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

As of and for the year ended June 30, 2015 and 2014

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
- Liquidity and Capital Resources

STRATEGIES DRIVING OUR GROWTH

As the healthcare environment continues to evolve and respond to patient needs for personalized care, Ascension is working to align its health systems across the country — connecting patients to the services they need and creating an integrated, tailored patient experience. That means transitioning Ascension from an acute care delivery organization to a healthcare organization — moving away from treating persons only when they are sick and focusing on supporting the long-term health of the individual.

A key strategy to achieve the personalized, compassionate care needed to reach that goal involves developing local or regional networks to improve communication, collaboration and sharing of data to support more seamless care for those whom Ascension serves.

After completing a strategic positioning assessment of each of our markets, Ascension has been working to restructure the business into regional clinically integrated systems of care — by acquiring new entities, divesting specific assets, and creating unique partnerships.

Ascension is adding hospital systems in Michigan and Tennessee to extend its network in those regions, supplementing existing locations and adding complementary services. At the same time, Ascension is transitioning systems in Arizona, New York, Washington and Idaho to new ownership — re-focusing on existing communities where Ascension can have the greatest impact.

Ascension is identifying unique partnerships and finding innovative ways to collaborate. AMITA Health was formed through a joint operating agreement between Ascension Health, Ascension's subsidiary that contains its healthcare delivery system, and Adventist Health System, creating an integrated health delivery system which is now the third-largest health system in Illinois. In Wisconsin, Ascension is working through its joint venture, Network Health, Inc., to expand insurance services in the state to offer both fully-insured and self-funded plans to large employers.

Ascension continues to work toward healthcare transformation to become a healthcare system that rewards providers for value, rather than volume. With the recent acquisition of U.S. Health Holdings, Ltd., a Michigan-based corporation that provides life, accident and health related insurance policies and third-party claims administration, Ascension is better positioned to manage the health of populations in the future. Ascension has the opportunity to underwrite, process and finance healthcare services while at the same time coordinate care management — effectively minimizing life-long risk, reducing costs and improving value.

MissionPoint Health Partners, an Ascension subsidiary, is one example of how the organization is incubating new ideas to manage the health of populations. MissionPoint has been growing its business around data analytics to identify accountable care organization (ACO) members in need of the most intensive medical interventions and care coordination. MissionPoint has had early success managing commercial, Medicare, Medicaid and marketplace populations.

By transforming the organization from an acute care delivery organization to a healthcare organization and creating new regional clinically integrated systems of care, Ascension aims to provide care for a person's life — from birth to death — working to keep them as healthy as possible. This shift is essential to the long-term sustainability of Ascension and management's goal to provide personalized, compassionate, clinically integrated care for our patients. Only then can we improve health outcomes and patient experiences while lowering the overall cost of care.

RESULTS OF OPERATIONS – CONSOLIDATED

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

Financial Data (in millions)

	June 30, 2015	June 30, 2014		June 30, 2015	June 30, 2014
Current Assets	$ 4,635	$ 4,573	Current Liabilities	$ 4,688	$ 4,994
Long-Term Investments	15,052	15,327	Long-Term Liabilities	7,342	7,330
Property and Equipment	8,274	8,347	Total Liabilities	12,030	12,324
Other Assets	3,002	3,052	Net Assets	18,933	18,975
Total Assets	$ 30,963	$ 31,299	Total Liabilities and Net Assets	$ 30,963	$ 31,299

Financial Data (in millions)

	Year ended June 30,	
	2015	2014
Care of Persons Living in Poverty and Other Community Benefit (at cost)	$ 1,950	$ 1,821
Total Operating Revenue	20,539	19,902
Income from Recurring Operations	846	753
Income from Operations	697	599
Net Income	638	2,050

Operating results reflect the System's continued operating improvement initiatives and focus on centralization, standardization, synergistic acquisitions 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 4.1% for the year ended June 30, 2015, as compared to 3.8% for the year ended June 30, 2014. The primary drivers for the increase in the recurring operating margin, excluding SITF investment return, for the year ended June 30, 2015, as compared to the prior year include:

- An increase in net patient service revenue, less provision for doubtful accounts, of $1.1 billion or 6.1%, as compared to prior year as further discussed in this document.
- Focused efforts to increase productivity as evidenced by the decrease in FTEs per adjusted occupied bed from 4.45 for the year ended June 30, 2014, compared to 4.21 for the year ended June 30, 2015, a decrease of 5.4%.
- Management's efforts to manage expenses as further discussed in this document.
- The partial sale of and resulting deconsolidation of Network Health, Inc. in November 2014.

Net Patient Service Revenue and Volume Trends

For the year ended June 30, 2015, equivalent discharges increased 2.0% as compared to the prior year. While inpatient surgeries decreased 1.6%, inpatient admissions, observation days and emergency room visits increased 0.8%, 3.7% and 4.7%, respectively, as compared to the prior year. The increase in observation days is primarily due to increasing limitations on the admission of Medicare and Medicaid patients, due primarily to the Medicare "2-Midnight Rule." The inpatient admissions and emergency room visits have increased due in part to expanded insurance coverage as provided by the Patient Protection and Affordable Care Act (ACA).

While inpatient volumes remain relatively stable, outpatient volumes continue to grow. Outpatient visits increased 3.9% for the year ended June 30, 2015, as compared to the prior year primarily due to a 6.9% increase in physician office visits consistent with the transition to delivering healthcare services in the outpatient setting. Outpatient surgical, behavioral health and urgent care center visits also increased as compared to the prior year.

Net patient service revenue per equivalent discharge increased 4.1% compared to the prior year due to a favorable change in payor mix, overall mix of services provided and favorable rate negotiations in certain markets. Case mix increased to 1.55 for the year ended June 30, 2015 compared to 1.54 for the prior year, an increase of 0.6%.

The percentage of gross patient service revenue from governmental and commercial payors has increased while the percentage from self-pay has decreased for the year ended June 30, 2015, compared to the prior year. Expanded coverage has been made available through the ACA and Medicaid expansion in Arizona, Connecticut, Illinois, Indiana, Maryland, Michigan, New York, Washington and the District of Columbia. In Medicaid expansion states, Ascension facilities have experienced increases in Medicaid payor mix and a decline in uninsured patients. By comparison, in states where Medicaid has not expanded, Ascension facilities experienced a stable Medicaid payor mix, decreases in uninsured and increases in commercial payor mix, attributed to the state and federal exchanges. Of patients admitted for the year ended June 30, 2015 with coverage through the state and federal exchanges, more than half represent first time patients to Ascension facilities.

The following table reflects certain patient volume information and key performance indicators, on a consolidated basis, for the year ended June 30, 2015 and 2014.

Volume Trends and Key Performance Indicators

	Year ended June 30,	
	2015	**2014**
Volume Trends		
Equivalent Discharges	1,528,611	1,499,171
Total Admissions	758,399	752,199
Case Mix Index	1.55	1.54
Acute Average Length of Stay (days)	4.57	4.50
Observation Days	299,620	289,013
Emergency Room Visits	2,899,850	2,768,598
Surgical Visits (IP & OP)	603,986	600,248
Physician Office Visits	9,700,260	9,077,887
Key Performance Indicators		
Recurring Operating Margin	4.0%	4.1%
Recurring Operating Margin, excluding SITF investment return	4.1%	3.8%
Recurring Operating EBITDA Margin	9.7%	9.6%
Operating Margin	3.4%	3.0%
Operating EBITDA Margin	9.0%	8.5%

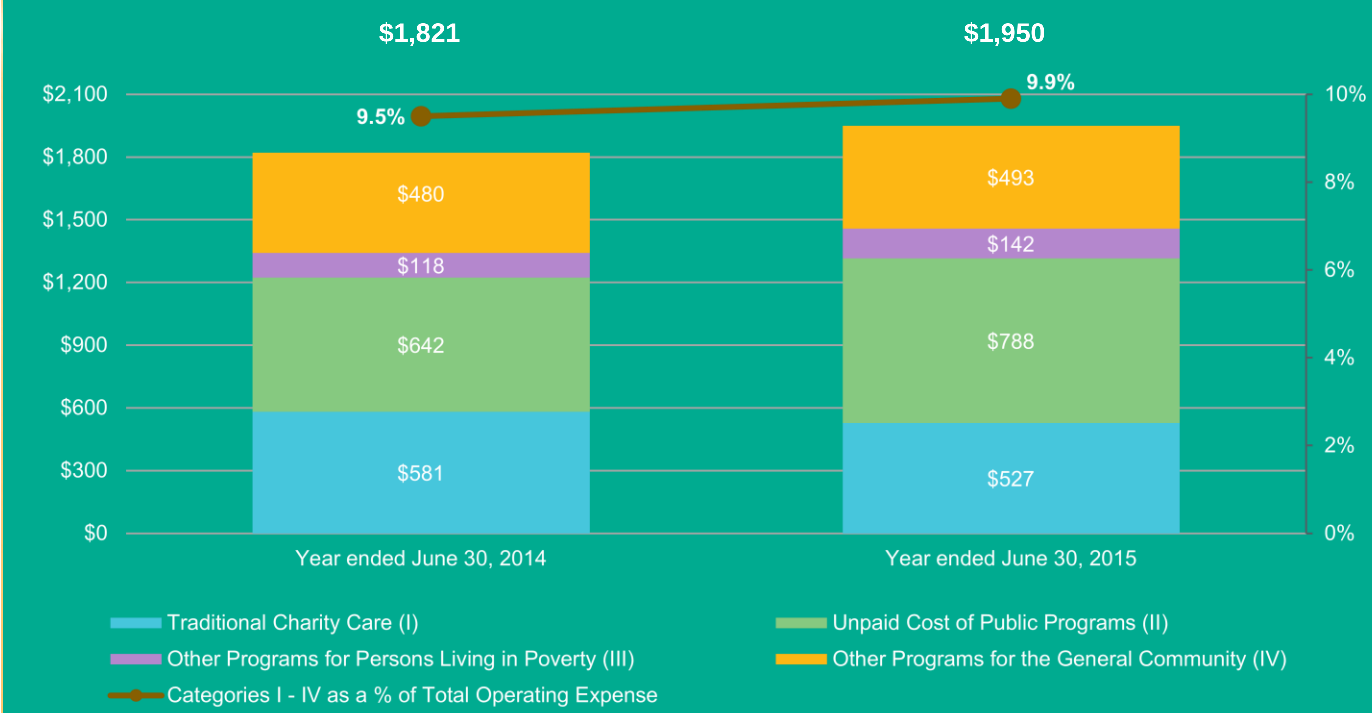
Uncompensated Care

The unreimbursed net cost of providing care to persons living in poverty and other community benefit programs increased $129 million, or 7.1%, for the year ended June 30, 2015, as compared to the prior year. Additionally, total net costs of providing care to persons living in poverty and other community benefit programs as a percentage of total operating expenses has increased to 9.9% for the year ended June 30, 2015, from 9.5% for the year ended June 30, 2014.

When comparing the year ended June 30, 2015 to the prior year, the System experienced decreases in the cost of providing traditional charity care and bad debt expense yet incurred a more substantial increase in unpaid costs of public programs for persons living in poverty, shifts primarily due to the expansion of coverage under the ACA. The unpaid cost of public programs for persons living in poverty, increased $146 million, or 22.7%, as compared to the prior year partially offset by a decrease in traditional charity care costs of $54 million, or 9.3%, primarily attributable to the expansion of Medicaid in certain states and improved processes for identifying patients qualifying for financial assistance. As compared to the prior year, bad debt expense decreased $162.4 million or 12.9% due to the previously mentioned expansion of coverage under the ACA, as well as successful collection efforts.

Other factors contributing to the increase in total community benefits costs are Ascension's increased investment in community health initiatives, subsidized trauma programs and the increasing unreimbursed costs of medical education programs.

Care of Persons Who are Living in Poverty and Other Vulnerable Persons (in millions)



Recurring Operations

For the year ended June 30, 2015:

As previously noted, net patient service revenue, less provision for doubtful accounts, increased $1.1 billion, or 6.1%, as compared to the prior year due primarily due to an increase in equivalent discharges, favorable changes in payor mix and an increase in case mix index. Other revenue decreased $440.9 million, or 19.8%, as compared to the prior year primarily due to selling a 50% share of Network Health, Inc., partially offset by increased revenues in the clinical engineering area and revenues from U.S. Health Holdings, Ltd., which was acquired in December 2014.

Total operating expenses increased $544.9 million, or 2.8%, as compared to the prior year primarily due to the following:

- Salaries, wages and employee benefits increased $423.2 million, or 4.3%, compared to the year ended June 30, 2014, due primarily to wage increases and moderate increases in employee benefit costs offset by increased productivity.
- Purchased services expense increased $72.2 million, or 6.1%, as compared to the prior year due primarily to the implementation of a common practice management software platform for physician practices resulting in reduced costs and improved collections on patient accounts. Other increases are due to the implementation of new billing systems at certain health systems. Increase in purchased services expenses are offset by realized savings through contract reviews and negotiations during fiscal year 2015.
- Supplies expense increased $128.0 million, or 4.6%, as compared to the prior year due primarily to increasing specialty and generic drug pricing and higher intensity service mix as demonstrated by the increase in case mix index. Supplies per equivalent discharge increased a moderate 3.1% as compared to the prior year in part due to successful supply chain management initiatives.
- Other expenses decreased $176.0 million, or 6.1%, compared to the prior year primarily due to a decrease in claims expense primarily due to the partial sale of Network Health, Inc.

Impairment, Restructuring and Nonrecurring Losses

Net impairment, restructuring and nonrecurring losses were $134.0 million for the year ended June 30, 2015, as compared to a loss of $220.9 million during the year ended June 30, 2014. Losses for the year ended June 30, 2015, were primarily due to $100.5 million in expenses associated with the continued implementation of the System's ERP system (Symphony), 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. Losses for the year ended June 30, 2014, were primarily due to $161.2 million in Symphony expenses, one-time termination and other restructuring expenses of $25.2 million, impairment expenses of $23.1 million, and other nonrecurring expenses of $11.4 million.

Investment Return

For the year ended June 30, 2015, Ascension's investment portfolio had a relatively flat return. 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 $30.8 billion and $29.6 billion at June 30, 2015 and 2014, respectively. Of the total net investments under AIM management, $14.0 billion are included in the total consolidated net assets of the System at June 30, 2015, compared to $14.1 billion at June 30, 2014.

LIQUIDITY AND CAPITAL RESOURCES

The System had net unrestricted cash and investments of $13.1 billion at June 30, 2015 compared to $13.0 billion at June 30, 2014. The increase is due primarily to cash generated by operations partially offset by capital purchases, debt repayments and the deconsolidation of Network Health, Inc. for the year ended June 30, 2015.

Days cash on hand decreased 4 days from June 30, 2014 to June 30, 2015 primarily due to items previously mentioned offset by strong expense management with daily operating expenses increasing only 2.6% from the prior fiscal year. Net days in accounts receivable increased slightly by 1 day to 48 days from June 30, 2014 to June 30, 2015.

Cash-to-senior debt and cash-to-debt remain strong at 238.7% and 209.0%, respectively, at June 30, 2015, representing increases from June 30, 2014. Debt to capitalization has also shown improvement decreasing from 27.6% at June 30, 2014 to 27.0% at June 30, 2015.

Balance Sheet Ratios

	June 30,	
	2015	**2014**
Days Cash on Hand	255	259
Net Days in Accounts Receivable	48	47
Cash-to-Senior Debt	238.7%	224.6%
Cash-to-Debt (Senior and Subordinated)	209.0%	201.6%
Senior Debt to Capitalization	24.5%	25.5%
Total Debt to Capitalization	27.0%	27.6%