

UPMC Unaudited Financial and Operating Report

FOR THE PERIOD ENDED JUNE 30, 2022



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	21
Condensed Consolidated Statements of Operations and Changes in Net Assets	22
Condensed Consolidated Statements of Cash Flows	23
Notes to Unaudited Condensed Consolidated Financial Statements	24

The following financial data as of June 30, 2022 and for the three- and six-month periods ended June 30, 2022 and 2021 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, 2021 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 JUNE 30, 2022

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 and behavioral 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 JUNE 30, 2022

CONSOLIDATED FINANCIAL HIGHLIGHTS

(Dollars in millions)

Financial Results for the Six Months Ended June 30	2022	2021
Operating revenues	\$ 12,497	\$ 12,182
Operating income	\$ 82	\$ 605
Operating margin %	0.7%	5.0%
Operating margin % (after income tax and interest expense)	0.0%	4.3%
(Loss) gain from investing and financing activities	\$ (866)	\$ 531
Excess of (expenses over revenues) revenues over expenses attributable to controlling interest	\$ (844)	\$ 1,058
Operating EBIDA	\$ 430	\$ 949
Capital expenditures	\$ 471	\$ 374
Reinvestment ratio	1.35	1.09

Selected Other Information as of	June 30, 2022	December 31, 2021
Total cash and investments	\$ 8,885	\$ 10,697
Unrestricted cash and investments	\$ 7,492	\$ 9,184
Unrestricted cash and investments over long-term debt ¹	\$ 1,237	\$ 3,131
Days of cash on hand	112	148
Days in net accounts receivable	59	46
Average age of plant (in years)	10.0	9.8

¹Excludes \$181 million and \$515 million of Medicare advance funding as of June 30, 2022 and December 31, 2021, respectively, and \$104 million of deferred FICA payments as of June 30, 2022 and December 31, 2021.

Throughout 2022, the continued effect of COVID-19, along with conditions in the labor and supply markets have resulted in cost growth in employment, staffing and other operating expenses in excess of revenue growth. For the six months ended June 30, 2022, UPMC recognized \$71 million of CARES/American Rescue Plan ("ARP") provider relief funding within other operating revenues, compared to \$213 million recognized in the first six months of the prior year. Refer to Note 2 in the accompanying condensed consolidated financial statements for additional information. UPMC's loss from investing and financing activities for the six months ended June 30, 2022 was \$866 million. UPMC continues to have a long-term perspective with regard to its investment activities. As of June 30, 2022, UPMC had \$8.9 billion of cash and investments, of which approximately \$2.6 billion was held by UPMC's regulated health and captive insurance companies. Decreases in unrestricted cash and investments over long term debt compared to December 31, 2021, are due primarily to negative investment returns in 2022, as well as approximately \$1 billion in expected payment delays from the Commonwealth of Pennsylvania related to various insurance products. The amounts due were received in July 2022.

MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED JUNE 30, 2022

BUSINESS HIGHLIGHTS

In June, UPMC broke ground at the site of the new UPMC Presbyterian. The new \$1.5 billion, 17-story hospital is scheduled to be completed in 2026. This hospital 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. 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.

At a ceremony in June, construction workers placed the last beam atop the UPMC Mercy Pavilion to mark the completion of the current phase of construction and honor the accomplishments of the construction crew. The \$510 million facility will serve patients who need physical rehabilitation and patients with vision impairment or diseases of the eye. UPMC Mercy Pavilion will facilitate collaboration among scientists, clinicians and researchers. The building will be completed by the end of 2022, with its first patients expected in the second quarter of 2023.

In May, the first UPMC Hillman Cancer Center location in Sicily, located at Istituto Mediterraneo per i Trapianti e Terapie ("ISMETT"), began treating patients. This facility is the first to offer medical oncology services in Italy. The new cancer center allows ISMETT's clinicians to provide medical oncology services that complement the hospital's surgical capabilities, with a focus on gastrointestinal and cardiothoracic cancers. This new service and connection to the internationally renowned UPMC Hillman Cancer Center network allows patients to have expanded and more convenient access to world-class cancer care. Physicians treating cancer patients at ISMETT are supported by specialists and researchers at the UPMC Hillman Cancer Center in Pittsburgh, one of only 52 NCI-designed Comprehensive Cancer Centers in the U.S. The location at ISMETT joins UPMC Hillman Cancer Center's established network in Italy, which includes radiotherapy centers in Rome and Campania. With this new location joining more than 70 others worldwide, UPMC continues its commitment to expanding the advanced, patient-focused care of UPMC Hillman Cancer Center in Italy. The addition of medical oncology at ISMETT also lays the groundwork for the comprehensive suite of oncology services planned for a new UPMC-managed hospital, designated as "ISMETT 2," in nearby Carini. This facility will be financed by the regional government and is expected to open in 2025. This 256-bed hospital will offer a broad range of services, including transplant and cancer care, orthopedics, cardiology and other specialties.

The grand opening of the UPMC Hillman Cancer Center at UPMC Somerset was celebrated in June. Local communities now have access to world-class cancer care close to home backed by leading research, best practices, and leading-edge protocols. UPMC Somerset's new state-of-the-art facility, which was a \$4 million capital investment, features an enlarged treatment area with nine treatment spaces and four exam rooms, onsite laboratory services, and a calm healing environment designed to produce an exceptional experience for patients. The Somerset location offers medical oncology services while radiation oncology will continue to be regionally centralized by the UPMC Hillman Cancer Center at the John P. Murtha Pavilion in Johnstown.

In May, UPMC Western Behavioral Health at Twin Lakes broke ground on a \$16 million expansion project, which will increase the number of beds by 60%. The project, which includes the addition of a new building and a renovation of the existing facility in Somerset, Pa. is expected to be completed in early 2023. UPMC experts have seen the need for substance use withdrawal management and residential addiction treatment grow exponentially. Increasing bed capacity will help cover a growing behavioral health service need. Improving access to behavioral health care is a top priority of UPMC in the west central Pennsylvania region. The project is being funded through substantial support from the Redevelopment Assistance Capital Program, the Appalachian Regional Commission, the Richard King Mellon Foundation and the Wheeler Family Charitable Foundation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED JUNE 30, 2022

In June, UPMC Children's Hospital of Pittsburgh was recognized as one of the top pediatric hospitals in the country, earning the sixth position on the 2022-23 *U.S. News & World Report* Honor Roll of America's Best Children's Hospitals. The Honor Roll is a distinction awarded to only 10 children's hospitals nationwide. UPMC Children's Hospital is ranked for excellence in all pediatric specialty areas and is among the top 10 in six specialties: cardiology and heart surgery (No. 3); diabetes and endocrinology (No. 6); neonatology (No. 4); neurology and neurosurgery (No. 10); pulmonology and lung surgery (No. 8); and urology (No. 8). UPMC Children's Hospital provides many unique treatments, therapies, and surgeries that very few other children's hospitals can offer. It attracts over 13,000 patients a year from outside the region, including internationally. Patients were seen from 35 countries and from 48 states. UPMC Children's Hospital is continually expanding its pediatric specialties and subspecialties in UPMC regions outside of Pittsburgh to provide services closer to home for families, including:

- UPMC Harrisburg's cutting-edge pediatric in-patient unit, which brings the nationally ranked care from UPMC Children's Hospital in Pittsburgh to families in central Pennsylvania.
- UPMC Children's Hospital Emergency Department Affiliation program, which provides more regional hospitals with around-the-clock access to board-certified emergency medicine physicians at UPMC Children's Hospital in Pittsburgh through Emergency Department-to-Emergency Department consultations. The affiliation program is rapidly growing with additional locations.
- UPMC Children's Community Pediatrics ("CCP"), composed of more than 250 pediatric providers throughout western and central Pennsylvania, continues its expansion and growth efforts to provide primary, behavioral health, and subspecialty care to more families and communities in the region. Overall, UPMC CCP will stand at 55 practices by the end of summer of 2022, including 10 Express Care locations.

Generian Pharmaceutical, Inc., a private biotechnology company formed by UPMC Enterprises, and Mitobridge, Inc., a wholly owned subsidiary of Astellas Pharma Inc., announced in June that they have entered into a collaboration and exclusive license agreement to discover and develop novel small molecules for undruggable therapeutic targets by using a proprietary drug discovery platform for diseases that have limited treatment options. The companies will jointly conduct research and preclinical development activities to identify novel monovalent small molecules that modulate target proteins through activation, stabilization, or degradation as potential development candidates. Astellas will be solely responsible for clinical development, manufacturing, and commercialization of all products arising from the joint research activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED JUNE 30, 2022

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

Six Months Ended June 30, 2022

(in millions)

		Health Services	Insurance Services	Eliminations	Consolidated
Revenues:					
Net patient service revenue	\$	6,564	\$ -	\$ (1,479)	\$ 5,085
Insurance enrollment revenue		-	6,347	-	6,347
Other revenue		683	421	(39)	1,065
Total operating revenues	\$	7,247	\$ 6,768	\$ (1,518)	\$ 12,497
Expenses:					
Salaries, professional fees and benefits	\$	4,220	\$ 280	\$ (31)	\$ 4,469
Insurance claims expense		-	5,838	(1,448)	4,390
Supplies, purchased services and general		2,784	463	(39)	3,208
Depreciation and amortization		344	4	-	348
Total operating expenses		7,348	6,585	(1,518)	12,415
Operating income	\$	(101)	\$ 183	\$ -	\$ 82
Operating margin %		(1.4)%	2.7%	-	0.7%
Operating margin % (including income tax and interest expense)		(2.5)%	2.7%	-	- %
Operating EBIDA	\$	243	\$ 187	\$ -	\$ 430
Operating EBIDA %		3.4%	2.8%	-	3.4%

Six Months Ended June 30, 2021*

(in millions)

Revenues:					
Net patient service revenue	\$	6,465	\$ -	\$ (1,448)	\$ 5,017
Insurance enrollment revenue		-	5,967	-	5,967
Other revenue		810	434	(46)	1,198
Total operating revenues	\$	7,275	\$ 6,401	\$ (1,494)	\$ 12,182
Expenses:					
Salaries, professional fees and benefits	\$	3,770	\$ 264	\$ (32)	\$ 4,002
Insurance claims expense		-	5,582	(1,417)	4,165
Supplies, purchased services and general		2,692	419	(45)	3,066
Depreciation and amortization		337	7	-	344
Total operating expenses		6,799	6,272	(1,494)	11,577
Operating income	\$	476	\$ 129	\$ -	\$ 605
Operating margin %		6.5%	2.0%	-	5.0%
Operating margin % (including income tax and interest expense)		5.4%	2.0%	-	4.3%
Operating EBIDA	\$	813	\$ 136	\$ -	\$ 949
Operating EBIDA %		11.2%	2.1%	-	7.8%

* Reclassifications were made to prior year to conform to current year presentation

MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED JUNE 30, 2022

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 which extend UPMC's core mission and aim to bring new revenue streams into UPMC's domestic operations. International ventures currently include ISMETT, which is a government-approved hospital for end-stage organ disease treatment and research, a network of three hospitals and two UPMC Hillman Cancer Centers across southeast Ireland stretching from Cork to Dublin, Salvator Mundi International Hospital in Rome, UPMC Hillman Cancer Centers in Rome, Sicily and Campania, as well as management services agreements in China and Kazakhstan.

Operating margin for the Health Services division for the six months ended June 30, 2022 declined \$577 million versus the same period in the prior year. The decline is primarily the result of the continued effects of COVID-19 on patient volumes, as well as cost growth due to employment, staffing and other operating expenses caused by conditions in the labor and supply markets. Additionally, CARES Provider Relief Funds, ARP and employee retention credit funding recognized in the current year was \$170 million lower than the first six months of 2021.

Insurance Services

UPMC holds various interests in health care financing initiatives and network care delivery operations that have over four million members as of June 30, 2022. 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, and 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 six months ended June 30, 2022 increased by \$54 million versus the same period in the prior year. The effects of COVID-19 continue to have impacts on member utilization of medical services, resulting in favorable medical expense ratio compared to prior year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED JUNE 30, 2022

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 support both UPMC's core mission and help stimulate the economy of western Pennsylvania.

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 JUNE 30, 2022

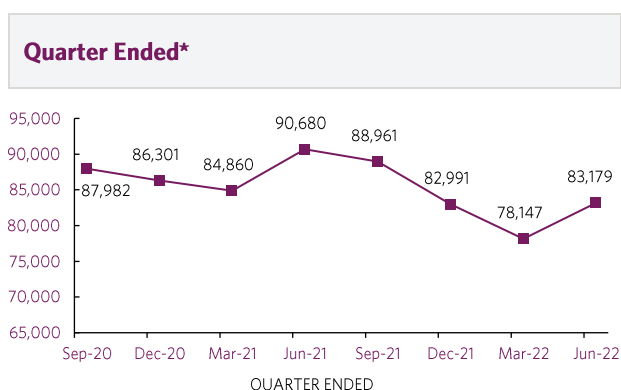
REVENUE METRICS - HEALTH SERVICES

Medical-Surgical Admissions and Observation Visits

Inpatient activity, as measured by medical-surgical admissions and observation visits at UPMC's hospitals for the six months ended June 30, 2022, decreased 8% compared to the same period in 2021 as volumes declined as a result of the continued effect of the Covid-19 experience on the regions we serve.

For the Six Months Ended June 30			
(in thousands)	2022	2021*	Change
Academic	54.0	58.7	(8)%
Community	23.1	26.6	(13)%
Regional	84.2	90.2	(7)%
Total	161.3	175.5	(8)%

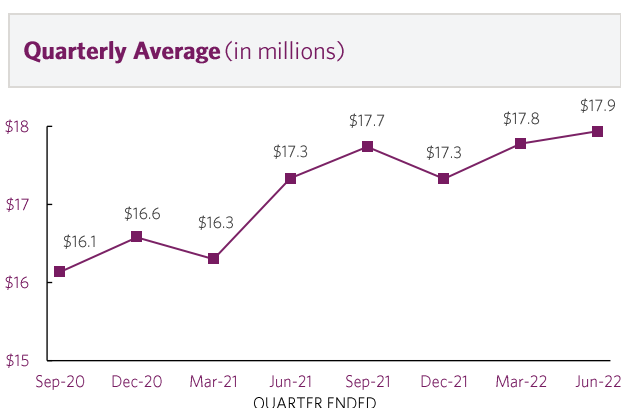
*Prior period amounts have been adjusted to conform to current period presentation.



Outpatient Revenue per Workday

UPMC's outpatient activity for the six months ended June 30, 2022, as measured by average revenue per workday, increased 6% compared to the same period in 2021. 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 Six Months Ended June 30			
(in thousands)	2022	2021	Change
Academic	\$ 6,557	\$ 6,307	4%
Community	1,798	1,803	- %
Regional	9,504	8,715	9%
Total	\$ 17,859	\$ 16,825	6%



MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED JUNE 30, 2022

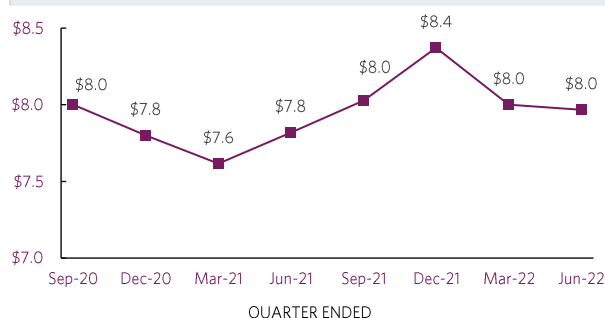
REVENUE METRICS - HEALTH SERVICES (CONTINUED)

Physician Service Revenue per Weekday

UPMC's physician activity for the six months ended June 30, 2022, as measured by average revenue per weekday, increased 3% from the comparable period in 2021. Physician services activity is measured on a weekday basis.

For the Six Months Ended June 30			
(in thousands)	2022	2021	Change
Academic	\$ 3,459	\$ 3,515	(2)%
Community	1,807	1,651	9%
Regional	2,711	2,553	6%
Total	\$ 7,977	\$ 7,719	3%

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.

	Six Months Ended June 30	
	2022	2021
Medicare	48%	47%
Medical Assistance	17%	18%
Commercial Insurers	16%	15%
UPMC Insurance Services Commercial	11%	12%
Self-pay/Other	8%	8%
Total	100%	100%

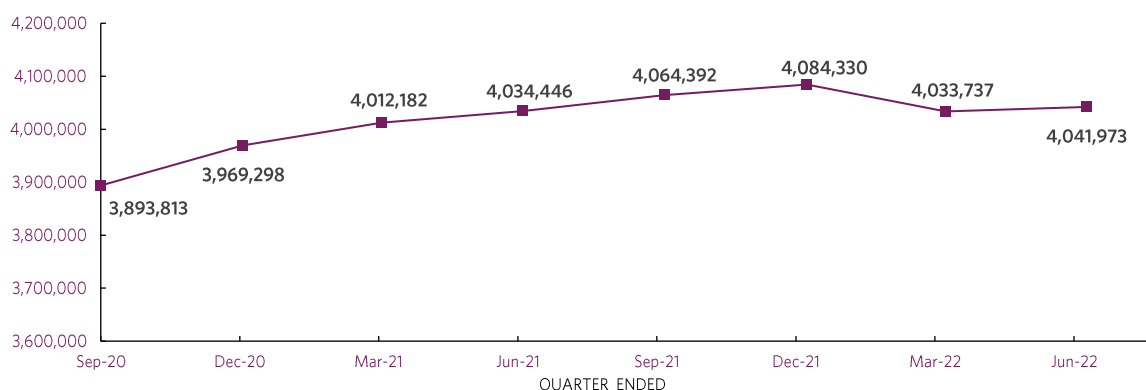
MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED JUNE 30, 2022

OPERATING METRICS - INSURANCE SERVICES

Membership

Membership in the UPMC Insurance Services division was 4,041,973 as of June 30, 2022, a slight increase versus June 30, 2021. Increases in health products outpaced the planned reduction in third party administration over the period.

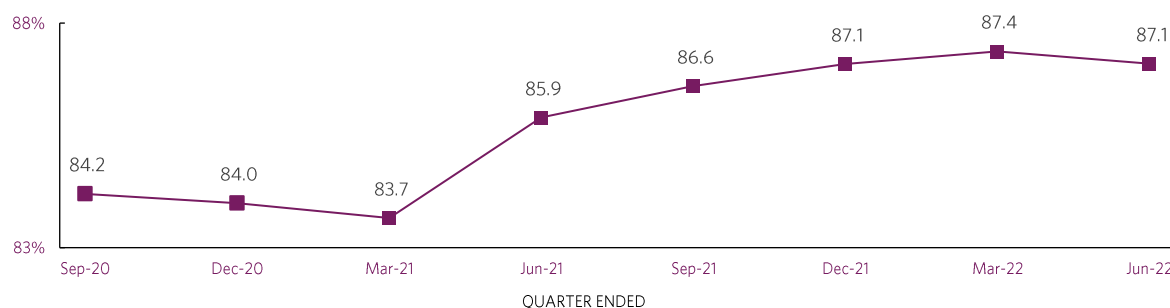


As of	June 30, 2022	June 30, 2021
Commercial Health	599,401	665,812
Medicare	199,789	199,472
Medical Assistance	587,307	548,799
Sub-Total Physical Health Products	1,386,497	1,414,083
Community HealthChoices	136,014	131,490
Behavioral Health	1,306,512	1,203,779
Sub-Total Health Products	2,829,023	2,749,352
WorkPartners and Life Solutions	727,377	736,797
Ancillary Products	471,489	479,887
Third-Party Administration	14,084	68,410
Total Membership	4,041,973	4,034,446

Medical Expense Ratio

UPMC Insurance Services' health care spending ratio for the trailing twelve months has decreased to 87.1% as of June 30, 2022. The chart below is revised quarterly to reflect updated estimates and actual medical claims expense experience for each presented period and is reflective of the effect of the COVID-19 pandemic on medical claims expense.

Trailing Twelve Months



MANAGEMENT'S DISCUSSION AND ANALYSIS

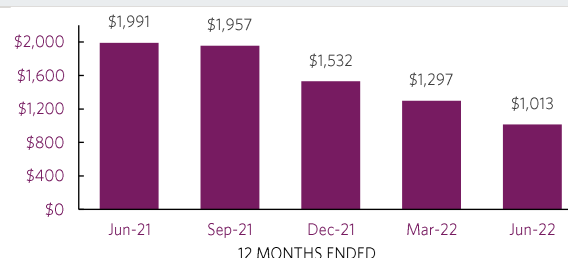
PERIOD ENDED JUNE 30, 2022

Operating Earnings before Interest, Depreciation and Amortization

Operating EBIDA for the six months ended June 30, 2022 decreased \$519 million compared to the six months ended June 30, 2021.

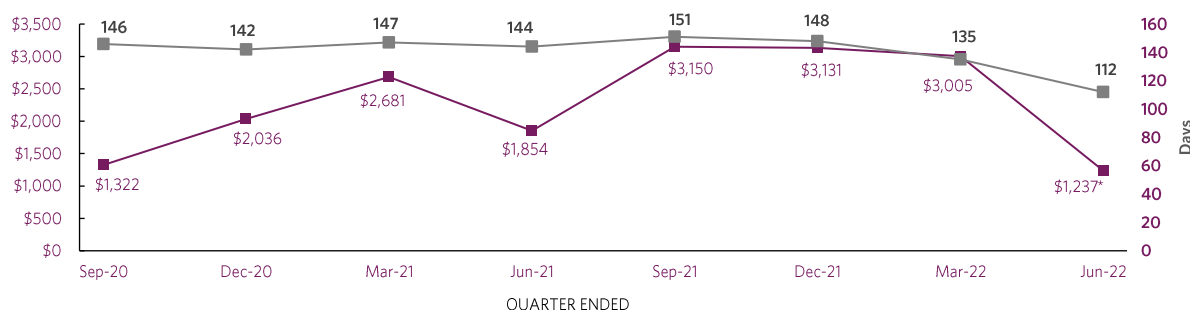
For the Six Months Ended June 30			
(in millions)	2022	2021	Change
Operating Income	\$ 82	\$ 605	(86)%
Depreciation and Amortization	348	344	1%
Operating EBIDA	\$ 430	\$ 949	(55)%

Trailing Twelve Months Operating EBIDA



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

As of June 30, 2022, unrestricted cash and investments over long term debt decreased \$1.9 billion compared to December 31, 2021, due primarily to negative investment returns in 2022, as well as approximately \$1 billion in expected payment delays from the Commonwealth of Pennsylvania related to various insurance products. The amounts due were received in July.

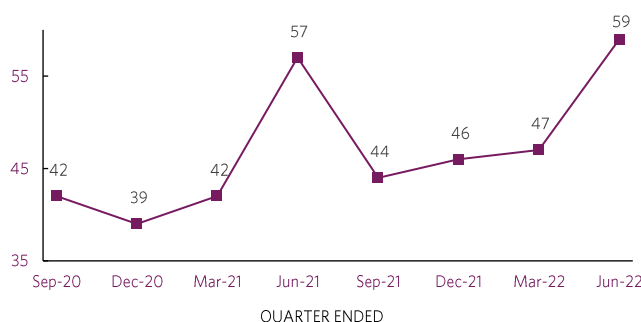


*Excludes \$181 million of Medicare advance funding as of June 30, 2022 and \$104 million of deferred FICA payments as of June 30, 2022.

Days in Net Accounts Receivable

Days in Accounts Receivable at June 30, 2022 and December 31, 2021 were 59 and 46, respectively. Increases in days in insurance and other accounts receivable from December 31, 2021 are due to expected payment delays related to Insurance receivables which occurs in June of each year.

By Receivable	June 2022 Balance	Days	
		Jun 30, 2022	Dec 31, 2021
Patient	\$ 1,415	49	54
Insurance and other	2,756	67	41
Consolidated	\$ 4,171	59	46



MANAGEMENT'S DISCUSSION AND ANALYSIS

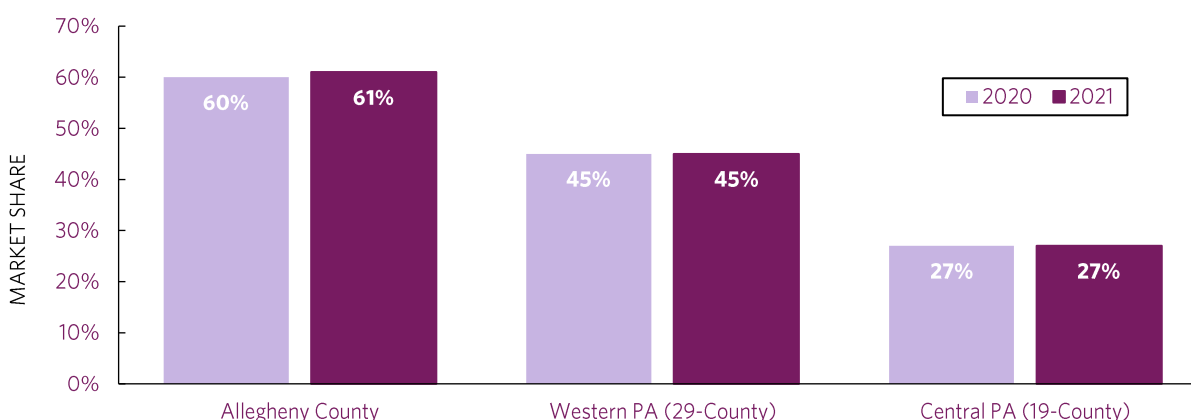
PERIOD ENDED JUNE 30, 2022

MARKET SHARE

The chart below shows the change in UPMC's estimated inpatient market share for the calendar years 2020 and 2021 by service area.⁽¹⁾ This is the most recent market share data currently available.

UPMC INPATIENT MEDICAL-SURGICAL MARKET SHARE

AS OF DECEMBER 31⁽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 JUNE 30, 2022

ASSET AND LIABILITY MANAGEMENT

During the six months ended June 30, 2022, UPMC's investment portfolio returned (7.0)%. As of June 30, 2022, UPMC utilized 175 ongoing external investment managers including 48 traditional managers, 18 hedge fund managers and 109 private capital managers. UPMC is also invested with an additional 34 legacy private capital and hedge fund managers. UPMC's investment portfolio has a long-term perspective and has generated annualized returns of (7.9%), 5.0% and 5.7% for the trailing one-, three- and five-year periods. As of June 30, 2022, 69% of UPMC's investment portfolio could be liquidated within three days.

UPMC's cost of capital during the six-month period ended June 30, 2022 was 3.0%. 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 June 30, 2022, 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 1.2%. The interest cost for the fixed rate debt was 3.2%. UPMC's primary credit facility, which expires in January 2024, has a borrowing limit of \$600 million. As of June 30, 2022, UPMC had approximately \$101 million in letters of credit outstanding under the credit facility leaving \$499 million available to fund operating and capital needs, none of which was drawn.

In support of the Insurance Services Division, UPMC had credit facilities of \$200 million, \$50 million and \$150 million, the latter of which temporarily decreases each year to \$19 million from August 15th to May 14th. Each facility expired in April 2022, and subsequently UPMC closed on new credit facilities of \$350 million and \$250 million which expire in 2026 and 2027, respectively. As of June 30, 2022, these credit facilities were fully drawn.

In the second quarter of 2022, UPMC issued the tax-exempt Series 2022A and Series 2022B bonds to fund capital projects and refund certain indebtedness in the amounts of \$212 million and \$172 million, respectively. Concurrently, UPMC remarketed the tax-exempt Series 2017C and 2017D-2 bonds. Details of the offerings can be found in the official statements/remarketing circulars for each issue.

MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED JUNE 30, 2022

The table below compares reported Investing and Financing Activity for the six months ended June 30, 2022 and 2021 by type.

Investing and Financing Activity by Type

Six Months Ended June 30	2022	2021
<i>(in thousands)</i>		
Realized (loss) gain	\$ (22,401)	\$ 288,501
Interest and dividends, net of fees	55,454	27,622
Realized investment gain	\$ 33,053	\$ 316,123
Unrealized gains on derivative contracts	1,684	1,445
Other unrealized (loss) gain	(761,526)	320,733
Investment (loss) gain	\$ (726,789)	\$ 638,301
Interest expense	(77,466)	(83,172)
Gain (loss) on extinguishment of debt	\$ 14,410	\$ (7,979)
UPMC Enterprises activity	(76,047)	(16,083)
(Loss) gain from investing and financing activities	\$ (865,892)	\$ 531,067

Sources and Uses of Cash

UPMC's primary source of operating cash is the collection of revenues and related accounts receivable. As of June 30, 2022, UPMC had approximately \$503 million of cash and cash equivalents on hand and borrowing availability under the primary credit facility was \$499 million.

Operating EBIDA was \$430 million for the six months ended June 30, 2022, compared to \$949 million for the six months ended June 30, 2021. Key uses of cash for the six months ended June 30, 2022 include capital expenditures of \$454 million (after excluding any capital acquired through lease arrangements). Major capital projects included construction and improvements at UPMC Pinnacle, UPMC Susquehanna and UPMC Mercy 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 JUNE 30, 2022

The following table presents selected consolidated statistical indicators of medical-surgical, psychiatric, rehabilitation and skilled nursing patient activity for the six months ended June 30, 2022 and 2021.

	Six Months Ended June 30	
	2022	2021
Licensed Beds	8,782	8,752
BEDS IN SERVICE		
Medical-Surgical	5,099	5,085
Psychiatric	430	430
Rehabilitation	249	256
Skilled Nursing	1,539	1,554
Total Beds in Service	7,317	7,325
PATIENT DAYS		
Medical-Surgical	678,684	696,921
Psychiatric	55,110	61,035
Rehabilitation	32,992	38,357
Skilled Nursing	200,329	195,793
Total Patient Days	967,115	992,106
Average Daily Census	5,343	5,481
Observation Days	80,480	82,551
Obs Average Daily Census	445	456
ADMISSIONS AND OBSERVATION CASES		
Medical-Surgical	116,264	125,845
Observation Cases	45,062	49,695
Subtotal	161,326	175,540
Psychiatric	4,570	5,506
Rehabilitation	2,133	2,336
Skilled Nursing	1,787	1,973
Total Admissions and Observation Cases	169,816	185,355
Overall Occupancy	79%	81%
AVERAGE LENGTH OF STAY		
Medical-Surgical	5.8	5.5
Psychiatric	12.1	11.1
Rehabilitation	15.5	16.4
Skilled Nursing	112.1	99.2
Overall Average Length of Stay	7.8	7.3
Emergency Room Visits	485,911	490,630
TRANSPLANTS (DOMESTIC AND INTERNATIONAL)		
Liver	108	128
Kidney	157	171
All Other	136	168
Total	401	467
OTHER POST-ACUTE METRICS		
Home Health Visits	313,268	359,748
Hospice Care Days	116,480	119,814
Outpatient Rehab Visits	349,066	362,940

OUTSTANDING DEBT

PERIOD ENDED JUNE 30, 2022

(DOLLARS IN THOUSANDS)

Issuer	Original Borrower	Series	Amount Outstanding
Allegheny County Hospital Development Authority	UPMC Health System	1997B	\$ 43,600
	UPMC	2007A	38,331
	UPMC	2011A	4,996
	UPMC	2017D	397,847
	UPMC	2019A	769,317
	UPMC	2021B	53,981
Monroeville Finance Authority	UPMC	2012	74,001
	UPMC	2013B	48,357
	UPMC	2014B	43,946
	UPMC	2022B	191,016
Pennsylvania Economic Development Financing Authority	UPMC	2013A	107,051
	UPMC	2014A	262,304
	UPMC	2015B	113,540
	UPMC	2016	221,388
	UPMC	2017A	421,712
	UPMC	2017B	90,840
	UPMC	2017C	133,915
	UPMC	2020A	268,501
	UPMC	2021A	259,815
	UPMC	2022A	228,151
Tioga County Industrial Development Authority	Laurel Health System	2010	5,851
	Laurel Health System	2011	4,202
Dauphin County General Authority	Pinnacle Health System	2016A	94,126
	Pinnacle Health System	2016B	80,605
General Authority of Southcentral Pennsylvania	Hanover Hospital	2013	5,206
	Hanover Hospital	2015	21,788
Potter County Hospital Authority	UPMC	2018A	12,779
Somerset County Hospital Authority	Somerset Hospital	2009	563
Maryland Health and Higher Educational Facilities Authority	UPMC	2020B	197,913
None	UPMC	2020D	349,670
	UPMC	2020 Term Loans	499,917
	UPMC	2021C	399,440
	Somerset Management Services	2013	1,462
	Various	Financing Leases & Loans	138,306
		Swap Liabilities	1,777
Total UPMC Outstanding Debt			\$ 5,586,214

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

Source: UPMC Records

DEBT COVENANT CALCULATIONS

PERIOD ENDED JUNE 30, 2022

DEBT SERVICE COVERAGE RATIO

(Dollars in thousands)

	Trailing Twelve-Month Period Ended June 30, 2022	
Excess of expenses over revenues	\$	(442,188)
ADJUSTED BY:		
Net Unrealized Losses during Period ⁽¹⁾		834,383
Depreciation and Amortization ⁽¹⁾		693,118
Gain on Extinguishment of Debt ⁽¹⁾		(20,047)
Realized Investment Impairments ⁽²⁾		(233)
Interest Expense ⁽³⁾		154,339
Revenues Available for Debt Service	\$	1,219,372
Historical Debt Service Requirements - 2007 MTI	\$	354,226
Debt Service Coverage Ratio - 2007 MTI		3.44X
Historical Debt Service Requirements - All Debt and Finance Leases	\$	393,495
Debt Service Coverage Ratio - All Debt and Finance Leases		3.10X

LIQUIDITY RATIO AS OF JUNE 30, 2022

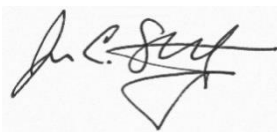
Unrestricted Cash and Investments	\$	7,491,579
Master Trust Indenture Debt		5,181,921
Unrestricted Cash to MTI Debt		1.45

⁽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 June 30, 2022, 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. Stilley
Treasurer
UPMC

Unaudited Interim Condensed Consolidated Financial Statements

FOR THE PERIOD ENDED JUNE 30, 2022

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 June 30, 2022, and the related condensed consolidated statements of operations and changes in net assets for the three-month and six-month periods ended June 30, 2022 and 2021, and cash flows for the six-month periods ended June 30, 2022 and 2021, 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, 2021

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, 2021, 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 28, 2022. In our opinion, the accompanying condensed consolidated balance sheet of the Company as of December 31, 2021, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Ernst & Young LLP

August 23, 2022

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(DOLLARS IN THOUSANDS)

	As of	
	June 30, 2022	December 31, 2021
CURRENT ASSETS		
Cash and cash equivalents	\$ 502,530	\$ 930,376
Patient accounts receivable	1,415,152	1,404,695
Insurance and other receivables	2,756,496	1,634,524
Other current assets	613,477	591,570
Total current assets	5,287,655	4,561,165
Board-designated, restricted, trustee and other investments	8,382,306	9,766,549
Beneficial interests in foundations and trusts	696,630	783,779
Net property, buildings and equipment	6,333,372	6,210,596
Operating lease right-of-use assets	971,643	976,026
Other assets	728,604	790,300
Total assets	\$ 22,400,210	\$ 23,088,415
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 757,014	\$ 783,477
Accrued salaries and related benefits	958,402	963,076
Current portion of insurance reserves	1,096,917	1,018,418
Current portion of long-term obligations	345,030	280,793
Short-term debt	600,000	-
Other current liabilities	1,237,851	1,571,781
Total current liabilities	4,995,214	4,617,545
Long-term obligations	5,241,184	5,300,849
Long-term insurance reserves	436,589	429,182
Operating lease noncurrent liabilities	886,418	895,949
Other noncurrent liabilities	523,398	566,530
Total liabilities	12,082,803	11,810,055
Net assets without donor restrictions	9,028,315	9,883,697
Net assets with donor restrictions	1,289,092	1,394,663
Total net assets	10,317,407	11,278,360
Total liabilities and net assets	\$ 22,400,210	\$ 23,088,415

See accompanying notes

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

(DOLLARS IN THOUSANDS)

	Six Months Ended June 30		Three Months Ended June 30	
	2022	2021	2022	2021
NET ASSETS WITHOUT DONOR RESTRICTIONS				
Net patient service revenue	\$ 5,085,440	\$ 5,017,043	\$ 2,630,859	\$ 2,586,944
Insurance enrollment revenue	6,346,978	5,966,720	3,213,049	2,979,330
Other revenue	1,064,984	1,197,948	554,122	595,940
Total operating revenues	12,497,402	12,181,711	6,398,030	6,162,214
Salaries, professional fees and employee benefits	4,468,961	4,001,567	2,294,584	1,992,204
Insurance claims expense	4,390,090	4,165,182	2,230,978	2,091,487
Supplies, purchased services and general	3,208,357	3,065,972	1,666,100	1,588,528
Depreciation and amortization	348,130	344,401	174,888	173,259
Total operating expenses	12,415,538	11,577,122	6,366,550	5,845,478
Operating income	81,864	604,589	31,480	316,736
Academic and research support provided	(120,342)	(115,150)	(60,342)	(57,575)
Other non-operating activities	60,885	39,339	30,510	20,647
Income tax expense	(2,214)	(1,723)	(752)	55
After-tax income	\$ 20,193	\$ 527,055	\$ 896	\$ 279,863
Investing and financing activities:				
Investment (loss) gain	(726,789)	638,301	(558,575)	254,360
Interest expense	(77,466)	(83,172)	(38,604)	(41,706)
Gain (loss) on extinguishment of debt	14,410	(7,979)	14,450	(7,979)
UPMC Enterprises activity:				
Portfolio company revenue and net gains from sales	21,324	80,165	9,413	48,599
Portfolio company and research and development expense	(97,371)	(96,248)	(50,688)	(48,423)
(Loss) gain from investing and financing activities	(865,892)	531,067	(624,004)	204,851
Excess of (expenses over revenues) revenues over expenses	(845,699)	1,058,122	(623,108)	484,714
Excess of (expenses over revenues) revenues over expenses attributable to noncontrolling interest	(1,574)	33	(18)	142
Excess of (expenses over revenues) revenues over expenses attributable to controlling interest	(844,125)	1,058,089	(623,090)	484,572
Net change in pension liability and other	(11,257)	(6,400)	(6,103)	(5,475)
Change in net assets without donor restrictions	(855,382)	1,051,689	(629,193)	479,097
NET ASSETS WITH DONOR RESTRICTIONS				
Net contributions and other changes	2,610	5,879	977	2,605
Net realized and unrealized (losses) gains on restricted investments	(16,381)	18,124	(10,156)	9,217
Assets released from restriction for operations and capital purchases	(4,651)	(6,198)	(2,970)	(2,849)
Change in beneficial interests in foundations and trusts	(87,149)	57,752	(60,304)	30,031
Change in net assets with donor restrictions	(105,571)	75,557	(72,453)	39,004
Change in total net assets	(960,953)	1,127,246	(701,646)	518,101
Net assets, beginning of period	11,278,360	9,421,190	11,019,053	10,030,335
Net assets, end of period	\$ 10,317,407	\$ 10,548,436	\$ 10,317,407	\$ 10,548,436

See accompanying notes

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(DOLLARS IN THOUSANDS)

Six Months Ended June 30

	2022	2021
OPERATING ACTIVITIES		
(Decrease) increase in total net assets	\$ (960,953)	\$ 1,127,246
Adjustments to reconcile change in total net assets to net cash used in operating activities:		
Depreciation and amortization	348,130	344,401
Change in beneficial interest in foundations and trusts	87,149	(57,752)
Restricted contributions and investment losses (gains)	9,179	(24,003)
Unrealized losses (gains) on investments	761,526	(320,733)
Realized gains on investments	(33,053)	(316,123)
Net changes in non-alternative investments	734,201	(747,427)
Changes in operating assets and liabilities:		
Accounts receivable	(1,132,429)	(1,202,235)
Other current assets	(21,907)	(284,260)
Accounts payable and accrued liabilities	(31,137)	56,431
Insurance reserves	85,906	30,844
Other current liabilities	(333,930)	545,283
Other noncurrent assets and liabilities	(52,663)	(380,409)
Other operating changes	(36,061)	(48,133)
Net cash used in operating activities	(576,042)	(1,276,870)
INVESTING ACTIVITIES		
Purchase of property and equipment	(453,931)	(357,392)
UPMC Enterprises investments in non-consolidated entities	(15,000)	(25,077)
Net change in investments designated as nontrading	(65,666)	(4,821)
Net change in alternative investments	3,919	(65,539)
Net change in other assets	84,129	94,605
Net cash used in investing activities	(446,549)	(358,224)
FINANCING ACTIVITIES		
Repayments of long-term obligations	(415,796)	(619,010)
Borrowings of long-term obligations	419,720	703,468
Restricted contributions and investment (losses) gains	(9,179)	24,003
Borrowings on lines of credit	600,000	600,000
Net cash provided by financing activities	594,745	708,461
Net change in cash and cash equivalents	(427,846)	(926,633)
Cash and cash equivalents, beginning of period	930,376	1,541,036
Cash and cash equivalents, end of period	\$ 502,530	\$ 614,403
SUPPLEMENTAL INFORMATION		
Finance lease obligations incurred to acquire assets	\$ 16,631	\$ 16,915

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 ("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 ("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, 2021.

2. COVID-19

In March 2020 and March 2021, the federal government enacted the CARES Act and the American Rescue Plan ("ARP"), respectively, that provide, among other funding sources, relief funds to hospitals and other health care providers on the front lines of the COVID-19 response. This funding has been used to support health care related expenses or lost revenue attributable to COVID-19. Beginning in April 2020, over 90 individual UPMC facilities received an aggregate of approximately \$817,000 of federal funding through June 30, 2022. For the three and six month periods ended June 30, 2022, UPMC recognized approximately \$38,000 and \$71,000, respectively, as other revenue. For the three and six month periods ended June 30, 2021, UPMC recognized approximately \$105,000 and \$213,000, respectively. Any remaining amounts received will be evaluated for recognition in future periods. UPMC and its subsidiaries have and expect to continue to experience an impact on operations as a result of the COVID-19 pandemic.

In order to increase cash flow to providers of services and suppliers impacted by the COVID-19 pandemic, the Centers for Medicare & Medicaid Services ("CMS") expanded the current Accelerated and Advance Payment Program. Beginning in April 2020, CMS provided advance funding that aggregated to a total of approximately \$840,000 to 185 individually identified UPMC entities. In October 2020, a bill was signed into law which changed the original Medicare loan repayment terms for health care providers allowing recoupment to begin one year after the Medicare Accelerated and Advance Payment Program loan was issued. Recoupment began in April 2021 and the recovery period is estimated to be approximately 18 months from that date. As of June 30, 2022, \$659,000 of the advance funding has been recouped by CMS. Additionally, the CARES Act allows employers to defer the deposit and payment of the employer's share of Social Security/FICA taxes. As part of this deferral program, UPMC currently has \$104,000 of deferred FICA payments as of June 30, 2022. Remaining repayment to the federal government is scheduled to occur in December 2022.

3. RECLASSIFICATIONS

In order to conform to current year presentation, certain reclassifications were made within total operating revenues for the three and six month periods ended June 30, 2021. These reclassifications did not have any other impacts on UPMC's condensed consolidated financial statements, including total operating revenues.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

4. NEW ACCOUNTING PRONOUNCEMENTS

No new accounting pronouncements were released or adopted that will have a material effect on UPMC's condensed consolidated financial statements.

5. 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 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 or six months ended June 30, 2022 or 2021.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

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, copays and deductibles). 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 UPMC's primary source 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.

The composition of net patient service revenue for the three and six months ended June 30, 2022 and 2021 is as follows:

Periods Ended June 30	Six Months Ended		Three Months Ended	
	2022	2021	2022	2021
Commercial	37%	39%	36%	38%
Medicare	39%	37%	38%	36%
Medical Assistance	17%	16%	20%	18%
Self-pay/other	7%	8%	6%	8%
	100%	100%	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.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

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. Revenue recognized related to the CARES Act and the ARP funding is captured in other revenue.

6. FAIR VALUE MEASUREMENTS

As of June 30, 2022 and December 31, 2021, 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 June 30, 2022 and December 31, 2021. 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 JUNE 30, 2022

	Level 1	Level 2	Level 3	NAV	Total Carrying Amount
ASSETS					
Fixed income	\$ 956,200	\$ 2,048,461	\$ -	\$ -	\$ 3,004,661
Domestic equity	1,277,071	8,724	-	-	1,285,795
International equity	701,169	-	-	-	701,169
Public real estate	117,989	-	-	-	117,989
Long/short equity	64,070	60,668	-	-	124,738
Absolute equity	50,594	-	-	-	50,594
Securities on loan	233,786	-	-	-	233,786
Securities lending collateral	134,536	-	-	-	134,535
Alternative and other investments at NAV	-	-	-	1,696,734	1,696,734
Total assets measured at fair value on a recurring basis	\$ 3,535,415	\$ 2,117,853	\$ -	\$ 1,696,734	\$ 7,350,002
LIABILITIES					
Payable under securities lending agreement	\$ (134,536)	\$ -	\$ -	\$ -	\$ (134,536)
Derivative instruments	-	(1,777)	-	-	(1,777)
Total liabilities measured at fair value on a recurring basis	\$ (134,536)	\$ (1,777)	\$ -	\$ -	\$ (136,313)

FAIR VALUE MEASUREMENTS AS OF DECEMBER 31, 2021

	Level 1	Level 2	Level 3	NAV	Total Carrying Amount
ASSETS					
Fixed income	\$ 1,041,729	\$ 2,911,201	\$ -	\$ -	\$ 3,952,930
Domestic equity	1,490,595	9,760	-	-	1,500,355
International equity	873,730	-	-	-	873,730
Public real estate	137,364	-	-	-	137,364
Long/short equity	73,485	15,173	-	-	88,658
Absolute equity	54,195	-	-	-	54,195
Derivative instruments	-	222	-	-	222
Securities on loan	203,256	-	-	-	203,256
Securities lending collateral	117,873	-	-	-	117,873
Alternative and other investments at NAV	-	-	-	1,842,828	1,842,828
Total assets measured at fair value on a recurring basis	\$ 3,992,227	\$ 2,936,356	\$ -	\$ 1,842,828	\$ 8,771,411
LIABILITIES					
Payable under securities lending agreement	\$ (117,873)	\$ -	\$ -	\$ -	\$ (117,873)
Derivative instruments	-	(3,683)	-	-	(3,683)
Total liabilities measured at fair value on a recurring basis	\$ (117,873)	\$ (3,683)	\$ -	\$ -	\$ (121,556)

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

7. 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 \$7,717,996 and \$9,583,692 at June 30, 2022 and December 31, 2021, respectively. As of June 30, 2022 and December 31, 2021, respectively, UPMC had \$2,552,143 and \$2,908,520 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 \$1,166,840 and \$1,113,233 of alternative investments accounted for under the equity method, which approximates fair value, at June 30, 2022 and December 31, 2021, 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 June 30, 2022 and December 31, 2021, respectively, securities loaned, of which UPMC maintains ownership, total \$233,786 and \$203,256, and total collateral (cash and noncash) received related to the securities loaned was \$243,101 and \$213,284.

In the second quarter of 2022, UPMC issued the tax-exempt Series 2022A and Series 2022B bonds to fund capital projects and refund certain indebtedness with par values of \$212,000 and \$172,000, respectively. Concurrently, UPMC remarketed the tax-exempt Series 2017C and 2017D-2 bonds. As of June 30, 2022, UPMC had \$600,000 drawn on its available lines of credit.

8. 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

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

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 series.

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

Swap	Maturity Date	UPMC Pays	UPMC Receives	Notional Amount at	
				Jun 30, 2022	Dec 31, 2021
Floating to fixed	2025	3.60%	68% one-month LIBOR	\$ 49,280	\$ 49,280
Basis	2037	SIFMA Index	67% three-month LIBOR plus .3217%	38,450	46,095
Floating to fixed	2024	1.413%	67% one-month LIBOR	-	7,500
				\$ 87,730	\$ 102,875

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 June 30, 2022 and December 31, 2021, which are not offset by counterparty or type of item hedged:

	Jun 30, 2022	Dec 31, 2021
Other assets	\$ -	\$ 222
Long-term obligations	(1,777)	(3,683)
	\$ (1,777)	\$ (3,461)

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 June 30, 2022 and December 31, 2021 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)

9. 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:

	Six Months Ended June 30		Three Months Ended June 30	
	2022	2021	2022	2021
Service cost	\$ 89,770	\$ 87,010	\$ 44,885	\$ 43,505
Interest cost	44,840	38,326	22,420	19,163
Expected return on plan assets	(104,188)	(95,692)	(52,094)	(47,846)
Recognized net actuarial loss	-	14,140	-	7,070
Amortization of prior service credit	(2,628)	(2,628)	(1,314)	(1,314)
Net periodic pension cost	\$ 27,794	\$ 41,156	\$ 13,897	\$ 20,578

10. 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:

	Jun 30, 2022	Dec 31, 2021
OPERATING LEASES		
Operating lease right-of-use assets	\$ 971,643	\$ 976,026
Other current liabilities	131,553	127,194
Operating lease liabilities	886,418	895,949
Total operating lease liabilities	\$ 1,017,971	\$ 1,023,143
FINANCE LEASES		
Property, plant and equipment, net	\$ 63,199	\$ 60,501
Other current liabilities	20,885	24,555
Other noncurrent liabilities	54,743	47,269
Total finance lease liabilities	\$ 75,628	\$ 71,824

Undiscounted maturities of lease liabilities were as follows:

For the Six Months Ended June 30	Operating Leases	Finance Leases
2022 (rest of year)	\$75,112	\$13,879
2023	140,603	20,830
2024	122,565	12,931
2025	103,055	6,095
2026	91,719	2,399
Thereafter	607,844	17,396

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

11. 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 timely responded to that CID. In November 2013, the DOJ advised UPMC that the CID had been served as part of the DOJ’s investigation of allegations asserted by Relators in a federal qui tam lawsuit filed under seal. On July 27, 2016, the DOJ announced that it had reached an agreement with UPMC to settle certain allegations that UPMC had violated the False Claims Act for approximately \$2,500. UPMC admitted no liability in settling those claims. The DOJ declined to intervene in the remaining allegations of the Relators’ lawsuit, which was also unsealed on July 27, 2016. 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. The outcome and ultimate effect on UPMC’s condensed consolidated financial statements cannot be determined at this time.

On July 29, 2019, UPMC received two grand jury subpoenas and an unexecuted search warrant from the DOJ seeking various records from one of UPMC’s clinical departments. 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. UPMC plans to zealously defend against the United States’ claims. On November 1, 2021, Defendants moved to dismiss the United States’ claims. On June 30, 2022, the Court denied UPMC’s motion to dismiss. The ultimate outcome and effect on UPMC’s condensed consolidated financial statements cannot be determined at this time.

On or about December 15, 2020, a current employee filed a claim against UPMC, the University of Pittsburgh and other defendants, contending that the Defendants retaliated against him for authoring an article asserting that the medical profession discriminates against applicants from underrepresented races and ethnicities. On April 11, 2021, the UPMC Defendants moved to dismiss most of the claims in the Complaint. On December 21, 2021, the Court entered an Order granting the UPMC Defendants’ motion in part and denying it in part and provided the employee with leave to amend certain of his claims. On January 11, 2022, the employee filed an Amended Complaint that would ultimately assert two claims. On January 25, 2022, the UPMC Defendants moved to dismiss one of the claims and answered the other. On April 4, 2022, the Court denied the UPMC Defendants’ motion to dismiss. On July 1, 2022, UPMC answered the second claim. The ultimate outcome and effect on UPMC’s condensed consolidated financial statements cannot be determined at this time.

On or about March 9, 2021, Vince Ranalli and Lou Ranalli filed a putative class action in the Allegheny County Court of Common Pleas against UPMC and a local law firm that UPMC had retained. The lawsuit alleges that a data breach at the law firm exposed the plaintiffs’ personal medical and financial information. Michael Bowen was later substituted as the named plaintiff. The parties have reached a settlement that has received preliminary court approval. When finalized, the settlement will result in no material impact to UPMC’s financial condition.

On or about May 6, 2022, UPMC learned that a False Claims Act lawsuit filed in South Carolina federal court had been unsealed. The suit, which had been under seal since it was filed in April 2019, asserts that UPMC Presbyterian-Shadyside Hospital along with roughly two dozen other teaching hospitals in the United States had fraudulently overbilled Medicare by falsely underreporting the number of “bed days available” in order to increase the ratio of residents to beds used in the Indirect Medical Education payment adjustment calculation. The Department of Justice declined to intervene in the matter. UPMC plans to vigorously defend against the suit. The ultimate outcome and effect on UPMC’s condensed consolidated financial statements cannot be determined at this time.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

On May 19, 2022, Maxim Healthcare, Inc. filed a counterclaim in a confidential arbitration proceeding initiated by UPMC regarding Maxim's placement of a drug-seeking radiology technician at UPMC. The counterclaims seek at least \$1,700 as well as punitive damages. UPMC plans to zealously defend against these counterclaims. The ultimate outcome and effect on UPMC's condensed consolidated financial statements cannot be determined at this time.

12. SUBSEQUENT EVENTS

Management evaluated events occurring subsequent to June 30, 2022 through August 23, 2022, 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.