

UPMC Unaudited Financial and Operating Report

FOR THE PERIOD ENDED SEPTEMBER 30, 2023



UPMC
LIFE CHANGING MEDICINE

UPMC Unaudited Financial and Operating Report

FOR THE PERIOD ENDED SEPTEMBER 30, 2023

TABLE OF CONTENTS

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

The following financial data as of September 30, 2023 and for the three and nine-month periods ended September 30, 2023 and 2022 is derived from the interim condensed consolidated financial statements of UPMC. The interim condensed consolidated financial statements include all adjustments consisting of a normal recurring nature that UPMC considers necessary for a fair presentation of its financial position and the results of operations for these periods. The financial information as of December 31, 2022 is derived from UPMC’s audited consolidated financial statements. Operating and financial results reported herein are not necessarily indicative of the results that may be expected for any future periods.

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



MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED SEPTEMBER 30, 2023

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

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED SEPTEMBER 30, 2023

CONSOLIDATED FINANCIAL HIGHLIGHTS

Financial Results for the Nine Months Ended September 30	2023	2022
Operating revenues	\$ 20,610	\$ 18,864
Operating income	\$ (177)	\$ 196
Operating margin %	(0.9)%	1.0%
Operating margin % (after income tax and interest expense)	(1.6)%	0.4%
Gain (loss) from investing and financing activities	\$ 129	\$ (1,211)
Excess of expenses over revenues attributable to controlling interest	\$ (243)	\$ (1,104)
Operating EBIDA	\$ 342	\$ 716
Capital expenditures	\$ 517	\$ 701
Reinvestment ratio	1.00	1.35

Selected Other Information as of	September 30, 2023	December 31, 2022
Total cash and investments	\$ 9,835	\$ 8,658
Unrestricted cash and investments	\$ 8,363	\$ 7,414
Unrestricted cash and investments over long-term debt	\$ 1,882	\$ 2,063
Days of cash on hand	112	109
Days in net accounts receivable	43	45
Average age of plant (in years)	11.0	10.4

Operating income decreased for the nine months ended September 30, 2023 compared to prior year due primarily to increased costs in the labor and supply markets, increases to medical claims expense as a result of higher utilization, pharmaceutical expenses across various insurance products, and impacts of legal settlements. UPMC's gain from investing and financing activities for the nine months ended September 30, 2023 was \$129 million. UPMC continues to have a long-term perspective with regard to its investment activities. As of September 30, 2023, UPMC had \$9.8 billion of cash and investments, of which approximately \$3.5 billion was held by UPMC's regulated health and captive insurance companies.

MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED SEPTEMBER 30, 2023

BUSINESS HIGHLIGHTS

In October 2023, Fred Hargett became the Executive Vice President (EVP) and Chief Financial Officer (CFO) of UPMC, replacing former CFO Edward Karlovich, who announced his retirement for the end of 2023. Hargett was recruited to UPMC from Novant Health, Inc., where he was EVP and CFO for 15 years. Novant Health is a \$7.6 billion non-profit integrated health system, headquartered in Winston-Salem, NC. During Hargett's tenure as CFO, Novant saw significant growth in revenue, expanding clinical programs and services throughout the areas they serve. He has served in several key finance roles throughout his career including EVP of finance, financial planning and analysis, and growth strategy advisor to health systems at Ernst & Young. Hargett received undergraduate degrees in public health and business administration as well as a master's degree in accounting from the University of North Carolina at Chapel Hill.

In October 2023, UPMC and Washington Health System (WHS) executed an agreement concerning the integration and affiliation of WHS with and into the UPMC system. The closing date for this transaction will be established following the completion of applicable regulatory review processes. For the past decade, WHS and UPMC have collaborated in several areas to deliver high-quality, patient-centered care including a joint partnership with UPMC Hillman Cancer Center for local cancer treatment, UPMC Children's Hospital of Pittsburgh, Express Care clinics on the campus of WHS and other clinical collaborations including heart and vascular care, UPMC Magee-Womens care and telestroke. The primary focus is to ensure the residents of Washington and Greene Counties have access to local high-quality health care that is sustainable into the future.

In September 2023, UPMC and Harrisburg University celebrated the opening of the new UPMC Health Sciences Tower at Harrisburg University, designed to be the Harrisburg regional hub for healthcare education, research and collaboration. The 11-story, 260,000-square-foot building in downtown Harrisburg houses expanded and brand-new resources, which will provide opportunities for students in new and existing health science and advanced manufacturing programs. The tower is the new home for the UPMC Shadyside School of Nursing at UPMC Harrisburg, established in August 2022, as a 16-month accelerated nursing diploma program. Two floors of the building are dedicated to high-tech nursing classrooms and realistic simulation labs to prepare students for their clinical rotations. Commencement of the first class is scheduled for December 2023. After students complete the accelerated program, they will be well-positioned to pass the Registered Nurse Licensing examination and complete their bachelor's degree in nursing from Harrisburg University, while maintaining full-time employment. For the other health sciences programs, there are state-of-the-art classrooms, auditoriums, skills labs, simulation spaces and high-tech equipment to support research and education in exercise science, physical therapy, pharmacology and other allied health programs. The tower's Health and Innovation Training Center supports collaboration with medical providers and external partners. UPMC physicians are using the center to train residents, support fellowship programs and conduct research. The academic spaces are outfitted with technology enabling researchers and educators to broadcast medical training across the country and internationally. The Advanced Manufacturing Program features innovative labs with 3D printers, workstations for 2D and 3D modeling and computer programming, machining equipment, industrial robots and pneumatic/hydraulic automation trainers.

In August 2023, UPMC Children's Hospital of Pittsburgh, in collaboration with UPMC Western Psychiatric Hospital, opened a pediatric behavioral health walk-in clinic at the main UPMC Children's campus in Pittsburgh. The clinic offers a welcoming and comfortable environment for children and teens with a mental health concern to get same-day expert care from therapists and psychologists, with no pre-appointment necessary. Along with a parent or guardian, children and teens can receive one-time therapeutic intervention and connections to further behavioral health resources. In addition to the walk-in clinic, UPMC Children's employs clinical evaluators in the emergency department, who assist the medical team in providing behavioral health assessments and resources for patients and families. Behavioral health experts are also embedded in the inpatient and outpatient medical settings.

MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED SEPTEMBER 30, 2023

Construction continues on the new UPMC Presbyterian Tower, which broke ground in June 2022. The new \$1.5 billion, 17-story hospital, scheduled to be completed in 2026, will be home to 636 private patient rooms and premier people-focused clinical facilities where UPMC clinical teams and physician-scientists will deliver nationally renowned specialty care that includes transplant, cardiology and cardiac surgery, and neurology and neurosurgery. The spaces within the building are designed to embrace technological advances while supporting patients and staff in an attractive environment that matches the innovation and care provided by UPMC. Located in the Oakland neighborhood of Pittsburgh, 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.

In July 2023, U.S. News & World Report published its yearly rankings for best hospitals, placing UPMC Mercy at No. 7 in the nation for physical rehabilitation, marking Mercy's second consecutive year in the top 10. In addition to being ranked No. 1 in Pittsburgh and No. 2 in Pennsylvania, UPMC Presbyterian Shadyside earned national ranking in nine adult clinical specialties: cancer, cardiology and heart surgery, endocrinology, gastroenterology and GI surgery, geriatrics, neurology and neurosurgery, otolaryngology, pulmonology and lung surgery, and urology. Other UPMC hospitals earned regional recognition and were designated as high-performing in specialty care: UPMC Harrisburg was designated as high-performing in gastroenterology and GI surgery, geriatrics, orthopedics, pulmonology and lung surgery, and urology, and is ranked No. 7 overall in Pennsylvania; UPMC Passavant is ranked No. 15 in Pennsylvania and No. 2 in the Pittsburgh metro area, behind UPMC Presbyterian Shadyside; UPMC Hamot is No. 20 in Pennsylvania; and UPMC St. Margaret is designated as high-performing in orthopedics. In June 2023, UPMC Children's Hospital of Pittsburgh was once again recognized as one of the best pediatric hospitals in the country, earning the No. 8 position on the U.S. News & World Report Honor Roll of Best Children's Hospitals. UPMC Children's is ranked for excellence in all 10 pediatric specialty areas and among the top 10 in six specialties: cardiology and heart surgery, diabetes and endocrinology, gastroenterology and GI surgery, nephrology, pulmonology and lung surgery and urology.

As the second-largest provider-owned health plan nationally, UPMC Health Plan offers a family of award-winning insurance products that serve over 4.4 million members. Earning both a coveted 5 Star rating from the Centers for Medicare and Medicaid Services (CMS) and the highest score in Pennsylvania in the J.D. Power 2023 US Medicare Study of member plan satisfaction, UPMC for Life continued to maintain its position as a market share leader in Western Pennsylvania in the first three quarters of 2023 for both its Medicare Advantage Individual and Special Needs Plans. Additionally, UPMC for Life, as well as UPMC Health Plan's Medicaid and Commercial plans, received 4.5 out of 5 Stars from the National Committee for Quality Assurance (NCQA), making these plans among the highest NCQA-rated plans in the nation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED SEPTEMBER 30, 2023

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

Nine Months Ended September 30, 2023

	Health Services	Insurance Services	Eliminations	Consolidated
Revenues:				
Net patient service revenue	\$ 10,735	\$ -	\$ (2,520)	\$ 8,215
Insurance enrollment revenue	-	10,702	-	10,702
Other revenue	1,071	684	(62)	1,693
Total operating revenues	\$ 11,806	\$ 11,386	\$ (2,582)	\$ 20,610
Expenses:				
Salaries, professional fees and benefits	\$ 6,804	\$ 473	\$ (58)	\$ 7,219
Insurance claims expense	-	9,998	(2,489)	7,509
Supplies, purchased services and general	4,813	762	(35)	5,540
Depreciation and amortization	514	5	-	519
Total operating expenses	12,131	11,238	(2,582)	20,787
Operating (loss) income	\$ (325)	\$ 148	\$ -	\$ (177)
Operating margin %	(2.8)%	1.3%	-	(0.9)%
Operating margin % (including income tax and interest expense)	(4.0)%	1.1%	-	(1.6)%
Operating EBIDA	\$ 189	\$ 153	\$ -	\$ 342
Operating EBIDA %	1.6%	1.3%	-	1.7%

Nine Months Ended September 30, 2022

	Health Services	Insurance Services	Eliminations	Consolidated
Revenues:				
Net patient service revenue	\$ 9,867	\$ -	\$ (2,253)	\$ 7,614
Insurance enrollment revenue	-	9,598	-	9,598
Other revenue	1,051	656	(55)	1,652
Total operating revenues	\$ 10,918	\$ 10,254	\$ (2,308)	\$ 18,864
Expenses:				
Salaries, professional fees and benefits	\$ 6,379	\$ 426	\$ (51)	\$ 6,754
Insurance claims expense	-	8,718	(2,202)	6,516
Supplies, purchased services and general	4,228	705	(55)	4,878
Depreciation and amortization	515	5	-	520
Total operating expenses	11,122	9,854	(2,308)	18,668
Operating (loss) income	\$ (204)	\$ 400	\$ -	\$ 196
Operating margin %	(1.9)%	3.9%	-	1.0%
Operating margin % (including income tax and interest expense)	(2.9)%	3.9%	-	0.4%
Operating EBIDA	\$ 311	\$ 405	\$ -	\$ 716
Operating EBIDA %	2.8%	3.9%	-	3.8%

MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED SEPTEMBER 30, 2023

Health Services

The 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 Pennsylvania (including Erie), and central Pennsylvania (including Williamsport and Harrisburg), as well as western New York and northwestern Maryland; and (iv) pre- and post-acute care capabilities that include: UPMC HomeCare, a network of home health services, and UPMC Senior Communities, the facilities of which provide a complete network of senior living capabilities in greater Pittsburgh and the surrounding counties.

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

Operating income for the Health Services division for the nine months ended September 30, 2023 decreased by \$121 million versus the same period in the prior year. While patient revenues have increased for the comparable periods as volumes continue to increase, the decrease in operating income is primarily the result of increased costs in the labor, supply and drug markets coupled with certain legal settlements.

Insurance Services

UPMC holds various interests in health care financing initiatives and network care delivery operations that have more than 4.4 million members as of September 30, 2023. UPMC Health Plan is a health maintenance organization (“HMO”) offering coverage for commercial and Medicare members. UPMC *for You*, also an HMO, is engaged in providing coverage to Medical Assistance & Medicare Special Needs Plan beneficiaries. UPMC Health Network offers preferred provider organization (“PPO”) plan designs to serve Medicare beneficiaries. UPMC Health Options offers PPO plan designs to serve commercial beneficiaries. UPMC *for Life* is a Medicare product line offered by various companies within the Insurance Services division. UPMC WorkPartners provides fully insured workers’ compensation, integrated workers’ compensation and disability services to employers. Community Care Behavioral Health Organization (“Community Care”) is a state-licensed HMO that manages the behavioral health services for Medical Assistance through mandatory managed care programs in Pennsylvania. Community HealthChoices (“CHC”) is Pennsylvania’s managed care program for individuals who are dually 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 nine months ended September 30, 2023 declined by \$252 million compared to the nine months ended September 30, 2022. The decrease in operating income is a result of increased medical and pharmaceutical expenses driven by higher utilization across the Medicaid, Medicare and CHC products.

MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED SEPTEMBER 30, 2023

UPMC Enterprises

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

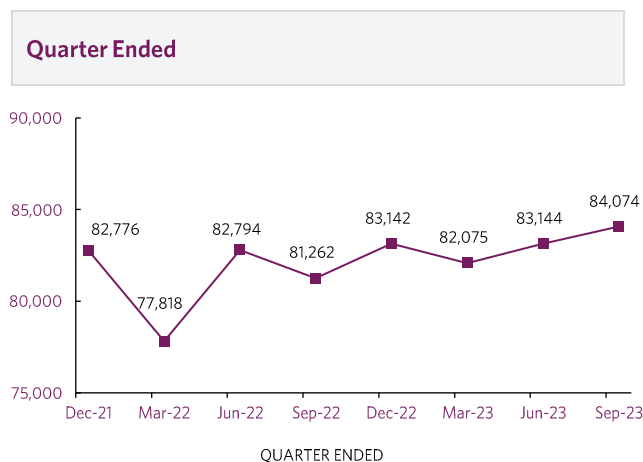
PERIOD ENDED SEPTEMBER 30, 2023

REVENUE METRICS – HEALTH SERVICES

Medical-Surgical Admissions and Observation Visits

Inpatient activity, as measured by medical-surgical admissions and observation visits at UPMC's hospitals for the nine months ended September 30, 2023, increased 3% compared to the same period in 2022.

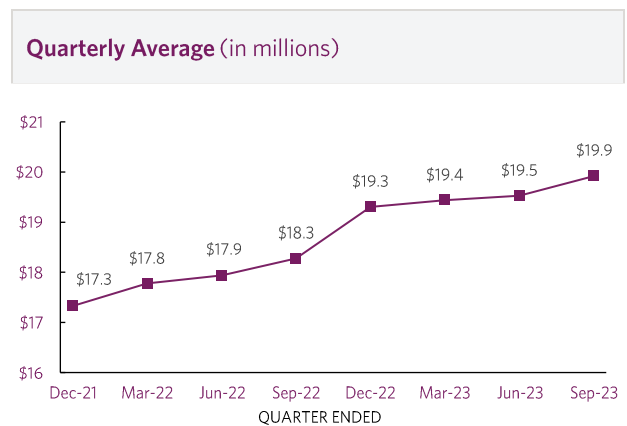
For the Nine Months Ended September 30			
(in thousands)	2023	2022	Change
Academic	80.9	80.9	- %
Community	35.8	34.0	5%
Regional	132.6	127.0	4%
Total	249.3	241.9	3%



Outpatient Revenue per Workday

UPMC's outpatient activity for the nine months ended September 30, 2023, as measured by average revenue per workday, increased 9% compared to the same period in 2022. As new programs are implemented and the movement of formerly inpatient services to outpatient venues continues, ambulatory patient volumes and the corresponding outpatient revenue per workday continues to increase. Hospital outpatient activity is measured on an equivalent workday ("EWD") basis to adjust for weekend and holiday hours.

For the Nine Months Ended September 30			
(in thousands)	2023	2022	Change
Academic	\$ 7,260	\$ 6,663	9%
Community	1,987	1,768	12%
Regional	10,380	9,568	8%
Total	\$ 19,627	\$ 17,999	9%



MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED SEPTEMBER 30, 2023

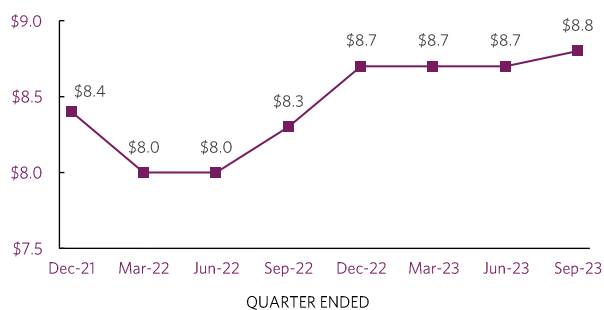
REVENUE METRICS – HEALTH SERVICES (CONTINUED)

Physician Service Revenue per Weekday

UPMC's physician activity for the nine months ended September 30, 2023, as measured by average revenue per weekday, increased 8% from the comparable period in 2022. Physician services activity is measured on a weekday basis.

For the Nine Months Ended September 30			
(in thousands)	2023	2022	Change
Academic	\$ 3,780	\$ 3,525	7%
Community	1,867	1,820	3%
Regional	3,104	2,723	14%
Total	\$ 8,751	\$ 8,068	8%

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.

	Nine Months Ended September 30	
	2023	2022
Medicare	48%	48%
Medical Assistance	17%	17%
Commercial Insurers	16%	16%
UPMC Insurance Services Commercial	11%	11%
Self-pay/Other	8%	8%
Total	100%	100%

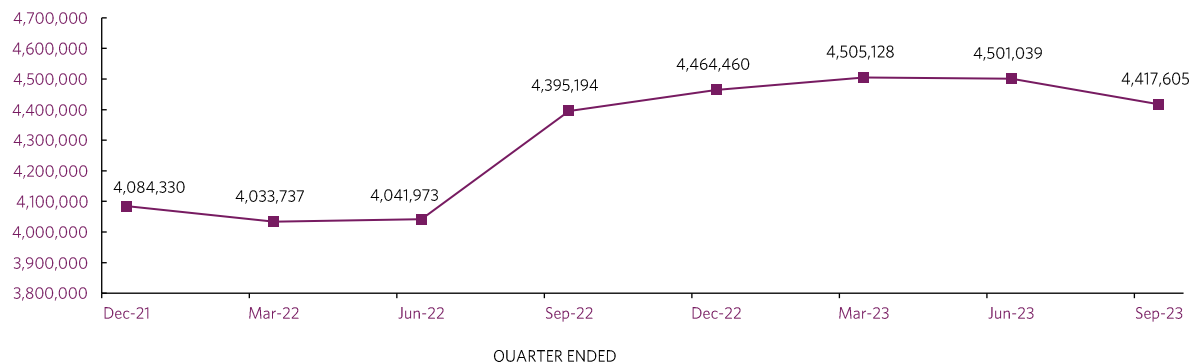
MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED SEPTEMBER 30, 2023

OPERATING METRICS - INSURANCE SERVICES

Membership

Membership in the UPMC Insurance Services division was 4,417,605 as of September 30, 2023, a 1% increase versus September 30, 2022. The Insurance Services Division growth in enrollment compared to prior year was primarily attributable to the expansion of the Workpartners product offset with anticipated disenrollments due to the ending of the COVID-19 public health emergency.

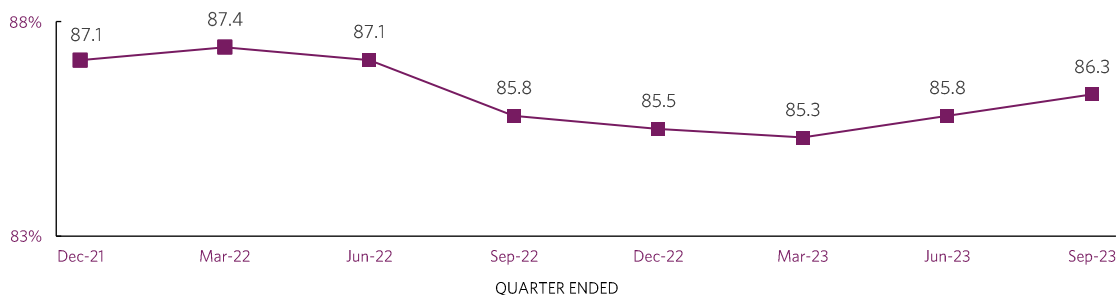


As of	September 30, 2023	September 30, 2022
Commercial Health	568,230	589,176
Medicare	209,535	200,496
Medical Assistance	712,305	720,799
Sub-Total Physical Health Products	1,490,070	1,510,471
Community HealthChoices	142,592	138,395
Behavioral Health	1,421,387	1,473,874
Sub-Total Health Products	3,054,049	3,122,740
Workpartners	868,712	788,787
Ancillary Products	478,319	470,030
Third-Party Administration	16,525	13,637
Total Membership	4,417,605	4,395,194

Medical Expense Ratio

UPMC Insurance Services' medical expense ratio for the trailing twelve months has increased to 86.3% as of September 30, 2023. The chart below is revised quarterly to reflect updated estimates and actual medical claims expense experience for each presented period.

Trailing Twelve Months



MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED SEPTEMBER 30, 2023

KEY FINANCIAL INDICATORS

(Dollars in millions)

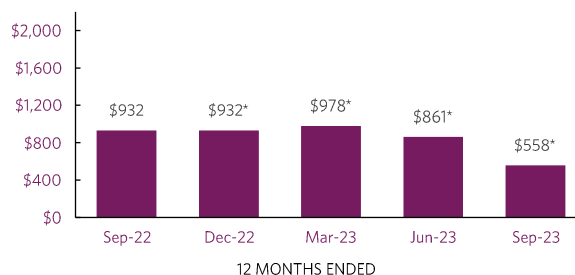
Operating Earnings before Interest, Depreciation and Amortization

Operating EBIDA for the nine months ended September 30, 2023 decreased \$374 million compared to the nine months ended September 30, 2022.

For the Nine Months Ended September 30			
(in millions)	2023	2022	Change
Operating Income	\$ (177)	\$ 196	(190)%
Depreciation and Amortization	519	520	- %
Operating EBIDA	\$ 342	\$ 716	(52)%

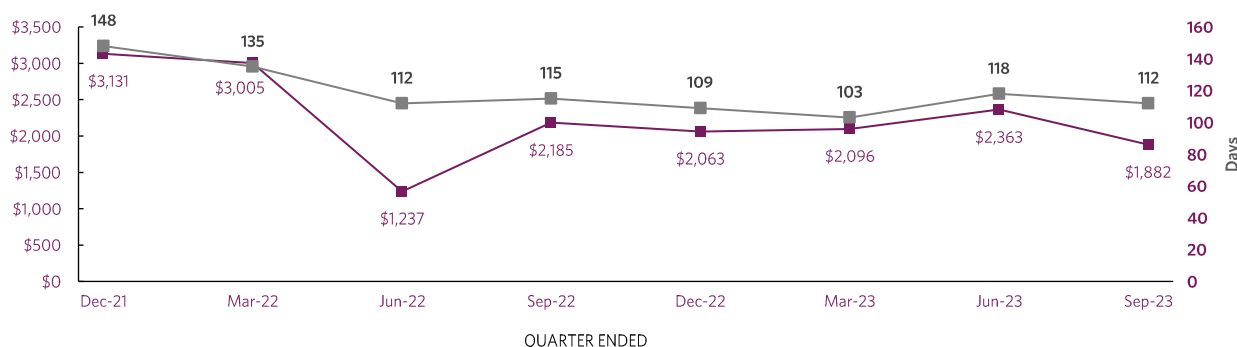
*Excludes \$76 million of lease impairment

Trailing Twelve Months Operating EBIDA



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

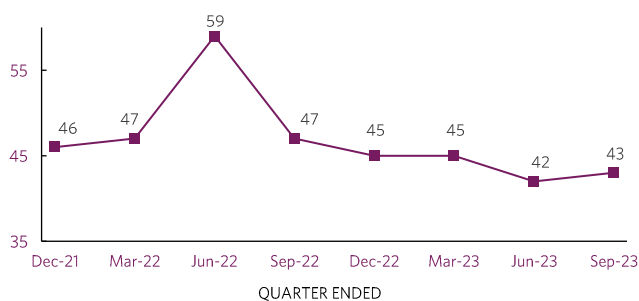
As of September 30, 2023, unrestricted cash and investments over long term debt decreased \$181 million compared to December 31, 2022.



Days in Net Accounts Receivable

Days in Accounts Receivable at September 30, 2023 and December 31, 2022 were 43 and 45, respectively.

By Receivable	September 2023 Balance	Days	
		Sept 30, 2023	Dec 31, 2022
Patient	\$ 1,537	51	47
Insurance and other	1,680	38	44
Consolidated	\$ 3,217	43	45



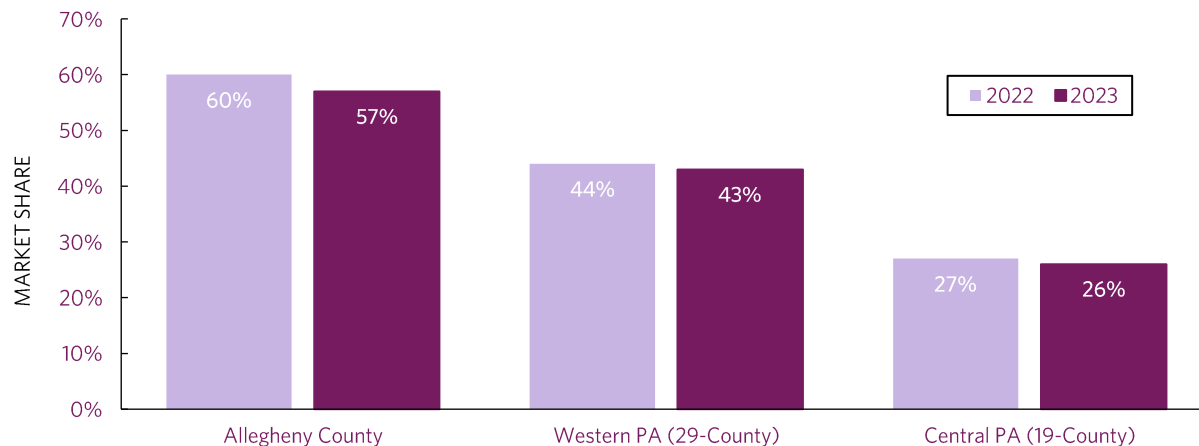
MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED SEPTEMBER 30, 2023

MARKET SHARE

The chart below shows the change in UPMC's estimated inpatient market share for the first quarter of calendar years 2022 and 2023 by service area.⁽¹⁾ This is the most recent market share data currently available.

UPMC INPATIENT MEDICAL-SURGICAL MARKET SHARE AS OF MARCH 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 SEPTEMBER 30, 2023

ASSET AND LIABILITY MANAGEMENT

For the nine months ended September 30, 2023, UPMC's core Investment Portfolio managed by Treasury returned 3.8%. As of September 30, 2023, the Investment Portfolio utilized 175 ongoing external investment managers including 44 traditional managers, 18 hedge fund managers and 113 private capital managers. The Investment Portfolio is also invested with an additional 32 legacy private capital and hedge fund managers. UPMC's Investment Portfolio has a long-term perspective and has generated annualized returns of 8.0%, 4.3% and 4.4% for the trailing one-, three- and five-year periods. As of September 30, 2023, 69% of UPMC's Investment Portfolio could be liquidated within three days.

UPMC's cost of capital during the nine-month period ended September 30, 2023 was 3.3%. 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 September 30, 2023, the interest rates on UPMC's long-term debt were approximately 87% fixed and 13% variable after giving effect to derivative contracts. Interest cost for the variable rate debt for the period averaged 4.2%. The interest cost for the fixed rate debt was 3.1%. UPMC's primary credit facility, which expires in May 2028, has a borrowing limit of \$1 billion. As of September 30, 2023, UPMC had approximately \$134 million in letters of credit outstanding under the credit facility leaving \$866 million available to fund operating and capital needs, none of which was drawn.

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

During Q2 of 2023, UPMC issued the tax-exempt Series 2023A, 2023B, 2023C, and 2023D bonds, as well as the taxable Series 2023 bonds in the amounts of \$445 million, \$89 million, \$36 million, \$250 million, and \$800 million, respectively. These bonds refunded certain indebtedness, funded capital projects and supported working capital. Details of the offerings can be found in the official statements for each issue. Additionally, UPMC issued bonds of \$164 million relating to its international operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS

PERIOD ENDED SEPTEMBER 30, 2023

The table below compares reported Investing and Financing Activity for the nine months ended September 30, 2023 and 2022 by type.

Investing and Financing Activity by Type

Nine Months Ended September 30	2023	2022
<i>(in thousands)</i>		
Realized gain (loss)	\$ 286,410	\$ (38,368)
Interest and dividends, net of fees	114,417	79,325
Realized investment gain	\$ 400,827	\$ 40,957
Unrealized (loss) gain on derivative contracts	(1,619)	2,610
Other unrealized loss	(59,403)	(1,009,855)
Investment gain (loss)	\$ 339,805	\$ (966,288)
Interest expense	(148,597)	(117,279)
Gain on extinguishment of debt	1,274	14,409
UPMC Enterprises activity	(63,541)	(141,910)
Gain (loss) from investing and financing activities	\$ 128,941	\$ (1,211,068)

Sources and Uses of Cash

UPMC's primary source of operating cash is the collection of revenues and related accounts receivable. As of September 30, 2023, UPMC had approximately \$1.6 billion of cash and cash equivalents.

Operating EBIDA was \$342 million for the nine months ended September 30, 2023, compared to \$716 million for the nine months ended September 30, 2022. Key uses of cash for the nine months ended September 30, 2023 include consideration paid to acquire the Sports Surgery Clinic of approximately \$247 million and capital expenditures of approximately \$517 million (excluding any capital acquired through lease arrangements). Major capital projects included construction and improvements at UPMC Central PA, UPMC North Central PA, UPMC Mercy and UPMC Presbyterian as well as ongoing expansion and improvement across the entirety of UPMC. Major information services projects included enhancements that are advancing UPMC's leading clinician centric computing environment, technology infrastructure that supports UPMC's diversified digital environment, investments in enterprise data analytics and other technologies that are transforming the consumer experience across the spectrum of health care.

UTILIZATION STATISTICS

PERIOD ENDED SEPTEMBER 30, 2023

The following table presents selected consolidated statistical indicators of medical-surgical, psychiatric, rehabilitation and skilled nursing patient activity for the nine months ended September 30, 2023 and 2022.

	Nine Months Ended September 30	
	2023	2022
Licensed Beds	8,738	8,776
BEDS IN SERVICE		
Medical-Surgical	5,098	5,102
Psychiatric	430	430
Rehabilitation	243	249
Skilled Nursing	1,542	1,539
Total Beds in Service	7,313	7,320
PATIENT DAYS		
Medical-Surgical	996,378	1,017,513
Psychiatric	82,269	82,343
Rehabilitation	48,444	49,343
Skilled Nursing	331,353	301,218
Total Patient Days	1,458,444	1,450,417
Average Daily Census	5,342	5,313
Observation Days	130,597	124,626
Obs Average Daily Census	478	457
ADMISSIONS AND OBSERVATION CASES		
Medical-Surgical	176,824	174,441
Observation Cases	72,469	67,433
Subtotal	249,293	241,874
Psychiatric	7,637	6,937
Rehabilitation	3,311	3,211
Skilled Nursing	3,395	2,661
Total Admissions and Observation Cases	263,636	254,683
Overall Occupancy	80%	79%
AVERAGE LENGTH OF STAY		
Medical-Surgical	5.6	5.8
Psychiatric	10.8	11.9
Rehabilitation	14.6	15.4
Skilled Nursing	97.6	113.2
Overall Average Length of Stay	7.6	7.7
Emergency Room Visits	771,485	743,214
TRANSPLANTS (DOMESTIC AND INTERNATIONAL)		
Liver	204	157
Kidney	252	261
All Other	232	223
Total	688	641
OTHER POST-ACUTE METRICS		
Home Health Visits	378,081	454,365
Hospice Care Days	176,783	174,583
Outpatient Rehab Visits	516,449	516,087

OUTSTANDING DEBT

PERIOD ENDED SEPTEMBER 30, 2023

(DOLLARS IN THOUSANDS)

Issuer	Original Borrower	Series	Amount Outstanding
Allegheny County Hospital Development Authority	UPMC Health System	1997B	\$ 35,869
	UPMC	2007A	30,431
	UPMC	2017D	398,068
	UPMC	2019A	708,609
	UPMC	2021B	51,809
Monroeville Finance Authority	UPMC	2012	59,289
	UPMC	2014B	42,666
	UPMC	2022B	186,379
	UPMC	2023C	40,702
Pennsylvania Economic Development Financing Authority	UPMC	2014A	250,352
	UPMC	2015B	110,346
	UPMC	2016	209,588
	UPMC	2017A	409,781
	UPMC	2017B	88,595
	UPMC	2017C	134,027
	UPMC	2020A	267,128
	UPMC	2021A	251,974
	UPMC	2022A	225,426
	UPMC	2023A	472,297
	UPMC	2023B	95,194
Tioga County Industrial Development Authority	Laurel Health System	2010	5,222
	Laurel Health System	2011	3,577
Dauphin County General Authority	Pinnacle Health System	2016A	90,304
	Pinnacle Health System	2016B	78,130
General Authority of Southcentral Pennsylvania	Hanover Hospital	2013	3,528
	Hanover Hospital	2015	20,990
Potter County Hospital Authority	UPMC	2018A	10,225
Somerset County Hospital Authority	Somerset Hospital	2009	202
Maryland Health and Higher Educational Facilities Authority	UPMC	2020B	193,626
None	UPMC	2020D	349,820
	UPMC	2020 Term Loan	299,941
	UPMC	2021C	399,624
	UPMC	2023	795,332
	Somerset Management Services	2013	1,317
	Various	Financing Leases & Loans	271,235
		Swap Liabilities	150
Total UPMC Outstanding Debt			\$ 6,840,774

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

Source: UPMC Records

DEBT COVENANT CALCULATIONS

PERIOD ENDED SEPTEMBER 30, 2023

DEBT SERVICE COVERAGE RATIO

(Dollars in thousands)

	Trailing Twelve-Month Period Ended September 30, 2023	
Excess of expenses over revenues	\$	(172,105)
ADJUSTED BY:		
Net Unrealized Gains during Period ⁽¹⁾		(106,117)
Depreciation and Amortization ⁽¹⁾		692,215
Gain on Extinguishment of Debt ⁽¹⁾		(1,274)
Lease Impairment - Facilities ⁽¹⁾		75,784
Lease Impairment Realization - Facilities		(8,289)
Realized Investment Impairments ⁽²⁾		(14,456)
Interest Expense ⁽³⁾		187,416
Revenues Available for Debt Service	\$	653,174
Historical Debt Service Requirements - 2007 MTI	\$	396,015
Debt Service Coverage Ratio - 2007 MTI		1.65X
Historical Debt Service Requirements - All Debt and Finance Leases	\$	439,289
Debt Service Coverage Ratio - All Debt and Finance Leases		1.49X

LIQUIDITY RATIO AS OF SEPTEMBER 30, 2023

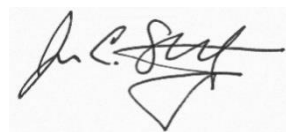
Unrestricted Cash and Investments	\$	8,362,949
Master Trust Indenture Debt		6,305,363
Unrestricted Cash to MTI Debt		1.33

⁽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 September 30, 2023, UPMC is in compliance with the applicable covenants contained in the financing documents for the bonds listed on the cover hereof and all applicable bank lines of credit and no Event of Default (as defined in any related financing document) has occurred and is continuing.



J.C. Stille
Treasurer
UPMC

Unaudited Interim Condensed Consolidated Financial Statements

FOR THE PERIOD ENDED SEPTEMBER 30, 2023



Ernst & Young LLP
2100 One PPG Place
Pittsburgh, PA 15222
Tel: +1 412 644 7800
Fax: +1 412 644 0477
ey.com

Review Report of Independent Auditors

To the Board of Directors of UPMC

Results of Review of Interim Financial Information

We have reviewed the condensed consolidated financial statements of UPMC (the Company), which comprise the condensed consolidated balance sheet as of September 30, 2023, and the related condensed consolidated statements of operations and changes in net assets for the three-month and nine-month periods ended September 30, 2023 and 2022, and cash flows for the nine-month periods end September 30, 2023 and 2022, and the related notes (collectively referred to as the “interim financial information”).

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

Basis for Review Results

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

Responsibilities of Management for the Interim Financial Information

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

Report on Condensed Balance Sheet as of December 31, 2022

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

November 21, 2023

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(DOLLARS IN THOUSANDS)

As of
September 30, 2023 December 31, 2022

CURRENT ASSETS

Cash and cash equivalents	\$ 1,566,067	\$ 953,980
Patient accounts receivable	1,536,795	1,418,566
Insurance and other receivables	1,679,941	1,933,177
Other current assets	852,838	588,555
Total current assets	5,635,641	4,894,278
Board-designated, restricted, trustee and other investments	8,268,652	7,704,484
Beneficial interests in foundations and trusts	672,745	667,380
Net property, buildings and equipment	6,625,272	6,519,892
Operating lease right-of-use assets	761,085	796,886
Other assets	864,469	744,434
Total assets	\$ 22,827,864	\$ 21,327,354

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 914,947	\$ 834,097
Accrued salaries and related benefits	1,017,766	1,024,110
Current portion of insurance reserves	1,237,190	1,155,133
Current portion of long-term obligations	177,634	369,443
Other current liabilities	1,432,209	939,010
Total current liabilities	4,779,746	4,321,793
Long-term obligations	6,663,140	5,152,164
Long-term insurance reserves	469,527	458,285
Operating lease noncurrent liabilities	729,774	770,766
Other noncurrent liabilities	501,013	717,464
Total liabilities	13,143,200	11,420,472
Net assets without donor restrictions	8,492,340	8,737,069
Net assets with donor restrictions	1,192,324	1,169,813
Total net assets	9,684,664	9,906,882
Total liabilities and net assets	\$ 22,827,864	\$ 21,327,354

See accompanying notes

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

(DOLLARS IN THOUSANDS)

	Nine Months Ended September 30		Three Months Ended September 30	
	2023	2022	2023	2022
NET ASSETS WITHOUT DONOR RESTRICTIONS				
Net patient service revenue	\$ 8,214,861	\$ 7,613,678	\$ 2,692,290	\$ 2,528,238
Insurance enrollment revenue	10,701,694	9,598,279	3,556,384	3,251,301
Other revenue	1,693,222	1,652,327	545,767	587,343
Total operating revenues	20,609,777	18,864,284	6,794,441	6,366,882
Salaries, professional fees and employee benefits	7,218,730	6,753,759	2,448,628	2,284,798
Insurance claims expense	7,508,667	6,516,416	2,514,204	2,126,326
Supplies, purchased services and general	5,539,946	4,877,265	1,848,018	1,668,908
Depreciation and amortization	518,946	520,488	174,634	172,358
Total operating expenses	20,786,289	18,667,928	6,985,484	6,252,390
Operating (loss) income	(176,512)	196,356	(191,043)	114,492
Academic and research support provided	(181,125)	(180,000)	(60,375)	(59,658)
Income tax and other non-operating expenses	4,455	86,218	3,286	27,547
After-tax (loss) income	\$ (353,182)	\$ 102,574	\$ (248,132)	\$ 82,381
Investing and financing activities:				
Investment gain (loss)	339,805	(966,288)	(54,749)	(239,499)
Interest expense	(148,597)	(117,279)	(54,704)	(39,813)
Gain (loss) on extinguishment of debt	1,274	14,409	-	(1)
UPMC Enterprises activity:				
Portfolio company revenue and net gains from sales	113,846	1,158	26,006	(20,166)
Portfolio company and research and development expense	(177,387)	(143,068)	(63,730)	(45,697)
Gain (loss) from investing and financing activities	128,941	(1,211,068)	(147,177)	(345,176)
Excess of (expenses over revenues)	(224,241)	(1,108,494)	(395,309)	(262,795)
Excess of revenues over expenses (expenses over revenues) attributable to noncontrolling interest	19,171	(4,199)	(2,111)	(2,625)
Excess of (expenses over revenues) attributable to controlling interest	(243,412)	(1,104,295)	(393,198)	(260,170)
Net change in pension liability and other	(1,317)	(23,646)	(28,564)	(12,389)
Change in net assets without donor restrictions	(244,729)	(1,127,941)	(421,762)	(272,559)
NET ASSETS WITH DONOR RESTRICTIONS				
Change in beneficial interests in foundations and trusts	5,365	(124,853)	(17,875)	(37,704)
Other changes in net assets with donor restrictions	17,146	(27,654)	3,647	(9,232)
Change in net assets with donor restrictions	22,511	(152,507)	(14,228)	(46,936)
Change in total net assets	(222,218)	(1,280,448)	(435,990)	(319,495)
Net assets, beginning of period	9,906,882	11,278,360	10,120,654	10,317,407
Net assets, end of period	\$ 9,684,664	\$ 9,997,912	\$ 9,684,664	\$ 9,997,912

See accompanying notes

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(DOLLARS IN THOUSANDS)

Nine Months Ended September 30

	2023	2022
OPERATING ACTIVITIES		
Decrease in total net assets	\$ (222,218)	\$ (1,280,448)
Adjustments to reconcile change in total net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	518,946	520,488
Change in beneficial interest in foundations and trusts	(5,365)	124,853
Restricted contributions and investment losses (gains)	(17,146)	22,054
Unrealized losses on investments	59,403	1,009,855
Realized (gains) on investments	(286,410)	(40,957)
Net changes in non-alternative investments	(314,480)	913,186
Changes in operating assets and liabilities:		
Accounts receivable	135,007	(230,151)
Other current assets	(258,470)	(184,735)
Accounts payable and accrued liabilities	74,506	23,637
Insurance reserves	93,299	86,053
Other current liabilities	493,199	(61,085)
Other noncurrent assets and liabilities	(257,443)	(68,228)
Other operating changes	(27,729)	(44,619)
Net cash (used in) provided by operating activities	(14,901)	789,903
INVESTING ACTIVITIES		
Purchase of property, buildings and equipment	(498,534)	(681,647)
UPMC Enterprises investments in non-consolidated entities	(48,669)	(27,687)
Consideration paid for acquisitions	(247,626)	-
Net change in investments designated as nontrading	(27,531)	75,287
Net change in alternative investments	51,900	6,795
Other investing changes	74,025	98,993
Net cash used in investing activities	(696,435)	(528,259)
FINANCING ACTIVITIES		
Repayments of long-term obligations	(498,792)	(459,948)
Borrowings of long-term obligations	1,831,265	417,157
Other financing changes	(9,050)	(22,054)
Net cash provided by (used in) financing activities	1,323,423	(64,845)
Net change in cash and cash equivalents	612,087	196,799
Cash and cash equivalents, beginning of period	953,980	930,376
Cash and cash equivalents, end of period	\$ 1,566,067	\$ 1,127,175
SUPPLEMENTAL INFORMATION		
Finance lease obligations incurred to acquire assets	\$ 18,352	\$ 19,194

See accompanying notes

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

1. BASIS OF PRESENTATION

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

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

2. SIGNIFICANT TRANSACTIONS

In February 2023, CarepathRx, an equity investment of UPMC Chartwell, executed an agreement where a portion of its business was sold to a third party. UPMC Chartwell's equity investment in CarepathRx resulted in a gain of \$164,183 in other revenues, of which approximately \$20,000 was attributed to noncontrolling interest, in its consolidated statement of operations and changes in net assets for the three and nine months ended September 30, 2023, in accordance with ASC 810, *Consolidation*.

In March 2023, UPMC acquired the Sports Surgery Clinic ("SSC") in Dublin, Ireland. As UPMC's fourth hospital in Ireland, the transaction is intended to further UPMC's commitment to clinical excellence in this region of the world. As a result of the acquisition, UPMC acquired approximately \$106,000 of total assets, consisting of \$100,000 of property, plant and equipment and \$6,000 of other assets. Total consideration paid by UPMC approximated \$247,000 and resulted in approximately \$141,000 of goodwill in the consolidated balance sheet as of September 30, 2023. UPMC applies the guidance set forth in ASC 805 Business Combinations for affiliations and acquisitions and as such will continue to assess throughout the remainder of the year the fair value, as of the acquisition date, of any assets and liabilities acquired.

3. NEW ACCOUNTING PRONOUNCEMENTS

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

4. REVENUE

Net Patient Service Revenue

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

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

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

The majority of UPMC's services are rendered to patients with third-party coverage. Payment under these programs for all payers is based on a combination of prospectively determined rates, discounted charges and historical costs. Amounts received under Medicare and Medical Assistance programs are subject to review and final determination by program intermediaries or their agents and the contracts UPMC has with commercial payers also provide for retroactive audit and review of claims. Agreements with third-party payers typically provide for payments at amounts less than established charges. Generally, patients who are covered by third-party payers are responsible for related deductibles and coinsurance, which vary in amount. UPMC also provides services to uninsured patients. Revenues related to uninsured patients and uninsured copayment and deductible amounts for patients who have health care coverage may have discounts applied (uninsured discounts and contractual discounts). UPMC also records estimated implicit price concessions (based primarily on historical collection experience) related to uninsured accounts to record these revenues at the estimated amounts UPMC expects to collect. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient service revenue in the period of the change and are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods if final settlements differ from estimates. Adjustments arising from a change to previously estimated transaction prices were not significant in the nine months ended September 30, 2023 or 2022.

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

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

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

The composition of net patient service revenue for the nine months ended September 30, 2023 and 2022 is as follows:

Periods Ended September 30	Nine Months Ended		Three Months Ended	
	2023	2022	2023	2022
Commercial	38%	38%	39%	38%
Medicare	40%	39%	40%	39%
Medical Assistance	16%	17%	15%	16%
Self-pay/other	6%	6%	6%	7%
	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.

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

Other Revenue

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

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

5. FAIR VALUE MEASUREMENTS

As of September 30, 2023 and December 31, 2022, UPMC held certain assets that are required to be measured at fair value on a recurring basis. These include certain board-designated, restricted, trustee, and other investments and derivative instruments. Certain alternative investments are measured using the equity method of accounting and are, therefore, excluded from the fair value hierarchy tables presented herein. The valuation techniques used to measure fair value are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs are generally unsupported by market activity. The three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value, includes:

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

The following tables represent UPMC's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2023 and December 31, 2022. The interest rate swaps are valued using internal models, which are primarily based on market observable inputs, including interest rate curves. When quoted market prices are unobservable for fixed income securities, quotes from independent pricing vendors based on recent trading activity and other relevant information, including market interest rate curves, referenced credit spreads and estimated prepayment rates where applicable, are used for valuation purposes. These investments are included in Level 2 and include corporate fixed income, government bonds, and mortgage and asset-backed securities.

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

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

FAIR VALUE MEASUREMENTS AS OF SEPTEMBER 30, 2023

	Level 1	Level 2	Level 3	NAV	Total Carrying Amount
ASSETS					
Fixed income	\$ 455,186	\$ 2,811,985	\$ -	\$ -	\$ 3,267,171
Domestic equity	553,265	10,562	-	-	563,827
International equity	749,340	-	-	-	749,340
Public real estate	101,229	-	-	-	101,229
Long/short equity	4,424	177,555	-	-	181,979
Absolute equity	(546)	64,057	-	-	63,511
Securities on loan	611,858	-	-	-	611,858
Securities lending collateral	303,911	-	-	-	303,911
Alternative and other investments at NAV	-	-	-	1,501,377	1,501,377
Total assets measured at fair value on a recurring basis	\$ 2,778,667	\$ 3,064,159	\$ -	\$ 1,501,377	\$ 7,344,203
LIABILITIES					
Payable under securities lending agreement	\$ (303,911)	\$ -	\$ -	\$ -	\$ (303,911)
Derivative instruments	-	(150)	-	-	(150)
Total liabilities measured at fair value on a recurring basis	\$ (303,911)	\$ (150)	\$ -	\$ -	\$ (304,061)

FAIR VALUE MEASUREMENTS AS OF DECEMBER 31, 2022

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

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

6. FINANCIAL INSTRUMENTS

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

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value using quoted market prices or model-driven valuations. Cash and cash equivalents and investments recorded at fair value aggregate to \$8,606,359 and \$7,502,345 at September 30, 2023 and December 31, 2022, respectively. As of September 30, 2023 and December 31, 2022, respectively, UPMC had \$3,450,829 and \$3,001,542 of total cash and investments that are held by UPMC's regulated entities.

Investments in limited partnerships that invest in nonmarketable securities are primarily recorded at fair value using the NAV practical expedient if the ownership percentage is less than 5% and are reported using the equity method of accounting if the ownership percentage is greater than 5%. UPMC had \$1,228,360 and \$1,156,119 of alternative investments accounted for under the equity method, which approximates fair value, at September 30, 2023 and December 31, 2022, respectively.

UPMC participates in securities lending transactions whereby a portion of its investments are loaned, through its agent, to various parties in return for cash and securities from the parties as collateral for the securities loaned. The amount of cash collateral received under securities lending is reported as an asset and a corresponding payable in the condensed consolidated balance sheet (reported in other current assets and other current liabilities, respectively). Total collateral is required to have a market value between 102% and 105% of the market value of securities loaned. As of September 30, 2023 and December 31, 2022, respectively, securities loaned, of which UPMC maintains ownership, total \$611,858 and \$203,429, and total collateral (cash and noncash) received related to the securities loaned was \$648,996 and \$212,925.

During the nine months ended September 30, 2023, UPMC issued the tax-exempt Series 2023A, 2023B, 2023C and 2023D bonds, as well as the taxable Series 2023 bonds in the amounts of \$445,230, \$89,275, \$36,815, \$250,000 and \$800,000, respectively. These bonds refund certain indebtedness, fund capital projects and support working capital. Additionally, UPMC issued bonds of \$164,110 relating to its international operations. Lastly, UPMC amended its existing primary revolving credit facility to provide a maximum available amount thereunder to \$1,000,000. As of September 30, 2023, UPMC had approximately \$134,000 in letters of credit outstanding under the credit facility leaving \$866,000 available to fund operating and capital needs, none of which was drawn.

7. DERIVATIVE INSTRUMENTS

UPMC uses derivative financial instruments to manage exposures on its debt. By using derivatives to manage the 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. Pursuant to master netting arrangements, UPMC has the right to offset the fair value of

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

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 are not offset by counterparty or type of item hedged.

UPMC maintains interest rate swap programs on certain of its debt in order to manage its interest rate risk. As of September 30, 2023, and December 31, 2022, UPMC is party to a floating-to-fixed interest rate swap where UPMC receives 68% of a one-month index rate and pays a fixed rate of 3.60% on a notional of \$37,935. As of September 30, 2023, and December 31, 2022, UPMC is also party to a basis swap where UPMC receives 67% of a three-month index rate plus .3217% and pays SIFMA on a notional of \$30,525 and \$38,450, respectively. From origination through June 30, 2023, LIBOR served as the receipt index for both agreements. Effective July 1, 2023, LIBOR ceased to be recognized as a representative index whereupon SOFR was selected as the replacement index in accordance with the ISDA Fallback Protocols. The aforementioned agreements are scheduled to mature in 2025 and 2037, respectively, and are carried as a liability with a combined market value of (\$150) as of September 30, 2023, and (\$732) as of December 31, 2022.

8. PENSION PLANS

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

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

	Nine Months Ended September 30		Three Months Ended September 30	
	2023	2022	2023	2022
Service cost	\$ 118,593	\$ 134,655	\$ 39,531	\$ 44,885
Interest cost	111,693	67,260	37,231	22,420
Expected return on plan assets	(134,298)	(156,282)	(44,766)	(52,094)
Recognized net actuarial loss	10,938	-	3,646	-
Amortization of prior service credit	(3,942)	(3,942)	(1,314)	(1,314)
Net periodic pension cost	\$ 102,984	\$ 41,691	\$ 34,328	\$ 13,897

9. LEASES

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

	Sept 30, 2023	Dec 31, 2022
OPERATING LEASES		
Operating lease right-of-use assets	\$ 761,085	\$ 796,886
Other current liabilities	142,828	148,940
Operating lease noncurrent liabilities	729,774	770,766
Total operating lease liabilities	\$ 872,602	\$ 919,706

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN THOUSANDS)

FINANCE LEASES

Property, plant and equipment, net	\$ 56,605	\$ 60,853
Current portion of long-term obligations	21,066	22,673
Long-term obligations	42,655	46,965
Total finance lease liabilities	<u>\$ 63,721</u>	<u>\$ 69,638</u>

Undiscounted maturities of lease liabilities were as follows:

For the Nine Months Ended September 30	Operating Leases	Finance Leases
2023 (rest of year)	\$41,184	\$7,561
2024	148,312	18,737
2025	126,377	11,915
2026	111,718	7,392
2027	89,179	2,798
Thereafter	<u>431,509</u>	<u>15,917</u>

10. CONTINGENCIES

On October 9, 2012, UPMC received a Civil Investigative Demand (“CID”) from the Department of Justice (“DOJ”) that sought records relating to 40 surgical procedures performed between January 25, 2008 and June 24, 2010. The parties have reached a tentative settlement agreement that does not have a material impact on UPMC’s consolidated financial statements.

On or about August 30, 2022, Plaintiff, Jonathan D’Cunha, M.D. filed a third-party complaint in the United States District Court for the Western District of Pennsylvania against UPMC and certain of its subsidiaries alleging that they failed to provide insurance coverage and/or indemnification to him for claims asserted against him by a current UPMC cardiothoracic surgeon. Those claims contend, inter alia, that Dr. D’Cunha defamed and illegally wiretapped the UPMC surgeon. On July 31, 2023, the Court held that a UPMC subsidiary has a duty to pay the defense costs of Dr. D’Cunha and another physician. On November 13, 2023, the parties reached a tentative comprehensive settlement agreement that does not have a material impact on UPMC’s consolidated financial statements.

On February 17, 2023, UPMC was served with a qui tam suit that had been filed under seal in 2019, alleging that it, along with the Magee Womens Research Institute (“MWRI”) and the University of Pittsburgh, violated the False Claims Act by overbilling federal grants received by MWRI. On November 21, 2022, the United States filed its notice declining to intervene in the lawsuit. On March 24, 2023, the Relator filed a Second Amended Complaint that, *inter alia*, added UPMC Magee-Womens Hospital as a defendant. On June 13, 2023, the defendants moved to dismiss the Second Amended Complaint. The ultimate outcome and effect on UPMC’s condensed consolidated financial statements cannot be determined at this time.

11. SUBSEQUENT EVENTS

Management evaluated events occurring subsequent to September 30, 2023 through November 21, 2023, the date the consolidated financial statements of UPMC were issued. During this period, there were no subsequent events requiring recognition or disclosure in the consolidated financial statements except as follows.

In October 2023, UPMC and Washington Health System (WHS) executed an agreement concerning the integration and affiliation of WHS with and into the UPMC system. The closing date for this transaction will be established following the completion of applicable regulatory review processes.