DELIVERING INNOVATIVE SERVICES COST CONTAINMENT SMARTER BUSINESS RESULTS

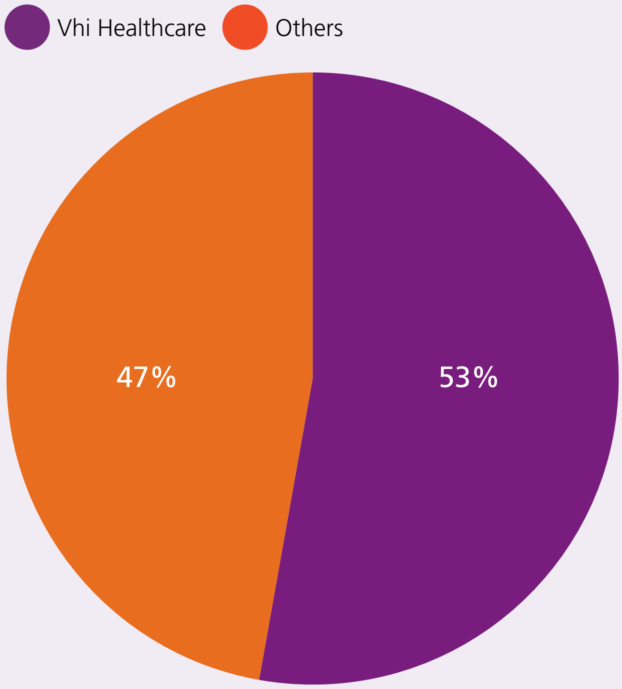
Vhi Healthcare Annual Report and Accounts 2014

CONTENTS

OPERATIONAL STATISTICS

2014 Market Share

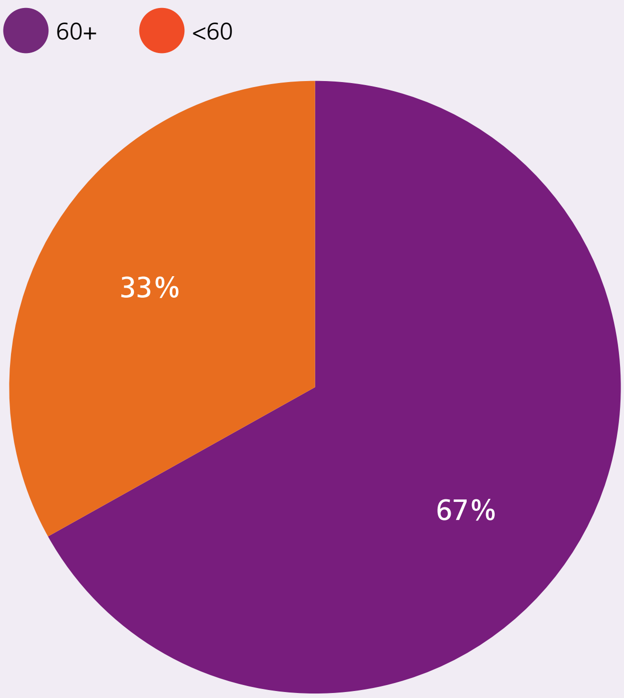
Vhi Healthcare continues to lead the health insurance market, with 1.07 million customers and a 53% market share. The numbers of those with private health insurance continue to fall. (2013: 2.05m–2014: 2.03m)

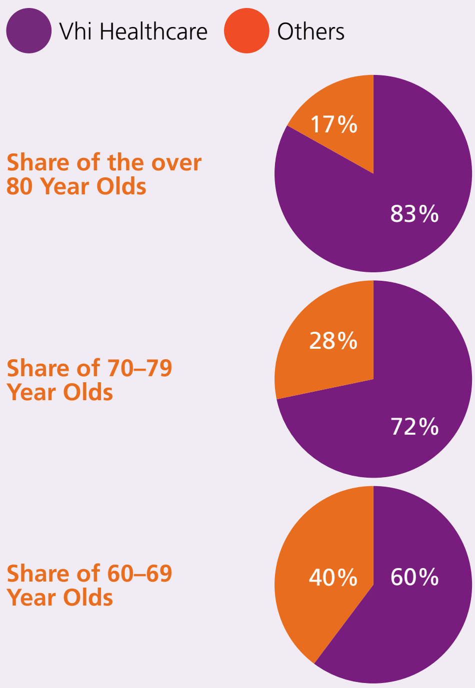


Membership by Age Group

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. In 2014 Vhi Healthcare has continued to have the largest market share of those over the age of 60, over the age of 70 and over the age of 80.

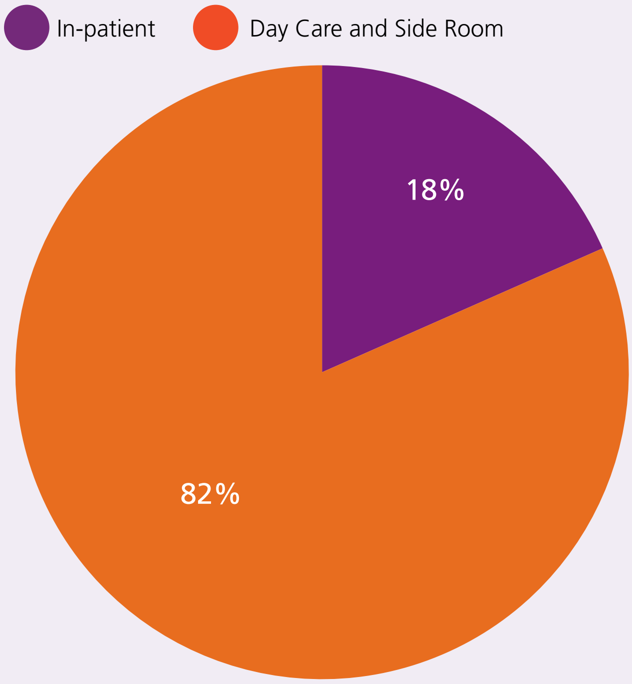
2014 Market Share of the over 60s





2014 Changes in Delivery of Care

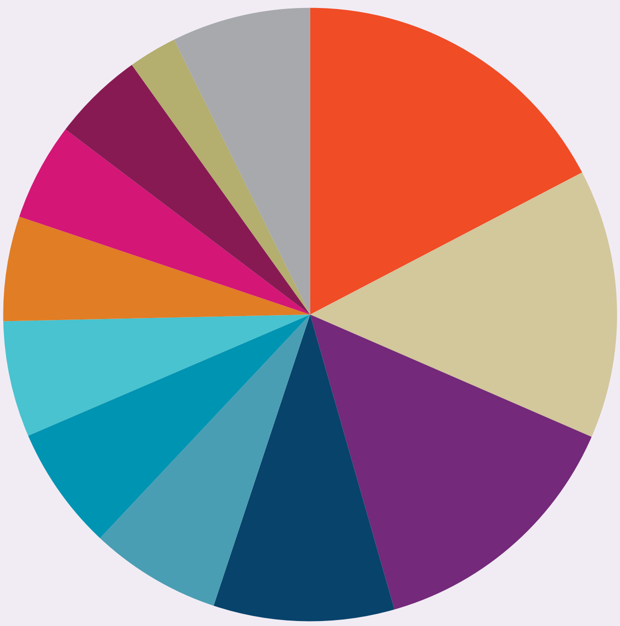
One of the key areas that Vhi Healthcare has focussed on, year on year, is the continued movement of treatment to the most cost-effective setting possible. This means that in the year ending 31 December 2014, 82% of all claims paid by Vhi Healthcare were for treatment in a day-case or side-room setting compared to 63% ten years ago.



2014 Analysis of Claims by Illness

The most significant claims paid by Vhi Healthcare during 2014 were for treatment of the following conditions;

- Cancer & related care – €183 million
- Heart & circulatory system – €150 million
- Orthopaedic Care including hip, knee replacements etc – €149 million
- Digestive system – €101 million



Illness	%
Cancer & Related Care	17.3%
Heart & Circulatory System	14.2%
Orthopaedic Care	14.0%
Digestive System	9.5%
Investigation of Undefined Conditions, Symptoms	6.9%
Nervous System & Sense Organs	6.5%
Respiratory System	6.1%
Genito-Urinary System	5.5%
Mental Disorders	5.1%
Accidents	4.8%
Pregnancy & Childbirth	2.6%
Others	7.5%

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
John O'Dwyer joined Vhi Healthcare in August 2012 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, Molecular Medicine Ireland from 2007–2012; Chief Executive, Health Research Board, 1998–2007; and was Assistant Secretary, Department of Health 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. 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 Chair of the National Children's Research Centre; Chair of TREOIR; Director of the Children's Medical Research Foundation; and a Trustee of Genio. (# +/)

Celine Fitzgerald
Celine Fitzgerald joined the Board in 2010, she is a management consultant providing services across a number of sectors. Between 2007 and 2012 she was CEO of an Irish-based, Business Process Outsourcing (BPO) company. She was recently appointed to the board of Ervia and has also held a number of senior roles in the telecommunications sector including Eircom and Vodafone. (#*/)

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
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.

Joyce Brennan

Joyce Brennan is an actuary with more than 20 years experience. She is a Principal with Mercer and formerly a Director with KPMG. Joyce partners with companies to help them manage the financing, design, communication and ongoing management of their pension plans. She specialises in developing and implementing programs of change to defined benefit pension plans and advising trustees on governance and procedures. Joyce has worked as advisor to the Health Insurance Authority and to the Department of Health on the regulation of private health insurance, and she has chaired the health care committee of the Society of Actuaries in Ireland. She has an MBA from UCD and is a qualified financial advisor. (*^)

Seamus Creedon

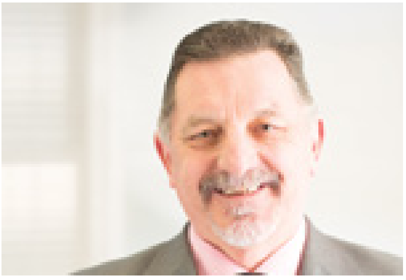
Seamus Creedon is a qualified actuary and holds a number of non-executive director positions in life assurance, general insurance and reassurance companies in Ireland and the UK. He is a member of the insurance and reinsurance stakeholder group of the European Insurance and Occupational Pensions Authority. 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. (#*~)

Paul O'Faherty

Paul O'Faherty is an actuary and is a non executive director of a number of companies in the financial services and investment areas. Until 2013 he was Chief Executive of Mercer Ireland and Chairman of Marsh McLennan Companies in Ireland. In his career as a consultant in Mercer, he advised the Department of Health for many years on health insurance matters. He is a Fellow and a past President of the Society of Actuaries in Ireland. He is also a past Chairman of the Irish Association of Pension Funds. (#^)



Terry O'Niadh

Terry O'Niadh is Chair of the Monitoring & Evaluation Committee (Quality Assurance) of the Local Authority Services National Training Group; a member of the Audit Committee of the Department of the Environment, Community & Local Government; an Associate Lecturer/Tutor with the Institute of Public Administration; and a Member of the Institute of Directors (IOD). He served as North Tipperary County Manager (Chief Executive) for 10 years; Kildare Assistant County Manager for six years; and Wicklow County Secretary for 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. (^+/)

Greg Sparks

Greg Sparks is a former partner of RSM Farrell Grant Sparks. In addition to being on the Board of Headstrong, Greg holds a number of Board appointments in the private sector, both domestically and internationally, including Digicel, the mobile phone operator in the Caribbean where he chairs the Audit Committee. Greg has served on the Boards of The Irish Times, eircom, the Strategic Investment Board in Northern Ireland, and chaired the Coombe Hospital for a number of years. (#)

Key to Committees

(#) Audit Committee, (*) Remuneration, (+) Strategy, (^) Risk Management and Compliance, (/) Cost Management Review, (~) Pension Trustee.

Martin Sisk retired as Chairman and Director, 14 March 2015. Cathriona Hallahan resigned from the Board, 15 May 2014. Christy Cooney retired from the Board, 22 February 2014. Liam Downey appointed Chairman, 15 March 2015.

EXECUTIVE MANANGEMENT TEAM

John O'Dwyer
Chief Executive

John O'Dwyer joined Vhi Healthcare in August 2012 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
Director, Medical, MD, FRCPI, MPH, LFOM

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

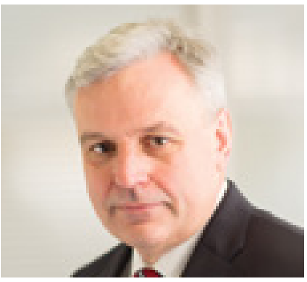
John Creedon has been a Director of Vhi Healthcare since 1996 and prior to this he held a number of senior positions within Vhi Healthcare. John is responsible for the overall service, administration and payment of claims in Vhi Healthcare and he is also responsible for the management and administration of all individual and corporate business. John has a BSc in Computer Applications from Dublin City University.

Margaret Molony
Director, Information Technology

Margaret Molony has over 30 years' experience in Vhi Healthcare and is responsible for information technology services in the organisation. Prior to her current role, Margaret has held a number of senior positions in Business Change, Program Management and Operational Management within Vhi Healthcare. She was appointed Director, Information Technology in 2008. She is also member of the International Insurance Federation and INSEAD Alumni Association.

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.



Michael Owens
Director, Human Resources

Michael Owens joined Vhi Healthcare in 1999 from Coyle Hamilton (Willis) where he was previously the Human Resources Director. He has varied and extensive experience in HR gained in a number of different sectors including insurance, retail and manufacturing. Michael has also served on a number of voluntary boards, including Junior Achievement and Business to Arts where he was Chairman for a number of years. Michael is currently serving as National Chair for CIPD Ireland. He is a Fellow of the Chartered Institute of Personnel and Development, has a coaching Diploma from University College Dublin and BA in Industrial Relations from the National College of Ireland.

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. In his role Tony is responsible for all Sales and Retention activities across Vhi Corporate and Individual memberships. In addition he is responsible for the Customer Service Business Centre based in Kilkenny which is the primary location for customers wishing to make contact with Vhi Healthcare.

Brian Walsh
Director, Finance

Brian joined Vhi Healthcare in November 2014 and was appointed to the Board in March 2015. He joined from DPI Specialty Foods in Los Angeles, the U.S. nation-wide specialty food sales, marketing and logistics division of the Irish Dairy Board where he was divisional Chief Financial Officer. Previously, he has held senior commercial, corporate finance and risk management roles in the international financial services, telecommunications and FMCG industries in Europe and the United States with leading companies including eircom, Deutsche Telekom and Citibank. Brian is a fellow of the Institute of Chartered Accountants in Ireland, having qualified with PwC.

CHAIRMAN'S REVIEW

2014 was a good year for Vhi and I am pleased to report that Vhi continued to deliver a sustainable financial performance on its consolidated business. In addition to delivering a surplus of €49.8 million, the company made further progress in terms of improving its solvency position.

This is the third consecutive year that Vhi has delivered a strong financial performance, against a backdrop of a contracting marketplace and in the face of ongoing economic pressures. The fact that the organisation has remained responsive to competitive, market and regulatory challenges has enabled it to continue to operate a sustainable business and retain its position as market leader despite intense competition. It achieved this by remaining focused on providing quality healthcare solutions and services for its customers and delivering on its sustained and effective cost containment programme.

Vhi maintained a solid membership base in 2014 supported by the introduction of new plans and a series of incentives designed to provide customers with the most competitive health insurance offerings in the market. Competitive pricing, including promotions on family plans and the leveraging of innovative services such as Vhi HomeCare, Vhi SwiftCare, Vhi Screening Services all played a part in ensuring that, notwithstanding 18 years of competition, more than one in every two members of the insured population remain Vhi customers. As we add more services, support and benefits to our private health insurance business, we will ensure that we become more relevant to our customers and build stronger and deeper relationships with them.

2014 was also a year in which the Government took a number of specific steps to stabilise the private health insurance market. These included measures to strengthen the Risk Equalisation Scheme in support of Community Rating by taking account of health status as well as age; the introduction of Lifetime Community Rating (LCR), a private health insurance system which is designed to incentivise customers to take out health insurance at a younger age and retain cover throughout their lives; and the introduction of discounts for young adults to address the falling market penetration rates for this segment of the population. These measures are welcome and will take effect during 2015. However we will continue to need a regulatory environment that is flexible and open to change if we are to preserve the Community Rated Private Health Insurance Market in the longer term.

Authorisation of Vhi

The immediate priority for Vhi in 2015 is to secure authorisation by the Central Bank of Ireland. In practical terms, Vhi has invested heavily in putting in place all of the controls, functions and personnel required to enable us operate as a regulated entity. We have also supported our employees with training and education programmes to make them aware of their operational, reporting, self-assessment and legal obligations.

In 2014, Vhi made an application for authorisation to the Central Bank of Ireland and in April 2015 Vhi was notified its application had been approved in principle. Clearly this is a huge milestone for Vhi and we are continuing to work with the Central Bank of Ireland to complete this process.

I welcome the recent appointment of appropriate additional expertise to the Board. I believe that this will broaden and strengthen the skill set of the Board and provide relevant oversight of our business. We have also strengthened management capability in key areas such as risk management, actuarial expertise and data analytics.

Challenges in the Private Health Insurance Market

Despite the positive financial returns in 2014 there are a number of pressing challenges in the marketplace which need to be addressed.

Affordability

The health insurance market as a whole continued to shrink in the first half of 2014, and although some gains were made in the latter half, the overall number insured in the market fell by some 23,500 on 2013. While there are signs that the economy is slowly recovering, it is still a concern that the biggest fall-off in customers is occurring at the younger end of the market (18-29 year olds). It was evident in 2014 that customers downgraded cover to reduce their premiums, although at a lower level than in 2013. The level of product downgrading and churn across the industry is a clear sign that affordability remains a key challenge for the industry is the major reason for young people choosing to leave the market. When young people are priced out of health insurance or are not sufficiently incentivised to join in the first instance, this adversely affects the overall risk profile of the market and, therefore, the cost of health insurance.

Vhi is acutely aware of the enormous financial pressures facing our customers and our focus is on delivering quality healthcare at the most affordable price possible. In January 2015 we announced premium reductions on 7 plans and confirmed that there would be no price increases on any other plans at this time.

We have managed to do this because we have been totally committed to managing costs and increasing efficiencies in our business. We have been driving a successful cost containment programme now for a number of years and this has generated significant savings in a number of key areas including the implementation of targeted efficiency programmes, reduction in fees paid to providers, increased investment in our Special Claims Investigation Unit and the continued transition of procedures to lower cost, medically appropriate settings. More details on these initiatives will be outlined in the Operations Review.

Regulatory Environment and the need to protect the Community Rated market

Vhi has a proportionately higher number of older and also sicker customers. In the absence of a fully effective risk equalisation scheme competition is distorted. The risk equalisation scheme (RES) needs to be further improved to consider in more detail the complexity of care required by patients rather than just taking into account customer age and lengths of hospital stays. More sophisticated measures need to be utilised to develop the health status aspect of the RES so that the health of customers can be accurately and fairly recognised. Both the Department of Health and the Health Insurance Authority (HIA) have acknowledged that this is necessary.

As mentioned earlier the Government has taken steps during the year to address these issues. It remains to be seen whether some or all of these measures will have the desired effect of helping to stabilise the health insurance market.

The introduction of LCR on 1 May 2015 provides for late entry loadings by Government on the premiums of those who buy health insurance for the first time at the age of 35 years and older. A Community Rated market depends on a continuous flow of younger people entering the market to help keep premiums down for everyone. Conversely, if people wait until they are older before taking out private health insurance, premiums will increase for everyone. Vhi is fully supportive of this new measure as it should help to encourage a more equitable and efficient insurance market. We hope that it will enable young people and families to return to the private health insurance market and ultimately lead to a stronger and more sustainable, market over time.

Acknowledgements

My objective and that of the Board is to ensure that Vhi is well directed and managed in accordance with the high standards of governance required to deliver performance excellence and the sustained success of the business. I want to ensure that Vhi will continue to be the number one health insurer of choice committed to the delivery of quality healthcare solutions for the people of Ireland.

I would like to thank the management and staff of Vhi for their continued hard work, enthusiasm and determination to rise to the challenges and find solutions for our customers. I would like to acknowledge the contribution and support of my fellow Board Directors and in particular to thank Martin Sisk for his leadership as Chairman for the last three years during challenging times. In particular, Martin drove an ambitious cost containment programme which helped deliver more competitive pricing over recent years and has meant we are better positioned to deliver the highest quality healthcare outcomes at affordable prices for our customers. I would also like to express my thanks to Christy Cooney whose term of office expired during the year and to Cathriona Hallahan who resigned from the Board during the year. I welcome the appointment of new Board Members during 2014 including Joyce Brennan, Paul O'Faherty, and Greg Sparks as well as the re-appointment of Declan Moran. I know that they will bring many important skills and qualities to the Board in what promises to be a very significant period of change for the organisation.

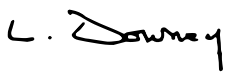
The Future

Securing authorisation remains one of the most important objectives for Vhi as we face into 2015. Authorisation will put the business in a much stronger position to deliver on its comprehensive business strategy over the next five years and beyond.

I believe that there is a great opportunity for Vhi to leverage its scale and medical expertise to devise new approaches to managing healthcare that will deliver a competitive advantage but will also help deliver affordable and better healthcare outcomes for our customers. We need to help develop models of healthcare that tackle the serious demographic changes that are taking place right now in our country. The Irish population is ageing; people are living longer with more chronic illnesses. We need to provide for this. Our ambition is to leverage our expertise and our leadership in this sector to positively impact the delivery of healthcare.

Driving down costs, increasing efficiency, and providing appropriate health insurance plans and services to our customers will continue to be our priority in the foreseeable future. These, together with finalising the authorisation process, remain our focus.

I have no doubt that Vhi will continue to be the number one health insurer of choice for people in Ireland and that our commitment to providing access to quality, affordable healthcare and superior customer service will ensure the continued success and future sustainability of the business.



Liam Downey
Chairman

Delivering a **strong and sustainable financial performance** while meeting the **healthcare needs of over 1 million customers**

€1.46 BILLION
GROSS EARNED PREMIUM

€1.38 BILLION
GROSS INCURRED CLAIMS

€49.8 MILLION
NET SURPLUS

€453.7 MILLION
RESERVES

OPERATIONS REVIEW

2014 was another good year for Vhi. Our business continued to deliver solid financial results generating a satisfactory net surplus of €49.8 million for the year while delivering healthcare worth €1.38 billion to meet our customers' medical needs.

In addition, we continued to secure savings through our cost containment programme, further consolidated our solvency position, extended our reinsurance agreement with Berkshire Hathaway, and further enhanced private health insurance affordability in the market through a number of initiatives designed to attract and retain business.

Cost management continued to be a priority during 2014. Clearly, managing costs must be effected in tandem with delivering quality healthcare solutions for our customers, focusing on developing best practices and securing best possible outcomes while also monitoring utilisation. This is achieved through a combination of measures including the implementation of targeted claims efficiency programmes, reducing fees paid to providers, increasing activity of our Special Claims Investigation Unit supported by proprietary data analytics and the continued transition of procedures to lower cost, medically appropriate settings.

Another key priority for Vhi in 2014 was to encourage young people and young families to return to the private health insurance market by addressing the affordability of premiums. Our hope is that by delivering the most affordable prices we can help to keep young people and families in the market. We must encourage young people to take out private health insurance if we are to sustain the Community Rated private health insurance market for the long term. In this regard we welcome the Government's decision to introduce Lifetime Community Rating (LCR) as we believe it will lead to a stronger, more sustainable market over time with more young people actively participating in the market. This is critical to keeping premiums affordable for all health insurance customers. Ahead of the introduction of LCR on 1 May 2015, Vhi introduced a range of plans tailored specifically for those who want to get a foot in the market ahead of that deadline.

In 2014 Vhi delivered value to our customers through ongoing product innovation and value based pricing for our products brought to life through multimedia marketing campaigns. The results of this programme are clear. We have seen increases in new business, win backs from our competitors, improvements in customer retention and perhaps most importantly improvements in our customers' perceptions of value for money and willingness to recommend. We have continued to see these positive trends develop further in 2015 and look forward to continued progress as we build brand loyalty by providing the quality healthcare and service that our customers expect and deserve.

During 2014, Vhi increased its reserves to over €450 million. We also extended our reinsurance agreement with Berkshire Hathaway for four years and made applications for authorisation as a regulated insurance undertaking and retail intermediary to the Central Bank of Ireland. On 24 April 2015, The Central Bank of Ireland notified Vhi that its application for Authorisation has been approved in principle. Clearly this is a very positive step and we continue to work with the Central Bank of Ireland in bringing the process to a successful conclusion.

Key Financial Results

The key financial results for Vhi Healthcare during 2014 were as follows:

- After tax results to 31 December showed a net surplus of €49.8 million compared with €65m in 2013 for Vhi's consolidated business activities. The surplus represents a margin of 3.4% which, although 1% down on the previous year, marks the strength of Vhi's business.
- Gross Earned premium for 2014 totalled €1.462 billion, down 1.9% on the previous year. Income from products other than health insurance amounted to €15.6 million during the year, while income from investments was €17.6 million, up 25.7% (or €3.6 million) on 2013.
- At the end of December 2014 Vhi Healthcare had reserves of €453.7 million representing a significant improvement of €64.8 million or 16.7% compared with the previous year's positions. This strengthening of reserves can be attributed to a number of key business initiatives taken by Vhi over recent years including improvements in claims and provider management. In addition, our solvency position has been further strengthened by the agreement with our partner Berkshire Hathaway to enter a four year reinsurance agreement commencing during 2014.
- Total gross claims incurred in 2014 came to €1.377 billion, up by 0.8% compared with €1.366 billion in 2013. The increase in claims costs on the previous year reflects the increases in Public Hospital Charges introduced by Government in 2014. It is estimated that imposition of these charges has added an additional €40 million to our claims costs in the period under review.
- Vhi Healthcare's claims ratio i.e. costs incurred for medical care as a percentage of earned premium, came

to 89% (versus 87% in 2013) and means that of every €100 received in premium income €89 is allocated to cover the medical care needs of our customers.

- Vhi Healthcare's operating expense ratio to premium income came to 7.7%, compared to 6.2% in 2013. While the underlying administration costs remained relatively flat year on year, the increase in the ratio this year reflects a number of one off costs principally relating to re-insurance costs. Vhi's administration ratio is very efficient by international standards. The average number of persons, including part-time employees, employed by the Board during 2014 was 1,089, spread across six business centres countrywide.

Funding the healthcare needs of our customers

During 2014, Vhi Healthcare processed over 900,000 claims in respect of the healthcare needs of its customers. Of this total over 709,000 were in-patient and day-care claims while a further 193,000 were attributed to outpatient and primary care claims. The most significant claims expenditure during 2014 was for treatment of the following conditions:

- Cancer & related care – €183 million
- Heart & circulatory system – €150 million
- Orthopaedic Care including hip, knee replacements etc – €149 million
- Digestive system – €101 million
- Central Nervous system – €69 million
- Respiratory illnesses – €65 million

(These figures are based on claims relating to admissions in 2014 and processed up to mid-March 2015).

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 2014 cover was extended to include a number of new high-cost drugs to ensure that our customers could avail of the latest treatment for cancer e.g.

- **Perjeta** – a new drug for use in treating metastatic breast cancer.
- **Mepact** (Mifamurtide) – is used for the treatment of osteosarcoma (a rare bone cancer) in younger patients.
- **Brentuximab Vedotin** (Adcetris®) – for the treatment of adults with Hodgkin's Lymphoma. It is also used to treat adults with relapsed or refractory large cell lymphoma.
- **Dacogen** – used in the treatment of adult patients aged 65 years and over with newly diagnosed leukaemia and who are not candidates for standard chemotherapy.
- **Zaltrap** – used in combination with chemotherapy for adults with metastatic colorectal cancer.

Cost management and encouraging efficiency

As an organisation, Vhi Healthcare is totally committed to managing costs and reducing inefficiencies in its dealings with external providers and suppliers as well as through streamlining its own internal operations. A key element of our cost containment strategy has been to identify ways of doing things smarter, not just cutting costs. One of the best examples of this is the Vhi HomeCare service which began in 2010. This has delivered clear financial results, treating 4,000 patients, saving 52,000 hospital bed days and delivering €24 million in savings since 2010 which ultimately benefits customers in the form of better quality healthcare services.

Vhi has agreed rate reductions with the private hospitals and hospital consultants, and in recent years has developed a process of direct engagement with selected pharmaceutical companies and medical device providers on issues such as provision and pricing. The net effect of these initiatives has seen accumulated savings of more than €400 million made since 2010 through a range of initiatives including utilisation management, the re-designation of procedures, tiered reimbursement arrangements, and direct engagement with the providers of drugs and prostheses. Of the hospital claims costs 28.64% related to day case and side-room claims, while 71.36% related to in-patient claims. Last year over 80 procedures were moved from inpatient to day case, side-room or one-night only settings and we reduced the average length of stay for more than 50 common procedures including major joint replacement surgery for hips and knees, appendicectomy procedures amongst others.

Through successful discussions and agreements with consultants, starting in 2009 and culminating in a more recent new two-year agreement that takes us up to 2016, we have made savings of just over €190 million across a broad range of medical and surgical specialties. With the co-operation of consultants we have brought professional fees back to pre-2004 levels, while maintaining consultant participation in our agreements at 99 per cent.

For example in 2008 the professional fee for

- **Cataract extraction** was €1,126.00 and we now pay €735.00 – a reduction of 35%.
- **Cardiac catheterisation and angiography** was €595.90 and we now pay €406.00 – a reduction of 32%

I am also pleased to report that our Special Investigations Unit (SIU) and medical review process continued to achieve savings, recovering approximately €20 million in 2014. 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 has delivered additional savings in the period under review. Our dedicated SIU team has become expert in the field of claims benefit recovery and fraud prevention. Since its inception in 2009, the SIU has recovered a total of over €47 million. While most of the money recovered relates to investigations of incorrect or inappropriate billing, there have, regrettably, been a number of instances where fraud has been uncovered. In cases where fraud is suspected these are reported to An Garda Síochana. The SIU reviewed over 60,000 claims in 2014. Methods used to identify such cases and recover money owed to the business include stringent billing audits, thorough follow up on customer queries and other targeted initiatives.

Diversified Products and Services

For some years now, Vhi has been developing and implementing its diversification strategy with the dual function of providing customers with a choice of useful and varied products and services while at the same time ensuring that Vhi can benefit from multiple revenue streams. So, instead of offering private health insurance only, Vhi Healthcare has now also become synonymous with providing cover for dental treatment, travel insurance, employee assistance programmes, medical screening, urgent care for minor illnesses and injuries, as well as consultant led hospital-in-the-home services. Income from diversified business amounted to €15.6 million in 2014.

- **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 2014 more than 52,000 screenings and health check assessments had been completed. Of this figure, over 40,000 screenings were carried out for research with 33,800 screenings for type II diabetes and cardiovascular risk factors. The research also involved more than 6,300 screenings for colon cancer. Currently, Vhi Medical Centres offer four screening/health packages with each package containing a different set of medical tests.

- Vhi Healthcare has a suite of different **travel insurance policies** which provide customers with an array of different cover options to suit their healthcare needs while abroad. **Vhi International** (which offers expatriate insurance cover for people who move abroad for more than six months), **Backpacker travel insurance** and **Multi Trip from Vhi Healthcare** all performed well throughout the year as did **Vhi Canada Cover** which was introduced in 2013 to cater specifically for customers looking to avail of the two year working visa to Canada.

- During 2014, over 66,000 patients attended **Vhi SwiftCare** Clinics to receive urgent care for minor illnesses and injuries. In addition, a further 22,000 customers attended the appointment-led services available at Vhi SwiftCare Clinics which include physiotherapy, orthopaedic services, x-ray services, sports medicine, as well as minor procedures. Based in three locations (two in Dublin and one in Cork), Vhi SwiftCare Clinics offer a 365 day a year service and accredited to provide the best in urgent care services to customers without the need to make a prior appointment. Most customers are seen within one hour. During the year people presented with a range of illnesses and conditions including sprains & strains, soft tissue injuries, fractures, cuts requiring stitches, minor burns and sporting injuries to name just a few. In addition the Vhi SwiftCare Clinics are now catering for minor procedures including removal of cysts, lesions, ingrown toenails, warts and verrucae etc. The facilities are fully equipped to provide x-rays, as well as follow-up consultations to ensure treatments provided are all going to plan.

- **Vhi Corporate Solutions** is a dedicated team which provides employee assistance programmes to over 640 companies countrywide. Services provided by this team include critical incident stress management as well as counselling services to help employees cope with financial, legal or emotional issues they may be facing. Other issues include difficulties balancing work life with family care and issues regarding care of elderly parents.

- **Vhi HomeCare** has treated more than 4,000 customers in their homes rather than in hospital since launching in 2010. A consultant-led service, Vhi HomeCare is suitable for a wide range of conditions including follow-up for those who have had a hip or knee replacement, those recovering from an infection, cystic fibrosis patients and many more. The Vhi Homecare service has been accredited by the Joint Commission International (JCI).

- During 2014, **Vhi Dental** continued to provide cover for routine treatment including check-ups and cleanings as well as great benefits for more costly treatments including fillings, crowns and root-canals. Vhi Dental also provides a direct payment facility to the dental practitioner once he or she is included on the Vhi Dental Network. This facility is designed to make visiting the dentist a cashless and more convenient way to look after the customers needs.

Corporate Social Responsibility and Sponsorship

In 2014, Vhi continued its involvement with the Jobnet/Worklink Partnership and in particular their Network/Get Work events. Worklink provides job related training for those who have lost their jobs and more importantly helps restore people's hope, self belief, confidence and sense of self worth. Vhi is very committed to this initiative. We are also very pleased to be involved in the Junior Achievement Programme which is a non profit organisation that aims to create a culture of enterprise within the education system.

In 2014, Vhi partnered with the Blue September initiative for the fourth year in a row in a nationwide campaign to raise awareness in men about the specific cancers that can affect them and to get them motivated to get checked out about any concerns they may have. The idea behind the sponsorship is to get Irish men to face up to cancer, to be aware of the risks, to check themselves regularly, and to be proactive about looking after their health. During the month of September 2014, the campaign focused on encouraging all to keep up the fight with the Vhi Blue September "Keepy Uppy" online game. All proceeds raised went towards fundraising for improved diagnostics, treatment and care for men with cancer.

OPERATIONS REVIEW (CONTINUED)

In late November 2014, Vhi announced that it is to sponsor the Women's Mini Marathon for the next five years. The Women's Mini Marathon is the biggest all-female event of its kind in the world, attracting up to 40,000 participants annually. The new partnership announcement comes at a time when running, as a means to maintaining a healthy and active lifestyle, is experiencing significant growth in Ireland. By encouraging people to get active we hope to have a positive impact on their day to day routines while helping deliver long term benefits to their mental and physical wellbeing.

Outlook

Vhi delivered another strong financial performance in 2014. We are very pleased to have received authorisation in principle from the Central Bank of Ireland and we will work to bring the process to a successful conclusion. We will continue to focus on cost management so that health insurance remains affordable for our customers. The decision taken earlier this year to reduce prices on 7 plans and hold prices static on all other plans together with the introduction of new plans targeted at those who are entering the market for the first time or re-joining the market after a period of absence prior to the introduction of Lifetime Community Rating on 1 May 2015, gives us the opportunity to build a private health insurance market that is sustainable for the long term.

The market dynamics are changing, the demographics are changing. People are now living longer but in some cases they are living longer with long term illnesses. I am conscious that we need to continue to be proactive and innovative in addressing our customers' healthcare needs and add increasing value and better healthcare outcomes. Our business strategy for the coming years will focus on proactively improving the health and wellbeing of our customers. We need to ensure that we are continuously innovating in order to keep abreast of medical developments and meet our customers' healthcare needs now and into the future.

Finally I would like to thank the staff of Vhi for their contribution throughout the year.

John O'Dwyer
Chief Executive

Driving **innovation,** doing business **smarter, managing** costs and **proactively improving** the health and wellbeing of our customer

Vhi Homecare
Delivering savings since 2010

52,000
HOSPITAL BED DAYS SAVED

4,000
PATIENTS TREATED

€24M
SAVED

Vhi Medical Centres
Conducting 52,000 screenings in 2014

52,000
SCREENINGS & HEALTH CHECKS

40,000
RESEARCH SCREENINGS

33,800
TYPE II DIABETES AND CARDIOVASCULAR SCREENINGS

Vhi Swiftcare
Treating 88,000 people in 2014

66,000
PATIENTS TREATED FOR MINOR ILLNESSES AND INJURIES

22,000
CUSTOMERS ATTENDED THE APPOINTMENT-LED SERVICES WHICH INCLUDE PHYSIOTHERAPY, ORTHOPAEDIC SERVICES, X-RAY SERVICES, SPORTS MEDICINE, AS WELL AS MINOR PROCEDURES

Vhi Special Investigations Unit
Contributing to reductions in the costs of claims in 2014

60,000
CLAIMS REVIEWED

€20
MILLION RECOVERED

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their 58th 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, 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.

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 2014 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 as well as the Code of Practice for the Governance of State bodies. Although currently authorised in respect of intermediation activities only, the Board has sought to comply with the provisions of the Code that are applicable, 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 held 14 meetings during 2014 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 Directors may 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		Rem Com		Risk Management & Compliance		Strategy		Cost Management Review	
	A	B	A	B	A	B	A	B	A	B	A	B
Martin Sisk	14*	14			5	5			3	3	4	4
Seamus Creedon	12	14					4*	4	2	3		
Christy Cooney	2	2										
Celine Fitzgerald	12	14	3*	4	5	5					1	4
Liam Downey	14	14	4	4	5*	5						
Cathriona Hallahan	5	6	1*	1								
John Melvin	13	14					4	4	3	3	4*	4
Terry O'Niadh	14	14					4	4	3	3	3	4
Dr Ruth Barrington	14	14	3	4					3	3	4	4
Paul O'Faherty	2	2										
Joyce Brennan	2	2										
Greg Sparks	1	1										
Declan Moran	2	2										
John O'Dwyer	14	14			5	5	4	4	3*	3	2	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

Note:
Audit Committee – Cathriona Hallahan resigned in May 2014 and Celine Fitzgerald took over as acting Chair. Greg Sparks was appointed Chair of the Audit Committee in December 2014. Paul O'Faherty was appointed to the Audit Committee in December 2014.

Risk Management and Compliance – Paul O'Faherty and Joyce Brennan were appointed to this committee in December 2014.

Remuneration Committee – Joyce Brennan was appointed to this committee in December 2014.

Appointments/Resignations during the year:
Christy Cooney retired 23rd of February 2014
Cathriona Hallahan resigned 15th of May 2014
Paul O'Faherty was appointed 26th of November 2014
Joyce Brennan was appointed 26th of November 2014
Declan Moran was appointed 26th of November 2014
Greg Sparks was appointed 9th of December 2014

Audit Committee
The Audit Committee consists of at least three non-Executive Directors. It 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 Risk Management and Compliance Committee established by the Board in 2012, comprises of a mix of non-executive and executive Directors with the principal purposes of overseeing, reviewing and monitoring the operation of the compliance and risk management systems.

Remuneration Committee
A Board appointed Remuneration Committee is also in place comprising the Chairman and two 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 as well as the Code of Practice for the Governance of State bodies. 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 Board applied for authorisation as a regulated insurance undertaking by the Central Bank of Ireland (the 'Bank') during May 2014. The authorisation application process is continuing and the Minister for Health has issued a Ministerial Order extending the period within which Vhi needs to have acquired the necessary capital reserves to be authorised by the Bank, to 31 March 2015. Vhi continues to co-operate with the Bank in its consideration of Vhi's application. In assessing the application for authorisation, the Bank applies a number of considerations, including, inter alia:

- the sustainability of the business
- the adequacy of the current and projected solvency level

The accounts of the Vhi 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 on the basis of the Board's Operating Plan for 2015, stress test assessments, enhanced governance structures in place, strong operating results during 2014 which contributed positively to the solvency position, an agreed four year reinsurance programme from 2014 until 2017, consideration and analysis of other capital alternatives.

The Board is satisfied that the introduction of the new EU Solvency Directive (referred to as 'Solvency II') which becomes effective on 1 January 2016 will not materially alter its objective in respect of financial resource requirements.

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.

7. Principal risks and uncertainties

Irish company law requires companies to give a description of the principal risks and uncertainties 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.

(i) Authorisation Risk:
A key challenge facing the Board is achieving authorisation by the Central Bank of Ireland (the 'Bank'). This requires demonstrating a sustainable business in the regulatory environment that enables the organisation maintain the solvency requirements of the Bank and may involve, inter-alia;

(a) future increase in the effectiveness of the Risk Equalisation Scheme.

(b) managing regulatory capital using reinsurance, debt and other funding options.

(ii) Risk of inadequate Risk Equalisation:
The Health Insurance (Amendment) Act 2012 created a Risk Equalisation Fund administered by the Health Insurance Authority. The Fund commenced from 1 January 2013 and is designed to support the community rated health insurance market by sharing the claims costs of the old and the sick among the young and the healthy across all private health insurance companies.

The scheme provides age related health credits in respect of those over the age of 60. The health credits paid from the fund vary by age, gender and by level of cover. In addition, there is a health status measure which provides health credits in respect of each overnight stay in a hospital bed. All the credits are funded by a health insurance levy paid by health insurers which vary by level of cover and by age (full details of the levies and credits are set out as supplementary information in the Notes to the Accounts).

The Risk Equalisation Scheme is intended to compensate for the additional risk associated with insuring older and sicker customers and it is the Board's view that Risk Equalisation Scheme effectiveness requires to be further enhanced in line with Government policy.

(iii) Market Risk:
In addition, the principal market risks and uncertainties facing the business are:

(1) 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) a challenging economic environment, where people may no longer be able to afford private health insurance;

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

(iv) increased public hospital charges, which are determined solely by government; continuing medical cost inflation, arising from the development of new technologies, drugs, treatment, etc;

(2) In February 2010 the European Commission took a case against the Irish State centred on the continuing exemption of Voluntary Health Insurance Board from the application of EU supervisory 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. Upon the direction of the State a process was commenced and the aim (of the process) is to reach the point of authorisation, subject to Central Bank of Ireland approval and Ministerial Order extending the period within which Vhi needs to have acquired the necessary capital reserves to be authorised by the Bank, as set forth above.

(3) The Voluntary Health Insurance (Amendment) Act 2008 gave additional commercial powers to Vhi but these will apply only after it is approved and authorised by the Central Bank of Ireland (see 2 above).

Vhi 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 2014, 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:

Seamus Creedon
Director

Greg Sparks
Director

24 March 2015

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 2014 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 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 2014 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 application by the Board for authorisation as a regulated insurance undertaking by the Central Bank of Ireland (the Bank). The authorisation application process is continuing and the Minister for Health has issued a Ministerial Order extending the period within which Vhi needs to have acquired the necessary capital reserves to be authorised by the Bank, to 31 March 2015.

Matters on which we are required to report by exception

We have nothing to report in respect of the following;

- Under the provisions of the Voluntary Health Insurance Act 1957.
- Under the Code of Practice for the Governance of State Bodies ("the Code"), we are required to report to you if the statement regarding the system of internal financial control required under the Code as included in the Directors' Report does not reflect the Group's compliance with paragraph 13.1 (iii) of the Code or if it is not consistent with the information of which we are aware from our audit work on the financial statements.

Deloitte & Touche
Chartered Accountants and Statutory Audit Firm
Dublin

24 March 2015

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 certain 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, pension assumptions 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 unearned/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.

STATEMENT OF ACCOUNTING POLICIES CONTINUED

Impairment

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

Investment Income

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

Investment Return

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

Investments in Joint Ventures, Subsidiaries and Associates

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

Retirement Benefits

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

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

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 a 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

For the year ended 31 December

	Notes	2014 €m	2013 €m
Continuing Activities			
Earned Premium, net of reinsurance:	**2**		
Gross premiums written		1,455.9	1,494.7
Outward reinsurance premiums		(724.0)	(734.7)
Change in the gross provision for unearned premiums		6.5	(4.3)
Change in the reinsurers share of unearned premiums		(144.0)	–
		594.4	755.7
Allocated investment income transferred from the non-technical account		17.6	14.0
		612.0	769.7
Other technical income, net of reinsurance:			
Risk Equalisation Scheme gross	**3**	71.8	68.5
Risk Equalisation Scheme – reinsurer's share		(43.1)	(34.3)
Reinsurance commissions		75.9	64.8
		104.6	99.0
Claims incurred, net of reinsurance:			
Claims paid – gross		(1,242.2)	(1,181.8)
Claims paid – reinsurer's share		703.1	469.2
Change in the provision for claims – gross		(134.6)	(184.0)
Change in the provision for claims – reinsurer's share		138.6	206.5
	4	**(535.1)**	(690.1)
Net operating expenses	**5**	(118.2)	(99.5)
Balance on the technical account		**63.3**	79.2

Non-Technical Account

For the year ended 31 December

	Notes	2014 €m	2013 €m
Continuing Activities			
Balance on the technical account		**63.3**	79.2
Investment income	**6**	17.6	14.0
Allocated investment return transferred to the technical account		(17.6)	(14.0)
		63.3	79.2
Other Income	**25**	3.9	0.5
Other Expenses	**26**	(10.6)	(5.8)
Surplus on ordinary activities before taxation		**56.6**	73.9
Taxation on ordinary activities	**7**	(6.8)	(8.9)
Surplus on ordinary activities after taxation carried to reserves	**8**	**49.8**	65.0

The accounts were approved by the Board on 24 March 2015, and signed on its behalf by:

Seamus Creedon
Director

Greg Sparks
Director

CONSOLIDATED BALANCE SHEET

Assets

	Notes	2014 €m	2013 €m
		At 31 December	
Investments			
Land and buildings	**9**	21.1	19.5
Other financial investments	**10**	1,106.7	1,016.8
Reinsurer's Share of Technical Provisions			
Claims outstanding		345.1	206.5
Reinsurer's share of unearned premium		144.0	–
Debtors			
Debtors from customers arising out of insurance operations		408.5	411.7
Debtors from reinsurance operations		6.4	–
Other debtors	**11**	262.3	235.1
Other Assets			
Tangible assets	**12**	5.9	5.6
Cash at bank and in hand		21.3	9.5
Deferred taxation	**13**	2.4	2.7
Prepayments and accrued income			
Prepayments		2.1	2.2
Accrued interest		13.3	12.5
Deferred acquisition costs	**14**	4.2	4.6
Total Assets		**2,343.3**	1,926.7

Liabilities

	Notes	2014 €m	2013 €m
		At 31 December	
Reserves			
General reserve		453.7	388.9
Technical provisions			
Provision for unearned premiums		490.5	497.0
Claims outstanding – Gross		648.6	523.9
Funds withheld for Reinsurer		489.1	206.5
Creditors			
Creditors arising out of direct insurance operations		45.1	35.6
Creditors arising out of reinsurance operations		–	30.3
Other creditors and accruals	**15**	199.3	186.6
Bank overdraft		0.4	24.2
Retirement Benefits Liability	**16**	16.6	33.7
Total Liabilities		**2,343.3**	1,926.7

The accounts were approved by the Board on 24 March 2015, and signed on its behalf by:

Seamus Creedon
Director

Greg Sparks
Director

BOARD BALANCE SHEET

Assets

	Notes	2014 €m	2013 €m
		At 31 December	
Investments			
Land and buildings	**9**	21.1	19.5
Other financial investments	**10**	1,107.9	1,017.9
Reinsurer's Share of Technical Provisions			
Claims outstanding		345.1	206.5
Reinsurer's share of unearned premium		144.0	–
Debtors			
Debtors from customers arising out of insurance operations		407.4	411.7
Debtors from reinsurance operations		6.4	–
Other debtors	**11**	262.5	235.0
Other Assets			
Tangible assets	**12**	5.8	5.4
Cash at bank and in hand		20.3	9.3
Deferred taxation	**13**	2.4	2.7
Prepayments and accrued income			
Prepayments		2.2	2.2
Accrued interest		13.3	12.5
Deferred acquisition costs	**14**	4.2	4.6
Total Assets		**2,342.6**	1,927.4

Liabilities

	Notes	2014 €m	2013 €m
		At 31 December	
Reserves			
General reserve		452.6	389.1
Technical provisions			
Provision for unearned premiums		490.5	497.0
Claims outstanding – Gross		650.6	525.5
Funds withheld for Reinsurer		489.1	206.5
Creditors			
Creditors arising out of direct insurance operations		45.0	35.4
Creditors arising out of reinsurance operations		–	30.3
Other creditors and accruals	**15**	197.8	185.7
Bank overdraft		0.4	24.2
Retirement Benefits Liability	**16**	16.6	33.7
Total Liabilities		**2,342.6**	1,927.4

The accounts were approved by the Board on 24 March 2015, and signed on its behalf by:

Seamus Creedon
Director

Greg Sparks
Director

CONSOLIDATED CASH FLOW STATEMENT

	Notes	For the year ended 31 December **2014** **€m**	 2013 €m
Net cash inflow from operating activities	**17**	140.8	211.0
Taxation		(6.5)	–
Capital expenditure		(6.2)	(4.5)
		128.1	206.5
Cash flows were invested as follows:			
Increase/(decrease) in cash holdings		35.5	(7.7)
Net portfolio investment	**18 & 20**	92.6	214.2
Net increase in cash flows	**19**	**128.1**	206.5

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Notes	For the year ended 31 December **2014** **€m**	 2013 €m
Surplus for the financial period		49.8	65.0
Actuarial gain/(loss) on pension fund	**16**	14.4	(0.5)
Total recognised gains relating to the period		**64.2**	64.5

BOARD CASH FLOW STATEMENT

For the year ended 31 December

	Notes	2014 €m	2013 €m
Net cash inflow from operating activities	**17**	140.1	210.5
Taxation		(6.5)	–
Capital expenditure		(6.1)	(4.4)
		127.5	206.1
Cash flows were invested as follows:			
Increase/(decrease) in cash holdings		34.7	(7.8)
Net portfolio investment	**18 & 20**	92.8	213.9
Net increase in cash flows	**19**	**127.5**	206.1

BOARD STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December

	Notes	2014 €m	2013 €m
Surplus for the financial period		49.3	64.9
Actuarial gain/(loss) on pension fund	**16**	14.4	(0.5)
Total recognised gains relating to the period		**63.7**	64.4

NOTES TO THE ACCOUNTS

1. Solvency & Capitalisation

The Board applied for authorisation as a regulated insurance undertaking by the Central Bank of Ireland (the 'Bank') during May 2014. The authorisation application process is continuing and the Minister for Health has issued a Ministerial Order extending the period within which Vhi needs to have acquired the necessary capital reserves to be authorised by the Bank to 31 March 2015. Vhi continues to work with the Bank in its consideration of Vhi's application. In assessing the application for authorisation, the Bank applies a number of considerations, including, inter alia:

- the sustainability of the business
- the adequacy of the current and projected solvency level

The accounts of the Vhi 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, noting that future solvency requirements of the Bank have yet to be determined. In forming this view, the Directors consider that it is appropriate to do so on the basis of the Board's Operating Plan for 2015, stress test assessments, enhanced governance structures in place, strong operating results during 2014 which contributed positively to the solvency position, an agreed four year reinsurance programme from 2014 until 2017, and consideration and analysis of other capital alternatives.

The Board is satisfied that the introduction of the new EU Solvency Directive (referred to as 'Solvency II') which becomes effective on 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 ancillary products in 2014 is €15.6m (2013: €21m). All business written is in the Republic of Ireland.

3. Risk Equalisation Fund and Health Insurance Levy

	2014 €m	2013 €m
Risk Equalisation Premium Credits/Age Related Tax Credits		
Gross Amount	351.9	353.5
Reinsurer's Share	(211.1)	(176.8)
Hospital Bed Utilisation Credits		
Gross Amount	44.7	7.2
Reinsurer's Share	(26.8)	(3.6)
Health Insurance Levy		
Gross Amount	(324.8)	(292.2)
Reinsurer's Share	194.8	146.1
Risk Equalisation Scheme (net of reinsurance)	**28.7**	34.2

Risk Equalisation Premium Credit
The Risk Equalisation Premium Credit is payable from the fund for each insured person aged over 60. The rates are set out in the supplementary information to these notes. The value of the unearned premium credits at the year ended 2014 was €117.1m (2013: €110.3m).

Hospital Bed Utilisation Credit
In addition to the premium credit, a Hospital Bed Utilisation Credit is also payable from the Risk Equalisation Fund. The rates are set out in the supplementary information to these notes.

Health Insurance Levy
Under the terms of the Finance Act of 2013, a Levy by way of stamp duty is 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. Further changes were applied to the rates from 1 March 2014. The rates associated with this levy are set out in the supplementary notes to the accounts. 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 2014, the unexpired portion of the levy amounted to €115.1m (2013: €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 2014 is €0m (2013: €2.7m).

5. Net operating expenses

	Dec-2014	Dec-2013
	€m	€m
Administrative expenses	102.6	80.1
Acquisition costs	12.8	13.8
Deferred acquisition costs	0.4	3.7
Interest	2.4	1.9
	118.2	99.5

Administrative expenses for 2014 includes reinsurance arrangement fee. Net operating costs relating to ancillary products for 2014 was €7.5m (2013: €8m).

	Dec-2014	Dec-2013
The average number of persons, including part-time employees, employed by the Board was:	1,089	1,031
	€m	€m
Staff costs were:		
Wages and salaries	56.3	54.9
Social security costs	6.1	5.8
Retirement benefits	5.2	4.3

The total remuneration, including pension contribution, paid to the Chief Executive and included in net operating expenses in the year to December 2014 amounted to €323,403 (2013: €323,403).

6. Investment income

	Dec-2014	Dec-2013
	€m	€m
Income from land and buildings	0.1	0.1
Income from other investments	23.6	16.3
Gains on realisation of investments	0.6	3.2
Unrealised losses on land and buildings	(2.0)	(1.0)
Unrealised losses on investments held to maturity	(7.3)	(4.5)
Unrealised gains on investments held for trading	3.5	0.6
Investment management expenses	(0.9)	(0.7)
	17.6	14.0

A transfer of the full amount of investment return has been made from the non-technical account to the technical account.

NOTES TO THE ACCOUNTS (CONTINUED)

7. Taxation on ordinary activities

	Dec-2014 €m	Dec-2013 €m
The taxation charge in the income and expenditure account comprises:		
Current taxation for year	(6.6)	(6.2)
Deferred taxation – charge	(0.2)	(2.7)
	(6.8)	(8.9)

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% (2013: 12.5%).

The differences are explained below:

	Dec-2014 €m	Dec-2013 €m
Surplus on ordinary activities before taxation	56.6	73.9
Surplus on ordinary activities multiplied by standard rate of corporation taxation of 12.5% (2013: 12.5%)	(7.1)	(9.2)
Effects of:		
Expenses not allowed for taxation purposes	–	(0.1)
(Gains)/losses carried forward	(0.2)	3.4
Capital allowances in excess of depreciation for period	0.7	(0.3)
Current taxation for financial period	**(6.6)**	(6.2)

8. Surplus on ordinary activities after taxation carried to reserves

The surplus on ordinary activities after taxation carried to reserves was €49.3m for Board and €49.8m on a consolidated basis.

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

	Dec-2014 €m	Dec-2013 €m
Depreciation of tangible fixed assets	2.4	12.9
Board remuneration	0.5	0.5

Board members receive a private medical insurance policy from Vhi during their tenure.

Auditors remuneration

Consolidated	**€m**	€m
Audit fee	0.1	0.1
Other statutory return fees	0.1	0.1
Non audit fees	1.5	1.8
Board	**€m**	€m
Audit fee	0.1	0.1
Other statutory return fees	0.1	0.1
Non audit fees	1.5	1.8

9. Land and buildings (Consolidated and Board)

	Dec-2014 €m	Dec-2013 €m
Valuation:		
At 1 January	19.5	20.2
Additions	3.6	0.4
Loss on revaluation	(2.0)	(1.1)
At end of year	**21.1**	19.5

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 2014 at open market value in accordance with Royal Institute of Chartered Surveyors (RICS) appraisal and valuation standards. These valuations were made by external valuers Thornton's Chartered Surveyors, Savills Commercial Ltd, 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-2014 €m	Dec-2013 €m
Opening cost	15.2	15.9
Additions	3.6	0.4
Revaluation gain/(loss)	4.1	(1.1)
Closing cost	**22.9**	15.2

10. Other financial investments

Consolidated	**Dec-2014 €m Market Value**	**Dec-2014 €m Cost**	Dec-2013 €m Market Value	Dec-2013 €m Cost
Held for Trading				
Shares and other variable yield securities	4.2	5.0	2.5	5.1
Debt securities/fixed interest securities	232.6	232.0	384.6	385.3
Other investments	1.9	0.7	1.8	2.1
Deposits with credit institutions	39.3	39.3	30.9	30.9
	278.0	277.0	419.8	423.4

Note that Other Investments contains investments in subsidiaries. For details on Subsidiaries see Note 24.

	Amortised Cost	**Cost**	Amortised Cost	Cost
Held to maturity				
Debt securities/fixed interest securities	828.7	837.2	597.0	598.3
	1,106.7	**1,114.2**	1,016.8	1,021.7

The market value of investments held to maturity for 2014 was €833.8m (2013: €603.1m).

NOTES TO THE ACCOUNTS (CONTINUED)

10. Other financial investments (continued)

Board	€m Market Value	€m Cost	€m Market Value	€m Cost
Held for Trading				
Shares and other variable yield securities	4.2	5.0	2.5	5.1
Debt securities/fixed interest securities	232.6	232.0	385.3	385.3
Other investments	3.1	1.3	2.2	2.5
Deposits with credit institutions	39.3	39.3	30.9	30.9
	279.2	277.6	420.9	423.8

Note that Other Investments contains investments in subsidiaries. For details on Subsidiaries see Note 24.

	Amortised Cost	**Cost**	Amortised Cost	Cost
Held to maturity				
Debt securities/fixed interest securities	828.7	837.2	597.0	598.3
	1,107.9	**1,114.8**	1,017.9	1,022.1

The market value of investments held to maturity for 2014 was €833.8m (2013: €603.1m).

11. Other debtors

	Dec-2014 €m	Dec-2013 €m
Consolidated		
Risk Equalisation Fund/Health Insurance Levy	261.2	233.3
Other debtors	1.1	1.8
	262.3	235.1
Board		
Risk Equalisation Fund/Health Insurance Levy	261.2	233.3
Loan to VHI Homecare Limited	0.1	0.1
Other debtors	1.2	1.7
	262.5	235.0

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 2014	2.1	10.5	91.5	0.2	104.3
Additions	0.5	0.2	2.8	–	3.5
Disposals	(0.4)	(0.3)	(5.5)	–	(6.2)
At 31 December 2014	**2.2**	**10.4**	**88.8**	**0.2**	**101.6**
Depreciation					
At 1 January 2014	(1.4)	(9.5)	(87.7)	(0.1)	(98.7)
Charge for the financial period	0.3	(0.4)	(2.3)	–	(2.4)
Eliminated in respect of disposals	(0.4)	0.3	5.5	–	5.4
At 31 December 2014	**(1.5)**	**(9.6)**	**(84.5)**	**(0.1)**	**(95.7)**
Net book value at 31 December 2014	**0.7**	**0.8**	**4.3**	**0.1**	**5.9**
Net book value at 31 December 2013	0.7	1.1	3.7	0.1	5.6

12. Tangible Assets (continued)

Board	Motor vehicles €m	Fixtures, furnishings and fittings €m	Computer/ office equipment & software €m	Total €m
Cost				
At 1 January 2014	1.9	10.5	91.4	103.8
Additions	0.4	0.2	2.8	3.4
Disposals	(0.4)	(0.3)	(5.5)	(6.2)
At 31 December 2014	1.9	10.4	88.7	101.0
Depreciation				
At 1 January 2014	(1.3)	(9.4)	(87.6)	(98.3)
Charge for the financial period	0.4	(0.4)	(2.3)	(2.3)
Eliminated in respect of disposals	(0.4)	0.3	5.5	5.4
At 31 December 2014	(1.3)	(9.5)	(84.4)	(95.2)
Net book value at 31 December 2014	0.6	0.9	4.3	5.8
Net book value at 31 December 2013	0.6	1.2	3.6	5.4

13. Deferred taxation asset (Consolidated & Board)

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

	Dec-2014 €m	Dec-2013 €m
Unrealised loss on investment valuation	0.9	0.5
Other timing differences	1.5	2.2
Total deferred taxation asset	**2.4**	2.7

14. Deferred acquisition costs (Consolidated & Board)

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

The amount of €4.2m provided for 2014 (2013: €4.6m) is in respect of costs incurred during the financial year which are directly attributable to the acquisition of new business. All other acquisition costs are recognised as an expense when incurred.

15. Other creditors and accruals

Consolidated	Dec-2014 €m	Dec-2013 €m
Risk Equalisation Fund/Health Insurance Levy	167.0	154.9
PAYE and PRSI	1.6	1.5
Other creditors	4.0	8.3
Accruals	26.7	21.9
	199.3	186.6

Board	€m	€m
Risk Equalisation Fund/Health Insurance Levy	167.0	154.9
PAYE and PRSI	1.6	1.5
Other creditors	2.8	7.4
Accruals	26.4	21.9
	197.8	185.7

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 2014 amounted to €7.3m (December 2013: €7.6m) and are based on 16.5% of salary.

The values used in this disclosure are based on the most recent actuarial valuations, carried out at 31 December 2014. The amounts have been fully implemented in the accounts in accordance with the requirements of FRS 17: 'Retirement Benefits.'

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

The major assumptions used in respect of the pension scheme are:	**Dec-2014 %**	Dec-2013 %
Rate of increase in salaries*	1.50	2.75
Rate of increase in pensions in payment	–	2.00
Discount rate	2.30	4.00
Inflation assumption	1.30	2.00

Long-term expected rates of return at financial period end are:	**Dec-2014 %**	Dec-2013 %
Equities	2.3	7.0
Fixed interest	2.3	3.0-6.8
Property	2.3	6.0
Other	2.3	5.3

*3% for 2015 and 2016 and 1.5% thereafter

16. Retirement benefits (continued)

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

	Dec-2014	Dec-2013
Member age 65 (current life expectancy)	23.5	23.3
Member age 40 (life expectancy at age 65)	26.5	26.4

	Dec-2014	Dec-2013
Change in benefit obligation	**€m**	€m
Benefit obligation at the beginning of the year	207.0	192.8
Current service cost	5.2	4.3
Interest cost	8.5	8.0
Plan participants contributions	2.7	2.9
Amendments	(0.2)	(0.2)
Actuarial loss	0.3	1.5
Benefits paid from plan/company	(3.2)	(2.1)
Business combinations/divestitures/transfers	(0.6)	(0.2)
Plan settlements	(0.6)	–
Benefit obligation at year end	**219.1**	207.0

	Dec-2014	Dec-2013
Change in plan assets	**€m**	€m
Fair value of plan assets at the beginning of the year	168.5	150.9
Expected return on plan assets	8.4	7.8
Actuarial gain on plan assets	17.0	1.7
Employer contributions	7.3	7.5
Plan participants contributions	2.7	2.9
Benefits paid from plan/company	(3.2)	(2.1)
Premiums paid	(0.6)	(0.2)
Fair value of plan assets at the end of the year	**200.1**	168.5

The assets in the pension scheme at market value were:	**Dec-2014**	Dec-2013
	€m	€m
Equities	92.0	77.8
Fixed interest	68.6	56.3
Property	2.1	2.0
Other	37.4	32.4
Total market value of assets	200.1	168.5
Present value of scheme liabilities	(219.1)	(207.0)
Deficit in the scheme	(19.0)	(38.5)
Related deferred tax asset	2.4	4.8
Net retirement benefit liability	**(16.6)**	(33.7)

16. Retirement benefits (continued)

Income and Expenditure account	**Dec-2014 €m**	Dec-2013 €m
Charged to net operating expenses		
Retirement benefits		
Current service cost	(4.6)	(4.1)
Death in service cost	(0.6)	(0.2)
Charge to income & expenditure account	(5.2)	(4.3)
Settlement gain	0.6	–
Interest on scheme liabilities	(8.5)	(7.9)
Expected return on scheme assets	8.4	7.8
Past service credit	0.2	0.2
Total financing credit	–	0.1
Net change in operating result	**(4.5)**	(4.1)

Statement of total recognised gains and losses

	Dec-2014	Dec-2013
Actual return less expected return on scheme assets	17.0	1.7
Experience gains and losses on scheme liabilities	(1.1)	(1.7)
Changes in demographic and financial assumptions	0.9	–
Actuarial gain	16.8	–
Deferred tax	(2.4)	(0.5)
Total actuarial gain/ (loss)	**14.4**	(0.5)

Movement in net deficit during the financial period

	Dec-2014	Dec-2013
Net deficit in scheme at start of year	(33.7)	(36.6)
Current service cost	(4.6)	(4.1)
Death in service cost	(0.6)	(0.2)
Past Service credit	0.2	0.2
Contributions	7.2	7.6
Interest on scheme liabilities	(8.5)	(7.9)
Expected return on scheme assets	8.4	7.8
Settlement gain	0.6	–
Actuarial gain	16.8	–
Deferred tax	(2.4)	(0.5)
Net deficit at end of financial period	**(16.6)**	(33.7)

History of experience gains and losses

	Year ended Dec-2014	Year ended Dec-2013	Year ended Dec-2012	Year ended Dec-2011	Year ended Dec-2010
Defined benefit obligation	**219.1**	207.0	192.6	183.9	159.3
Fair value of plan assets	**200.1**	168.5	150.9	126.9	123.6
Deficit/(surplus)	**19.0**	38.5	41.7	57.0	35.8
Difference between expected and actual return on assets	**17.0**	1.7	8.9	(12.6)	5.2
% of scheme assets	**9%**	1%	6%	(10%)	4%
Experience (losses) and gains on scheme liabilities	**(1.1)**	(1.7)	(4.4)	(2.3)	5.6
% of scheme liabilities	**(1%)**	(1%)	(2%)	(1%)	4%
Total actuarial gain/(loss)	**14.4**	(0.5)	(25.0)	(20.4)	4.9
% of scheme liabilities	**7%**	(0%)	(13%)	(13%)	4%

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

Consolidated	**Dec-2014 €m**	Dec-2013 €m
Surplus on ordinary activities before taxation	**56.6**	73.9
Depreciation charges	2.4	12.9
Retirement benefits	(2.7)	(3.4)
Unrealised losses on investments	5.8	5.0
(Decrease) in technical provisions	(20.3)	(16.8)
Increase/(decrease) in debtors from members	3.3	(3.9)
(Decrease) in debtors and prepayments	(118.4)	(61.0)
Increase in creditors and accruals	214.1	204.3
Net cash inflow from operating activities	**140.8**	211.0

Board	**€m**	€m
Surplus on ordinary activities before taxation	**56.1**	73.8
Depreciation charges	2.3	12.8
Retirement benefits	(2.7)	(3.4)
Unrealised losses on investments	4.8	4.2
(Decrease) in technical provisions	(20.0)	(16.5)
Increase/(decrease) in debtors from members	3.3	(3.9)
(Decrease) in debtors and prepayments	(118.3)	(60.8)
Increase in creditors and accruals	214.6	204.2
Net cash inflow from operating activities	**140.1**	210.5

18. Reconciliation of opening and closing portfolio investments and cash in hand

Consolidated	**Dec-2014 €m**	Dec-2013 €m
Net cash inflow/(outflow) for the period	**35.5**	(7.7)
Portfolio investments	92.6	214.2
Movement arising from cash flows	128.1	206.6
Changes in market values	(2.8)	(3.6)
Total movement in portfolio	125.3	203.0
Portfolio investments and cash in hand at start of period	1,002.3	799.3
Portfolio investments and cash in hand at the end of the period	**1,127.6**	1,002.3

Board	**€m**	€m
Net cash inflow/(outflow) for the period	**34.7**	(7.8)
Portfolio investments	92.8	213.9
Movement arising from cash flows	127.5	206.2
Changes in market values	(2.8)	(2.9)
Total movement in portfolio	124.7	203.2
Portfolio investments and cash in hand at start of period	1,003.1	799.9
Portfolio investments and cash in hand at the end of the period	**1,127.8**	1,003.1

NOTES TO THE ACCOUNTS (CONTINUED)

19. Movement in cash and portfolio investments

Consolidated	At 1 January 2014 €m	Cash flow €m	Changes to market value value €m	**At 31 December 2014 €m**
Cash at bank and in hand	(14.7)	35.5	–	20.8
Shares and other variable yield securities	2.6	(0.1)	1.6	4.1
Debt securities and other fixed interest securities held for trading	384.6	(153.4)	1.4	232.6
Debt securities and other fixed interest securities held to maturity	597.0	239.0	(7.3)	828.7
Other investments	1.8	(1.3)	1.5	2.0
Deposits with credit institutions	31.0	8.4	–	39.4
	1,002.3	**128.1**	**(2.8)**	**1,127.6**
Board	€m	€m	€m	**€m**
Cash at bank and in hand	(14.8)	34.7	–	19.9
Shares and other variable yield securities	2.5	(0.2)	1.7	4.1
Debt securities and other fixed interest securities held for trading	385.3	(153.4)	0.7	232.6
Debt securities and other fixed interest securities held to maturity	597.0	239.0	(7.3)	828.7
Other investments	2.2	(1.1)	2.2	3.2
Deposits with credit institutions	30.9	8.5	(0.1)	39.3
	1,003.1	**127.5**	**(2.8)**	**1,127.8**

20. Analysis of cash flows in the cash flow statement

Consolidated	**Dec-2014 €m**	Dec-2013 €m
Portfolio investments		
Purchase of shares and other variable yield securities	1.5	0.3
Purchase of debt securities/fixed interest securities	3,026.4	4,026.4
Deposits with credit institutions	1,506.0	1,456.2
Sale other investments	(1.3)	(0.5)
Sale of shares and other variable yield securities	(1.6)	(13.4)
Sale of debt securities/fixed interest securities	(2,940.8)	(3,785.5)
Deposit withdrawals from credit institutions	(1,497.6)	(1,469.2)
Net cash inflow on portfolio investments	**92.6**	214.2
Board	**€m**	€m
Portfolio investments		
Purchase of shares and other variable yield securities	1.5	0.3
Purchase of debt securities/fixed interest securities	3,026.4	4,026.4
Deposits with credit institutions	1,506.0	1,456.2
Sale other investments	(1.2)	(0.8)
Sale of shares and other variable yield securities	(1.6)	(13.4)
Sale of debt securities/fixed interest securities	(2,940.8)	(3,785.5)
Deposit withdrawals from credit institutions	(1,497.5)	(1,469.2)
Net cash inflow on portfolio investments	**92.8**	213.9

21. Capital Commitments (Board & Consolidated)

	Dec-2014 €m	Dec-2013 €m
Capital expenditure approved but not contracted for	**4.9**	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 2014 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.

Vhi Board 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 Board also owns 100% of the shares of Vhi Health Services Ltd (formerly known as 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. On the 1st of January 2014 the Vhi Medical Screening and Corporate Solutions business was transferred to Vhi Health Services Ltd as part of the Vhi restructure plans.

Vhi Board has a venture with Centric Health to operate three minor injury clinics under the name of Vhi Swiftcare. This venture was novated to Vhi Investments Ltd at 23:59 on the 31st of December 2014. Vhi Board is the ultimate parent of Vhi Investments Ltd.

In preparation for authorisation by the Central Bank of Ireland, Vhi Board set up the following Irish entities of which it owns 100% of the shares;

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).

NOTES TO THE ACCOUNTS (CONTINUED)

25. Other Income

This is the income generated by Vhi Health Services Ltd (formerly known as Vhi Homecare Ltd) and Vhi Investments Ltd (other then from Vhi Board).

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

	Consolidated Year ended Dec-2014 €m	Year ended Dec-2013 €m	Year ended Dec-2012 €m	Year ended Dec-2011 €m	Year ended Dec-2010 €m
Gross Earned premium	**1,462.4**	1,490.4	1,431.3	1,314.1	1,334.9
Ceded premiums	**(724.0)**	(734.7)			
Change in reinsurers share of unearned premium	**(144.0)**				
Gross Claims incurred	**(1,376.8)**	(1,365.8)	(1,395.7)	(1,234.2)	(1,307.3)
Ceded claims	**841.7**	675.7			
Gross Risk Equalisation Scheme	**71.8**	68.5	65.4	41.1	37.2
Ceded Risk Equalisation Scheme	**(43.1)**	(34.3)			
Reinsurance Commissions	**75.9**	64.8			
Operating expenses	**(110.7)**	(91.5)	(50.6)	(81.4)	(82.7)
Operating expenses ancillary products	**(7.5)**	(8.0)	(8.4)	(7.0)	(7.6)
Other Income	**3.9**	0.5	0.5		
Other Expenses	**(10.6)**	(5.8)	(5.2)		
Investment return	**17.6**	14.0	19.4	(23.5)	22.5
Taxation (charge)/credit	**(6.8)**	(8.9)	(2.4)	(1.6)	(0.1)
Surplus/(deficit) for the period	**49.8**	65.0	54.3	7.4	(3.1)
Surplus/(deficit)/Income Ratio	**3.4%**	4.4%	3.8%	0.6%	(0.2%)
Reserves	**453.7**	388.9	323.8	295.2	308.3

Financial Ratios

	%	%	%	%	%
Claims (net risk equalisation scheme) as a % of gross earned premium	**89.2**	87.0	92.9	90.8	95.1
Operating expenses as % of gross earned premium – health insurance	**7.7**	6.2	6.2	6.3	6.3

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 €399**	**Child €135**
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 or public hospital 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.

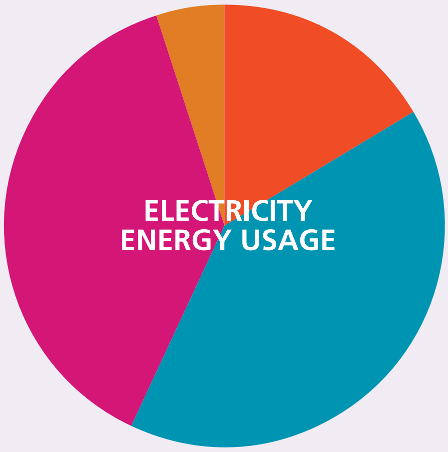
ENERGY MANAGEMENT AND SUSTAINABILITY

Energy consumption 2014

In 2014 Vhi Healthcare consumed 4,548,681kWh of energy, consisting of:

3,707,617kWh of electricity
The main energy users of electricity include:

- **16.5% Lighting**
- **40.5% Office power/data centres**
- **38% General services/air conditioning**
- **5% Kitchen**



841,064kWh of fossil fuel (natural gas)
The main energy users of natural gas include space heating and hot water services (96%), kitchen (4%).

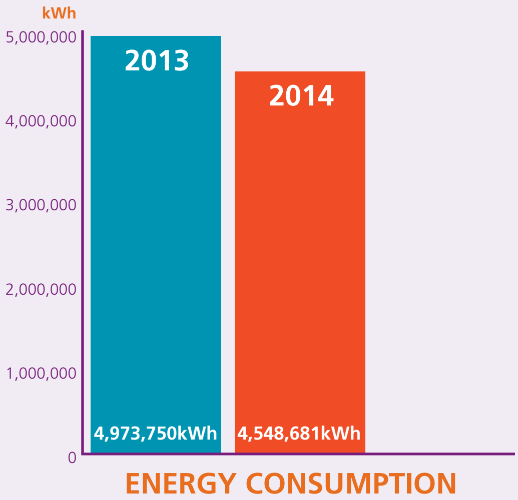
Actions Undertaken in 2014

ICT
Server virtualisation and ICT energy efficient power management for computers and office equipment.

Lighting
T5 fluorescent smart lighting projects in Vhi Healthcare offices in Abbey Street, Kilkenny, and Gweedore.

Heating, Ventilation and Air Conditioning
Improved building energy management control strategies for heating, ventilation and air conditioning in Vhi Healthcare premises in Abbey Street and Kilkenny.

Actions undertaken in 2014, together with existing energy conservation measures, provided estimated total annual energy savings of 425,000kWh and reduced the environmental impact of energy use by 207,000kg CO_2.



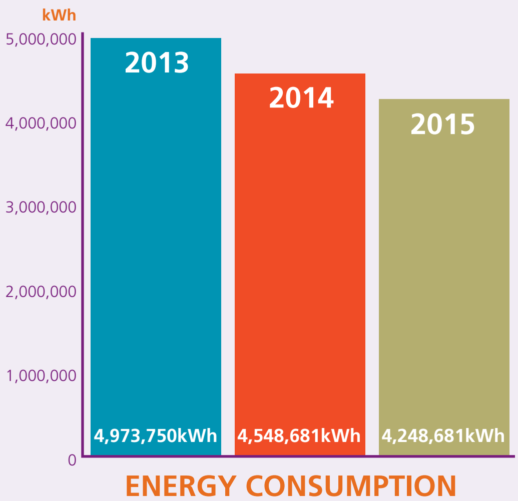
Actions Planned for 2015

Lighting
Energy efficient lighting projects for Vhi Healthcare offices in Kilkenny, and Gweedore.

Energy Monitoring and Targeting
Implement energy monitoring and targeting for all Vhi Healthcare premises. Upgrade and extend the automatic energy monitoring and targeting for Vhi Healthcare Kilkenny.

Energy Management Programme
Develop and review the Vhi Healthcare Energy Management Programme for all Vhi Healthcare premises. Review and implement the Vhi energy action plan.

Actions planned for 2015 are estimated to provide total estimated annual energy savings of 300,000kWh.



COMPANY DETAILS

Offices Open
10am–4pm
Monday–Friday

Telephone
LoCall 1890 44 44 44

Lines Open
8am–6pm Monday–Friday
9am–3pm Saturday

Email/Website
info@vhi.ie
www.vhi.ie

Dublin
Vhi House
Lower Abbey Street
Dublin 1
Fax: +353 (0) 1 799 4091

Cork
Vhi House
70 South Mall
Cork
Fax: +353 (0) 21 4277901

Galway
Vhi House
10 Eyre Square
Galway

Gweedore
Údarás na Gaeltachta Business Park
Gweedore
Co Donegal

Kilkenny
IDA Business Park
Purcellsinch
Dublin Road
Kilkenny
Fax: +353 (0) 56 7761741

Limerick
Gardner House,
Charlotte Quay
Limerick

Main Bankers
AIB Bank plc

Auditors
Deloitte & Touche

Solicitors
McCann Fitzgerald

Consulting Actuaries
Towers Watson