* Chairman of the Remuneration Committee
** Chairman of the Audit Committee
*** Chairman of the Solvency Committee

Note: Jim Kelly and Julia Neuberger retired 31 January 2010

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.

Audit Committee

The Board has appointed an Audit Committee which is comprised of four 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.

Remuneration Committee

The Board has also appointed a Remuneration Committee comprising of the Chairman and 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 of the Board have been prepared on a going concern basis and, the Directors 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 consider that it is appropriate to do so based on the Board's budget for 2011 and the medium term plans of the Board. The Board has a statutory obligation to ensure that Vhi Healthcare generates sufficient funds in the private health insurance market to meet the needs of the business. In the absence of adequate regulatory reform the Board has had, and will continue to have, no option but to implement alternative strategies that will achieve its statutory obligations.

6. Directors' Remuneration

Annual remuneration levels for the Chairman and each non-executive Director have been set by Government at €21,600 and €12,600 respectively. 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. a) the sustainability of a community rated private health insurance market given the very significant cost pressures:

   (i) demographic trends as private health insurance costs increase significantly due to the ageing population;

   (ii) the economic environment, when large numbers of young people can no longer afford private health insurance;

   (iii) increased capacity and treatments, resulting in significant cost increases;

   (iv) public hospital charges, which are determined solely by government;

   (v) continuing medical cost inflation, arising from the development of new technologies, drugs, treatment etc;

   (vi) a significant increase in private bed capacity, because a characteristic of the healthcare market is that demand will expand to match supply.

b) the sustainability of Vhi Healthcare, arising from the uncertainty over a sustainable mechanism to fully support the older members of society.

In 2009 the Health Insurance (Miscellaneous Provisions) Amendment Act was introduced with one of its stated objects being the enhancement of intergenerational solidarity and community rated health insurance.

The Act introduced a scheme comprising a levy on private health insurance contracts to generate a fund to be used in the form of an Age Related Tax Relief at Source (ARTRS) towards the costs of insuring older people. The rates calculated (see table below) were designed specifically to compensate for only 50% of the risk, the consequence of this is that even after the benefit of the ARTRS, Vhi Healthcare has incurred a loss of €180m in meeting the healthcare needs of our older customers (280,000 over 60 years of age). The proposed 2011 rates will only compensate for 55% of the risk and this will be insufficient to support the losses incurred in meeting the healthcare needs of our older customers.

Furthermore the Act has been drafted on the basis of being an interim (three year) measure and there is no certainty as to what will happen after the three years have expired.

II. The Government announced a comprehensive set of measures on 27th May, 2010 which included, inter alia:

- the development of a full, robust new risk equalisation (RE) scheme to start in 2013
- the implementation of new transitional arrangements from 2012 that closely approximate the effect of the RE scheme
- making a substantial capital investment in the Vhi in order to achieve its regulatory approval with urgency
- the organisation of the sale of the Vhi, with the appointment of financial advisors to advise on structuring and sequencing
- in that context, the investigation of measures to achieve a more even balance of customers among companies in the market
- other actions to increase competition and choice in the market.

III. The Minister for Health and Children has requested that Vhi Healthcare be in a position to apply for a licence as an authorised insurer to the Central Bank of Ireland by 1st January 2012. In assessing an application the Central Bank of Ireland applies a number of tests, including, inter alia;

a) the adequacy of the current solvency level

b) the adequacy of the medium term solvency position based on a five year pessimistic scenario

	Levy			**Age Tax Relief**			
	Actual 2009	**Actual 2010**	**Proposed 2011**	**Age on Renewal**	**Actual 2009**	**Actual 2010**	**Proposed 2011**
Per Child (under 18)	€53	€55	€66	50 - 59	€200	€200	-
Per Adult	€160	€185	€205	60 - 69	€500	€525	€625
				70 - 79	€950	€975	€1,275
				80 +	€1,175	€1,250	€1,725

c) Vhi Healthcare will have to be sufficiently well capitalised to satisfy the Central Bank of Ireland in a scenario where the interim measure is not replaced by a more permanent comprehensive mechanism.

IV. The Voluntary Health Insurance (Amendment) Act 2008 gave additional commercial powers to Vhi Healthcare but these will apply only after it is approved and licensed by the Central Bank of Ireland (see III above).

Vhi Healthcare uses a number of Key Performance Indicators throughout its various activities and the most significant are set out in the Annual Report.

8. Prompt Payment of Accounts

The Board acknowledges its responsibility for ensuring compliance with the provisions of the Prompt Payment of Accounts Act 1997 (as amended by the European Communities (late payment in commercial transactions) Regulations, 2002). Procedures have been put in place to identify the dates upon which invoices fall due for payment and for payments to be made on such dates, and accordingly, the Board is satisfied that the Voluntary Health Insurance Board has complied with the requirements of the Regulations.

9. Subsidiary and Associated Undertakings

The Board's subsidiary and other undertakings, as at 31 December 2010, are listed in note 24.

10. 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.

11. Auditors

The auditors Deloitte & Touche, Chartered Accountants, present themselves for re-election in accordance with Section 19 (2) of the Voluntary Health Insurance Act 1957.

On behalf of the Board:

Bernard Collins	**Liam Twohig**
Chairman	Director

23 March 2011

Report of the Auditors

Independent Auditors' Report to the Directors of the Board of the Voluntary Health Insurance Board

We have audited the financial statements of Voluntary Health Insurance Board for the period ended 31 December 2010 which comprise of the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses, the statement of accounting policies and the related notes 1-25. These financial statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the Directors of the Board of the 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 Directors 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 financial statements in accordance with applicable 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 responsibility, as independent auditors, is to audit the financial statements 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 financial statements 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 voluntary compliance with the nine provisions of the FRC Codes 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 financial statements. The other information comprises only the Director's Report, which includes the corporate governance statement, the Chairman's Statement, the Operations Review and the Comparative Results and Graphs. Our responsibilities do not extend to other information.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Board, consistently applied and adequately disclosed.

Report of the Auditors [CONTINUED]

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 financial statements 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 financial statements.

Emphasis of Matter – Risk Equalisation and Solvency Requirement

Without qualifying our opinion, we have considered the disclosures made in Notes 1, 3 and 25 regarding the financial viability of the Board, the need for the interim measure to be replaced with a permanent risk equalisation scheme and the requirement that the Board needs to be in a position to apply for an insurance licence from the Central Bank of Ireland by 1 January 2012. The Board considers that in the absence of adequate regulatory reform the Board will be left with no option but to implement alternative strategies that will achieve its statutory obligations. We consider that these matters should be drawn to your attention.

Opinion

In our opinion the financial statements 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 31 December 2010 and of the deficit for the year then ended.

Deloitte & Touche
Chartered Accountants and Registered Auditors
Dublin

23 March 2011

Statement of 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 Board's 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 Board's consulting actuaries, Towers Watson Limited.

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 during the year together with 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.

The gross provision for claims represents the estimated liability arising from medical claims incurred in current and preceding financial years which have not yet given rise to claims paid. The provision includes an allowance for claims handling and expenses.

The claims provision is estimated based on best information available as well as subsequent information and events. Adjustments to the amount of claims provision for prior years are included in the income and expenditure account in the financial year in which the change is made.

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.

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.

Statement of Accounting Policies [CONTINUED]

Age related tax relief and Health Insurance Levy

Age related tax relief and Health Insurance Levy written consist of the amounts receivable/payable to the Revenue Commissioners in respect of policies commencing in the financial year.

Provision for un-earned/un-expensed credits/levy represents the proportion of credits/levy written in the year that relate to the unexpired term of policies in force at the balance sheet date, calculated on a time apportionment basis. The net benefit is recognised on an earned premium basis over the life of the policies and included as other technical income in the income and expenditure account.

Tangible Assets

Tangible 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	4 years
Software	4-6 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 six years. In the event of uncertainty regarding its future economic benefit, the expenditure is charged to the Income and Expenditure account.

Investments

Investments held for trading, including listed securities, are stated at market value. Market value represents the bid 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.

Investments, where the intention is to hold them to redemption date, including government and government guaranteed stocks, are stated at amortised cost over the period between date of purchase and redemption date.

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

Impairment

Financial assets, other than those at market value, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Investment Income

Interest on fixed interest stocks and bank deposits is taken to include income as earned on a day-to-day basis. All income is accounted for on an accruals 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 actual investment return. The allocation of investment return from the non technical account to the technical account is based on the return on investments attributable to the insurance business.

Investments in Joint Ventures, Subsidiaries and Associates

Subsidiaries are accounted for under the cost method.

Associates and joint ventures are accounted for under the net equity method.

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.

Deferred Acquisition Costs

The costs incurred during the financial year that are directly attributable to the acquisition of new business are expensed in the same accounting period as the premiums to which they relate are earned. All other acquisition costs are recognised as an expense when incurred.

Subsequent to initial recognition, these costs are deferred commensurate with the unearned premiums provision. In other words, the amount that has been deferred is the proportion of the total acquisition costs which the unearned premiums provision bears to gross written premiums. Amortisation is recorded in the income and expenditure account.

Deferred acquisition costs are reviewed at the end of each reporting period and are written-off where they are no longer considered to be recoverable from expected future margins.

Income & Expenditure Account

TECHNICAL ACCOUNT: HEALTH INSURANCE

	Notes	**Dec-2010 €m**	**Dec-2009 €m**
Continuing Activities			
Earned Premium:	*2*		
Gross premiums written		1,331.2	1,350.6
Change in the gross provision for unearned premiums		3.7	(37.0)
		1,334.9	1,313.6
Allocated investment income transferred from the non-technical account		22.5	26.7
		1,357.4	1,340.3
Other technical income:			
Age related tax credits/levy	*3*	37.2	29.8
Claims incurred:			
Claims paid		(1,238.6)	(1,340.6)
Change in the provision for claims		(68.7)	14.7
	4	**(1,307.3)**	(1,325.9)
Net operating expenses	*5*	(90.3)	(92.4)
Balance on the health insurance technical account		**(3.0)**	(48.2)

NON-TECHNICAL ACCOUNT: HEALTH INSURANCE

	Notes	**Dec-2010 €m**	**Dec-2009 €m**
Continuing Activities			
Balance on the health insurance technical account		**(3.0)**	(48.2)
Investment income	*6*	22.5	26.7
Allocated investment return transferred to the health insurance technical account		(22.5)	(26.7)
Deficit on ordinary activities before taxation		**(3.0)**	(48.2)
Taxation on ordinary activities	*7*	(0.1)	6.5
Deficit on ordinary activities after taxation carried to reserves	*8*	**(3.1)**	(41.7)

The accounts were approved by the Board on 23 March 2011, and signed on its behalf by:

Bernard Collins
Chairman

Liam Twohig
Director

Balance Sheet

ASSETS

	Notes	Dec-2010 €m	Dec-2009 €m
Investments			
Land and buildings	*9*	25.2	28.7
Other financial investments	*10*	779.9	704.9
Debtors			
Debtors from members arising out of insurance operations		404.2	413.7
Other debtors	*11*	141.2	140.0
Other Assets			
Tangible assets	*12*	27.3	35.5
Deferred taxation	*13*	9.5	8.3
Prepayments and accrued income			
Prepayments		1.6	1.9
Accrued interest		11.0	10.6
Deferred acquisition costs	*14*	8.6	9.1
Total Assets		**1,408.5**	**1,352.7**

LIABILITIES

	Notes	Dec-2010 €m	Dec-2009 €m
Reserves			
General reserve		308.3	306.5
Technical provisions			
Provision for unearned premiums		482.9	486.7
Claims outstanding		374.7	309.2
Creditors			
Creditors to members arising out of insurance operations		44.0	40.7
Other creditors and accruals	*15*	163.6	153.3
Bank overdraft		3.7	17.9
Retirement Benefits Liability	*16*	31.3	38.4
Total Liabilities		**1,408.5**	**1,352.7**

The accounts were approved by the Board on 23 March 2011, and signed on its behalf by:

Bernard Collins
Chairman

Liam Twohig
Director

Net Cash Flow from Operating Activities

	Notes	Dec-2010 €m	Dec-2009 €m
Net cash inflow/(outflow) from operating activities	*17*	83.1	(45.6)
Taxation		4.6	-
Capital expenditure		(3.6)	(3.4)
		84.1	(49.0)
Cash flows were invested as follows:			
Increase/(decrease) in cash holdings		14.2	(4.3)
Net portfolio investment/(reduction)	*18 & 20*	69.9	(44.7)
Net increase/(reduction) in cash flows	*19*	**84.1**	(49.0)

Statement of Total Recognised Gains and Losses

	Notes	Dec-2010 €m	Dec-2009 €m
Deficit for the financial period		(3.1)	(41.7)
Actuarial gain on pension fund	*16*	4.9	10.3
Total recognised gains/(losses) relating to the period		**1.8**	(31.4)

Notes to the Accounts

1. Going Concern

The accounts of the Board have been prepared on a going concern basis and, the Directors 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 consider that it is appropriate to do so based on the Board's budget for 2011 and the medium term plans of the Board. The Board has a statutory obligation to ensure that Vhi Healthcare generates sufficient funds in the private health insurance market to meet the needs of the business. In the absence of adequate regulatory reform the Board has had, and will continue to have, no option but to implement alternative strategies that will achieve its statutory obligations.

2. Earned Premium

The insurance business of the Board is substantially health insurance and earned premium relates mainly to this class of business. Income from ancillary products is €18m. All business written is in the Republic of Ireland.

3. Age Related Tax Relief and Health Insurance Levy

In 2009 the Health Insurance (Miscellaneous Provisions) Amendment Act was introduced with one of its stated objects the enhancement of intergenerational solidarity and community rated health insurance.

The Act introduced an interim scheme (three years commencing January 2009) comprising a levy on private health insurance contracts to generate a fund to be used in the form of an Age Related Tax Relief at Source (ARTRS) towards the costs of insuring older people.

Age Related Tax Relief at Source

Under the terms of the Act, the rates applicable for 2010 in respect of additional tax relief at source were as follows;

Customers aged between;

50 - 59:	€200	(2009: €200)
60 - 69:	€525	(2009: €500)
70 - 79:	€975	(2009: €950)
80+:	€1,250	(2009: €1,175)

The age related tax relief is earned over the term of the policy. At 31 December 2010 the value of unearned tax relief was €87.7m.

3. Age Related Tax Relief and Health Insurance Levy [continued]

Health insurance levy

Under the terms of the Act, a Levy of €185 per adult and €55 per child by way of stamp duty is payable on renewal or inception of a private health insurance policy. Although the levy is payable in full on renewal or inception of the policy it is expensed over the life of the policy and at 31 December 2010, the unexpired portion of the levy amounted to €74.4m.

The net amount recognised in the income and expenditure account was €37.2m (age tax relief €244.4m less levy €207.2m).

See note 25 which outlines the need for a more permanent solution.

4. Claims Incurred

Each year the Board assesses whether it will incur losses on the unexpired element of existing contracts or on contracts that it is obliged to incept or renew. 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. The amount provided at December 2010 is €10m (December 2009: Nil).

5. Net Operating Expenses

	Dec-2010 €m	Dec-2009 €m
Administrative expenses	66.1	67.1
Acquisition costs	23.7	25.4
Deferred acquisition costs	0.5	(0.1)
	90.3	92.4

Core Health Insurance costs included in net operating expenses amount to € 82.7m and the remaining €7.6m relate to ancilliary products

	Dec-2010	Dec-2009
The average number of persons, including part time employees, employed by the Board was:	878	907

	Dec-2010 €m	Dec-2009 €m
Staff costs were:		
Wages and salaries	46.8	47.2
Social security costs	4.7	4.8
Retirement benefits	5.5	6.1

Total fees, including pension contribution, paid to the Chief Executive and included in net operating expenses in the year to December 2010 amounted to salary of €411,420, (2009: €412,003) and performance related pay of €37,500 in respect of each of the years 2008 and 2009 relating to the achievement of strategic objectives.

6. Investment Income

	Dec-2010 €m	Dec-2009 €m
Income from land and buildings	0.1	0.2
Income from other investments	21.5	34.3
Losses on realisation of investments	(0.4)	(7.8)
Unrealised losses on land and buildings	(3.5)	(12.3)
Unrealised gains on investments held to maturity	10.6	2.1
Unrealised (losses)/gains on investments held for trading	(5.5)	11.2
Investment management expenses	(0.3)	(1.0)
	22.5	26.7

A transfer of the full amount of 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.

7. Taxation on Ordinary Activities

	Dec-2010 €m	Dec-2009 €m
The taxation charge in the income and expenditure account comprises:		
Current taxation for year	-	-
Deferred taxation - (charge)/credit	(0.1)	6.5
	(0.1)	6.5

Factors affecting the current taxation charge for the financial period

The current taxation for the financial period is calculated at a rate different to the standard rate of corporation tax in Ireland of 12.5% (December 2009: 12.5%).

The differences are explained below:

	Dec-2010 €m	Dec-2009 €m
Deficit on ordinary activities before taxation	(3.0)	(48.2)
Deficit on ordinary activities multiplied by standard rate of corporation taxation of 12.5% (2009: 12.5%)	0.4	6.0
Effects of:		
Expenses not allowed for taxation purposes	0.2	0.5
Losses carried forward	(0.5)	(6.2)
Capital allowances in excess of depreciation for period	(0.1)	(0.3)
Current taxation for financial period	**-**	-

8. Deficit on Ordinary Activities after Taxation Carried to Reserves

	Dec-2010 €m	Dec-2009 €m
The deficit for the financial period is stated after charging:		
Depreciation of tangible fixed assets	11.9	14.4
Board remuneration (inclusive of €9,553 expenses, (December 2009 €9,805))	1.0	0.9

Auditors remuneration		
Audit fee	0.1	0.1
Other statutory return fees	0.1	0.2
Non audit fees	-	0.2

9. Land and Buildings

	Dec-2010 €m	Dec-2009 €m
Valuation:		
At 1 January	28.7	40.7
Additions	-	0.3
Loss on revaluation	(3.5)	(12.3)
At end of year	**25.2**	28.7

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

Land and buildings were valued at 31 December 2010 at open market value in accordance with Royal Institute of Chartered Surveyors (RICS) appraisal and valuation standards. These valuations were made by external valuers Thorntons Chartered Surveyors, 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.

	Dec-2010 €m	Dec-2009 €m
Opening cost	19.8	19.5
Additions	-	0.3
Closing cost	**19.8**	19.8

10. Other Financial Investments

	Dec-2010 Market Value €m	Dec-2010 Cost €m	Dec-2009 Market Value €m	Dec-2009 Cost €m
Held for Trading				
Shares and other variable yield securities	6.2	6.2	37.0	37.1
Debt securities/fixed interest securities	239.2	243.4	95.9	94.8
Other investments	2.0	4.4	1.9	4.0
Deposits with credit institutions	26.7	26.7	28.6	28.6
	274.1	280.7	163.4	164.5

	Amortised cost	Cost	As re-stated Amortised cost	Cost
Held to maturity				
Debt securities/fixed interest securities	505.8	503.2	541.5	549.5
	779.9	**783.9**	704.9	714.0

The market value of investments held to maturity at 31 December 2010 was €446.6m (2009: €532.4m)

11. Other Debtors

	Dec-2010 €m	Dec-2009 €m
Corporation tax	-	5.9
Age related tax relief/Levy	140.3	133.3
Other debtors	0.9	0.8
	141.2	140.0

12. Tangible Assets

	Motor vehicles €m	Fixtures, furnishings and fittings €m	Computer/ office equipment & software €m	Total €m
Cost				
At 1 January 2010	2.1	8.6	88.1	98.8
Additions	0.6	0.4	2.9	3.9
Disposals	(0.6)	-	(1.4)	(2.0)
At 31 December 2010	**2.1**	**9.0**	**89.6**	**100.7**
Depreciation				
At 1 January 2010	(1.5)	(7.6)	(54.3)	(63.4)
Charge for the financial period	(0.5)	(0.5)	(11.0)	(12.0)
Eliminated in respect of disposals	0.6	-	1.4	2.0
At 31 December 2010	**(1.4)**	**(8.1)**	**(63.9)**	**(73.4)**
Net book value at 31 December 2010	**0.7**	**0.9**	**25.7**	**27.3**
Net book value at 31 December 2009	0.6	1.2	33.7	35.5

13. Deferred Taxation Asset

An asset has been recognised in respect of deferred taxation for the following timing differences:

	Dec-2010 €m	Dec-2009 €m
Unrealised loss/(gain) on investment valuation	0.5	(0.2)
Trading losses carried forward	6.7	6.2
Other timing differences	2.3	2.3
Total deferred taxation asset	**9.5**	8.3

14. Deferred Acquisition Costs

Acquisition costs are expensed as the premiums to which they relate are earned.

The amount of €8.6m provided for at 31 December 2010 (December 2009: €9.1m) is in respect of costs incurred during the financial year which are directly attributable to the acquisition of new business. All other acquisition costs are recognised as an expense when incurred.

15. Other Creditors and Accruals

	Dec-2010 €m	Dec-2009 €m
Age related tax relief/Levy	151.4	140.3
PAYE and PRSI	1.2	1.2
Other creditors	1.0	1.0
Accruals	10.0	10.8
	163.6	153.3

16. 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 pension scheme is internally financed. The contributions to the scheme for the 12 months to December 2010 amounted to €7.7m (December 2009: €7.0m) and are now based on 16.5% of pensionable pay.

The values used in this disclosure are based on the most recent actuarial valuations, carried out at 31 December 2008 and updated to 31 December 2010. 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:

	Dec-2010 %	Dec-2009 %
Rate of increase in salaries	3.75	3.75
Rate of increase in pensions in payment	2.00	2.00
Discount rate	5.70	5.75
Inflation assumption	2.00	2.25

Long-term expected rates of return at financial period end are:

	Dec-2010 %	Dec-2009 %
Equities	7.0	8.1
Fixed interest	4.3	3.2
Property	6.0	7.1
Other	5.0	6.1

16. Retirement Benefits [continued]

Weighted average life expectancy for mortality tables used to determine benefit obligations at

	Dec-2010	Dec-2009
Member age 65 (current life expectancy)	22.8	21.6
Member age 40 (life expectancy at age 65)	26.1	22.2

The assets in the pension scheme at market value were:

	Dec-2010 €m	Dec-2009 €m
Equities	82.8	68.0
Fixed interest	24.6	20.9
Property	3.0	3.0
Other	13.2	10.6
Total market value of assets	123.6	102.5
Present value of scheme liabilities	(135.6)	(128.5)
Deficit in the scheme	(12.0)	(26.0)
Unfunded health insurance premium provision	(23.7)	(17.9)
Net retirement benefits deficit	(35.7)	(43.9)
Related deferred tax asset	4.4	5.5
Net retirement benefit liability	**(31.3)**	(38.4)
Reserves		
Reserves excluding retirement benefits liability	339.6	344.9
Retirement benefits liability	(31.3)	(38.4)
Reserves after including retirement benefits liability	**308.3**	306.5

16. Retirement Benefits [continued]

Income and Expenditure Account

	Dec-2010 €m	Dec-2009 €m
Charged to net operating expenses		
Current service cost	(2.9)	(2.8)
Death in service cost	(0.2)	(0.2)
Other retirement benefits	(0.9)	(0.8)
	(4.0)	(3.8)
Interest in scheme liabilities	(8.7)	(8.0)
Expected return on scheme assets	7.3	5.8
Net change in operating result	**(5.4)**	(6.0)

Statement of Total Recognised Gains and Losses

	Dec-2010	Dec-2009
Actual return less expected return on scheme assets	5.2	9.6
Experience gains and losses on scheme liabilities	5.6	5.6
Changes in demographic and financial assumptions	(4.9)	(3.3)
Actuarial gain	5.9	11.9
Deferred tax	(1.1)	(1.6)
Total actuarial gain	**4.8**	10.3

Movement in net deficit during the financial period

	Dec-2010	Dec-2009
Net deficit in scheme at start of year	(38.4)	(49.7)
Current service cost	(2.9)	(2.8)
Death in service cost	(0.2)	(0.2)
Contributions	7.7	7.0
Interest on scheme liabilities	(8.7)	(8.0)
Expected return on scheme assets	7.3	5.8
Actuarial gain	5.9	11.9
Other retirement benefits	(0.9)	(0.8)
Deferred tax	(1.1)	(1.6)
Net Deficit at end of Financial Period	**(31.3)**	(38.4)

16. Retirement Benefits [continued]

History of experience gains and losses

	Year ended Dec-2010	Year ended Dec-2009	10 months to Dec-2008	Year ended Feb-2008	Year ended Feb-2007
Difference between expected and actual return on assets	5.2	9.6	(47.3)	(14.3)	3.5
% of scheme assets	4%	9%	(60%)	(12%)	3%
Experience gains and losses on scheme liabilities	5.6	5.6	(8.9)	(2.5)	(4.7)
% of scheme liabilities	4%	4%	(7%)	(2%)	(3%)
Total actuarial gain/(loss)	4.9	10.3	(19.6)	3.1	1.2
% of scheme liabilities	4%	8%	(16%)	2%	1%

17. Reconciliation of Operating Deficit to Net Cash Flow from Operating Activities

	Dec-2010 €m	Dec-2009 €m
Deficit on ordinary activities before taxation	(3.0)	(48.2)
Depreciation charges	11.9	14.3
Retirement benefits	(2.3)	(1.0)
Unrealised gains on investments	(1.6)	(1.0)
Increase in health insurance technical provisions	61.7	22.5
Decrease/(increase) in debtors from members arising out of insurance operations	9.5	(28.9)
Increase in debtors and prepayments	(6.6)	(136.5)
Increase in creditors and accruals	13.5	133.2
Net cash inflow/(outflow) from operating activities	**83.1**	(45.6)

18. Movement in Opening and Closing Portfolio Investments

	Dec-2010 €m	Dec-2009 €m
Net cash inflow/(outflow) for the period	14.2	(4.3)
Portfolio investments	69.9	(44.7)
Movement arising from cash flows	84.1	(49.0)
Changes in market values	5.1	13.3
Total movement in portfolio	89.2	(35.7)
Portfolio investments and cash in hand at start of period	687.0	722.7
Portfolio investments and cash in hand at the end of the period	**776.2**	687.0

19. Movement in Cash and Portfolio Investments

	At 1 January 2010 €m	Cash flow €m	Changes to market value €m	At 31 December 2010 €m
Cash at bank and in hand	(17.9)	14.2	-	(3.7)
Shares and other variable yield securities	37.0	(30.9)	0.1	6.2
Debt securities and other fixed interest securities held for trading	95.9	148.6	(5.3)	239.2
Debt securities and other fixed interest securities held to maturity	541.5	(46.3)	10.6	505.8
Other investments	1.9	0.4	(0.3)	2.0
Deposits with credit institutions	28.6	(1.9)	-	26.7
	687.0	**84.1**	**5.1**	**776.2**

20. Analysis of Cash Flows for Headings Netted in the Cash Flow Statement

	Dec-2010 €m	Dec-2009 €m
Portfolio investments		
Purchase of shares and other variable yield securities	5.0	-
Purchase of debt securities/fixed interest securities	1,225.2	1,242.7
Purchase other investments	0.4	0.6
Purchase of deposits with credit institutions	1,449.7	1,250.9
Sale of shares and other variable yield securities	(35.9)	(163.9)
Sale of debt securities/fixed interest securities	(1,122.9)	(1,143.6)
Sale of deposits with credit institutions	(1,451.6)	(1,231.4)
Net cash inflow/outflow on portfolio investments	**69.9**	(44.7)

21. Capital Commitments

There were no significant capital commitments at the financial year end.

22. Related Party Transactions

In common with many other entities, the Voluntary Health Insurance Board deals in the normal course of business with other Government sponsored agencies, including the Health Service Executive through the public hospitals, and with Government owned financial institutions. The Minister for Health also appoints the Board Members. Transactions with other Government related parties therefore include claims and other expense payments, and banking and investment transactions. Details of such transactions are not disclosed separately as it is the view of the Board that it would not constitute information useful to readers of the financial statements.

Interests of Board Members and Secretary

The Board Members had no beneficial interest in the Voluntary Health Insurance Board or its subsidiary at any time during the year.

Please see note 24 for interests in Joint Ventures, Subsidiary and Associated undertakings.

23 Prompt Payment of Accounts

Prompt Payment of Accounts Act 1997 (as amended by the European Communities (late payment in commercial transactions) Regulations, 2002).

Payments made during 2010 were governed by the above Act to combat late payments in commercial transactions. This Act applies to goods and services supplied to the Voluntary Health Insurance Board by EU based suppliers.

Statement of payment practices including standard payment periods

The Voluntary Health Insurance Board operates a policy of paying all undisputed supplier invoices within the agreed terms of payment. The standard terms specified in the standard purchase order are 30 days. Other payment terms may apply in cases where a separate contract is agreed with the supplier.

Compliance with the Directive

The Voluntary Health Insurance Board complies with the requirements of the legislation in respect of all supplier payments. Procedures and systems, including computerised systems have been modified to comply with the Directive. The procedures operated well during the year.

These procedures ensure reasonable but not absolute assurance against non-compliance.

24 Subsidiary and Associated Undertakings

Voluntary Health Insurance Board is the ultimate controlling entity and operates as Vhi Healthcare.

Vhi Healthcare set up a subsidiary company, Vhi Occupational Health Ltd, with effect from October 2008. This Irish registered company is located at Vhi House, Lower Abbey Street, Dublin 1. The company is 100% owned by Voluntary Health Insurance Board. The nature of operations in this company is the provision of Occupational Health Services.

Vhi Healthcare also set up an associated company, Vhi HomeCare Ltd, with effect from December 2009. This Irish registered company is located at 8, Orchard Business Centre, Citywest Business Campus, Dublin 24. The company is 50% owned by Voluntary Health Insurance Board. The nature of operations in this company is the provision of home infusion and related service. It commenced trading in February 2010.

Vhi Healthcare has a joint venture with Centric Health to operate three minor injury clinics under the name of Vhi Swiftcare.

These entities are reflected in Other Financial Investments on the Balance Sheet.

25. Authorised Insurer Licence Requirement

The Minister for Health and Children has requested that Vhi Healthcare be in a position to apply for a licence as an authorised insurer to the Central Bank of Ireland by 1 January 2012. In assessing an application, the Central Bank of Ireland applies a number of tests, including, inter alia,

a) the adequacy of the current solvency level

b) the adequacy of the medium term solvency position based on 5 year pessimistic scenario.

Vhi Healthcare's position in relation to the required solvency margin at 31 December 2010 is shown in the Comparative Results and Graphs section.

Vhi Healthcare will have to be sufficiently well capitalised to satisfy the Central Bank of Ireland in a scenario where the interim measure (refer to note 3) is not replaced by a more permanent comprehensive Risk Equalisation scheme.

Vhi Healthcare currently has a solvency level of 22.8% (December 2009: 22.3%). The Central Bank of Ireland requires a solvency level of 40%. In order to comply with these requirements, measures will need to be taken to achieve the required solvency position by the due date which will require additional capital and or other measures such as reinsurance and subordinated debt.

Comparative Results

	As re-stated				
	Year ended Feb-2007 €m	Year ended Feb-2008 €m	10 months to Dec-2008 €m	Year ended Dec-2009 €m	**Year ended Dec-2010 €m**
Earned premium	1,020.1	1,153.0	1,025.4	1,313.6	**1,334.9**
Claims incurred	(890.0)	(940.1)	(972.0)	(1,325.9)	**(1,307.3)**
Age tax credit less Levy	-	-	-	29.8	**37.2**
Operating expenses core	(74.0)	(81.8)	(77.5)	(84.7)	**(82.7)**
Operating expenses ancilliary products	(9.3)	(9.6)	(7.2)	(7.7)	**(7.6)**
Investment return	27.8	16.3	(42.5)	26.7	**22.5**
Taxation charge/(credit)	(5.1)	(18.2)	8.8	6.5	**(0.1)**
(Deficit)/surplus for the period	69.5	119.6	(65.0)	(41.7)	**(3.1)**
(Deficit)/surplus/Income Ratio	6.8%	10.4%	(6.3%)	(3.2%)	**(0.2%)**
Reserves	299.8	422.5	337.9	306.5	**308.3**
Minimum statutory solvency	196.1	214.6	224.6	255.3	**283.2**

Financial Ratios

	%	%	%	%	**%**
Solvency margin level	27.9	35.9	27.7	22.3	**22.8**
Claims (net age tax relief) as a % of earned premium	87.2	81.5	94.8	98.7	**95.1**
Operating expenses as % of earned premium - Health Insurance	7.4	7.2	7.6	6.4	**6.3**

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.

New solvency requirements for Insurance Undertakings will apply following the introduction of the new EU Solvency Directive, referred to as 'Solvency II'. This Directive is still being developed and it is not expected to be finalised and to become effective until 2013 at the earliest.

Energy Management and Sustainability

In 2010 Vhi Healthcare consumed **5,348,175 kWh** of energy, consisting of:

- **4,278,911 kWh of electricity**. The main energy users of electricity include: lighting (20%), office power/data centres (44%), general services/air conditioning (30%), kitchen (6%).
- **1,069,264 kWh of fossil fuel (natural gas)**. The main energy users of natural gas include space heating and hot water services (95%), kitchen (5%).

Actions Undertaken in 2010

- **Energy Monitoring:** Installation of automatic energy monitoring systems for Vhi Healthcare, Abbey Street and Vhi Healthcare, Kilkenny.
- **Building Energy Management Systems:** Upgraded and improved building energy management systems (BEMS) in Vhi Healthcare, Abbey Street, and Vhi Healthcare, Kilkenny. Maximised plant efficiency through effective control and sequencing and minimised simultaneous heating and cooling.
- **Condensing Boilers:** Replaced existing boilers with condensing boilers in Vhi Healthcare, Abbey Street, and Vhi Healthcare, Kilkenny.
- **LED Lighting:** Replaced existing halogen spot lighting with LED lighting in Vhi Healthcare, Abbey Street, and Vhi Healthcare, Kilkenny offices, providing annual savings of 27,000kWh in electricity.
- **Energy Management Training:** SEAI (Sustainable Energy Authority of Ireland) EnergyMAP training for Vhi Healthcare, Abbey Street, and Vhi Healthcare, Kilkenny staff.
- **Energy Supply and Tariffs:** Changed electricity supplier to reduce electricity costs.

Actions undertaken in 2010 provide estimated total annual energy savings of 340,000kWh.

Actions Planned for 2011

- **Formal Energy Management Programme:** Develop a formal energy management programme and reporting system for all Vhi Healthcare buildings/sites in accordance with Government and SEAI guidelines and directives.
- **Renewable/Alternative Energy:** Dublin Institute of Technology post-graduate student to undertake research project on the potential for renewable/alternative energy utilisation in Vhi Healthcare buildings.
- **ICT/Data Centre:** Implement an ICT and Data Centre energy management efficiency programme.
- **Lighting:** Implement lighting upgrade and control projects.
- **Building Energy Management/Energy Monitoring:** Assess and improve building energy management system plant control strategies.

Actions planned for 2011 are estimated to provide total annual energy savings of 350,000kWh.

Over 80,000 children took part in the 1,000 Vhi GAA Cúl Camps that were held in 2010. Created in 2006, the Vhi GAA Cúl Camps is a nationally co-ordinated programme that encourages primary school children between the ages of 6 and 13, to learn and develop sporting skills irrespective of ability as well as to develop a keen sense of fair-play and personal achievement by participating in Gaelic Games, in a fun, non-competitive environment. 300 children also got to realise their dreams in September when they played a match in the world-famous Croke Park stadium as part of the 2010 Vhi Cúl Day Out. The Vhi Cúl Day Out is a nationwide competition which was open to all 80,000 children who attended one of the camps held over the course of the summer.

Vhi GAA Cúl Camps