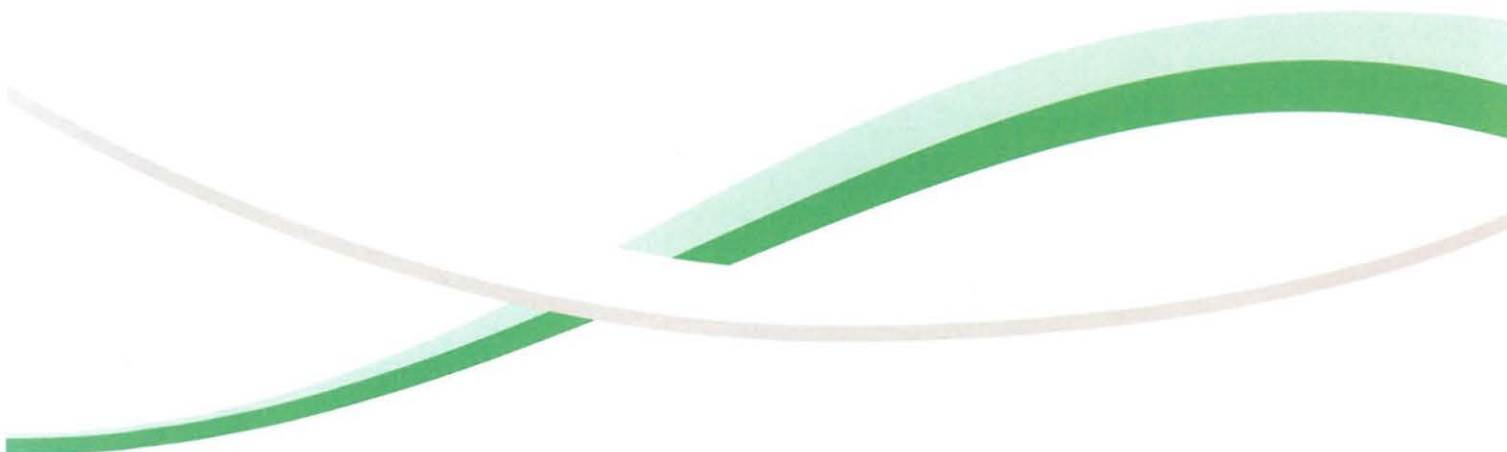




PROMEDICA HEALTHCARE OBLIGATED GROUP

2013 Year End Financial Disclosure
To Accompany Annual Audit



The following discussion and analysis of operations provides information that management believes is relevant to an assessment and understanding of the ProMedica Healthcare Obligated Group's results of operations and financial condition. The financial data relating to the Obligated Group, as defined in the Master Trust Indenture, is provided as supplementary information and is not intended to provide information in accordance with accounting principles generally accepted in the United States. This discussion should be read in conjunction with the Obligated Group financial statements for the twelve months ended December 31, 2013.

Organizational Overview

ProMedica Health System ("ProMedica") is the parent organization of an integrated health care delivery system that provides health care and related services in 27 counties in northwest and west central Ohio and southeast Michigan, with a Paramount Medicaid product that serves all of Ohio. The nonprofit and business organizations controlled directly or indirectly by ProMedica own and operate ten acute care hospitals, various integrated and continuing care providers, insurance companies, physician organizations, and an academic health center corporation. ProMedica also utilizes joint venture and other affiliation agreements to provide health care and related services. Several controlled foundations support the System as fundraising entities for the benefit of ProMedica hospitals and continuing care facilities and services.

MANAGEMENT'S DISCUSSION OF RESULTS OF OPERATIONS

For Year Ending December 31, 2013

Only some of the nonprofit business organizations within ProMedica are members of the ProMedica Healthcare Obligated Group, ("Obligated, Group") and are listed below:

Corporation	Licensed Beds	Location
Acute Care		
The Toledo Hospital	643 ⁽¹⁾	Toledo, Ohio
Toledo Children's Hospital	151 ⁽¹⁾	Toledo, Ohio
Wildwood Orthopaedic and Spine Hospital	42	Toledo, Ohio
Flower Hospital	304 ⁽²⁾	Sylvania, Ohio
Defiance Regional Medical Center	51 ⁽³⁾	Defiance, Ohio
Bay Park Community Hospital	86 ⁽⁴⁾	Oregon, Ohio
Fostoria Community Hospital	25 ⁽⁵⁾	Fostoria, Ohio
St. Luke's Hospital	315 ⁽⁶⁾	Maumee, Ohio
Emma L. Bixby Medical Center	101 ⁽⁷⁾	Adrian, Michigan
Herrick Medical Center	35 ⁽⁸⁾	Tecumseh, Michigan
TOTAL ACUTE CARE BEDS	1,753	
Long-Term Care/Assisted Living/Other		
Lake Park Nursing Care Center	203	Sylvania, Ohio
Goerlich Center for Alzheimer's Care	60	Sylvania, Ohio
Ebeid Hospice	12	Sylvania, Ohio
Caring Home Health Services	n/a	Sylvania, Ohio
Herrick Manor	25	Tecumseh, Michigan
Provincial House of Adrian	117	Adrian, Michigan
Charlotte Stephenson Manor	50	Adrian, Michigan
Wildwood Medical Center	n/a	Toledo, Ohio
TOTAL LONG-TERM CARE BEDS	467	

(1) Toledo Children's Hospital is a pediatric acute care hospital located within The Toledo Hospital. Includes 44 bassinets and 45 inpatient psychiatric beds

(2) Includes 67 inpatient psychiatric beds, 45 physical rehab beds and 24 bassinets

(3) Includes 25 critical access beds, 10 inpatient psychiatric beds and 16 bassinets

(4) Includes 14 bassinets

(5) Includes 25 critical access beds

(6) Includes 17 bassinets

(7) Includes 10 pediatric beds and 13 bassinets

(8) Includes 25 critical access beds, 10 inpatient psychiatric beds

Non-Obligated Group Entities and Activities

In addition to the acute and continuing care providers that comprise the Obligated Group, ProMedica owns and operates an approximately 239,000 member health plan (ProMedica Insurance Corporation), a captive insurance corporation (ProMedica Indemnity Corporation), a physician corporation (ProMedica Physicians Corporation) which employed 402 physicians as of December 31, 2013, supporting foundations, and several joint ventures. For the twelve months ended December 31, 2013, total net operating revenue of these non-Obligated Group entities was \$738.7 million, representing approximately 34.2% of ProMedica's total net operating revenue. The current structure reflects the net financial performance of employed specialists in the financial statements of the hospitals, and therefore the Obligated Group.

Significant Developments

St. Luke's Affiliation Update

(Please see previous filings for a detailed sequence of events regarding the joinder)

On May 18, 2012, ProMedica Health System filed a petition with the Sixth Circuit Court of Appeals to set aside the order of the Federal Trade Commission ordering divestiture of St. Luke's Hospital. During this appeal period, any provision of the FTC's final decision requiring ProMedica to divest St. Luke's Hospital is stayed, pending the Circuit Court's ruling. Oral arguments were held on March 7, 2013, we continue to await a ruling from the Circuit Court.

Fremont Memorial Affiliation

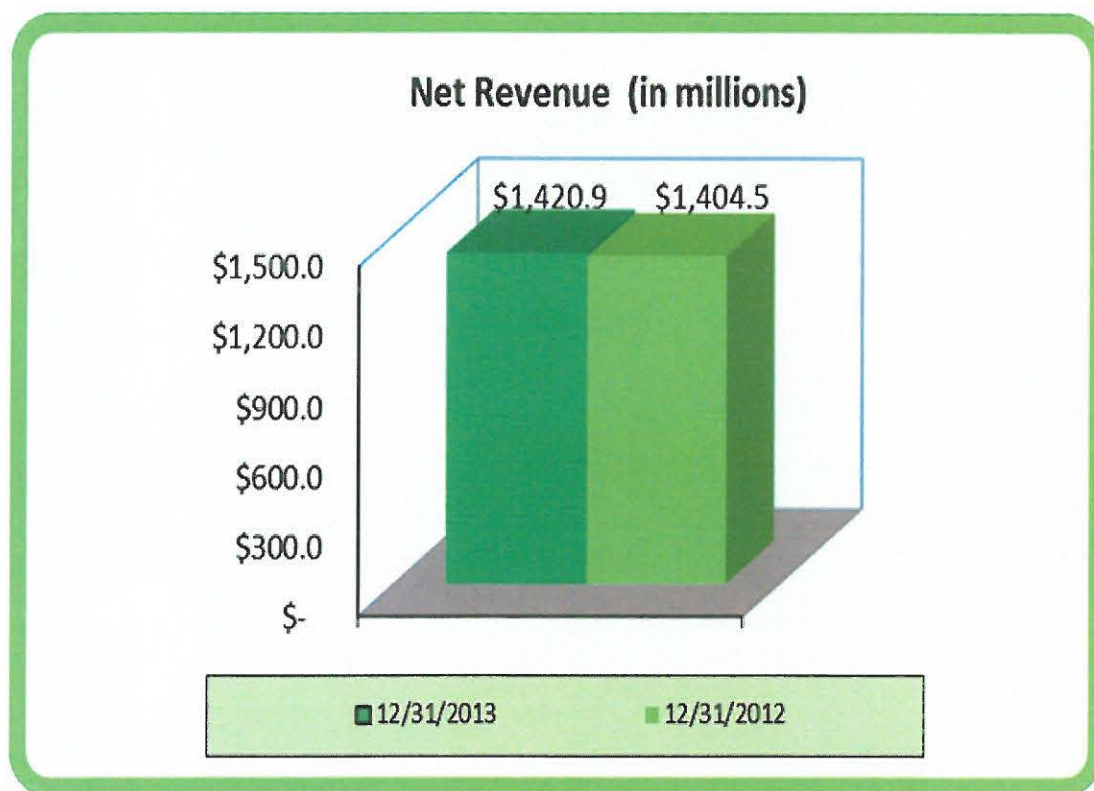
On January 1, 2014, ProMedica and Memorial Hospital in Fremont, Ohio formally closed on a Joinder Agreement under which ProMedica became the sole corporate member of Memorial Hospital. At this time, Memorial Hospital is not a member of the Obligated Group and has no obligation with respect to the Bonds or under the Master Indenture. The joinder will help facilitate collaborative endeavors to better address critical health and social needs throughout the community. Located in Fremont, Ohio approximately 41 miles southeast of Toledo, Ohio, Memorial Hospital is a 186 licensed bed facility that has provided comprehensive, inpatient and outpatient health care services to Fremont, Ohio and its neighboring communities for nearly 100 years.

Cleveland Clinic Affiliation

On July 25, 2013, ProMedica Health System and Cleveland Clinic signed a Memorandum of Understanding to develop a health system affiliation that creates a clinically aligned network to provide high quality, cost effective and technologically advanced clinical services in a framework of comprehensive population management. The affiliation is not a merger, and does not change ownership or independent control of the institutions. An Affiliation Steering Committee, with equal representatives from both parties, is responsible for the oversight, guidance and development of the relationship. Initial opportunities for collaboration include: the Cleveland Clinic's Quality Alliance, shared services, clinical and operational standardization and supply chain efficiencies, as well as patient access and information technology. As the two organizations move forward with their health system affiliation, groundwork will be laid for further integration in the future.

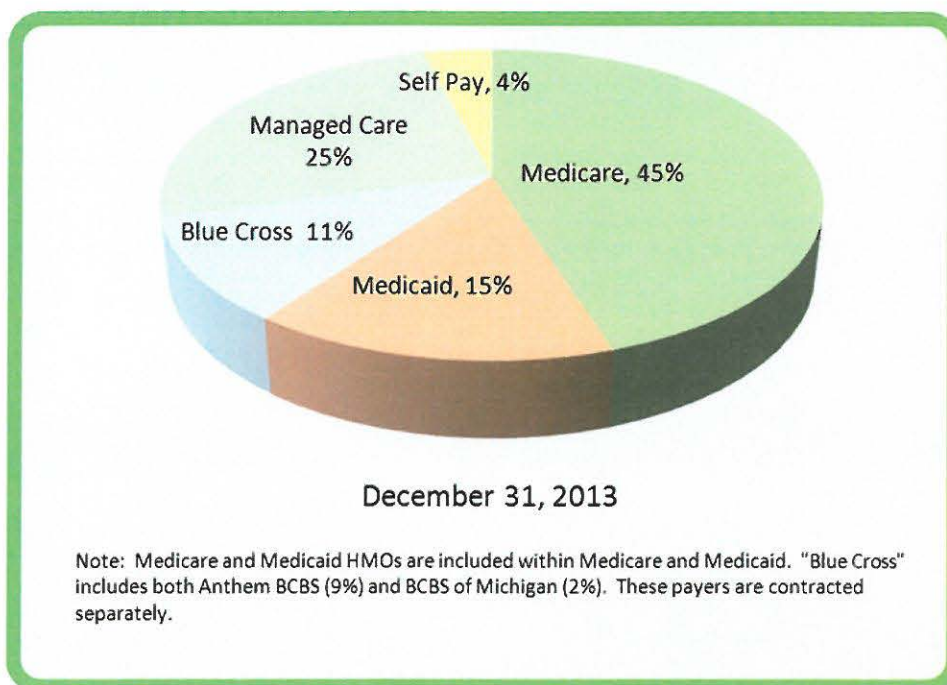
Operating Income and Operating Cash Flow

The total operating revenue for the Obligated Group was \$1,420.9 million for the twelve months ending December 31, 2013, an increase of \$16.4 million or 1.2% over the same period in 2012. The increase in revenue was due to an increase in outpatient surgeries with the acquisition of an ambulatory surgery center and an 11.9% increase in home care admissions. In addition, an increase in outpatient lab testing and continued ramp-up of volume at the Wildwood Orthopaedic and Spine Hospital contributed to the growth.



Operating Income and Operating Cash Flow (Cont'd.)

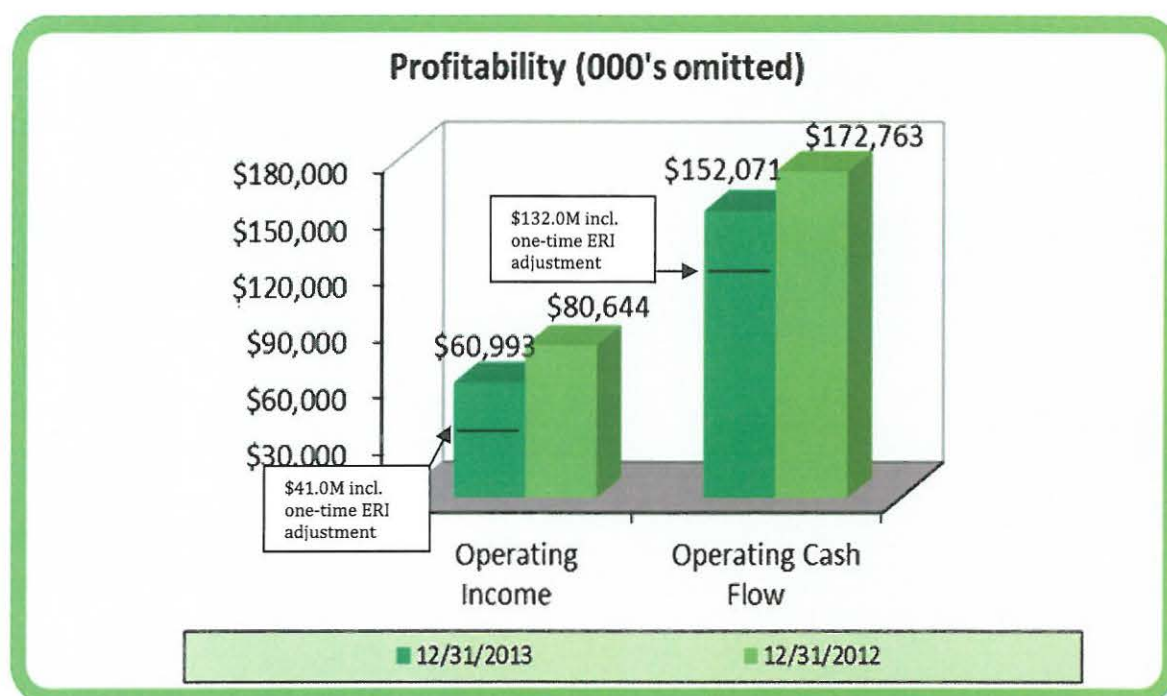
ProMedica contracts with all major payers and no one payer represents more than 9% of the revenue base. Paramount, ProMedica's wholly owned managed care company with approximately 239,000 member lives, expanded their service area effective July 1, 2013 to statewide for the Medicaid Advantage product. Paramount is one of five statewide managed care plans in Ohio. Recently, Ohio took action to expand Medicaid eligibility to up to 138% of the federal poverty level, effective January 1, 2014. Paramount also executed a contract with CMS to participate in the individual health insurance marketplace in Northwest Ohio beginning January 1, 2014.



Charity care for the twelve months ended December 31, 2013 increased from the prior year comparable period, from 2.26% to 2.43% of gross revenue. Bad debt increased from 1.62% to 1.74% of gross revenue over the prior year comparable period. To address increased bad debt and charity, ProMedica is educating the local uninsured population about ACA coverage. Also, a system-wide initiative has been developed to increase patient collections at point-of-service. Detailed staff training and enhanced technology solutions are being implemented in early 2014 to assist in the identification of patient responsibilities prior to services being rendered.

Operating Income and Operating Cash Flow (Cont'd.)

Prior to a one-time \$20 million accrual for an Early Retirement Incentive (ERI), total operating expenses for the twelve months ended December 31, 2013 increased by \$36.0 million or 2.7% over the same period in 2012. Increased expenses were associated with the employed physician specialists and the implementation of the electronic health record system (EHR). In addition, other expenses reflect a reclassification from salary and benefits to other expenses as the result of a consolidation of core administrative services to the parent company.



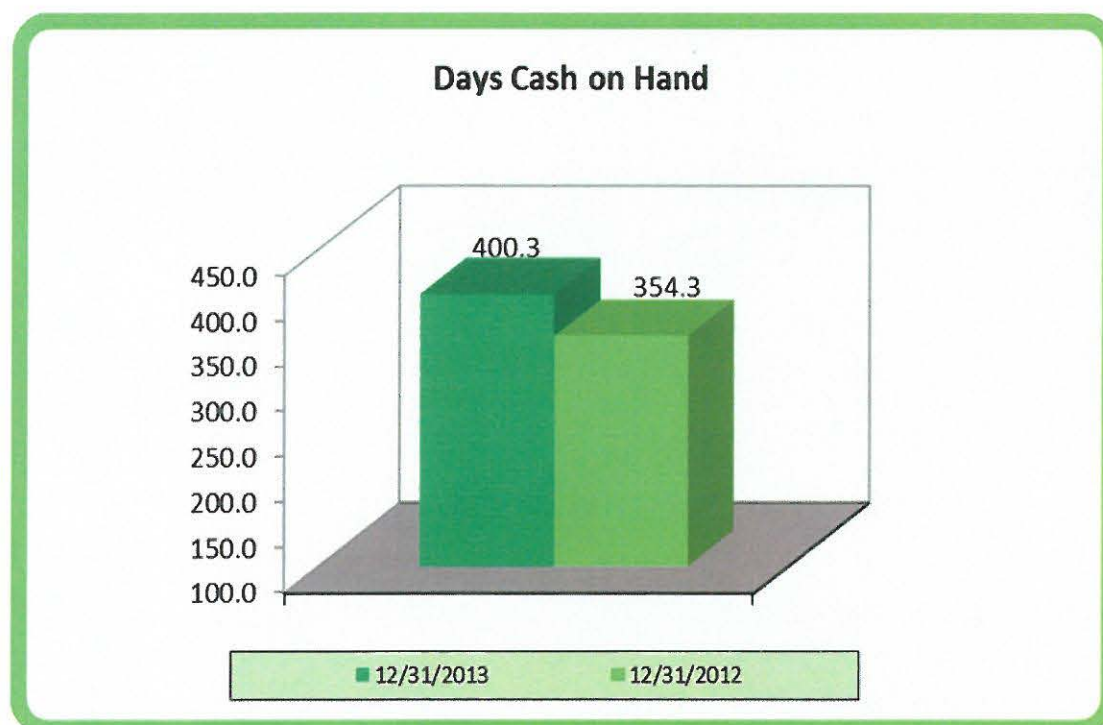
Prior to the one-time adjustment for the Early Incentive (ERI) program, operating income for the twelve months ended December 31, 2013 was \$61.0 million compared to \$80.6 million for the prior year comparable period with operating margins of 4.3% and 5.7% respectively. Operating cash flow was 10.8% or \$152.1 million compared to 12.3% or \$172.8 million for the twelve months ended December 31, 2012.

Including the one-time adjustment for the accrual of the Early Incentive (ERI) program, operating income for the twelve months ended December 31, 2013 was \$41.0 million with an operating margin of 2.9%. Operating cash flow was 9.3% or \$132.0 million.

Balance Sheet and Cash Position

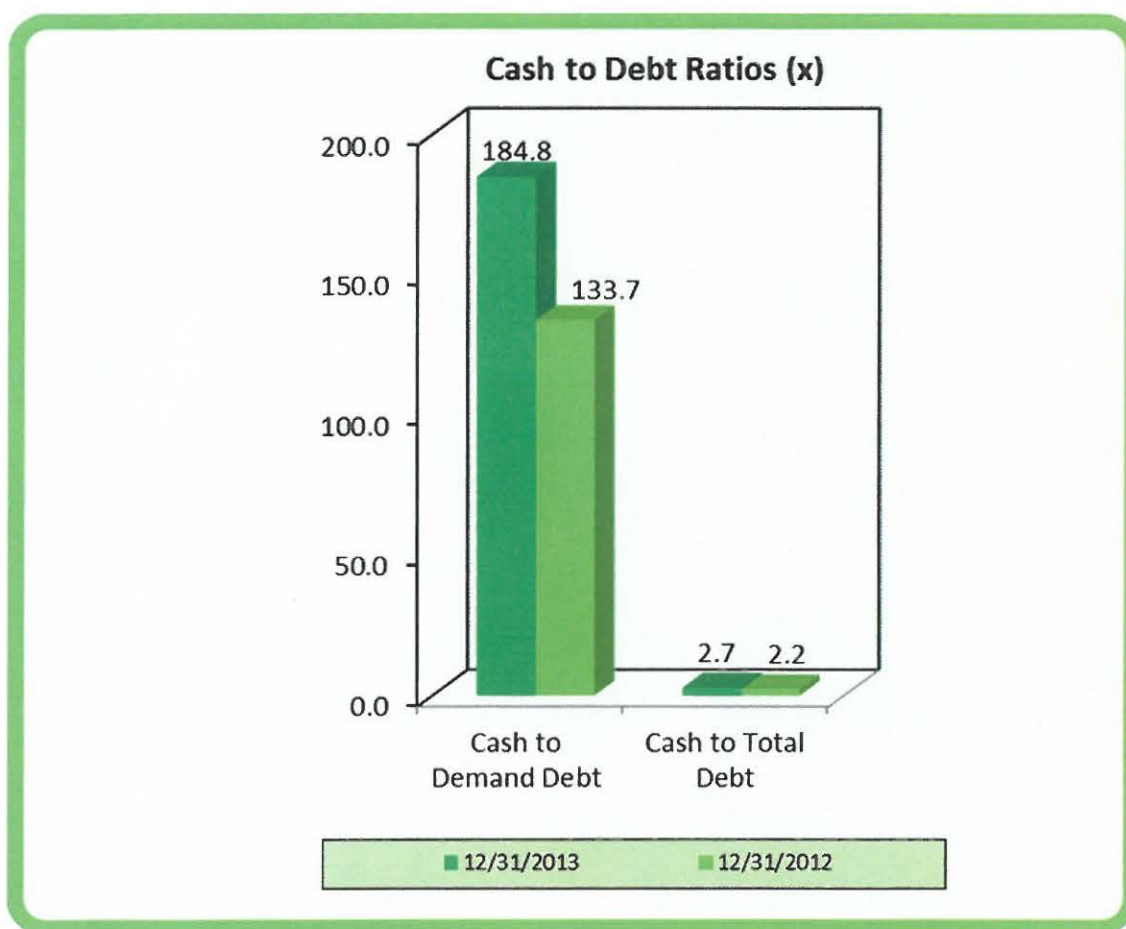
Positive investment returns and cash flow from operations further strengthened the balance sheet of the Obligated Group. Unrestricted cash and investments were \$1.4 billion, an increase of \$222.8 million from the beginning of 2013. Unrestricted cash and investments represented 400.3 days cash on hand as of December 31, 2013, compared to 354.3 days cash on hand as of December 31, 2012. Approximately \$107.5 million of investments have liquidity provisions that may restrict their ability to be liquidated in 30 days or less.

ProMedica maintains a highly diversified investment portfolio through its pooled investment program and utilizes an independent investment advisor to assist with the asset allocation, performance and compliance monitoring and manager selection. Investment income for the twelve months ended December 31, 2013 was a gain of \$185.4 million, reflecting \$125.0 million of unrealized gains (including \$10.2 million of gain on interest rate swaps).



Balance Sheet and Cash Position (Cont'd.)

No new debt was issued for the Obligated Group in fiscal year 2013. As of December 31, 2013, the Obligated Group had \$95.9 million recorded as contingent current portion of long-term debt. This amount represents the outstanding variable rate demand bonds and direct bank notes that have a contractual maturity in excess of one year, but due to terms within the applicable agreement, are recorded as contingency current in accordance with generally accepted accounting principles.



Unrestricted net assets as of December 31, 2013 increased by \$197.0 million to \$1,612.2 million, compared to \$1,415.2 million as of December 31, 2012 primarily due to unrealized gains in the investment markets and cash flow from operations. Total debt outstanding was \$536.4 million, or 25% of capitalization.

MANAGEMENT'S DISCUSSION OF RESULTS OF OPERATIONS

For Year Ending December 31, 2013

	Calendar Year		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Acute Discharges	62,198	63,456	64,182
Newborn Discharges	7,159	7,505	7,535
Outpatient Surgeries	36,938	30,120	30,186
Emergency Room Visits	269,606	276,718	267,124
ALOS – Acute	4.66	4.70	4.65
% of Staffed Beds (Acute Care)	59%	59%	61%
Home Health Admissions	10,914	9,670	8,667
Home Care Visits	160,517	125,915	112,832
LTC Patient/Resident Days	151,336	151,508	148,888
Inpatient Hospice Days	3,195	2,939	2,626

Obligated Group Acute Care Hospital Revenue Sources

	Calendar Year		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Medicare ⁽¹⁾	45.0%	44.1%	43.5%
Medicaid ⁽¹⁾	15.4%	15.7%	15.5%
Blue Cross	10.6%	10.7%	11.1%
Managed Care	25.4%	26.0%	26.2%
Self Pay	<u>3.6%</u>	<u>3.5%</u>	<u>3.7%</u>
Totals	100.0%	100.0%	100.0%

⁽¹⁾ Includes Medicare and Medicaid HMOs.