At the heart of Irish healthcare

Vhi Healthcare Annual Report & Accounts 2011

COMPANY DETAILS

Main bankers
AIB Bank plc

Auditors
Deloitte & Touche

Solicitors
McCann Fitzgerald

Consulting Actuaries
Towers Watson

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Vhi SwiftCare Clinics

Vhi SwiftCare Clinics provide walk-in medical care for minor illnesses and injuries and aims to treat people within an hour.

In 2011

- 70,000 patients were treated across the three clinics in Dundrum, Swords and Cork
- Average of 1,300 patients are treated each week with an average of 190 patients per day

Top five conditions currently treated are:

- Soft tissue injuries
- Fractures
- Sprains and strains
- Respiratory problems
- Minor cuts

New for 2011:

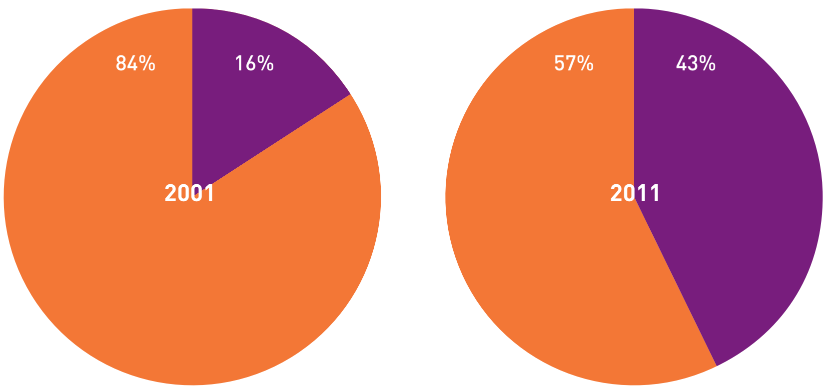
- Introduction of general dental service in Dundrum
- Introduction of paediatric services in Dundrum and Swords
- Accreditation by CHKS
- ISO 9001-2008 standard

OPERATIONAL STATISTICS

MARKET SHARE

Vhi Healthcare has lost market share in the last 10 years falling from 84% in 2001 to 57% by the end of 2011. Despite having 57% of the overall market, Vhi Healthcare has over 70% of those aged 60 plus.

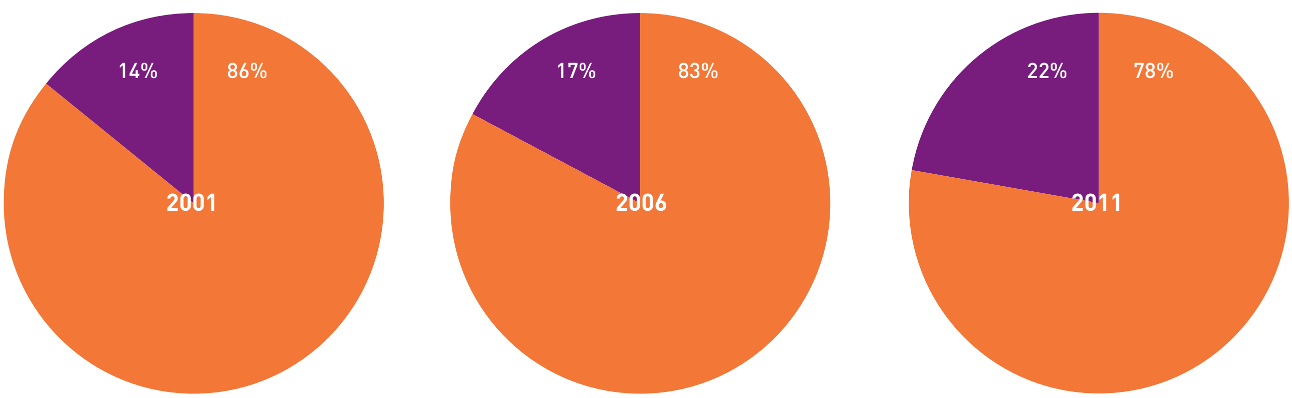
- VHI
- Others



MEMBERSHIP BY AGE GROUP

In the past 10 years, the proportion of Vhi Healthcare's customers aged sixty or over has increased by 54% while the proportion aged under sixty years has declined by 9%. In the absence of a fully functioning risk equalisation system, market forces have driven significant competition for the younger more profitable lives with little or no competition for the loss making older lives.

- 60+
- ‹60



AVERAGE CLAIMS COST PER CUSTOMER

Over the past 10 years Vhi Healthcare has undertaken a number of cost containment initiatives:

a. Between 2009 and 2010 Vhi Healthcare negotiated a 15% reduction in consultant's fees and a 6% decrease in private hospital fees.

b. Vhi Healthcare has focused on moving procedures to more cost efficient settings. Since 2001 there has been an increase of over 240% in the number of designated day care procedures and over 120% increase in designated side room procedures.

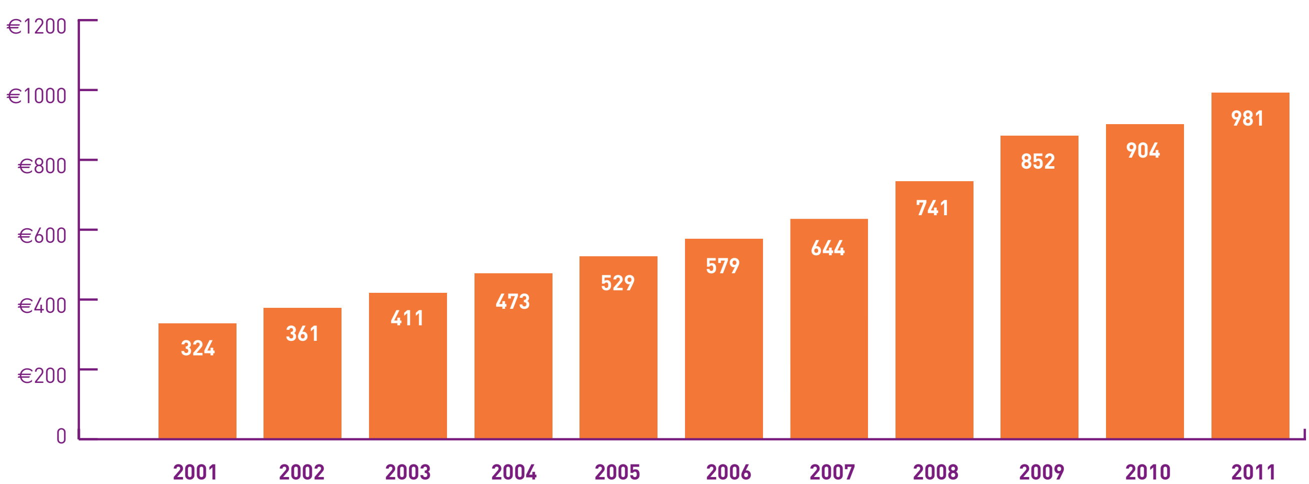
c. The Special Claims Investigation Unit (SIU) established in 2005 has recovered in excess of €12.9m and investigated over 12,400 cases raised by customers regarding claims paid on their behalf.

d. Healthcare expenditure is a function of the ageing process, people are living longer with more chronic diseases, resulting in increased demand for healthcare services. The average cost of meeting the healthcare needs of a sixty year old is nearly 6 times that of a twenty five year old, (a ratio of 6:1), for 70 year olds, this ratio rises to 9:1 and for 80 + the ratio is almost 12:1. Vhi Healthcare's disproportionate share of the 60 plus age group has contributed in no small way to the 203% increase in the overall average claims cost per customer in the past 10 years.

5 Year Increase	€402	69%
10 Year Increase	€657	203%

Source: Internal, includes Primary Care and Outpatients Claims

Average claims cost per customer

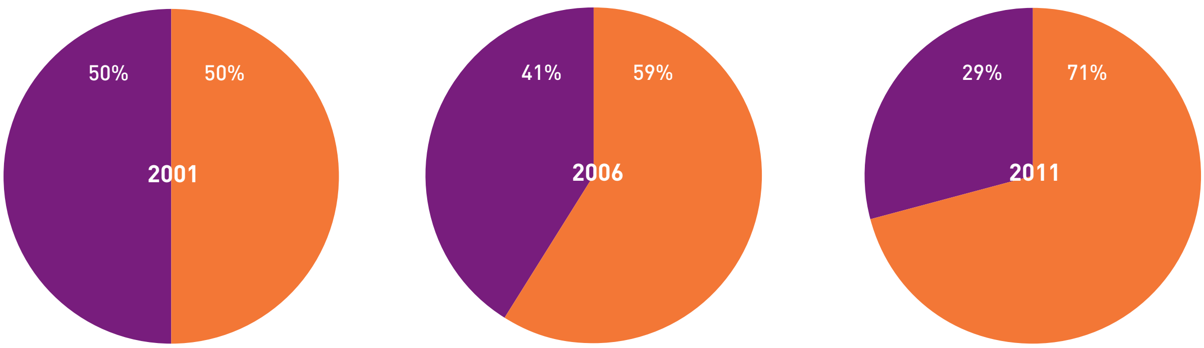


OPERATIONAL STATISTICS
(CONTINUED)

CHANGES IN THE DELIVERY OF CARE: 2001—2011

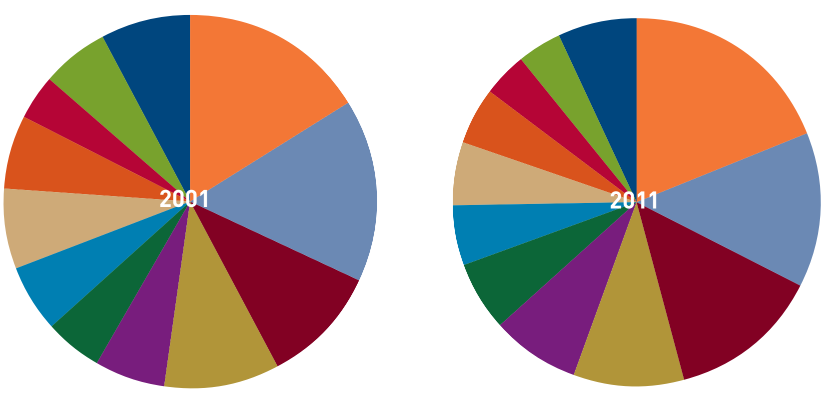
Vhi Healthcare focus on the delivery of care in the most appropriate setting. With advances in medicine, the setting in which procedures can be performed is constantly evolving. Vhi Healthcare carefully monitor procedures to determine which may be carried out in more cost efficient settings such as day care and side rooms. This has resulted in a reduction in patients treated in the more costly in-patient setting from 50% in 2001 to just 29% in 2011.

- Day Care and Side Room
- Inpatients



% OF CLAIMS BY ILLNESS CATEGORY 2011

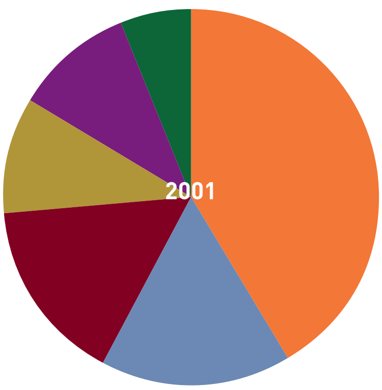
Illness	Dec 2001 %	Dec 2011 %
Cancer & Related Care	16.3	19.1
Heart & Circulatory System	15.7	13.4
Orthopaedic Care	10.2	13.3
Digestive System	10.1	9.8
Investigation of Undefined Conditions, Symptoms	6.1	7.8
Nervous System & Sense Organs	5.1	6.0
Respiratory System	5.7	5.4
Genito-Urinary System	7.0	5.4
Mental Disorders	6.3	5.1
Accidents	3.9	3.8
Pregnancy & Childbirth	6.0	3.8
Others	7.6	7.1

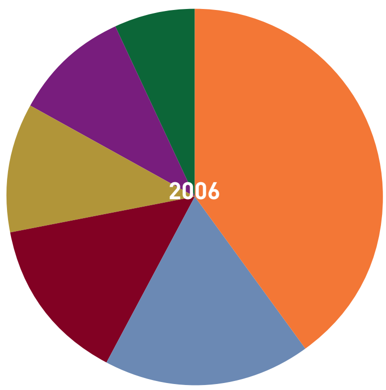


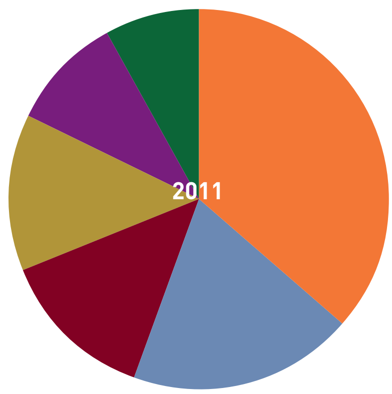
TOP FIVE CONDITIONS TREATED

In 2011, Vhi Healthcare spent over €1.2 billion in funding the healthcare needs of our customers. Our most significant healthcare expenditure was for treatment of the five conditions listed below. While there has been no change over the past decade in what constitutes the top five conditions, due to our ageing customer profile the proportion of the total claims spend for these conditions has increased, rising from 58% in 2001 to over 63% in 2011.

	2001 %	2006 %	2011 %
Cancer & Related Care	16.3	17.8	19.1
Heart & Circulatory System	15.7	14.4	13.4
Orthopaedic Care	10.2	11.0	13.3
Digestive System	10.1	10.1	9.8
Investigation of Undefined Conditions, Symptoms	6.1	6.7	7.8
Others	41.6	40.0	36.6







BOARD OF DIRECTORS

01 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. (*)

02 Declan Moran Acting Chief Executive
Declan Moran is currently Acting Chief Executive of Vhi Healthcare having previously held the title of Director of Marketing and Business Development. Declan is a Fellow of the Institute of Actuaries since 1994 and joined Vhi Healthcare in 1997 from the life and pensions industry. He was appointed to the Vhi Healthcare Board of Directors in 2008. To date he has been responsible for the management of Vhi Healthcare's product portfolio and the development of new products and services. He has also provided actuarial expertise within the organisation.

03 Gillian Bowler FMII FMgt, Hon. Doctorate of Law
Chairman, Irish Life & Permanent, Plc., Non-Executive Director, Grafton Group. (*)

04 Christy Cooney (Criostóir Ó Cuana), Master of Education, GAA President (An-t-Uachtarán) (#)

05 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 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.

06 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. (*)

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Ms Gillian Bowler, Ms Karen Hickey Dwyer, Mr Humphrey Murphy and Mr Liam Twohig all completed their terms of office in July 2011, Mr Jimmy Tolan resigned as Chief Executive in October 2011.

* Member of Remuneration Committee
\# Member of Audit Committee

07 Celine Fitzgerald
Celine Fitzgerald is CEO of Rigney Dolphin Group, employing over 1200 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. (#) (*)

08 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 board of the American Chamber of Commerce, the board of Kanchi network and was named as the 2009 O2 WMB Businesswoman of the Year.

09 Karen Hickey-Dwyer FRIAI
Ms 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. (#)

10 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.(*)

11 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 B.Comm Degree and a Diploma in Professional Accounting from University College Dublin. Jimmy stepped down as CEO on the 31st of October 2011.

12 Liam Twohig BComm FCA
Senior partner, Baker Tilly Ryan Glennon, Business Partners and Accountants, Past President, German-Irish Chamber of Industry and Commerce. (#)

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Vhi HomeCare

Vhi HomeCare is an innovative new service which allows suitable patients to be treated by doctors and nurses in the comfort and safety of their own homes, where previously hospital admissions was the only option.

- 1,247 patients treated in their home since the service launched in 2010. (867 in 2011)
- 12,500 hospital bed days saved - with associated monetary savings of over €12 million
- 18% of patients were aged 40 or under, 23% aged 41–60, 42% aged 61–80 and 17% over the age of 80
- 99% of patients would recommend the service
- 85% would prefer to use Vhi HomeCare rather than being treated in hospital
- 99% of those questioned rated the service as good, very good or excellent.

CHAIRMAN'S REVIEW

As anticipated, 2011 was a challenging year for both Vhi Healthcare and the Private Health Insurance Market generally. Difficult economic conditions forced many customers from the market and many more downgraded their existing insurance cover. However, a number of business strategies driven by the Board and Management Team are helping to put Vhi Healthcare back on a sustainable footing for the future.

Our focus has been on reducing costs over the last 4 years while not compromising on the quality of the service delivered to our customers. The strategy is working and we are confident we are creating the right financial environment to achieve long term stability. Vhi Healthcare has for the first time since 2007, recorded a small surplus in 2011.

As indicated earlier the Board embarked on a significant cost containment programme in 2007. This focused on a number of key areas including reduction in rates paid to providers including fees paid to both hospitals and consultants, ensuring that as many procedures as possible are done in the lowest cost setting, where medically appropriate, more stringent controls on claims payment process and a strong focus on internal cost reductions. This programme has delivered significant results:

- In 2011 Vhi Healthcare paid out over €1.2 billion meeting the healthcare needs of our customers. This represents a 5.6% reduction on 2010 payout despite delivering more care in 2011 than in 2010 and significantly enhanced quality of treatment requiring more costly technology.
- Since 2009 total savings of €190 million have been achieved due to provider negotiations, reduced administration costs and increased efficiencies right across the business.
- Continued shift of treatment to low cost settings - 70% of procedures are now carried out in day care and side room settings compared to 51% in 2007.

We are now entering Phase 2 of our cost containment programme and have engaged Milliman Consultants to carry out a utilisation management review of our healthcare spend and advise if further efficiencies can be achieved in this way.

One area that remains a concern for us is the rising costs of private beds in public hospitals. While I recognise the Ministers decision to maintain the increases in the private beds in public hospital below 5% for 2012, this takes no account of the fact that the cost of private beds in public hospitals has risen by some 41% since 2009. The rates charged by public hospitals are set by the Department of Health and are not subject to negotiation making it difficult for Vhi Healthcare to introduce cost efficiencies in this area. Vhi Healthcare would like to be able to negotiate rates directly with the public hospitals. In the absence of that we recognise the Minister for Health has implemented a more modest increase of 4% in 2011 than in prior years and would encourage him to start reducing these costs going forward like private hospitals have been doing. Recent proposed changes whereby private patients would be charged for public beds in public hospitals, if implemented in full, will effectively double what Vhi Healthcare pays for customers attending public hospitals. It is our view that the market will be unable to collect this additional income and will be forced to consider other alternatives if the Government progresses as proposed.

As a result of a continuous programme of cost containment initiatives we have made good steady progress in our strategy to bring Vhi Healthcare towards financial sustainability. Achieving this goal is in the best interests of our customers, our shareholder and our employees but involved making some very difficult product and pricing decisions in 2011. These were necessary due to the absence of a comprehensive risk sharing mechanism to support community rating despite the progress in cost containment. To ensure that Vhi Healthcare continues to be sustainable and operating in accordance with our legal obligations to match income and expenditure, last year, Vhi Healthcare was left with no option but to apply a very large price increase to its Health Plus Access and Health Plus Extra Plans (Plan B and Plan B Option products). These increases were regrettable but absolutely necessary to cover the cost of funding the healthcare needs of our customers during the year.

The key challenge for the private health insurance market is the continued instability in the community rated market. Community rating was intended to ensure that the cost of healthcare should be shared proportionately by everyone who was insured. In order to have a truly competitive market it needs to be regulated in such a way that it is equally attractive to insure an 80 year old as it is to insure a 30 year old. Regrettably the incentive still remains in the market to cherry-pick younger customers leading to market segmentation and ultimately, older customers paying more. A robust and effective risk pooling system is absolutely essential to protect community rating and support older customers.

In January 2012 the Minister for Health and Children announced amendments to the levy and age related tax relief at source system. While still some distance from being effective in funding the healthcare costs of older customers, the amendments were more significant than

CHAIRMAN'S REVIEW (CONTINUED)

in previous years and are a welcome step in the right direction towards the implementation of a proper robust and full risk equalisation scheme to under-pin the social policy of community rating. We recognise the role of the Minister and the HIA in making this move.

The actions taken by the Minister are absolutely essential to the Government policy of implementing universal health insurance and we believe Vhi Healthcare can be a strategic asset to the Government in this regard. However, a considerable gap still remains in order to fully risk equalise the market. We estimate that the current system is 65% effective and this gap urgently needs to be closed in 2012.

Authorisation and Incorporation of Vhi Healthcare

On the 29th September 2011 the European Court of Justice determined that Ireland had not fulfilled its obligations under European Law because it had failed to apply the European Union insurance legislation in its entirety to all insurance undertakings on a non-discriminatory basis. The judgement means that Ireland is in breach of its EU obligations by maintaining an exemption for Vhi Healthcare from regulation by the Central Bank of Ireland. This exemption has been in existence since 1973. The decision will require Vhi Healthcare to be regulated by the Central Bank in due course.

Achieving regulatory status is a strategic imperative for Vhi Healthcare and is in the best interest of our 1.2 million customers and all other stakeholders including the 15,000 healthcare professionals who are directly or indirectly funded by our customers premium income. Authorisation will allow Vhi Healthcare the commercial freedom to diversify its product range thus affording customers more choice and will help Vhi Healthcare to maximise opportunities to earn revenue from different markets. This is particularly important given that Ireland's health insurance market has contracted.

The Government has recently passed a statutory instrument which extends the date by which Vhi Healthcare must acquire the necessary capital reserves to make an application for authorisation by the Central Bank to 31st December 2013 and this time extension is necessary because of a number of factors that will impact on the timelines for delivery of the authorisation process.

There are two main strands to the authorisation process. The first is prudential, i.e. related to financial sustainability and solvency, and the second is qualitative, relating to corporate governance issues. In terms of the qualitative requirements Vhi Healthcare has made excellent progress over the last six months and expects to be in full compliance with these requirements during 2012. The prudential part is not as easy to resolve.

In order to progress an application for authorisation, Vhi Healthcare must satisfy the Central Bank that it has a sustainable business case over the next three to five years. The Central Bank will need details of the new robust risk equalisation scheme being proposed in order to be in a position to assess Vhi Healthcare's business case. The new scheme is due to be effective from 2013 although these proposals too will need to be considered and agreed by Government in the meantime.

In addition, Vhi Healthcare will need a capital injection to bring our reserves up to the level required by the Central Bank. This may have State Aid implications, and as such would need approval by the European Commission. The European Commission also believes that Vhi Healthcare enjoys an unlimited State guarantee and this issue must be addressed before any other State Aid issues such as capitalisation or risk equalisation can be considered by the Commission. With so many interdependent steps to be taken involving many different stakeholders it is fair to assume that the road to authorisation and incorporation will take more time than any of us would like but it is strategically important for Vhi Healthcare that this is progressed as fast as possible. The first key step that is required of Government is to publish its robust risk equalisation scheme and its bridge policy for the Levy and Age Related Tax Relief At Source scheme to get there.

Funding challenges for Ireland and Vhi Healthcare

Ireland faces some very significant challenges over the coming years in terms of healthcare funding. Recently published figures show that the Irish population continues to grow and age at a faster rate then ever before. The number of people in older age groups is beginning to increase significantly with estimates showing that elderly citizens will more than double within the next three decades to over one million people, with the largest proportional increase expected in the 85+ category. Each year an additional 20,000 people are added to the total of those aged over 65 years.

In addition, Vhi Healthcare anticipates that it will have to deliver significantly more care in critical healthcare areas such as cancer, cardiac, orthopaedic and management of chronic conditions. Evidence of how this has already started to affect Vhi Healthcare can be seen from our average claims cost per customer which has increased by 15% since 2009 (from €851 to €980), with growth in demand for healthcare by our customers being the most significant factor in this increase. Already over 50% of Vhi Healthcare's annual expenditure is spent meeting the healthcare needs of older customers.

Meeting the growing healthcare demands of our ageing population will present a major challenge for Ireland and the Government plans to implement a health system funded by Universal Health Insurance from 2016. The Board of Vhi Healthcare continues to believe that Vhi Healthcare can and should be a strategic asset for the Government in the rollout of Universal Health Insurance and that Vhi Healthcare can play a strategically important role in redefining how healthcare is funded and delivered in the years ahead for the benefit of all its customers and for the Government.

The delivery of healthcare in the future needs to be focused on improving healthcare outcomes. It must be focused on delivering care in the most appropriate setting and not delivering care that is not required. It should be focused on providing care outside a hospital setting including care in the community, integrated care packages, prevention care services and community based chronic disease management services. We have already started to put some new programmes and services in place in order to help reduce the burden of healthcare costs in the years ahead with a hospital in the home service, and two specialist screening centres which have focused on Type 11 Diabetes, colon screening and cardiovascular risk assessment.

Tributes

I would especially like to acknowledge the contribution made by our esteemed staff member Ms. Josefa Ryan 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

The Board reluctantly accepted the resignation of Vhi Healthcare's chief executive, Mr Jimmy Tolan. I would like to thank Jimmy for his significant contribution to Vhi Healthcare where he oversaw a number of innovations, particularly in the development of a comprehensive wellness strategy. I would like to wish Jimmy all the best in the future and thank him for his significant contribution to Vhi Healthcare.

I would like to take this opportunity to welcome the appointment of Declan Moran to the position of Acting Chief Executive. As a Board Director since 2008, his strength and experience across a breadth of areas will prove invaluable over the coming period. I also wish to express my gratitude to Board members who finished their terms of office during 2011. They were Ms Gillian Bowler, Ms Karen Hickey Dwyer, Mr Jimmy Tolan, Mr Liam Twohig and Mr Humphrey Murphy.

Finally, I would like to express the thanks of the Board to Vhi Healthcare's employees for their dedication and commitment during 2011.

Bernard Collins
Chairman

One Plan Sport

One Plan Sport was launched in 2011 and is an innovative new specialist healthcare plan designed for sports enthusiasts.

As well as top of the range health insurance cover – One Plan Sport includes;

- Sports Injury Programmes in conjunction with Sports Surgery Clinic (SSC), the international centre of excellence for the treatment of orthopaedic sports and exercise related injuries located in Santry;
- Fitness Screening Programme; and
- Out-of-hours Emergency Care Treatment for Sports Injuries at Vhi SwiftCare Clinics.

EXECUTIVE MANAGEMENT TEAM

01 Declan Moran Acting Chief Executive
Declan Moran is currently Acting Chief Executive of Vhi Healthcare having previously held the title of Director of Marketing and Business Development. Declan is a Fellow of the Institute of Actuaries since 1994 and joined Vhi Healthcare in 1997 from the life and pensions industry. He was appointed to the Vhi Healthcare Board of Directors in 2008. To date he has been responsible for the management of Vhi Healthcare's product portfolio and the development of new products and services. He has also provided actuarial expertise within the organisation.

02 Dr. Bernadette Carr MD, FRCPI, MPH, LFOM, Dip Pract. Derm. 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. Bernadette is the lead in the Diabetes Mellitus and Cardiovascular Health Initiative (DMVhi) Study.

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03 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 this appointment.

04 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.

05 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.

06 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 31 years experience in human resources management in light engineering, paper and print, commercial retailing and insurance.

07 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.

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OPERATIONS REVIEW

The year 2011 was a challenging year for Vhi Healthcare and the private health insurance market in general. Given the country's economic and employment difficulties it was inevitable that customers would be under enormous pressure trying to maintain their private health insurance.

The Health Insurance Authority (HIA) reported that some 66,000 people left the private health insurance market in 2011. In addition, many customers downgraded their cover in an effort to maintain their health insurance policies. However, despite these difficulties, the demand for private health insurance held up well, with Vhi Healthcare recording membership of more than 1.22 million customers and total earned premium of €1.314 billion at year end.

The business generated a surplus after tax of €7.4 million although our hospital insurance business continued to be loss making. There are a number of key factors which currently impact on Vhi Healthcare's efforts to return a profit on its health insurance business. These include the increased demand for healthcare (which has increased average claims cost per customer by 15% since 2009), the increasing age profile of our customers, but most significantly the continued absence of a comprehensive and robust risk equalisation scheme which means that competition remains solely focused on choosing younger lives. As it stands, market participants are still incentivised to cherry pick younger, healthier and therefore less expensive customers, which has lead to market segmentation and ultimately, older customers paying more.

As the Chairman has pointed out in his review, the amendments to the levy and age related tax relief announced at the beginning of 2012 are, while still not fully effective in funding the healthcare costs of older customers, nonetheless a welcome step in the right direction towards the implementation of a proper risk equalisation scheme to protect community rating and support older customers.

The Key Financial Results for 2011 are as follows:

- Vhi Healthcare recorded a surplus after tax of €7.4 million for the twelve months to 31st December 2011 compared to a deficit of €3.1 million in 2010. There was a significant improvement in the company's underwriting result which showed a surplus of €32.5 million compared to a €19.5 million deficit in the previous 12 months. This represents a margin of 2.5%.

- Earned Premium for 2011 came to €1.314 billion, down 1.6% on 2010. This reduction is a function of a number of contributing factors including the contraction of the health insurance market, customers opting to reduce their cover, increased competitor activity, and the absence of a fully effective robust risk equalisation mechanism to adequately share the cost of older and more expensive customers across the market.

- Total claims incurred for 2011 amounted to €1.234 billion. This figure is down 5.6% on the previous year mainly due to the effects of cost containment initiatives including agreed reductions in rates payable to private hospitals (6%) and consultant fees (15%). In addition, there were significant savings made as more procedures are being delivered in daycare settings than ever before, at a lower cost. Savings have also been recouped by our Claims Special Investigations Unit which investigates instances of incorrect or inappropriate invoicing of customers by healthcare providers. This reduction is significant given that the cost of Public Hospital beds for private patients - which is non negotiable - was increased by 21% with effect from 1st January 2011.

- The ratio of claims spend to premium income earned reduced from 95.1% in 2010 to 90.8 % by the end of 2011. This improvement reflects both the effect of agreed reductions in provider reimbursement rates and the positive impact of more strict claims assessment controls. This means we paid out almost €91 in every €100 we received meeting the healthcare needs of our customers.

- Operating costs continued to decline and at €88.4 million are 10% lower than they were three years ago. Expressed as a percentage of premium income, Vhi Healthcare's operating expense ratio of 6.3% for its health insurance business remains significantly lower than those of its competitors.

- The ratio of free reserves to premium income at the end of December 2011 stood at 22.3% - down half of one per cent on the previous year. However, at €295 million our free reserves are still considerably higher than any other health insurer.

OPERATIONS REVIEW
(CONTINUED)

- Investment income showed a negative return of €23.5 million during the year compared to gains of €22.5 million the previous year. This was accounted for mainly by losses incurred on subordinated bank debt.

Preparing for the Regulatory Environment
As the Chairman has pointed out in his review, it remains a strategic imperative that Vhi Healthcare achieves financial regulation. For this to happen there are two main elements to the authorisation process. The first element relates to solvency and will require changes to the regulatory environment to ensure Vhi Healthcare can achieve financial sustainability in addition to a capital investment to bring Vhi Healthcare's capital reserves to the level required to meet the requirements of the Central bank. The second element refers to corporate governance requirements.

While the Government is finalising its plans in relation to the future regulatory environment and to the capitalisation requirement, Vhi Healthcare, meanwhile, has made excellent progress in relation to a number of structural and corporate governance issues required by the Central Bank. From an operational viewpoint I am happy to report that in advance of authorisation all the necessary corporate governance structures have been put in place and all of Vhi Healthcare's customer services employees have either completed or are currently undergoing the formal qualification process to satisfy minimum competency requirements regulations for fully regulated insurers. The QFA Diploma and CIP Diploma are the core qualifications recognised for the purposes of the requirements and represent the professional standard for those in the industry.

Cost Containment Initiatives
As outlined in the Chairman's review, since 2007 Vhi Healthcare has concentrated on bringing costs down significantly, and every effort is made to seek out ways to minimise the cost of providing access to the most modern treatment available.

As a result of tough negotiations with healthcare providers, combined with a firm focus on the reduction of administration costs and the introduction of increased efficiencies right across the business, we have made savings of over €190 million since 2009. We continue to be the most efficient health insurer in the market with administration costs of just 6.3% of premium income for our health insurance business.

Some key cost savings made to date include:

- Private hospitals: approximately €95 million in savings was made due to the negotiation of a 6% reduction with private hospitals over the past two years. Price reductions will also be applied to certain procedures in 2012 with a view to saving a further €10 million this year.

- Consultants fees: The fees payable to consultants per procedure have been reduced by 15% since 2008 and Vhi Healthcare has made savings of almost €60 million in this area since 2009.

- Internal costs: Vhi Healthcare has reduced its internal costs by 10% since 2009 despite the significant increase in our business activity and the development of two screening facilities focussed on Type II Diabetes and Cardiovascular Risk.

- More cost efficient treatment settings: Since 2001 there has been a 240% increase in the number of procedures that are designated as medically appropriate for day care and a 121% increase in the number designated as suitable for side room. Procedures delivered in day care and side room now account for 70% of all hospital claims compared with 51% in 2007. In the same period of time, inpatient claims have fallen by 10%. In addition, some 867 people were treated at home under Vhi HomeCare initiative during 2011. Vhi Healthcare has saved 12,500 hospital bed days since the service launched in 2010, with associated monetary savings of over €12 million.

- Stricter claims assessment controls: During 2011, our Special Claims Investigation Unit (SIU) recovered over €6.9 million in cases of incorrect or inappropriate invoicing. This result represented a 76% increase over and above the total recouped the previous year. The SIU also widened the scope of its investigations to look at the appropriateness of long term stay claims in 2011. Regrettably, it has to be reported that there was an increase in inappropriate claims from customers primarily in the primary care end and as result 31 customer contracts were cancelled during the year, with a further 23 cases still under review.

While substantial savings have been made to fees paid to private hospitals and consultants since 2009, it should be noted that the cost per private bed in a public hospital continued to rise in the same period by an average of 41%. The rates charged by public hospitals are set by the Department of Health and are not subject to negotiation, making it difficult for Vhi Healthcare to introduce cost efficiencies in this area.

Funding our customers Healthcare Needs in 2011

During 2011 Vhi Healthcare spent more than €1.23 billion in funding the healthcare needs of our customers. In recent years we have invested heavily in the total redesign of our claims assessment processes and systems to ensure that we can handle the large claims volumes incurred by our customers. On average Vhi Healthcare processes over 700,000 inpatient claims per year and up to 250,000 primary care claims.

Our most significant healthcare expenditure during the year was for treatment of the following conditions:

- Cancer & related care - €226.5 million
- Heart & circulatory system - €146.4 million
- Orthopaedic Care (including hip replacements etc) - €115.9 million
- Digestive system - €117.3 million
- Investigation of symptoms or undefined conditions - €106.2 million

Cancer and related care in 2011

Cancer care was once again the biggest area of expenditure for Vhi Healthcare last year. The top three cancer types which incur the most expenditure are breast cancer, colorectal cancer and prostate cancer which account for approximately 43% of our total spend on cancer.

- Breast cancer spend in 2011 – €41.6 million on behalf of 2,622 customers
- Colorectal cancer spend in 2011 – €35.2 million on behalf of 1,960 customers
- Prostate cancer spend in 2011 – €20.4 million on behalf of 2,622 customers

Orthopaedic care in 2011

Orthopaedic care represents the second biggest are of spend and during the year under review Vhi Healthcare paid out:

- Hip Replacements in 2011 - €34.64 million on behalf of 2,771 customers
- Knee Replacements in 2011 - €28.13 million on behalf of 1,800 customers

Heart and circulatory care in 2011

Significant expenditure also occurs in treating customers with the best in cardiac care. During 2011 over €146 million was spent in the area of cardiac care including the following life saving procedures:

- Angiography - €27.7 million on behalf of 8,153 customers
- Angioplasty - €20.6 million on behalf of 2,025 customers
- Bypass - €11.6 million on behalf of 379 customers
- Pacemakers including defibrillators - €6.9 million on behalf of 233 customers

Medical Innovation and Delivering the best in Medical Care in the Most appropriate setting

As a major purchaser of healthcare on behalf of its customers, Vhi Healthcare, continually strives to encourage best practice by ensuring customers have access to high quality healthcare delivered in the setting most appropriate to their needs.

Ongoing medical innovation is contributing to more positive health outcomes for sick people right across the globe. The impact of new drugs, new technologies and new medical procedures are particularly apparent in areas such as cancer and cardiac care where survival rates for people have increased significantly over the past five years. An ageing population living longer with chronic illnesses, the availability of expensive new drugs, new procedures and exciting new technologies all contribute to the costs associated with the delivery of modern healthcare services.

Worldwide, health insurance companies and providers are facing major funding challenges and Vhi Healthcare is no exception as we face the challenge of delivering quality healthcare to our customers at affordable prices. Against this backdrop, change is necessary and Vhi Healthcare has recognised that the delivery of healthcare will need to adapt and already we have redirected a reasonable proportion of our customers premium income into community based care, prevention services and chronic disease management services. Over the last three years we have developed a range of services that deliver healthcare services to our customers outside the traditional hospital setting. Our three Vhi Swiftcare Clinics currently treat approximately 70,000 customers annually on a walk in basis for minor injuries and illnesses within the hour. In 2010 we commenced a hospital in the home programme to reduce the reliance on hospitals for customers requiring intravenous antibiotic therapies with 1,200 patients treated in the home last year. We have also

OPERATIONS REVIEW (CONTINUED)

developed two medical screening clinics initially focused on cardiovascular risk and type 11 Diabetes which is now a worldwide epidemic. At year end 2011 we had screened 24,000 Vhi Healthcare customers for this debilitating disease, over 2,500 of them have been diagnosed with diabetes or pre-diabetes. Our screening programme has been selected to participate in a prestigious EU research programme about how best to screen for and treat patients with type II diabetes. We are now developing a community based lifestyle intervention programme to reduce the numbers of patients who develop full blown diabetes among those found to be at risk by our ongoing screening programme. Up to 5,000 customers will repeat their screening to determine the progression of their risk since initial assessment.

In 2012, we will be introducing a lifestyle and fitness screening programme specifically for children as there is clear evidence that there is an increasing level of obesity and type II diabetes among children. This would have been extremely rare even 20 years ago but is now relatively common due to our unhealthy diets and sedentary lifestyle.

For children we are also developing a community clinic to make specialist paediatric care available to our young customers in a community setting. This development is in partnership with a leading US provider of paediatric services and will serve to reduce the burden on our overstretched children's hospitals while also improving access to healthcare services for children.

Product Innovation

With the widest range of health insurance products in the market, Vhi Healthcare again led the way in 2011 in offering innovation and value for money products to consumers throughout Ireland.

The popularity of Vhi Healthcare's 'One Plan' product range continued to grow during the year with the help of a number of special value for money offers and also the addition of a brand new product designed specifically for sports enthusiasts.

One Plan Sport was launched during the summer and includes unique end-to-end insurance cover for sports enthusiasts including: Sports Injury Programmes in conjunction with Sports Surgery Clinic in Santry; a Fitness Programme and; out-of-hours Emergency Care Treatment for Sports injuries at Vhi SwiftCare Clinics.

In addition to this unique sports cover, One Plan Sport provides an excellent level of traditional private health insurance cover to the same standard as enjoyed by customers on our other One Plan products.

The success of our One Plan range has seen over 180,000 people select a One Plan to enjoy the extensive range of benefits offered as well as take advantage of the significant cost savings. The One+ Plan is Vhi Healthcare's fastest growing plan and is the most popular plan overall representing 11% of the total membership.

Diversified Business

Vhi Healthcare has added a wide range of products and service to its diversified business portfolio. These include:

MultiTrip from Vhi Healthcare

It has been nine years since Vhi Healthcare launched MultiTrip travel insurance and within a short time of its launch it became Ireland's market leading travel insurance product with approximately one third of the multi-trip travel insurance market. In 2011 some 5,523 Vhi Healthcare customers required emergency medical treatment while abroad with 1,444 claims for hospitalisation overseas. In addition more than 400 people required repatriation.

Global from Vhi Healthcare

Offering expatriate insurance cover for people who move abroad to live, work, study or travel for more than six months – last year, Global was the insurance product of choice for many customers who travelled overseas.

Vhi DeCare Dental

Ireland's first and only stand alone dental insurance scheme, the basic package, Vhi DeCare Dental Starter costs as little as €10.76 per month provides broad level basic dental cover with no waiting period to serve. In 2011 Vhi DeCare Dental paid out almost €4 million in dental treatments with 95% of payments paid directly into customers' bank accounts within ten working days.

Vhi Corporate Solutions

Vhi Corporate Solutions is a specialist team offering high-quality services on a range of employee health and well-being issues to corporate clients across a wide range of industries. The services provided include counselling services, access to legal and financial information and many other employee assistance services to help people cope with problems including emotional health issues, redundancy, and excessive stress, financial, legal and marital difficulties. The service is completely confidential and delivered by fully trained and qualified health professionals.

Vhi Corporate Solutions team provide employee assistance programmes to over 450 companies nationwide. There has been a 110% increase in employees citing issues with concerns regarding emotional health and difficulties in the workplace. By contacting Vhi Corporate Solutions, employees were able to access help to resolve these issues in a way which was appropriate to their need, and with total confidentiality.

Sponsorships

For the sixth year in succession Vhi Healthcare and the Gaelic Athletic Association (GAA) partnered again in 2011 to provide the highly successful Vhi GAA Cúl Camps which saw over 80,000 children develop their GAA skills, keep fit and have fun at over 1,000 camps which took place across Ireland and overseas in the USA, Britain and Australia.

For the third consecutive year, Vhi Healthcare was the official sponsor of the Irish Cancer Society's Breast Cancer Awareness Month held during October 2011. The Vhi Healthcare Send A Ribbon campaign was launched in Dublin by top model, Andrea Roche. The purpose of this sponsorship was to help raise awareness of the issue of breast cancer. The campaign saw more than 90,000 virtual ribbons sent online and helped to provide €75,000 to fund further research and programmes by the Irish Cancer Society.

Human Resources

Vhi Healthcare has a long standing reputation for quality customer service built on a strong commitment by management and staff to look after the best interests of our customers. We believe our customers are our most important stakeholder and that the expertise and commitment of our staff is a key strategic asset in this complex and very competitive marketplace. The organisation has invested in the continuous training and development of our 899 staff employees based countrywide. We believe that fully trained and highly motivated employees are vital to attracting and retaining customers and will be pivotal to our continued business success in the years to come. I would like to express my thanks to all our employees for their hard work in 2011 and their continuous commitment to our customers.

Outlook

We expect 2012 to be another challenging year as our customers continue to face financial pressures at a time when the demand for healthcare is expected to continue to grow. Vhi Healthcare is fully committed to achieving authorisation from the Financial Regulator by the end of 2013. We are also committed to continue our efforts to achieve further cost reductions and introduce further efficiencies right across the business and we welcome all constructive inputs including input from Milliman and the Department of Health as we grapple with the challenge of funding our customers' healthcare needs.

Finally, we will continue to focus on delivering high quality healthcare to our customers at the most affordable price possible, while also maintaining a focus on our wellness initiatives, such as our screening services, which will help to bring better health outcomes to our customers.

Declan Moran
Acting Chief Executive

NurseLine 24/7

NurseLine 24/7 is a confidential telephone support service staffed by qualified nurses who supply information on a wide range of medical conditions and queries. It is available exclusively to Vhi Healthcare customers.

- 52,000 calls managed in 2011
- 21,000 calls were Dublin based
- 9,000 calls related to general medical queries such as chicken pox, drug interactions, poisons information and support group queries
- Top medical concerns about children included queries about high temperatures, rashes, vomiting and coughs
- 2,000 calls received by Vhi NurseLine's pregnancy support service
- 1,000 email queries answered by Vhi NurseLine midwives

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their 55th 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 2011 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 FRC Corporate Governance Code. The Financial Reporting Council revised the Code in May 2010. While not itself a listed company, the Board has sought to comply with the provisions of the Code that are applicable and hence reports below on compliance throughout the year with the Code.

The Directors consider that the Board has in place the procedures to comply with the provisions laid out in Section 1 of the Code, except in respect of the appointment and terms of office of Directors, which are the responsibility of the Minister for Health. 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.

The Board meets at least nine 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 customer 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**	**Risk Management & Compliance**	**Investment**	**Strategy**
Bernard Collins	9		6			2
Gillian Bowler (retired 26 July 2011)	2		1			
Humphrey Murphy (retired 26 July 2011)	5		3			
Liam Twohig (retired 26 July 2011)	5	2			2	
Christy Cooney	7	0			0	
Karen Hickey-Dwyer (retired 26 July 2011)	5	1				
Jimmy Tolan (retired 28 October 2011)	7			4	1	2
Declan Moran	9			6		2
Celine Fitzgerald	9	4	6			2
Seamus Creedon ***	9			6		2
Liam Downey*	9		6			
Cathriona Hallahan **	7	4		4		1

* Chairman of the Remuneration Committee
** Chairman of the Audit Committee
*** Chairman of the Risk Management & Compliance Committee

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.

REPORT OF THE DIRECTORS (CONTINUED)

Audit Committee

The Board has appointed an Audit Committee which is comprised of three non-Executive Directors. The Audit Committee meets at least four times a year and reviews the annual accounts, internal control and compliance matters and the effectiveness of internal and external audit. The 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.

Risk and Compliance Committee

The Board has appointed a Risk and Compliance Committee. The Committee comprises at least two non-executive Directors with the principal purposes of promoting the overall effectiveness of corporate governance and reviewing and monitoring the risk management system.

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 Corporate Governance Code (formerly the Combined Code).

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.

Solvency & Capitalisation

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 2012, the medium term plans of the Board and Government policy in relation to authorisation. 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 €20,520 and €11,970 respectively with effect from 1 November 2011. 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 and uncertainties 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

REPORT OF THE DIRECTORS (CONTINUED)

(ARTRS) towards the costs of insuring older people. The rates which applied in 2011 (see table below) only compensated for less than 50% of the risk and as a result, Vhi Healthcare has incurred a pre-tax loss of €100m in meeting the healthcare needs of our older customers over 60 years of age. The 2012 rates will only compensate for approximately 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 measure which has been extended for a further year to December 2012. The Minister for Health has indicated that a comprehensive Risk Equalisation Scheme will be introduced in 2013 but no details are yet available.

Levy

	2010	2011	2012
Per Child (under 18)	€55	€66	€95
Per Adult	€185	€205	€285

Age Tax Relief

Age on Renewal	2010	2011	2012
50 - 59	€200	-	-
60 – 64	€525	€625	€600
65 - 69	€525	€625	€975
70 – 74	€975	€1,275	€1,400
75 – 79	€975	€1,275	€2,025
80 – 84	€1,250	€1,725	€2,400
85 +	€1,250	€1,725	€2,700

II. In February 2010 the European Commission took a case against the Irish State centred on the continuing exemption of Vhi Healthcare from the application of EU rules on non-life insurance.

On 29 September 2011 the European Court of Justice found that Ireland had failed to fulfil its obligations under relevant EU directives in not applying European Union insurance legislation in its entirety to all insurance undertakings on a non-discriminatory basis.

In response to the Court judgement the Irish Government has affirmed its intention to ensure that Vhi Healthcare is in a position to make an application for authorisation to the Central Bank of Ireland by 31 December 2013. This will involve, inter-alia;

a) the need for a capital injection, which will have State Aid implications

b) the need for a robust risk equalisation system to enable Vhi Healthcare satisfy the Central Bank of Ireland that is has a sustainable business case projecting forward 3 – 5 years.

III. 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 II 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 subsidiaries and other undertakings, as at 31 December 2011, 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
Chairman

Cathriona Hallahan
Director

15 March 2012

Screening Programmes

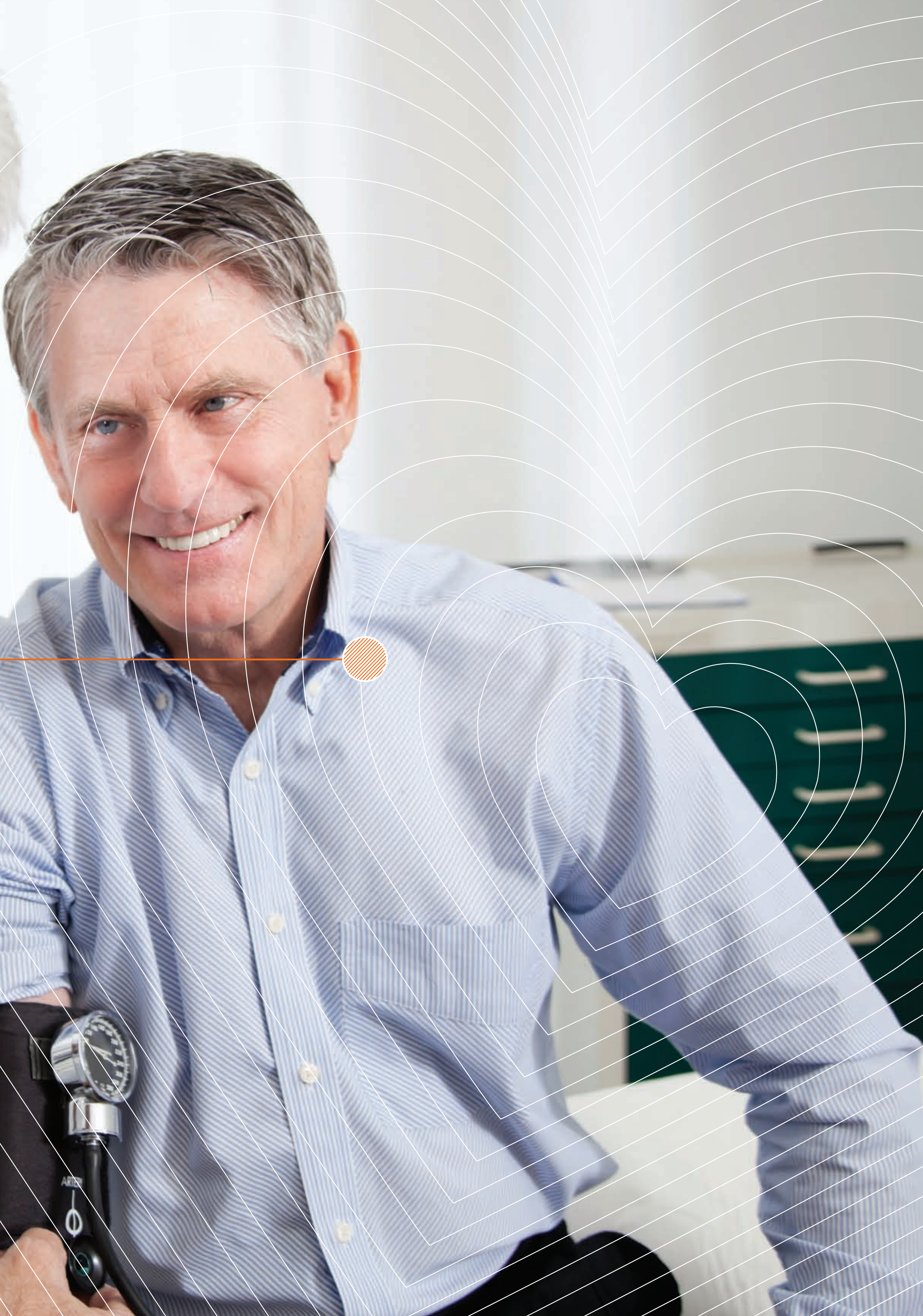
Vhi Healthcare has introduced a range of new health screening packages designed to give customers an overview of their health, help identify risk factors that may cause potential health issues in the future and allow customers to take a more proactive approach to managing their health.

Diabetes Screening

- 24,000 customers have been screened since 2009
- Over 2,500 diagnosed with either Diabetes or Pre-Diabetes
- 1,600 of who were men compared to approximately 900 women
- 76% of men found to be overweight or obese vs 54% of women
- 23% of women and 27% of men had high blood pressure on the day of the screening
- 5,000 people to repeat their screening to determine the progression of their risk since the initial test

Colon Screening

- 7,500 customers have been screened for colorectal cancer since May 2010
- Over 280 customers found to have abnormalities
- Approximately 215 colonoscopies were conducted



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 2011 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 1-24.These financial statements have been prepared under the accounting policies set out therein.

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.

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.

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 2011 and of the surplus for the year then ended.

Emphasis of Matter – Solvency and Capitalisation

Without qualifying our opinion, we draw your attention to the disclosures made in Note 1 regarding the financial viability of the Board in the event that the interim measure explained in note 3 is not replaced with a permanent risk equalisation scheme and the requirement that the Board be in a position to apply for an insurance licence from the Central Bank of Ireland by 31 December 2013.

Deloitte & Touche
Chartered Accountants and Registered Auditors
Dublin

15 March 2012

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 customers 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.

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.

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

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 AND EXPENDITURE ACCOUNT

Technical Account: Health Insurance

For the year ended 31 December

	Notes	**2011** €m	2010 €m
Continuing Activities			
Earned Premium	2		
Gross premiums written		1,300.1	1,331.2
Change in the gross provision for unearned premiums		14.0	3.7
		1,314.1	1,334.9
Allocated investment income transferred from the non-technical account		(23.5)	22.5
		1,290.6	1,357.4
Other technical income			
Age related tax credits/levy	3	41.1	37.2
Claims incurred			
Claims paid		(1,263.2)	(1,238.6)
Change in the provision for claims		28.9	(68.7)
	4	**(1,234.2)**	(1,307.3)
Net operating expenses	5	(88.4)	(90.3)
Balance on the health insurance technical account		**9.0**	(3.0)

INCOME AND EXPENDITURE ACCOUNT

Non-Technical Account: Health Insurance

For the year ended 31 December

	Notes	**2011 €m**	2010 €m
Continuing Activities			
Balance on the health insurance technical account		**9.0**	(3.0)
Investment income	6	(23.5)	22.5
Allocated investment return transferred to the health insurance technical account		23.5	(22.5)
Surplus/(deficit) on ordinary activities before taxation		**9.0**	(3.0)
Taxation on ordinary activities	7	(1.6)	(0.1)
Surplus/(deficit) on ordinary activities after taxation carried to reserves	8	**7.4**	(3.1)

The accounts were approved by the Board on 15 March 2012, and signed on its behalf by:

Bernard Collins
Chairman

Cathriona Hallahan
Director

BALANCE SHEET

Assets

At 31 December

	Notes	**2011 €m**	2010 €m
Investments			
Land and buildings	9	22.1	25.2
Other financial investments	10	781.0	779.9
Debtors			
Debtors from customers arising out of insurance operations		383.8	404.2
Other debtors	11	133.3	141.2
Other Assets			
Tangible assets	12	20.3	27.3
Deferred taxation	13	7.8	9.5
Prepayments and accrued income			
Prepayments		2.0	1.6
Accrued interest		6.9	11.0
Deferred acquisition costs	14	9.0	8.6
Total Assets		**1,366.3**	**1,408.5**

Liabilities

	Notes	At 31 December 2011 €m	2010 €m
Reserves			
General reserve		295.2	308.3
Technical provisions			
Provision for unearned premiums		469.0	482.9
Claims outstanding		349.0	374.7
Creditors			
Creditors to customers arising out of insurance operations		40.7	44.0
Other creditors and accruals	15	159.8	163.6
Bank overdraft		2.7	3.7
Retirement Benefits Liability	16	49.9	31.3
Total Liabilities		**1,366.3**	**1,408.5**

The accounts were approved by the Board on 15 March 2012, and signed on its behalf by:

Bernard Collins
Chairman

Cathriona Hallahan
Director

CASH FLOW STATEMENT

For the year ended 31 December

	Notes	**2011 €m**	2010 €m
Net cash inflow from operating activities	17	4.5	83.1
Taxation		-	4.6
Capital expenditure		(2.7)	(3.6)
		1.9	84.1
Cash flows were invested as follows:			
Increase in cash holdings		1.0	14.2
Net portfolio investment/(reduction)	18 & 20	0.9	69.9
Net increase in cash flows	19	**1.9**	84.1

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December

	Notes	**2011 €m**	2010 €m
Surplus/(deficit) for the financial period		7.4	(3.1)
Actuarial (loss)/gain on pension fund	16	(20.4)	4.9
Total recognised (losses)/gains relating to the period		**(13.0)**	1.8

NOTES TO THE ACCOUNTS

1. Solvency & Capitalisation

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 2012, the medium term plans of the Board and Government policy in relation to authorisation. 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.

Authorised Insurer Licence Requirement
The Minister for Health 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 31 December 2013. 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 2011 is shown in the Comparative Results section.

Vhi Healthcare currently has a solvency level of 22.3% (December 2010: 22.8%) or 100% of the legal minimum requirement. The Central Bank of Ireland requires a margin of 150% of the minimum. 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.

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 ancilliary products is €18.8m. All business written is in the Republic of Ireland.

NOTES TO THE ACCOUNTS (CONTINUED)

3. Age-Related Tax Relief and Health Insurance Levy

In 2009 the Health Insurance (Miscellaneous Provisions) Amendment Act was introduced with as 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 towards the costs of insuring older people. This scheme has been extended for a further year to 31 December 2012.

Age Related Tax Relief at Source
Under the terms of the Act, the rates applicable for 2011 in respect of additional tax relief at source were as follows;

Customers aged between;
50–59: Nil (2010: €200)
60–69: €625 (2010: €525)
70–79: €1,275 (2010: €975)
80+: €1,725 (2010: €1,250)

The age related tax relief is earned over the term of the policy. At 31 December 2011 the value of unearned tax relief was €84.6m.

Health Insurance Levy
Under the terms of the Act, a Levy of €205 per adult and €66 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 2011, the unexpired portion of the levy amounted to €68.8m.

The net amount recognised in the income and expenditure account was €41.1m (age tax relief €259.1m less levy €218.0m).

See note 1 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 2011 is Nil (December 2010: €10m).

	For the year ended 31 December	
	2011	2010
	€m	€m
5. Net operating expenses		
Administrative expenses	63.9	66.1
Acquisition costs	24.9	23.7
Deferred acquisition costs	(0.4)	0.5
	88.4	90.3

Core Health Insurance costs included in net operating expenses amount to €81.4m and the remaining €7.0m relate to ancilliary products.

The average number of persons, including part time employees, employed by the Board was:	899	878

Staff costs were		
Wages and salaries	47.0	46.8
Social security costs	4.9	4.7
Retirement benefits	4.4	4.0

The total remuneration, including pension contribution, paid to the outgoing Chief Executive and included in net operating expenses in the year to December 2011 amounted to €342,864. The acting Chief Executive was appointed on 1 November 2011 and total remuneration, including pension contribution, paid in that period was ¤44,702.

6. Investment income

Income from land and buildings	0.1	0.1
Income from other investments	18.9	21.5
Losses on realisation of investments	(39.1)	(0.4)
Unrealised losses on land and buildings	(3.1)	(3.5)
Unrealised gains on investments held to maturity	0.9	10.6
Unrealised losses on investments held for trading	(0.7)	(5.5)
Investment management expenses	(0.6)	(0.3)
	(23.5)	22.5

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.

NOTES TO THE ACCOUNTS (CONTINUED)

	For the year ended 31 December	
	2011	2010
	€m	€m
7. Taxation on ordinary activities		
The taxation charge in the income and expenditure account comprises:		
Current taxation for year	-	-
Deferred taxation – charge	(1.6)	(0.1)
	(1.6)	(0.1)

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 2010: 12.5%).

The differences are explained below:

Surplus/(deficit) on ordinary activities before taxation	9.0	(3.0)
Deficit on ordinary activities multiplied by standard rate of corporation taxation of 12.5% (December 2010: 12.5%)	(1.1)	0.4
Effects of:		
Expenses not allowed for taxation purposes	(0.4)	0.2
Losses carried forward	1.3	(0.5)
Capital allowances in excess of depreciation for period	0.3	(0.1)
Current taxation for financial period	**-**	**-**

8. Surplus/(deficit) on ordinary activities after taxation carried to reserves

The surplus/(deficit) for the financial period is stated after charging:		
Depreciation of tangible fixed assets	9.7	11.9
Board remuneration (inclusive of €13,534 expenses, (December 2010 €9,553))	1.0	1.0
Auditors remuneration		
Audit fee	0.1	0.1
Other statutory return fees	0.1	0.1
Non audit fees	1.4	–

For the year ended 31 December	2011 €m	2010 €m
9. Land and buildings		
Valuation:		
At 1 January	25.2	28.7
Loss on revaluation	(3.1)	(3.5)
At end of year	**22.1**	25.2

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 2011 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.

	2011 €m	2010 €m
Opening cost	19.8	19.8
Revaluation loss	(2.8)	–
Closing cost	**17.0**	19.8

10. Other financial investments

	2011 Market Value	2011 Cost €m	2010 Market Value €m	2010 Cost €m
Held for Trading				
Shares and other variable yield securities	12.3	15.2	6.2	6.2
Debt securities/fixed interest securities	300.3	302.4	239.2	243.4
Other investments	1.9	4.1	2.0	4.4
Deposits with credit institutions	40.6	40.6	26.7	26.7
	355.1	362.3	274.1	280.7

	Amortised Cost	Cost	Amortised Cost	Cost
Held to maturity				
Debt securities/fixed interest securities	426.0	422.4	505.8	503.2
	781.0	**784.8**	779.8	783.9

The market value of investments held to maturity at 31 December 2011 was €397.1m (2010: €446.6m)

NOTES TO THE ACCOUNTS
(CONTINUED)

For the year ended 31 December

	2011 **€m**	2010 €m
11. Other debtors		
Age related tax relief/Levy	132.4	140.3
Other debtors	0.9	0.9
	133.3	141.2

	Motor vehicles €m	Fixtures, furnishings and fittings €m	Computer/office equipment & software €m	Total €m
12. Tangible Assets				
Cost				
At 1 January 2011	2.1	9.0	89.6	100.7
Additions	0.4	0.6	1.8	2.8
Disposals	(0.5)	–	(0.6)	(1.2)
At 31 December 2011	**1.9**	**9.7**	**90.7**	**102.3**
Depreciation				
At 1 January 2011	(1.4)	(8.1)	(63.9)	(73.4)
Charge for the financial period	(0.4)	(0.4)	(8.9)	(9.7)
Eliminated in respect of disposals	0.5	-	0.6	1.1
At 31 December 2011	**(1.4)**	**(8.5)**	**(72.1)**	**(82.0)**
Net book value at 31 December 2011	**0.5**	**1.1**	**18.6**	**20.3**
Net book value at 31 December 2010	0.7	0.9	25.7	27.3

	2011 **€m**	2010 €m
13. Deferred taxation asset		
An asset has been recognised in respect of deferred taxation for the following timing differences:		
Unrealised loss on investment valuation	0.5	0.5
Trading losses carried forward	5.4	6.7
Other timing differences	2.0	2.3
Total deferred taxation asset	**7.8**	9.5

For the year ended 31 December

14. Deferred acquisition costs

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

The amount of €9.0m provided for at 31 December 2011 (December 2010: €8.6m) 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.

	2011	2010
	€m	€m
15. Other creditors and accruals		
Age related tax relief/Levy	147.5	151.4
PAYE and PRSI	-	1.2
Other creditors	3.1	1.0
Accruals	9.2	10.0
	159.8	163.6

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 2011 amounted to €7.7m (December 2010: €7.7m) and are 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 2011. 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.

NOTES TO THE ACCOUNTS (CONTINUED)

For the year ended 31 December

16. Retirement benefits (cont.)

	2011 %	2010 %
The major assumptions used in respect of the pension scheme are:		
Rate of increase in salaries	3.25	3.75
Rate of increase in pensions in payment	2.00	2.00
Discount rate	5.25	5.70
Inflation assumption	2.00	2.00
Long-term expected rates of return at financial period end are:		
Equities	7.3	7.0
Fixed interest	4.4	4.3
Property	6.3	6.0
Other	5.5	5.0

	2011	2010
Weighted average life expectancy for mortality tables used to determine benefit obligations at:		
Member age 65 (current life expectancy)	22.8	22.8
Member age 40 (life expectancy at age 65)	26.1	26.1

	2011 €m	2010 €m
The assets in the pension scheme at market value were:		
Equities	55.2	82.8
Fixed interest	28.8	24.6
Property	2.8	3.0
Other	40.1	13.2
Total market value of assets	126.9	123.6
Present value of scheme liabilities	(155.7)	(135.6)
Deficit in the scheme	(28.8)	(12.0)
Unfunded health insurance premium provision	(28.2)	(23.7)
Net retirement benefits deficit	(57.0)	(35.7)
Related deferred tax asset	7.1	4.4
Net retirement benefit liability	**(49.9)**	(31.3)

For the year ended 31 December

16. Retirement benefits (cont.)

	2011 €m	2010 €m
Income and Expenditure account		
Charged to net operating expenses		
Retirement benefits		
Current service cost	(3.1)	(2.9)
Death in service cost	(0.2)	(0.2)
Other retirement benefits	(1.1)	(0.9)
Charge to profit & loss	**(4.4)**	(4.0)
Interest in scheme liabilities	(9.4)	(8.7)
Expected return on scheme assets	7.9	7.3
Total financing charge	(1.5)	(1.4)
Net change in operating result	**(5.9)**	(5.4)

	2011	2010
Statement of total recognised gains and losses		
Actual return less expected return on scheme assets	(12.6)	5.2
Experience gains and losses on scheme liabilities	(2.3)	5.6
Changes in demographic and financial assumptions	(8.2)	(4.9)
Actuarial (loss)/gain	(23.0)	5.9
Deferred tax	2.7	(1.1)
Total actuarial (loss)/gain	**(20.4)**	4.8
Movement in net deficit during the financial period		
Net deficit in scheme at start of year	(31.3)	(38.4)
Current service cost	(3.1)	(2.9)
Death in service cost	(0.2)	(0.2)
Contributions	7.7	7.7
Interest on scheme liabilities	(9.4)	(8.7)
Expected return on scheme assets	7.9	7.3
Actuarial (loss)/gain	(23.0)	5.9
Other retirement benefits	(1.1)	(0.9)
Deferred tax	2.7	(1.1)
Net deficit at end of financial period	**(49.9)**	(31.3)

NOTES TO THE ACCOUNTS (CONTINUED)

16. Retirement benefits (cont.)

	Year ended Dec 2011	Year ended Dec 2010	Year ended Dec 2009	10 months to Dec 2008	Year ended Feb 2008
History of experience gains and losses					
Difference between expected and actual return on assets	**(12.6)**	5.2	9.6	(47.3)	(14.3)
% of scheme assets	**(10%)**	4%	9%	(60%)	(12%)
Experience gains and losses on scheme liabilities	**(2.3)**	5.6	5.6	(8.9)	(2.5)
% of scheme liabilities	**(1%)**	4%	4%	(7%)	(2%)
Total actuarial (loss)/gain	**(20.4)**	4.9	10.3	(19.6)	3.1
% of scheme liabilities	**(13%)**	4%	8%	(16%)	2%

	2011 €m	2010 €m
17. Reconciliation of operating surplus/deficit to net cash flow from operating activities		
Surplus/(deficit) on ordinary activities before taxation	9.0	(3.0)
Depreciation charges	9.7	11.9
Retirement benefits	(1.8)	(2.3)
Unrealised losses/(gains) on investments	2.8	(1.6)
(Decrease)/increase in health insurance technical provisions	(39.7)	61.7
Decrease in debtors from customers arising out of insurance operations	20.4	9.5
Decrease/(increase) in debtors and prepayments	11.1	(6.6)
(Decrease)/increase in creditors and accruals	(7.0)	13.5
Net cash inflow from operating activities	**4.5**	83.1

18. Movement in opening and closing portfolio investments

Net cash inflow for the period	**1.0**	14.2
Portfolio investments	0.9	69.9
Movement arising from cash flows	1.9	84.1
Changes in market values	0.3	5.1
Total movement in portfolio	2.2	89.2
Portfolio investments and cash in hand at start of period	776.2	687.0
Portfolio investments and cash in hand at the end of the period	**778.3**	776.2

19. Movement in cash and portfolio investments	At 1 January 2011 €m	Changes to: Cash flow €m	Changes to: market value €m	**At 31 December 2011 €m**
Cash at bank and in hand	(3.7)	1.0	-	(2.7)
Shares and other variable yield securities	6.2	9.0	(2.9)	12.3
Debt securities and other fixed interest securities held for trading	239.2	59.0	2.0	300.3
Debt securities and other fixed interest securities held to maturity	505.8	(80.8)	0.9	426.0
Other investments	2.0	(0.3)	0.2	1.9
Deposits with credit institutions	26.7	13.9	-	40.6
	776.2	**1.9**	**0.3**	**778.3**

20. Analysis of cash flows for headings netted in the cash flow statement	**2011 €m**	2010 €m
Portfolio investments		
Purchase of shares and other variable yield securities	9.9	5.0
Purchase of debt securities/fixed interest securities	2,465.5	1,225.2
Purchase other investments	(0.3)	0.4
Purchase of deposits with credit institutions	1,269.1	1,449.7
Sale of shares and other variable yield securities	(0.8)	(35.9)
Sale of debt securities/fixed interest securities	(2,487.3)	(1,122.9)
Sale of deposits with credit institutions	(1,255.1)	(1,451.6)
Net cash inflow on portfolio investments	**0.9**	69.9

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.

NOTES TO THE ACCOUNTS (CONTINUED)

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 2011 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 was 50% owned by Voluntary Health Insurance Board.in 2011. The company shares were purchased by Voluntary Health Insurance Board and will be controlled by Voluntary Health Insurance Board with effect from 1 January 2012 The nature of operations in this company is the provision of Home Infusion and related Services. It commenced trading in February 2010.

Vhi Healthcare has a 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.

COMPARATIVE RESULTS

	As re-stated				
	Year ended Feb 2008 €m	10 months to Dec 2008 €m	Year ended Dec 2009 €m	Year ended Dec 2010 €m	**Year ended Dec 2011 €m**
Earned premium	1,153.0	1,025.4	1,313.6	1,334.9	**1,314.1**
Claims incurred	(940.1)	(972.0)	(1,325.9)	(1,307.3)	**(1,234.2)**
Age tax credit less Levy			29.8	37.2	**41.1**
Operating expenses - health insurance	(81.8)	(77.5)	(84.7)	(82.7)	**(81.4)**
Operating expenses ancilliary products	(9.6)	(7.2)	(7.7)	(7.6)	**(7.0)**
Investment return	16.3	(42.5)	26.7	22.5	**(23.5)**
Taxation (charge)/credit	(18.2)	8.8	6.5	(0.1)	**(1.6)**
Surplus/(deficit) for the period	119.6	(65.0)	(41.7)	(3.1)	**7.4**
Surplus/(deficit) / Income Ratio	10.4%	(6.3%)	(3.2%)	(0.2%)	**0.6%**
Reserves	422.5	337.9	306.5	308.3	**295.2**
Minimum statutory solvency	214.6	224.6	255.3	283.2	**294.1**

Financial Ratios

	%	%	%	%	%
Solvency margin level	35.9	27.7	22.3	22.8	**22.3**
Claims (net age tax relief) as a % of earned premium	81.5	94.8	98.7	95.1	**90.8**
Operating expenses as % of earned premium – health insurance	7.2	7.6	6.4	6.3	**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 2011 Vhi Healthcare consumed 5,496,391 kWh of energy, consisting of:

- 4,476,645 kWh of electricity. The main energy users of electricity include: lighting (22%), office power / data centres (41%), general services /air conditioning (30%), kitchen (7%).
- 1,019,746 kWh of fossil fuel (natural gas). The main energy users of natural gas include space heating and hot water services (94%), kitchen (6%).

Actions Undertaken in 2011

- Lighting: Provided lighting occupancy control for meeting rooms in Vhi Healthcare Abbey Street and Vhi Healthcare Kilkenny. Lighting design undertaken to install T5 fluorescent smart lighting on the second and fourth floors in Vhi Healthcare Abbey Street - proposed project completion by Summer 2012.
- Building Energy Management Systems: Provided summer time mode control for Boiler space heating. Improved existing boiler control strategies to minimise boiler standing losses and reduce boiler runtime hours.
- ICT /Data Centre: Installed split air conditioning system in IT office area allowing centralised air conditioning system run hours to be minimised.
- Renewable Energy /Alternative Energy: Research project completed by Dublin Institute of Technology Student on the feasibility of photovoltaic and solar thermal energy systems for Vhi Healthcare Abbey Street.

Actions undertaken in 2011 provide potential estimated total annual energy savings of 265,000kWh.

Actions Planned for 2012

- Energy Monitoring and Reporting: Provide monthly energy analysis reports for all Vhi buildings. Reports to include energy loads, consumption and energy performance analysis.
- Lighting: Install T5 fluorescent smart lighting in Vhi Healthcare Abbey Street and Vhi Healthcare Kilkenny.
- ICT / Data Centre: Undertake data centre design study in Vhi Abbey Street and implement actions to improve data centre infrastructure efficiency.
- Energy Management Programme: Provide energy awareness days for Vhi Healthcare staff as part of overall energy awareness campaign

Actions planned for 2012 are estimated to provide total estimated annual energy savings of 300,000kWh.