UNAUDITED

Management Discussion and Analysis

For the Nine Months Ended September 30, 2015

Henry Ford Health System's Management's Discussion and Analysis (MD&A) is intended to provide a high level overview of the financial performance for the nine months ended September 30, 2015, with comparable prior year information, including operational highlights. This document includes certain forward looking comments based on management's beliefs; actual results could differ materially. This document should be read in conjunction with the unaudited consolidated financial statements for the nine months ended September 30, 2015.

It is management's intention to provide an MD&A in conjunction with the public release of unaudited quarterly and annual audited financial statements. The intent is to provide current and prospective bond holders and other interested parties with a better understanding of Henry Ford Health System's consolidated financial and operational performance. It is also management's intention to schedule periodic investor calls.

Organizational Overview

Henry Ford Health System (the System) is a Baldrige award-winning, integrated, academic health system that includes both extensive provider assets and insurance operations. The System offers differentiated capabilities, as well as strong focus on population health, value based care, and disease management.

The System is celebrating its 100th year with an integrated hospital and employed physician model. The System has an extensive integrated provider network, including:

- Five hospitals in three counties, including Henry Ford Hospital, an internationally known academic referral center and an inpatient psychiatric hospital.
- Over 1,200 employed physicians, primarily through the Henry Ford Medical Group.
- A pluralistic physician model at the System's suburban hospitals, leveraged through the System's clinically integrated network.
- An extensive distributed ambulatory network with 32 medical centers, behavioral health facilities, home-based care, pharmacy, and retail services.
- Strong market share, brand and differentiation within Southeastern Michigan, as well as a state-wide, national, and international reputation resulting in substantial referral volume.
- A substantial role in teaching the health professionals of tomorrow, complemented by a significant research and discovery function.

In addition to extensive provider assets, the System also has three decades of experience managing pre-payment arrangements through Health Alliance Plan (HAP) and its subsidiaries. HAP has products for every market segment and serves more than 691,000 members through six distinct lines of business: group insured commercial, individual, Medicare Advantage (the oldest plan in southeast Michigan), Medicaid, self-funded, and network leasing. HAP participates in public and private exchanges, high-performing networks, and has substantial Administrative Services Only (ASO) capabilities.

Given its history and assets, the System is uniquely positioned to succeed in a pay-for-value environment.

Summary of Operating Results

The System reported excess revenues over expenses of $101.9 million for the nine months ended September 30, 2015, on revenues of $3.8 billion, providing a margin of 2.7%. This reflected significant improvement over excess revenues over expenses of $15.3 million on revenues of $3.5 billion reported for the nine months ended September 30, 2014, and was favorable to budget. Improved performance was the result of strong top-side revenue growth for both provider and insurance plan segments and effective expense management. The balance sheet remained stable for the third quarter of 2015.

The System completed the System-wide installation of a new integrated clinical and revenue software application (EPIC) with go-lives at its final two hospitals early in 2014. This implementation had a significant impact on most operational areas of the System including substantial one-time expense as well as some short-term adverse revenue implications. The implementation was completed on time and within budget. The EPIC system is now stable and is being optimized. Days in accounts receivable have returned to below pre-go-live levels and are expected to trend lower in the future.

A significant transformational initiative, the Strength & Sustainability Plan (the Plan), was launched in 2014 to improve the financial and operational positioning of the System as the health care business environment continues to evolve. The Plan provides the framework for coordinated ongoing System-wide efforts to create value through reduced costs, accretive growth, improved revenue cycle, operational and clinical redesign, enhanced quality and safety, and increased satisfaction of patients, employees and physicians. Overall cost per case mix adjusted equivalent discharge was reduced by 1.7% between 2014 and 2015.

Revenue Growth

As a fully integrated system, total unrestricted revenue grew to $3.8 billion during the nine months ended September 30, 2015, up $304 million or 9% from the nine months ended September 30, 2014. The System recognized net patient service revenue of $1.8 billion and healthcare premium revenue of $1.8 billion for the nine months ended September 30, 2015. Revenues associated with healthcare services provided by the System to members of its capitated insurance products are included in premium revenue. Net patient service revenue reflects amounts recognized from all other payers and patients.

Net patient service revenue increased $218 million or 14% during the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014, due to outpatient volume growth (outpatient facility visits were 139,841 or 7% over prior year levels), growth in ancillary areas (e.g. pharmacy), a 7.5% increase in all-payer case mix index, a 0.4% increase in admissions, and increased prior year settlements and provider assessment payments.

Health care premiums increased $88 million or 5% for the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014, due to an increase in premium rates partially offset by a product mix change and overall decrease in fully insured membership of 1%. Specifically, HAP saw a decline in membership in the commercial fully insured products of 3% while the self-insured products increased by 9% consistent with expectations under the Affordable Care Act. In addition, the Medicaid product line experienced an increase in membership of 6%, in part due to Medicaid Expansion ("Healthy Michigan") that became effective in the State of Michigan on April 1, 2014. Medicare Advantage membership increased 2% over prior year levels.

Investment income decreased $15 million or 56% for the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014, due to current market volatility.

Expense Trends

Total expenses increased by $215 million or 6% from 2014 levels, well behind the growth in revenue of 9%.

Salaries, wages, and employee benefits increased by $78 million or 6% for the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014. This moderate growth rate reflects successful Strength & Sustainability initiatives focused on span of control, shifting staffing mix, reduced pension expense following plan redesign, and other labor expense initiatives. This increase also includes a shift of $34 million from health care provider expense to benefit expense due to the July 1, 2014 conversion of the System's employee health insurance program from a HAP fully insured structure to a system self-insured structure administered by HAP. Salary expense also increased due to increased volume, salary increases effective April 1, 2015, and the conversion of information technology resources of $4 million from contracted services to employed staff.

Health care provider expense increased $4 million for the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014, due primarily to increased volume offset by the above mentioned shift of $34 million to salaries, wages, and employee benefits due to the conversion from HAP fully insured to self-insured employee health insurance.

Supplies expense increased $98 million or 22% for the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014, primarily due to pharmacy expense related to expanded ambulatory and specialty pharmacy activities and other increases in volume. This volume growth more than offset significant savings achieved in hospital supply costs due to aggressive product standardization and contracting initiatives.

Depreciation and amortization expense decreased $4 million or 3% for the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014, primarily due to prior year accelerated depreciation on the legacy electronic medical record system.

General and other administrative expense increased $35 million or 14% for the nine months ended September 30, 2015, compared to the nine months ended September 30, 2014, primarily due to increased commissions, fees and premium tax expenses related to the Affordable Care Act; the reinstatement of the state use tax to fund the Medicaid program in Michigan; and increased income tax on Midwest Health Plan, a wholly owned subsidiary of HAP, due to increased membership in 2015.

Community Benefits

The System provided $241 million of uncompensated care at cost for the nine months ended September 30, 2015, up from $236 million in the prior year. Consistent with expectations resulting from the Affordable Care Act, there were fewer patients without health insurance coverage due to expanded coverage through the subsidized health insurance exchanges and Michigan Medicaid expansion. The System's loss on Medicaid grew during the nine months ended September 30, 2015, due to the expanded number of covered individuals. Also, there remains a large number of uninsured individuals, and many patients are finding that they now have insurance coverage with deductibles and copayments that are beyond their ability to pay. During 2015, the System implemented an insured charity policy using a presumptive eligibility process to identify eligible charity accounts previously recorded as bad debt write offs. This process resulted in a reclassification of approximately $23 million in uncompensated care cost for the nine months ended September 30, 2015 from bad debt expense to charity. This reduced both patient service revenue and the provision for bad debts, with no change in net patient service revenue. Given its

mission, the System also had substantial unreimbursed costs for health professional education, research and other community services.

Balance Sheet

The System maintains a solid balance sheet. Total System days cash (inclusive of insurance operations) at September 30, 2015, totaled 108.9 versus 107.0 at December 31, 2014. Total System days cash is lower than some health systems due to the substantial size of the insurance segment and the amount of capitation revenue and operating expenses for medical services. If days cash was calculated only using expenses of the provider segment for the denominator, days cash would be a much stronger 172.2 days at September 30, 2015. The System's financial assets are conservatively invested, with a significant portion invested in short-term and investment-grade debt securities.

The System has a modest debt load, with total debt of $916 million and a cash-to-debt ratio of 170% at September 30, 2015.

Investment Performance

The system maintains significant operating investments including cash and cash equivalents, short-term investments, and long-term investments. These investments increased $126.2 million from December 31, 2014. The increase is attributable primarily to favorable operating performance. Investment income from cash and cash equivalents, short-term investments, and long-term investments recognized at September 30, 2015 was $4.8 million. Investment income is consistent with market returns on the underlying securities in these funds, which are primarily comprised of money market funds and investment-grade fixed income instruments.

Assets limited as to use, including the Foundation, self-insurance funds, and deferred compensation funds, decreased $78.6 million from December 31, 2014. The decrease is primarily due to distributions in excess of funding and unfavorable investment performance. Investment performance was impacted by the year-to-date decline in the equity and fixed income markets as risk assets have faced headwinds globally. Investment income from assets limited as to use recognized at September 30, 2015 was $ 7.3 million.

Third Quarter Strategic Developments and Additional Highlights

- During the fourth quarter, the System announced two mergers that together are expected to increase System consolidated revenues by approximately 18% and increase the System's geographic spread for both provider and insurance operations. Both mergers are accretive financially, are consistent with the System's commitment to value based care, and will allow the System to favorably impact more lives across Michigan.

- On November 9, 2015, the Board of the Allegiance Health System (AHS) voted to enter into a non-binding Letter of Intent (LOI) to merge AHS into the System. The merger is expected to increase the System's annual revenue by approximately $500 million, increase days cash by approximately 10 days, and have a modest impact on operating performance and other financial ratios. Under the transaction, the System will become the sole member of AHS. The LOI provides for creation of a health network in south central Michigan and for certain capital and clinical service commitments to benefit AHS and the region. Completion of the transaction is contingent upon, among other things, successful due diligence investigation, completion of definitive agreements, and approval of applicable governmental authorities. AHS is a 480-bed health system in Jackson, Michigan. AHS complements traditional acute care services with mission-based services to support the care continuum for all members of the community. Through its Health

Improvement Organization (HIO), AHS is also a national leader in forming community partnerships that innovatively address wellness and prevention needs in the community.

- On October 30, 2015, HAP and HealthPlus of Michigan signed a definitive agreement to merge. The merger is subject to regulatory approval with an anticipated effective date of January 1, 2016. The merger is expected to increase HAP's Medicare Advantage lives from approximately 50,000 to 67,000 and is expected to increase HAP commercial lives by approximately 40,000. The merger is expected to increase HAP's annual revenue by approximately $410 million and expand its geographic spread by adding substantial membership in Flint and surrounding counties. In addition, it is expected that 15,000 new TPA lives will be added to HAP Preferred Inc. with a nominal increase in revenue. HealthPlus sold its Medicaid operations earlier this year and ceased several other areas of activities where they sustained operating losses in 2014 and 2015. It is anticipated that the HealthPlus merger will dilute the System days cash by 3-4 days, but will increase cash by $80 million. The System expects HealthPlus to have minimal impact on System operating income in 2016 and become substantially accretive over time.

- On October 13, 2015, HAP Midwest Health Plan (MHP) was notified by the State of Michigan that effective January 1, 2016 they would not be a participating Medicaid plan for the two key regions that reflect the vast majority of MHP's membership. Management filed an extensive protest of the bid recommendation however that protest was denied. Management is now seeking reconsideration of that decision by the State Administrative Board and, if those efforts are not successful, will pursue other efforts to mitigate negative impact from this action. In the event that the State's decision is not reversed, MHP intends on selling its Medicaid membership for affected regions to another health plan. Through September 30, 2015 and 2014, MHP had revenues of $368 million and $277 million, respectively, and after-tax income of $20 million and $13 million, respectively.

- The System announced plans to build a $110 million cancer center as part of a longer term $500 million expansion and neighborhood improvement initiative on 300 acres in Detroit, marking another key development in the city's revitalization and growth. The planned five-story, 144,000 square-foot cancer center is expected to open in summer 2018. With ambulatory cancer treatment and support services under one roof, the new facility will make cancer care more comfortable and convenient for patients, families and seniors with a design that focuses on their emotional and physical needs. The center will incorporate technology as well as clinical and translational research that patients seek in a destination center.

- QuickCare was opened as an innovative urgent care/ambulatory center in Detroit as part of the System's "Radical Convenience" strategy.

- During the third quarter, the System continued to celebrate its 100-year anniversary as an integrated provider. The first patient was seen at Henry Ford Hospital in July 1915.

- The System will be holding an investor call on Thursday, November 19, 2015. Information is posted on DAC.

- The System is nationally and internationally recognized for its innovation and excellence. The following are several awards received during the third quarter of 2015:

    - The Equity of Care Award from the American Hospital Association, an award that recognizes hospitals for their efforts to reduce health care disparities and promote diversity within organization's leadership and staff.

- For the 10th year in a row, Henry Ford Hospital has won/co-won the 2015 NRC Consumer Choice Award in the Detroit-Wayne County market. The Consumer Choice results are derived from the Market Insights survey and the awards are based on scores for the following metrics: Best Overall Quality, Best Overall Image/Reputation, Best Doctors, and Best Nurses.

- The Stroke and Neurovascular Disease Center was honored with the American Heart Association/American Stroke Association's Get With The Guidelines ® Stroke Gold Quality Achievement Award.

- The System's achievement at finding cost savings through more effective purchasing practices was recognized with a 2015 Supply Chain Excellence Award from Premier Inc. The Premier Award has gone to the System five times in seven years.

- The System was awarded the Michigan Minority Supplier Development Council's (MMSDC) Supplier Diversity Health Care Corporation of the Year Award. This is the fifth consecutive year, and the seventh time overall, that the System has earned this special recognition. The System also received the Women's Business Enterprise Council – Great Lakes' Excellence in Supply Diversity Award in the "Advanced" category.

- For the 11th time, the System was named one of "The Best and Brightest Companies to Work For®" in metro Detroit by the National Association for Business Resources.

Health System Leadership

The System continues to have a strong leadership team, which includes both long tenured executives and other seasoned leaders who have joined more recently. During the third quarter System leaders also continue to receive national and state recognition through the following appointments and honors:

- Nancy Schlichting, CEO of Henry Ford Health System, has made *Modern Healthcare's* list of the 100 Most Influential People in Healthcare for the fourth consecutive year. She has earned the honor a total of eight times, more than anyone else in Michigan history. She also has been honored with the 2015 Best of MichBusiness Award, CEO of CEOs, presented by the *Michigan Food & Beverage Association* and named the "Second Most Connected Person" in metropolitan Detroit by *Crain's Detroit Business.*

- Wright Lassiter III, president, Henry Ford Health System, was appointed to the American Hospital Association's Task Force on Ensuring Access in Vulnerable Communities.

- Eric Scher, M.D., chair, Department of Medicine, Henry Ford Hospital, was appointed to the Council on Graduate Medical Education. The 17-member council provides an ongoing assessment of physician workforce trends, training issues and financing policies. It advises and makes recommendations to the Secretary of the U.S. Department of Health and Human Services, U.S. Senate Committee on Health, Education, Labor and Pensions and U.S. House of Representatives Committee on Energy and Commerce.

- Kathleen L. Yaremchuk, M.D., chair of the Department of Otolaryngology-Head & Neck Surgery at Henry Ford Hospital and vice president for Clinical Practice Performance, was appointed Chair of the Women in Otolaryngology Section of the American Academy of Otolaryngology-Head & Neck Surgery.

- Mark Coticchia, vice president and chief innovation officer, was named one of the "15 Hospital, Health System Chief Innovation Officers to Know" by *Becker's Health IT & CIO Review.*

- Henry Ford Hospital otolaryngologist Robert Stachler, M.D, was honored with the 2015 Practitioner Excellence Award from the American Academy of Otolaryngology-Head and Neck Surgery (AAO-HNS) Board of Governors.

- Jerry Yee, M.D., division head, Nephrology and Hypertension at Henry Ford Hospital, was honored with the 2015 Nostradamus Award from the Council of Advanced Practitioners of the National Kidney Foundation for his support and contributions of advanced practitioners in nephrology.