



UPMC Unaudited Quarterly Disclosure

FOR THE PERIOD ENDED MARCH 31, 2020

UPMC
LIFE CHANGING MEDICINE

UPMC Unaudited Quarterly Disclosure

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The following financial data as of March 31, 2020 and for the three month periods ended March 31, 2020 and 2019 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, 2019 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 Quarterly Disclosure, has not examined its contents and makes no representations concerning the accuracy and completeness of the information contained herein.



INTRODUCTION TO MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED MARCH 31, 2020

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. We also draw patients for highly specialized services from across the nation and around the world. UPMC's more than 40 hospitals and more than 700 clinical locations comprise one of the largest nonprofit health systems in the United States. UPMC has three major divisions: Health Services, Insurance Services, and UPMC Enterprises.

We are committed to providing the communities that our hospitals, outpatient centers and other health care facilities serve, as well as our insurance members, with high quality, cost-effective health care while continuing to grow our business and execute on our mission to provide Life Changing Medicine. 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.

UPMC continues to make significant investments in equipment, technology, education and operational strategies designed to improve clinical quality at our hospitals and outpatient centers. As a result of our efforts, UPMC Presbyterian Shadyside is consistently ranked on the *U.S. News & World Report* Honor Roll of America's Best Hospitals while UPMC Children's Hospital of Pittsburgh is currently ranked 8th on the Honor Roll. Investments in our operations and continued capital improvements are expected to become increasingly important as the competitive environment of the market and changes to health care continue to progress and change the landscape of patient care and reimbursement. We build new facilities, make strategic acquisitions, and enter into joint venture arrangements or affiliations with health care businesses — in each case in communities where we believe our mission can be effectively utilized to improve the overall health of those communities.

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 and statistical information included herein relates to our continuing operations, with dollar amounts expressed in thousands (except for statistical information). This MD&A should be read in conjunction with the accompanying unaudited condensed consolidated financial statements.

MANAGEMENT'S DISCUSSION & ANALYSIS

PERIOD ENDED MARCH 31, 2020

COVID-19

Coronavirus disease 19 ("COVID-19") is a respiratory disease caused by the new coronavirus (SARS-CoV-2) not previously seen in humans. An outbreak of COVID-19 began in late 2019 in Wuhan, a city in China's Hubei province. To date, cases of COVID-19 have spread around the world. In February 2020, the United States Centers for Disease Control and Prevention confirmed the spread of the disease to the United States, and in March 2020, COVID-19 was determined to have spread to all regions in Italy and to all counties in Ireland, the World Health Organization declared the outbreak a pandemic, and the Trump Administration declared it a national emergency in the United States. Now considered one of the most rapidly emerging infectious diseases worldwide, this virus is spread through human contact, much like the cold or flu, and can cause fever, cough and shortness of breath that are mild in some individuals and life-threatening or fatal in others.

UPMC and its subsidiaries have and expect to continue to experience disruption to operations as a result of the COVID-19 pandemic. Primarily in response to directives from various elected officials to attempt to quell the spread of the disease, UPMC Health Services division experienced significant reductions in volumes during the last two weeks of March 2020. Although UPMC's Health Services division experienced significant increases in virtual care during the same period, principally through its MyUPMC and UPMC AnywhereCare technology platforms, the reduction in patient service revenue during these two weeks was approximately \$150 million. While UPMC's Insurance Services division experienced increases in pharmaceutical spend as a result of subscribers filling prescriptions in advance of the government directives, the Insurance Services division expects reduced medical claims payments for the last two weeks of March as a result of the volume reductions within the Health Services division and other healthcare providers in its network during that period. UPMC's business, assets and financial condition have also been and may continue to be adversely affected by general changes, volatility and disruption in economic conditions and in financial and securities markets caused by the COVID-19 outbreak.

On March 27, 2020, the federal government signed the CARES Act that provides, among other funding sources, \$100 billion in relief funds to hospitals and other healthcare providers on the front lines of the COVID-19 response. This funding is to be used to support healthcare related expenses or lost revenue attributable to COVID-19. Beginning in April 2020, 92 individual UPMC facilities received CARES Act funding that aggregated to a total of approximately \$255 million. These government payments are currently expected to be recognized in our operations as other operating revenue during the second quarter of 2020, subject to complying with certain terms and conditions.

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") has expanded the current Accelerated and Advance Payment Program. Beginning in April 2020, through the date of issuance, 185 individual national provider identifier entities of UPMC, an identifier used by CMS for provider facilities, received advance funding that aggregated to a total of approximately \$800 million. Continued claims submissions and reimbursements will occur after the issuance of the accelerated/advanced payment for 120 days, at which time a recoupment process will begin and every new claim submitted to CMS will be offset to repay the accelerated/advanced payment.

As a precautionary measure, UPMC has taken additional steps to enhance operational and financial flexibility and react to the risks the COVID-19 pandemic presents to the business. This includes drawing \$700 million on its existing lines of credit and issuing a \$300 million note through Wells Fargo prior to March 31, 2020. Subsequent to March 31, UPMC opened additional lines of credit and other debt instruments. On April 1, 2020, UPMC closed a \$320 million one-year loan with RBC. On April 3, 2020, UPMC closed \$400 million and \$350 million three- and five-year taxable notes, respectively, with Barclays. On April 6, 2020, UPMC closed a \$100 million one-year line with KeyBank. Additionally, on April 13, 2020, UPMC closed a \$200 million two-year loan with JPMorgan.

MANAGEMENT'S DISCUSSION & ANALYSIS

PERIOD ENDED MARCH 31, 2020

CONSOLIDATED FINANCIAL HIGHLIGHTS

(Dollars in millions)

Financial Results for the Three Months Ended March 31	2020	2019*
Operating revenues	\$ 5,504	\$ 5,057
Operating (loss) income	\$ (41)	\$ 44
Operating margin %	(0.7)%	0.9%
Operating margin (including income tax and interest expense)	(1.5)%	0.2%
(Loss) gain from investing and financing activities	\$ (799)	\$ 224
Excess of (expenses over revenues) revenues over expenses	\$ (653)	\$ 289
Operating EBIDA	\$ 130	\$ 199
Capital expenditures	\$ 225	\$ 235
Reinvestment ratio	1.32	1.52

Selected Other Information as of	March 31, 2020	December 31, 2019
Total cash and investments	\$ 6,983	\$ 6,600
Unrestricted cash and investments	\$ 5,716	\$ 5,057
Unrestricted cash and investments over long-term debt	\$ 171	\$ 912
Days of cash on hand	99	92
Days in net accounts receivable	44	44
Average age of plant	9.0	9.0

*Prior year results have been adjusted to reflect the retrospective adoption of ASU 2017-07, *Presentation of Net Periodic Benefit Cost Related to Defined Benefit Plans*

Operating revenues for the three months ended March 31, 2020 increased \$447 million, or 9%, as compared to the three months ended March 31, 2019. Operating income for the three months ended March 31, 2020 decreased \$85 million over the same period in the prior year. Excess of expenses over revenues was \$653 million and operating earnings before interest, depreciation and amortization totaled \$130 million for the three months ended March 31, 2020. As of March 31, 2020, UPMC had \$7.0 billion of cash and investments.

For the three months ended March 31, 2020:

- Hospital medical-surgical admissions and observation cases decreased 4% compared to the prior year.
- Hospital outpatient revenue per workday increased 1% compared to the prior year.
- Physician service revenue per weekday decreased 3% from the comparable period in the prior year, and
- Enrollment in UPMC's Insurance Services grew to nearly 3.8 million members as of March 31, 2020.

UPMC's loss from investing and financing activities for the three months ended March 31, 2020 was (\$799) million primarily as a result of adverse market conditions related to the COVID-19 pandemic. UPMC continues to have a long-term perspective with regard to its investment activities.

MANAGEMENT'S DISCUSSION & ANALYSIS

PERIOD ENDED MARCH 31, 2020

BUSINESS HIGHLIGHTS

Through investments aimed at breakthrough treatments and cures for a wide variety of diseases, UPMC Enterprises announced in January 2020 that it would deploy \$1 billion to develop new drugs, diagnostics and devices by 2024. UPMC Enterprises is seeking investments and partners globally that complement the scientific and commercial work already underway in Pittsburgh. The commitment includes \$200 million that has funded an immunotherapy-focused partnership with the University of Pittsburgh. In the most recent two years, UPMC Enterprises formed five companies in the translational sciences sector and invested in external biotech company Werewolf Therapeutics, as well as more than 30 research projects internally. With an initial focus on the use of immunotherapies for cancer, transplantation and diseases related to aging, UPMC has expanded its focus to include retinal and respiratory disease, autoimmune diseases, neuroinflammation and others. Widely known as an innovator in health care — and one of the largest integrated delivery and financing systems in the country — UPMC has invested more than \$800 million in its entrepreneurial efforts to date, primarily in digital health solutions, which have returned more than \$1.5 billion. The Translational Sciences team at UPMC Enterprises includes more than 20 investment professionals, with extensive medical, business, and drug development backgrounds.

In February 2020, Western Maryland Health System officially became UPMC Western Maryland, merging into the UPMC hospital network to ensure a future of high-quality patient care for communities in western Maryland and the surrounding region for generations to come. UPMC has committed to invest \$90 million over the next five years to enhance services and upgrade facilities in the western Maryland region. The integration enables more resources for Allegany and Garrett Counties and the surrounding region and strengthens UPMC Western Maryland reputation as a destination for high quality healthcare. In 2018, Western Maryland Health System and UPMC joined together in a clinical affiliation to work cooperatively to enhance healthcare services and to strengthen the delivery of quality care, transform care delivery and reduce the total cost of providing care in the community.

MANAGEMENT'S DISCUSSION & ANALYSIS

PERIOD ENDED MARCH 31, 2020

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Three Months Ended March 31, 2020

(in millions)

	Health Services	Insurance Services	Eliminations	Consolidated
Revenues:				
Net patient service revenue	\$ 2,838	\$ -	\$ (543)	\$ 2,295
Insurance enrollment revenue	-	2,790	-	2,790
Other revenue	277	196	(54)	419
Total operating revenues	\$ 3,115	\$ 2,986	\$ (597)	\$ 5,504
Expenses:				
Salaries, professional fees and benefits	\$ 1,763	\$ 124	\$ (7)	\$ 1,880
Insurance claims expense	-	2,546	(543)	2,003
Supplies, purchased services and general	1,265	273	(47)	1,491
Depreciation and amortization	167	4	-	171
Total operating expenses	3,195	2,947	(597)	5,545
Operating income	\$ (80)	\$ 39	\$ -	\$ (41)
Operating margin %	(2.6)%	1.3%	-	(0.7)%
Operating margin % (including income tax and interest expense)	(3.7)%	1.1%	-	(1.5)%
Operating EBIDA	\$ 87	\$ 43	\$ -	\$ 130
Operating EBIDA %	2.8%	1.4%	-	2.4%

Three Months Ended March 31, 2019*

(in millions)

Revenues:				
Net patient service revenue	\$ 2,721	\$ -	\$ (533)	\$ 2,188
Insurance enrollment revenue	-	2,472	-	2,472
Other revenue	270	171	(44)	397
Total operating revenues	\$ 2,991	\$ 2,643	\$ (577)	\$ 5,057
Expenses:				
Salaries, professional fees and benefits	\$ 1,687	\$ 106	\$ (7)	\$ 1,786
Insurance claims expense	-	2,233	(533)	1,700
Supplies, purchased services and general	1,201	208	(37)	1,372
Depreciation and amortization	148	7	-	155
Total operating expenses	3,036	2,554	(577)	5,013
Operating income	\$ (45)	\$ 89	\$ -	\$ 44
Operating margin %	(1.5)%	3.4%	-	0.9%
Operating margin % (including income tax and interest expense)	(2.7)%	3.1%	-	0.2%
Operating EBIDA	\$ 103	\$ 96	\$ -	\$ 199
Operating EBIDA %	3.4%	3.6%	-	3.9%

*Prior year results have been adjusted to reflect the retrospective adoption of ASU 2017-07, *Presentation of Net Periodic Benefit Cost Related to Defined Benefit Plans*

MANAGEMENT'S DISCUSSION & ANALYSIS

PERIOD ENDED MARCH 31, 2020

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 4,900 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, greater Erie, and the greater Altoona populations of Pennsylvania; (iii) regional hospitals that provide core clinical services to certain other areas of western and central Pennsylvania; 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 surrounding counties. Health Services also includes international ventures which aim to bring new revenue streams into UPMC's domestic operations. International ventures currently include ISMETT, a transplant and specialty surgery hospital in Palermo, Italy, that has performed more than 2,200 transplants since its founding in 1999, a hospital system located in Ireland, a contract to provide management services for five world-class hospitals in partnership with Wanda Group, remote second-opinion pathology consultations for patients in China and Singapore, a national oncology treatment and research center in Kazakhstan, as well as the Advanced Radiosurgery Center of Excellence at San Pietro FBF Hospital in Rome.

Health Services operating revenues of \$3.1 billion for the three months ended March 31, 2020 increased \$124 million versus the same period in the prior year. Operating income for the three months ended March 31, 2020 decreased \$35 million versus the same period in the prior year as volume declines in the last two weeks of March 2020 resulting from the COVID-19 pandemic more than offset higher reimbursement rates and increased outpatient activity in the beginning of the first quarter of 2020.

Insurance Services

UPMC holds various interests in health care financing initiatives and network care delivery operations that have nearly 3.8 million members as of March 31, 2020. UPMC Health Plan is a health maintenance organization ("HMO") offering coverage for commercial and Medicare members. UPMC for You is also an HMO, which 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 Work Partners 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 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 revenues of \$3.0 billion for the three months ended March 31, 2020 increased \$343 million versus the same period in the prior year, driven by membership growth of nearly 252,000 members in the current year. Operating income for the three months ended March 31, 2020 decreased by \$50 million versus the same period in the prior year as higher claims expenses in the beginning of the first quarter of 2020 more than offset increased enrollment and decreased expenses related to volume declines within the Insurance Services division's healthcare provider network related to the COVID-19 pandemic.

MANAGEMENT'S DISCUSSION & ANALYSIS

PERIOD ENDED MARCH 31, 2020

UPMC Enterprises

UPMC Enterprises leverages UPMC's integrated delivery and financing system capabilities to generate new revenue streams. This is accomplished by fostering new ideas for improvement in the delivery of health care, pursuing commercialization opportunities of digital solutions and developing strategic partnerships with industry leaders. Leveraging UPMC's long-standing reputation for academic and research excellence, UPMC Enterprises also sponsors the translation of basic science conducted in a research setting to its commercial use in bedside clinical practice, application in medical laboratories, or use across emerging venues where medicine is delivered. These ventures both support UPMC's core mission and help to stimulate the economy of western Pennsylvania.

UPMC Enterprises manages a portfolio that includes various product development initiatives and numerous operating companies with commercially-available products and services directed toward the improvement of the delivery of health care. Unlike the Health Services and Insurance Services divisions, UPMC Enterprises' results are classified as investing and financing activity in the condensed consolidated statements of operations and changes in net assets, consistent with the long-term nature of developing and commercializing technology-enabled initiatives.

MANAGEMENT'S DISCUSSION & ANALYSIS

PERIOD ENDED MARCH 31, 2020

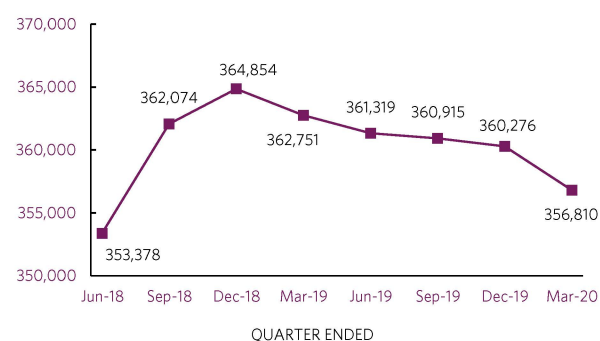
REVENUE METRICS – HEALTH SERVICES

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, 2020 decreased 4% compared to the same period in 2019 driven by volume decreases as a result of the COVID-19 pandemic primarily in the last two weeks of March 2020.

For the Three Months Ended March 31			
(in thousands)	2020	2019	Change
Academic	29.6	30.9	(4)%
Community	20.1	21.5	(7)%
Regional	36.4	37.2	(2)%
Total	86.1	89.6	(4)%

Trailing Twelve-Months

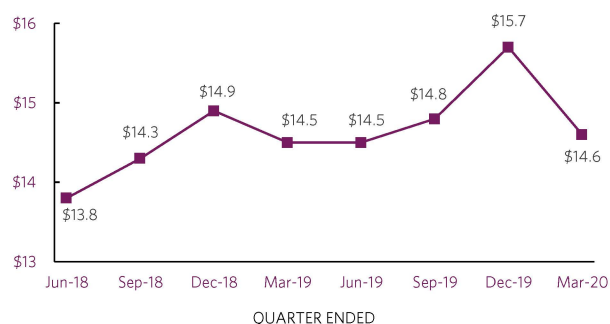


Outpatient Revenue per Workday

UPMC's outpatient activity for the three months ended March 31, 2020 as measured by average revenue per workday increased 1% compared to the same period in 2019. Decreases since December are driven by volume declines related to the COVID-19 pandemic. 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)	2020	2019	Change
Academic	\$ 5,917	\$ 5,816	2%
Community	2,234	2,137	5%
Regional	6,436	6,545	(2)%
Total	\$ 14,587	\$ 14,498	1%

Quarterly Average (in millions)



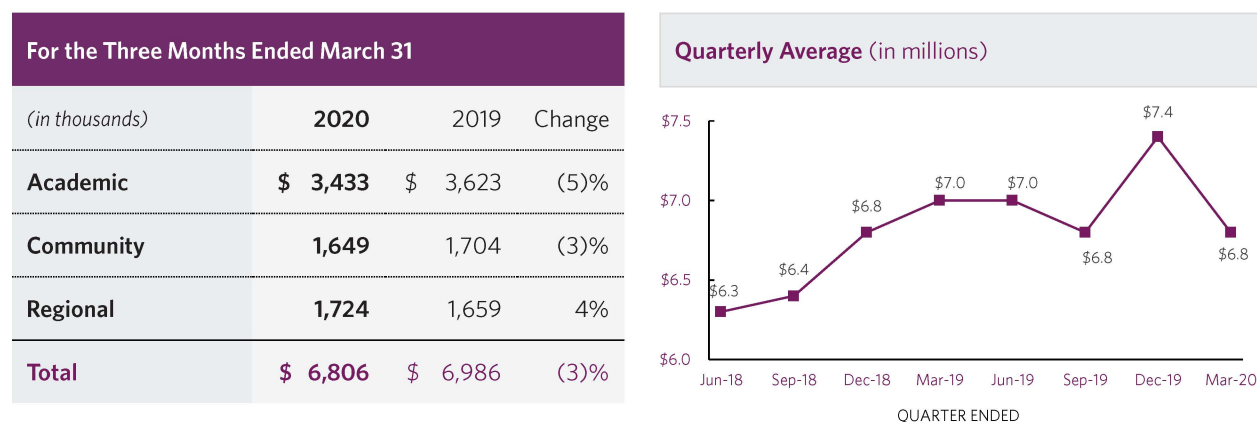
MANAGEMENT'S DISCUSSION & ANALYSIS

PERIOD ENDED MARCH 31, 2020

REVENUE METRICS – HEALTH SERVICES (CONTINUED)

Physician Service Revenue per Weekday

UPMC's physician activity for the three months ended March 31, 2020 as measured by average revenue per weekday decreased 3% from the comparable period in 2019 driven by volume declines as a result of the COVID-19 pandemic primarily in the last two weeks of 2020. Physician services activity is measured on a weekday basis.



Sources of Patient Service Revenue

The gross patient service revenues, before explicit and implicit price concessions, 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	
	2020	2019
Medicare	46%	48%
Medicaid	17%	17%
UPMC Insurance Services Commercial	14%	15%
Highmark Commercial	8%	6%
National Insurers Commercial	7%	7%
Self-pay/Other	8%	7%
Total	100%	100%

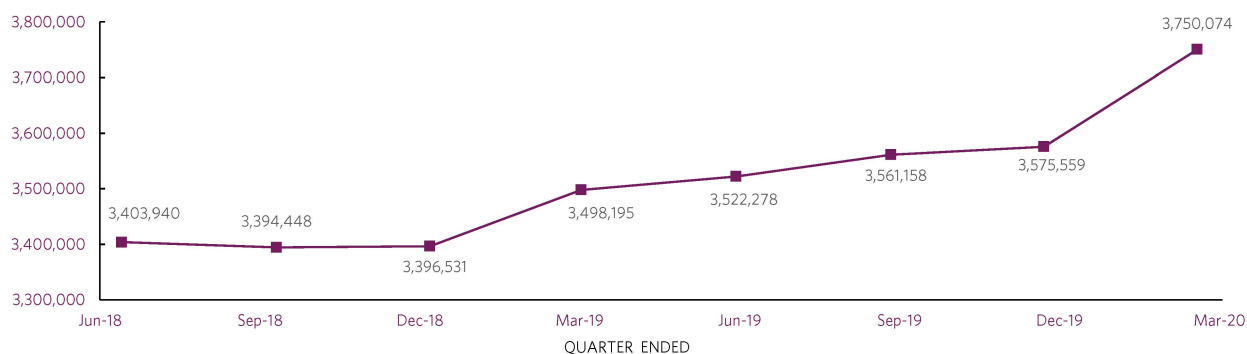
MANAGEMENT'S DISCUSSION & ANALYSIS

PERIOD ENDED MARCH 31, 2020

OPERATING METRICS - INSURANCE SERVICES

Membership

Membership in the UPMC Insurance Services division increased to 3,750,074 as of March 31, 2020, a 7% increase versus March 31, 2019.

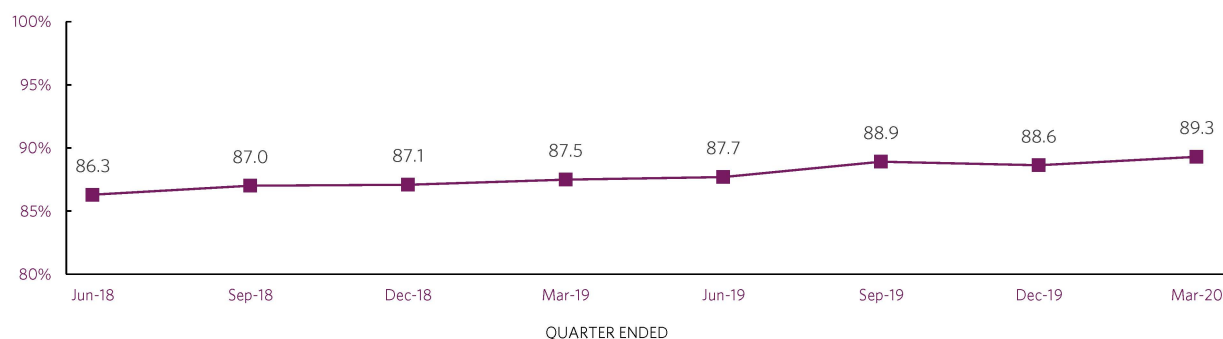


As of	March 31, 2020	March 31, 2019
Commercial Health	785,362	775,744
Medicare	191,235	190,745
Medicaid	422,065	421,493
Sub-Total Physical Health Products	1,398,662	1,387,982
Community HealthChoices	123,536	73,371
Behavioral Health	1,019,364	985,133
Sub-Total Health Products	2,541,562	2,446,486
Work Partners and Life Solutions	692,846	571,646
Ancillary Products	448,546	394,961
Evolent	67,120	85,102
Total Membership	3,750,074	3,498,195

Healthcare Spending Ratio

UPMC Insurance Services healthcare spending ratio has increased to 89.3% as of March 31, 2020 primarily due to the higher start-up costs associated with the new Community HealthChoices program.

Trailing Twelve-Months



MANAGEMENT'S DISCUSSION & ANALYSIS

PERIOD ENDED MARCH 31, 2020

KEY FINANCIAL INDICATORS

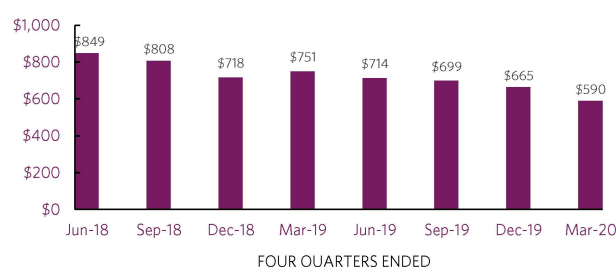
(Dollars in millions)

Operating Earnings before Interest, Depreciation and Amortization

Operating EBIDA for the three months ended March 31, 2020 decreased 35% as compared to the three months ended March 31, 2019, as operating income decreased versus the prior year primarily caused by the effect of the COVID-19 pandemic.

For the Three Months Ended March 31			
(in thousands)	2020	2019*	Change
Operating Income	\$ (41)	\$ 44	(193)%
Depreciation and Amortization	171	155	10%
Operating EBIDA	\$ 130	\$ 199	(35)%

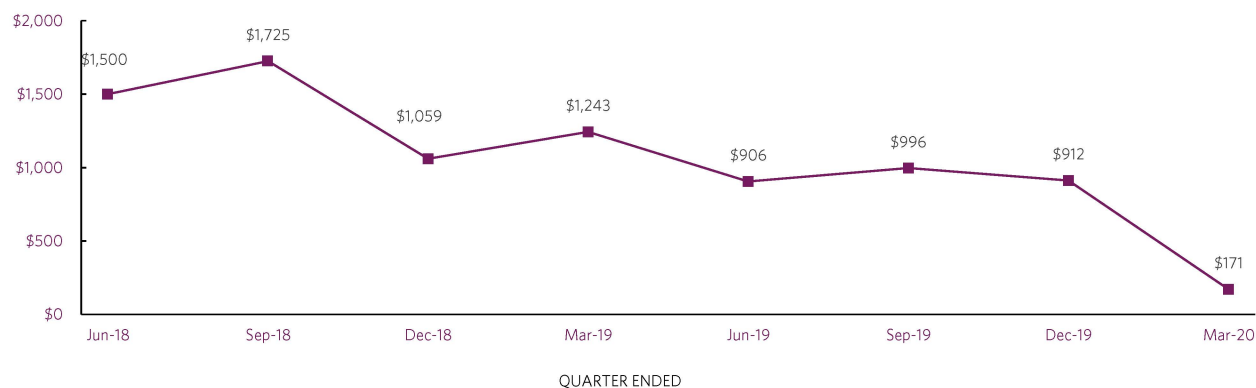
Trailing Twelve Months EBIDA



*Prior year results have been adjusted to reflect the retrospective adoption of ASU 2017-07, *Presentation of Net Periodic Benefit Cost Related to Defined Benefit Plans*

Unrestricted Cash and Investments Over Long Term Debt

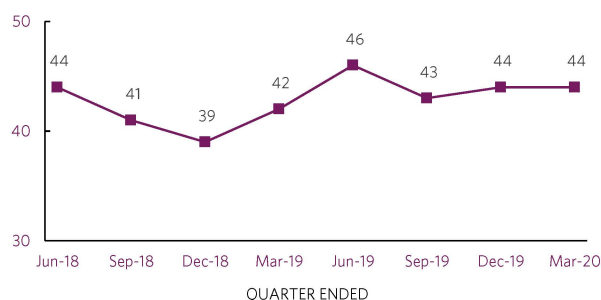
Unrestricted cash and investments over long term debt decreased by \$741 million as compared to December 31, 2019 primarily as a result of adverse market conditions related to the COVID-19 pandemic adversely affecting UPMC's investment portfolio.



Days in Net Accounts Receivable

Consolidated Days in Accounts Receivable continue to be lower than industry averages due to UPMC's rigorous procedures in this area.

By Receivable	2020 Balance	Days	
		Mar 31, 2020	Dec 31, 2019
Patient AR	\$ 1,170	47	45
Other AR	1,448	41	43
Consolidated	\$ 2,618	44	44



MANAGEMENT'S DISCUSSION & ANALYSIS

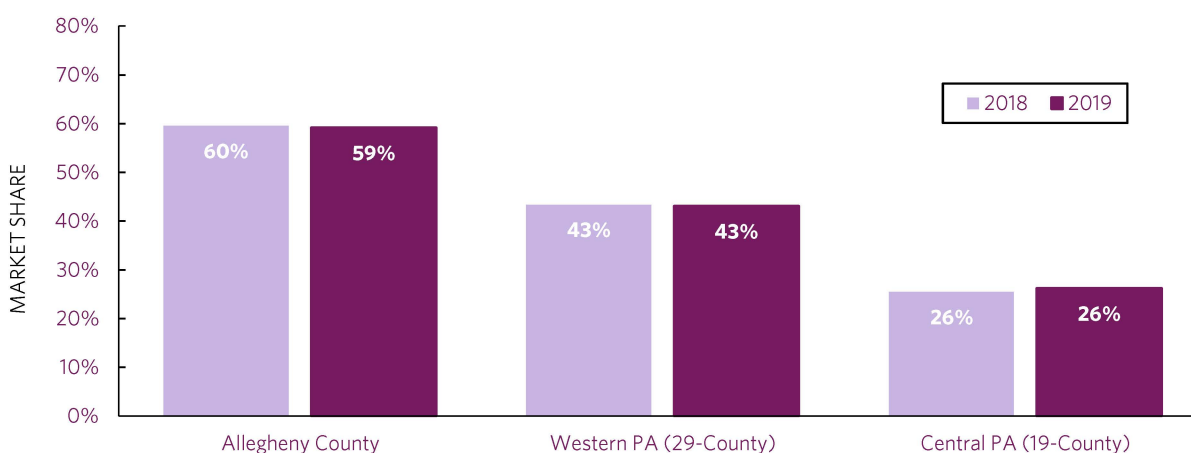
PERIOD ENDED MARCH 31, 2020

Market Share

The chart below shows the change in UPMC's estimated inpatient market share by service area for the first three quarters of calendar years 2018 and 2019⁽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 including Allegheny, 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 & ANALYSIS

PERIOD ENDED MARCH 31, 2020

ASSET AND LIABILITY MANAGEMENT

During the three months ended March 31, 2020, UPMC's investment portfolio returned (11.2%). As of March 31, 2020, UPMC utilized 145 ongoing external investment managers including 46 traditional managers, 11 hedge fund managers and 88 private capital managers. UPMC is also invested with an additional 45 legacy private capital and hedge fund managers. UPMC's investment portfolio has a long-term perspective and has generated annualized returns of (5.1%), 2.5% and 3.4% for the trailing one-, three- and five-year periods. As of March 31, 2020, 70% of UPMC's investment portfolio could be liquidated within three days.

UPMC's annualized cost of capital during the period was 3.31%. 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, 2020, the interest rates on UPMC's long-term debt were approximately 77% fixed and 23% variable after giving effect to derivative contracts. Annualized interest cost for the variable rate debt for the period averaged 2.28%. The annualized interest cost for the fixed rate debt was 3.55%. UPMC's primary credit facility, which expires in January 2024, has a borrowing limit of \$600 million. As of March 31, 2020, UPMC had approximately \$85 million letters of credit outstanding under the credit facility leaving \$515 million available to fund operating and capital needs, of which \$500 million was drawn.

For use by its insurance subsidiaries, UPMC has additional credit facilities of \$150 million (increased from \$19 million to \$150 million from March 15 to August 14 for the 2020 calendar year and increases from May 15 to August 14 on an annual basis thereafter) and \$50 million with expiration dates in April 2022. Both of these credit facilities support the Insurance Services Division. As of March 31, 2020, both credit facilities were fully drawn.

The table below compares reported Investing and Financing Activity for the three months ended March 31, 2020 and 2019 by type.

Investing and Financing Activity by Type

Three Months Ended March 31	2020	2019
<i>(in thousands)</i>		
Realized (losses) gains	\$ (76,860)	\$ 99,252
Interest and dividends, net of fees	20,005	20,650
Realized investment (losses) revenue	\$ (56,855)	\$ 119,902
Unrealized (losses) gains on derivative contracts	(2,320)	1,494
Other unrealized (losses) gains	(662,414)	176,238
Investment (losses) revenue	\$ (721,589)	\$ 297,634
Interest expense	(38,016)	(40,874)
UPMC Enterprises activity	(39,041)	(32,512)
(Losses) gain from investing and financing activities	\$ (798,646)	\$ 224,248

MANAGEMENT'S DISCUSSION & ANALYSIS

PERIOD ENDED MARCH 31, 2020

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, 2020, UPMC had approximately \$1.7 billion of cash and cash equivalents on hand and borrowing availability under the primary credit facility was \$515 million of which \$500 million was drawn.

Net cash provided by operating activities was \$585 million in the three months ended March 31, 2020 compared to \$147 million in the three months ended March 31, 2019. Operating EBIDA was \$130 million for the three months ended March 31, 2020, compared to \$199 million for the three months ended March 31, 2019.

Key uses of cash from investing activities for the three-month period ended March 31, 2020 include capital expenditures of \$225 million. 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 MARCH 31, 2020

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, 2020 and 2019.

	Three Months Ended March 31	
	2020	2019
Licensed Beds	8,270	8,496
BEDS IN SERVICE		
Medical-Surgical	4,858	4,767
Psychiatric	403	418
Rehabilitation	238	256
Skilled Nursing	1,443	1,430
Total Beds in Service	6,942	6,871
PATIENT DAYS		
Medical-Surgical	318,402	329,447
Psychiatric	30,931	31,964
Rehabilitation	18,022	19,690
Skilled Nursing	111,277	110,834
Total Patient Days	478,632	491,935
Average Daily Census	5,260	5,466
Observation Days	42,866	36,774
Obs Average Daily Census	471	409
ADMISSIONS AND OBSERVATION CASES		
Medical-Surgical	61,240	65,405
Observation Cases	24,874	24,174
Subtotal	86,114	89,579
Psychiatric	2,651	3,035
Rehabilitation	1,137	1,290
Skilled Nursing	1,071	1,237
Total Admissions and Observation Cases	90,973	95,141
Overall Occupancy	83%	85%
AVERAGE LENGTH OF STAY		
Medical-Surgical	5.2	5.0
Psychiatric	11.7	10.5
Rehabilitation	15.9	15.3
Skilled Nursing	103.9	89.6
Overall Average Length of Stay	7.2	6.9
Emergency Room Visits	260,878	274,996
TRANSPLANTS (DOMESTIC)		
Liver	57	29
Kidney	86	60
All Other	68	83
Total	211	172
OTHER POST-ACUTE METRICS		
Home Health Visits	200,551	200,887
Hospice Care Days	61,310	63,258
Outpatient Rehab Visits (CRS)	162,156	159,175

OUTSTANDING DEBT

PERIOD ENDED MARCH 31, 2020
(IN THOUSANDS)

Issuer	Original Borrower	Series	Amount Outstanding
Allegheny County Hospital Development Authority	UPMC Health System	1997B	\$ 43,576
	UPMC	2007A	53,289
	UPMC	2010A	45,331
	UPMC	2010B	99,003
	UPMC	2010C	50,000
	UPMC	2010F	95,000
	UPMC	2011A	73,211
	UPMC	2017D	499,625
Monroeville Finance Authority	UPMC	2019A	830,634
	UPMC	2012	310,392
	UPMC	2013B	56,496
	UPMC	2014B	46,359
Pennsylvania Economic Development Financing Authority	UPMC	2013A	112,281
	UPMC	2014A	284,736
	UPMC	2015B	119,501
	UPMC	2016	242,072
	UPMC	2017A	444,175
	UPMC	2017C	134,587
Erie County Hospital Authority	Hamot Health Foundation	2010A	8,478
Pennsylvania Higher Educational Facilities Authority	UPMC	2010E	193,698
Lycoming County Authority	The Williamsport Hospital	2011	12,639
Tioga County Industrial Development Authority	Laurel Health System	2010	6,894
	Laurel Health System	2011	5,245
Dauphin County General Authority	Pinnacle Health System	2012A	136,653
	Pinnacle Health System	2016A	104,159
	Pinnacle Health System	2016B	87,270
General Authority of Southcentral Pennsylvania	Hanover Hospital	2013	8,397
	Hanover Hospital	2015	23,310
Potter County Hospital Authority	UPMC	2018A	20,441
Somerset County Hospital Authority	Somerset Hospital	2009A	1,180
	Somerset Hospital	2015A	17,000
None	UPMC	2011B	99,784
	UPMC	2017B	95,195
	UPMC	2018B	277
	UPMC	2020	299,979
	Susquehanna Health Innovation Center	New Market Tax Credit	17,314
	Somerset Hospital	2013	1,670
	UPMC	Swap Liabilities	8,155
	Various - Financing Leases and Loans		122,127
Total			\$ 4,810,133

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

Source: UPMC Records

DEBT COVENANT CALCULATIONS

PERIOD ENDED MARCH 31, 2020

DEBT SERVICE COVERAGE RATIO

(Dollars in thousands)

	Trailing Twelve-Month Period Ended March 31, 2020
Excess of expenses over revenues	\$ (521,473)
ADJUSTED BY:	
Net Unrealized Losses during Period ¹	499,117
Depreciation and Amortization ¹	653,608
Loss on Defeasance of Debt ¹	(6,471)
Inherent Contribution ¹	(150,892)
Realized Investment Impairments	(32,998)
Other Non-operating Loss	(45,202)
Interest Expense	146,131
Revenues Available for Debt Service	\$ 541,820
Historical Debt Service Requirements - 2007 MTI	\$ 306,103
Debt Service Coverage Ratio - 2007 MTI	1.77X
Historical Debt Service Requirements - All Debt and Financing Leases	\$ 346,595
Debt Service Coverage Ratio - All Debt and Financing Leases	1.56X

LIQUIDITY RATIO AS OF MARCH 31, 2020

Unrestricted Cash and Investments	\$ 5,715,922
Master Trust Indenture Debt	\$ 4,446,399
Unrestricted Cash to MTI Debt	1.29

⁽¹⁾ Non-Cash.

I hereby certify to the best of my knowledge that, as of March 31, 2020, 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.



C. Talbot Heppenstall, Jr.
Treasurer
UPMC

Unaudited Interim Condensed Consolidated Financial Statements

FOR THE PERIOD ENDED MARCH 31, 2020

REVIEW REPORT OF INDEPENDENT AUDITORS

The Board of Directors
UPMC
Pittsburgh, Pennsylvania

We have reviewed the condensed consolidated financial information of UPMC, which comprise the condensed consolidated balance sheet as of March 31, 2020, and the related condensed consolidated statements of operations and changes in net assets, and cash flows for the three-month periods ended March 31, 2020 and 2019.

Management's Responsibility for the Financial Information

Management is responsible for the preparation and fair presentation of the condensed financial information in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in conformity with U.S. generally accepted accounting principles.

Auditor's Responsibility

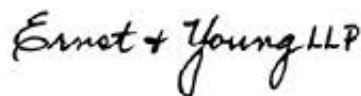
Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

Conclusion

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial information referred to above for it to be in conformity with U.S. generally accepted accounting principles.

Report on Condensed Consolidated Balance Sheet as of December 31, 2019

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 of UPMC as of December 31, 2019, 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 25, 2020. In our opinion, the accompanying condensed consolidated balance sheet of UPMC as of December 31, 2019, is consistent, in all material respects, with the consolidated balance sheet from which it has been derived.



Pittsburgh, Pennsylvania
May 28, 2020

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(IN THOUSANDS)

	As of	
	March 31, 2020	December 31, 2019
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,732,291	\$ 351,216
Patient accounts receivable	1,170,146	1,164,840
Other receivables	1,447,680	1,348,964
Securities lending collateral	194,505	73,140
Other current assets	421,322	382,943
Total current assets	4,965,944	3,321,103
Board-designated, restricted, trustee and other investments	5,250,411	6,248,658
Beneficial interests in foundations and trusts	531,944	624,691
Net property, buildings and equipment	5,969,176	5,689,785
Operating lease right-of-use assets	1,060,615	1,080,715
Other assets	560,314	529,546
Total assets	\$ 18,338,404	\$ 17,494,498
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 654,842	\$ 669,672
Accrued salaries and related benefits	908,813	793,243
Current portion of insurance reserves	823,502	759,520
Payable under securities lending agreement	194,505	73,140
Current portion of long-term obligations	322,821	316,162
Short-term debt	910,495	-
Other current liabilities	648,644	536,405
Total current liabilities	4,463,622	3,148,142
Long-term obligations	4,487,308	4,231,077
Pension liability	91,330	-
Long-term insurance reserves	365,071	366,100
Operating lease noncurrent liabilities	992,998	1,010,207
Other noncurrent liabilities	406,481	430,863
Total liabilities	10,806,810	9,186,389
Net assets without donor restrictions	6,450,739	7,141,410
Net assets with donor restrictions	1,080,855	1,166,699
Total net assets	7,531,594	8,308,109
Total liabilities and net assets	\$ 18,338,404	\$ 17,494,498

See accompanying notes

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

(IN THOUSANDS)

Three Months Ended Mar 31

	2020	2019
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Net patient service revenue	\$ 2,294,759	\$ 2,188,353
Insurance enrollment revenue	2,789,897	2,471,548
Other revenue	418,988	396,674
Total operating revenues	5,503,644	5,056,575
Expenses:		
Salaries, professional fees and employee benefits	1,879,807	1,785,189
Insurance claims expense	2,003,104	1,699,842
Supplies, purchased services and general	1,490,878	1,372,080
Depreciation and amortization	171,078	155,669
Total operating expenses	5,544,867	5,012,780
Operating income	(41,223)	43,795
Inherent contribution	170,442	16,666
Other non-operating gain	17,847	6,709
Income tax expense	(1,460)	(2,659)
After-tax income	\$ 145,606	\$ 64,511
Investing and financing activities:		
Investment revenue	(721,589)	297,634
Interest expense	(38,016)	(40,874)
UPMC Enterprises activity:		
Portfolio company revenue	8,250	16,856
Portfolio company and development expense	(47,291)	(49,368)
(Loss) gain from investing and financing activities	(798,646)	224,248
Excess of (expenses over revenues) revenues over expenses	(653,040)	288,759
Other changes in net assets without donor restrictions	(37,631)	(6,120)
Change in net assets without donor restrictions	(690,671)	282,639
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions and other changes	15,924	6,157
Net realized and unrealized (losses) gains on restricted investments	(6,559)	6,207
Restricted net assets acquired	788	1,525
Assets released from restriction for operations and capital purchases	(3,250)	(4,923)
Change in beneficial interests in foundations and trusts	(92,747)	(231)
Change in net assets with donor restrictions	(85,844)	8,735
Change in net assets	(776,515)	291,374
Net assets, beginning of period	8,308,109	7,735,055
Net assets, end of period	\$ 7,531,594	\$ 8,026,429

See accompanying notes

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(IN THOUSANDS)

Three Months Ended March 31

	2020	2019
OPERATING ACTIVITIES		
Change in total net assets	\$ (776,515)	\$ 291,374
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	171,078	155,669
Change in beneficial interest in foundations and trusts	92,747	231
Restricted contributions and investment revenue	(10,153)	(12,364)
Restricted net assets acquired through affiliations	(788)	(1,525)
Unrealized losses (gains) on investments	662,414	(176,238)
Realized losses (gains) on investments	56,855	(99,252)
Net change in non-alternative investments	435,068	(13,924)
Inherent contribution	(170,442)	(16,666)
Other non-cash	16,060	-
Changes in operating assets and liabilities:		
Accounts receivable	(54,042)	(235,402)
Other current assets	(148,077)	120,121
Accounts payable and accrued liabilities	60,826	104,968
Insurance reserves	62,953	71,531
Other current liabilities	227,593	(51,546)
Other noncurrent assets and liabilities	(58,953)	(15,914)
Other operating changes	19,347	25,852
Net cash provided by operating activities	585,971	146,915
INVESTING ACTIVITIES		
Purchase of property and equipment (net of disposals)	(218,417)	(232,694)
UPMC Enterprises investments in joint ventures	(9,000)	(10,000)
Cash acquired through affiliations	43,011	21,272
Net change in investments designated as nontrading	3,281	(14,847)
Net change in alternative investments	(23,573)	29,837
Net change in other assets	20,160	17,641
Net cash provided by (used in) investing activities	(184,538)	(188,791)
FINANCING ACTIVITIES		
Repayments of long-term obligations	(243,410)	(47,704)
Borrowings of long-term obligations	1,212,899	191,757
Restricted contributions and investment income	10,153	12,364
Net cash provided by financing activities	979,642	156,417
Net change in cash and cash equivalents	1,381,075	114,541
Cash and cash equivalents, beginning of period	351,216	277,324
Cash and cash equivalents, end of period	\$ 1,732,291	\$ 391,865

SUPPLEMENTAL INFORMATION

Finance lease obligations incurred to acquire assets	\$ 6,127	\$ 2,739
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See accompanying notes

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(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, 2019.

2. COVID-19

The potential for a global or regional pandemic, such as the current COVID-19 pandemic, is a potential risk for all companies within the healthcare industry and beyond. As an integrated healthcare delivery and finance system, all three divisions within UPMC can potentially be exposed to various risks presented by a pandemic, whether financial, operational, regulatory, brand or reputational in nature. UPMC has systemwide and division-specific business continuity plans and contingency preparation activities to address the wide-ranging people, process and technology issues that can prospectively manifest themselves in the form of different risks associated with such pandemic scenarios and to ensure the continued operations of critical functions/activities. The primary focus in all such preparedness activities is the health, well-being and safety of our employees, patients, members, and other constituents, which constitutes the most substantial potential risk in pandemic situations. However, the potential inability to keep pace with, and proactively manage, the rapidly evolving, dynamic and developing scenarios that pandemics tend to present is a potential organizational risk that UPMC continually addresses and seeks to mitigate.

UPMC and its subsidiaries have and expect to continue to experience disruption in operations as a result of the COVID-19 pandemic. Primarily in response to directives from various elected officials to attempt to quell the spread of the disease, UPMC experienced significant reductions in patient volumes during the last two weeks of the three-month period ended March 31, 2020, resulting in a decrease in patient service revenues. While demand for our services is expected to rebound in the future, we have taken, and continue to take, various actions to increase our liquidity and mitigate the effect of the pandemic. The final cumulative impact of the COVID-19 is not known and will most likely be material to UPMC.

In response to the effect of COVID-19 on UPMC's operating results and in accordance with the provisions of ASC 350 Intangibles – Goodwill and Other and ASC 360 Property, Plant and Equipment, UPMC assessed its long lived and intangible assets for indicators of impairment. While COVID-19 did adversely impact UPMC's operating results, UPMC does not believe that the effects are significant enough or of a long enough duration to indicate impairment as of and for the three month period ended March 31, 2020. UPMC will continue to assess potential indicators of impairment in all future periods.

3. BUSINESS COMBINATIONS

On February 1, 2020, UPMC and Western Maryland Health System ("WMHS"), executed an Integration and Affiliation Agreement (the "Agreement") providing for an affiliation between UPMC and WMHS. The transaction is intended to preserve

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

and enhance the mission of WMHS and to advance its ability to provide high-quality health services to its communities. On the date of the affiliation, the articles of incorporation and bylaws of WMHS were amended such that UPMC became the sole corporate member.

As a result of this affiliation, UPMC acquired approximately \$534,000 of total assets, consisting of \$241,000 of property, plant and equipment, \$173,000 of cash and investments, \$78,000 of current and long-term assets and \$42,000 of accounts receivable, assumed approximately \$363,000 of total liabilities including \$210,000 of long-term debt obligations, \$97,000 of pension obligations, and current and long-term liabilities of \$56,000, and acquired approximately \$1,000 of restricted net assets.

The purchase accounting is preliminary primarily subject to the completion of the fair value assessment. Material adjustments, if any, to provisional amounts in subsequent periods, will be reflected as required as adjustments to assets and liabilities acquired, along with an offsetting adjustment to inherent contribution in the period in which the purchase price allocation is completed. For this affiliation, UPMC applied the not-for-profit business combination accounting guidance. The guidance primarily characterizes business combinations between not-for-profit entities as nonreciprocal transfers of assets resulting in the contribution of the acquiree's net assets to the acquirer. The guidance prescribes that the acquirer recognize an excess of the acquisition date fair value of the unrestricted net assets acquired over the fair value of the consideration transferred as a separate credit in its statement of operations as of the acquisition date. Accordingly, UPMC recognized an inherent contribution related to the unrestricted net assets acquired in the transaction of approximately \$170,000 in its statement of operations and changes in net assets for the three-month period ended March 31, 2020. The inherent contribution recorded for the period is based on the preliminary fair market values of the unrestricted net assets acquired. UPMC Western Maryland, contributing \$60,000 of total operating revenues and \$4,000 of excess of revenues over expenses to UPMC's consolidated results, would have contributed an additional \$32,000 of total operating revenues and \$590 of excess of expenses over revenues had it been consolidated for the entire three month period ended March 31, 2020.

4. NEW ACCOUNTING PRONOUNCEMENTS

No new accounting pronouncements were released or adopted that will have an effect on UPMC's financial statements.

5. REVENUE

Net Patient Service Revenue

UPMC's net patient service revenue is reported at the amount that reflects the consideration to which UPMC expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payers (including health insurers and government programs), and others and include 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. 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. Reimbursement under these programs for all payers is based on a combination of prospectively determined rates, discounted charges and historical costs. Amounts

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

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, and offers those uninsured patients a discount, either by policy or law, from standard charges. UPMC estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to 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, 2020 and 2019.

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 not reported as net patient service revenue.

The composition of net patient service revenue for the three months ended March 31, 2020 and 2019, primarily resulting from patients in the western Pennsylvania region, are as follows:

Periods Ended March 31	Three Months Ended	
	2020	2019
Medicare	39%	41%
Commercial	37%	36%
Medicaid	16%	15%
Self-pay/other	8%	8%
	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. 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, "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

(IN THOUSANDS)

Insurance enrollment revenues include commercial, Medicare, Medicaid and behavioral health contracts. Laws and regulations governing the Medicare and Medicaid 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. In evaluating these contracts for compliance with ASU 2014-09, *Revenue from Contract with Customers*, there were no changes to the nature, timing or extent of revenues previously recognized or how revenues are recognized prospectively. Revenues are recognized when the performance obligations identified within the individual contracts are satisfied and collectability is probable.

6. FAIR VALUE MEASUREMENTS

As of March 31, 2020, UPMC held certain assets that are required to be measured at fair value on a recurring basis. These include cash and cash equivalents and certain board-designated, restricted, trustee, and other investments and derivative instruments. Certain of UPMC's 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, 2020 and December 31, 2019. 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 the net asset value practical expedient as prescribed by ASU 2015-07, *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share*. 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 ("NAV") 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. With the adoption of ASU 2016-01, *Financial Instruments*, certain of UPMC's alternative investments are now utilizing NAV to calculate fair value and are included in other investments in the following tables.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

FAIR VALUE MEASUREMENTS AS OF MARCH 31, 2020

	Level 1	Level 2	Level 3	NAV	Total Carrying Amount
ASSETS					
Fixed income	\$ 412,907	\$ 1,263,061	\$ -	\$ -	\$ 1,675,968
Domestic equity	554,026	17,386	-	-	571,412
International equity	536,926	556	-	-	537,482
Public real estate	55,126	-	-	-	55,126
Long/short equity	113,108	-	-	-	113,108
Absolute equity	16,441	-	-	-	16,441
Commodities	5,573	-	-	-	5,573
Derivative instruments	-	137	-	-	137
Securities on loan	242,593	-	-	-	242,593
Securities lending collateral	194,505	-	-	-	194,505
Alternative and other investments at NAV	-	-	-	1,409,331	1,409,331
Total assets measured at fair value on a recurring basis	\$ 2,131,205	\$ 1,281,140	\$ -	\$ 1,409,331	\$ 4,821,676
LIABILITIES					
Payable under securities lending agreement	\$ (194,505)	\$ -	\$ -	\$ -	\$ (194,505)
Derivative instruments	-	(8,155)	-	-	(8,155)
Total liabilities measured at fair value on a recurring basis	\$ (194,505)	\$ (8,155)	\$ -	\$ -	\$ (202,660)

FAIR VALUE MEASUREMENTS AS OF DECEMBER 31, 2019

	Level 1	Level 2	Level 3	NAV	Total Carrying Amount
ASSETS					
Fixed income	\$ 744,751	\$ 1,248,921	\$ -	\$ -	\$ 1,993,672
Domestic equity	792,501	17,915	-	-	810,416
International equity	723,059	118	-	-	723,177
Public real estate	69,746	-	-	-	69,746
Long/short equity	65,424	-	-	-	65,424
Absolute equity	24,077	-	-	-	24,077
Commodities	5,379	-	-	-	5,379
Derivative instruments	-	532	-	-	532
Securities on loan	218,933	-	-	-	218,933
Securities lending collateral	73,140	-	-	-	73,140
Alternative and other investments at NAV	-	-	-	1,664,883	1,664,883
Total assets measured at fair value on a recurring basis	\$ 2,717,010	\$ 1,267,486	\$ -	\$ 1,664,883	\$ 5,649,379
LIABILITIES					
Payable under securities lending agreement	\$ (73,140)	\$ -	\$ -	\$ -	\$ (73,140)
Derivative instruments	-	(6,230)	-	-	(6,230)
Total liabilities measured at fair value on a recurring basis	\$ (73,140)	\$ (6,230)	\$ -	\$ -	\$ (79,370)

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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 revenue in the condensed consolidated statements of operations and changes in net assets. UPMC's investments in debt and equity securities that are donor-restricted assets are designated as nontrading. 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 revenue 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 \$6,359,325 and \$5,926,923 at March 31, 2020 and December 31, 2019, respectively.

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 \$623,377 and \$672,951 of alternative investments accounted for under the equity method, which approximates fair value, at March 31, 2020 and December 31, 2019, 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. Total collateral is required to have a market value between 102% and 105% of the market value of securities loaned. As of March 31, 2020, securities loaned, of which UPMC maintains ownership, totaled \$242,593 and total collateral (cash and noncash) received related to the securities loaned was \$253,359.

As a precautionary measure, UPMC has taken steps to enhance operational and financial flexibility and react to the risks the COVID-19 pandemic presents to the business. This includes drawing \$700,000 on its lines of credit and issuing a \$300,000 note through Wells Fargo prior to March 31, 2020. These are recorded in other current liabilities and long-term obligations, respectively, in the condensed consolidated balance sheet as of March 31, 2020. Refer to Note 12 for additional measures taken by UPMC subsequent to March 31, 2020.

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 objective, UPMC entered into various interest rate swap agreements. The notional amount under each agreement is reduced

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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	
				Mar 31, 2020	Dec 31, 2019
Floating to fixed	2025	3.60%	68% one-month LIBOR	\$ 70,220	\$ 70,220
Basis	2021	SIFMA Index ¹	67% three-month LIBOR plus .2077%	7,375	14,485
Basis	2037	SIFMA Index ¹	67% three-month LIBOR plus .3217%	46,095	46,095
Floating to fixed	2024	1.413%	67% one-month LIBOR	8,500	8,500
				\$ 132,190	\$ 139,300

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, 2020 and December 31, 2019 which are not offset by counterparty or by type of item hedged:

	Mar 31, 2020	Dec 31, 2019
Other assets	\$ 137	\$ 532
Long-term obligations	(8,155)	(6,230)
	\$ (8,018)	\$ (5,698)

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, 2020 and December 31, 2019 are designated as hedging instruments and as such, changes in fair value are recognized in investing and financing activities as investment revenue 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.

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 on the condensed consolidated statements of operations and changes in net assets, for the Plans are as follows:

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	Three Months Ended March 31	
	2020	2019
Service cost	\$ 38,310	\$ 30,268
Interest cost	18,886	23,161
Expected return on plan assets	(42,120)	(38,906)
Recognized net actuarial loss	6,672	10,350
Amortization of prior service credit	(1,314)	(1,314)
Net periodic pension cost	\$ 20,434	\$ 23,559

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 1 year to 64 years, some of which include options to extend the leases for several periods, and some of which include options to terminate the leases within 1 year. Balance sheet information related to leases were as follows:

	As of March 31 2020
OPERATING LEASES	
Operating lease right-of-use assets	\$ 1,060,615
Other current liabilities	121,751
Operating lease liabilities	992,998
Total operating lease liabilities	\$ 1,114,749
FINANCE LEASES	
Property, plant and equipment, net	\$ 81,658
Other current liabilities	23,816
Other noncurrent liabilities	64,696
Total finance lease liabilities	\$ 88,512

Undiscounted maturities of lease liabilities were as follows:

For the Years Ended December 31	Operating Leases	Finance Leases
2020 (rest of year)	\$ 152,950	\$ 25,289
2021	135,757	22,046
2022	124,848	14,517
2023	119,246	6,666
2024	108,393	2,890
Thereafter	810,613	22,018

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.,

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Relators allege that UPMC violated the False Claims Act violations, by overpaying physicians and encouraging physicians to perform medically unnecessary procedures. On March 27, 2018, the Court granted UPMC's motion to dismiss all claims with prejudice. On September 17, 2019, the Third Circuit Court of Appeals reversed the Court's Order. On December 20, 2019, the Third Circuit vacated its September 17, 2019 Order and issued a new Order that also reversed the trial court's dismissal Order. On January 28, 2020, UPMC answered the Second Amended Complaint. Discovery is proceeding. The outcome and ultimate effect on UPMC's financial statements cannot be determined at this time.

In May 2015, PCS sued UPMC Health Network, UPMC Benefit Management Services, UPMC Health Benefits, and a PCS competitor in the United States District Court for the Western District of Pennsylvania, asserting four antitrust related claims. In August 2015, PCS filed an amended complaint, removing UPMC Health Network and adding UPMC, a Pennsylvania nonprofit nonstock corporation as a party. On March 27, 2019, the Court granted summary judgment for the UPMC defendants on all counts. PCS has filed a notice of appeal. The UPMC defendants have opposed that appeal. The outcome and ultimate effect on UPMC's financial statements cannot be determined at this time.

On June 14, 2019, Homestead Strategic Holdings Inc. and certain of its subsidiaries filed a Complaint with the Pennsylvania Department of State challenging the Institution of Purely Public Charity Act status of UPMC, UPMC Health Coverage, Inc. and UPMC Susquehanna and is seeking arbitration of its claims. The UPMC Defendants moved to dismiss the Complaint and terminate the arbitration. The arbitrator denied that motion and scheduled arbitration for October 2020. The outcome and ultimate effect on UPMC's financial condition cannot be determined at this time.

On July 29, 2019, UPMC received two grand jury subpoenas and an unexecuted search warrant from the U.S. Department of Justice seeking various records from one of UPMC's clinical departments. UPMC is complying with the subpoenas and search warrant. The ultimate outcome and effect on UPMC's financial condition cannot be determined at this time.

On January 24, 2020, a putative class action lawsuit was filed against UPMC in the Court of Common Pleas of Allegheny County, Pennsylvania. The state court action alleges unauthorized disclosures of provider-patient communications and violations of the Pennsylvania Wiretapping and Electronic Surveillance Control Act, the Pennsylvania Unfair Trade Practices and Consumer Protection Law, and common law. On April 30, 2020, UPMC removed the action to federal court. Plaintiffs have moved to remand the matter to state court and UPMC has opposed that motion. UPMC plans to zealously defend against the claims. The ultimate outcome and effect on UPMC's financial condition cannot be determined at this time.

12. SUBSEQUENT EVENTS

Management evaluated events occurring subsequent to March 31, 2020 through May 28, 2020, 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:

In response to the COVID-19 pandemic, UPMC opened additional lines of credit and other debt instruments. On April 1, 2020, UPMC closed a \$320,000 one-year loan with RBC. On April 3, 2020, UPMC closed \$400,000 and \$350,000 three- and five-year taxable notes, respectively, with Barclays. On April 6, 2020, UPMC closed a \$100,000 one-year line with KeyBank. Additionally, on April 13, 2020, UPMC closed a \$200,000 two-year loan with JPMorgan.

On April 29, 2020, UPMC issued the Series 2020A and 2020B revenue bonds with a par value of \$449,585.

On March 27, 2020, the federal government signed the CARES Act that provides, among other funding sources, \$100 billion in relief funds to hospitals and other healthcare providers on the front lines of the COVID-19 response. This funding is to be used to support healthcare related expenses or lost revenue attributable to COVID-19. Beginning in April 2020, through the date of issuance, 92 individual UPMC facilities received CARES Act funding that aggregated to a total of approximately \$255,000. These government payments are currently expected to be recognized in our operations as other operating revenue during the

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second quarter of 2020, subject to complying with certain terms and conditions.

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") has expanded the current Accelerated and Advance Payment Program. Beginning in April 2020 through the date of issuance, 185 individual national provider identifier entities of UPMC, an identifier used by CMS for provider facilities, received advance funding that aggregated to a total of approximately \$800,000. Continued claims submissions and reimbursements will occur after the issuance of the accelerated/advanced payment for 120 days, at which time a recoupment process will begin and every new claim submitted to CMS will be offset to repay the accelerated/advanced payment.