Extracted from 2017 CHI Annual Report 9-17-17

Selected **highlights** in bold added.
(Pardon the unformatted nature of text extracted from a PDF file.)

Louisville Mentions:

p.2 In addition to the operational initiatives across the enterprise, fiscal year 2017 marked a transition year for KentuckyOne Health ("KentuckyOne") highlighted below and detailed in Part IV: Strategic & Operational Initiatives and Part V: Strategic Affiliations & Acquisitions - Pending and Completed Divestitures.
🎬 CHI transitioned the University of Louisville Medical Center operations, management and control back to the University of Louisville ("U of L"), effective July 1, 2017.
🎬 In May 2017, CHI's Board approved the divestiture of substantially all of the Louisville-area acute care operations.
🎬 CHI assumed complete ownership of KentuckyOne, effective September 1, 2017, when the **Corporation purchased the non-controlling interest from the remaining partner for $150 million. The payment will be used by the partner to further invest in the healthcare needs of the community.**

p.4 Kentucky - Prior to 2012, CHI's Kentucky region consisted primarily of the St. Joseph Health System, which is based in Lexington, Kentucky and operated eight acute care hospitals throughout Kentucky. In 2012, CHI created KentuckyOne, which integrated certain Louisville operations with CHI's existing Kentucky hospitals. As described below under Part V: Strategic Affiliations & Acquisitions – Pending and Completed Divestitures, **CHI has reconfigured the Kentucky Region, including the separation of University of Louisville Medical Center from KentuckyOne and the approved divestiture of all or substantially all of the other Louisville-area facilities in the Kentucky region.** As of July 1, 2017, the continuing operations of the Kentucky region were segregated from and are operated independently of the discontinued operations (located in central and eastern Kentucky, with the original eight acute care hospitals, as well as physician practices).

p.9 Kentucky – Fiscal 2017 marks a transition year for KentuckyOne. As described in Part V: Strategic Affiliations & Acquisitions - Pending and Completed Divestitures. CHI transitioned the University of Louisville Medical Center operations, management and control back to U of L, effective July 1, 2017. Additionally, the CHI Board also approved the divestiture of substantially all of the other Louisville area acute facilities in the Kentucky region. During this strategic repositioning period, CHI's Louisville operations will be operated separately from the remainder of the Kentucky region. To address immediate operational and financial challenges the Kentucky region is experiencing, CHI management has deployed a corporate leadership team focused on the implementation of operational best practices, driving day-to-day performance improvement, addressing nursing and other staff shortfalls, and implementing improvements in patient throughput and quality. Labor management has reduced contract nursing FTEs, from 443 in November 2016 to 128 at June 30, 2017. Further, labor cost reductions of 289 FTEs, primarily in overhead functions were completed in April 2017. The Kentucky region is implementing new staffing productivity targets in nearly all departments and has implemented CHI's system-wide labor management strategies. **Management has also transitioned 50 employed physicians back to private practice, effective in July 2017.**

p.13 KentuckyOne Health. In November 2012, KentuckyOne entered into a Joint Operating Agreement ("Kentucky JOA") and an Academic Affiliation Agreement ("AAA") (collectively "Agreements") with University Medical Center, Inc. ("UMC"), which owns the University of Louisville Hospital, the U of L, and other parties. On December 17, 2016, KentuckyOne, UMC and U of L agreed to restructure their existing Kentucky JOA. Pending and Completed Divestitures 14 This document is dated as of September 15, 2017. Under the terms of that agreement, the operations, management and control of the University of Louisville Hospital was transferred back to UMC effective July 1, 2017. The AAA was restructured and various transition services agreements were entered into in connection with the transfer of the University of Louisville Hospital back to UMC. As described in Part IV: A. Strategic Intent, **in May 2017, CHI approved a plan to sell or otherwise dispose of substantially all of the Louisville market acute care operations, including certain entities of Jewish Hospital and St. Mary's Healthcare, Inc. ("JHSMH"). As a result, CHI will refocus the Kentucky region on a smaller community footprint, centered in central and eastern Kentucky.** CHI assumed complete ownership of KentuckyOne, effective September 1, 2017, when the Corporation purchased the non-controlling interest from the remaining partner for $150 million. The payment will be used by the partner to further invest in the healthcare needs of the community. The following summarizes the financial results of UMC reported in the CHI consolidated statements of operations, and JHSMH reported in the CHI consolidated statements of changes in net assets:

	Three Months Ended June 30			Twelve Months Ended June 30		
$ in millions	2017	2016	% Change	2017	2016	% Change
UMC						
Operating revenues	$133.2	$152.4	(12.6%)	$515.2	$528.7	(2.6%)
Operating EBIDA before restructuring, impairment and other losses	$21.3	$41.5	48.7%	$47.4	$73.7	35.7%
JHSMH						
Operating revenues	$183.5	$171.1	7.3%	$780.7	$752.9	3.7%
Operating EBIDA before restructuring, impairment and other losses	$(16.9)	$(25.2)	33.0%	$(43.9)	$(45.4)	3.5%

KentuckyOne/UMC JOA dissolution ñ In December 2016, KentuckyOne Health, a subsidiary of CHI, and University Medical Center (UMC) agreed to restructure their existing JOA, originally entered into in March 2013, which had given KentuckyOne Health control over substantially all of UMCís operations, including University of Louisville Hospital and the James Graham Brown Cancer Center. Among the various capital investment and funding aspects of the new agreement, the new agreement also called for UMC to take over the management of UMC operations effective on July 1, 2017, at which time CHI ceased consolidating the operations of

UMC. Catholic Health Initiatives Notes to Consolidated Financial Statements (continued) 1708-2401267 30 4. Acquisitions, Affiliations, and Divestitures (continued) **For the fiscal years ended June 30, 2017 and 2016, UMC reported total operating revenues of $515.2 million and $528.7 million, respectively, and excess of revenues over expenses of $18.1 million and $43.8 million, respectively. The CHI consolidated balance sheets also included UMC total assets of $605.5 million and $516.9 million as of June 30, 2017 and 2016, respectively. Upon deconsolidation of UMC on July 1, 2017, CHI incurred a loss of approximately $318.0 million.**

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Discontinued Operations In May 2017, CHI approved a plan to sell or otherwise dispose of certain entities of Jewish Hospital and St. Mary's Healthcare, Inc. System (JHSMH). **CHI will begin to market the sale of these operations and anticipates closing on a sale by the end of the calendar year.**

Kentucky State Mentions: (Other than Louisville mentions)

p.3
Notwithstanding the competitive advantages associated with its size and geographic diversity, CHI has experienced operational and financial challenges in certain key regions, most notably Kentucky and Texas. Various improvement initiatives over the past several years have been successful in driving changes to operations. However, changes in the health care industry have resulted in additional challenges that have led to decreased volumes and reimbursement shifts between inpatient and outpatient/ambulatory care and payer mix.

p.6
CHI has grown from $7.9 billion in total operating revenues in fiscal year 2011 to nearly $15.5 billion in fiscal year 2017, and has diversified into new lines of business. To meet the continuing challenges of a changing health care landscape and financial and operational performance shortfalls, in fiscal year 2016, CHI accelerated performance improvement efforts in the following functional areas/work streams: labor management, revenue cycle, supply chain, the physician enterprise, non-labor overhead, organic growth and information technology. To further this work, in December 2016, CHI hired Anthony K. Jones, FACHE, interim executive vice president of operations. Mr. Jones specializes in leading organizations through financial and operational turnarounds. CHI believes its largest opportunities for improvement in the near term are in labor management across all regions and in additional areas of opportunity in the Kentucky and Texas regions. CHI has accelerated the efforts of its performance improvement plan, with a near-term focus on change in processes of driving and measuring financial and operational improvement across functional areas. The change in processes provides operational accountability while aligning governance and operating models to ensure high performance.

p.8
As discussed above, **CHI has continued to increase the number of employed physicians through the addition of 615 providers in the last year. The total operating loss in the**

Physician Enterprise was $719.7 million during the fiscal year ended June 30, 2017, on a consolidated basis. CHI views this loss as a strategic investment to build integrated regional delivery networks. To address the loss, a review of all physician arrangements to identify those where productivity levels are less than expected. In addition, revenue cycle processes are being reviewed across the enterprise. In addition to the work streams identified above, in February 2017, CHI deployed additional measures to support performance improvement teams in its Kentucky and Texas regions, with the goal of expediting performance improvement activities in those regions. These teams are further supplemented by third party resources with experience in labor management and rapid expense reduction, and with subject matter experts from within CHI. The operating improvements were offset by increases in other expense categories and changes in revenue driven by certain decreased volumes, shifts in inpatient to outpatient settings and unfavorable shifts to payer mix.

p.11
Within CHI's regional CINs, eight Medicare ACOs currently manage $2.7 billion of medical spend for over 300,000 Medicare beneficiaries. Mercy ACO in Iowa was the first ACO to form in 2012. To date, Mercy ACO, Rainier Health Network (WA) and KentuckyOne Health Partners have each driven improved quality outcomes and generated net savings resulting in gain share payments from CMS. Given the initial successes of its CIN performance, CHI has been carefully expanding value-based arrangements with additional payer groups, including Commercial Managed Care, CHI's Employee Health Plan, Medicare Accountable Care Organizations, Bundled Payment Programs, Medicare Advantage Plans and Medicaid Managed Care Plans.

p0.15
Pathology Associates Medical Laboratories, LLC (PAML). In February 2017, CHI entered into a definitive agreement with Laboratory Corporation of America Holdings (LabCorp) to sell all of CHI's interests in PAML to LabCorp. As part of the agreement, LabCorp will also acquire CHI's direct and indirect interests in three CHI joint ventures with PAML in the states of Colorado, Kentucky and Washington. The agreement will close in stages beginning in May 2017, and continuing through 2018. Non-refundable gross sales proceeds attributable to CHI and its affiliates of $96.7 million were received in May 2017, resulting in a net gain on sale of $40.2 million.

p.25
CHI's regional operations were mixed, with favorable expense management offsetting reduced patient volumes in the quarter. **The Pacific Northwest, Colorado, Texas, Nebraska and Kentucky regions represent CHI's five largest operating regions**, and for the three months ended June 30, 2017, represented 70.9% of CHI's consolidated operating revenues. Additional

p.26
Kentucky - the region's operating EBIDA before restructuring, impairment and other losses totaled $56.9 million for the three months ended June 30, 2017, and decreased $(3.5) million compared to the corresponding period of the prior fiscal year. Results for the three months ended June 30, 2017 included a $6.2 million gain on sale of interests in various laboratory

operations, and results for the three months ended June 30, 2016 included $7.7 million in gains from asset sales in the region. **The region's unfavorable results were due primarily to greater operating expenses which increased 4.2%, or $15.7 million, outpacing net patient services revenues which increased 3.0%, or $11.1 million, compared to the same period of the prior fiscal year. Net patient services revenue increased $11.1 million, including $(3.3) million in unfavorable shifts in payer mix, $(3.1) in service mix and $(4.5) million in volume decreases which were offset by the negative accounts receivable reserve adjustment in the prior year not recurring.** Total net revenue per adjusted admission increased 4.1% compared to the same period of the prior fiscal year, while total operating expense per adjusted admission increased 5.2%. Total labor as a percentage of net patient services revenues increased to 43.1% compared to 41.9% in the same period of the prior fiscal year, representing an unfavorable expense variance of $(4.6) million. The region is continuing its efforts to address nursing and other staff shortages which have resulted in increases to overall labor costs, including contract labor costs, overtime and premium pay.

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Same store total labor costs increased 0.9%, or $61.5 million, for the fiscal year ended June 30, 2017, as compared to the corresponding period of the prior fiscal year, due to $84.2 million of annual inflation and merit increases (1.2) %, offset by $(22.7) million in decreased FTEs as a result of labor productivity improvements. CHI same store total labor costs represented 47.5% and 47.8% of same store total operating expenses for the fiscal year ended June 30, 2017 and 2016, respectively. CHI same store total labor costs as a percentage of net patient services revenues decreased to 51.8% for the fiscal year ended June 30, 2017, compared to 52.7% for the corresponding period of the prior fiscal year. CHI continues to address labor productivity within the regions, as well as monitoring growth initiatives in certain physician practices where labor costs and medical professional fees have been added in anticipation of future increased patient volumes. CHI is currently implementing several ongoing labor productivity improvement initiatives throughout CHI, with a particular focus on the Kentucky and Texas regions.

p.32

Kentucky – the region's operating EBIDA before restructuring, impairment and other losses totaled $115.6 million for the fiscal year ended June 30, 2017, and decreased $(52.3) million compared to the corresponding period of the prior fiscal year. Results for the fiscal year ended June 30, 2017 included a $6.2 million gain on sale of interest in various laboratory operations, and results for the fiscal year ended June 30, 2016 included $7.7 million in gains from asset sales 33 This document is dated as of September 15, 2017. in the region. The region's unfavorable results were due to operating expense increases of 4.4%, or $67.3 million, outpacing net patient services revenues increases of 1.2%, or $17.3 million, compared to the same period of the prior fiscal year. Net patient services revenues included unfavorable shifts in payer mix $(13.0) million, acuity $(10.5) million and service mix $(7.5) million, offset by rate improvements due to revenue cycle improvements. Total net revenue per adjusted admission decreased (2.1) % compared to the same period of the prior fiscal year, while total operating expense per adjusted admission increased 1.1%. Total labor as a percentage of net patient services revenues increased to 43.4% compared to 40.6% in the same period of the prior fiscal year, representing an unfavorable expense variance of $(42.0) million. The region is continuing its efforts to address nursing and other staff shortages which have resulted in increases to overall labor costs, including contract labor costs, overtime and premium pay.

p.48
St. Joseph–London. Following a voluntary disclosure of compliance-related issues concerning cardiac stent cases performed at a CHI direct affiliate, St. Joseph London (“SJHS”), by a single, independent/nonemployed interventional cardiologist, on January 22, 2014, SJHS entered into a settlement agreement with the federal government, the Commonwealth of Kentucky, and three relators and paid $16.5 million to resolve civil and administrative monetary claims raised in a qui tam lawsuit relating to certain diagnostic and therapeutic cardiac procedures performed at SJHS’s facility and the financial relationship with certain cardiac physicians and physician groups. In addition, SJHS entered into a five-year corporate integrity agreement (“CIA”) with the OIG that imposes certain compliance oversight obligations solely at SJHS’s facility. The CIA is approaching the end of its third year. In a separate matter, numerous civil lawsuits have been filed against the Corporation and SJHS claiming damages for alleged unnecessary cardiac stent placements and other cardiac procedures. Both CHI and SJHS are vigorously defending these lawsuits. The first case, Edward Marshall, et al. v. Catholic Health Initiatives et al., Case No. 11-CI-00972, was tried to a defense verdict in favor of both CHI and SJHS. Plaintiffs agreed to dismiss the second case to be tried, Blair Apgar and Mary Apgar, his wife v. Catholic Health Initiatives, et al., Case No. 12-CI-00445. CHI and SJHS were dismissed before trial from the third case to be tried, James Davis, part of Anthony Adams et al. v. Catholic Health Initiatives, et al., Case No. 12-CI-00802, which resulted in a defense verdict in favor of the remaining defendants. The fourth case, LeMaster v. Catholic Health Initiatives, et al., Case No. 12-CI-00975, which was originally scheduled for trial in April 2016, was dismissed by the court following a grant of summary judgment in favor of SJHS due to plaintiff’s failure to establish a causal link between the alleged negligence and plaintiff’s injuries. The fifth case, Dolly Wathen, also part of Anthony Adams, et al. v. Catholic Health Initiatives, et al., Case No. 12-CI-00802, was dismissed by plaintiffs prior to trial. The sixth case, Kevin Ray Wells, Sr. v. Catholic Health Initiatives, et. al., Case No. 12-CI-00090, was tried to verdict in August 2016. The jury found in favor of the plaintiff and awarded compensatory damages in an amount just under $1.3 million and punitive damages of $20.0 million. Post-trial motions have been filed and, while the trial court did not set aside the verdict, it did reduce the punitive damage award to $5.0 million. The rulings of the trial court are now being appealed. The E/O Vada Owens v. Catholic Health Initiatives, et al. Case No. 12- CI-00405 commenced trial on January 9, 2017 in the Circuit Court of Laurel County with the Honorable Judge Lay presiding. Prior to the case going to the jury, a Settlement in Principle was reached with Plaintiffs on all of the cardiac claims, including the E/O Owens, but excluding Kevin Wells which is on appeal. Management believes that adequate reserves have been established and that the outcome of the current litigation will not have a material adverse effect on the financial position or results of operations of CHI.

KentuckyOne Health, Inc. Beds (See spreadsheet elsewhere in article.)

- Flaget Memorial Hospital Bardstown 40 + 12 Long term

- Saint Joseph -Berea (CAH) Berea 25
- Saint Joseph East, inc. Women's Hospital at St. Joseph East Lexington 185
- Saint Joseph Hospital Lexington 408
- Saint Joseph-London London 150
- Frazier Rehabilitation and Neuroscience Center Louisville 135
- Jewish Hospital Louisville 462
- Our Lady of Peace Louisville 396
- Sts. Mary & Elizabeth Hospital Louisville 298
- University of Louisville Hospital Louisville 320
- Saint Joseph-Martin (CAH) Martin 25
- Saint Joseph-Mount Sterling Mount Sterling 42
- Jewish Hospital Shelbyville Shelbyville 70