<u>This document is dated August 24, 2015.</u>

SPECIAL NOTE CONCERNING FORWARD LOOKING STATEMENTS. Certain of the discussions included in the following Management Discussion and Analysis ("Analysis") may include certain forward-looking statements which involve known and unknown risks and uncertainties inherent in the operation of health care operations. Actual actions or results may differ materially from those discussed in the Analysis. Specific factors that might cause such differences include, but are not limited to: competition from other health care providers, economic conditions in the communities SSM Health serves, state and federal regulation and the policies and practices of private insurers regarding payment for medical services. In particular, statements preceded by, followed by or that include the words "believes", "estimates", "expects", "anticipates", "plans", "intends", "scheduled", "projects" or other similar expressions constitute forward-looking statements.

SSM HEALTH (SSMH)

Management Discussion and Analysis (MD&A)

concerning the

Consolidated Financial Statements for the Six Months ended June 30, 2015

SSMHealth

Malcolm Baldrige National Quality Award 2002 Award Recipient

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Report for the Period Ended June 30, 2015

I. Organization

SSM Health (SSMH) is a centrally managed, multi-institutional health care system with its headquarters in St. Louis, Missouri. SSMH is sponsored by SSM Health Ministries which is an independent 8-member body comprised of three Franciscan Sisters of Mary (FSM) and five lay people who collectively hold certain powers over SSMH. The health care activities of FSM date back to 1872 when the founder and four other sisters arrived in St. Louis from Germany, committed to serve the sick that were poor and to provide health care for all.

SSMH is an integrated delivery network organized into three business units – Hospital Operations; Physician, Ambulatory and Post-Acute Services; and Health Care Delivery, Finance and Integration Services.

The Hospital Operations division owns and operates 19 hospital locations in Missouri, Illinois, Oklahoma and Wisconsin. With over 7,000 affiliated physicians, 30,000 employees and 4,200 licensed beds, SSMH facilities provide a wide range of inpatient and outpatient services, including general acute, trauma, emergency and urgent care, and pediatrics. In addition to its owned sites, SSMH manages one hospital, has minority ownership interests in four hospitals, and has affiliations with more than 40 rural hospitals.

The Physician, Ambulatory and Post-Acute Services division includes professional clinical services of 1,300 employed and contracted physicians, and related services including ambulatory surgery, imaging and other diagnostic services. The division also includes the post-acute group, which includes home health, hospice, skilled nursing care and rehabilitation services.

The Health Care Delivery, Finance and Integration Services division includes Dean Health Plan, which serves approximately 425,000 members in South Central Wisconsin, and Navitus, Inc., a pharmacy benefit management company that has approximately 4.5 million covered lives in approximately 30 states. Additionally, the division is leading population health expansion across SSMH's markets through a variety of service offerings that include health improvement, bundled payment, shared savings, and risk transfer mechanisms.

On May 31, 2015, SSM Health and St. Louis University signed an agreement under which Saint Louis University Hospital (SLU Hospital) will become part of SSM Health St. Louis. Saint Louis University will purchase SLU Hospital from Tenet Healthcare and will contribute it to SSM Health St. Louis in exchange for a minority membership interest. The hospital is a 356-bed academic teaching hospital and is a Level I Trauma Center, certified in both Missouri and Illinois. This new integrated partnership will provide the St. Louis community with more coordinated access to the compassionate high-quality care for which SSM Health is known. The agreement is subject to regulatory approvals and is expected to be finalized in the third quarter.

On September 1, 2013, SSMH and Dean Health System (DHS) finalized an acquisition whereby DHS became fully owned by SSMH. The integrated delivery network will allow for even better service to the health of people in south central Wisconsin and accomplish key strategic objectives for SSMH. This acquisition was very significant and increased the size and scope of SSMH to $5.0 billion in annual revenues, a 50% increase in revenues prior to the merger. DHS has been the long-time physician organization partner to SSMH of Wisconsin, a relationship that dates back over 100 years. DHS includes a large multi-specialty physician group, Dean Health Plan (DHP) and Navitus, Inc. SSMH believes this acquisition will position the entire SSMH organization to be able to provide integrated and aligned care delivery in terms of physician, hospital, and insured products in the future.

II. Mission

"Through our exceptional health care services, we reveal the healing presence of God."

This thirteen-word statement was developed in 1999 with involvement and input from over 3,000 employees. The mission statement is intended to guide SSMH's decisions and actions, and the achievement of "exceptional health care services" is measured by the top decile results in the areas of quality, safety, patient satisfaction, and employee and physician commitment. For financial goals, "exceptional" is set based on goals established through the strategic and financial planning process.

III. Overview

This MD&A report is provided to give management's view of key factors underlying SSMH's financial performance and position as of and for the six months ended June 30, 2015. The report also includes an update on capital and debt as of June 30, 2015. Unless otherwise stated, financial results are described in $ thousands and relate to the period ended June 30, 2015 and 2014.

For the period ended June 30, 2015, operating income and excess revenue (before the change in market value of interest rate swaps and income taxes) were $117.7 and $150.8 million, respectively. For detailed financial results please refer to the financial statements included with the June 30, 2015 compliance posting.

IV. 2015 Operating Results

A. **Operating Income:** The System's operating income of $117.7 million was $35.4 million above 2014 results. In addition, operating EBIDA totaled $266.2 million for the period ended June 30, 2015 as compared to $221.5 million for the period ended June 30, 2014. Total revenues increased by $225.1 million, or 9.4%. Net patient service revenue was $133.3 million (8.1%) higher than 2014 results while premium revenue through DHP and Navitus increased by $87.0 million (15.0%) from 2014. During the second quarter, SSM Wisconsin finalized the sale of its dialysis business for a gain of $16.6 million which is included in operating revenues. Operating expenses (including depreciation and amortization) increased by 8.2% over 2014 as a result of growth and new initiatives. Management will continue cost reduction programs and revenue cycle improvements as well as integration and optimization of acquisitions to further strengthen the operating margin.

B. Non-Operating Gains and (Losses): For the period ended June 30, 2015, net non-operating gains were $33.1 million, which was $18.1 million below 2014 results. This decrease is attributed to lower investment returns. The investment returns, positive SWAP mark-to-mark adjustments of $19.0 million, plus operating income results led to excess revenue before taxes of $169.8 million, an increase of $58.2 million from 2014.

V. 2014 Financial Position

A. Key Balance Sheet Ratios:

SSMH's unrestricted cash position has increased by $235.6 million from June 30, 2014, a result of strong operations and positive investment earnings. Additionally, in December 2014, SSMH contributed an extra $200.0 million contribution to its defined benefit plans in order to reduce the impact of a lower discount rate and new mortality tables on its unfunded pension liability. Days Cash on Hand improved to 183 days at 6/30/15, up six days from the prior year. Total unrestricted net assets decreased to $1.9 billion at 6/30/15 from $2.0 billion at 6/30/14. This decrease reflects the actuarial losses related to SSMH's defined benefit plans offset by excess income in 2014 and the first half of 2015.

Table 1 – Summary of Key Liquidity Ratios

	June 30, 2015	June 30, 2014	Variance
Unrestricted Cash ($ millions) [1]	$2,121.3	$1,885.7	12.5%
Net Patient Accounts Receivable ($ millions)	465.5	481.0	-3.2%
Unrestricted Net Assets ($ millions)	1,949.5	2,016.9	-3.3%
Days Cash on Hand [1]	183	177	3.4%
Accounts Receivable (days)	47	53	-11.3%
Debt Service Coverage[2]	6.3	6.7	-6.0%
MADS Coverage [3]	4.9	3.3	48.5%
Debt to Capitalization	50.8	54.4	-6.6%
Debt to Cash Flow	3.4	4.4	-22.7%
Cushion Ratio (X)	24.9	23.4	6.4%
Current Ratio	0.8	1.0	-20.0%

[1] Exclusive of DHP

[2] Debt Service Coverage Calculation does not include unrealized gain/(loss) on investments

[3] MADS Coverage based on 12 months ended June 30, 2015 & 2014

B. Investments:

Through June 30, 2015, investment income of $42.5 million (operating and non-operating) was $26.7 million lower than in the period ended June 30, 2014. The decrease in investment income is largely attributed to the investment portfolio composite return (excluding pension investments) of 2.0% year to date (4.5% long term annualized return) compared to 3.3% at June 30, 2014 (5.0% long term annualized return).

A comparison of the results for the period ending June 30, 2015 and 2014 is listed in Table 2. This table also includes a breakout of 2015 investment earnings by income recognition (realized and unrealized), income segment (operating and non-operating), and the amounts attributed to interest and dividend earnings.

Table 2 – Summary of Investment Income

a. 2015 – 2014 Comparisons

	2015	2014
Interest, dividends and realized gains, net	$39.8	$40.9
Change in unrestricted unrealized gains	2.7	28.3
Total investment income	$42.5	$69.2

b. 2015 Sources

Investment Gain Classification	Interest & Dividends	Realized Gain	Unrealized Gain	Total
Operating	$3.8	$5.8	$0.0	$9.6
Non-operating	10.5	19.7	2.7	32.9
Total	$14.3	$25.5	$2.7	$42.5

C. Debt Structure

At June 30, 2015, SSMH's total debt (Table 3), excluding commercial paper and lines of credit, decreased by $40.2 million from June 30, 2014. On May 14, 2014, SSMH restructured approximately $1.1 billion of outstanding debt. The issue consisted of 11 series of bonds including Direct Placements.

As part of the 2014 debt restructuring SSMH filed a registration to issue up to $200.0 million in taxable Commercial Paper (CP) supported by self-liquidity. On May 14, 2014, SSMH issued approximately $180.0 million of CP under this registration. The proceeds of the issuance were used to refinance existing loans and to replace an existing CP program at DHS. On December 15, 2014, SSMH issued an additional $20.0 million of commercial paper under this registration. Proceeds were used to reduce the underfunded pension liability.

SSMH utilizes lines of credit for general corporate purposes. On February 28, 2014, SSMH entered into a $150.0 million revolving line of credit agreement. The line is secured under SSMH's existing Master Trust Indenture. At June 30, 2015, SSMH had outstanding borrowings on this line of $100.0 million.

In accordance with generally accepted accounting principles SSMH classifies all of its self-liquidity backed variable rate debt as short term debt. It is SSMH's intent to continue to remarket both the variable rate demand bonds as well as the commercial paper.

Table 3 – Summary of Total Debt

($ In millions)

Secured Under the Master Trust Indenture:	June 30, 2015	June 30, 2014
Fixed rate revenue bonds	$634.0	$639.7
Variable rate demand bonds	300.0	300.0
Variable rate direct loans	509.9	513.3
Auction rate bonds	78.7	101.5
Term loan	90.6	93.8
Total under Master Indenture	$1,613.2	$1,648.3
Other:		
Various notes payable and other debt	50.5	53.3
Capitalized lease obligations	23.4	25.7
Not Secured Under Master Indenture	73.9	79.0
Total LT Debt excluding CP and LOC	$1,687.1	$1,727.3
Balance Sheet Classification:		
Total Long-Term Debt (including current portion and capital leases)	$1,386.8	$1,427.3
Total Short-Term Debt	300.3	300.0
Total Debt excluding CP and LOC	$1,687.1	$1,727.3

Derivative Instruments. SSMH utilizes interest rate swap agreements which effectively change SSMH's interest exposure on its variable debt to fixed rates. None of these swaps have been designated as hedges of the interest payment on outstanding debt obligations for accounting purposes. SSMH uses floating-to-fixed interest rate swaps to synthetically convert the majority of variable rate debt to a fixed rate. On July 29, 2014, SSMH also entered into 2 fixed spread basis swaps. Under its fixed payer swaps, SSMH receives LIBOR or a percentage of LIBOR plus a spread of 0.12% and pays a fixed rate. For the fixed spread basis swaps SSMH pays SIFMA and receives a percentage of LIBOR plus a spread. The swaps had a total notional amount of $777.2 million with a total mark-to-market value adjustment of $(123.9) million as of June 30, 2015. In the event that the mark-to-market valuation reaches a certain negative value SSMH may be required to post collateral for the benefit of the swap counterparty.

Table 4 – Summary of Fair Value of Derivatives

			June 30, 2015 ($ in thousands)	
	Maturity Date of Derivatives	**Fixed Rate**	**Notional Amount Outstanding**	**Fair Value**
Derivatives not designated as hedges -				
Interest rate swaps	2033 - 2044	2.82% - 5.21%	$777,200	$(123,897)

The estimated fair values of the interest rate swap instruments have been determined using available market information and valuation methodologies, primarily discounted cash flows.

D. Liquidity

The following table describes the liquidation period of the unrestricted cash and investments of SSMH as of June 30, 2015 (exclusive of DHP).

Table 5 – Liquidation Period of Unrestricted Cash

Liquidation Period	Amount ($ in millions)
T+0	$362.7
T+3	1,311.2
Monthly or Less	153.6
Quarterly or Less	85.8
Illiquid	208.0
Total	$2,121.3

The following table describes the self-liquidity indebtedness of SSMH following the issuance of the Series 2014 Bonds and completion of the debt restructuring plan described under the caption "FINANCING PLAN" in the forepart of the Official Statement dated May 13, 2014. For purposes of this table, "self-liquidity indebtedness" means indebtedness that is subject to mandatory tender or maturity within one year or less, excluding the current portion of long-term indebtedness and lines of credit.

Table 6 – Pro Forma Self Liquidity Indebtedness

	Principal Amount ($ in millions)
Windows VRDBs	$100.0
CP Mode VRDBs	100.0
Weekly VRDBs	100.0
Taxable CP	200.0
Total Self-Liquidity Debt	$500.0

Risk Based Capital. SSMH uses Risk Based Capital (RBC) to monitor the adequacy of liquidity and capitalization of Dean Health Plan. RBC is a method of measuring the minimum amount of capital appropriate for a reporting entity to support its overall business operations in consideration of its size and risk profile. For health insurance companies, regulatory action is activated when RBC falls below 200%. The RBC statistics for DHP stood at 431.0% and 434.2% at December 31, 2014 and December 31, 2013, respectively (RBC is reported on an annual basis).

E. **Capital Planning**

SSMH's capital plan reflects the strategic initiatives of SSMH. As part of the ongoing strategic and community needs planning process, management regularly assesses near-term and long-term capital requirements for each of its markets including both growth opportunities and replacement needs. Management also assesses strategic opportunities beyond the existing facilities for growth and to improve access to care in the communities SSMH serves.

The capital expenditure investment for SSMH, including physician alignment, outpatient expansion, routine equipment replacement, significant infrastructure replacement, and adoption of new technologies, was $276.0 million for fiscal year 2014, and $138.1 million during the six months ended June 30, 2015. This included the substantial completion of a new 167-bed replacement hospital in Jefferson City, Missouri, which was completed and opened to patients on November 16, 2014. As of July 1, 2015, SSMH has approved capital projects with remaining balances aggregating to $453.3 million, most of which are expected to be substantially completed in 2015 and 2016.

VI. Subsequent Events

Dr. Gaurov Dayal, who was the president of the Health Care Delivery, Finance and Integration Services division, left SSMH in July, 2015. Management is currently evaluating that role and the management structure related to that position but continues to place strong operating and strategic emphasis on physician integration and care management.

APPENDIX 1

KEY OPERATIONAL STATISTICS

Statistics	Period Ended 06/30/2015	Period Ended 06/30/2014	2015 vs 2014 Variance	2015 vs 2014 % Change
Acute Admissions	79,574	76,881	2,693	3.5%
CMI* Adjusted Admissions	260,778	259,915	863	0.3%
Adjusted Patient Days	843,546	853,121	(9,575)	-1.1%
Inpatient Surgeries	16,905	15,981	924	5.8%
Outpatient Surgeries	31,401	30,301	1,100	3.6%
Outpatient Visits	735,968	675,435	60,533	9.0%
Emergency Visits	352,409	320,907	31,502	9.8%

* CMI – Case Mix Index

APPENDIX 2

EARNINGS BEFORE INTEREST, DEPRECIATION & AMORTIZATION (EBIDA) INFORMATION

	6 Months Ended 6/30/2015	6 Months Ended 6/30/2014	2015 vs. 2014 Variance in Dollars	2015 vs. 2014 Variance by Percentage
Operating EBIDA	$266,190	$221,516	$44,674	20.2%
Excess EBIDA	$295,877	$272,286	$23,591	8.7%
Operating EBIDA %	10.1%	9.2%		
Excess EBIDA %	11.2%	11.1%		