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

As of and for the nine months ended March 31, 2017 and 2016

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

Ascension is driven by the changing consumer landscape to put our patients and their needs first. Providing care for all persons where, how and when they need it – that is the organization's unique and special calling.

Ascension caregivers are evolving from treating people when they are sick to being a partner in the well-being of individuals. The organization is measuring not only the volume of care we deliver, but also the value we provide and the quality outcomes to patients.

Over the last two years Ascension has chosen to invest more heavily in outpatient assets to build out our clinically integrated systems of care including, but not limited to, expansion of primary care, urgent care and large outpatient centers (which contain MOBs, imaging, lab, etc.). Investments in these areas will not only position Ascension to successfully transition to value when necessary but also succeed in the current market as the outpatient industry is growing significantly while the inpatient industry is showing signs of slowing.

Ascension is also actively creating unique relationships, divesting specific assets and acquiring new partners — working collaboratively across our national ministry to provide care for all, with special attention to persons living in poverty and those most vulnerable.

St. Joseph Regional Medical Center and Lourdes Health Network (Lewiston, Idaho and Pasco, Washington)

Ascension continues to support activity toward the transfer of St. Joseph Regional Medical Center, located in Lewiston, Idaho, and Lourdes Health Network, located in Pasco, Washington, from Ascension to RCCH HealthCare Partners (RCCH). The transaction aims to best ensure the health care needs of the community continue to be served well into the future and give the ability to faithfully serve individuals in the community. A definitive agreement was reached in September 2016 for the acquisition of the community hospitals by RCCH. The transaction with St. Joseph Regional Medical Center closed on April 30, 2017 and the transaction with Lourdes Health Network is expected to close by the end of calendar year 2017.

Saint Joseph Hospital (Marshfield, Wisconsin)

Ascension has signed a definitive agreement on the transfer of ownership of Saint Joseph Hospital in Marshfield, part of Ascension Wisconsin, to the Marshfield Clinic Health System. The transaction is expected to close in the fourth quarter of fiscal year 2017.

RESULTS OF OPERATIONS – CONSOLIDATED

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

Financial Data (in millions)

	March 31, 2017	June 30, 2016		March 31, 2017	June 30, 2016
Current Assets	$ 5,251	$ 5,393	Current Liabilities	$ 4,796	$ 5,394
Long-Term Investments	16,702	15,069	Long-Term Liabilities	8,737	8,446
Property and Equipment	8,967	9,020	Total Liabilities	13,533	13,840
Other Assets	2,995	2,951	Net Assets	20,382	18,593
Total Assets	$ 33,915	$ 32,433	Total Liabilities and Net Assets	$ 33,915	$ 32,433

Financial Data (in millions)

	Nine months ended March 31,	
	2017	2016
Care of Persons Living in Poverty and Other Community Benefit (at cost)	$ 1,292	$ 1,218
Total Operating Revenue	17,088	16,091
Income from Recurring Operations	718	615
Income from Operations	642	456
Net Income (Loss)	1,545	(67)

Operating results reflect the System's continued operational improvement initiatives and focus on consolidation, 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, including self-insurance trust fund (SITF) investment return was 4.4% for the nine months ended March 31, 2017, as compared to 3.6% for the nine months ended March 31, 2016. The primary drivers for the increase in the recurring operating margin for the nine months ended March 31, 2017, as compared to the same period in the prior year include:

- An increase in net patient service revenue, less provision for doubtful accounts, of $990.0 million, or 6.6%, as compared to the same period in the prior year as further discussed below.
- A 1.5% growth in net patient service revenue per equivalent discharge while managing growth in the cost per equivalent discharge to a moderate 0.7%,
- Additional gain on sale recorded related to certain attributes of the sale of half of Ascension's interest in TriMedx that occurred in May 2016 and certain other gains on sales of other assets, and
- Favorable investment returns for the self-insurance trust fund.

Net Patient Service Revenue and Volume Trends

For the nine months ended March 31, 2017, net patient service revenue, less provision for doubtful accounts, increased $990.0 million or 6.6%, as compared to the same period in the prior year primarily due to the addition of Wheaton Franciscan Healthcare – Southeast Wisconsin, Inc. (Wheaton) facilities, effective March 1, 2016. Net patient service revenue per equivalent discharge increased 1.5% compared to the same period in the prior year primarily due to higher intensity medical cases with increased volume of cardiac related procedures and organ transplants, and supplemental payments received in certain markets for Medicaid Disproportionate Share Hospital (DSH) programs. The case mix index increased 1.9% to 1.63 for the nine months ended March 31, 2017, compared to 1.60 for the prior year.

The percentage of gross patient service revenue from governmental payors has increased for the nine months ended March 31, 2017, compared to the same period in the prior year.

For the nine months ended March 31, 2017, equivalent discharges increased 5.0% as compared to the same period in the prior year. Additionally, inpatient admissions, inpatient surgeries, outpatient surgeries, observation days, and emergency room visits have increased 3.3%, 1.8%, 1.6%, 2.6%, and 7.0%, respectively, as compared to the same period in the prior year. The increase in volumes is primarily due to the previously mentioned addition of Wheaton. On a same facility basis, equivalent discharges, inpatient admissions, inpatient surgeries, outpatient surgeries, and observation days decreased 0.8%, 1.3%, 1.4%, 2.6%, and 2.1%, respectively, while emergency room visits increased 0.6%.

For the nine months ended March 31, 2017, gross patient service revenue from outpatient services increased to 51.6% of total gross patient service revenue compared to 50.7% for the same period in the prior year. Outpatient volumes increased 5.3% compared to the same period in the prior year primarily due to the addition of Wheaton. On a same facility basis, outpatient visits decreased 1.7% primarily due to a decrease in home health visits. Due to the contribution of Ascension

Healthcare's home health, hospice and other related services to an unconsolidated joint venture with Evolution Health, LLC during fiscal years 2016 and 2017, home health visits decreased 75.3% for the nine months ended March 31, 2017, compared to the same period in the prior year. Ascension records 50% of the income from the Ascension at Home joint venture. Excluding home health visits, same facility outpatient visits remained relatively flat.

The following table reflects certain patient volume information and key performance indicators, on a consolidated basis, for the nine months ended March 31, 2017 and 2016.

Volume Trends and Key Performance Indicators

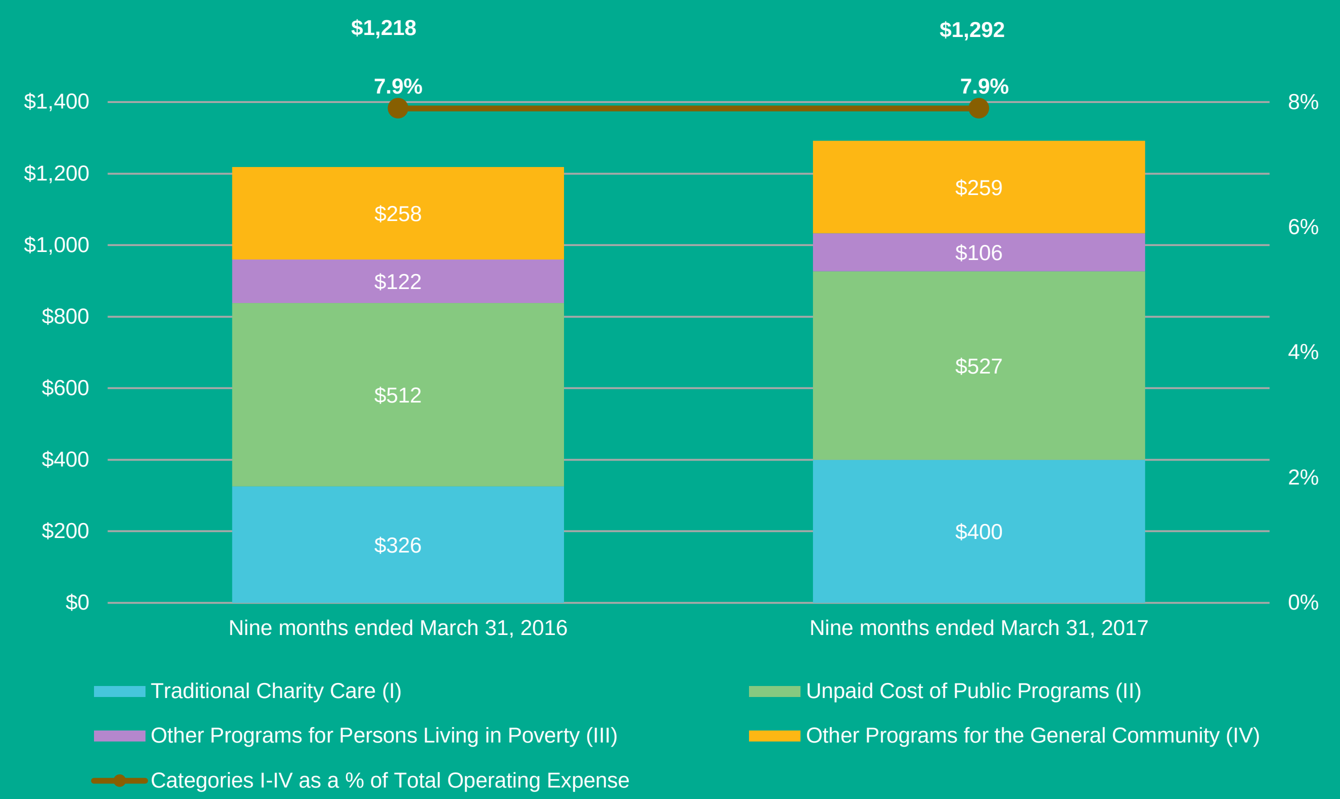
	Nine months ended March 31,	
	2017	**2016**
Volume Trends		
Equivalent Discharges	1,238,956	1,179,539
Total Admissions	597,034	578,216
Case Mix Index	1.63	1.60
Acute Average Length of Stay (days)	4.54	4.55
Observation Days	240,555	234,567
Emergency Room Visits	2,376,537	2,221,163
Surgical Visits (IP & OP)	475,628	467,740
Physician Office Visits	8,974,638	8,112,060
Key Performance Indicators		
Recurring Operating Margin, including SITF investment return	4.4%	3.6%
Recurring Operating EBITDA Margin	10.1%	9.3%
Operating Margin	3.8%	2.8%
Operating EBITDA Margin	9.5%	8.5%

Uncompensated Care

The total cost of providing care to persons living in poverty and other community benefit programs increased $74 million or 6.1% as compared to the same period in the prior year, partly due to costs reported from Wheaton and other facilities acquired during fiscal year 2016.

The most significant increase was in the cost of charity care provided increased $74 million, or 22.7%, primarily due to more patients qualifying for charity at certain health ministries and the previously mentioned addition of Wheaton facilities.

Care Of Persons Who Are Living In Poverty And Other Vulnerable Persons (in millions)



RESULTS OF OPERATIONS – SAME FACILITY BASIS[1]

Recurring Operations[1]

Net patient service revenue, less provision for doubtful accounts, increased $178.8 million, or 1.2%, as compared to the same period in the prior year. Net patient service revenue per equivalent discharge increased 2.0% while equivalent discharges decreased 0.8%. The increase in net patient service revenue per equivalent discharge is primarily due to the 2.1% increase in case mix index reflecting higher intensity of services provided and supplemental payments received in certain markets for Medicaid Disproportionate Share Hospital (DSH) programs. The growth of net patient service revenue per equivalent discharge of 2.0% outpaced the growth in operating expenses per equivalent discharge of 1.9% for the nine month period primarily due to management's continued efforts toward operational improvements and focus on consolidation and standardization.

Total operating expenses increased $163.2 million, or 1.1%, as compared to the prior year primarily due to the following:

- Purchased services and professional fees increased $122.0 million, or 5.7%, as compared to the same period in the prior year primarily due to an increase in revenue cycle management fees as the System is transitioning all hospitals to a single common revenue cycle process and an increase in physician related fees. The increase in revenue cycle management fees is offset by a decrease in salaries and wages as employees transition to the third party vendor.
- Salaries, wages and employee benefits decreased $6.7 million, or 0.1%, as compared to the same period in the prior year, primarily due to a decrease in total employed full time equivalents and contract labor, partially due to the previously mentioned transition to a third party vendor for revenue cycle services. The decrease in salaries, wages, and employee benefits is partially offset by wage increases and an increase in employee health insurance expense primarily due to rising pharmacy prices.

  Salaries, wages and employee benefits also decreased as a percentage of net patient service revenue from 59.3% for the nine months ended March 31, 2016 to 59.1% for the nine months ended March 31, 2017, representing a 0.3% improvement.

Impairment, Restructuring and Nonrecurring Losses – consolidated basis

Net impairment, restructuring and nonrecurring losses were $107.6 million for the nine months ended March 31, 2017, as compared to a loss of $125.9 million during the nine months ended March 31, 2016. Losses for the nine months ended March 31, 2017, were primarily due to $78.9 million in expenses associated with the continued implementation of the System's ERP system (Symphony), one-time termination and other restructuring expenses of $42.2 million, and other nonrecurring expenses of $26.3 million partially offset by a pension curtailment gain of $39.8 million at Wheaton.

[1]Amounts are on a same facility basis, which is the System excluding Wheaton, TriMedx and certain other facilities which do not have comparable operation periods during the nine months ended March 31, 2017 and 2016.

Investment Return – consolidated basis

Ascension's long-term investments, excluding noncontrolling interests and long-term investments held by self-insurance programs, experienced a return of investment of 7.3%, or $970.9 million, for the nine months ended March 31, 2017. 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.

Total net investments under management by AIM are $34.4 billion and $33.1 billion at March 31, 2017, and June 30, 2016, respectively. Of the total net investments under AIM management, $15.3 billion are included in the total consolidated net assets of the System at March 31, 2017, compared to $14.2 billion at June 30, 2016.

LIQUIDITY AND CAPITAL RESOURCES

Net unrestricted cash and investments for the System increased from $13.6 billion at June 30, 2016 to $14.3 billion at March 31, 2017. Additionally, days cash on hand increased 15 days from June 30, 2016, to March 31, 2017. The increases are primarily due to investment gains and cash generated from operations partially offset by lower than expected capital purchases and principal payments made on debt during the nine months ended March 31, 2017. Net days in accounts receivable improved from 48 days at June 30, 2016 to 47 days at March 31, 2017.

Cash-to-senior debt and cash-to-debt remain strong at 207.9% and 203.5%, respectively, at March 31, 2017, representing increases from June 30, 2016. Both senior debt and total debt to capitalization have also improved, decreasing from 29.3% and 30.2%, respectively, at June 30, 2016, to 27.7% and 28.1%, respectively, at March 31, 2017.

Balance Sheet Ratios

	March 31, 2017	June 30, 2016
Days Cash on Hand	252	237
Net Days in Accounts Receivable	47	48
Cash-to-Senior Debt	207.9%	198.4%
Cash-to-Debt (Senior and Subordinated)	203.5%	189.6%
Senior Debt to Capitalization	27.7%	29.3%
Total Debt to Capitalization	28.1%	30.2%