MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR ASCENSION

As of and for the year ended

June 30, 2016 and 2015

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) that enables users of the System's financial statements to better understand the System's operations, to enhance the System's overall financial disclosures, to provide the context within which the System's financial information may be analyzed, and to provide the System's financial condition, results of operations and cash flows. Unless otherwise indicated, all financial and statistical information included herein relates to continuing operations. MD&A, which should be read in conjunction with the accompanying Consolidated Financial Statements and Supplementary Information, includes the following sections:

- Strategies Driving Our Growth
- Results of Operations — Consolidated
- Results of Operations — Same Facility Basis
- Liquidity and Capital Resources

STRATEGIES DRIVING OUR GROWTH

With a focus on sustaining and growing the business, Ascension continues to create unique collaborative relationships, divesting specific assets and developing relationships with new partners. The organization is focused on ongoing efforts to sustain and grow our service areas, work collaboratively across the nation and care for all, with special attention to persons living in poverty and those most vulnerable.

Ascension Holdings

During the fourth quarter, Ascension reached an agreement with TowerBrook Capital Partners (TowerBrook) designed to invest in and strategically develop the Ascension Holding's subsidiary TriMedx, an independent market leader in the provision of healthcare technology management services to both healthcare providers and medical equipment and device manufacturers. Under the agreement, TriMedx and several related subsidiaries became an independent business owned by Ascension and TowerBrook through a new partnership vehicle.

As part of the transaction, Ascension has entered into a new long-term customer contract with TriMedx for the provision of clinical engineering and other healthcare technology asset management services at Ascension sites of care.

TriMedx started in 1998 as a small biomedical engineering department of Ascension's St. Vincent Hospital in Indianapolis focused on reducing expenses, optimizing service and equipment uptime to help ensure the quality of care, as well as enhancing the patient experience. The company is now a leading independent, provider-driven healthcare technology management organization. Today, TriMedx serves more than 1,800 healthcare providers across 28 states including all Ascension hospitals and related facilities.

RESULTS OF OPERATIONS – CONSOLIDATED

The following table reflects summary financial information, on a consolidated basis.

Financial Data (in millions)

	June 30, 2016	June 30, 2015		June 30, 2016	June 30, 2015
Current Assets	$ 5,393	$ 5,028	Current Liabilities	$ 5,394	$ 4,739
Long-Term Investments	15,069	14,991	Long-Term Liabilities	8,482	7,173
Property and Equipment	9,020	8,274	Total Liabilities	13,876	11,912
Other Assets	2,987	2,552	Net Assets	18,593	18,933
Total Assets	$ 32,469	$ 30,845	Total Liabilities and Net Assets	$ 32,469	$ 30,845

Financial Data (in millions)

	Year ended June 30, 2016	Year ended June 30, 2015
Care of Persons Living in Poverty and Other Community Benefit (at cost)	$ 1,817	$ 1,910
Total Operating Revenue	21,898	20,539
Income from Recurring Operations	997	846
Income from Operations	753	697
Net Income	478	638

Operating results reflect the System's continued operational improvement initiatives and focus on centralization, standardization, joint venture creation and synergistic mergers of new entities and divestitures of entities that are no longer congruent with the System's strategic goals. On a consolidated basis, recurring operating margin, excluding self-insurance trust fund (SITF) investment return, was 4.6% for the year ended June 30, 2016, as compared to 4.1% for the year ended June 30, 2015. The primary drivers for the increase in the recurring operating margin, excluding SITF investment return, for the year ended June 30, 2016, as compared to the prior year include:

- An increase in net patient service revenue with growth in same facility net patient service revenue per equivalent discharge of 2.8% outpacing same facility cost per equivalent discharge of 2.7%.
- Overall expense management with a significant decrease in employee benefits expense, excluding entities acquired during the current year, of $49.5 million, or 2.9% primarily due to a decrease in health insurance expense, reflecting ongoing focus on care management, wellness, and plan design.
- The creation of new joint ventures and sale of certain operating assets including TriMedx and various home health operations.

Net Patient Service Revenue and Volume Trends

Net patient service revenue, less provision for doubtful accounts, increased $1.4 billion or 7.5%, as compared to the prior year. Net patient service revenue per equivalent discharge increased 2.2% compared to the prior year primarily due to the overall mix of services provided. The case mix index increased to 1.61 for the year ended June 30, 2016, compared to 1.55 for the prior year, an increase of 3.9%. The percentage of gross patient service revenue from governmental payors has increased while the percentage from self-pay and other payors has decreased for the year ended June 30, 2016 compared to the prior year. Expanded medical insurance coverage has been made available through the Affordable Care Act (ACA) and Medicaid expansion in Arizona, Arkansas, Connecticut, Illinois, Indiana, Louisiana, Maryland, Michigan, Minnesota, New York, Pennsylvania, Washington and the District of Columbia.

For the year ended June 30, 2016, equivalent discharges increased 5.1% as compared to the prior year. Additionally, inpatient admissions, inpatient surgeries, observation days, and emergency room visits have increased 3.2%, 3.3%, 5.7%, and 3.7%, respectively, as compared to the prior year. The increase in volumes is primarily due to the addition of Wheaton Franciscan Healthcare – Southeast Wisconsin, Inc. (Wheaton) facilities in Wisconsin, as well as hospitals acquired in Michigan and Tennessee, during the year ended June 30, 2016. Excluding these recently acquired facilities, equivalent discharges, inpatient surgeries and observation days increased 0.9%, 0.6%, and 2.2%, respectively, while inpatient admissions and emergency room visits decreased 0.2% and 0.9%, respectively.

For the year ended June 30, 2016, outpatient volumes, excluding home health visits, increased 8.0% compared to the prior year primarily due to the previously mentioned merger of hospitals in Wisconsin, Michigan and Tennessee. Excluding these recently acquired facilities, outpatient visits increased 4.1% due to increases in outpatient surgical visits, physician office visits, clinic visits, behavioral health and urgent care center visits primarily due to the transition to delivering healthcare services in the outpatient setting. Due to the contribution of Ascension Health's home health, hospice and other related services to an unconsolidated joint venture with Evolution Health, LLC throughout fiscal years 2015 and 2016, home health visits decreased 41.5% for the year ended June 30, 2016, compared to the prior year.

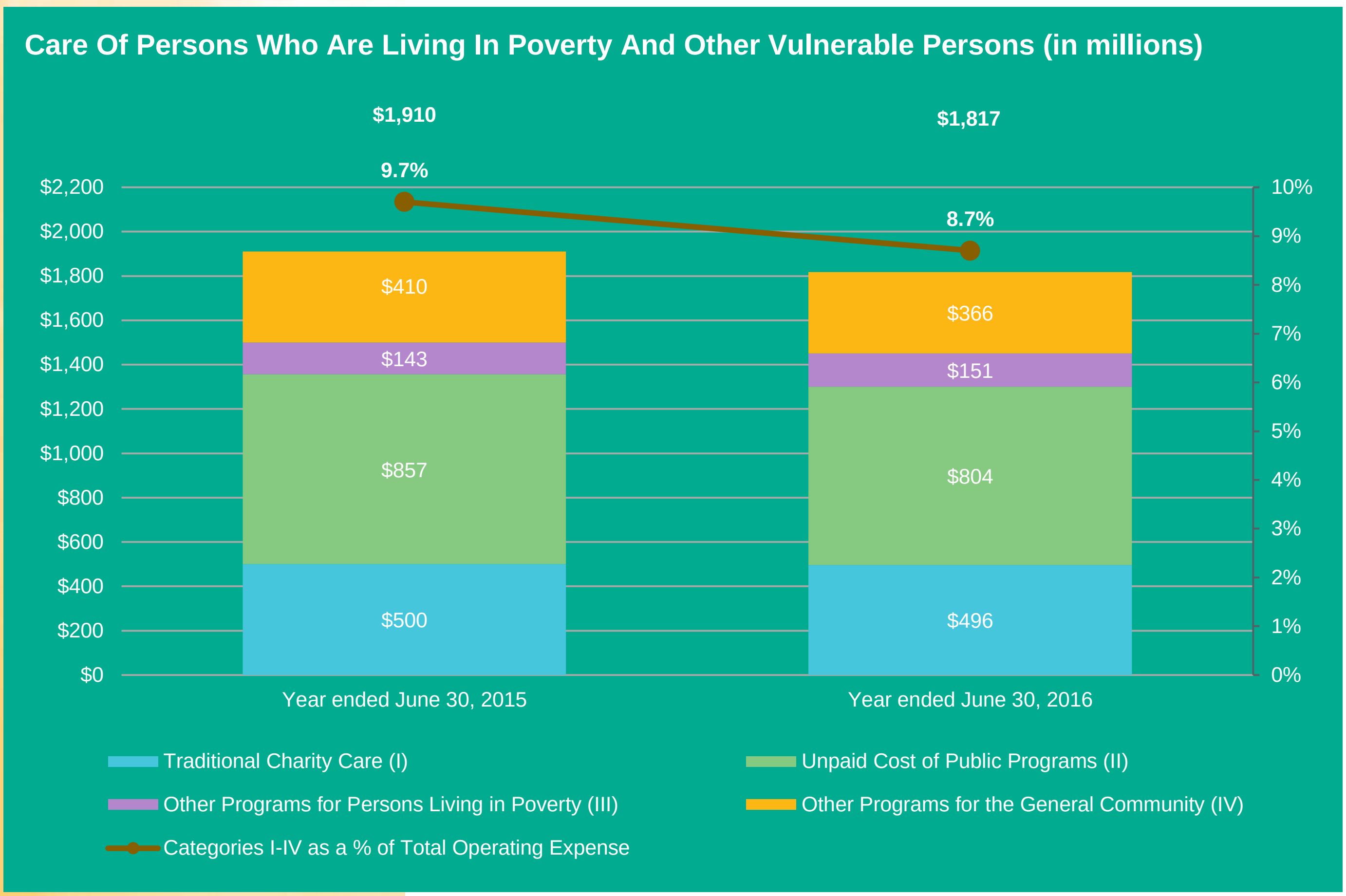
The following table reflects certain patient volume information and key performance indicators, on a consolidated basis, for the years ended June 30, 2016 and 2015.

Volume Trends and Key Performance Indicators

	Year ended June 30,	
	2016	**2015**
Volume Trends		
Equivalent Discharges	1,597,177	1,519,236
Total Admissions	777,593	753,748
Case Mix Index	1.61	1.55
Acute Average Length of Stay (days)	4.54	4.57
Observation Days	316,804	299,620
Emergency Room Visits	3,007,923	2,899,850
Surgical Visits (IP & OP)	630,514	603,986
Physician Office Visits	11,159,811	10,317,600
Key Performance Indicators		
Recurring Operating Margin	4.5%	4.0%
Recurring Operating Margin, Excluding SITF Investment Return	4.6%	4.1%
Recurring Operating EBITDA Margin	10.1%	9.7%
Operating Margin	3.4%	3.4%
Operating EBITDA Margin	9.1%	9.0%

Uncompensated Care

National health care reform and the expansion of coverage have led to a reduction in total uncompensated care. As previously discussed, expanded medical insurance coverage has been made available through the ACA and Medicaid expansion. Traditional charity care costs have decreased for the year ended June 30, 2016, as compared to the prior year primarily due to a $28 million decrease at Ascension facilities in states that have expanded Medicaid. The unpaid cost of public programs for persons living in poverty (Category II) decreased $53 million, or 6.2%, for the year ended June 30, 2016 as compared to the prior year primarily due to supplemental payments from Medicaid expansion programs and the divestiture of certain entities during the current fiscal year. Spending for other health programs for persons living in poverty (Category III) and other community benefits (Category IV) decreased 6.5% as compared to the prior year primarily due to more efficient and lower cost methods for delivering community benefit programs along with improved reimbursement for certain trauma programs.



RESULTS OF OPERATIONS – SAME FACILITY BASIS[1]

Recurring Operations[1]

Net patient service revenue, less provision for doubtful accounts, increased $698.1 million, or 3.7%, as compared to the prior year. Net patient service revenue per equivalent discharge increased 2.8% while equivalent discharges increased 0.9%. The increase in net patient service revenue per equivalent discharge is primarily due to the increase in case mix index and greater intensity of services provided. In addition, the percentage of gross patient service revenue from governmental payors has increased while the percentage from self-pay and other payors has decreased for the year ended June 30, 2016, compared to the prior year. Other revenue increased $149.5 million, or 10.0%, as compared to the prior year primarily due to net gains on sales of assets and an increase in income from unconsolidated entities throughout the System.

Total operating expenses increased $704.4 million, or 3.6%, as compared to the prior year primarily due to the following:

- Salaries, wages and employee benefits increased $162.5 million, or 1.6%, as compared to the prior year, primarily due to moderate wage increases partially offset by a decrease in employee health insurance benefit expense.
- Purchased services expense increased $211.8 million, or 17.0%, as compared to the prior year primarily due to several markets transitioning to a third-party contractor to provide dietary and housekeeping services at a reduced rate with a reduction in salaries and wages for these departments. One-time costs to implement a common practice management software platform for physician practices designed to reduce the cost to collect on patient accounts in the future were also incurred this past year. Additionally, there was an increase in purchased medical services for Senior Living facilities (reclassed from other expenses in prior year).
- Supplies expense increased $97.4 million, or 3.4%, as compared to the prior year primarily due to increasing specialty and generic drug pricing and higher intensity service mix as demonstrated by the previously mentioned increase in case mix index.
- Other expenses increased $117.6 million, or 4.7%, compared to the prior year primarily due to an increase in state sponsored provider tax expenses primarily in Indiana, Connecticut and Texas. The increase in total provider tax expenses are partially offset by an increase in reimbursement received in connection with provider tax programs which is included in total operating revenue. Additionally, there was an increase in information technology related costs.

[1]Amounts are on a same facility basis, which is the System excluding Wheaton and certain other facilities which do not have comparable operation periods in the prior year. Additionally, Network Health Plan was partially sold and deconsolidated as of November 1, 2014, and results of operations are excluded for the year ended June 30, 2015.

Impairment, Restructuring and Nonrecurring Losses[1]

Net impairment, restructuring and nonrecurring losses were $223.6 million for the year ended June 30, 2016, as compared to a loss of $134.0 million during the year ended June 30, 2015. Losses for the year ended June 30, 2016, were primarily due to $129.5 million in expenses associated with the continued implementation of the System's ERP system (Symphony), one-time termination and other restructuring expenses of $68.9 million, impairment charges of $14.1 million and other nonrecurring expenses of $11.1 million. Losses for the year ended June 30, 2015, were primarily due to $100.5 million in Symphony expenses, one-time termination and other restructuring expenses of $11.3 million, impairment expenses of $19.2 million and other nonrecurring expenses of $3.0 million.

Investment Return – consolidated basis

For the year ended June 30, 2016, Ascension's long-term investments, excluding pension trust assets, non-controlling interests and long-term investments held by self-insurance programs, experienced a loss of 2.6%, compared to a relatively flat return for the year ended June 30, 2015. Substantially all of 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. The System has maintained a consistent investment strategy during the current fiscal year.

Total net investments under management by AIM are $32.7 billion and $30.8 billion at June 30, 2016 and 2015, respectively. Of the total net investments under AIM management, $14.2 billion are included in the total consolidated net assets of the System at June 30, 2016, compared to $14.0 billion at June 30, 2015.

Excess of Revenues and Gains over Expenses and Losses – consolidated basis

The excess of revenues and gains over expenses and losses were $477.7 million and $637.8 million for the years ended June 30, 2016 and 2015, respectively. The decrease is primarily due to the previously mentioned unfavorable investment returns partially offset by $305.0 million in contributions from business combinations during the year ended June 30, 2016, due to the merger of facilities in Wisconsin and Michigan.

[1]Amounts are on a same facility basis, which is the System excluding Wheaton and certain other facilities which do not have comparable operation periods in the prior year. Additionally, Network Health Plan was partially sold and deconsolidated as of November 1, 2014, and results of operations are excluded for the year ended June 30, 2015.

LIQUIDITY AND CAPITAL RESOURCES

The System had net unrestricted cash and investments of $13.6 billion at June 30, 2016 compared to $13.1 billion at June 30, 2015. The increase is primarily due to the merger of Wheaton, offset by investment losses and capital purchases during the year ended June 30, 2016.

Days cash on hand decreased 18 days from June 30, 2015, to June 30, 2016, and increased 5 days during the current quarter primarily due to items previously mentioned. Net days in accounts receivable was 48 days at June 30, 2016 and 2015.

Cash-to-senior debt and cash-to-debt remain strong at 198.1% and 188.6%, respectively, at June 30, 2016. Debt to capitalization was 30.4% at June 30, 2016.

Balance Sheet Ratios

	June 30,	
	2016	**2015**
Days Cash on Hand	236	254
Net Days in Accounts Receivable	48	48
Cash-to-Senior Debt	198.1%	232.8%
Cash-to-Debt (Senior and Subordinated)	188.6%	209.0%
Senior Debt to Capitalization	29.3%	25.2%
Total Debt to Capitalization	30.4%	27.2%