LEADING CHANGE

Vhi

Vhi Healthcare Annual Report and Accounts 2013

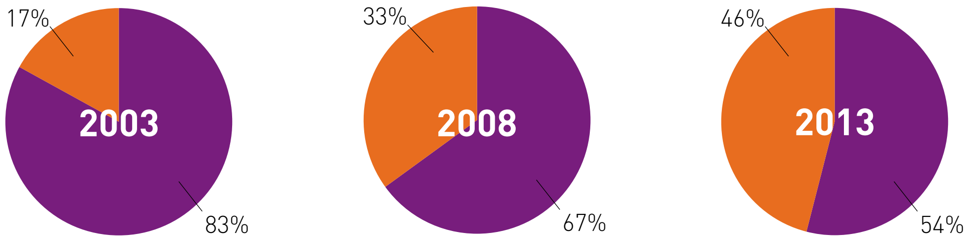
CONTENTS

OPERATIONAL STATISTICS

MARKET SHARE

Vhi Healthcare continues to lead the health insurance market, with 1.09 million customers and a 54% market share. The numbers of those with private health insurance continues to fall.

Vhi Healthcare
Others

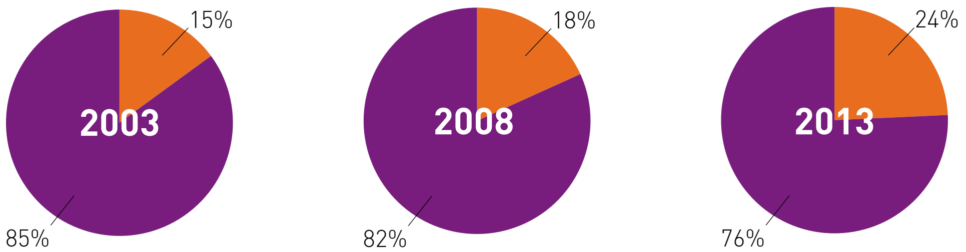


MEMBERSHIP BY AGE GROUP

Since deregulation in 1996, the health insurance market has had one key characteristic: younger lives have been highly profitable and older lives have been significantly loss-making. This is clearly illustrated by the fact that, despite Vhi Healthcare having 54% market share, we pay approximately 67% of all claims in the market (source HIA figures released August 2013). This is also clearly demonstrated when looking at Vhi Healthcare's market share of those over the age of 60, over the age of 70 and over the age of 80.

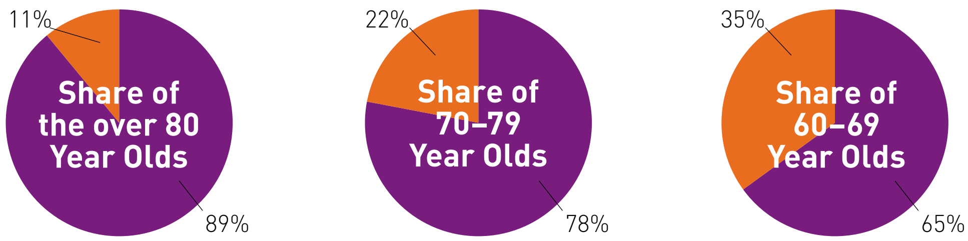
2003–2013 Market Share over 60s

60+
<60



2013 Market Share over 60s

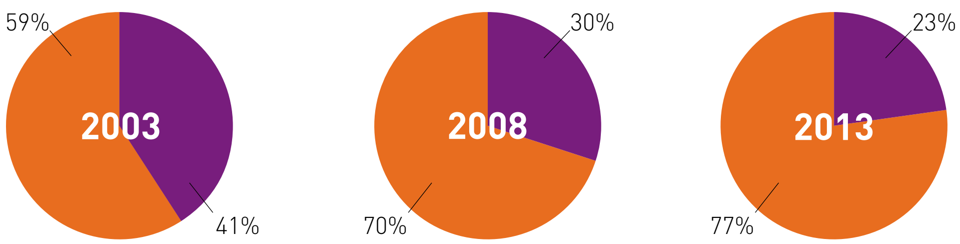
Vhi Healthcare
Others



CHANGES IN DELIVERY OF CARE

One of the key areas that Vhi Healthcare has focussed on, year on year, is the continued movement of treatment to the most cost-effective setting possible. This means that in the year ending 31 December 2013 77% of all claims paid by Vhi Healthcare were for treatment in a day-case or side-room setting compared to 59% ten years ago.

In-patient
Day Care and Side Room

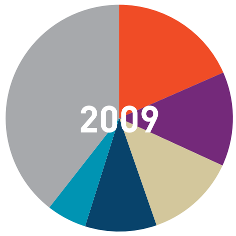


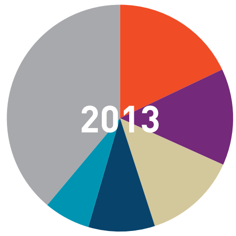
TOP FIVE CONDITIONS TREATED

The most significant claims paid by Vhi Healthcare during 2013 were for treatment of the following conditions:

- Cancer €198 million
- Orthopaedic care including hip replacements etc – €152 million
- Heart & circulatory system – €147 million
- Digestive system – €105 million

Illness	2009	2013
Cancer & Related Care	18.4%	17.9%
Orthopaedic Care	13.5%	13.8%
Heart & Circulatory System	12.8%	13.3%
Digestive System	10.2%	9.5%
Nervous System & Sense Organs	5.7%	6.6%
Others	39.4%	38.9%

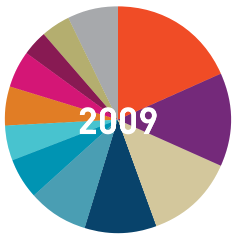


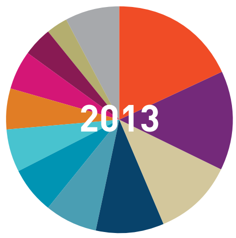


(These figures are based on claims relating to discharges in 2013 and processed up to mid-March 2014)

% OF CLAIMS BY ILLNESS CATEGORY 2013

Illness	2009	2013
Cancer & Related Care	18.4%	17.9%
Orthopaedic Care	13.5%	13.8%
Heart & Circulatory System	12.8%	13.3%
Digestive System	10.2%	9.5%
Investigation of Undefined Conditions, Symptoms	8.7%	7.2%
Nervous System & Sense Organs	5.7%	6.6%
Respiratory System	5.0%	5.9%
Genito-Urinary System	5.6%	5.7%
Mental Disorders	5.2%	5.4%
Accidents	3.6%	4.1%
Pregnancy & Childbirth	4.1%	3.2%
Others	7.2%	7.4%





BOARD OF DIRECTORS

Martin Sisk
Chairman

Martin Sisk has over 25 years regulatory and business related experience. A qualified solicitor, he started his career in the Revenue Commissioners, served as Registrar of Friendly Societies 1985–2003, Deputy Registrar of Credit Unions 2003–2006, Deputy Head of Consumer Protection Codes 2007–2008 and as Head of the Anti Money Laundering, Terrorist Finance and Financial Sanctions Unit 2008–2010. He retired from the Central Bank in July 2010. He currently serves on the Board of the Irish League of Credit Unions and was elected President in April 2013. (*_+/)

John O'Dwyer
Chief Executive

John O'Dwyer joined Vhi Healthcare from the international Dutch insurance group Achmea where he was the Chief Operating Officer and Executive Director with responsibility for the life, general and health businesses in "Interamerican," the second biggest insurer in Greece. John has an extensive track record in financial services and in particular the health insurance sector. Prior to his current role positions held included Managing Director of Friends First Life Assurance, Director of Operations at BUPA Ireland and Assistant Chief Executive with responsibility for Claims in Vhi Healthcare. He was also non-executive Chairman of the Board of the National Treatment Purchase Fund. (*^_+/)

Dr Ruth Barrington

Dr Ruth Barrington was Chief Executive of Molecular Medicine Ireland from 2007 to 2012 and Chief Executive Health Research Board 1998–2007. She joined the Department of Health in 1985 and served in different positions, including Assistant Secretary with responsibility for hospital policy. A graduate of UCD (History and Politics) and the College of Europe, Belgium, she was awarded her doctorate by the London School of Economics. She is the author of "Health, Medicine and Politics in Ireland 1900-1970." Dr Barrington has been both Governor and Chair of the Irish Times Trust, Board Director, Irish Times Ltd., and is currently a Director of TASC, a Trustee of GENIO, Chair of the Council of the National Children's Research Centre and also of TREOIR (#+/)

Christy Cooney
(Criostóir Ó Cuana),
Master of Education

Christy Cooney is a former President of the Gaelic Athletic Association (GAA 2009–2012). He is currently a Board Member of Goal and of Páirc An Chróchaigh Teoranta, the GAA subsidiary that runs the organisation's national stadium, Croke Park. He is also a Director of Simplee Flavours Ltd., a Cork based artisan flavoured salt and pepper company. Mr Cooney holds a Masters in Education. He is a former Assistant Director General of Irish National Training and Employment Authority, FÁS. He has also served on the board of the Independent Radio and Television Commission (IRTC). (#_)

Seamus Creedon

Seamus Creedon is a qualified actuary and holds a number of Non-Executive Director positions in life assurance, general insurance and reassurance companies in Ireland and the UK. He is a member of the insurance and reinsurance stakeholder group of the European Insurance and Occupational Pensions Authority. 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. (^+)

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 Medical Devices Association and a member of the Labour Relations Commission. He is a graduate of University College Dublin, a chartered member of the Institute of Personnel Development and a fellow of the Irish Management Institute. (#*~)

Celine Fitzgerald

Celine Fitzgerald is a management consultant providing services to clients across a number of sectors. Previously she was CEO of an Irish BPO business and held a number of executive director roles in organisations in the telecommunications sector. (#*/)

Cathriona Hallahan

Cathriona Hallahan is Managing Director for Microsoft in Ireland, responsible for its commercial and consumer business. She represents the company on all strategic policy, corporate affairs and communications, as well as a series of community, education and innovation programmes. Joining Microsoft in 1986 she has held a variety of senior roles in finance and operations, managing large teams with responsibilities across a range of functions, regionally and globally. She sits on the boards of Vhi Healthcare, Solas, Irish Dance Council and the Children's Hospital Group Board, is a member of the International Women's Forum, Institute of Directors, Institute of Accounting Technicians (IATI) and a fellow of ACCA. (#/)

John Melvin

John Melvin, an engineer by background, has extensive consulting experience in the public and private sectors with leading firms like Accenture and Price Waterhouse and since 1995 his own consulting firm, which specialises in Organisational Change, Lean and Process Management. His executive experience includes responsibility in a subsidiary of Canon Canada for Change Management and as a senior manager in Beaumont Hospital responsible for allied health and clinical support services and the development of the hospital's management and systems infrastructure. He is Chair of the Board's sub committee for Cost Management. (^+/)

Declan Moran

Director–Marketing and Business Development

Declan Moran has a BSC in Computer Science and is a fellow of the Institute of Actuaries since 1994. He joined Vhi Healthcare in 1997 from the life and pensions industry and was appointed to the Vhi Healthcare Board of Directors in 2008. From November 2011 to July 2012, he served as Acting Chief Executive, Vhi Healthcare. 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. (^+)

Terry O'Niadh

Terry O'Niadh is Chair of the Monitoring & Evaluation Committee (MEQA) of the Local Authority Services National Training Group (LASNTG), a member of the Audit Committee, Department of the Environment, Community & Local Government and a part time tutor with Institute of Public Administration. He served as North Tipperary County Manager for 10 years, Kildare Assistant County Manager for six years and as Wicklow County Secretary for a period of eight years. He holds a MA Degree in Public Affairs and Political Communications, a BA Degree in Public Management and was a participant in a Leadership Programme at the Kennedy School of Government, Harvard University. (^ + /)

(*) denotes Member of Remuneration Committee

(#) denotes Member of Audit Committee

(+) denotes Member of Strategy Committee

(^) denotes Member of Risk Management and Compliance Committee

(_) denotes Member of Investment Committee

(/) denotes Member of Cost Management Review Comittee

(~) denotes Member of Pension Trustee Committee

SERVING OUR CUSTOMERS BY DELIVERING VALUE AND INNOVATION

Vhi HOMECARE

3,000
Customers

40,000
Hospital bed days saved

€13.5M
Cost savings

Vhi SWIFTCARE

60,000
Patients Treated

ISO
Certification by CHKS
100% Compliance

SCREENING

30,000
People screened for Type II diabetes & cardiovascular risk factors since 2009

7,000
People re-screened since 2012

32%
the progression from pre-diabetes to diabetes had been reversed

NURSELINE

45,000
Customer calls handled in 2013

3,500
Calls approximately each month

1,000
Customers registered for one-to-one midwife service

MULTITRIP

No. 1
Market leader for multi trip travel insurance in Ireland

€420,000
Highest claim

Vhi INTERNATIONAL

+7,000
Claims paid out

TOP 5
Countries for claims– Australia, Ireland, UK, USA and France

Vhi BACKPACKER

€800
Average claims payout approximately

The year ending 31 December, 2013 was a positive yet very challenging year for Vhi Healthcare. The company delivered a solid financial performance, recording a surplus of €65 million and an improved solvency ratio.

Our continued focus on cost containment delivered significant savings and further measures were put in place to drive efficiencies while reducing costs. As the organisation hopefully moves closer to authorisation by the Central Bank this performance is welcome, but also critical to the overall financial strength of Vhi Healthcare. Much progress has been made in this regard, and more detail on this is outlined in the Operations Review.

2013 was challenging on a number of fronts, not least due to the fact that the market continued to contract in the face of on-going economic pressures, most notably amongst younger, healthier customers, due to issues regarding affordability. Competition in the health insurance market continues to be focussed solely on the younger, healthier customers to the almost complete exclusion of older customers. In this regard, we welcome the Minister for Health's recent proposals to introduce age discounts for people up to the age of 24, lifetime community rating and a strengthening of the Risk Equalisation Scheme (RES).

RISK EQUALISATION

During 2013 the Department of Health announced changes to the Risk Equalisation Scheme which saw the strengthening of the credits that apply to the older customers in the Irish private health insurance market. This was a welcome development and represented a step in the right direction for the protection of community rating.

However, the RES is a dynamic scheme and requires continuous improvement and development to reflect the changing market profile. The 2013 amendments recognised the increased support required for older customers but more needs to be done for sicker customers. This requires making fundamental changes to the measurement of health status, to take account of the complexity of care involved in hospital stays, instead of purely measuring length of stay. As it currently stands, the health status measurement provides a credit dependent on the number of days a patient is in hospital. Therefore a patient who has a stay of three days for tests receives the same credit as a patient who may have a similar length of stay, but for a much more complex procedure such as the insertion of a defibrillator. Clearly this is an area which must be made more sophisticated to ensure the health status of customers is accurately and fairly represented.

In April 2014, the Minister for Health wrote to all insurers outlining a series of measures he intends to take to support the sustainability and competitiveness of the private health insurance market. He outlined that in 2015 he proposes to introduce two specific initiatives to support the sustainability of the market, i.e. the first is the introduction of lifetime community rating which will create an incentive for people to join the health insurance market when they are young and retain their cover, and secondly, the introduction of discounting for young adults up to the age of 24. He also set out a series of policy objectives that will expand the factors that will be used to equalise risk under the Risk Equalisation Scheme. Specifically, he has committed to introducing a more refined measure of health status which, in turn, will make the overall scheme more effective.

We welcome the commitments the Government has made in this updated policy statement and would urge them to progress these measures as quickly as possible. This is critical. A strong and viable private health insurance market is a key element of the transition to a competitive, market-based, system of universal health insurance (UHI) which is stated Government policy. The private health insurance market needs measures to encourage young people to take out health insurance and retain their cover while, at the same time, incentivising all insurers to compete for older and sicker customers. To bring longer-term stability to the sector, it is necessary to address these key structural issues in the private health insurance market.

MARKET CHALLENGES & DEVELOPMENTS

At the end of December 2013 the Health Insurance Authority (HIA) confirmed that 2,052,000 people or 45% of the population, continued to hold private health insurance cover. This was 47,000 less than those insured at the end of December 2012. While the number of people insured overall has remained relatively steady in spite of the economic challenge, the key issue is the increased departure of younger, healthier customers from the market entirely, primarily due to the affordability challenge. This trend will have serious implications for the future of community-rated, private health insurance in Ireland if left unchecked.

During 2013 a number of significant Government policy and legislative changes were made which impacted the private health insurance market as a whole, not least the introduction of the Health (Amendment) Act 2013 and the capping of tax relief at source applicable to private health insurance premiums announced as part of Budget 2014.

Health (Amendment) Act 2013

Legislation enacted at the end of 2013 changed the way that public hospitals could bill for accommodation occupied by private patients. The Insurance Ireland Health Insurance Council, which includes the State's four main private health insurers, has argued that this legislation represents double taxation for those with private health insurance. Private patients could now be billed for occupying public beds in public wards i.e. paying more for something they are already entitled to, having paid their taxes. The Health Insurance Council has estimated that this could add €130 million to the industry's costs in a given year. The Health Insurance Council are monitoring the implementation of this system with a view to ensuring inappropriate charges are not raised on behalf of customers.

Budget 2014

In Budget 2014, the Government announced changes to the Tax Relief at Source (TRS) in relation to private health insurance policies. The Budget saw TRS on policies, which had previously been 20% of the total premium, capped at a premium of €1,000 per adult and €500 per child. This means that the maximum relief that can be claimed is €200 tax relief for an adult and €100 for a child. This was introduced with immediate effect i.e. to be implemented for all policies taken out or renewing on or after 16th October 2013. The Insurance Ireland Health Insurance Council estimates that 1.2 million customers will be impacted by this change. As previously mentioned, the market is under continued pressure, is contracting steadily and this change can only exacerbate this trend.

AFFORDABILITY

Vhi Healthcare is aware of the enormous financial pressures facing our customers and is very conscious of the affordability issue facing the health insurance market. Vhi Healthcare's average price increase over the last two years was 4.5%—this is the lowest amongst all private health insurers in the market. This has been achieved by focusing on the continued execution of our cost management programme which saw the implementation of targeted claims efficiency programmes, reductions in fees paid to providers, increased activity of our special claims investigation unit and the continued transition of procedures to lower cost, medically appropriate settings. We will continue to prioritise cost management in the year ahead, with a view to bringing down costs for the customer, while retaining quality of care, developing best practices, encouraging best possible outcomes and at the same time ensuring that there is no over-utilisation.

UNIVERSAL HEALTH INSURANCE

Vhi Healthcare is committed to working with the Government on Universal Health Insurance (UHI). We welcome the publication of the Government's White Paper on the matter and we look forward to fully engaging in this process.

ACKNOWLEDGEMENTS

I would like to express my sincere thanks to the members of the Board, the Chief Executive and the staff of Vhi Healthcare for their valuable contribution throughout what has been a very challenging year. The solid business results delivered this year bear testament to their efforts. I would also like to express my gratitude to Christy Cooney, who finished his term of office in February 2014, for his commitment, contributions and support to the Vhi Healthcare Board. We wish him well. Finally, and most importantly, I would like to thank our valued and loyal customers whom we will continue to serve to the best of our ability every day.

OUTLOOK

Securing Central Bank authorisation for Vhi Healthcare remains the most important objective for the organisation as we face into 2014.

Driving down costs, increasing efficiency, and focusing on providing affordable plans and services that our customers need and want will continue to take priority in the foreseeable future. I have no doubt that Vhi Healthcare will continue to be the insurer of choice for the vast majority of health insurance customers in Ireland and that its commitment to providing access to quality, affordable healthcare and superior customer service will bode well for the future of the organisation.

Martin Sisk
Chairman

EXECUTIVE MANAGEMENT TEAM

John O'Dwyer
Chief Executive

John O'Dwyer joined Vhi Healthcare from the international Dutch insurance group Achmea where he was the Chief Operating Officer and Executive Director with responsibility for the Life, General and Health businesses in "Interamerican," the second biggest insurer in Greece. John has an extensive track record in financial services and in particular the health insurance sector. Prior to his current role positions held included Managing Director of Friends First Life Assurance, Director of Operations at BUPA Ireland and Assistant Chief Executive with responsibility for Claims in Vhi Healthcare. He was also non-executive Chairman of the Board of the National Treatment Purchase Fund.

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

Bernadette Carr is a physician with extensive clinical and research experience. Her qualifications include 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 Vhi Healthcare lead in a major European research project under the FP7 Framework studying the molecular and physiological effects of lifestyle factors on diabetes.

John Creedon
Director, Claims

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

Tony McSweeney
Director, Individual and Corporate Business

Tony McSweeney, a member of the Marketing Institute of Ireland and a Fellow of the Sales Institute of Ireland, joined Vhi Healthcare from the life and pensions industry in 1996. He is responsible for customer services, customer administration and sales.

Margaret Molony
Director, Information Technology

Margaret Molony has over 26 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.

Michael Owens
Director, Human Resources

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

Declan Moran
Director, Marketing and Business Development

Declan Moran has a BSC in Computer Science and is a Fellow of the Institute of Actuaries since 1994. He joined Vhi Healthcare in 1997 from the life and pensions industry and was appointed to the Vhi Healthcare Board of Directors in 2008. From November 2011 to July 2012, he served as Acting Chief Executive, Vhi Healthcare. 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.

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.

STRONG SURPLUS AND IMPROVED SOLVENCY RECORDED

+20% NET SURPLUS

2013 €65 MILLION **2012** €54.3 MILLION

+48% SOLVENCY MARGIN

2013 156% **2012** 108%

+4.1% EARNED PREMIUMS

2013 €1.491 BILLION **2012** €1.431 BILLION

-2.1% CLAIMS INCURRED

2013 €1.366 BILLION **2012** €1.396 BILLION

-5.9% CLAIMS RATIO

2013 87% **2012** 92.9%

Vhi Healthcare continued to perform well in 2013. We recorded a strong surplus on our consolidated business and improved our solvency position, while maintaining a low operating cost ratio and continuing to improve the range of services offered to our customers.

Driving down costs continues to be a core focus of the business and significant improvements were made in the areas of claims management and provider management, which is reflected in the fact that we have had the lowest price increases across the sector over the last two years.

There were some challenges during the year with the reduction in tax relief on premiums in Budget 2014 and the introduction of charges for private patients in public hospital beds—both of which have serious consequences in terms of delivering an affordable product to our customers.

Submitting an application for authorisation to the Central Bank remains the key priority for the organisation and, during the year under review, much work was done to ensure the development of a sustainable business model.

At the end of 2013, Vhi Healthcare had reserves of over €389 million, which exceeds the minimum requirement set out in EU legislation. During 2013, our reinsurance arrangement with Berkshire Hathaway enabled us to improve our reserves equivalent to a solvency level of 156% compared to 108% in 2012 and just 100% in 2011. For Central Bank of Ireland purposes, the solvency level reduces to 145%.* The Central Bank of Ireland will ultimately determine the capital requirements once our application is submitted.

During 2013, the Minister for Health appointed an independent Chairperson to the consultative forum on health insurance to work with all the health insurers, the Department of Health and the HIA to effect real cost reductions in the private health insurance market. The first report from Chairman Pat McLoughlin was published in December 2013. The report emphasised the role of clinical audit in identifying unnecessary claims, the need to encourage more young people to participate in the health insurance market i.e. though discounting for younger people and the introduction of lifetime community rating and also made a number of recommendations in relation to claims processing, admissions and discharge procedures. The second report is expected to be published in 2014. Separately, in 2013 the Health Insurance Council was formed comprising the CEOs of the four private health insurers, operating under the auspices of Insurance Ireland. There were a number of industry issues that the Council looked at this year in particular the introduction of charges for all public beds for private patients and the reduction in tax relief at source introduced in Budget 2014. Vhi Healthcare participated in both these fora.

Affordability remains the biggest issue in the marketplace and attracting and retaining younger customers in the market is key to its very survival. In this regard we welcome the Minister for Health's proposals to extend discounts to people up to the age of 24 and to introduce lifetime community rating. We also welcome his proposals to strengthen the Risk Equalisation Scheme (RES). The numbers of those with private health insurance continues to fall. For its part, Vhi Healthcare has fully committed to ensuring that it does as much as it can to keep premiums affordable for consumers. The average price increase for the last two years has been 4.5%—the lowest increase in the market. In addition, during the year under review, Vhi Healthcare introduced promotions offering half rate child subscriptions on some of its most popular family plans as well as launching a new plan designed to provide excellent benefits for families, at a very affordable price.

KEY FINANCIAL RESULTS

The key financial results for Vhi Healthcare for the year ending 31 December 2013 were as follows:

- After tax results showed a net surplus of €65 million for Vhi Healthcare's consolidated business for the twelve months ended 31 December 2013. This surplus represents a margin of 4.4%, an improvement from the surplus of €54.3 million or 3.8% margin achieved in 2012. The improvement has been achieved on the back of a number of key initiatives taken in 2012 and 2013 which will continue to bear fruit in future years. These initiatives focussed most particularly on claims cost management, with claims costs reducing by 2.1% in the year. The business also purchased reinsurance for the first time in order to improve its solvency position and, as noted earlier, the solvency margin has improved from 108% at the end of 2012 to 156% at the end of 2013. For Central Bank of Ireland purposes, the solvency level reduces to 145%.*
- Earned premium totalled €1.491 billion, up 4.1% on the previous year. Meanwhile, income from products and services other than health insurance amounted to €21 million during the year.
- The ratio of free reserves to premium income at the end of December 2013 stood at 25.6%, an improvement of 4.1% over the previous year. Vhi Healthcare currently has reserves equivalent to a solvency level of 156% (versus 108% in 2012) of the legal minimum solvency margin requirement. For Central Bank of Ireland purposes, the solvency level reduces to 145%.*

- Total gross claims incurred in 2013 came to €1.366 billion, down 2.1% compared with €1.396 billion in 2012. The total claims incurred (net of reinsurance) amounted to €690.1 million. The total gross claims figure is down on the previous year due to a number of factors including more stringent claims management controls, movement of more procedures to medically appropriate settings, clinical indications, etc.
- Vhi Healthcare's claims ratio, i.e. payment for medical care as a percentage of earned premium, came to 87% (versus 92.9% in 2012) and means that of every €100 received in premium income €87 is allocated to cover the medical care needs of our customers.
- Vhi Healthcare's operating expense ratio to premium income was 6.2%, the same as in 2012. This is very efficient by international standards.
- Our diversified business, including MultiTrip from Vhi Healthcare, Vhi Dental, Vhi International, the Vhi SwiftCare Clinics and Vhi HomeCare continued to perform well, while also enhancing our product offerings to our customers.

FUNDING CUSTOMERS' HEALTHCARE NEEDS

During 2013, Vhi Healthcare processed almost 750,000 hospital claims in respect of the healthcare needs of its customers. Of this total, 77% related to daycase and sideroom claims while 23% related to in-patient claims. Approximately 250,000 outpatient and primary care claims were also processed on behalf of customers. 29 procedures were also moved from in-patient to side-room/day case setting and we reduced the average length of stay in 40 common procedures.

The most significant claims paid during 2013 were for treatment of the following conditions:

- Cancer €198 million
- Orthopaedic care including hip replacements etc – €152 million
- Heart & circulatory system – €147 million
- Digestive system – €105 million

(These figures are based on claims relating to discharges in 2013 and processed up to mid-March 2014)

Every year Vhi Healthcare provides access to a new range of innovative drugs, techniques and therapies which have been proven to be clinically effective and which are aimed at improving healthcare outcomes for patients. During 2013 these included subcutaneous delivery of chemotherapy which is a revolutionary new method for delivering chemotherapy drugs that is quicker, more convenient and less invasive than the traditional intravenous method. Vhi Healthcare was the first insurer to offer cover for Cyberknife in 2013. This is a specialised, robotic radiosurgery system used for the treatment of cancerous tumours.

CLAIMS COST MANAGEMENT AND DRIVING EFFICIENCY

Vhi Healthcare is totally committed to managing costs and reducing inefficiencies in our business. We have been driving a claims cost containment programme since 2009 and have generated significant savings in a number of key areas such as reduced rates paid to hospitals and consultants, increased use of clinical indicators and clinical audit and the continued movement of treatment to the most cost-efficient setting.

Vhi Healthcare had lower claims costs for 2013 compared to 2012. This has been achieved through a combination of measures including the implementation of targeted claims efficiency programmes, reductions in fees paid to providers, increased activity of our special claims investigation unit and the continued transition of procedures to lower cost, medically appropriate settings. Recognising that affordability is the biggest issue facing our customers, we will continue to prioritise claims cost management, with a view to bringing down costs for the customer while retaining quality of care, developing best practices, encouraging best possible outcomes and at the same time ensuring that there is no over utilisation.

In April 2013, Vhi Healthcare established a Pharmaceutical and Medical Implant Unit to tackle rising costs in the area of medical implants and high-cost drugs. The unit is now up and running and is focusing on the use of transparent reference pricing for certain high cost devices and promoting the use of generic drugs with a view to achieving further savings.

Vhi Healthcare's Special Investigations Unit (SIU) and medical review process continued to achieve savings, recovering a total of €14.8 million in the year under review. More widespread use of data analytics by the SIU increased the identification of bed capacity breaches and over-utilisation and an increase in pre-payment and post payment validation calls have delivered additional savings in the period under review.

Another area of focus has been increased clinical review, utilisation review and clinical audit. Clinical indicators have been enhanced for 'scope' procedures for diagnostic endoscopic procedures (gastroscopies, colonoscopies, etc.) cardiac defibrillators and cardiac angiograms. We have also started working with an international organisation, on a pilot basis, to assist us in the introduction of clinical audit programmes to ensure the appropriateness of admissions and treatments on behalf of our customers.

INNOVATION AND DIVERSIFICATION

Vhi Healthcare continues to innovate and to bring new products and services to market. Our diversified products continue to perform strongly, with income from these products amounting to €21 million for the year under review.

- The Vhi Medical Centres in Dublin and Cork continued to provide customers with access to tests and screenings designed to help customers better understand and manage their health. By the end of December 2013 more than 30,000 people had been screened for type II diabetes and cardiovascular risk factors. In 2013, the Vhi Medical Centre, Cork, was awarded the prestigious 'General Healthcare Centre of the Year 2013' at the 2013 Irish Healthcare Centre Awards.
- Vhi HomeCare, a consultant-led service, providing hospital in the home type treatment, has treated more than 3,000 customers since launching in 2010, equating to the saving of almost 40,000 hospital bed days or €13.5 million. In 2013, the service was awarded the prestigious Joint Commission International (JCI) accreditation in recognition of the high quality of service provided.
- Vhi Healthcare's travel insurance policies which include Vhi International (an ex-patriate insurance

policy for people moving abroad for more than six months), Backpacker travel insurance and MultiTrip from Vhi Healthcare, continued to perform strongly and to lead the way in terms of offering high-quality travel insurance solutions. The travel range expanded in November 2013 to include a new plan, Vhi Canada Cover which was designed to specifically cater for customers looking to avail of the IEC (International Experience Canada) two year working visa to Canada.

- Ireland's first urgent care centres, the Vhi SwiftCare Clinics, continued to provide high quality care to customers, treating 60,000 patients with minor injuries and illnesses in 2013. The top five conditions currently presenting at the Vhi SwiftCare Clinics are soft tissue injuries, fractures, sprains & strains, respiratory problems and minor cuts. Approximately 40% of patients visiting the Clinics have required x-rays, and the remainder have received consultations in relation to non skeletal presentations including minor burns, cuts requiring a stitch, sporting injuries and other non-urgent conditions. During 2013, all Vhi SwiftCare Clinics successfully completed and were awarded the CHKS Accreditation/ISO certification with 100% compliance in all categories examined.
- Vhi Corporate Solutions is a dedicated team which provides employee assistance programmes to over 500 companies countrywide. During 2013, Vhi Healthcare increased the provision of its critical incident stress management service to clients.
- During 2013, Vhi Healthcare and DeCare Dental ended their business partnership. Vhi Healthcare immediately entered into an agreement with new partners to provide Vhi Dental. Vhi Dental offers customers great cover for on-going dental treatments and maintenance. In addition, Vhi Dental has begun direct payment facility with participating dentists, which we hope to expand in 2014, which allows customers to enjoy the benefits of direct payment and ensures a more convenient way for customers to look after their dental needs.

CORPORATE SOCIAL RESPONSIBILITY & SPONSORSHIP

Vhi Healthcare is pleased to be involved with the Jobnet/Worklink partnership and, in particular, their Network2Getwork events. Vhi Healthcare has been associated with this programme for some time now, providing facilitators for the Jobnet course and also through the donation of laptops, computer equipment and business expertise. Worklink has to date provided job-related training for over 750 professionals, 65% of whom progressed into employment or further education. Most importantly, Worklink helps to restore people's hope, self-belief, confidence and sense of self-worth. Vhi Healthcare is very committed to this initiative and will, in 2014, provide further funding and resources to help the participants in this scheme.

Vhi Healthcare is also involved in the Junior Achievement programme, which is a non profit organisation that aims to create a culture of enterprise within the education system. Programmes begin at primary school level and the programmes continue through to secondary school. Vhi Healthcare's customer service centre in Kilkenny recently hosted students from Loreto Secondary School as part of a six week Junior Achievement "Finance Your Future" programme. The programme aims to give students an understanding of the benefits of successfully managing their personal finances when they leave school. Vhi Healthcare staff were directly involved in coaching the students during the six week programme. Students also had a tour of the Kilkenny facility and met with employees to discuss their career and their day-to-day role.

In 2013 Vhi Healthcare partnered with the Blue September initiative which aims to inform men about the specific cancers that affect them and motivate them to go to the doctor to get checked out about any concerns they may have. The 2013 campaign saw Irish media personalities Dermot Whelan and Bernard O'Shea come on board to highlight the challenge of 'Dare to go blue' whereby participants were asked to take part in a variety of daring feats, activities and challenges to promote the Blue September message and to raise much needed funds for the Blue September charity coalition; The Mater Foundation Dublin, Mercy Hospital Cancer Appeal and Cancer Care West. Year on year, Vhi Healthcare is at the heart of provision of cancer care, ensuring our customers can benefit from the advances in medical technology and medication, which deliver the best outcomes. It is very encouraging to see that, despite increasing prevalence of cancer in Ireland, survival rates are continuing to improve. This is due primarily to huge improvements in therapy and treatment. Increased awareness, earlier detection and access to screening facilities also contribute to more successful outcomes. At Vhi Healthcare we are hopeful that our partnership with Blue September will help this trend to continue and promote the need for ongoing awareness of key cancers amongst men.

OUTLOOK

The immediate goal for Vhi Healthcare in 2014 is to secure authorisation by the Central Bank of Ireland. As the leading health insurer in Ireland, Vhi Healthcare is committed to continuing to identify ways to bring efficiencies to the market and tackle the affordability issue facing the health insurance sector. We will continue to prioritise this area with a view to bringing costs down for the customer while retaining quality of care, developing best practices, encouraging best possible outcomes and at the same time ensuring that over utilisation is eliminated.

Vhi Healthcare will continue to support the Government's healthcare reform programme so that Universal Health Insurance can become a reality, and look forward to participation in the consultation process. We must have a health system that is financially sustainable and that delivers better healthcare outcomes especially for the sickest and most vulnerable members of our society.

John O'Dwyer
Chief Executive

*Please refer to Note 1, Notes to the Accounts

The Directors have pleasure in submitting their 57th 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 consolidated results for the 12 months to 31 December 2013 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 Central Bank of Ireland Corporate Governance Code for Credit Institutions and Insurance Undertakings. Although currently authorised in respect of intermediation activities only, the Board has sought to comply with the provisions of the Code that are applicable. A Chief Risk Officer was appointed during the year, and structures have been put in place during the year to comply with the provisions of the code going forward.

The Directors consider that the Board will be in a position to comply with the provisions of the Code, except in respect of the appointment and terms of office of Directors, which are the responsibility of the Minister for Health.

Board of Directors

The roles of Chairman and Chief Executive are separate. All Directors are appointed by the Minister for Health.

The Board meets at least eleven times annually and has a formal schedule of matters specifically reserved to it for decision which includes approval of the overall strategic plan, annual operating plans, annual report and accounts and major corporate activities. Board papers are sent to each member in sufficient time before meetings. Appropriate training and briefing is available to all Directors on appointment to the Board, with further training available subsequently, as required. The Board has also drawn up procedures for Directors to take independent professional advice. All Directors have access to the advice and services of the Secretary and Director's liability insurance cover is 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 Committee		Risk Management & Compliance		Investment		Strategy		Cost Management Review	
	A	B	A	B	A	B	A	B	A	B	A	B	A	B
Martin Sisk	*12	12			3	3	3	3	1	1	2	2	4	4
Seamus Creedon	12	12					*6	6			2	2		
Christy Cooney	11	12	4	4					*1	1				
Celine Fitzgerald	12	12	3	4	3	3							4	4
Liam Downey	12	12	3	4	*3	3								
Cathriona Hallahan	9	12	*4	4									0	2
John Melvin	12	12					5	6			2	2	*4	4
Terry O'Niadh	12	12					6	6			2	2	4	4
Dr Ruth Barrington	12	12	4	4	1	1					2	2	3	3
Declan Moran	5	5					6	6			1	2		
John O'Dwyer	12	12			3	3	5	6	1	1	*2	2	4	4

Column A: number of scheduled meetings attended during the period the Director was a member of the Board and/or Committee
Column B: number of scheduled meetings held during the period the Director was a member of the Board and/or Committee
* = Chairperson of Committee

Appointments/Resignations during the year
Declan Moran – board term expired 30 April 2013
Also, Christy Cooney – board term expired 23 February 2014

Audit Committee
The Audit Committee established by the Board is comprised of at least three non-Executive Directors. The Audit Committee meets at least four times a year and reviews the annual accounts, internal control matters and the effectiveness of internal and external audit. The Audit Committee also 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 Management and Compliance Committee
The Board has appointed a Risk Management 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 overseeing, reviewing and monitoring the operation of the compliance and risk management systems.

Remuneration Committee
The Board has also appointed a Remuneration Committee comprising 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 for Credit Institutions and Insurance Undertakings. 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 delegated responsibility for the implementation of this system to Executive Management on a day-to-day basis.

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 Operating Plan for 2014 and 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 Board has conducted a review of its risks both from a strategic and operational perspective. The principal challenge facing the Board is achieving Authorisation by the Central Bank of Ireland (CBI) by 31 December 2014. This requires being able to demonstrate that there is a sustainable business in the regulatory environment which enables the organisation maintain the solvency requirements of the CBI which will involve, inter-alia;

a. the need for a more robust risk equalisation system

b. the need for further capital

The new risk equalisation scheme commenced in January 2013. The legislation creates a Risk Equalisation Fund administered by the Health Insurance Authority. The Fund is designed to support the community rated market by providing risk equalisation credits in respect of those over the age of 60 that help to meet their higher claims costs. The health credits vary by age, gender and by Advanced/Non-Advanced Level of Cover.

Non Advanced Cover is where the insurance cover is up to a maximum of 66% of the full cost for hospital charges in a private hospital.

In addition there is a health status measure which provides credits in respect of each overnight stay in a hospital bed in private/semi-private accommodation. All the credits are funded by a health insurance levy paid by health insurers which vary by Level of Cover i.e. Advanced/Non-Advanced (full details of the levies and credits are set out as supplementary information in the Notes of the Accounts).

As has been the case in previous years the risk equalisation scheme in 2013 was not fully effective, compensating for less than 58% of the risk.

In addition, the principal industry risks and uncertainties facing the business are:

I. The sustainability of a community rated private health insurance market given the following very significant cost pressures:

- **(i)** demographic trends as private health insurance costs increase significantly due to the ageing population;
- **(ii)** the economic environment, where 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.

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. The State has indicated that a process would be commenced and the aim (of the process) will be to reach the point of authorisation, subject to a final Government decision on capitalisation by the end of 2013. This date has been extended by Ministerial Order to December 2014.

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 authorised 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, 2012). Procedures are 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 2013, 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. INDEPENDENT AUDITORS

The independent 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:

Martin Sisk	**Cathriona Hallahan**
Chairman	Director

26 March 2014

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 year ended 31 December 2013 which comprise of the Group Financial Statements: Consolidated Income and Expenditure Account, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the Consolidated Statement of Total Recognised Gains and Losses and the Company Financial Statements: the Balance Sheet, the Cash Flow Statement and the Statement of Total Recognised Gains and Losses and the Statement of Accounting Policies and the related notes 1–28. The financial reporting framework that has been applied in their preparation is Irish law and accounting standards issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland).

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements giving a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Boards (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the Board's circumstances and have been consistently applied and adequately disclosed; the reasonableness of the significant accounting estimates made by the directors; and the overall presentation in the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report and Consolidated Financial Statements 2013 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the group's and of the Board's affairs as at 31 December 2013 and of the group's profit for the year then ended: and
- have been properly prepared in accordance with the Voluntary Health Insurance Act 1957 and the European Communities (Insurance Undertakings: Accounts) Regulations, 1996.

EMPHASIS OF MATTER – SOLVENCY AND CAPITALISATION

In forming our opinion on the financial statements, which is not modified, we draw your attention to note 1 regarding the financial viability of the Board and the requirement that the Board needs to be in a position to apply for an insurance licence from the Central Bank of Ireland by 31 December 2014. The absence of regulatory reform leading to an effective Risk Equalisation Scheme considered adequate by the Board requires it to consider and implement alternative strategies and rely on Government policy in relation to authorisation.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report to you in respect of the provisions of the Voluntary Health Insurance Act 1957.

Deloitte & Touche
Chartered Accountants and
Statutory Audit Firm
Dublin

26 March 2014

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 accounts are prepared on a consolidated basis. All intra Group transactions, balances, income and expenses are eliminated on consolidation.

The following are the principal accounting policies adopted:

BASIS OF ACCOUNTING

The accounts are prepared under the historical cost convention modified by the revaluation of investments. The preparation of accounts in accordance with generally accepted accounting principles requires the exercise of judgement in the process of applying the Board's accounting policies. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the accounts, relate primarily to provisions for claims outstanding and unexpired risks, and are documented in the accounting policies below. The provisions for outstanding claims and unexpired risks are based on actuarial methods of calculation reviewed by the Board's consulting actuaries, Towers Watson Limited.

PREMIUMS WRITTEN

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

Unearned premiums represent the proportion of premiums written in the year that relate to the unexpired 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.

RISK EQUALISATION CREDIT AND HEALTH INSURANCE LEVY

Risk equalisation credits and Health Insurance Levy written consist of the amounts receivable/payable to the Health Insurance Authority and 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 and Software	4 years
Furniture, fittings, medical and office equipment	5 years

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

INVESTMENTS

Investments held for trading, including listed securities, are stated at market value. Market value represents the bid price less accrued interest at the balance sheet date. Realised gains/losses on investment transactions are determined on an average cost basis and recorded in the Income and Expenditure account.

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

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

IMPAIRMENT

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

INVESTMENT INCOME

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

INVESTMENT RETURN

Operating results are reported on the basis of actual investment return. The allocation of investment return from the non technical account to the technical account is based on the return on investments attributable to the insurance business.

INVESTMENTS IN JOINT VENTURES, SUBSIDIARIES AND ASSOCIATES

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

RETIREMENT BENEFITS

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

Current service cost, interest cost and return on scheme assets are recognised in the income and expenditure account. Actuarial gains and losses are recognised in the statement of total recognised gains and losses. Past service cost is recognised immediately. The net surplus or deficit on the defined benefit pension scheme is recognised, net of deferred taxation, on the balance sheet.

The Company also operates a defined contribution retirement plan for qualifying employees who opt to join. The assets of the plans are held separately from those of the Company in funds under the control of Trustees. Costs arising in respect of this are charged to the Consolidated Income Statement as an expense as they fall due.

OTHER INCOME

Other income is recognised in the income and expenditure account in the period in which it is earned and represents the invoiced value and work-in-progress value of services provided exclusive of value added tax.

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.

STOCK

Stock comprises medical equipment and is stated at the lower of cost and net realisable value on a first in, first out basis. Cost comprises the invoiced price from suppliers. Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

PROVISIONS FOR LIABILITIES

Provisions have been included for known present obligations arising from past events based on management estimates, incorporating review of available information and appropriate external advice where available.

REINSURANCE

Premiums payable in respect of reinsurance ceded, are recognised in the period in which the reinsurance contract is entered into and relates only to premiums earned in the current financial year.

A reinsurance asset (reinsurers' share of claims outstanding) is recognised to reflect the amount estimated to be recoverable under the reinsurance contracts in respect of the outstanding claims reported under insurance liabilities. The amount recoverable from reinsurers is initially valued on the same basis as the underlying claims provision. The amount recoverable is reduced when there is an event arising after the initial recognition that provides objective evidence that the Company may not receive all amounts due under the contract and the event has a reliably measurable impact on the expected amount that will be recoverable from the reinsurer.

FUNDS WITHHELD FROM REINSURERS

The reinsurance contract is on a funds withheld basis. Under the agreements, the Board retains premiums at least equal to the reinsurance asset at all times.

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

TECHNICAL ACCOUNT

	Notes	2013 €m	2012 €m
		For the year ended 31 December	
Continuing Activities			
Earned premium, net of reinsurance:	2		
Gross premiums written		1,494.7	1,454.9
Outward reinsurance premiums		(734.7)	–
Change in the gross provision for unearned premiums		(4.3)	(23.6)
		755.7	1,431.3
Allocated investment income transferred from the non-technical account		14.0	19.4
		769.7	1,450.7
Other technical income, net of reinsurance:			
Risk Equalisation Scheme gross	3	68.5	65.4
Risk Equalisation Scheme—reinsurer's share		(34.3)	–
Reinsurance commissions		64.8	–
		99.0	65.4
Claims incurred, net of reinsurance:			
Claims paid—gross		(1,181.8)	(1,409.9)
Claims paid—reinsurer's share		469.2	–
Change in the provision for claims—gross		(184.0)	14.2
Change in the provision for claims—reinsurer's share		206.5	–
	4	**(690.1)**	(1,395.7)
Net operating expenses	5	(99.5)	(59.0)
Balance on the technical account		**79.2**	61.4

NON-TECHNICAL ACCOUNT

	Notes	2013 €m	2012 €m
		For the year ended 31 December	
Continuing activities			
Balance on the technical account		**79.2**	61.4
Investment income	6	14.0	19.4
Allocated investment return transferred to the technical account		(14.0)	(19.4)
		79.2	61.4
Other income	25	0.5	0.5
Other expenses	26	(5.8)	(5.2)
Surplus on ordinary activities before taxation		**73.9**	56.7
Taxation on ordinary activities	7	(8.9)	(2.4)
Surplus on ordinary activities after taxation carried to reserves	8	**65.0**	54.3

The accounts were approved by the Board on 26 March 2014, and signed on its behalf by:

Martin Sisk
Chairman

Cathriona Hallahan
Director

CONSOLIDATED BALANCE SHEET

ASSETS			At 31 December
		2013	2012
	Notes	**€m**	€m
Investments			
Land and buildings	9	19.5	20.2
Other financial investments	10	1,016.8	806.2
Reinsurer's Share of Technical Provisions			
Claims outstanding		206.5	–
Debtors			
Debtors from customers arising out of insurance operations		411.7	407.8
Other debtors	11	235.1	175.9
Other Assets			
Tangible assets	12	5.6	14.4
Cash at bank and in hand		9.5	2.2
Deferred taxation	13	2.7	5.4
Prepayments and accrued income			
Prepayments		2.2	2.0
Accrued interest		12.5	7.1
Deferred acquisition costs	14	4.6	8.2
Total Assets		**1,926.7**	1,449.4

LIABILITIES			At 31 December
		2013	2012
	Notes	**€m**	€m
Reserves			
General reserve		388.9	323.9
Technical provisions			
Provision for unearned premiums		497.0	492.6
Claims outstanding—gross		523.9	338.6
Funds witheld for Reinsurer		206.5	–
Creditors			
Creditors arising out of direct insurance operations		35.6	36.9
Creditors arising out of reinsurance operations		30.3	–
Other creditors and accruals	15	186.6	211.6
Bank overdraft		24.2	9.2
Retirement Benefits Liability	16	33.7	36.6
Total Liabilities		**1,926.7**	1,449.4

The accounts were approved by the Board on 26 March 2014, and signed on its behalf by:

Martin Sisk
Chairman

Cathriona Hallahan
Director

BOARD BALANCE SHEET

ASSETS

	Notes	At 31 December 2013 €m	2012 €m
Investments			
Land and buildings	9	19.5	20.2
Other financial investments	10	1,017.9	806.9
Reinsurer's Share of Technical Provisions			
Claims outstanding		206.5	–
Debtors			
Debtors from customers arising out of insurance operations		411.7	407.8
Other debtors	11	235.0	176.1
Other Assets			
Tangible assets	12	5.4	14.2
Cash at bank and in hand		9.3	2.1
Deferred taxation	13	2.7	5.4
Prepayments and accrued income			
Prepayments		2.2	2.0
Accrued interest		12.5	7.1
Deferred acquisition costs	14	4.6	8.2
Total Assets		**1,927.4**	1,450.0

LIABILITIES

	Notes	At 31 December 2013 €m	2012 €m
Reserves			
General reserve		389.1	324.3
Technical provisions			
Provision for unearned premiums		497.0	492.6
Claims outstanding—gross		525.5	339.9
Funds witheld for Reinsurer		206.5	–
Creditors			
Creditors arising out of direct insurance operations		35.4	36.8
Creditors arising out of reinsurance operations		30.3	–
Other creditors and accruals	15	185.7	210.6
Bank overdraft		24.2	9.2
Retirement Benefits Liability	16	33.7	36.6
Total Liabilities		**1,927.4**	1,450.0

The accounts were approved by the Board on 26 March 2014, and signed on its behalf by:

Martin Sisk
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Director

CONSOLIDATED CASH FLOW STATEMENT

	Notes	2013 €m	2012 €m
		For the year ended 31 December	
Net cash inflow from operating activities	17	211.0	21.8
Taxation		–	(0.1)
Capital expenditure		(4.5)	(2.7)
		206.5	19.0
Cash flows were invested as follows:			
Decrease in cash holdings		(7.7)	(4.3)
Net portfolio investment	18&20	214.2	23.3
Net increase in cash flows	19	**206.5**	19.0

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Notes	2013 €m	2012 €m
		For the year ended 31 December	
Surplus for the financial period		65.0	54.3
Actuarial loss on pension fund	16	(0.5)	(25.0)
Retained Earnings of Subsidiary		–	(0.6)
Total recognised gains relating to the period		**64.5**	28.7

BOARD CASH FLOW STATEMENT

	Notes	2013 €m	2012 €m
		For the year ended 31 December	
Net cash inflow from operating activities	17	210.5	22.0
Taxation		–	(0.1)
Capital expenditure		(4.4)	(2.4)
		206.1	19.5
Cash flows were invested as follows:			
Decrease in cash holdings		(7.8)	(4.4)
Net portfolio investment	18&20	213.9	23.9
Net increase in cash flows	19	**206.1**	19.5

BOARD STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Notes	2013 €m	2012 €m
		For the year ended 31 December	
Surplus for the financial period		64.9	54.0
Actuarial loss on pension fund	16	(0.5)	(25.0)
Total recognised gains relating to the period		**64.4**	29.0

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 will have adequate resources to continue in operational existence and to meet solvency margin requirements 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 2014, 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, and in doing so meet its solvency requirement. The Board implemented a reinsurance program in 2013 as part of the strategy to meet this requirement.

The new Risk Equalisation Scheme, refer Note 3, will compensate for approximately 58% of the additional risk associated with insuring customers over 60 years of age and will be insufficient to support the losses incurred in meeting their needs. In the absence of adequate regulatory reform leading to an effective Risk Equalisation Scheme, the Board has had and will continue to have no option but to consider and implement alternative strategies that will achieve its statutory obligations.

Vhi Healthcare currently has reserves equivalent to a solvency level of 156% (2012: 108%) of the legal minimum solvency margin requirement. However, for Central Bank of Ireland (CBI) purposes, the solvency level reduces to 145%. The 156% reflects the solvency calculation outlined in the EU non life directive. The 145% reflects additional CBI adjustments for regulated entities. There are adjustments/restrictions for pension, reinsurance and changes in claims reserves. The CBI requires undertakings to be resourced at more than 100% of the minimum commensurate with its assessment of the nature and scale of their risks.

In assessing an application for authorisation, the Central Bank of Ireland applies a number of tests, including, inter alia,

a) the sustainability of the business

b) the adequacy of the current solvency level

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

The Minister of Health has issued a Ministerial Order extending the period within which Vhi need to have the necessary capital reserves to be authorised by the Central Bank to 31 December 2014.

Vhi Healthcare is satisfied that the Solvency II regime to come into force 1 January 2016, will not materially alter its objective in respect of financial resource requirements.

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 €21m. All business written is in the Republic of Ireland.

3. Risk Equalisation Fund and Health Insurance Levy

	2013	2012
	€m	€m
Risk Equalisation Premium Credits/Age Related Tax Credits		
Gross amount	353.5	328.0
Reinsurer's share	(176.8)	–
Hospital Bed Utilisation Credits		
Gross amount	7.2	–
Reinsurer's share	(3.6)	–
Health Insurance Levy		
Gross amount	(292.2)	(262.6)
Reinsurer's share	146.1	–
Risk Equalisation Scheme (net of reinsurance)	**34.2**	65.4

A new permanent risk equalisation scheme was introduced in the Health Insurance (Amendment) Act 2012, with effect from 1 January 2013. This replaced the age-related tax credit with a new set of credits payable from the new Risk Equalisation Fund administered by the Health Insurance Authority.

Risk Equalisation Premium Credit

The Risk Equalisation Premium Credit is payable from the fund for each insured person aged over 60. From 31 March 2014, reduced rates of credit apply for non-advanced cover and different rates apply for males and females. These are set out in the supplementary information to these notes. The value of the credit is earned over the term of the policy. At 31 December 2013 the value of unearned premium credits was €110.3m.

3. Risk Equalisation Fund and Health Insurance Levy (continued)

Hospital Bed Utilisation Credit

In addition to the premium credit, a new Hospital Bed Utilisation Credit is also payable from the Risk Equalisation Fund. This credit was €75 for each night spent in private hospital accommodation for members who renewed on or after 1 April 2013. Hospital Bed Utilisation Credit is accounted for when an eligible claim is assessed.

From 1 Jan 2014, this credit will also be payable in respect of public hospital accommodation and the value of the credit will drop to €60 per night for persons renewing on or after 1 March 2014.

Health Insurance Levy

Under the terms of the Finance Act of 2013, a Levy of €285 per adult and €95 per child by way of stamp duty was payable on renewal or inception of a private health insurance policy between 1 January 2013 and 31 March 2013.

From 1 April 2013, a second lower rate of stamp duty levy was introduced for policies deemed non-advanced cover.

The new rates were €350 per adult and €120 per child for advanced cover, and €290 per adult and €100 per child for non-advanced cover.

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 2013, the unexpired portion of the levy amounted to €103.4m.

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 2013 is €2.7m (December 2012: €0m).

5. Net operating expenses

	Dec-2013	Dec-2012
	€m	€m
Administrative expenses	80.1	72.1
Acquisition costs	13.8	24.4
Post retirement benefit curtailment (Note 16)	–	(38.2)
Deferred acquisition costs	3.7	0.7
Interest	1.9	–
	99.5	59.0

€8m of net operating costs relate to ancilliary products.

A change was made to post retirement benefits which resulted in a curtailment of benefits in 2012.

	Dec-2013	Dec-2012
The average number of persons, including part-time employees, employed by the Board was:	1,031	990
	€m	€m
Staff costs were:		
Wages and salaries	54.9	51.9
Social security costs	5.8	5.1
Retirement benefits	4.3	4.6

The total remuneration, including pension contribution, paid to the Chief Executive and included in net operating expenses in the year to December 2013 amounted to €323,403.

6. Investment income

	Dec-2013	Dec-2012
	€m	€m
Income from land and buildings	0.1	0.1
Income from other investments	16.3	18.0
Gains on realisation of investments	3.2	1.4
Unrealised losses on land and buildings	(1.0)	(1.9)
Unrealised losses on investments held to maturity	(4.5)	(0.2)
Unrealised gains on investments held for trading	0.6	2.8
Investment management expenses	(0.7)	(0.8)
	14.0	19.4

A transfer of the full amount of investment return has been made from the non-technical account to the technical account on the basis that the reserves of the Board are lower than the solvency margin level required by the regulator and therefore all reserves are deemed to be in support of the technical provisions.

7. Taxation on ordinary activities

	Dec-2013	Dec-2012
	€m	€m
The taxation charge in the income and expenditure account comprises:		
Current taxation for year	(6.2)	–
Deferred taxation—charge	(2.7)	(2.4)
	(8.9)	(2.4)

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 2012: 12.5%).

The differences are explained below:

	Dec-2013	Dec-2012
	€m	€m
Surplus on ordinary activities before taxation	73.9	56.7
Surplus on ordinary activities multiplied by standard rate of corporation taxation of 12.5% (December 2012: 12.5%)	(9.2)	(7.1)
Effects of:		
Expenses not allowed for taxation purposes	(0.1)	4.9
Losses carried forward	3.4	1.9
Capital allowances in excess of depreciation for period	(0.3)	0.3
Current taxation for financial period	**(6.2)**	–

8. Surplus on ordinary activities after taxation carried to reserves

The surplus on ordinary activities after taxation carried to reserves was €64.9m for Board and €65.0m on a consolidated basis.

The consolidated surplus for the financial period is stated after charging:

	Dec-2013 €m	Dec-2012 €m
Depreciation of tangible fixed assets	12.9	8.8
Board remuneration (inclusive of €18,022 expenses (2012: €12,764))	0.5	0.6

Auditors remuneration

Consolidated	**€m**	€m
Audit fee	0.1	0.1
Other statutory return fees	0.1	0.1
Non audit fees	1.8	2.4
Board	**€m**	€m
Audit fee	0.1	0.1
Other statutory return fees	0.1	0.1
Non audit fees	1.8	2.4

9. Land and buildings (Consolidated and Board)

	Dec-2013 €m	Dec-2012 €m
Valuation:		
At 1 January	20.2	22.1
Additions	0.4	–
Loss on revaluation	(1.1)	(1.9)
At end of year	**19.5**	20.2

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 2013 at open market value in accordance with Royal Institute of Chartered Surveyors (RICS) appraisal and valuation standards. These valuations were made by external valuers Thorntons Chartered Surveyors, Hamilton Osborne King, DTZ Sherry Fitzgerald and O'Keeffe Auctioneers.
If the land and buildings had not been revalued they would have been included at the following amounts which represent the lower of cost or net realisable value.

	Dec-2013 €m	Dec-2012 €m
Opening cost	15.9	17.0
Additions	0.4	–
Revaluation loss	(1.1)	(1.1)
Closing cost	**15.2**	15.9

10. Other financial investments

Consolidated	Dec-2013 €m Market Value	Dec-2013 €m Cost	Dec-2012 €m Market Value	Dec-2012 €m Cost
Held for Trading				
Shares and other variable yield securities	2.5	5.1	15.6	18.2
Debt securities/fixed interest securities	384.6	385.3	352.3	352.6
Other investments	1.8	2.1	1.0	2.6
Deposits with credit institutions	30.9	30.9	43.9	43.9
	419.8	423.4	412.8	417.3
	Amortised Cost	**Cost**	Amortised Cost	Cost
Held to maturity				
Debt securities/fixed interest securities	597.0	598.3	393.4	390.1
	1,016.8	**1,021.7**	806.2	807.4

The market value of investments held to maturity at 31 December 2013 was €603.1m (2012: €397.1m)

Board	€m Market Value	€m Cost	€m Market Value	€m Cost
Held for Trading				
Shares and other variable yield securities	2.5	5.1	15.6	18.2
Debt securities/fixed interest securities	385.3	385.3	352.3	352.6
Other investments	2.2	2.5	1.7	3.3
Deposits with credit institutions	30.9	30.9	43.9	43.9
	420.9	423.8	413.5	418.0
	Amortised Cost	**Cost**	Amortised Cost	Cost
Held to maturity				
Debt securities/fixed interest securities	597.0	598.3	393.4	390.1
	1,017.9	**1,022.1**	806.9	808.1

The market value of investments held to maturity at 31 December 2013 was €603.1m (2012: €397.1m)

11. Other debtors

	Dec-2013 €m	Dec-2012 €m
Consolidated		
Risk Equalisation Fund/Health Insurance Levy	233.3	175.1
Other debtors	1.8	0.8
	235.1	175.9

	Dec-2013 €m	Dec-2012 €m
Board		
Risk Equalisation Fund/Health Insurance Levy	233.3	175.1
Loan to Vhi Homecare Limited	0.1	0.3
Other debtors	1.7	0.7
	235.0	176.1

12. Tangible Assets

Consolidated	**Motor vehicles €m**	**Fixtures, furnishings and fittings €m**	**Computer/ office equipment & software €m**	**Medical equipment €m**	**Total €m**
Cost					
At 1 January 2013	2.2	10.0	92.4	0.1	104.7
Additions	0.4	0.6	3.1	–	4.1
Disposals	(0.5)	–	(4.0)	–	(4.5)
At 31 December 2013	**2.1**	**10.6**	**91.5**	**0.1**	**104.3**
Depreciation					
At 1 January 2013	(1.4)	(9.0)	(79.9)	–	(90.3)
Charge for the financial period	(0.5)	(0.5)	(11.9)	–	(12.9)
Eliminated in respect of disposals	0.5	–	4.0	–	4.5
At 31 December 2013	**(1.4)**	**(9.5)**	**(87.8)**	**–**	**(98.7)**
Net book value at 31 December 2013	**0.7**	**1.1**	**3.7**	**0.1**	**5.6**
Net book value at 31 December 2012	0.8	1.0	12.5	0.1	14.4

12. Tangible Assets (continued)

Board	Motor vehicles €m	Fixtures, furnishings and fittings €m	Computer/ office equipment & software €m	Total €m
Cost				
At 1 January 2013	1.9	9.9	92.3	104.1
Additions	0.3	0.7	3.1	4.1
Disposals	(0.4)	–	(4.0)	(4.4)
At 31 December 2013	**1.8**	**10.6**	**91.4**	**103.8**
Depreciation				
At 1 January 2013	(1.2)	(8.9)	(79.8)	(89.9)
Charge for the financial period	(0.4)	(0.5)	(11.9)	(12.8)
Eliminated in respect of disposals	0.4	–	4.0	4.4
At 31 December 2013	**(1.2)**	**(9.4)**	**(87.7)**	**(98.4)**
Net book value at 31 December 2013	**0.6**	**1.2**	**3.6**	**5.4**
Net book value at 31 December 2012	0.7	1.0	12.5	14.2

13. Deferred taxation asset (Consolidated & Board)

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

	Dec-2013 €m	Dec-2012 €m
Unrealised loss on investment valuation	0.5	0.1
Trading losses carried forward	–	3.6
Other timing differences	2.2	1.7
Total deferred taxation asset	**2.7**	5.4

14. Deferred acquisition costs (Consolidated & Board)

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

The amount of €4.6m provided for at 31 December 2013 (December 2012: €8.2m) is in respect of costs incurred during the financial year which are directly attributable to the acquisition of new business. All other acquisition costs are recognised as an expense when incurred.

15. Other creditors and accruals

Consolidated	Dec-2013 €m	Dec-2012 €m
Risk Equalisation Fund/Health Insurance Levy	154.9	198.3
PAYE and PRSI	1.5	1.3
Other creditors	8.3	1.6
Accruals	21.9	10.4
	186.6	211.6

Board	€m	€m
Risk Equalisation Fund/Health Insurance Levy	154.9	198.3
PAYE and PRSI	1.5	1.3
Other creditors	7.4	0.7
Accruals	21.9	10.3
	185.7	210.6

16. Retirement benefits (Consolidated and Board)

The Board operates a defined benefit pension scheme which was closed to new members effective 24 January 2013. The Board also operates a defined contribution retirement plan for qualifying employees who opt to join. The assets of this plan are held separately from those of the company in funds under the control of Trustees. Costs arising in respect of this are charged to the Consolidated Income Statement as an expense as they fall due.

The assets of the defined benefit scheme are held in a separate trustee administered fund. 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 2013 amounted to €7.6m (December 2012: €7.8m) 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 2013. The amounts have been fully implemented in the accounts in accordance with the requirements of FRS 17: 'Retirement Benefits'. In 2012, the definition of high quality bonds was amended, in addition there was a change in the method for extrapolating for longer durations. Both these changes lead to a higher discount rate therefore a lower defined benefit pension obligation. Had these changes not been made, the Eurozone rate would have been in the range of 3.2% to 3.7% and greater liabilities would have been reported in respect of our pension obligations at 31 December 2012.

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

The major assumptions used in respect of the pension scheme are:	Dec-2013 %	Dec-2012 %
Rate of increase in salaries*	2.75	2.75
Rate of increase in pensions in payment	2.00	2.00
Discount rate	4.00	4.00
Inflation assumption	2.00	2.00

Long-term expected rates of return at financial period end are:	Dec-2013 %	Dec-2012 %
Equities	7.0	7.0
Fixed interest	3.0-6.8	3.0
Property	6.0	6.0
Other	5.3	5.3

*0% increase for 2014 & 2015, 1.75% for 2016 and 2.75% thereafter

16. Retirement benefits (continued)

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

	Dec-2013	Dec-2012
Member age 65 (current life expectancy)	23.3	23.2
Member age 40 (life expectancy at age 65)	26.4	26.3

The assets in the pension scheme at market value were:	Dec-2013 €m	Dec-2012 €m
Equities	77.8	79.7
Fixed interest	56.3	38.0
Property	2.0	2.0
Other	32.4	31.2
Total market value of assets	168.5	150.9
Present value of scheme liabilities	(207.0)	(192.8)
Deficit in the scheme	(38.5)	(41.9)
Related deferred tax asset	4.8	5.3
Net retirement benefit liability	**(33.7)**	(36.6)

Income and Expenditure account	Dec-2013 €m	Dec-2012 €m
Charged to net operating expenses		
Retirement benefits		
Current service cost	(4.1)	(3.2)
Death in service cost	(0.2)	(0.2)
Other retirement benefits	–	(1.2)
Charge to income & expenditure account	**(4.3)**	(4.6)
Curtailment gain	–	38.2
Interest in scheme liabilities	(7.9)	(10.0)
Expected return on scheme assets	7.8	6.8
Past service credit	0.2	0.1
Total financing credit	0.1	35.1
Net change in operating result	**(4.1)**	30.5

16. Retirement benefits (continued)

Statement of total recognised gains and losses	Dec-2013	Dec-2012
	€m	€m
Actual return less expected return on scheme assets	1.7	8.9
Experience gains and losses on scheme liabilities	(1.7)	(4.4)
Changes in demographic and financial assumptions	–	(27.7)
Actuarial loss	–	(23.2)
Deferred tax	(0.5)	(1.8)
Total actuarial loss	**(0.5)**	(25.0)

Movement in net deficit during the financial period	Dec-2013	Dec-2012
	€m	€m
Net deficit in scheme at start of year	(36.6)	(49.9)
Current service cost	(4.1)	(3.2)
Death in service cost	(0.2)	(0.2)
Past Service credit	0.2	0.1
Contributions	7.6	7.8
Interest on scheme liabilities	(7.9)	(10.0)
Expected return on scheme assets	7.8	6.8
Curtailment gain	0.0	38.2
Actuarial loss	–	(23.2)
Other retirement benefits	–	(1.2)
Deferred tax	(0.5)	(1.8)
Net deficit at end of financial period	**(33.7)**	(36.6)

History of experience gains and losses	Year ended Dec-2013	Year ended Dec-2012	Year ended Dec-2011	Year ended Dec-2010	Year ended Dec-2009
Difference between expected and actual return on assets	**1.7**	8.9	(12.6)	5.2	9.6
% of scheme assets	**1%**	6%	(10%)	4%	9%
Experience (losses) and gains on scheme liabilities	**(1.7)**	(4.4)	(2.3)	5.6	5.6
% of scheme liabilities	**(1%)**	(2%)	(1%)	4%	4%
Total actuarial (loss)/gain	**(0.5)**	(25.0)	(20.4)	4.9	10.3
% of scheme liabilities	**(0%)**	(13%)	(13%)	4%	8%

17. Reconciliation of operating surplus to net cash flow from operating activities

Consolidated	Dec-2013 €m	Dec-2012 €m
Surplus on ordinary activities before taxation	**73.9**	56.7
Retained earnings of subsidiary	–	(0.6)
Depreciation charges	12.9	8.7
Retirement benefits	(3.4)	(38.2)
Unrealised losses/(gains) on investments	5.0	(0.6)
(Decrease)/increase in technical provisions	(16.8)	13.3
Increase in debtors from members	(3.9)	(24.0)
Increase in debtors and prepayments	(61.0)	(41.5)
Increase in creditors and accruals	204.3	48.0
Net cash inflow from operating activities	**211.0**	21.8

Board	€m	€m
Surplus on ordinary activities before taxation	**73.8**	56.4
Depreciation charges	12.8	8.6
Retirement benefits	(3.4)	(38.2)
Unrealised losses/(gains) on investments	4.2	(0.9)
(Decrease)/increase in technical provisions	(16.5)	14.6
Increase in debtors from members	(3.9)	(24.0)
Increase in debtors and prepayments	(60.8)	(41.4)
Increase in creditors and accruals	204.2	46.9
Net cash inflow from operating activities	**210.5**	22.0

18. Movement in opening and closing portfolio investments

Consolidated	Dec-2013 €m	Dec-2012 €m
Net cash outflow for the period	**(7.7)**	(4.3)
Portfolio investments	214.2	23.3
Movement arising from cash flows	206.6	19.0
Changes in market values	(3.6)	2.5
Total movement in portfolio	203.0	21.5
Portfolio investments and cash in hand at start of period	799.3	777.8
Portfolio investments and cash in hand at the end of the period	**1,002.3**	799.3

18. Movement in opening and closing portfolio investments (continued)

	Dec-2013	Dec-2012
Board	**€m**	€m
Net cash outflow for the period	**(7.8)**	(4.4)
Portfolio investments	213.9	23.9
Movement arising from cash flows	206.2	19.5
Changes in market values	(2.9)	2.6
Total movement in portfolio	203.2	22.1
Portfolio investments and cash in hand at start of period	799.9	777.8
Portfolio investments and cash in hand at the end of the period	**1,003.1**	799.9

19. Movement in cash and portfolio investments

	At 1 January 2013	Cash flow	Changes to market value value	At 31 December 2013
Consolidated	€m	€m	€m	**€m**
Cash at bank and in hand	(7.0)	(7.8)	–	(14.7)
Shares and other variable yield securities	15.6	(13.1)	0.1	2.6
Debt securities and other fixed interest securities held for trading	352.3	32.9	(0.4)	384.7
Debt securities and other fixed interest securities held to maturity	393.5	208.0	(4.5)	597.0
Other investments	1.0	(0.5)	1.3	1.8
Deposits with credit institutions	43.9	(13.0)	–	30.9
	799.3	**206.6**	**(3.6)**	**1,002.3**

Board	€m	€m	€m	**€m**
Cash at bank and in hand	(7.1)	(7.7)	–	(14.8)
Shares and other variable yield securities	15.6	(13.1)	0.1	2.5
Debt securities and other fixed interest securities held for trading	352.2	32.8	0.3	385.3
Debt securities and other fixed interest securities held to maturity	393.6	207.9	(4.5)	597.0
Other investments	1.7	(0.8)	1.3	2.2
Deposits with credit institutions	43.9	(13.0)	–	30.9
	799.9	**206.2**	**(2.9)**	**1,003.1**

20. Analysis of cash flows for headings netted in the cash flow statement

	Dec-2013	Dec-2012
Consolidated	**€m**	€m
Portfolio investments		
Purchase of shares and other variable yield securities	0.3	9.4
Purchase of debt securities/fixed interest securities	4,026.4	3,678.9
Purchase of deposits with credit institutions	1,456.2	1,519.1
Sale other investments	(0.5)	(0.9)
Sale of shares and other variable yield securities	(13.4)	(6.4)
Sale of debt securities/fixed interest securities	(3,785.5)	(3,660.9)
Sale of deposits with credit institutions	(1,469.2)	(1,515.9)
Net cash inflow on portfolio investments	**214.2**	23.3

Board	**€m**	€m
Portfolio investments		
Purchase of shares and other variable yield securities	0.3	9.4
Purchase of debt securities/fixed interest securities	4,026.4	3,678.8
Purchase of deposits with credit institutions	1,456.2	1,519.1
Sale other investments	(0.8)	(0.2)
Sale of shares and other variable yield securities	(13.4)	(6.4)
Sale of debt securities/fixed interest securities	(3,785.5)	(3,660.9)
Sale of deposits with credit institutions	(1,469.2)	(1,515.9)
Net cash inflow on portfolio investments	**213.9**	23.9

21. Capital Commitments (Board & Consolidated)

	Dec-2013	Dec-2012
	€m	€m
Capital expenditure approved but not contracted for	**3.3**	–

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 subsidiaries at any time during the year.

Please see Note 24 for interests in Joint Ventures, Subsidiaries and Associated undertakings.

23. Prompt Payment of Accounts
Prompt Payment of Accounts Act 1997 (as amended by the European Communities (late payment in commercial transactions) Regulations 2012).

Payments made during 2013 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. Subsidiaries 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 owns 100% of the shares of Vhi HomeCare Ltd, a company registered at Waverly Office Park, Old Naas Road, Dublin 12. 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. This entity is reflected in Other Financial Investments on the Balance Sheet.

In preparation for authorisation by the Central Bank of Ireland, Vhi Healthcare set up the following entities;

Vhi Group Limited (effective May 2013), Vhi Insurance Limited (effective May 2013), Vhi Healthcare Limited (effective May 2013) and Vhi Investments Limited (effective August 2013). It also set up Vhi Group Services Limited (effective January 2014). These entities did not trade during 2013.

25. Other Income
This is income generated by Vhi Homecare Limited (other than from Vhi Healthcare).

26. Other Expenses
This relates to expenses associated with the provision of services to Clients.

27. Legal cases disclosure
The Board is satisfied that there are no material legal cases pending.

28. Subsequent Events
There are no material subsequent events.

COMPARATIVE RESULTS

	Year ended Dec-2009 €m	Year ended Dec-2010 €m	Year ended Dec-2011 €m	Consolidated Year ended Dec-2012 €m	**Consolidated Year ended Dec-2013 €m**
Gross earned premium	1,313.6	1,334.9	1,314.1	1,431.3	**1,490.4**
Ceded premiums					**(734.7)**
Gross claims incurred	(1,325.9)	(1,307.3)	(1,234.2)	(1,395.7)	**(1,365.8)**
Ceded claims					**675.7**
Gross Risk Equalisation Scheme	29.8	37.2	41.1	65.4	**68.5**
Ceded Risk Equalisation Scheme					**(34.3)**
Reinsurance commissions					**64.8**
Operating expenses	(84.7)	(82.7)	(81.4)	(50.6)	**(91.5)**
Operating expenses ancilliary products	(7.7)	(7.6)	(7.0)	(8.4)	**(8.0)**
Other income				0.5	**0.5**
Other expenses				(5.2)	**(5.8)**
Investment return	26.7	22.5	(23.5)	19.4	**14.0**
Taxation (charge)/credit	6.5	(0.1)	(1.6)	(2.4)	**(8.9)**
Surplus/(deficit) for the period	(41.7)	(3.1)	7.4	54.3	**65.0**
Surplus/(deficit)/Income Ratio	(3.2%)	(0.2%)	0.6%	3.8%	**4.4%**
Reserves	306.5	308.3	295.2	323.8	**388.9**
Minimum statutory solvency	255.3	283.2	294.1	299.7	**249.3**

Financial Ratios

	%	%	%	%	**%**
Reserves equivalent to solvency level	120	109	100	108	**156**
Claims (net risk equalisation scheme) as a % of gross earned premium	98.7	95.1	90.8	92.9	**87.0**
Operating expenses as % of gross earned premium – health insurance	6.4	6.3	6.3	6.2	**6.2**

Minimum statutory 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 due to become effective in 2016.

RISK EQUALISATION SUPPLEMENTARY INFORMATION

Risk Equalisation Scheme (rate change from 01 March 2014)

Contract Type	Non-Advanced		Advanced	
Community Rating Levy	Adult €290	Child €100	Adult €350	Child €120
Risk Equalisation Premium Credits	Male	Female	Male	Female
60-64	€250	€200	€450	€325
65-69	€575	€400	€1,150	€775
70-74	€925	€625	€1,850	€1,200
75-79	€1,200	€950	€2,500	€1,925
80-84	€1,575	€1,150	€3,200	€2,250
85+	€1,975	€1,325	€4,000	€2,725

Note: A hospital bed utilisation payment of €60 is paid in respect of each night spent in private, semi-private or public accommodation by an insured person.

Risk Equalisation Scheme (rate change from 31 March 2013)

Contract Type	Non-Advanced		Advanced	
Community Rating Levy	Adult €290	Child €100	Adult €350	Child €120
Risk Equalisation Premium Credits	Male	Female	Male	Female
60-64	€375	€250	€425	€275
65-69	€900	€650	€1,050	€775
70-74	€1,450	€975	€1,700	€1,150
75-79	€2,050	€1,550	€2,425	€1,800
80+	€2,850	€1,925	€3,375	€2,275

Note: A hospital bed utilisation payment of €75 is paid in respect of each night spent in private or semi-private accommodation by an insured person.

Interim system credits and community rating levy amounts for renewals in 2009- 2012

Age Tax Credits	2009	2010	2011	2012
50-59	€200	€200	Nil	Nil
60-64	€500	€525	€625	€600
65-69	€500	€525	€625	€975
70-74	€950	€975	€1,275	€1,400
75-79	€950	€975	€1,275	€2,025
80-84	€1,175	€1,250	€1,725	€2,400
85+	€1,175	€1,250	€1,725	€2,700

Levy	2009	2010	2011	2012
Per child (under 18)	€53	€55	€66	€95
Per Adult	€160	€185	€205	€285

Note: The health credits and the community rating health insurance levy for renewals occurring up to 30 March 2013 are the same as applied for renewals under the interim system in 2012.

ENERGY MANAGEMENT AND SUSTAINABILITY

IN 2013 VHI HEALTHCARE CONSUMED 4,973,750 KWH OF ENERGY, CONSISTING OF:

4,194,483 KWH OF ELECTRICITY

The main energy users of electricity include:

- lighting (19%)
- office power/data centres (42%)
- general services/air conditioning (33%)
- kitchen (6%)

779,267 KWH OF FOSSIL FUEL (NATURAL GAS)

The main energy users of natural gas include:

- space heating and hot water services (95%)
- kitchen (5%)

IMPACT OF ENERGY MANAGEMENT AND SUSTAINABILITY ACTIONS

2013

Actions undertaken in 2013:

- provided estimated total annual energy savings of 360,000kWh
- reduced the environmental impact of energy use by 155,000kg CO^2

2014

Actions planned for 2014 are estimated to provide total estimated annual energy savings of 300,000kWh.

ACTIONS UNDERTAKEN IN 2013

LIGHTING	Replaced T8 fluorescent lighting with T5 fluorescent smart lighting on two floors in Vhi Healthcare offices in Abbey Street and also in Limerick.
HEATING, VENTILATION AND AIR CONDITIONING	Improved time scheduling and zone control for heating, ventilation and air conditioning in Vhi Healthcare Abbey Street premises.
ICT	Implemented ICT energy efficient power management for computers and office equipment
ENERGY MONITORING AND REPORTING	Provided energy analysis and energy performance reporting for all Vhi Healthcare buildings

ACTIONS PLANNED FOR 2014

LIGHTING	Install T5 fluorescent smart lighting in Vhi Healthcare offices in Kilkenny, Naas Road and Gweedore.
ICT/DATA CENTRE	Complete data centre design study in Vhi Healthcare Abbey Street and implement actions to improve data centre infrastructure efficiency.
ENERGY MANAGEMENT PROGRAMME	Develop and review the Vhi Healthcare energy management programme in accordance with the Sustainable Energy Authority of Ireland's Energy MAP Programme. Review and implement the Vhi Healthcare energy action plan.

COMPANY DETAILS

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Deloitte & Touche

SOLICITORS

McCann Fitzgerald

CONSULTING ACTUARIES

Towers Watson