

UPMC Unaudited Financial and Operating Report

FOR THE PERIOD ENDED MARCH 31, 2023



UPMC
LIFE CHANGING MEDICINE

UPMC Unaudited Financial and Operating Report

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TABLE OF CONTENTS

- Introduction to Management’s Discussion and Analysis 1**
- Management’s Discussion and Analysis 2**
 - Consolidated Financial Highlights 2
 - Business Highlights 3
 - Condensed Consolidating Statements of Operations 5
- Divisional Information 6
- Revenue and Operating Metrics 8
- Key Financial Indicators 11
- Market Share 12
- Asset and Liability Management 13
- Utilization Statistics 15**
- Outstanding Debt. 16**
- Debt Covenant Calculations 17**
- Unaudited Interim Condensed Consolidated Financial Statements. 18**
 - Review Report of Independent Auditors 19
 - Condensed Consolidated Balance Sheets. 20
 - Condensed Consolidated Statements of Operations and Changes in Net Assets. 21
 - Condensed Consolidated Statements of Cash Flows 22
 - Notes to Condensed Consolidated Financial Statements 23

The following financial data as of March 31, 2023 and for the three-month periods ended March 31, 2023 and 2022 is derived from the interim condensed consolidated financial statements of UPMC. The interim condensed consolidated financial statements include all adjustments consisting of a normal recurring nature that UPMC considers necessary for a fair presentation of its financial position and the results of operations for these periods. The financial information as of December 31, 2022 is derived from UPMC’s audited consolidated financial statements. Operating and financial results reported herein are not necessarily indicative of the results that may be expected for any future periods.

The information contained herein is being filed by UPMC for the purpose of complying with its obligations under Continuing Disclosure Agreements entered into in connection with the issuance of the series of bonds listed herein and disclosure and compliance obligations in connection with various banking arrangements. Digital Assurance Certification, L.L.C., as Dissemination Agent, has not participated in the preparation of this Unaudited Financial and Operating Report, has not examined its contents and makes no representations concerning the accuracy and completeness of the information contained herein.



MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2023

UPMC, doing business as the University of Pittsburgh Medical Center, is one of the world's leading Integrated Delivery and Financing Systems ("IDFS"). UPMC is based in Pittsburgh, Pennsylvania and primarily serves residents across the Commonwealth of Pennsylvania, as well as western New York and northwestern Maryland. We also draw patients for highly specialized services from across the nation and around the world. UPMC's 40 hospitals and 800 clinical locations comprise one of the largest nonprofit health systems in the United States. UPMC serves customers across the continuum of healthcare with its hospital; physician and homecare services; physical, behavioral and at-home health insurance product offerings; international operations; and its Enterprises division.

We are committed to providing high quality, cost-effective healthcare to our communities and our insurance members, while continuing to grow our business and execute on our mission of service. As part of this mission, UPMC continues to make significant investments in equipment, technology and operational strategies designed to improve clinical quality and to provide the best possible patient and member experience. Investments in our operations and continued capital improvements are expected to become increasingly important as the competitive environment of the market and national changes to the industry continue to shift the landscape of healthcare. We build new facilities, make strategic acquisitions and enter into joint venture arrangements or affiliations with healthcare businesses — in each case in communities where we believe our mission can be effectively utilized to improve the overall health of those communities.

As the stewards of UPMC's community assets, we are guided by our core values of integrity, excellence, respect and teamwork. These values govern the manner in which we serve our communities and are embedded in the execution and delivery of Life Changing Medicine. By continually evolving and refining UPMC's world-class financial processes, we focus on achieving optimal financial results that support the continued development of our organization, as well as ongoing investment in the future of the communities we serve. We are committed to achieving these objectives with unyielding commitments to transparency in reporting and disclosure, enterprise-wide integration and ongoing process improvement.

The purpose of this section, Management's Discussion and Analysis ("MD&A"), is to provide a narrative explanation of our condensed consolidated financial statements that enhances our overall financial disclosures, to provide the context within which our financial information may be analyzed, and to provide information about the quality of, and potential variability of, our financial condition, results of operations and cash flows.

Unless otherwise indicated, all financial information included herein relates to our continuing operations, with dollar amounts expressed in millions (except for statistical information and as otherwise noted). MD&A should be read in conjunction with the accompanying unaudited interim condensed consolidated financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2023

CONSOLIDATED FINANCIAL HIGHLIGHTS

Financial Results for the Three Months Ended March 31	2023	2022
Operating revenues	\$ 6,866	\$ 6,099
Operating income	\$ 100	\$ 50
Operating margin %	1.5%	0.8%
Operating margin % (after income tax and interest expense)	0.8%	0.2%
Gain (loss) from investing and financing activities	\$ 168	\$ (242)
Excess of revenues over expenses (expenses over revenues) attributable to controlling interest	\$ 191	\$ (221)
Operating EBIDA	\$ 270	\$ 224
Capital expenditures	\$ 202	\$ 250
Reinvestment ratio	1.19	1.44

Selected Other Information as of	March 31, 2023	December 31, 2022
Total cash and investments	\$ 8,813	\$ 8,658
Unrestricted cash and investments	\$ 7,521	\$ 7,414
Unrestricted cash and investments over long-term debt	\$ 2,096	\$ 2,063
Days of cash on hand	103	109
Days in net accounts receivable	45	45
Average age of plant (in years)	10.7	10.4

Operating income increased for the first quarter of 2023 compared to prior year due to increased volumes, growth in enrollment of products offered by UPMC's Insurance Services division and equity earnings from UPMC's investment in CarepathRx. These were partially offset by lower COVID-19 related governmental funding and higher premium salaries, as conditions in the labor markets have continued to result in substantial cost growth. UPMC's gain from investing and financing activities for the three months ended March 31, 2023 was \$168 million. UPMC continues to have a long-term perspective with regard to its investment activities. As of March 31, 2023, UPMC had \$8.8 billion of cash and investments, of which approximately \$3.1 billion was held by UPMC's regulated health and captive insurance companies. Increases in unrestricted cash and investments over long-term debt compared to December 31, 2022, are due primarily to positive investment returns in 2023.

MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2023

BUSINESS HIGHLIGHTS

In March 2023, UPMC was named one of the World's Most Ethical Companies for the fifth consecutive year by Ethisphere Institute, an organization focused on defining and advancing the standards of ethical business practices. UPMC is one of 135 honorees recognized for 2023, and one of only two organizations recognized in the integrated health care systems category. The companies included in Ethisphere's assessment span 19 countries and 46 industries. To be recognized on the list, organizations are assessed on company culture, environmental and social practices, ethics and compliance activities, governance, diversity and initiatives that support a strong value chain.

In January 2023, UPMC was one of only two organizations nationwide to earn the 2023 Catalyst Award. This premier gender equity award for advocates of diversity, equity and inclusion recognizes organizations whose influential and pioneering initiatives accelerate and advance women and people of color into leadership roles. The 2023 Catalyst Award theme *Accelerating Equity on All Fronts — So Women Thrive* urges leaders to build more gender-equitable workplaces from the frontlines to the C-suite. A key achievement from UPMC's nomination was its five-year workforce demographic goal to increase representation of people of color and women in executive roles from 2016 to 2021. UPMC exceeded its goal by achieving a 96% increase in representation of people of color and made significant advancement — a 19% increase — in representation of women in executive roles. The other Catalyst Award winner was The Hartford, a Fortune 200 insurance company.

In January 2023, UPMC announced that it will increase minimum starting wages for entry-level positions to \$18 an hour by January 2025 at its Pittsburgh, Harrisburg and Williamsport-area hospitals, outpatient clinics, ambulatory centers and other facilities. Minimum starting wages for entry-level positions at UPMC's additional sites in Southwest Pennsylvania, Western Pennsylvania, Western Maryland and Southwest New York will reach \$18 an hour by January 2026. This action, based on UPMC's continual evaluation of the market, solidifies its reputation as a highly desirable employer, with industry-leading total compensation packages, a focus on work-life balance and significant opportunities for career advancement. Wages and benefits for UPMC employees represented by unions will continue to be negotiated by their respective unions. With nearly 95,000 employees across all facilities, UPMC is the largest non-government employer in Pennsylvania.

In March 2023, UPMC formally acquired the renowned Sports Surgery Clinic ("SSC") in Dublin, Ireland, following approval by the Competition and Consumer Protection Commission ("CCPC"). Founded in 2007 and accredited by The Joint Commission International, the 101-bed SSC is a center of excellence for joint replacement and surgery for sports-related soft tissue injuries in Ireland. SSC now becomes UPMC's fourth hospital in Ireland, joining UPMC Whitfield in Waterford, UPMC Kildare in Clane and UPMC Aut Even in Kilkenny, along with other sports medicine, cancer and outreach facilities across Ireland. The addition of SSC positions UPMC as an all-Ireland network of care and builds upon UPMC's commitment to clinical excellence. The acquisition is the latest expansion of UPMC's clinical care in Ireland and complements its existing network of orthopedic care in the U.S. and Europe, ensuring that UPMC can provide access to care for more patients, close to home.

As of May 1, 2023, the much-anticipated UPMC Mercy Pavilion in Uptown Pittsburgh is now open to patients. The new \$510 million facility will serve patients who need physical rehabilitation and patients who have vision impairment or who have diseases of the eye. UPMC Mercy Pavilion is designed to facilitate collaboration among world-renowned scientists, clinicians and researchers.

Construction continues on the new UPMC Presbyterian, which broke ground in June 2022. The new 17-story hospital, to be completed in 2026, will be home to 636 private patient rooms and premier people-focused clinical facilities, where UPMC clinical teams and physician-scientists will deliver nationally renowned specialty care that includes transplant, cardiology and cardiac surgery, and neurology and neurosurgery. The spaces within the building are designed to embrace technological advances while supporting patients and staff in an attractive environment that matches the innovation and care provided by UPMC. Located in the Oakland neighborhood of the city, the new facility will be the largest health care building in Pittsburgh's history and is designed to serve the community for generations to come.

MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2023

In January 2023, after careful evaluation of the evolving health care needs of communities in and around Clinton County and how best to continue meeting those needs, the Board of Directors of UPMC in North Central PA and UPMC Lock Haven announced an innovative plan designed to meet the needs of area residents now and in the future. Under new guidance provided by the Innovative Hospital Model, UPMC worked with the Pennsylvania Department of Health ("PADOH") to convert services at UPMC Lock Haven to an outpatient emergency department beginning in April 2023. This is the first model of its kind in Pennsylvania under the new guidelines, and it allowed UPMC a unique opportunity to explore and support the most effective and efficient delivery of emergency care in this rural area, where inpatient hospital admissions have been very low for a long time. UPMC retained 100% of the Lock Haven employees by placing them in comparable positions at UPMC facilities in the region.

In March 2023, as part of its ongoing effort to help create the first international academic medical center in Kazakhstan, UPMC signed a new agreement with Nazarbayev University ("NU") to expand the development of medical residency and fellowship programs with NU and its medical school, and to provide in-person mentorship programs in Pittsburgh for more than 30 university and medical center leaders in the coming year. Expanding on earlier work with NU and its affiliated University Medical Center in Astana, this latest agreement will include support from UPMC for the admissions process to six subspecialty residency programs and two fellowship programs – the first of this level of training in the country, in line with the international standards of the Accreditation Council for Graduate Medical Education International. Additionally, three new subspecialty programs will be created with UPMC's assistance, including one in ophthalmology and two in women's health. Ultimately, the goal is to ensure that NU can fully integrate patient care, education and research across its hospitals, clinics and medical school, thereby adopting UPMC's stateside model. UPMC signed its first agreement in Kazakhstan in 2012. While the focus of UPMC's advisory work has adapted over time to meet NU's needs, the two partners remain committed to delivering health outcomes comparable to the most developed countries in the world by 2050, as outlined in the country's national strategy. Nazarbayev University School of Medicine, which admitted its first group of medical students in August 2015, is being developed in collaboration with the University of Pittsburgh, UPMC's academic partner.

In March 2023, UPMC Enterprises invested in, as part of a syndicate in Noema Pharma ("Noema"), a clinical-stage biotech company, targeting debilitating central nervous system ("CNS") disorders. Noema, which is based in Basel, Switzerland, recently announced the successful close of an oversubscribed Series B financing round, raising approximately \$112 million. The round was co-led by leading European health care-focused investment firms Forbion and Jeito Capital. UPMC Enterprises and an additional new investor joined existing investors Sofinnova Partners, Polaris Partners, Gilde Healthcare and Invus to complete the round. Noema plans to use the funding to advance their clinical-stage assets that treat a range of CNS disorders. The company focuses on developing treatments for pernicious CNS conditions, characterized by imbalanced neuronal networks, which lead to severe symptoms and significant impact on patients' lives. The addition of Noema to the UPMC Enterprises portfolio underscores the Translational Sciences team's focus on CNS diseases and the importance of contributing to the development of treatments for patients around the world.

In January 2023, Arrive Health acquired a suite of innovative patient engagement and automation technologies developed by UPMC Enterprises and the UPMC Pharmacy network with the goal of creating a first-of-its-kind pharmacy navigation network. The technology, known at UPMC as UPMC Rx Express, supports pharmacy patient outreach and conversation flows. Developed over the last five years, the integrated workflow tools and AI chatbot help care teams prioritize patients who are at risk of skipping their medications and drive engagement through automated refill reminders. By adding the pharmacy technology developed at UPMC to their portfolio, Arrive Health will expand its ability to positively impact patient access, affordability and medication adherence.

MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2023

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

Three Months Ended March 31, 2023

Revenues:	Health Services	Insurance Services	Eliminations	Consolidated
Net patient service revenue	\$ 3,516	\$ -	\$ (812)	\$ 2,704
Insurance enrollment revenue	-	3,539	-	3,539
Other revenue	465	180	(22)	623
Total operating revenues	\$ 3,981	\$ 3,719	\$ (834)	\$ 6,866
Expenses:				
Salaries, professional fees and benefits	\$ 2,232	\$ 151	\$ (19)	\$ 2,364
Insurance claims expense	-	3,245	(803)	2,442
Supplies, purchased services and general	1,550	252	(12)	1,790
Depreciation and amortization	168	2	-	170
Total operating expenses	3,950	3,650	(834)	6,766
Operating income	\$ 31	\$ 69	\$ -	\$ 100
Operating margin %	0.8%	1.9%	-	1.5%
Operating margin % (including income tax and interest expense)	(0.5)%	1.8%	-	0.8%
Operating EBIDA	\$ 199	\$ 71	\$ -	\$ 270
Operating EBIDA %	5.0%	1.9%	-	3.9%

Three Months Ended March 31, 2022

Revenues:				
Net patient service revenue	\$ 3,163	\$ -	\$ (708)	\$ 2,455
Insurance enrollment revenue	-	3,133	-	3,133
Other revenue	347	207	(43)	511
Total operating revenues	\$ 3,510	\$ 3,340	\$ (751)	\$ 6,099
Expenses:				
Salaries, professional fees and benefits	\$ 2,070	\$ 134	\$ (30)	\$ 2,174
Insurance claims expense	-	2,867	(708)	2,159
Supplies, purchased services and general	1,329	226	(13)	1,542
Depreciation and amortization	172	2	-	174
Total operating expenses	3,571	3,229	(751)	6,049
Operating income	\$ (61)	\$ 111	\$ -	\$ 50
Operating margin %	(1.7)%	3.3%	-	0.8%
Operating margin % (including income tax and interest expense)	(2.9)%	3.3%	-	0.2%
Operating EBIDA	\$ 111	\$ 113	\$ -	\$ 224
Operating EBIDA %	3.2%	3.4%	-	3.7%

MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2023

Health Services

UPMC Health Services division ("Health Services") includes a comprehensive array of clinical capabilities consisting of hospitals, specialty service lines (e.g., transplantation services, woman care, behavioral health, pediatrics, cancer care and rehabilitation services), contract services (emergency medicine, pharmacy and laboratory) and approximately 5,200 employed physicians with associated practices. Also included within Health Services are supporting foundations and UPMC's captive insurance programs. Hospital activity is monitored in four distinct groups: (i) academic hospitals that provide a comprehensive array of clinical services that include the specialty service lines listed above and serve as the primary academic and teaching centers for UPMC and are located in Pittsburgh; (ii) community hospitals that provide core clinical services mainly to the suburban Pittsburgh marketplace; (iii) regional hospitals that provide core clinical services to certain other areas of western (including Erie), and central (including Williamsport and Harrisburg) Pennsylvania, as well as western New York and northwestern Maryland; and (iv) pre- and post-acute care capabilities that include: UPMC HomeCare, a network of home health services, and UPMC Senior Communities, the facilities of which provide a complete network of senior living capabilities in greater Pittsburgh and the surrounding counties.

Health Services also includes international activities, with locations across the globe, which extend UPMC's core mission and aim to bring new revenue streams into UPMC's domestic operations. In Italy, UPMC locations include ISMETT, a government-approved hospital for end-stage organ disease treatment and research, Salvator Mundi International Hospital in Rome and UPMC Cancer Centers in Rome, Sicily and Campania. In Ireland, UPMC has a network of four hospitals and two UPMC Hillman Cancer Centers across southeast Ireland, stretching from Cork to Dublin. Other UPMC international ventures include management services agreements in China and Kazakhstan.

Operating income for the Health Services division for the three months ended March 31, 2023 increased by \$92 million versus the same period in the prior year. The increase is primarily the result of increased patient volumes and equity earnings from UPMC's investment in CarepathRx. This was partially offset by lower COVID-19 related governmental funding and higher premium salaries, resulting from the current conditions in the labor markets.

Insurance Services

UPMC holds various interests in health care financing initiatives and network care delivery operations that have more than 4.5 million members as of March 31, 2023. UPMC Health Plan is a health maintenance organization ("HMO") offering coverage for commercial and Medicare members. UPMC *for You*, also an HMO, is engaged in providing coverage to Medical Assistance & Medicare Special Needs Plan beneficiaries. UPMC Health Network offers preferred provider organization ("PPO") plan designs to serve Medicare beneficiaries. UPMC Health Options offers PPO plan designs to serve commercial beneficiaries. UPMC *for Life* is a Medicare product line offered by various companies within the Insurance Services division. UPMC WorkPartners provides fully insured workers' compensation, integrated workers' compensation and disability services to employers. Community Care Behavioral Health Organization ("Community Care") is a state-licensed HMO that manages the behavioral health services for Medical Assistance through mandatory managed care programs in Pennsylvania. Community HealthChoices ("CHC") is Pennsylvania's managed care program for individuals who are dual eligible for Medicaid and Medicare or qualify for Medicaid Long Term Services and Supports ("LTSS") and is designed to increase opportunities for older Pennsylvanians and individuals with physical disabilities to remain in their homes and communities rather than in facilities.

Insurance Services operating income for the three months ended March 31, 2023 declined by \$42 million compared to the three months ended March 31, 2022. The decrease in operating income is a result of a higher utilization, primarily within the Community HealthChoices product.

MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2023

UPMC Enterprises

As an organization dedicated to outstanding patient care, UPMC has defined a bold mission: to shape the future of health care through innovation. UPMC Enterprises helps bring this mission to life by transforming ideas into thriving businesses and Life Changing Medicine. UPMC Enterprises leverages UPMC's integrated delivery and financing system capabilities to generate new revenue streams by collaborating across UPMC, the University of Pittsburgh and Carnegie Mellon University, as well as health care entrepreneurs, companies and investors across the globe in all stages of commercial development, to bring to market new health care companies, technologies, and solutions. These ventures both support UPMC's core mission and help stimulate the economy within the communities we serve.

UPMC Enterprises manages a portfolio that includes various research and product development initiatives and numerous operating companies with commercially available products and services directed toward the improvement of the delivery of health care. UPMC Enterprises' results are classified as investing and financing activity in the consolidated statements of operations and changes in net assets, consistent with the long-term nature of developing and commercializing life sciences and technology-enabled initiatives. Due to the nature of UPMC Enterprises' investment activity, financial results can fluctuate between periods.

MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2023

REVENUE METRICS – HEALTH SERVICES

Medical-Surgical Admissions and Observation Visits

Inpatient activity, as measured by medical-surgical admissions and observation visits at UPMC's hospitals for the three months ended March 31, 2023, increased 6% compared to the same period in 2022.

For the Three Months Ended March 31			
(in thousands)	2023	2022	Change
Academic	27.0	25.9	4%
Community	11.8	11.3	4%
Regional	43.3	40.6	7%
Total	82.1	77.8	6%



Outpatient Revenue per Workday

UPMC's outpatient activity for the three months ended March 31, 2023, as measured by average revenue per workday, increased 9% compared to the same period in 2022. As new programs are implemented and the movement of formerly inpatient services to outpatient venues continues, ambulatory patient volumes and the corresponding outpatient revenue per workday continue to increase. Hospital outpatient activity is measured on an equivalent workday ("EWD") basis to adjust for weekend and holiday hours.

For the Three Months Ended March 31			
(in thousands)	2023	2022	Change
Academic	\$ 7,242	\$ 6,509	11%
Community	1,980	1,819	9%
Regional	10,213	9,450	8%
Total	\$ 19,435	\$ 17,778	9%



MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2023

REVENUE METRICS – HEALTH SERVICES (CONTINUED)

Physician Service Revenue per Weekday

UPMC's physician activity for the three months ended March 31, 2023, as measured by average revenue per weekday, increased 9% from the comparable period in 2022. Physician services activity is measured on a weekday basis.

For the Three Months Ended March 31			
(in thousands)	2023	2022	Change
Academic	\$ 3,854	\$ 3,467	11%
Community	1,905	1,818	5%
Regional	2,977	2,714	10%
Total	\$ 8,736	\$ 7,999	9%

Quarterly Average (in millions)



Sources of Patient Service Revenue

The gross patient service revenues, before price concessions and intercompany transactions, of UPMC are derived from payers which reimburse or pay UPMC for the services it provides to patients covered by such payers. The following table is a summary of the percentage of the subsidiary hospitals' gross patient service revenue by payer.

	Three Months Ended March 31	
	2023	2022
Medicare	48%	48%
Medical Assistance	18%	17%
Commercial Insurers	15%	16%
UPMC Insurance Services Commercial	11%	11%
Self-pay/Other	8%	8%
Total	100%	100%

MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2023

OPERATING METRICS - INSURANCE SERVICES

Membership

Membership in the UPMC Insurance Services division was 4,505,128 as of March 31, 2023, a 12% increase versus March 31, 2022. The Insurance Services Division growth in enrollment compared to prior year was primarily attributable to the expansion of Behavioral Health and Medical Assistance (Medicaid) products into new regions of eastern Pennsylvania.

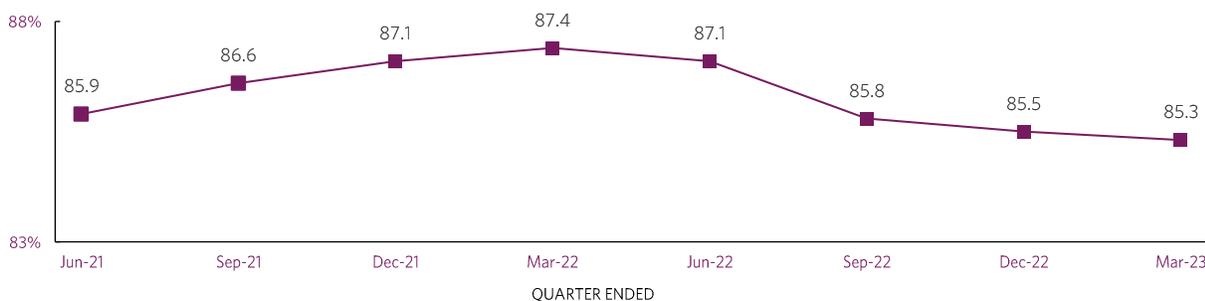


As of	March 31, 2023	March 31, 2022
Commercial Health	572,551	609,232
Medicare	206,011	199,657
Medical Assistance	760,989	578,951
Sub-Total Physical Health Products	1,539,551	1,387,840
Community HealthChoices	140,929	134,359
Behavioral Health	1,512,257	1,287,924
Sub-Total Health Products	3,192,737	2,810,123
Workpartners	825,919	732,790
Ancillary Products	470,020	476,158
Third-Party Administration	16,452	14,666
Total Membership	4,505,128	4,033,737

Medical Expense Ratio

UPMC Insurance Services' medical expense ratio for the trailing twelve months has decreased to 85.3% as of March 31, 2023. The chart below is revised quarterly to reflect updated estimates and actual medical claims expense experience for each presented period.

Trailing Twelve Months



MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2023

(Dollars in millions)

Operating Earnings before Interest, Depreciation and Amortization

Operating EBIDA for the three months ended March 31, 2023 increased \$46 million compared to the three months ended March 31, 2022 due primarily to increased patient volumes, growth in enrollment of products offered by UPMC's Insurance Services division and equity earnings from UPMC's investment in CarepathRx.

For the Three Months Ended March 31			
(in millions)	2023	2022	Change
Operating Income	\$ 100	\$ 50	100%
Depreciation and Amortization	170	174	(2)%
Operating EBIDA	\$ 270	\$ 224	21%

Trailing Twelve Months Operating EBIDA



Unrestricted Cash and Investments over Long Term Debt and Days Cash on Hand

As of March 31, 2023, unrestricted cash and investments over long term debt increased \$33 million compared to December 31, 2022 due primarily to positive investment returns in 2023. Declines in days cash on hand are primarily the result of increasing expenses driven by the current conditions in the supply and labor markets.



Days in Net Accounts Receivable

Days in Accounts Receivable at March 31, 2023 and December 31, 2022 were 45 and 45, respectively.

By Receivable	March 2023 Balance	Days	
		Mar 31, 2023	Dec 31, 2022
Patient	\$ 1,470	47	47
Insurance and other	2,031	44	44
Consolidated	\$ 3,501	45	45



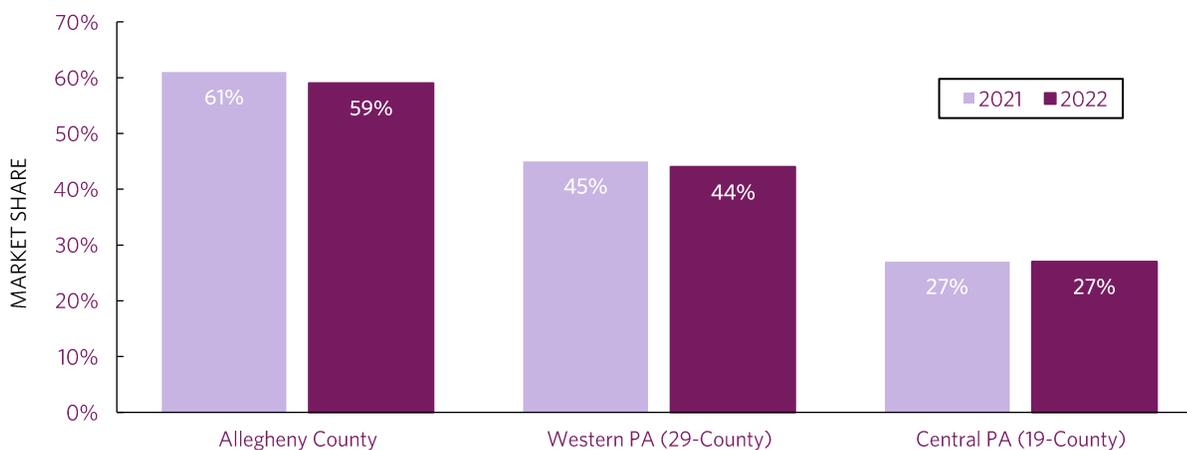
MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2023

MARKET SHARE

The chart below shows the change in UPMC's estimated inpatient market share for the first three quarters of calendar years 2021 and 2022 by service area.⁽¹⁾ This is the most recent market share data currently available.

UPMC INPATIENT MEDICAL-SURGICAL MARKET SHARE AS OF SEPTEMBER 30⁽²⁾



(1) UPMC's three service areas are (1) Allegheny County, (2) a 29-county region which also includes Armstrong, Beaver, Bedford, Blair, Butler, Cambria, Cameron, Centre, Clarion, Clearfield, Crawford, Elk, Erie, Fayette, Forest, Greene, Huntingdon, Indiana, Jefferson, Lawrence, McKean, Mercer, Potter, Somerset, Venango, Warren, Washington and Westmoreland counties, and (3) a 19-county region including Adams, Clinton, Columbia, Cumberland, Dauphin, Franklin, Fulton, Juniata, Lancaster, Lebanon, Lycoming, Mifflin, Montour, Northumberland, Perry, Snyder, Tioga, Union, and York counties.

(2) Excludes psychiatry and substance abuse discharges.

MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2023

ASSET AND LIABILITY MANAGEMENT

For the quarter ended March 31, 2023, UPMC's core investment portfolio managed by Treasury returned 2.8%. As of March 31, 2023, the Investment Portfolio utilized 175 ongoing external investment managers including 45 traditional managers, 18 hedge fund managers and 112 private capital managers. The Investment Portfolio is also invested with an additional 32 legacy private capital and hedge fund managers. UPMC's Investment Portfolio has a long-term perspective and has generated annualized returns of (4.4%), 9.8% and 4.8% for the trailing one-, three- and five-year periods. As of March 31, 2023, 70% of UPMC's Investment Portfolio could be liquidated within three days.

UPMC's cost of capital during the three-month period ended March 31, 2023 was 3.4%. This cost of capital includes the accrual of interest payments, the amortization of financing costs and original issue discount or premium, the ongoing costs of variable rate debt and the cash flow impact of derivative contracts. As of March 31, 2023, the interest rates on UPMC's long-term debt were approximately 88% fixed and 12% variable after giving effect to derivative contracts. Interest cost for the variable rate debt for the period averaged 3.9%. The interest cost for the fixed rate debt was 3.3%. UPMC's primary credit facility, which expires in January 2024, has a borrowing limit of \$600 million. As of March 31, 2023, UPMC had approximately \$138 million in letters of credit outstanding under the credit facility leaving \$462 million available to fund operating and capital needs, none of which was drawn.

In support of the Insurance Services Division, UPMC has credit facilities of \$350 million and \$250 million, the latter of which temporarily decreases each year to \$25 million from September 1st to April 30th. The credit facilities expire in May 2026 and May 2027, respectively. As of March 31, 2023, these credit facilities were undrawn.

On March 10, 2023, UPMC, through an affiliate that is not a member of the obligated group under UPMC's Master Trust Indenture, closed a transaction to acquire the Sports Surgery Clinic in northern Dublin, Ireland. The acquisition was funded in part with proceeds of taxable term loans made to the purchasing affiliate totaling \$165 million. The affiliate is not a member of the UPMC obligated group. Proceeds of the issuance were also applied towards refinancing certain existing debt of UPMC's Irish entities.

Subsequent to March 31, 2023, UPMC issued the tax-exempt Series 2023A, 2023B, 2023C and 2023D bonds, as well as the taxable Series 2023 bonds in the amounts of \$445 million, \$89 million, \$36 million, \$250 million and \$800 million, respectively. These bonds refunded certain indebtedness, fund capital projects and support working capital. Additionally, UPMC has amended its existing primary revolving credit facility to provide a maximum available amount thereunder to \$1 billion.

MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2023

The table below compares reported Investing and Financing Activity for the three months ended March 31, 2023 and 2022 by type.

Investing and Financing Activity by Type

Three Months Ended March 31	2023	2022
<i>(in thousands)</i>		
Realized gain (loss)	\$ 127,710	\$ (33,273)
Interest and dividends, net of fees	32,333	27,216
Realized investment gain (loss)	\$ 160,043	\$ (6,057)
Unrealized (loss) gain on derivative contracts	(2,977)	1,095
Other unrealized gain (loss)	86,055	(163,252)
Investment gain (loss)	\$ 243,121	\$ (168,214)
Interest expense	(42,390)	(38,902)
UPMC Enterprises activity	(32,248)	(34,772)
Gain (loss) from investing and financing activities	\$ 168,483	\$ (241,888)

Sources and Uses of Cash

UPMC's primary source of operating cash is the collection of revenues and related accounts receivable. As of March 31, 2023, UPMC had approximately \$1.1 billion of cash and cash equivalents.

Operating EBIDA was \$270 million for the three months ended March 31, 2023, compared to \$224 million for the three months ended March 31, 2022. Key uses of cash for the three months ended March 31, 2023 include consideration paid to acquire the Sports Surgery Clinic of approximately \$247 million and capital expenditures of approximately \$202 million (including any capital acquired through lease arrangements). Major capital projects included construction and improvements at UPMC Central PA, UPMC North Central PA, UPMC Mercy and UPMC Presbyterian as well as ongoing expansion and improvement across the entirety of UPMC. Major information services projects included enhancements that are advancing UPMC's leading clinician centric computing environment, technology infrastructure that supports UPMC's diversified digital environment, investments in enterprise data analytics and other technologies that are transforming the consumer experience across the spectrum of health care.

UTILIZATION STATISTICS

PERIOD ENDED MARCH 31, 2023

The following table presents selected consolidated statistical indicators of medical-surgical, psychiatric, rehabilitation and skilled nursing patient activity for the three months ended March 31, 2023 and 2022.

	Three Months Ended March 31	
	2023	2022
Licensed Beds	8,770	8,799
BEDS IN SERVICE		
Medical-Surgical	5,121	5,099
Psychiatric	430	430
Rehabilitation	244	249
Skilled Nursing	1,540	1,539
Total Beds in Service	7,335	7,317
PATIENT DAYS		
Medical-Surgical	342,526	349,005
Psychiatric	27,485	28,482
Rehabilitation	15,847	16,883
Skilled Nursing	105,420	98,902
Total Patient Days	491,278	493,272
Average Daily Census	5,459	5,481
Observation Days	39,824	35,779
Obs Average Daily Census	442	398
ADMISSIONS AND OBSERVATION CASES		
Medical-Surgical	59,027	57,468
Observation Cases	23,048	20,350
Subtotal	82,075	77,818
Psychiatric	2,532	2,302
Rehabilitation	1,068	1,053
Skilled Nursing	1,118	930
Total Admissions and Observation Cases	86,793	82,103
Overall Occupancy	80%	80%
AVERAGE LENGTH OF STAY		
Medical-Surgical	5.8	6.1
Psychiatric	10.9	12.4
Rehabilitation	14.8	16.0
Skilled Nursing	94.3	106.3
Overall Average Length of Stay	7.7	8.0
Emergency Room Visits	248,648	229,637
TRANSPLANTS (DOMESTIC AND INTERNATIONAL)		
Liver	65	53
Kidney	81	78
All Other	76	76
Total	222	207
OTHER POST-ACUTE METRICS		
Home Health Visits	129,435	155,645
Hospice Care Days	56,518	59,181
Outpatient Rehab Visits	173,114	168,038

OUTSTANDING DEBT

PERIOD ENDED MARCH 31, 2023

(DOLLARS IN THOUSANDS)

Issuer	Original Borrower	Series	Amount Outstanding
Allegheny County Hospital Development Authority	UPMC Health System	1997B	\$ 43,609
	UPMC	2007A	30,422
	UPMC	2017D	397,980
	UPMC	2019A	738,453
	UPMC	2021B	52,486
Monroeville Finance Authority	UPMC	2012	59,668
	UPMC	2013B	44,060
	UPMC	2014B	42,708
	UPMC	2022B	187,244
Pennsylvania Economic Development Financing Authority	UPMC	2013A	104,286
	UPMC	2014A	251,151
	UPMC	2015B	110,397
	UPMC	2016	210,601
	UPMC	2017A	410,544
	UPMC	2017B	88,549
	UPMC	2017C	133,982
	UPMC	2020A	267,677
	UPMC	2021A	253,193
UPMC	2022A	225,862	
Tioga County Industrial Development Authority	Laurel Health System	2010	5,476
	Laurel Health System	2011	3,831
Dauphin County General Authority	Pinnacle Health System	2016A	93,435
	Pinnacle Health System	2016B	80,605
General Authority of Southcentral Pennsylvania	Hanover Hospital	2013	3,546
	Hanover Hospital	2015	21,058
Potter County Hospital Authority	UPMC	2018A	12,782
Somerset County Hospital Authority	Somerset Hospital	2009	349
Maryland Health and Higher Educational Facilities Authority	UPMC	2020B	197,338
	UPMC	2020D	349,760
None	UPMC	2020 Term Loans	499,936
	UPMC	2021C	399,550
	Somerset Management Services	2013	1,380
	Various	Financing Leases & Loans	274,113
		Swap Liabilities	769
Total UPMC Outstanding Debt			\$ 5,596,800

Includes original issue discount and premium, Deferred Financing Costs and other.

Source: UPMC Records

DEBT COVENANT CALCULATIONS

PERIOD ENDED MARCH 31, 2023

DEBT SERVICE COVERAGE RATIO

(Dollars in thousands)

	Trailing Twelve-Month Period Ended March 31, 2023	
Excess of expenses over revenues	\$	(620,864)
ADJUSTED BY:		
Net Unrealized Losses during Period ⁽¹⁾		594,872
Depreciation and Amortization ⁽¹⁾		690,516
Gain on Extinguishment of Debt ⁽¹⁾		(14,338)
Lease Impairment - Facilities ⁽¹⁾		75,784
Lease Impairment Realization - Facilities		(2,763)
Realized Investment Impairments ⁽²⁾		(14,804)
Interest Expense ⁽³⁾		158,556
Revenues Available for Debt Service	\$	866,959
Historical Debt Service Requirements - 2007 MTI	\$	370,714
Debt Service Coverage Ratio - 2007 MTI		2.34X
Historical Debt Service Requirements - All Debt and Finance Leases	\$	408,948
Debt Service Coverage Ratio - All Debt and Finance Leases		2.12X

LIQUIDITY RATIO AS OF MARCH 31, 2023

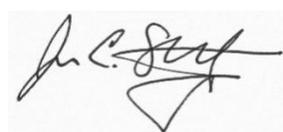
Unrestricted Cash and Investments	\$	7,521,426
Master Trust Indenture Debt		5,076,130
Unrestricted Cash to MTI Debt		1.48

⁽¹⁾ Non-Cash.

⁽²⁾ Reflects ultimate realization of previously impaired cost-based investments.

⁽³⁾ Includes only interest on long-term debt.

I hereby certify to the best of my knowledge that, as of March 31, 2023, UPMC is in compliance with the applicable covenants contained in the financing documents for the bonds listed on the cover hereof and all applicable bank lines of credit and no Event of Default (as defined in any related financing document) has occurred and is continuing.



J.C. Stille
Treasurer
UPMC

Unaudited Interim Condensed Consolidated Financial Statements

FOR THE PERIOD ENDED MARCH 31, 2023



Ernst & Young LLP
2100 One PPG Place
Pittsburgh, PA 15222

Tel: +1 412 644 7800
Fax: +1 412 644 0477
ey.com

Review Report of Independent Auditors

To the Board of Directors of UPMC

Results of Review of Interim Financial Information

We have reviewed the condensed consolidated financial statements of UPMC (the Company), which comprise the condensed consolidated balance sheet as of March 31, 2023, and the related condensed consolidated statements of operations and changes in net assets, and cash flows for the three-month periods ended March 31, 2023 and 2022, and the related notes (collectively referred to as the “interim financial information”).

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying condensed interim financial information for it to be in accordance with accounting principles generally accepted in the United States of America.

Basis for Review Results

We conducted our reviews in accordance with auditing standards generally accepted in the United States of America (GAAS) applicable to reviews of interim financial information. A review of condensed interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. A review of condensed interim financial information is substantially less in scope than an audit conducted in accordance with GAAS, the objective of which is an expression of an opinion regarding the financial information as a whole, and accordingly, we do not express such an opinion. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our review. We believe that the results of the review procedures provide a reasonable basis for our conclusion.

Responsibilities of Management for the Interim Financial Information

Management is responsible for the preparation and fair presentation of the condensed interim financial information in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of interim financial information that is free from material misstatement, whether due to fraud or error.

Report on Condensed Balance Sheet as of December 31, 2022

We have previously audited, in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet as of December 31, 2022, and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended (not presented herein); and we expressed an unqualified audit opinion on those audited consolidated financial statements in our report dated February 27, 2023. In our opinion, the accompanying condensed consolidated balance sheet of the Company as of December 31, 2022, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

May 25, 2023

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(DOLLARS IN THOUSANDS)

As of
March 31, 2023 December 31, 2022

CURRENT ASSETS

Cash and cash equivalents	\$ 1,110,629	\$ 953,980
Patient accounts receivable	1,470,482	1,418,566
Insurance and other receivables	2,031,174	1,933,177
Other current assets	715,984	588,555
Total current assets	5,328,269	4,894,278
Board-designated, restricted, trustee and other investments	7,702,624	7,704,484
Beneficial interests in foundations and trusts	685,327	667,380
Net property, buildings and equipment	6,656,229	6,519,892
Operating lease right-of-use assets	793,517	796,886
Other assets	859,376	744,434
Total assets	\$ 22,025,342	\$ 21,327,354

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 834,667	\$ 834,097
Accrued salaries and related benefits	1,043,258	1,024,110
Current portion of insurance reserves	1,198,384	1,155,133
Current portion of long-term obligations	368,584	369,443
Other current liabilities	1,417,323	939,010
Total current liabilities	4,862,216	4,321,793
Long-term obligations	5,228,216	5,152,164
Long-term insurance reserves	461,211	458,285
Operating lease noncurrent liabilities	757,889	770,766
Other noncurrent liabilities	597,546	717,464
Total liabilities	11,907,078	11,420,472
Net assets without donor restrictions	8,924,337	8,737,069
Net assets with donor restrictions	1,193,927	1,169,813
Total net assets	10,118,264	9,906,882
Total liabilities and net assets	\$ 22,025,342	\$ 21,327,354

See accompanying notes

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (UNAUDITED)

(DOLLARS IN THOUSANDS)

Three Months Ended March 31

	2023	2022
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Net patient service revenue	\$ 2,704,311	\$ 2,454,581
Insurance enrollment revenue	3,538,599	3,133,929
Other revenue	622,647	510,862
Total operating revenues	6,865,557	6,099,372
Salaries, professional fees and employee benefits	2,363,753	2,174,377
Insurance claims expense	2,441,587	2,159,112
Supplies, purchased services and general	1,789,846	1,542,257
Depreciation and amortization	170,001	173,242
Total operating expenses	6,765,187	6,048,988
Operating income	100,370	50,384
Academic and research support provided	(60,375)	(60,000)
Other non-operating activities	4,769	30,375
Income tax expense	(2,783)	(1,462)
After-tax income	\$ 41,981	\$ 19,297
Investing and financing activities:		
Investment gain (loss)	243,121	(168,214)
Interest expense	(42,390)	(38,902)
UPMC Enterprises activity:		
Portfolio company revenue and net gains from sales	17,683	11,911
Portfolio company and research and development expense	(49,931)	(46,683)
Gain (loss) from investing and financing activities	168,483	(241,888)
Excess of revenues over expenses (expenses over revenues)	210,464	(222,591)
Excess of revenues over expenses (expenses over revenues) attributable to noncontrolling interest	19,375	(1,556)
Excess of revenues over expenses (expenses over revenues) attributable to controlling interest	191,089	(221,035)
Net change in pension liability and other	(3,821)	(5,154)
Change in net assets without donor restrictions	187,268	(226,189)
NET ASSETS WITH DONOR RESTRICTIONS		
Net contributions and other changes	4,175	1,633
Gains (losses) on restricted investments	3,035	(6,225)
Assets released from restriction for operations and capital purchases	(1,043)	(1,681)
Change in beneficial interests in foundations and trusts	17,947	(26,845)
Change in net assets with donor restrictions	24,114	(33,118)
Change in total net assets	211,382	(259,307)
Net assets, beginning of period	9,906,882	11,278,360
Net assets, end of period	\$ 10,118,264	\$ 11,019,053

See accompanying notes

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(DOLLARS IN THOUSANDS)

Three Months Ended March 31

	2023	2022
OPERATING ACTIVITIES		
Increase (decrease) in total net assets	\$ 211,382	\$ (259,307)
Adjustments to reconcile change in total net assets to net cash provided by operating activities:		
Depreciation and amortization	170,001	173,242
Change in beneficial interest in foundations and trusts	(17,947)	26,845
Restricted contributions and investment (gains) losses	(7,210)	4,592
Unrealized (gains) losses on investments	(86,055)	163,252
Realized (gains) losses on investments	(127,821)	33,273
Net changes in non-alternative investments	188,193	63,432
Changes in operating assets and liabilities:		
Accounts receivable	(149,913)	(134,639)
Other current assets	(121,616)	(135,411)
Accounts payable and accrued liabilities	19,718	168,071
Insurance reserves	46,177	27,910
Other current liabilities	478,313	(8,895)
Other noncurrent assets and liabilities	(132,795)	(7,166)
Other operating changes	4,937	(68,848)
Net cash provided by operating activities	475,364	46,351
INVESTING ACTIVITIES		
Purchase of property, buildings and equipment	(195,205)	(246,158)
UPMC Enterprises investments in non-consolidated entities	(41,631)	326
Consideration paid for acquisitions	(247,626)	-
Net change in investments designated as nontrading	(16,385)	46,171
Net change in alternative investments	82,582	(7,263)
Net change in other assets	16,354	53,752
Net cash used in investing activities	(401,911)	(153,172)
FINANCING ACTIVITIES		
Repayments of long-term obligations	(88,124)	(70,472)
Borrowings of long-term obligations	164,110	8,350
Restricted contributions and investment gains (losses)	7,210	(4,592)
Net cash provided by (used in) financing activities	83,196	(66,714)
Net change in cash and cash equivalents	156,649	(173,535)
Cash and cash equivalents, beginning of period	953,980	930,376
Cash and cash equivalents, end of period	\$ 1,110,629	\$ 756,841
SUPPLEMENTAL INFORMATION		
Finance lease obligations incurred to acquire assets	\$ 6,795	\$ 4,123

See accompanying notes

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

1. BASIS OF PRESENTATION

UPMC is a Pennsylvania nonprofit corporation and is exempt from federal income tax pursuant to Section 501(a) of the Internal Revenue Code (the "Code") as an organization described in Section 501(c)(3) of the Code. Headquartered in Pittsburgh, Pennsylvania, UPMC is one of the world's leading integrated delivery and financing systems. UPMC comprises nonprofit and for-profit entities offering medical and health care-related services, including health insurance products. Closely affiliated with the University of Pittsburgh (the "University") and with shared academic and research objectives, UPMC partners with the University's Schools of the Health Sciences to deliver outstanding patient care, train tomorrow's health care specialists and biomedical scientists, and conduct groundbreaking research on the causes and course of disease.

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal and recurring nature. The accompanying unaudited interim condensed consolidated financial statements include the accounts of UPMC and its subsidiaries. Intercompany accounts and transactions are eliminated in consolidation. For further information, refer to the audited consolidated financial statements and notes thereto as of and for the twelve-month period ended December 31, 2022.

2. SIGNIFICANT TRANSACTIONS

In February 2023, CarepathRx, an equity investment of UPMC Chartwell, executed an agreement where a portion of its business was sold to a third party. UPMC Chartwell's equity investment in CarepathRx resulted in a gain of \$164,183 in other revenues, of which approximately \$20,000 was attributed to noncontrolling interest, in its consolidated statement of operations and changes in net assets for the three months ended March 31, 2023, in accordance with ASC 810, *Consolidation*.

In March 2023, UPMC acquired the Sports Surgery Clinic ("SSC") in Dublin, Ireland. As UPMC's fourth hospital in Ireland, the transaction is intended to further UPMC's commitment to clinical excellence in this region of the world. As a result of the acquisition, UPMC acquired approximately \$106,000 of total assets, consisting of \$100,000 of property, plant and equipment and \$6,000 of other assets. Total consideration paid by UPMC approximated \$247,000 and resulted in approximately \$141,000 of goodwill in the consolidated balance sheet as of March 31, 2023. UPMC applies the guidance set forth in ASC 805 Business Combinations for affiliations and acquisitions and as such will continue to assess throughout the remainder of the year the fair value, as of the acquisition date, of any assets and liabilities acquired.

3. NEW ACCOUNTING PRONOUNCEMENTS

On January 1, 2023, UPMC adopted ASU 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. The measurement of expected credit losses under CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to certain qualifying insurance receivables and reinsurance recoveries and receivables. This accounting pronouncement will not have a material impact on the condensed consolidating financial statements.

4. REVENUE

Net Patient Service Revenue

UPMC's net patient service revenue is recorded based upon the estimated amounts UPMC expects to be entitled to receive from patients, third-party payers (including health insurers and government programs) and others and includes an estimate of variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, UPMC bills the patients and third-party payers several days after the services are performed and/or the patient is discharged

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

from the facility. Estimates of the explicit price concessions under managed care, commercial and governmental insurance plans are based upon the payment terms specified in the related contractual agreements or as mandated under government payer programs. UPMC continually reviews the explicit price concession estimation process to consider and incorporate updates to laws and regulations and the frequent changes in managed care and commercial contractual terms resulting from contract negotiations and renewals. Revenue is recognized as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided by UPMC. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. UPMC believes that this method provides a reasonable representation of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to inpatient services. UPMC measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and UPMC does not believe it is required to provide additional goods or services to the patient.

The majority of UPMC's services are rendered to patients with third-party coverage. Payment under these programs for all payers is based on a combination of prospectively determined rates, discounted charges and historical costs. Amounts received under Medicare and Medical Assistance programs are subject to review and final determination by program intermediaries or their agents and the contracts UPMC has with commercial payers also provide for retroactive audit and review of claims. Agreements with third-party payers typically provide for payments at amounts less than established charges. Generally, patients who are covered by third-party payers are responsible for related deductibles and coinsurance, which vary in amount. UPMC also provides services to uninsured patients. Revenues related to uninsured patients and uninsured copayment and deductible amounts for patients who have health care coverage may have discounts applied (uninsured discounts and contractual discounts). UPMC also records estimated implicit price concessions (based primarily on historical collection experience) related to uninsured accounts to record these revenues at the estimated amounts UPMC expects to collect. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient service revenue in the period of the change and are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods if final settlements differ from estimates. Adjustments arising from a change to previously estimated transaction prices were not significant in the three months ended March 31, 2023 or 2022.

Consistent with UPMC's mission, care is provided to patients regardless of their ability to pay. UPMC has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, deductibles and copayments). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts UPMC expects to collect based on its collection history with those patients. Patients who meet UPMC's criteria for charity care are provided care without charge or at amounts less than established rates and UPMC has determined it has provided an implicit price concession. Price concessions, including charity care, are deducted from net patient service revenue.

The collection of outstanding receivables from Medicare, Medicaid, managed care payers, other third-party payers and patients is one of UPMC's primary sources of cash and is critical to its operating performance. The primary collection risks relate to uninsured patient accounts, including patient accounts for which the primary insurance carrier has paid the amounts covered by the applicable agreement, but patient responsibility amounts (deductibles and copayments) remain outstanding. Implicit price concessions relate primarily to amounts due directly from patients. Estimated implicit price concessions are recorded for all uninsured accounts, regardless of the age of those accounts. Accounts are written off when all reasonable internal and external collection efforts have been performed. The estimates for implicit price concessions are based upon UPMC's assessment of historical write-offs and expected net collections, business and economic conditions, trends in federal, state and private employer health care coverage and other collection indicators.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

The composition of net patient service revenue for the three months ended March 31, 2023 and 2022 is as follows:

Periods Ended March 31	2023	2022
Commercial	37%	37%
Medicare	41%	41%
Medical Assistance	15%	15%
Self-pay/other	7%	7%
	100%	100%

Laws and regulations governing the Medicare and Medical Assistance programs are complex and subject to interpretation. UPMC believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing, unless otherwise disclosed. Compliance with such laws and regulations is subject to government review and interpretation as well as significant regulatory action, including fines, penalties and exclusion from Medicare and Medical Assistance programs. As a result, there is at least a reasonable possibility that the recorded estimates may change.

Insurance Enrollment Revenue

UPMC's insurance subsidiaries (collectively, the "Health Plans") provide health care services on a prepaid basis under various contracts. Insurance enrollment revenues are recognized as income in the period in which enrollees are entitled to receive health care services, which represents the performance obligation. Health care premium payments received from UPMC's members in advance of the service period are recorded as unearned revenues.

Insurance enrollment revenues include premiums that are collected from companies, individuals, and government entities. Laws and regulations governing the Medicare and Medical Assistance programs are complex and subject to interpretation. UPMC believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to government review and interpretation as well as significant regulatory action, including fines, penalties and exclusion from the programs. As a result, there is at least a reasonable possibility that recorded estimates may change.

Other Revenue

UPMC's other revenue consists of various contracts related to its Health Services and Insurance Services divisions. These contracts vary in duration and in performance obligations. Revenues are recognized when the performance obligations identified within the individual contracts are satisfied and collectability is probable.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

5. FAIR VALUE MEASUREMENTS

As of March 31, 2023 and December 31, 2022, UPMC held certain assets that are required to be measured at fair value on a recurring basis. These include certain board-designated, restricted, trustee, and other investments and derivative instruments. Certain alternative investments are measured using the equity method of accounting and are therefore excluded from the fair value hierarchy tables presented herein. The valuation techniques used to measure fair value are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs are generally unsupported by market activity. The three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value, includes:

- Level 1: Quoted prices for identical assets or liabilities in active markets.
- Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-driven valuations whose inputs are observable or whose significant value drivers are observable.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following tables represent UPMC's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2023 and December 31, 2022. The interest rate swaps are valued using internal models, which are primarily based on market observable inputs, including interest rate curves. When quoted market prices are unobservable for fixed income securities, quotes from independent pricing vendors based on recent trading activity and other relevant information, including market interest rate curves, referenced credit spreads and estimated prepayment rates where applicable, are used for valuation purposes. These investments are included in Level 2 and include corporate fixed income, government bonds, and mortgage and asset-backed securities.

Other investments measured at fair value represent funds included on the condensed consolidated balance sheets that are reported using net asset value ("NAV"). These amounts are not required to be categorized in the fair value hierarchy. The fair value of these investments is based on the net asset value information provided by the general partner. Fair value is based on the proportionate share of the NAV based on the most recent partners' capital statements received from the general partners, which is generally one quarter prior to the balance sheet date. Certain of UPMC's alternative investments are utilizing NAV to calculate fair value and are included in other investments in the following tables.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

FAIR VALUE MEASUREMENTS AS OF MARCH 31, 2023

	Level 1	Level 2	Level 3	NAV	Total Carrying Amount
ASSETS					
Fixed income	\$ 411,965	\$ 2,337,778	\$ -	\$ -	\$ 2,749,743
Domestic equity	1,066,909	10,609	-	-	1,077,518
International equity	714,101	1	-	-	714,102
Public real estate	99,224	-	-	-	99,224
Long/short equity	40,385	63,685	-	-	104,070
Absolute equity	(1,635)	57,360	-	-	55,725
Securities on loan	305,459	-	-	-	305,459
Securities lending collateral	222,947	-	-	-	222,947
Alternative and other investments at NAV	-	-	-	1,483,003	1,483,003
Total assets measured at fair value on a recurring basis	\$ 2,859,355	\$ 2,469,433	\$ -	\$ 1,483,003	\$ 6,811,791
LIABILITIES					
Payable under securities lending agreement	\$ (222,947)	\$ -	\$ -	\$ -	\$ (222,947)
Derivative instruments	-	(769)	-	-	(769)
Total liabilities measured at fair value on a recurring basis	\$ (222,947)	\$ (769)	\$ -	\$ -	\$ (223,716)

FAIR VALUE MEASUREMENTS AS OF DECEMBER 31, 2022

	Level 1	Level 2	Level 3	NAV	Total Carrying Amount
ASSETS					
Fixed income	\$ 853,228	\$ 1,723,814	\$ -	\$ -	\$ 2,577,042
Domestic equity	1,275,130	8,700	-	-	1,283,830
International equity	696,429	541	-	-	696,970
Public real estate	103,870	-	-	-	103,870
Long/short equity	61,389	13,657	-	-	75,046
Absolute equity	51,241	-	-	-	51,241
Derivative instruments	-	-	-	-	-
Securities on loan	203,429	-	-	-	203,429
Securities lending collateral	116,000	-	-	-	116,000
Alternative and other investments at NAV	-	-	-	1,556,937	1,556,937
Total assets measured at fair value on a recurring basis	\$ 3,360,716	\$ 1,746,712	\$ -	\$ 1,556,937	\$ 6,664,365
LIABILITIES					
Payable under securities lending agreement	\$ (116,000)	\$ -	\$ -	\$ -	\$ (116,000)
Derivative instruments	-	(732)	-	-	(732)
Total liabilities measured at fair value on a recurring basis	\$ (116,000)	\$ (732)	\$ -	\$ -	\$ (116,732)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

6. FINANCIAL INSTRUMENTS

UPMC's investments in debt and equity securities are classified as trading. This classification requires UPMC to recognize unrealized gains and losses on its investments in debt and equity securities as investment (loss) gain in the condensed consolidated statements of operations and changes in net assets. Unrealized gains and losses on donor-restricted assets are recorded as changes in net assets with donor restrictions in the condensed consolidated statements of operations and changes in net assets. Gains and losses on the sales of securities are determined by the average cost method. Realized gains and losses are included in investment (loss) gain in the condensed consolidated statements of operations and changes in net assets.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value using quoted market prices or model-driven valuations. Cash and cash equivalents and investments recorded at fair value aggregate to \$7,699,473 and \$7,502,345 at March 31, 2023 and December 31, 2022, respectively. As of March 31, 2023 and December 31, 2022, respectively, UPMC had \$3,067,275 and \$3,001,542 of total cash and investments that are held by UPMC's regulated entities.

Investments in limited partnerships that invest in nonmarketable securities are primarily recorded at fair value using the NAV practical expedient if the ownership percentage is less than 5% and are reported using the equity method of accounting if the ownership percentage is greater than 5%. UPMC had \$1,113,780 and \$1,156,119 of alternative investments accounted for under the equity method, which approximates fair value, at March 31, 2023 and December 31, 2022, respectively.

UPMC participates in securities lending transactions whereby a portion of its investments are loaned, through its agent, to various parties in return for cash and securities from the parties as collateral for the securities loaned. The amount of cash collateral received under securities lending is reported as an asset and a corresponding payable in the condensed consolidated balance sheet (reported in other current assets and other current liabilities, respectively). Total collateral is required to have a market value between 102% and 105% of the market value of securities loaned. As of March 31, 2023 and December 31, 2022, respectively, securities loaned, of which UPMC maintains ownership, total \$305,459 and \$203,429, and total collateral (cash and noncash) received related to the securities loaned was \$316,581 and \$212,925.

7. DERIVATIVE INSTRUMENTS

UPMC uses derivative financial instruments to manage exposures on its debt. By using derivatives to manage these risks, UPMC exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivatives. When the fair value of a derivative is positive, the counterparty owes UPMC, which creates credit risk for UPMC. When the fair value of a derivative is negative, UPMC owes the counterparty and, therefore, it does not incur credit risk. UPMC minimizes the credit risk in derivatives by entering into transactions that require the counterparty to post collateral for the benefit of UPMC based on the credit rating of the counterparty and the fair value of the derivative. If UPMC has a derivative in a liability position, the counterparty bears UPMC's credit risk and fair market values could be adjusted downward. Market risk is the effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. Management also mitigates risk through periodic reviews of their derivative positions in the context of their total blended cost of capital.

UPMC maintains interest rate swap programs on certain of its debt in order to manage its interest rate risk. To meet this objective, UPMC entered into various interest rate swap agreements. The notional amount under each agreement is reduced over the term of the respective agreement to correspond with reductions in various outstanding bonds.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

The following table summarizes UPMC's interest rate swap agreements:

Swap	Maturity Date	UPMC Pays	UPMC Receives	Notional Amount at	
				Mar 31, 2023	Dec 31, 2022
Floating to fixed	2025	3.60%	68% one-month LIBOR	\$ 37,935	\$ 37,935
Basis	2037	SIFMA Index ¹	67% three-month LIBOR plus .3217%	30,525	38,450
				\$ 68,460	\$ 76,385

¹The SIFMA Index is a 7-day high-grade market index comprised of tax-exempt variable rate demand obligations.

Pursuant to master netting arrangements, UPMC has the right to offset the fair value of amounts recognized for derivatives, including the right to reclaim or obligation to return cash collateral from/to counterparties. The fair values of UPMC's derivative financial instruments are presented below, representing the gross amounts recognized as of March 31, 2023 and December 31, 2022, which are not offset by counterparty or type of item hedged:

	Mar 31, 2023	Dec 31, 2022
Long-term obligations	\$ (769)	\$ (732)
	\$ (769)	\$ (732)

The accounting for changes in the fair value (i.e., unrealized gains or losses) of a derivative depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. None of UPMC's derivatives outstanding as of March 31, 2023 and December 31, 2022 are designated as hedging instruments and as such, changes in fair value are recognized in investing and financing activities as investment (loss) gain in the condensed consolidated statements of operations and changes in net assets. Certain of UPMC's derivatives contain provisions that require UPMC's debt to maintain an investment grade credit rating from certain major credit rating agencies. If UPMC's debt were to fall below investment grade, it would be in violation of these provisions and the counterparties to the derivatives could request payment or demand immediate and ongoing full overnight collateralization on derivatives in net liability positions.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

8. PENSION PLANS

UPMC and its subsidiaries maintain defined benefit pension plans (the "Plans"), defined contribution plans and nonqualified pension plans that cover substantially all of UPMC's employees. Benefits under the Plans vary and are generally based upon the employee's earnings and years of participation.

The components of net periodic pension cost, of which only service cost is included in operating income and all other components are in other non-operating activities on the condensed consolidated statements of operations and changes in net assets, for the Plans are as follows:

	Three Months Ended March 31	
	2023	2022
Service cost	\$ 39,531	\$ 44,885
Interest cost	37,231	22,420
Expected return on plan assets	(44,766)	(52,094)
Recognized net actuarial loss	3,646	-
Amortization of prior service credit	(1,314)	(1,314)
Net periodic pension cost	\$ 34,328	\$ 13,897

9. LEASES

UPMC has operating and finance leases for corporate offices, physician offices and various equipment types, among others. These lease arrangements have remaining lease terms of one year to 25 years, some of which include options to extend the leases for several periods, and some of which include options to terminate the leases within one year. Balance sheet information related to leases were as follows:

	Mar 31, 2023	Dec 31, 2022
OPERATING LEASES		
Operating lease right-of-use assets	\$ 793,517	\$ 796,886
Other current liabilities	155,400	148,940
Operating lease noncurrent liabilities	757,889	770,766
Total operating lease liabilities	\$ 913,289	\$ 919,706
FINANCE LEASES		
Property, plant and equipment, net	\$ 61,117	\$ 60,853
Current portion of long-term obligations	22,318	22,673
Long-term obligations	47,799	46,965
Total finance lease liabilities	\$ 70,117	\$ 69,638

Undiscounted maturities of lease liabilities were as follows:

For the Three Months Ended March 31	Operating Leases	Finance Leases
2023 (rest of year)	\$119,627	\$19,301
2024	140,193	17,526
2025	119,566	10,426
2026	106,445	5,880
2027	84,081	1,726
Thereafter	397,905	15,870

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

10. CONTINGENCIES

On October 9, 2012, UPMC received a Civil Investigative Demand (“CID”) from the Department of Justice (“DOJ”) that sought records relating to 40 surgical procedures performed between January 25, 2008 and June 24, 2010. UPMC and the Department of Justice (“DOJ”) reached a settlement for an immaterial amount and UPMC admitted no liability in settling the claims. The DOJ declined to intervene in the remaining allegations of the Relators’ lawsuit. In their Second Amended Complaint against UPMC and UPP, Inc., Relators allege that UPMC violated the False Claims Act by overpaying physicians and encouraging physicians to perform medically unnecessary procedures. On June 29, 2022, the Court denied UPMC’s motion for summary judgment. Trial is scheduled for November 6, 2023. The outcome and ultimate effect on UPMC’s consolidated financial statements cannot be determined at this time.

On or about September 2, 2021, the United States filed a Complaint in Partial Intervention against UPMC, UPP and a UPMC cardiothoracic surgeon, in the matter previously filed under seal in the United States District Court of the Western District of Pennsylvania as U.S. ex. rel. Jonathan D’Cunha, M.D. v. UPMC et al, alleging that the Defendants violated the False Claims Act by, inter alia, performing concurrent surgeries. On February 23, 2023, the United States and Defendants signed a settlement agreement. On April 17, 2023, the Court granted the United States’ motion to dismiss its claims and the claims of Dr. D’Cunha with prejudice. The settlement will not have a material impact on UPMC’s consolidated financial statements.

On or about August 30, 2022, Plaintiff, Jonathan D’Cunha, M.D. filed a third party complaint in the United States District Court for the Western District of Pennsylvania against UPMC and certain of its subsidiaries alleging that they failed to provide insurance coverage and/or indemnification to him for claims asserted against him by a current UPMC cardiothoracic surgeon. Those claims contend, inter alia, that Dr. D’Cunha defamed and illegally wiretapped the UPMC surgeon. The UPMC Defendants have filed answers to those claims. The ultimate outcome and effect on UPMC’s consolidated financial statements cannot be determined at this time.

On October 22, 2021, Penn State Hershey Medical Center (“PSHMC”) filed a demand for arbitration against UPMC Central PA, alleging that UPMC Central PA breached a joint venture agreement with PSHMC that created the Pennsylvania Psychiatric Institute. The matter is in the process of being resolved without a material impact on UPMC’s consolidated financial statements.

On February 17, 2023, UPMC was served with a qui tam suit that had been filed under seal in 2019, alleging that it, along with the Magee Womens Research Institute (“MWRI”) and the University of Pittsburgh, violated the False Claims Act by overbilling federal grants received by MWRI. On March 24, 2023, the Relator filed a Second Amended Complaint that, inter alia, added UPMC Magee-Womens Hospital as a defendant. The defendants’ deadline to respond to the Second Amended Complaint is June 13, 2023. The ultimate outcome and effect on UPMC’s condensed consolidated financial statements cannot be determined at this time.

11. SUBSEQUENT EVENTS

Management evaluated events occurring subsequent to March 31, 2023 through May 25, 2023, the date the unaudited interim condensed consolidated financial statements of UPMC were issued. During this period, there were no subsequent events requiring recognition or disclosure in the condensed consolidated financial statements except as noted below.

Subsequent to March 31, 2023, UPMC issued the tax-exempt Series 2023A, 2023B, 2023C and 2023D bonds, as well as the taxable Series 2023 bonds in the amounts of \$445,230, \$89,275, \$36,815, \$250,000 and \$800,000, respectively. These bonds refund certain indebtedness, fund capital projects and support working capital. Additionally, UPMC has amended its existing primary revolving credit facility to provide a maximum available amount thereunder to \$1,000,000.