Management's Discussion and Analysis of Financial Condition and Results of Operations for Ascension

As of and for the three months ended September 30, 2021 and 2020

Ascension

The following information should be read in conjunction with Ascension's consolidated financial statements and related notes to the consolidated financial statements.

Introduction to Management's Discussion and Analysis

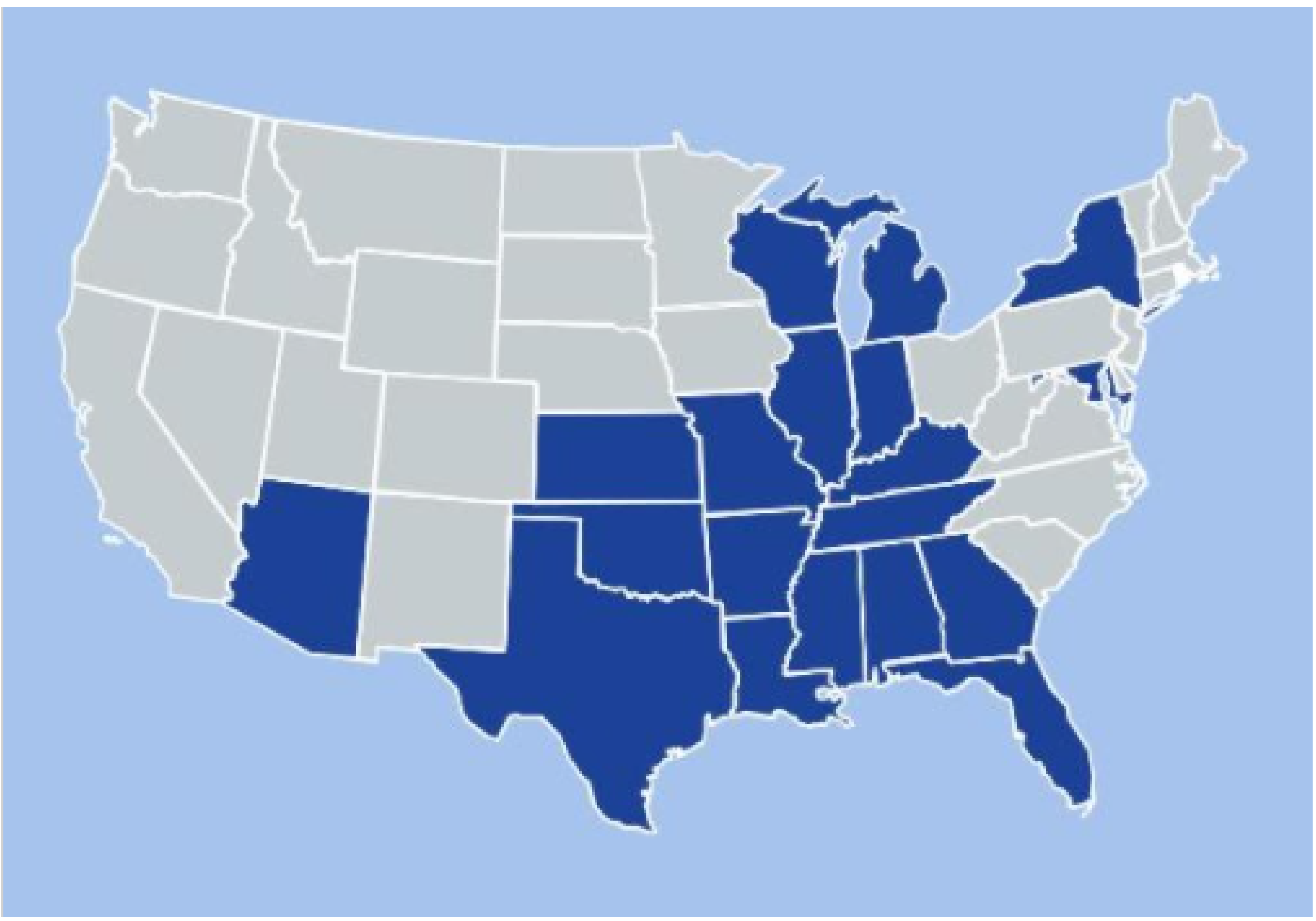
The purpose of Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is to provide a narrative explanation of the financial position and operations of Ascension (the System).

The MD&A includes the following sections:

- Organization and Mission
- Executive Overview
- Organizational Changes
- Novel Coronavirus (COVID-19)
- Select Financial Information

Organization and Mission

Ascension is a faith-based healthcare organization dedicated to transformation through innovation across the continuum of care. As one of the largest non-profit and Catholic health systems in the U.S., Ascension is committed to its Mission, Vision, and Values by delivering compassionate, personalized care to all, with special attention to persons living in poverty and those most vulnerable. At September 30, 2021, the System included approximately 145,000 associates and 40,000 aligned providers, operating more than 2,600 sites of care – including 141 hospitals and approximately 40 senior living facilities – in 19 states and the District of Columbia, while providing a variety of healthcare-related services including clinical and managed care services, investment management (including venture capital and direct strategic investing), facilities management, risk management, and contracting through Ascension's own group purchasing organization.



Executive Overview

For the three months ended September 30, 2021 (Q1 FY22), Ascension's operations and volumes continued to experience volatility as a result of recurrent surges of the COVID-19 pandemic, most notably in our southern markets. During Q1 FY22, our System experienced the second highest inpatient census for COVID patients since the onset of the pandemic. Localized intermittent COVID-related restrictions also resulted in the cancellation or deferral of elective procedures at certain times in select markets throughout the quarter. Ascension remains committed to managing operations to focus on our top priorities of caring for our patients and caregivers.

Organizational Changes

Ascension continues to make strategic and purposeful decisions to improve the health of individuals and communities served, engage with consumers in new ways, and support the shift to expanded ambulatory and telehealth presence. To strengthen hospital operations and gain capabilities for the future, the organization's changes to its portfolio are as follows.

Effective August 1, 2020, Ascension divested certain assets and liabilities and substantially all related operations of Ascension St. Clare's Hospital in Weston, Wisconsin, to Marshfield Clinic Health System.

Effective September 1, 2020, St. Mary's Healthcare in Amsterdam, New York, separated from the Ascension System and began to operate as an independent, Catholic healthcare organization under the governance of a local Board.

Effective August 1, 2021, Ministry Health Care, Inc., a wholly owned subsidiary of Ascension, transitioned its sole membership interest in seven hospitals and related clinical and other business, representing substantially all operations in the Northern and Central Wisconsin markets, to Aspirus, Inc.

Subsequent to September 30, 2021 in October 2021, Ascension and AdventHealth announced the intention to unwind the AMITA Health joint operating company partnership. Both organizations are united in their commitment to continue to serve healthcare needs in the greater Chicago area.

Novel Coronavirus (COVID-19)

The global novel coronavirus (COVID-19) pandemic has had significant economic and operational impact on the U.S. healthcare industry. Ascension's patients, employees, business operations and communities served by the System continue to be impacted by the uncertainty of the pandemic.

Recurrent surges of COVID-19 cases across the nation during the three months ended September 30, 2021 continued to have an impact on Ascension's volumes and created unprecedented operational and financial challenges as further discussed below. Healthcare utilization hesitation, along with vaccination hesitation continues to impact Ascension's markets to varying degrees, as the System's volumes remain below pre-pandemic levels for the comparable quarter in all categories except physician office and clinic visits. During Q1 FY22, governmental relief funds and programs helped to offset the adverse financial impacts of the pandemic although to a much lesser extent than the comparable quarter of the prior year. The System was able to absorb the additional operating expense impacts through expansion and growth in certain other operations and strong stewardship consistent with our Mission to serve our patients, with special attention to persons living in poverty and those most vulnerable, along with our caregivers.

The System recognized revenue associated with distributions from the CARES Act during Q1 of FY22 and FY21. The CARES Act increased funding for the Public Health and Social Services Emergency Fund (Provider Relief Fund) to reimburse eligible healthcare providers for lost revenues or healthcare-related expenses attributable to COVID-19, as well as increased Medicare reimbursement rates for inpatients diagnosed with COVID-19. For Q1 FY22, the System recognized revenue associated with Provider Relief Fund payments of approximately $4 million, representing a significant decrease from the $185 million of Provider Relief Fund payments recognized during the respective quarter of the prior fiscal year. The recognition of the Provider Relief Fund payments is included within Other operating revenue in the Consolidated Statement of Operations and Changes in Net Assets.

Select Financial Information (dollars in millions)

Consolidated Operations

The following table reflects selected financial information on a consolidated basis for the three months ended September 30, 2021 and 2020.

Three months ended September 30,

	2021	2020
Net Patient Service Revenue	$ 6,384	$ 5,977
Other Operating Revenue	553	650
Operating Expenses	6,924	6,505
Income (loss) from Operations	25	143
Operating Margin	0.4%	2.2%
Operating EBIDA Margin	5.9%	8.0%
Cost of Providing Care of Persons Living in Poverty and Other Community Benefit Programs	562	541

On a consolidated basis, operating margin was 0.4% for the three months ended September 30, 2021, as compared to 2.2% for the same quarter in the prior year. Operating EBIDA margin was 5.9% for the three months ended September 30, 2021, as compared to 8.0% in the same quarter of the prior year. Decreases in margins are impacted by the aforementioned decrease in government funding intended to offset losses incurred during the pandemic.

Volume Trends

The following table reflects certain patient volume information, on a consolidated basis, for the three months ended September 30, 2021 and 2020.

Three months ended September 30,

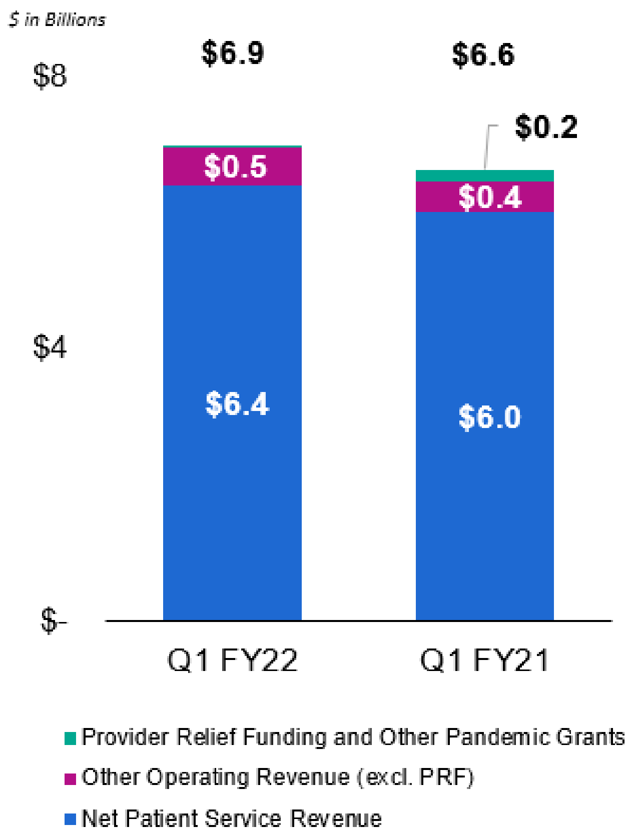
Volume Trends	2021	2020
Equivalent Discharges	399,315	391,997
Total Admissions	191,115	186,759
Case Mix Index	1.83	1.82
Surgery Visits (IP & OP)	145,774	151,478
Emergency Room Visits	790,686	669,155
Urgent Care Visits	147,586	111,616
Physician Office and Clinic Visits	4,068,251	3,840,640
Virtual Provider Office (VPO) Visits	272,994	386,995

During the three months ended September 30, 2021, the System experienced increased volumes representing the impact of caring for patients through the most recent and significant COVID surge while also continuing the recovery of pandemic-impacted volumes in certain categories. Equivalent discharges, admissions, emergency room visits, urgent care visits and physician office and clinic visits for Q1 FY22 were greater than the same quarter in the prior year by 1.9%, 2.3%, 18.2%, 32.2% and 5.9%, respectively. However, total surgery visits were less than the same quarter in the prior year by 3.8% largely driven by lower inpatient surgeries.

On a same facility basis, volume comparisons to the same quarter in the prior year were even more favorable. Equivalent discharges, admissions, emergency room visits, urgent care visits and physician office and clinic visits increased by 3.8%, 3.6%, 20.5%, 41.7% and 7.8%, respectively. Total same facility surgery visits for the three months ended September 30, 2021 were 1.8% less than the same quarter in the prior year; however, same facility outpatient surgeries increased 2.2% for the same comparison.

For the three months ended September 30, 2021, VPO visits decreased 29.5% from the same quarter in the prior year, at which time VPO visits were exceptionally high at ~10% of total physician visits as a greater proportion of the visits were still virtual after the onset of the pandemic. Overall, outpatient visits have been increasing with Q1 FY22 volumes improving 1.4% or 5.4% on a same facility basis over Q1 FY21.

Total Operating Revenue



Total operating revenue increased by $310 million or 4.7% during the three months ended September 30, 2021, as compared to the same quarter in the prior year.

Net patient service revenue (NPSR) remains impacted by the pandemic including the recent surge as the System experienced an increase over prior year in NPSR of $0.4 billion or 6.8% for the three months ended September 30, 2021. The System's same facility operations have shown growth in NPSR of 8.9% for the three months ended September 30, 2021, as compared to the same period in the prior year. NPSR also exceeded pre-pandemic levels by 5.4%.

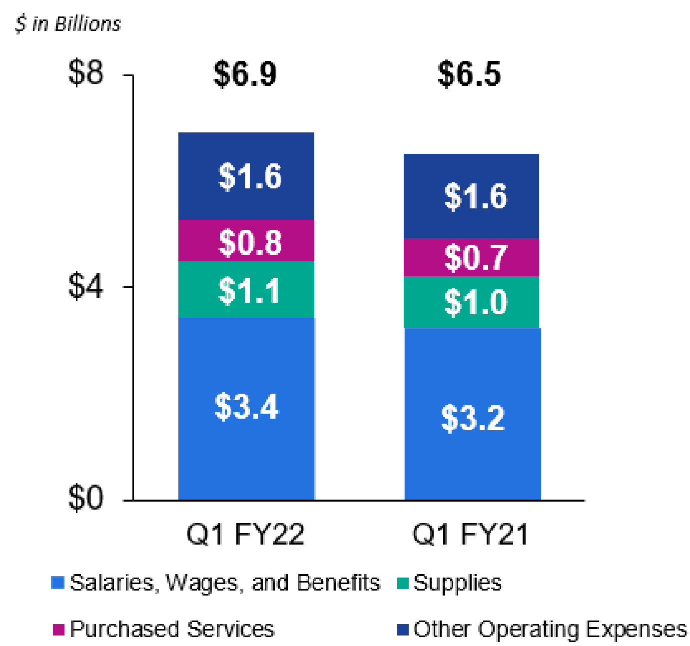
For the three months ended September 30, 2021, NPSR per equivalent discharge increased 4.8%, or 5% on a same facility basis compared to the prior year. Aside from the previously mentioned volume increases, NPSR growth was impacted by improved rate and yield due to moderate inflationary increases in payor payments and a slight increase in the System's case mix index (which has been at historically high levels over the past year) due to higher-acuity patients, including COVID-positive patients, seeking care during the recent surge of the pandemic.
Total other operating revenue decreased by $97 million or 14.9% during the three months ended September 30, 2021, as compared to the same quarter in the prior year. The decrease in other operating revenue is primarily due to the previously mentioned decrease in CARES Act Provider Relief Funding recognized as compared to the prior period. Gains on sales, growth in pharmacy service lines and joint venture performance helped offset the decrease in Provider Relief Funds during Q1 FY22.

One-time gains on sale of assets of $78 million were recorded in other operating revenue during the three months ended September 30, 2021, representing an increase of $41 million over the prior year.

Pharmacy service revenue of $138 million increased 18.6% for the three months ended September 30, 2021, as compared to the same period in the prior year. Increased volume of retail operations, in-house processing of specialty pharmacy needs, and increased 340b volumes contributed to this increase in other operating revenue.

Unconsolidated joint venture performance of $70 million also improved 21.4% over the same quarter in the prior year.

Total Operating Expenses



Total operating expenses increased $419 million or 6.4% during the three months ended September 30, 2021, as compared to the same quarter in the prior year. Incremental pandemic-related salaries, wages, employee benefits, purchased services, and supply expenses contributed to the System's overall expense increase, along with other expected increases from normal operations as further discussed below. The System's focused efforts to manage non-patient-facing expenses such as travel and other variable expenses, while supporting the workforce to care for patients, continues to be a top priority.

The System experienced a 4.5% increase in cost per equivalent discharge during the three months ended September 30, 2021, primarily due to the increases in direct costs from the pandemic as previously discussed. The treatment of COVID positive patients through the recent surge has led to an increase in the average length of stay, along with increased caregiver compensation and supply costs.

Total salaries, wages and benefits increased $190 million, or 5.9%, for the three months ended September 30, 2021, compared to the same quarter in the prior year. The increase is primarily due to staffing challenges including increased utilization of contract and premium labor and market wage adjustments as a result of the additional COVID surges for the pandemic along with onboarding additional physicians.

Purchased services increased $89 million, or 12.6%, for the three months ended September 30, 2021, as compared to the same quarter in the prior year as increased volumes and NPSR resulted in higher outsourced revenue cycle fees and purchased medical services.

Supply expenses increased $70 million, or 7.1%, during the three months ended September 30, 2021, as compared to the same period in the prior year. Increased inpatient COVID census seen during the pandemic surges resulted in the use of more costly pharmaceuticals, COVID-related lab and testing supplies, as well as increased use of personal protective equipment, contributing to a ~70% increase in COVID-related supplies over the same quarter in the prior year. Other increases in supplies were driven by volume increases.

Other operating expenses (includes professional fees, insurance, provider tax, income tax and other operating expenses) increased $70 million, or 4.4%, for the three months ended September 30, 2021, as compared to the same quarter in the prior year due to an increase in cost of goods sold associated with the increased pharmacy revenue discussed above, increased physician fees and insurance expenses.

Non-Operating Income - Investment Return

Substantially all the System's cash and investments are invested in a broadly diversified portfolio that is managed by Ascension Investment Management (AIM), a wholly owned subsidiary of Ascension. Total net investments under management by AIM, including non-Ascension investors, were $50.1 billion at September 30, 2021.

Ascension's long-term investment pools, excluding noncontrolling interests and long-term investments held by self-insurance programs, experienced volatility and moderation with a return of 1.5% during the three months ended September 30, 2021. While the net return for the three months ended September 30, 2021 was $33 million, investment income in the same quarter of the prior fiscal year was $1.3 billion.

Financial Position

Ascension's balance sheet and liquidity levels remain strong with more than sufficient liquidity to continue to provide care for patients, despite the economic challenges resulting from the pandemic. The following table reflects selected financial information on a consolidated basis.

	9/30/2021	6/30/2021
Current Assets	$ 5,951	$ 5,981
Long-Term Investments	26,588	26,768
Property and Equipment	11,017	11,067
Other Assets	4,563	4,583
Total Assets	**$ 48,119**	**$ 48,399**

	9/30/2021	6/30/2021
Current Liabilities	$ 7,495	$ 7,244
Long-Term Liabilities	11,537	11,879
Total Liabilities	19,032	19,123
Net Assets	29,087	29,276
Total Liabilities and Net Assets	**$ 48,119**	**$ 48,399**

Financial Assets and Liquidity Resources

The System's cash and investment position remains strong and includes highly liquid investments. Net unrestricted cash and investments were $23.3 billion at September 30, 2021, which is approximately 48% of the System's total assets. The System's days cash on hand was 325 days as of September 30, 2021, as further discussed below.

Additionally, Ascension maintains two lines of credit, totalling $600 million. As of September 30, 2021, there were no outstanding borrowings under either line of credit. Both lines of credit are committed through December 1, 2021. The System also has access to a $1.0 billion taxable commercial paper program.

During fiscal year 2020, Ascension applied for and received approximately $2.0 billion of Medicare Advance Payments. The advanced payments are recorded within long-term investments and current and long-term liabilities on the System's Consolidated Balance Sheets. Medicare Advance Payments represent approximately 21 and 26 days cash as of September 30, 2021, and June 30, 2021, respectively. In addition, Ascension has deferred employer payroll tax payments pursuant to the Paycheck Protection Program and Health Care Enhancement Act that represent approximately 5 days cash in both periods.

In accordance with the terms and conditions of the Medicare Advance Payment program, recoupments of approximately $263 million occurred during the three months ended September 30, 2021 with a total of $462 million recouped to date.

Balance Sheet Ratios

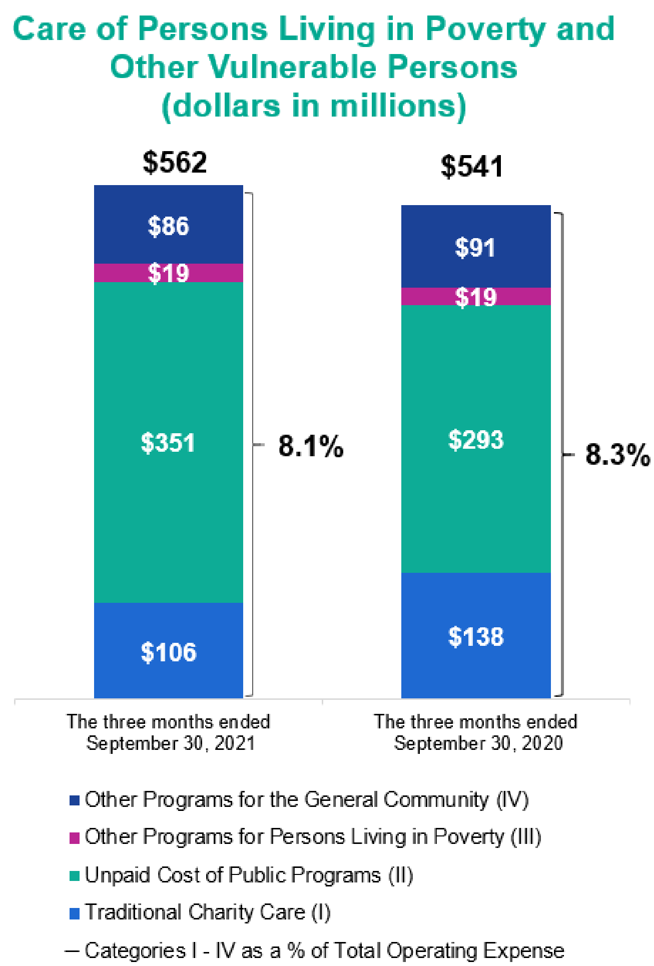
	9/30/2021	6/30/2021
Days Cash on Hand	325	341
Net Days in Accounts Receivable	48.7	47.3
Cash-to-Debt	310.1%	315.2%
Total Debt to Capitalization	22.5%	22.6%
Debt Service Coverage	12.11	11.04

The System's Master Trust Indenture requires Ascension to maintain an annual debt service coverage ratio of 1.10 and Ascension was well above this covenant at September 30, 2021.

Net days in accounts receivable increased slightly from 47.3 days at June 30, 2021, to 48.7 days at September 30, 2021.

Care of Persons Living in Poverty and Community Benefit

Ascension provided $0.6 billion in Care of Persons Living in Poverty and Other Community Benefit Programs for the three months ended September 30, 2021. Through programs, donations, health education, trauma programs, free care and more, the organization's uncompensated care and other community benefits fulfill unmet needs in the communities we serve.



The total cost of providing care to persons living in poverty and other community benefit programs increased as compared to the same period in the prior year, primarily due to an increase in patient volumes, particularly for patients insured through public programs. As discussed above, the System experienced an increase in emergency room volumes driven by the additional pandemic surges and continued recovery of other volumes from the pandemic period during Q1 FY22. The emergency room has historically served as the primary entry point to health care for uninsured populations, patients qualifying for charity care and patients insured through public programs.

The System experienced an increase in Medicaid gross charges and equivalent discharges throughout the three months ended September 30, 2021 compared to the same quarter in the prior year. Such increases further contributed to a decrease in the System’s traditional charity care provided during the three months ended September 30, 2021, as compared to the same period in the prior year as more patients were eligible and shifted to public programs (i.e., Medicaid) in select markets.

The System continues to deliver compassionate, personalized care to all, with special attention to persons living in poverty and those most vulnerable, despite the continued pandemic-related challenges experienced during the three months ended September 30, 2021.