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

As of and for the six months ended December 31, 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 is working toward strategic goals that create unique collaborative relationships, divesting specific assets and developing new partnerships.

As a healthcare provider, Ascension is driven by a changing consumer landscape to think and behave differently, putting 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. Ascension is measuring not the volume of care we deliver, but the value we provide and the quality outcomes to patients.

Ascension is maintaining and extending our service areas (i.e. Wisconsin) — working collaboratively across our national ministry to provide care for all, with special attention to persons living in poverty and those most vulnerable.

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

Ascension continues to support activity toward the transfer of Lourdes Health Network, located in Pasco, Washington, and St. Joseph Regional Medical Center, located in Lewiston, Idaho, from Ascension to RCCH HealthCare Partners (RCCH). A definitive agreement was reached in September 2016 for the acquisition of the community hospitals by 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. Both organizations are pursuing required regulatory reviews and approvals. An anticipated closing date has not yet been established.

RESULTS OF OPERATIONS – CONSOLIDATED

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

Financial Data (in millions)

	December 31, 2016	June 30, 2016		December 31, 2016	June 30, 2015
Current Assets	$ 5,227	$ 5,393	Current Liabilities	$ 5,040	$ 5,394
Long-Term Investments	16,198	15,069	Long-Term Liabilities	8,767	8,446
Property and Equipment	8,989	9,020	Total Liabilities	13,807	13,840
Other Assets	2,969	2,951	Net Assets	19,576	18,593
Total Assets	$ 33,383	$ 32,433	Total Liabilities and Net Assets	$ 33,383	$ 32,433

Financial Data (in millions)

	Six months ended December 31, 2016	Six months ended December 31, 2015
Care of Persons Living in Poverty and Other Community Benefit (at cost)	$ 1,062	$ 864
Total Operating Revenue	11,380	10,652
Income from Recurring Operations	420	423
Income from Operations	380	311
Net Income (Loss)	795	(373)

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, operating margin was 3.3% for the six months ended December 31, 2016, as compared to 2.9% for the six months ended December 31, 2015. In addition to recurring operating activity, the operating margin for the six months ended December 31, 2016 has been impacted by:

- Additional gain on sale recorded related to the finalization of certain attributes of the sale of half of Ascension's interest in TriMedx that occurred in May 2016,
- Favorable investment returns for the self-insurance trust fund, and
- A decrease in impairment, restructuring and nonrecurring losses as further discussed below.

Net Patient Service Revenue and Volume Trends

For the six months ended December 31, 2016, net patient service revenue, less provision for doubtful accounts, increased $706.8 million or 7.2%, 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 1.3% 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. The case mix index increased to 1.63 for the six months ended December 31, 2016, compared to 1.59 for the prior year, an increase of 2.5%.

The percentage of gross patient service revenue from governmental payors has increased while the percentage from commercial and other payors has decreased for the six months ended December 31, 2016, compared to the same period in the prior year.

For the six months ended December 31, 2016, equivalent discharges increased 5.8% as compared to the same period in the prior year. Additionally, inpatient admissions, inpatient surgeries, observation days, and emergency room visits have increased 4.0%, 2.6%, 3.9%, and 8.2%, 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 and observation days decreased 1.1%, 1.5%, 1.3%, and 1.6%, respectively, while emergency room visits increased 0.6%.

For the six months ended December 31, 2016, gross patient service revenue from outpatient services increased to 52.2% of total gross patient service revenue compared to 51.3% for the same period in the prior year. Outpatient volumes increased 7.7% compared to the same period in the prior year primarily due to the previously mentioned addition of Wheaton. On a same facility basis, outpatient visits decreased 0.8% primarily due to a decrease in home health visits. With 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 75.9% for the six months ended December 31, 2016, 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 increased 1.0%.

The following table reflects certain patient volume information and key performance indicators, on a consolidated basis, for the six months ended December 31, 2016 and 2015.

Volume Trends and Key Performance Indicators

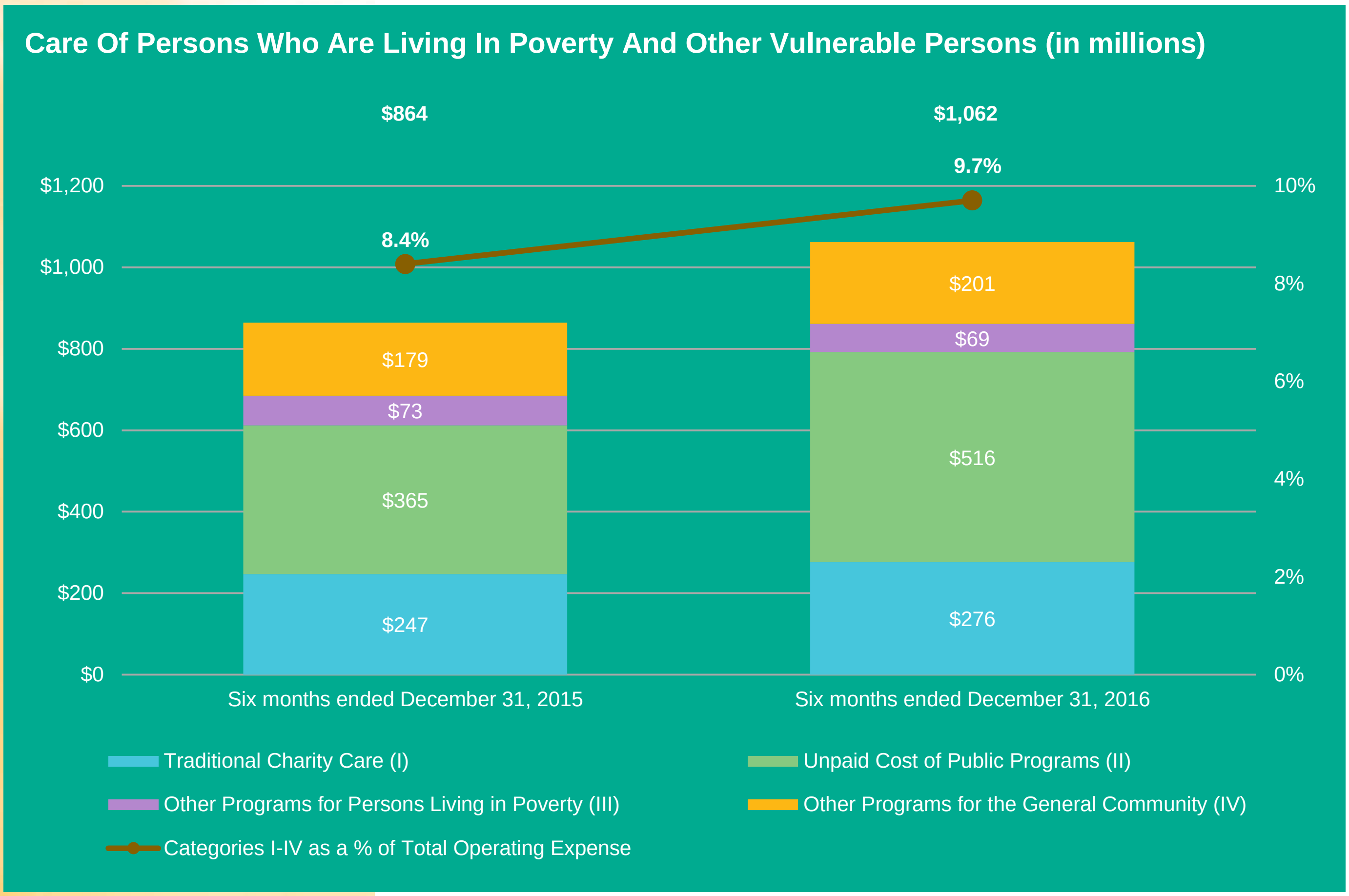
	Six months ended December 31,	
	2016	2015
Volume Trends		
Equivalent Discharges	828,166	782,576
Total Admissions	397,264	382,166
Case Mix Index	1.63	1.59
Acute Average Length of Stay (days)	4.51	4.49
Observation Days	161,883	155,749
Emergency Room Visits	1,582,292	1,462,657
Surgical Visits (IP & OP)	321,585	313,629
Physician Office Visits	5,907,939	5,264,695
Key Performance Indicators		
Recurring Operating Margin	3.7%	4.0%
Recurring Operating EBITDA Margin	9.6%	9.3%
Operating Margin	3.3%	2.9%
Operating EBITDA Margin	9.1%	8.6%

Uncompensated Care

The total cost of providing care to persons living in poverty and other community benefit programs increased $198 million or 22.9% 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 unpaid cost of public programs for persons living in poverty, which increased $151 million, or 41.4%, as compared to the same period in the prior year primarily due to one-time supplemental payments from Medicaid expansion programs received during the six months ended December 31, 2015, which offset costs during the period and did not recur during the six months ended December 31, 2016. Additionally, the increase is due to the previously mentioned addition of Wheaton facilities.

In addition to the increased unpaid costs of public programs for persons living in poverty, the cost of charity care provided increased $29 million, or 11.7%, primarily due to more patients qualifying for charity at certain health ministries and the previously mentioned addition of Wheaton facilities.



RESULTS OF OPERATIONS – SAME FACILITY BASIS[1]

Recurring Operations[1]

Net patient service revenue, less provision for doubtful accounts, increased $66.3 million, or 0.7%, as compared to the same period in the prior year. Net patient service revenue per equivalent discharge increased 1.8% while equivalent discharges decreased 1.1%. The increase in net patient service revenue per equivalent discharge is primarily due to the 2.4% increase in case mix index reflecting higher intensity of services provided.

Total operating expenses increased $143.4 million, or 1.4%, as compared to the prior year primarily due to the following:

- Salaries, wages and employee benefits increased $49.6 million, or 1.0%, as compared to the same period in the prior year, primarily due to wage increases and an increase in employee health insurance expense primarily due to rising pharmacy prices partially offset by a decrease in total employed full time equivalents and contract labor.

- Purchased services and professional fees increased $70.7 million, or 5.0%, 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.

Impairment, Restructuring and Nonrecurring Losses – consolidated basis

Net impairment, restructuring and nonrecurring losses were $56.1 million for the six months ended December 31, 2016, as compared to a loss of $77.4 million during the six months ended December 31, 2015. Losses for the six months ended December 31, 2016, were primarily due to $51.0 million in expenses associated with the continued implementation of the System's ERP system (Symphony), one-time termination and other restructuring expenses of $29.1 million, and other nonrecurring expenses of $15.8 million partially offset by a pension curtailment gain of $39.8 million at Wheaton.

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 3.8%, or $449 million, for the six months ended December 31, 2016. 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 $33.8 billion and $33.1 billion at December 31, 2016, and June 30, 2016, respectively. Of the total net investments under AIM management, $14.9 billion are included in the total consolidated net assets of the System at December 31, 2016, compared to $14.2 billion at June 30, 2016.

[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 six months ended December 31, 2016 and 2015.*

Other Nonoperating Losses – consolidated basis

Other nonoperating losses increased $52.7 million, or 145.1%, as compared to the same period in the prior year primarily due to the deconsolidation of Door County Memorial Hospital (Door County) on October 31, 2016 which was accounted for as a donation. Prior to October 31, 2016, Door County was affiliated with Ministry Health Care (Ministry), a subsidiary of Ascension Wisconsin. Per the original agreement between Door County and Ministry, Ministry donated Door County back to the community as of October 31, 2016 in exchange for approximately 50% of the value added since Door County joined Ministry on May 1, 1999.

LIQUIDITY AND CAPITAL RESOURCES

Net unrestricted cash and investments for the System increased from $13.6 billion at June 30, 2016 to $14.1 billion at December 31, 2016. Additionally, days cash on hand increased 11 days from June 30, 2016, to December 31, 2016. The increases are primarily due to investment gains and cash generated from operations partially offset by capital purchases during the six months ended December 31, 2016. Net days in accounts receivable was 48 days at December 31, and June 30, 2016.

Cash-to-senior debt and cash-to-debt remain strong at 203.8% and 199.5%, respectively, at December 31, 2016, representing increases from June 30, 2016. Debt to capitalization has also improved, decreasing from 30.2% June 30, 2016, to 29.0% at December 31, 2016.

Balance Sheet Ratios

	December 31, 2016	June 30, 2016
Days Cash on Hand	248	237
Net Days in Accounts Receivable	48	48
Cash-to-Senior Debt	203.8%	198.4%
Cash-to-Debt (Senior and Subordinated)	199.5%	189.6%
Senior Debt to Capitalization	28.6%	29.3%
Total Debt to Capitalization	29.0%	30.2%