NEW ISSUE - BOOK ENTRY ONLY **RATINGS: See "RATINGS" herein**

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Issuer, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2008D Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Series 2008D Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In addition, in the opinion of Bond Counsel to the Issuer, under existing statutes, interest on the Series 2008D Bonds is exempt from the State of Arizona income tax. See "TAX MATTERS" herein.

$917,860,000
Arizona Health Facilities Authority
Revenue Bonds
(Banner Health)
Series 2008D

Dated: Date of Issuance **Due: January 1, as set forth below**

The Series 2008D Bonds are special and limited obligations of the Arizona Health Facilities Authority (the "Issuer"), and are payable solely from and secured exclusively by payments, revenues and other amounts pledged under the Bond Indenture, including payments to be made by Banner Health (the "Corporation") under a Loan Agreement, and payments to be made by the Corporation on an Obligation to be issued by the Corporation, as Obligated Group Representative and sole Member of the Obligated Group, under the Master Trust Indenture. The proceeds of the Series 2008D Bonds will be used to (i) finance the acquisition from Sun Health Corporation of Sun Health Boswell Hospital and Sun Health Del E. Webb Hospital, located respectively in Sun City and Sun City West, Arizona, as further described herein (the "Acquisition Project"), (ii) finance, refinance or reimburse the costs of certain capital projects of the Corporation as described herein (the "Capital Projects" and, collectively with the Acquisition Project, the "Project"), (iii) refund and redeem certain outstanding indebtedness previously issued for the benefit of the Corporation, as described herein (the "Prior Bonds") and (iv) pay certain costs of issuing the Series 2008D Bonds and redeeming the Prior Bonds.

Series 2008D Bonds

Maturities, Principal Amounts, Interest Rates, Prices or Yields and CUSIPs

Maturity January 1	Amount	Interest Rate	Price	CUSIP
2009	$19,135,000	5.000%	100.957%	040507JZ9
2010	14,005,000	5.000	102.900	040507KA2
2011	15,855,000	5.000	103.933	040507KB0
2012	15,975,000	5.000	104.494	040507KC8
2013	14,435,000	5.000	104.797	040507KD6
2014	17,070,000	5.000	104.859	040507KE4
2015	17,825,000	5.000	104.805	040507KF1
2016	18,435,000	5.000	104.361	040507KG9
2017	19,220,000	5.000	103.791	040507KH7
2018	16,930,000	5.250	104.962	040507KJ3
2019	19,185,000	5.500	105.675*	040507KK0
2020	17,625,000	5.500	104.599*	040507KL8
2021	17,790,000	5.500	103.763*	040507KM6
2022	19,240,000	5.500	103.160*	040507KN4
2023	20,275,000	5.000	98.684	040507KP9
2024	20,515,000	5.000	98.000	040507KQ7
2025	21,610,000	5.000	97.272	040507KR5
2026	22,570,000	5.000	96.617	040507KS3
2027	24,115,000	6.000	104.721*	040507KT1

$ 51,065,000 5.125% Term Bonds Due January 1, 2029 Price 96.026% to Yield 5.450% CUSIP: 040507KU8
$ 67,190,000 6.000% Term Bonds Due January 1, 2030 Price 101.899%* to Yield* 5.500% CUSIP: 040507KV6
$ 50,500,000 5.500% Term Bonds Due January 1, 2031 Price 99.356% to Yield 5.550% CUSIP: 040507KW4
$100,000,000 5.375% Term Bonds Due January 1, 2032 Price 97.207% to Yield 5.590% CUSIP: 040507KX2
$297,295,000 5.500% Term Bonds Due January 1, 2038 Price 97.574% to Yield 5.670% CUSIP: 040507KY0

* Price and Yield to call date.

Interest on the Series 2008D Bonds is initially payable semiannually on each January 1 and July 1, commencing on January 1, 2009. The Series 2008D Bonds are issuable only in registered form, and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, an automated depository for securities and clearing house for securities transactions. DTC will act as securities depository for the Series 2008D Bonds. Individual purchases will be made in book-entry form only in denominations of $5,000 or any integral multiple thereof. Purchasers of the Series 2008D Bonds will not receive certificates representing their interests in the Series 2008D Bonds purchased. So long as DTC or its nominee is the registered owner of the Series 2008D Bonds, payment of the principal of, premium, if any, and interest on the Series 2008D Bonds will be made directly by The Bank of New York Mellon Trust Company, N.A., as Bond Trustee for the Series 2008D Bonds, to DTC, which will in turn remit such payments to its Participants, which will in turn remit such payments to the Beneficial Owners of the Series 2008D Bonds as described herein.

The Series 2008D Bonds are subject to optional, extraordinary and mandatory redemption prior to maturity on the dates and under the circumstances described in this Official Statement.

THE SERIES 2008D BONDS DO NOT REPRESENT OR CONSTITUTE A DEBT OF THE ISSUER, THE STATE OF ARIZONA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF THE PROVISIONS OF THE CONSTITUTION OR STATUTES OF THE STATE OF ARIZONA OR A PLEDGE OF THE FAITH AND CREDIT OF THE ISSUER, THE STATE OF ARIZONA OR ANY POLITICAL SUBDIVISION THEREOF. THE ISSUANCE OF THE SERIES 2008D BONDS DOES NOT OBLIGATE, IN ANY WAY, THE ISSUER, THE STATE OF ARIZONA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY ANY TAXES OR APPROPRIATE ANY FUNDS FOR THE PAYMENT OF THE PRINCIPAL THEREOF OR THE INTEREST OR ANY PREMIUM ON THE SERIES 2008D BONDS. THE ISSUER HAS NO TAXING POWER.

This cover page contains information for general reference only. It is not intended as a summary of this transaction. Investors are advised to read the entire Official Statement, including the Appendices, to obtain information essential to making an informed investment decision.

The Series 2008D Bonds are offered when, as and if issued by the Issuer and received by the Underwriters, subject to prior sale and to the approval of legality by Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel. Certain legal matters will be passed upon for the Issuer by its special counsel, Greenberg Traurig, LLP, Phoenix, Arizona; for the Corporation by its special counsel, Lewis and Roca LLP, Phoenix, Arizona and by its Senior Vice President and General Counsel; and for the Underwriters by their special counsel, Sonnenschein Nath & Rosenthal LLP, Chicago, Illinois. Subject to prevailing market conditions, the Underwriters intend, but are not obligated, to make a market in the Series 2008D Bonds. For details of the Underwriters' compensation, see "UNDERWRITING" herein. It is expected that the Series 2008D Bonds in definitive form will be available for delivery to DTC in New York, New York, on or about August 28, 2008.

MORGAN STANLEY **MERRILL LYNCH & CO.**

The date of this Official Statement is August 21, 2008

This Official Statement does not constitute an offer to sell the Series 2008D Bonds or the solicitation of an offer to buy, nor shall there be any sale of the Series 2008D Bonds by any person in any state or other jurisdiction to any person to whom it is unlawful to make an offer, solicitation or sale in that state or jurisdiction. No dealer, salesman or any other person has been authorized to give any information or to make any representation other than those contained in this Official Statement in connection with the offering of the Series 2008D Bonds and, if given or made, that information or representation must not be relied upon.

The information set forth under the captions, "THE ISSUER" and "ABSENCE OF MATERIAL LITIGATION – Issuer" has been furnished by the Arizona Health Facilities Authority. The information set forth under the caption, "BOOK-ENTRY ONLY SYSTEM – General" has been furnished by DTC. All other information in this Official Statement has been obtained from the Corporation and other sources that are believed to be reliable, but is not to be construed as a representation of the Underwriters. The information and expressions of opinion in this Official Statement are subject to change without notice, and neither the delivery of this Official Statement, nor any sale made hereunder, shall under any circumstances create any implication that there has been no change in the affairs of the Issuer, DTC or the Corporation since the date of this Official Statement.

The Issuer has not prepared or assisted in the preparation of this Official Statement, including any financial information included or attached and, except for the information contained under the captions "THE ISSUER," and "ABSENCE OF MATERIAL LITIGATION – Issuer," the Issuer is not responsible for any statements made in this Official Statement. Accordingly, the Issuer disclaims responsibility for the disclosures set forth in this Official Statement, except for the information contained under the captions "THE ISSUER" and "ABSENCE OF MATERIAL LITIGATION – Issuer," or otherwise made in connection with the offer, sale and distribution of the Series 2008D Bonds.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of this information.

The CUSIP numbers are included in this Official Statement for the convenience of the Holders and potential Holders of the Series 2008D Bonds. No assurance can be given that the CUSIP numbers for the Series 2008D Bonds will remain the same after the date of issuance and delivery of the Series 2008D Bonds.

IN CONNECTION WITH THE OFFERING OF SERIES 2008D BONDS, AN UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH SERIES 2008D BONDS OFFERED HEREBY AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE SERIES 2008D BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND THE BOND INDENTURE AND THE MASTER INDENTURE HAVE NOT BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE SERIES 2008D BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF LAWS OF THE STATES IN WHICH SERIES 2008D BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE STATES NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE SERIES 2008D BONDS OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

Forward-Looking Statements

This Official Statement contains disclosures which contain forward-looking statements. Forward-looking statements include all statements that do not relate solely to historical or current fact, and can be identified by use of words like "may," "believe," "will," "expect," "project," "estimate," "anticipate," "plan," "pro forma," or "continue." These forward-looking statements are based on the current plans and expectations of the Corporation and are subject to a number of known and unknown uncertainties and risks, many of which are beyond the Corporation's control, that could significantly affect current plans and expectations and the Corporation's future financial position and results of operations. These factors include, but are not limited to, (i) the highly competitive nature of the health care business, (ii) the efforts of insurers, health care providers and others to contain health care costs, (iii) possible changes in the Medicare and Medicaid programs that may impact reimbursements to health care providers and insurers, (iv) changes in federal, state or local regulations affecting the health care industry, (v) the possible enactment of federal or state health care reform, (vi) the ability to attract and retain qualified management and other personnel, including affiliated physicians, nurses and medical support personnel, (vii) liabilities and other claims asserted against the Corporation, (viii) changes in accounting standards and practices, (ix) changes in general economic conditions, (x) future divestitures or acquisitions which may result in additional charges, (xi) changes in revenue mix and the ability to enter into and renew managed care provider arrangements on acceptable terms, (xii) the availability and terms of capital to fund future expansion plans of the Corporation and to provide for ongoing capital expenditure needs, (xiii) changes in business strategy or development plans, (xiv) delays in receiving payments as a result of state budget constraints, (xv) the ability to implement shared services and other initiatives and realize decreases in administrative, supply and infrastructure costs, (xvi) the outcome of pending and any future litigation, (xvii) the Corporation's continuing efforts to monitor, maintain and comply with appropriate laws, regulations, policies and procedures relating to its status as a tax-exempt organization as well as its ability to comply with the requirements of Medicare and Medicaid programs, (xviii) the ability to achieve expected levels of patient volumes and control the costs of providing services, (xix) results of reviews of its cost reports, and (xx) the Corporation's ability to comply with legislation and/or regulations. As a consequence, current plans, anticipated actions and future financial position and results of operations may differ from those expressed in any forward-looking statements made by or on behalf of the Corporation. Investors are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented in this Official Statement, including *APPENDIX A*.

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OFFICIAL STATEMENT

$917,860,000
Arizona Health Facilities Authority
Revenue Bonds
(Banner Health)
Series 2008D

INTRODUCTION

General

This Official Statement, including the cover page and Appendices hereto, is provided to furnish information with respect to the sale and delivery by the Arizona Health Facilities Authority (the "Issuer") of its Revenue Bonds (Banner Health) Series 2008D (the "Series 2008D Bonds").

The Series 2008D Bonds will be issued pursuant to a Bond Indenture dated as of August 1, 2008 (the "Bond Indenture"), between the Issuer and The Bank of New York Mellon Trust Company, N.A., as Bond Trustee (the "Bond Trustee"). The proceeds of the sale of the Series 2008D Bonds will be loaned by the Issuer to Banner Health (the "Corporation") pursuant to a Loan Agreement dated as of August 1, 2008 (the "Loan Agreement"), between the Issuer and the Corporation.

All capitalized terms used in this Official Statement and not otherwise defined herein shall have the same meanings included in "*APPENDIX C* – CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS."

Purpose of the Series 2008D Bonds

The proceeds of the sale of the Series 2008D Bonds will be used to (i) finance the acquisition from Sun Health Corporation ("Sun Health") of Sun Health Boswell Hospital and Sun Health Del E. Webb Hospital, located respectively in Sun City and Sun City West, Arizona, as further described herein (the "Acquisition Project"), as further described herein under "PLAN OF FINANCING", (ii) finance, refinance or reimburse the costs of certain capital projects of the Corporation as described herein (the "Capital Projects" and, collectively with the Acquisition Project, the "Project"), (iii) refund and redeem on or immediately following the date of issuance of the Series 2008D Bonds, the (a) Arizona Health Facilities Authority Revenue Bonds (Banner Health System) Series 2002A-C, of which $292,725,000 in aggregate principal amount is currently outstanding (the Series 2002A Bonds, Series 2002B Bonds and Series 2002C Bonds are referred to collectively herein as the "Series 2002 Bonds"), and the (b) Industrial Development Authority of the City of Mesa, Arizona Variable Rate Revenue Bonds (Discovery Health System), Series 1999B, of which $50,700,000 in principal amount is currently outstanding (the "Series 1999B Bonds" and, together with the Series 2002 Bonds, the "Prior Bonds"), and (iv) pay certain costs of issuing the Series 2008D Bonds and redeeming the Prior Bonds. For more detailed information regarding the Project and redemption dates of the Prior Bonds, see "PLAN OF FINANCING" herein.

Banner Health

Banner Health is an Arizona nonprofit corporation and a tax-exempt organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). The Corporation is one of the largest secular nonprofit health care systems in the United States. The Corporation currently owns, leases or manages 19 acute care hospitals in seven states with a total of approximately 3,060

licensed acute care beds and 231 behavioral and rehabilitation licensed beds; one behavioral health facility in Arizona with approximately 96 licensed behavioral beds; three facilities (including acute care hospitals with licensed long-term care beds) in two states providing nursing care services with a total of approximately 208 licensed long-term care beds; and 37 skilled nursing licensed beds at two acute care hospitals. The Corporation also operates home health agencies, nursing registries, clinics and home medical equipment supply services. *APPENDIX A* contains summary information about the history, organization and operations of the Corporation and certain of the Sun Health facilities to be acquired by the Corporation. *APPENDIX A* also contains certain summary financial statements and certain pro forma financial (including capitalization, debt service coverage and liquidity) information on the Obligated Group, Sun Health and the Obligated Group and Sun Health on a combined basis (without adjustments or eliminations), based on certain principal amount and interest rate assumptions. Audited consolidated financial statements for the Corporation for the years ended December 31, 2007 and 2006 are included in *APPENDIX B* to this Official Statement. For the year ended December 31, 2007, the Obligated Group accounted for approximately 88% of the Corporation's consolidated revenue, 86% of the Corporation's consolidated operating income and 103% of the Corporation's consolidated excess of revenues over expenses. See *APPENDIX A* and *APPENDIX B*.

The Obligated Group

The Corporation and U.S. Bank National Association, as master trustee (the "Master Trustee"), entered into an Amended and Restated Master Indenture dated as of October 15, 1998 (as supplemented and amended, the "Master Indenture"). The Corporation is the sole Member of the Obligated Group (the "Obligated Group") under the Master Indenture. The Corporation is also the Obligated Group Representative under the Master Indenture, and has no present intent to add Members to the Obligated Group. There will not be any new Members added to the Obligated Group as a result of the Corporation's acquisition of the Sun Health assets described below under "PLAN OF FINANCE".

Certain of the Corporation's affiliates may in the future be designated as Obligated Group Affiliates (the "Obligated Group Affiliates") under the Master Indenture as described herein under the heading "THE OBLIGATED GROUP." No Obligated Group Affiliate has been designated to date. In connection with any designation of an Obligated Group Affiliate pursuant to the Master Indenture, the Obligated Group Representative is required under the Master Indenture to designate a Member to establish and maintain control (through corporate control or pursuant to a contract) over such Obligated Group Affiliate (the "Controlling Member"). **The Obligated Group Representative, at its sole discretion, may add Obligated Group Affiliates at any time and may remove Obligated Group Affiliates at any time so long as such removal does not immediately cause a default in the performance or observance of any term of the Master Indenture**. Only the Members of the Obligated Group, however, are directly obligated to make payments on the obligations issued under the Master Indenture (the "Obligations").

Other entities may become Members of the Obligated Group in accordance with the procedures set forth in the Master Indenture. Any future Members of the Obligated Group will be jointly and severally liable for the repayment of all Obligations. Members of the Obligated Group are liable on all Obligations regardless of whether such Obligations are issued for their benefit. Upon satisfaction of the conditions set forth in the Master Indenture, any Member may withdraw from the Obligated Group and be released from its obligations under the Master Indenture. See the captions "CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS – Certain Provisions of the Master Indenture -- Covenants of Each Member -- Membership in Obligated Group" and -- "Withdrawal from Obligated Group" in *APPENDIX C* hereto.

Security for the Series 2008D Bonds

The Bond Indenture and the Loan Agreement. The Series 2008D Bonds will be issued under the Bond Indenture. Concurrently with the issuance of the Series 2008D Bonds, the Corporation and the Issuer will enter into the Loan Agreement. Pursuant to the Loan Agreement, the Issuer will loan the proceeds of the Series 2008D Bonds to the Corporation. The Corporation will issue its Series 2008D Obligation (the "Series 2008D Obligation"), pursuant to the Master Indenture to secure its obligations pursuant to the Loan Agreement. The Series 2008D Obligation will be issued pursuant to Supplemental Master Indenture 2008D dated as of August 1, 2008, between the Corporation and the Master Trustee. The payments required under the Series 2008D Obligation are intended to be sufficient, together with other moneys available therefor, to make payments, when due, of the principal of, premium, if any, and interest on the Series 2008D Bonds. Payments made by the Corporation pursuant to the Series 2008D Obligation constitute repayment on the loan made pursuant to the Loan Agreement. No additional bonds may be issued under the Bond Indenture.

In order to secure payment of the Series 2008D Bonds, the Issuer will pledge and assign to the Bond Trustee the payments to be received by the Issuer pursuant to the Loan Agreement, except its rights to indemnification and payment of fees and expenses (the "Unassigned Rights"), the Series 2008D Obligation, and all moneys and investments from time to time on deposit in the funds and accounts created under the Bond Indenture (collectively, the "Pledge and Assignment"). The Pledge and Assignment by the Issuer pursuant to the Loan Agreement secures ratably the Series 2008D Bonds.

The Master Indenture. The Series 2008D Obligation will be issued pursuant to the Master Indenture. Upon issuance, the Series 2008D Obligation will be the general obligation of the Obligated Group, secured by a Gross Revenues pledge of the Obligated Group under the Master Indenture, which pledge may not be released without the consent of a majority of the Series 2008D Bondholders. The Corporation, as the sole Member of the Obligated Group, is currently the only entity obligated to make payments pursuant to the Master Indenture. Pursuant to the Master Indenture, should an Obligated Group Affiliate and corresponding Controlling Member be designated, such Controlling Member will covenant and agree that it will cause each of its Obligated Group Affiliates to pay, loan or otherwise transfer to the Obligated Group Representative such amounts as are necessary to enable the Members to comply with the provisions of the Master Indenture, including without limitation the Members' covenant to jointly and severally pay or cause to be paid promptly any payment required to be made by any Member pursuant to the Master Indenture or any Obligation (including the Series 2008D Obligation). Upon issuance of the Series 2008D Bonds and the Series 2008D Obligation, no Obligated Group Affiliates will be designated. No assurance can be given that, if any Obligated Group Affiliates are so designated, any Controlling Member will, in all circumstances, be able to exercise such power or enforce such provisions (including, without limitation, causing an Obligated Group Affiliate to transfer funds to make payments on the Series 2008D Obligation). See "THE OBLIGATED GROUP" herein.

The Master Indenture applies directly only to the Corporation and any future Member of the Obligated Group. However, the Master Indenture requires that if an Obligated Group Affiliate is designated, the corresponding Controlling Member covenants and will cause such Obligated Group Affiliate to comply with certain covenants in the Master Indenture. Further, the Master Indenture imposes restrictions on the merger or consolidation of any Member or Obligated Group Affiliate, the encumbrance of Property and the sale or conveyance of all or substantially all of the assets of any Member or Obligated Group Affiliate. See "CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS – Certain Provisions of the Master Indenture -- Covenants of Each Member -- Negative Pledge, -- Debt Coverage, and -- Merger, Consolidation, Sale or Conveyance" in *APPENDIX C* attached hereto and "BONDHOLDERS' RISKS – Certain Matters Relating to Security for the Series 2008D Bonds."

EXCEPT FOR COVENANTS IN CERTAIN SUPPLEMENTAL MASTER INDENTURES SOLELY FOR THE BENEFIT OF THE CREDIT PROVIDERS (AS DEFINED BELOW), THE MASTER INDENTURE DOES NOT CONTAIN ANY LIMITATIONS ON OR TESTS FOR THE INCURRENCE OF ADDITIONAL INDEBTEDNESS FOR ANY MEMBER OF THE OBLIGATED GROUP OR ANY OBLIGATED GROUP AFFILIATE OR ANY LIMITATIONS ON OR TESTS FOR SALES OR TRANSFERS OF LESS THAN ALL OR SUBSTANTIALLY ALL OF THE ASSETS OF ANY MEMBER OR OBLIGATED GROUP AFFILIATE. The Master Indenture permits additional Indebtedness of any Member or any Obligated Group Affiliate to be secured by security which need not be extended to any other Indebtedness (including the Series 2008D Obligation). The Obligated Group has granted to the Master Trustee a security interest in its Gross Revenues, which security interest may not be released without the consent of a majority of the Series 2008D Bondholders. For a more detailed description of the Master Indenture, see "INTRODUCTION - Credit Provider Covenants" below and "SECURITY FOR THE SERIES 2008D BONDS" herein and "CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS – Certain Provisions of the Master Indenture" in *APPENDIX C*.

Although the Master Indenture requires that the income and assets of Obligated Group Affiliates be included in calculations under the Master Indenture, it also provides that after an entity is designated as an Obligated Group Affiliate, the Obligated Group Representative may at any time declare that such entity is no longer an Obligated Group Affiliate so long as such declaration does not immediately cause a default in the performance or observance of any term of the Master Indenture. There can be no assurance that entities will in the future be designated as Obligated Group Affiliates, or if designated, that they will remain Obligated Group Affiliates.

Credit Provider Covenants

The scheduled payment of principal of and interest on certain outstanding series of bonds (the "Insured Bonds") previously issued for the benefit of the Corporation are supported by MBIA Insurance Corporation ("MBIA") and Ambac Assurance Corporation ("Ambac"). The Series 2002 Bonds include all of the Corporation's outstanding Ambac-insured bonds. Therefore, no Ambac-insured bonds will remain outstanding following the refunding and redemption of the Series 2002 Bonds on the respective redemption dates described below under "PLAN OF FINANCING - Redemption of the Prior Bonds," and MBIA will be the sole bond insurer of the Corporation's Insured Bonds. Accordingly, so long as MBIA has not lost its rights under the respective bond indentures pursuant to which the Insured Bonds were issued and are outstanding, MBIA has the right to act on its own behalf or in lieu of the related bondholders with respect to consent, control and direction of certain matters described in such bond indentures for the series of Insured Bonds. The Master Indenture contains certain covenants and restrictions solely for the benefit of MBIA and certain other providers of credit enhancement (collectively with MBIA, the "Credit Providers") on the Corporation's outstanding indebtedness (the "Credit Provider Covenants"). These Credit Provider Covenants and restrictions may be waived, modified or amended by the applicable Credit Provider(s) in their sole discretion and without notice to or consent by the bond trustee of any outstanding bonds, the Bond Trustee, the Master Trustee, the holders of outstanding bonds, including the Series 2008D Bonds, the holders of any Obligations or any other Person. Violation of any of such covenants will result in an Event of Default under the Master Indenture which could result in acceleration of all of the Obligations, including the Series 2008D Obligation. **The Series 2008D Bonds are not insured by a bond insurance policy, or supported by a credit facility or liquidity facility**. See "CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS - Certain Provisions of the Master Indenture" in *APPENDIX C* attached hereto.

Outstanding Indebtedness and Obligations

Immediately following the issuance of the Series 2008D Bonds and the redemption of the Prior Bonds, approximately $2,373,430,000 in principal amount of Indebtedness will be outstanding and secured by Obligations issued under the Master Indenture (excluding Obligations issued by the Corporation in connection with Financial Products Agreements or to providers of credit or liquidity enhancement). See Notes 7 and 11 to the Corporation's consolidated audited financial statements included in *APPENDIX B*.

The Corporation's $50 million commercial paper program, which was backed by a $50 million standby commercial paper facility with JPMorgan Chase Bank, N.A., was terminated on August 24, 2007.

Possible Substitution of Series 2008D Obligation

The Bond Indenture requires the Bond Trustee to surrender to the Master Trustee the Series 2008D Obligation in exchange for replacement obligations issued under a new master indenture by a new obligated group of which the Corporation may or may not be a member under certain conditions, including, but not limited to, confirmation from each Rating Agency then maintaining a rating on such Series 2008D Bonds that the rating on such Series 2008D Bonds will not be reduced or withdrawn and a Favorable Opinion of Bond Counsel. See "CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS – Certain Provisions of the Bond Indenture -- Release and Substitution of Series 2008D Obligation" in *APPENDIX C* attached hereto.

Bondholders' Risks

There are risks associated with the purchase of Series 2008D Bonds. See "BONDHOLDERS' RISKS" herein for a discussion of some of these risks.

Miscellaneous

The foregoing and subsequent summaries or description of provisions of the Series 2008D Bonds, the Bond Indenture, the Loan Agreement, the Master Indenture, the Disclosure Agreement (as defined herein) and the Series 2008D Obligation and all references to other documents and other materials related to issuance of the Series 2008D Bonds are not quoted in full and are only brief outlines of some of the provisions thereof and do not purport to summarize or describe all of the provisions thereof. Reference is made to said documents for full and complete statements of their provisions. The Appendices attached hereto are a part of this Official Statement. Copies, in reasonable quantity, of the Bond Indenture, the Loan Agreement, the Master Indenture, the Disclosure Agreement and the Series 2008D Obligation may be obtained during the offering period upon request directed, as applicable, to Morgan Stanley & Co. Incorporated ("Morgan Stanley") at 555 California Street, Suite 2130, San Francisco, California 94104 or Merrill Lynch & Co. ("Merrill Lynch" and, together with Morgan Stanley, the "Underwriters") at One North Wacker Drive, 19th Floor, Chicago, Illinois 60606. Merrill Lynch and Morgan Stanley are co-managers for the Series 2008D Bonds.

PLAN OF FINANCING

General

The Corporation will use the proceeds of the Series 2008D Bonds to: (i) finance the Acquisition Project, (ii) finance, refinance or reimburse the costs of the Capital Projects, (iii) refund and redeem the Prior Bonds and (iv) pay certain costs of issuing the Series 2008D Bonds and redeeming the Prior Bonds. See "ESTIMATED SOURCES AND USES OF FUNDS" herein.

The Acquisition Project

The Corporation and Sun Health have entered into an agreement (the "Acquisition Agreement") pursuant to which the Corporation will acquire substantially all of the health care provider assets of Sun Health, which transaction is described in further detail in *APPENDIX A,* together with a description of the facilities to be acquired and financial information relating to Sun Health. Subject to certain conditions set forth in the Acquisition Agreement, the transaction is expected to close on or about September 2, 2008 (to be effective as of September 1, 2008). There is no assurance that the transaction will close, and if it closes, that it will close on or about September 2, 2008. See "THE PROJECT," "SUN HEALTH ACQUIRED FACILITIES" and "FINANCIAL INFORMATION" in *APPENDIX A* for information regarding Sun Health.

The Capital Projects

A portion of the proceeds of the Series 2008D Bonds will be used to fund various capital projects of the Corporation, including: (i) the construction of a new hospital facility in northeastern Pinal County to be named Banner Ironwood Medical Center, (ii) an expansion of the Emergency Department at Banner Baywood Medical Center, and (iii) the construction of a new data center and a secondary corporate center and educational simulation center on the campus of the recently closed Banner Mesa Medical Center. For more information on the Capital Projects, see "*APPENDIX A* - THE PROJECT."

Redemption of the Prior Bonds

The Prior Bonds, which are insured by Ambac and MBIA, are being redeemed primarily because of the disruption in the market for insured variable rate bonds, including the Prior Bonds. The interest rates on these bonds, including the Prior Bonds, have increased compared to average rates in recent years. The Corporation currently intends that the Series 1999B Bonds will be redeemed on the date of issuance of the Series 2008D Bonds, the Series 2002A Bonds and Series 2002B Bonds will be redeemed on August 29, 2008 and the Series 2002C Bonds will be redeemed on September 3, 2008.

Redemption of the Series 2005A Bonds

Following the issuance of the Series 2008D Bonds, the Corporation currently plans to cause to be issued the Arizona Health Facilities Authority Revenue Bonds (Banner Health) Series 2008E-H (the "Series 2008E-H Bonds"), a portion of the proceeds of which will be used to redeem the Arizona Health Facilities Authority Revenue Bonds (Banner Health) Series 2005A, currently outstanding in the principal amount of $391,350,000 (the "Series 2005A Bonds"). It is expected that the Series 2008E-H Bonds will be issued as variable rate demand bonds. There is no assurance that the Corporation will redeem such Series 2005A Bonds, and if such Series 2008E-H Bonds are issued, which interest rate mode the Corporation will select for the Series 2008E-H Bonds.

ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated uses and sources of funds related to the Series 2008D Bonds.

Sources of Funds	
Par Amount of Series 2008D Bonds	$917,860,000
Net original issue discount	(2,117,174)
TOTAL SOURCES [1]	$915,742,826

Uses of Funds	
Acquisition Fund	$316,379,286
Project Fund	250,500,000
Redeem Prior Bonds	343,425,000
Costs of Issuance Fund [2]	5,438,540
TOTAL USES [1]	$915,742,826

(1) *De minimis* rounding adjustments.
(2) Includes certain fees and expenses of various legal counsel, financial advisors, accountants, trustees, fees of rating agencies, Underwriters' discount, costs of printing and other costs, including costs related to the redemption of the Prior Bonds.

DEBT SERVICE REQUIREMENTS*

This table sets forth, for each year ending December 31, the amounts required in each such year for the payment of principal at maturity or by mandatory redemption for the Series 2008D Bonds and the payment of interest on the Series 2008D Bonds, together with amounts required for payment of debt service on other Obligations (excluding Obligations issued by the Corporation in connection with Financial Products Agreements or to providers of credit or liquidity enhancement) to be outstanding after the issuance of the Series 2008D Bonds and the redemption of the Prior Bonds.

Year Ending December 31	Principal Series 2008D Bonds	Interest Series 2008D Bonds	Debt Service on other Obligations(1)	Total
2008	--	--	$ 95,953,720	$ 95,953,720
2009	$ 19,135,000	$ 41,096,071	87,419,971	147,651,042
2010	14,005,000	48,088,506	85,664,887	147,758,394
2011	15,855,000	47,342,006	84,559,733	147,756,739
2012	15,975,000	46,546,256	85,232,265	147,753,521
2013	14,435,000	45,786,006	87,543,144	147,764,151
2014	17,070,000	44,998,381	85,691,419	147,759,800
2015	17,825,000	44,126,006	85,810,239	147,761,245
2016	18,435,000	43,219,506	86,104,669	147,759,175
2017	19,220,000	42,278,131	86,266,108	147,764,239
2018	16,930,000	41,353,219	89,476,760	147,759,979
2019	19,185,000	40,381,219	88,200,931	147,767,149
2020	17,625,000	39,368,944	90,774,058	147,768,002
2021	17,790,000	38,395,031	91,578,617	147,763,648
2022	19,240,000	37,376,706	91,147,679	147,764,386
2023	20,275,000	36,340,731	91,150,582	147,766,313
2024	20,515,000	35,320,981	91,926,569	147,762,550
2025	21,610,000	34,267,856	91,888,108	147,765,964
2026	22,570,000	33,163,356	92,032,205	147,765,561
2027	24,115,000	31,875,656	91,777,229	147,767,886
2028	24,965,000	30,512,478	92,263,614	147,741,092
2029	26,100,000	29,203,938	92,446,560	147,750,498
2030	67,190,000	26,519,425	54,333,092	148,042,517
2031	73,155,000	22,506,122	54,155,029	149,816,151
2032	77,345,000	18,429,872	54,040,278	149,815,150
2033	26,375,000	15,625,913	106,038,640	148,039,552
2034	27,715,000	14,138,438	106,181,390	148,034,828
2035	29,125,000	12,575,338	106,325,273	148,025,611
2036	34,045,000	10,838,163	103,144,196	148,027,359
2037	35,970,000	8,912,750	103,146,800	148,029,550
2038	144,065,000	3,961,788	--	148,026,788
Total	$917,860,000	$964,548,793	$2,652,273,767	$4,534,682,560

* *De minimis* rounding adjustments. Assumes that all principal payments and mandatory sinking fund payments are due and paid on January 1.

(1) Assumes interest at an average annual interest rate of 3.43% on other outstanding variable rate indebtedness, except for certain outstanding variable rate indebtedness which has related swaps, in which case the fixed rate per annum (3.661%, 3.705% and 4.413%) paid by the Corporation pursuant to the related swap is assumed. Actual rates may vary from these assumed rates.

THE ISSUER

The Issuer is a political subdivision and instrumentality of the State of Arizona (the "State") established pursuant to the provisions of the Constitution of the State and Title 36, Chapter 4.2, Arizona Revised Statutes, as amended (the "Act"). The Issuer is governed by a Board of Directors, consisting of seven members who are appointed by the Governor of the State. Pursuant to the Act, the Issuer is empowered to issue bonds for the purposes, among other things, of providing financing and refinancing for the acquisition, construction, equipping and improvement of certain health care facilities.

The Issuer has no taxing power and no source of funds for payment of the Series 2008D Bonds other than the underlying contractual obligations made by or on behalf of the Obligated Group. The Issuer does not have the power to pledge the general credit or taxing power of the State or of any political subdivision thereof.

Except for an executive director, the Issuer does not employ any staff to carry out its limited functions and contracts with independent third parties to do so. The Issuer does not and will not in the future monitor the financial condition of the Obligated Group or the operation of the Project, or otherwise monitor payment of the Series 2008D Bonds or compliance with the documents relating thereto. The responsibility for the operation of the Project will rest entirely with the Obligated Group and not with the Issuer. The Issuer will rely entirely upon the Bond Trustee and the Obligated Group to carry out their responsibilities under the Loan Agreement and with respect to the Project. The Issuer has assets and may attain additional assets in the future. However, such assets are not pledged to secure payment of the Series 2008D Bonds and the Issuer has no obligation nor expectation of making such assets subject to the liens of the Bond Indenture.

Neither the Issuer, including its executive director, nor its independent contractors have furnished, reviewed, investigated or verified the information contained in this Official Statement other than the information contained in this section and the information contained under the heading "ABSENCE OF MATERIAL LITIGATION – Issuer." The Issuer has determined that no financial or operating data concerning the Issuer is material to any decision to purchase, hold or sell the Series 2008D Bonds and the Issuer will not provide any such information. The Issuer has not, and will not, undertake any responsibilities to provide continuing disclosure with respect to the Series 2008D Bonds or the security therefor, and the Issuer will have no liability to Holders of the Series 2008D Bonds with respect to any such disclosures.

THE SERIES 2008D BONDS

The following is a summary of certain provisions of the Series 2008D Bonds. Reference is made to the Series 2008D Bonds and to the Bond Indenture for a more detailed description of such provisions. The discussion herein is qualified by such reference. See "*APPENDIX C* – CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS – The Bond Indenture -- Definitions" for the definitions of certain terms relating to the Series 2008D Bonds.

General

The Series 2008D Bonds are being issued by the Issuer pursuant to the provisions of the Bond Indenture. The Series 2008D Bonds, when issued, will be registered in the name of Cede & Co., as nominee of DTC. Payment of the principal of, premium, if any, and interest on the Series 2008D Bonds will be made directly to DTC or its nominee, Cede & Co., by the Bond Trustee. See "BOOK-ENTRY

SYSTEM" herein. In the event that any of the Series 2008D Bonds are not in the Book-Entry System, payment of principal of, premium, if any, and interest on such Series 2008D Bonds will be made in accordance with the provisions of the Bond Indenture.

The Series 2008D Bonds, as initially issued, will be issued as fully registered bonds without coupons in denominations of $5,000 or any integral multiple thereof, and will be dated the Date of Issuance. The Series 2008D Bonds will mature on the dates and in the principal amounts and will bear interest at the rates per annum shown on the cover page of this Official Statement. Interest on the Series 2008D Bonds will be payable on January 1 and July 1 of each year, commencing January 1, 2009. Interest on the Series 2008D Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months. The Series 2008D Bonds are subject to redemption prior to maturity as described below.

Redemption

Optional Redemption. The Series 2008D Bonds maturing on or after January 1, 2019 (except the Series 2008D Bonds maturing January 1, 2030), are subject to redemption prior to maturity at the request of the Corporation in any order of maturity designated by the Corporation, and by lot within a maturity, on or after January 1, 2018, in whole or in part at any time by payment of 100% of the principal amount of the Series 2008D Bonds to be redeemed plus accrued interest thereon to the redemption date.

The Series 2008D Bonds maturing on January 1, 2030, are subject to redemption prior to maturity at the request of the Corporation by lot, on or after January 1, 2013, in whole or in part at any time by payment of 100% of the principal amount of the Series 2008D Bonds to be redeemed plus accrued interest thereon to the redemption date.

Any Series 2008D Bonds subject to optional redemption and cancellation shall also be subject to optional call for purchase and resale by the Corporation at the same times and at the same Redemption Prices as are applicable to the optional redemption of such Series 2008D Bonds.

Extraordinary Optional Redemption. The Series 2008D Bonds are subject to redemption prior to their stated maturity, at the option of the Corporation (which option shall be exercised upon the request of the Corporation given to the Bond Trustee (unless waived by the Bond Trustee) at least 35 days prior to the date fixed for redemption) in whole or in part (in such amounts as may be specified by the Corporation) on any date, from hazard insurance or condemnation proceeds received with respect to the facilities financed or refinanced with the proceeds of the Series 2008D Bonds and deposited in the Special Redemption Account, at a Redemption Price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption, without premium.

The Series 2008D Bonds are also subject to redemption prior to their stated maturity at the option of the Corporation (which option shall be exercised upon the request of the Corporation) as a whole or in part on any date at the principal amount thereof and interest accrued thereon to the date fixed for redemption, without premium, if, as a result of any changes in the Constitution of the United States of America or any state, or legislative or administrative action or inaction by the United States of America or any state, or any agency or political subdivision thereof, or by reason of any judicial decisions there is a good faith determination by the Corporation that (a) the Loan Agreement or the Master Indenture has become void or unenforceable or impossible to perform or (b) unreasonable burdens or excessive liabilities have been imposed on the Corporation, including, without limitation, federal, state or other *ad valorem* property, income or other taxes not being imposed on the date of the Bond Indenture.

Mandatory Sinking Fund Redemption. The Series 2008D Bonds maturing on January 1, 2029, 2032 and 2038 are subject to redemption in part at the principal amount thereof, together with interest accrued thereon to the date fixed for redemption, without premium, prior to their stated maturity (or paid at maturity, as the case may be) by application of Sinking Fund Installments in the following amounts and on the following dates:

Sinking Fund Installment Date (January 1)	Sinking Fund Installments
2028	$24,965,000
2029*	26,100,000

* Final Maturity

Sinking Fund Installment Date (January 1)	Sinking Fund Installments
2031	$22,655,000
2032*	77,345,000

* Final Maturity

Sinking Fund Installment Date (January 1)	Sinking Fund Installments
2033	$ 26,375,000
2034	27,715,000
2035	29,125,000
2036	34,045,000
2037	35,970,000
2038*	144,065,000

* Final Maturity

Selection of Series 2008D Bonds for Redemption. Whenever provision is made in the Bond Indenture for the redemption of less than all of the Series 2008D Bonds or any given portion thereof, the Bond Trustee shall select the Series 2008D Bonds to be redeemed, from all Series 2008D Bonds subject to redemption or a given portion thereof not previously called for redemption, as directed in writing by the Corporation or in the absence of direction by lot in any manner which the Bond Trustee in its sole discretion shall deem appropriate and fair.

Notice and Effect of Redemption. Notice of redemption shall be mailed by the Bond Trustee, not less than 30 days nor more than 60 days prior to the redemption date, to the Holders of Series 2008D Bonds called for redemption. Such notice shall be given to the Holders of Series 2008D Bonds designated for redemption at their addresses appearing on the bond registration books maintained by the Bond Trustee as of the day notice is given. Notice of redemption shall also be given to DTC. As long as the book-entry only system is in effect with respect to any Series 2008D Bonds, any redemption notice shall be given to DTC, as Holder of the Series 2008D Bonds.

Notice of redemption shall be mailed by the Bond Trustee, but failure by the Bond Trustee to mail any notice to any one or more of the Holders shall not affect the sufficiency of the proceedings for the redemption of Series 2008D Bonds with respect to the Holders to whom notice was mailed. Each notice of redemption shall state (i) the date of the notice, (ii) the series designation and date of issue of the Series 2008D Bonds, (iii) the redemption date, (iv) the Redemption Price, (v) the place or places of redemption, including the name and address of the Bond Trustee, (vi) the maturity, (vii) the CUSIP numbers, if any, (viii) that it is conditional upon funds being on deposit with the Bond Trustee on the redemption date in an amount equal to the amount necessary to effect the redemption, (ix) in the case of Series 2008D Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed, and (x) that any redemption notice may be rescinded by written notice given to the Bond Trustee by the Corporation no later than the date specified for redemption. The Bond Trustee shall give notice of rescission as soon thereafter as practicable in the same manner, to the same Persons, as notice of redemption was given.

Notice of redemption having been duly given as aforesaid, and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the Series 2008D Bonds (or portions thereof) so called for redemption being held by the Bond Trustee, on the redemption date designated in the notice, the Series 2008D Bonds (or portions thereof) so called for redemption shall become due and payable at the Redemption Price specified in the notice together with interest accrued thereon to the redemption date. Interest on the Series 2008D Bonds so called for redemption shall cease to accrue on and after the redemption date, the Series 2008D Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Bond Indenture, and the Holders of such Series 2008D Bonds shall have no rights in respect thereof except to receive payment of said Redemption Price and accrued interest to the date fixed for redemption from funds held by the Bond Trustee for payment. All Series 2008D Bonds which have been redeemed shall be canceled upon surrender thereof unless resold at the direction of the Corporation.

Registration, Transfer and Exchange

The following paragraph shall be applicable only to DTC or its successor so long as the Series 2008D Bonds are in the Book-Entry Only System.

A Series 2008D Bond may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the provisions of the Bond Indenture, by the Person in whose name it is registered, in person or by such Person's duly authorized attorney, upon surrender of such Series 2008D Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Bond Trustee. Whenever any Series 2008D Bond or Series 2008D Bonds shall be surrendered for transfer, the Issuer shall execute and the Bond Trustee shall authenticate and deliver a new Series 2008D Bond or Series 2008D Bonds, of the same maturity and for a like aggregate principal amount. The Bond Trustee shall require the Bondholder requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer, and the Bond Trustee may also require the Bondholder requesting such transfer to pay a reasonable sum to cover expenses incurred by the Bond Trustee or the Issuer in connection with such transfer. Series 2008D Bonds may be exchanged at the Principal Office of the Bond Trustee for a like aggregate principal amount of Series 2008D Bonds of other Minimum Authorized Denominations of the same maturity. The Bond Trustee shall require the Bondholder requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange and the Bond Trustee may also require the Bondholder requesting such exchange to pay a reasonable sum to cover expenses incurred by the Bond Trustee or the Issuer in connection with such exchange, except in the case of an exchange for the unredeemed portion of a Bond surrendered for redemption. The Bond Trustee shall not be required to transfer or exchange (i) any Series

2008D Bond during the fifteen (15) days next preceding the date on which notice of redemption of Series 2008D Bonds is given, or (ii) any Series 2008D Bond called for redemption.

BOOK-ENTRY ONLY SYSTEM

General

THE INFORMATION PROVIDED IN THIS SECTION HAS BEEN PROVIDED BY DTC. NO REPRESENTATION IS MADE BY THE ISSUER, THE CORPORATION, THE BOND TRUSTEE OR THE UNDERWRITERS AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION PROVIDED BY DTC OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE OF THIS OFFICIAL STATEMENT.

DTC will act as securities depository for the Series 2008D Bonds. The Series 2008D Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2008D Bond certificate will be issued for each maturity of the Series 2008D Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository is a limited purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission ("SEC"). More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Series 2008D Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2008D Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2008D Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2008D Bonds are to be accomplished by entries made on

the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2008D Bonds, except in the event that use of the book-entry system for the Series 2008D Bonds is discontinued.

To facilitate subsequent transfers, all Series 2008D Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2008D Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2008D Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2008D Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2008D Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2008D Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond Indenture, Loan Agreement or Master Indenture. For example, Beneficial Owners of Series 2008D Bonds may wish to ascertain that the nominee holding the Series 2008D Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2008D Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant therein to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Series 2008D Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2008D Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of principal, interest and redemption prices on the Series 2008D Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Bond Trustee or Issuer, on a payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Bond Trustee, Master Trustee, the Corporation, or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest and redemption prices to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bond Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2008D Bonds at any time by giving reasonable notice to the Issuer or Bond Trustee. Under such circumstances, in the event that a successor depository is not obtained, Series 2008D Bond certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). Once the Issuer has requested that holders withdraw securities from DTC, DTC will notify its Participants of such request and such Participants may utilize DTC's withdrawal process to withdraw their Series 2008D Bonds from DTC. In the event a Participant utilizes DTC's withdrawal process, Series 2008D Bonds certificates will be printed and delivered.

For so long as the Series 2008D Bonds are registered in the name of DTC or its nominee, Cede & Co., the Issuer, the Master Trustee and the Bond Trustee will recognize only DTC or its nominee, Cede & Co., as the registered owner of the Series 2008D Bonds for all purposes, including payments, notices and voting.

Under the Bond Indenture, payments made by the Bond Trustee to DTC or its nominee will satisfy the Issuer's obligations under the Bond Indenture and the Corporation's obligations under the Loan Agreement and on the Series 2008D Obligation, to the extent of the payments so made.

Neither the Issuer, the Underwriters, the Corporation, the Master Trustee nor the Bond Trustee will have any responsibility or obligation with respect to (i) the accuracy of the records of DTC, its nominee or any DTC Participant or Indirect Participant with respect to any beneficial ownership interest in any Series 2008D Bonds, (ii) the delivery to any DTC Participant or Indirect Participant or any other Person, other than an owner, as shown in the Bond Register, of any notice with respect to any Series 2008D Bonds including, without limitation, any notice of redemption, tender, purchase or any event which would or could give rise to a tender or purchase right or option with respect to any Series 2008D Bonds, (iii) the payment of any DTC Participant or Indirect Participant or any other Person, other than an owner, as shown in the Bond Register, of any amount with respect to the principal of, premium, if any, or interest on, any Series 2008D Bonds or (iv) any consent given by DTC as registered owner.

Prior to any discontinuation of the book-entry only system described above, the Bond Trustee and the Issuer may treat DTC as, and deem DTC to be, the absolute owner of the Series 2008D Bonds for all purposes whatsoever, including, without limitation, (i) the payment of principal of, premium, if any, and interest on the Series 2008D Bonds, (ii) giving notices of redemption and other matters with respect to the Series 2008D Bonds, (iii) registering transfers with respect to the Series 2008D Bonds and (iv) the selection of Series 2008D Bonds for redemption.

SECURITY FOR THE SERIES 2008D BONDS

General

The Series 2008D Bonds are special limited obligations of the Issuer, payable solely from the Revenues pledged under the Bond Indenture for payment, and are secured by the Issuer's Pledge and Assignment. Revenues consist primarily of payments required to be made by the Corporation pursuant to the Loan Agreement in amounts sufficient in the aggregate to pay the principal of and premium, if any, and interest on the Series 2008D Bonds when such become due and amounts payable under the Loan Agreement and payments by the Obligated Group Members pursuant to the Series 2008D Obligation. No

additional bonds may be issued under the Bond Indenture. The Pledge and Assignment by the Issuer secures ratably the Series 2008D Bonds.

The facilities of the Corporation are not pledged as security for the Series 2008D Bonds or for the payment of the Series 2008D Obligation.

The Series 2008D Bonds do not represent or constitute a debt of the Issuer, the State, or any political subdivision thereof within the meaning of the provisions of the Constitution or statutes of the State or a pledge of the faith and credit of the Issuer, the State or any political subdivision thereof. The issuance of the Series 2008D Bonds does not obligate, in any way, the Issuer, the State or any political subdivision thereof to levy any taxes or appropriate any funds for the payment of the principal thereof or the interest or any premium on the Series 2008D Bonds. The Issuer has no taxing power.

The Master Indenture

Obligations. The Master Indenture permits the Corporation and other Members of the Obligated Group to issue additional Obligations and to secure all Obligations, including the Series 2008D Obligation, on a parity thereunder. Upon the issuance of the Series 2008D Bonds and the redemption of the Prior Bonds with a portion of the proceeds thereof, approximately $2,373,430,000 in Obligations (excluding Obligations issued by the Corporation in connection with Financial Products Agreements or to providers of credit or liquidity enhancement) are expected to be outstanding under the Master Indenture. Additional Obligations or guaranties may be issued to secure additional borrowings to evidence or secure debt owed to other creditors or to evidence other obligations by any Member of the Obligated Group. All Members of the Obligated Group are jointly and severally obligated with respect to payment of each Obligation issued under the Master Indenture.

Payment of Obligations. The Series 2008D Obligation will be the general obligation of the Obligated Group, secured by a Gross Revenues pledge of the Obligated Group under the Master Indenture, which pledge may not be released without the consent of a majority of the Series 2008D Bondholders. However, in the Master Indenture, should any Obligated Group Affiliate and corresponding Controlling Member be designated, such Controlling Member will covenant and agree that it will cause each of its Obligated Group Affiliates to pay, loan or otherwise transfer to the Obligated Group Representative such amounts as are necessary to enable the Members to comply with the provisions of the Master Indenture, including without limitation the Members covenant to jointly and severally pay or cause to be paid promptly any payment required to be made by any Member pursuant to the Master Indenture or any Obligation (including the Series 2008D Obligation). See "INTRODUCTION – The Master Indenture" herein and "CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS – Certain Provisions of the Master Indenture" in *APPENDIX C*.

Certain General Covenants. The Master Indenture applies directly only to the Corporation and any future Members of the Obligated Group. However, the Master Indenture requires that each Controlling Member covenants and will cause each of its Obligated Group Affiliates, if any, to comply with certain covenants in the Master Indenture, including covenants that: (i) no Member or Obligated Group Affiliate will create, assume or suffer any Lien upon the property of the Obligated Group, except Permitted Encumbrances and (ii) each Fiscal Year the Annual Required Debt Service Coverage Ratio for the Members and the Obligated Group Affiliates is not less than 1.10 to 1.00. The sole remedy for a failure by the Members and the Obligated Group Affiliate to maintain such ratio in any particular fiscal year is the requirement that the Corporation retain a Consultant to make recommendations with respect to the operations of the Members and the Obligated Group Affiliates in order to increase such ratio to at least 1.10 to 1.00 in the next succeeding Fiscal Year, except that if such ratio falls below 1.00 to 1.00 for any Fiscal Year, an Event of Default will result under the Master Indenture. Such calculation will be

based on the Members and Obligated Group Affiliates as of the end of each Fiscal Year. Further, the Master Indenture imposes restrictions on the merger or consolidation of any Member or Obligated Group Affiliate and the sale or conveyance of all or substantially all of the assets of any Member or Obligated Group Affiliate. See "CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS – Certain Provisions of the Master Indenture -- Covenants of Each Member -- Negative Pledge, -- Debt Coverage, and -- Merger, Consolidation, Sale or Conveyance" in *APPENDIX C* attached hereto and "BONDHOLDERS' RISKS – Certain Matters Relating to Security for the Series 2008D Bonds" herein.

In addition, the Master Indenture provides certain restrictions on the Obligated Group, including those solely for the benefit of the Credit Providers. **The Series 2008D Bonds are not insured by a bond insurance policy or supported by a credit facility or liquidity facility**. See "INTRODUCTION - Credit Provider Covenants" herein and "CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS - Certain Provisions of the Master Indenture" in *APPENDIX C* hereto.

EXCEPT FOR COVENANTS IN CERTAIN SUPPLEMENTAL MASTER INDENTURES SOLELY FOR THE BENEFIT OF THE CREDIT PROVIDERS, THE MASTER INDENTURE DOES NOT CONTAIN ANY LIMITATIONS ON OR TESTS FOR THE INCURRENCE OF ADDITIONAL INDEBTEDNESS FOR ANY MEMBER OF THE OBLIGATED GROUP OR ANY OBLIGATED GROUP AFFILIATE OR ANY LIMITATIONS ON OR TESTS FOR SALES OR TRANSFERS OF LESS THAN ALL OR SUBSTANTIALLY ALL OF THE ASSETS OF ANY MEMBER OR OBLIGATED GROUP AFFILIATE. The Master Indenture permits additional Indebtedness of any Member or any Obligated Group Affiliate to be secured by security which need not be extended to any other Indebtedness (including the Series 2008D Obligation). The Obligated Group has granted to the Master Trustee a security interest in its Gross Revenues, which security interest may not be released without the consent of the majority of the Series 2008D Bondholders. For a more detailed description of the Master Indenture, see "CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS – Certain Provisions of the Master Indenture" in *APPENDIX C*.

Although the Master Indenture requires that the income and assets of Obligated Group Affiliates be included in calculations under the Master Indenture, it also provides that after an entity is designated as an Obligated Group Affiliate, the Obligated Group Representative may at any time declare that such entity is no longer an Obligated Group Affiliate so long as such declaration does not immediately cause a default in the performance or observance of any term of the Master Indenture. No Obligated Group Affiliate has been designated to date. There can be no assurance that entities will in the future be designated as Obligated Group Affiliates or if designated, that they will remain Obligated Group Affiliates.

Possible Substitution of the Series 2008D Obligation

The Series 2008D Obligation may be replaced with an obligation issued by a separate group of corporations under a separate master trust indenture. Neither the Corporation nor any other Member of the Obligated Group is required to be a member of the new obligated group. The Bond Indenture requires the Bond Trustee to surrender to the Master Trustee the Series 2008D Obligation in exchange for replacement obligations issued under a new master indenture by a new obligated group under certain conditions, including, but not limited to, confirmation from the Rating Agencies that the rating on the Series 2008D Bonds will not be reduced or withdrawn and a Favorable Opinion of Bond Counsel. See "*APPENDIX C* – CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS – Certain Provisions of the Master Indenture" and " – Certain Provisions of the Bond Indenture," for a summary of the applicable provisions of the Master Indenture and the Bond Indenture.

If any substitution occurs, all references in the Loan Agreement and the Bond Indenture to the Series 2008D Obligation shall refer to the related substitute obligations issued under the separate master trust indenture, all references to the Supplemental Master Indenture shall refer to the supplements to the separate master trust indenture pursuant to which the substitute obligation was issued, and all related references to the Master Indenture shall refer to the separate master trust indenture.

Amendments of Bond Indenture and Master Indenture

The Bond Indenture provides for the modification or amendment of the Bond Indenture from time to time, in certain circumstances without the consent of the Holders of the Series 2008D Bonds issued and Outstanding under the Bond Indenture and in other circumstances with the consent of the Holders of a majority of the principal amount of the Series 2008D Bonds. The Master Indenture may also be amended from time to time without the consent of Holders. Such amendments to the Bond Indenture or Master Indenture could be substantial and result in the modification, waiver or removal of any existing covenant or restriction contained in the Bond Indenture or the Master Indenture. Such amendments could adversely affect the security of the Bondholders. See "*APPENDIX C* – CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS – Certain Provisions of the Master Indenture -- Supplements and Amendments" and " – Certain Provisions of the Bond Indenture -- Modifications or Amendments."

BONDHOLDERS' RISKS

General

As described under "SECURITY FOR THE SERIES 2008D BONDS," the principal of, premium, if any, and interest on the Series 2008D Bonds are payable solely from amounts payable by the Corporation under the Loan Agreement and by the Obligated Group and any future Members of the Obligated Group under the Series 2008D Obligation. No representation or assurance is given or can be made that revenues will be realized by the Obligated Group or any future Members of the Obligated Group in amounts sufficient to pay debt service on the Series 2008D Bonds when due and other payments necessary to meet the obligations of the Members of the Obligated Group. These revenues are affected by and subject to conditions which may change in the future to an extent and with effects that cannot be determined at this time. The risk factors discussed below should be considered in evaluating the Obligated Group's ability to make payments in amounts sufficient to provide for payment of the principal of, premium, if any, and interest on the Series 2008D Bonds.

Although the Master Indenture requires that the income and assets of Obligated Group Affiliates be included in calculations under the Master Indenture, it also provides that after an entity is designated as an Obligated Group Affiliate, the Obligated Group Representative may at any time declare that such entity is no longer an Obligated Group Affiliate so long as such declaration does not immediately cause a default in the performance or observance of any term of the Master Indenture. There can be no assurance that other entities will in the future be designated as Obligated Group Affiliates or, if so designated, that they will remain Obligated Group Affiliates.

The following discussion of risk factors is not, and is not intended to be, exhaustive.

Construction Risks

The Corporation currently has several substantial construction projects underway or planned to begin in the near future. See "*APPENDIX A* - BANNER ARIZONA PROJECTS - The Project" and "- Recently Completed, Current and Future Projects". Construction of these projects are subject to the

typical risks associated with construction projects, including, but not limited to, delays in issuance of required building permits or other necessary approvals or permits, strikes, shortages of materials and adverse weather conditions. Such events could result in delaying completion of these projects and thus the revenue flow therefrom. The costs of the ongoing and future projects may be increased by reason of changes authorized by the Corporation, delays due to acts or neglect of the Corporation or by independent contractors employed by the Corporation or by labor disputes, fires, unusual delay in transportation, adverse conditions not reasonably anticipated, unavoidable casualties or any causes beyond the control of the contractors.

Utilization of Derivatives Markets

The Obligated Group utilizes the derivatives markets (including, from time to time, interest rate swaps) to manage its exposure to interest rate and equity market volatility. The majority of the interest rate swaps are designed to hedge variable rate indebtedness and are structured so that the Obligated Group pays a fixed rate. The Obligated Group has entered into multiple interest rate swaps to hedge the variable cash flows associated with existing variable rate indebtedness. In addition, the Obligated Group has entered into forward starting interest rate swaps to hedge the variable cash flows associated with variable rate indebtedness to be issued in the future. In the event of an early termination of any swap, the Obligated Group may owe a payment to the related swap provider, and such amount, which cannot currently be calculated, may be substantial. The payment obligations of the Obligated Group under the swap agreements will not alter the obligations of the Obligated Group to pay or make payments with respect to principal of, redemption price and purchase price of, and interest on any other indebtedness. **The obligations of the Obligated Group pursuant to certain swap agreements are secured by Obligations issued under the Master Indenture.** See "*APPENDIX A* - INVESTMENT AND DERIVATIVES POLICIES" and the audited consolidated financial statements of the Corporation and Subsidiaries included in ***APPENDIX B*** hereto, including Note 7, for additional information on derivative financial instruments.

Payment for Health Care Services

Third-Party Payment Programs. Most of the patient service revenues of the Obligated Group are derived from third-party payors which reimburse or pay for the services and items provided to patients covered by such third parties for such services, including the federal Medicare program, state Medicaid programs and private health plans and insurers, health maintenance organizations ("HMOs"), preferred provider organizations ("PPOs") and other managed care payors. Many of these third-party payors make payments to the Obligated Group at rates other than the direct charges of the Obligated Group, which rates may be determined on a basis other than the actual costs incurred in providing services and items to patients. Accordingly, there can be no assurance that payments made under these programs will be adequate to cover the Obligated Group's actual costs of furnishing health care services and items. In addition, the financial performance of the Obligated Group could be adversely affected by the insolvency of, or other delay in receipt of payments from, third-party payors which provide coverage for services to their patients.

Medicare and Medicaid Programs. Medicare and Medicaid are the commonly used names for health care reimbursement or payment programs governed by certain provisions of the federal Social Security Act. Medicare is an exclusively federal program and Medicaid is a combined federal and state program. Medicare provides certain health care benefits to beneficiaries who are 65 years of age or older, disabled or qualify for the End Stage Renal Disease Program. Medicare Part A covers inpatient services and certain other services, and Medicare Part B covers outpatient services, certain physician services, medical supplies and durable medical equipment. Medicaid is designed to pay providers for care given to the medically indigent and others who receive federal aid. Medicaid is funded by federal and state

appropriations and is administered by state agencies. The Centers for Medicare & Medicaid Services ("CMS"), an agency of the United States Department of Health and Human Services ("HHS"), administers the Medicare program and works with the states regarding the Medicaid program, as well as other health care programs.

Health care providers have been and continue to be affected significantly by changes made in the last several years in federal and state health care laws and regulations, particularly those pertaining to Medicare and Medicaid. The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "MMA"), among other things described below, generally increased reimbursement levels. The Deficit Reduction Act of 2005 (the "DRA"), contained, among other things, a number of provisions to slow the pace of spending growth in the Medicare and Medicaid programs while increasing health care providers' focus on quality and efficient delivery of health care services. The purpose of much of the recent statutory and regulatory activity, including the MMA, has been to reduce the rate of increase in health care costs, particularly costs paid under the Medicare and Medicaid programs. Diverse and complex mechanisms to limit the amount of money paid to health care providers under both the Medicare and Medicaid programs have been enacted, some of which are being implemented and some of which will be or may be implemented in the future. Management of the Obligated Group is unable to predict what effect, if any, current and future legislative initiatives related to Medicare and Medicaid may have on operations of the Obligated Group.

Medicare. For the fiscal year ended December 31, 2007, approximately 21% of the net patient revenues of the Corporation was derived from the regular Medicare program, and approximately 10.9% of the net patient revenues of the Corporation was derived from the Medicare Advantage plans. As a consequence, any adverse development or change in Medicare reimbursement could have a material adverse effect on the financial condition and results of operations of the Obligated Group.

Critical Access Hospitals. A Critical Access Hospital ("CAH") is a limited service hospital which is located in a rural area and meets other Medicare qualification requirements. Medicare generally reimburses CAHs on the basis of their current Medicare-allowable costs, or "cost-based reimbursement," for inpatient and outpatient services provided to Medicare beneficiaries, rather than under a payment system known as the "Prospective Payment System" or "PPS," under which other acute care hospitals are reimbursed. Under PPS, hospitals are reimbursed based on rates established prospectively by CMS, which rates are not directly related to a hospital's actual costs. In fiscal year 2007, seven of the Obligated Group's hospitals qualified as CAHs and had total revenue of approximately $130.0 million.

Inpatient Operating Reimbursement under PPS. For acute care hospitals, including twelve owned or leased by the Obligated Group, Medicare Part A pays for most inpatient services under PPS. Separate PPS payments are made for inpatient operating costs and inpatient capital-related costs. The following discussion on Medicare reimbursement relates to hospitals that are reimbursed on a PPS basis.

Acute care hospitals that are reimbursed on a PPS basis are paid a specified amount toward their operating costs based on the Diagnosis Related Group ("DRG") to which each Medicare patient is assigned, which is determined by the diagnosis and procedure and other factors for each particular inpatient stay. The amount paid for each DRG is established prospectively by CMS based on the estimated intensity of hospital resources necessary to furnish care for each principal diagnosis and is not directly related to a hospital's actual costs. For certain Medicare beneficiaries who have unusually costly hospital stays ("outliers"), CMS will provide additional payments above those specified for the DRG. Outlier payments cease to be available upon the exhaustion of such patient's Medicare benefits or a determination that acute care is no longer necessary, whichever occurs first. There is no assurance that any of these payments will cover the actual costs incurred by a hospital. In addition, revisions to the outlier regulations implemented in order to curb outlier payment abuse may adversely affect hospitals'

ability to receive such subsidies. In addition to outlier payments, DRG payments are adjusted for area wage differentials. These change on a yearly basis.

DRG payments are adjusted each federal fiscal year (which begins October 1) based on the hospital "market basket" index, or the cost of providing health care services. For nearly every year since 1983, Congress has modified the increases and given substantially less than the increase in the "market basket" index. CMS has also implemented a documentation and coding adjustment to account for changes in payments under the new MS-DRG system that are not related to changes in case mix. The documentation and coding adjustments for federal fiscal years 2008 and 2009 are reductions to the base payment rate of 0.6% and 0.9% respectively. CMS has been given the authority to retrospectively determine if the documentation and coding adjustments for these years were adequate to account for changes in payments not related to changes in case mix. This may result in additional adjustments for federal fiscal years 2010, 2011 and 2012. Changes in the payments received for all services, including specialty services, could have an adverse effect on the Obligated Group.

Under the MMA, hospitals will continue to receive the full increase in the "market basket" index in federal fiscal years 2005-2009 so long as they participate in CMS's Hospital Quality Initiative. Pursuant to the DRA, for federal fiscal year 2007 and thereafter, there will be a 2% reduction from the market basket update (3.4% in federal fiscal year 2007, 3.3% in federal fiscal year 2008 and 3.0% in federal fiscal year 2009) for non-participating hospitals. CMS has added new quality measures that hospitals must report during calendar year 2008 in order to qualify for the full market basket update in federal fiscal year 2009. The Obligated Group's hospitals participate in the Hospital Quality Initiative. There is no assurance that future increases in the DRG payments will keep pace with the increases in the cost of providing hospital services.

The Secretary of HHS is required to review annually the DRG categories to take into account any new procedures, reclassify DRGs and recalibrate the DRG relative weights that reflect the relative hospital resources used by hospitals with respect to discharges classified within a given DRG category. During federal fiscal years 2007 and 2008, CMS created new DRGs and revised or deleted others in order to better recognize the severity of illness for each patient. There is no assurance that the Obligated Group will be paid amounts that will adequately reflect changes in the cost of providing health care or in the cost of health care technology being made available to patients. CMS may only adjust DRG weights on a budget-neutral basis.

Rehabilitation. CMS reimburses inpatient rehabilitation facilities ("IRFs") on a PPS basis. Under IRF PPS, patients are classified into case mix groups based on impairment, age, comorbidities and functional capability. IRFs are paid a predetermined amount per discharge that reflects the patient's case mix group and is adjusted for area wage levels, low-income patients, rural areas and high-cost outliers. For federal fiscal years 2006 and 2007, CMS updated the PPS rate for rehabilitation hospitals and units by market baskets of 3.6% and 3.3% respectively. However, CMS also applied reductions to the standard payment amount of 1.9% and 2.6% for federal fiscal years 2006 and 2007, respectively, to account for coding changes that do not reflect real changes in case mix. For federal fiscal year 2008, CMS has updated the PPS rate for IRFs by the market basket of 3.2%. The Medicare, Medicaid and SCHIP Reauthorization Act of 2007 ("MMSEA"), signed into law on December 29, 2007, eliminated the market basket update as of April 2008 and continues the zero increase through federal fiscal year 2009.

On July 31, 2008, CMS finalized its April 21, 2008 proposed rule (the "CMS Final IRF Rule") that recalculates the weights assigned to the case mix groups using more recent data from rehabilitation hospitals about the types of patients they are treating and the resources required. However, as required by MMSEA, the final rule sets the inflation update for the standard federal rate at zero percent for federal fiscal year 2009. Additionally, as required by the MMSEA, the CMS Final IRF Rule retains the

requirement that at least 60 percent of a facility's patient population have one of 13 qualifying conditions specified in Medicare regulations. At the same time, the CMS Final IRF Rule implements provisions in the MMSEA that allow facilities to continue to count patients whose principal reason for needing inpatient rehabilitation services is not one of the qualifying conditions, but whose treatment is complicated by the presence of one or more of these conditions as a secondary diagnosis.

Psychiatric. On November 15, 2004, CMS published a final rule to implement the conversion of inpatient psychiatric services to PPS, as mandated by the Medicare, Medicaid and SCHIP Balanced Budget Refinement Act of 1999. The new inpatient psychiatric facility PPS system ("IPF PPS") applies to both freestanding psychiatric hospitals and certified psychiatric units in general acute care hospitals, and became effective for cost reporting periods beginning on or after January 1, 2005. The IPF PPS rates were phased in over a three year period. The transition to a PPS payment methodology has not had a materially adverse impact on the Obligated Group's finances and operations.

Capital Costs. Hospitals are reimbursed on a fully prospective basis for capital costs (including depreciation and interest) related to the provision of inpatient services to Medicare beneficiaries. Thus, capital costs are reimbursed exclusively on the basis of a standard federal rate (based on average national costs), subject to certain adjustments (such as for disproportionate share, indirect medical education and outlier cases) specific to the hospital. Hospitals are reimbursed at 100% of the standard federal rate for all capital costs. This applies to the standard federal rate before the application of the adjustment factors for outliers, exceptions and budget neutrality.

There can be no assurance that the prospective payments for capital costs will be sufficient to cover the actual capital-related costs of the Obligated Group allocable to Medicare patient stays or to provide adequate flexibility in meeting the Obligated Group's future capital needs.

*Disproportionate Share Adjustments***.** Under PPS, hospitals that serve a disproportionate share of low-income patients may receive an additional disproportionate share hospital adjustment ("DSH"). A hospital may be classified as a DSH hospital based upon any of several circumstances related to the number of beds, the hospital's location, and its disproportionate patient percentage. The DSH adjustment is calculated under one of several methods, depending upon the basis for the hospital's classification as a DSH hospital. In fiscal year 2007, nine of the Obligated Group's hospitals received DSH payments totaling approximately $39.0 million. There is no assurance that any of the Obligated Group's hospitals will receive DSH payments in the future.

Costs of Outpatient Services. Hospital outpatient services, including hospital operating and capital costs, are reimbursed on a PPS basis. Several Part B services are specifically excluded from this rule, including certain physician and non-physician practitioner services, ambulance, clinical diagnostic laboratory services and nonimplantable orthotics and prosthetics, physical and occupational therapy, and speech language pathology services. Under the hospital outpatient PPS, predetermined amounts are paid for designated services furnished to Medicare beneficiaries. CMS classifies outpatient services and procedures that are comparable clinically and in terms of resource use into ambulatory payment classification ("APC") groups. Using hospital outpatient claims data from the most recent available hospital cost reports, CMS determines the median costs for the services and procedures in each APC group. Subsequently, a payment rate is established for each APC. Depending on the services provided, a hospital may be paid for more than one APC for a patient visit.

Outpatient PPS ("OPPS") rates are adjusted annually based on the hospital inpatient market basket percentage increase. The APC adjustment is the full market basket increase of 3.3% for calendar year 2008, and CMS has proposed a 3.0% increase for calendar year 2009. There can be no assurance that the OPPS rate, which bases payment on APC groups rather than on individual services, will be

sufficient to cover the actual costs of Members of the Obligated Group allocable to Medicare patient care. Hospitals that fail to report certain required quality data will have their market basket percentage increase reduced by two percentage points.

In addition to the APC rate, there is a predetermined beneficiary coinsurance amount for each APC group. There can be no assurance that the beneficiary will pay this amount.

Physician Payments. Certain physician services are reimbursed on the basis of a national fee schedule called the "resource based-relative value scale" ("RB-RVS"). The RB-RVS fee schedule establishes payment amounts for all physician services, including services of provider-based physicians, and is subject to annual updates. In the RB-RVS system, payments for physician services are determined by the resource costs needed to provide them. The cost of providing each service is divided into three components: physician work, practice expense and professional liability insurance, each of which is resource-based. These factors are translated into relative value units ("RVU") and payments are calculated by multiplying the combined RVUs of a service by a conversion factor (a monetary amount that is determined by CMS). Payments are also adjusted for geographical differences in resource costs. The Sustainable Growth Rate ("SGR"), which is a limit on the growth of Medicare payments for physician services, is linked to changes in the U.S. Gross Domestic Product over a ten-year period. SGR targets are compared to actual expenditures in order to determine subsequent physician fee schedule updates. Although the underlying conversion factor used to calculate payment amounts to physicians under the RB-RVS fee schedule decreased by 4.4% from 2005 to 2006, the DRA restored payments to physicians at 2005 levels, which restoration is effective as of January 1, 2006. For 2007, the final rule issued by CMS provided for a 5.0% reduction to such underlying conversion factor, but such reduction was eliminated by Congress pursuant to the Tax Relief and Health Care Act of 2006, instead freezing payments at their current levels. MMSEA, signed into law by President Bush on December 29, 2007, provided, among other things, a temporary 0.5% increase to the underlying conversion factor through June 30, 2008, eliminating an estimated 10.1% reduction that was to have become effective January 1, 2008. The temporary 0.5% increase terminated, and the 10.1% reduction became effective July 1, 2008. Congress subsequently passed the Medicare Improvements for Patients and Providers Act of 2008 over a presidential veto that, among other things, eliminates the 10.1% reduction, restores the 0.5% increase for calendar year 2008 and provides a 1.1% increase for calendar year 2009.

Skilled Nursing Care. Medicare Part A reimburses on a PPS basis for certain post-acute inpatient skilled nursing and rehabilitation care for up to 100 days during the same spell of illness. Medicare Part A reimburses for certain post-hospital inpatient skilled nursing and rehabilitation care for up to 100 days during the same spell of illness. For skilled nursing facilities ("SNFs"), the federal government has implemented a PPS for Medicare reimbursement, which utilizes prospective, case-mix adjusted per diem rates applicable to all covered SNF services. Reimbursement under PPS also incorporates adjustments to account for facility case-mix using the Resource Utilization Groups ("RUGs") system. Effective January 1, 2006, nine new RUGs were added to a refined RUGs classification system, for a total of 53, and additional payments for certain existing RUGs were eliminated. CMS expanded the number of RUGs to achieve budget neutrality, but the expansion has resulted in increased Medicare expenditures. In May 2008, CMS proposed a recalibration of the case-mix weights to reestablish budget neutrality that is expected in federal fiscal year 2009 to result in a decrease of $770 million in payments, or 3.3%. The SNF PPS payments are adjusted annually based on the skilled nursing facility "market basket" index, or the cost of providing SNF services. For federal fiscal years 2007 and 2008, SNFs received the full market basket increase of 3.1% and 3.3%, respectively, and CMS has proposed a 3.1% market basket increase for federal fiscal year 2009. On July 31, 2008, CMS published its final rules related to nursing home payment rates. CMS implemented a 3.4% market basket increase for federal fiscal year 2009. CMS expects the market basket increase will yield an increase of $780 million in increased Medicare payments.

A recalibration of the payment categories, intended to correct a previous error, which had been proposed for federal fiscal year 2009, has been delayed while CMS continues to evaluate data.

Home Health Care. CMS pays home health agencies for 60-day episodes of care based on PPS and reimburses agencies at higher rates for beneficiaries with greater needs. The system uses national payment rates that vary with the level of care required by each beneficiary, adjusted to reflect area wage differences. Additional payments may be made to the 60-day case-mix adjusted episode payments for beneficiaries who incur unusually large costs. Total national outlier payments for home health services annually will be no more than five percent of estimated total payments under home health PPS. CMS provided for a 3.3% market basket update for calendar year 2007 and 3.0% for calendar year 2008. As required by the DRA, agencies that do not submit data to CMS relating to ten quality indicators will, beginning in calendar year 2007, have their market basket update percentage reduced by two percent.

Ambulatory Surgical Centers. Medicare pays for ambulatory surgical center ("ASC") services on a PPS basis. Historically, these rates have been updated annually for inflation by the consumer price index ("CPI"), effective each federal fiscal year commencing October 1. The MMA, however, changed the update cycle to a calendar year. Pursuant to the DRA, effective January 1, 2007, payments to ASCs are required to be capped at the corresponding OPPS amount paid to a hospital for the same procedure. CMS is in the process of revising the ASC payment system to one that is based on APC rates, which revised system would be applicable to services furnished on or after January 1, 2008.

Provider-Based Standards. CMS made significant changes to the provider-based regulation included in the final OPPS rulemaking for federal fiscal year 2003. Generally, CMS eliminated a few requirements for on-site provider-based facilities and clarified some of the provisions of the prior provider-based rules. CMS clarified that prior approval of provider-based status by CMS is not required for an entity to bill as provider-based. Rather, a provider may provide an optional attestation of its status as a provider-based entity. Although such attestation is not required to bill as a provider-based entity, it may provide some overpayment protection in the event that CMS subsequently makes a determination that an entity is not provider-based, assuming accurate representation by the provider to CMS. Any reclassification by CMS may adversely affect the entity's reimbursement under the Medicare program. Based on current regulations, the Corporation believes all of its current facilities that bill for services as provider-based entities qualify as "provider-based" entities under the current regulations.

Medicare Advantage. Medicare beneficiaries may obtain Medicare coverage through a managed care Medicare Advantage plan (formerly known as a "Medicare+Choice" plan). A Medicare Advantage plan may be offered by a coordinated care plan (such as an HMO or PPO), a provider sponsored organization ("PSO") (a network operated by health care providers rather than an insurance company), a private fee-for-service plan, or a combination of a medical savings account ("MSA") and contributions to a Medicare Advantage plan. Each Medicare Advantage plan, except an MSA plan, is required to provide benefits approved by the Secretary of HHS. A Medicare Advantage plan will receive a monthly capitated payment from HHS for each Medicare beneficiary who has elected coverage under the plan. Health care providers such as the Obligated Group must contract with Medicare Advantage plans to treat Medicare Advantage enrollees at agreed upon rates or may form a PSO to contract directly with HHS as a Medicare Advantage plan. Covered inpatient and emergency services rendered to a Medicare Advantage beneficiary by a hospital that is an out-of-plan provider (i.e., that has not entered into a contract with a Medicare Advantage plan) will be paid at Medicare fee-for-service payment rates as payment in full.

The MMA made several substantive changes to Medicare Advantage in addition to renaming the program. These changes are designed to improve Medicare Advantage by providing increased payments to providers and by offering more health plan choices, including expanded rural coverage through the inclusion of regional plans, beginning in 2006. Increased payments to Medicare Advantage providers

were effective as of March 2004. There can be no assurance, however, that rates negotiated for the treatment of Medicare Advantage enrollees will be sufficient to cover the cost of providing services to such patients of the Obligated Group.

As part of the Acquisition Project, the Corporation will acquire Sun Health MediSun, Inc., a Medicare Advantage plan with approximately 18,300 members. See "*APPENDIX A* - SUN HEALTH ACQUIRED OPERATIONS - Sun Health MediSun, Inc."

Medicare Audits. The Obligated Group receives payments for various services provided to Medicare patients based upon charges or other reimbursement methodologies that are then reconciled annually based upon the preparation and submission of annual cost reports. Estimates for the annual cost reports are reflected as amounts due to/from third-party payors and represent several years of open cost reports due to time delays in the fiscal intermediaries audits and the basic complexity of billing and reimbursement regulations. These estimates are adjusted periodically based upon correspondence received from the fiscal intermediary. Hospitals participating in Medicare are subject to audits and retroactive audit adjustments with respect to reimbursement claimed under the Medicare program. Medicare regulations also provide for withholding Medicare payment in certain circumstances if it is determined that an overpayment of Medicare funds has been made. In addition, under certain circumstances, payments may be determined to have been made as a consequence of improper claims subject to the federal False Claims Act (the "Federal False Claims Act") or other federal statutes, subjecting the Obligated Group to civil or criminal sanctions. Management of the Corporation is not aware of any situation whereby a material Medicare payment is being withheld from the Obligated Group.

RAC Audits. In accordance with the MMA and the Tax Relief and Health Care Act of 2006 (the "2006 Tax Act"), CMS has designated the use of recovery audit contractors ("RAC") to search for improper Medicare payments in Arizona, Florida, California, Massachusetts, New York and South Carolina. While originally part of a demonstration program that was set to expire in 2008, the provisions of the 2006 Tax Act make the RAC program permanent and require CMS to expand the program to all 50 states by no later than 2010. CMS released a report in July 2008 stating that more than $693 million had been deposited in the Medicare Trust Funds between 2005 and March 2008 as part of the RAC program. Government officials have expressed concerned that current payment integrity efforts are insufficient to identify and seek recovery of Medicare overpayments that are estimated currently to be in excess of $20 billion per year. The audit contractors have scrutinized provider payments made during a current federal fiscal year and the four previous federal fiscal years. Requests for information from the audit contractors to hospitals in Arizona have not commenced. Management cannot anticipate the amount or volume of its past Medicare claims that will be reviewed by the recovery audit contractors or what the results of any such audits may be.

Medicaid

Medicaid (Title XIX of the federal Social Security Act) is a health insurance program for certain low-income and needy individuals that is jointly funded by the federal government and the states. The Balanced Budget Act of 1997 (the "BBA") added language to the Social Security Act which will permit states to restrict choice of insurer by offering a choice between at least two Managed Care Organizations ("MCO's") or Primary Care Case Managers. CMS approval of all MCO contracts under the BBA is still required for these programs before federal financial participation can be awarded in payment under such contracts. In addition to existing requirements, these contracts will be subject to new provisions contained in the BBA, including: increased beneficiary protections; quality assurance standards; and timely payment requirements.

All states in which the Obligated Group does business, with the exception of Arizona, participate in the traditional Medicaid Program. Although Arizona does not have a traditional Medicaid program, the Arizona legislature adopted legislation effective October, 1982 which established the Arizona Health Care Cost Containment System ("AHCCCS"), a federally and state supported research and demonstration program for health care to the indigent.

Approximately 15% of the net patient revenues of the Corporation was derived from the Medicaid program, Medi-Cal and AHCCCS for the fiscal year ended December 31, 2007. Medicaid programs vary widely from state to state and are continually being amended and revised with respect to reimbursement levels, covered services, and eligibility. Because Medicaid expenditures have risen rapidly in recent years, particularly in Arizona and Colorado, there is increasing governmental pressure to reduce reimbursement and/or tighten current eligibility standards. For example, the DRA included Medicaid cuts of approximately $4.8 billion over five years, and the State of Arizona imposed in June 2008 a freeze on AHCCCS reimbursement and a reduction of AHCCCS outlier reimbursement for the fiscal year that will end on June 30, 2009. Management of the Obligated Group estimates that the AHCCCS reimbursement reductions will reduce the Corporation's operating revenue by approximately $15.5 million below anticipated levels during this period of time. See "*APPENDIX A* - MANAGEMENT'S DISCUSSION OF FINANCIAL PERFORMANCE" for further information regarding the Corporation's financial performance. There can be no assurance that the Obligated Group's patient service revenues will not be adversely affected by any future amendments and revisions to the AHCCCS, Medi-Cal or the Medicaid programs in the states where the Obligated Group's assets are located.

Provided below for the states in which the Obligated Group's assets are located is certain relevant state regulatory information.

State Legislation and Regulation

Arizona, California, Colorado and Wyoming do not currently have a Certificate of Need ("CON") law. Alaska, Nebraska and Nevada have CON laws, but no assurance can be made that such CON laws will remain in effect. The loss of CON protection in Alaska, Nebraska and Nevada could have an adverse effect on the Obligated Group's operations in those states.

Nonprofit corporations are subject to regulation under state nonprofit corporation codes and other state statutes. In addition, state attorneys general are increasingly asserting oversight over the actions of nonprofit corporations, including matters of internal governance, business strategy and mergers and acquisitions. The legal rationale for the assertion of such oversight powers are varied, ranging from express statutory grants to common law fiduciary and charitable constructive trust theories. In addition, state attorneys general have asserted arguments that nonprofit corporations in fact hold their assets in trust for their local communities, and cannot freely move assets or funds between facilities, communities or states in which the nonprofit corporations may operate. It is possible that the development and exercise of such oversight powers could interfere with the ability of governing boards and management of nonprofit corporations to exercise independent business judgment, cross-subsidize operations in different locations, reallocate assets to meet the needs of the communities served by nonprofit corporations, or liquidate assets to satisfy creditors' claims. Such restrictions, if sustained by court authority, could impede the ability of the Obligated Group to utilize proceeds from divestitures of certain facilities. Colorado and California have adopted legislation confirming their Attorney Generals' authority over the transfer of nonprofit hospital assets. So long as such legislation remains in effect, it may significantly restrict the ability of the Corporation to transfer or sell its assets in Colorado and California, including for the benefit of creditors.

Commercial Insurance and Other Third-Party Plans

Many commercial insurance plans, including group plans, reimburse their customers or make direct payments to the Obligated Group for charges at rates established by agreement. Generally, these plans pay per diem rates plus ancillary service charges, which are subject to various limitations and deductibles depending on the plan. To the extent allowed by law, patients carrying such coverage are responsible to the hospital for any deficiency between the commercial insurance proceeds and total billed charges.

Regulation of the Health Care Industry

General. The health care industry is highly dependent on a number of factors which may limit the ability of the Obligated Group and any future Members of the Obligated Group to meet their respective obligations under the Loan Agreement, the Master Indenture and the Series 2008D Obligation. Among other things, participants in the health care industry (such as the Obligated Group) are subject to significant regulatory requirements of federal, state and local governmental agencies and independent professional organizations and accrediting bodies, technological advances and changes in treatment modes, various competitive factors and changes in third-party reimbursement programs. Discussed below are certain of these factors that could have a significant effect on the future operations and financial condition of the Obligated Group.

Balanced Budget Act of 1997. The BBA contains a number of provisions that may affect the Obligated Group in addition to those previously referenced. The Obligated Group has taken operational steps to address the impact of the BBA.

Conviction of health care-related crimes can result in either mandatory or permissive exclusion from participation in federal and certain state health care programs for various periods of time depending on the nature of such crimes. Under the BBA, those convicted of three health care-related crimes for which mandatory exclusion is the penalty will be permanently excluded from participation. Those convicted of two health care-related crimes for which mandatory exclusion is the penalty will be excluded for a minimum of ten years. The Secretary of HHS will be able to deny entry into Medicare or Medicaid or deny renewal to any provider or supplier convicted of any felony that the Secretary deems to be "inconsistent with the best interests" of the program's beneficiaries.

Health Insurance Portability and Accountability Act. The Health Insurance Portability and Accountability Act of 1996 ("HIPAA") added two prohibited practices, the commission of which may lead to civil monetary penalties: (1) the practice or pattern of presenting a claim for an item or service on a reimbursement code that the person knows or should know will result in greater payment than appropriate, i.e., upcoding, and (2) engaging in a practice of submitting claims for payment for medically unnecessary services. Violation of such prohibited practices could amount to civil monetary penalties of up to $10,000 for each item or service involved. Management of the Corporation does not expect that the prohibited practices provisions of HIPAA will affect the Obligated Group in a material respect.

HIPAA also includes administrative simplification provisions intended to facilitate the processing of health care payments by encouraging the electronic exchange of information and the use of standardized formats for health care information. Congress recognized, however, that standardization of information formats and greater use of electronic technology presents additional privacy and security risks due to the increased likelihood that databases of personally identifiable health care information will be created and the ease with which vast amounts of such data can be transmitted. Therefore, HIPAA requires the establishment of distinct privacy and security protections for individually identifiable health information.

HHS promulgated privacy regulations under HIPAA that protect patient medical records and other personal health information maintained by health care providers, hospitals, health plans, health insurers, and health care clearinghouses. Compliance with the privacy regulations was required as of April 14, 2003. Management of the Obligated Group believes that its operations and information systems comply with the HIPAA privacy regulations in all material respects.

Security regulations have also been promulgated under HIPAA. These security regulations were issued in final form on February 20, 2003, with a compliance date of April 21, 2005 (the "Security Regulations"). Additionally, HHS promulgated regulations to standardize the electronic transfer of information pursuant to certain enumerated transactions (the "Code Set Transactions"), with a compliance deadline of October 16, 2003. Management of the Corporation believes that all of its health care facilities are in substantial compliance with the Security Regulations and the Code Set Transactions.

Violations of HIPAA could result in civil penalties of up to $25,000 per type of violation in each calendar year and criminal penalties of up to $250,000 per violation.

Federal "Fraud and Abuse" Laws and Regulations. The Federal Medicare/Medicaid Anti-Fraud and Abuse Amendments to the Social Security Act (the "Anti-Kickback Law") make it a felony offense to knowingly and willfully offer, pay, solicit or receive remuneration in order to induce business for which reimbursement is provided under the Medicare or Medicaid programs. In addition to criminal penalties, including fines of up to $25,000 and five years' imprisonment, violations of the Anti-Kickback Law can lead to civil monetary penalties ("CMP") and exclusion from Medicare, Medicaid and certain other state and federal health care programs. The scope of prohibited payments in the Anti-Kickback Law is broad and includes economic arrangements involving hospitals, physicians and other health care providers, including joint ventures, space and equipment rentals, purchases of physician practices and management and personal services contracts. HHS has published regulations which describe certain "safe harbor" arrangements that will not be deemed to constitute violations of the Anti-Kickback Law. The safe harbors described in the regulations are narrow and do not cover a wide range of economic relationships which many hospitals, physicians and other health care providers consider to be legitimate business arrangements not prohibited by the statute. Because the regulations describe safe harbors and do not purport to describe comprehensively all lawful or unlawful economic arrangements or other relationships between health care providers and referral sources, hospitals and other health care providers having these arrangements or relationships may be required to alter them in order to ensure compliance with the Anti-Kickback Law.

The BBA provides for CMP in the case of violations of the Anti-Kickback Law in which a person contracts with an excluded provider for the provision of health care items or services where the person knows or should know that the provider has been excluded from participation in a federal health care program. Violations will result in damages three times the remuneration involved as well as a penalty of $50,000 per violation.

Management of the Corporation has and is taking steps it believes are reasonable to ensure that its contracts with physicians and other referral sources are in material compliance with the Anti-Kickback Law. However, in light of the narrowness of the safe harbor regulations and the scarcity of case law interpreting the Anti-Kickback Law, there can be no assurances that the Obligated Group will not be found to have violated the Anti-Kickback Law, and if so, whether any sanction imposed would have a material adverse effect on the operations of the Obligated Group.

The Federal False Claims Act. The Federal False Claims Act provides that an individual may bring a civil action for a violation of the Federal False Claims Act on behalf of the government alleging that the defendant has defrauded the federal government. These actions are referred to as *qui tam actions*

or whistleblower suits. If the federal government intervenes and proceeds with an action brought by an individual, then he/she could receive as much as 25% of any money recovered. Even if the federal government does not intervene and proceed with an action, the employee could still proceed and receive a portion of any money recovered.

The government may use the Federal False Claims Act to prosecute Medicare and other government program fraud in areas such as coding errors, billing for services not provided and submitting false cost reports. When a defendant is determined by a court of law liable under the Federal False Claims Act, the defendant may be required to pay three times the actual damages sustained by the government, plus civil penalties of between $5,500 and $11,000 for each separate false claim. Liability under the Federal False Claims Act often arises when an entity "knowingly" submits a false claim for reimbursement to the federal government. Knowingly is defined to include reckless disregard. A number of the states in which Obligated Group hospitals operate have adopted their own false claims provisions as well as their own whistleblower provisions whereby a private party may file a civil lawsuit in state court.

Restrictions on Referrals. Current federal law (known as the "Stark" law provisions) prohibits providers of "designated health services" from billing Medicare or Medicaid when the patient is referred by a physician, or an immediate family member, with a financial relationship with the provider, with limited exceptions. "Designated health services" include the following: clinical laboratory services; physical therapy services; occupational therapy services; radiology services, including magnetic resonance imaging, computerized axial tomography scans, and ultrasound services; radiation therapy services and supplies; durable medical equipment and services; parenteral and enteral nutrients, equipment and supplies; prosthetics, orthotics, and prosthetic devices and supplies; home health services; outpatient prescription drugs; and inpatient and outpatient hospital services. The sanctions under the Stark law include denial and refund of payments, civil monetary penalties of up to $15,000 per prohibited service provided and exclusions from the Medicare and Medicaid programs. The statute also provides for a penalty of up to $100,000 for a circumvention scheme.

Like the Anti-Kickback Law, and as highlighted below, there are exceptions to the self-referral prohibitions for many of the customary financial arrangement between physicians and providers, including employment contracts, leases and recruitment agreements. Unlike the safe harbors under the Anti-Kickback Law with which compliance is voluntary, an arrangement must comply with every requirement of a Stark law exception or the arrangement is in violation of the Stark law.

On January 4, 2002, Phase I of a final regulation interpreting Stark law provisions as they relate to designated health services became effective. Phase I covers the general prohibition on certain referrals, the general exemption to both the ownership and compensation arrangement prohibition, and related definitions.

On March 26, 2004, CMS published the Phase II Interim Final Stark II regulations, with an effective date of July 26, 2004. The Phase II regulations cover those parts of the Stark law that were not covered by Phase I, namely the ownership and investment exceptions to the general prohibition, the compensation arrangement exceptions to the general prohibition and the Stark law's reporting provisions. Phase II also includes additional regulatory exceptions, definitions and CMS's response to public comments regarding the Phase I regulations.

On September 5, 2007, CMS published the Phase III Final Stark II regulations, with an effective date of December 4, 2007. The Phase III regulations finalize and respond to public comments regarding the Phase II regulations, as well as providing revisions to the definitions of compensation arrangements and other regulatory modifications.

CMS continues to revise, supplement and update the Stark law. On July 31, 2008, CMS published final changes to the regulations that further restrict the types of arrangements that facilities and physicians may enter, including additional restrictions on certain leases, percentage compensation arrangements, and agreements under which a hospital purchases services under arrangements.

Management of the Corporation believes that the Obligated Group is currently in material compliance with the Stark provisions. However, in light of the scarcity of case law interpreting the Stark provisions and the breadth and complexity of these provisions, there can be no assurances that the Obligated Group will not be found to have violated the Stark provisions, and if so, whether any sanction imposed would have a material adverse effect on the operations of the Obligated Group or the financial condition of the Obligated Group.

Compliance/Investigations. Medicare requires that extensive financial information be reported on a periodic basis and in a specific format or content. These requirements are numerous, technical and complex and may not be fully understood or implemented by billing or reporting personnel. With respect to certain types of required information, the False Claims Act and the Social Security Act may be violated by mere recklessness in the submission of information to the government even without any intent to defraud. New billing systems, new medical procedures and procedures for which there is not clear guidance from CMS may all result in liability. The penalties for violation include criminal or civil liability and may include, for serious or repeated violations, exclusion from participation in the Medicare program.

HHS, through the Office of Inspector General ("OIG"), conducts national investigations of Medicare billings for certain services. The focus of these investigations varies annually according to the OIG Workplan. While the Obligated Group makes every effort to be in compliance with Medicare billing requirements, there can be no assurance that the Obligated Group will not be subject to an investigation.

Both federal and state government agencies have increased their investigative and enforcement initiatives. Such initiatives relate to a wide-range of health care operations including billing practices, arrangements between providers and physicians, outliers and cost reports.

Patient Transfers. In response to concerns regarding inappropriate hospital transfers of emergency patients based on the patient's inability to pay for the services provided, Congress has enacted the Emergency Medical Treatment and Active Labor Act ("EMTALA"). Among other things, EMTALA imposes certain requirements which must be met before transferring a patient to another facility, including conducting a medical screening examination of all patients that present on hospital property and request examination and treatment for an emergency medical condition, or have a request made on his or her behalf. While failure to comply with EMTALA can result in exclusion from the Medicare and/or Medicaid programs as well as imposition of civil and criminal penalties, noncompliance with the requirements of EMTALA, specifically the treatment of uninsured patients, could also affect the financial condition of the Obligated Group. According to a 2007 U.S. Census Bureau report, Arizona had the fourth highest average percentage of individuals in the United States without health insurance between 2004-2006.

Accreditation. The Corporation and its operations are subject to regulation and certification by various federal, state and local government agencies and by certain nongovernmental agencies such as The Joint Commission. No assurance can be given as to the effect on future operations of the Obligated Group of existing laws, regulations and standards for certification or accreditation or of any future changes in such laws, regulations and standards.

Environmental Laws and Regulations. Health care providers are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations which address, among other things, hospital operations, facilities and properties owned or operated by hospitals. Among the type of regulatory requirements faced by hospitals are (a) air and water quality control requirements, (b) waste management requirements, (c) specific regulatory requirements applicable to asbestos, polychlorinated biphenyls and radioactive substances, (d) requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the hospital, (e) requirements for training employees in the proper handling and management of hazardous materials and wastes, and (f) other requirements.

In its role as the owner and operator of properties or facilities, the Obligated Group may be subject to liability for investigating and remedying any hazardous substances that may have migrated off of its property. Typical hospital operations include, but are not limited to, in various combinations, the handling, use, storage, transportation, disposal and discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants or contaminants. As such, hospital operations are particularly susceptible to the practical, financial and legal risks associated with compliance with such laws and regulations. Such risks may (a) result in damage to individuals, property or the environment, (b) interrupt operations and increase their cost, (c) result in legal liability, damages, injunctions or fines, and (d) result in investigations, administrative proceedings, penalties or other governmental agency actions. There is no assurance that the Obligated Group will not encounter such risks in the future, and such risks may result in material adverse consequences to the operations or financial condition of the Obligated Group.

At the present time, management of the Corporation is not aware of any pending or threatened claim, investigation or enforcement action regarding such environmental issues which, if determined adversely to the Obligated Group, would have a material adverse effect on the Obligated Group's operations or financial condition.

Managed Care and Integrated Delivery Systems

The Corporation has entered into contractual arrangements with PPOs, HMOs, and other similar MCOs, pursuant to which they agree to provide or arrange to provide certain health care services for these organizations' eligible enrollees. In certain instances, revenues received under such contracts have not been sufficient to cover all costs of services provided. Failure of the revenues received under such contracts to cover all costs of services provided may have a material adverse effect on the operations or financial condition of the Obligated Group.

State Laws. States are increasingly regulating the delivery of health care services in response to the federal government's failure to adopt comprehensive health care reform measures. Much of this increased regulation has centered around the managed care industry. State legislatures have cited their right and obligation to regulate and oversee health care insurance and have enacted sweeping measures that aim to protect consumers and, in some cases, providers. For example, a number of states have enacted laws mandating a minimum of forty-eight hour hospital stays for women after delivery; laws prohibiting "gag clauses" (contract provisions which prohibit providers from discussing various issues with their patients); laws defining "emergencies," which provide that a health care plan may not deny coverage for an emergency room visit if a lay person would perceive the situation as an emergency; and laws requiring direct access to obstetrician-gynecologists without the requirement of a referral from a primary care physician.

Due to this increased state oversight, the Obligated Group could be subject to a variety of state health care laws and regulations, affecting both MCOs and health care providers. In addition, the

Obligated Group could be subject to state laws and regulations prohibiting, restricting, or otherwise governing PPOs, third-party administrators, physician-hospital organizations, independent practice associations or other intermediaries; fee-splitting; the "corporate practice of medicine"; selective contracting ("any willing provider" laws and "freedom of choice" laws); coinsurance and deductible amounts; insurance agency and brokerage; quality assurance, utilization review, and credentialing activities; provider and patient grievances; mandated benefits; rate increases; and many other areas.

In the event that the Obligated Group chooses to transact businesses subject to such laws, or is considered by a state in which it operates to be engaging in such businesses, the Obligated Group may be required to comply with these laws or to seek the appropriate license or other authorization from that state. Such requirements may impose operational, financial, and legal burdens, costs or risks on the Obligated Group.

Dependence Upon Third-Party Payors. The Obligated Group's ability to develop and expand its services and, therefore, its profitability, is dependent upon the Obligated Group's ability to enter into contracts with MCO's, PPO's, HMOs and other third-party payors at competitive rates. There can be no assurance that the Obligated Group will be able to attract and maintain third-party payors in the future, and where it does, no assurance that it will be able to contract with such payors on advantageous terms. The inability of the Obligated Group to contract with a sufficient number of such payors on advantageous terms would have a material adverse effect on the Obligated Group's operations and financial results. Further, while the Obligated Group employs a variety of systems to control health care service utilization and increase quality, the Obligated Group cannot predict changes in utilization patterns or the system's effect on health care providers.

Physician Contracting and Relations. The Obligated Group may wish to contract with physician organizations ("POs") (e.g., independent physician associations, physician-hospital organizations, etc.) to arrange for the provision of physician and ancillary services. Because POs are separate legal entities with their own goals, obligations to shareholders, financial status, and personnel, there are risks involved in contracting with the POs.

The success of the Obligated Group will be partially dependent upon its ability to attract physicians to join the POs and to induce POs to contract with the Obligated Group, and upon the physicians', including the employed physicians', abilities to perform their obligations and deliver high quality patient care in a cost-effective manner. The Obligated Group can also attract physicians through employment. As of December 31, 2007, the Obligated Group employed directly, or through subsidiaries, approximately 455 practicing physicians (excluding medical directors and residents). There can be no assurance that the Obligated Group will be able to attract and retain the requisite number of physicians, or that such physicians will deliver high quality health care services. See "BONDHOLDERS' RISKS - Nursing, Technician and Specialty Physician Shortage" herein.

Antitrust

Enforcement of the antitrust laws against health care providers is becoming more common, and antitrust liability may arise in a wide variety of circumstances, including medical staff privilege disputes, third-party contracting, physician relations, and joint venture, merger, affiliation and acquisition activities. In some respects, the application of federal and state antitrust laws to health care is still evolving, and enforcement activity by federal and state agencies appears to be increasing. At various times, health care providers may be subject to an investigation by a governmental agency charged with the enforcement of antitrust laws, or may be subject to administrative or judicial action by a federal or state agency or a private party. Violation of the antitrust laws could be subject to criminal and civil enforcement by federal and state agencies, as well as by private litigants.

The ability to consummate mergers, acquisitions or affiliations may also be impaired by the antitrust laws, potentially limiting the ability of health care providers to fulfill their strategic plans. Liability in any of these or other antitrust areas of liability may be substantial, depending on the facts and circumstances of each case.

Issues Related to the Health Care Markets of the Obligated Group

Affiliation, Merger, Acquisition and Divestiture. Significant numbers of affiliations, mergers, acquisitions and divestitures have occurred in the health care industry in recent years, and the Corporation has undertaken a variety of such transactions, including the Sun Health asset acquisition. As part of its ongoing planning process, the Corporation considers potential affiliations and acquisitions of operations or properties which may become affiliated with or become part of the Obligated Group in the future, and also considers the divestiture of certain of its operations or properties. As a result, it is possible that certain newly acquired or affiliated organizations and their assets and liabilities may be added to the Obligated Group, or certain existing facilities may no longer be part of the Obligated Group, although the Obligated Group would continue to be responsible for any remaining liabilities attributable to the divested facilities, as any consideration received for the divested property could be insufficient to pay any related liabilities. See the caption "SECURITY FOR THE SERIES 2008D BONDS – Possible Substitution of the Series 2008D Obligation" herein.

The Corporation will purchase substantially all of the assets of Sun Health on or about September 2, 2008 (to be effective as of September 1, 2008). Certain costs and, concomitantly, risks are associated with affiliations, mergers and acquisitions, including the acquisition of the Sun Health assets. Anticipated efficiencies or economies of scale may not materialize, unanticipated liabilities may arise and the costs of integrating Sun Health's hospital facilities may be significantly more than originally estimated. Moreover, expanding an integrated health care delivery network may require significant capital for capital improvements and development of support systems. The Corporation believes that the costs and liabilities associated with this acquisition will not have a material adverse effect on the Obligated Group, but there can be no assurance no material adverse effect will occur.

Possible Increased Competition. The Obligated Group could face increased competition in the future from other hospitals, from skilled nursing facilities and from other forms of health care delivery that offer health care services to the populations which the Obligated Group currently serves. This could include the construction of new or the renovation of existing hospitals and skilled nursing facilities, health maintenance organization facilities, ambulatory surgery centers, free standing emergency facilities, private laboratory and radiological services, skilled and specialized nursing facilities, home care, intermediate nursing home care, preventive care and drug and alcohol abuse programs. Specifically, the emergence of groups of physician-investors could erode premium medical services from the Obligated Group, and such physician-investor groups could also recruit physicians and staff from the Obligated Group's hospitals. There is no Certificate of Need requirement in Arizona, California, Colorado or Wyoming to provide a barrier to entry for competitors.

In addition, competition could result from forms of health care delivery, particularly ambulatory care facilities, that are able to offer lower priced and more convenient services to the population served by the Obligated Group. These services could be substituted for some of the revenue generating services currently offered by the Corporation. The services that could serve as substitutes for hospital treatment include skilled and specialized nursing facilities, diagnostics, home care, intermediate nursing home care, preventive care and drug and alcohol abuse programs. Competition may also come from specialty hospitals or organizations, particularly those facilities providing specialized services in areas with high visibility and strong margins, such as cardiac services and surgical services, and having specialty physicians as investors.

Nonprofit Healthcare Environment

The Corporation, as the sole Member of the Obligated Group, is a nonprofit corporation, exempt from federal income taxation as organizations described in the Code. As a nonprofit tax-exempt organization, the Corporation is subject to federal, state and local laws, regulations, rulings and court decisions relating to its organizations and operations, including its operation for charitable purposes. At the same time, the Corporation conducts large-scale complex business transactions and the Corporation's hospitals are major employers in their geographic areas. There can often be a tension between the rules designed to regulate a wide range of charitable organizations and the day-to-day operations of a complex healthcare organization.

Recently, an increasing number of the operations or practices of healthcare providers have been challenged or questioned to determine if they are consistent with the regulatory requirements for nonprofit tax-exempt organizations, and in particular whether such organizations are providing sufficient community benefit to justify their continuing tax-exemption. These challenges are broader than concerns about compliance with federal and state statutes and regulations, such as Medicare and Medicaid compliance, and instead in many cases are examinations of core business practices of the healthcare organizations. Areas which have come under examination have included pricing practices, billing and collection practices, charitable care, community benefit, executive compensation, exemption of property from real property taxation, and others. These challenges and questions have come from a variety of sources, including state attorneys general, the Internal Revenue Service (the "IRS"), local and state tax authorities, labor unions, Congress, state legislatures, and patients, and in a variety of forums, including hearings, audits and litigation. These challenges or examinations include the following, among others:

Congressional Hearings. A number of House and Senate Committees, including, the House Committee on Energy and Commerce, the House Committee on Ways and Means and the Senate Finance Committee, have conducted hearings and/or investigations into issues related to nonprofit tax-exempt healthcare organizations. These hearings and investigations have included a nationwide investigation of hospital billing and collection practices, charity care and community benefit and prices charged to uninsured patients and possible reforms to the nonprofit sector. These hearings and investigations may result in new legislation. The effect on the nonprofit health care sector or the Members of the Obligated Group of any such legislation, if enacted, cannot be determined at this time.

Internal Revenue Service Examination of Compensation Practices. In August 2004, the IRS initiated an enforcement effort to identify and halt abuses by tax-exempt organizations that pay excessive compensation and benefits to their officers and other insiders. Nearly 2,000 charities and foundations were contacted by the IRS regarding their compensation practices and procedures. No Member of the Obligated Group has been contacted by the IRS in connection with this IRS initiative.

IRS Interim Report on Tax-Exempt Hospitals and Community Benefit. In May 2006, the IRS initiated its Hospital Compliance Project to study tax-exempt hospitals and community benefit as well as to determine how these hospitals establish and report executive compensation. The IRS sent compliance questionnaires to hundreds of tax-exempt hospitals across the country, including the Corporation. The Corporation has not been contacted by the IRS in connection with the IRS Hospital Compliance Project. The IRS released its Interim Report in July 2007. The Interim Report is a summary of the responses received and information relating primarily to community benefit. A final report from the IRS is expected in the fall of 2008.

Litigation Relating to Billing and Collection Practices. Lawsuits have been filed in both federal and state courts alleging, among other things, that defendant hospitals have failed to fulfill their obligations to provide charity care to uninsured patients and have overcharged uninsured patients.

Lawsuits filed against the Corporation in 2004 and 2005 in federal and Arizona state courts relating to these matters have been dismissed.

Challenges to Real Property Tax Exemptions. Recently, the real property tax exemptions afforded to certain nonprofit healthcare providers by certain state and local taxing authorities have been challenged on the grounds that the healthcare providers were not engaged in charitable activities. These challenges have been based on a variety of grounds, including allegations of aggressive billing and collection practices and excessive financial margins. While the Corporation is not aware of any current challenge to the tax exemption afforded to any of its material properties, there can be no assurance that these types of challenges will not occur in the future.

Form 990 and Instructions. On June 14, 2007, the IRS released for comment a Discussion Draft of a redesigned Form 990. The Form 990 is the annual information return filed by tax-exempt organizations, including nonprofit exempt healthcare organizations. The IRS released the final 2008 Form 990 on December 20, 2007. On April 7, 2008, the IRS released the draft Instructions accompanying this new Form 990. The new Form 990 applies to tax years beginning on or after January 1, 2008.

As a result of this new Form 990, healthcare organizations will have significantly increased compliance and reporting obligations, particularly relating to community benefit, collection and billing practices and charity care. These specific reporting obligations generally are set forth in a new schedule to the return (Schedule H) and apply for tax years beginning on or after January 1, 2009.

Nonprofit healthcare organizations also will become subject to additional reporting for tax-exempt bonds, the most significant of which will be required for tax years beginning on or after January 1, 2009. These reporting and recordkeeping requirements go beyond what many hospitals have done historically and will require substantial additional efforts on the part of hospitals with outstanding tax-exempt bonds. A new schedule to the return (Schedule K) is intended to address what the IRS believes is significant noncompliance with recordkeeping and record retention requirements. These concerns were reinforced, in the IRS's view, by the results of a bond questionnaire distributed to select hospitals in September 2007, the results of which released in April 2008. Schedule K also focuses on the investment of bond proceeds that could violate the arbitrage rebate requirements and the private use of bond-financed facilities.

The foregoing are some examples of the challenges and examinations facing nonprofit healthcare organizations. They are indicative of a greater scrutiny of the billing, collection and other business practices of these organizations, and may indicate an increasingly more difficult operating environment for healthcare organizations, including the Obligated Group. The challenges and examinations, and any resulting legislation, regulations, judgments, or penalties, could have a material adverse effect on the Obligated Group.

Risks Related to Tax-Exempt Status

Tax Exemption for Nonprofit Hospitals. Loss of tax-exempt status, *i.e.*, status as an organization described in Section 501(c)(3) of the Code, by the Corporation or by any user of property financed or refinanced with the proceeds of the Series 2008D Bonds could result in loss of tax exemption of the Series 2008D Bonds and of other tax-exempt debt issued therefor, and defaults in covenants regarding the Series 2008D Bonds and such other related tax-exempt debt would likely be triggered. Such an event would have material adverse consequences on the financial condition of the Corporation.

Joint Ventures. The maintenance by an entity of its tax-exempt status depends, in part, upon its maintenance of its status as an organization described in Section 501(c)(3) of the Code. The maintenance of tax-exempt status is contingent upon compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including its operation for charitable and educational purposes and its avoidance of transactions which may cause its assets to inure to the benefit of private individuals. The IRS has announced that it intends to closely scrutinize transactions between nonprofit hospitals and for-profit entities, and in particular has issued revised audit guidelines for tax-exempt hospitals. Although specific activities of hospitals, such as medical office building leases and compensation arrangements and other contracts with physicians, have been the subject of interpretations by the IRS in the form of Private Letter Rulings, many activities have not been addressed in any official opinion, interpretation or policy of the IRS. Because the Corporation conducts large-scale and diverse operations involving private parties, including joint ventures, there can be no assurance that certain of its transactions would not be challenged by the IRS which could adversely affect the tax-exempt status of the Corporation or its affiliates.

In 1998, the IRS issued Revenue Ruling 98-15 (the "Revenue Ruling") that compared two situations in which a tax-exempt hospital participated in a whole hospital joint venture with a for-profit entity. The IRS analysis was very fact specific and based on a number of factors. A 2002 federal District Court case and a 1999 federal Tax Court case addressed similar issues. The Revenue Ruling, the District Court decision and the Tax Court decision set forth a number of factors that are relevant in an analysis of such joint ventures. However, the issue remains as to how this analysis may be applied to other types of joint ventures between for-profit and non-profit entities relating to ancillary activities. More recently, the IRS issued Revenue Ruling 2004-51, which addressed a joint venture between a tax-exempt university and a for-profit entity. While this ruling provides additional guidance, issues remain with respect to the application of the IRS' analysis in a health-care setting.

The Corporation is not a participant in any joint venture of the specific type addressed in the Revenue Ruling. However, the Corporation is and will be a participant in a variety of joint ventures and transactions with physicians and certain other entities for ambulatory and ancillary services. Management of the Corporation believes that the joint ventures and transactions to which the Corporation is and will be a party are consistent with the requirements of its tax-exempt status and that the income derived from such joint ventures has been reported correctly, but the Revenue Ruling and the case law create uncertainty as to the state of the law in this regard.

Anti-Kickback Statute. The IRS has taken the position that hospitals which are in violation of the Anti-Kickback Law may also be subject to revocation of their tax-exempt status. See the information herein under the caption "BONDHOLDERS' RISKS – Regulation of the Health Care Industry -- Federal "Fraud and Abuse" Laws and Regulations." As a result, tax-exempt hospitals, such as those owned by the Corporation and its affiliates, which have, and will continue to have, extensive transactions with physicians are subject to an increased degree of scrutiny, and perhaps enforcement, by the IRS.

Intermediate Sanctions. The Taxpayer Bill of Rights 2, enacted on July 30, 1996, added Section 4958, commonly referred to as the "intermediate sanctions law," to the Code. Section 4958 of the Code provides the IRS with an "intermediate" tax enforcement tool that may be used as an alternative to revoking the federal tax exemption of an organization that violates the private inurement prohibition. Final IRS regulations on the intermediate sanctions law became effective January 23, 2002.

It is not possible to predict the scope or effect of future legislative or regulatory actions with respect to taxation of nonprofit corporations. There can be, therefore, no assurance that future changes in the laws and regulations of the federal, state or local governments will not materially and adversely affect the operations and revenues of the Obligated Group by requiring them to pay income or real estate taxes.

Tax-Exempt Status of the Series 2008D Bonds. The tax-exempt status of the Series 2008D Bonds is based on the continued compliance by the Issuer, the Corporation and any other users of property financed or refinanced with proceeds of the Series 2008D Bonds with certain covenants relating generally to restrictions on the use of the facilities financed or refinanced with the proceeds of the Series 2008D Bonds, arbitrage limitations and rebate of certain excess investment earnings to the federal government and status of users of the properties financed or refinanced with the proceeds of the Series 2008D Bonds as organizations described in Section 501(c)(3) of the Code (See "Tax Exemption for Nonprofit Hospitals" above). In the event that the Series 2008D Bonds become subject to federal income taxation retroactive to the date of issuance, such Series 2008D Bonds are not subject to redemption solely as a consequence thereof, although the principal thereof may be accelerated. No additional interest or penalty is payable in the event of the taxability of interest on any of the Series 2008D Bonds.

In recent years, the IRS has increased the frequency and scope of its examination and other enforcement activity regarding tax-exempt organizations and tax-exempt bonds. Currently, the primary penalties available to the IRS under the Code are the revocation of tax-exempt status of an organization and a determination that interest on tax-exempt bonds is subject to federal income taxation. Although the IRS has not frequently revoked the 501(c)(3) tax-exempt status of nonprofit corporations, it could do so in the future. Loss of tax-exempt status by the Corporation or another user of property financed or refinanced with proceeds of the Series 2008D Bonds could potentially result in loss of the tax exemption of the interest on the Series 2008D Bonds, and defaults in covenants regarding the Series 2008D Bonds could be triggered. Loss of such tax-exempt status could also result in substantial tax liabilities on income of the Obligated Group.

In addition, although the IRS has only infrequently taxed the interest received by holders of bonds that were represented to be tax-exempt, the IRS has examined a number of bond issues and concluded that such bond issues did not comply with applicable provisions of the Code and related regulations. No assurance can be given that the IRS will not examine the purchaser, a Bondholder, the Corporation or the Series 2008D Bonds. If the Series 2008D Bonds are examined, it may have an adverse impact on their marketability and price. Based on the use of proceeds from the sale of the Series 2008D Bonds described herein and in *APPENDIX A*, and on the representations and warranties of the Corporation as to factual matters and the opinions of counsel to the Corporation, Bond Counsel will deliver its opinion in the form attached as *APPENDIX D*. See "TAX MATTERS" and "LEGAL MATTERS" herein.

Termination of Managed Care Contracts

Certain health maintenance and preferred provider organization contracts account for more than 63% of the revenue and/or admissions of the Obligated Group. Some of these contracts can be terminated by the third-party payor at any time without the necessity of showing cause upon as little as 30 days' prior written notice. Termination of such contracts could have an adverse effect on the financial performance of these hospitals. See "*APPENDIX A* - MANAGED CARE" for a discussion of the Obligated Group's managed care contracts.

Markets for the Series 2008D Bonds

Subject to prevailing market conditions, the Underwriters intend, but are not obligated, to make a market in the Series 2008D Bonds.

Bond Ratings

There is no assurance that the ratings assigned to the Series 2008D Bonds at the time of issuance will not be lowered or withdrawn at any time, the effect of which could adversely affect the market price for, and marketability of, the Series 2008D Bonds. See "RATINGS" herein.

Labor Matters

Not-for-profit health care providers and their employees are under the jurisdiction of the National Labor Relations Board ("NLRB"). The Obligated Group has approximately 25,460 full-time equivalent employees, none of whom are currently unionized. While management of the Corporation believes that its overall employee relations are good, and that a direct relationship between the Corporation and its employees is more beneficial for both the Corporation and the employees than a union relationship, unionization continues to be a concern of the Corporation. Unionization of employees could cause an increase in payroll costs. See "*APPENDIX A* - EMPLOYEES."

Nursing, Technician and Specialty Physician Shortage

Recently the healthcare industry, including the Corporation, has experienced a shortage of nurses, technicians, physicians in certain specialties and other related staff, which has resulted in increased costs and lost revenues due to the need to hire agency nursing personnel at higher rates, to increased compensation levels, and to the inability to use otherwise available beds as a result of staffing shortages. The Obligated Group has incurred increased employment costs at certain of its facilities. This ongoing shortage will continue to adversely affect the Obligated Group's operations. See "*APPENDIX A* – EMPLOYEES," for more information on critical labor shortages of the Corporation.

Arizona, in particular, is experiencing a shortage of specialty physicians. This shortage has made it increasingly difficult for hospitals to provide continuous specialty on-call coverage for its emergency departments to meet its obligations under EMTALA. The Corporation currently has entered into arrangements to pay per diem stipends and guarantee payment to certain specialists for on-call and follow-up services at its Phoenix area hospitals and at North Colorado Medical Center. Moreover, certain specialists have refused to take call altogether. Management of the Corporation is undertaking various strategies to resolve this problem, including increasing rates to the extent permissible under federal regulations, and employing specialists to fill coverage gaps. The physician shortage also makes it more difficult to ensure adequate medical staff to provide services at new or expanded facilities planned or under construction.

Incurrence of Additional Indebtedness

The Master Indenture does not contain any limitations on the amount of additional Indebtedness that may be incurred by any Member of the Obligated Group, nor does the Master Indenture require any Member of the Obligated Group, to demonstrate compliance with any earnings, capitalization or other tests as a condition to the incurrence of additional Indebtedness. See "CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS – Certain Provisions of the Master Indenture" in *APPENDIX C* attached hereto.

Risks Related to Joint Ventures

While the income received from certain joint venture activities (described herein under the heading "ORGANIZATIONAL STRUCTURE – Facilities and Services -- Banner Arizona -- Joint Ventures and Other Relationships" in *APPENDIX A*) contributes significantly to the operating income of

the Corporation, the sale of the underlying assets of those joint ventures or the Corporation's interest in those joint ventures may not be available as a source of payment for the Series 2008D Obligation, since under the governing documents of such joint ventures the Corporation may not be able to force such sale. In addition, the Obligated Group may not compel such joint ventures to contribute funds as necessary to make payments on the Series 2008D Obligation, because such joint ventures are not Members of the Obligated Group.

However, while the income received from such joint ventures has contributed significantly to the operating income of the Corporation, the joint ventures do not significantly affect the historic debt service coverage of the Obligated Group because of the relatively small amount of depreciation and interest expense of the joint ventures as compared to the Obligated Group. See "FINANCIAL INFORMATION – Debt Service Coverage" in *APPENDIX A*.

Arizona Immigration Law

Arizona Revised Statutes Section 23-211 *et seq*, enacted in 2007 and amended in 2008, prohibits all employers from knowingly or intentionally employing after December 31, 2007, any person not authorized under federal law to work in the United States. If an employer is found to have intentionally employed an unauthorized alien, then all licenses necessary for the employer to operate at the location where the alien was employed are required to be suspended for a minimum of ten days. If the employer violates the statute by intentionally employing an unauthorized alien within five years after first being found to have intentionally employed an unauthorized alien, then all licenses necessary for the employer to operate at the location of the illegal employment must be permanently revoked. An employer can create a rebuttable presumption that it did not intentionally or knowingly employ an unauthorized alien if it verifies the individual's employment authorization through the federal "E-Verify" program.

The Corporation has clear policies against employment of unauthorized aliens, and in addition to checking immigration documentation as already required by federal law, has initiated verification of employment status through the "E-Verify" program for all individuals employed since December 31, 2007. If, however, the Corporation were found to have knowingly or intentionally employed unauthorized aliens in violation of the statute, the consequences could have a material adverse effect on the Obligated Group.

Arizona Conflict of Interest Law

The provisions of Arizona Revised Statutes Section 38-511, as amended, provide that public agencies, including the Issuer, may, within three years after its execution, cancel any contract, without penalty or further obligation, made by the public agency if any person significantly involved in initiating, negotiating, securing, drafting or creating the contract on behalf of the public agency is, at any time while the contract or any extension thereof is in effect, an employee of any other party to the contract in any capacity or an agent or a consultant of any other party of the contract with respect to the subject matter thereof. The cancellation becomes effective when written notice from the governing body of the public agency is received by all other parties to the contract unless the notice specifies a later time. The Issuer is a party to several contracts which are material to the payment of the Series 2008D Bonds, including the Loan Agreement and the Bond Indenture. Exercise of a remedy under A.R.S. Section 38-511, as amended, would adversely affect the Holders of the Series 2008D Bonds.

Other Risk Factors

The following factors, among others, may also affect the future operations or financial performance of the Obligated Group:

(a) Medical and other scientific advances resulting in decreased usage of hospital facilities or services, including those of the Obligated Group;

(b) Decreases in population within the service areas of the Obligated Group's hospitals;

(c) Increased unemployment or other adverse economic conditions which could increase the proportion of patients who are unable to pay fully for the cost of their care;

(d) Imposition of wage and price controls for the health care industry, such as those that were imposed and adversely affected health care facilities in the early 1970s;

(e) The ability of, and the cost to, the Obligated Group to continue to insure or otherwise protect itself against malpractice claims in light of escalating increases in insurance premiums;

(f) The attempted imposition of or the increase in taxes related to the property and operations of not-for-profit organizations; and

(g) The occurrence of natural disasters, including floods and earthquakes, or terrorist actions, which may damage the facilities of the Obligated Group, the Designated Affiliate, any future Member of the Obligated Group or any future Designated Affiliate, interrupt utility service to the facilities, or otherwise impair the operation and generation of revenues from said facilities.

The occurrence of one or more of the foregoing, or the occurrence of other unanticipated events, could adversely affect the financial performance of the Obligated Group.

Certain Matters Relating to Security for the Series 2008D Bonds

See "SECURITY FOR THE SERIES 2008D BONDS" for a discussion of certain factors including the absence of certain covenants in the Master Indenture. The facilities of the Obligated Group are not pledged as security for the Series 2008D Bonds. The Obligated Group's facilities are not comprised of general purpose buildings and generally would not be suitable for industrial or commercial use and consequently, it could be difficult to find a buyer or lessee for such facilities. If it were necessary to proceed against such facilities, whether pursuant to a judgment, if any, against the Obligated Group or otherwise, upon any default which results in the acceleration of the Series 2008D Bonds, an amount may not be realized sufficient to pay in full the Obligations, including the Series 2008D Obligation, from the sale or lease of such facilities.

Certain amendments to the Bond Indenture may be made without the consent of any Holders of the outstanding Series 2008D Bonds and certain other amendments to the Bond Indenture may be made with the consent of the Holders of not less than a majority of the principal amount of the outstanding Series 2008D Bonds. Certain amendments to the Master Indenture may be made with the consent of the Holders of not less than a majority of the principal amount of Obligations Outstanding under the Master Indenture. Such amendments may adversely affect the security of the Bondholders. With respect to amendments to the Master Indenture, the Holders of the requisite percentage of Outstanding Obligations may be composed wholly or partially of the Holders of additional Obligations. Such amendments may adversely affect the security of the Bondholders. See "*APPENDIX C* – CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS."

Gross Revenues Pledge

The Gross Revenues pledge may not be released without the consent of a majority of the Series 2008D Bondholders. In addition, the effectiveness of the security interest in the Gross Revenues of the Members of the Obligated Group pursuant to the Master Indenture may be limited by a number of factors, including (i) the absence of an express provision permitting assignment of receivables due any Member of the Obligated Group under the Medicare and Medicaid programs or under capitated risk contracts, and present or future prohibitions against assignment contained in any federal statutes or regulations; (ii) certain judicial decisions that cast doubt upon the right of the Master Trustee, in the event of the bankruptcy or any Member of the Obligated Group, to collect and retain accounts receivable from Medicare, Medicaid, general assistance and other governmental programs; (iii) statutory liens; (iv) rights arising in favor of the United States of America or any agency thereof; (v) constructive trusts, equitable or other rights impressed or conferred by a federal or state court in the exercise of its equitable jurisdiction; (vi) federal bankruptcy laws which may affect the priority of claims against the assets of the Obligated Group and the enforceability of the Bond Indenture or the security interest in the Gross Revenues which are earned by any Member of the Obligated Group within 90 days preceding and after any effectual institution of bankruptcy proceedings by or against such Member, (vii) rights of third parties in the Obligated Group's revenues converted to cash and not in the possession of the Bond Trustee or the Master Trustee; and (viii) claims that might gain priority if appropriate financing or continuation statements are not filed in accordance with the Arizona Uniform Commercial Code as from time to time in effect.

Matters Relating to Enforceability of the Master Indenture

The Corporation is currently the only Member of the Obligated Group. The obligations of the Obligated Group under the Series 2008D Obligation will be limited to the same extent as the obligations of debtors typically are affected by bankruptcy, insolvency and the application of general principles of creditors' rights and as additionally described below. The following three paragraphs apply to the extent additional Members of the Obligated Group are added or Obligated Group Affiliates are designated.

The accounts of all Members of the Obligated Group and Obligated Group Affiliates will be combined for financial reporting purposes and will be used in determining whether the test relating to debt service coverage contained in the Master Indenture is met, notwithstanding the uncertainties as to the enforceability of certain obligations of the Members of the Obligated Group contained in the Master Indenture which bear on the availability of the assets and revenues of the Members of the Obligated Group for payment of debt service on Obligations, including the Series 2008D Obligation. The joint and several obligations described herein of Members of the Obligated Group to make payments of debt service on Obligations issued under the Master Indenture (including transfers in connection with voluntary dissolution or liquidation) and each Controlling Member's agreement that it will cause each of its Obligated Group Affiliates to pay, loan or otherwise transfer to the Obligated Group Representative such amounts as are necessary to enable the Members to comply with the provisions of the Master Indenture, including without limitation, the Members covenant to jointly and severally pay or cause to be paid promptly any payment required to be made by any Member pursuant to the Master Indenture or any Obligation (including the Series 2008D Obligation) may not be enforceable to the extent (1) enforceability may be limited by applicable bankruptcy, moratorium, reorganization or similar laws affecting the enforcement of creditors' rights and by general equitable principles and (2) such payments (i) are requested to be made on any Obligations which are issued for a purpose which is not consistent with the charitable purposes of the Member of the Obligated Group from which such payments are requested or which are issued for the benefit of any entity other than a tax-exempt organization; (ii) are requested to be made from any moneys or assets which are donor restricted or which are subject to a direct or express trust which does not permit the use of such moneys or assets for such a payment;

(iii) would result in the cessation or discontinuation of any material portion of the health care or related services previously provided by the Member of the Obligated Group from which such payment is requested; or (iv) are requested to be made pursuant to any loan violating applicable usury laws.

A Member of the Obligated Group may not be required to make any payment to provide for the payment of any Obligation, or portion thereof, the proceeds of which were not loaned or otherwise disbursed to such Member of the Obligated Group to the extent that such transfer would render the Member of the Obligated Group insolvent or which would conflict with, not be permitted by or which is subject to recovery for the benefit of other creditors of such Member of the Obligated Group under applicable fraudulent conveyance, bankruptcy or moratorium laws. There is no clear precedent in the law as to whether such transfers from a Member of the Obligated Group in order to pay debt service on the Obligations may be voided by a trustee in bankruptcy in the event of bankruptcy of the Member of the Obligated Group, or by third-party creditors in an action brought pursuant to state fraudulent transfer or fraudulent conveyance statutes. Under the United States Bankruptcy Code, a trustee in bankruptcy and, under state fraudulent transfer or fraudulent conveyance statutes and common law, a creditor of a related guarantor, may avoid any obligation incurred by a related guarantor if, among other basis therefor, (1) the guarantor has not received fair consideration or reasonably equivalent value in exchange for the guaranty and (2) the guaranty renders the guarantor insolvent, as defined in the United States Bankruptcy Code or applicable state fraudulent transfer or fraudulent conveyance statutes, or the guarantor is undercapitalized.

Application by courts of the tests of “insolvency,” “reasonably equivalent value” and “fair consideration” has resulted in a conflicting body of case law. It is possible that, in an action to force a Member of the Obligated Group to pay debt service on an Obligation for which it was not the direct beneficiary, a court might not enforce such a payment in the event it is determined that the Member of the Obligated Group is analogous to a guarantor of the debt of the Member of the Obligated Group who directly benefited from the borrowing and that sufficient consideration for the Member of the Obligated Group’s guaranty was not received and that the incurrence of such obligation has rendered or will render the Member of the Obligated Group insolvent or the Member of the Obligated Group is or will thereby become undercapitalized.

There exist, in addition to the foregoing, common law authority and authority under applicable state statutes pursuant to which the courts may terminate the existence of a nonprofit corporation or undertake supervision of its affairs on various grounds, including a finding that such corporation has insufficient assets to carry out its stated charitable purposes or has taken some action which renders it unable to carry out such purposes. Such court action may arise on the court’s own motion pursuant to a petition of the Attorney General or such other persons who have interests different from those of the general public, pursuant to the common law and statutory power to enforce charitable trusts and to see to the application of their funds to their intended charitable uses.

Potential Effects of Bankruptcy

If a Member of the Obligated Group were to file a petition for relief (or if a petition were filed against a Member of the Obligated Group) under the Federal Bankruptcy Code, the filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against such Member of the Obligated Group, and its property. If the bankruptcy court so ordered, such Member of the Obligated Group’s property, including its accounts receivable and proceeds thereof, could be used for the benefit of such Member of the Obligated Group despite the claims of its creditors.

In a bankruptcy proceeding, such Member of the Obligated Group could file a plan for the adjustment of its debts which modifies the rights of creditors generally, or the rights of any class of creditors, secured or unsecured. The plan, when confirmed by the court, would bind all creditors who had

notice or knowledge of the plan and discharge all claims against the debtor provided for in the plan. No plan may be confirmed unless, among other conditions, the plan is in the best interests of creditors, is feasible and has been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the allowed claims of the class that are voted with respect to the plan are cast in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

The bankruptcy of an Obligated Group Affiliate will not trigger an event of default under the Master Indenture, the Loan Agreement or the Bond Indenture. See "*APPENDIX C* – CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS – Certain Provisions of the Master Indenture -- Defaults" and "– Certain Provisions of the Bond Indenture -- Events of Default and Remedies of Bondholders," and "– Certain Provisions of the Loan Agreement -- Events of Defaults and Remedies."

If an Obligated Group Affiliate has no contractual obligation to make payment to the Obligated Group or the Master Trustee in respect of the Series 2008D Obligation, neither the Obligated Group nor the Master Trustee would be able to file a claim in a bankruptcy proceeding in respect of such Obligated Group Affiliate for payment of any amounts in respect of the Series 2008D Obligation.

ABSENCE OF MATERIAL LITIGATION

Issuer

There is not now pending nor, to the knowledge of the Issuer, overtly threatened any litigation against the Issuer restraining or enjoining the issuance or delivery of the Series 2008D Bonds or questioning or affecting the validity of such Series 2008D Bonds or the proceedings or authority under which they are to be issued. Neither the creation, organization or existence of the Issuer nor the title of any of the present members or other officers of the Issuer to their respective offices is being contested. There is no litigation pending or, to the knowledge of the Issuer, overtly threatened against the Issuer which in any manner questions the right of the Issuer to enter into the Bond Indenture or Loan Agreement or to secure the Series 2008D Bonds in the manner provided in the Bond Indenture and the relevant statutes under which the Series 2008D Bonds are issued.

Corporation

Except as disclosed in *APPENDIX A*, there is not now pending nor, to the knowledge of the Corporation, threatened any litigation against the Corporation except for litigation in which the probable recoveries and the estimated costs and expenses of defense, in the opinion of the counsel to the Corporation responsible therefor, will be entirely within the Corporation's applicable insurance policy limits (subject to applicable deductibles) or reserves, including self-insurance trusts, established by the Corporation therefor, or which otherwise would not materially adversely affect the business or properties of the Corporation.

UNDERWRITING

The Underwriters have agreed to purchase the Series 2008D Bonds pursuant to a Bond Purchase Agreement (the "Bond Purchase Agreement") by and among the Issuer, the Underwriters and the Corporation, at an aggregate purchase price with respect to the Series 2008D Bonds of $911,463,379.25, reflecting $4,279,446.75 of underwriting discount and $2,117,174 of net original issue discount. The Bond Purchase Agreement provides that the Underwriters will purchase all of Series 2008D Bonds, if any

are purchased, and contains the agreement of the Corporation to indemnify the Underwriters and the Issuer against certain liabilities.

FINANCIAL ADVISOR

Kaufman, Hall & Associates, Inc. ("KHA"), Skokie, Illinois, has been engaged by the Corporation to provide various financial advisory services. KHA is a national consulting firm which acts as capital advisor to healthcare organizations particularly in the areas of short and long term debt financings, joint ventures and overall capital planning.

TAX MATTERS

Opinion of Bond Counsel

In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the Series 2008D Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Code, and (ii) interest on the Series 2008D Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Issuer, the Corporation, and others in connection with the Series 2008D Bonds, and Bond Counsel has assumed compliance by the Issuer and the Corporation with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Series 2008D Bonds from gross income under Section 103 of the Code. In addition, in rendering its opinion, Bond Counsel has relied on the opinion of counsel to the Corporation regarding, among other matters, the current qualification of the Corporation as an organization described in Section 501(c)(3) of the Code.

In addition, in the opinion of Bond Counsel to the Issuer, under existing statutes, interest on the Series 2008D Bonds is exempt from the State of Arizona income tax.

Bond Counsel expresses no opinion regarding any other Federal or state tax consequences with respect to the Series 2008D Bonds. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update its opinion after the issue date to reflect any future action, fact or circumstance, or change in law or interpretation, or otherwise. Bond Counsel expresses no opinion on the effect of any action hereafter taken or not taken in reliance upon an opinion of other counsel on the exclusion from gross income for Federal income tax purposes of interest on the Series 2008D Bonds, or under state and local tax law.

Certain Ongoing Federal Tax Requirements and Covenants

The Code establishes certain significant ongoing requirements that must be met subsequent to the issuance and delivery of the Series 2008D Bonds in order that interest on the Series 2008D Bonds, be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the Series 2008D Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Series 2008D Bonds to become included in gross income for

Federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Issuer and the Corporation have covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on Series 2008D Bonds from gross income under Section 103 of the Code.

Certain Collateral Federal Tax Consequences

The following is a brief discussion of certain collateral Federal income tax matters with respect to the Series 2008D Bonds. It does not purport to address all aspects of Federal taxation that may be relevant to a particular owner of a Series 2008D Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the Federal tax consequences of owning and disposing of the Series 2008D Bonds.

Prospective owners of the Series 2008D Bonds should be aware that the ownership of such obligations may result in collateral Federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for Federal income tax purposes. Interest on the Series 2008D Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

Original Issue Discount

"Original issue discount" ("OID") is the excess of the sum of all amounts payable at the stated maturity of a Series 2008D Bond (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the "issue price" of a maturity means the first price at which a substantial amount of the Series 2008D Bonds of that maturity was sold (excluding sales to bond houses, brokers, or similar persons acting in the capacity as underwriters, placement agents, or wholesalers). In general, the issue price for each maturity of Series 2008D Bonds is expected to be the initial public offering price set forth on the cover page of this Official Statement. Bond Counsel further is of the opinion that, for any Series 2008D Bonds having OID (a "Discount Bond"), OID that has accrued and is properly allocable to the owners of the Discount Bonds under Section 1288 of the Code is excludable from gross income for Federal income tax purposes to the same extent as other interest on the Series 2008D Bonds.

In general, under Section 1288 of the Code, OID on a Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that Discount Bond. An owner's adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Series 2008D Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners of Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for Federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of Discount Bonds.

Bond Premium

In general, if an owner acquires a Series 2008D Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the Series 2008D Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that Series 2008D Bond (a "Premium Bond"). In general, under Section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner's yield over the remaining term of the Premium Bond, determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for Federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

Information Reporting and Backup Withholding

Information reporting requirements will apply to interest paid on tax-exempt obligations, including the Series 2008D Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification", or unless the recipient is one of a limited class of exempt recipients, including corporations. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding", which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Series 2008D Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2008D Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the IRS.

Miscellaneous

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Series 2008D Bonds under Federal or state law and could affect the market price or marketability of the Series 2008D Bonds. There can be no assurance that any such legislation, actions or decisions, if ever enacted, taken or rendered following the issuance of the Series 2008D Bonds, will not have an adverse effect on the tax-exempt status, market price or marketability of the Series 2008D Bonds.

Prospective purchasers of the Series 2008D Bonds should consult their own tax advisors regarding the foregoing matters.

CONTINUING DISCLOSURE

The Corporation, as Obligated Group Representative, has undertaken all responsibilities for providing any continuing disclosure to Holders of the Series 2008D Bonds as described below, and the Issuer shall have no responsibility or liability to the Holders or any other person with respect to such disclosures.

General

The Corporation has covenanted for the benefit of the Bondholders and the Beneficial Owners (as hereinafter defined under this caption), pursuant to a Master Continuing Disclosure Agreement dated as of November 19, 1998 (the "Disclosure Agreement") executed and delivered by the Corporation and The Bank of New York Mellon Trust Company, N.A., as dissemination agent, to provide or cause to be provided (i) each year, certain financial information and operating data (the "Annual Report") relating to the Obligated Group (meeting certain criteria set forth in the Master Continuing Disclosure Agreement) by not later than five months after the last day of the Fiscal Year of the Obligated Group, commencing with the Annual Report for the fiscal year ended December 31, 1998; provided, however, that if the audited consolidated financial statements of the Obligated Group are not available by such date, they will be provided when and if available, and unaudited consolidated financial statements will be included in the Annual Report; and (ii) timely notices of the occurrence of certain enumerated events, if material. Currently, the fiscal year of the Corporation commences on January 1. "Beneficial Owners" means, under this caption only, any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of directly or indirectly, to vote or consent with respect to, or to dispose of ownership of any Series 2008D Bonds (including persons holding Series 2008D Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Series 2008D Bonds for federal income tax purposes.

The Annual Report will be filed by or on behalf of the Obligated Group with each Nationally Recognized Municipal Securities Information Repository ("NRMSIR") and with the State Information Depositories ("SIDs"), if any, in each case as designated from time to time by the SEC. The notices of material events will be filed with the Municipal Securities Rulemaking Board ("MSRB") or each NRMSIR, and with the SIDs, if any, in each case as designated from time to time by the SEC. These covenants have been made in order to assist the Underwriters and registered brokers, dealers and municipal securities dealers in complying with the requirements of Rule 15c2-12 (the "Rule") promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as amended. In addition, the Corporation has agreed to cause to be filed with the NRMSIRs and any SID copies of the Corporation's consolidated and the Obligated Group's unaudited quarterly financial statements containing statements of income and a balance sheet prepared by management for each of the first three fiscal quarters of each year within 60 days of the end of each such fiscal quarter. Upon written request received at least two Business Days prior to the end of a fiscal quarter, the Corporation will provide or cause to be provided to any Bondholder a copy of the most recent financial information for such fiscal quarter (for the first three fiscal quarters) or fiscal year (for the fourth fiscal quarter), as applicable, and any material event notice filed in such fiscal quarter, all promptly after and as filed with the NRMSIRs and any SID. All such information (commencing with the quarter ended June 30, 2008) will also be available electronically at no cost from Digital Assurance Certification LLC ("DAC"). There is no assurance that the Corporation will continue to make information available from DAC for the life of the Series 2008D Bonds. Any filing under the Disclosure Agreement may be made solely by transmitting such filing to the Municipal Advisory Council

of Texas (the "MAC") as provided at http://www.disclosureusa.org unless the SEC has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

Notice of Certain Events, if Material

The Corporation covenants to provide, or cause to be provided, notice of the occurrence of any of the following events with respect to the Series 2008D Bonds, if material, in a timely manner and in accordance with the Rule:

(1) Principal and interest payment delinquencies;

(2) Non-payment related defaults;

(3) Unscheduled draws on debt service reserves reflecting financial difficulties;

(4) Unscheduled draws on credit enhancements reflecting financing difficulties;

(5) Substitution of credit or liquidity facility providers, or their failure to perform;

(6) Adverse tax opinions or events adversely affecting the tax-exempt status of the security;

(7) Modifications to rights of the security holders;

(8) Bond calls;

(9) Defeasances;

(10) Release, substitution, or sale of property securing repayment of the securities; and

(11) Rating changes.

Annual Report

The Annual Report will contain or incorporate by reference at least the following items:

(a) The audited financial statements of the Obligated Group for the fiscal year immediately preceding the due date of the Annual Report; provided, however, that if such audited financial statements are not available by the deadline for filing the Annual Report, they shall be provided when and if available, and unaudited financial statements shall be included in the Annual Report. The financial statements shall be audited and prepared pursuant to accounting and reporting policies conforming in all material respects to GAAP or accompanied by a quantified explanation of material deviations from GAAP, if possible, or a full explanation of the accounting principles used.

(b) An update of the material financial information and material operating data of the same general nature as that contained in *APPENDIX A* under the captions "ORGANIZATIONAL STRUCTURE – Facilities and Services" (tables only), "UTILIZATION," "FINANCIAL INFORMATION – Capitalization, – Debt Service Coverage, – Liquidity, and – Sources of Net Patient Revenue."

Any or all of the items listed above may be included by specific reference to other documents which previously have been provided to each of the repositories described above or filed with the SEC. If the document included by reference is a final official statement, it must be available from the MSRB. The Corporation shall clearly identify each such other document as included by reference.

Failure to Comply

In the event of a failure of the Corporation to comply with any provision of the Disclosure Agreement, any Bondholder or Beneficial Owner may seek specific performance by court order to cause the Corporation to comply with the obligations under the Disclosure Agreement. A failure to comply with the Disclosure Agreement shall not be deemed an Event of Default under the Bond Indenture. The sole remedy under the Disclosure Agreement in the event of any failure of the Corporation to comply with the Disclosure Agreement shall be an action to compel performance, and no person or entity shall be entitled to recover monetary damage thereunder under any circumstances.

Amendment of the Disclosure Agreement

The provisions of the Disclosure Agreement, including but not limited to the provisions relating to the accounting principles pursuant to which the financial statements are prepared, may be amended as deemed appropriate by the Corporation; but any such amendment must be adopted procedurally and substantively in a manner consistent with the Rule, including any interpretation thereof made from time to time by the SEC. Such interpretations currently include the requirements that (a) the amendment may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of any Obligated Person or the type of activities conducted thereby, (b) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the primary offering of the Series 2008D Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (c) the amendment does not materially impair the interests of Bondholders, as determined by parties unaffiliated with the Corporation (such as independent legal counsel). The foregoing interpretations may be changed in the future.

LEGAL MATTERS

Certain legal matters incident to the authorization and issuance of the Series 2008D Bonds are subject to the approval of Hawkins Delafield & Wood LLP, New York, New York, Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the Issuer by its special counsel, Greenberg Traurig, LLP, Phoenix, Arizona; for the Corporation by its special counsel, Lewis and Roca LLP, Phoenix, Arizona and by its Senior Vice President and General Counsel; and for the Underwriters by their special counsel, Sonnenschein Nath & Rosenthal LLP, Chicago, Illinois. Lewis and Roca LLP represents the Issuer on matters unrelated to the issuance of the Series 2008D Bonds. Certain affiliates of Merrill Lynch and Morgan Stanley provide financial services to the Corporation.

RATINGS

Standard & Poor's Ratings Services ("S&P") and Fitch Ratings ("Fitch") have each assigned the Series 2008D Bonds a rating of AA-. A report, which outlines the basis for the current rating by each rating agency, has been issued by each rating agency in connection with the issuance of its rating and a copy may be obtained by contacting the applicable rating agency. An explanation of the significance of the ratings may be obtained from the applicable rating agency. The ratings are not a recommendation to buy, sell or hold the Series 2008D Bonds. There can be no assurance that the ratings will continue for

any given period of time or that a rating will not be lowered, suspended or withdrawn entirely by the applicable rating agency. Any such downward changes in or suspension or withdrawal of any of such ratings may have an adverse effect on the secondary market price and liquidity of the Series 2008D Bonds.

FINANCIAL STATEMENTS

The audited consolidated financial statements of the Corporation and Subsidiaries as of December 31, 2007 and 2006, and for the years then ended, included in *APPENDIX B* to this Official Statement, have been audited by Ernst & Young LLP, independent auditors, as stated in their report appearing herein.

MISCELLANEOUS

Any statements in this Official Statement, including the Appendices hereto, involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. The attached *APPENDICES A, B, C* and *D* are integral parts of this Official Statement and must be read together with all of the foregoing statement.

The summaries or descriptions of provisions of the Series 2008D Bonds, the Bond Indenture, the Loan Agreement, the Master Indenture and the Disclosure Agreement and all references to other materials not purporting to be quoted in full, are only brief outlines of certain provisions thereof and do not purport to summarize or describe all the provisions thereof. Reference is hereby made to such instruments, documents and other materials for the complete provisions thereof.

It is anticipated that CUSIP identification numbers will be printed on the Series 2008D Bonds, but neither the failure to print such numbers on any Series 2008D Bonds nor any error in the printing of such numbers shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for any Series 2008D Bonds.

Except for the information concerning the Issuer under "THE ISSUER" and as to the Issuer in "ABSENCE OF MATERIAL LITIGATION – Issuer," none of the information in this Official Statement has been supplied or verified by the Issuer, and no representation or warranty is made by or on behalf of the Issuer, express or implied, as to (a) the accuracy or completeness of such information, or (b) the tax status of the interest on the Series 2008D Bonds. The Corporation has reviewed the information contained herein which relates to the Obligated Group and has approved all such information for use within this Official Statement.

The use of this Official Statement has been duly approved by the Issuer and the execution and delivery hereof has been approved by the Corporation.

Approved:

BANNER HEALTH

By: /s/ Ronald R. Bunnell
Executive Vice President, Chief Administrative Officer and Chief Financial Officer

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APPENDIX A

INFORMATION CONCERNING BANNER HEALTH

Banner Health provided the information set forth in this Appendix A.

Banner Health

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INTRODUCTION

Overview

Banner Health ("Banner") provides a broad range of health care and related services to the greater Phoenix metropolitan area, northeastern Colorado and adjoining areas of Wyoming and Nebraska, central and northern Alaska, and to certain small communities in California and Nevada. Banner was formed on September 1, 1999 when Lutheran Health Systems acquired and assumed most of the assets and liabilities of Samaritan Health System ("SHS"). The resulting organization, renamed Banner Health, is a large secular nonprofit health care system which, together with its subsidiaries, owns, leases, or manages acute care hospitals, behavioral health facilities, long-term care and rehabilitation facilities, home health agencies, nursing registries, clinics, hospice facilities, laboratories, and home medical equipment supply services.

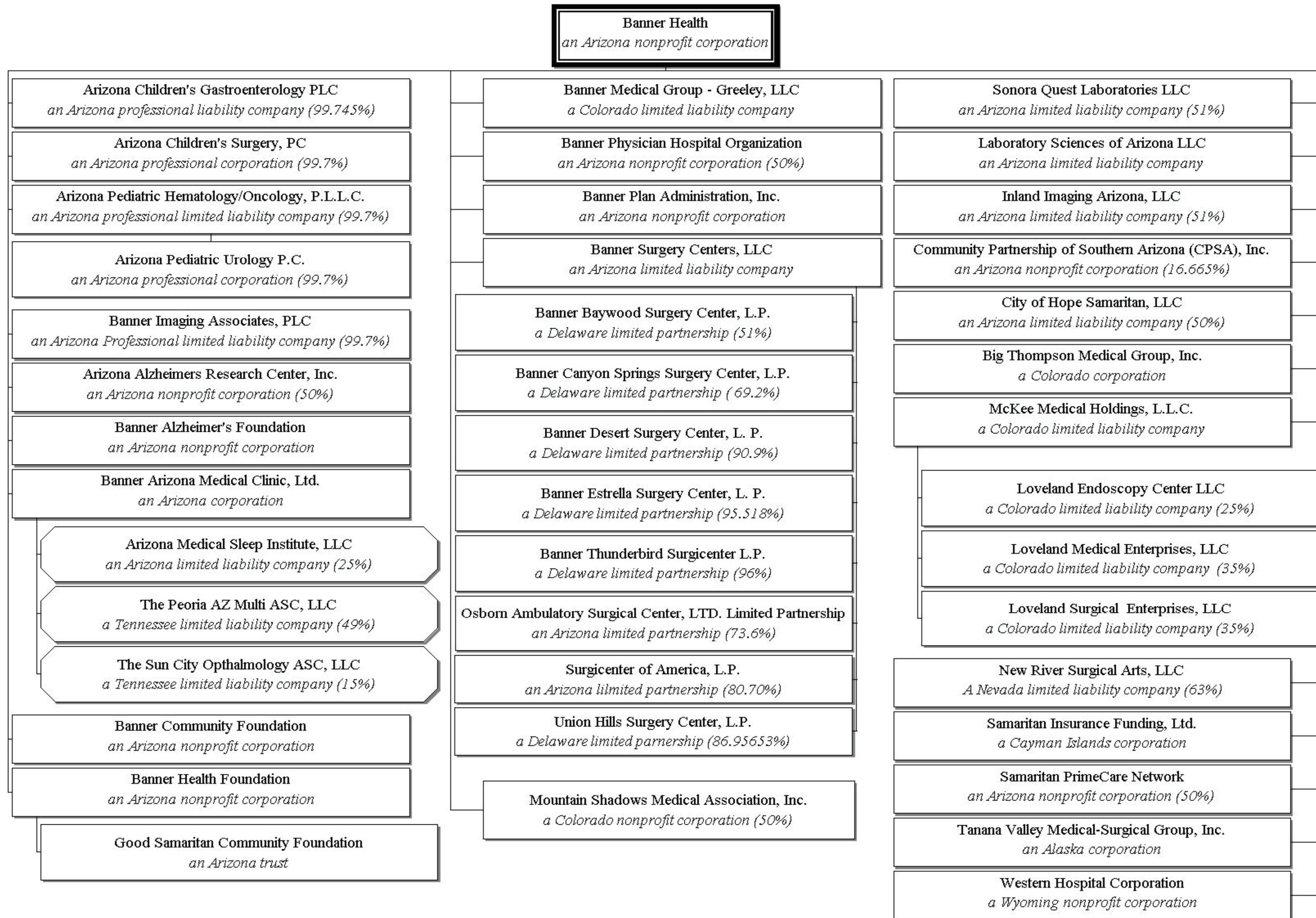
ORGANIZATIONAL STRUCTURE

Legal Structure

Banner is an Arizona nonprofit corporation and a tax-exempt organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. Banner has no members and is in good standing in all of the states in which it operates. While Banner has subsidiaries and affiliates, and participates in a number of joint ventures, most of its health care operations are owned, leased or operated through Banner. Banner is the sole Member of the Obligated Group and the only entity obligated to make payments with respect to Obligations outstanding under the Master Indenture, including the Series 2008D Obligation. Facilities owned, leased or managed solely by Banner as the Obligated Group (as opposed to facilities held by Banner subsidiaries or through joint ventures), accounted for 88% of Banner's consolidated revenue, 86% of Banner's consolidated operating income and 103% of Banner's consolidated net income during 2007.[1] Accounting principles generally accepted in the United States ("GAAP") require that the consolidated financial statements of Banner include financial information on each entity controlled by Banner. Therefore, the Banner consolidated financial and statistical information in this Appendix A includes consolidated financial information on entities that are not Members of the Obligated Group. Financial and statistical information relating solely to the Obligated Group is also included in Appendix A, including under "FINANCIAL INFORMATION" below. The entities included in the Banner consolidated financial and statistical information that are not Members of the Obligated Group have no obligation to make any payments on the Series 2008D Bonds or the Series 2008D Obligation or any other Obligations outstanding under the Master Indenture.

A Banner organizational chart, setting forth all Banner subsidiaries and affiliates with assets or operations, is set forth on the following page (all entities are owned 100% by Banner unless otherwise indicated).

[1] *Revenue means net revenue including contractual adjustments. Operating income equals revenue less operating expenses. Net income, or excess of revenues over expenses, includes operating income, investment income and other miscellaneous income.*



NOTE: All entities are 100% held or owned by Banner Health unless otherwise indicated.

Facilities and Services

The health care operations and services of Banner are organized into two regions, Arizona and Western. Centralized services and management of Banner's health care operations are provided from corporate offices in Phoenix, Arizona. The Arizona region ("Banner Arizona" or the "Arizona Region") consists of all operations in Arizona, most of which are located in the greater Phoenix metropolitan area. The Western region ("Banner Western") consists of all operations in Alaska, California, Colorado, Nebraska, Nevada, and Wyoming.

The following sections describe Banner facilities by operating region. Each section includes a description of the operating region, the locations and names of each hospital facility in the operating region, the number of licensed hospital, long term care ("LTC"), rehabilitation or behavioral beds, whether the hospital facility is owned or leased by Banner, and a description of ambulatory service facilities and other services such as home care (including home health, hospice, home infusion therapy and home medical equipment) provided by Banner in the region. For each leased facility, the Hospital Facilities' tables state the year when the leased operations began at the leased facility. Except where noted, the leases provide for termination upon a set date or the occurrence of certain defined events of default.

BANNER ARIZONA

Banner's Arizona Region, which accounted for approximately 91% of Banner's 2007 operating income, offers a broad range of services including a Level I Trauma Center, inpatient and outpatient acute care (including tertiary level services), pancreas and liver transplants, behavioral health, cardiovascular, orthopedic, women's, pediatrics and neonatology, oncology, geriatric/skilled nursing, rehabilitation, and occupational medicine. Banner plans to acquire certain additional facilities in the Arizona Region, which are described in greater detail under "SUN HEALTH ACQUIRED OPERATIONS" herein.

The following chart provides additional information about the primary Banner Arizona hospital facilities and services, most of which are located in the greater Phoenix metropolitan area:

Banner Arizona Hospital Facilities

Location	Facilities	Hospital Licensed Beds	LTC/Rehab/ Behavioral Licensed Beds	Owned/Leased	% of Banner Revenue for Year Ended 12/31/07	% of Banner Operating Income/(Loss) for Year Ended 12/31/07
Phoenix, Arizona	Banner Good Samaritan Medical Center	574	85	Owned	18.6	22.6
Mesa, Arizona	Banner Desert Medical Center [(1)]	569	--	Owned	13.9	28.7
Glendale, Arizona	Banner Thunderbird Medical Center	332	62	Owned	10.0	18.3
Mesa, Arizona	Banner Baywood Medical Center	318	22	Owned	7.8	14.4
Mesa, Arizona	Banner Mesa Medical Center [(2)]	258	62	Owned	2.3	(2.2)
Gilbert, Arizona	Banner Gateway Medical Center [(2)]	176	--	Owned	0.8	(14.3)
Phoenix, Arizona	Banner Estrella Medical Center[(3)]	208	--	Owned	5.4	4.2
Mesa, Arizona	Banner Heart Hospital	111	--	Owned	3.2	6.7
Page, Arizona	Page Hospital	25	--	Leased since 1982	0.5	1.4
Scottsdale, Arizona	Banner Behavioral Health Hospital	--	96	Owned	0.6	0.6

(1) Banner Desert Medical Center opened 19 neonatal intensive care unit (NICU) beds in June 2008.
(2) Banner Mesa Medical Center closed and Banner Gateway Medical Center opened September 2007.
(3) Banner Estrella Medical Center added 36 licensed beds in January 2008.

In addition, Banner holds a majority interest in seven ambulatory surgery facilities and one pain management facility in the greater Phoenix metropolitan area, and manages one ambulatory clinic facility in Williams, Arizona.

Banner also provides certain other services directly or through joint ventures (in which Banner holds, directly or indirectly, at least a 50% interest) in the greater Phoenix metropolitan area, including home care, hospice, home medical equipment, clinical reference laboratory services, occupational health services, temporary nurse staffing and bone marrow transplants.

Joint Ventures and Other Relationships

The following is a brief description of certain significant joint ventures and other relationships in which Banner Arizona participates. None of these organizations is a member of the Obligated Group.

Sonora Quest Laboratories, LLC

Sonora Quest Laboratories, LLC ("SQL") was formed in 1997 as a joint venture between a wholly-owned subsidiary of Banner, Laboratory Sciences of Arizona, LLC ("LSA"), and a wholly-owned subsidiary of Quest Diagnostics, Incorporated ("Quest") (NYSE: DGX). SQL provides a broad range of laboratory services to physicians, hospitals and other health care providers primarily in Arizona through its regional network of laboratories and patient service centers. SQL offers comprehensive and innovative diagnostic testing, information and related services used by physicians and other health care professionals to diagnose, treat and monitor diseases and other medical conditions. SQL is the largest clinical reference laboratory in Arizona, and leases almost all of its employees (approximately 1,500) from LSA. Banner, through LSA, is the managing member and owns a 51% interest in SQL. The Governing Board of SQL consists of three representatives each from LSA and Quest, plus the Medical Director of SQL. Net cash after expenses and allowance for reasonable reserves is distributed to Banner and Quest at least monthly when available. Following GAAP, Banner records 100% of the revenue, expense and operating income of SQL in the consolidated financial statements of Banner, and accounts for the 49% minority interest with a deduction from net income. For 2007, SQL had total revenue of approximately $204.7 million, which represented approximately 6.1% of Banner's consolidated revenue, and operating income of approximately $42.5 million, which was approximately 29.9% of Banner's consolidated operating income. Minority interest of $21.0 million was deducted from Banner's net income.

Banner Surgery Centers, LLC

Through its wholly owned subsidiary, Banner Surgery Centers, LLC ("BSC"), Banner operates seven outpatient surgery centers and one pain management center in the Phoenix metropolitan area. BSC is the general partner and majority owner of the eight limited partnerships that own these centers. Physician limited partners own the balance of the interests in these limited partnerships. BSC also manages New River Surgical Arts, LLC, an ambulatory surgery joint venture in Fallon, Nevada, of which Banner currently owns 63%. Banner became the sole owner of BSC upon acquisition of a 51% interest therein from Triad Hospitals, Inc. ("Triad") on April 30, 2005, for a purchase price of approximately $35.6 million. For 2007, BSC had total revenue of approximately $43.8 million and a net loss of approximately $(124,000).

City of Hope Samaritan, LLC

City of Hope Samaritan, LLC (the "BMT JV") was formed in 1997 and is a joint venture between Banner and City of Hope National Medical Center ("City of Hope"), Duarte, California. The BMT JV oversees a bone marrow transplantation program at Banner Good Samaritan Medical Center ("Banner

Good Samaritan"). The bone marrow transplantation program is staffed and managed by Banner employees, with physician services provided by physicians affiliated with City of Hope. Banner has a 50% interest in the BMT JV. Net cash flow from the bone marrow transplantation program is distributed periodically as determined by a 6-person governing board, three of whom are appointed by Banner. For 2007, the bone marrow transplantation program generated net patient revenue of approximately $21.5 million and net loss of approximately $(540,000).

Banner Physician Hospital Organization

Banner Physician Hospital Organization ("BPHO") is a taxable, nonprofit corporation formed in 1989 that engages in risk-based joint contracting with payers on behalf of a highly clinically integrated network comprised of Banner Desert Medical Center ("Banner Desert"), Banner Baywood Medical Center ("Banner Baywood"), Banner Heart Hospital ("Banner Heart") and a number of primary care and specialist physicians in the east valley of the Phoenix metropolitan area. Approximately 151 primary care physicians and 573 specialists participate in at least one BPHO contract. BPHO is governed by an 18-person board of directors, three of whom are appointed by Banner but who have equal voting power with the remaining 15 directors. BPHO maintains both risk-based and clinically integrated fee-for-service contracts with several payers. While BPHO is intended to operate on a break-even basis, in 2007, it had net revenue of approximately $112.8 million, and paid approximately $108.9 million to providers generating income of approximately $3.9 million. In 2007, Banner received approximately $44.7 million in provider payments from BPHO.

Inland Imaging of Arizona, LLC

Inland Imaging of Arizona, LLC ("IIAZ"), formed in December 2006, is a joint venture between a Banner subsidiary and Inland Imaging Management, Inc., a corporation affiliated with a large radiology group practice and a practice management firm based in Spokane, Washington. Banner has a 51% interest in IIAZ. IIAZ operates a 10,900 square foot imaging center in a medical office building on the campus of Banner Gateway Medical Center ("Banner Gateway"), which opened in November of 2007. In 2007, IIAZ had net revenue of approximately $130,000, and net loss of approximately $(1.8) million. Banner and IIAZ have agreed that, with certain exceptions, IIAZ will have the first right to develop freestanding outpatient imaging services on any new Banner campuses that may be developed in Pinal or Maricopa Counties.

Banner Arizona Medical Clinic, Ltd.

Banner Arizona Medical Clinic, Ltd. ("BAMC") is an approximately 100-physician group practice acquired by Banner on August 31, 2007, for an aggregate price of approximately $32.3 million. BAMC has seven offices in Peoria, Sun City and Sun City West, in the northwestern area of the Phoenix metropolitan area, providing a wide variety of specialist and primary care physician and ancillary services. BAMC also holds a 49% interest in two ambulatory surgery centers, a 12% interest in an ophthalmology surgery center, and a 25% interest in a sleep center. From September 1, 2007 through December 31, 2007, BAMC had net revenue of approximately $24.7 million, and a net loss of $(5.2) million.

Phoenix Service Area

Most of the Banner Arizona facilities and operations are located throughout the Phoenix-Mesa-Scottsdale metropolitan statistical area (the "Phoenix MSA"). According to a U.S. Census Bureau release in March 2008, the Phoenix MSA had 4,179,427 residents as of July 1, 2007, making it the 13th largest metropolitan statistical area in the United States. From 2000 to 2007, the population of the Phoenix MSA grew by 927,551, or 28.5%. This was the third largest increase in population of any metropolitan

statistical area in the United States. Phoenix is the fifth most populous city in the United States, and the state capital of Arizona.

The following chart describes the population growth in the State of Arizona and the Maricopa-Pinal Counties' Service area from 2000 to 2007, and projected through 2012.

Historic and Projected Population Growth 2000 – 2012 by State and County

	Historic			Projected	
Location	2000	2007	Annual % Growth	2012	Annual % Growth
Maricopa – Pinal Counties' Service Area	3,246,169	4,025,005	3.4%	4,590,335	2.8%
State of Arizona	5,130,632	6,198,389	3.0%	6,998,545	2.6%

Source: Claritas

The Phoenix MSA has an economic base composed of various service, retail and wholesale trade outlets, high technology manufacturing and financial firms. The following table lists Arizona's largest non-governmental employers as of December 2007:

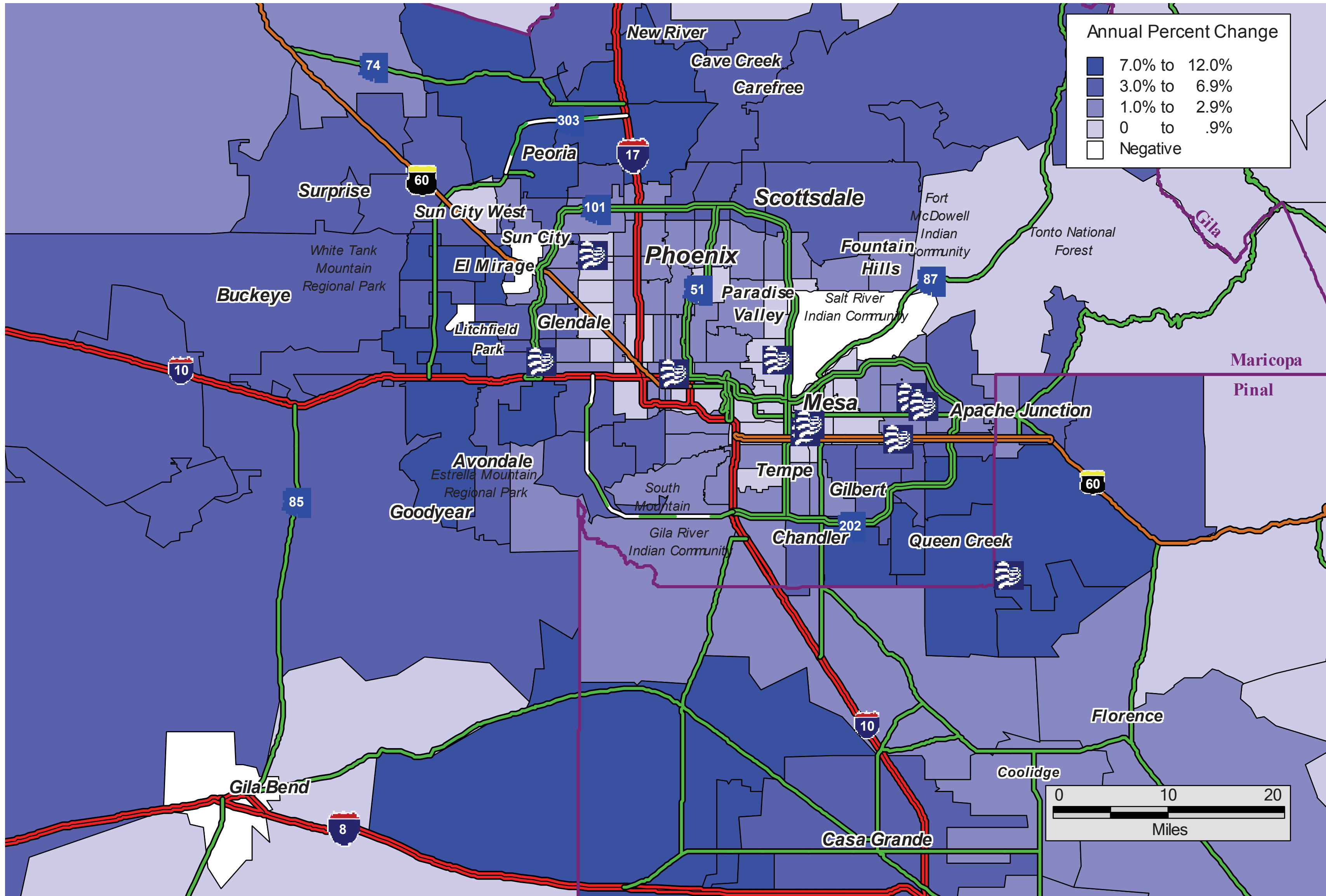
Arizona's Largest Non-Governmental Employers

Employer	Service/Product	Approximate Number of Full-Time Equivalent Employees
Wal-Mart Stores, Inc.	Discount stores	30,174
Banner Health	Health care	19,084
Wells Fargo & Co.	Financial services	14,000
Fry's Food & Drug.	Grocery Stores	11,780
Honeywell Aerospace	Aerospace Systems	10,700
US Airways	Airline	10,373
Intel Corp	Semiconductor manufacturing	10,000
Basha's	Grocery Stores	10,000
Safeway	Grocery Stores	9,495
Apollo Group, Inc	Education	8,874
JP Morgan Chase	Financial services	8,722

Source: The Business Journal Book of Lists 2008, December 28, 2007, except as to Banner which is based on internal data as of December 31, 2007.

Following are two maps of Phoenix and adjoining cities. The first shows the location of the existing Banner facilities and the estimated rate of population growth from 2007 to 2012. The second shows the location of existing and planned Phoenix area acute care hospitals for Banner and its competitors.

Maricopa – Pinal Service Area Estimated Annual Population Growth from 2007 – 2012



Maricopa – Pinal Service Area Acute Care Hospitals 2008

Phoenix MSA Competitor Projects

Several changes have occurred and are occurring in the competitive Phoenix metropolitan market. Population growth in the Phoenix MSA has created, and is expected to continue to create, a demand for accessible facility-based services. New facilities have been built or are in the process of being built in the high growth areas of the Phoenix MSA, and existing facilities have been adding capacity to accommodate the rapid growth of the Phoenix MSA. Among the recent, pending and announced projects by Banner's competitors are the following:

Completed expansion/construction:

- Gilbert Hospital, formerly Gilbert Emergency Hospital, added 16 inpatient beds in December 2007 to bring its total to 22 inpatient beds.

- Mercy Gilbert Medical Center, opened by Catholic Healthcare West in Gilbert in the fall of 2006 with 92 beds, added a tower which opened in February 2008, and increased the hospital's capacity to 182 beds.

- St. Joseph's Hospital and Medical Center in central Phoenix opened its Heart & Lung Tower in January 2008. The Heart & Lung Tower includes six surgical suites dedicated to cardiovascular and thoracic surgery, as well as a 16-bed cardiothoracic Intensive Care Unit.

- IASIS Healthcare opened 178-bed Mountain Vista Medical Center in July 2007 in Mesa, Arizona.

- Scottsdale Healthcare Thompson Peak, located in Scottsdale, opened in November 2007 with 64 inpatient beds, and expansion capabilities to 184 inpatient beds.

Announcements of future expansion/construction:

- Phoenix Children's Hospital ("PCH") located in Phoenix announced plans to double the size of its main campus in midtown Phoenix, including construction of an 11-story patient care tower. By 2012, PCH is planning to have 377 patient beds and 143 NICU beds on the main campus.

- Initiatives Healthcare Inc. has announced plans to renovate the former Central Arizona Medical Center in Florence Arizona located in Pinal County, with plans to open the renovated facility by the end of 2008, with three surgical rooms, an emergency room, 60 beds for long-term care and 25 beds for acute care.

- Gilbert Hospital has announced that it will commence construction in mid-2008 of a 132,000 square foot, 108-bed patient tower that is expected to open in the fall of 2009.

- Visionary Health Corp., an affiliate of Gilbert Hospital, has announced plans to purchase 10 acres in Florence and to build a 20-bed hospital with two operating rooms and 20 emergency department beds to open in the fall of 2009.

- Visionary Health Corp. has also announced the purchase of 48 acres in Peoria, Arizona, and plans to construct a 70,000 square foot 30-bed hospital, to open in late 2009.

Inpatient Utilization and Market Share Information

The following tables set forth general acute care hospital facilities in the Phoenix metropolitan area (excluding Veterans Administration, military and Indian Health Services facilities) and their inpatient discharges and inpatient days as of December 31, 2005, 2006 and 2007. The total inpatient discharge and inpatient day statistics in the charts include acute care patients (but exclude normal newborn cases) and acute behavioral patients at general acute care hospitals and exclude long-term care, skilled nursing facility or rehabilitation and freestanding psychiatric hospital patients.

Maricopa - Pinal County Facility Inpatient Market Share by Health System and Facility
2005 - 2007

	2005		2006		2007	
	Patient Days	% of Total	Patient Days	% of Total	Patient Days	% of Total
BANNER HEALTH						
Banner Baywood	77,370	4.06	79,741	4.00	86,382	4.30
Banner Desert	170,177	8.93	173,171	8.69	154,055	7.67
Banner Estrella (1)	26,009	1.37	40,665	2.04	51,253	2.55
Banner Gateway (5)	--	--	--	--	6,666	0.33
Banner Good Samaritan	184,914	9.71	182,790	9.17	187,914	9.35
Banner Heart	24,543	1.29	26,022	1.31	23,584	1.17
Banner Mesa (5)	49,218	2.58	46,145	2.32	26,922	1.34
Banner Thunderbird	118,828	6.24	122,418	6.14	119,003	5.92
Subtotal	651,059	34.18	670,952	33.67	655,779	32.64
SUNHEALTH CORP						
Boswell	101,029	5.30	98,767	4.96	94,880	4.72
Del Webb	75,399	3.96	77,050	3.87	76,587	3.81
Subtotal	176,428	9.26	175,817	8.82	171,467	8.53
VANGUARD / ABRAZO						
Arrowhead	30,256	1.59	35,015	1.76	36,679	1.83
Maryvale	34,893	1.83	35,275	1.77	26,999	1.34
Paradise Valley	29,448	1.55	31,568	1.58	31,889	1.59
Phoenix Baptist	31,562	1.66	34,865	1.75	35,343	1.76
Phoenix Memorial	20,304	1.07	19,725	0.99	5,294	0.26
West Valley	19,189	1.01	24,698	1.24	29,429	1.46
Subtotal	165,652	8.70	181,146	9.09	165,633	8.24
CATHOLIC HEALTHCARE WEST						
Chandler	69,624	3.66	66,677	3.35	60,195	3.00
Mercy Gilbert (2)	--	--	11,133	0.56	29,020	1.44
St. Joseph's	157,717	8.28	165,066	8.28	183,411	9.13
Subtotal	227,341	11.94	242,876	12.19	272,626	13.57
SCOTTSDALE HEALTHCARE						
Greenbaum Surgery Center	1,145	0.06	1,242	0.06	1,239	0.06
Scottsdale Osborn	85,897	4.51	90,404	4.54	88,523	4.41
Scottsdale Shea	97,582	5.12	103,078	5.17	104,583	5.20
Thompson Peak (7)	--	--	--	--	700	0.03
Subtotal	184,624	9.69	194,724	9.77	195,045	9.71
LINCOLN HEALTH SYSTEM						
Lincoln Deer Valley	36,671	1.93	38,842	1.95	43,083	2.14
Lincoln North Mountain	60,500	3.18	67,423	3.38	69,744	3.47
Subtotal	97,171	5.10	106,265	5.33	112,827	5.62
IASIS						
Mesa General	22,143	1.16	21,784	1.09	22,407	1.12
Mountain Vista (6)	--	--	--	--	10,216	0.51
St. Luke's	29,878	1.57	30,082	1.51	32,707	1.63
Tempe St. Luke's	15,900	0.83	15,228	0.76	12,319	0.61
Subtotal	67,921	3.57	67,094	3.37	77,649	3.86
INDEPENDENT						
AZ Orthopedic	1,209	0.06	2,249	0.11	2,659	0.13
AZ Spine and Joint	2,219	0.12	2,294	0.12	2,090	0.10
AZ Surgical	634	0.03	2,201	0.11	2,347	0.12
AZ Heart Hospital	19,002	1.00	20,756	1.04	20,741	1.03
Barix (3)	280	0.01	65	0.00		--
Casa Grande Regional	35,910	1.89	33,165	1.66	33,956	1.69
Gilbert Emergency (4)	--	--	1,257	0.06	2,021	0.10
Maricopa Medical Center	135,417	7.11	144,202	7.24	147,522	7.34
Mayo Hospital	57,874	3.04	62,082	3.12	60,590	3.02
Phoenix Children's	80,886	4.25	84,505	4.24	85,381	4.25
Wickenburg Regional Hospital	1,127	0.06	1,145	0.06	982	0.05
Subtotal	334,558	17.56	353,921	17.76	358,289	17.83
TOTAL	1,904,754	100.00	1,992,795	100.00	2,009,315	100.00

Source: Arizona Department of Health Services Discharge Report 2005, 2006 and 2007
Excludes Normal Newborns and freestanding rehabilitation facilities
(1) Opened January 2005
(2) Opened June 2006
(3) Closed Fall 2006
(4) Opened February 2006
(5) Banner Gateway opened and Banner Mesa closed September 2007
(6) Opened July 2007
(7) Opened November 2007

Maricopa - Pinal County Facility Inpatient Market Share by Health System and Facility
2005 - 2007

	2005		2006		2007	
	Cases	% of Total	Cases	% of Total	Cases	% of Total
BANNER HEALTH						
Banner Baywood	19,304	4.35	19,482	4.29	20,804	4.54
Banner Desert	38,405	8.66	38,519	8.49	35,713	7.80
Banner Estrella (1)	7,637	1.72	11,427	2.52	13,759	3.00
Banner Gateway (5)	--	--	--	--	2,370	
Banner Good Samaritan	38,989	8.79	37,919	8.36	39,052	8.53
Banner Heart	6,578	1.48	7,134	1.57	6,598	1.44
Banner Mesa (5)	11,364	2.56	11,038	2.43	6,585	1.44
Banner Thunderbird	29,554	6.66	29,910	6.59	29,157	6.37
Subtotal	151,831	34.22	155,429	34.25	154,038	33.63
SUNHEALTH CORP						
Boswell	21,923	4.94	21,223	4.68	20,558	4.49
Del Webb	17,177	3.87	17,729	3.91	17,506	3.82
Subtotal	39,100	8.81	38,952	8.58	38,064	8.31
VANGUARD / ABRAZO						
Arrowhead	9,534	2.15	10,461	2.31	11,055	2.41
Maryvale	10,559	2.38	9,710	2.14	8,680	1.89
Paradise Valley	8,252	1.86	8,549	1.88	8,608	1.88
Phoenix Baptist	10,128	2.28	10,348	2.28	10,043	2.19
Phoenix Memorial	4,940	1.11	4,636	1.02	1,237	0.27
West Valley	6,474	1.46	7,104	1.57	8,504	1.86
Subtotal	49,887	11.24	50,808	11.20	48,127	10.51
CATHOLIC HEALTHCARE WEST						
Chandler	20,064	4.52	19,522	4.30	16,933	3.70
Mercy Gilbert (2)	--	--	3,453	0.76	8,584	1.87
St. Joseph's	32,877	7.41	32,259	7.11	35,561	7.76
Subtotal	52,941	11.93	55,234	12.17	61,078	13.33
SCOTTSDALE HEALTHCARE						
Greenbaum Surgery Center	391	0.09	386	0.09	387	0.08
Scottsdale Osborn	18,878	4.25	19,043	4.20	18,419	4.02
Scottsdale Shea	25,415	5.73	26,094	5.75	25,853	5.64
Thompson Peak (7)	--	--	--	--	235	0.05
Subtotal	44,684	10.07	45,523	10.03	44,894	9.80
LINCOLN HEALTH SYSTEM						
Lincoln Deer Valley	9,969	2.25	9,945	2.19	11,157	2.44
Lincoln North Mountain	15,551	3.50	16,391	3.61	17,154	3.75
Subtotal	25,520	5.75	26,336	5.80	28,311	6.18
IASIS						
Mesa General	6,292	1.42	6,164	1.36	6,228	1.36
Mountain Vista (6)	--	--	--	--	2,612	0.57
St. Luke's	6,232	1.40	5,966	1.31	5,936	1.30
Tempe St. Luke's	4,524	1.02	3,930	0.87	3,434	0.75
Subtotal	17,048	3.84	16,060	3.54	18,210	3.98
INDEPENDENT						
AZ Orthopedic	461	0.10	829	0.18	998	0.22
AZ Spine and Joint	740	0.17	812	0.18	838	0.18
AZ Surgical	372	0.08	841	0.19	1,195	0.26
AZ Heart Hospital	5,720	1.29	6,243	1.38	5,759	1.26
Barix (3)	87	0.02	26	0.01	--	--
Casa Grande Regional	9,337	2.10	8,686	1.91	8,168	1.78
Gilbert Emergency (4)	--	--	656	0.14	1,097	0.24
Maricopa Medical Center	20,509	4.62	21,249	4.68	21,667	4.73
Mayo Hospital	13,655	3.08	14,031	3.09	13,428	2.93
Phoenix Children's	11,468	2.58	11,687	2.58	11,798	2.58
Wickenburg Regional Hospital	350	0.08	385	0.08	379	0.08
Subtotal	62,699	14.13	65,445	14.42	65,327	14.26
TOTAL	443,710	100.00	453,787	100.00	458,049	100.00

Source: Arizona Department of Health Services Discharge Report 2005, 2006 and 2007
Excludes Normal Newborns and freestanding rehabilitation facilities

(1) Opened January 2005
(2) Opened June 2006
(3) Closed Fall 2006
(4) Opened February 2006
(5) Banner Gateway opened and Banner Mesa closed September 2007
(6) Opened July 2007
(7) Opened November 2007

THE PROJECT

The Project

A portion of the proceeds of the Series 2008D Bonds will be used, together with other funds, to finance the Project. The Project, which consists of the following projects, are all located in the greater Phoenix area: the acquisition from Sun Health Corporation of Sun Health Boswell Hospital ("Boswell Hospital") and Sun Health Del E. Webb Hospital ("Webb Hospital") in Sun City and Sun City West, Arizona, respectively; the construction of Banner Ironwood Medical Center in Pinal County; the construction of a new emergency department at Banner Baywood Medical Center in Mesa; the construction of a new primary data center in Mesa; and the conversion of the now-closed Banner Mesa Medical Center into a secondary corporate center and simulation center in Mesa.

Acquisition of Sun Health Corporation Facilities

Banner will acquire substantially all of the assets of Sun Health Corporation ("Sun Health") pursuant to an Asset Purchase, Membership Interest and Stock Contribution Agreement, dated as of August 8, 2008. The transaction is expected to close on or about September 2, 2008 (to be effective as of September 1, 2008). The transaction received regulatory clearance from the Federal Trade Commission under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 on June 27, 2008. Pursuant to the terms of the transaction, Banner will purchase Boswell Hospital and Webb Hospital, each in the northwestern section of the Phoenix MSA; and will acquire, by contribution, certain other provider operations of Sun Health, the current assets of Sun Health, all of the outstanding stock of Sun Health MediSun, Inc. ("MediSun"), an Arizona insurance corporation which operates Medicare Advantage health plans, and the sole membership of Sun Health Research Institute ("SHRI"), a nonprofit research facility focusing on aspects of the aging process. The purchase price is approximately $316.4 million, plus the assumption of certain Sun Health current and non-current liabilities, which totaled approximately $72.1 million as of April 30, 2008. Sun Health will use a portion of the purchase price to defease approximately $201 million of its outstanding long-term indebtedness. The transaction does not include acquisition of Sun Health Properties, Inc. and its affiliates, which hold the long-term investment portfolio of the Sun Health system as well as a portfolio of partnership interests in medical office buildings, assisted living facilities, and other real estate assets. However, Sun Health, the Sun Health Foundation, Sun Health Properties, Inc., and their controlled affiliates, will be obligated on an ongoing basis, subject to certain contractual limitations, to provide certain annual contributions to Banner to support projects at the Acquired Operations (as defined herein) or at other future Banner projects in the northwestern section of the Phoenix MSA.

Banner plans to finance the acquisition of Boswell Hospital and Webb Hospital with a portion of the proceeds of the Series 2008D Bonds, which will be issued to coincide with the closing of the acquisition. For more information on the Sun Health assets being acquired, see "SUN HEALTH ACQUIRED OPERATIONS" below.

Banner Ironwood

In April 2008, Banner commenced construction of a new hospital, Banner Ironwood Medical Center ("Banner Ironwood") on an 80-acre campus southeast of Queen Creek in northeastern Pinal County. Banner Ironwood is expected to open in late November 2009 with 24 inpatient beds and 4 operating rooms. Banner Ironwood will also provide outpatient services, including emergency services, a variety of imaging services and outpatient ambulatory surgeries. As the population in the service area grows, the hospital's design allows for expansion in stages to grow to 86 inpatient beds and provide additional services within the structures included in the initial construction. Final build-out of the hospital is expected to occur between 2015-2018 based on current population projections. The initial

phase of this project is expected to cost approximately $129 million, and will be financed with a portion of the proceeds of the Series 2008D Bonds.

The architect for Banner Ironwood is SmithGroup, a nationally known healthcare design firm. Established in 1853, SmithGroup is the longest continually operating architecture and engineering firm in the U.S. SmithGroup is headquartered in Detroit with offices nationwide, including Phoenix. SmithGroup's healthcare clients include Kaiser Permanente, Sutter Health, Lucile Packard Children's Hospital at Stanford University Medical Center, Providence Health System, St. Jude Children's Research Hospital and the Veterans Administration. McCarthy Building Companies, Inc. ("McCarthy") is the general contractor for the first phase of construction of Banner Ironwood. McCarthy, headquartered in St. Louis, Missouri, has extensive healthcare construction experience. McCarthy's recent hospital construction projects include Banner Gateway and various projects for BJC HealthCare in St. Louis, Missouri, Catholic Healthcare West and Dartmouth Hitchcock Medical Center.

Banner Baywood Medical Center Emergency Department Replacement

To respond to the capacity constraints facing the emergency department at Banner Baywood Medical Center ("Banner Baywood"), Banner plans to construct a new 50,000 square foot emergency department with 54 patient care spaces and 10 continuing care spaces to replace the existing 20,000 square foot emergency department built in 1984 as part of the original hospital. The existing emergency department, which accounts for 83% of the admissions to Banner Baywood and 50% of the admissions to Banner Heart, is undersized and unable to handle the additional demand Banner Baywood has experienced since the opening of the new patient tower in November 2007. Construction on the Banner Baywood replacement emergency department commenced in early August 2008, and is expected to be completed in the third quarter of 2009. The project is expected to cost approximately $38.5 million, and will be financed with a portion of the proceeds of the Series 2008D Bonds.

HKS, Inc. is the architect for the Banner Baywood emergency department replacement project. Headquartered in Dallas, Texas and founded in 1939, HKS, Inc. has approximately 1,300 staff located in 23 U.S. and worldwide offices. Its extensive healthcare experience includes the M.D. Anderson Cancer Center in Houston Texas; Abbott Northwestern Heart Hospital in Minneapolis, Minnesota; and George Washington University Hospital in Washington DC. The construction contract was awarded to Kitchell Contractors, Inc. of Arizona ("Kitchell"). Founded in 1950 in Phoenix, Arizona, Kitchell has extensive experience in healthcare construction including Mayo Clinic Hospital, Scottsdale, Arizona; Scottsdale Healthcare Thompson Peak Hospital, Scottsdale, Arizona; LAC+USC Medical Center, Los Angeles, California; and Banner Children's Hospital, Mesa Arizona. Banner and Kitchell are in the process of completing a guaranteed maximum price contract for the emergency department replacement project.

Banner Data Center

In July 2008, Banner began construction of a new data center (the "New Data Center") on the campus of recently closed Banner Mesa Medical Center ("Banner Mesa"). The existing Banner data center, which was constructed approximately 20 years ago, is insufficient for Banner's current data storage requirements, which have increased dramatically as Banner has moved toward implementation of a complete electronic medical record and electronic imaging archiving systems. The New Data Center, a 65,000 square foot, two-story concrete structure, has been engineered and sized to handle projected computing and electronic storage demands for the next ten years, with capacity to expand for an additional ten years when needed. The current data center, located at the Banner corporate center, has been renovated and will function as a back-up site for the New Data Center, supporting the Banner business continuity and disaster recovery plan. The New Data Center is projected to cost approximately $80 million, will be financed with a portion of the proceeds of the Series 2007 Bonds (as defined below) and a portion of the proceeds of the Series 2008D Bonds, and is expected to be completed in July 2009.

Gensler, a global architect and design firm, founded in San Francisco in 1965, is the architect for the New Data Center as well as the Banner Secondary Corporate/Simulation Center, described below. Gensler, with 30 offices worldwide and approximately 3,000 employees, has extensive experience in designing data centers, office buildings and multi-use centers. Its recent projects include the Fannie Mae Data Center in Urbana, Maryland; the ADP Data Center in Sioux Falls, South Dakota; and the corporate center for the American Red Cross of Greater New York, New York, New York. The construction contract for the New Data Center and the Secondary Corporate/Simulation Center (discussed below) was awarded to Holder Construction Company ("Holder Construction") of Atlanta Georgia. Founded in 1960, Holder Construction has expertise in corporate facilities and data & technology centers throughout the United States. Representative projects include the Cox Corporate Headquarters in Atlanta, Georgia; Federal Express World Headquarters in Memphis Tennessee; Fannie Mae Data Center in Urbana, Maryland; and Mellon Financial Data Center in Pittsburgh, Pennsylvania. Banner and Holder Construction are entering into several guaranteed maximum price contracts for the New Data Center as construction progresses.

Banner Secondary Corporate/Simulation Center

Banner will convert approximately 250,000 square feet of Banner Mesa, which closed as a medical facility in September 2007, into a secondary corporate center (the "Secondary Corporate/Simulation Center") to accommodate approximately 1,200 Banner employees. The space will house current employees performing back-office and corporate functions who are working either in older space on the Banner Mesa campus or in leased office space at various locations throughout the Phoenix metropolitan area, as well as provide room for corporate growth for the next 5-7 years. The center is designed to mirror the office environment of Banner's principal corporate center in central Phoenix. The renovation of the 9-story patient tower and portions of the older section of the former medical center began in March of 2008. In addition, Banner will renovate approximately 55,000 square feet of vacated nursing units and emergency department space for use as an educational simulation center to provide advanced practical training for Banner's nurses, clinical employees and physicians. A guaranteed maximum price contract was executed with Holder Construction for the pre-renovation demolition and abatement work which has commenced on the Secondary Corporate/Simulation Center. The Secondary Corporate/Simulation Center is projected to cost approximately $55 million, will be completed in July 2009, and will be financed with a portion of the proceeds of the Series 2008D Bonds.

Recently Completed, Current and Future Projects

As part of its ongoing strategic planning process, Banner is continually evaluating the growing demand for health care services in the Phoenix metropolitan region, the adequacy of existing facilities to meet that need, and opportunities for construction, development, affiliations, joint ventures, and acquisitions of facilities, operations and physician practices. In keeping with this process, Banner is undertaking a substantial program of upgrading or expanding existing facilities, constructing new facilities, and acquiring existing facilities, including the Project, as described above. Below is a description of some recently completed and ongoing renovation and expansion projects and a potential future project:

- Banner Gateway, a 176-bed hospital facility, opened in Gilbert, Arizona, in September 2007, replacing 258-bed Banner Mesa, which closed in September of 2007. This project was completed within budget and on schedule at a cost of approximately $189 million, the majority of which was financed with a portion of the proceeds of the Arizona Health Facilities Authority Revenue Bonds (Banner Health), Series 2005 (the "Series 2005 Bonds").

- Banner Baywood in Mesa, Arizona, opened a new patient tower in November 2007 as part of a 175,000 square foot expansion of the facility. This project increased the licensed beds at this

facility from 242 beds to 340 beds. This project was completed under budget and on schedule at a cost of approximately $95 million, the majority of which was financed with a portion of the proceeds of the Series 2005 Bonds.

- Banner Estrella Medical Center ("Banner Estrella"), in west Phoenix, opened its sixth floor in January 2008 with 12 dedicated obstetric beds and 24 beds for orthopedic and medical/surgical patients. This expansion increased the number of patient beds from 172 to 208. In addition, an eight-bed well baby nursery was constructed. This project was completed on time and within budget at a cost of approximately $10.5 million, the majority of which was financed with a portion of the proceeds of the Arizona Health Facilities Authority Revenue Bonds (Banner Health), Series 2007 (the "Series 2007 Bonds").

- Banner is constructing the Banner Children's Hospital at Banner Desert Medical Center ("The Children's Hospital") in Mesa, Arizona, together with an overall expansion and renovation of Banner Desert. The Children's Hospital, which will be licensed as part of Banner Desert, will include a six-story, 120-bed tower with 40 neonatal intensive care unit beds and a 24-bay pediatric emergency department. The entire project, including The Children's Hospital and the campus infrastructure expansion and renovation project, is now projected to cost approximately $356.6 million and is approximately 35% complete, with the new construction portion expected to be completed in the third quarter of 2009 on time and within the revised budget. The majority of the project has been financed with a portion of the proceeds of the Series 2005 and Series 2007 Bonds.

- Banner Thunderbird Medical Center ("Banner Thunderbird") is constructing a new 200-bed patient tower, new main entrance, emergency department, and ancillary areas. This project is projected to cost approximately $289 million, with the new construction portion of the project expected to be completed in the second quarter of 2009. The entire project is approximately 28% complete, and construction is progressing on time and within budget. The majority of this project has been financed with a portion of the proceeds of the Series 2007 Bonds.

- Banner is evaluating plans to construct an ambulatory cancer center, on or near one of the existing Banner hospital campuses in Maricopa County. The parameters of the cancer center have not yet been finalized, and the project has not yet received final approval by the Banner Board of Directors. Banner is evaluating potential clinical affiliation options as well as the feasibility of undertaking the project independently. Preliminary cost estimates range from $200 million to $250 million depending on the ultimate size and scope of the facility, and it is anticipated that this project would be completed in 2011. If approved, it is anticipated that this project would be financed with internally-generated funds. There is no assurance that this project will be undertaken and, if so, under what terms or conditions. If Banner completes this project or undertakes projects of similar scope in addition to the Project, it will result in substantial capital expenditures and start-up expenses, which could have a material adverse effect on the financial condition of Banner.

SUN HEALTH ACQUIRED OPERATIONS

Sun Health is an Arizona nonprofit corporation with approximately 4,600 employees as of December 31, 2007. Sun Health owns and operates Boswell Hospital and Webb Hospital, as well as a rehabilitation facility, satellite clinics, a residence for Alzheimer's patients, a residence for developmentally disabled adults, and a community center, as well as MediSun and SHRI (collectively, the "Acquired Operations"). Affiliates of Sun Health also own, or are members of joint ventures that own or operate, independent senior living and assisted living facilities, medical office buildings, and other real estate activities, but these affiliates will not be acquired by Banner. For the year ended December 31,

2007, the operations comprising the Acquired Operations had approximately $599 million in net revenue, $2.0 million of net income and net assets totaling $89.0 million. Although a part of the Acquired Operations, MediSun and SHRI's operations will not be included in the Obligated Group. Following is a description of the Acquired Operations.

Sun Health Boswell Hospital

Boswell Hospital is a five-story, approximately 592,852 square foot facility located in Sun City, Arizona. Boswell Hospital was constructed in 1969 with renovations and expansions in 1983 and 2000. In 2007, Sun Health completed an additional expansion, renovation and reconstruction project at Boswell Hospital, increasing the hospital's capacity from 355 to 430 beds. Boswell Hospital offers a full range of services including cardiovascular and open heart services, cancer care, orthopedics, neurology, surgery, rehabilitation services, emergency care, stroke care, intensive care, pulmonary, urology, wound and pain management. The hospital's Heart Center has been recognized by Solucient as one of the 100 Top Cardiovascular Hospitals in the nation and as a Primary Stroke Center by the American Stroke Association's Operation Stroke Initiative and Arizona Emergency Medical System. Cardiac catheterization services are provided to Boswell Hospital under arrangement pursuant to an agreement with the Sun City Cardiac Center, Inc., a joint venture between an affiliate of MedCath Corporation and local cardiologists.

In addition to the main hospital facility, the hospital campus also includes a two level parking garage comprising approximately 112,000 square feet and an imaging center with a tunnel connecting to the main hospital facility, as well as various administrative, research and rehabilitation buildings. Medical office buildings are also located adjacent to the campus, but are not owned by Sun Health and will not be acquired in the transaction.

Sun Health Del E. Webb Hospital

Webb Hospital is a five-story, approximately 627,695 square foot facility located in Sun City West, Arizona. Webb Hospital was constructed in 1989, with renovations and expansions in 2000. Webb Hospital provides acute medical and surgical services as well as intensive care, emergency and urgent care, inpatient /outpatient surgery, cardiac catheterization, neurology, orthopedics, oncology, urology, pulmonary, obstetrics and gynecology, extended care, outpatient diagnostic services, acute and outpatient rehabilitation and adult behavioral services. Sun Health is currently constructing a new 76-bed patient tower (with two additional shelled floors) at Webb Hospital, which is scheduled for completion in February 2009. The patient tower will increase the hospital's bed capacity from 332 to 408 beds, including 307 general acute care beds, 41 women and infant services beds, 34 psychiatric beds and 26 rehabilitation beds. Construction of the new tower is being funded with the proceeds of bonds issued on behalf of Sun Health in 2005 and 2007, and by contributions from the Sun Health Foundation. Banner will use the balance of the proceeds of such bonds and the Sun Health Foundation contributions to complete construction of the new tower after the closing of the acquisition.

Sun Health MediSun, Inc.

MediSun, a for-profit corporation, is an Arizona state licensed healthcare service organization operating a CMS-authorized Medicare Advantage plan offering three Medicare Advantage products: MediSunONE and MediSunONE HeartSmart, and a private-fee-for-service plan, MediSun CareOptions. As of December 31, 2007, MediSun had approximately 18,346 members enrolled in one of its three products. As of July 2008, MediSun had a 28% market share for Medicare Advantage members residing within MediSun's partial-county service area, and 48% for Sun Health's primary service area. As a Medicare Advantage plan, MediSun receives a fixed, capitated amount from CMS for each enrollee in one of MediSun's products. In turn, MediSun contracts on a capitated basis for hospital services with

Boswell and Webb Hospitals, and on a capitated basis for physician services with Sun Health Providers, a physician organization consisting of approximately 75 primary care and 225 specialty care physicians practicing within the Sun Health service area, and with BAMC. For 2007, MediSun had total revenue of approximately $174.0 million and operating income of approximately $2.6 million. As discussed above, MediSun's operations will not be included in the Obligated Group.

Sun Health Research Institute

SHRI, an Arizona nonprofit corporation and a tax-exempt organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, was founded in 1986, and is one of just 29 national Alzheimer's Disease Core Centers in the nation. SHRI performs scientific research on aging and age-related diseases and is located in an approximately 40,000 square foot facility in Sun City, on the campus of Boswell Hospital. SHRI is funded by federal and state research grants, charitable giving, pharmaceutical firms and grants from private foundations. As discussed above, the SHRI's operations will not be included in the Obligated Group.

Other Facilities

In addition to the foregoing, Sun Health also operates the Boswell Rehabilitation Center, consisting of 70 skilled nursing beds and 44 acute rehabilitation beds; Sun Health Alzheimer's Residence, a 36-bed facility offering services to patients with early to mid-stage Alzheimer's disease; Sun Health Residence for Special Adults, a 10-room facility for developmentally disabled adults who are unable to live independently; and Sun Health Community Education Center, which provides a variety of community education programs and support groups. These facilities comprise a portion of the Acquired Operations.

Boswell Hospital and Webb Hospital Payor Mix

Payments on behalf of certain patients are made to Sun Health by the federal government, certain managed care providers and MediSun under the Medicare program; by the State of Arizona under the Arizona Health Care Cost Containment System ("AHCCCS") program; by health maintenance organizations and preferred provider organizations; and by commercial insurance carriers. See "BONDHOLDERS' RISKS - Payment for Health Care Services" in the front part of this Official Statement. The following is a summary of sources of net patient revenues of Sun Health by payor type for the years ended December 31, 2006 and 2007:

Net Patient Revenue by Payor

Years Ended December 31	2006	2007
Medicare Non-capitated[(1)]	44.7	43.4
Medicare Capitated (Premium)	25.7	25.1
Total Medicare[(2)]	70.4	68.5
AHCCCS	5.0	6.4
Commercial/HMO/PPO	23.5	23.8
Self-pay	1.1	1.3
	100.0%	100.0%

(1) Includes Medicare Advantage Non-capitated net patient revenue.
(2) On a pro forma combined basis, Medicare revenue for Sun Health and Banner operations for 2007 would have been approximately 32.5% of total net patient revenue, with Medicare Advantage accounting for approximately 11.2% of such total.

Utilization

The following chart presents utilization statistics for Sun Health for 2006 and 2007.

Utilization

Years ended December 31	2006	2007
Hospital (Acute Care):		
Licensed Beds	581	658
Discharges (excl. newborns)	38,299	37,734
Average Length of Stay	4.03	4.08
Patient Days	154,178	153,456
Licensed Beds Occupancy %	71.52	64.76
Emergency Room Visits [(1)]	83,825	91,562
Outpatient Visits (excl. ER)	176,016	195,452
Long-Term Care:		
Licensed Beds	71	71
Resident Days	23,563	22,156
Licensed Beds Occupancy %	90.9	85.5
Behavioral/Rehabilitation:		
Licensed Beds	104	104
Resident Days	28,710	27,930
Licensed Beds Occupancy %	75.63	73.58

(1) Excludes patients who left without treatment.

Sun Health Service Area[*]

Boswell Hospital and Webb Hospital are located in Sun City and Sun City West, respectively, and primarily serve communities in western Maricopa County, including El Mirage, Litchfield Park, Peoria, Sun City, Sun City West, Surprise, Wickenburg and Youngtown (collectively, the "Sun City Service Area"). The Sun City Service Area is located in the northwestern portion of the Phoenix MSA. Demographically, the service area is diverse. In the retirement communities of Sun City and Sun City West more than 75% of the population is over 65 and the average annual population growth rate is under 1%. The cities of Surprise, El Mirage, and Litchfield Park have a much younger demographic, with more than 80% of the population under age 65. These cities are growing at average annual rates of 7.9% and above. The 2007 population for the cities included in the Sun City Service Area was approximately 361,659.

BANNER WESTERN

Banner Western's health care providers in northeastern Colorado, eastern Nebraska and southern and central Wyoming, offer a broad range of services including acute care, a regional burn center, a Level II trauma center, air evacuation services, ambulatory, home care, clinics, women's, geriatric/skilled nursing, cardiovascular, oncology, pediatrics, and orthopedics. Banner Western also includes acute care hospitals operating in Alaska, California and Nevada and long-term care facilities in Alaska and Wyoming.

[*] *Source: Claritas.*

The following chart provides additional information about the Banner Western hospital facilities and services:

Banner Western Hospital Facilities

Location	Facilities	Hospital Licensed Beds	LTC/Rehab/ Behavioral/ SNF Licensed Beds	Home Care	Ambulatory Services	Owned/Leased	% of Banner Revenue for Year Ended 12/31/07	% of Banner Operating Income/(Loss) for Year Ended 12/31/07
Greeley, Colorado	North Colorado Medical Center	336	62	X	X	Leased since 1995	9.8	7.3
Fairbanks, Alaska	Fairbanks Memorial Hospital and Home Care	132	20	X	X	Leased Since 1968	4.6	(0.8)
Loveland, Colorado	McKee Medical Center	115	17	X	X	Owned	3.6	4.8
Fallon, Nevada	Banner Churchill Community Hospital	40	--	--	X	Owned[(1)]	1.6	1.7
Sterling, Colorado	Sterling Regional Medical Center	36	--	--	X	Owned	1.3	0.4
Wheatland, Wyoming	Platte County Memorial Hospital, Nursing Home & Home Care	25	43	--	X	Leased since 1955	0.4	0.3
Brush, Colorado	East Morgan County Hospital	25	--	--	X	Leased since 1954	0.4	0.3
Susanville, California	Banner Lassen Medical Center	25	--	--	X	Owned	1.1	3.9
Torrington, Wyoming	Community Hospital	25	--	--	X	Owned	0.5	0.8
Worland, Wyoming	Washakie Medical Center	25	--	--	X	Leased since 1949	0.5	0.6
Ogallala, Nebraska	Ogallala Community Hospital	18	--	--	X	Leased since 1987	0.5	0.5
Fairbanks, Alaska	Denali Center	--	90	--	--	Leased Since 1968		
Torrington, Wyoming	Goshen Care Center	--	75	--	--	Leased since 1963		

(1) *Although the facility was built by, and is owned by Banner, it is located on real property leased from Churchill County since 1993 for an initial term of 50 years.*

Note: *Revenue % and operating income % is listed for acute hospitals only.*

Banner also owns or manages certain other services in Alaska, California, Colorado, Nebraska, Nevada and Wyoming, including clinics, ambulatory surgery services, home medical equipment, home infusion, and temporary staffing and a physician hospital organization.

Joint Ventures and Other Relationships

The following is a brief description of certain joint ventures and other relationships in which Banner Western participates:

North Colorado Medical Center Lease

The largest facility in Banner Western, North Colorado Medical Center ("NCMC") in Greeley, Colorado, has been leased since 1995 by Banner pursuant to an Operating Agreement, as amended (the "Operating Agreement") from NCMC, Inc., the former operator of the facility, which in turn leases it from a board of trustees appointed by Weld County, Colorado. The term of the Operating Agreement expires in 2017, but may be terminated prior to expiration if Banner fails to meet certain performance criteria in the operation of the facility relating to patient satisfaction, employee engagement, and physician satisfaction. Under the Operating Agreement, Banner has full operational responsibility for the facility, subject to NCMC, Inc.'s approval of the annual capital and operating budgets for the facility. All employees in the facility (including management) are Banner employees. NCMC, Inc. is obligated to provide the capital required for physical plant and capital equipment. Under the Operating Agreement, Banner pays NCMC, Inc. annual rent equal to the sum of (1) basic rent equal to the total asset depreciation expense of NCMC, Inc. related to the facility, and (2) additional rent equal to 8% of the year-end book value of NCMC, Inc.'s assets related to the facility. NCMC, Inc. is required to pay Banner $2.0 million each year to compensate Banner for indigent care provided at the facility. Banner received a

rent reduction of $2.0 million in 2007, and will also receive a rent reduction in 2008 equal to $1.0 million. Banner will pay additional rent in 2012, 2013 and 2014 in the amount of $1.0 million, $2.0 million and $3.0 million, respectively. In 2007, the rent payment by Banner to NCMC, Inc. totaled approximately $31.1 million. Banner has also guaranteed scheduled debt service on outstanding long-term indebtedness of NCMC, Inc. incurred to finance capital improvements to NCMC, but the annual amount of the guarantee is limited to the annual amount of the rent payment otherwise payable under the Operating Agreement, and the guarantee terminates if the Operating Agreement terminates. See Note 10 to the audited consolidated financial statements set forth in Appendix B.

Fairbanks Memorial Hospital and Denali Center

The second largest facility in Banner Western, Fairbanks Memorial Hospital ("Fairbanks"), Fairbanks, Alaska, together with an adjoining long-term care facility, Denali Center, has been leased by Banner since 1968 from The Greater Fairbanks Community Hospital Foundation, Incorporated (the "Fairbanks Foundation"). The term of the lease (the "Fairbanks Lease") expires in 2013, but is cancelable by either Banner or the Fairbanks Foundation without cause on one year's notice. The Fairbanks Lease obligates Banner to operate Fairbanks and Denali Center, and the Fairbanks Foundation is obligated to provide all capital required for the physical plant and capital equipment. Banner pays basic rent based on the fair market value per square foot of Fairbanks and Denali Center, adjusted annually. In addition, the Fairbanks Lease obligates Banner to make additional rent payments based on excess cash flows, net of expenses, as defined in the Fairbanks Lease. The net effect of the additional rent payments is that Banner retains, after reimbursement for its direct expenses associated with Fairbanks and Denali Center, the operating income from Fairbanks and Denali Center up to a maximum of 4.5% of the revenue of those facilities, and pays the balance of operating income to the Fairbanks Foundation as additional rent. See Note 10 to the audited consolidated financial statements set forth in Appendix B.

Tanana Valley Medical-Surgical Group, Inc.

On February 29, 2008, Banner acquired the business of Tanana Valley Medical-Surgical Group, Inc., a group practice in Fairbanks consisting of approximately 26 physicians and ten mid-level providers. The purchase price for the group practice, including its tangible assets, was paid for by the Fairbanks Foundation, which retained ownership of such assets and leases them to Banner under the Fairbanks Lease. The group's practice, excluding the tangible assets, was subsequently sold by the Foundation to Banner.

Big Thompson Medical Group

On October 1, 2006, Banner acquired Big Thompson Medical Group, Inc., a 39-physician group practice based in Loveland, Colorado ("BTMG"), for approximately $7.2 million. Simultaneously, Banner acquired a 60% interest in Loveland Medical Imaging Enterprises, LLC ("LMI") and a 58.75% interest in Loveland MRI Enterprises, LLC ("LMRI") for approximately $1.76 million. The purchase of the interests in LMI and LMRI gave Banner 100% interest in the two entities, which had operated free-standing diagnostic imaging and MRI centers in Loveland. Both entities have been dissolved and the operations incorporated into McKee Medical Center in Loveland, Colorado. For 2007, BTMG had revenue of approximately $18.5 million, and a net loss of $(2.2) million.

New River Surgical Arts, LLC

New River Surgical Arts, LLC ("New River") is a joint venture formed for the purpose of developing and operating an 8,100 square foot ambulatory surgery center in Fallon, Nevada. The surgery center, which opened on January 10, 2008, has two operating rooms (of which only one is equipped) and one procedure room. As of the date of issuance of the Series 2008D Bonds, Banner owns a 63% interest in New River, but it is anticipated that when all of the interests in New River have been issued to new investors, Banner's ownership will be reduced to 51%. New River is managed by BSC.

Other Pending Relationships

Banner has agreed to acquire a 60% interest in North Colorado Surgery Center, an ambulatory surgery center in Greeley, Colorado, for approximately $1,500,000. Currently, this center is owned by NCMC, Inc., which will be selling its interest, and by local physicians, most of whom will continue to own a 40% interest in the surgery center after completion of the transaction. The transaction is expected to close at the end of August 2008. Banner is also in negotiations to increase its ownership of Loveland Surgical Enterprises, LLC, an ambulatory surgery center in Loveland, Colorado, from 35% to 60%. In both instances, BSC would assume management of the surgery centers. There can be no assurance that either of these transactions will be consummated.

Banner Western Service Area

Banner Western is comprised of six states, Alaska, California, Colorado, Nebraska, Nevada and Wyoming. The majority of the Banner Western service area is located within eastern Colorado and western Nebraska. As illustrated in the following chart, Larimer County and Weld County, the locations of Banner's two largest facilities in Colorado, experienced annual growth rates of 1.4% and 4.2% respectively between 2000 and 2007. Weld County is projected to grow at an annual rate of 3.0% between 2007 and 2012 while Larimer County's annual growth is expected to slow to 1.2%. The remaining counties in Colorado are projected to experience only slight population growth. The Nebraska and Wyoming counties are projected to continue to see a drop in population while Alaska, California and Nevada counties are projected to see slight growth. The following table illustrates historic and projected population by state and county for the Banner Western facility locations:

Historic and Projected Population Growth 2000 – 2012 by State and County

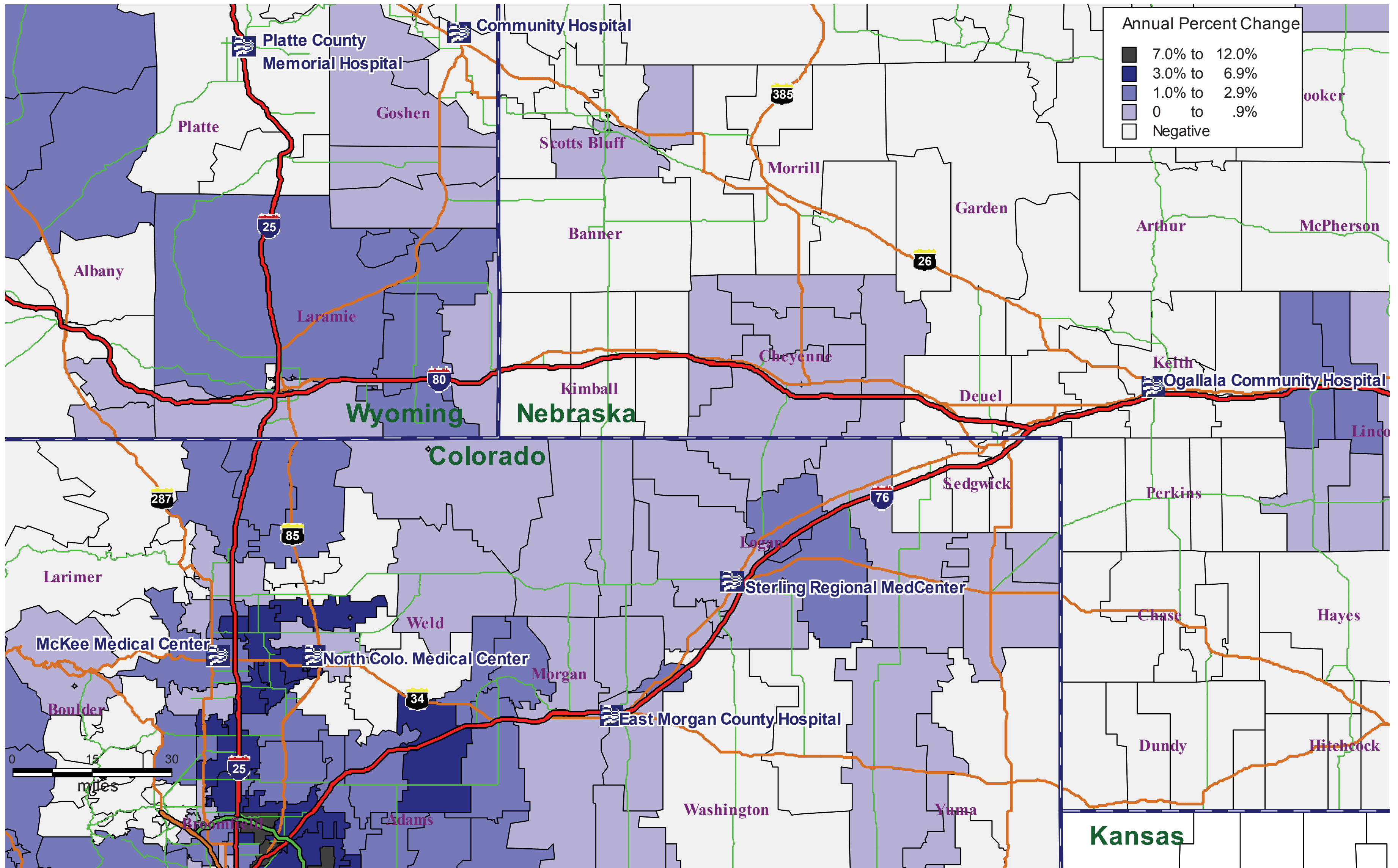
Banner Facility Location State/County	Historic 2000	Historic 2007	Historic Annual % Growth 2000 – 07	Projected 2012	Projected Annual % Growth 2007 – 12
Colorado					
Larimer	251,068	276,264	1.4 %	292,343	1.2 %
Weld	181,959	235,845	4.2	271,286	3.0
Logan	20,377	20,994	0.4	21,659	0.6
Morgan	27,463	28,585	0.6	29,349	0.5
Nebraska					
Keith	8,579	7,909	-1.1	7,450	-1.2
			0.0		
Wyoming			0.0		
Goshen	12,538	12,203	-0.4	11,983	-0.4
Platte	8,821	8,580	-0.4	8,400	-0.4
Washakie	8,291	7,923	-0.6	7,724	-0.5
Alaska					
Fairbanks	82,840	89,006	1.1	93,252	1.0
California					
Lassen	34,728	36,435	0.7	37,976	0.8
Nevada					
Churchill	23,898	24,410	0.5	25,030	0.6

Source: Claritas

The Colorado "front range" north of Denver, along the I-25 corridor, is expected to experience strong growth throughout the next 20 years. The addition of primary employment in communities north of the Denver metro area, as well as the addition of the new Interstate-E470, which created an outer loop to the Denver market, will aid in this metropolitan expansion. Future transportation improvements along I-25 currently being studied include rail transportation, road expansion and toll roads between Fort Collins in Larimer County and Denver, which may spur further northern growth.

The following map shows the Banner facility locations and projected population change for Northern Colorado, Southern Wyoming and Western Nebraska.

Northern Colorado, Southern Wyoming and Western Nebraska – Estimated Annual Population Growth 2007 - 2012



While agriculture is prevalent in the northern Colorado service area's economic mix in the form of multiple beef packing companies, sugar beet processing and other agriculture processing plants near Greeley Colorado, economic diversity is provided by a university and high tech manufacturing on the western edge of the service area near Fort Collins and Loveland.

The following table lists northern Colorado's (Larimer and Weld counties) largest non-governmental employers as of December 2007:

Larimer and Weld Counties Largest Non-Governmental Employers

Employer	Service/Product	Approximate Number of Employees
Poudre Valley Health System	Healthcare	3,975
Banner Health	Healthcare	3,198
JBS Swift & Co.	Processed Beef	2,350
Hensel Phelps Construction Co.	General Contracting	2,289
State Farm Insurance Co.	Insurance	2,061
Hewlett-Packard Co.	Electronic Data Processing Equipment	2,000
Safeway Inc. - Northern Colorado	Food and Drug Chains	1,335
Wal-Mart Distribution Center	Retail-distribution Center	1,225
Columbine Health Systems	Nursing Home/Assisted Living	1,150

Source: Northern Colorado Economic Development Corporation expect as to Banner, which is based on internal Banner data and represents the number of full-time equivalents.

The primary competition for NCMC and McKee Medical Center ("McKee") in northern Colorado consists of three hospitals: Poudre Valley Hospital in Fort Collins, Longmont United Hospital in Longmont, and Medical Center of the Rockies ("MCR"), in Loveland. MCR is jointly owned by Poudre Valley Health System (which operates Poudre Valley Hospital) and Regional West Medical Center of Scottsbluff, Nebraska and opened in February 2007. MCR is a 134-bed facility located along Highway 34 and Interstate 25 in Loveland, approximately three miles from McKee.

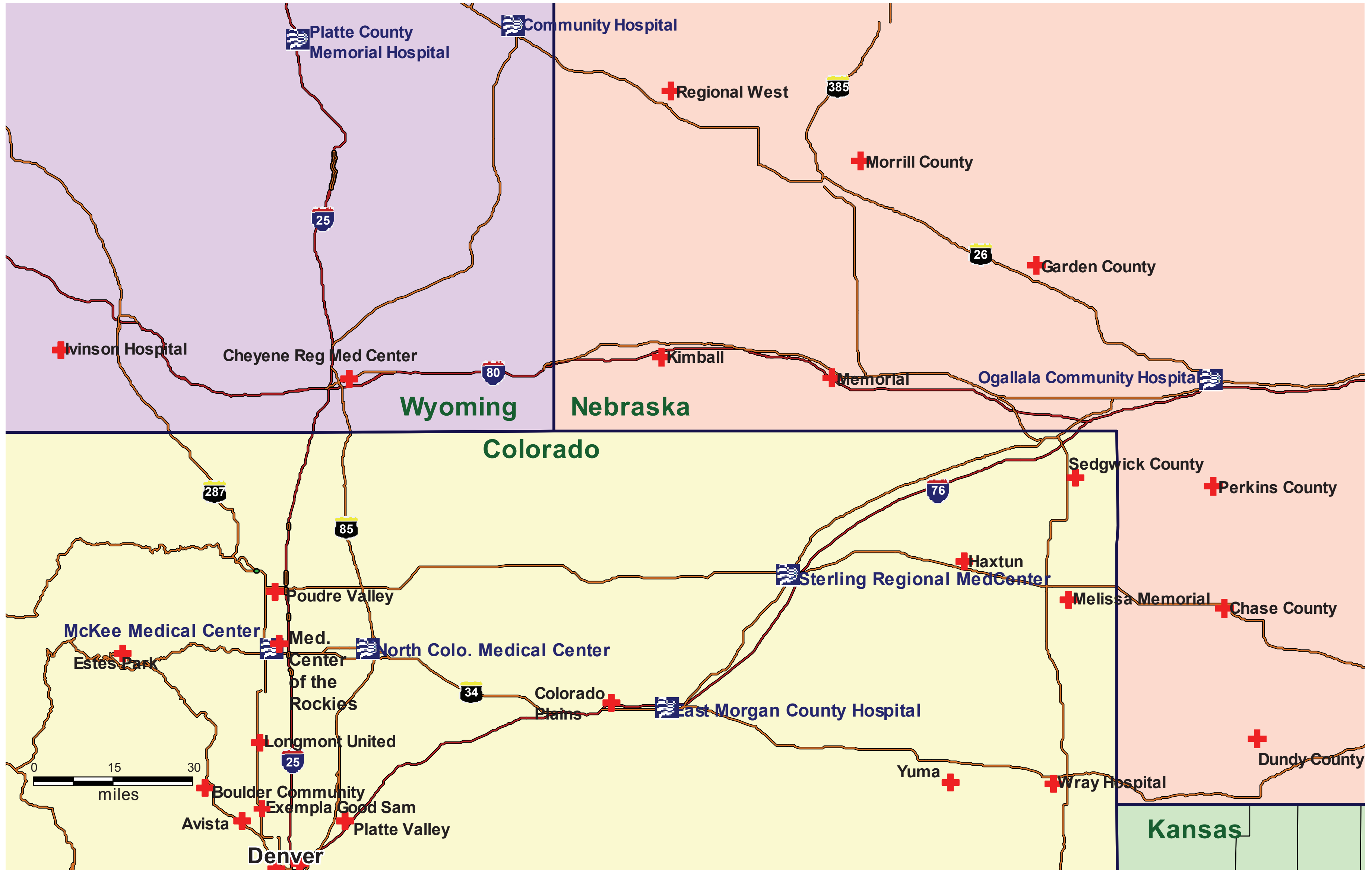
In rural Colorado there are numerous small independent hospitals, each with less than 50 beds. The principal Colorado health systems include Centura (11 hospitals), HealthOne (8 hospitals) and Exempla (3 hospitals). These facilities are located throughout the state of Colorado.

Banner Churchill Community Hospital and Banner Lassen Medical Center are located in Fallon, Nevada, and Susanville, California, respectively. Both Banner facilities refer patients requiring higher levels of service to facilities in Reno, Nevada.

Fairbanks is the only state licensed hospital in Fairbanks North Star Borough and the northern region of Alaska. Two Anchorage hospitals located more than 350 miles from Fairbanks, Alaska Regional and Providence Medical Center, provide tertiary services not available at Fairbanks.

The following map shows the location of Banner facilities and competing facilities in northern Colorado and adjoining areas of southern Wyoming and western Nebraska:

Northern Colorado, Southern Wyoming and Western Nebraska – Acute Care Facilities 2007



The following chart reflects the number of inpatient discharges for Banner Western facilities and the market share of inpatient discharges for the Banner Western hospitals in their respective markets. Market share is based on those patients receiving care within the primary service area of the hospital.

Banner Western Hospitals Discharges and Primary Market Share [(1)]

	2005		2006		2007	
State/ Facility	**Discharges[(a)]**	**Market Share [(b)]**	**Discharges [(a)]**	**Market Share[(b)]**	**Discharges[(a)]**	**Market Share[(b)]**
Colorado						
North Colorado Medical Center Greeley	15,969	80.9%	16,056	80.1%	16,260	77.0%
McKee Medical Center Loveland	5,558	58.8	5,466	56.6	6,036	55.5
Sterling Regional MedCenter Sterling	1,748	45.1	1,779	44.6	1,752	45.6
East Morgan County Hospital Brush	297	22.8	310	23.9	297	21.3
California						
Banner Lassen Medical Center Susanville	1,224	47.7	1,305	48.9	1,269	N/A[(c)]
Nevada						
Banner Churchill Community Hospital Fallon	2,185	43.1	2,243	39.9	2,137	39.5
Nebraska						
Ogallala Community Hospital Ogallala	792	53.7	708	N/A	698	N/A
Wyoming						
Community Hospital Torrington	1,162	79.6	1,085	75.9	1,036	N/A
Platte County Memorial Hospital Wheatland	585	57.4	589	70.3	511	N/A
Washakie Medical Center Worland	697	72.2	798	79.3	870	N/A
Alaska						
Fairbanks Memorial Hospital Fairbanks	5,799	N/A	6,040	N/A	5,955	N/A

(1) Normal newborn cases excluded.
(a) Source: Internal Banner Data and Reports; Colorado Hospital Association, California Office of Statewide Planning and Development, Nevada Division of Health Care Financing and Policy.
(b) Primary Market Share based on top 75% discharges by zip code.
(c) N/A indicates such information is not available.

GOVERNANCE AND MANAGEMENT

Governance

A self-perpetuating Board of Directors comprised of 15 voting members (the "Board") governs Banner. The Executive Committee of the Board consists of six voting Board members. Other Board committees include Finance, Investment, Audit, Care Management and Quality, Compensation and Corporate Strategy. Board members receive annual board fees and are expected to devote a significant amount of attention to directing the overall strategic direction of Banner and overseeing the performance of Banner management. The Board and the Board committees meet quarterly. The Audit and Compensation Committees are comprised entirely of independent outside directors, and respectively exercise direct authority over Banner's independent auditors and the compensation of the President and Chief Executive Officer and Banner's senior management. There is currently one vacancy on the Board. It is anticipated that this position will be filled by a member of the current board of directors of Sun Health in March 2009.

The names, professional affiliations and term expirations of the members of the Board are as follows:

Members	Occupation	Term Expires in September
Mark N. Sklar, Chair*	Managing Director DMB Associates, Inc.	2008
Wilford A. Cardon*	CEO/Owner The Cardon Companies	2008
Ronald J. Creasman, M.D.	Retired Physician	2009
Gilbert R. Davila	Vice President of Multicultural Marketing The Walt Disney Company	2009
William M. Dwyer	Healthcare Consultant	2010
Peter S. Fine, FACHE*	President & CEO Banner Health	2008
Susan B. Foote	Associate Professor & Division Head Health Services Research & Policy University of Minnesota	2009
Michael J. Frick*	Partner/CPA Kennedy & Coe, LLC	2008
Richard N. Hall	Managing Partner Sundance Products, LLC	2009
Barry A. Hendin, M.D.*	Physician Phoenix Neurological Associates	2008
Larry S. Lazarus*	Attorney Lazarus & Associates	2010
Martin L. Shultz	Vice President, Government Affairs Pinnacle West Capital Corporation	2009
Quentin P. Smith, Jr.	President Cadre Business Advisors, LLC	2010
Cheryl Wenzinger	Retired Partner Deloitte & Touche	2008

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* *Executive Committee Member.*

Related Party Transactions

Under the Conflicts of Interest Policy of Banner, members of the Board and all officers are required to report to the Board any potential conflicts of interest which may arise from their position as a member of the Board or status as an officer, and their association with any other organization. Members of the Board are required to disclose all such potential conflicts and are required to abstain from voting on transactions involving conflicts of interest. In addition, the Audit Committee of the Board must affirmatively authorize all transactions involving a potential conflict of interest, irrespective of the magnitude of the transaction. Certain members of the Board have affiliations with businesses, associations, firms or persons that have professional relationships with Banner and comply with the Conflicts of Interest Policy with respect to such affiliations.

Management of Banner

The following brief biographical information is provided on the members of Banner senior management:

Peter S. Fine, FACHE, President and Chief Executive Officer, age 56

Mr. Fine was appointed President and Chief Executive Officer of Banner in November 2000. Prior to his appointment, he was Executive Vice President and Chief Operating Officer of Milwaukee, Wisconsin-based Aurora Health Care (1997-2000), a large integrated system serving all of eastern Wisconsin, including the greater Milwaukee area. His previous position with Aurora was President, West Allis Memorial Hospital (1993-1997). Before joining Aurora, Mr. Fine served in several hospital leadership positions, including President and Chief Executive Officer of Grant Hospital (1991-1993) and Senior Vice President of Operations at Northwestern Memorial Hospital (1987-1991), both in Chicago.

Mr. Fine received his bachelor's degree from Ohio University and his master's degree in healthcare administration from George Washington University. He is a fellow in the American College of Healthcare Executives and previously served as a member of its Board of Governors. He is also a member of the American Hospital Association, Health Management Academy, Greater Phoenix Leadership, Business Coalition Leadership Council, and serves on the boards of directors of the Translational Genomics Research Institute, Premier Inc., and the Greater Phoenix Economic Council. In addition, Mr. Fine was appointed to the Arizona Commission on Medical Education and Research, the Governor's Arizona Health e-Connection Steering Committee and served on the Citizen's Task Force on the Maricopa County Health Care System and the Citizen's Finance Review Commission for the state of Arizona.

David M. Bixby, Esq., Senior Vice President/General Counsel and Secretary, age 53

Mr. Bixby joined SHS in 1998 as Senior Vice President/General Counsel and Secretary, and continued in the same position when SHS was acquired by Banner in 1999. From 1981 to 1998, he was an associate and then a partner at the law firm of Lewis and Roca LLP, in Phoenix, Arizona. At Lewis and Roca, Mr. Bixby specialized in corporate mergers and acquisitions, finance and health care law. Mr. Bixby received his bachelor of arts in history and literature from Harvard University, a bachelor of arts (honors) in history from the University of Cape Town, South Africa, and his law degree from Yale Law School. Mr. Bixby is a member of the Arizona Bar, the American Health Lawyers Association, and the American Corporate Counsel Association.

Ronald R. Bunnell, Executive Vice President, Chief Administrative Officer and Chief Financial Officer, age 55

Mr. Bunnell joined Banner in 1986 as the Vice President/Treasurer for a subsidiary home care company. He was named Vice President for Ambulatory Services in 1990, Senior Vice President and Chief Financial Officer in 1999, and Executive Vice President and Chief Administrative Officer in 2006. Prior to joining Banner, Mr. Bunnell was Controller for Gary-Williams Oil Producer, Inc., Englewood, Colorado from 1984 to 1986. He was Controller and then Treasurer for a subsidiary of that company, Gary-Energy Corp. from 1979 to 1984. Mr. Bunnell was an auditor for the accounting and consulting firm of Peat Marwick and Mitchell from 1977 through 1979. He received his bachelor of arts in psychology from Princeton University and his master of science in accounting from the University of Colorado, Boulder.

Dennis E. Dahlen, Senior Vice President of Finance, age 48

Mr. Dahlen is the Senior Vice President of Finance for Banner. Mr. Dahlen has responsibility for all financial functions, managed care contracting, benefits administration, and health plan management. He joined Banner as an internal auditor in 1983 and has held a series of leadership positions in reimbursement, ambulatory and hospital operations areas. He was named Vice President of Finance in 2000 and Senior Vice President in 2006. Prior to joining the Banner organization, he was an auditor for the accounting firm of McGladrey Pullen. Mr. Dahlen received his bachelor of science in accounting from the University of North Dakota in 1982 and his masters in business administration from Minnesota State University in 1986. He received his CPA license in 1982.

Susan A. Edwards, FACHE, President, Banner Arizona Region, age 52

Ms. Edwards joined Banner in June 2002 as President of the Arizona Region. Prior to Banner, she was an executive with St. John's Health System in Detroit, Michigan, where she served as both Executive Vice President and Chief Operating Officer for the system and interim President and Chief Executive Officer of St. John's Hospital, a 600-plus bed tertiary hospital. Prior to joining St. John's Health System, she served as Senior Vice President for Operations for Pinnacle Health System in Harrisburg, Pennsylvania. She holds a bachelor's degree in biology from Emory and Henry College, a master of health administration degree from Duke University, and a law degree from Wayne State University.

James V. Ferando, President, Banner Western Region, age 56

Mr. Ferando joined Banner in January 2007 as President of the Western Region. Prior to joining Banner, Mr. Ferando served as Vice President of Regional Operations, Construction and Real Estate at Presbyterian Healthcare Services (2002 – 2006) in Albuquerque, New Mexico. Prior to joining Presbyterian, Mr. Ferando was Senior Vice President and Chief Operating Officer for Lovelace Health System (1997 – 2001) in Albuquerque, a 280 bed hospital which included 260 physician medical group and a 250,000 member health plan. Mr. Ferando graduated from the University of Nebraska with a degree in accounting.

John A. Hensing, M.D., Senior Vice President, Quality and Care Management, age 60

Dr. Hensing joined SHS as Senior Vice President of Medical Services in 1995, and assumed his current role with Banner in 2000. His current responsibilities include the division of care management for Banner, including system-wide clinical improvement, medical management, care coordination, case management and management engineering. Dr. Hensing practiced internal medicine in Tempe, Arizona from 1977 to 1995, and was awarded the Distinguished Internist of the Year Award in 1993. He is a

Fellow in the American College of Physicians and a member of the American College of Physician Executives. He has served on multiple boards, including SHS, The Samaritan Foundation, HealthPartners of Arizona, and Arizona Medicare Demonstration Project. Dr. Hensing received his undergraduate degree from Iowa State University and his M.D. from the University of Iowa College of Medicine in 1972. After completing two years as a flight surgeon in the U.S. Air Force, he completed his residency in medicine in 1977 and is board certified in internal medicine.

Ed Oxford, Senior Vice President, Chief Talent Officer, age 54

Mr. Oxford joined Banner in June of 2007 as Senior Vice President, Chief Talent Officer. Prior to joining Banner, he was an executive with Motorola from 1997 to 2007, managing learning, organization development, human resources, program management, executive talent, and serving as the Chief Learning Officer. Prior to joining Motorola, Mr. Oxford was a Principal at Pricewaterhouse Coopers from 1995 to 1997, and from 1972 to 1997 worked in the pharmaceutical, specialty chemical, consumer packaged goods, health care and utilities industries with such companies as Colgate Palmolive and Public Services Enterprise Group, Merck and Merrill-Dow. Mr. Oxford holds a Doctorate from Columbia University in Organization and Leadership. Mr. Oxford also holds a masters degree in education and an undergraduate degree in business from National University.

Patricia K. Block, Vice President, Treasurer, age 60

Ms. Block joined SHS in 1992 as a Senior Analyst and became Director of Strategic Financial Services and Assistant Treasurer in 1997 and System Director, Treasury Operations in 1999. Ms. Block assumed her current role as Vice President, Treasurer in 2008. Prior to joining Banner, Ms. Block held various positions including Chief Financial Officer of Axxess Entry Technologies in Tempe, Arizona, Senior Financial Analyst for Progressive Insurance in Cleveland, Ohio, Senior Auditor for Touche Ross in Cleveland and Senior Investment Analyst with Mortgage Guarantee Insurance Corporation in Milwaukee, Wisconsin. She holds a bachelor’s degree in finance from John Carroll University in Cleveland Heights, Ohio, received her CPA license in 1985 and is currently a member of the American Institute of Certified Public Accountants.

UTILIZATION

The following chart presents utilization statistics for Banner for 2006 and 2007.

Banner Arizona

Years ended December 31	2006	2007
Hospital (Acute Care):		
Licensed Beds [1]	2,339	2,258
Discharges (excl. newborns)	143,625	147,225
Average Length of Stay	4.21	4.15
Patient Days	604,469	610,473
Licensed Beds Occupancy %	70.80	74.07
Emergency Room Visits [2]	352,220	354,177
Outpatient Visits (excl. ER)	335,831	344,085
Long-Term Care:		
Licensed Beds [3]	60	-
Resident Days	15,253	-
Licensed Beds Occupancy %	69.65	-
Behavioral/Rehabilitation:		
Licensed Beds	371	265
Resident Days	75,347	64,945
Licensed Beds Occupancy %	55.64	67.14
Home Health Visits	68,750	88,549

(1) Banner Mesa closed and Banner Gateway opened September 2007. Licensed beds in 2007 exclude Banner Mesa and include Banner Gateway.
(2) Excludes patients who left without treatment.
(3) 60 licensed beds at Banner Desert were closed at December 31, 2006.

Banner Western

Years ended December 31	2006	2007
Hospital (Acute Care):		
Licensed Beds	802	802
Discharges (excl. newborns)	32,719	33,273
Average Length of Stay	3.65	3.47
Patient Days	119,306	115,364
Licensed Beds Occupancy %	40.76	39.41
Emergency Room Visits [1]	149,300	157,722
Outpatient Visits (excl. ER)	461,612	524,693
Long-Term Care:		
Licensed Beds	245	245
Resident Days	93,703	81,286
Licensed Beds Occupancy %	93.35	80.98
Behavioral/Rehabilitation:		
Licensed Beds	62	62
Resident Days	11,473	11,993
Licensed Beds Occupancy %	50.70	53.00
Home Health Visits	46,624	48,838

(1) Excludes patients who left without treatment.
(2) 60 licensed beds at Heritage Place in Soldotna, Alaska were divested in July of 2006.

FINANCIAL INFORMATION

Audited Financial Statements of Banner

The audited consolidated financial statements of Banner for the years ended December 31, 2006 and 2007 are presented in Appendix B of this Official Statement. During these periods, there were no material acquisitions or material discontinued operations. Banner is the sole member of the Obligated Group and the only entity obligated to make payments with respect to the Series 2008D Obligation. Facilities owned, leased or managed solely by Banner (i.e., as the sole member of the Obligated Group), as opposed to facilities held by Banner subsidiaries or through joint ventures, accounted for 88% of Banner's consolidated revenue, 86% of Banner's consolidated operating income and 103% of Banner's consolidated net income during 2007.

Historic and Pro Forma Summary of Revenues and Expenses and Balance Sheet

The following provides: (i) a summary of revenue and expenses for the years ended December 31, 2006 and 2007 for the Obligated Group, for the Acquired Operations that will be acquired by Banner and whose operations will be included in the Obligated Group after the acquisition ("Acquired Operations-OG") and for the Obligated Group and Acquired Operations-OG on a historic combined basis without adjustments and eliminations; and (ii) a summary balance sheet at December 31, 2007 for the Obligated Group, for the Acquired Operations-OG and for the Obligated Group and Acquired Operations-OG on a historic combined basis without adjustments and eliminations. These financial statements have been derived, with respect to the Obligated Group, by the management of Banner from the audited consolidated financial statements of Banner and, with respect to the Acquired Operations-OG by the management of Sun Health from the audited combined financial statements of Sun Health and Sun Health Properties, Inc. Sun Health Properties, Inc. is not part of the Acquired Operations, and neither MediSun nor SHRI are included in the Acquired Operations-OG. The historic combined statements of the Obligated Group and Acquired Operations-OG have been prepared by the management of Banner, without adjustments or eliminations.

The following also provides (i) a summary of revenue and expenses for the four-month periods ended April 30, 2007 and 2008 for the Obligated Group, for the Acquired Operations-OG and for the Obligated Group and Acquired Operations-OG on a historic combined basis without adjustments and eliminations, and (ii) a summary balance sheet at April 30, 2008 for the Obligated Group, for the Acquired Operations-OG and for the Obligated Group and Acquired Operations-OG on a historic combined basis without adjustments and eliminations, which have been derived, with respect to the Obligated Group, by the management of Banner from internally prepared unaudited financial statements which have been prepared in accordance with accounting principles generally accepted in the United States, applied on a basis substantially consistent with that of the 2007 audited financial statements of Banner and, with respect to the Acquired Operations-OG, by the management of Sun Health from internally prepared unaudited financial statements which have been prepared in accordance with accounting principles generally accepted in the United States, applied on a basis substantially consistent with that of the 2007 audited financial statements of Sun Health and Sun Health Properties, Inc. The historic combined statements of the Obligated Group and Acquired Operations-OG have been prepared by the management of Banner, without adjustments or eliminations. They do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financials. In the opinion of management of Banner, the financial statements included herein as of April 30, 2008 and for the four-month periods ended April 30, 2007 and 2008, are a fair presentation of the financial results of each entity for such time periods. The results of operations for the four months ended April 30, 2008 will not necessarily be indicative of year-end results.

For the year ended December 31, 2007, the Acquired Operations had approximately $599 million of revenue, $2.7 million of operating income and $2.0 million of net income and accounted for approximately 100% of Sun Health's revenue, 83% of Sun Health's operating income and 78% of Sun Health's net income.

For the year ended December 31, 2007, the Acquired Operations-OG had approximately $505 million of revenue, $899,000 of operating income and $126,000 of net income, and accounted for approximately 84% of the Acquired Operations' revenue, 33% of the Acquired Operations' operating income and 6% of the Acquired Operations' net income.

MediSun and SHRI, which are not included in the Acquired Operations-OG had revenue of approximately $174.0 million and $10.3 million respectively. Approximately $79.3 million of the MediSun premium revenue is paid to and included in the Acquired Operation-OG and recorded as Other Revenue. MediSun and SHRI had net income of approximately $2.6 million and a net loss of approximately $(766,000) respectively. The Sun Health Auxiliary, which is not part of the Acquired Operations, accounted for approximately 22% of Sun Health's net income. However, the net income from the Auxiliary's operation of gift and coffee shops in the Acquired Operations will, by agreement, be contributed to the Acquired Operations; in 2007, the Auxiliary's operation of these shops generated approximately $300,000 in net income.

Unaudited Summary of Revenue and Expenses
($ in thousands)
Year Ended December 31,

	Obligated Group 2006	Acquired Operations-OG 2006	Historic Combined 2006	Obligated Group 2007	Acquired Operations-OG 2007	Historic Combined 2007
Revenue:						
Net patient revenue	$2,762,768	$340,527	$3,103,295	$2,956,542	$357,699	$3,314,241
Other revenue (expense)	(18,942)	138,512	119,570	(3,340)	147,415	144,075
Total revenue	2,743,826	479,039	3,222,865	2,953,202	505,114	3,458,316
Expenses:						
Expenses, excluding depreciation and amortization and interest	2,478,224	457,829	2,936,053	2,651,949	479,045	3,130,994
Depreciation and amortization	124,110	19,982	144,092	135,826	19,954	155,780
Interest	35,202	5,652	40,854	43,036	5,216	48,252
Total expenses	2,637,536	483,463	3,120,999	2,830,811	504,215	3,335,026
Operating income	106,290	(4,424)	101,866	122,391	899	123,290
Other income (losses):						
Investment income	181,690	--	181,690	127,930	--	127,930
Gain (loss) on interest rate swaps	3,299	--	3,299	(43,529)	--	(43,529)
Minority interest	--	--	--	51	--	51
Other	2,426	7,836	10,262	(4,536)	(773)	(5,309)
Other income (losses) net	187,415	7,836	195,251	79,916	(773)	79,143
Excess of revenues over expenses	$ 293,705	$ 3,412	$ 297,117	$ 202,307	$ 126	$ 202,433

Unaudited Summary of Revenue and Expenses
($ in thousands)
Four Months Ended April 30,

	Obligated Group 2007	Acquired Operations-OG 2007	Historic Combined 2007	Obligated Group 2008	Acquired Operations-OG 2008	Historic Combined 2008
Revenue:						
Net patient revenue	$ 980,555	$127,956	$1,108,511	$1,104,065	$135,327	$1,239,392
Other revenue (expense)	(11,165)	47,731	36,566	(13,551)	48,472	34,921
Total revenue	969,390	175,687	1,145,077	1,090,514	183,799	1,274,313
Expenses:						
Expenses, excluding depreciation and amortization and interest	866,587	166,646	1,033,233	958,335	171,651	1,129,986
Depreciation and amortization	42,892	6,472	49,364	48,931	6,745	55,676
Interest	13,448	1,789	15,237	22,477	1,833	24,310
Total expenses	922,927	174,907	1,097,834	1,029,743	180,229	1,209,972
Operating income	46,463	780	47,243	60,771	3,570	64,341
Other income (losses):						
Investment income (loss)	70,168	--	70,168	(54,415)	--	(54,415)
Gain (loss) on interest rate swaps	(518)	--	(518)	(24,527)	--	(24,527)
Minority interest	--	--	--	98	--	98
Other	(1,998)	--	(1,998)	(8,481)	--	(8,481)
Other income (losses) net	67,652	--	67,652	(87,325)	--	(87,325)
Excess of revenues over expenses	$ 114,115	$ 780	$ 114,895	$ (26,554)	$ 3,570	$ (22,984)

Unaudited Summary of Balance Sheet
($ in thousands)
December 31, 2007

	Obligated Group	Acquired Operations-OG	Historic Combined
Assets			
Current assets:			
Cash and cash equivalents	$ 57,144	$ 684	$ 57,828
Other	739,868	66,728	806,596
Total current assets	797,012	67,412	864,424
Assets limited as to use	2,021,039	34,620	2,055,659
Assets held for sale	19,629	--	19,629
Property and equipment, net	1,344,509	218,783	1,563,292
Other assets	83,203	11,075	94,278
Long-term investments	430,887	--	430,887
Total assets	$4,696,279	$331,890	$5,028,169
Liabilities and Net Assets			
Current liabilities:			
Current portion of long-term debt*	$ 32,836	$ 1,666	$ 34,502
Other	372,001	55,364	427,365
Total current liabilities	404,837	57,030	461,867
Long-term debt, less current portion*	1,791,344	200,976	1,992,320
Other	129,559	10,410	139,969
Total liabilities	2,325,740	268,416	2,594,156
Minority interests	(51)	--	(51)
Net assets:			
Unrestricted	2,363,794	63,474	2,427,268
Restricted	6,796	--	6,796
Total net assets	2,370,590	63,474	2,434,064
Total liabilities and net assets	$4,696,279	$331,890	$5,028,169

** Reflects actual balances at 12/31/07 and does not include impact of Series 2008 debt issuance.*

Unaudited Summary of Balance Sheet
($ in thousands)
April 30, 2008

	Obligated Group	Acquired Operations-OG	Historic Combined
Assets			
Current assets:			
Cash and cash equivalents	$ 82,650	$ 2,285	$ 84,935
Other	902,469	62,346	964,815
Total current assets	985,119	64,631	1,049,750
Assets limited as to use	1,889,330	20,484	1,909,814
Assets held for sale	19,832	--	19,832
Property and equipment, net	1,388,495	234,385	1,622,880
Other assets	74,437	9,962	84,399
Long-term investments	239,560	--	239,560
Total assets	$4,596,773	$329,462	$4,926,235
Liabilities and Net Assets			
Current liabilities:			
Current portion of long-term debt*	$ 32,981	$ 3,655	$ 36,636
Other	306,403	56,219	362,622
Total current liabilities	339,384	59,874	399,258
Long-term debt, less current portion*	1,769,853	197,282	1,967,135
Other	141,841	10,255	152,096
Total liabilities	2,251,078	267,411	2,518,489
Minority interests	(149)	--	(149)
Net assets:			
Unrestricted*	2,338,845	62,051	2,400,896
Restricted	6,999	--	6,999
Total net assets	2,345,844	62,051	2,407,895
Total liabilities and net assets	$4,596,773	$ 329,462	$4,926,235

** Reflects actual balances at 4/30/08 and does not include impact of Series 2008 debt issuance.*

Capitalization

The following historic and pro forma capitalization table has been compiled by the management of Banner from the internally prepared financial statements described above. The table sets forth the historic capitalization for the Obligated Group and the Acquired Operations-OG as of April 30, 2008, and for the Obligated Group on a pro forma combined basis as of April 30, 2008, adjusted with the following assumptions to give effect to (i) the combination of Banner with the Acquired Operations-OG, without the effect of related purchase accounting adjustments, (ii) defeasance of the outstanding long-term indebtedness of Sun Health allocable to the Acquired Operations-OG (iii) the issuance of the Series 2008D Bonds and the redemption of the Prior Bonds and (iv) the issuance of the Series 2008E-H Bonds and the redemption of the Series 2005A Bonds. See "PLAN OF FINANCING" in the front part of this Official Statement. The table also shows the ratio of historic total debt to historic total capitalization and the pro forma ratio of pro forma total debt to pro forma total capitalization.

Consolidated Capitalization
($ in thousands)
April 30, 2008

	Obligated Group	Acquired Operations-OG	Pro Forma Combined
Debt:			
Revenue Bonds, Series 1998A	$ 52,085	$ --	$ 52,085
Revenue Bonds, Series 1999A	2,965	--	2,965
Weekly Rate Securities Revenue Bonds, Series 1999B [1]	50,700	--	--
Revenue Bonds, Series 2002 [1]	292,725	--	--
Weekly Rate Securities Revenue Bonds, Series 2005A [1]	391,350	--	--
Revenue Bonds, Series 2007A	184,510	--	184,510
Index Revenue Bonds, Series 2007B	400,000	--	400,000
Revenue Bonds, Series 2008A [2]	227,160	--	227,160
Weekly Rate Securities Revenue Bonds, Series 2008BC [3]		--	197,500
Sun Health	--	200,937	--
Series 2008D Bonds and Series 2008E-H Bonds [1]	--	--	1,313,625*
Other (includes discount and premium on bonds) [3]	201,339	--	1,185
Total Debt	1,802,834	200,937	2,379,030
Less: current maturities	32,981	3,655	47,506
Total long-term debt, less current portion	1,769,853	197,282	2,331,524
Total unrestricted net assets	2,338,845	62,051	2,400,896
Total capitalization [4]	$4,108,698	$ 259,333	$4,732,420
Total long-term debt, less current portion to capitalization %	43.08%	76.07%	49.27%

** Subject to change depending on principal amount of Series 2008E-H Bonds issued..*
(1) Assumes the Series 1999B Bonds and Series 2002 Bonds are being refinanced with a portion of the proceeds of the Series 2008D Bonds and the Series 2005A Bonds are being refinanced with a portion of the proceeds of the Series 2008E-H Bonds.
(2) Series 2005DEF Bonds were redeemed and Series 2008A Bonds were subsequently issued on April 30, 2008.
(3) "Other" includes $194,910,00 of Series 2005BC Bonds which were redeemed on April 30, 2008 with a bridge loan; the Series 2008BC Bonds were subsequently issued on June 19, 2008 and refinanced such bridge loan.
(4) Sum of total debt less current portion and total unrestricted net assets.

Debt Service Coverage

The following table presents the historic calculation of maximum annual debt service coverage for the Obligated Group and for the Acquired Operations-OG for the fiscal year ended December 31, 2007, and for the Obligated Group on a pro forma combined basis for the year ended December 31, 2007. The pro forma maximum annual debt service coverage is calculated taking into account the redemption of the Series 2005B-F Bonds and the issuance of the Series 2008A-C Bonds, and using the following assumptions: (1) that the Series 2008D Bonds and Series 2008E-H Bonds will be issued in the aggregate principal amount of $1,313,625*, (2) that the outstanding long-term indebtedness of Sun Health allocable to the Acquired Operations-OG will be defeased with a portion of the proceeds of the Series 2008D Bonds, (3) that the Prior Bonds will be redeemed with a portion of the Series 2008D Bonds and that the Series 2005A Bonds will be redeemed with a portion of the Series 2008E-H Bonds and (4) that the maximum annual debt service requirement will equal the largest annual projected payment of principal and interest on indebtedness secured by Obligations issued and outstanding under the Master Indenture, including the debt service on the Series 2008D Bonds and Series 2008E-H Bonds, and with the assumptions as set forth in "DEBT SERVICE REQUIREMENTS" in the front section of the Official Statement.

The maximum annual debt service requirement excludes payments on $2.7 million of Banner long-term third party indebtedness, which are not secured by an Obligation issued under the Master Indenture.

Debt Service Coverage
($ in thousands)
Year Ended December 31, 2007

	Obligated Group	Acquired Operations-OG	Pro Forma Combined
Income available for debt service:			
Excess of revenues over expenses	$202,307	$ 126	$202,433
Depreciation and amortization	135,826	19,954	155,780
Interest	43,036	5,216	48,252
Investment income (loss) - unrealized	(47,269)	--	(47,269)
Gain (loss) on interest rate swaps	(43,529)	--	(43,529)
Total available for debt service[1]	471,967	25,296	497,263
Historic maximum annual debt service	$103,147	$ 13,872	
Historic maximum annual debt service coverage	4.6x	1.8x	
Pro forma maximum annual debt service			$149,816
Pro forma maximum annual debt service coverage[1]			3.3x

(1) For purposes of this calculation, unrealized investment income and gains on interest rate swaps are deducted from excess of revenues over expenses, and unrealized investment losses and losses on interest rate swaps are added to excess of revenues over expenses.

* *Subject to change depending on principal amount of Series 2008E-H Bonds issued.*

Liquidity

The following table sets forth the historic liquidity of the Obligated Group and Acquired Operations-OG as of December 31, 2007 and of the Obligated Group on a pro forma combined basis as of December 31, 2007. The table also shows the historic cushion ratio of historic total unrestricted cash and investments to historic maximum annual debt service and the pro forma cushion ratio of historic total unrestricted cash and investments to pro forma maximum annual debt service requirement. The pro forma maximum annual debt service requirement was calculated in the same manner, and using the same assumptions, as was used for calculating the pro forma debt service coverage ratio, as described above under the caption, "FINANCIAL INFORMATION - Debt Service Coverage."

Liquidity
($ in thousands)
December 31, 2007

	Obligated Group	Acquired Operations-OG	Pro Forma Combined
Cash and cash equivalents	$ 57,144	$ 684	$ 57,828
Short-term investments	83,086	1,565	84,651
Board designated for PPE	1,347,064	34,620	1,381,684
Long-term investments	430,887	--	430,887
Total unrestricted cash and investments [1]	$1,918,181	$ 36,869	$1,955,050
Average daily operating expenses less depreciation, amortization and provision for bad debts	$ 6,910	$ 1,298	$ 8,208
Maximum annual debt service	$ 103,147	$ 13,872	
Days cash on hand [2]	278	28	
Cushion ratio [3]	18.6x	2.7x	
Pro forma maximum annual debt service			$149,816
Pro forma cushion ratio[3]			13.0x

(1) Excludes amounts held under self-insurance funding arrangements and funds held under indenture agreements.
(2) Calculated as total unrestricted cash and investments divided by an amount equal to average daily operating expenses (total operating expenses less depreciation, amortization and provision for bad debts divided by 365).
(3) Calculated as total unrestricted cash and investments divided by maximum annual debt service.

Sources of Net Patient Revenue

Payments on behalf of certain patients are made to Banner by the federal government under the Medicare program; by the states of Alaska, Colorado, Nebraska, Nevada and Wyoming under the Medicaid program; by the State of California under the Medi-Cal program; by the State of Arizona under the AHCCCS program; by health maintenance organizations and preferred provider organizations; and by commercial insurance carriers. See "BONDHOLDERS' RISKS - Payment for Health Care Services" in the front part of this Official Statement. The following is a summary of sources of net patient revenues of Banner by payor type for the years ended December 31, 2006 and 2007:

Net Patient Revenue by Payor

Years Ended December 31	2006	2007
Medicare	23%	21%
Medicaid/Medi-Cal/AHCCCS	15	15
Commercial/HMO/PPO/other third-party payers	62	61
Self-pay [(1)]	--	3
	100%	100%

(1) 2006 was less than 1%.

For 2007, TRICARE was 1.6% and Medicare Advantage was 10.9%. TRICARE and Medicare Advantage are included in Commercial/HMO/PPO/other third-party payers.

MANAGEMENT'S DISCUSSION OF FINANCIAL PERFORMANCE

The following management's discussion of financial performance has been based on the financial operations of Banner Health, which is the sole member of the Obligated Group and the only entity obligated to make payments with respect to the Series 2008D Obligation.

Year Ended December 31, 2006

Banner generated operating income of $149.2 million and net income of $314.6 million, representing operating and total margins of 4.8% and 9.6%, respectively. Following industry practice, Banner also reports total margin excluding unrealized gains and losses on investments and interest rate swaps. Total margin excluding unrealized gains and losses was 7.7%. Banner's investment results for the year were significantly improved with total investment earnings (realized and unrealized) of $181.9 million, equating to an annual return of approximately 11.7% compared to 4.8% for 2005. In addition, Banner posted $3.3 million of unrealized income from interest rate swaps. In addition to investment earnings, non-operating income also included a charge of $22.6 million for minority interests, a $5.7 million charge for income taxes and $10.2 million in gains on the sale of assets, primarily land in the Phoenix metropolitan area.

Total revenue increased 8.6% over 2005 levels. Banner hospitals increased rates per adjusted patient day by approximately 4.2%. This rate increase was smaller than prior year performance due to a decline in commercial rate increases, programmatic offsets to Medicare rate increases (increases in transfer DRGs), and adverse patient mix changes with a major commercial payer. While these amounts do not include the impact of increased self pay volume on bad debt expense (noted below), they do reflect $211.5 million in full billed charges for charity care during the year. There was an increase in patients who qualified for free or nearly free health care under Banner's enhanced charity care policy. This significant increase (100.1%) of charity care provided in 2006 compared to 2005 is due to the full-year impact of the mid-2005 enhancement to Banner's charity care policy. The estimated cost of charity care provided was approximately $66 million, an 89% increase over the prior year.

Volume increases were moderate, showing growth in both inpatient and outpatient settings and strong surgical caseload growth. Growth in acute admissions was 2.0% while outpatient registrations and surgeries increased 3.0% and 17.2%, respectively.

Total expenses increased 10.0% from prior year levels. Excluding bad debt expense, which decreased 7.5% as more self-pay patients qualified for charity care or discounted charges due to the change in the charity care policy as noted above, total expenses increased 11.4%. Labor costs increased to $1.6 billion, 50.4% of revenue, as FTE growth, salary increases and use of contract labor increased spending on labor. While 918 FTEs were added, for a 4.1% increase in staffing, hospital productivity, as measured by FTE's per adjusted occupied bed ("AOB"), improved 1.3%. Contract labor costs increased 32.6% to $73.7 million and constituted 5.6% of the combined salary and contract labor costs. These factors were again partially offset by strong management of benefit costs, which comprised 21.5% of salary expense. Supply expense of $532.6 million was an 8.3% increase over the prior year. In spite of the cost increase, supply expense per adjusted admission of $1,743 increased only 4.8% from 2005 levels. As in previous years, considerable effort was expended in aggressively managing costs for commodity supply items. In addition, 2006 cost reduction efforts included significant reductions in certain physician preference items such as orthopedic implants.

Year Ended December 31, 2007

Banner generated operating income of $142.4 million and net income of $197.4 million, representing operating and total margins of 4.2% and 5.9%, respectively. Total margin excluding unrealized gains and losses was 8.2%. Investment activities resulted in investment income (realized and unrealized) of $128.5 million, approximating a 6.8% return. In addition, Banner posted a $43.5 million charge to income from interest rate swaps and a $29.0 million reduction in operating expense as a result of improved prior year medical malpractice claim experience. Other material elements of non-operating income include a $20.8 million charge for minority interests and a $4.2 million charge for income taxes.

Banner saw total revenue growth of 7.7%, due primarily to improving commercial insurance rates and working to minimize the impacts of Medicare and Medicaid payment rates that do not keep pace with inflation. Despite the opening of four competitor hospitals in Banner's primary market areas in the past 18 months, inpatient admissions grew 1% in 2007, while outpatient volumes showed 8.9% growth during the year. Banner's financial results for 2007 were negatively impacted by the closure of Banner Mesa, and the opening of its replacement, Banner Gateway in September 2007. Start up costs incurred in 2007 and operating losses for the first four months of operation totaled $(20.3) million versus a budgeted loss of $(21.3) million. From an operational and transitional standpoint, the opening of Banner Gateway and the closing of Banner Mesa, which occurred on the same day, was highly successful.

Banner continued to focus on expense management and cost reduction opportunities. Total expenses grew 8.3% from 2006 to 2007. Labor costs grew 11.5% and FTE's per AOB showed a 2.5% increase from 2006. Market pressures have continued to drive the need to increase nursing and clinical staff wages beyond normal inflation rates in an effort to meet national averages. A large portion of the growth in FTE's per AOB is due to the continued implementation of Banner's electronic medical record's system and the opening of Banner Gateway. When the FTE's per AOB indicator is normalized for these factors, Banner experienced virtually no growth in FTE's from the prior year. Supply expense per adjusted admission grew less than 1% from 2006 to 2007, due to the continued efforts to negotiate vendor price reductions, the implementation of several product standardization efforts (mainly of implantable devices and drugs), and distribution system efficiencies.

Four Months Ended April 30, 2008

For the four months ended April 30, 2008, Banner generated operating income of $69.4 million and a total net loss of $(27.3) million, representing a 5.4% and (2.3%) margin respectively. For the same period in 2007, the operating income was $56.8 million and the net income was $115.8 million, representing a 5.1% and 10.0% margin respectively.

High volatility in the investment market resulted in a portfolio loss of $(54.3) million, of which approximately $(46.5) million was unrealized. In addition, the unrealized loss on interest rate swaps was $(24.5) million through April 2008. In 2007, net investment activities through April resulted in investment income of $70.4 million, of which $44.3 million was unrealized, and an unrealized loss on interest rate swaps of $(518,000). Other non-operating income (losses) for the first four months of 2008 totaled $(17.9) million, which included an $8.3 million expense related to the April refinancing of the Series 2005B-F Bonds.

The 22.1% increase in operating income between the first four months of 2007 and 2008 was the result of continued increases in patient volumes, continued increases in reimbursement rates, and focused expense management. Despite competitor hospitals continuing to add additional patient bed capacity in the Arizona market (see discussion above under the caption "BANNER ARIZONA – Phoenix MSA Competitor Projects -- Completed expansion/construction"), through April 2008 patient admission volumes were 4.7% higher than the four months ended April 2007 and patient day volumes were 3.8% higher than the four months ended April 2007. Additionally, the case mix index exceeded prior year levels at nearly all Banner facilities. Year to date 2008 total revenue was 15.4% ahead of year to date April 2007.

Total expenses grew 15.0% from April 2007 levels. The largest increases were in labor and supply costs. These increases were driven by the higher volumes and increased case mix index, but also the continued market pressure to increase wages. Banner managed costs for contract labor to a level 25.1% lower than the same period in 2007 and the productivity indicator of FTE's per AOB was 2.9% favorable to expected 2008 levels and within 1% of April 2007 levels. Bad debt and charity costs as a percentage of net patient revenue grew slightly from 12.4% in April 2007 to 13.1% in April 2008. Supply costs were 8.9% higher than April 2007.

Banner's issuance of new debt in May 2007 and the recent market changes that increased interest rates for auction and variable rate bonds caused interest expense to grow $9.3 million when comparing April 2008 to April 2007. Approximately $5.7 million of the interest rate increase is attributable to the higher interest rates on Banner's variable rate debt. New facilities and upgrades to existing facilities accounted for the $7.7 million increase in depreciation and amortization between April 2007 and April 2008. These upgrades and new projects are discussed under the caption "THE PROJECT - Recently Completed, Current and Future Projects."

Banner's 2008 operating income is budgeted at $127.1 million, without regard to the impact of the acquisition of the Acquired Operations. This is a reduction of $15.3 million from the year end 2007 results, and is based in part on the substantial upfront startup costs of Banner's growth projects. In 2008, Banner continues its focus on strong performance in terms of financial results, customer service, clinical quality, and employee engagement. This performance is necessary to support Banner's growth projects and maintain existing facilities. In addition to the new construction projects, Banner anticipates completion of the implementation of its "Care Transformation" electronic medical records project in 2008, with the final electronic medical record infrastructure implementations in Banner's Colorado hospitals, although the implementation of this infrastructure will continue through 2010 at the hospitals proposed to be acquired from Sun Health. See "THE PROJECT - Acquisition of Sun Health Facilities" and "SUN HEALTH ACQUIRED FACILITIES." Achievement of Banner's operating income target

became more challenging following a freeze on the AHCCCS per diem payments and a reduction of AHCCCS outlier reimbursement imposed by the State of Arizona in June 2008 for the fiscal year that will end on June 30, 2009. Management estimates that this reimbursement freeze and outlier reduction will reduce Banner's operating revenue by approximately $15.5 million over this period, and management of Sun Health estimates the reimbursement freeze will have a $433,000 negative impact on operating revenue at Boswell Hospital and Webb Hospital. This reduction was not anticipated when Banner's operating income budget for 2008 was adopted.

Sun Health Acquisition

Management of Banner has reviewed and analyzed the operations and financial results of the Acquired Operations, including Boswell Hospital and Webb Hospital. Following completion of the acquisition, Banner intends to focus on certain operational areas that management believes can benefit from Banner's infrastructure and centralized corporate operations. These areas include improved supply expense per AOB and improved labor costs, as well as increased efficiency at a corporate level. Banner anticipates improved inpatient and outpatient volumes at Boswell Hospital and at Webb Hospital, where construction of the new patient tower is expected to be completed in February 2009. Management of Banner intends to implement its Care Transformation electronic medical records project at Boswell Hospital and Webb Hospital, and to integrate the Acquired Operations into Banner's contracting and benefits systems. In addition, as the population grows and shifts in the Sun Health MSA, Banner anticipates that Sun Health's payor mix will shift as well. No assurance can be made that these operational and anticipated demographic changes will result in improved financial performance of the Acquired Operations.

MANAGED CARE

Banner Arizona

The greater Phoenix metropolitan area, which comprises the Banner Arizona primary service area, is a mature managed care market located almost entirely within Maricopa County. Banner Arizona's largest commercial payer relationships are with United Health Care ("UHC"), Blue Cross/Blue Shield of Arizona, Inc. ("Blue Cross") and CIGNA Health Plan ("CIGNA").

Blue Cross has the largest commercial membership in Maricopa County with approximately 700,000 lives. UHC offers commercial, Medicare Advantage (Secure Horizons) and Medicaid (APIPA) products to approximately 640,000 lives in Maricopa County. CIGNA offered commercial and Medicare Advantage ("MA") products in Maricopa County during 2007, with approximately 360,000 lives.

During 2007, UHC was Banner's largest commercial payer relationship, accounting for approximately 18% of Banner Arizona's net patient revenue with 11% attributable to commercial products, 4% to the MA product Secure Horizons, and 3% to the AHCCCS subsidiary, APIPA. Banner Arizona's next largest payer relationship continues to be with Maricopa County's largest commercial plan, Blue Cross, and accounted for approximately 13% of Banner Arizona's net patient revenue in 2007. Banner Arizona also has a significant relationship with CIGNA, which accounted for approximately 9% of the net patient revenue in 2007 with CIGNA's commercial (6%) and MA (3%) products. During 2007 and 2006, these three payer relationships accounted for approximately 40% of Banner Arizona's net patient revenue.

Banner Arizona is currently contracted with all UHC lines of business, commercial, MA and AHCCCS through December 31, 2008. Initial contract renewal negotiations have begun and are ongoing. The Blue Cross commercial two year agreement expires on March 31, 2009. Contract renewal negotiations will begin late in 2008. The current three year CIGNA commercial contract expires on

December 31, 2009. The CIGNA MA agreement expires on December 31, 2008, but is expected to be renewed for one year at the current terms and renegotiated at the same time as the CIGNA commercial contract.

During 2007 approximately 63% of Banner Arizona's inpatient hospital managed care contract net patient revenue was reimbursed under a per diem methodology. The balance of inpatient managed care reimbursement was split between DRG case rates (28%), capitated ("risk") contracts (5%) and percentage of charges (4%). Banner anticipates that a substantially greater percentage of such reimbursement will be paid on a DRG case rate basis in the future.

Banner Arizona's MA risk contracts with UHC (Secure Horizons), combined with Health Net's commercial and MA risk contracts, averaged approximately 32,000 lives during 2007, a 22% decrease from 2006. This membership decreased due to reduced MA "risk lives" and the termination of the UHC PacifiCare Commercial risk contract on March 1, 2007. The BPHO full risk contracts with UHC (Secure Horizons) for MA lives and with Health Net for MA and commercial lives account for approximately 62% of Banner Arizona's total "risk lives". Approximately 85% of the "risk lives" reside in the eastern part of Maricopa County, and utilization is managed by the BPHO's medical director. The BPHO's physician network admits primarily to Banner Gateway, Banner Baywood, Banner Heart and Banner Desert.

Banner Western

Banner Western includes operations in Alaska, California, Colorado, Nebraska, Nevada and Wyoming. Approximately 96% of the net patient revenue received from managed care payers in the Western region is paid under a percent of charges mechanism. The balance of managed care net patient revenue is from DRG case rates (4%). For 2007, managed care accounted for 58% of Banner Western's overall net patient revenue.

The largest payer relationships are with the various Blue Cross and Blue Shield plans in each State, which collectively accounted for approximately 21.4% of Banner Western's 2007 net patient revenue. Banner Western's second largest payer relationship is with UHC (inclusive of the PacifiCare business), which accounted for approximately 7.6 % of Banner Western's net patient revenue in 2007. In mid 2007, the UHC commercial agreement for Banner Western was renegotiated and extended for 18 months to December 31, 2008.

Colorado operations accounted for 62% of Banner Western's net patient revenue. The largest Colorado payer relationship is with Anthem Blue Cross Blue Shield of Colorado ("Anthem"), which accounts for approximately 11.5% of Banner Western's net patient revenue. The Anthem commercial contract was renegotiated in late 2007 and extended for three years to December 31, 2010. Colorado's next largest payer relationship is with UHC and its PacifiCare affiliate, which accounted for 7.2% of Banner Western's net patient revenue in 2007. Other large non-risk payers include Aetna Health Inc., CIGNA, Confinity (formally Sloans Lake Managed Care), and Great-West Life and Annuity.

INVESTMENT AND DERIVATIVES POLICIES

The Investment Committee of the Banner Board develops and oversees the investments of Banner. The Investment Committee, along with management, develops and approves written investment policies, which specify time horizon, liquidity needs, performance benchmarks, allowable investments, and asset allocation among the cash, fixed income, equity, and alternative investment asset classes. The overall corporate funds' investment allocation is currently 32% fixed income, 43% equities, and 25% alternative investment strategies ("AIS"). Banner's investment in AIS consists of absolute return strategy

investments with hedge fund of funds managers as well as an allocation to a direct absolute return program.

The Investment Committee and Banner management formally review investment policies annually. The Investment Committee reviews investment performance against benchmarks on a quarterly basis. Investment managers have been engaged by Banner to manage the various pools of Banner's invested funds. Banner has engaged an investment advisor to assist the Investment Committee in (1) the selection of investment managers and custodians; (2) the preparation of quarterly investment performance reports on the investment managers; and (3) investment analysis and consulting as needed.

The Finance Committee of the Banner Board, along with Banner management, develops and approves policies for use of derivatives and similar financial arrangements in connection with the incurrence of indebtedness. The current policies provide that derivatives may be used (1) to achieve material economic benefit as compared to a product more readily available in the tax-exempt or corporate bond or commercial paper markets; (2) to prudently hedge interest rate risk in the context of a particular financing or the overall asset/liability management of Banner; (3) to achieve certain levels of fixed or variable rate exposure within prudent guidelines; and (4) to achieve diversification of a particular bond offering and more flexibility in meeting overall financial objectives than can be achieved in conventional markets. See "BONDHOLDERS' RISKS – UTILIZATION OF DERIVATIVES MARKETS" in the front part of this Official Statement.

EMPLOYEES

As of December 31, 2007, Banner had approximately 24,887 FTEs (including employees working for Banner's controlled subsidiaries), none of whom are currently unionized. While Banner management believes that its overall employee relations are good, and that a direct relationship between Banner and its employees is more beneficial for both Banner and the employees than a union relationship, unions continue to demonstrate their presence and interest in unionizing employees at hospital organizations throughout the country, with a particular emphasis on the State of Arizona. Although management is not aware of any formal organizing campaigns that are currently active at any Banner facility, an employee at Banner Gateway has advised administration that he is working with the Service Employees International Union ("SEIU") for the purpose of organizing all health care workers in Arizona. In addition, the emergency medical technicians employed at Banner Churchill Community Hospital in Fallon, Nevada, have advised administration that they have circulated union cards, but are withholding submitting the card pending the implementation of requested changes in overtime practices at that facility. Management believes that this implementation will be successful, and that this organizing effort will be withdrawn. There has been activity at the state level by the California Nurses Association in the form of mailing flyers requesting support for legislation relating to mandatory nurse-patient ratios. In addition, the California Nurses Association has been involved in a formal campaign in Flagstaff, Arizona at a non-Banner facility. Because of the national push by unions to organize healthcare workers, there can be no assurance that these campaigns will not be undertaken in Arizona and will not be successful. There is no known organizing activity at the Sun Health acquired facilities. The impact of unionized employees on Banner's financial results is unknown.

Recruiting and retention of employees, particularly registered nurses, radiology technicians, respiratory therapists, occupational, physical and speech therapists and pharmacists, are key management priorities for Banner. The nursing shortage is especially acute in Arizona, which has 6.8 nurses per 1,000 residents, far below the national average of 8.1 nurses per 1,000 persons. The average age of registered nurses employed at the Banner facilities is approximately 41. Banner facilities continue to recruit large numbers of employees, but growth and turnover, particularly in the first year of employment, necessitates a wide variety of recruitment and retention strategies. Local and national recruitment efforts are underway. Banner utilizes temporary agencies to supply nurses and other health care professionals,

although Banner Arizona has been successful recently in obtaining most of its registry nursing personnel through Arizona Banner Professional Registry, a registry wholly owned by Banner. Longer-term strategies to create an employer of choice environment and fully engaged employees are aimed at improving retention and recruitment so that these expenses are reduced. In addition, Banner has created a "Center for Healthcare Careers" which offers a variety of educational and scholarship programs to increase its pool of nurses. One of the key programs – "Banner Nurse Fellows" – is an accelerated nursing program which is now graduating approximately 120 new nurses each year that are committed to employment with Banner. The Sun Health acquired facilities include a School of Nursing at the Boswell Hospital campus, which is operated by the Maricopa Community College District. Banner has committed to keeping this program in operation with a capacity of at least 200 nursing students at least through 2012.

Most Banner employees may elect to participate in Banner's 401(k) defined contribution retirement plan. Participation is immediate and there is an employer match beginning after one year of service. Employees may, subject to IRS limits, contribute up to 100% of their annual compensation. Employee contributions of up to 4% of annual compensation are matched by Banner and deposited with the plan trustee. Banner's 401(k) plan expense was approximately $29.1 million and $32.3 million for the years ended December 31, 2006 and 2007, respectively. Banner provides its eligible employees with other benefits, including health, dental and life insurance, vision coverage, paid time off, and short and long-term disability. The cost of the benefits is paid by Banner, the employee, or both depending upon the benefit. Banner self-funds its short and long-term disability insurance as well as health and dental costs. See "INSURANCE PROGRAM" below.

As part of the Sun Health acquisition, Banner will assume sponsorship of a defined benefit plan maintained by Sun Health. This plan has been frozen except as to a limited number of employees with long seniority. Banner has committed to maintaining this program, but will be indemnified by Sun Health for any liability in excess of the plan's assets.

PHYSICIAN RELATIONSHIPS

Credentialed medical staffs for all Banner facilities total 6,144 (4,560 in Arizona) with 3,453 active staff. Banner has 76 physicians who are employed as part of an academic faculty program in two institutions, Good Samaritan in Phoenix (67 faculty physicians) and NCMC in Greeley, (9 physicians). In addition, Banner operates clinics that employ physicians in six states, Alaska (29 staff physicians), Arizona (248 staff physicians), Colorado (88 staff physicians), Nebraska (7 staff physicians), Nevada (22 staff physicians) and Wyoming (18 staff physicians). Banner also operates MSMA in Colorado with approximately 165 physician members, BPHO in the Phoenix metropolitan area with approximately 700 members, 151 of whom are primary care physicians, and a management services organization in central Phoenix with approximately 630 physicians, 230 of whom are primary care providers. Sun Health employs approximately 30 physicians at Boswell Hospital and Webb Hospital, which together have approximately 600 physicians on their medical staffs.

LITIGATION AND INVESTIGATIONS

Banner is the named defendant in numerous professional malpractice and general liability lawsuits, and receives numerous claims of employment discrimination in the normal course of its business. Except as disclosed below, no litigation or proceedings are pending or, to the knowledge of Banner management, threatened against Banner except (i) litigation, proceedings or claims involving professional liability or general liability claims in which the probable ultimate recoveries and the estimated costs and expenses of defense, in the opinion of Banner management, based upon consultation with its counsel and reports prepared by an independent actuarial firm, will be within applicable insurance and self-insurance limits, and (ii) litigation, proceedings or other types of claims that, in the opinion of

Banner management, based upon consultation with its counsel, will not have a material adverse effect on Banner's operations, financial condition or cash flows.

Banner, together with the Arizona Hospital and Healthcare Association (AZHHA) and several other Arizona hospitals, were named as defendants in an antitrust class action filed in federal district court in July, 2007, by nurses who worked for nurse registry agencies that participated in a pooled purchasing program sponsored by AZHHA. The plaintiff seeks to certify a statewide class of all nurses who worked for such agencies. The plaintiffs allege that the nurse registry program constituted an unlawful boycott and price fixing conspiracy in violation of federal and state antitrust statutes. Banner believes that it has substantial defenses to the lawsuit, and that the plaintiffs lack standing to bring the claims and that the matter is not appropriate for class certification. The case is currently in the discovery phase. Banner has submitted a claim for coverage of this matter under its directors and officers insurance coverage, the first $10 million of which is covered by self insurance; it is unknown at this time whether the commercial excess reinsurer for the directors and officers coverage will accept coverage in the event the costs of this claim exceed the self-insured retention. Banner is defending the case vigorously, and management believes that it has strong defenses to the claims, including that the program was in fact pro-competitive, any anticompetitive effects of the program were far outweighed by the pro-competitive efficiencies created by the program, and that the claims, if meritorious, are inappropriate for class action treatment. If, however, damages were to be awarded in accordance with plaintiff's theories, the outcome could have a material adverse effect on Banner's financial condition.

A dialysis provider to Mountain Shadows Medical Association ("MSMA"), a Banner affiliate, has asserted a claim for underpayment for dialysis services provided on behalf of MSMA to members of the Secure Horizons senior plan from 2004 to 2006 in the amount of $1,042,115, and has requested that the matter be submitted to arbitration as provided under the agreement with MSMA. MSMA has disputed the claim, and is evaluating the merits of the matter. MSMA believes that it has defenses to the claim, and that, even if there is liability on the part of MSMA, the amount claimed is in excess of the amount that would be owed by MSMA. Nevertheless, it is the intention of management to seek settlement of this matter but to contest it through arbitration if no settlement can be reached.

Banner has been sued in a lawsuit filed in Arizona state court in February 2008 by Saguaro Medical Associates ("Saguaro"), a physician group that was then providing hospitalist services on a semi-exclusive basis for patients admitted to Banner Thunderbird through its emergency department. The lawsuit alleges that Banner breached the contract providing for such services when it notified Saguaro of various breaches by Saguaro of the contract. After the lawsuit was filed, Banner terminated the contract, and Saguaro has ceased to provide hospitalist services at the hospital. Although no specific damages are claimed in the complaint, Saguaro has informally demanded at least $2 million for its claims, and has indicated its intent to amend its complaint to add various additional claims. Saguaro and its owner subsequently filed an amended complaint, adding claims for tortious interference with contractual relationships and a claim of racial discrimination under 42 U.S.C. Sec. 1981 based on the ethnicity of Saguaro's owner, and seeks unspecified damages, including damages arising from the alleged demise of Saguaro. Saguaro has demanded $1.95 million to settle its claims. The lawsuit is still in its preliminary stages. Banner intends to defend the case vigorously, and management believes that it has strong defenses to Saguaro's claim of breach, that Saguaro itself had in fact breached the contract in several material respects which entitled Banner to terminate the contract, and that any deterioration in the condition of Saguaro was not covered by Banner.

In anticipation of the change of ownership of Boswell Hospital, surveyors representing CMS and the Arizona Department of Health Services recently conducted surveys of the facility. Based upon exit interviews held in late July, 2008, Sun Health anticipates receiving statements of deficiencies, identifying violations of Medicare Conditions of Participation. The allegations are expected to include incomplete orders, excessive use of standing orders, incomplete or absent care plans, and scope of practice issues

within various categories of health professionals. Sun Health has begun addressing the issues raised in the exit interviews, and, in anticipation of the closing of the acquisition of the Acquired Operations, is also working with Banner to implement a quality assurance system at the Boswell Hospital similar to the system in place the other Banner Arizona Region hospitals. Based upon the nature of the violations, Sun Health anticipates that the statement of deficiencies will require preparation and implementation of a plan of correction within 45-90 days, followed by a resurvey to confirm that the appropriate corrective measures have been effectively put in place. No assurance can be given that the plan of correction will be accepted or effectively implemented. If the plan of correction is not accepted or is not effectively implemented, other restrictions or sanctions could be placed on Boswell Hospital, including fines, restrictions on admission of Medicare beneficiaries and decertification as a Medicare provider. Such restrictions or sanctions, if imposed, would likely be imposed after the closing of the acquisition of the Acquired Operations and could have a material adverse effect on Boswell Hospital and the Obligated Group.

On April 1, 2008, Webb Hospital received a preliminary determination letter from CMS, notifying the hospital of violation of certain requirements under EMTALA. Webb Hospital submitted a plan of correction, which was accepted by the Arizona Department of Health Services and CMS, and received a follow-up survey. On July 1, 2008, CMS notified Webb Hospital that, based on the follow up survey, Webb Hospital was still out of compliance with EMTALA due to CMS' finding that an urgent care center operating under Webb Hospital's license constituted a "dedicated emergency room" under the EMTALA regulations, and did not follow certain EMTALA protocols regarding the transfer of patients. A formal statement of deficiencies was received from CMS on August 5, 2008, stating that if a plan of correction is not accepted and implemented prior to a resurvey, Webb Hospital's Medicare provider agreement will be terminated on September 5, 2008. Sun Health has begun addressing the issues raised in the statement of deficiencies and has submitted a plan of correction. If the plan of correction is not accepted or is not effectively implemented, Webb Hospital could be decertified as a Medicare provider. Such an action, if imposed, would be imposed after the scheduled closing of the acquisition of the Acquired Operations, and would have a material adverse effect on Webb Hospital and the Obligated Group.

LICENSES, MEMBERSHIP AND ACCREDITATION

Banner facilities are certified by the federal Medicare program and the various state Medicaid programs, to provide health care services to patients under their respective programs. The Arizona facilities provide medical care to patients enrolled under the state AHCCCS program. All Banner facilities are licensed by the applicable state licensing agencies. See "BONDHOLDERS' RISKS – Payment for Health Care Services" in the front part of this Official Statement.

Banner facilities are accredited for a wide variety of services including acute care, long-term care, home health, home medical equipment, outpatient chemical dependency, sub-acute programs, dementia or Alzheimer units, hospice and clinics. The Joint Commission accredits Boswell Hospital and Webb Hospital, most of Banner Western's acute care facilities and all of Banner Arizona's facilities except the two newest facilities, Banner Gateway and Banner Estrella. At its opening in September, 2007, Banner Gateway elected to obtain certification for Medicare and AHCCCS through survey by the Arizona Department of Health Services ("ADHS"). Following the successful experience of Banner Gateway, Banner Estrella withdrew its accreditation with The Joint Commission effective January 29, 2008, and is now also certified for Medicare and AHCCCS through the ADHS survey process. In May 2008, Banner notified The Joint Commission that Banner Baywood and Banner Heart intend to withdraw their accreditation with The Joint Commission effective September 2008, and to obtain certification for Medicare and AHCCCS through the ADHS survey process. Two other health systems in the Phoenix metropolitan area, John C. Lincoln Health Network and Scottsdale Healthcare have similarly withdrawn from The Joint Commission accreditation and are now certified for Medicare and AHCCCS through the

ADHS survey process. Banner management is continuing to evaluate the relative merits of accreditation through The Joint Commission and certification through the ADHS survey process.

Banner is a member of the American Hospital Association. Banner is a shareholder of Premier, Inc., a company providing programs, services, insurance, consulting, performance improvement, group purchasing and decision support systems with the goal of reducing costs and improving quality for multi-hospital delivery systems.

INSURANCE PROGRAM

All Banner operations are insured for professional and general liability on an occurrence basis through Banner's wholly owned Cayman Islands captive insurance company, Samaritan Insurance Funding Ltd. ("SIFL") or, with respect to its Colorado operations, a domestic trust controlled by Banner and funded as needed by SIFL. Currently, the primary limit of SIFL is $10 million per occurrence for professional and general liability claims, with a $10 million annual aggregate for general liability claims and no annual aggregate limit for professional liability claims. SIFL also writes the professional liability coverage for the independent emergency physician groups at Banner Good Samaritan, Banner Desert, Banner Thunderbird and Banner Estrella with limits of $1 million per occurrence and $10 million in aggregate. Effective as of March 1, 2007, SIFL also provides an umbrella liability policy with limits of $190 million per occurrence and $190 million annual aggregate. SIFL retains the first $20 million per occurrence and $20 million in the aggregate layer of the umbrella liability policy, and obtains reinsurance from several commercial reinsurers for the remaining $170 million per occurrence $170 million in aggregate of umbrella coverage. As of December 31, 2007, the total assets of SIFL were approximately $177.8 million. Funding levels of SIFL are determined based upon annual reports prepared by an independent actuarial firm. Management believes, based upon these actuarial reports, that the funding level of SIFL is adequate. Banner also purchases commercial automobile liability insurance in the amount of $2 million per accident with a $250,000 deductible; automobile liability in excess of $2 million is covered by the $190 million umbrella policy described above. Property coverage, including boiler and machinery, is provided by Banner through a commercial policy with coverage, including business interruption, for all Banner facilities with an annual limit of $750 million with a $250,000 deductible per loss. Other purchased insurance includes employee fidelity bond, directors and officers liability, fiduciary liability, travel accident, non-owned/owned aviation, ambulance liability, and foreign liability. Management does not anticipate any difficulties in renewing any of its existing insurance coverage. All physicians practicing in Banner facilities are required to carry professional liability insurance in the amount of at least $1 million per occurrence and $3 million annual aggregate.

Arizona and Colorado workers' compensation and employer's liability are provided through a self-insured program with excess workers' compensation insurance purchased above $500,000 per claim retention. Wyoming workers' compensation is provided under a state mandated fund; a commercial carrier with a deductible of $500,000 insures workers' compensation in all other states.

Banner self-insures those employees who elect to participate in its Health and Dental Plan ("Plan") for health and dental insurance. The Plan is administered internally and is self-funded through employee and employer contributions. Banner medical, dental and other benefit insurance program expense was approximately $128.2 million and $115.5 million for the years ended December 31, 2007 and 2006, respectively.

The Acquired Operations are currently insured for professional and general liability through a claims-made issued by a third party commercial insurer with a $500,000 deductible per claim. At the closing of the Sun Health acquisition, all professional and general liability claims not covered by the existing coverage will be covered by SIFL.

APPENDIX B

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF BANNER HEALTH AND SUBSIDIARIES FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

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Consolidated Financial Statements

Banner Health and Subsidiaries

Years Ended December 31, 2007 and 2006

Banner Health and Subsidiaries

Consolidated Financial Statements

Years Ended December 31, 2007 and 2006

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ERNST & YOUNG

Ernst & Young LLP
Ernst & Young Tower
One Renaissance Square
2 North Central Avenue
Suite 2300
Phoenix, Arizona 85004

Phone: 602 322 3000
www.ey.com

Report of Independent Auditors

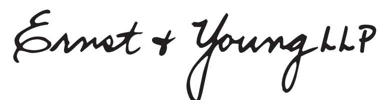
To the Board of Directors of
Banner Health

We have audited the accompanying consolidated balance sheets of Banner Health (a nonprofit corporation) and subsidiaries (the Company) as of December 31, 2007 and 2006, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Banner Health and subsidiaries at December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Notes 2 and 7 to the consolidated financial statements, in 2007 the Company adopted DIG Issue G26, *Hedging Interest Cash Flows on Variable-Rate Assets and Liabilities that are not based on a Benchmark Rate,* which changed its method of accounting for its interest rate swaps.



March 17, 2008,
except for Note 11, as to which
the date is April 1, 2008

A member firm of Ernst & Young Global Limited

Banner Health and Subsidiaries

Consolidated Balance Sheets

	December 31	
	2007	**2006**
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 69,656**	$ 43,841
Short-term investments	**92,069**	117,323
Assets limited as to use	**71,098**	55,228
Patient receivables, net of allowance for doubtful accounts of $120,917 in 2007 and $147,191 in 2006	**434,734**	381,937
Inventories	**74,558**	64,556
Other	**47,304**	46,698
Total current assets	**789,419**	709,583
Assets limited as to use:		
Funds designated by Board for:		
Property and equipment replacement and expansion	**1,347,064**	1,258,235
Lease and loan agreements	**3,123**	5,219
Funds held by trustees under:		
Self-insurance funding arrangements	**154,932**	116,514
Indenture agreements	**611,995**	207,109
Other funds	**50,379**	47,384
Total assets limited as to use, less current portion	**2,167,493**	1,634,461
Assets held for sale	**19,629**	21,973
Property and equipment, net	**1,397,690**	1,142,050
Other assets:		
Long-term investments	**441,371**	409,622
Deferred financing costs, net	**20,957**	20,509
Other	**164,280**	150,193
Total other assets	**626,608**	580,324
	$ 5,000,839	$ 4,088,391

	December 31	
	2007	**2006**
	(In Thousands)	
Liabilities and net assets		
Current liabilities:		
Trade accounts payable	**$ 103,054**	$ 89,060
Current portion of long-term debt	**38,495**	25,774
Estimated third-party payor settlements	**35,607**	27,195
Accrued expenses:		
Salaries and benefits	**199,252**	175,005
Other	**111,304**	87,720
Total current liabilities	**487,712**	404,754
Long-term debt, less current portion	**1,794,563**	1,226,541
Estimated third-party payor settlements	**6,894**	10,295
Estimated self-insurance liabilities	**161,719**	155,129
Other	**104,590**	59,936
Total liabilities	**2,555,478**	1,856,655
Minority interests	**24,992**	23,269
Net assets:		
Unrestricted	**2,362,361**	2,157,689
Temporarily restricted	**58,008**	50,778
	2,420,369	2,208,467
	$ 5,000,839	$ 4,088,391

See accompanying notes.

Banner Health and Subsidiaries

Consolidated Statements of Income

	Years Ended December 31	
	2007	**2006**
	(In thousands)	
Revenues:		
Net patient service	**$ 3,229,319**	$ 2,999,938
Other revenue	**129,363**	118,454
Total revenues	**3,358,682**	3,118,392
Expenses:		
Salaries and benefits	**1,746,826**	1,572,192
Supplies	**559,139**	532,599
Physician and professional fees	**104,724**	91,969
Depreciation and amortization	**144,495**	130,844
Provision for doubtful accounts	**181,979**	187,567
Interest	**43,477**	35,370
Other	**435,646**	418,663
Total expenses	**3,216,286**	2,969,204
Operating income	**142,396**	149,188
Other income (losses):		
Investment income – realized	**137,349**	117,006
Investment (loss) income – unrealized	**(49,987)**	23,534
Income from alternative investments	**41,102**	41,348
Investment income	**128,464**	181,888
Unrealized (loss) gain on interest rate swaps	**(43,529)**	3,299
Minority interest	**(20,779)**	(22,585)
Other	**(9,167)**	2,810
	54,989	165,412
Excess of revenues over expenses	**197,385**	314,600
Net unrealized gain on interest rate swap	**3,518**	8,262
Minimum pension obligation	**1,319**	5,196
Cumulative effect of change in accounting principle	**–**	(10,169)
Other	**2,450**	3,874
Increase in unrestricted net assets	**$ 204,672**	321,763

See accompanying notes.

Banner Health and Subsidiaries

Consolidated Statements of Changes in Net Assets

	Years Ended December 31	
	2007	**2006**
	(In Thousands)	
Unrestricted net assets:		
Excess of revenues over expenses	**$ 197,385**	$ 314,600
Net unrealized gain on interest rate swap	**3,518**	8,262
Minimum pension obligation	**1,319**	5,196
Cumulative effect of change in accounting principle	**–**	(10,169)
Other	**2,450**	3,874
Increase in unrestricted net assets	**204,672**	321,763
Temporarily restricted net assets:		
Contributions and other	**18,557**	13,749
Net unrealized (losses) gains on investments	**(90)**	1,001
Net assets released from restrictions	**(11,237)**	(16,632)
Increase (decrease) in temporarily restricted net assets	**7,230**	(1,882)
Increase in net assets	**211,902**	319,881
Net assets, beginning of year	**2,208,467**	1,888,586
Net assets, end of year	**$ 2,420,369**	$ 2,208,467

See accompanying notes.

Banner Health and Subsidiaries

Consolidated Statements of Cash Flows

	Years Ended December 31	
	2007	2006
	(In Thousands)	
Operating activities		
Increase in net assets	$ **211,902**	$ 319,881
Adjustments to reconcile increase in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	**144,495**	130,844
Increase in investments designated as trading	**(555,394)**	(176,486)
Net unrealized (gain) loss on interest rate swap	**40,011**	(11,561)
Minimum pension obligation	**(1,319)**	(5,196)
Cumulative effect of change in accounting principle	**–**	10,169
Gain on sale of assets	**(210)**	(10,237)
Restricted contributions and other	**(18,557)**	(13,749)
Changes in operating elements:		
Patient receivables	**(47,645)**	(9,790)
Inventories and other current assets	**(8,281)**	(9,523)
Accounts payable and accrued expenses	**58,032**	18,785
Estimated third-party payor settlements	**4,417**	7,762
Estimated self-insurance liabilities	**6,589**	20,762
Other liabilities	**6,903**	9,793
Net cash (used in) provided by operating activities	**(159,057)**	281,454
Investing activities		
Net purchase of property and equipment	**(371,781)**	(259,445)
Purchase of Arizona Medical Clinic, net of cash assumed	**(32,338)**	–
Purchase of Big Thompson Medical Group, net of cash assumed	**–**	(8,088)
Increase in other assets	**(5,340)**	(1,094)
Net cash used in investing activities	**(409,459)**	(268,627)
Financing activities		
Proceeds from restricted contributions and other	**18,557**	13,749
Proceeds from issuance of debt	**602,113**	472
Payments of long-term debt, net	**(26,339)**	(24,175)
Net cash provided by (used in) financing activities	**594,331**	(9,954)
Net increase in cash and cash equivalents	**25,815**	2,873
Cash and cash equivalents at beginning of year	**43,841**	40,968
Cash and cash equivalents at end of year	$ **69,656**	$ 43,841
Supplemental disclosure of cash flow information		
Interest paid, including amounts capitalized	$ **68,664**	$ 48,757

See accompanying notes.

1. Description of Business

Banner Health is a nonprofit corporation exempt from income taxes under Internal Revenue Code Section 501(c)(3) and applicable state income tax codes. Banner Health and its subsidiaries (Banner) own or lease hospitals, clinics, nursing homes, clinical laboratories, ambulatory surgery centers, home health agencies and other healthcare-related organizations, including a captive insurance company and foundation, in seven western states.

2. Significant Accounting Policies

Basis of Consolidation

The accompanying consolidated financial statements reflect the consolidated operations of all owned and leased operating units of Banner and its wholly owned subsidiaries. The consolidated financial statements include the following joint ventures which Banner holds a controlling interest and, accordingly, the financial results are consolidated:

- New River Surgical Arts – Banner has a 63% interest
- Inland Imaging AZ, LLC. – Banner holds a 51% interest,
- Sonora Quest Laboratories, LLC (SQL), a joint venture between Banner and Quest Diagnostics, Incorporated-Banner holds a 51% interest.

Banner holds an interest in the following companies: 50% interest in City of Hope Samaritan, LLC; 50% interest in Banner Physician Hospital Organization; 50% interest in Mountain Shadows Medical Association; 35% interest in Loveland Surgical Enterprises LLC; 35% interest in Loveland Medical Enterprises, Inc.; 25% interest in Loveland Endoscopy Center LLC. In connection with its acquisition of Arizona Medical Clinic in August 2007, Banner also acquired a 49% interest in Peoria Multi Ambulatory Surgery Center, a 25% interest in Arizona Medical Sleep Institute, LLC, and a 15% interest in Sun City Ophthalmologists LLC. Prior to September 30, 2006, Banner held a 40% interest in Loveland Medical Imaging Enterprises LLC, and a 41.25% interest in Loveland MRI Enterprises LLC. On September 30, 2006, Banner purchased the remaining interests in these entities, which had been held by unrelated third parties, and each became a wholly owned subsidiary of Banner, and are now consolidated. Banner accounts for its interest in each of these companies, during the periods in which it had the ability to exercise significant influence but did not have a majority voting interest, using the equity method of accounting.

On August 31, 2007, Banner entered into an agreement to acquire the net assets of Arizona Medical Clinic (AMC), a specialty physician group. AMC's results of operations have been

2. Significant Accounting Policies (continued)

included in the consolidated financial statements since September 1, 2007, the effective date of the acquisition. Under the purchase method of accounting, the purchase price was allocated to AMC's net tangible assets based upon their estimated fair values as of September 1, 2007. The excess of the purchase price over the estimated fair value of the net tangible and intangible assets has been recorded as goodwill. The fair values of assets acquired and liabilities assumed were as follows (in thousands):

Current assets	$ 7,394
Property and equipment	19,242
Goodwill	6,275
Other assets	7,932
Current liabilities	5,434
Long-term debt	2,917
Net cash paid	$ 32,492

All significant intercompany accounts and transactions have been eliminated in consolidation.

Fair Values

Carrying value of financial instruments classified as current assets and current liabilities approximate fair value. The fair values of other financial instruments are disclosed in their respective notes.

Cash and Cash Equivalents

Banner considers all short-term investments with original or remaining maturities of three months or less when purchased (except assets limited as to use) to be cash equivalents. Cash and cash equivalents are recorded at cost, which approximates market value.

Short-Term Investments

Short-term investments include debt securities with maturity dates of one year or less from the balance sheet date and actively traded equity securities. These investments are stated at market value, based on quoted market prices.

2. Significant Accounting Policies (continued)

Investments

Investments in marketable equity and debt securities are carried at market value, based on quoted market prices. Investment income (including realized gains and losses on investments, unrealized gains and losses on investments categorized as trading, unrealized gains and losses on derivative financial instruments, income earned on alternative investments, interest and dividends) is included in excess of revenues over expenses unless the income or loss is restricted by donor or law.

In previous years, substantially all of Banner's investments were designated as nontrading. As such, unrealized gains and losses were excluded from excess of revenues over expenses. During 2007, Banner determined that substantially all its investment portfolio should be designated as trading, with unrealized gains and losses included in excess of revenues over expenses. Approximately $20,401,000 in unrealized gains, reported in the 2006 consolidated statements of income, have been reclassified into excess of revenues over expenses to reflect this change in designation. This reclassification did not impact the increase in net assets previously reported. In addition, $110,255,000 of cash flows from net purchases of investments previously reported in the 2006 consolidated statements of cash flows as component of investing activity was reclassified into operating activities.

Banner uses derivative financial instruments in its investment portfolio to moderate changes in value due to fluctuations in the financial markets. Banner has not designated its derivatives related to marketable securities as hedges, in accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*. Accordingly, the change in the fair value of derivatives is recognized as a component of investment income as described above.

Banner invests in alternative investments through limited partnerships. Alternative investments are comprised mostly of hedge funds. These alternative investments provide Banner with a proportionate share of the investment gains and losses. The limited partnerships generally contract with a manager who has full discretionary authority over the investment decisions. Banner accounts for its ownership interests in these alternative investments under the equity method. Accordingly, Banner's share of the alternative investment's income approximated $42,234,000 and $41,656,000 for the year ended December 31, 2007 and 2006, respectively. The alternative investment income is primarily recorded within investment income on the consolidated statements of income, with the remainder recorded as an increase to restricted equity for those funds which have been restricted by the donor.

2. Significant Accounting Policies (continued)

Net Patient Accounts Receivable

Net patient accounts receivable and net patient services revenues have been adjusted to the estimated amounts expected to be received. These estimated amounts are subject to further adjustments upon review by third-party payors. Management estimates bad debt expense and the allowance for doubtful accounts based upon the historical collection experience of each acute-care hospital.

Assets Limited as to Use

Assets limited as to use include marketable securities that have been designated by the Banner Board of Directors for payments under lease and loan agreements and for property and equipment replacement and expansion, and assets held by trustees under self-insurance funding and indenture agreements.

Inventories

Inventories, consisting principally of supplies, are stated at the lower of cost or market, determined on a first-in, first-out basis.

Securities Lending Program

Banner participates in a securities lending program whereby a portion of securities is available for loan to various brokers in return for cash and securities from the brokers as collateral for the securities loaned. Collateral provided by the brokers is maintained at levels approximating 102% of the fair market value of the securities on loan, and is adjusted for daily market fluctuations. Banner does not have direct control over the collateral. At December 31, 2007 and 2006, the fair market value of the securities on loan (exclusive of collateral) was $178,000,000 and $172,000,000, respectively, and are included in long-term investments.

Property and Equipment

Property and equipment are stated at cost, if purchased or at fair market value on the date received, if donated, less accumulated depreciation and amortization.

Amortization is provided on a straight-line basis over the shorter of the lease period or the estimated useful lives for leasehold improvements. Depreciation is provided on a straight-line basis over the estimated useful lives of the property and equipment, ranging from 3 to 40 years.

2. Significant Accounting Policies (continued)

Long-Lived Asset Impairment

Banner reviews long-lived assets for impairment when events or changes in business conditions indicate that their carrying value may not be recoverable. Banner considers assets to be impaired and writes them down to fair value, if expected undiscounted cash flows are less than the carrying amounts. Fair value is the present value of the associated discounted cash flows. Banner has determined that no long-lived assets are impaired at December 31, 2007.

Costs of Borrowing

Debt issuance costs are deferred and amortized over the terms of the bonds using the straight-line method, which approximates the effective interest method.

Interest incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Self-Insurance Programs

In connection with self-insurance programs, accounts have been established for the purpose of accumulating assets based on actuarial determinations. These assets, which can be used only for the payment of medical malpractice, general liability, workers' compensation, and employment discrimination claims, related expenses and the cost of administering the self-insurance programs are included in assets limited as to use. It is Banner's policy to record the expense and related liability for medical malpractice, general liability, workers' compensation, and employment discrimination losses based upon actuarial estimates. Self-insurance liabilities include discounted estimates of the ultimate costs for both asserted and incurred but not reported claims for professional liability, workers' compensation and general liability claims.

Contributions

Banner records contributions upon receipt of an unconditional promise to give, less an allowance for doubtful accounts. Gifts, bequests and other promises or receipts restricted by donors as to use or time period are recorded as temporarily restricted net assets until used in the manner designated or upon expiration of the time period restriction. Donated property and equipment are recorded at fair market value at the date received. Unrestricted contributions received are recorded as other income.

2. Significant Accounting Policies (continued)

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by Banner has been limited by donors to a specific time period or purpose.

Performance Indicator

The performance indicator is excess of revenues over expenses which includes all changes in unrestricted net assets other than changes in unrealized gains on interest rate swaps through March 31, 2007, net assets released from restrictions for property acquisitions, restricted contributions, minimum pension obligation, and cumulative effect of changes in accounting principles.

Net Patient Revenue

Banner has agreements with third-party payors that provide for payments at amounts different from its established rates. Net patient revenue is reported at estimated net realizable amounts from patients, third-party payors and others for services rendered. Contractual adjustments resulting from agreements with various organizations to provide services for amounts which differ from billed charges, including services under the Medicare, Medicaid, and certain managed care programs, are recorded as deductions within net patient revenue. Banner recognizes that revenues from government agencies are significant to Banner's operations, but management does not believe that there are any significant credit risks associated with these government agencies. A summary of the payment arrangements with major third-party payors follows:

Medicare

Approximately 21% in 2007 and 23% in 2006, of Banner's net patient revenue was derived from the Medicare program. Most inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical and diagnostic factors. Teaching facility programs related to Medicare beneficiaries, and services provided at critical access hospitals to Medicare beneficiaries, are paid based on a cost reimbursement methodology. Banner is reimbursed for cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. Laws and regulations governing the Medicare program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded third-party payor settlement estimates will change by a material amount in the near term as cost report adjustments become known or as cost report years are no longer subject to such audit.

2. Significant Accounting Policies (continued)

Medicaid

Approximately 15% in 2007 and 2006, of Banner's net patient revenue was derived from various state Medicaid programs. Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid according to the terms of the state program under which services are provided, which may allow for reimbursement based on per diem rates, percent of eligible charges, cost reimbursement, or prospectively based on clinical and diagnostic factors. Certain Medicaid payments are subject to final settlement after audit by fiscal intermediaries.

Other Third-Party Payors

Banner has also entered into payment agreements with certain commercial insurance carriers and health maintenance organizations. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined per diem and capitated rates. Approximately 61% in 2007 and 62% in 2006, of Banner's net patient revenue was derived from other third-party payors.

Charity Care and Services that Benefit the Community

In furtherance of its charitable purpose, Banner provides a broad range of benefits to the communities it serves, including offering various community-based social service programs and a number of health-related educational programs. These services are designed and provided to improve the general standards of health for the communities.

Included in services to the communities are programs directed at the poor and persons who cannot afford health care due to inadequate resources and/or who are uninsured or underinsured. Non-elective, medically necessary care provided by Banner is rendered regardless of the patient's ability to pay. Banner's charity care policy offers various discounts from billed charges based on the patient's family's income. Because Banner does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenues.

In addition to providing traditional charity care, Banner assumes the unpaid costs of Medicaid and other indigent public programs; provides services for the community, through health promotion and education, health clinics, and screenings, all of which cannot be billed or can be operated only on a deficit basis; assumes the unpaid costs of training health professionals, such as medical residents, nursing students, and students in allied health professions; provides community health research and provides cash and in-kind donations of equipment, supplies, or staff time made on behalf of the community.

2. Significant Accounting Policies (continued)

During 2007 and 2006, costs incurred by Banner in the provision of charity care, the unpaid costs of programs directed at the poor and broader community, the education of health professionals, research activities and the costs of supporting other community programs were approximately $221,052,000 and $207,538,000, respectively. Charity care is recorded based on for the cost of services provided for which charges are written off in accordance with Banner's charity care policy, but does not include the amount, if any, for which the patient remains responsible.

The following is a summary of Banner's net community benefit for the years ended December 31. This summary is in accordance with guidelines and standards for community benefit inventory and social accountability and represents services to both the poor and broader community (in thousands):

	2007	% of Total Expense	2006	% of Total Expense
Traditional charity care, at cost	**$ 63,764**	2.0%	$ 66,007	2.2%
Unpaid cost of public programs – Medicaid	**68,461**	2.1	77,287	2.6
Unpaid cost of public programs – Medicare	**60,614**	1.9	40,098	1.2
Health professions education	**8,227**	0.3	9,166	0.3
Community health services	**8,097**	0.3	4,777	0.2
Community building activities	**4,038**	0.1	3,919	0.1
Research activities	**3,755**	0.1	2,711	0.1
Subsidized health services	**2,690**	0.1	1,131	0.1
Contributions and in-kind donations	**1,347**	–	2,383	0.1
Community benefit operations	**59**	–	59	–
	$ 221,052	6.9%	$ 207,538	6.9%

Traditional Charity Care is the cost of services for which reimbursement is not pursued in accordance with Banner's policy to provide health care services free of charge or on a discounted fee schedule to those who cannot afford health care due to inadequate resources and/or who are uninsured or underinsured.

Unpaid Costs of Public Programs is the shortfall created when Banner Health receives payments below the cost for patients enrolled in publicly supported programs such as Medicaid, etc.

2. Significant Accounting Policies (continued)

Health Profession Education includes the unpaid costs of training health professionals, such as medical residents, nursing students, and students in allied health professions.

Community Health Services include costs for health education and related activities designed to improve the health of the community. Included are community health education programs, community-based clinical services and health care support services. No patient bills are generated for these services.

Community Building Activities includes the costs of programs that develop the community through physical improvements, economic development, support system enhancements, environmental improvements, leadership development, coalition building, community health improvement advocacy and workforce enhancement.

Research Activities includes unreimbursed clinical and community health research as well as studies on health care delivery.

Subsidized Health Services include costs for billed services that are subsidized by Banner Health. These include services offered despite a financial loss because they are needed in the community and either other providers are unwilling to provide the services, or the services would otherwise be unable to meet patient demand.

Contributions and In-Kind Donations includes cash donations, grants and in-kind donations to the community-at-large and other tax-exempt organizations.

Community Benefit Operations include costs of directly planning, evaluating and managing community benefit activities.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates are made in the areas of patient accounts receivable; accruals for settlements with third-party payors; accrued liabilities resulting from self-insurance programs.

2. Significant Accounting Policies (continued)

For the years ended December 31, 2007 and 2006, respectively, net patient service revenue increased by approximately $21,000,000 and $30,000,000 for changes in estimates related to the third-party payor settlements associated with the Medicare program, provision for doubtful accounts decreased by approximately $48,000,000 and $30,000,000 for outside collection recoveries on patient receivables previously written off, and other operating expenses decreased by approximately $29,000,000 as a result of favorable claims experience associated with Banner's self insurance programs. The $29,000,000 decrease in operating expense was recorded during the fourth quarter of 2007.

Adoption of New Accounting Standards

During 2006, Banner adopted the provisions of FASB Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations,* an interpretation of FASB Statement No. 143 (FAS 143), *Accounting for Asset Retirement Obligations*. FAS 143 provides guidance on accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. Asset retirement obligations include, but are not limited to, certain types of environmental issues which are legally required to be remediated upon an asset's retirement as well as contractually required asset retirement obligations. FIN 47 provides clarifying guidance on conditional asset retirement obligations. Conditional asset retirement obligations are obligations whose settlement may be conditional on a future event and/or where the timing or method of such settlement may be uncertain. FIN 47's guidance requires such conditional asset retirement obligations to be estimated and recognized. Application of these pronouncements primarily affects Banner with respect to required future asbestos remediation. The adoption of FIN 47 increased property and equipment and other noncurrent liabilities by $934,000 and $11,788,000, as of December 31, 2006, discounted at 5.75%. The cumulative effect of initially applying FIN 47, of $10,169,000, is a change in accounting principle and recorded as a reduction in unrestricted net assets in the consolidated statement of income.

2. Significant Accounting Policies (continued)

Conditional asset retirement obligations of $12,396,000 and $11,788,000 as of December 31, 2007 and 2006, respectively, are recorded in other noncurrent liabilities in the accompanying consolidated balance sheets. There are no assets that are legally restricted for purposes of settling the asset retirement obligation.

In January 2007, the Financial Accounting Standards Board issued DIG Issue G26, *Hedging Interest Cash Flows on Variable-Rate Assets and Liabilities that are not based on a Benchmark Rate,* which was effective for Banner on April 1, 2007. DIG Issue G26 further refined the criteria used to determine if an interest rate swap qualifies for hedge accounting. Banner determined that the 2005, 2006 and 2007 interest rate swap transactions do not qualify for hedge accounting under the new guidance. Accordingly, the fair value of the interest rate swap instruments are recorded within the excess of revenues over expenses, on a prospective basis, starting April 1, 2007. The interest rate swap accumulated unrealized gains, recorded in net assets as of April 1, 2007, will be amortized into excess of revenue over expenses over the remaining swap term.

In July 2006, the FASB issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements. It also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, among other things. The provisions of FIN 48 were effective beginning January 1, 2007, and did not have a material effect on Banner's financial position, results of operations, or cash flows.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (FAS 157), *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. FAS 157 applies under other accounting pronouncements that require or permit fair value measurements and accordingly, FAS 157 does not require any new fair value measurements. FAS 157 is effective for fiscal years beginning after November 15, 2007. Banner is currently evaluating the impact that adopting this standard will have on its consolidated financial statements.

In February 2007, the FASB issued FAS No. 159 (FAS 159), *The Fair Value Option for Financial Assets and Financial Liabilities*. FAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. FAS No. 159 is effective for the fiscal years beginning after November 15, 2007. Banner has elected not to adopt the provisions of FAS No.159.

2. Significant Accounting Policies (continued)

Reclassifications

Certain reclassifications have been made to the 2006 financial statements to conform to the 2007 financial statement presentation.

3. Concentrations of Credit Risk

Banner grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors as of December 31 was as follows:

	2007	**2006**
Commercial/HMO/PPO/other third-party payors	**50%**	48%
Medicare	**18**	19
Medicaid/AHCCCS	**17**	17
Self-pay	**15**	16
	100%	100%

4. Investments

Assets Limited as to Use

Assets limited as to use, with the exception of alternative investments, are stated at fair market value, based on quoted market prices,. The alternative investments are recorded using the equity method of accounting. Assets limited as to use, as of December 31, were as follows:

	2007	2006
	(In Thousands)	
Funds designated by Board of Directors		
Cash and cash equivalents	**$ 24,482**	$ 53,359
U.S. Treasury/government obligations	**38,414**	107,220
Alternative investments	**472,102**	389,514
Equities	**766,628**	691,209
Corporate bonds	**48,561**	22,152
	1,350,187	1,263,454
Funds held by trustees:		
Cash and cash equivalents	**53,688**	62,130
U.S. Treasury/government obligations	**737,482**	301,325
Equities	**5,488**	5,143
Corporate bonds	**41,367**	10,253
	838,025	378,851
Other:		
Cash	**3,483**	3,298
U.S. Treasury/government obligations	**16,059**	11,196
Equities	**30,837**	31,501
Corporate bonds	**-**	1,389
	50,379	47,384
Total assets limited as to use	**2,238,591**	1,689,689
Less amounts required for current liabilities	**71,098**	55,228
Assets limited as to use, less current portion	**$ 2,167,493**	$ 1,634,461

4. Investments (continued)

Other Investments

Other investments, with the exception of the alternative investments, are stated at fair market value based on quoted market prices. The alternative investments are recorded using the equity method of accounting. Other investments as of December 31 were as follows:

	2007	2006
	(In Thousands)	
Cash and cash equivalents	**$ 104,060**	$ 145,880
U.S. Treasury/government obligations	**160,314**	289,150
Alternative investments	**27,058**	22,787
Equities	**39,176**	9,370
Corporate bonds	**202,832**	59,758
	533,440	526,945
Less: short-term investments	**92,069**	117,323
Long-term investments	**$ 441,371**	$ 409,622

Included in the funds designated by Board of Directors and other long term investments are several derivative instruments including forward purchase and sale contracts, future purchase and sale contracts, options and swap agreements. Banner has executed a master netting arrangement with each of its forward and future purchase and sale contracts whereby the financial instruments are held by the same counterparty and are legally offset as the instrument is settled. Banner accounts for its derivative instruments in accordance with FIN 39, *Offsetting of Amounts Related to Certain Contracts an Interpretation of APB Opinion No. 10 and FASB Statement No. 105*, which permits netting when the right of offset exists except that derivative contracts in a net loss position should not be offset against the fair value of contracts in a gain position. Banner's derivative contracts in a net loss position were immaterial at December 31, 2007 and 2006, and were reported on a net basis. As of December 31, 2007 and 2006, the gross derivative assets and liabilities held and netted together within the investment accounts amounted to assets of $1,595,000,000 and $1,575,000,000, respectively, and liabilities of $1,588,000,000 and $1,573,000,000, respectively.

4. Investments (continued)

Investment income comprised the following for the years ended December 31:

	2007	2006
	(In Thousands)	
Interest and dividend income	**$ 106,324**	$ 63,277
Net realized gains on sales of investments	**75,923**	77,396
Earnings on alternative investments	**42,234**	42,379
Net unrealized (losses) gains on investments	**(56,840)**	21,536
	167,641	204,588
Less: investment income credited to other revenue, restricted equity or capitalized	**39,177**	22,700
Investment income	**$ 128,464**	$ 181,888

5. Property and Equipment

Property and equipment consisted of the following as of December 31:

	2007	2006
	(In Thousands)	
Land and land improvements	**$ 120,513**	$ 89,421
Buildings and fixed equipment	**1,378,680**	1,151,241
Major movable equipment	**1,081,652**	955,031
Construction in progress	**178,427**	174,437
	2,759,272	2,370,130
Less accumulated depreciation and amortization	**1,361,582**	1,228,080
Property and equipment, net	**$ 1,397,690**	$ 1,142,050

6. Other Noncurrent Assets

Noncurrent assets consisted of the following as of December 31:

	2007	2006
	(In Thousands)	
Restricted assets	**$ 58,578**	$ 51,081
Goodwill, net of amortization	**83,716**	80,722
Investments in unconsolidated affiliates	**9,481**	9,601
Other	**12,505**	8,789
Total other noncurrent assets	**$ 164,280**	$ 150,193

The goodwill balance primarily relates to the Cardiac Institute General Partnership (CIGP) acquisition that was completed in January 2003, acquisition of reference laboratories by Sonora Quest Laboratories, the purchase of the majority interest in Samaritan Surgicenters in May 2005, purchase of Big Thompson Medical Group in September 2006 and the purchase of AMC in August 2007. Goodwill of approximately $28,000,000, $24,000,000, $7,000,000 and $6,000,000 was recorded in connection with the CIGP, Samaritan Surgicenters, Big Thompson Medical Group, and AMC acquisitions, respectively. Goodwill associated with these transactions is being amortized, using a straight-line basis, over 20 years.

7. Long-Term Debt

Long-term debt consisted of the following as of December 31:

	2007	2006
	(In Thousands)	
Revenue Bonds, Series 2007A, interest 5%, due through 2025	**$ 190,920**	$ –
Index Revenue Bonds, Series 2007B, interest determined quarterly, due through 2037	**400,000**	–
Weekly Rate Securities Revenue Bonds, Series 2005A, interest determined weekly, due through 2029	**393,330**	395,195
Weekly Rate Securities Revenue Bonds, Series 2005B, interest determined weekly, due through 2035	**154,315**	156,735
Weekly Rate Securities Revenue Bonds, Series 2005C, interest determined weekly, due through 2035	**43,745**	44,400
Auction Rate Securities Revenue Bonds, Series 2005D, interest determined weekly, due through 2035	**77,600**	78,825
Auction Rate Securities Revenue Bonds, Series 2005E, interest determined weekly, due through 2035	**77,600**	78,825
Auction Rate Securities Revenue Bonds, Series 2005F, interest determined weekly, due through 2035	**72,700**	73,850
Auction Rate Securities Revenue Bonds, Series 2002A, interest determined monthly, through 2032	**73,225**	75,300
Auction Rate Securities Revenue Bonds, Series 2002B, interest determined weekly, through 2032	**73,175**	75,275
Non-Putable Remarketed Securities Revenue Bonds, Series 2002C, interest determined weekly, due through 2032	**146,325**	150,550
Revenue Bonds, Series 1999A, interest from 4.70% to 5.20%, due through 2010	**3,815**	4,700
Weekly Rate Securities Revenue Bonds, Series 1999B, interest determined weekly, due through 2029	**52,100**	53,400
Revenue Bonds, Series 1998A, interest from 4.10% to 5.25%, due through 2019	**58,005**	63,625
Other	**16,203**	1,635
	1,833,058	1,252,315
Less: current portion	**38,495**	25,774
Total long-term debt, less current portion	**$ 1,794,563**	$ 1,226,541

7. Long-Term Debt (continued)

Scheduled maturities of debt for the years ending December 31 are as follows:

	(In thousands)
2008	$ 38,495
2009	35,919
2010	36,272
2011	36,641
2012	38,724
Thereafter	1,647,007
	$ 1,833,058

Total interest incurred amounted to $68,643,000 in 2007 and $48,193,000 in 2006, of which $25,166,000 and $12,823,000 has been capitalized in 2007 and 2006, respectively.

Series 2007 Bonds (Series A and B)

On May 10, 2007, Banner issued $590,920,000 of tax-exempt revenue bonds. The proceeds of these bonds were used to finance capital projects. The Series 2007A Bonds, in the initial principal amount of $190,920,000 comprise fixed rate securities due in annual installments beginning in 2008 through 2025. The bonds bear interest at an annual fixed rate of 5%.

The Series 2007B Bonds, in the initial principal amount of $400,000,000, comprise Indexed Rate Bonds due in annual installments beginning in 2025 through 2037. The bonds bear interest computed quarterly based on the Three-Month LIBOR rate as determined by the Index Agent. The average interest rate for the year ended December 31, 2007 was 4.37%.

The Series 2007 Bonds are governed by a Master Indenture covering substantially all of the Obligated Group's (consisting solely of Banner) long-term indebtedness.

Series 2005 Bonds (Series A through F)

On May 12, 2005, Banner issued $836,230,000 of tax-exempt Revenue Bonds. The proceeds of these bonds were used to advance refund a portion of outstanding Series 1999A bonds, retire a portion of the outstanding commercial paper that had been incurred to finance capital projects, and to pay for certain capital projects.

7. Long-Term Debt (continued)

The Series 2005A, B and C Bonds comprise weekly rate securities due in annual installments beginning in 2006 through 2035. The bonds bear interest, based on successive interest rate periods of seven days, at an interest rate determined by the Remarketing Agent. The average interest rate for the years ended December 31, 2007 and 2006 was approximately 3.63% and 3.44%, respectively. Subsequent to December 31, 2007, the weekly interest rates have ranged from 2.45% to 10.00%. Liquidity on the Series 2005A Bonds has been provided by Citibank, N.A. pursuant to a Standby Bond Purchase Agreement, which terminates on May 12, 2010. Liquidity on the Series 2005B and C Bonds has been provided by Bank of Nova Scotia pursuant to a Standby Bond Purchase Agreement, which terminates on November 5, 2010. The Standby Bond Purchase Agreement repayment terms commence one year after any advance is made. There were no advances made as of December 31, 2007.

The Series 2005D, E and F Bonds comprise auction rate securities due in annual installments beginning in 2006 through 2035. The bonds bear interest at an interest rate determined for the auction period of seven days. The average interest rate for the years ended December 31, 2007 and 2006 was approximately 3.59% and 3.26%, respectively. (Refer to Note 11)

The Series 2005A Bonds are guaranteed by MBIA Insurance Corporation (MBIA), and the Series 2005B-F Bonds are guaranteed by Financial Guaranty Insurance Company (FGIC). All of the Series 2005 Bonds are governed by a master indenture covering substantially all of the Obligated Group's long-term indebtedness.

The liquidity agreement provided by Citibank, N.A. for the 2005A Bonds is contingent upon the investment rating of the guarantor (MBIA). If the guarantor is downgraded to a level below AA-Aa3 for more than 180 days, Citibank, N.A. can suspend and ultimately terminate the liquidity agreement. As of March 14, 2008, MBIA was above the assigned a rating.

The liquidity agreements provided by Bank of Nova Scotia for the 2005B and 2005C Bonds are contingent upon the investment rating of the guarantor (FGIC). If the guarantor is downgraded a level below AA-, Aa3, the Bank of Nova Scotia can suspend and ultimately terminate the liquidity agreement. As of March 14, 2008, FGIC fell below the required ratings and the 2005B and 2005C Bonds have been tendered to Nova Scotia. As a result, Banner will be required to comply with the provisions of the Bank of Nova Scotia liquidity agreement which requires Banner to repay the bonds over 18 consecutive quarters commencing March 2009 if the 2005B and 2005C Bonds are not remarketed by August 2008 (refer to Note 11).

7. Long-Term Debt (continued)

Series 2002 Bonds (Series A-C)

On December 12, 2002, Banner issued $325,000,000 of tax-exempt revenue bonds, Series 2002. The proceeds of these bonds were used to retire a portion of outstanding commercial paper and used to pay for certain capital projects.

The Series 2002A Bonds, in the initial principal amount of $81,250,000, comprise Auction Rate Securities due in annual installments beginning in 2004 through 2031. The Bonds bear interest at an interest rate determined for the auction period originally set at 35 days, and converted to 7 days on July 1, 2006. The average interest rate for the years ended December 31, 2007 and 2006, was approximately 3.67% and 3.40%, respectively.

The Series 2002B Bonds, also in the initial principal amount of $81,250,000, comprise Auction Rate Securities due in annual installments beginning in 2004 through 2031. The Bonds bear interest at an interest rate determined for the auction period originally set at 35 days, and converted to 7 days on July 22, 2005. The average interest rate for the years ended December 31, 2007 and 2006, was approximately 3.55% and 3.31%, respectively.

The Series 2002C Bonds, in the initial principal amount of $162,500,000, comprise non-putable remarketed bonds due in annual installments beginning in 2004 through 2031. The Bonds bear interest, based on successive Interest Rate Periods of 7 days, at an interest rate determined by the Remarketing Agent. The average interest rate for the years ended December 31, 2007 and 2006, was approximately 3.72% and 3.41%, respectively.

The Series 2002 Bonds are guaranteed by Ambac Assurance Corp. (Ambac) and are governed by a Master Indenture covering substantially all of the Obligated Group's long-term indebtedness.

Series 1999A Bonds

On September 1, 1999, Banner issued $366,545,000 of tax-exempt revenue bonds, Series 1999A, to acquire substantially all of the assets of Samaritan Health System (Samaritan) and to pay for capital projects. On May 12, 2005, Banner legally defeased $356,175,000 of the $361,590,000 Series 1999A bonds. Proceeds from the Series 2005A bonds were used to fund sufficient escrow to pay the outstanding obligation on the bonds.

7. Long-Term Debt (continued)

The outstanding 1999A bonds, which are to be redeemed on January 1, 2010, are Serial Bonds due in annual installments through 2010. The average interest rate for the years ended December 31, 2007 and 2006 was approximately 4.8% and 4.7%, respectively. The Series 1999A Bonds are guaranteed by MBIA and are governed by a master indenture covering substantially all of the Obligated Group's long-term indebtedness.

Series 1999B Bonds

On September 1, 1999, Banner issued $60,000,000 of tax-exempt variable rate revenue bonds, Series 1999B, to acquire the assets of Samaritan.

The Series 1999B Bonds comprise term bonds and are due in annual installments through 2029. The bonds bear interest, based on successive interest rate periods of 7 days, at an interest rate determined by the Remarketing Agent. The average interest rate for the years ended December 31, 2007 and 2006, was approximately 3.58% and 3.44%, respectively. Liquidity on the Series 1999B has been provided by JPMorgan Chase & Co. pursuant to a Standby Bond Purchase Agreement, which terminates on August 31, 2009. The Series 1999B Bonds are guaranteed by MBIA and are governed by a master indenture covering substantially all of the Obligated Group's long-term indebtedness.

The Liquidity Agreement provided by JPMorgan Chase & Co. is contingent upon the credit rating of the guarantor (MBIA). If the guarantor is downgraded to a level below AA- or Aa3 for more than 90 days, JP Morgan Chase, N.A. can terminate the Liquidity Agreement after a 15 day notice. As of March 14, 2008, MBIA was above the assigned a rating.

Series 1998A Bonds

During November 1998, Banner issued $115,325,000 of Series 1998A Refunding Revenue Bonds. The Series 1998A Bonds are comprised of serial bonds ($82,340,000) and term bonds ($32,985,000). The serial bonds are due in annual installments through 2012, and the term bonds are due 2028. The average interest rate for the years ended December 31, 2006 and 2005 was approximately 5.0%. The Series 1998A Bonds are guaranteed by MBIA and are governed by a master indenture covering substantially all of the Obligated Group's long-term indebtedness.

7. Long-Term Debt (continued)

Interest Rate Swap Agreements

In September 2001, Banner entered into an interest rate swap agreement. The interest rate swap did not qualify for hedge accounting under Statement of Financial Accounting Standards No. 133, *Accounting for Derivatives and Hedging Activities,* and its amendments *(FAS 133)*. The agreement hedged a notional amount of $110,000,000 at an average of 76.25% of one-Month USD-LIBOR rate against an average of the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index (previously known as the BMA Municipal Bond Index. The net effect of the interest rate swap, recorded in interest expense, was to decrease the overall cost of borrowing in 2006 by approximately $393,000. The interest rate swap agreement was terminated on November 1, 2006 and $1,575,000 was received upon termination.

In March 2005, Banner entered into multiple interest rate swap contracts which effectively convert the variable rate of certain bonds into fixed rates of 3.661% or 3.690%, depending upon the stated maturity of the swap (the 2005 Swaps). The 2005 Swaps qualified for hedge accounting under FAS 133 until the April 1, 2007 implementation of DIG Issue G26 which resulted in the 2005 swaps not qualifying for hedge accounting. The initial notional amounts of the 2005 Swaps of $396,995,000 and $204,235,000 are reduced over the term of the agreement, and settlements are made each month. For the three months ended March 31, 2007 and for the year ended December 31, 2006, the derivative mark-to-market adjustments resulted in an increase in unrestricted net assets of $1,701,000 and $11,080,000, respectively. Subsequent to the adoption of DIG Issue G26, the derivative mark-to market adjustments resulted in an unrealized loss of $18,859,000 which has been recorded in excess of revenue over expenses. The net effect of the interest rate swaps, recorded in interest expense, was to increase the overall cost of borrowing in 2007 and 2006 by approximately $260,000 and $931,000, respectively. As a result of the hedging designation, the accumulated unrealized derivative loss of $5,324,000 at March 31, 2007, is being amortized into excess of revenues over expenses over the 27 year remaining life of the 2005 Swaps.

In March 2006, Banner entered into two forward swap agreements (the 2006 Swaps). The 2006 Swaps qualified for hedge accounting under FAS 133, until the April 1, 2007 implementation of DIG Issue G26 which resulted in the 2006 swaps not qualifying for hedge accounting. The agreements hedged initial notional amounts of $255,000,000 and $170,000,000. The 2006 swaps were amended and extended in May 2007 to be used with any of Banner's future debt offerings through 2011. The 2006 Swaps will convert the future variable rate bonds at a fixed rate of 3.71% against a floating rate option of 61.8% of one-month LIBOR plus 31 basis points. For the three months ended March 31, 2007 and for the year ended December 31, 2006, the derivative mark-to-market adjustment resulted in an increase in unrestricted net assets of $1,746,000 and a decrease of $2,819,000, respectively. Subsequent to the adoption of DIG

7. Long-Term Debt (continued)

Issue G26, the derivative mark-to market adjustments resulted in an unrealized loss of $7,922,000 which has been recorded in excess of revenue over expenses.

As a result of the hedging dedesignation, the accumulated unrealized derivative loss of $1,073,000 at March 31, 2007, is being amortized into excess of revenues over expenses over the 33 year remaining life of the 2006 Swaps.

In May 2007, Banner entered into two interest rate swaps (the 2007 Swaps) which effectively convert the $400,000,000 LIBOR based Index Rate bonds to a fixed rate of 4.413% against a floating rate of 67% of three-month LIBOR plus 81 basis points. The agreements hedged initial notional amounts of $200,000,000 each and are reduced over the term of the agreements. It was determined that the interest rate swaps did not qualify for hedge accounting treatment under FAS 133. The derivative mark-to-market adjustment resulted in an unrealized loss of $16,747,000 which has been recorded in excess of revenue over expenses.

Bond Indentures

The master indenture, as supplemented, contains covenants which, among other matters, restrict the transfer of assets and require the maintenance of specified levels of cash on hand and compliance with certain other financial ratios. Pursuant to the master indenture, as supplemented, Banner has pledged its gross revenues to secure all indebtedness governed by the master indenture. Banner was in compliance with these covenants as of December 31, 2007.

Under the terms of the bond indentures, periodic deposits are made to a trustee-held fund to meet semiannual interest and annual principal payments. Trustee-held funds are included as assets limited as to use in the accompanying consolidated balance sheets. Payment of principal and interest on some of the revenue bonds is insured by a bond insurer.

Letters of Credit

As of December 31, 2007, Banner had the following letters of credit outstanding: Travelers Indemnity Company of Illinois in the amount of $819,000 expiring January 16, 2009; Sentry Insurance in the amount of $2,525,000 expiring January 1, 2009; Liberty Mutual Insurance Company in the amount of $1,356,000 expiring May 1, 2009; Zurich America Insurance Company in the amount of $2,325,000 expiring October 31, 2008; and First American Title Company in the amount of $645,000 expiring January 31, 2009. No amounts were drawn upon the letters of credit as of December 31, 2007 and 2006.

7. Long-Term Debt (continued)

Fair Value of Debt and Interest Rate Swap

As of December 31, 2007 and 2006, the estimated fair value of Banner's debt was $1,794,779,000 and $1,253,601,000, respectively. The estimated fair value is based on quoted market prices for these issues or, where such prices are not available, on current interest rates for debt with similar remaining maturities.

As of December 31, 2007 and 2006, the estimated fair value of Banner's 2005 interest rate swaps resulted in an imputed obligation of $24,197,000 and $7,086,000, respectively, which is recorded in other long term liabilities. The fair value of the interest rate swaps is based on the forward LIBOR curve with a blended average duration of approximately 16 years.

As of December 31, 2007 and 2006, the estimated fair value of Banner's 2006 forward swaps resulted in an imputed obligation of $8,970,000 and $2,819,000, respectively, which is recorded in other long term liabilities. The fair value of the forward swaps is based on the forward LIBOR curve with a blended average duration of approximately 21 years.

As of December 31, 2007, the estimated fair value of Banner's 2007 interest rate swaps resulted in an imputed obligation of $16,747,000 which is recorded in other long term liabilities. The fair value of the interest rate swaps is based on the forward LIBOR curve with a blended average duration of approximately 26 years.

8. Estimated Self-Insurance Liabilities

Banner has obtained insurance through a combination of purchased and self-insurance programs for professional and general liability claims and workers' compensation claims. Banner is self-insured for workers' compensation in Arizona and Colorado. Banner facilities outside of Arizona and Colorado are insured for workers' compensation by a commercial insurance company with a deductible of $250,000 per occurrence. Banner is also required to contribute to certain states' mandated programs.

Under its self-insured professional and general liability programs, Banner contributes actuarially determined amounts to Samaritan Insurance Funding, Ltd., a captive insurance company wholly owned by Banner, to fund estimated ultimate losses. In connection with the professional and general liability and workers' compensation self-insurance program, Banner has accrued estimates for asserted and incurred but not reported claims. The actuarially determined claim liabilities amounting to $192,691,000 and $185,553,000, of which $42,711,000 and $44,700,000 has been recorded as other current liabilities, as of December 31, 2007 and 2006, respectively, have been discounted to present value using a discount rate of 5.9% and 5.5% in 2007 and 2006, respectively.

8. Estimated Self-Insurance Liabilities (continued)

The self-insured occurrence based coverage has a per claim limit of $10,000,000 in 2007 and 2006 and applies to all entities for general and professional liability claims. Individual professional liability claims in excess of the $10,000,000 self-insured retention, and aggregate general liability claims in excess of the $10,000,000 self-insured retention, are insured through claims-made excess liability policies. The first $20,000,000 of this excess coverage is also self-insured through Samaritan Insurance Funding, ltd. The balance of this excess coverage is provided through reinsurance policies issued by unaffiliated third party insurers. These excess policies, together with the self-insured components, were in force with aggregate coverage of $200,000,000 in 2007 and $140,000,000 in 2006 for professional and general liabilities as of December 31, 2007.

9. Retirement Plans

Defined Contribution Plan

Substantially all of Banner's eligible employees may elect to participate in Banner's defined contribution plan. Employees may contribute up to 21% of eligible compensation, subject to plan restrictions. Banner may provide a matching contribution equal to the first 4% of eligible compensation contributed for each participant, as defined under the defined contribution plan. Pension expense was $32,289,000 and $29,061,000 for the years ended December 31, 2007 and 2006, respectively.

Defined Benefit Plan

Banner has a noncontributory defined benefit plan (the Plan) covering eligible employees of Samaritan to provide for retirement and death benefits. Banner annually contributes amounts to the Plan as are necessary to meet the Employee Retirement Income Security Act of 1974 minimum funding requirements. Benefits are based on years of service and the employee's compensation during the last five years of employment. Benefit accruals under the Plan have been frozen since 2002.

On December 31, 2007, Banner adopted the recognition and disclosure provisions of FAS 158 *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R*). FAS 158 required Banner to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its pension plan in the December 31, 2007 consolidated balance sheet. The adoption of FAS 158 did not have a material impact on Banner's consolidated financial statements.

9. Retirement Plans (continued)

The following table sets forth the benefit obligation and assets of the Plan at December 31, 2007 and 2006, (using measurement dates as of December 31, 2007 and 2006, respectively) and components of net periodic benefit costs for the years then ended:

	December 31 2007	December 31 2006
	(In Thousands)	
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	**$ 72,438**	$ 74,950
Interest cost	**4,064**	3,926
Actuarial loss	**(1,399)**	(1,722)
Benefits paid	**(4,981)**	(4,716)
Projected benefit obligation at end of year	**70,122**	72,438
Change in plan assets		
Fair value of plan assets at beginning of year	**66,556**	62,875
Actual return on plan assets	**4,594**	8,397
Benefits paid	**(4,980)**	(4,716)
Fair value of plan assets at end of year	**66,170**	66,556
Funded status – accrued benefit recorded	**$ (3,952)**	$ (5,882)
Unrecognized net loss recorded in net assets	**$ 15,973**	$ 17,277

The underfunded status of the Plan of $3,952,000 at December 31, 2007, is recognized in the accompanying consolidated balance sheets as an other long-term liability. No plan assets are expected to be returned to Banner during the year ended December 31, 2008.

	Years Ended December 31 2007	Years Ended December 31 2006
	(In Thousands)	
Components of net periodic benefit		
Interest cost	**$ 4,064**	$ 3,926
Expected return on plan assets	**(5,215)**	(5,231)
Amortization of prior service cost	**9**	64
Amortization of actuarial loss	**525**	570
Net periodic benefit	**$ (617)**	$ (671)

9. Retirement Plans (continued)

The assumptions used to determine the projected benefit obligation and net periodic benefit cost for the Plan are set forth below:

	December 31	
	2007	**2006**
Weighted average discount rate	**5.8%**	5.4%
Weighted average expected long-term rate of return on plan assets	**8.5%**	8.5%

The Plans' asset allocation and investment strategies are designed to earn superior returns on plan assets consistent with a reasonable and prudent level of risk. Investments are diversified across classes, sectors, and manager style to minimize the risk of large losses. Derivatives may be used to bridge specific exposure, reduce transaction costs, or modify the portfolio's duration or yield. Banner uses investment managers specializing in each asset category and, where appropriate, provides the investment manager with specific guidelines which include allowable and/or prohibited investment types. Banner regularly monitors manager performance and compliance with investment guidelines.

The weighted-average asset allocation for the Plan at the end of 2007 and 2006 and the target allocation for 2007, by asset category, are as follows:

	Target Allocation	Percentage of Plan Assets at Year-End	
	2007	**2007**	**2006**
Asset category			
Equity securities	**60%**	**68%**	63%
Fixed income	**20**	**9**	15
Alternative	**20**	**23**	22
Total	**100%**	**100%**	100%

The expected long-term rate of return on plan assets is based on historical and projected rates of return for current and planned asset categories in the Plan's investment portfolio. Assumed projected rates of return for each asset category were selected after analyzing historical experience and future expectations of the returns and volatility for assets of that category using benchmark rates. Based on the target asset allocation among the asset categories, the overall expected rate of return for the portfolio was developed and adjusted for historical and expected experience of active portfolio management results compared to benchmark returns and for the effect of expenses paid from plan assets.

9. Retirement Plans (continued)

Information about the expected cash flows for the Plan follow (*In Thousands*):

Expected employer contributions in 2008	$ –
Expected benefit payments:	
2008	4,951
2009	4,901
2010	5,115
2011	5,416
2012	5,464
2013-2017	28,319

The benefit payment amounts above also reflect the total benefits expected to be paid from the Plan.

Health and Dental Plan

Employees of Banner are provided health and dental coverage through a combination of several programs, purchased and self-insured. Health, dental, and group life coverage is funded through employee and employer contributions. Banner's health and dental expense was $128,182,000 and $115,493,000 for the years ended December 31, 2007 and 2006, respectively.

Long-Term Disability Plan

Employees of Banner are provided long-term disability coverage through a self-insured plan that is funded by employee and employer contributions. Banner's long-term disability expense was $1,119,000 and $3,163,000 for the years ended December 31, 2007 and 2006, respectively.

In connection with the long-term disability program, Banner has accrued estimates for asserted and incurred but not reported claims. The actuarially determined claim liabilities have been discounted to present value using a discount rate of 6.3% in 2007 and 5.5% in 2006.

Supplemental Executive Retirement Plan

During 2004, Banner adopted a supplemental executive retirement plan for certain of its senior executives for retirement and death benefits. Banner's executive retirement plan expense was $5,044,000 and $4,264,000 for the years ended December 31, 2007 and 2006, respectively. The actuarially determined liability has been discounted to present value using a discount rate of 5.5% in 2007 and 5.5% in 2006.

10. Commitments and Contingencies

Leases

Future minimum lease payments, excluding operating agreements, at December 31, 2007, by year and in the aggregate, under noncancelable operating lease arrangements with initial or remaining terms of one year or more consist of the following (*In Thousands*):

2008	$ 2,800
2009	2,541
2010	1,756
2011	629
2012	478
Thereafter	4,032
	$ 12,236

Operating Agreements

On January 1, 2003, Banner entered into a 15-year Amended and Restated Operating Agreement with NCMC, Inc., (lease amendment) under which Banner subleases North Colorado Medical Center (NCMC) and other real and personal property from NCMC, Inc. Banner is required to pay rent to NCMC, Inc. monthly in two components (i) Basic Rent, and (ii) Return on Assets. Basic Rent is in an amount equal to total actual asset depreciation expense of NCMC, Inc. Return on Assets is an amount equal to 8% of the year-end net book value of NCMC, Inc.'s assets. Starting in 2004, NCMC, Inc. was required to pay Banner $500,000 on a quarterly basis to compensate Banner for indigent care at the healthcare facility for the years 2004 and 2005. In years 2006 through 2009, the quarterly payment is $625,000; from 2010 through the end of the lease the quarterly payment is $500,000.

Total rent payments to NCMC, Inc. of $31,117,000 and $31,224,000 were recorded as other operating expenses in 2007 and 2006, respectively.

As part of the operating agreement, Banner must meet certain performance criteria in its operation of the healthcare facility, measuring patient satisfaction, employee satisfaction, and physician satisfaction. Banner was in compliance with the lease provisions as of December 31, 2006. The rent payable under the operating agreement was reduced by $3,000,000 in 2006 from what otherwise would have been payable, and will be reduced by $2,000,000 and $1,000,000 in 2007 and 2008, respectively; these rent reductions will be recaptured through rent increases in the same amounts in 2014, 2013 and 2012, respectively. If at the end of years five, 10 and 15 of the Amended and Restated Operating Agreement, the cumulative operating income exceeds 5%

10. Commitments and Contingencies (continued)

of the cumulative net operating revenue during each five-year period, Banner must pay NCMC, Inc. 50% of the difference between the operating income and 5% of the net operating revenue. If cumulative operating income for the period is less than zero, then NCMC, Inc. must pay Banner 50% of the amount by which the operating income is less than zero; provided that the aggregate Basic Rent paid by Banner during a five-year period, less the reconciliation payment, may not be less than the amount of the scheduled annual debt service payments made by NCMC, Inc. on the tax-exempt bonds.

Banner leases a hospital facility (the Hospital) and a skilled nursing facility (the Home) from the Greater Fairbanks Community Hospital Foundation, Inc. (the Foundation) under a cancelable operating lease agreement. The lease obligates Banner to operate the Hospital and the Home and pay basic rent based on the fair market value per square foot for both the Hospital and the Home, adjusted annually. In exchange for rents to be paid, the lease obligates the Foundation to purchase all future equipment for the Hospital and the Home. In addition to the Basic Rent, additional rent payments are required to be made by Banner to the Foundation based on excess cash flows, net of expenses, as defined. The net effect of the additional rent payments is that Banner retains the net operating income from the Hospital and the Home up to 4.5% of the net operating revenue, and pays the balance of the net income to the Foundation. Total rental expense under the Hospital's operating leases totaled $13,335,000 and $14,049,000 for the years ended December 31, 2007 and 2006, respectively. The operating agreement can be terminated at any time by either Banner or the Foundation on one-year's notice.

Amounts charged to expense for all operating leases totaled $101,224,000 in 2007 and $93,628,000 in 2006.

Debt Guarantee

Banner has guaranteed payment of the principal and interest on various debt offerings of NCMC, Inc. pursuant to the Limited Guaranty agreement entered into with the bond trustee. Under the limited guaranty agreement, Banner agrees to pay, solely from the revenues generated by the operation of the facility, the principal and interest on the Series 2005, 2003, 1999, 1993, as well as the Series 1990 Bonds, when due. As of December 31, 2007, $205,869,000 (unaudited) was outstanding under the Series 1990, 1993, 1999, 2003 and 2005 bonds, net of an amount held in escrow. The maximum annual debt service on the Series 1990, the Series 1993, the Series 1999 Bonds, the Series 2003 and the Series 2005 Bonds is approximately $11,351,000. Banner has agreed to pay directly to the trustee monthly the portion of the Basic Rent equal to NCMC, Inc.'s debt service obligation. Such payments are credited against the Basic Rent and Return on Assets obligations to NCMC, Inc. The amount payable under the limited guaranty agreement will never

10. Commitments and Contingencies (continued)

exceed the rent otherwise payable under the lease. Banner is not obligated to pay any amounts, which become due on such Bonds as a result of acceleration of the principal of the Bonds under the Indenture. Banner's obligations under the limited guaranty agreements cease upon the termination of the Amended and Restated Operating Agreement. Banner did not record a liability for the limited guaranty agreements at December 31, 2007 or 2006.

In October 2004, Banner entered into a limited guarantee of the scheduled payments of principal and interest owed by the Foundation with respect to the $120,000,000 Revenue Bonds (the Bonds) issued simultaneously by the Alaska Industrial Development and Export Authority (the Authority), the proceeds of which were used to finance expansion and improvements of the Hospital. The limited guarantee is only in effect during the period that the lease for the Hospital and the Home is in effect. If the lease is terminated by either Banner or the Foundation, the limited guarantee will cease to be effective. Moreover, Banner receives a credit against its rent obligation for any amount that it pays under the limited guarantee. The annual scheduled debt service for the Bonds is projected to be approximately $6,900,000, which is less than the Basic Rent currently owed under the lease, and substantially less than the sum of the Basic Rent and projected additional rent. Under certain circumstances, the annual scheduled debt service can be increased in accordance with an accelerated redemption of the Bonds. In those circumstances, the amount payable under the limited guarantee is expressly limited to the amount of the rent otherwise payable by Banner under the lease. Under any reasonably foreseeable circumstance management believes that the amount payable under the limited guarantee will never exceed the rent otherwise payable under the lease, and Banner did not record a liability for the limited guarantee at December 31, 2007 or 2006.

In November 2003, Banner guaranteed partial payment of a construction note between Loveland Medical Enterprises, LLC (LME) and JPMorgan Chase & Co. Banner is the sole Member of McKee Medical Holdings, L.L.C., (MMH), an entity that owns approximately 35% of LME. Banner's limited and several guaranty is in an amount proportionate to MMH's 35% ownership interest in LME, not to exceed $6,200,000. Banner will be obligated to perform under this guaranty if LME defaults on the payment terms of the note. Banner, through MMH, may also be asked to guaranty additional amounts proportionate to its ownership interest in LME and ventures associated with LME, such amounts not exceeding $2,100,000 as of December 31, 2007. Management believes that the probability of performance under these obligations is remote as of December 31, 2007, and, accordingly, has not accrued for any obligations due under these guarantees.

10. Commitments and Contingencies (continued)

Banner enters into agreements with nonemployed physicians that include minimum revenue guarantees. The terms of the guarantees vary. The carrying amounts of the liability for Banner's obligation under these guarantees were $4,035,000 and $2,752,000 at December 31, 2007 and 2006, and are included in other noncurrent liabilities in the accompanying consolidated balance sheets. These liabilties are recorded in accordance with FASB Staff Position No. FIN 45-3 (FSP FIN 45-3), *Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business or Its Owners*. The maximum amount of future payments that Banner could be required to make under these guarantees is $4,721,000.

Phoenix Children's Hospital

In 1999, Phoenix Children's Hospital (PCH) entered into an agreement with Banner to lease and operate the neonatal intensive care unit at Banner Good Samaritan Medical Center commencing in 2003. Under the agreement, PCH paid an initial, nonrefundable lease fee of $10,000,000 in 2002, which is being recognized on a straight-line basis over the term of the lease. In addition, PCH was required to pay annual rent starting at $3,000,000 and increasing to $5,300,000 by May 2007. On April 1, 2006, Banner entered into an amended and restated facility lease with PCH. The agreement extends the term of the lease for the neonatal intensive care unit to May 31, 2027, although Banner and PCH will each have the right to terminate the lease on or after May 31, 2020. Under the amendment to the lease, PCH will pay to Banner an additional annual payment of approximately $1,255,000 to cover its share of the NICU space renovation costs, which was based upon an initial estimate that the NICU space renovation costs would be approximately $14,826,000. The NICU space renovation costs are now estimated to be approximately $18,500,000. Accordingly, as provided in the lease agreement, the $1,255,000 will be subject to increase based upon the final renovation costs.

Facility Construction

Banner is also undertaking significant renovation and expansion projects at Banner Baywood Medical Center, Banner Estrella Medical Center, Banner Ironwood Medical Center, Banner Desert Medical Center, and Banner Thunderbird Medical Center, all of which are located within the greater Phoenix, Arizona metropolitan area.

Banner is also undertaking significant renovation and expansion projects at McKee Medical Center located in Loveland, Colorado and Torrington Community Hospital in Torrington, Wyoming. The cost to complete construction and purchase equipment for these projects is estimated to be $646 million (unaudited).

10. Commitments and Contingencies (continued)

Compliance with Laws and Regulations

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs, together with the imposition of significant fines and penalties as well as significant repayments for patient services previously billed. Management believes that Banner is in material compliance with fraud and abuse laws and regulations, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future review and interpretation as well as regulatory actions unknown or unasserted at this time.

AZHHA Nurse Registry Class Action Litigation

Banner, together with the Arizona Hospital and Healthcare Association (AZHHA) and several other Arizona hospitals, were named as defendants in an antitrust class action filed in federal district court in July, 2007, by nurses who worked for nurse registry agencies that participated in a pooled purchasing program sponsored by AZHHA. The plaintiffs seek to certify a statewide class of all nurses who worked for such agencies. The plaintiffs allege that the nurse registry program constituted an unlawful boycott and price fixing conspiracy in violation of federal and state antitrust statutes. Banner believes that it has substantial defenses to the lawsuit, and that the plaintiffs lack standing to bring the claims and that the matter is not appropriate for class certification. The case is currently in the discovery phase. Banner has submitted a claim for coverage of this matter under its directors and officers insurance coverage, the first $10 million of which is covered by self insurance; it is unknown at this time whether the commercial excess reinsurer for the directors and officers coverage will accept coverage in the event the costs of this claim exceed the self-insured retention.

Bio-Medical Applications of Colorado

A dialysis provider to Mountain Shadows Medical Association (MSMA), a Banner affiliate, has asserted a claim for underpayment for dialysis services provided on behalf of MSMA to members of the Secure Horizons senior plan from 2004 to 2006 in the amount of $1,042,115, and has requested that the matter be submitted to arbitration as provided under the agreement with MSMA. MSMA has disputed the claim, and is evaluating the merits of the matter. MSMA believes that it has defenses to the claim, and that, even if there is liability on the part of MSMA, the amount claimed is in excess of the amount that would be owed by MSMA. Nevertheless, it is

10. Commitments and Contingencies (continued)

the intention of management to seek settlement of this matter but to contest it through arbitration if no settlement can be reached.

In addition to the general and professional liability claims, Banner is involved in litigation and regulatory investigations arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, these matters are expected to be resolved without material adverse effect on Banner's consolidated financial position.

Sun Health Corporation Acquisition

On September 11, 2007, Banner entered into a letter of intent to acquire certain net assets of Sun Health Corporation, an acute care health system located in Sun City, Arizona. The transaction is expected to close during 2008.

11. Subsequent Events

Auction Rate Bonds

As of December 31, 2007, Banner had approximately $374,300,000 in auction rate bonds (Series 2002A, Series 2002B, Series 2005D, Series 2005E and Series 2005F). The auction rate bonds are subject to weekly auctions and interest rate resets. If the bonds are not successfully traded in the auction process, then the interest rates are determined based on the terms set forth in the respective bond agreements.

Subsequent to December 31, 2007, several of the auction rate bonds were not successfully traded and therefore failed the weekly auction process. As a result of the failed auctions, Banner has incurred increased interest rates ranging from 3.43% up to 15.00% on an annual basis. The auction rate bonds continue to be adjusted weekly. As of April 1, 2008, the Series 2002A and Series 2002B Bonds continue to fail the weekly auction process.

In March 2008, Banner exercised their call option on the Series 2005D, Series 2005E and Series 2005F Bonds and will be required to purchase the bonds beginning on April 3, 2008. Banner has entered into a $224,225,000 line of credit which will be used to purchase the Series 2005D, Series 2005E and Series 2005F Bonds. Banner liquidated approximately $224,225,000 of its investment portfolio to be used as collateral for the line of credit. Principal on the line of credit is due the earlier of a) April 3, 2009, or b) when Banner issues bonds, the proceeds of which are designated for repayment of the line of credit, and accordingly, the Series 2005D, Series 2005E and Series 2005F Bonds are classified as a long-term liability on the consolidated balance sheet.

11. Subsequent Events

Banner is currently evaluating different strategies associated with the auction rate bonds and the other variable rate bonds including issuing new debt to refinance the existing variable rate bonds, executing a revised interest rate mode change as defined in the respective bond agreements, and converting the Standby Bond Purchase Agreements into Direct Letter of Credit Agreements. Refer to Note 7 for further discussion on the variable rate demand bonds.

Fair Value of Financial Instruments

As described in Note 7, Banner has entered into three interest rate swap agreements to effectively convert the variable rate of certain bonds into fixed rates as defined in each of the interest rate swap agreements. As of December 31, 2007, the estimated fair value of the three interest rate swaps resulted in an imputed obligation of $49,914,000, which is recorded in other liabilities. As of March 31, 2008, the estimated fair value imputed obligation increased to $95,500,000.

Certain of the equity investments held in Banner's investment portfolio continue to incur unrealized losses subsequent to December 31, 2007. For the two months ended February 28, 2008, Banner has recorded net unrealized losses of approximately $58,800,000.

Saguaro Medical Associates Litigation

On February 8, 2008, a hospitalist group having a semi-exclusive contract to provide hospitalist services at Banner Thunderbird Medical Center filed a lawsuit against Banner, alleging breach of contract and the implied covenant of good faith and fair dealing, and seeking a declaratory judgment against, and damages from Banner. Banner vigorously disputes the allegations, and believes that Saguaro Medical Associates (SMA) was in fact in breach of its agreement with Banner. Banner intends to contest the allegations, and to seek termination of the agreement.

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APPENDIX C

CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS

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CERTAIN PROVISIONS OF PRINCIPAL DOCUMENTS

Excerpts of certain provisions of the Master Indenture, the Bond Indenture and the Loan Agreement are included hereafter in this *Appendix C* to the Official Statement. The following excerpts of the provisions of the Master Indenture, the Bond Indentures and the Loan Agreements do not purport to be comprehensive or definitive. All references herein to the Master Indenture, the Bond Indenture and the Loan Agreement are qualified in their entirety by reference to each such document in its entirety, copies of which are available for review at the principal corporate trust office of the Bond Trustee. All references to the Series 2008D Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto included in the Bond Indenture.

CERTAIN PROVISIONS OF THE MASTER INDENTURE

The following excerpts of certain provisions of the Master Indenture do not reflect certain additional and more restrictive covenant requirements imposed by certain credit enhancers with respect to certain outstanding bonds previously issued on behalf of the Corporation. Such additional covenant requirements relating to such bonds are enforceable only by such credit enhancers, may be waived in the sole discretion of such credit enhancers, and may be eliminated or amended at any point or remain in effect while the Series 2008D Bonds are outstanding.

DEFINITIONS

"Accountant" shall mean any firm of independent certified public accountants selected by the Obligated Group Representative.

"Annual Debt Service" shall mean, with respect to the Master Indenture, for each Fiscal Year the sum (without duplication) of

(1) the aggregate amount of principal and interest becoming due and payable in such Fiscal Year on all Long-Term Indebtedness then Outstanding;

(2) the aggregate amount of Obligation Payments becoming due and payable in such Fiscal Year (in either case by scheduled maturity, acceleration, mandatory redemption or otherwise, but not including optional prepayments); and

(3) the aggregate amount of all payments made in such Fiscal Year on all Guaranties; less any amounts of such principal, interest or Obligation Payments to be paid during such Fiscal Year from (a) the proceeds of Indebtedness or (b) moneys or Governmental Obligations deposited in trust for the purpose of paying such principal, interest or Obligation Payments; provided that if a Financial Products Agreement has been entered into by any Member or Obligated Group Affiliate with respect to Long-Term Indebtedness, interest on such Long-Term Indebtedness shall be included in the calculation of Annual Debt Service by including for each Fiscal Year an amount equal to the amount of interest payable on such Long-Term Indebtedness in such Fiscal Year at the rate or rates stated in such Long-Term Indebtedness plus any Financial Product Payments payable in such Fiscal Year minus any Financial Product Receipts receivable in such Fiscal Year; provided that in no event shall any calculation made pursuant to this clause result in a number less than zero being included in the calculation of Annual Debt Service.

"Annual Required Debt Service Coverage Ratio" shall mean, for any Fiscal Year, the ratio determined by dividing Income Available for Debt Service by Annual Debt Service for such Fiscal Year.

"Authorized Representative" shall mean with respect to each Member, the chairman of its Governing Body, its chief executive officer, its chief financial officer, its chief operations officer or any other person designated as an

Authorized Representative of such Member by a Certificate of such Member, signed by the chairman of its Governing Body, its chief executive officer, its chief financial officer, or its chief operations officer and filed with the Master Trustee.

"Book Value" shall mean, when used in connection with Property, Plant and Equipment or other Property of any Member or Obligated Group Affiliate, the value of such property, net of accumulated depreciation, as it is carried on the books of such Member or Obligated Group Affiliate and in conformity with generally accepted accounting principles, and when used in connection with Property, Plant and Equipment or other Property of the Obligated Group, means the aggregate of the values so determined with respect to such Property of each Member and Obligated Group Affiliate determined in such a way that no portion of such value of Property of any Member or Obligated Group Affiliate is included more than once.

"Certificate", "Statement", "Request", "Consent" or "Order" of any Member or of the Master Trustee shall mean, respectively, a written certificate, statement, request consent or order signed in the name of such Member by its Authorized Representative or in the name of the Master Trustee by its Responsible Officer. Any such instrument and supporting opinions or certificates, if any, may, but need not, be combined in a single instrument with any other instrument opinion or certificate and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by Section 1.04 of the Master Indenture each such instrument shall include the statements provided for in Section 1.04 of the Master Indenture.

"Controlling Member" shall mean the Member designated by the Obligated Group Representative to establish and maintain control over an Obligated Group Affiliate.

"Corporate Trust Office" shall mean, with respect to the Master Indenture, the office of the Master Trustee at which its principal corporate trust business is conducted, which at the date of issuance of the Series 2008 Bonds is located at 101 North 1st Avenue, Suite 1600, Phoenix, Arizona 85003, Attention: Corporate Trust Department.

"Corporation" shall mean Banner Health, an Arizona nonprofit corporation, its successors and assigns and any surviving, resulting or transferee corporation.

"Event of Default" shall mean, with respect to the Master Indenture, any of the events specified in Section 4.01 of the Master Indenture.

"Fair Market Value," when used in connection with Property, shall mean the fair market value of such Property as determined by either:

> (1) an appraisal of the portion of such Property which is real property made within five years of the date of determination by a "Member of the Appraisal Institute" and by an appraisal of the portion of such Property which is not real property made within five years of the date of determination by any expert, provided that any such appraisal shall be performed by a person or firm which (a) is in fact independent, (b) does not have any direct financial interest or any material indirect financial interest in any Member or Obligated Group Affiliate and (c) is not connected with any Member or Obligated Group Affiliate as an officer, employee, promoter, trustee, partner, director or person performing similar functions, adjusted for the period, not in excess of five years, from the date of the last such appraisal for changes in the implicit price deflator for the gross national product as reported by the United States Department of Commerce or its successor agency, or if such index is no longer published, such other index certified to be comparable and appropriate in an Officer's Certificate delivered to the Master Trustee; or
>
> (2) a bona fide offer for the purchase of such Property made on an arm's-length basis within six months of the date of determination, as established by an Officer's Certificate.

"Financial Products Agreement" shall mean an interest rate swap, cap, collar, option, floor, forward or other hedging agreement, arrangement or security, however denominated, identified to the Master Trustee in a Certificate of the Obligated Group Representative as having been entered into by a Member or an Obligated Group

Affiliate with a Qualified Provider not for investment purposes but with respect to Indebtedness (which Indebtedness shall be specifically identified in the Certificate of the Obligated Group Representative) for the purpose of (1) reducing or otherwise managing the Member's or Obligated Group Affiliate's risk of interest rate changes or (2) effectively converting the Member's or Obligated Group Affiliate's interest rate exposure, in whole or in part, from a fixed rate exposure to a variable rate exposure, or from a variable rate exposure to a fixed rate exposure.

"Financial Product Payments" shall mean payments paid to a counterparty by a Member or an Obligated Group Affiliate pursuant to a Financial Products Agreement.

"Financial Product Receipts" shall mean amounts paid to a Member or an Obligated Group Affiliate by a counterparty pursuant to a Financial Products Agreement.

"Fiscal Year" shall mean the period beginning on January 1 of each year and ending on the next succeeding December 31, or any other twelve-month period designated by the Obligated Group Representative as the fiscal year of the Obligated Group.

"Governing Body" shall mean, with respect to any Member or Obligated Group Affiliate, its board of directors, board of trustees or other board or group of individuals in which all of the powers of such Member or Obligated Group Affiliate are vested, except for those powers reserved to the corporate membership of such Member or Obligated Group Affiliate by the articles of incorporation or bylaws of such Member or Obligated Group Affiliate.

"Government Issuer" shall mean any municipal corporation, political subdivision, state, territory or possession of the United States, or any constituted authority or agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof which obligations would constitute Related Bonds under the Master Indenture.

"Government Obligations" shall mean: (1) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America; (2) obligations issued or guaranteed by any agency, department or instrumentality of the United States of America if the obligations issued or guaranteed by such entity are rated in one of the two highest rating categories of a Rating Agency (without regard to any gradation of such rating category); (3) certificates which evidence ownership of the right to the payment of the principal of and interest on obligations described in clauses (1) and/or (2), provided that such obligations are held in the custody of a bank or trust company in a special account separate from the general assets of such custodian; and (4) obligations the interest on which is excluded from gross income for purposes of federal income taxation pursuant to Section 103 of the Internal Revenue Code of 1986, as amended, and the timely payment of the principal of and interest on which is fully provided for by the deposit in trust of cash and/or obligations described in clauses (1), (2) and/or (3).

"Guaranty" shall mean all loan commitments and all obligations of any Member or Obligated Group Affiliate guaranteeing in any manner whatever, whether directly or indirectly, any obligation of any other Person which would, if such other Person were a Member or an Obligated Group Affiliate, constitute Indebtedness.

"Holder" shall mean, with respect to the Master Indenture, the registered owner of any Obligation in registered form or the bearer of any Obligation in coupon form which is not registered or is registered to bearer.

"Immaterial Affiliate" shall mean a Person (whether or not an Obligated Group Affiliate) whose total net assets, as shown on its financial statements for its most recently completed fiscal year, were less than 10% of the combined net assets of the Members and the Obligated Group Affiliates.

"Income Available for Debt Service" shall mean, with respect to the Obligated Group or Obligated Group Affiliates, as to any period of time, the excess of revenues over expenses (or, in the case of for-profit Members or Obligated Group Affiliates, net income after taxes) of the Obligated Group and Obligated Group Affiliates for such

period, to which shall be added depreciation, amortization and interest (and Obligation Payments to the extent that such Obligation Payments are treated as an expense during such period of time in accordance with generally accepted accounting principles), provided that no such determination shall include (1) any gain or loss resulting from (a) the extinguishment of Indebtedness, (b) any disposition of capital assets not made in the ordinary course of business, (c) any discontinued operations or (d) adjustments to the value of assets or liabilities resulting from changes in generally accepted accounting principles, (2) unrealized gains on marketable securities held by a Member or an Obligated Group Affiliate as of the last date of such period of time, (3) unrealized losses on marketable securities held by a Member or an Obligated Group Affiliate as of the last date of such period of time unless such losses represent a permanent decline in value of such securities in accordance with generally accepted accounting principles or (4) any nonrecurring items of an extraordinary nature which do not involve the receipt, expenditure or transfer of assets.

"Indebtedness" shall mean any Guaranty (other than any Guaranty by any Member or Obligated Group Affiliate of Indebtedness of any other Member or Obligated Group Affiliate) and any obligation of any Member or Obligated Group Affiliate (1) for borrowed money, (2) with respect to leases which are considered capital leases or (3) under installment sale agreements, in each case as determined in accordance with generally accepted accounting principles; provided, however, that if more than one Member or Obligated Group Affiliate shall have incurred or assumed a Guaranty of a Person other than a Member or an Obligated Group Affiliate, or if more than one Member or Obligated Group Affiliate shall be obligated to pay any obligation, for purposes of any computations or calculations under the Master Indenture such Guaranty or obligation shall be included only one time.

"Independent Consultant" shall mean a firm (but not an individual) which (1) is in fact independent, (2) does not have any direct financial interest or any material indirect financial interest in any Member or any Obligated Group Affiliate, (3) is not connected with any Member or any Obligated Group Affiliate as an officer, employee, promoter, trustee, partner, director or person performing similar functions, (4) is a nationally recognized certified public accounting firm, a nationally recognized investment banker or a nationally recognized professional management consultant, and designated by the Obligated Group Representative and (5) is qualified to pass upon questions relating to the financial affairs or facilities of the type or types operated by the Obligated Group and having the skill and experience necessary to render the particular opinion or report required by the provision of the Master Indenture in which such requirement appears.

"Initial Obligated Group Affiliates" shall mean the corporations listed on Schedule A to the Master Indenture.

"Lien" shall mean any mortgage or pledge of, or security interest in, or Lien or encumbrance on, any Property, excluding Liens applicable to Property in which any Member or Obligated Group Affiliate has only a leasehold interest, unless the Lien is with respect to such leasehold interest.

"Long-Term Indebtedness" shall mean Indebtedness having an original maturity greater than one year or renewable at the option of a Member or an Obligated Group Affiliate for a period greater than one year from the date of original incurrence or issuance thereof unless, by the terms of such Indebtedness, no Indebtedness is permitted to be outstanding thereunder for a period of at least thirty (30) consecutive days during each calendar year.

"Master Indenture" shall mean the Amended and Restated Master Indenture, dated as of October 15, 1998, between the Corporation on behalf of the Obligated Group and the Master Trustee, as it may from time to time be amended or supplemented in accordance with its terms.

"Master Trustee" shall mean U.S. Bank National Association, Phoenix, Arizona, or any successor as trustee appointed and qualifying under the Master Indenture.

"Member" shall mean the Corporation and each other Person which is obligated under the Master Indenture, from and after the date upon which such Person joins the Obligated Group, but excluding any Person which withdraws from the Obligated Group to the extent and in accordance with the provisions of the Master Indenture, from and after the date of such withdrawal.

“Obligated Group” shall mean all Members.

“Obligated Group Affiliate” shall mean any Person which has been so designated by the Obligated Group Representative in accordance with the Master Indenture so long as such Person has not been further designated by the Obligated Group Representative as no longer being an Obligated Group Affiliate in accordance with the Master Indenture.

“Obligated Group Representative” shall mean the Corporation or such other Member (or Members acting jointly) as may have been designated pursuant to written notice to the Master Trustee executed by all of the Members.

“Obligation” shall mean any obligation of the Obligated Group issued under the Master Indenture, as a joint and several obligation of each Member, which may be in any form set forth in a Related Supplement including, but not limited to, bonds, obligations, debentures, reimbursement agreements, loan agreements or leases. Reference to a Series of Obligations or to Obligations of a Series shall mean Obligations or Series of Obligations issued pursuant to a single Related Supplement.

“Obligation Payments” shall mean payments (however designated) required under any Obligation then Outstanding which does not constitute Indebtedness.

“Officer’s Certificate” shall mean a certificate signed by an Authorized Representative of the Obligated Group Representative.

“Opinion of Bond Counsel” shall mean a written opinion signed by an attorney or firm of attorneys experienced in the field of public finance whose opinions are generally accepted by purchasers of bonds issued by or on behalf of a Government Issuer.

“Opinion of Counsel” shall mean a written opinion signed by a reputable and qualified attorney or firm of attorneys who may be counsel to the Obligated Group.

“Outstanding,” with respect to Indebtedness or Obligations, shall mean, as of any date of determination, all Indebtedness or Obligations theretofore issued or incurred and not paid and discharged other than (1) Obligations theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation, (2) Obligations in lieu of which other Obligations have been authenticated and delivered or which have been paid pursuant to the provisions of a Related Supplement regarding mutilated, destroyed, lost or stolen Obligations unless proof satisfactory to the Master Trustee has been received that any such Obligation is held by a bona fide purchaser, (3) any Obligation held by any Member of the Obligated Group and (4) Indebtedness deemed paid and no longer outstanding pursuant to the terms thereof; provided, however, that if two or more obligations which constitute Indebtedness represent the same underlying obligation (as when an Obligation secures an issue of Related Bonds and another Obligation secures repayment obligations to a bank under a letter of credit which secures such Related Bonds) for purposes of the various financial covenants contained in the Master Indenture, but only for such purposes, only one of such Obligations shall be deemed Outstanding and the Obligation so deemed to be Outstanding shall be that. The Obligation which produces the greatest amount of Annual Debt Service is to be included in the calculation of such covenants.

“Permitted Encumbrances” shall mean:

(1) Any judgment lien or notice of pending action against any Member or Obligated Group Affiliate so long as (a) such judgment or pending action has been in existence for not more than 60 days, (b) such judgment or pending action is being contested and execution thereon is stayed or while the period for responsive pleading has not lapsed, (c) the judgment has been paid, or (d) the judgment or pending action is covered by insurance;

(2) (a) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law affecting any

Property to (i) terminate such right, power, franchise, grant, license or permit (provided that the exercise of such a right would not materially and adversely affect the value thereof) or (ii) purchase, condemn, appropriate or recapture, or designate a purchaser of, such Property; (b) any Liens on any Property for taxes, assessments, levies, fees, water and sewer charges and other governmental and similar charges, and any Liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such Property, which are not due and payable or which are not delinquent or which, or the amount or validity of which, are being contested and execution thereon is stayed or, with respect to Liens of mechanics, materialmen and laborers, have been due for less than sixty (60) days; (c) easements, rights-of-way, servitudes, restrictions and other minor defects, encumbrances and irregularities in the title to any Property which do not materially impair the use of such Property or materially and adversely affect the value thereof, (d) rights reserved to or vested in any municipality or public authority to control or regulate any Property or to use such Property in any manner, which rights do not materially impair the use of such Property in any manner, or materially and adversely affect the value thereof, and (e) to the extent that it affects title to any Property, the Master Indenture;

(3) Any Lien in favor of the Master Trustee securing all Outstanding Obligations on a parity basis (provided that any such Lien may be released only in the manner set forth in the Related Supplement providing for such Lien);

(4) Liens arising by reason of good faith deposits with any Member or Obligated Group Affiliate in connection with leases of real estate, bids or contracts (other than contracts for the payment of money), deposits by any Member or Obligated Group Affiliate to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges;

(5) Any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental agency or any body created or approved by law or governmental regulation for any purpose at any time as required by law or governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any Member or Obligated Group Affiliate to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with workers' compensation, unemployment insurance, pension or profit sharing plans or other similar social security plans, or to share in the privileges or benefits required for companies participating in such arrangements, and any Lien in the nature of a banker's lien or right of setoff with respect to deposits which any Member or Obligated Group Affiliate is not required to maintain with the bank in question;

(6) Any Lien arising by reason of any escrow established to pay debt service with respect to Indebtedness;

(7) Any Lien in favor of a trustee on the proceeds of Indebtedness prior to the application of such proceeds;

(8) Liens on moneys deposited by patients or others with any Member or Obligated Group Affiliate as security for or as prepayment for the cost of patient care, and any rights of residents of life care, elderly housing or similar facilities to entrance fees, endowment or similar funds deposited by or on behalf of such residents;

(9) Liens on Property received by any Member or Obligated Group Affiliate through gifts, grants or bequests; provided, that no such Lien (or the amount of Indebtedness secured thereby) may be increased or modified so as to apply to any Property of any Member or Obligated Group Affiliate not previously subject to such Lien unless such Lien following such increase or modification otherwise qualifies as a Permitted Encumbrance under the Master Indenture;

(10) Statutory rights of the United States of America by reason of federal funds made available under 42 U.S.C. Section 291 *et seq*. and similar rights under other federal and state statutes;

(11) Liens on funds established pursuant to the terms of any Related Supplement, Related Bond Indenture or related document in favor of the Master Trustee, a Related Bond Trustee or the registered owner of the Indebtedness issued pursuant to such Related Supplement, Related Bond Indenture or related document;

(12) Liens on supplies and inventory;

(13) Liens constituting reservations contained in patents granted by the United States of America or any state thereof;

(14) Liens constituting rights of third-party payors to recoup excess reimbursement to any Member or Obligated Group Affiliate;

(15) Liens granted to insurance companies on the proceeds of insurance policies (provided that such Lien shall secure an amount not exceeding the premium owed to any such insurance company by a Member or an Obligated Group Affiliate);

(16) Liens required by any federal, state or local government as a condition to its making a grant or loan (except loans made solely from the proceeds derived from the sale of Related Bonds) to, or its guaranteeing or insuring part or all of Indebtedness of, a Member or an Obligated Group Affiliate, but only if such Lien is limited to Property the acquisition of which has not been financed, directly or indirectly, with proceeds of Obligations or Related Bonds;

(17) Statutory rights of landlords with respect to the personal property of Members or Obligated Group Affiliates that are their tenants;

(18) Liens junior to Liens in favor of the Master Trustee in accordance with clause (3) of the definition of Permitted Encumbrances;

(19) Liens which are existing on the date of execution of the Amended and Restated Master Indenture or existing on the date any Person becomes a Member of the Obligated Group or an Obligated Group Affiliate, provided that no such Lien (or the amount of Indebtedness secured thereby) may be increased or modified to apply to any Property of any Member or Obligated Group Affiliate not subject to such Lien on such date, unless such Lien following such increase or modification otherwise qualifies as a Permitted Encumbrance under the Master Indenture,

(20) Liens on Property of a Person at the time such Person engages in a merger, consolidation, sale or conveyance pursuant to the Master Indenture; provided that no such Lien (or the amount of Indebtedness secured thereby) may be increased or modified to apply to any Property of any Member or Obligated Group Affiliate not subject to such Lien on such date, unless such Lien following such increase or modification otherwise qualifies, as a Permitted Encumbrance under the Master Indenture, and provided further, that no such Lien shall have been incurred in anticipation of such merger, consolidation, sale or conveyance;

(21) Liens granted by a Member or Obligated Group Affiliate to another Member or Obligated Group Affiliate, for so long as such Member or Obligated Group Affiliate remains a Member or Obligated Group Affiliate;

(22) Liens on Property of a Person in the nature of a purchase money security interest, assignment of rents and leases, land contract or contract for deed resulting from

installment sale agreements or borrowings, financing leases or similar agreements relating to the acquisition of such Property; and

(23) Any other Lien, provided that the aggregate Value of Property subject to Liens created or permitted to exist pursuant to this clause (23) shall not exceed twenty percent (20%) of the Property of the Obligated Group (as shown on the financial statements of the Obligated Group for most recent fiscal year for which financial statements are available immediately preceding the date that such Lien is created).

"Person" shall mean an individual, corporation, firm, association, partnership, trust, limited liability company or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

"Principal Amount" shall mean, when used with respect to Obligations evidencing, representing or securing Indebtedness, the principal amount of such Obligation; provided, however, that while Obligations issued to evidence, represent or secure instruments that do not constitute Indebtedness, including but not limited to Financial Products Agreements, shall be equally and ratably secured hereunder with all other Obligations issued under the Master Indenture, including by the pledge of Gross Revenues, for the purpose of receiving payments under the Master Indenture, except as otherwise expressly provided in the Master Indenture, no such Obligation that does not evidence, represent or secure Indebtedness shall be deemed to be Outstanding under the Master Indenture, or to have a Principal Amount under the Master Indenture other than zero, for the purposes of exercising rights under the Master Indenture, directing or controlling remedies under the Master Indenture, or voting or granting consents or approvals under the Master Indenture.

"Property" shall mean the total assets of the Members of the Obligated Group and the Obligated Group Affiliates, including total assets of the Members and Obligated Group Affiliates, including any and all rights, titles and interests in and to any and all property of any Member or any Obligated Group Affiliate, whether real or personal, tangible or intangible and wherever situated.

"Property, Plant and Equipment" shall mean all Property of any Member or any Obligated Group Affiliate that is considered property, plant and equipment under generally accepted accounting principles.

"Qualified Provider" shall mean any financial institution or insurance company which is a party to a Financial Products Agreement if the unsecured long-term debt obligations of such financial institution or insurance company (or of the parent or a subsidiary of such financial institution or insurance company if such parent or subsidiary guarantees the performance of such financial institution or insurance company under such Financial Products Agreement), or obligations secured or supported by a letter of credit contract, guarantee, agreement, insurance policy or surety bond issued by such financial institution or insurance company (or such guarantor parent or subsidiary), are rated in one of the three highest rating categories of a national rating agency (without regard to any gradation or such rating category) at the time of the execution and delivery of the Financial Products Agreement.

"Rating Agency" shall mean Fitch Ratings, Moody's Investors Service, Inc., Standard & Poor's Ratings Service (a Division of The McGraw-Hill Companies, Inc.) and any other national rating agency then rating Obligations or Related Bonds.

"Related Bond Indenture" shall mean any indenture, bond resolution or other comparable instrument pursuant to which a Series of Related Bonds is issued.

"Related Bonds" shall mean the revenue bonds or other obligations issued by any Government Issuer or any other Person, the proceeds of which are loaned or otherwise made available to a Member or an Obligated Group Affiliate in consideration of the execution, authentication and delivery of an Obligation or Obligations to or for the order of such Government Issuer or other Person issuing such revenue bonds or other obligations or Related Bond Trustee for such revenue bonds or other obligations.

"Related Supplement" shall mean an indenture supplemental to, and authorized and executed pursuant to the terms of the Master Indenture.

"Required Payment" shall mean any payment, whether at maturity; by acceleration, upon proceeding for redemption or otherwise, including the purchase price of Related Bonds tendered or deemed tendered for purchase pursuant to the terms of a Related Bond Indenture, required to be made by any Member under the Master Indenture, any Related Supplement or any Obligation.

"Responsible Officer" shall mean, with respect to the Master Trustee, any vice president, any assistant vice president, any assistant secretary, any assistant treasurer, any trust officer, any assistant trust officer or any other officer of the Master Trustee customarily performing functions similar to those performed by the persons above-designated or to whom any corporate trust matter is referred because of such periods knowledge of and familiarity with the particular subject.

"Value", when used with respect to Property, shall mean the aggregate value of all such Property; with each component of such Property valued, at the option of the Obligated Group Representative, at either its Fair Market Value or its Book Value.

AUTHORIZATION AND ISSUANCE OF OBLIGATIONS

Section 2.01 Authorization of Obligation. Each Member authorizes to be issued from time to time Obligations or series of Obligations, without limitation as to amount, except as provided in the Master Indenture or as may be limited by law, and subject to the terms, conditions and limitations established in the Master Indenture and in any Related Supplement.

Section 2.02 Issuance of Obligation. From time to time when authorized by Master Indenture and subject to the terms, limitations and conditions established in the Master Indenture, the Obligated Group Representative may authorize the issuance of an Obligation or a series of Obligations by entering into a Related Supplement; provided, that the administrative provisions of each Related Supplement shall be reasonably satisfactory to the Master Trustee. The Obligation or the Obligations of any such series may be issued and delivered to the Master Trustee for authentication upon compliance with the provisions of the Master Indenture and of any Related Supplement.

Each Related Supplement authorizing the issuance of an Obligation or a series of Obligations shall specify and determine the Principal Amount of such Obligation or series of Obligations; the purposes for which such Obligation or series of Obligations are being issued; the form, title, designation, manner of numbering or denominations, if applicable, of such Obligations; the date or dates of maturity or other final expiration of the term of such Obligations; the date of issuance of such Obligations and any other provisions deemed advisable or necessary by the Obligated Group Representative.

Section 2.03 Appointment of Obligated Group Representative. Each Member, by becoming a Member, irrevocably appoints the Obligated Group Representative as its agent and attorney-in-fact and grants full power to the Obligated Group Representative to execute Related Supplements.

Section 2.05 Conditions to the Issuance of Obligations. The issuance, authentication and delivery of any Obligation or Series of Obligations shall be subject to the following specific conditions:

(a) The Obligated Group Representative and the Master Trustee shall have entered into a Related Supplement providing for the terms and conditions of such Obligations and the repayment thereof;

(b) The Master Trustee receives an Officer's Certificate, dated as of the date of authentication and delivery of the Obligation, to the effect that:

(1) each Member is in full compliance with all warranties, covenants and agreements set forth in the Master Indenture and in any Related Supplement;

(2) no Event of Default has occurred or would occur upon issuance of such Obligations and is continuing under the Master Indenture or any Related Supplement;

(3) all requirements and conditions, if any, to the issuance of such Obligations set forth in the Related Supplement have been satisfied; and

(c) The Obligated Group Representative shall have delivered or caused to be delivered to the Master Trustee such opinions, certificates, proceedings, instruments and other documents as the Master Trustee may reasonably request.

COVENANTS OF EACH MEMBER

Section 3.01 Payment of Required Payments. Each Member jointly and severally covenants to pay or cause to be paid promptly all Required Payments at the place, on the dates and in the manner provided in the Master Indenture or in any Related Supplement or Obligation, and faithfully to observe and perform all of the conditions, covenants and requirements of the Master Indenture, any Related Supplement and any Obligation. Each Member acknowledges that the time of such payment and performance is of the essence of the Obligations under the Master Indenture.

The obligation of each Member with respect to Required Payments shall not be abrogated, prejudiced or affected by:

(a) the granting of any extension, waiver or other concession given to any Member by the Master Trustee or any Holder or by any compromise, release, abandonment, variation, relinquishment or renewal of any of the rights of the Master Trustee or any Holder or anything done or omitted or neglected to be done by the Master Trustee or any Holder in exercise of the authority, power and discretion vested in either of them by the Master Indenture, or by any other dealing or thing which, but for this provision, might operate to abrogate, prejudice or affect such obligation; or

(b) the liability of any other Member under the Master Indenture ceasing for any cause whatsoever, including the release of any other Member pursuant to the provisions of the Master Indenture or any Related Supplement from membership in the Obligated Group; or

(c) any Member's failing to become liable as, or losing eligibility to become, a Member of the Obligated Group with respect to an Obligation.

Subject to the provisions of Section 3.09 of the Master Indenture permitting withdrawal from the Obligated Group, the obligation of each Member to make Required Payments is a continuing one and is to remain in effect until all Required Payments have been paid in full in accordance with Article VII of the Master Indenture. All moneys from time to time received by the Obligated Group Representative or the Master Trustee to reduce liability on Obligations, whether from or on account of the Members or otherwise, shall be regarded as payments in gross without any right on the part of any one or more of the Members to claim the benefit of any moneys so received until the whole of the amounts owing on Obligations has been paid or satisfied and so that in the event of any such Member's filing bankruptcy, or in the event of the filing of a bankruptcy action against such Member, the Obligated Group Representative or the Master Trustee shall be entitled to prove up the total indebtedness or other liability on Obligations Outstanding as to which the liability of such Member has become fixed.

Each Obligation shall be a primary obligation and shall not be treated as ancillary to or collateral with any other obligation and shall be independent of any other security so that the covenants and agreements of each

Member under the Master Indenture shall be enforceable without first having recourse to any such security or source of payment and without first taking any steps or proceedings against any other Person. The Obligated Group Representative and the Master Trustee are each empowered to enforce each covenant and agreement of each Member under the Master Indenture and to enforce the making of Required Payments. Each Member authorizes each of the Obligated Group Representative and the Master Trustee to enforce or refrain from enforcing any covenant or agreement of the Members under the Master Indenture and to make any arrangement or compromise with any particular Member or Members as the Obligated Group Representative or the Master Trustee may deem appropriate, consistent with the Master Indenture and any Related Supplement. Each Member waives in favor of the Obligated Group Representative and the Master Trustee all rights against the Obligated Group Representative, the Master Trustee and any other Member, insofar as is necessary to give effect to any of the provisions of this Section.

Section 3.02 Transfers from Obligated Group Affiliates. Each Controlling Member covenants that it shall cause each of its Obligated Group Affiliates to pay, loan or otherwise transfer to the Obligated Group Representative such amounts as are necessary to enable the Members to comply with the provisions of the Master Indenture including without limitation the provisions of Section 3.01 of the Master Indenture. Each Controlling Member covenants that it will not permit any of its Obligated Group Affiliates to limit the ability of such Obligated Group Affiliate to make such payments, loans or transfers to such Controlling Member.

Section 3.03 Designation of Obligated Group Affiliates.

(a) The Obligated Group Representative by resolution of its Governing Body may from time to time designate Persons as Obligated Group Affiliates in addition to the Initial Obligated Group Affiliates. In connection with such designation, the Obligated Group Representative shall designate for each Obligated Group Affiliate a Member to serve as the Controlling Member for such Obligated Group Affiliate. The Corporation shall be the initial Controlling Member for each of the Initial Obligated Group Affiliates. The Obligated Group Representative shall at all times maintain an accurate and complete list of all Persons designated as Obligated Group Affiliates (and of the Controlling Members for such Obligated Group Affiliates) and file such list with the Master Trustee annually on or before June 1 of each year.

(b) Each Controlling Member shall cause each of its Obligated Group Affiliates to provide to the Obligated Group Representative a resolution of its Governing Body accepting such Person’s designation as an Obligated Group Affiliate and acknowledging the provisions of the Master Indenture which affect the Obligated Group Affiliates. So long as such Person is designated as an Obligated Group Affiliate, the Controlling Member of such Obligated Group Affiliate shall either (i) maintain, directly or indirectly, control of such Obligated Group Affiliate, including the power to direct management, policies, disposition of assets and other actions of the Obligated Group Affiliate to the extent necessary to cause such Obligated Group Affiliate to comply with the terms of the Master Indenture, whether through the ownership of voting securities, by contract, corporate membership, reserved powers or the power to appoint corporate members, trustees or directors, or otherwise or (ii) execute and have in effect such contracts or other agreements which the Obligated Group Representative and the Controlling Member, in the judgment of their respective Governing Bodies, deem sufficient for the Controlling Member to cause such Obligated Group Affiliate to comply with the terms of the Master Indenture.

(c) Each Controlling Member covenants and agrees that it will cause each of its Obligated Group Affiliates to comply with any and all directives of the Controlling Member given pursuant to the provisions of the Master Indenture.

(d) Any Person shall cease to be an Obligated Group Affiliate (and thus not subject to the terms of the Master Indenture) upon adoption of a resolution of the Governing Body of the Obligated Group Representative declaring such Person no longer an Obligated Group Affiliate and delivery to the Master Trustee of an Officer’s Certificate to the effect that immediately following such declaration, no Member would be in default in the performance or observance of any term of the Master Indenture.

Section 3.04 Maintenance of Properties. Each Member covenants to, and each Controlling Member covenants to cause each of its Obligated Group Affiliates to:

(a) maintain its Property, Plant and Equipment in accordance with all valid and applicable governmental laws, ordinances, approvals and regulations including, without limitation, such zoning, sanitary, pollution and safety ordinances and laws and such rules and regulations thereunder as may be binding upon it; provided, however, that no Member or Obligated Group Affiliate shall be required to comply with any law, ordinance, approval or regulation as long as it shall in good faith contest the validity thereof,

(b) maintain and operate its Property, Plant and Equipment in reasonably good working condition, and from time to time make or cause to be made all needful and proper replacements, repairs and improvements so that the operations of such Member or Obligated Group Affiliate will not be materially impaired;

(c) pay and discharge all applicable taxes, assessments, governmental charges of any kind whatsoever, water rates, meter charges and other utility charges which may be or have been assessed or which may have become Liens upon the Property, Plant and Equipment, and will make such payments or cause such payments to be made in due time to prevent any delinquency thereon or any forfeiture or sale of any part of the Property, Plant and Equipment, and, upon request, will furnish to the Master Trustee receipts for all such payments, or other evidences satisfactory to the Master Trustee; provided, however, that no Member or Obligated Group Affiliate shall be required to pay any tax, assessment, rate or charge as long as it shall in good faith contest the validity thereof and as long as it shall have set aside reserves with respect thereto that, in the opinion of the Governing Body of the Obligated Group Representative, are adequate;

(d) pay or otherwise satisfy and discharge all of its obligations and Indebtedness and all demands and claims against it as and when the same become due and payable, other than any thereof (exclusive of the Obligations issued and Outstanding under the Master Indenture) the validity, amount or collectibility of which is being contested in good faith;

(e) all times comply with all terms, covenants and provisions of any Liens at such time existing upon its Properties or any part thereof or securing any of its Indebtedness noncompliance with which would have a material adverse effect on the operations of the Obligated Group or its Properties; and

(f) use its best efforts (as long as it is in its best interests and will not materially adversely affect the interests of the Holders) to maintain all permits, licenses and other governmental approvals necessary for the operation of its Properties.

Nothing in Section 3.04 of the Master Indenture shall be construed to require a Member or Obligated Group Affiliate to maintain any permit, license or other governmental approval, or to continue to operate or maintain any Property, Plant or Equipment, if in the reasonable good faith judgment of the Member or Obligated Group Affiliate, such permit, license, governmental approval or Property, Plant or Equipment is, or within the next succeeding twenty-four (24) calendar months is reasonably expected to become, inadequate, obsolete, unsuitable, undesirable or unnecessary for the business of the Obligated Group and failure to maintain or operate such permit, license, governmental approval, Property, Plant or Equipment will not materially adversely impair the operation of the Obligated Group and the Obligated Group Affiliates.

Section 3.05 Negative Pledge. Each Member covenants that it will not, and each Controlling Member covenants that it will not permit any of its Obligated Group Affiliates to, create, assume or suffer to exist any Lien upon the Property, except for Permitted Encumbrances. Each Member further covenants that if such a Lien is created or assumed by any Member or Obligated Group Affiliate, it will make or cause to be made effective a provision whereby all Obligations will be secured prior to any Indebtedness secured by such Lien.

Section 3.06 Debt Coverage.

(a) Within five (5) months after the end of each Fiscal Year the Obligated Group Representative shall compute the Annual Required Debt Service Coverage Ratio for the Members and the Obligated Group Affiliates for such Fiscal Year and furnish to the Master Trustee an Officer's Certificate setting forth the results of such computation. The Obligated Group Representative covenants that if at the end of such Fiscal Year the Annual Required Debt Service Coverage Ratio shall have been less than 1.10:1.0, it will promptly employ an Independent Consultant to make recommendations as to a revision of the rates, fees and charges of the Members and the Obligated Group Affiliates or the methods of operation of the Members and the Obligated Group Affiliates to increase the Annual Debt Service Coverage Ratio to at least 1.10:1.0 for subsequent Fiscal Years (or, if in the opinion of the Independent Consultant, the attainment of such level is impracticable, to the highest practicable level). Copies of the recommendations of the Independent Consultant shall be filed with the Master Trustee. Each Member shall, and each Controlling Member shall cause each of its Obligated Group Affiliates to, promptly upon its receipt of such recommendations, subject to applicable requirements or restrictions imposed by law, revise its rates, fees and charges or its methods of operation or collections and shall take such other action as shall be in conformity, with such recommendations.

If the Members and the Obligated Group Affiliates comply in all material respects with the reasonable recommendations of the Independent Consultant with respect to their rates, fees, charges and methods of operation or collection, the Members and the Obligated Group Affiliates will be deemed to have complied with the covenants set forth in this Section for such Fiscal Year, notwithstanding that the Annual Required Debt Service Coverage Ratio shall be less than 1.10: 1.0; provided, however, that an Event of Default shall exist if the Annual Required Debt Service Coverage Ratio is less than 1.0: 1.0 for any Fiscal Year. Nevertheless, neither the Members nor the Obligated Group Affiliates shall be excused from taking any action or performing any duty required under the Master Indenture and no other Event of Default shall be waived by the operation of the provisions of subsection (a) of Section 3.06 of the Master Indenture.

(b) Notwithstanding the foregoing, Members and Obligated Group Affiliates may permit the rendering of services or the use of their Property without charge or at reduced charges, at the discretion of the Governing Body of such Member or Obligated Group Affiliate, to the extent necessary to maintain its tax-exempt status and its eligibility for grants, loans, subsidies or payments from governmental entities, or in compliance with any recommendation for free services that may be made by an Independent Consultant.

Section 3.07 Merger, Consolidation, Sale or Conveyance. Each Member covenants that it will not, and each Controlling Member covenants that it will not permit its Obligated Group Affiliates to, merge or consolidate with any other Person that is not a Member or an Obligated Group Affiliate or sell or convey all or substantially all of its assets to any Person or Persons that is not a Member or an Obligated Group Affiliate in one or more related transactions unless:

(a) After giving effect to the merger, consolidation, sale or conveyance,

(1) the successor or surviving corporation (the "Surviving Corporation") is a Member or Obligated Group Affiliate;

(2) the Surviving Corporation shall

(A) be a corporation organized and existing under the laws of the United States of America or any State thereof and

(B) become a Member pursuant to Section 3.08 of the Master Indenture or an Obligated Group Affiliate pursuant to Section 3.03 of the Master Indenture and, pursuant to the Related Supplement required by Section 3.08(b) of the Master Indenture expressly assume in writing the due and

punctual payment of all Required Payments of the disappearing Member under the Master Indenture;

(b) The Master Trustee receives an Officer's Certificate to the effect that no Member, immediately after the date of the proposed merger, consolidation, sale or conveyance, would be in default in the performance or observance of any covenant or condition of the Master Indenture or any Obligation issued thereunder;

(c) So long as any Related Bonds are Outstanding, the Master Trustee receives an Opinion of Bond Counsel in form and substance satisfactory to the Master Trustee, to the effect that, under then existing law, the consummation of such merger, consolidation, sale or conveyance, in and of itself would not result in the inclusion of interest on such Related Bonds in gross income for purposes of federal income taxation and that such merger, consolidation, sale or conveyance complies with the provisions of this Section;

(d) The Master Trustee receives an Opinion of Counsel, in form and substance satisfactory to the Master Trustee, to the effect that (i) all conditions in Section 3.07 of the Master Indenture relating to such merger, consolidation, sale or conveyance have been complied with and it is proper for the Master Trustee to join in the execution of any instrument required to be executed and delivered; (ii) the Surviving Corporation meets the conditions set forth in Section 3.07 of the Master Indenture and is liable on all Obligations then Outstanding; and (iii), under then existing law, such merger, consolidation, sale or conveyance will not subject any Obligations to the registration provisions of the Securities Act of 1933, as amended (or that such Obligations have been so registered if registration is required); and

(e) The Surviving Corporation shall be substituted for its predecessor in interest in all Obligations and agreements then in effect which affect or relate to any Obligation, and the Surviving Corporation shall execute and deliver to the Master Trustee appropriate documents in order to effect the substitution.

From and after the effective date of such substitution (as set forth in the above-mentioned documents), the Surviving Corporation shall be treated as though it were a Member or an Obligated Group Affiliate, as the case may be, as of the date of the execution of the Master Indenture and shall thereafter have the right to participate in transactions under the Master Indenture relating to Obligations to the same extent as the other Members and Obligated Group Affiliates. All Obligations issued under the Master Indenture on behalf of a Surviving Corporation shall have the same legal rank and benefit under the Master Indenture as Obligations issued on behalf of any other Member.

Prior to (i) any merger or consolidation of any Member with an Obligated Group Affiliate, after which the surviving corporation is the Obligated Group Affiliate, or (ii) any sale or conveyance of all or substantially all of the assets of a Member to an Obligated Group Affiliate, the Master Trustee shall have received an Officer's Certificate to the effect that immediately following such merger, consolidation, sale or conveyance, no Member would be in default in the performance or observance of any term of the Master Indenture. Except as provided in the immediately preceding sentence or as may be expressly provided in any Related Supplement the ability of any Member or Obligated Group Affiliate to merge or consolidate with any Person that is a Member or Obligated Group Affiliate after such merger or consolidation or to sell or convey all or substantially all of its assets to any Person that is a Member or Obligated Group Affiliate after such sale or conveyance is not limited by the provisions of the Master Indenture.

Section 3.08 Membership in Obligated Group. Additional Members may be added to the Obligated Group from time to time, provided that prior to such addition the Master Trustee receives:

(a) a certified copy of a resolution of the Governing Body of the proposed new Member which authorizes the execution and delivery of a Related Supplement and compliance with the terms of the Master Indenture;

(b) a Related Supplement executed by the Obligated Group Representative, the new Member and the Master Trustee pursuant to which the proposed new Member

(1) agrees to become a Member;

(2) agrees to be bound by the terms of the Master Indenture, the Related Supplements and the Obligations; and

(3) irrevocably appoints the Obligated Group Representative as its agent and attorney-in-fact and grants to the Obligated Group Representative full power to execute Related Supplements authorizing the issuance of Obligations or Series of Obligations;

(c) an Opinion of Counsel to the proposed new Member to the effect that the proposed new Member has taken all necessary action to become a Member, and upon execution of the Related Supplement, such proposed new Member will be bound by the terms of the Master Indenture;

(d) an Officer's Certificate to the effect that immediately after the addition of the proposed new Member no Member would be in default in the performance or observance of any term of the Master Indenture; and

(e) an Opinion of Bond Counsel to the effect that the addition of the proposed new Member:

(A) will not, in and of itself, result in the inclusion of interest on any Related Bonds in gross income for purposes of federal income taxation; and

(B) will not cause the Master Indenture or any Obligations to be subject to registration under federal or state securities laws or the Trust Indenture Act of 1939, as amended (or, that any such registration, if required, has occurred).

Section 3.09 Withdrawal from Obligated Group. Any Member may withdraw from the Obligated Group and be released from further liability or obligation under the provisions of the Master Indenture, provided that prior to such withdrawal the Master Trustee receives an Officer's Certificate to the effect that immediately following the withdrawal of such Member, no remaining Member would be in default in the performance or observance of any term of the Master Indenture.

Upon compliance with the conditions contained in Section 3.09 of the Master Indenture, the Master Trustee shall execute any documents reasonably requested by the withdrawing Member to evidence the termination of such Member's obligations under the Master Indenture, under all Related Supplements and under all Obligations.

Section 3.10 Preparation and Filing of Financial Statements, Reports and Other Information.

(a) Each Member covenants that it will keep, and each Controlling Member covenants that it will cause its Obligated Group Affiliates to keep, adequate records and books of accounts, each separate from the other and from all other records and accounts, in which complete and correct entries shall be made (said books shall be subject to the inspection of the Master Trustee during regular business hours after reasonable notice).

(b) The Obligated Group Representative covenants that it will furnish to the Master Trustee:

(1) As soon as practicable, but in no event more than five months after the last day of each Fiscal Year, for each Member, a financial report for or including such Member for such

Fiscal Year containing (A) a balance sheet as of the end of such Fiscal Year and statement of operations, changes in net assets for such Fiscal Year and statement of cash flows for such Fiscal Year prepared on a consolidated basis to include the results of operation and financial position of all Persons required to be consolidated in accordance with generally accepted accounting principles, which have been audited by a firm of nationally recognized independent certified public accountants approved by an Obligated Group Representative, (B) an unaudited balance sheet, and statement of operations and changes in net assets prepared on a combined basis to reflect only the operations of the Members and Obligated Group Affiliates which have been included in the financial statements under (A) above, showing in each case in comparative form the financial figures for the preceding Fiscal Year, and (C) a statement that such Accountants who have audited the financial statements under (A) above have obtained no knowledge of any default by such Member in the fulfillment of any of the terms, covenants, provisions, or conditions of the Master Indenture, or if such Accountant shall have obtained knowledge of any such default or defaults, they shall disclose in such statements the default or defaults and the date thereof (but such Accountant shall not be liable directly or indirectly to any one for failure to obtain knowledge of any default).

(2) If the reports referred to in subsection (1) above do not include the results of operations of any Obligated Group Affiliate, as soon as practicable, but in no event more than five months after the last day of each Fiscal Year, a financial report for such Obligated Group Affiliate for such Fiscal Year containing (A) a balance sheet as of the end of such Fiscal Year and statement of operations, changes in net assets for such Fiscal Year and statement of cash flows for such Fiscal Year prepared on a consolidated basis to include the results of operation and financial position of all Persons required to be consolidated in accordance with generally accepted accounting principles, which have been audited by a firm of nationally recognized independent certified public accountants approved by an Obligated Group Representative, (B) an unaudited balance sheet, statement of operations and changes in net assets prepared on a combined basis to reflect only the operations of the Obligated Group Affiliate or Affiliates which have been included in the financial statements under (A) above, showing in each case in comparative form the financial figures for the preceding Fiscal Year, and (C) a statement that such Accountants who have audited the financial statements under (A) above have obtained no knowledge of any default by such Obligated Group Affiliate in the fulfillment of any of the terms, covenants, provisions or conditions of the Master Indenture, or if such Accountant shall have obtained knowledge of any such default or defaults, they shall disclose in such statements the default or defaults and the date thereof (but such Accountants shall not be liable directly or indirectly to anyone for failure to obtain knowledge of any default).

(3) As soon as practicable, but in no event more than six months after the last day of each Fiscal Year, a balance sheet, statement of operations and changes in net assets including all the Members and Obligated Group Affiliates prepared based on the combined financial statements delivered with the audited financial statements described in subsections (1) and (2) above (such balance sheet, statement of operations and changes in net assets being referred to in the Master Indenture as the "Obligated Group Financial Statements"), together with a certificate of the chief financial officer of the Obligated Group Representative stating that the Obligated Group Financial Statements were prepared in accordance with generally accepted accounting principles (except for required consolidations) and that the Obligated Group Financial Statements reflect the results of the operations of only the Members and the Obligated Group Affiliates and all Members and Obligated Group Affiliates are included.

(4) At the time of the delivery of the Obligated Group Financial Statements, a certificate of the chief financial officer of the Obligated Group Representative, stating that the Obligated Group Representative has made a review of the activities of each Member and Obligated Group Affiliate during the preceding Fiscal Year for the purpose of determining whether or not the Members and Obligated Group Affiliates have complied with all of the terms, provisions and conditions of the Master Indenture and that each Member and Obligated Group Affiliate has kept, observed, performed and fulfilled each and every covenant, provision and

condition of the Master Indenture on its part to be performed and is not in default in the performance or observance of any of the terms, covenants, provisions or conditions, or if any Member or Obligated Group Affiliate shall be in default such certificate shall specify all such defaults and the nature thereof.

(5) Notwithstanding the foregoing, the audited and unaudited financial statements referred to in Section 3.10 of the Master Indenture may include the results of operation and financial position of Immaterial Affiliates, and such results of operation and financial position may be considered as if they were a portion of the results of operation and financial position of the Members and the Obligated Group Affiliates for all purposes of the Master Indenture, provided, however, that all such Immaterial Affiliates which are not Obligated Group Affiliates shall represent less than 15% of the combined or consolidated net assets of the Members and the Obligated Group Affiliates as shown on the applicable financial statements; and may exclude the results of operations and financial position of any Obligated Group Affiliate who is an Immaterial Affiliate; provided however, that all such Obligated Group Affiliates so excluded shall represent less than 15% of the combined or consolidated net assets of the Members and Obligated Group Affiliates as shown on the applicable financial statement.

DEFAULTS

Section 4.01 Events of Default. Each of the following events shall be an Event of Default under the Master Indenture:

(a) Failure on the part of the Obligated Group to make due and punctual payment of the principal of, redemption premium, if any, or interest on any Obligation.

(b) Any Member shall fail to observe or perform any other covenant or agreement under the Master Indenture (including covenants or agreements contained in any Related Supplement or Obligation) for a period of thirty (30) days after the date on which written notice of such failure, requiring the failure to be remedied, shall have been given to the Obligated Group Representative by the Master Trustee or to the Obligated Group Representative and the Master Trustee by the Holders of twenty-five percent (25%) in aggregate Principal Amount of Outstanding Obligations (provided that if such failure can be remedied but not within such thirty (30) day period, such failure shall not become an Event of Default for so long as the Obligated Group Representative shall diligently proceed to remedy the failure in accordance with and subject to any directions or limitations of time established by the Master Trustee).

(c) Any Member shall default in the payment of Indebtedness (other than Indebtedness secured by an Obligation) in an aggregate outstanding principal amount equal to the greater of one million dollars ($1,000,000) or one percent (1%) of the aggregate principal amount of all Long-Term Indebtedness of the Obligated Group then Outstanding, and any grace period for such payment shall have expired, or an event of default as defined in any mortgage, indenture or instrument under which any Indebtedness is secured or evidenced, shall occur; provided, however, that such default shall not constitute an Event of Default within the meaning of this Section if, within thirty (30) days or within the time allowed for service of a responsive pleading if any proceeding to enforce payment of the Indebtedness is commenced, (1) any Member in good faith commences proceedings to contest the existence or payment of such Indebtedness, and (2) sufficient moneys are deposited in escrow with a bank or trust company or a bond acceptable to the Master Trustee is posted for the payment of such Indebtedness.

(d) A court having jurisdiction shall enter a decree or order for relief in respect of any Member in an involuntary case under any applicable federal or state bankruptcy, insolvency or other similar law, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of any Member or for any substantial part of the Property of any Member, or ordering the winding up or liquidation of its affairs, and such decree or order shall remain unstayed and in effect for a period of sixty (60) consecutive days.

(e) Any Member shall commence a voluntary case under any applicable federal or state bankruptcy, insolvency or other similar law, or shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or similar official) of any Member or for any substantial part of its Property, or shall make any general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due or shall take any corporate action in furtherance of the foregoing.

(f) An event of default shall exist under any Related Bond Indenture.

The Obligated Group Representative agrees that, as soon as practicable, and in any event within ten (10) days after such event, the Obligated Group Representative shall notify the Master Trustee of any event which is an Event of Default under the Master Indenture which has occurred and is continuing, which notice shall state the nature of such event and the action which the Members of the Obligated Group propose to take with respect thereto.

Section 4.02 Acceleration; Annulment of Acceleration.

(a) Upon the occurrence and during the continuation of an Event of Default, the Master Trustee may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate Principal Amount of Outstanding Obligations, or of any Holder if an Event of Default under Section 4.01(a) of the Master Indenture has occurred, and upon indemnification of the Master Trustee in accordance with Section 5.02(e) of the Master Indenture, shall, by notice to the Obligated Group Representative, declare all Outstanding Obligations immediately due and payable. Upon such declaration of acceleration, all Outstanding Obligations shall be immediately due and payable. If the terms of any Related Supplement give a Person the right to consent to acceleration of the Obligations issued pursuant to such Related Supplement the Obligations issued pursuant to such Related Supplement may not be accelerated by the Master Trustee unless such consent is properly obtained pursuant to the terms of such Related Supplement. In the event of acceleration, an amount equal to the aggregate Principal Amount of all Outstanding Obligations, plus all interest accrued thereon and, to the extent permitted by applicable law, which accrues on such principal and interest to the date of payment, shall be due and payable on the Obligations.

(b) At any time after the Obligations have been declared to be due and payable, and before the entry of a final judgment or decree in any proceeding instituted with respect to the Event of Default that resulted in the declaration of acceleration, the Master Trustee may annul such declaration and its consequences if:

(1) the Obligated Group has paid (or caused to be paid or deposited with the Master Trustee moneys sufficient to pay) all payments then due on all Outstanding Obligations (other than payments then due only because of such declaration);

(2) the Obligated Group has paid (or caused to be paid or deposited with the Master Trustee moneys sufficient to pay) all fees and expenses of the Master Trustee then due;

(3) the Obligated Group has paid (or caused to be paid or deposited with the Master Trustee moneys sufficient to pay) all other amounts then payable by the Obligated Group under the Master Indenture; and

(4) every Event of Default (other than a default in the payment of the principal or other payments of such Obligations then due only because of such declaration) has been remedied.

No such annulment shall extend to or affect any subsequent Event of Default or impair any right with respect to any subsequent Event of Default.

Section 4.03 Additional Remedies and Enforcement of Remedies

(a) Upon the occurrence and continuance of any Event of Default, the Master Trustee may, and upon the written request of the Holders of not less than fifty percent (50%) in aggregate Principal Amount of the Outstanding Obligations or of any Holder if an Event of Default under Section 4.01(a) of the Master Indenture has occurred (and upon indemnification of the Master Trustee to its satisfaction for any such request), shall, proceed to protect and enforce its rights and the rights of the Holders under the Master Indenture by such proceedings as the Master Trustee may deem expedient, including but not limited to:

(1) Enforcement of the right of the Holders to collect amounts due or becoming due under the Obligations;

(2) Civil action upon all or any part of the Obligations;

(3) Civil action to require any Person holding moneys, documents or other property pledged to secure payment of amounts due or to become due on the Obligations to account as if it were the trustee of an express trust for the Holders of Obligations;

(4) Civil action to enjoin any acts which may be unlawful or in violation of the rights of the Holders of Obligations; and

(5) Enforcement of any other right or remedy of the Holders conferred by law or by the Master Indenture.

(b) Regardless of the occurrence of an Event of Default, if requested in writing by the Holders of not less than fifty percent (50%) in aggregate Principal Amount of the Outstanding Obligations (and upon indemnification of the Master Trustee to its satisfaction for such request), the Master Trustee shall institute and maintain such proceedings as it may be advised shall be necessary or expedient (1) to prevent any impairment of the security under the Master Indenture by any acts which may be unlawful or in violation thereof, or (2) to preserve or protect the interests of the Holders. However, the Master Trustee shall not comply with any such request or institute and maintain any such proceeding that is in conflict with any applicable law or the provisions of the Master Indenture or (in the sole judgment of the Master Trustee) is unduly prejudicial to the interests of the Holders not making such request.

Section 4.04 Application of Moneys After Default. During the continuance of an Event of Default, all moneys received by the Master Trustee pursuant to any right given or action taken under the provisions of Article IV of the Master Indenture (after payment of the costs of the proceedings resulting in the collection of such moneys and payment of all fees, expenses and other amounts owed to the Master Trustee) shall be applied as follows:

(a) Unless all Outstanding Obligations have become or have been declared due and payable (or if any such declaration is annulled in accordance with the terms of Article IV of the Master Indenture):

First: To the payment of all installments of interest then due on the Obligations in the order of their due dates, and, if the amount available is not sufficient to pay in full all installments due on the same date, then to the payment thereof ratably, according to the amounts of interest due on such date, without any discrimination or preference; and

Second: To the payment of all Required Payments, including but not limited to Obligation Payments and all installments of principal then due on the Obligations (whether at maturity or by call for redemption) in the order of their due dates, and, if the amount available is not sufficient to pay in full all Required Payments due on the same date, then to the payment thereof ratably,

according to the amounts due on such date, without any discrimination or preference.

(b) If all Outstanding Obligations have become or have been declared due and payable (and such declaration has not been annulled under the terms of Article IV of the Master Indenture), to the payment of all Required Payments then due and unpaid on the Obligations, and, if the amount available is not sufficient to pay in full the whole amount then due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, of interest over principal, of any installment over any other installment or of any Obligation over any other Obligation, according to the amounts due on all Required Payments, without any discrimination or preference.

Such moneys shall be applied at such times as the Master Trustee shall determine, having due regard for the amount of moneys available and the likelihood of additional moneys becoming available in the future. Upon any date fixed by the Master Trustee for the application of such moneys to the payment of principal, interest on the amounts of principal to be paid on such date shall cease to accrue.

The Master Trustee shall give such notices as it may deem appropriate of the deposit with it of such moneys or of the fixing of such dates. The Master Trustee shall not be required to make payment to the Holder of any unpaid Obligation until such Obligation (and all unmatured interest coupons, if any) is presented to the Master Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Whenever all Obligations have been paid under the terms of this Section and all fees and expenses of the Master Trustee have been paid, any balance remaining shall be paid to the Person entitled to receive such balance. If no other Person is entitled thereto, then the balance shall be paid to the Obligated Group Representative, its successors or such Person as a court of competent jurisdiction may direct.

Section 4.08 Holders Control of Proceeding. If an Event of Default has occurred and is continuing, notwithstanding anything in the Master Indenture to the contrary, the Holders of at least a majority in aggregate Principal Amount of Outstanding Obligations shall have the right (upon the indemnification of the Master Trustee to its satisfaction) to direct the method and/or place of conducting any proceeding to be taken in connection with the enforcement of the terms of the Master Indenture. Such direction must be in writing, signed by such Holders and delivered to the Master Trustee. However, the Master Trustee shall not follow any such direction that is in conflict with any applicable law or the provisions of the Master Indenture or (in the sole judgment of the Master Trustee) is unduly prejudicial to the interests of the Holders not joining in such direction. Nothing in this Section shall impair the right of the Master Trustee to take any other action authorized by the Master Indenture which it may deem proper and which is not inconsistent with such direction by Holders.

Section 4.10 Waiver of Event of Default.

(a) No delay or omission of the Master Trustee or of any Holder to exercise any right with respect to any Event of Default shall impair such right or shall be construed to be a waiver of or acquiescence to such Event of Default. Every right and remedy given by Article IV of the Master Indenture to the Master Trustee and the Holders may be exercised from time to time and as often as may be deemed expedient by them.

(b) The Master Trustee may waive any Event of Default which in its opinion has been remedied before the entry of a final judgment or decree in any proceeding instituted by it under the provisions of the Master Indenture, or before the completion of the enforcement of any other remedy under the Master Indenture.

(c) Upon the written request of the Holders of at least a majority in aggregate Principal Amount of Outstanding Obligations, the Master Trustee shall waive any Event of Default or any event which would become an Event of Default with the passage of time or the giving of notice or both under the Master Indenture and its consequences; provided, however, that, except under the circumstances set forth in subsection (b) of Section 4.02 of the Master Indenture, the failure to pay the principal of, premium, if any, or interest on any Obligation when due may not be waived without the written consent of the Holders of all Outstanding Obligations.

(d) In case of any waiver by the Master Trustee of an Event of Default, the Members, the Master Trustee and the Holders shall be restored to their former positions and rights. No waiver shall extend to, or impair any right with respect to, any other Event of Default.

Section 4.11 Appointment of Receiver. Upon the occurrence and continuance of any Event of Default, the Master Trustee shall be entitled (a) without declaring the Obligations to be due and payable, (b) after declaring the Obligations to be due and payable, or (c) upon the commencement of any proceeding to enforce any right of the Master Trustee or the Holders, to the appointment of a receiver or receivers of any or all of the Property of the Members (without the necessity of notice to any Member of the Obligated Group or any other Person), with such powers as the court making such appointment shall confer. Each Member consents and will if requested by the Master Trustee, consent at the time of application by the Master Trustee for appointment of a receiver, to the appointment of such receiver and agrees that such receiver may be given the right to the extent the right may lawfully be given, to take possession of, operate and deal with such Property and the revenues, profits and proceeds therefrom, with the same effect as the Member could, and to borrow money and issue evidences of indebtedness as such receiver.

Section 4.13 Notice of Default. Within ten (10) days after a Responsible Officer of the Master Trustee has actual knowledge or has received written notice of the occurrence of an Event of Default, the Master Trustee shall mail notice of such Event of Default to all Holders, unless such Event of Default has been cured before the giving of such notice (the term "Event of Default" for the purposes of this Section being limited to the events specified in subsections (a) through (f) of Section 4.01 of the Master Indenture, not including any periods of grace provided for in subsections (b), (c) and (d), and regardless of the giving of written notice specified in subsection (b) of Section 4.01 of the Master Indenture). Except in the case of default in the payment of the principal of or premium, if any, or interest on any of the Obligations and the Events of Default specified in subsections (d) and (e) of Section 4.01 of the Master Indenture, the Master Trustee shall be protected in withholding such notice if and so long as the Master Trustee in good faith determines that the withholding of such notice is in the best interest of the Holders.

THE MASTER TRUSTEE

Section 5.01 Certain Duties and Responsibilities.

(a) Except during the continuance of an Event of Default:

(1) The Master Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Master Indenture, and no implied covenant or obligation shall be read into the Master Indenture against the Master Trustee; and

(2) In the absence of bad faith on its part, the Master Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein upon Certificates or opinions furnished to the Master Trustee and conforming to the requirements of the Master Indenture; but in the case of any Certificate or opinion specifically required by the provisions of the Master Indenture to be furnished to the Master Trustee, the Master Trustee shall be under a duty to examine such Certificate or opinion to determine whether or not it conforms to the requirements of the Master Indenture.

(b) In case an Event of Default has occurred, of which a Responsible Officer in the Corporate Trust Office of the Master Trustee has knowledge, and is continuing, the Master Trustee shall exercise such of the rights and powers vested in it by the Master Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(c) No provision of the Master Indenture shall be construed to relieve the Master Trustee from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that:

(1) this subsection shall not be construed to limit the effect of subsection (a) of this Section;

(2) the Master Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it is proved that the Master Trustee was negligent in ascertaining the pertinent facts;

(3) the Master Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders given in accordance with Section 4.08 of the Master Indenture; and

(4) no provision of the Master Indenture shall require the Master Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties thereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

The Master Trustee will keep on file at its office a list of the names and addresses of the last known holders of all Obligations and the serial numbers of such Obligations held by each of such holders. At reasonable times and under reasonable regulations established by the Master Trustee, said list may be inspected and copied by the Members, any Obligation holder or the authorized representative thereof, provided that the ownership of such holder and the authority of any such designated representative shall be evidenced to the satisfaction of the Master Trustee.

(d) Every provision of the Master Indenture relating to the conduct of, affecting the liability of or affording protection to the Master Trustee shall be subject to the provisions of this Section.

Section 5.02 Certain Rights of Master Trustee. Subject to Section 5.01 of the Master Indenture:

(a) The Master Trustee may conclusively rely upon any document believed by it to be genuine and to have been signed or presented by the proper party or parties.

(b) Any request or direction of the Obligated Group Representative mentioned in the Master Indenture shall be sufficiently evidenced by an Officer's Certificate. Any action of the Governing Body of any Member shall be sufficiently evidenced by a copy of a resolution certified by the secretary or an assistant secretary of the Member to have been duly adopted by the Governing Body and to be in full force and effect on the date of such certification and delivered to the Master Trustee.

(c) Whenever in the administration of the Master Indenture the Master Trustee shall deem it desirable that a matter be proved or established prior to taking, allowing or omitting any action under the Master Indenture, the Master Trustee may (in the absence of bad faith on its part and unless other evidence is specifically prescribed by the Master Indenture) request and conclusively rely upon an Officer's Certificate.

(d) The Master Trustee may consult with counsel of its selection, and any Opinion of Counsel shall be full and complete authorization and protection with respect to any action taken, allowed or omitted by it under the Master Indenture in good faith and in reliance thereon.

(e) The Master Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Master Indenture at the request or direction of any of the Holders, unless such Holders shall have offered to the Master Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction.

(f) The Master Trustee shall not be bound to make any investigation into the facts stated in any document delivered to it under the Master Indenture, but the Master Trustee, in its discretion, may make such further inquiry or investigation into such facts as it may see fit. If the Master Trustee determines to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of any Member (excluding

specifically donor records, patient records and personnel records), personally or by agent or attorney, during regular business hours and after reasonable notice.

(g) The Master Trustee may execute any of the trusts or powers under the Master Indenture or perform any duties thereunder either directly or through agents. The Master Trustee shall not be responsible for any misconduct or negligence on the part of any agent appointed by it with due care.

(h) The Master Trustee shall not be liable for any action taken, suffered, or omitted to be taken by it in good faith and reasonably believed by it to be authorized or within the discretion or rights or powers conferred upon it by the Master Indenture.

(i) The Master Trustee shall not be deemed to have notice of any default or Event of Default unless a Responsible Officer of the Master Trustee has actual knowledge thereof or unless written notice of any event which is in fact such a default is received by the Master Trustee at the Corporate Trust Office of the Master Trustee, and such notice references the obligations and the Master Indenture.

Section 5.04 Removal and Resignation of the Master Trustee.

(a) The Master Trustee may be removed at any time by an instrument or instruments in writing signed by (1) the Holders of not less than a majority of the Principal Amount of Outstanding Obligations or (2) (unless an Event of Default has occurred and is then continuing) the Obligated Group Representative.

(b) The Master Trustee may at any time resign by giving written notice of such resignation to the Obligated Group Representative.

(c) No such resignation or removal shall become effective unless and until a successor Master Trustee has been appointed and has assumed the trusts created by the Master Indenture. Written notice of removal or resignation of the predecessor Master Trustee and/or appointment of the successor Master Trustee shall be given by the successor Master Trustee within ten (10) days of the successor's acceptance of appointment to the Members and to each Holder at the addresses shown on the books of the Master Trustee. A successor Master Trustee may be appointed at the direction of the Holders of not less than a majority in aggregate Principal Amount of Outstanding Obligations, or, if the Master Trustee has resigned or has been removed by the Obligated Group Representative, by the Obligated Group Representative. In the event a successor Master Trustee has not been appointed and qualified within sixty (60) days of the date notice of resignation or removal is given, the Master Trustee, any Member or any Holder may apply at the expense of the Members to any court of competent jurisdiction for the appointment of an interim successor Master Trustee to act until such time as a permanent successor is appointed.

(d) Unless otherwise ordered by a court or regulatory body having competent jurisdiction, or unless required by law, any successor Master Trustee shall be a trust company or bank having the powers of a trust company as to trusts, qualified to do and doing trust business in one or more states of the United States of America and having an officially reported combined capital, surplus, undivided profits and reserves aggregating at least $50,000,000, if there is such an institution willing, qualified and able to accept the trust upon reasonable or customary terms.

(e) Every successor Master Trustee shall execute and deliver to its predecessor and to each Member a written instrument accepting such appointment. Upon the delivery of such acceptance, the successor Master Trustee shall become fully vested with all the rights, immunities, powers, trusts, duties and obligations of its predecessor. The predecessor shall execute and deliver to the successor Master Trustee a written instrument transferring to the successor Master Trustee all the rights, powers and trusts of the predecessor. The predecessor Master Trustee (upon payment of all amounts owed to it) shall execute any documents necessary or appropriate to convey all interest it may have to the successor Master Trustee. The predecessor Master Trustee shall promptly deliver all records relating to the trust or copies thereof and communicate all material information it may have obtained concerning the trust to the successor Master Trustee.

Section 5.07 Separate or Co-Master Trustee. At any time, for the purpose of meeting any legal requirements of any jurisdiction, the Master Trustee may appoint one or more Persons either to act as co-master trustee with the Master Trustee, or to act as separate master trustee, and to vest in such Persons or Persons such rights, powers, duties, trusts or obligations as the Master Trustee may consider necessary or desirable, subject to the remaining provisions of this Section.

Every co-master trustee or separate master trustee shall, to the extent permitted by law, be appointed subject to the following terms:

(a) The Obligations shall be authenticated and delivered solely by the Master Trustee.

(b) All rights, powers, trusts, duties and obligations conferred or imposed upon the trustees shall be conferred or imposed upon and exercised or performed as shall be provided in the instrument appointing such co-master trustee or separate master trustee, except to the extent that, under the law of any jurisdiction in which any particular act or acts are to be performed, the Master Trustee is incompetent or unqualified to perform such act or acts, in which event such act or acts shall be performed by such co-master trustee or separate master trustee.

(c) Any request in writing by the Master Trustee to any co-master trustee or separate master trustee to take or to refrain from taking any action under the Master Indenture shall be sufficient for the taking, or the refraining from taking, of such action by such Person.

(d) Any co-master trustee or separate master trustee may, to the extent permitted by law, delegate to the Master Trustee the exercise of any right, power, trust, duty or obligation, discretionary or otherwise.

(e) The Master Trustee may at any time, by an instrument in writing, accept the resignation of or remove any co-master trustee or separate master trustee appointed under this Section. Upon the request of the Master Trustee, the Members shall join with the Master Trustee in the execution, delivery and performance of all instruments and agreements necessary or proper to effectuate such resignation or removal.

(f) No trustee under the Master Indenture shall be personally liable by reason of any act or omission of any other trustee thereunder, nor will the act or omission of any trustee thereunder be imputed to any other trustee.

(g) Any demand, request, direction, appointment, removal, notice, consent, waiver or other action in writing delivered to the Master Trustee shall be deemed to have been delivered to each such co-master trustee or separate master trustee.

(h) Any moneys, papers, securities or other items of personal property received by any such co-master trustee or separate master trustee under the Master Indenture shall be turned over to the Master Trustee immediately.

Upon the acceptance in writing of such appointment by any co-master trustee or separate master trustee, such Person shall be vested with such tights, powers, duties or obligations as are specified in the instrument of appointment jointly with the Master Trustee (except insofar as local law makes it necessary for any such co-master trustee or separate master trustee to act alone) subject to all the terms of the Master Indenture every such acceptance shall be filed with the Master Trustee. To the extent permitted by law, any co-master trustee or separate master trustee may, at any time by an instrument in writing, constitute the Master Trustee its attorney-in-fact and agent, with full power and authority to do all acts and things and to exercise all discretion on its behalf and in its name.

In case any co-master trustee or separate master trustee shall become incapable of acting, resign or be removed, all rights, powers, trusts, duties and obligations of such Person shall, so far as permitted by law, vest in

and be exercised by the Master Trustee unless and until a successor co-master trustee or separate master trustee shall be appointed in the manner provided in the Master Indenture. (Section 5.07)

SUPPLEMENTS AND AMENDMENTS

Section 6.01 Supplements Not Requiring Consent of Holders. The Obligated Group Representative (acting for itself and as agent for each Member) and the Master Trustee may, without the consent of or notice to any of the Holders, enter into one or more Related Supplements for any of the following purposes:

(a) To correct any ambiguity or formal defect or omission in the Master Indenture which does not materially and adversely affect the interests of the Holders;

(b) To correct or supplement any provision which may be inconsistent with any other provision, or to make any other provision with respect to matters or questions arising under the Master Indenture and which does not materially and adversely affect the interests of the Holders;

(c) To grant or confer ratably upon all of the Holders any additional rights, remedies, powers or authority, or to add to the covenants of and restrictions on the Members;

(d) To qualify the Master Indenture under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal law from time to time in effect;

(e) To create and provide for the issuance of an Obligation or Series of Obligations as permitted under the Master Indenture;

(f) To obligate a successor to any Member as provided in Section 3.07 of the Master Indenture; or

(g) To add a new Member as provided in Section 3.08 of the Master Indenture.

Section 6.02 Supplements Requiring Consent of Holders.

(a) Other than Related Supplements referred to in Section 6.01 of the Master Indenture and subject to the terms contained in Article VI thereof , the Holders of not less than a majority in aggregate Principal Amount of the Outstanding Obligations shall have the right to consent to and approve the execution by the Obligated Group Representative (acting for itself and as agent for each Member) and the Master Trustee of such Related Supplements as shall be deemed necessary or desirable for the purpose of modifying, altering, amending, adding to or rescinding any of the terms contained in the Master Indenture; provided, however, that nothing in this Section shall permit or be construed as permitting a Related Supplement which would:

(1) Change the stated maturity or priority of payment of or time for paying any Required Payment on any Obligation or reduce the Required Payments, including but not limited to the Principal Amount of or the redemption premium or rate of interest or method of calculating interest payable on any Obligation, without the consent of the Holders of such Obligations;

(2) Modify, alter, amend, add to or rescind any of the terms or provisions contained in Article IV of the Master Indenture so as to affect the right of the Holders of any Obligations in default as to payment to compel the Master Trustee to declare the principal of all Obligations to be due and payable, without the consent of the Holders of a Outstanding Obligations; or

(3) Reduce the aggregate Principal Amount of Outstanding Obligations the consent of the Holders of which is required to authorize such Related Supplement without the consent of the Holders of all Obligations then Outstanding.

(b) The Master Trustee may execute a Related Supplement (in substantially the form delivered to it as described below) without liability or responsibility to any Holder (whether or not such Holder has consented to the execution of such Related Supplement) if the Master Trustee receives:

(1) a Request of the Obligated Group Representative to enter into such Related Supplement;

(2) a certified copy of the resolution of the Governing Body of the Obligated Group Representative approving the execution of such Related Supplement;

(3) the proposed Related Supplement; and

(4) an instrument or instruments executed by the Holders of not less than the aggregate Principal Amount or number of Obligations specified in subsection (a) for the Related Supplement in question which instrument or instruments shall refer to the proposed Related Supplement and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof as on file with the Master Trustee.

(c) Any such consent shall be binding upon the Holder of the Obligation giving such consent and upon any subsequent Holder of such Obligation and of any Obligation issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Obligation giving such consent or by a subsequent Holder thereof by filing with the Master Trustee, prior to the execution by the Master Trustee of such Related Supplement, such revocation and, if such Obligation or Obligations are transferable by delivery, proof that such Obligations are held by the signer of such revocation. At any time after the Holders of the required Principal Amount or number of Obligations shall have filed their consents to the Related Supplement, the Master Trustee shall file a written statement to that effect with the Obligated Group Representative. Such written statement shall be conclusive evidence that such consents have been so filed.

(d) If the Holders of the required Principal Amount or number of the Outstanding Obligations have consented to the execution of such Related Supplement no Holder shall have any right to object to the execution thereof, to object to any of the terms and provisions contained therein or the operation thereof, to question the propriety of the execution thereof or to enjoin or restrain the Master Trustee or the Obligated Group Representative from executing such Related Supplement or from taking any action pursuant to the provisions thereof.

Section 6.04 Amendment of Related Supplement. Any Related Supplement may provide that the provisions thereof may be amended without the consent of or notice to any of the Holders, or pursuant to such terms and conditions as may be specified in such Related Supplement. If a Related Supplement does not contain provisions relating to the amendment thereof, the amendment of such Related Supplement shall by governed by the provisions of Section 6.01 and Section 6.02 of the Master Indenture.

SATISFACTION AND DISCHARGE

Section 7.01 Satisfaction and Discharge of Master Indenture. The Master Indenture shall cease to be of further effect if:

(a) all Obligations previously authenticated (other than any Obligations which have been mutilated, destroyed, lost or stolen and which have been replaced or paid as provided in any Related Supplement) and not cancelled are delivered to the Master Trustee for cancellation;

(b) all Obligations not previously cancelled or delivered to the Master Trustee for cancellation are paid;

(c) a deposit is made in trust with the Master Trustee (or with a bank or trust company acceptable to the Master Trustee pursuant to an agreement between a Member and such bank or trust company in form acceptable to the Master Trustee) in cash or Government Obligations or both, sufficient to pay at maturity or upon redemption all Obligations not previously cancelled or delivered to the Master Trustee for cancellation, including principal and interest due or to become due to such date of maturity or redemption date, as the case may be; and

(d) all other sums payable under the Master Indenture by the Members are also paid.

The Master Trustee, on demand of the Members or any thereof and at the cost and expense of the Members, shall execute proper instruments acknowledging satisfaction of and discharging the Master Indenture. The Members shall cause a report to be prepared by a firm nationally recognized for providing verification services regarding the sufficiency of funds for such discharge and satisfaction provided pursuant to clause (c) above, upon which report the Master Trustee may rely.

The Members shall pay and indemnify the Master Trustee against any tax, fee or other charge imposed on or assessed against the Government Obligations deposited pursuant to Section 7.01 of the Master Indenture or the principal and interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the Holders of Outstanding Obligations.

Section 7.02 Payment of Obligations After Discharge of Lien. Notwithstanding the discharge of the lien of the Master Indenture as provided in Article VII of the Master Indenture, the Master Trustee shall retain such rights, powers and duties as may be necessary and convenient for the payment of amounts due or to become due on the Obligations and for the registration, transfer, exchange and replacement of Obligations. Any moneys held by the Master Trustee for the payment of the principal of, premium, if any or interest on any Obligation remaining unclaimed for one year after the principal of all Obligations has become due and payable, whether at maturity, upon proceedings for redemption or by declaration as provided in the Master Indenture, shall then be paid to the Members. The Holders of any Obligations or coupons not previously presented for payment shall thereafter be entitled to look only to the Members for payment thereof as unsecured creditors and all liability of the Master Trustee with respect to such moneys shall thereupon cease.

MISCELLANEOUS

Section 8.01 Limitation of Rights. With the exception of rights expressly conferred in the Master Indenture, nothing expressed or mentioned in or to be implied from the Master Indenture or the Obligations is intended or shall be construed to give to any person other than each Member, the Master Trustee and the Holders any legal or equitable right remedy or claim under or with respect to the Master Indenture. The Master Indenture and all of the covenants, conditions and provisions thereof are intended to be and are for the sole and exclusive benefit of the parties mentioned in this Section.

PLEDGE OF GROSS REVENUES

Pledge of Gross Revenues. In order to secure the prompt payment of the principal of, redemption price, if any, and interest on all Obligations issued under the Master Trust Indenture and the performance by the Members of the Obligated Group of their obligations under the Master Trust Indenture and the Obligations, the Members of the Obligated Group pledge and assign to the Master Trustee, and grant a security interest in, for the equal and ratable benefit of the Holders from time to time of all of the Obligations, all of their Gross Revenues, but the existence of such pledge, assignment and security interest shall not prevent the expenditure, deposit or commingling of Gross Revenues by the Members of the Obligated Group for any purpose so long as no Event of Default under Section 4.01(a) of the Master Trust Indenture has occurred and is continuing and all required payments with respect to the Obligations are made when due. Without limiting the generality of the foregoing, this security interest shall apply to all rights to receive Gross Revenues whether in the form of accounts, accounts receivable, contract rights or other rights, and to the proceeds of such rights. This security interest shall apply to all of the foregoing, whether now existing or hereafter coming into existence and whether now owned or held or hereafter acquired by the Members of the Obligated Group. The Members of the Obligated Group represent that they have granted no security interest in Gross Revenues prior to the security interest granted by the Master Indenture. The Master Trust Indenture is

intended to be a security agreement pursuant to the Arizona Uniform Commercial Code. The Members of the Obligated Group agree to execute and deliver to the Master Trustee such financing statements and continuation statements covering the Gross Revenues from time to time and in such form as may be required to perfect and continue a security interest in the Gross Revenues. The Master Trustee shall file all of such statements provided to it by any Member of the Obligated Group in a timely and appropriate manner as may be required to perfect and continue such security interest in Gross Revenues. The Members of the Obligated Group shall pay all costs of filing such financing statements and continuation statements and any renewals thereof and shall pay all reasonable costs and expenses of any record searches and preparation fees for financing statements and continuation statements that may be required. Upon the breach of any covenant or agreement of the Members of the Obligated Group contained in the Master Trust Indenture, the Master Trustee will have the remedies of a secured party under the Arizona Uniform Commercial Code and, at its option, may also pursue the remedies permitted in applicable law as to such Gross Revenues. The Members of the Obligated Group further covenant and agree that they will not pledge, suffer to exist, or grant a security interest in the Gross Revenues which is senior or superior to such pledge except as may be permitted by the Master Trust Indenture. The Members of the Obligated Group further covenant that if an Event of Default of the type described in Section 4.01(a) of the Master Trust Indenture shall occur and be continuing, and any grace period applicable thereto shall have expired, any Gross Revenues then received and any Gross Revenues thereafter received, shall not be commingled or deposited but shall immediately, or upon receipt, be transferred by the Members of the Obligated Group on a daily basis to the Master Trustee and deposited into the Gross Revenues Account as provided below. Such daily deposits shall continue until such Event of Default described in the preceding sentence has been cured. Any such proceeds on deposit with the Master Trustee shall be disbursed by the Master Trustee pursuant to the provisions of Section 4.04 of the Master Trust Indenture and as provided below.

The Master Trustee is authorized and directed to establish a Gross Revenues Account, or Accounts, into which there shall be deposited upon the occurrence of any Event of Default under Section 4.01(a) of the Master Trust Indenture, upon receipt by the Master Trustee, any and all Gross Revenues of the Obligated Group. Upon the occurrence of an event that requires the funding of the Gross Revenues Account the Obligated Group and the Master Trustee covenant to take all action necessary to insure that all such Gross Revenues are deposited into the Gross Revenues Account including, but not limited to, depositing directly all payments received and directing all debtors and payors of the Obligated Group to make all payments due to the Obligated Group Members into the Gross Revenues Account. The Gross Revenues Account shall become subject to the Lien of the Master Trust Indenture in favor of the holders of all Obligations. Amounts on deposit in such Account shall be transferred first to the payment of current operating expenses of the Members of the Obligated Group and second to the payment of debt service on all Obligations due and past due and thereafter shall otherwise be applied by the Obligated Group for its corporate purposes until the Master Trustee gives written notice to the Obligated Group of the exercise of remedies under the Master Trust Indenture as a secured party and the Master Trustee enforces its rights and interests in and to the Gross Revenues Account and the amounts on deposit therein. The Master Trustee is authorized to take such self-help and other measures that a secured party is entitled to take under the Arizona Uniform Commercial Code. Upon a cure or waiver of the Event of Default that requires the funding of the Gross Revenues Account, the Master Trustee shall transfer the amounts on deposit in the Gross Revenues Account to or at the direction of the Obligated Group Representative.

The pledge of Gross Revenues created by the Master Trust Indenture is not secured by a control agreement.

The Members of the Obligated Group represent, warrant and covenant that the following shall apply to the pledge of Gross Revenues created by the Master Trust Indenture:

(a) The Obligated Group has filed all financing statements describing Gross Revenues (and for so long as any Obligation is outstanding under the Master Trust Indenture the Obligated Group will file, continue, and amend all such financing statements) as may be necessary to perfect a security interest in Gross Revenues, to the extent such a security interest can be perfected by filing a financing statement, in each jurisdiction in which the Obligated Group or any Member thereof is organized or such collateral may be located or that may otherwise be applicable pursuant to Uniform Commercial Code §§9.301-9.306 of such jurisdiction.

(b) The Obligated Group has not made a pledge of, granted a lien on or security interest in, or made an assignment or sale of Gross Revenue that ranks on a parity with or prior to

the pledge, assignment, lien and security interest in Gross Revenues granted by the Master Trust Indenture securing all Obligations, except as expressly permitted under the Master Trust Indenture.

(c) The Obligated Group shall not hereafter make or suffer to exist any pledge or assignment of, lien on, or security interest in such collateral that ranks prior to or on a parity with the pledge, assignment, lien and security interest in Gross Revenues granted by the Master Trust Indenture, or file any financing statement describing any such pledge, assignment, lien, or security interest, except as expressly permitted under the Master Trust Indenture.

Notwithstanding any other provision of the Master Trust Indenture, the pledge of Gross Revenues and the Gross Revenues Account created under the Master Trust Indenture may and shall be fully discharged and released with the consent of a majority of the Holders of the outstanding Series 2008D Bonds. Unless and until so discharged and released, such gross revenue pledge shall secure the Series 2008D Obligation on a parity with all outstanding Obligations.

CERTAIN PROVISIONS OF THE SERIES 2008D BOND INDENTURE

DEFINITIONS

"Act" means the Arizona Health Facilities Authority Act, Title 36, Chapter 4.2, Arizona Revised Statutes, as the same is now in effect and as from time to time hereafter amended or supplemented.

"Additional Payments" means the payments so designated and required to be made by Banner Health pursuant to Section 3.2 of the Loan Agreement.

"Administrative Fees and Expenses" means any application, commitment, financing or similar fee charged or reimbursement for administrative or other expenses incurred by the Issuer or the Bond Trustee, including Additional Payments.

"Authorized Representative" means with respect to Banner Health, its President, or any Executive Vice President, Senior Vice President or Vice President, or any other person designated as an Authorized Representative of Banner Health in a Certificate of Banner Health signed by any two of its President, Executive Vice President, Senior Vice President, Vice President, Secretary or Assistant Secretary and filed with the Bond Trustee.

"Banner Health" means Banner Health, a nonprofit corporation duly organized and existing under the laws of the State of Arizona, or any corporation that is the surviving, resulting or transferee corporation in any merger, consolidation or transfer of assets permitted under the Master Indenture.

"Beneficial Owner" means any Person which (a) has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any of the Bonds (including any Person holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bond for federal income tax purposes.

"Bond Counsel" means Hawkins Delafield & Wood LLP or another attorney-at-law, or firm of such attorneys selected by Banner Health, of nationally recognized standing in matters pertaining to the validity and tax-exempt status of bonds issued by states and their political subdivisions.

"Bond Indenture" means the Bond Indenture, by and between the Issuer and the Bond Trustee, dated as of August 1, 2008, as originally executed or as it may from time to time be supplemented, modified or amended by any Supplemental Bond Indenture.

"Bond Trustee" means The Bank of New York Mellon Trust Company, N.A., a national banking association organized and existing under and by virtue of the laws of the United States, or its successor, as Bond Trustee hereunder as provided in Section 8.01 of the Bond Indenture.

“Bonds” means the Arizona Health Facilities Authority Revenue Bonds (Banner Health), Series 2008D, authorized by, and at any time Outstanding pursuant to, the Bond Indenture.

“Business Day” means any day on which banks located in Phoenix, Arizona, New York, New York, and the city in which the Principal Office of the Bond Trustee is located are not required or authorized to be closed and on which The New York Stock Exchange is open.

“Certificate,” “Statement,” “Request” and “Requisition” of the Issuer or Banner Health means, respectively, a written certificate, statement, request or requisition signed in the name of the Issuer by its Chair, Executive Director, Secretary or such other person as may be designated and authorized to sign for the Issuer in writing to the Bond Trustee, or in the name of Banner Health by an Authorized Representative of Banner Health. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument.

“Code” means the Internal Revenue Code of 1986, as amended, or any successor statute thereto and any regulations promulgated thereunder.

“Continuing Disclosure Agreement” means any continuing disclosure agreement or certificate executed by Banner Health with respect to the Bonds and which complies with S.E.C. Rule 15c2-12.

“Costs of Issuance” means all items of expense directly or indirectly payable by or reimbursable to the Issuer or Banner Health and related to the authorization, issuance, sale and delivery of the Bonds, including but not limited to advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of the Bond Trustee, initial and ongoing fees and charges of the Issuer, legal fees and charges, fees and disbursements of consultants and professionals, Rating Agency fees, fees and charges for preparation, execution, transportation and safekeeping of the Bonds, and any other cost, charge or fee in connection with the original issuance of the Bonds.

“Costs of Issuance Fund” means the fund by that name established pursuant to Section 3.03 of the Indenture.

“Date of Issuance” means August 28, 2008.

“Event of Default” means any of the events specified in Section 7.01 of the Bond Indenture.

“Favorable Opinion of Bond Counsel” means an opinion of Bond Counsel, addressed to the Issuer, Banner Health and the Bond Trustee, to the effect that the action proposed to be taken is authorized or permitted or not prohibited by or in contravention of the Bond Indenture and will not result in the inclusion of interest on the Bonds in gross income of the Holders thereof for federal income tax purposes.

“Fitch” means Fitch Ratings, a corporation organized and existing under the laws of the State of New York, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by Banner Health by notice in writing to the Issuer and the Bond Trustee.

“Holder” or “Bondholder,” whenever used herein with respect to a Bond, means the Person in whose name such Bond is registered.

“Interest Account” means the account by that name in the Revenue Fund established pursuant to Section 5.02 of the Bond Indenture.

“Interest Payment Date” means each January 1 and July 1, commencing January 1, 2009.

“Investment Securities” means any of the following that at the time are legal investments under the laws of the State of Arizona for moneys held under the Bond Indenture and then proposed to be invested therein:

(a) United States Government Obligations;

(b) bonds, debentures, notes or other evidences of indebtedness issued by any of the following agencies or any other like governmental or government-sponsored agencies that are hereafter created: Federal Farm Credit Bank; Federal Intermediate Credit Banks; Federal Financing Bank; Federal Home Loan Bank System; Federal Housing Administration; United States Maritime Administration; General Services Administration; Department of Housing and Urban Development; Resolution Funding Corporation; Farm Credit System; Federal Home Loan Mortgage Corporation; Federal National Mortgage Association; Tennessee Valley Authority; Student Loan Marking Association; Export-Import Bank of the United States; Farmers Home Administration; Small Business Administration; Inter-American Development Bank; International Bank for Reconstruction and Development; Federal Land Banks; and Government National Mortgage Association;

(c) obligations of any state of the United States of America or any municipality or political subdivision of such state, or obligations of any corporation, if such obligations are rated in one of the two highest Rating Categories by each Rating Agency then rating both the Bonds and such obligations (but in all cases by at least one Rating Agency then rating the Bonds);

(d) commercial paper rated in the highest Rating Category by each Rating Agency then rating both the Bonds and such commercial paper (but in all cases by at least one Rating Agency then rating the Bonds);

(e) negotiable or non-negotiable certificates of deposit, time deposits, or other similar banking arrangements, issued by any bank or trust company or any savings and loan association, and either (i) the long-term obligations of such bank or trust company are rated in the highest Rating Category by each Rating Agency then rating both the Bonds and such obligations (but in all events by at least one Rating Agency then rating the Bonds), or (ii) the deposits or other arrangements are continuously secured as to principal, but only to the extent not insured by the Federal Deposit Insurance Corporation or similar corporation chartered by the United States of America, (1) by depositing with a bank or trust company, as collateral security, obligations described in paragraph (a) or (b) above in an aggregate principal amount equal to a least 105% of the amount so deposited or, with the approval of the Bond Trustee, other marketable securities eligible as securities for the deposit of trust funds under applicable regulations of the Comptroller of the Currency of the United States or applicable state law or regulations, having a market value (exclusive of accrued interest) not less than the amount of such deposit, or (2) if the furnishing of security as provided in clause (1) of this paragraph is not permitted by applicable law, in such other manner as may then be required or permitted by applicable state or federal laws and regulations regarding the security for, or granting a preference in the case of, the deposit of trust funds;

(f) repurchase agreements with respect to obligations listed in paragraph (a) or (b) above if entered into with a bank, a trust company or a broker or dealer (as defined by the Securities Exchange Act of 1934) that is a dealer in government bonds, that reports to, trades with and is recognized as a primary dealer by a Federal Reserve Bank, if such obligations that are the subject of such repurchase agreement are delivered to the Bond Trustee or are supported by a safekeeping receipt issued by a depository (other than the Bond Trustee) satisfactory to the Bond Trustee, provided that such repurchase agreement must provide that the value of the underlying obligations shall be maintained at a current market value, calculated no less frequently than monthly, of not less than the repurchase price;

(g) shares or certificates in any short-term investment fund that is maintained or utilized by the Bond Trustee and which fund invests solely in other Investment Securities;

(h) investment agreements with any financial institution that at the time of investment has long-term obligations rated in one of the three highest Rating Categories by each Rating Agency then rating both the Bonds and such obligations (but in all cases by at least one Rating Agency then rating the Bonds);

(i) shares or certificates in any mutual fund invested solely in Investment Securities described in clauses (a) through (h) of this definition; and

(j) obligations (including asset-backed and mortgaged-backed obligations) of any corporation, partnership, trust or other entity which are rated in one of the two highest Rating Categories by each Rating Agency then rating both the Bonds and such obligations (but in all cases by at least one Rating Agency then rating the Bonds).

"Issuer" means the Arizona Health Facilities Authority created pursuant to, and as defined in, the Act, and its successors.

"Issuer Representative" means the Chair, the Vice Chair, the Executive Director, the Secretary, or any Assistant Secretary or any other person designated as an Issuer Representative in a Certificate of the Issuer signed by any two members of the Board of Directors of the Issuer.

"Loan Agreement" means the Loan Agreement by and between the Issuer and Banner Health, dated as of August 1, 2008, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof and of the Bond Indenture.

"Loan Default Event" means any of the events specified in Section 6.1 of the Loan Agreement.

"Loan Repayments" means the payments so designated and required to be made by Banner Health pursuant to Section 3.1 of the Loan Agreement.

"Master Indenture" means that certain amended and restated master trust indenture, dated as of October 1, 1988, as amended and restated as of October 15, 1998, between Banner Health and the Master Trustee, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof.

"Master Trustee" means U.S. Bank National Association, a national banking association, as Master Trustee under the Master Indenture, or its successor.

"Maturity Date" means the Maturity Date for each Bond as indicated in Section 2.02 of the Bond Indenture.

"Minimum Authorized Denominations" means $5,000 and any integral multiple thereof.

"Moody's" means Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by Banner Health by notice in writing to the Issuer and the Bond Trustee.

"Obligated Group" means Banner Health and each other Person that becomes and is an Obligated Group Member pursuant to the terms of the Master Indenture.

"Obligated Group Members" means Banner Health and each other Person that may in the future become jointly and severally obligated under the Master Indenture.

"Opinion of Counsel" means a written opinion of counsel (who may be counsel for Banner Health or the Issuer) selected by Banner Health and not objected to by the Issuer or the Bond Trustee.

"Optional Redemption Account" means the account by that name in the Redemption Fund established pursuant to Section 5.05 of the Bond Indenture.

"Outstanding," when used as of any particular time with reference to Bonds, means (subject to the provisions of Section 11.09 of the Bond Indenture) all Bonds theretofore, or thereupon being, authenticated and delivered by the Bond Trustee under the Bond Indenture except (1) Bonds theretofore canceled by the Bond Trustee or surrendered to the Bond Trustee for cancellation; (2) Bonds with respect to which all liability of the Issuer shall have been discharged in accordance with Section 10.02 of the Bond Indenture, including Bonds (or portions of Bonds) referred to in Section 11.10 of the Bond Indenture; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Bond Trustee pursuant to the Bond Indenture.

"Person" means an individual, corporation, firm, association, partnership, trust or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

"Principal Account" means the account by that name in the Revenue Fund established pursuant to Section 5.02 of the Bond Indenture.

"Principal Office" means, as appropriate, the designated corporate trust office of the Bond Trustee, which as of the date hereof is located at 700 South Flower Street, Suite 500, Los Angeles, California 90017-4104, Attention: Corporate Trust Administrator.

"Project" means the acquisition, construction, renovation, installation and equipping of improvements to the Health Facilities to be refinanced with proceeds of the Bonds, as more fully described in Exhibit A to the Loan Agreement.

"Project Fund" means the fund by that name established pursuant to Section 3.04 of the Bond Indenture.

"Rating Agency" means S&P, Moody's and Fitch.

"Rating Category" means a generic securities rating category, without regard, in the case of a long-term rating category, to any refinement or gradation of such long-term rating category by a numerical modifier or otherwise.

"Record Date" means the fifteenth day of the month immediately preceding an Interest Payment Date.

"Redemption Fund" means the fund by that name established pursuant to Section 5.05 of the Bond Indenture.

"Redemption Price" means, with respect to any Bond (or portion thereof), the principal amount of such Bond (or portion) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Bond Indenture.

"Revenue Fund" means the fund by that name established pursuant to Section 5.01 of this Bond Indenture.

"Revenues" means all amounts received by the Issuer or the Bond Trustee for the account of the Issuer pursuant or with respect to the Loan Agreement or the Series 2008D Obligation, including, without limiting the generality of the foregoing, Loan Repayments (including both timely and delinquent payments and any late charges, and whether paid from any source), prepayments, insurance proceeds, condemnation proceeds and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Bond Indenture, but not including any Administrative Fees and Expenses.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating

agency, any other nationally recognized securities rating agency designated by Banner Health by notice in writing to the Issuer and the Bond Trustee.

"Securities Depository" means The Depository Trust Company and its successors and assigns, or any other securities depository selected as set forth in Section 2.16.

"Series 2008D Obligation" means the obligation issued under the Master Indenture and the Supplement 2008D.

"Special Record Date" means the date established by the Bond Trustee pursuant to Section 2.02 of the Bond Indenture as the record date for the payment of defaulted interest on Bonds.

"Special Redemption Account" means the account by that name in the Redemption Fund established pursuant to Section 5.05 of the Bond Indenture.

"Supplement 2008D" means that certain Supplemental Master Indenture 2008D, dated as of August 1, 2008, between Banner Health and the Master Trustee, pursuant to which the Series 2008D Obligation is issued.

"Supplemental Bond Indenture" means any indenture hereafter duly authorized and entered into between the Issuer and the Bond Trustee, supplementing, modifying or amending the Bond Indenture; but only if and to the extent that such Supplemental Bond Indenture is specifically authorized hereunder.

"Tax Agreement" means the Tax Regulatory Agreement delivered by the Issuer and Banner Health at the time of issuance and delivery of the Bonds, as the same may be amended or supplemented in accordance with its terms.

"United States Government Obligations" means (1) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of Treasury of the United States of America) and obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America, and (2) certificates or other instruments that evidence ownership of the right to the payment of the principal of and interest on obligations described in clause (1) provided that such obligations are held in the custody of a bank or trust company in a special account separate from the general assets of such custodian or (3) municipal obligations the timely payment of the principal of and interest on which is fully provided for by the deposit in trust or escrow of cash or obligations described in clauses (1) or (2).

Section 1.03. All Bonds Equally and Ratably Secured; Bonds Not General Obligations of the Issuer. All Bonds issued hereunder and at any time Outstanding shall in all respects be equally and ratably secured hereby, without preference, priority, or distinction on account of the Series or the date or dates or the actual time or times of the issuance or maturity of the Bonds, so that all Bonds at any time issued and Outstanding hereunder shall have the same right, lien and preference hereunder, and shall all be equally and ratably secured hereby.

THE BONDS AND THE INTEREST THEREON ARE SPECIAL, LIMITED OBLIGATIONS OF THE ISSUER. PRINCIPAL OF, PREMIUM, IF ANY, AND INTEREST ON THE BONDS ARE PAYABLE SOLELY OUT OF THE REVENUES DERIVED FROM THE LOAN AGREEMENT (OTHER THAN TO THE EXTENT PAYABLE OUT OF THE PROCEEDS OF THE BONDS). THE BONDS AND INTEREST THEREON SHALL NEVER CONSTITUTE THE DEBT OR INDEBTEDNESS OF THE ISSUER OR THE STATE OF ARIZONA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY PROVISION OR LIMITATION OF THE CONSTITUTION OR STATUTES OF THE STATE AND SHALL NOT CONSTITUTE NOR GIVE RISE TO THE PECUNIARY LIABILITY OF THE ISSUER OR A CHARGE AGAINST ITS GENERAL CREDIT. THE ISSUER HAS NO TAXING POWER.

NO RECOURSE SHALL BE HAD FOR THE PAYMENT OF THE PRINCIPAL OF OR PREMIUM, IF ANY, OR INTEREST ON THE BONDS AGAINST ANY PAST, PRESENT, OR FUTURE OFFICER, DIRECTOR, COUNSEL, ADVISOR, OR AGENT OF THE ISSUER, OR OF ANY SUCCESSOR TO THE ISSUER, AS SUCH, EITHER DIRECTLY OR THROUGH THE ISSUER OR ANY SUCCESSOR TO THE

ISSUER, UNDER ANY RULE OF LAW OR EQUITY, STATUTE, OR CONSTITUTION OR BY THE ENFORCEMENT OF ANY ASSESSMENT OR PENALTY OR OTHERWISE, AND ALL SUCH LIABILITY OF ANY SUCH OFFICERS, DIRECTORS, COUNSEL, ADVISORS, OR AGENTS, AS SUCH, IS HEREBY EXPRESSLY WAIVED AND RELEASED AS A CONDITION OF AND CONSIDERATION FOR THE EXECUTION AND ISSUANCE OF THE BONDS.

ALL BONDS SHALL BE OBLIGATIONS OF THE ISSUER AND PAYABLE ONLY IN ACCORDANCE WITH THE TERMS THEREOF AND SHALL NOT BE OBLIGATIONS GENERAL, SPECIAL OR OTHERWISE OF THE STATE OF ARIZONA. SUCH BONDS SHALL NOT CONSTITUTE A LEGAL DEBT OF THE STATE OF ARIZONA, AND SHALL NOT BE ENFORCEABLE AGAINST THE STATE OF ARIZONA, NOR SHALL PAYMENT THEREOF BE ENFORCEABLE OUT OF ANY FUNDS OF THE ISSUER OTHER THAN THE INCOME AND REVENUE PLEDGED AND ASSIGNED TO, OR IN TRUST FOR THE BENEFIT OF, THE HOLDER OR HOLDERS OF SUCH BONDS.

THE BONDS

Section 2.04. Transfer of Bonds. Subject to the provisions of Section 2.09, any Bond may, in accordance with its terms, be transferred, upon the books required to be kept pursuant to the provisions of Section 2.06, by the Person in whose name it is registered, in person or by such Person's duly authorized attorney, upon surrender of such Bond for cancellation, accompanied by delivery of a written instrument of transfer, duly executed in a form approved by the Bond Trustee.

Whenever any Bond or Bonds shall be surrendered for transfer, the Issuer shall execute and the Bond Trustee shall authenticate and deliver a new Bond or Bonds, of the same maturity and for a like aggregate principal amount. The Bond Trustee shall require the Bondholder requesting such transfer to pay any tax or other governmental charge required to be paid with respect to such transfer, and the Bond Trustee may also require the Bondholder requesting such transfer to pay a reasonable sum to cover expenses incurred by the Bond Trustee or the Issuer in connection with such transfer. The Bond Trustee shall not be required to transfer (i) any Bond during the fifteen (15) days next preceding the date on which notice of redemption of Bonds is given, or (ii) any Bond called for redemption.

Section 2.05. Exchange of Bonds. Bonds may be exchanged at the Principal Office of the Bond Trustee for a like aggregate principal amount of Bonds of other Minimum Authorized Denominations of the same maturity. The Bond Trustee shall require the Bondholder requesting such exchange to pay any tax or other governmental charge required to be paid with respect to such exchange and the Bond Trustee may also require the Bondholder requesting such exchange to pay a reasonable sum to cover expenses incurred by the Bond Trustee or the Issuer in connection with such exchange, except in the case of an exchange for the unredeemed portion of a Bond surrendered for redemption. The Bond Trustee shall not be required to exchange (i) any Bond during the fifteen (15) days next preceding the date on which notice of redemption of Bonds is given or (ii) any Bond called for redemption.

Section 2.08. Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the Issuer, at the expense of the Holder of said Bond, shall execute, and the Bond Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in exchange and substitution for the Bond so mutilated, but only upon surrender to the Bond Trustee of the Bond so mutilated. Every mutilated Bond so surrendered to the Bond Trustee shall be canceled by it. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Issuer and the Bond Trustee and, if such evidence be satisfactory to both and indemnity satisfactory to them shall be given, the Issuer, at the expense of the Holder, shall execute, and the Bond Trustee shall thereupon authenticate and deliver, a new Bond of like tenor in lieu of and in substitution for the Bond so lost, destroyed or stolen (or if any such Bond shall have matured or shall be about to mature, instead of issuing a substitute Bond, the Bond Trustee may pay the same without surrender thereof). The Bond Trustee may require payment of a sum not exceeding the actual cost of preparing each new Bond issued under this Section and of the expenses which may be incurred by the Issuer and the Bond Trustee in complying with this Section. Any Bond issued under the provisions of this Section in lieu of any Bond alleged to be lost, destroyed or stolen shall replace the Bond alleged to be lost, stolen or destroyed as an original contractual obligation on the part of the Issuer, and shall be entitled to the benefits of the Bond Indenture with all other Bonds secured by the Bond Indenture.

Section 2.09. Use of Securities Depository. Notwithstanding any provision of the Bond Indenture to the contrary:

(A) The Bonds shall be initially issued as provided in Section 2.02. Registered ownership of the Bonds, or any portion thereof, may not thereafter be transferred except:

(1) To any successor of the Securities Depository or its nominee, or to any substitute depository designated pursuant to clause (2) of this subsection (A) ("substitute depository"); provided that any successor of the Securities Depository or substitute depository shall be qualified under any applicable laws to provide the service proposed to be provided by it;

(2) To any substitute depository designated by the Issuer upon (a) the resignation of the Securities Depository or its successor (or any substitute depository or its successor) from its functions as depository or (b) a determination by the Issuer that the Securities Depository or its successor (or any substitute depository or its successor) is no longer able to carry out its functions as depository; provided that any such substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it; or

(3) To any Person as provided below, upon (a) the resignation of the Securities Depository or its successor (or substitute depository or its successor) from its functions as depository; provided that no substitute depository can be obtained or (b) a determination by the Issuer that it is in the best interests of the Issuer to remove the Securities Depository or its successor (or any substitute depository or its successor) from its functions as depository.

(B) In the case of any transfer pursuant to clause (1) or clause (2) of subsection (A), upon receipt of the Outstanding Bonds by the Bond Trustee, together with a Certificate of the Issuer to the Bond Trustee, a single new Bond shall be executed and delivered in the aggregate principal amount of each maturity of the Bonds then Outstanding, registered in the name of such successor or such substitute depository, or their nominees, as the case may be, all as specified in such Certificate of the Issuer. In the case of any transfer pursuant to clause (3) of subsection (A), upon receipt of the Outstanding Bonds by the Bond Trustee together with a Certificate of the Issuer to the Bond Trustee, new Bonds shall be executed and delivered in such Minimum Authorized Denominations and registered in the names of such Persons as are requested in such a Certificate of the Issuer, subject to the limitations of Section 2.02, provided the Bond Trustee shall not be required to deliver such new Bonds within a period less than sixty (60) days from the date of receipt of such a Certificate of the Issuer.

(C) In the case of partial redemption or an advance refunding of any Bonds evidencing all or a portion of such principal amount Outstanding, the Securities Depository shall make an appropriate notation on such Bonds indicating the date and amounts of such reduction in principal, in form acceptable to the Bond Trustee.

(D) The Issuer and the Bond Trustee shall be entitled to treat the Person in whose name any Bond is registered as the Bondholder thereof for all purposes of the Bond Indenture and any applicable laws, notwithstanding any notice to the contrary received by the Bond Trustee or the Issuer; and the Issuer and the Bond Trustee shall have no responsibility for transmitting payments to, communicating with, notifying or otherwise dealing with any beneficial owners of the Bonds. Neither the Issuer nor the Bond Trustee will have any responsibility or obligations, legal or otherwise, to the beneficial owners or to any other party including the Securities Depository or its successor (or substitute depository or its successor), except for the Holder of any Bond.

(E) So long as the Outstanding Bonds are registered in the name of Cede & Co. or its registered assign, the Issuer and the Bond Trustee shall cooperate with Cede & Co., as sole registered Bondholder, and its registered assigns in effecting payment of the principal of and redemption premium, if any, and interest on the Bonds by arranging for payment in such manner that funds for such payments are properly identified and are made immediately available on the date they are due.

(F) Neither the Issuer, Banner Health nor the Bond Trustee will have any responsibility or obligation to the Securities Depository, any participant in the book-entry system or the Beneficial Owners with respect to (i) the accuracy of any records maintained by the Securities Depository or any participant, (ii) the payment by the Securities Depository or any participant of any amount due to any Beneficial Owner with respect to the principal or purchase price of, or the premium or interest on, any Bond, (iii) the delivery of any notice by the Securities Depository or any participant, (iv) the election of the Beneficial Owners to receive payment in the event of any partial redemption of the Bonds, or (v) any other action taken by the Securities Depository or any participant.

(G) Whenever, during the term of the Bonds, beneficial ownership thereof is determined by a book entry at the Securities Depository, the requirements in the Bond Indenture of holding, delivering, paying or transferring Bonds shall be deemed modified to require the appropriate person to meet the requirements of the Securities Depository as to registering or transferring the book entry to produce the same effect.

REDEMPTION OF BONDS

Section 4.02. Selection of Bonds for Redemption. Whenever provision is made in the Bond Indenture for the redemption of less than all of the Bonds or any given portion thereof, the Bond Trustee shall select the Bonds to be redeemed, from all Bonds subject to redemption or such given portion thereof not previously called for redemption, as directed in writing by Banner Health or in the absence of direction by lot in any manner which the Bond Trustee in its sole discretion shall deem appropriate and fair.

Section 4.04. Partial Redemption of Bonds. Upon surrender of any Bond redeemed in part only, the Issuer shall execute (but need not prepare) and the Bond Trustee shall authenticate and deliver to the Holder thereof, at the expense of Banner Health, a new Bond or Bonds of Minimum Authorized Denominations, and of the same maturity, equal in aggregate principal amount to the unredeemed portion of the Bond surrendered.

Section 4.05. Effect of Redemption. Notice of redemption having been duly given as aforesaid, and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the Bonds (or portions thereof) so called for redemption being held by the Bond Trustee, on the redemption date designated in such notice, the Bonds (or portions thereof) so called for redemption shall become due and payable at the Redemption Price specified in such notice together with interest accrued thereon to the redemption date, interest on the Bonds so called for redemption shall cease to accrue, said Bonds (or portions thereof) shall cease to be entitled to any benefit or security under the Bond Indenture and the Holders of said Bonds shall have no rights in respect thereof except to receive payment of said Redemption Price and accrued interest to the date fixed for redemption from funds held by the Bond Trustee for such payment.

All Bonds redeemed shall be canceled upon surrender thereof, unless resold at the direction of Banner Health.

FUNDS AND ACCOUNTS

Section 5.02. Allocation of Revenues. On or before the dates specified below, the Bond Trustee shall transfer from the Revenue Fund and deposit into the following respective accounts (each of which the Bond Trustee is hereby directed to establish and maintain within the Revenue Fund) the following amounts, in the following order of priority, the requirements of each such account (including the making up of any deficiencies in any such account

resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account subsequent in priority:

First: on or before each Interest Payment Date, to the Interest Account, the amount of interest becoming due and payable on such Interest Payment Date on all Bonds then Outstanding, until the balance in said account is equal to said amount of interest; and

Second: on or before each January 1, commencing in January, 2008, to the Principal Account, the amount of principal becoming due and payable on such date, until the balance in said account is equal to said amount of such principal payment.

Any moneys remaining in the Revenue Fund after the foregoing transfers shall be transferred to Banner Health as an overpayment of Loan Repayments or if directed by Banner Health credited to the next payments due from Banner Health.

Section 5.06. Investment of Moneys in Funds and Accounts. All moneys in any of the funds and accounts established pursuant to the Bond Indenture shall be invested by the Bond Trustee, upon direction of Banner Health, solely in Investment Securities. Investment Securities shall be purchased at such prices as Banner Health may direct. The directions of Banner Health shall be subject to the limitations set forth in Section 6.06 of the Bond Indenture. All Investment Securities shall be acquired subject to the limitations as to maturities hereinafter in this Section set forth and such additional limitations or requirements consistent with the foregoing as may be established by Request of Banner Health. No Request of Banner Health shall impose any duty on the Bond Trustee inconsistent with its fiduciary responsibilities. In the absence of directions from Banner Health, the Bond Trustee shall invest in Investment Securities specified in subsection (i) of the definition thereof in Section 1.01 of the Bond Indenture.

Moneys in all funds and accounts shall be invested in Investment Securities maturing not later than the date on which it is estimated that such moneys will be required for the purposes specified in the Bond Indenture. Investment Securities purchased under a repurchase agreement may be deemed to mature on the date or dates on which the Bond Trustee may deliver such Investment Securities for repurchase under such agreement.

All interest, profits and other income received from the investment of moneys in any fund or account established pursuant to the Bond Indenture shall be deposited when received (1) prior to the delivery of the Certificate of Banner Health required by Section 3.04(d) in the Project Fund and (2) thereafter in the Revenue Fund. Notwithstanding anything to the contrary contained in this paragraph, an amount of interest received with respect to any Investment Security equal to the amount of accrued interest, if any, paid as part of the purchase price of such Investment Security shall be credited to the fund or account for the credit of which such Investment Security was acquired.

Investment Securities acquired as an investment of moneys in any fund or account established under the Bond Indenture shall be credited to such fund or account. For the purpose of determining the amount in any such fund or account all Investment Securities credited to such fund or account shall be valued at the lower of cost (exclusive of accrued interest after the first payment of interest following acquisition) or par value (plus, prior to the first payment of interest following acquisition, the amount of interest paid as part of the purchase price).

The Bond Trustee may commingle any of the amounts on deposit in the funds or accounts established pursuant to the Bond Indenture into a separate fund or funds for investment purposes only, provided that all funds or accounts held by the Bond Trustee hereunder shall be accounted for separately as required by the Bond Indenture. The Bond Trustee may act as principal or agent in the making or disposing of any investment. The Bond Trustee may sell at the best price reasonably obtainable, or present for redemption, any Investment Securities so purchased whenever it shall be necessary to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund or account to which such Investment Security is credited, and, subject to the provisions of Section 8.03 with respect to the Bond Trustee, neither the Issuer nor the Bond Trustee shall be liable or responsible for any loss resulting from any investment made in accordance with the provisions of the Section 5.06.

The Issuer acknowledges that regulations of the Comptroller of the Currency grant the Issuer the right to receive brokerage confirmations of security transactions as they occur. To the extent permitted by law, the Issuer specifically waives compliance with 12 C.F.R. 12 and hereby notifies the Bond Trustee that no brokerage confirmations need be sent to the Issuer relating to the security transactions as they occur.

PARTICULAR COVENANTS

Section 6.01. Punctual Payment. The Issuer shall punctually cause to be paid the principal or Redemption Price and interest to become due in respect of all the Bonds, in strict conformity with the terms of the Bonds and of the Bond Indenture, according to the true intent and meaning thereof, but only out of Revenues and other assets pledged for such payment as provided in the Bond Indenture.

Section 6.02. Extension of Payment of Bonds. The Issuer shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase or funding of such Bonds or claims for interest or by any other arrangement and in case the maturity of any of the Bonds or the time of payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default hereunder, to the benefits of the Bond Indenture, except subject to the prior payment in full of the principal of all of the Bonds then Outstanding and of all claims for interest thereon which shall not have been so extended. Nothing in this Section shall be deemed to limit the right of the Issuer to issue obligations for the purpose of refunding any Outstanding Bonds, and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

Section 6.03. Against Encumbrances. The Issuer shall not create any pledge, lien, charge or other encumbrance upon the Revenues and other assets pledged or assigned under the Bond Indenture while any of the Bonds are Outstanding, except the pledges and assignments created by the Bond Indenture, and will assist the Bond Trustee in contesting any such pledge, lien, charge or other encumbrance which may be created. Subject to this limitation, the Issuer expressly reserves the right to enter into one or more other indentures for any of its corporate purposes, including other programs under the Act, and reserves the right to issue other obligations for such purposes.

Section 6.04. Power to Issue Bonds and Make Pledge and Assignment. The Issuer is duly authorized pursuant to law to issue the Bonds and to enter into the Bond Indenture and to pledge and assign the Revenues and other assets purported to be pledged and assigned, respectively, under the Bond Indenture in the manner and to the extent provided in the Bond Indenture. The Bonds and the provisions of the Bond Indenture are and will be the legal, valid and binding limited obligations of the Issuer in accordance with their terms, and the Issuer and Bond Trustee shall at all times, to the extent permitted by law, defend, preserve and protect said pledge and assignment of Revenues and other assets and all the rights of the Bondholders under the Bond Indenture against all claims and demands of all Persons whomsoever.

Section 6.06. Tax Covenants. The Issuer shall at all times do and perform all acts and things permitted by law and the Bond Indenture which are necessary or desirable in order to assure that interest paid on the Bonds (or any of them) will be excluded from gross income for federal income tax purposes and shall take no action that would result in such interest not being so excluded. Without limiting the generality of the foregoing, the Issuer agrees to comply with the provisions of the Tax Agreement. This covenant shall survive payment in full or defeasance of the Bonds.

Section 6.07. Enforcement of Loan Agreement and the Series 2008D Obligation. The Bond Trustee shall promptly collect all amounts due from Banner Health pursuant to the Loan Agreement and the Series 2008D Obligation, shall perform all duties imposed upon it pursuant to the Loan Agreement and, subject to Article VIII of the Bond Indenture, shall diligently enforce, and take all steps, actions and proceedings reasonably necessary for the enforcement of, all of the assigned rights of the Issuer and all of the obligations of Banner Health.

Section 6.09. Further Assurances. The Issuer shall make, execute and deliver any and all such further indentures, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Bond Indenture and for the better assuring and confirming unto the Holders of the Bonds of the rights and benefits provided in the Bond Indenture.

Section 6.10. Continuing Disclosure. Banner Health has undertaken all responsibility for compliance with continuing disclosure requirements with respect to the Bonds, and the Issuer shall have no liability to the Holders of the Bonds or any other Person with respect to S.E.C. Rule 15c2-12. Notwithstanding any other provision of the Bond Indenture, failure of Banner Health or the Dissemination Agent (as defined in the Continuing Disclosure Agreement) to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default; however, the Bond Trustee may (and, at the request of any Participating Underwriter (as defined in the Continuing Disclosure Agreement) or the Holders of at least 25% aggregate principal amount of Outstanding Bonds, shall, subject to Sections 8.03(D) and 8.06 of the Bond Indenture) or any Bondholder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause Banner Health to comply with its obligations under the Continuing Disclosure Agreement.

Section 6.11. Cancellation. Under Arizona Revised Statutes, Section 38 511, as amended, the Issuer may cancel any contract if any person significantly involved in initiating, negotiating, securing, drafting or creating the contract on behalf of the Issuer is, at any time while the contract or any extension thereof is in effect, an employee or agent of any other party to the contract in any capacity or a consultant to any other party to the contract with respect to the subject matter thereof. The Issuer hereby represents and warrants that, except as otherwise disclosed, no person significantly involved on behalf of the Issuer in initiating, negotiating, securing, drafting or creating the Bonds, the Bond Indenture, the Loan Agreement or any other contract to which the Issuer is a party and which relates to or otherwise secures the Bonds is an employee or agent of any other party to any of the foregoing contracts in any capacity or a consultant to any other party to any of the foregoing contracts with respect to the subject matter thereof.

EVENTS OF DEFAULT AND REMEDIES OF BONDHOLDERS

Section 7.01. Events of Default. The following events shall be Events of Default:

(A) default in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by acceleration or otherwise;

(B) default in the due and punctual payment of any installment of interest on any Bond when and as such interest installment shall become due and payable;

(C) default by the Issuer in the observance of any of the other covenants, agreements or conditions on its part in the Bond Indenture or in the Bonds contained, if such default shall have continued for a period of sixty (60) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Issuer and Banner Health by the Bond Trustee, or to the Issuer, Banner Health and the Bond Trustee by the Holders of not less than twenty-five per cent (25%) in aggregate principal amount of the Bonds at the time Outstanding; or

(D) a Loan Default Event.

Upon actual knowledge of the existence of any Event of Default, the Bond Trustee shall notify Banner Health, the Issuer, and the Master Trustee in writing as soon as practicable; provided, however, that the Bond Trustee need not provide notice of any Loan Default Event if Banner Health has expressly acknowledged the existence of such Loan Default Event in a writing delivered to the Bond Trustee, the Issuer, and the Master Trustee.

Section 7.02. Acceleration; Annulment of Acceleration.

(a) Upon the occurrence and during the continuation of an Event of Default, the Bond Trustee may, and upon the written request of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds Outstanding, the Bond Trustee shall, declare all Outstanding Bonds immediately due and payable, anything in the Bonds or herein to the contrary notwithstanding. In such event, there shall be due and payable on the Bonds so accelerated an amount equal to the principal amount of all such Bonds, plus all interest accrued thereon and which accrues to the date of payment. The Bond Trustee shall give written notice of such acceleration to each Holder of a Bond, the Issuer and Banner Health.

(b) If the Bonds are so accelerated, then the Series 2008D Obligation must also be accelerated. If the Series 2008D Obligation is accelerated, the Bonds may, subject to Section 7.02 (a) of the Bond Indenture, be accelerated, but are not required to be accelerated. At any time after the principal of the Series 2008D Obligation and the principal amount of the Bonds shall have been so declared to be due and payable, and before the entry of a final judgment or decree in any proceeding instituted with respect to the Event of Default that resulted in the declaration of acceleration, and if the declaration that the Series 2008D Obligation is immediately due and payable is annulled in accordance with the provisions of the Master Indenture, the declaration that the Bonds are immediately due and payable shall also, without further action, be annulled and the Bond Trustee shall promptly give notice of such annulment in the same manner as provided in subsection (a) of the Section for giving notice of acceleration. No such annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon.

Section 7.03. Rights of the Bond Trustee and the Issuer Concerning the Obligation. The Bond Trustee, as pledgee and assignee of certain of the right, title and interest of the Issuer in and to the Loan Agreement and all of its right, title and interest as assignee of the Obligation shall, upon compliance with applicable requirements of law and except as otherwise set forth in this Article, be the real party in interest with standing to enforce each and every right granted to the Issuer under the Loan Agreement and under the Series 2008D Obligation which have been assigned to the Bond Trustee by the Bond Indenture. The Issuer and the Bond Trustee hereby agree, without in any way limiting the effect and scope thereof, that the pledge and assignment hereunder to the Bond Trustee of rights of the Issuer in and to the Series 2008D Obligation and certain rights of the Issuer under the Loan Agreement shall constitute an agency appointment coupled with an interest on the part of the Bond Trustee which, for all purposes of the Bond Indenture, shall be irrevocable and shall survive and continue in full force and effect notwithstanding the bankruptcy or insolvency of the Issuer or its default hereunder or on the Bonds. In exercising such rights and the rights given the Bond Trustee under this Article, the Bond Trustee shall take such action as, in the judgment of the Bond Trustee, would best serve the interests of the Bondholders, taking into account the provisions of the Master Indenture, together with the security and remedies afforded to Holders of Obligations thereunder.

Section 7.04. Additional Remedies and Enforcement of Remedies.

(a) Upon the occurrence and continuance of any Event of Default, the Bond Trustee may, upon the written request of the Holders of a majority in principal amount of the Bonds Outstanding, together with indemnification of the Bond Trustee to its satisfaction therefor, proceed forthwith to protect and enforce its rights and the rights of the Bondholders hereunder and under the Act and the Bonds by such suits, actions or proceedings as the Bond Trustee, being advised by counsel, shall deem expedient, including but not limited to:

(i) civil action to recover money or damages due and owing;

(ii) civil action to enjoin any acts or things, which may be unlawful or in violation of the rights of the Holders of Bonds;

(iii) enforcement of any other right of the Issuer and the Bondholders conferred by law or hereby; and

(iv) enforcement of any other right conferred by the Loan Agreement, the Series 2008D Obligation or the Master Indenture.

(b) Regardless of the happening of an Event of Default, the Bond Trustee, if requested in writing by the Holders of a majority in principal amount of the Bonds then Outstanding shall, upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (i) to prevent any impairment of the security hereunder by any acts which may be unlawful or in violation of the Bond Indenture, or (ii) to preserve or protect the interests of the Holders, provided that such request is in accordance with law and the provisions of the Bond Indenture and, in the sole judgment of the Bond Trustee, is not unduly prejudicial to the interest of the Holders of Bonds not making such request.

Section 7.05. Application of Revenues and Other Funds After Default. If an Event of Default shall occur and be continuing, all Revenues and any other funds then held or thereafter received by the Bond Trustee under any of the provisions of the Bond Indenture (subject to Section 11.10) shall be applied by the Bond Trustee as follows and in the following order:

(1) To the payment of any expenses necessary in the opinion of the Bond Trustee to protect the interests of the Holders of the Bonds and payment of reasonable fees and expenses of the Bond Trustee (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Bond Indenture; and

(2) To the payment of the principal or Redemption Price of and interest then due on the Bonds (upon presentation of the Bonds to be paid, and stamping thereon of the payment if only partially paid, or surrender thereof if fully paid) subject to the provisions of the Bond Indenture (including Section 6.02), as follows:

(i) Unless the principal of all of the Bonds shall have become or have been declared due and payable,

First: To the payment to the Persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the Persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the Persons entitled thereto of the unpaid principal or Redemption Price of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, with interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date to the Persons entitled thereto, without any discrimination or preference.

(ii) If the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds, with interest on the overdue principal at the rate borne by the respective Bonds, and, if the amount available shall not be sufficient to pay in full the whole amount so due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, according to the

amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or preference.

Section 7.06. Remedies Not Exclusive. No remedy by the terms of the Bond Indenture conferred upon or reserved to the Bond Trustee or the Bondholders is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or existing at law or in equity or by statute (including the Act) on or after the date of the Bond Indenture.

Section 7.07. Remedies Vested in Bond Trustee. All rights of action (including the right to file proof of claims) hereunder or under any of the Bonds may be enforced by the Bond Trustee, without the possession of any of the Bonds or the production thereof in any trial or other proceedings relating thereto. Any such suit or proceeding may be brought without the necessity of joining as plaintiffs or defendants any Holders of the Bonds. Subject to the provisions of Section 7.05 of the Bond Indenture, any recovery or judgment shall be for the equal benefit of the Holders of the Outstanding Bonds.

Section 7.08. Bondholders' Control of Proceedings. If an Event of Default shall have occurred and be continuing, the Holders of a majority in principal amount of all Bonds then Outstanding shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Bond Trustee, to direct the method and place of conducting any proceeding to be taken in connection with the enforcement of the terms and conditions of the Bond Indenture, provided that such direction is in accordance with law and the provisions of the Bond Indenture (including indemnity to the Bond Trustee as provided herein) and, in the sole judgment of the Bond Trustee, is not unduly prejudicial to the interest of Bondholders not joining in such direction. Nothing in this Section shall impair the right of the Bond Trustee in its discretion to take any other action hereunder which it may deem proper and which is not inconsistent with such direction by Bondholders.

Section 7.09. Individual Bondholder Action Restricted.

(a) No Holder of any Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Bond Indenture or for the execution of any trust hereunder or for any remedy hereunder except upon the occurrence of all of the following events:

(i) the Holders of at least a majority in principal amount of Bonds Outstanding shall have made written request to the Bond Trustee to proceed to exercise the powers granted herein; and

(ii) such Bondholders shall have offered the Bond Trustee indemnity as provided in Section 8.02 of the Bond Indenture; and

(iii) the Bond Trustee shall have failed or refused to exercise the duties or powers herein granted for a period of 60 days after receipt by it of such request and offer of indemnity; and

(iv) during such 60 day period no direction inconsistent with such written request has been delivered to the Bond Trustee by the Holders of a majority in principal amount of Bonds then Outstanding.

(b) No one or more Holders of Bonds shall have any right in any manner whatsoever to affect, disturb or prejudice the security of the Bond Indenture or to enforce any right hereunder except in the manner herein provided and for the equal benefit of the Holders of all Bonds Outstanding.

(c) Nothing contained herein shall affect or impair, or be construed to affect or impair, the right of the Holder of any Bond (i) to receive payment of the principal of or interest on such Bond, as the case may be, on or after the due date thereof or (ii) to institute suit for the enforcement of any such payment on or after such due date; provided, however, no Holder of any Bond may institute or prosecute any such suit or enter judgment therein if, and to the extent that, the judgment therein would, under applicable law, result in the surrender, impairment, waiver or

loss of the lien of the Bond Indenture on the money, funds and properties pledged hereunder for the equal and ratable benefit of all Holders of Bonds.

Section 7.10. Termination of Proceedings. In case any proceedings taken on account of an Event of Default shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Bond Trustee or the Bondholders, then the Issuer, the Bond Trustee, and the Bondholders shall be restored to their former positions and rights hereunder, and all rights and powers of the Bond Trustee and the Bondholders shall continue as if no such proceeding had been taken.

Section 7.11. Waiver of Event of Default.

(a) No delay or omission of the Bond Trustee or of any Holder of the Bonds to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or in acquiescence therein. Every power and remedy given by this Article may be exercised from time to time and as often as may be deemed expedient.

(b) The Bond Trustee may waive any Event of Default which in its opinion shall have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of the Bond Indenture, on or before the completion of the enforcement of any other remedy hereunder.

(c) The Bond Trustee, upon the written request of the Holders of a majority in principal amount of the Bonds then Outstanding, shall waive any Event of Default hereunder and its consequences; provided, however, that, except under the circumstances set forth in subsection (b) of Section 7.02 of the Bond Indenture, a default in the payment of the principal of, premium, if any, or interest on any Bond, when the same shall become due and payable by the terms thereof or upon call for redemption, may not be waived without the written consent of the Holders of all the Bonds at the time Outstanding.

(d) In case of any waiver by the Bond Trustee of an Event of Default hereunder, the Issuer, the Bond Trustee and the Bondholders shall be restored to their former positions and rights hereunder, respectively, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent thereon. The Bond Trustee shall not be responsible to anyone for waiving or refraining from waiving any Event of Default in accordance with this Section.

Section 7.12. Limitation on the Issuer's Liability. No agreements or provisions contained herein nor any agreement, covenant or undertaking by the Issuer contained in any document executed by the Issuer in connection herewith and with the issuance, sale and delivery of the Bonds shall give rise to any pecuniary liability of the Issuer, the State or any political subdivision thereof or a charge against their general credit, or shall obligate the Issuer financially in any way, except with respect to the amounts pledged for payment of amounts due on the Bonds hereunder and their application as provided herein. No failure of the Issuer to comply with any term, covenant or agreement herein or in any document executed by the Issuer in connection with the Bond Indenture, the Loan Agreement, the Tax Regulatory Agreement, or the Bonds shall subject the Issuer to liability for any claim for damages, costs or other financial or pecuniary charge except to the extent that the same can be paid or recovered from the amounts pledged for amounts due on the Bonds hereunder. Nothing herein shall preclude a proper party in interest from seeking and obtaining, to the extent permitted by law, specific performance against the Issuer for any failure to comply with any term, condition, covenant or agreement herein, provided, that no costs, expenses or other monetary relief shall be recoverable from the Issuer except as may be payable from the amounts pledged for amounts due on the Bonds hereunder.

Section 7.13. Limitations on Remedies. It is the purpose and intention of Article of the Bond Indenture to provide rights and remedies to the Bond Trustee and Bondholders which may be lawfully granted, but should any right or remedy herein granted be held to be unlawful, the Bond Trustee and the Bondholders shall be entitled, as above set forth, to every other right and remedy provided in the Bond Indenture and by law.

THE BOND TRUSTEE

Section 8.01. Duties, Immunities and Liabilities of Bond Trustee.

(A) The Bond Trustee shall, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in the Bond Indenture, and, except to the extent required by law, no implied covenants or obligations shall be read into the Bond Indenture against the Bond Trustee. The Bond Trustee shall, during the existence of any Event of Default (which has not been cured), exercise such of the rights and powers vested in it by the Bond Indenture, and use the same degree of care and skill in their exercise, as a reasonably prudent corporate trustee would exercise or use under similar circumstances.

(B) The Issuer may, and upon written request of Banner Health shall, remove the Bond Trustee at any time unless an Event of Default shall have occurred and then be continuing, and shall remove the Bond Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Bond Trustee shall cease to be eligible in accordance with subsection (E) of this Section, or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Bond Trustee or its property shall be appointed, or any public officer shall take control or charge of the Bond Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Bond Trustee, and thereupon shall appoint, with the written consent of Banner Health, a successor Bond Trustee by an instrument in writing.

(C) The Bond Trustee may at any time resign by giving written notice of such resignation to the Issuer and Banner Health and by giving the Bondholders notice of such resignation by mail at the addresses shown on the registration books maintained by the Bond Trustee. Upon receiving such notice of resignation, the Issuer shall promptly appoint, with the written consent of Banner Health, a successor Bond Trustee by an instrument in writing. The Bond Trustee shall not be relieved of its duties until such successor Bond Trustee has accepted appointment.

(D) Any removal or resignation of the Bond Trustee and appointment of a successor Bond Trustee shall become effective upon acceptance of appointment by the successor Bond Trustee. If no successor Bond Trustee shall have been appointed and have accepted appointment within thirty (30) days of giving notice of removal or notice of resignation as aforesaid, the resigning Bond Trustee or any Bondholder (on behalf of such Bondholder and all other Bondholders) may petition any court of competent jurisdiction for the appointment of a successor Bond Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Bond Trustee. Any successor Bond Trustee appointed under the Bond Indenture shall signify its acceptance of such appointment by executing and delivering to the Issuer and to its predecessor Bond Trustee a written acceptance thereof, and thereupon such successor Bond Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Bond Trustee, with like effect as if originally named Bond Trustee herein; but, nevertheless at the request of the successor Bond Trustee, such predecessor Bond Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Bond Trustee all the right, title and interest of such predecessor Bond Trustee in and to any property held by it under the Bond Indenture and shall pay over, transfer, assign and deliver to the successor Bond Trustee any money or other property subject to the trusts and conditions herein set forth. Upon request of the successor Bond Trustee, the Issuer shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Bond Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Upon acceptance of appointment by a successor Bond Trustee as provided in this subsection, the Issuer, at the expense of Banner Health, shall mail a notice of the succession of such Bond Trustee to the trusts hereunder to the Bondholders at the addresses shown on the registration books maintained by the Bond Trustee. If the Issuer fails to mail such notice within fifteen (15) days after acceptance of appointment by the successor Bond Trustee, the successor Bond Trustee shall cause such notice to be mailed at the expense of Banner Health.

(E) The Bond Trustee and any successor Bond Trustee shall be (i) a trust company or bank having a combined capital and surplus of at least ten million dollars ($10,000,000), and (ii) subject to supervision or

examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this subsection the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Bond Trustee shall cease to be eligible in accordance with the provisions of this subsection (E), the Bond Trustee shall resign immediately in the manner and with the effect specified in this Section.

(F) The Bond Trustee agrees to accept and act upon facsimile transmission of written instructions and/or directions pursuant to the Bond Indenture provided, however, that: (i) subsequent to such facsimile transmission of written instructions and/or directions the Bond Trustee shall forthwith receive the originally executed instructions and/or directions, (ii) such originally executed instructions and/or directions shall be signed by a person as may be designated and authorized to sign for the party signing such instructions and/or directions, and (iii) the Bond Trustee shall have received a current incumbency certificate containing the specimen signature of such designated person.

(G) The Bond Trustee shall not be considered in breach of or in default in its obligations hereunder or progress in respect thereto in the event of enforced delay ("unavoidable delay") in the performance of such obligations due to unforeseeable causes beyond its control and without its fault or negligence, including, but not limited to, Acts of God, terrorism, war, riots, strikes, fire, floods, earthquakes, epidemics or other like occurrences beyond the control of the Bond Trustee; it being understood that the Bond Trustee shall use reasonable efforts which are consistent with accepted practices in the banking industry to resume performance as soon as practicable under the circumstances.

Section 8.03. Liability of Bond Trustee.

(A) The recitals of facts herein and in the Bonds contained shall be taken as statements of the Issuer, and the Bond Trustee assumes no responsibility for the correctness of the same, makes no representations as to the validity or sufficiency of the Bond Indenture, of the Loan Agreement, of any preliminary or final official statement with respect to the Bonds, of the Continuing Disclosure Agreement, of the Series 2008D Obligation, or of the Bonds, and shall incur no responsibility in respect thereof, other than in connection with the duties or obligations herein or in the Bonds assigned to or imposed upon it except for any recital or representation specifically relating to the Bond Trustee or its powers. The Bond Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Bond Trustee shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct. The Bond Trustee may become the owner of Bonds with the same rights it would have if it were not Bond Trustee, and, to the extent permitted by law, may act as depositary for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bondholders, whether or not such committee shall represent the Holders of a majority in principal amount of the Bonds then Outstanding.

(B) The Bond Trustee shall not be liable for any error of judgment made in good faith by any of its officers, employees, agents or representatives, unless it shall be proved that the Bond Trustee was negligent in ascertaining the pertinent facts.

(C) The Bond Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Bond Trustee, or exercising any trust or power conferred upon the Bond Trustee under the Bond Indenture.

(D) The Bond Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Bond Indenture at the request, order or direction of any of the Bondholders pursuant to the provisions of the Bond Indenture unless such Bondholders shall have offered to the Bond Trustee security or indemnity, satisfactory to the Bond Trustee, against the costs, expenses and liabilities which may be incurred therein or thereby. The Bond Trustee has no obligation or liability to the Holders for the payment of interest on, principal of or redemption premium, if any, with respect to the Bonds from its own funds; but rather the Bond Trustee's obligations shall be limited to the performance of its duties hereunder.

(E) Except with respect to Events of Default specified in Section 7.01(A) or (B), the Bond Trustee shall not be deemed to have knowledge of any Event of Default unless and until an officer at the Principal Office responsible for the administration of its duties hereunder shall have actual knowledge thereof or the Bond Trustee shall have received written notice thereof at the Principal Office. The Bond Trustee shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements herein or of any of the documents executed in connection with the Bonds, or as to the existence of a default or Event of Default thereunder. The Bond Trustee shall not be responsible for the validity or effectiveness of any collateral given to or held by it.

(F) The Bond Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through attorneys-in-fact, agents, receivers, officers, employees or representatives, and shall not be answerable for the negligence or misconduct of any such attorney-in-fact, agent, receiver, officer, employee or representative selected by it with due care. The Bond Trustee shall be entitled to advice of counsel and other professionals concerning all matters of trust and its duty hereunder, but the Bond Trustee shall not be answerable for the professional malpractice of any counsel or other professional (including without limiting the generality of the foregoing, attorneys-in-law or certified public accountants) in connection with the rendering of such counsel's or other professionals' advice in accordance with the terms of the Bond Indenture, if such counsel or other professional was selected by the Bond Trustee with due care.

(G) The Bond Trustee shall not be concerned with or accountable to anyone for the subsequent use or application of any moneys that shall be released or withdrawn in accordance with the provisions of the Bond Indenture.

(H) Whether or not therein expressly so provided, every provision of the Bond Indenture, the Loan Agreement, the Series 2008D Obligation or related documents relating to the conduct or affecting the liability of or affording protection to the Bond Trustee shall be subject to the provisions of this Article.

MODIFICATIONS OR AMENDMENTS

Section 9.01. Amendments to Bond Indenture.

(A) This Bond Indenture and the rights and obligations of the Issuer and of the Holders of the Bonds and of the Bond Trustee may be modified or amended from time to time and at any time by an indenture or indentures supplemental hereto, which the Issuer and the Bond Trustee may enter into when the written consent of the Holders of a majority in aggregate principal amount of the Bonds then Outstanding and Banner Health shall have been filed with the Bond Trustee. No such modification or amendment shall (1) extend the stated maturity of any Bond, or reduce the amount of principal thereof, or extend the time of payment or change the rate of interest thereon, or extend the time of payment of interest thereon, or reduce any premium payable upon the redemption thereof, without the consent of the Holder of each Bond so affected, or (2) reduce the aforesaid percentage of Bonds, the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Bond Indenture prior to or on a parity with the lien created by the Bond Indenture, or deprive the Holders of the Bonds of the lien created by the Bond Indenture on such Revenues and other assets (except as expressly provided in the Bond Indenture), without the consent of the Holders of all Bonds then Outstanding. It shall not be necessary for the consent of the Bondholders to approve the particular form of any Supplemental Bond Indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution by the Issuer and the Bond Trustee of any Supplemental Bond Indenture pursuant to this subsection (A), the Bond Trustee shall mail a notice, setting forth in general terms the substance of such Supplemental Bond Indenture to the Bondholders at the addresses shown on the registration books maintained by the Bond Trustee. Any failure to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such Supplemental Bond Indenture.

(B) This Bond Indenture and the rights and obligations of the Issuer, of the Bond Trustee and of the Holders of the Bonds may also be modified or amended from time to time and at any time by an indenture or indentures supplemental hereto, which the Issuer and the Bond Trustee may enter into with the consent of Banner Health, but without the necessity of obtaining the consent of any Bondholders, only to the extent permitted by law and only for any one or more of the following purposes:

(1) to add to the covenants and agreements of the Issuer contained in the Bond Indenture other covenants and agreements thereafter to be observed, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power herein reserved to or conferred upon the Issuer, provided, that no such covenant, agreement, pledge, assignment or surrender shall materially adversely affect the interests of the Holders of the Bonds;

(2) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing or correcting any defective provision, contained in the Bond Indenture, or in regard to matters or questions arising under the Bond Indenture, as the Issuer or the Bond Trustee may deem necessary or desirable and not inconsistent with the Bond Indenture, and which shall not materially adversely affect the interests of the Holders of the Bonds;

(3) to modify, amend or supplement the Bond Indenture in such manner as to permit the qualification of the Bond Indenture under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, and to add such other terms, conditions and provisions as may be permitted by said act or similar federal statute, and which shall not materially adversely affect the interests of the Holders of the Bonds;

(4) to facilitate and implement any book entry system (or any termination of a book entry system) with respect to the Bonds;

(5) to maintain the exclusion from gross income of interest payable with respect to the Bonds; or

(6) to provide for the appointment of a successor bond trustee or co trustee pursuant to the terms of Section 8.06 and Section 8.11 of the Bond Indenture.

(C) The Bond Trustee may in its discretion, but shall not be obligated to, enter into any such Supplemental Bond Indenture authorized by subsections (A) or (B) of the Section which materially adversely affects the Bond Trustee's own rights, duties or immunities under the Bond Indenture or otherwise.

Section 9.05. Amendments to Master Indenture, Series 2008D Obligation or Loan Agreement Not Requiring Consent of Bondholders. The Bond Trustee may, without the consent of or notice to any of the Holders, consent to the execution and delivery of any amendment, change or modification of the Master Indenture, the Series 2008D Obligation or the Loan Agreement (i) as may be required by the provisions thereof; (ii) to cure any ambiguity or formal defect or omission therein; (iii) to preserve the exemption of the interest income borne on the Bonds from federal or State income taxation and to preserve the power of the Issuer to continue to issue bonds or other obligations (specifically not limited to the Bonds authorized hereby) the interest income on which is likewise exempt from federal and State income taxation; (iv) which will not materially and adversely affect the interests of the Holders or the Bond Trustee; or (v) to make any change therein (with the exception of a change described in Section 9.06(a) of the Bond Indenture), provided that an Opinion of Bond Counsel is delivered to the Bond Trustee to the effect that such change will not cause the interest borne by the Bonds to become includible in gross income of the Holders thereof for federal income tax purposes.

Section 9.06. Amendments to Master Indenture, Series 2008D Obligation or Loan Agreement Requiring Consent of Bondholders.

(a) Except for amendments, changes or modification to the Master Indenture, the Series 2008D Obligation or Loan Agreement referred to in Section 9.05 of the Bond Indenture and subject to the terms and provisions and limitations contained in this Article and not otherwise, the Bond Trustee may consent to the execution and delivery of any amendment, change or modification to the Master Indenture, the Series 2008D Obligation or the Loan Agreement only upon the written consent of the Holders of not less than a majority in principal amount of Bonds then Outstanding given as provided in this Section; provided, however, no such amendment, change or modification may reduce the amount of or extend the time for making such payments beyond

the dates on which such amounts are needed to make payments of principal, interest and premium on the Bonds, without the consent of the Holders of all Bonds then Outstanding.

(b) If at any time the Issuer and Banner Health shall request the consent of the Bond Trustee to any such amendment, change or modification to the Master Indenture, Obligation or Loan Agreement, the Bond Trustee shall, upon being satisfactorily indemnified by Banner Health with respect to expenses, cause notice of the proposed amendment, change or modification to be given in the same manner as provided in Section 9.01 of the Bond Indenture with respect to Supplemental Bond Indentures hereto. The Bond Trustee may seek the opinion of Bond Counsel as to whether such amendment, change or modification is in compliance with the terms of the Bond Indenture prior to giving any consent thereto. Such notice shall briefly set forth the nature of the proposed amendment, change or modification and shall state that copies thereof are on file at the office of the Bond Trustee for inspection by all Bondholders.

(c) If the consent to and approval of the execution of such amendment, change or modification is given by the Holders of not less than the aggregate principal amount of Bonds specified in subsection (a) within the time and in the manner provided by Section 9.01 of the Bond Indenture with respect to Supplemental Bond Indentures hereto, but not otherwise, such amendment, change or modification may be consented to, executed and delivered upon the terms and conditions and with like binding effect upon the Holders as provided in Sections 9.01 and 9.02 of the Bond Indenture with respect to Supplemental Bond Indentures hereto.

Section 9.07. Release and Substitution of Series 2008D Obligation. The Bond Trustee will surrender to the Master Trustee the Series 2008D Obligation upon presentation to the Bond Trustee and the Issuer of the following:

(a) An original replacement obligation (the "Substitute Obligation") issued under and pursuant to a master trust indenture (the "Replacement Master Indenture") executed by one or more of the members of the obligated group thereunder (collectively, the "New Group") and an independent corporate trustee (the "New Trustee") meeting the eligibility requirements of the Master Trustee as set forth in Section 5.04(d) of the Master Indenture, which Substitute Obligation shall have been duly authenticated by the New Trustee. Neither Banner Health nor any other Member of the Obligated Group is required to be a member of the New Group.

(b) A Favorable Opinion of Bond Counsel.

(c) An original executed counterpart of the Replacement Master Indenture.

(d) Confirmation from each Rating Agency then maintaining a rating on the Bonds that the underlying rating on the Bonds will not be reduced or withdrawn as a result of the substitution of the Substitute Obligation for the Series 2008D Obligation.

DEFEASANCE

Section 10.01. Discharge of Indenture. The Bonds may be paid by the Issuer or by Banner Health or the Bond Trustee on behalf of the Issuer in any of the following ways:

(A) by paying or causing to be paid the principal or Redemption Price of and interest on all Bonds Outstanding, as and when the same become due and payable;

(B) by depositing with the Bond Trustee, in trust, at or before maturity, moneys or securities in the necessary amount (as provided in Section 10.03 of the Bond Indenture) to pay when due or redeem all Bonds then Outstanding; or

(C) by delivering to the Bond Trustee, for cancellation by it, all Bonds then Outstanding.

If the Issuer, Banner Health or the Bond Trustee shall also pay or cause to be paid all other sums payable hereunder by the Issuer and Banner Health shall have paid all Administrative Fees and Expenses payable to the Issuer pursuant to the Loan Agreement, then and in that case at the election of Banner Health (evidenced by a Certificate of Banner Health filed with the Bond Trustee signifying the intention of Banner Health to discharge all such indebtedness and the Bond Indenture), and notwithstanding that any Bonds shall not have been surrendered for payment, the Bond Indenture and the pledge of Revenues and other assets made under the Bond Indenture and all covenants, agreements and other obligations of the Issuer or Banner Health under the Bond Indenture (except as otherwise provided in Section 5.06 of the Bond Indenture) shall cease, terminate, become void and be completely discharged and satisfied. In such event, upon the request of Banner Health, the Bond Trustee shall cause an accounting for such period or periods as may be requested by Banner Health to be prepared and filed with Banner Health and shall execute and deliver to Banner Health all such instruments as may be necessary to evidence such discharge and satisfaction, and the Bond Trustee shall pay over, transfer, assign or deliver to Banner Health all moneys or securities or other property held by it pursuant to the Bond Indenture which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption.

Section 10.02. Discharge of Liability on Bonds. Upon the deposit with the Bond Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in Section 10.03 of the Bond Indenture) to pay or redeem any Outstanding Bond (whether upon or prior to its maturity or the redemption date of such Bond), provided that, if such Bond is to be redeemed prior to maturity, notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Bond Trustee shall have been made for the giving of such notice, then all liability of the Issuer in respect of such Bond shall cease, terminate and be completely discharged, except only that thereafter the Holder thereof shall be entitled to payment of the principal of and interest on such Bond by the Issuer, and the Issuer shall remain liable for such payments, but only out of such money or securities deposited with the Bond Trustee as aforesaid for their payment, subject, however, to the provisions of Section 10.04 of the Bond Indenture.

Section 10.03. Deposit of Money or Securities with Bond Trustee. Whenever in the Bond Indenture it is provided or permitted that there be deposited with or held in trust by the Bond Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities to be so deposited or held may include money or securities held by the Bond Trustee in the funds and accounts established pursuant to the Bond Indenture and shall be:

(A) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Bond Trustee shall have been made for the giving of such notice, the amount to be deposited or held shall be the principal amount or Redemption Price of such Bonds and all unpaid interest thereon to the redemption date; or

(B) United States Government Obligations (not callable by the issuer thereof prior to maturity), the principal of and interest on which when due (without any income from the reinvestment thereof) will provide money sufficient to pay the principal or Redemption Price of and all unpaid interest to maturity, or to the redemption date, as the case may be, on the Bonds to be paid or redeemed, as such principal or Redemption Price and interest become due; provided that, in the case of Bonds which are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in Article IV provided or provision satisfactory to the Bond Trustee shall have been made for the giving of such notice; provided, in each case, that the Bond Trustee shall have been irrevocably instructed (by the terms of the Bond Indenture or by Request of the Issuer) to apply such money to the payment of such principal or Redemption Price and interest with respect to such Bonds.

Prior to any defeasance becoming effective under Section 10.03(B) of the Bond Indenture, the Bond Trustee shall deliver, or cause Banner Health to deliver, to the Issuer (a) a copy of a certificate of an independent certified public accountant or firm of such accountants indicating the sufficiency of the maturing principal and the interest income on such Government Obligations to pay when due the principal or redemption price of and interest

on such Bonds, and (b) an Opinion of Bond Counsel, addressed to the Issuer, to the effect that the Bonds have been paid within the meaning of this Section 10.03 of the Bond Indenture and are no longer Outstanding under the terms of the Bond Indenture.

Section 10.04. Payment of Bonds After Discharge of Bond Indenture. Notwithstanding the discharge of the lien of the Bond Indenture as in this Article provided, the Bond Trustee shall nevertheless retain such rights, powers and duties hereunder as may be necessary and convenient for the payment of amounts due or to become due on the Bonds and the registration, transfer, exchange and replacement of Bonds as provided herein. Subject to any applicable escheat law, any money held by the Bond Trustee for the payment of the principal of, premium, if any, or interest on any Bond remaining unclaimed for five years after the principal of all Bonds has become due and payable, whether at maturity or upon proceedings for redemption or by declaration as provided herein, shall then be paid to Banner Health and the Holders of any Bonds not theretofore presented for payment shall thereafter be entitled to look only to Banner Health for payment thereof and all liability of the Bond Trustee or the Issuer with respect to such money shall thereupon cease.

MISCELLANEOUS

Section 11.01. Limited Liability of Issuer. Notwithstanding anything in the Bond Indenture or in the Bonds contained, the Issuer shall not be required to advance any moneys derived from any source other than the Revenues and other assets pledged under the Bond Indenture for any of the purposes in the Bond Indenture mentioned, whether for the payment of the principal or Redemption Price of or interest on the Bonds or for any other purpose of the Bond Indenture.

Section 11.08. Evidence of Rights of Bondholders. Any request, consent or other instrument required or permitted by the Bond Indenture to be signed and executed by Bondholders may be in any number of concurrent instruments of substantially similar tenor and shall be signed or executed by such Bondholders in person or by an agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the holding by any Person of Bonds transferable by delivery, shall be sufficient for any purpose of the Bond Indenture and shall be conclusive in favor of the Bond Trustee and of the Issuer if made in the manner provided in the Section.

The fact and date of the execution by any Person of any such request, consent or other instrument or writing may be proved by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the Person signing such request, consent or other instrument acknowledged to such notary public or officer the execution thereof, or by an affidavit of a witness of such execution duly sworn to before such notary public or other officer.

The ownership of Bonds shall be proved by the bond registration books held by the Bond Trustee.

Any request, consent or other instrument or writing of the Holder of any Bond shall bind every future Holder of the same Bond and the Holder of every Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Bond Trustee or the Issuer in accordance therewith or reliance thereon.

Section 11.10. Money Held for Particular Bonds. The money held by the Bond Trustee for the payment of the interest, principal or Redemption Price due on any date with respect to particular Bonds (or portions of Bonds in the case of Bonds redeemed in part only) shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Holders of the Bonds entitled thereto, subject, however, to the provisions of Section 10.04 of the Bond Indenture.

Section 11.12. Waiver of Personal Liability. No member, director, officer, agent or employee of the Issuer shall be individually or personally liable for the payment of the principal of or premium, if any, or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing herein contained shall relieve any such member, director, officer, agent or employee from the performance of any official duty provided by law or by the Bond Indenture. No recourse shall be had for the payment of the principal of, premium, if any, or interest on any of the Bonds or for any claim based thereon or upon any obligation, covenant or

agreement herein against any past, present or future officer, member, employee, counsel, advisor, or agent of the Issuer, whether directly or indirectly and all such liability of any such individual as such is hereby expressly waived and released as a condition of and in consideration for the execution of the Bond Indenture and the issuance of the Bonds. No recourse shall be had for the payment of the principal of, premium, if any, or interest on the Series 2008D Obligation or any of the Bonds or for any claim based thereon or upon any obligation, covenant or agreement herein against any past, present or future officer, director, trustee, member, employee or agent of Banner Health, whether directly or indirectly and all such liability of any such individual as such is hereby expressly waived and released as a condition of and in consideration for the execution of the Bond Indenture and the issuance of the Series 2008D Obligation and the Bonds.

CERTAIN PROVISIONS OF THE SERIES 2008D LOAN AGREEMENT

LOAN OF PROCEEDS; PAYMENT

Section 3.1. Loan of Proceeds; Payments of Principal, Premium and Interest. The Issuer hereby lends and advances to Banner Health, and Banner Health hereby borrows and accepts from the Issuer a loan in a principal amount equal to the aggregate principal amount of the Bonds, the net proceeds of which loan shall be equal to the net proceeds received from the sale of the Bonds, such proceeds to be applied under the terms and conditions of the Loan Agreement and the Bond Indenture. In consideration of the loan of such proceeds to Banner Health, Banner Health agrees to pay, or cause to be paid, "Loan Repayments" in an amount sufficient to enable the Bond Trustee to make the transfers and deposits required at the times and in the amounts pursuant to Section 5.02 of the Bond Indenture. Each Loan Repayment shall be made in immediately available funds. Notwithstanding the foregoing, Banner Health agrees to make payments, or cause payments to be made, at the times and in the amounts required to be paid as principal or Redemption Price of and interest on the Bonds from time to time Outstanding under the Bond Indenture and other amounts required to be paid under the Bond Indenture, as the same shall become due whether at maturity, upon redemption, by declaration of acceleration or otherwise, and in no event later than two Business Days prior to each interest and principal payment date for the Bonds.

Except as otherwise expressly provided herein, all amounts payable under the Loan Agreement by Banner Health to the Issuer shall be paid to the Bond Trustee as assignee of the Issuer and the Loan Agreement and all right, title and interest of the Issuer in any such payments are hereby assigned and pledged to the Bond Trustee so long as any Bonds remain Outstanding.

Section 3.5. Obligations Unconditional. The obligations of Banner Health hereunder are absolute and unconditional, notwithstanding any other provision of the Loan Agreement, the Supplement 2008D, the Tax Agreement, the Series 2008D Obligation, the Master Indenture or the Bond Indenture. Until the Loan Agreement is terminated and all payments hereunder are made, Banner Health:

(a) will pay all amounts required hereunder without abatement, deduction or setoff except as otherwise expressly provided in the Loan Agreement;

(b) will not suspend or discontinue any payments due hereunder for any reason whatsoever, including, without limitation, any right of setoff or counterclaim;

(c) will perform and observe all its other agreements contained in the Loan Agreement; and

(d) except as provided herein, will not terminate the Loan Agreement for any cause.

Nothing contained in Section 3.5 of the Loan Agreement shall be construed to release the Issuer from the performance of any of the agreements on its part contained herein, and in the event the Issuer should fail to perform any such agreement on its part, Banner Health may institute such action against the Issuer as Banner Health may deem necessary to compel performance.

The rights of the Bond Trustee or any party or parties on behalf of whom the Bond Trustee is acting shall not be subject to any defense, setoff, counterclaim or recoupment whatsoever, whether arising out of any breach of any duty or obligation of the Issuer, the Master Trustee or the Bond Trustee owing to Banner Health, or by reason of any other indebtedness or liability at any time owing by the Issuer, the Master Trustee or the Bond Trustee to Banner Health.

COVENANTS

Section 5.1. Corporate Existence; Merger.

(a) Except as herein provided, Banner Health covenants that it will maintain its corporate existence throughout the life of the Loan Agreement and will not consolidate with or merge with or into any other Person, except that it may consolidate or merge with or into any other Person, or transfer all or substantially all of its assets to any other Person and thereafter dissolve or liquidate, if (i) the conditions set forth in the Master Indenture shall have been satisfied and (ii) the Bond Trustee is presented with an opinion of Bond Counsel to the effect that the consolidation, merger or transfer will not result in the interest on the Bonds being includible in gross income for federal income tax purposes and an Opinion of Counsel to the effect that the obligations of Banner Health hereunder have been validly assumed by the resulting or transferee entity.

(b) Banner Health covenants that, throughout the term of the Loan Agreement, it will remain qualified to do business in the State and will maintain within the State an office at which, or an agent upon whom, service of process may be made upon it.

Section 5.2. Exempt Status.

(a) Banner Health agrees that it will remain a nonprofit corporation under the laws of the State of Arizona (or any other state of the United States) and will use its best efforts to retain its status as an organization described in Section 501(c)(3) of the Code and exempt from federal income taxation under Section 501(a) of the Code or corresponding provisions of federal income tax laws from time to time in effect for so long as and to the extent necessary to preserve the validity of the Bonds and the exclusion of interest on the Bonds from gross income for federal income tax purposes.

(b) Banner Health will neither take nor fail to take any action, which action or failure to act (i) is within its reasonable control and (ii) would result in the interest on the Bonds becoming includible in gross income for federal income tax purposes.

Section 5.4. Limitation of Issuer's Liability. No agreements or provisions contained herein nor any agreement, covenant or undertaking by the Issuer contained in any document executed by the Issuer in connection with any property of Banner Health financed, directly or indirectly, out of Bond proceeds or the issuance, sale and delivery of the Bonds shall give rise to any pecuniary liability of the Issuer or a general obligation of or a charge against its general credit, or shall obligate the Issuer financially in any way, except with respect to the funds available hereunder or under the Bond Indenture and pledged to the payment of the Bonds, and their application as provided under the Bond Indenture. No failure of the Issuer to comply with any term, covenant or agreement herein or in any document executed by the Issuer in connection with the Bonds shall subject the Issuer to any pecuniary charge or liability except to the extent that the same can be paid or recovered from the funds available hereunder or under the Bond Indenture and pledged to the payment of the Bonds. Nothing herein shall preclude a proper party in interest from seeking and obtaining, to the extent permitted by law, specific performance against the Issuer for any failure to comply with any term, condition, covenant or agreement herein or in the Bond Indenture; provided, that no costs, expenses or other monetary relief shall be recoverable from the Issuer except as may be payable from the funds available hereunder or under the Bond Indenture and pledged to the payment of the Bonds.

Neither the Issuer nor any of its officers or agents, advisors or counsel shall be subjected to any pecuniary liability in connection with any agreement, covenant, or undertaking by the Issuer or by them contained in any document executed in connection with the issuance, sale and delivery of the proposed bonds or with respect to any action taken or omitted to be taken in good faith; provided, that a proper party in interest may seek and obtain to the

extent permitted by law, specific performance against the Issuer for any failure to comply with any terms, condition, covenant or agreement, but no costs, expenses or other monetary relief shall be recoverable from the Issuer except as may be payable from the funds available hereunder or under the Bond Indenture and pledged to the payment of the Bonds.

Section 5.5. Tax Representations and Covenants. In order to ensure that the interest on the Bonds shall at all times be free from federal income taxation, Banner Health specifically represents, warrants and covenants with the Issuer, the Bond Trustee and all Holders of the Bonds that it will comply with the provisions of the Tax Agreement that are applicable to Banner Health. Banner Health covenants and agrees that it will at all times do and perform all acts and things permitted by law and the Loan Agreement which are necessary in order to assure that interest paid on the Bonds (or any of them) will be excluded from gross income for federal income tax purposes and will take no action that would result in such interest not being so excluded. This covenant shall survive payment in full or defeasance of the Bonds.

Section 5.6. Maintenance and Insurance. Banner Health agrees to pay all expenses of the operation and maintenance of the facilities financed with the proceeds of the Bonds, including, but without limitation, adequate insurance thereon and insurance against all liability for injury to persons or property arising from the operation thereof and all taxes and special assessments levied thereon or with respect thereto.

Section 5.7. Construction of Project. Banner Health will cause the Project to be acquired, constructed, equipped and maintained in a good and workmanlike manner, in accordance with any applicable plans and specifications therefor. Banner Health will provide all other improvements, access roads, utilities and other items required for a facility fully operable for the purpose for which the Project will be used and will cause to be acquired and properly installed such items, machinery and equipment or other items of personal property as may be necessary and desirable, in the reasonable judgment of Banner Health, for operation of the Project for the purpose for which it was intended.

Section 5.8. Cancellation. Under Arizona Revised Statutes, Section 38-511, as amended, the Issuer may cancel any contract if any person significantly involved in initiating, negotiating, securing, drafting or creating the contract on behalf of the Issuer is, at any time while the contract or any extension thereof is in effect, an employee or agent of any other party to the contract in any capacity or a consultant to any other party to the contract with respect to the subject matter thereof. The Issuer hereby represents and warrants that, except as otherwise disclosed, no person significantly involved on behalf of the Issuer in initiating, negotiating, securing, drafting or creating the Bonds, the Bond Indenture, the Loan Agreement or any other contract to which the Issuer is a party and which relates to or otherwise secures the Bonds is an employee or agent of any other party to any of the foregoing contracts in any capacity or a consultant to any other party to any of the foregoing contracts with respect to the subject matter thereof. Banner Health hereby represents and warrants that no person significantly involved in initiating, negotiating, securing, drafting or creating the Loan Agreement on behalf of the Issuer is an employee or agent of Banner Health in any capacity or a consultant to Banner Health with respect to the subject matter of the Loan Agreement.

EVENTS OF DEFAULT AND REMEDIES

Section 6.1. Events of Default. Each of the following events shall constitute and be referred to herein as a "Loan Default Event":

(a) failure by Banner Health to pay, or cause to be paid, in full any amount required under the Loan Agreement or the Series 2008D Obligation when due, whether at maturity, upon a date fixed for prepayment, by declaration of acceleration or otherwise pursuant to the terms of the Loan Agreement;

(b) failure of Banner Health to observe or perform any other covenant, condition or agreement in the Loan Agreement to be observed or performed by Banner Health for a period of 30 days after written notice to Banner Health from the Bond Trustee or the Issuer specifying such failure and requesting that it be remedied; provided, that if such default cannot with due diligence and dispatch be wholly cured within 30 days but can be wholly cured, the failure of Banner Health

to remedy such default within such 30 day period shall not constitute an Event of Default hereunder if Banner Health shall, immediately upon the receipt of such notice, commence the curing of such default and shall provide and complete the same with due diligence and dispatch;

(c) if any representation or warranty made by Banner Health herein or in any document or certificate furnished to the Issuer or the Bond Trustee or the purchaser of any Bonds in connection with the sale of any Bonds or furnished by Banner Health pursuant hereto proves untrue in any material respect as of the date of the issuance of the Bonds or making of any such representation or warranty and has not been made good within a period of 30 days after written notice to Banner Health from the Bond Trustee or the Issuer;

(d) the entry of a decree or order by a court having jurisdiction in the premises adjudging Banner Health a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of Banner Health under the federal bankruptcy code or any other applicable federal or state law, or appointing a receiver, liquidator, assignee, or sequestrator (or other similar official) of Banner Health or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of 90 consecutive days;

(e) the institution by Banner Health of proceedings to be adjudicated a bankrupt or insolvent, or the consent by it to the institution of bankruptcy or insolvency proceedings against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under the federal bankruptcy code or any other similar applicable federal or state law, or the consent by it to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of Banner Health or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due;

(f) any "Event of Default" as defined in the Bond Indenture; and

(g) any "Event of Default" as defined in the Master Indenture.

Section 6.2. Remedies in General. Upon the occurrence and during the continuance of any Loan Default Event the Bond Trustee may, at its option, take such action as it deems necessary or appropriate to collect amounts due hereunder, to enforce performance and observance of any obligation or agreement of Banner Health hereunder or to protect the interests securing the same, and may, without limiting the generality of the foregoing, but subject to the rights of the Master Trustee as are established under the Master Indenture, recognizing the parity rights of the holders of all Obligations Outstanding under the Master Indenture:

(a) exercise any or all rights and remedies given hereby or available hereunder or given by or available under any other instrument of any kind securing Banner Health's performance hereunder or under the Series 2008D Obligation;

(b) take any action at law or in equity to collect the loan payments then due, whether on the stated due date or by declaration of acceleration or otherwise, for damages or for specific performance or otherwise to enforce performance and observance of any obligation, agreement or covenant of Banner Health hereunder; provided that the loan payments and the Series 2008D Obligation shall automatically be accelerated upon the acceleration of the principal of the Bonds, and further provided that the loan payments and the Series 2008D Obligation may be declared due and payable, notwithstanding that the Bonds have not been accelerated; and

(c) request the Master Trustee to apply to a court of competent jurisdiction for the appointment of a receiver of any or all of the property of Banner Health, such receiver to have such powers as the court making such appointment may confer. Banner Health hereby consents

and agrees, and, if requested by the Bond Trustee, will consent and agree at the time of application by the Master Trustee for appointment of a receiver, to the appointment of such receiver and that such receiver may be given the right, power and authority, to the extent the same may lawfully be given, to take possession of and operate and deal with such property and the revenues, profits and proceeds therefrom, with like effect as Banner Health could do so, and to borrow money and issue evidences of indebtedness as such receiver.

Section 6.3. Discontinuance or Abandonment of Default Proceedings. If any proceeding taken by the Bond Trustee on account of any Loan Default Event shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Bond Trustee, then and in every case the Issuer, the Bond Trustee and Banner Health shall be restored to their former position and rights hereunder, respectively, and all rights, remedies and powers of the Issuer and the Bond Trustee shall continue as though no such proceeding had taken place.

Section 6.4. Remedies Cumulative. No remedy conferred upon or reserved to the Issuer or the Bond Trustee hereby or now or hereafter existing at law or in equity or by statute, shall be exclusive but shall be cumulative with all others. Such remedies are not mutually exclusive and no election need be made among them, but any such remedy or any combination of such remedies may be pursued at the same time or from time to time so long as all amounts realized are properly applied and credited as provided herein. No delay or omission to exercise any right or power accruing upon any Loan Default Event shall impair any such right or power or shall be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient by the Issuer or the Bond Trustee. In the event of any waiver of a Loan Default Event hereunder, the parties shall be restored to their former positions and rights hereunder, but no such waiver shall extend to any other or subsequent Loan Default Event or impair any right arising as a result thereof. In order to entitle the Bond Trustee to exercise any remedy reserved to it, it shall not be necessary to give notice other than as expressly required herein.

Section 6.5. Application of Moneys Collected. Any amounts collected pursuant to action taken under this Article shall be applied in accordance with the provisions of Article VII of the Bond Indenture and to the extent applied to the payment of amounts due on the Bonds shall be credited against amounts due on the Series 2008D Obligation.

MISCELLANEOUS

Section 7.11 Immunity of Individuals. No recourse shall be had for the payment of the principal of, premium, if any, or interest on the Series 2008D Obligation or any of the Bonds or for any claim based thereon or under the Loan Agreement or upon any obligation, covenant or agreement herein against any past, present or future officer, director, trustee, member, employee or agent of Banner Health, whether directly or indirectly and all such liability of any such individual as such is hereby expressly waived and released as a condition of and in consideration for the execution of the Loan Agreement and the issuance of the Series 2008D Obligation and the Bonds.

APPENDIX D

FORM OF OPINION OF HAWKINS DELAFIELD & WOOD LLP

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Hawkins Delafield & Wood LLP

APPENDIX D

ONE CHASE MANHATTAN PLAZA
NEW YORK, NY 10005
WWW.HAWKINS.COM

August 28, 2008

Arizona Health Facilities Authority
11024 N. 28th Drive, Suite 200
Phoenix, Arizona 85029

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance of $917,860,000 Revenue Bonds (Banner Health), Series 2008D (the "Bonds"), of the Arizona Health Facilities Authority (the "Authority"), a political subdivision and instrumentality of the State of Arizona.

The Bonds are issued under and pursuant to the Arizona Health Facilities Authority Act, Title 36, Chapter 4.2, Arizona Revised Statutes, as amended (the "Act"), and under and pursuant to two bond resolutions of the Authority adopted on March 18, 2008 and June 17, 2008, as amended (collectively, the "Bond Resolution") and a Bond Indenture dated as of August 1, 2008 (the "Bond Indenture"), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as Bond Trustee (the "Bond Trustee").

The Bonds are dated their date of issuance and bear interest from their date at the rates per annum (payable semiannually on each January 1 and July 1, commencing on January 1, 2009), and mature on January 1, in the years and in the respective principal amounts as follows:

Year	Principal Amount	Interest Rate	Year	Principal Amount	Interest Rate
2009	$19,135,000	5.000%	2021	$17,790,000	5.500%
2010	14,005,000	5.000	2022	19,240,000	5.500
2011	15,855,000	5.000	2023	20,275,000	5.000
2012	15,975,000	5.000	2024	20,515,000	5.000
2013	14,435,000	5.000	2025	21,610,000	5.000
2014	17,070,000	5.000	2026	22,570,000	5.000
2015	17,825,000	5.000	2027	24,115,000	6.000
2016	18,435,000	5.000	2029	51,065,000	5.125
2017	19,220,000	5.000	2030	67,190,000	6.000
2018	16,930,000	5.250	2031	50,500,000	5.500
2019	19,185,000	5.500	2032	100,000,000	5.375
2020	17,625,000	5.500	2038	297,295,000	5.500

The Bonds are subject to redemption prior to maturity upon the terms and conditions provided herein, in the Bond Resolution and in the Bond Indenture. The Bonds are in the form of fully-registered bonds in Minimum Authorized Denominations, as provided in the Bond Indenture, and are numbered separately from R-1 upward in order of issuance.

We have also examined an executed copy of the Loan Agreement, dated as of August 1, 2008 (the "Agreement") between the Authority and Banner Health (the "Institution"). The Institution has agreed in the

Agreement, among other things, to make payments to the Authority in amounts and at the times stated therein that are required to be applied to pay the principal of, redemption premium, if any, and interest on the Bonds when due.

We are of the opinion that:

1. The Authority is duly created and validly existing under the provisions of the Act and has good right and lawful authority to utilize proceeds of the Bonds to assist the Institution in the refinancing of the Project (as defined in the Bond Indenture), and to establish and maintain payments, fees or charges in respect thereof and collect revenues therefrom and to perform all obligations of the Authority under the Bond Resolution and the Bond Indenture in those respects.

2. The Authority has the right and power under the Act to adopt the Bond Resolution, and the Bond Resolution has been duly and lawfully adopted by the Authority, is in full force and effect and is valid and binding upon the Authority and enforceable in accordance with its terms, and no other authorization for the Bond Resolution is required. The Bond Resolution and the Bond Indenture create the valid pledge which they purport to create of the Revenues (as defined in the Bond Indenture) and all income and receipts earned on funds held or set aside under the Bond Indenture, subject only to the application thereof to the purposes and on the conditions permitted by the Bond Indenture, as the case may be.

3. The Authority is duly authorized and entitled to issue the Bonds and the same have been duly and validly authorized and issued by the Authority in accordance with the Constitution and statutes of the State of Arizona, including the Act, and the Bond Resolution and the Bond Indenture, and constitute valid, binding, special obligations of the Authority, enforceable in accordance with their terms and the terms of the Bond Resolution and the Bond Indenture and entitled to the benefits of the Act and of the Bond Resolution and the Bond Indenture.

4. The Agreement has been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery by the Institution, constitutes a valid and legally binding agreement by and between the parties thereto, enforceable in accordance with its terms.

5. The Bond Indenture has been duly authorized, executed and delivered by the Authority and, assuming due authorization, execution and delivery by the Bond Trustee, constitutes a valid and legally binding agreement by and between the parties thereto, enforceable in accordance with its terms.

6. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described below, (i) interest on the Bonds is excluded from gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the Bonds is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations under the Code; such interest, however, is included in the adjusted current earnings of certain corporations for purposes of calculating the alternative minimum tax imposed on such corporations. In rendering our opinion, we have relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority, the Institution and others in connection with the Bonds, and we have assumed compliance by the Authority and the Institution with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the Bonds from gross income under Section 103 of the Code.

The Code establishes certain requirements that must be met subsequent to the issuance and delivery of the Bonds in order that, for Federal income tax purposes, interest on the Bonds be not included in gross income pursuant to Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of Bond proceeds, restrictions on the investment of Bond proceeds prior to expenditure and the requirement that certain earnings be rebated to the Federal government. Noncompliance with such requirements may cause interest on the Bonds to become subject to Federal income taxation retroactive to their date of issue, irrespective of the date on which such noncompliance occurs or is ascertained.

On the date of delivery of the Bonds, the Authority and the Institution will execute a Tax Regulatory Agreement (the "Tax Regulatory Agreement") containing provisions and procedures pursuant to which such requirements can be satisfied. In executing the Tax Regulatory Agreement, the Authority and the Institution covenant that they will comply with the provisions and procedures set forth therein and that they will do and perform all acts and things necessary or desirable to assure that interest paid on the Bonds will, for Federal income tax purposes, be excluded from gross income.

In rendering the opinion in paragraph 6 hereof, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectation, and certifications of fact contained in the Tax Regulatory Agreement with respect to matters affecting the status of interest paid on the Bonds, and (ii) compliance by the Institution with the procedures and covenants set forth in the Tax Regulatory Agreement as to such tax matters.

7. Under existing statutes, interest on the Bonds is exempt from the State of Arizona income tax.

Except as stated in paragraphs 6 and 7 above, we express no opinion as to any other Federal, state or local tax consequences arising with respect to the Bonds or the ownership or disposition thereof. We render our opinion under existing statutes and court decisions as of the issue date, and we assume no obligation to update, revise or supplement this opinion after the issue date to reflect any action hereafter taken or not taken, or any facts or circumstances, or any change in law or in interpretations thereof, or otherwise, that may hereafter arise or occur, or for any other reason. Furthermore, we express no opinion herein as to the effect of any action hereafter taken or not taken in reliance upon an opinion of counsel other than ourselves on the exclusion from gross income for Federal income tax purposes of interest on the Bonds.

In rendering our opinion, we have relied on the opinion of Lewis and Roca LLP, special counsel to the Institution, and on the opinion of the Institution's Senior Vice President and General Counsel, regarding, among other matters, the current qualification of the Institution as an organization described in Section 501(c)(3) of the Code. We note that the opinion of special counsel to the Institution and the opinion of the Institution's Senior Vice President and General Counsel are subject to a number of qualifications and limitations. Failure of the Institution to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of the Institution's status as an organization described in Section 501(c)(3) of the Code may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds.

The foregoing opinions are qualified only to the extent that the enforceability of the Bonds, the Bond Resolution, the Bond Indenture, the Tax Regulatory Agreement and the Agreement may be limited by bankruptcy, insolvency, and other laws affecting creditors' rights or remedies heretofore or hereafter enacted.

We have examined an executed Bond, and in our opinion the form of said Bond and its execution are regular and proper.

Very truly yours,

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Banner Health®

ARIZONA HEALTH FACILITIES AUTHORITY • REVENUE BONDS (BANNER HEALTH) SERIES 2008D

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