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Media Contact: Rich Copp 617-278-1031

Investor Contact: Debra Sloan 857-282-0952

Partners HealthCare Reports Third Quarter 2018 Financial Results

BOSTON, MA – Partners HealthCare today reported operating income of \$91 million (2.7% operating margin) in the third quarter of fiscal year 2018, which ended on June 30, 2018. Health care provider activity generated operating income of \$96 million during the quarter (see Provider Activity) and insurance activity (Neighborhood Health Plan or NHP) resulted in an operating loss of \$5 million (see Insurance Activity). In the 2017 third quarter, Partners reported income from operations of \$50 million (1.5% operating margin), including operating income of \$16 million from provider activity and \$34 million from insurance activity.

Partners total operating revenue declined \$120 million (-3%) to \$3.3 billion in the 2018 third quarter, as growth in provider revenue (\$259 million, 9% -- including revenue received by Partners providers from NHP) was offset by a decline in insurance revenue (-\$418 million, -64%). The decline in insurance activity reflects the transition of members from Medicaid managed care programs into the new MassHealth Accountable Care Organization (ACO) program on March 1, 2018. Total operating expenses decreased \$161 million (-5%) to \$3.2 billion, as increases in wages and benefits (\$81 million, 5%) and supplies and other expenses (\$69 million, 10%) were offset by a reduction in medical insurance claims (-\$334 million, -68%).

“Strong performance by our hospitals, physicians and insurance operation coupled with a continued focus on expense management through our *Partners 2.0* initiative has enabled us to realize an operating margin within our 2-3% target,” said **Peter K. Markell, Chief Financial Officer and Treasurer at Partners HealthCare**. “However, we are very concerned about the consequences of the upcoming nurse staffing ballot question, which will collectively impose more than a billion dollars of new costs on the Massachusetts health care system, negatively impacting our ability to fulfill our patient care, research, education and community benefits missions.”

Partners reported an overall gain of \$275 million in the 2018 quarter, including a non-operating gain of \$184 million of which \$170 million reflects the preliminary net impact of Mass Eye & Ear joining Partners on April 1, 2018. Accounting rules require the fair value of acquired net assets to be recognized as non-operating gains. Non-operating activity also includes gains and losses on investments and interest rate swaps, which can vary significantly year to year due to volatility in the financial markets, and philanthropic activity. In the 2017 quarter, Partners reported an overall gain of \$55 million, including a non-operating gain of \$5 million.

Health Care Provider & Other Activity (Provider Activity)

Provider activity generated operating income of \$96 million (3.0% operating margin) in the third quarter of 2018 and \$16 million (0.6% operating margin) in the third quarter of 2017.

Revenue for provider activity increased \$259 million (9%) – of which \$109 million or 4% was contributed by Mass Eye & Ear, which joined Partners on April 1, 2018 – to \$3.1 billion in the 2018 third quarter. Net patient service revenue increased \$198 million (9%) to \$2.5 billion, reflecting higher patient acuity, growth in utilization of certain services and the inclusion of Mass Eye & Ear. Research revenue grew \$22 million (5%), including \$13 million (3%) for Mass Eye & Ear, to \$493 million. Other operating revenue, excluding patient care and research revenue, increased \$39 million (24%) to \$200 million, reflecting activity for Mass Eye & Ear (\$11 million), Partners recently opened specialty pharmacy (\$8 million of non-patient revenue) as well as intellectual property (\$7 million) and Medicaid ACO non-patient revenue (\$7 million).

Operating expenses attributable to provider activity increased \$179 million (6%) – of which \$107 million or 4% was due to the addition of Mass Eye & Ear – to \$3.0 billion in the 2018 third quarter. Employee compensation and benefits increased \$85 million (5%) to \$1.7 billion. Supplies and other expenses increased \$71 million (10%) to \$774 million reflecting continued pressure on costs for pharmaceuticals (\$16 million or 11%) and medical supplies (\$9 million or 7%). Depreciation and interest expense increased \$9 million (4%) to \$215 million.

Insurance Activity

Insurance activity resulted in an operating loss of \$5 million (-1.9% operating margin) in the 2018 third quarter compared to an operating gain of \$34 million (5.3% operating margin) in the comparable 2017 third quarter. The 2017 quarter reflects the benefit of premium deficiency reserve amortization, which increased NHP's operating gain by \$17 million, as well as the timing of favorable risk adjustments.

Premium revenue decreased \$419 million (-64%) to \$232 million in the 2018 third quarter. NHP's MassHealth membership declined by 230,537 (-88%) from June 30, 2017 to June 30, 2018, reflecting the transition of members from Medicaid managed care programs into the new MassHealth ACO program on March 1, 2018. Under the new MassHealth ACO program, NHP is partnering with an ACO called My Care Family in Greater Lawrence as well as providing administrative services to approximately 100,000 patients in the Partners ACO. As of June 30, 2018, approximately 77% of NHP's 139,190 members were in commercial plans.

Earlier this month, NHP announced the launch of a major rebranding initiative and effective January 1, 2019 will be known as AllWays Health Partners. The new brand reflects the company's evolution as a customer-focused health plan with multiple lines of business committed to accelerating the growth of its large-group commercial membership.

“NHP is well positioned for further growth on the commercial side through the continued introduction of innovative products and first-to-market programs for employers, earning the administrative service business for 100,000 members through the Partners employee health plan, and the launch of a new brand identity,” said **Markell**. “NHP’s deep commitment to serving MassHealth members continues to evolve as they partner with and support Medicaid ACOs, including our own.”

Medical claims expense decreased \$374 million (-65%) to \$205 million in the 2018 third quarter, reflecting the decline in membership and more efficient claims management. NHP’s medical loss ratio (the percentage of insurance premiums that are used to pay medical claims) was 88.1% in the 2018 quarter and 91.5% in the 2017 quarter, excluding the impact of premium deficiency reserves.

General and administrative costs decreased \$6 million (-14%) to \$33 million in the 2018 second quarter. The administrative expense ratio (the percentage of insurance premiums that are used to pay general and administrative expenses) increased to 13.3% from 5.9% in the 2017 second quarter, relating to reductions in membership.

Year-to-Date Consolidated Results

Partners reported income from operations of \$275 million (2.7% operating margin) for the nine months ended June 30, 2018. Provider activity generated operating income of \$231 million and insurance activity generated operating income of \$44 million. In the comparable prior year period, Partners reported income from operations of \$57 million, including \$35 million income from provider activity and \$22 million income from insurance activity. NHP’s 2017 results reflect the benefit of premium deficiency reserve amortization, which increased its operating income by \$43 million.

Total operating revenue increased \$33 million (0.3%) to \$10.0 billion for the nine months ended June 30, 2018, as growth in provider activity (\$635 million, 8% -- of which \$109 million or 1% was contributed by Mass Eye & Ear) was substantially offset by a decline in insurance activity (-\$689 million, -36%). Total operating expenses decreased \$185 million (-2%) to \$9.7 billion, as the decline in insurance activity exceeded growth in all other expenses, including the addition of Mass Eye & Ear (\$107 million).

For the nine months ended June 30, 2018, Partners HealthCare absorbed \$1.1 billion in Medicare, Medicaid, and Health Safety Net shortfalls due to government reimbursements that failed to pay the full cost of providing care to Medicare, low-income, and uninsured patients, an increase of \$46 million (4%) over the shortfall absorbed in the comparable prior year period.

Partners reported an overall gain of \$691 million for the nine months ended June 30, 2018. This includes a non-operating gain of \$416 million of which \$170 million reflects the net impact of Mass Eye & Ear joining Partners. The remaining non-operating gains (\$246 million) reflect improved investment performance and an increase in the market value of interest rate swaps due to higher interest rates. In the

comparable 2017 nine-month period Partners reported an overall gain of \$619 million, including a non-operating gain of \$562 million of which \$321 million reflects the net impact of Wentworth-Douglass Health System joining Partners.

Commitment to Community

Serving and investing in the community is a major focus for Partners. In order to improve the health and well-being of our communities, Partners makes targeted, effective investments in three priority areas: access to health care, educational and economic opportunity, and prevention. Last year, Partners served more than 158,000 low-income patients and reported to the Massachusetts Attorney General investments of more than \$200 million through a wide-range of community commitments. Some examples include:

At [Camp Harbor View](#), Partners has committed \$1 million in funding to support the summer camp introduce underserved youth in Boston to the possibilities of a future they may have never envisioned. Partners commitment also offers hundreds of inner city teens an opportunity to learn about careers in health care while enjoying the beauty of the harbor islands in a safe and fun environment. Partners conducted two Health Care Career Exploration days at Camp Harbor View this summer. Thirty Partners clinicians and technicians, representing several hospitals, attended each of these sessions and provided an overview of careers and health care information to over 800 children. Occupations represented include nurses, occupational therapists, physical therapists, dentist and dental hygienist, nutritionists, medical technicians, and other health care specialists.

Partners is a primary sponsor of *Summer Eats*, a program administered by the Massachusetts Department of Elementary and Secondary Education, with technical assistance provided by Project Bread, to provide meals to the many children across Massachusetts who receive school lunches during the school year. This summer the program has 1,100 locations and will serve approximately 60,000 children.

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Forward-Looking Statements

This press release contains certain “forward-looking statements” concerning financial and operating plans and results which involve known and unknown risks and uncertainties. In particular, statements preceded or followed by, or that include the words, “believes,” “expects,” “estimates,” “anticipates,” “plans,” “intends,” “scheduled,” or similar expressions are forward-looking statements. Various factors could cause Partners’ actual results to differ materially including, but not limited to, federal and state regulation of healthcare providers, changes in reimbursement policies of state and federal government and managed care organizations, competition in the healthcare industry in our market, general economic and capital market conditions, and changes in our labor and supply costs and in our ability to retain personnel. For more information on these and other risk factors, please refer to our most recent bond official statement or annual disclosure statement filed on the Electronic Municipal Market Access (EMMA) website maintained by the Municipal Securities Rulemaking Board. We undertake no responsibility to update any such forward-looking statements except as expressly required by law.

Partners HealthCare is an integrated health system founded by Brigham and Women’s Hospital and Massachusetts General Hospital. In addition to its two academic medical centers, the Partners system includes community and specialty hospitals, a managed care organization, community health centers, a physician network, home health and long-term care services, and other health-related entities. Partners is one of the nation’s leading biomedical research organizations and a principal teaching affiliate of Harvard Medical School. Partners HealthCare is a non-profit organization.

Partners HealthCare System, Inc. and Affiliates
Consolidated Balance Sheets
(In Thousands)

	June 30, 2018 (unaudited)	September 30, 2017 (audited)
ASSETS		
Current assets		
Cash and equivalents	\$ 640,467	\$ 739,117
Investments	1,604,704	1,506,524
Current portion of investments limited as to use	1,562,073	1,367,172
Patient accounts receivable, net	1,035,537	977,294
Research grants receivable	149,688	127,868
Other current assets	512,505	436,037
Receivable for settlements with third-party payers	126,860	90,611
Total current assets	5,631,834	5,244,623
Investments limited as to use, less current portion	3,631,934	3,320,230
Long-term investments	1,607,744	1,266,697
Pledges receivable, net and contributions receivable from trusts, less current portion	261,427	199,730
Property and equipment, net	6,412,968	6,226,382
Other assets	629,049	614,096
Total assets	\$ 18,174,956	\$ 16,871,758
LIABILITIES AND NET ASSETS		
Current liabilities		
Current portion of long-term obligations	\$ 431,512	\$ 615,151
Accounts payable and accrued expenses	737,320	716,040
Accrued medical claims and related expenses	81,915	196,037
Accrued compensation and benefits	802,443	805,624
Current portion of accrual for settlements with third-party payers	56,129	52,348
Unexpended funds on research grants	276,714	265,253
Total current liabilities	2,386,033	2,650,453
Other liabilities		
Accrual for settlements with third-party payers, less current portion	28,728	20,231
Accrued professional liability	484,352	476,083
Accrued employee benefits	1,280,875	1,294,357
Interest rate swaps liability	299,395	367,830
Accrued other	201,012	156,909
Long-term obligations, less current portion	5,035,055	4,441,786
Total liabilities	9,715,450	9,407,649
Net assets		
Unrestricted	6,581,392	5,889,170
Temporarily restricted	1,037,736	887,531
Permanently restricted	840,378	687,408
Total net assets	8,459,506	7,464,109
Total liabilities and net assets	\$ 18,174,956	\$ 16,871,758

Partners HealthCare System, Inc. and Affiliates
Consolidated Statements of Operations
(In Thousands)

	Third Quarter Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Operating revenue				
Net patient service revenue, net of provision for bad debts	\$ 2,402,115	\$ 2,164,198	\$ 6,834,292	\$ 6,211,235
Premium revenue	231,244	650,058	1,221,890	1,911,491
Direct academic and research revenue	382,940	368,342	1,107,050	1,073,054
Indirect academic and research revenue	110,061	102,512	311,042	293,134
Other revenue	200,187	161,614	536,969	489,462
Total operating revenue	3,326,547	3,446,724	10,011,243	9,978,376
Operating expenses				
Employee compensation and benefit expenses	1,690,523	1,609,820	4,915,273	4,698,825
Supplies and other expenses	790,351	721,159	2,227,341	2,085,451
Medical claims and related expenses	156,239	490,070	852,163	1,460,210
Direct academic and research expenses	382,940	368,342	1,107,050	1,073,054
Depreciation and amortization expenses	169,664	155,983	497,232	459,262
Interest expense	45,877	50,978	136,981	144,371
Total operating expenses	3,235,594	3,396,352	9,736,040	9,921,173
Income from operations	90,953	50,372	275,203	57,203
Nonoperating gains (expenses)				
Income from investments	16,967	47,474	121,314	161,901
Change in fair value of interest rate swaps	23,214	(15,176)	74,654	130,746
Gifts and other, net of fundraising and other expenses	(29,793)	(18,001)	(33,835)	(75,314)
Academic and research gifts, net of expenses	2,870	(9,801)	83,568	23,158
Contribution income - affiliates	170,414	-	170,414	321,389
Total nonoperating gains (expenses), net	183,672	4,496	416,115	561,880
Excess of revenues over expenses	274,625	54,868	691,318	619,083
Other changes in net assets				
Change in net unrealized appreciation on marketable investments	(90,689)	82,820	(27,954)	151,815
Funds utilized for property and equipment	9,088	8,423	22,953	21,513
Change in funded status of defined benefit plans	-	-	-	630,000
Other	(478)	(182)	5,905	(548)
Increase in unrestricted net assets	\$ 192,546	\$ 145,929	\$ 692,222	\$ 1,421,863

Partners HealthCare System, Inc. and Affiliates
Consolidated Statements of Cash Flows
(In Thousands)

	Nine Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 995,397	\$ 1,551,914
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Contribution income - affiliates	(336,695)	(325,908)
Change in funded status of defined benefit plans	-	(630,000)
Loss on refunding of debt	50,638	-
Change in fair value of interest rate swaps	(74,654)	(130,744)
Depreciation and amortization	497,232	459,262
Provision for bad debts	116,117	101,193
Amortization of bond discount, premium and issuance costs	(6,493)	(3,251)
Loss on disposal of property	-	(3,894)
Net realized and change in unrealized appreciation on investments	(216,798)	(460,943)
Restricted contributions and investment income	(88,962)	(88,295)
Cash premium upon issuance of bonds	140,222	-
Increases (decreases) in cash resulting from a change in		
Patient accounts receivable	(146,710)	(103,928)
Research grants receivable	(21,820)	(15,892)
Pledges receivable and contributions receivable from trusts	(35,493)	10,592
Other assets	(66,637)	(225,562)
Accounts payable and accrued expenses	(11,252)	(141,411)
Accrued medical claims and related expenses	(114,122)	(62,241)
Accrued compensation and benefits	(17,356)	(6,474)
Settlements with third-party payers	(11,605)	(34,527)
Unexpended funds on research grants	11,461	17,922
Accrued employee benefits and other	(39,738)	(47,036)
Net cash provided by (used for) operating activities	622,732	(139,223)
Cash flows from investing activities:		
Purchases of property and equipment	(468,351)	(575,531)
Proceeds from sale of property	-	7,014
Net (purchases) sales of investments	(446,301)	238,818
Cash acquired through affiliations	11,716	39,244
Net cash used for investing activities	(902,936)	(290,455)
Cash flows from financing activities:		
Borrowing under line of credit	52,848	-
Payments on long-term obligations	(467,898)	(2,791)
Proceeds from long-term obligations, net of financing costs	1,349,662	-
Deposits into refunding trusts	(842,020)	-
Restricted contributions and investment income	88,962	88,295
Net cash provided by financing activities	181,554	85,504
Net decrease in cash and equivalents	(98,650)	(344,174)
Cash and equivalents at beginning of period	739,117	827,683
Cash and equivalents at end of period	\$ 640,467	\$ 483,509

Notes to Consolidated Financial Statements
(In Thousands)

1. The accompanying consolidated quarterly financial statements have been prepared on the accrual basis of accounting and include the accounts of Partners HealthCare System, Inc. (PHS) and its affiliates. PHS, together with all of its affiliates, is referred to as "Partners HealthCare." The financial statements do not include all the information and footnote disclosures required by generally accepted accounting principles. These statements should be read in conjunction with Partners HealthCare's audited consolidated financial statements for the fiscal year ended September 30, 2017.

The consolidated quarterly financial statements are unaudited. These statements include all adjustments (consisting of normal recurring accruals) considered necessary by management to present a fair statement of the results of operations, financial position and cash flows. The results reported in these consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year.

2. Income from investments (including realized gains and losses, change in value of equity method investments, interest, dividends and endowment income distributions) is included in excess of revenues over expenses unless the income or loss is restricted by donor or law. Income from investments is reported net of investment-related expenses.

A write-down in the cost basis of investments is recorded when the decline in fair value below cost has been judged to be other-than-temporary. Depending on any donor-imposed restrictions on the underlying investments, the amount of the write-down is reported as a realized loss in either temporarily restricted net assets or in excess of revenues over expenses as a component of income from investments, with no adjustment in the cost basis for subsequent recoveries.

For the quarters ended June 30, 2018 and 2017, included in excess of revenues over expenses are realized losses of \$16,748 and \$7,515, respectively, related to other-than-temporary declines in fair value of investments. In addition, temporarily restricted net assets were reduced by \$2,429 and \$1,638, respectively, for impairment adjustments. For the nine months ended June 30, 2018 and 2017, included in excess of revenues are realized losses of \$43,102 and \$27,054, respectively, related to other-than-temporary declines in fair value of investments. In addition, temporarily restricted net assets were reduced by \$6,751 and \$3,999 respectively, for impairment adjustments.

Including the impairment charges noted above, for the quarters ended June 30, 2018 and 2017, included in excess of revenues over expenses are net realized gains of \$13,467 and \$43,244, respectively. For the nine months ended June 30, 2018 and 2017, included in excess of revenues over expenses are net realized gains of \$129,804 and \$115,936, respectively.

3. Changes in third party payer settlements and other estimates are recorded in the year of the change in estimate. For the quarters ended June 30, 2018 and 2017, adjustments to prior year estimates resulted in an increase in income from operations of \$16,194 and \$7,132, respectively. For the nine months ended June 30, 2018 and 2017, adjustments to prior year estimates resulted in an increase of \$48,402 and \$24,430, respectively.

Effective October 1, 2007, the Centers for Medicare and Medicaid Services (CMS) adopted the MS-DRG patient classification system (MS-DRGs) for inpatient services to better recognize severity of illness in Medicare payment rates for acute care hospitals. The adoption of MS-DRGs resulted in the expansion of the number of diagnosis related groups (DRGs), a system of classifying patients for purposes of inpatient reimbursement. By increasing the number of DRGs and more fully taking into account patients' severity of illness in Medicare payment rates for acute care hospitals, the use of MS-DRGs encourages hospitals to improve their documentation and coding of patient diagnoses. CMS has determined that the adoption of the MS-DRGs has increased aggregate payments to hospitals due to additional documentation and coding without a corresponding increase in actual patient severity of illness.

CMS is required by its enabling statute to maintain budget neutrality by prospectively adjusting the Medicare payment rate to eliminate the effect of changes in DRG classification that do not reflect real changes in case-mix. CMS requires Congressional authority, however, to recoup any overpayments made in prior years. Under the American Taxpayer Relief Act of 2012, Congress granted CMS the authority to recoup overpayments made to hospitals in 2010 through 2012 through rate reductions in 2014 through 2017.

In 2013, Partners HealthCare recorded the estimated overpayment amounts received in 2010 through 2012 of \$79,020 as deferred revenue to be amortized into net patient service revenue in 2014 through 2017 to offset the rate reductions. Management believes this accounting treatment better reflects the financial impact of this rate methodology and more accurately presents the recognition of revenue. For the quarter and nine months ended June 30, 2017, amortization amounted to \$8,259 and \$24,776, respectively.

Notes to Consolidated Financial Statements
(In Thousands)

4. Risk-based capital (RBC) is a methodology adopted by the National Association of Insurance Commissioners (NAIC) for determining the minimum level of capital and surplus deemed necessary for an insurer based upon the types of assets held and business written. Pursuant to a guaranty entered into by PHS when it acquired NHP in 2012 (the RBC Guaranty), PHS has committed to maintain NHP's capital and surplus at a specified minimum level, measured quarterly in accordance with an RBC methodology permitted by the Massachusetts Division of Insurance (DOI). The RBC Guaranty may be enforced by the DOI. In order to comply with its obligations under the RBC Guaranty PHS transferred to NHP \$57,200 in fiscal year 2017. There have been no transfers in fiscal year 2018 through June 30, 2018.
5. The current portion of long-term obligations includes payments scheduled to be made over the next twelve months of \$105,257, bonds supported by Partners HealthCare liquidity that can be tendered prior to June 30, 2019 of \$170,005 and bonds supported by bank facilities with financial institutions (stand by bond purchase agreements or letters of credit) that expire prior to June 30, 2019 of \$156,250. The bonds supported by Partners HealthCare liquidity provide the bondholder with an option to tender the bonds to Partners HealthCare. Accordingly, these bonds are classified as a current liability. The bonds supported by bank facilities provide the bondholder with an option to tender the bonds to the liquidity provider. Generally accepted accounting principles require bonds backed by bank facilities expiring within one year of the balance sheet date as well as potential principal amortization under bank facilities' term out provisions due within one year of the balance sheet date to be classified as a current liability.
6. In December 2017, PHS issued \$948,105 of Partners HealthCare System Series S Revenue Bonds, plus bond premium of \$122,734. The bond proceeds, net of issuance costs of \$5,359, were used to refund portions of Series G Bonds (\$191,532), Series I Bonds (\$111,556), Series J Bonds (\$344,484), Series K Bonds (\$44,331), Series L Bonds (\$231,658), and Series M Bonds (\$141,920).

In December 2017, PHS issued \$99,565 of Partners HealthCare System Series 2017 NH Revenue Bonds, plus bond premium of \$17,488. The bond proceeds, net of issuance costs of \$562, were used to refund Wentworth-Douglass Series 2011A Bonds (\$97,206), Wentworth-Douglass Series 2016A Bonds (\$14,325), and Wentworth-Douglass Series 2016B Bonds (\$4,960).

In December 2017, PHS issued \$303,644 of Partners HealthCare System Taxable Bonds. The bond proceeds, net of issuance of \$1,943, were used to refund portions of Series K Bonds (\$50,054) and to finance certain capital projects (\$251,647).

7. Partners HealthCare maintains a \$150,000 Credit Agreement (the Agreement) that provides access to same day funds. Advances under the Agreement bear a variable rate of interest based on the London Interbank Offered Rate (LIBOR). As of June 30, 2018, there was \$52,848 outstanding under the Agreement. Funds were drawn on May 31, 2018 to defease Massachusetts Eye and Ear Infirmary Series 2010 C Bonds. The Agreement expires in June 2020.
8. Effective January 1, 2017, Wentworth-Douglass Health System and Affiliates (Wentworth-Douglass) became an affiliate of Partners HealthCare when Massachusetts General Hospital became the sole corporate member of Wentworth-Douglass. As a result of the acquisition, Partners HealthCare recognized contribution income of \$321,389 included in excess of revenues over expenses on January 1, 2017. Generally accepted accounting principles require the recognition of the fair value of assets and liabilities as of the acquisition date.

Summary financial data for Wentworth-Douglass - (GAAP, \$ in 000's)	Third Quarter Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Total operating revenue	\$ 102,807	\$ 91,937	\$ 295,736	\$ 179,000
Income from operations	\$ 7,249	\$ 974	\$ 16,467	\$ 1,916
Nonoperating investment income (loss)	(155)	4,337	3,749	12,191
Excess of revenues over expenses	\$ 7,094	\$ 5,311	\$ 20,216	\$ 14,107

9. Effective April 1, 2018, the Foundation of the Massachusetts Eye and Ear Infirmary, Inc. (Mass Eye and Ear) became an affiliate of Partners HealthCare when Partners HealthCare became the sole corporate member of Mass Eye and Ear. As a result of the acquisition, Partners HealthCare recognized \$170,414 included in excess of revenues over expenses on April 1, 2018. Generally accepted accounting principles require the recognition of the fair value of assets and liabilities as of the acquisition date.

Summary financial data for Mass Eye and Ear - (GAAP, \$ in 000's)	Third Quarter Ended June 30,	
	2018	
Total operating revenue	\$ 109,004	
Income from operations	\$ 2,066	
Nonoperating investment income (loss)	14,914	
Excess of revenues over expenses	\$ 16,980	

PARTNERS HEALTHCARE SYSTEM, INC.: ACUTE CARE SECTOR ⁽¹⁾
UTILIZATION STATISTICS - AS REPORTED

	Third Quarter Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
INPATIENT:				
Discharges	42,952	42,643	126,291	123,557
% Change	0.7%		2.2%	
Discharge Days	224,425	218,943	664,349	644,646
% Change	2.5%		3.1%	
Average Length of Stay (Days)	5.23	5.13	5.26	5.22
% Change	1.9%		0.8%	
Patient Days	212,004	205,404	627,082	606,001
% Change	3.2%		3.5%	
Births	4,433	4,418	12,713	12,294
% Change	0.3%		3.4%	
OUTPATIENT:				
ATO's	6,704	7,040	20,102	19,632
% Change	-4.8%		2.4%	
ED Observations	2,325	2,652	7,111	7,577
% Change	-12.3%		-6.2%	
Day Surgery	25,641	17,702	62,189	51,643
% Change	44.8%		20.4%	
Ambulatory visits	506,317	446,671	1,333,624	1,255,217
% Change	13.4%		6.2%	
ER Visits	108,025	103,569	311,258	297,339
% Change	4.3%		4.7%	
Procedures	435,553	392,401	1,230,408	1,136,423
% Change	11.0%		8.3%	
Major Imaging	104,918	91,612	292,709	256,488
% Change	14.5%		14.1%	
Minor Imaging	297,261	295,832	871,020	886,776
% Change	0.5%		-1.8%	
Treatments	235,091	239,120	694,862	680,362
% Change	-1.7%		2.1%	
Therapies	347,235	347,314	953,833	945,553
% Change	0.0%		0.9%	
Lab Services	2,602,604	2,474,699	7,440,050	7,063,000
% Change	5.2%		5.3%	
CASE MIX INDEX (CMI) ⁽²⁾:				
Combined Academic (The General & BWH)	1.99	1.97	1.97	1.94
	1.0%		1.5%	
Combined Community (BWFH, NSMC & NWH)	1.20	1.14	1.18	1.13
	5.3%		4.4%	

⁽¹⁾ Includes data from The General, BWH, BWFH, NSMC, NWH, Cooley Dickinson, Nantucket and Martha's Vineyard, for the period 1/1/17 - 9/30/17, Wentworth-Douglass and for the period 4/1/18-6/30/18 Mass Eye and Ear.

⁽²⁾ CMI based on APR-DRG version 30, NY weight

PARTNERS HEALTHCARE SYSTEM, INC.: ACUTE CARE SECTOR⁽¹⁾
UTILIZATION STATISTICS - SAME FACILITY

	Third Quarter Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
INPATIENT:				
Discharges	40,476	40,504	119,836	119,298
% Change	-0.1%		0.5%	
Discharge Days	214,813	210,602	638,518	627,792
% Change	2.0%		1.7%	
Average Length of Stay (Days)	5.31	5.20	5.33	5.26
% Change	2.1%		1.3%	
Patient Days	203,104	197,997	603,381	590,827
% Change	2.6%		2.1%	
Births	4,091	4,093	11,815	11,707
% Change	0.0%		0.9%	
OUTPATIENT:				
ATO's	5,931	6,389	17,880	18,366
% Change	-7.2%		-2.6%	
ED Observations	2,325	2,652	7,111	7,577
% Change	-12.3%		-6.2%	
Day Surgery	17,349	16,250	50,764	48,831
% Change	6.8%		4.0%	
Ambulatory visits	428,939	434,717	1,231,330	1,231,618
% Change	-1.3%		0.0%	
ER Visits	93,765	95,158	279,692	280,164
% Change	-1.5%		-0.2%	
Procedures	405,481	365,118	1,144,760	1,084,122
% Change	11.1%		5.6%	
Major Imaging	94,151	86,128	270,271	245,795
% Change	9.3%		10.0%	
Minor Imaging	285,131	284,661	836,109	864,687
% Change	0.2%		-3.3%	
Treatments	212,824	215,390	628,621	633,965
% Change	-1.2%		-0.8%	
Therapies	304,396	306,679	832,951	868,194
% Change	-0.7%		-4.1%	
Lab Services	2,469,925	2,353,246	7,056,423	6,831,087
% Change	5.0%		3.3%	
CASE MIX INDEX (CMI)⁽²⁾:				
Combined Academic (The General & BWH)	1.99	1.97	1.97	1.94
	1.0%		1.5%	
Combined Community (BWFH, NSMC & NWH)	1.20	1.14	1.18	1.13
	5.3%		4.4%	

⁽¹⁾ Includes data from The General, BWH, BWFH, NSMC, NWH, Cooley Dickinson, Nantucket and Martha's Vineyard.

⁽²⁾ CMI based on APR-DRG version 30, NY weight

**PARTNERS HEALTHCARE SYSTEM, INC.:
REHABILITATION & PSYCHIATRIC CARE SECTORS
UTILIZATION STATISTICS**

	Third Quarter Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
REHABILITATION				
Inpatient:				
Discharges	1,099	1,106	3,332	3,461
% Change	-0.6%		-3.7%	
Discharge Days	25,277	23,912	75,658	74,606
% Change	5.7%		1.4%	
Average Length of Stay (Days)	23.00	21.62	22.71	21.56
% Change	6.4%		5.3%	
Patient Days	25,245	25,285	76,238	75,758
% Change	-0.2%		0.6%	
Outpatient:				
Home Health	137,714	233,038	474,275	686,659
% Change	-40.9%		-30.9%	
Therapies	229,973	213,931	648,906	598,570
% Change	7.5%		8.4%	

Note: Rehabilitation sector includes Spaulding Boston, Spaulding Cambridge, Spaulding Cape Cod and Partners HealthCare at Home

PSYCHIATRIC

Inpatient:				
Discharges	1,568	1,586	4,636	4,741
% Change	-1.1%		-2.2%	
Discharge Days	17,716	17,385	51,870	51,503
% Change	1.9%		0.7%	
Average Length of Stay (Days)	11.30	10.96	11.19	10.86
% Change	3.1%		3.0%	
Patient Days	17,657	17,226	52,562	51,752
% Change	2.5%		1.6%	
Outpatient:				
Psychiatric Services	30,630	35,606	91,370	101,172
% Change	-14.0%		-9.7%	

**PARTNERS HEALTHCARE SYSTEM, INC.: INSURANCE SECTOR
STATISTICS**

	Third Quarter Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Medical loss ratio ⁽¹⁾	88.1%	91.5%	87.9%	94.8%
% Change	-3.4%		-6.9%	
Administrative expense ratio	13.3%	5.9%	8.3%	6.3%
% Change	7.4%		2.0%	
Total members	139,190	384,629	139,190	384,629
% Change	-63.8%		-63.8%	

⁽¹⁾ Excludes impact of premium deficiency reserve charge.

Statistic	Definition
Discharges	The total number of patients discharged from a hospital bed in a given time period
Discharge Days	The total number of days each discharged patient occupied a bed during the duration of their hospital stay
Average Length of Stay	Patient days divided by the number of patient discharges
Patient Days	Total number of days a patient occupied a hospital bed in a given time period
ATO's	Patients admitted under observation status and generally discharged within 24 hours
ED Observations	Patients admitted under observation status in the ER (at GH and BWH) and generally discharged within 24 hours
Day Surgery	Surgical procedures performed on an outpatient basis
Ambulatory visits	Includes office/outpatient services, consults, preventive medicine and psychiatric visit - clinic O/P
ER Visits	Emergency room visits
Procedures	Includes integumentary, musculoskeletal, oral & maxillofacial surg, respiratory, cardiovascular, hemic/lymphatic, mediastinum/diaphragm, digestive, urinary, female/male genital, endocrine, nervous system, eye/ocular adnexa and auditory
Major Imaging	Includes MRI, CT Scan, nuclear medicine and PET Scan
Minor Imaging	Includes radiology diagnostic, ultrasound, breast imaging and 3D reconstruction
Treatments	Includes chemotherapy, radiation therapy, non chemo infusions, dialysis, electroconvulsive therapy and dental
Therapies	Includes respiratory/pulmonary therapy, physical therapy, occupational therapy, speech language pathology, cardiac rehabilitation and nutrition
Lab Services	Lab services
Home Health	Nurse visits, aide visits, physical therapy, occupational therapy, speech-language pathology, registered dietitian, medical social work, telemedicine and private duty converted hours
Psychiatric Services	Includes partial days, ART days, individual therapy, group therapy, family therapy, child and adolescent days and other therapies
Case Mix Index	The average diagnosis-related-group weight for all of a hospital's inpatient volume
Medical Loss Ratio	Medical expense as a percentage of premium revenue

PARTNERS HEALTHCARE SYSTEM, INC.: INVESTMENT LIQUIDITY & DEBT BACKED BY SELF LIQUIDITY
as of June 30, 2018
(In Thousands)

INVESTMENT LIQUIDITY⁽¹⁾

Investment Pool	Funds Available						Total
	Same Day	1 Week	1 Month	3 Months	1 Year	>1 Year	
Money Market	\$541,386	-	-	-	-	-	\$541,386
Aggregate Bond	303,474	217,562	-	57,232	-	-	578,268
Long Term	153,535	1,536,165	1,685,357	1,177,974	1,190,567	2,207,595	7,951,193
Total	\$998,395	\$1,753,727	\$1,685,357	\$1,235,206	\$1,190,567	\$2,207,595	\$9,070,847
Cumulative Total	\$998,395	\$2,752,121	\$4,437,479	\$5,672,685	\$6,863,252	\$9,070,847	

DEBT BACKED BY SELF LIQUIDITY

Debt Mode	Funds Required						Total
	Same Day	1 Week	1 Month	3 Months	1 Year	>1 Year	
Flexible Rate ⁽²⁾	-	\$33,005	\$13,835	\$123,670	-	-	\$170,510
Index Floating Rate	-	-	-	-	-	363,900	363,900
Term Rate	-	-	-	-	-	131,185	131,185
Total	-	\$33,005	\$13,835	\$123,670	-	\$495,085	\$665,595
Cumulative Total	-	\$33,005	\$46,840	\$170,510	\$170,510	\$665,595	

⁽¹⁾ Excludes ERISA.

⁽²⁾ Partners HealthCare limits daily maturities on its flexible rate bonds to \$20 million.

Money Market Pool

6/30/2018

Portfolio Manager
Benchmark

Various
iMoneyNet Money Market Fund Average/All Taxable

	Portfolio	Benchmark
Market Value (\$000)	\$ 541,386	n/a
Avg Rating	AAA	A1/P1
Avg Maturity (Days)	1.0	n/a
Avg Life (Days)	1.0	n/a
Avg Yield	1.92%	n/a

Net Asset Value	1.0
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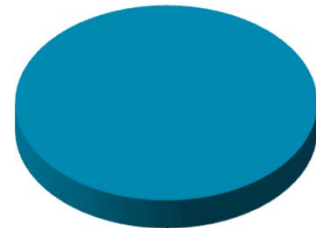
Annualized Returns	Portfolio	Benchmark	Outperform. *
Month	0.17%	0.12%	+ 0.05%
Quarter	0.44%	0.35%	+ 0.09%
FYTD	1.01%	0.79%	+ 0.22%
CYTD	0.76%	0.61%	+ 0.15%
1 Year	1.22%	0.96%	+ 0.26%
2 Year	0.85%	0.61%	+ 0.23%
3 Year	0.62%	0.43%	+ 0.19%
5 Year	0.43%	0.26%	+ 0.17%
Inception (12/31/94)	2.67%	2.23%	+ 0.45%

Annualized Performance Measures since Inception (01/05)			
StDev	0.65%	0.63%	-
Sharpe Ratio	0.35	(0.35)	+
Tracking Error	0.07%	n/a	
Info Ratio	6.56	n/a	
Monthly Alpha	0.04%	0.00%	+
Beta	0.89	1.00	+
BM Correl	1.00	1.00	

Relative Performance		# Months	Average
Up Months	Above BM	271	0.038%
	Below BM	11	
Down Months	Above BM	0	
	Below BM	0	

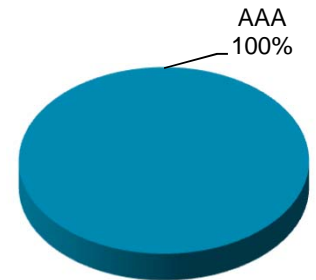
* computed outperformance may not match portfolio/benchmark returns due to rounding.

Instruments



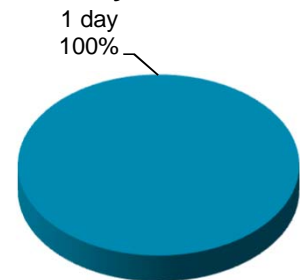
Mutual Funds
100%

S&P Quality Breakdown



AAA
100%

Maturity Breakdown



1 day
100%

Congress Short Term Treasuries

6/30/2018

Portfolio Manager
Benchmark

Jeff Porter since April 2014
BC US Treas 1-5 yr

	Portfolio	Benchmark
Market Value (\$000)	\$ 138,287	n/a
# Issues	13	156
Avg Coupon	1.87%	1.91%
Avg Rating	AAA	AAA/Aaa
Avg Maturity	2.85	2.83
Avg Yield	2.58%	2.60%
Avg Mod. Duration	2.70	2.71
Avg. Convexity	0.10	0.10

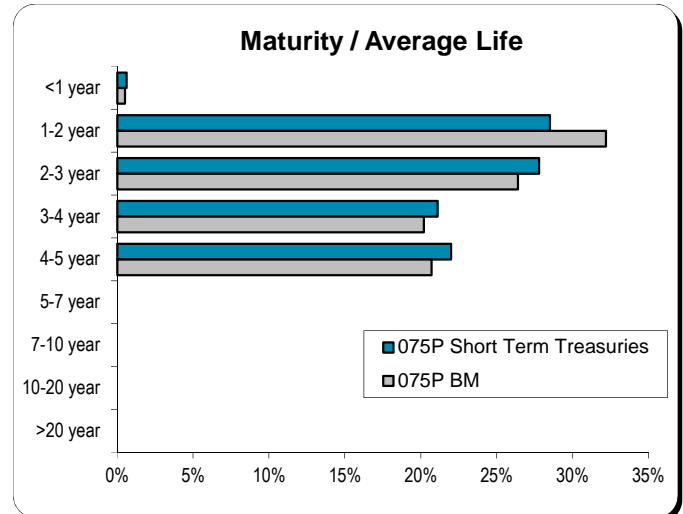
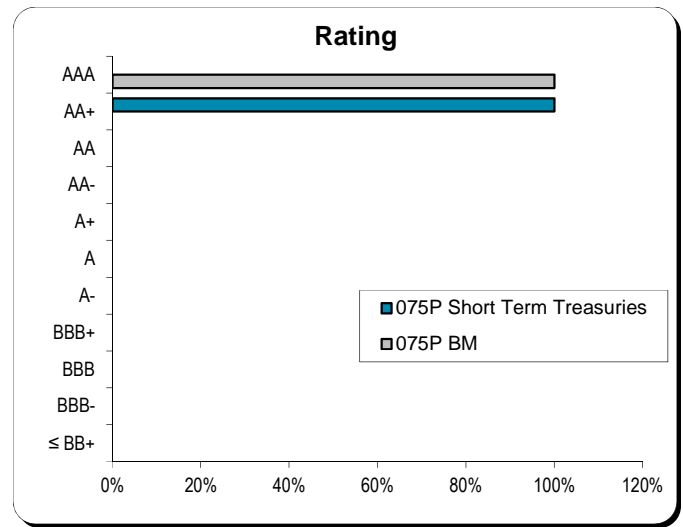
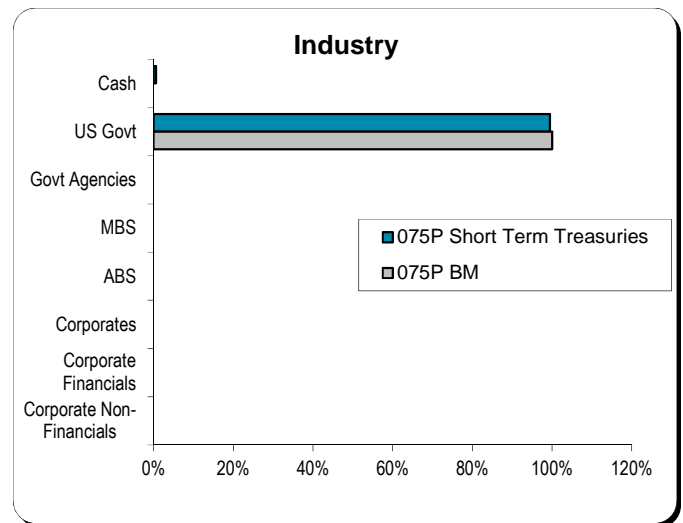
Annualized Returns	Portfolio	Benchmark	Outperform. *
Month	-0.02%	-0.01%	- 0.01%
Quarter	0.11%	0.12%	- 0.01%
FYTD	-0.77%	-0.68%	- 0.09%
CYTD	-0.33%	-0.28%	- 0.05%
1 Year	-0.51%	-0.40%	- 0.11%
2 Year	-0.57%	-0.49%	- 0.08%
3 Year	0.39%	0.48%	n/a
5 Year	n/a	n/a	n/a
Inception (4/1/14)	0.70%	0.77%	- 0.07%

Annualized Performance Measures since Inception (4/14)			
StDev	1.32%	1.32%	+
Sharpe Ratio	(1.33)	(1.27)	-
Tracking Error	0.05%	n/a	
Info Ratio	(1.42)	n/a	
Monthly Alpha	-0.01%	n/a	-
Beta	1.00	1.00	-
BM Correl	1.00	1.00	

Relative Performance		# Months	Average
Up Months	Above BM	8	0.01%
	Below BM	18	-0.01%
Down Months	Above BM	9	0.00%
	Below BM	16	-0.01%

Stress Tests	P&L (\$000)	% Ret.
Int. Rates Up 100bps	\$ (2,675)	-1.93%
Cred. Sprds up 100 bps	\$ (2,673)	-1.93%

* computed outperformance may not match portfolio/benchmark returns due to rounding.



Congress Intermediate Domestic Fixed Income

6/30/2018

Portfolio Manager **Jeff Porter** since June 2002
 Benchmark BC Intermediate US Govt/Credit

	Portfolio	Benchmark
Market Value (\$000)	\$ 303,554	n/a
# Issues	37	4,806
Avg Coupon	2.75%	2.54%
Avg Rating	AA	AA/Aa2
Avg Maturity	4.30	4.34
Avg Yield	3.05%	2.30%
Avg Mod. Duration	3.90	3.93
Avg. Convexity	0.22	0.22

Annualized Returns	Portfolio	Benchmark	Outperform. *
Month	-0.12%	-0.07%	- 0.05%
Quarter	0.04%	0.01%	+ 0.04%
FYTD	-1.21%	-1.17%	- 0.04%
CYTD	-0.95%	-0.98%	+ 0.02%
1 Year	-0.67%	-0.58%	- 0.09%
2 Year	-0.72%	-0.40%	- 0.32%
3 Year	1.02%	1.15%	- 0.13%
5 Year	1.48%	1.60%	- 0.12%
Inception (5/31/02)	4.18%	3.71%	+ 0.47%

Annualized Performance Measures since Inception (06/02)			
StDev	3.11%	2.94%	-
Sharpe Ratio	0.56	0.43	+
Tracking Error	1.04%	n/a	
Info Ratio	0.45	n/a	
Monthly Alpha	0.04%	n/a	-
Beta	0.99	1.00	+
BM Correl	0.94	1.00	

Relative Performance		# Months	Average
Up Months	Above BM	67	0.18%
	Below BM	59	-0.12%
Down Months	Above BM	32	0.20%
	Below BM	35	-0.11%

* computed outperformance may not match portfolio/benchmark returns due to rounding.

Stress Tests	P&L (\$000)	% Ret.
Int. Rates Up 100bps	\$ (10,960)	-3.61%
Cred. Sprds up 100 bps	\$ (9,979)	-3.29%

