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

As of and for the nine months ended March 31, 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 statements and operations of Ascension Health Alliance, d/b/a 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

Ascension is responding to the evolving health needs of our communities by focusing efforts on working as an integrated national healing organization. With the goal of delivering improved health outcomes with high-quality, low-cost person-centered care, Ascension is developing clinically integrated systems of care, new delivery models and new national subsidiaries anticipating a shift toward value-based care.

To develop a program of clinical initiatives that improves quality and efficiency of care delivery, Ascension's clinically integrated systems of care require collaboration among private practice physicians, employed physicians, other caregivers and health systems.

As a result, information sharing is designed to foster interdependence and collaboration among physicians and clinicians, enabling quality improvements and increased cost effectiveness — and readily accessible health information for patients. Ascension has committed to business goals to implement a value-based care model. The following outlines the strategies driving business growth.

U.S. Health and Holdings Acquisition

Effective December 31, 2014, Ascension acquired U.S. Health and Holdings, a Michigan-based corporation that provides life, accident and health-related insurance policies on a group basis and provides third party claims administration, benefits processing, payments and other services. The valuation of the acquired assets and liabilities and recognition of the combination transaction is expected to be completed by June 30, 2015.

Hospital Systems (Michigan and Tennessee)

Ascension Health has entered into two separate non-binding Letters of Intent to add two new healthcare delivery systems to its network intended to supplement existing locations and services. The medical center in Michigan is a 290-bed acute care hospital located in Rochester, a community north of Detroit that will complement the organization's existing facilities of St. John Providence Health System and Genesys Health System in the state. The hospital system in Tennessee will add four hospitals in Middle Tennessee to extend the reach of Saint Thomas Health Network.

Carondelet Health (Kansas City, Missouri)

Effective February 13, 2015, the transaction to transition the majority of the assets of Carondelet Health in Kansas City, Missouri, a subsidiary of Ascension Health, to Prime Healthcare Services Inc. was completed. The transaction included the majority of the facilities of Carondelet Health, including St. Joseph Medical Center in Kansas City and St. Mary's Medical Center in Blue Springs, Missouri, and most of their subsidiaries and affiliated facilities. In connection with the transaction, Carondelet Health, St. Joseph Medical Center and St. Mary's Medical Center were removed from the Ascension Credit Groups. The three Carondelet Health long-term care facilities – Carondelet Manor, Villa Saint Joseph and St. Mary's Manor – and the two hospitals' charitable foundations remain part of Ascension.

Mount St. Mary's Hospital and Health Center (Niagara County, New York)

Mount St. Mary's Hospital and Health Center, a subsidiary of Ascension Health, and Catholic Health of Buffalo ("Catholic Health"), a health system serving western New York, have executed an affiliation agreement wherein Mount St. Mary's becomes a full member of Catholic Health. Our Lady of Peace Nursing Care Residence will remain part of Ascension Health. The transaction is expected to close by June 30, 2015, subject to federal and New York State regulatory approvals.

Carondelet Health Network (Tucson, Arizona)

Carondelet Health Network, a subsidiary of Ascension Health, has entered into a Letter of Intent to create a joint venture with Tenet Healthcare Corp. ("Tenet") and Dignity Health to own and operate the assets of Carondelet Health Network in Tucson, Arizona. This new joint venture is expected to enable Carondelet to strengthen and grow its relationships with physicians and payers, fund strategic growth initiatives for the Tucson community, and connect with a well-established and rapidly growing accountable care organization (ACO). Tenet will be the majority partner in the joint venture and will have management responsibility for health system operations including St. Joseph's Hospital and St. Mary's Hospital in Tucson, Arizona, and Holy Cross Hospital in Nogales, Arizona. The transaction is expected to close before the end of the calendar year.

AMITA Health (Illinois)

Effective February 1, 2015, AMITA Health was created through Ascension Health and Adventist Health System entering into a joint operating agreement which provides for an integrated health delivery system in Illinois, and includes five hospitals of Alexian Brothers Health System and four hospitals of Adventist Midwest Health. The newly integrated healthcare system will serve a combined population of more than 3.8 million people making it the third-largest health system in Illinois.

MissionPoint Health Partners (Nashville, Tennessee)

MissionPoint located in Nashville, Tennessee was launched in 2011 by Saint Thomas Health, a subsidiary of Ascension Health. It became a direct subsidiary of Ascension in fiscal year 2015. Since then, MissionPoint has grown to manage the health needs of more than 100,000 members and has consistently lowered healthcare costs while improving health outcomes. MissionPoint Health Partners has been growing its business around data analytics to identify the accountable care organization members in need of the most intensive medical interventions and care coordination.

Beginning in January 2015, MissionPoint started to expand into markets in Indiana, Florida, and Alabama, while also expanding its reach in the Tennessee market.

Network Health Plan (Milwaukee, Wisconsin)

On November 1, 2014, Ministry Health Care (MHC), a subsidiary of Ascension Health, sold 50% of its interest in Ministry Holdings, Inc., the parent company of Network Health Plan and Network Health Insurance Corporation (collectively Network Health) to Froedtert Health, Inc. Network Health Plan currently provides commercial and Medicare Advantage health insurance plans to employers and individuals in northeastern Wisconsin. Co-ownership facilitates the opportunity to expand Network Health Plan insurance services into southeastern Wisconsin and to offer both fully-insured and self-funded plans to large employers.

The sale of Network Health Plan had an impact on the consolidated financial results as of and for the nine months ended March 31, 2015. Included in the consolidated balance sheet of the System as of June 30, 2014, Network Health Plan had $139 million in long-term investments and $68 million in other current liabilities that primarily consisted of incurred but not reported claims liability. As of March 31, 2015, MHC de-consolidated Network Health Plan and recorded an equity investment of approximately $120 million.

Ascension Health and Evolution Health

In September 2014, Ascension Health and Evolution Health, LLC (the members) entered into an agreement to create Ascension Health at Home, a joint venture which provides home health, outpatient hospice and home infusion therapy services (home health and related businesses). Through March 31, 2015, each of the members has contributed certain of their existing home health and related businesses to Ascension Health at Home, and future contributions by both members are expected. To date, Ascension has contributed home health and related business operations from markets in Wisconsin, Alabama and Texas.

Revenue Cycle

Ascension Health has issued a Request For Proposal (RFP) to various vendors for the delivery of comprehensive Revenue Cycle Services for a significant portion of its acute care business that is currently not under contract with an existing vendor. In time, Ascension Health's objective is to migrate toward a reliable, high-quality, single source supplier. These services include patient access, middle revenue cycle, patient financial services and other revenue cycle functions. Ascension Health reserves the right to discontinue the RFP process at any time and for any reason, and makes no commitments, implied or otherwise, that this process will result in a business transaction with any of such vendors.

Results of Operations – Consolidated

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

Financial Data (in millions)

	March 31, 2015	June 30, 2014		March 31, 2015	June 30, 2014
Current Assets	$ 4,765	$ 4,623	Current Liabilities	$ 4,826	$ 5,015
Long-Term Investments	14,873	15,327	Long-Term Liabilities	6,991	7,309
Property and Equipment	8,356	8,411	Total Liabilities	11,817	12,324
Other Assets	2,986	2,938	Net Assets	19,163	18,975
Total Assets	$ 30,980	$ 31,299	Total Liabilities and Net Assets	$ 30,980	$ 31,299

Financial Data (in millions)

	Nine months ended March 31,			
		2015		2014
Care of Persons Living in Poverty and Other Community Benefit (at cost)	$	1,466	$	1,269
Total Operating Revenue		15,538		14,963
Income from Recurring Operations		634		552
Income from Operations		533		472
Net Income		293		1,571

On a consolidated basis, recurring operating margin, excluding self-insurance trust fund (SITF) investment return, was 4.1% for the nine months ended March 31, 2015, as compared to 3.7% for the nine months ended March 31, 2014. The primary drivers for the increase in the recurring operating margin, excluding SITF investment return, for the nine months ended March 31, 2015, as compared to the same period in the prior year include:

- An increase in net patient service revenue, less provision for doubtful accounts, of $829.2 million, or 6.2%, as compared to the same period in the 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 4.49 for the nine months ended March 31, 2014, compared to 4.30 for the nine months ended March 31, 2015, a decrease of 4.2%.

- Relatively stable well managed employee benefit costs with a moderate 2.5% increase due to modifications to employee benefit programs, including the addition of care management and wellness programs, favorable updates to the defined benefit pension plan actuarial assumptions and redesign of certain associate retirement benefit plans.

- Management's efforts to manage expenses as further discussed in this document.

- The sale of Network Health Plan in November 2014, as discussed above. Fiscal year to date March 2014, revenues for Network Health Plan were $617.1 million with an operating margin of 1.0%.

Net Patient Service Revenue and Volume Trends

Despite a national trend toward declining utilization rates in healthcare delivery, for the nine months ended March 31, 2015, equivalent discharges increased 2.1% as compared to prior year. While inpatient surgeries decreased 1.7%, inpatient admissions, observation days and emergency room visits increased 0.7%, 6.2% and 5.6%, respectively, as compared to the same period in 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 ER 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 nine months ended March 31, 2015, as compared to the same period in the prior year primarily due to a 5.5% increase in physician office visits consistent with the transition to delivering healthcare services in the outpatient setting. Outpatient surgical, behavioral health, home health and urgent care center visits also increased as compared to the same period in the prior year.

Net patient service revenue per equivalent discharge increased 4.0% compared to the same period in 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 nine months ended March 31, 2015 compared to 1.53 for the same period in the prior year, an increase of 1.3%.

Payor mix expressed as a percentage of gross patient service revenue for governmental and commercial payors have increased while the percentage of self-pay utilization has decreased for the nine months ended March 31, 2015, compared to the same period in 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 steady increases in Medicaid payor mix and a decline in uninsured. In 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. Of patients admitted for the nine months ended March 2015 with coverage through the state and federal exchanges, approximately 58% 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 nine months ended March 31, 2015 and 2014.

Volume Trends and Key Performance Indicators

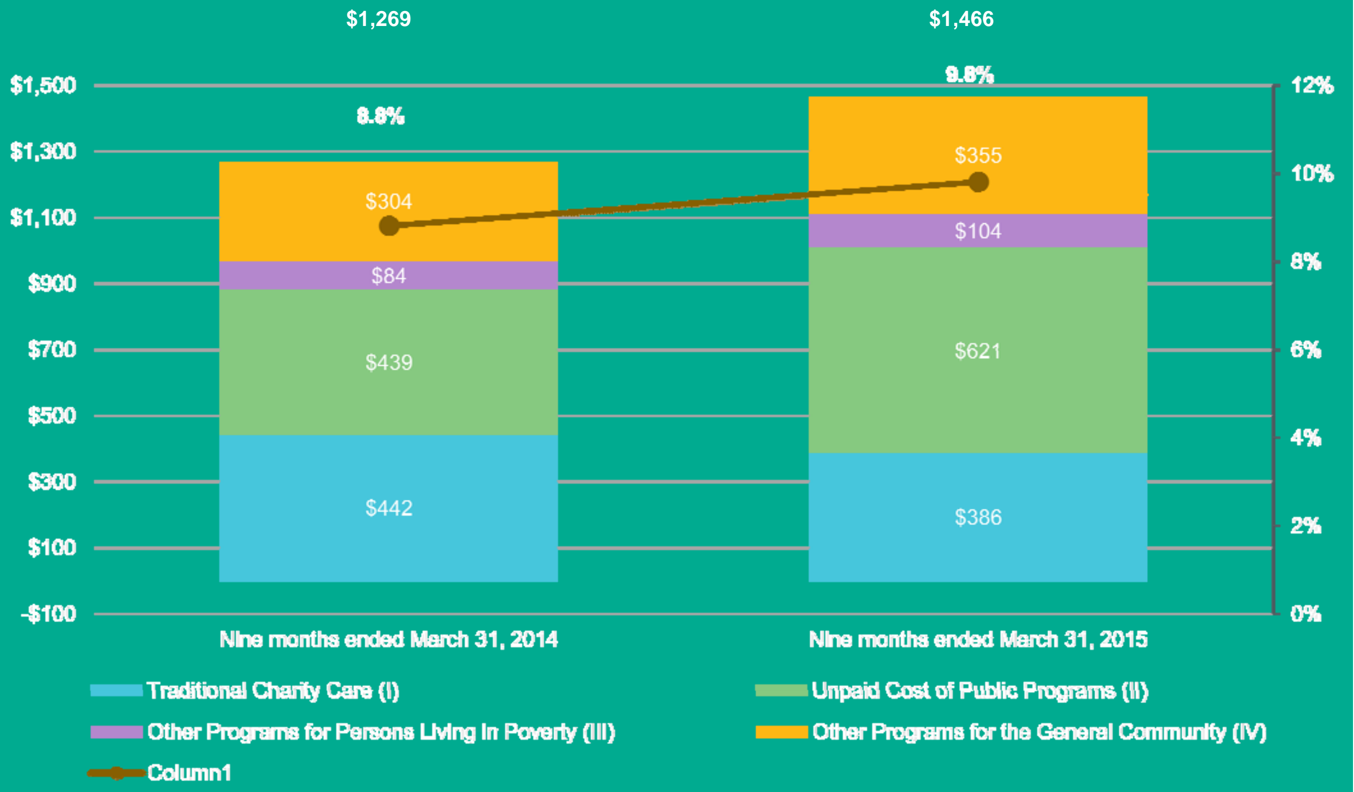
	Nine months ended March 31,	
	2015	**2014**
Volume Trends		
Equivalent Discharges	1,152,851	1,128,942
Total Admissions	573,902	570,092
Case Mix Index	1.55	1.53
Acute Average Length of Stay (days)	4.58	4.51
Observation Days	228,264	214,906
Emergency Room Visits	2,207,582	2,089,770
Surgical Visits (IP & OP)	456,235	452,563
Physician Office Visits	7,204,788	6,831,322
Home Health Visits	683,357	685,097
Key Performance Indicators		
Recurring Operating Margin	4.0%	4.0%
Recurring Operating Margin, excluding SITF investment return	4.1%	3.7%
Recurring Operating EBITDA Margin	9.5%	9.5%
Operating Margin	3.4%	3.2%
Operating EBITDA Margin	9.0%	8.7%

Uncompensated Care

The unreimbursed net cost of providing care to persons living in poverty and other community benefit programs increased $197 million, or 15.5%, for the nine months ended March 31, 2015, as compared to the same period in 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 9.8% for the nine months ended March 31, 2015, from 8.8% for the nine months ended March 31, 2014.

When comparing the nine months ended March 31, 2015 to the same period in 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 $182 million, or 41.5%, as compared to the same period in the prior year partially offset by a decrease in traditional charity care costs of $56 million, or 12.6%, primarily attributable to the expansion of Medicaid in certain states and improved processes for identifying patients qualifying for financial assistance. As compared to the same period in the prior year, bad debt expense decreased $149.1 million or 14.7% due to the previously mentioned expansion of coverage under the ACA, as well as successful collection efforts at certain health ministries.

Other factors contributing to the increase in total community benefits are due to 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)
$1,269
$1,466
8.8%
9.8%
$1,500
$1,300
$1,100
$900
$700
$500
$300
$100
-$100
12%
10%
8%
6%
4%
2%
0%
$304
$84
$439
$442
$355
$104
$621
$386
Nine months ended March 31, 2014
Nine months ended March 31, 2015
Traditional Charity Care (I)
Unpaid Cost of Public Programs (II)
Other Programs for Persons Living In Poverty (III)
Other Programs for the General Community (IV)
Column1

Recurring Operations

For the nine months ended
March 31, 2015:

As previously noted, net patient service revenue, less provision for doubtful accounts, increased $829.2 million, or 6.2%, as compared to the same period in the prior year due primarily to an increase in equivalent discharges, favorable changes in payor mix and an increase in case mix index. Other revenue decreased $254.6 million, or 15.7%, as compared to the same period in the prior year primarily due to the previously mentioned sale of Network Health Plan, partially offset by increased revenues in the clinical engineering area.

Total operating expenses increased $492.9 million, or 3.4%, as compared to the same period in the prior year primarily due to the following:

- Salaries, wages and employee benefits increased $324.5 million, or 4.4%, compared to the nine months ended March 31, 2014, due primarily to wage increases and moderate increases in employee benefit costs offset by increased productivity.

- Purchased services expense increased $54.7 million, or 6.2%, as compared to the same period in the prior year due primarily to the implementation of the 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 ministries.

- Professional fees increased $26.2 million, or 2.8%, as compared to the same period in the prior year in part due to conversion of more health ministries to the System's enterprise resource planning initiative (Symphony) as compared to the prior year as well as use of on external expertise for both product upgrades and enhancements.

- Supplies expense increased $90.3 million, or 4.3%, as compared to the same period in 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 2.6% as compared to the same period in the prior year in part due to successful supply chain management initiatives.

- Insurance expense increased $40.9 million, or 38.0%, compared to the same period in the prior year primarily due to reductions in General and Professional Liability reserves that were recorded last year prior to March 31st. Reserves will be re-evaluated in the fourth quarter and adjustments, if any, will be recorded at that time.

Impairment, Restructuring and Nonrecurring Losses

Net impairment, restructuring and nonrecurring losses were $85.4 million for the nine months ended March 31, 2015, as compared to a loss of $128.8 million during the nine months ended March 31, 2014. Losses for the nine months ended March 31, 2015, were primarily due to $78.6 million in expenses associated with Symphony and one-time termination expenses and other nonrecurring expenses of $6.8 million. Losses for the nine months ended March 31, 2014, were primarily due to $118.9 million in Symphony expenses and one-time termination and other nonrecurring expenses of $9.9 million.

Investment Return

For the nine months ended March 31, 2015, the long-term investments held in the Alpha Fund, excluding non-controlling interests and long-term investments held by the self-insurance programs, experienced a loss of 1.5%, compared to a return of 9.0% for the nine months ended March 31, 2014. 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's investment strategy is to invest in global markets across all asset classes and the investment performance for the nine months ended March 31, 2015 within most markets, including global equities, have been negative. The System has maintained a consistent investment strategy during the current fiscal year.

Total net investments under management by AIM are $29.3 billion and $29.6 billion at March 31, 2015, and June 30, 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 both March 31, 2015 and June 30, 2014.

LIQUIDITY AND CAPITAL RESOURCES

Net unrestricted cash and investments of $13.0 billion remained consistent from June 30, 2014 to March 31, 2015. Investment losses, capital purchases, debt repayments, and the deconsolidation of Network Health Plan are partially offset by cash generated by operations for the nine months ended March 31, 2015.

Days cash on hand decreased 6 days from June 30, 2014 to March 31, 2015 primarily due to items previously mentioned offset by strong expense management with daily operating expenses increasing only 2.2% from the prior fiscal year. Net days in accounts receivable increased slightly by 1 day to 49 days from June 30, 2014 to March 31, 2015.

Cash-to-senior debt and cash-to-debt remain strong at 236.1% and 206.5%, respectively, at March 31, 2015, representing increases from June 30, 2014. Debt to capitalization has also shown improvement decreasing from 27.6% at June 30, 2014 to 26.8% at March 31, 2015.

Balance Sheet Ratios

	March 31, 2015	June 30, 2014
Days Cash on Hand	250	256
Net Days in Accounts Receivable	49	48
Cash-to-Senior Debt	236.1%	224.6%
Cash-to-Debt (Senior and Subordinated)	206.5%	201.6%
Senior Debt to Capitalization	24.3%	25.5%
Total Debt to Capitalization	26.8%	27.6%