Helping over 1,000,000 customers
live longer, stronger and healthier lives

Vhi Annual Report and Accounts 2016

Contents

Board of Directors

Liam Downey, Chairman

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

John O'Dwyer, Chief Executive

John O'Dwyer joined Vhi in 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 which included roles such as Managing Director of Friends First Life Assurance, Director of Operations at BUPA Ireland and Assistant Chief Executive with responsibility for Claims in Vhi. 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 Chair of the St. John of God Research Foundation.

Joyce Brennan

Joyce Brennan is an actuary with more than 25 years' experience. She is an Executive Director with IPT, chairing boards of trustees of pension funds, to ensure excellence in governance, decision making and ongoing management of pension plans. Previous roles include Director with KPMG and Principal at Mercer. 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.

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 was, until 2016, 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.

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.

Finbar Lennon

Finbar Lennon is a medical graduate of UCD and did his postgraduate surgical training in London, Edmonton (Canada) and Dublin. He worked as a consultant general surgeon in Our Lady of Lourdes Hospital, Drogheda (1983–2012). From 2009 until 2012 he also worked in Beaumont and the Mater hospitals in Dublin as a speciality breast surgeon. He was Medical Director in Drogheda (1992–1998), Medical Advisor to the North Eastern Health Board (1997–2004) and a medical advisor to the Secretary General in Department of Health (2012–2014). He is currently an honorary lecturer in Surgery in UCD and participates in the undergraduate teaching programme. He is a member of the Professional Conduct Committee of the Pharmaceutical Society of Ireland and served on its Practice Development Committee (2012–2016).

Declan Moran

Declan Moran has a BSC in Computer Science and is a Fellow of the Institute of Actuaries since 1994. He joined Vhi in 1997 from the life and pensions industry and was appointed to the Vhi Board of Directors in 2008. From November 2011 to July 2012, he served as Acting Chief Executive, Vhi. To date, he has been responsible for the management of Vhi's product portfolio and the development of new products and services.

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.

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 and Joe Duffy Motors. Greg has served on the Boards of The Irish Times, Eircom, and chaired the Coombe Hospital for a number of years.

Brian Walsh

Brian joined Vhi in November 2014 as Finance Director and was appointed to the Board in March 2015. He joined from DPI Specialty Foods Inc, Los Angeles a division of Ornua, where he was divisional Chief Financial Officer. DPI is one of the largest specialty food sales, marketing and logistics providers in the USA, operating 8 distribution centres with over 1,800 employees and annual revenues in excess of $1 billion. Previously, he held Board and senior executive roles in the international financial services, telecommunications and FMCG industries in Europe and the United States with leading companies including Citibank, Deutsche Telekom and eir. Brian is a Fellow of Chartered Accountants Ireland, having qualified with PwC (formerly Coopers & Lybrand).

Executive Management Team

John O'Dwyer, Chief Executive

John O'Dwyer joined Vhi in 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 which included roles such as Managing Director of Friends First Life Assurance, Director of Operations at BUPA Ireland and Assistant Chief Executive with responsibility for Claims in Vhi. 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, epidemiological research and healthcare management experience both in Ireland and internationally. She is accredited in both General and Geriatric Medicine and is on the Specialist Register of the Medical Council of Ireland. Her qualifications include a Doctorate in Medicine from TCD, a Licentiate of the Faculty of Occupational Medicine, RCPI, Masters in Public Health, Diploma in Practical Dermatology (Cardiff) and an Advanced Management Certificate from INSEAD. She was elected to Fellowship of the Royal College of Physicians in Ireland in 1996. She joined Vhi Healthcare in 1994 and as Medical Director is responsible for Medical Policy, Healthcare Purchasing, Provider Reimbursement Schedules, Provider contract negotiations, and executive and clinical responsibility for Vhi Health Services.

John Creedon, Director, Claims

John Creedon has been a Director of Vhi since 1996 and prior to this he held a number of senior positions within Vhi. John is responsible for the overall service, administration and payment of claims in Vhi 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.

Aaron Keogh, Managing Director, Vhi Healthcare

Aaron is responsible for Sales, Retention and Customer Service for all of Vhi Healthcare's corporate and individual customers. Aaron joined Vhi in 2003 and has held a wide range of roles within the organisation primarily leading out Vhi Healthcare's award winning sales and customer service teams as well as a variety of roles in business analysis and digital service delivery. Aaron has an MSc in Strategic Management from Dublin Institute of Technology and a BSc in Software Systems Development from the National College of Ireland. He is a member of the Sales Institute of Ireland, the Insurance Institute of Ireland, Kilkenny Chamber of Commerce and DIT Alumni Association.

Adam Lyon, Chief Risk Officer

Adam Lyon is an actuary with over 25 years' experience in insurance and financial services in the UK and Ireland. Adam joined Vhi in early 2013 having previously worked as General Manager of Business Development at Friends First Life Assurance Company. He has a broad range of cross functional experience having had executive responsibility for marketing, sales, finance, product development and customer service functions in previous roles. He is a fellow of the Institute of Actuaries and a fellow of the Society of Actuaries in Ireland.

Tim McKeown, Director, Strategy

Since joining Vhi in 2000, Tim has held a number of senior positions including Director of Product & Business Development, Head of Diversified Business and CEO, Vhi SwiftCare Clinics. Prior to this, he worked in Belgium for 10 years in the European Commission as well as in the private sector. He holds a BA in Politics from UCD and an MA in European Policy from UL. As Director of Strategy, Tim is responsible for facilitating the development of Vhi's overall corporate strategy, leading strategic transformation programmes and identifying new opportunities to support corporate development and innovation.

Margaret Molony, Director, Information Technology

Margaret Molony has over 30 years' experience in Vhi and is responsible for information technology services in the organisation. Prior to her current role, Margaret held a number of senior positions in Business Change, Program Management and Operational Management within Vhi. She was appointed Director, Information Technology in 2008. She is also a 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 in 1997 from the life and pensions industry and was appointed to the Vhi Board of Directors in 2008. From November 2011 to July 2012, he served as Acting Chief Executive, Vhi. To date, he has been responsible for the management of Vhi's product portfolio and the development of new products and services.

Michael Owens, Director, Human Resources

Michael Owens joined Vhi 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 and he is a former Chair of 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.

Brian Walsh, Director, Finance

Brian joined Vhi in November 2014 as Finance Director and was appointed to the Board in March 2015. He joined from DPI Specialty Foods Inc, Los Angeles a division of Ornua, where he was divisional Chief Financial Officer. DPI is one of the largest specialty food sales, marketing and logistics providers in the USA, operating 8 distribution centres with over 1,800 employees and annual revenues in excess of $1 billion. Previously, he held Board and senior executive roles in the international financial services, telecommunications and FMCG industries in Europe and the United States with leading companies including Citibank, Deutsche Telekom and eir. Brian is a Fellow of Chartered Accountants Ireland, having qualified with PwC (formerly Coopers & Lybrand).

Chairman's Review

2016 was the first full year for Vhi as an authorised entity and the first year of reporting under Solvency II. Over the course of 2016, all financial targets were met, and in some instances, exceeded. In addition to delivering a strong financial performance, Vhi has also strengthened its overall capital position. The profit after tax of €56.4m was driven both by our core health insurance business and our diversified businesses. Continued diversification and innovation has ensured that the organisation's base is broadening and we are consistently attracting new customers. For the second year in a row our membership figures grew.

In 2016 Vhi continued to provide a range of innovative health insurance plans to meet customers' medical needs at different stages of their lives while at the same time driving cost containment and efficiency programmes to minimise the impact on prices. We are keenly aware that while the economy is improving, many people remain under financial pressure.

During the year, Vhi continued the execution of the multi-year strategy agreed in 2012, of which authorisation was a central pillar, with all key targets and milestones achieved. Over the last year we have developed a new five year strategic direction focused on positioning the organisation to better respond to our customers changing health requirements.

Market Performance

The Private Medical Insurance (PMI) market peaked in 2008 with a membership of 2.3 million. Following the economic downturn, PMI membership declined sharply and it is only since 2015 that this decline has been reversed. This was due in part to the recovering economy but also to several positive initiatives introduced by Government which acted as a stimulus to the market. The introduction of Lifetime Community Rating and Young Adult Discount rates in May 2015 have helped attract and retain younger customers into the market. The PMI market continued to grow in 2016 with the most recent figures from the Health Insurance Authority (HIA) indicating that the market is recovering after significant shrinkage during the difficult recession years. 2.152 million lives were insured in Ireland in 2016.

The economic improvement and return of growth to the market is a welcome development and highlights the value that people place on private medical insurance. We must continue to encourage young people to take out private health insurance if we are to sustain the much-valued Community Rated Private Health Insurance market for the longer term.

Outlook for the Market

Looking at the key challenge of demographics we have significant concerns about the sustainability of Ireland's healthcare model for the long-term. People are living longer with more complex chronic diseases. This has major implications for the healthcare system as a whole and also for Vhi which delivers healthcare to more older and sicker customers than any other private health insurer. To ensure that the market can continue in a sustainable and fair manner, the risk sharing scheme needs to more effectively support older and sicker people. This needs to be addressed in the broader context of healthcare infrastructure to ensure that the needs of the ageing population can be met. As Ireland's leading health insurance provider, Vhi is already driving change and developing solutions which we believe can be replicated across the market to the benefit of all. We are committed to playing our part to help deliver improvements and change which will enhance people's quality of life, length of life and overall health.

Supporting Ireland's Community Rated Private Health Insurance Market

I am pleased to note that the Government announced significant improvements in the Risk Equalisation Scheme (RES) in November 2016. This move is welcomed and is another step towards keeping health insurance affordable for older and sicker customers.

Community Rated health insurance markets all over the world are supported by robust risk sharing schemes that eliminate the incentive to compete on the basis of risk selection. Despite the recent improvement to the RES, Irish market rules still allow and reward risk selection actions including cherry picking of younger and healthier lives and the avoidance of older and sicker lives. Instead, the focus should be on the efficient management of customers' healthcare needs as well as healthcare innovation to drive improved clinical outcomes and increased efficiencies across the system. This requires the introduction of a robust health status measure within the RES that would provide incentives for insurers to manage claims efficiently while also delivering better healthcare outcomes for patients.

The current market dynamics in Ireland does not incentivise the right behaviours as health insurers now compete on risk pool selection, seeking to attract the younger, profitable age segments, with less focus on the effective management of quality and cost of care. The Risk Equalisation Scheme requires further and continued enhancement to ensure the industry is focused on healthcare quality and efficiency for customers.

The Future of the Healthcare System in Ireland

By 2026 it is estimated that there will be more than 850,000 people in Ireland over the age of 65. By 2046 this figure is expected to reach 1.4 million. The population of very old people (classified as 80+ years old) whose healthcare needs are greater, is expected to increase dramatically to 470,000 by 2046.

Healthcare utilisation is strongly correlated with age and the forecasted demographic changes for Ireland, coupled with projected increases in the prevalence of chronic diseases are going to present profound challenges to Ireland's healthcare system in the near future. The pace of ageing is likely to overwhelm the already stretched health system unless there is action on tackling this challenge in advance. This will not be easy and, above all else, will require strong consensus among all key stakeholders. Many national blueprints to meet the future healthcare demand of the population have been developed and Vhi will become more engaged in mobilising sustainable solutions to meets its customers' future healthcare needs.

There is a growing need for healthcare providers, insurers and policy makers to plan and work together as it becomes increasingly clear that the current health infrastructure and delivery model is not sufficient to meet the needs of a growing and ageing population. Vhi welcomes the Minister for Health's initiative to establish an Oireachtas cross party committee to explore future healthcare needs and to put in place a long term plan and implementation programme to address the issues identified. Vhi made a submission to that committee to share our unique insights as the provider of health insurance cover to more than 1 million people. Vhi believes it can make a meaningful contribution to the work of the Committee on the Future of Healthcare and looks forward to supporting its work in 2017. As the market leader and the health insurer that is meeting the needs of the older and sicker members of the population we are well positioned to help inform the development of a strategy for the future.

Health insurers are important advocates for customers and play an influential role in supporting the national healthcare system in Ireland. The Vhi SwiftCare clinics are one such example, whereby patients are treated for urgent care, minor injuries and illness that may otherwise have attended an A&E Department. Vhi HomeCare is another example where the solution offered to Vhi customers removes pressure on beds in hospitals.

We also need to encourage people to take steps toward a healthier lifestyle through the promotion of health and wellness. Vhi, through a combination of sponsorships, community partnerships and screening initiatives is doing this already and is delivering positive results, more of which is discussed in the operations report. Providers, insurers and clinicians should be incentivised for early intervention, quality of care and outcomes and not for volume, and more data and metrics should be made available and applied to improving the overall healthcare system. We have shared these views with the cross party Committee on the Future of Healthcare and believe, based on their interim reports to date, that they share our vision, goals and focus on the area of prevention.

The Year Ahead

The Vhi Board has agreed a strategic direction for the next 5 years which will offer our customers a distinct healthcare proposition that meets their needs for convenient and affordable access to the best quality care and well-being services appropriate to their stage in life. Our mission is to help them live longer, stronger and healthier lives. This focus will have positive impacts on our customers and on the healthcare system in Ireland.

I would like to take this opportunity to recognise the contribution of my fellow Board members. Their commitment, energy, insight and expertise has been invaluable over the course of the year. Together we have defined the strategic direction for the future which is in the best interests of the organisation, of our 1 million plus members, and of the country as a whole. We look forward to implementing this strategy in the year ahead.

The results achieved this year are the result of the dedication of our talented staff. We have, in all our people in the various functions and in our doctors and healthcare professionals, a team that is unrivalled in the sector. I would like to thank all of them for their commitment and dedication.

Finally, most importantly, we thank our customers for their support, loyalty and trust. We are privileged to help meet your healthcare needs.

L. Downey

Liam Downey
Chairman

Vhi SwiftCare

84,000

In 2016, 84,000 people were treated in Vhi SwiftCare Clinics in Dublin and Cork. These are dedicated walk-in urgent care clinics dealing with minor injuries and illnesses within one hour, open 365 days a year.

Vhi HomeCare

78,000

Over 6,000 Vhi customers were treated by our consultant-led hospital in the home service which allows patients to continue certain treatment in the comfort of their own home, saving over 78,000 hospital bed days.

Vhi Multitrip

NO.1

Whether moving or just visiting, our range of travel products have you covered. **Vhi Multitrip is the market leader for multi-trip travel insurance in Ireland.**

Vhi Screening

86,000

Vhi has accredited medical centres located in Dublin and Cork where **they have completed over 86,000 screenings and health check assessments of which 15,700 were carried out in 2016.**

Operations Review

I am pleased to report that 2016 was another successful year for Vhi Group. Our consolidated business recorded a net surplus of €56.4 million. Gross earned premium for 2016 totalled €1.43 billion and €1.34 billion was used to pay for the healthcare needs of our customers. Our reserves increased by €36.6 million to €558.2 million. This was the first full year for Vhi Insurance DAC post authorisation by the Central Bank of Ireland and also the first year we are required to report under Solvency II. It was also the year in which we repaid €38.9 million of a €90 million loan raised during the authorisation process.

In 2016, we grew our private health insurance membership and continued the growth of our diversified insurance and health care services offerings. This growth was achieved despite the dynamics of an ageing population, medical inflation, a challenging Community Rated Market, and persistence of low yields.

In 2016 we introduced Vhi Life, a comprehensive life insurance product underwritten by Zurich Life Assurance plc, offering our customers an easy to understand and flexible product which can change as their life circumstances change.

We are fully committed to continuing this very positive performance in 2017 and beyond.

Key Financial Results

The key financial results for Vhi Group during 2016 were as follows:

- After tax results to 31 December 2016 showed a net surplus of €56.4 million for Vhi's consolidated business activities compared with €45.5 million in 2015.
- Gross earned premium for 2016 came to €1.430 billion, slightly favourable compared with €1.428 billion in the previous year, driven in part through increasing membership. PMI membership grew to 1,069k (2015: 1,068k) and income from insurance products other than private health insurance amounted to €27.2 million during the year.
- Total gross claims paid in 2016 are €1.34 billion, down 2.8% compared with €1.38 billion in 2015. The reduction in claims paid is influenced by the timing of payments made to providers, in particular public hospitals.
- Income from investments at €1.8 million was down significantly on 2015 due to the European low yield environment.

At the end of December 2016, Vhi had free reserves of €558.2 million representing an increase of €36.6 million or 7% compared with the previous year's position. This further strengthened our regulatory capital position, which is within the preferred range set by the Board in our Risk Appetite Statement and well in excess of minimum levels required by the European Union under Solvency II regulations.

- Vhi's operating expense ratio to premium income was 8.3% in 2016 and remains broadly in line with 2015. This represents a significant achievement given the range of demands on our business as we invest to deliver for our customers and implement change as our business and regulatory environment evolves.

Funding the Healthcare Needs of our Customers

In 2016 Vhi processed almost 984,000 claims for the healthcare costs of its customers. Of this, over 766,000 were for in-patient and day-care claims while a further 218,000 were for outpatient and primary care claims. Public Hospital claims accounted for 25% of the total claims processed and private hospitals accounted for 44% of the claims processed. 79% of hospital claims related to day-case and side-room settings, yet accounted for just 29% of claims costs. 21% of hospital claims were for patients who were admitted and kept overnight or longer, accounting for 71% of hospital claims costs. These figures illustrate the opportunity that exists within the Irish healthcare system to drive further efficiencies.The most significant areas of claims expenditure during 2016 were:

- Cancer & related care – €194.3 million.
- Heart & circulatory system – €164.8 million.
- Orthopaedic care including hip, knee replacements etc – €145.1 million.
- Digestive system – €107.6 million.
- Respiratory illness – €74.7 million.
- Central nervous system – €74.2 million.

(These figures are based on claims relating to admissions in 2016 and processed up to 7th February 2017.)

Operations Review (continued)

Healthcare Cost Management Initiatives

Vhi is fully committed to delivering affordable quality healthcare cover for our customers and to this end we are fully focused on cost management initiatives which ensure we use our resources in the most effective way possible. We are also focused on negotiating the best possible value for our customers though direct pay arrangements with providers where possible.

Vhi HomeCare established in 2010 has treated over 6,000 people saving 78,000 hospital bed days and delivering savings of €26.8 million to date. In 2016, 930 customers were treated by Vhi HomeCare in their own home. The service has a 98% patient satisfaction rate. In 2016 we also commenced trialling a chronic disease management programme for patients with Chronic Obstructive Pulmonary Disease through Vhi HomeCare. The pilot seeks to support patients for a given period of time to help reduce their re-admission to hospital and reduce their length of stay if hospital admission is required.

Our Special Claims Investigations Unit (SIU) and utilisation review process has also continued to perform well, recovering more than €21.4 million in 2016 having reviewed over 37,000 claims during the year.

Separately Vhi has concluded and signed a Memorandum of Understanding (MoU) with the HSE and Voluntary Hospitals in relation to the processing of claims. This arrangement provides Vhi with great clarity and certainty through early notification of claims and includes a commitment regarding the introduction of electronic submission of claims for public hospitals. eClaiming is now operational in 21 facilities and approximately one third of claims are now received in a non-paper format and this will be expanded in 2017.

In 2016 we also reached agreement with consultants on professional fees. Over 2,500 consultants are registered with Vhi Insurance and we now enjoy the highest percentage of participating consultants in the history of Vhi. Again, this provides great certainty and clarity to our customers.

Part of our commitment to our customers is to provide them with access to the latest drugs and treatments while aiming to keep our private health insurance plans affordable. In 2016, the Irish Pharmaceutical Healthcare Association (IPHA) agreed a new 4 year framework agreement with the Government for an economic and secure supply of medicines for patients. As part of the agreement, drug prices will be reduced annually and Vhi has implemented this latest IPHA agreement in full. In addition, Vhi constantly monitors the transition of branded drugs to generic status in support of the provision of cost effective and high quality treatment for our members. This is especially important as new and expensive medicines are introduced to the market continuously.

Putting the customer first

At Vhi we take pride in putting the customer at the heart of everything we do and we have an award-winning customer service team who support this on a daily basis. In 2016 we had over 3.1 million interactions with our customers via phone, emails and on our website. Our online interactions with customers increased substantially last year and over 26,000 individuals used our new webchat channel which was launched in February 2016 and which we expect to grow in popularity in 2017.

As part of our customer focus, we are continuously looking at ways to enhance their experience. In 2016 some of the innovations we introduced with this aim included MyVhi.ie, the introduction of a digital membership card, the launch of "snap and send" claiming and a ground-breaking new fertility benefit.

Diversified Products & Services

Vhi is committed to continuously innovating and has launched a wide range of market-leading products over recent years with a view to bringing quality, value and a fresh approach to customers in these markets. Income from our diversified business amounted to €27.2 million in 2016.

- **Vhi SwiftCare Clinics**

  Launched in 2005, the Vhi SwiftCare Clinics are Ireland's first walk-in, urgent care clinics, providing rapid assessment, treatment and advice for patients with a range of minor injuries and illnesses. During 2016, 84,000 patients attended the Vhi SwiftCare Clinics to receive urgent care for minor injuries and illnesses. Patient volumes increased by 3% compared to 2015.

- **Vhi Medical Centres**

  Vhi is the only private health insurance company in Ireland with its own dedicated screening facilities located in its two medical centres in Dublin and Cork. Since their establishment in 2009 the Vhi Medical centres have completed over 86,000 screenings and health check assessments of which 15,700 were completed in 2016.

- **Vhi Employee Assistance Programmes**

  Vhi has been providing employee assistance programmes (EAP) since 2000. In 2016 the EAP service was provided to 627 client companies nationwide, covering over 265,000 employees. This represents a 21% growth compared to 2015.

In addition, over the last two years our specialist team of occupational health advisors and occupational health physicians have completed over 33,000 consultations with employees of corporate clients.

- **Vhi Travel**

  Vhi has a range of travel insurance products. Membership of Vhi International, Backpacker and Vhi Canada Cover remained steady despite the reduction in emigration figures. The recovery in the economy coupled with the increase in passenger numbers overseas resulted in strong sales for our MultiTrip product which also introduced gadget cover as an optional add on purchase.

- **Vhi Dental**

  During 2016, Vhi Dental continued to grow their direct pay network to more than 500 dentists meaning customers only have to pay the dentist for the cost of treatment not covered on their Vhi Dental Plan.

- **Vhi Life**

  In May 2016 we introduced Vhi Life, underwritten by Zurich Life Assurance plc. Vhi Life is a simple term assurance product which provides a guaranteed lump sum payment in the event of death. Our objective was to make life cover more accessible for our customers by providing a simplified sales process which is completed over the phone.

Corporate Social Responsibility and Sponsorship

Vhi believes it has a major role to play in helping to create a healthy society by supporting our customers financially when they are sick, but also in putting in place programmes to help them remain as healthy as possible for as long as they can. As part of this commitment, we have developed a long-term sponsorship strategy to promote the area of participative running and are partnering with two of the biggest and most inclusive running events in the country.

€1.43 BILLION GROSS EARNED PREMIUM

€1.34 BILLION GROSS CLAIMS PAID

€56.4 MILLION AFTER TAX SURPLUS

€558 MILLION RESERVES

Operations Review (continued)

In 2016 the Vhi Women's Mini Marathon was a huge success, with over 35,000 women taking part. The event is the biggest all women's event of its kind in the world and was first run in 1983 with a field of 9,000 entrants. In 2016 it is estimated that almost €6 million was raised by the participants for various charities bringing the total since the race started in 1983 close to €203 million.

parkrun Ireland supports local communities in organising free, weekly, timed 5k runs every Saturday morning at more than 55 venues all over Ireland, with around 5,000 people of every age and ability taking part each week. The events are organised by more than 600 volunteers every weekend from Bere Island to Ballina to Ballinteer. Almost 80,000 registered participants have run more than 2.5 million kilometres at parkrun Ireland events since it started here in November 2012.

We will also be supporting the junior parkrun movement and ensuring that children have the opportunity to develop a love for running at a young age. Studies have shown the benefits of developing healthy, active lifestyles when young and the fact that habits formed in our childhood can have lasting benefits for the rest of our lives.

Vhi is also very proud to be involved with the Junior Achievement Ireland Programme, a non-profit organisation that aims to create a culture of enterprise within the education system. We have worked closely with this organisation for a number of years and during the year Vhi staff members volunteered to work with 500 students in 10 local schools in Dublin, Donegal and Kilkenny.

Outlook

At Vhi we are committed to improving our customers experience at every point of their journey with us. We adapt an innovative approach in all that we do, in the way that we interact with and support our customers, to the way we engage with our healthcare providers, right through the addition of lifesaving drugs and treatments and our approach to sponsorship and community relations. Ultimately our aim is to improve healthcare outcomes for our customers and in doing so help them live longer and healthier lives. As we continue to meet their healthcare and other insurance needs, we lead the market by providing value for money, quality healthcare solutions in appropriate settings. When direct healthcare treatment is not required we also support our customers through health screenings and other preventative measures to support their efforts to stay well and healthy. This is what continues to drive our plans and strategies for the years ahead.

Finally, I would like to take this opportunity to thank our customers who continue to support us. It is a privilege to meet their healthcare needs and we look forward to continuing to do so in 2017.

John O'Dwyer
Chief Executive

Wellness at work

265,000

In 2016 Vhi provided Employee Assistance Programmes, Occupational Health and Wellbeing Programmes to **627 companies**, covering **over 265,000 lives,** including **33,000 individual consultations** helping employees cope with a range of issues.

Claims

984,000

In 2016 Vhi processed over 984,000 claims on behalf of its customers. 79% of claims paid were for daycase and sideroom settings accounting for 29% of overall claims costs. 21% of claims paid were for inpatient stays accounting for 71% of overall claims costs.

Customer Interactions

3.1M

Vhi's award-winning customer service team handled over 3.1 million customer interactions via phone, email and on our website in 2016. Over 26,000 individuals used the new Vhi webchat channel launched in February 2016.

Claims Review Process

37,000

More than 37,000 claims were reviewed by the Special Claims Investigation Unit in 2016, **recovering more than €21.4 million**

Directors' Report for the Financial Year ended 31 December 2016

The Directors present their 60th Annual Report in accordance with section 20 (1) of the Voluntary Health Insurance Act 1957. The Accounts of the Voluntary Health Insurance Board ("Vhi Board") and the related notes which form part of the Accounts are included in this report, and have been prepared in accordance with accounting standards generally accepted in Ireland and the European Union (Insurance Undertakings: Financial Statements) Regulations 2015.

1. Principal activities

The Vhi Board was established under the Voluntary Health Insurance Act 1957 to act as a Statutory Body to undertake the business of writing private medical insurance in Ireland. The Voluntary Health Insurance (Amendment) Act 2008 was enacted to facilitate the statutory reorganisation of the Vhi Board in order to facilitate an application by two of the Vhi Board's newly incorporated subsidiaries to become authorised by the Central Bank of Ireland ("the Bank"). Vhi Insurance DAC was incorporated as the insurance entity and Vhi Healthcare DAC was incorporated as the retail intermediary (together on attaining authorisation from the Bank to be called "Regulated Entities"). A number of additional Vhi group subsidiaries were also incorporated. The Minister for Health appointed 31 July 2015 as the effective date for the transfer of the Vhi Board's business under the Voluntary Health Insurance (Amendment) Act 2008 and accordingly the Vhi Board's health insurance underwriting business transferred by operation of law to Vhi Insurance DAC on this date. On 31 July 2015 the Vhi Board's intermediary business transferred to Vhi Healthcare DAC. The Vhi Board's non-health insurance businesses transferred to other entities within the Vhi group by way of business and asset transfer agreements.

2. Results and Dividends

The consolidated results for the year ending 31 December 2016 are set out in the Profit and Loss Account shown on page 11. The consolidated Vhi Board surplus after tax for the year is €56.4m (2015: €45.5m).

3. Business review and future developments

A comprehensive review of business transacted during the year, together with the Board's views of likely future developments, is contained in the Chairman's Review and CEO's Operations review.

The Directors are satisfied with the conduct of business for the year and expect that the present level of activity will be sustained for the foreseeable future.

4. Directors' compliance statement

We, the Directors of the Vhi Board, acknowledge that we are responsible for securing compliance with all applicable laws and regulations relevant to the business operations of the Vhi Board.

Vhi's objective is to conduct business in accordance with both the letter and the spirit of the relevant regulatory, compliance and risk related laws, regulations and codes that apply to its regulated activities, as well as Vhi internal compliance policies and standards and to act with integrity, honesty and fairness in dealing with our customers.

Our Compliance Policy sets out the scope, philosophy and approach to the management of regulatory compliance risk within Vhi.

We are committed to taking all reasonable steps to ensure that the Vhi Board complies with all relevant laws and regulations applicable to our business operations. In this regard for the companies that these apply to, for the purposes of section 225 of the Companies Act 2014 in particular, the Directors confirm that:

- a compliance policy statement has been drawn up setting out Vhi's policies in respect of its compliance with its "relevant obligations";
- there are in place appropriate arrangements and structures that are designed to ensure Vhi's material compliance with its "relevant obligations"; and
- those arrangements and structures were reviewed in the financial year ended 31 December 2016.

The governance arrangements include:

- A clear organisational structure
- Well defined transparent and consistent lines of responsibility
- Effective processes to manage, monitor and report risks to which we are or might be exposed
- Adequate internal control mechanisms that include sound administration and accounting procedures
- IT systems and controls

5. Corporate Governance

The Directors support the principles of Corporate Governance outlined in the Central Bank of Ireland Corporate Governance Requirements for Insurance Undertakings as well as the Code of Practice for the Governance of State Bodies. The Board complies with the provisions of the Codes that are applicable to it and is engaged with the Department of Health on an agreed process for the implementation of the revised State Code introduced on 1 September, 2016.

Board of Directors

The Directors of the Board at 31 December 2016 are listed on page 2 and in the table below. The roles of Chairman and Chief Executive are separate. All Directors are appointed by the Minister for Health. The Board held nine meetings during 2016 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 Directors' liability insurance cover is in place. The Board has put in place a process for appraisal of its performance.

Attendance at Board and Board Committee Meetings held during the financial year:

	Board		Audit Committee		Remuneration Committee		Risk Management & Compliance Committee	
	A	B	A	B	A	B	A	B
Dr Ruth Barrington	8	9	4	4				
Joyce Brennan	9	9	1	1	7	7	5	5
Seamus Creedon	9	9					5*	5
Liam Downey	9**	9			7	7		
Celine Fitzgerald	8	9	4	4	7*	7		
Finbarr Lennon	9	9						
Declan Moran	7	9					4	5
John O'Dwyer	9	9					5	5
Paul O'Faherty	8	9	4	4			5	5
Greg Sparks	7	9	4*	4				
Brian Walsh	9	9						

*Chairperson of Committee
**Chair of the Board

Column A: The number of scheduled meetings attended during the year that the Director was a member of the Board and a member of the committee
Column B: The number of scheduled meetings held during the year that the Director was a member of the Board and a member of the committee

Audit Committee

The Directors have established an audit committee that is compliant with section 167 of the Companies Act 2014.

The Audit Committee consists of four non-Executive Directors. It meets at least four times a year and reviews the annual accounts, internal control matters and the effective conduct 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.

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

Remuneration Committee

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.

Risk Management and Compliance Committee

The Risk Management and Compliance Committee comprise non-Executive and Executive Directors with the principal purpose of overseeing, reviewing and monitoring the operation of the compliance and risk management systems. The main roles and responsibilities of the Risk Management and Compliance Committee are set out in written terms of reference.

Internal Control

The Board has given effect to the recommendations of the Internal Control: Guidance for Directors on the Corporate Governance Requirements for 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.

Directors' Report for the Financial Year ended 31 December 2016 (continued)

The key elements of the system are:

- 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;
- formal policies, procedures and organisational structures which support the maintenance of a strong control environment;
- a comprehensive set of management information and performance indicators is produced 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;
- 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;
- 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.

During the year, there was a self-assessment review of the effectiveness of our internal control policy and the Board is satisfied that there is a sound system of internal control in place.

6. Going Concern

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 requirements for the foreseeable future. In forming this view, the Directors consider that it is appropriate to do this on the basis that forecasts for future years are prepared which take account of reasonable foreseeable changes in trading performance. Stress test assessments, strong governance structures in place and satisfactory operating results during 2016 further contributed to assessing a strong solvency position.

The Board is satisfied that the introduction of the EU Solvency Directive (referred to as 'Solvency II'), which became effective on 1 January 2016, has not materially altered its ability to meet its financial resource requirements.

7. Directors' Remuneration

Annual remuneration levels for the Chairman and each non-Executive Director have been set by Government at €31,500 and €15,750, respectively, with effect from 1 January 2015.

8. Principal risks and uncertainties

Irish company law requires companies to describe the principal risks and uncertainties they face. The principal risks and uncertainties of Vhi Board have been determined by assessing potential risks to capital, value, sustainability and reputation from a strategic and operational perspective and Vhi's risk tolerance levels are recorded in the Risk Appetite Statement approved by the Board.

They are monitored and managed by Executive Management and are reported to the Board of Directors on a regular basis. They are summarised below.

a. Risks from Inadequate Risk Equalisation

Risk equalisation is a process that aims to spread claims costs of the higher-risk older and less healthy policyholders amongst all the private health insurance companies in the market. In circumstances where the risk equalisation system is not fully effective there is a threat to the existence of a community rated market when significant differences in risk profiles exist between competing insurers. Risk equalisation is a common mechanism in countries with community rated health insurance systems. The Risk Equalisation Scheme in Ireland, in the view of Vhi, remains only partially effective and places insurers covering a disproportionate share of higher risk older and less healthy policyholders at a competitive disadvantage with attendant risk to capital, value and sustainability.

b. Risks from Medical Inflation and Ageing Population

Medical inflation results from the development of new technologies, drugs and treatments as well as increases in labour and other input costs. The combination of medical inflation and population ageing lead to increased demand for and cost of medical treatment. Vhi projects that medical inflation will outpace general inflation and this presents risk to private health insurance affordability and growth of the voluntary private health insurance market.

c. Risks from Legislative and Regulatory Changes

Private medical insurance and associated healthcare services providers in Ireland are subject to EU and Irish legislation and regulation. There are risks that legislative or regulatory changes affecting the operation of private medical insurance and healthcare services markets may cause increases in private medical insurance policyholder cost or impose material additional costs on insurance or healthcare service providers including, but not limited to, public hospital charges for holders of private medical insurance.

d. Investment Risk

Vhi is exposed to a range of risks in relation to its investment portfolio. These include:

- market risk where reductions in investment values are not matched by changes in the value of our liabilities and are influenced by geopolitical and macro-economic risk;
- credit risk where our counterparties fail to meet all or part of their obligations;
- liquidity risk where the timing of liability payment and availability of cash resources are mismatched.

Vhi principally invests in high quality and secure securities whose term match the short-term nature of our liabilities in accordance with prudent investment policies that are implemented and monitored by management and regularly reported to the Board.

e. Other Risks

Vhi is also subject to a range of other risks, including operational risk (the risk of human, systems or process failure), strategic risk (the risk that the incorrect strategy may be adopted by the Board or its execution is unsuccessful) and insurance risk (the risk of inadequate premium pricing or claims reserves due to the volatility, severity, frequency and timing of claims). These are also important risk categories that are actively monitored and managed to ensure the business operates within the Risk Appetite set by the Board.

9. 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 Vhi Board has complied with the requirements of the Regulations.

10. Subsidiary undertakings

The Board's subsidiaries and other undertakings, as at 31 December 2016, are listed in note 34.

11. Subsequent events

Note 32 details the subsequent events post 31 December 2016.

12. Adequate Accounting Records

The Directors have taken appropriate measures to secure compliance with the requirements of sections 281 to 285 of the Companies Act 2014 with regard to the keeping of accounting records. The specific measures taken are the employment of suitably qualified accounting personnel and the maintenance of appropriate accounting systems. The books of account are located at VHI House, Lower Abbey Street, Dublin 1.

13. Auditors

Deloitte, Chartered Accountants and Statutory Audit Firm, were reappointed as auditors on 6 September 2016. Deloitte have indicated their willingness to continue in office in accordance with section 383(2) of the Companies Act 2014.

Statement of disclosure of information to Auditors

So far as each of the Directors in office at the date of approval of these financial statements are aware:

- there is no relevant audit information not disclosed to the Auditors, and
- they have taken all the steps to make themselves aware of any relevant audit information and to establish that the Vhi Board's Auditors are aware of that information.

On behalf of the Board

L. Downey

Liam Downey
Chairman

30 March 2017

Greg Sparks
Director

30 March 2017

Directors’ Responsibilities Statement

The Directors are responsible for preparing the Directors’ report and the financial statements in accordance with the Companies Act 2014 and the regulations as applicable.

Irish company law requires the directors to prepare financial statements for each financial year. Under the law, the Directors have elected to prepare the financial statements in accordance with FRS 102 and FRS 103 the Financial Reporting Standard applicable in the UK and Republic of Ireland (“relevant financial reporting framework”). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Board as at the financial year end date and of the surplus or deficit of the Board for the financial year and otherwise comply with the Companies Act 2014.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies for the group financial statements and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with the applicable accounting standards, identify those standards, and note the effect and the reasons for any material departure from those standards; 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 ensuring that the Board keeps or causes to be kept adequate accounting records which correctly explain and record the transactions of the Board, enable at any time the assets, liabilities, financial position and surplus or deficit of the Board to be determined with reasonable accuracy, enable them to ensure that the financial statements and the Directors’ report comply with the Companies Act 2014 and enable the financial statements to be audited. They are also responsible for safeguarding the assets of the Board and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Vhi’s website.

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

We have audited the financial statements of The Voluntary Health Insurance Board for the financial year ended 31 December 2016, which comprise the Group Financial Statements: the Consolidated Profit and Loss Account, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the Consolidated Statement of Changes in Equity, the Parent Company Financial Statements: the Balance Sheet, Statement of Comprehensive Income and Statement of Changes in Equity and the related notes 1 to 35. The relevant financial reporting framework that has been applied in their preparation is the Companies Act 2014 and FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and FRS 103 Insurance Contracts (“relevant financial reporting framework”).

This report is made solely to the Board’s director’s, as a body. Our audit work has been undertaken so that we might state to the Board’s directors those matters we are required to state to them in an auditors’ report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board and the Board’s directors as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors’ Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give 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 Board’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 company’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the 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 group and parent company financial statements:

- give a true and fair view of the assets, liabilities and financial position of the group and parent company as at 31 December 2016 and of the profit of the group for the financial year then ended; and
- have been properly prepared in accordance with the relevant financial reporting framework and, in particular, with the requirements of Irish Law.

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
Chartered Accountants and Statutory Audit Firm
Dublin

30 March 2017

Consolidated Profit and Loss Account for the Financial Year ended 31 December 2016

	Notes	2016 €'m	2015 €'m
Technical Account			
Earned Premium, net of reinsurance			
Gross written premiums	**2**	1,447.8	1,426.6
Outward reinsurance premiums		(435.7)	(428.9)
Change in gross provision for unearned premiums	**2,18**	(17.5)	1.0
Change in the provision for unearned premiums, reinsurer's share	**18**	5.3	(0.3)
Earned Premium, net of reinsurance	**3**	**999.9**	**998.4**
Allocated investment return transferred from the non-technical account		**1.8**	**5.5**
Other technical income, net of reinsurance	**4,5**	100.2	95.9
Total Technical Income		**1,101.9**	**1,099.8**
Claims incurred, net of reinsurance			
Claims paid – gross amount	**2**	(1,339.6)	(1,377.9)
Claims paid – reinsurer's share		412.1	511.4
Change in the provision for claims – gross amount	**2,18**	26.2	99.7
Change in the provision for claims – reinsurer's share	**18**	(18.4)	(168.7)
		(919.7)	**(935.5)**
Net operating expenses	**7**	**(118.3)**	**(116.4)**
Balance on the technical account		**63.9**	**47.9**

	Notes	2016 €'m	2015 €'m
Non-Technical Account			
Balance on the technical account		**63.9**	**47.9**
Investment income	**9**	1.8	5.5
Allocated investment return transferred to the insurance technical account		**(1.8)**	**(5.5)**
		63.9	**47.9**
Other Income	**27**	27.2	27.8
Other Expenses	**28**	(26.2)	(22.1)
Surplus on ordinary activities before tax		**64.9**	**53.6**
Taxation on surplus on ordinary activities	**10**	(8.5)	(8.1)
Surplus on ordinary activities after tax	**11**	**56.4**	**45.5**

All recognised gains and losses for both the current year and the previous year are included in the profit and loss account. The notes on pages 27 to 51 form an integral part of these accounts. The financial statements were approved by the Board of Directors and authorised for issue on 30 March 2017.

Consolidated Balance Sheet as at 31 December 2016

	Notes	2016 €'m	2015 €'m
Assets			
Investments			
Land and buildings	**12**	24.9	22.8
Other financial investments	**13**	1,142.9	1,134.6
		1,167.8	**1,157.4**
Reinsurer's share of technical provisions			
Provision for unearned premiums	**18**	149.0	143.7
Claims outstanding	**18**	158.0	176.4
		307.0	**320.1**
Debtors			
Debtors arising out of insurance operations		429.3	413.3
Debtors arising out of reinsurance operations		14.0	0.2
Other debtors	**14**	279.5	278.0
		722.8	**691.5**
Other assets			
Intangible assets	**16**	3.3	3.7
Tangible fixed assets	**17**	3.1	3.3
Cash at bank and in hand		21.9	38.0
Deferred tax asset	**19**	0.8	0.8
		29.1	**45.8**
Prepayments and accrued income			
Deferred acquisition costs	**20**	5.1	4.4
Other prepayments and accrued income		3.0	2.9
		8.1	**7.3**
Total assets		**2,234.8**	**2,222.1**

Consolidated Balance Sheet as at 31 December 2016 (continued)

	Notes	2016 €'m	2015 €'m
Equity and liabilities			
Capital and reserves			
General reserve		521.6	466.3
Comprehensive income		36.6	55.3
Shareholder's funds		**558.2**	**521.6**
Subordinated debt	**26**	**51.1**	**90.0**
Technical provisions			
Provision for unearned premium	**18**	496.6	479.1
Claims outstanding	**18**	522.8	549.0
		1,019.4	**1,028.1**
Funds withheld for Reinsurer	**15**	**307.0**	**320.1**
Creditors			
Creditors arising out of direct insurance operations		52.7	39.2
Other creditors and accruals	**21**	222.8	217.3
Bank overdraft due within 1 year		–	0.2
		275.5	**256.7**
Retirement benefit liability	**25**	**23.6**	**5.6**
Total liabilities and shareholder's equity		**2,234.8**	**2,222.1**

The notes on pages 27 to 51 form an integral part of these accounts. The financial statements were approved by the Board of Directors and authorised for issue on 30 March 2017. They were signed on its behalf by:

L. Downey

Liam Downey
Chairman

30 March 2017

Greg Sparks
Director

30 March 2017

Board Balance Sheet as at 31 December 2016

	Notes	2016 €'m	2015 €'m
Assets			
Other financial investments			
Investment in subsidiaries	**13**	479.7	479.7
Total assets		**479.7**	**479.7**
Equity and liabilities			
Capital and reserves			
General reserve		474.1	465.1
Comprehensive income		(18.0)	9.0
Shareholder's funds		**456.1**	**474.1**
Retirement benefit liability	**25**	**23.6**	**5.6**
Total liabilities and shareholder's equity		**479.7**	**479.7**

The notes on pages 27 to 51 form an integral part of these accounts. The financial statements were approved by the Board of Directors and authorised for issue on 30 March 2017. They were signed on its behalf by:

L. Downey

Liam Downey
Chairman

30 March 2017

Greg Sparks
Director

30 March 2017

Consolidated Statement of Cash Flows as at 31 December 2016

	Notes	2016 €'m	2015 €'m
Net cash from operating activities	**22**	**44.7**	**(61.2)**
Cash flows from investing activities:			
Proceeds from sale of equipment		0.1	0.3
Proceeds from sale of property		0.7	0.0
Purchase of property		(3.0)	(1.8)
Purchase of equipment		(3.7)	(4.5)
Investment and dividend income received		19.0	23.9
Net Purchase/Sale of portfolio investments		(25.4)	(29.8)
Net cash flows from investing activities		**(12.3)**	**(11.9)**
Cash flows from financing activities:			
Loans (repaid)/raised		(38.9)	90.0
Interest paid		(9.4)	0.0
Net cash flows from financing activities		**(48.3)**	**90.0**
Net (decrease)/increase in cash at bank and in hand		**(15.9)**	**16.9**
Cash at bank and in hand at beginning of financial year		37.8	20.9
Cash at bank and in hand at end of financial year		**21.9**	**37.8**

Board Statement of Cash Flows as at 31 December 2016

A cash flow statement has not been prepared for the Vhi Board as it is taking an exemption from preparing cash flows under FRS 102 as consolidated accounts for the Voluntary Insurance Board include a cash flow statement.

Consolidated Statement of Changes in Equity as at 31 December 2016

	Total €'m
At 31 December 2014	**466.3**
Surplus for the financial year	45.5
Actuarial gain on pension fund	9.8
At 31 December 2015	**521.6**
Surplus for the financial year	56.4
Actuarial loss on pension fund	(19.8)
At 31 December 2016	**558.2**

Consolidated Statement of Comprehensive Income for the Financial Year ended 31 December 2016

	2016 €'m	2015 €'m
Surplus for the financial year	56.4	45.5
Actuarial (loss)/gain	(22.4)	11.4
Deferred tax on actuarial loss/(gain)	2.6	(1.6)
Total	**36.6**	**55.3**

Board Statement of Changes in Equity as at 31 December 2016

	Total €'m
At 31 December 2014	**465.1**
Deficit for the financial year	(0.8)
Actuarial gain on pension fund	9.8
At 31 December 2015	**474.1**
Surplus for the financial year	1.8
Actuarial loss on pension fund	(19.8)
At 31 December 2016	**456.1**

Board Statement of Comprehensive Income for the Financial Year ended 31 December 2016

	2016 €'m	2015 €'m
Surplus/(deficit) for the financial year	1.8	(0.8)
Actuarial (loss)/gain	(22.4)	11.4
Deferred tax on actuarial loss/(gain)	2.6	(1.6)
Total	**(18.0)**	**9.0**

Notes to the Financial Statements

1. Accounting policies

General Information

The Voluntary Health Insurance Board ("Vhi Board") was established under the Voluntary Health Insurance Act 1957 to act as a statutory body to undertake the business of writing private medical insurance in Ireland. The address of the registered office is given on page 53. The nature of operations and the Vhi Board's operating and financial review are detailed in the Directors' report on page 14.

Basis of Accounting

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standards 102 and 103 (FRS 102 and FRS 103) issued by the Financial Reporting Council, and promulgated for use in Ireland by Chartered Accountants Ireland. The Board is also subject to the requirements of the Companies Acts 2014 and the European Union (Insurance Undertakings: Financial Statements) Regulations 2015. The accounts are prepared on a consolidated basis. All intra group transactions, balances, income and expenses are eliminated on consolidation.

Premiums Written

Gross written premiums 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 apportioned 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.

Risk Equalisation Scheme

Risk Equalisation Premium Credits consists of amounts receivable from the Risk Equalisation Fund, administered by the Health Insurance Authority, in respect of policies commencing in the financial year. Provision for unearned credits represents the proportion of credits written in the year that relate to the unexpired term of policies in force at the balance sheet date, calculated on a time apportioned basis. Hospital Utilisation Credits consists of amounts receivable from the fund for claims paid during the year. Health Insurance Levy written consists of the amounts payable to the Revenue Commissioners in respect of policies commencing in the financial year. Provision for unearned levy represents the proportion levy written in the year that relates to the unexpired term of policies in force at the balance sheet date, calculated on a time apportioned 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 profit or loss account.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Computer software licence and development costs are recognised as intangible assets when they are not an integral part of the related hardware and are amortised to the profit and loss account over their estimated useful lives of four years. Costs associated with maintaining the computer software are recognised as an expense when incurred.

Property, Plant and Equipment

Land, buildings and other tangible assets are initially recognised at cost. Cost includes any costs directly attributable to bringing the asset to the intended use. Costs for assets under construction are included under work in progress until the asset is brought into use.

i. Land and buildings

Land and buildings are subsequently carried at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of land and buildings are included in the profit and loss account in the year in which they arise, including the corresponding tax effect. Fair values are evaluated annually by an accredited external, independent valuer with recent experience in the location and class of the property held.

All properties 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.

Notes to the Financial Statements (continued)

ii. Tangible assets
Tangible assets are carried at cost less accumulated depreciation. Depreciation is calculated so as to write off the cost of the assets to their residual values over their estimated useful lives on a straight line basis as follows:

Motor vehicles	4 years
Computer equipment	4 years
Furniture, fittings, medical and office equipment	5 years

Expenditure incurred on the development of computer equipment 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 years 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 profit or loss account.

Financial Assets and Liabilities

The Board's investments comprise debt and equity investments, collective investments, deposits in banks, and investment in subsidiaries.

Financial assets and liabilities are recognised when the Board becomes a party to the contractual provisions of the instrument. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Board after deducting all of its liabilities.

All financial assets and liabilities are initially measured at transaction price, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Debt instruments are designated and measured at fair value through profit and loss as they form part of a portfolio that is managed on a fair value basis in accordance with the Board's risk management and investment policy. Investments in ordinary shares are measured at fair value with changes in fair value recognised in the profit and loss account. Deposits in banks are recognised at their face value inclusive of accrued interest.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Board transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Board, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

The directors use their judgement in selecting an appropriate valuation technique. Where possible, financial instruments are marked at prices quoted in active markets. In certain instances, such price information is not available for all instruments and the Board uses valuation techniques to measure such instruments. These techniques use "market observable inputs" where available, derived from similar assets in similar and active markets, from recent transaction prices for comparable items or from other observable market data. For positions where observable reference data are not available for some or all parameters the Board estimates the non-market observable inputs used in its valuation models.

Investment in Subsidiaries

Investments in subsidiary companies are initially recognised at cost. At each year end the director's review the investments made for objective evidence of impairment and recognise any impairment in profit and loss immediately.

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

Realised and unrealised gains and losses arising from changes in the fair value of investments are presented in the non-technical profit and loss account in the financial year in which they arise. Dividend and interest income is recognised when earned. Investment management and other related expenses are recognised when incurred.

Investment Return

Operating results are reported on the basis of actual investment return. Investment return consists of dividends, interest, realised gains and losses, and unrealised gains and losses on fair value assets.

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.

Pension

Certain employees of the Vhi group companies are part of the Vhi Board's defined benefit pension scheme.

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 of Vhi Board. Actuarial gains and losses are recognised in the statement of total recognised gains and losses of Vhi Board. 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 of Vhi Board.

The Vhi Board also operates a defined contribution pension scheme for qualifying employees who opt to join. The assets of the plans are held separately from those of the Vhi Board in funds under the control of the Scheme Trustees. Costs arising in respect of pension schemes are charged to the Vhi Board's profit and loss account as an expense as they fall due.

The subsidiary companies of the Vhi Board recognise costs equal to their contribution payable as an employer to the scheme in their profit and loss accounts.

Other Income

Other income is composed of insurance agency commission earned on the sale of insurance products for other insurance companies and revenue from the provision of health services to clients. Insurance agency commission for products that do not require further service are recognised as income on the commencement of the related policy. Insurance agency commission for products requiring further customer service is recognised on a straight line basis over the lifetime of the policies. Revenue from the provision of health services to clients represents the invoiced value and work-in-progress of health services provided to clients 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 year 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. Deferred acquisition costs are reviewed at the end of each reporting year and are written-off where they are no longer considered to be recoverable from expected future margins.

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

Reinsurance commissions relate to reinsurance commission and profit participation accrued on the basis of premiums ceded and claims reimbursed and are presented in the profit and loss account in other technical income.

Premiums payable in respect of reinsurance ceded are recognised in the period in which the reinsurance contract is entered into. A technical provision, reinsurer's share of unearned premium, is recognised for the portion of ceded premiums remaining on unexpired contracts.

An additional technical provision, reinsurer's 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 Board 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 Reinsurer

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

Taxation

The charge for taxation is based on the tax adjusted surplus for the year calculated at current rates. Current tax is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred Taxation

Deferred taxation is provided on timing differences between the taxable profits and profits as stated in the accounts. The provisions are made at the taxation rates which are expected to apply in the years 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.

Notes to the Financial Statements (continued)

2. Particulars of business

The insurance business of Vhi Board is that of health insurance and all business is written in the Republic of Ireland. The gross written premium for Vhi Board for 2016 is €1,447.8m (2015: €1,426.6m).

Analysis of gross premium earned, gross claims incurred, operating expenses and reinsurance balance for Vhi Board is as follows:

	2016 €'m	2015 €'m
Gross earned premium	1,430.3	1,427.6
Other technical income gross	83.7	70.4
Gross claims incurred	(1,313.4)	(1,278.3)
Operating expenses	(118.3)	(116.4)
Reinsurance	(20.2)	(61.0)

3. Earned premium

All earned premium relates to health insurance and all business written is in the Republic of Ireland.

4. Other technical income, net of reinsurance

	2016 €'m	2015 €'m
Risk Equalisation Scheme – gross (note 5)	83.7	70.4
Risk Equalisation Scheme – reinsurer's share (note 5)	(25.2)	(21.1)
Reinsurance commissions	41.7	46.6
	100.2	**95.9**

5. Risk equalisation scheme

	2016 €'m	2015 €'m
Risk Equalisation Credits		
Gross Amount	432.5	421.3
Reinsurer's share	(129.8)	(126.4)
Health Insurance Levy		
Gross Amount	(348.8)	(350.9)
Reinsurer's share	104.6	105.3
	58.5	**49.3**

Risk Equalisation Credits consist of credits receivable from the Risk Equalisation Fund. These are received for each insured person aged over 65 and for each claim paid which included a hospital stay.

The Health Insurance Levy is a stamp duty which is payable on renewal or inception of a private health insurance policy in Ireland and is used to fund the risk equalisation scheme.

6. Claims incurred

Each year the Directors assess 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 potential 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 2016 is €0m (2015: €0m).

7. Net operating expenses

	2016 €'m	2015 €'m
Acquisition costs	14.8	13.1
Change in acquisition costs	(0.8)	(0.2)
Administration expenses	104.3	103.5
Net operating expenses	**118.3**	**116.4**

8. Employment benefits and directors remuneration

	2016 €'m	2015 €'m
Emoluments		
Aggregate emoluments paid by Vhi to directors	1.0	1.0
Contribution to defined contribution pension schemes	0.1	0.1
	1.1	**1.1**

Employer's defined benefit contributions paid for executive directors are included within emoluments.
Directors receive a private medical insurance policy from Vhi during their tenure.

	2016 €'m	2015 €'m
The average monthly number of people employed during the financial year (including directors) was as follows:	1,192	1,179
Staff costs were:		
Wages and salaries	65.2	58.8
Social security costs	6.9	6.3
Other retirement benefit costs	6.7	7.3
Other compensation costs	1.3	1.0
	80.1	**73.4**

The total remuneration, including pension contribution, paid to the Chief Executive and included in net operating expenses in the year to December 2016 €328,095.

Notes to the Financial Statements (continued)

9. Net investment return

	2016 €'m				
	Net investment income	Net investment expense	Net realised gains and (losses)	Changes in fair value	Net investment result
Quoted Debt Securities	17.8	(0.5)	(14.2)	(1.1)	**2.0**
Collective investments	–	(0.1)	–	–	**(0.1)**
Deposits in banks	–	(0.6)	–	–	**(0.6)**
Other Investment Income	0.2	–	–	0.3	**0.5**
	18.0	**(1.2)**	**(14.2)**	**(0.8)**	**1.8**

	2015 €'m				
	Net investment income	Net investment expense	Net realised gains and (losses)	Changes in fair value	Net investment result
Quoted Debt Securities	19.6	(0.8)	(8.5)	(6.2)	**4.1**
Collective investments	–	–	–	–	**–**
Deposits in banks	2.0	–	–	–	**2.0**
Other Investment Income	(0.6)	–	–	–	**(0.6)**
	21.0	**(0.8)**	**(8.5)**	**(6.2)**	**5.5**

10. Tax

	2016 €'m	2015 €'m
The taxation charge in the profit and loss account comprises:		
Current taxation for year	8.5	8.3
Deferred taxation - charge	–	(0.2)
	8.5	**8.1**

Factors affecting the current taxation charge for the financial year:
The differences are explained below:

	2016 €'m	2015 €'m
Surplus on ordinary activities before taxation	**64.9**	**53.6**
Surplus on ordinary activities multiplied by standard rate of Corporation taxation of 12.5% (2015: 12.5%)	(8.1)	(6.7)
Effects of:		
Expenses not allowed for taxation purposes	(0.2)	(1.7)
Capital allowances in excess of depreciation for financial year	0.1	0.2
Income taxable not reflected in the profit and loss	(0.1)	(0.1)
Prior Year adjustment	(0.5)	–
Income not taxable	0.3	–
Current taxation for financial year	**(8.5)**	**(8.3)**

11. Surplus on ordinary activities after taxation

Surplus for the financial year has been arrived at after charging (crediting) the below to the consolidated accounts

	2016 €'m	2015 €'m
Auditors remuneration		
Audit of individual company accounts	0.2	0.2
Other assurance services	0.2	0.1
Other non-audit services	0.6	1.4
	1.0	**1.7**

The auditors' remuneration including tax, assurance and other non-audit services for the Vhi Board were zero for the year as these costs were borne by other Vhi group companies.

12. Land and buildings

	2016 €'m	2015 €'m
Valuation		
At 1 January	22.8	21.1
Additions	–	1.8
Work in progress	3.0	–
Disposals	(0.7)	–
Loss on revaluation	(0.2)	(0.1)
At end of year	**24.9**	**22.8**

Land and buildings included above are occupied by Vhi group companies for its own activities and are mainly freehold. Land and buildings were valued at 31 December 2016 at open market value in accordance with Royal Institute of Chartered Surveyors (RICS) appraisal and valuation standards.

13. Other financial investments

The carrying values of the Board's financial assets and liabilities are summarised by category below:

	2016 €'m	2015 €'m
Consolidated		
i) at fair value		
Quoted debt securities	842.8	737.6
Collective investments	10.9	1.7
Other unquoted investments	4.6	4.2
ii) at cost		
Deposits in banks	284.6	391.1
	1,142.9	**1,134.6**
Board		
i) at cost		
Investment in subsidiary	479.7	479.7
	479.7	**479.7**

Notes to the Financial Statements (continued)

14. Other debtors

	2016 €'m	2015 €'m
Amounts falling due within one year		
Risk equalisation scheme	268.0	262.5
Other Debtors	11.0	15.0
	279.0	**277.5**
Amounts falling due after one year		
Other Debtors	0.5	0.5
	279.5	**278.0**

The Risk Equalisation Scheme debtor includes the unexpired portion of the Health Insurance levy which amounted to €116.2m (2015: €115.0m).

15. Funds withheld from Reinsurer

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

	2016 €'m	2015 €'m
Funds withheld from reinsurer	307.0	320.1
	307.0	**320.1**

16. Intangible assets

	Software €'m
Cost	
Balance at 1 January 2016	72.5
Additions	1.2
Disposals	–
Balance at 31 December 2016	**73.7**
Amortisation	
Balance at 1 January 2016	(68.8)
Charge for the year	(1.6)
Disposals	–
Balance at 31 December 2016	**(70.4)**
Net book value	
At 31 December 2016	**3.3**
At 31 December 2015	**3.7**

	Software €'m
Cost	
Balance at 1 January 2015	71.8
Additions	1.8
Disposals	(1.1)
Balance at 31 December 2015	**72.5**
Amortisation	
Balance at 1 January 2015	(68.6)
Charge for the year	(1.3)
Disposals	1.1
Balance at 31 December 2015	**(68.8)**
Net book value	
At 31 December 2015	**3.7**
At 31 December 2014	**3.2**

Notes to the Financial Statements (continued)

17. Tangible fixed assets

	Motor Vehicles	Fixtures, furnishings and fittings	Computer /office equipment	Medical Equipment	Total
Cost					
Balance at 1 January 2016	2.2	12.5	19.2	0.3	34.2
Additions	0.6	0.1	1.8	–	2.5
Disposals	(0.3)	(0.1)	(1.5)	–	(1.9)
Balance at 31 December 2016	**2.5**	**12.5**	**19.5**	**0.3**	**34.8**
Depreciation					
Balance at 1 January 2016	(1.4)	(11.6)	(17.6)	(0.3)	(30.9)
Charge for the year	(0.5)	(0.4)	(1.8)	–	(2.7)
Disposals	0.3	0.1	1.5	–	1.9
Balance at 31 December 2016	**(1.6)**	**(11.9)**	**(17.9)**	**(0.3)**	**(31.7)**
Net book value					
At 31 December 2016	**0.9**	**0.6**	**1.6**	**0.0**	**3.1**
At 31 December 2015	**0.8**	**0.9**	**1.6**	**0.0**	**3.3**

	Motor Vehicles	Fixtures, furnishings and fittings	Computer /office equipment	Medical Equipment	Total
Cost					
Balance at 1 January 2015	2.2	12.8	17.2	0.3	32.5
Additions	0.6	–	2.0	–	2.6
Disposals	(0.6)	(0.3)	–	–	(0.9)
Balance at 31 December 2015	**2.2**	**12.5**	**19.2**	**0.3**	**34.2**
Depreciation					
Balance at 1 January 2015	(1.5)	(11.4)	(16.1)	(0.3)	(29.3)
Charge for the year	(0.5)	(0.5)	(1.5)	–	(2.5)
Disposals	0.6	0.3	–	–	0.9
Balance at 31 December 2015	**(1.4)**	**(11.6)**	**(17.6)**	**(0.3)**	**(30.9)**
Net book value					
At 31 December 2015	**0.8**	**0.9**	**1.6**	**0.0**	**3.3**
At 31 December 2014	**0.7**	**1.4**	**1.1**	**0.0**	**3.2**

18. Technical provisions

	Provision for Unearned Premium €'m	Claims Outstanding €'m	Total €'m
Gross Amount			
As at 31 December 2015	(479.1)	(549.0)	(1,028.1)
Movement in provision	(17.5)	26.2	8.7
As at 31 December 2016	**(496.6)**	**(522.8)**	**(1,019.4)**
Reinsurance Amount*			
As at 31 December 2015	143.7	176.4	320.1
Movement in provision	5.3	(18.4)	(13.1)
As at 31 December 2016	**149.0**	**158.0**	**307.0**
Net Technical Provision			
As at 31 December 2016	**(347.6)**	**(364.8)**	**(712.4)**
As at 31 December 2015	**(335.4)**	**(372.6)**	**(708.0)**

	Provision for Unearned Premium €'m	Claims Outstanding €'m	Total €'m
Gross Amount			
As at 31 December 2014	(480.1)	(648.7)	(1,128.8)
Movement in provision	1.0	99.7	100.7
As at 31 December 2015	**(479.1)**	**(549.0)**	**(1,028.1)**
Reinsurance Amount*			
As at 31 December 2014	144.0	345.1	489.1
Movement in provision	(0.3)	(168.7)	(169.0)
As at 31 December 2015	**143.7**	**176.4**	**320.1**
Net Technical Provision			
As at 31 December 2015	**(335.4)**	**(372.6)**	**(708.0)**
As at 31 December 2014	**(336.1)**	**(303.6)**	**(639.7)**

*Change in provision for claims includes claims expenses net of payments made in respect of the reporting period and change in provisions in respect of prior years' net of payments made, adjusted for reinsurer's share at the applicable quota share rates.

Notes to the Financial Statements (continued)

19. Deferred taxation asset

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

	2016 €'m	2015 €'m
Income taxed when received	(0.1)	(0.3)
Other timing differences	1.2	1.5
FRS prior year adjustments (including restatement)	(0.3)	(0.4)
Total deferred taxation asset	**0.8**	**0.8**

20. Deferred acquisition costs

Acquisition costs are expensed as the premiums to which they relate are earned. The amount of €5.1m provided for 2016 (2015: €4.4m) 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.

21. Other creditors and accruals due within one year

	2016 €'m	2015 €'m
Risk Equalisation Scheme	167.4	161.0
Other creditors	21.8	27.2
Accruals	33.6	29.1
	222.8	**217.3**

The Risk Equalisation Scheme creditor includes the value of the provision for unearned premium credits at the year ended 31 December 2016 of €116.9m (2015: €112.2m).

22. Notes to the cash flow statement

Consolidated	2016 €'m	2015 €'m
Surplus on ordinary activities before taxation	**64.9**	**53.6**
Add back depreciation	4.2	3.8
DB Pension contributions in excess of charge	(1.8)	(1.2)
Finance expense	7.9	3.6
Investment income	(1.6)	(6.2)
Gain on disposal of property, plant and equipment	(0.1)	(0.1)
Operating cash flows before movements in working capital	**73.5**	**53.5**
(Increase) in deferred acquisition costs	(0.8)	(0.2)
(Decrease) in insurance contract liabilities	(26.2)	(99.7)
(Increase)/decrease in reinsurance asset	(13.8)	6.2
Increase/(decrease) in unearned premium reserve	17.5	(1.0)
(Increase) in receivables	(17.5)	(11.3)
Increase/(decrease) in payables	22.1	(0.4)
Working capital movements	**(18.7)**	**(106.4)**
Cash generated by operations	54.8	(52.9)
Income taxes paid	(10.1)	(8.3)
Net cash operating activities	**44.7**	**(61.2)**

23. Capital commitments

	2016 €'m	2015 €'m
Capital expenditure contracted for	19.8	1.8
	19.8	**1.8**

24. 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 2016 were governed by the above Act to combat late payments in commercial transactions. This Act applies to goods and services supplied to the Vhi Board by EU based suppliers.

Statement of payment practices including standard payment periods

The Vhi 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 Vhi 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.

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

Notes to the Financial Statements (continued)

25. Retirement benefit schemes

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 Board in funds under the control of Trustees. Costs arising in respect of this plan are charged to the Profit and Loss account 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 2016 amounted to €6.9m (December 2015: €7.1m) and are based on 16.5% of salary.

The values used in this disclosure are based on the most recent actuarial funding valuations, carried out at 31 December 2016. The funding valuation results were projected forward to 31 December 2016 and adjusted for changes to actuarial assumptions and the occurrence of significant events and experience. The amounts have been fully implemented in the accounts in accordance with the requirements of Section 28 FRS 102.

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

(i) The major assumptions used in respect of the pension scheme are:	2016 %	2015 %
Rate of increase in salaries	2.00	2.00
Rate of increase in pensions in payment	0.00	0.00
Discount rate	2.00	2.60
Revaluation	0.00	0.00
Inflation assumption	1.50	1.50

(ii) Long-term expected rates of return at financial year end are:	2016 %	2015 %
Equities	2.0	2.6
Fixed interest	2.0	2.6
Property	2.0	2.6
Other	2.0	2.6

(iii) Weighted average life expectancy for mortality tables used to determine benefit obligations at	2016	2015
Member age 65 (current life expectancy)	23.8	23.8
Member age 40 (life expectancy at age 65)	26.7	26.6

(iv) The assets in the pension scheme at market value were:	2016 €'m	2015 €'m
Equities	106.6	94.1
Fixed interest	59.1	53.4
Property	2.3	2.4
Other	67.1	63.5
Total market value of assets	**235.1**	**213.4**
Present value of scheme liabilities	(261.9)	(219.8)
Deficit in the scheme	**(26.8)**	**(6.4)**
Related deferred tax asset	3.2	0.8
Net retirement benefit liability	**(23.6)**	**(5.6)**

25. Retirement benefit schemes (continued)

(v) Profit and loss account	2016 €'m	2015 €'m
Charged to net operating expenses		
Retirement benefits		
Current service cost	(4.8)	(5.2)
Death in service cost	(0.3)	(0.6)
Other retirement benefits		
Charge to profit & loss	(5.1)	(5.8)
Interest in scheme liabilities	(5.6)	(5.0)
Expected return on scheme assets	5.6	4.7
Past service credit	–	0.1
Net change in operating result	**(5.1)**	**(6.0)**

(vi) Statement of total recognised gains and losses	2016 €'m	2015 €'m
Actual return less expected return on scheme assets	10.8	2.5
Experience gains and losses on scheme liabilities	(2.3)	9.8
Changes in demographic and financial assumptions	(30.9)	(0.9)
Actuarial (loss)/gain	(22.4)	11.4
Deferred tax	2.6	(1.6)
Total actuarial (loss)/gain	**(19.8)**	**9.8**

(vii) Movement in net deficit during the financial year	2016 €'m	2015 €'m
Net deficit in scheme at start of year	(5.6)	(16.6)
Current service cost	(4.8)	(5.2)
Death in service cost	(0.3)	(0.6)
Past Service credit	–	0.1
Contributions	6.9	7.1
Interest on scheme liabilities	(5.6)	(5.0)
Expected return on scheme assets	5.6	4.7
Actuarial (loss)/gain	(22.4)	11.4
Deferred tax	2.6	(1.6)
Net deficit at end of financial year	**(23.6)**	**(5.6)**

(viii) History of experience gains and losses	Year ended Dec-2016	Year ended Dec-2015	Year ended Dec-2014	Year ended Dec-2013	Year ended Dec-2012
Difference between expected and actual return on	10.8	2.5	17.0	1.7	8.9
assets % of scheme assets	5%	1%	9%	1%	6%
Experience (losses) and gains on scheme liabilities	(2.1)	9.9	(1.1)	(1.7)	(4.4)
% of scheme liabilities	(1%)	4%	(1%)	(1%)	(2%)
Total actuarial (loss)/gain	(22.2)	9.8	14.4	(0.5)	(25.0)
% of scheme liabilities	(9%)	4%	7%	(0%)	(13%)

Notes to the Financial Statements (continued)

25. Retirement benefit schemes (continued)

(ix) Recognised within the Balance Sheet:	2016 €'m	2015 €'m
Net deficit as at 31 December	(23.6)	(5.6)

(x) Movement in group assets and liabilities:	2016 €'m	2015 €'m
Assets		
Assets in scheme at 1 January	213.4	200.1
Return on scheme assets (excluding interest income)	10.8	2.5
Employer contributions	6.9	7.1
Employee contributions	2.6	2.7
Interest on scheme assets	5.6	4.7
Insurance premiums for risk benefits	(0.4)	(0.6)
Benefits paid	(3.8)	(3.1)
Assets in scheme at 31 December	**235.1**	**213.4**
Liabilities		
Liabilities in scheme at 1 January	219.8	219.1
Experience gains and losses on scheme liabilities	2.1	(9.9)
Changes in assumptions	30.9	0.9
Current service cost	5.1	5.6
Employee contributions	2.6	2.7
Interest on scheme liabilities	5.6	5.1
Insurance premiums for risk benefits	(0.4)	(0.6)
Benefits paid	(3.8)	(3.1)
Liabilities in scheme at 31 December	**261.9**	**219.8**

26. Subordinated debt

During 2015, Vhi Group DAC, a subsidiary company of the Vhi Board, raised subordinated debt of €90m for a term of 7 years at a rate of interest of 9% per annum. During 2016 the company prepaid €38.9m without penalty.

27. Other income

This is income generated by subsidiary companies of which the Vhi Board is the ultimate parent.

	2016 €'m	2015 €'m
Commission income	15.3	14.6
Revenue from the provision of health services	11.9	13.2
	27.2	**27.8**

28. Other expenses

This relates to interest expense as well as expenses associated with provision of services to clients by subsidiary companies of which the Vhi Board is the ultimate parent.

	2016 €'m	2015 €'m
Expenses from the provision of health services	18.3	17.2
Interest expense	7.9	4.9
	26.2	**22.1**

29. Capital management

The objective of Vhi in managing its capital is to ensure that it will be able to continue as a going concern and maintain a prudent level of capital which will not compromise its ability to meet its current or future commitments to policyholders. The capital structure of the Vhi group consists of retained earnings and subordinated debt. Reinsurance is also used as part of capital management.

Vhi Insurance DAC, a subsidiary of Vhi Board, is subject to externally, imposed capital requirements by the Central Bank of Ireland. Under the new EU Solvency Directive (referred to as 'Solvency II'), which became effective on 1 January 2016, the required capital is determined by the application of standard rules set out by the regulator and the Company's exposure to risk.

Vhi Insurance DAC was in compliance throughout 2016 with regulatory capital requirements set out by the Central Bank of Ireland with a Solvency Capital Requirement ("SCR") in excess of 150% and also satisfies Vhi's risk appetite.

The table below sets out the capital that is managed by Vhi Board:

	2016 €'m
Reserves at 1 January 2015	**466.3**
Profit for the financial year	45.5
Actuarial gain for December 2015	9.8
Subordinated Debt	90.0
Capital resources at 31 December 2015	**611.6**
Profit for the financial year	56.4
Actuarial loss for December 2016	(19.8)
Repayment of subordinated debt	(38.9)
Capital resources at 31 December 2016	**609.3**

30. Financial risk management

The Vhi Board operates an enterprise risk management system across the group to monitor and manage risks including financial risks. These risks include market risk (interest rate risk, currency risk and other price change risks), credit risk and liquidity risk.

The Board does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Fair value

Fair value is the amount for which an asset or liability could be exchanged between willing parties in an arm's length transaction. FRS 102 establishes a fair value hierarchy that prioritises the inputs to valuation techniques used to measure fair value.

The Board has early adopted the Amendments to FRS 102 "Fair Value Hierarchy Disclosures", which are effective for accounting periods beginning on or after 1 January 2017. These amendments require the Board to categorise its fair value measurements into levels consistent with the fair value hierarchy set out in IFRS as adopted for use in the European Union. These amendments did not have a material impact on the Board's financial position or performance.

Notes to the Financial Statements (continued)

30. Financial risk management (continued)

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Level 1
Quoted prices unadjusted for an identical asset in an active market.

Level 2
When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If it can be demonstrated that the last transaction price is not a good estimate of fair value (e.g. because it reflects the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), that price is adjusted.

Level 3
If the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, yield curves, credit spreads, liquidity statistics and other factors. The use of different valuation techniques could lead to different estimates of fair value.

The table below shows financial assets carried at fair value through profit or loss (as disclosed in note 13) that are measured at fair value:

	2016 €'m			
	Level 1	**Level 2**	**Level 3**	**Total**
Quoted debt securities	–	832.7	10.1	842.8
Collective investments	–	–	10.9	10.9
Other unquoted investments	–	–	4.6	4.6
Financial assets at fair value	**–**	**832.7**	**25.6**	**858.3**

	2015 €'m			
	Level 1	**Level 2**	**Level 3**	**Total**
Quoted debt securities	–	737.6	–	737.6
Collective investments	–	–	1.7	1.7
Other unquoted investments	–	–	4.2	4.2
Financial assets at fair value	**–**	**737.6**	**5.9**	**743.5**

Market risk

Market risk is the risk of adverse financial impact as a consequence of financial market movements such as currency exchange rates, interest rates and other price changes. Market risk arises due to fluctuations in both the value of assets held and the value of liabilities. The objective of the Board in managing its market risk is to ensure risk is managed in line with the Board's risk appetite.

The Board has established policies and procedures in order to monitor and manage market risk and methods to measure it.

There were no material changes in the Board's market risk exposure in the financial year nor to the objectives, policies and processes for managing market risk.

i. Foreign currency risk management
The Board's financial assets and its insurance contract liabilities are denominated in Euro and therefore have no foreign exchange risk.

ii. Interest rate risk management
Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

30. Financial risk management (continued)

Interest rate risk arises primarily from the Board's investment in quoted debt securities and deposits. The risk is managed by the Board by limiting the maturity of instruments which the portfolio invests in and closely matching the outstanding duration of its assets to its liabilities. The Board diversifies its fixed interest investments by issuer and type to ensure it has no significant concentration of interest rate risk at the balance sheet date.

The sensitivity analyses below have been determined based on prescribed Solvency II test formula for interest rate risk. The table below shows the exposure to interest rates for fixed interest rate financial assets only at the balance sheet date.

	Pre-tax profit		Shareholder's equity	
	2016 €m	2015 €m	2016 €m	2015 €m
Increase in interest rates	(16.7)	(16.5)	(14.6)	(14.4)
Decrease in interest rates	0.4	0.2	0.3	0.2

The Vhi group's sensitivity to interest rate fluctuations has not changed significantly over the financial year.

iii. Other market price risk management

VHI Board is exposed to market price risk arising from fluctuations in the value of financial instruments as a result of changes in the market prices and the risks inherent in all investments. The Board has no significant concentration of price risk. The risk is managed by the Board by investing primarily in listed fixed income securities, maintaining an appropriate mix of investment instruments, limiting the maturity profile of fixed interest securities and matching liabilities by outstanding duration and type.

Vhi Board sensitivity to a 0.5% increase and decrease in market prices is as follows:

	2016 €m	2015 €m
0.5% increase		
Movement in fair value of debt securities and other fixed income securities	4.2	3.8
0.5% decrease		
Movement in fair value of debt securities and other fixed income securities	(4.2)	(3.8)

For all other financial instruments held at 31 December 2016 these assets are not subject to significant amounts of risk due to fluctuations in interest rates.

Credit risk

Credit risk refers to the risk that a counterparty will default on all or part of their contractual obligations resulting in financial loss to the group. The key areas of exposure to credit risk for the Vhi group are in relation to its investment portfolio, reinsurance programme and amounts due from policyholders and other third parties.

The objective of the group in managing its credit risk is to ensure risk is managed in line with the Board's risk appetite. The group has established policies and procedures in order to manage credit risk and methods to measure it.

The Board consolidated its use of investment custodian services in 2016 and Northern Trust provides custodian services for all of the Group's financial assets. The Board are satisfied that this does not represent a material increase in credit exposure. There were no material changes in the group's credit risk exposure in the financial year nor to the objectives, policies and processes for managing credit risk.

Financial assets are graded according to current credit ratings issued by credit rating agencies. Where not available, the Board uses other publicly available financial information and its own trading records to rate its major financial counterparties. AAA (or equivalent) is the highest possible rating. Investment grade financial assets are classified within the range of AAA to BBB ratings. Financial assets which fall outside this range are classified as speculative grade.

The group's exposure and the credit ratings of its counterparties are continuously monitored. The group monitors the credit risk in relation to its investment portfolio and reinsurance programme by monitoring external credit ratings for the investment assets held by the group on a monthly basis. Credit exposure is controlled by counterparty limits that are reviewed and approved by the Risk Management and Compliance Committee annually. Our reinsurance contract is on a funds withheld basis which mitigates the counterparty risk with this counterparty.

Notes to the Financial Statements (continued)

30. Financial risk management (continued)

The carrying amount of financial assets and reinsurance assets recorded in the financial statements, which is net of impairment losses, represents the group's maximum exposure to credit risk.

The Board's reinsurer has a credit rating of AA+. The Board have assessed this credit rating as being sufficient to meet its risk appetite. Reinsurance assets are reinsurers' share of outstanding claims, claims incurred but not reported (IBNR) and reinsurance receivables. The majority of debt securities are investment grade and the Board has limited exposure to below investment grade securities.

Receivables consist of a large number of policyholders, and their financial condition is subject to ongoing credit evaluation.

Loans and receivables from policyholders, agents, intermediaries and other third parties generally do not have a credit rating.

The following table shows aggregated credit risk exposure for assets held with third parties in respect of external credit ratings for Vhi Board:

2016 €m	AAA < AA-	A+ < BBB	< BBB	Not Rated	Carrying Amount
Financial assets					
Quoted debt securities	512.9	329.9	–	–	842.8
Collective investments	10.9	–	–	–	10.9
Other unquoted investments	–	–	–	4.6	4.6
Bank deposits	97.3	187.3	–	–	284.6
Total financial assets	**621.1**	**517.2**	**–**	**4.6**	**1,142.9**
Other assets					
Cash and cash equivalents	–	–	21.9	–	21.9
Reinsurance assets	14.0	–	–	–	14.0
Insurance receivables	–	–	–	429.3	429.3
Other debtors	–	–	–	163.3	163.3

2015 €m	AAA < AA-	A+ < BBB	< BBB	Not Rated	Carrying Amount
Financial assets					
Quoted debt securities	568.7	189.0	–	–	757.7
Collective investments	1.7	–	–	–	1.7
Other unquoted investments	–	–	–	4.2	4.2
Bank deposits	250.7	118.8	1.5	–	371.0
Total financial assets	**821.1**	**307.8**	**1.5**	**4.2**	**1,134.6**
Other assets					
Cash and cash equivalents	–	–	38.0	–	38.0
Reinsurance assets	0.2	–	–	–	0.2
Insurance receivables	–	–	–	413.3	413.3
Other debtors	–	–	–	163.0	163.0

30. Financial risk management (continued)

The following table shows the carrying value of assets that are neither past due nor impaired, the ageing of assets that are past due but not impaired and assets that have been impaired. The factors considered in determining that the value of the assets have been impaired were: analysis of impairment, ageing of balances, past loss experience, current economic conditions and other relevant circumstances.

Insurance receivables	Neither past due nor impaired	Past due less than 30 days	Past due 31 to 60 days	Past due 61 to 90 days	Past due more than 90 days	Past due and impaired	Carrying amount
2016	412.5	4.5	6.7	3.8	1.8	–	429.3
2015	410.3	0.2	1.2	0.8	0.8	–	413.3

Liquidity risk management

Liquidity risk is the risk that the group cannot meet its obligations associated with financial liabilities as they fall due, or the risk of incurring excessive costs in selling assets. The group has adopted an appropriate liquidity risk management framework for the management of the group's liquidity requirements.

The group is exposed to liquidity risk arising from clients on its insurance contracts. The group manages liquidity risk by continuously monitoring forecast and actual cash flows and ensuring that the maturity profile of its financial assets is in line with the maturity profile of its liabilities and by maintaining appropriate liquidity buffers at all times.

In practice, most of the group's assets are marketable securities which could be converted to cash when required.

There were no material changes in the group's liquidity risk exposure in the financial year nor to the objectives, policies and processes for managing liquidity risk.

The following table shows details of the expected maturity profile of the group's undiscounted obligations with respect to its financial liabilities and estimated cash flows of recognised insurance and participating investment contract liabilities. Unearned premiums are excluded from this analysis. The table includes both interest and principal cash flows.

	2016 €'m					
	Less than 1 month	1–3 months	3 months to 1 year	1–5 years	5+ years	Total
Insurance contract liabilities	129.4	139.0	185.8	68.4	0.2	522.8
Trade and other liabilities	68.8	160.0	46.7	–	–	275.5

	2015 €'m					
	Less than 1 month	1–3 months	3 months to 1 year	1–5 years	5+ years	Total
Insurance contract liabilities	147.0	156.9	178.7	65.9	0.5	549.0
Trade and other liabilities	220.3	34.8	1.6	–	–	256.7

31. Insurance risk management

Assumptions and sensitivities

The risks associated with the health insurance contracts are subject to a number of variables. The Board uses several statistical and actuarial techniques based on past claims development experience. This includes indications such as average claims cost, ultimate claims numbers and expected loss ratios. The key methods used by the Vhi Board for estimating liabilities are:

i. chain ladder;

ii. estimated loss ratio;

iii. average cost per claim; and

iv. Bornhuetter-Ferguson.

The Vhi Board considers that the liability for health insurance claims recognised in the balance sheet is adequate. However, actual experience will differ from the expected outcome.

Some results of sensitivity testing are set out below, showing the impact on Surplus before tax and shareholder's equity gross and net of reinsurance. For each sensitivity the impact of a change in a single factor is shown with other assumptions unchanged.

	Pre-tax Surplus		Shareholder's equity	
	2016	**2015**	**2016**	**2015**
5% increase in loss ratios				
Gross	(71.5)	(71.4)	(62.6)	(62.5)
Net	(50.1)	(50.0)	(43.8)	(43.7)
5% decrease in loss ratios				
Gross	71.5	71.4	62.6	62.5
Net	51.8	52.2	45.3	45.7

The Vhi Board's method for sensitivity testing has not changed significantly from the prior financial year.

31. Insurance risk management (continued)

Claims development tables

The following tables show the development of claims over a period of time on both a gross and net of reinsurance basis. The top half of the table shows how the estimates of total claims for each accident year develop over time. The lower half of the table reconciles the cumulative claims to the amount appearing in the balance sheet.

The below tables show the information for 2014, 2015 and 2016 only as information pertaining to prior years is not available due to underlying methodology changes in the reserving process.

Analysis of claims development – Gross	2014 €'m	2015 €'m	2016 €'m	Total €'m
Estimate of ultimate claims				
End of accident year	1,478.7	1,461.1	1,485.0	
One year later	1,326.1	1,334.6		
Two years later	1,304.4			
Current estimate of ultimate claims	1,304.4	1,334.6	1,485.0	
Cumulative payments	1,271.3	1,266.0	1,081.1	
In balance sheet	33.1	68.6	403.9	505.6
Provision for prior Accident Years (2013 & Prior)				17.2
Liability in balance sheet				**522.8**

Analysis of claims development – Net of Reinsurance	2014 €'m	2015 €'m	2016 €'m	Total €'m
Estimate of ultimate claims				
End of accident year	605.9	1,028.6	1,044.5	
One year later	532.7	935.1		
Two years later	522.6			
Current estimate of ultimate claims	522.6	935.1	1,044.5	
Cumulative payments	508.5	886.2	756.8	
In balance sheet	14.1	48.9	287.7	350.7
Provision for prior Accident Years (2013 & Prior)				14.1
Liability in balance sheet				**364.8**

32. Subsequent events

On 1 February 2017 Vhi submitted its proposal to the Competition and Consumer Protection Commission (CCPC) to acquire sole control of the Vhi SwiftCare Clinics.

There have been no other significant subsequent events affecting the Vhi Board or any of its subsidiary companies since the balance sheet date. The accounts were approved by the Directors on the 30 March 2017.

33. Legal cases disclosure

The Vhi Board is satisfied that there are no material legal cases pending.

Notes to the Financial Statements (continued)

34. Subsidiary undertakings

The Vhi Board is the parent company of Vhi Group DAC and the ultimate parent company of Vhi Insurance DAC, Vhi Healthcare DAC, Vhi Group Services DAC, Vhi Investments DAC, Vhi Health Services DAC, Vhi Occupational Health DAC and Vhi RI DAC.

Vhi Group DAC is the holding company for the Vhi group companies and the Vhi Board holds 100% of the shares in Vhi Group DAC. Vhi Group DAC holds 100% of the shares of the other subsidiary companies shown in the table below. Vhi Group DAC is an Irish registered company with a registered address at Vhi House, 20 Lower Abbey Street, Dublin 1.

Investment in subsidiaries	Country of Incorporation	Registered Address	Nature of Business	Holding by Vhi Group DAC	%
Vhi Investments DAC	Ireland	Vhi House 20 Lower Abbey Street Dublin 1	Holds Joint arrangement	€1	100
Vhi Group Services DAC	Ireland	Vhi House 20 Lower Abbey Street Dublin 1	Shared Services	€1	100
Vhi RI DAC	Ireland	Vhi House 20 Lower Abbey Street Dublin 1	Non Trading	€1	100
Vhi Insurance DAC	Ireland	Vhi House 20 Lower Abbey Street Dublin 1	Insurance	€5,000,000	100
Vhi Healthcare DAC	Ireland	Vhi House 20 Lower Abbey Street Dublin 1	Retail Intermediary	€1	100
Vhi Occupational Health DAC	Ireland	Vhi House 20 Lower Abbey Street Dublin 1	Occupational health	€1	100
Vhi Health Services DAC	Ireland	Waverly Office Park, Old Naas Road, Dublin 12	Provision of health services	€700	100

35. Related party transactions

As with many other entities, the 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, 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 the 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 34 for interests in subsidiary undertakings.

The total remuneration of the Vhi Board key management personnel for the financial year ending 31 December 2016 was €3.0m (2015: €2.6m), of which remuneration disclosed in Note 8 comprises €1.1m (2015: €1.1m).

35. Related party transactions (continued)

Intra group transactions

There are a number of intra group transactions within the Vhi Group which are described below:

- The Vhi Board is the administrator of the Vhi Group Pension fund and as such has intra group transactions regarding the pension fund with Vhi Group Services DAC, Vhi Insurance DAC, Vhi Health Services DAC and Vhi Healthcare DAC. There were no outstanding balances in the accounts of the Vhi Board at 31 December 2016.
- Vhi Group DAC is the holding company for the Vhi Group. Vhi Group DAC has an intra group loan agreement in place with Vhi Insurance DAC.
- Vhi Insurance DAC is authorised by the Bank to sell approved non-life Insurance products for specific classes of business. Vhi Insurance DAC has an agency agreement in place with Vhi Healthcare DAC (regulated as a Retail Intermediary by the Bank) to sell and administer its policies.
- Vhi Health Services DAC provides home infusion and related services. Vhi Health Services DAC provides services to the other Vhi group companies.
- Vhi Investments DAC holds the investment in the joint arrangement with Centric Health. This company has related party transactions with other companies within the Vhi group.
- Vhi Group Services DAC is a shared service provider for the Vhi group companies and as such has transactions with the other entities within the Vhi group.

Energy Management and Sustainability

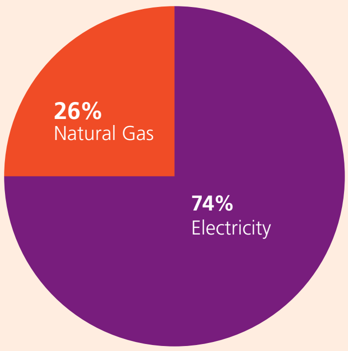
In 2016 Vhi consumed **5,173,904kWh** of energy, consisting of:

3,864,813kWh of electricity
The main energy users of electricity include:

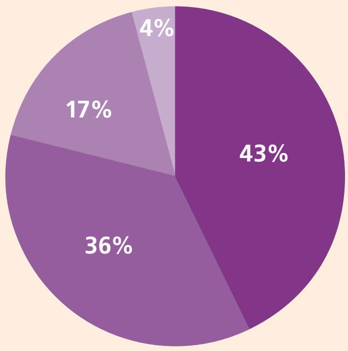
- ICT **43%**
- Heating, ventilation and air conditioning **36%**
- Lighting **17%**
- Kitchen **4%**

1,309,091 kWh of fossil fuel (natural gas)
The main energy users of natural gas include:

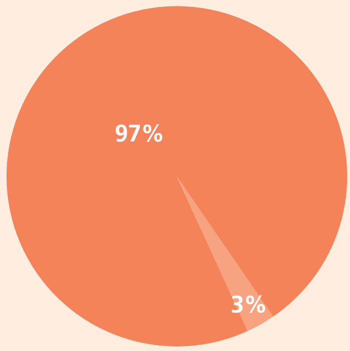
- Space heating and hot water services **97%**
- Kitchen **3%**



Energy Usage



Electricity Usage



Natural Gas Usage

Actions Undertaken in 2016 included:

- **Heating, Ventilation and Air Conditioning (HVAC):** Improved building energy management system control strategies for space heating in Kilkenny office and air conditioning in Abbey Street office.
- **ICT:** Server virtualisation for Abbey Street and Kilkenny.

Actions undertaken in 2016, together with existing energy conservation measures, provided estimated total annual electricity energy savings of 122,000kWh and reduced the environmental impact of energy use by 38,000kg CO^2.

Actions Planned for 2017 include:

- **Energy Management Programme:** Review, upgrade and implement the Vhi energy action plan for all Vhi sites for 2017/18.
- **Energy Monitoring and Targeting:** Upgrade and extend the automatic energy monitoring and targeting for Kilkenny premises.
- **Heating, Ventilation and Air Conditioning:** Provide Building Energy Management System (BEMS) exception scheduling and summer time mode control for Abbey Street and Kilkenny HVAC. Provide improved control strategies and zoned scheduling of Kilkenny office air conditioning. Assess providing chiller optimisation for Abbey Street air conditioning.
- **Lighting:** Replace the remaining T8 fluorescent lighting in Abbey Street and Kilkenny offices with Led and T5 smart lighting.
- **Energy Efficient Design Study:** Complete exemplar energy efficient design study for Abbey Street office development.

Actions planned for 2017 are estimated to provide total estimated annual energy savings of 320,000kWh and will reduce the environmental impact of energy use by 100,000kg CO^2.

Company Details

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Monday–Friday

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Lines Open

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Galway

Gweedore

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Gweedore
Co. Donegal

Kilkenny

IDA Business Park
Purcellsinch
Dublin Road
Kilkenny

Limerick

Gardner House
Charlotte Quay
Limerick

Main Bankers

Allied Irish Banks plc.

Independent Auditors

Deloitte

Solicitors

McCann FitzGerald

Notes