

UPMC Unaudited Quarterly Disclosure

For the Period Ended December 31, 2015



UPMC UNAUDITED QUARTERLY DISCLOSURE

FOR THE PERIOD ENDED DECEMBER 31, 2015

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The following financial data as of and for the three and six month periods ended December 31, 2015 and 2014 is derived from the interim consolidated financial statements of UPMC. The interim 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 and for the twelve month period ended June 30, 2015 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. The information contained herein is as of December 31, 2015. 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 DECEMBER 31, 2015

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 of western Pennsylvania. We also draw patients for highly specialized services from across the nation and around the world. UPMC's more than 20 hospitals and more than 500 clinical locations comprise one of the largest nonprofit health systems in the United States. UPMC has three major operating components: 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 is currently ranked number 13 on the *U.S. News & World Report* Honor Roll of America's Best Hospitals. Investments in our operations and continued capital improvements are expected to become increasingly important as the competitive environment of the western Pennsylvania market and changes to health care nationally 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 western Pennsylvania. 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 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). MD&A should be read in conjunction with the accompanying unaudited consolidated financial statements.

MANAGEMENT'S DISCUSSION & ANALYSIS

PERIOD ENDED DECEMBER 31, 2015

CONSOLIDATED FINANCIAL HIGHLIGHTS

(Dollars in millions)

Financial Results for the Six Months Ended December 31	2015	2014
Operating revenues	\$ 6,260	\$ 5,892
Operating income	\$ 201	\$ 192
Operating margin	3.2 %	3.3%
Operating margin (including income tax and interest expense)	2.2 %	2.2%
Loss from investing and financing activities	\$ (292)	\$ (46)
Excess of (expenses over revenues) revenues over expenses	\$ (95)	\$ 141
Operating EBIDA	\$ 431	\$ 424
Capital expenditures and investments	\$ 190	\$ 200
Reinvestment ratio	0.83	0.82

Selected Other Information as of	December 31, 2015	June 30, 2015
Total cash and investments	\$ 4,828	\$ 4,864
Unrestricted cash and investments	\$ 4,054	\$ 4,100
Unrestricted cash and investments over long-term debt	\$ 1,040	\$ 1,129
Days of cash on hand	127	132
Days in net accounts receivable	45	52
Average age of plant	9.8	9.4

Operating revenues for the six months ended December 31, 2015 increased \$368 million, or 6.2%, as compared to the six months ended December 31, 2014, primarily due to growth in Insurance Services. Operating income for the six months ended December 31, 2015 increased \$9 million over the same period in the prior fiscal year. Operating earnings before interest, depreciation and amortization totaled \$431 million, and excess of expenses over revenues was \$95 million. As of December 31, 2015, UPMC had more than \$4.8 billion of cash and investments.

For the six months ended December 31, 2015:

- Hospital medical-surgical admissions and observation cases decreased 3% compared to the prior year.
- Hospital outpatient revenue per workday decreased 2% compared to the prior year.
- Physician service revenue per weekday increased 1% from the comparable period in the prior year, and
- Enrollment in UPMC's Insurance Services grew to nearly 2.9 million members as of January 1, 2016.

UPMC's loss from investing and financing activities, excluding UPMC Enterprises activity, for the six months ended December 31, 2015 was (\$263) million. UPMC made no material changes to its asset allocation policies during the quarter and continues to have a long-term perspective with regard to its investment activities.

MANAGEMENT'S DISCUSSION & ANALYSIS

PERIOD ENDED DECEMBER 31, 2015

In December 2015, UPMC and WCA Hospital in Jamestown, NY, announced a formal affiliation agreement to integrate WCA Hospital into the UPMC network to expand access to quality health care services and resources in the Jamestown region. WCA Hospital, with 317 licensed beds, is Southwestern New York's largest not-for-profit healthcare provider and is the first U.S. hospital outside of Pennsylvania to sign an affiliation agreement with UPMC. Since forming a strategic affiliation agreement in August 2012, WCA Hospital and UPMC Hamot have already experienced a long-standing mutually beneficial collaboration. UPMC has committed to invest at least \$25 million over the next 10 years to continue supporting improved care coordination and delivery of services, increasing patient satisfaction, assisting with recruitment and retention of outstanding physicians, and upgrading facilities, programs, and infrastructure, including information technology and electronic medical records capabilities. UPMC has also agreed to relieve WCA's debt and assume its pension obligations, freeing up significant additional monies for WCA development. The affiliation agreement is contingent upon regulatory approvals, including New York State Certificate of Need approval, and New York State funding of \$45 million. UPMC and WCA hope to finalize the transaction in late summer of 2016.

UPMC and Health Catalyst began a strategic partnership in December 2015 to combine technologies and front-line personnel in an unprecedented effort to help health systems solve one of their most vexing and urgent problems - how to measure and analyze the true cost of healthcare delivery for each patient. The agreement between UPMC and Health Catalyst builds upon an activity-based cost management system developed by UPMC for commercial use and Health Catalyst's proven Enterprise Data Warehouse ("EDW") infrastructure, analytics expertise, and professional services. Under the agreement, Health Catalyst is licensing technology, content and analytics innovations developed by UPMC as part of the health system's effort to advance patient care while lowering costs. Health Catalyst intends to commercialize these innovations to further enhance UPMC's cost management programs, and to benefit other health systems. Additionally, UPMC, led by UPMC Enterprises, will partner with Health Catalyst to further develop the cost-management program and implement the Health Catalyst Late-Binding™ EDW and Analytics platform to enable more seamless retrieval and aggregation of data from multiple information systems at UPMC.

In February 2015, the Boards of Directors of UPMC and Jameson Health System in New Castle, Pa., ("Jameson"), signed a definitive agreement to merge Jameson into UPMC. Jameson, UPMC and UPMC Horizon are collaborating to develop a plan that will ensure growth and continued access to quality health care services in Lawrence and Mercer counties. UPMC plans \$70 million for the development of facilities and services at Jameson, and has committed to no less than 10 years of planned services improvements for the region, including physician recruitment, capital improvements and coordination of clinical programs. Efforts to obtain regulatory approval continue. Pursuant to an arbitration that is part of a court proceeding, the Pennsylvania Attorney General's Office will not object to the transaction if it can reach an acceptable Consent Decree with UPMC. Review by the Federal Trade Commission is in progress. The outcome of that process cannot be determined at this time, but the parties hope to finalize the transaction in early 2016.

On November 6, 2015, a three-member panel appointed by the American Arbitration Association issued its ruling in favor of UPMC and against Highmark related to billings to Highmark for the provision of certain oncology services covered under the Highmark contracts. The panel awarded UPMC a total of \$24 million, constituting underpayment from April 1, 2014 through October 28, 2015, and interest at the rate of 6 percent. Although the ruling only addressed amounts Highmark owed for oncology services provided by UPMC Presbyterian Shadyside during such period, UPMC and Highmark agreed that this result determined the amount owed for all other oncology services provided at UPMC facilities from April 1, 2014 through the date of the award. UPMC received payment for the UPMC Presbyterian Shadyside award in December 2015 and a second payment totaling \$207 million for all other UPMC facilities, including awarded interest, in January 2016, satisfying amounts recorded as of December 31, 2015.

MANAGEMENT'S DISCUSSION & ANALYSIS

PERIOD ENDED DECEMBER 31, 2015

In April 2015, UPMC gave notice to Highmark of UPMC's decision to not renew UPMC's Medicare Advantage provider contracts with Highmark, effective January 1, 2016. This non-renewal applied to all UPMC hospitals and employed providers and was prompted by Highmark's refusal to honor its contract. On or about April 27, 2015, the Commonwealth of Pennsylvania sought an Order compelling UPMC to withdraw its notice of termination of Medicare Advantage contracts with Highmark. On May 29, 2015, the Commonwealth Court entered an Order holding that, inter alia, UPMC shall be in a contract with Highmark for Medicare Advantage for the term of the Consent Decrees. UPMC appealed that Order to the Pennsylvania Supreme Court. In a November 30, 2015 Opinion, a divided Pennsylvania Supreme Court upheld the Commonwealth Court ruling pertaining to Medicare Advantage. In conformity with the Commonwealth Court's Order and as affirmed by the Supreme Court, UPMC withdrew its notices of termination of the Medicare Advantage contracts.

To form a closer alignment with the specialists and leadership of Pittsburgh-based Magee-Womens Hospital of UPMC, in December 2015, UPMC Hamot announced the renaming of its women's hospital to Magee-Womens, UPMC Hamot. Magee, a nationally renowned premier destination for women's health care now has an Erie campus at Hamot, reflecting the rapid evolution and advancement of the Erie region's only women's hospital, built in 2011. This further enhances the delivery of UPMC's world-class care in the Erie region, ensures that specialized care remains easily accessible and close to home, and provides women with more choice for their OB/GYN care. With an initial \$1 million investment for the development of an outpatient physician office facility on campus and the addition of more than 15 positions, Magee-Womens, UPMC Hamot will continue to expand services for local women by providing additional sub-specialty care, typically found only in larger academic medical center settings.

MANAGEMENT'S DISCUSSION & ANALYSIS

PERIOD ENDED DECEMBER 31, 2015

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Six Months Ended December 31, 2015

(in millions)

Revenues:	Health Services	Insurance Services	Eliminations	Consolidated
Net patient service revenue less provision for bad debts	\$ 3,586	\$ -	\$ (749)	\$ 2,837
Insurance enrollment revenue	-	2,919	-	2,919
Other revenue	417	144	(57)	504
Total operating revenues	\$ 4,003	\$ 3,063	\$ (806)	\$ 6,260
Expenses:				
Salaries, professional fees and benefits	\$ 2,134	\$ 129	\$ (13)	\$ 2,250
Supplies, purchased services and general	1,517	2,855	(793)	3,579
Depreciation and amortization	226	4	-	230
Total operating expenses	3,877	2,988	(806)	6,059
Operating income	\$ 126	\$ 75	-	\$ 201
Operating margin %	3.1%	2.4%	-	3.2%
Operating margin % (including income tax and interest expense)	1.7%	2.3%	-	2.2%
Operating EBIDA	\$ 352	\$ 79	-	\$ 431
Operating EBIDA %	8.8%	2.6%	-	6.9%

Six Months Ended December 31, 2014

(in millions)

Revenues:	Health Services	Insurance Services	Eliminations	Consolidated
Net patient service revenue less provision for bad debts	\$ 3,588	\$ -	\$ (642)	\$ 2,946
Insurance enrollment revenue	-	2,490	-	2,490
Other revenue	392	117	(53)	456
Total operating revenues	\$ 3,980	\$ 2,607	\$ (695)	\$ 5,892
Expenses:				
Salaries, professional fees and benefits	\$ 2,121	\$ 109	\$ (13)	\$ 2,217
Supplies, purchased services and general	1,464	2,469	(682)	3,251
Depreciation and amortization	227	5	-	232
Total operating expenses	3,812	2,583	(695)	5,700
Operating income	\$ 168	\$ 24	-	\$ 192
Operating margin %	4.2%	0.9%	-	3.3%
Operating margin % (including income tax and interest expense)	2.8%	0.7%	-	2.2%
Operating EBIDA	\$ 395	\$ 29	-	\$ 424
Operating EBIDA %	9.9%	1.1%	-	7.2%

MANAGEMENT'S DISCUSSION & ANALYSIS

PERIOD ENDED DECEMBER 31, 2015

Health Services

UPMC Health Services include 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 more than 3,500 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, Pa.; (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 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. The Health Services division also includes its international ventures which aims to bring new revenue streams into western Pennsylvania. International ventures currently include ISMETT, a transplant and specialty surgery hospital in Palermo, Italy, that has performed more than 1,600 transplants since its founding in 1999, a cancer center located in Ireland, a contract to provide 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 revenue of \$4.0 billion increased \$23 million versus prior year. Operating income of \$126 million decreased \$42 million versus prior year driven by decreased volumes and cost inflation partially offset by productivity improvements and miscellaneous non-recurring activity.

Insurance Services

UPMC holds various interests in health care financing initiatives and network care delivery operations that have nearly 2.9 million members as of January 1, 2016. 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, risk-bearing PPO that manages the behavioral health services for Medical Assistance through mandatory managed care programs in 39 Pennsylvania counties, including Allegheny County.

Insurance Services revenues of \$3.1 billion increased \$456 million versus prior year. Insurance services experienced operating income growth of \$51 million versus prior year driven by increased membership and improved underwriting margin, partially offset by higher administrative expenses.

UPMC Enterprises

The goal of UPMC Enterprises is to leverage 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 smart technologies and developing strategic partnerships with industry leaders. 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 internally-focused 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 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 DECEMBER 31, 2015

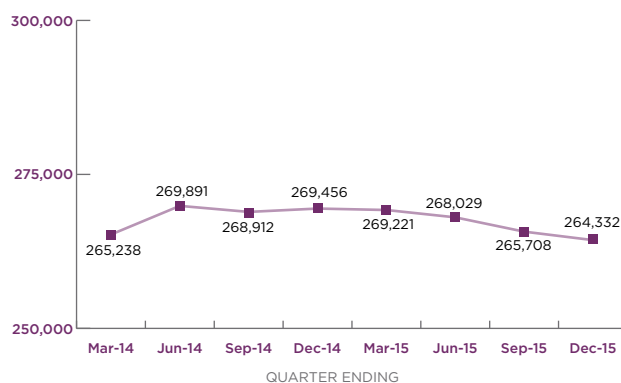
REVENUE METRICS - HEALTH SERVICES

Medical-Surgical Admissions and Observation Visits

Inpatient activity as measured by medical-surgical admissions and observation visits at UPMC's hospitals for the six months ended December 31, 2015 decreased 3% compared to the same period in 2014.

For the Six Months Ended December 31			
(in thousands)	2015	Change	2014
Academic	66.0	(2%)	67.5
Community	43.4	(2%)	44.3
Regional	21.7	(6%)	23.0
Total	131.1	(3%)	134.8

Trailing Twelve-Months

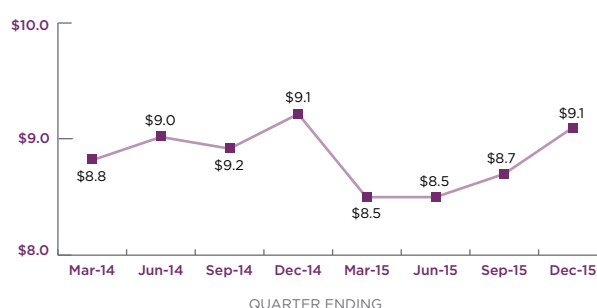


Outpatient Revenue per Workday

UPMC's outpatient activity for the six months ended December 31, 2015 as measured by average revenue per workday decreased 2% compared to the same period in 2014. Hospital outpatient activity is measured on an equivalent workday basis to adjust for weekend and holiday hours.

For the Six Months Ended December 31			
(in thousands)	2015	Change	2014*
Academic	\$ 5,275	(1%)	\$ 5,318
Community	2,127	(4%)	2,248
Regional	1,496	1%	1,476
Total	\$ 8,898	(2%)	\$ 9,042

Quarterly Average (in millions)



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

MANAGEMENT'S DISCUSSION & ANALYSIS

PERIOD ENDED DECEMBER 31, 2015

REVENUE METRICS - HEALTH SERVICES (CONTINUED)

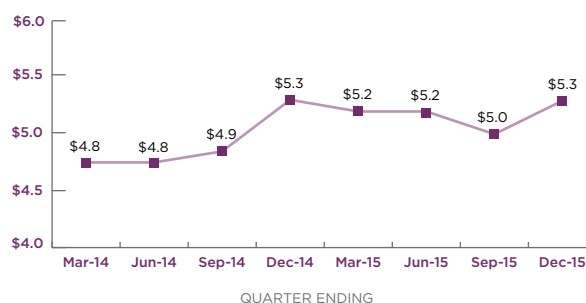
Physician Service Revenue per Weekday

UPMC's physician activity for the six months ended December 31, 2015 as measured by average revenue per weekday increased 1% from the comparable period in 2014. Physician services activity is measured on a weekday basis.

For the Six Months Ended December 31			
(in thousands)	2015	Change	2014*
Academic	\$ 2,974	1%	\$ 2,942
Community	2,172	2%	2,138
Total	\$ 5,146	1%	\$ 5,080

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

Quarterly Average (in millions)



Sources of Patient Service Revenue

The gross patient service revenues of UPMC are derived from third-party payers which reimburse or pay UPMC for the services it provides to patients covered by such payers. Third-party payers include the federal Medicare Program, the federal and state Medical Assistance Program ("Medicaid"), Highmark Blue Cross Blue Shield ("Highmark") and other third-party insurers such as health maintenance organizations and preferred provider organizations. The following table is a summary of the percentage of the subsidiary hospitals' gross patient service revenue by payer.

	Six Months Ended December 31	
	2015	2014*
Medicare	45%	47%
Medicaid	17%	17%
UPMC Insurance Services	12%	10%
National Insurers	9%	7%
Highmark Commercial	11%	13%
Other	6%	6%
Total	100%	100%

* Reclassifications have been made to prior year presentation to conform to current year presentation.

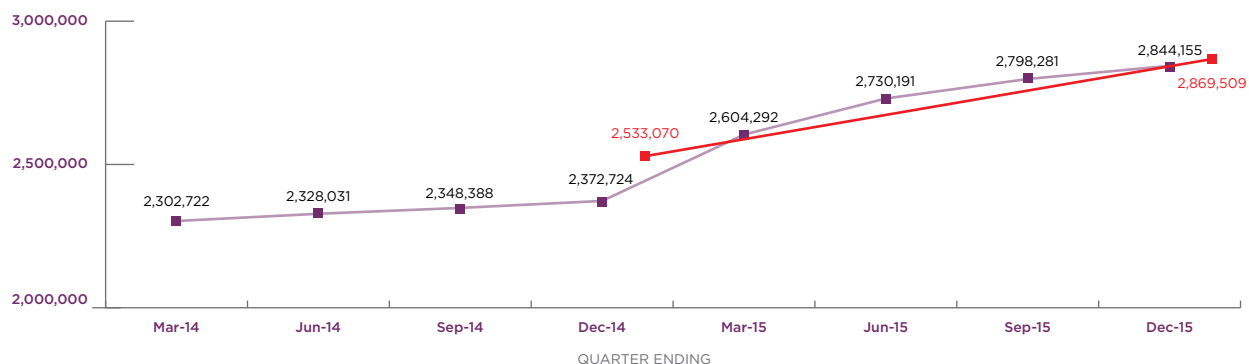
MANAGEMENT'S DISCUSSION & ANALYSIS

PERIOD ENDED DECEMBER 31, 2015

OPERATING METRICS - INSURANCE SERVICES

Membership

Membership in the UPMC Insurance Services Division increased to 2,844,155 as of December 31, 2015, which is an increase of 20% over the same period in the prior year.



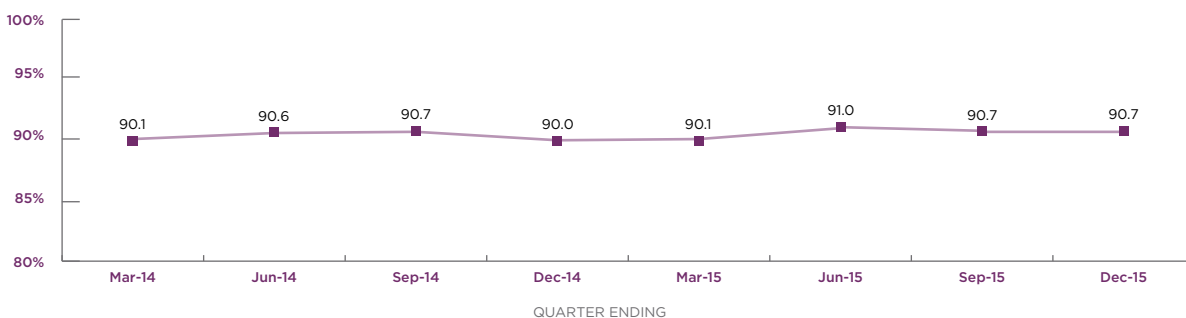
As of	January 1, 2016	January 1, 2015	December 31, 2015	December 31, 2014*
Commercial Health	614,216	552,789	569,264	504,527
Medicare	153,486	141,805	146,973	125,221
Medicaid	373,497	278,364	367,840	268,842
Sub-Total Physical Health Products	1,141,199	972,958	1,084,077	898,590
Behavioral Health	916,307	733,893	908,866	740,781
Sub-Total Health Products	2,057,506	1,706,851	1,992,943	1,639,371
Work Partners and Life Solutions	431,940	423,363	440,875	424,159
Ancillary Products	213,974	203,943	208,999	190,925
Evolut	166,089	198,913	201,338	118,269
Total Membership	2,869,509	2,533,070	2,844,155	2,372,724

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

Medical Expense Ratio

UPMC Insurance Services Medical Expense Ratio remained stable as medical expenses trended consistently with premiums.

Trailing Twelve-Months



MANAGEMENT'S DISCUSSION & ANALYSIS

PERIOD ENDED DECEMBER 31, 2015

KEY FINANCIAL INDICATORS

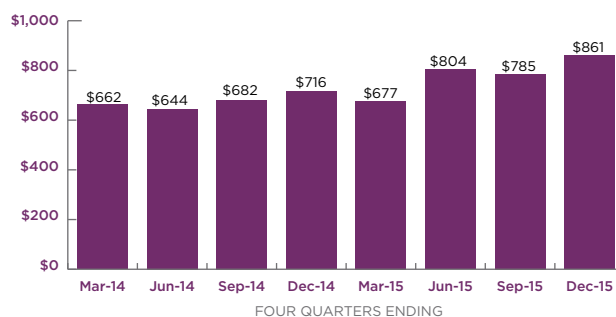
(Dollars in millions)

Operating Earnings before Interest, Depreciation and Amortization

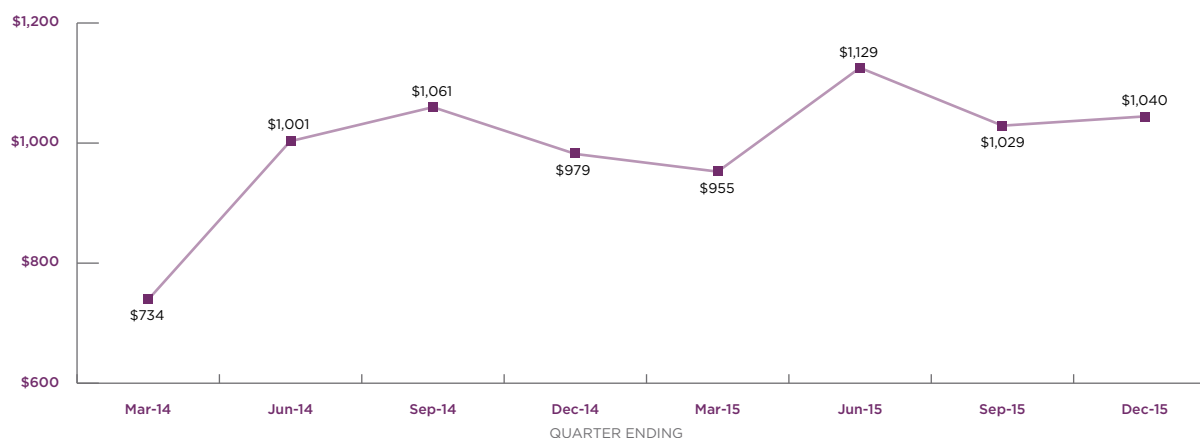
Operating EBIDA for the six months ended December 31, 2015 increased as compared to the six months ended December 31, 2014.

For the Six Months Ended December 31			
	2015	Change	2014
Operating Income	\$ 201	5%	\$ 192
Depreciation and Amortization	230	0%	232
Operating EBIDA	\$ 431	2%	\$ 424

Trailing Twelve Months EBIDA



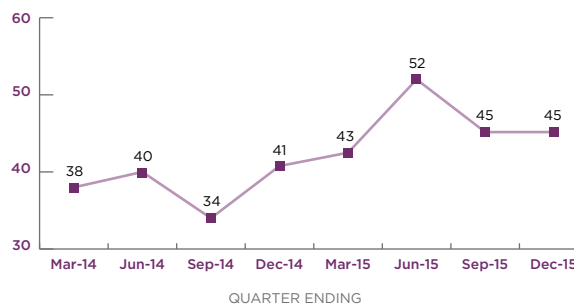
Unrestricted Cash and Investments Over Long Term Debt



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. In January 2016, UPMC received \$207 million related to disputed Highmark oncology receivables and awarded interest which were still outstanding at December 31, 2015.

By Division as of December 31	2015 Balance	Days	
		2015	2014
Health Services	\$ 1,119	62	54
Insurance Services	452	27	24
Consolidated	\$ 1,571	45	41



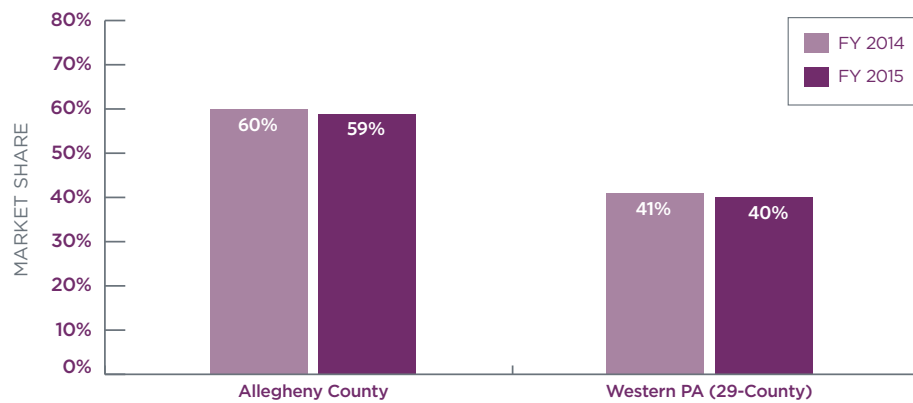
MANAGEMENT'S DISCUSSION & ANALYSIS

PERIOD ENDED DECEMBER 31, 2015

Market Share

The chart below shows the change in UPMC's estimated inpatient market share for fiscal years 2014 and 2015 by service area⁽¹⁾. This is the most recent market share data currently available.

UPMC INPATIENT MEDICAL-SURGICAL MARKET SHARE AS OF JUNE 30 (MOST RECENT QUARTER AVAILABLE)



⁽¹⁾ UPMC's two service areas are (1) Allegheny County, and (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.

MANAGEMENT'S DISCUSSION & ANALYSIS

PERIOD ENDED DECEMBER 31, 2015

ASSET AND LIABILITY MANAGEMENT

During the quarter December 31, 2015, UPMC's investment portfolio returned 0.9%. As of December 31, 2015, UPMC utilized 204 external investment managers, including 40 traditional managers, 24 hedge fund managers and 140 private equity managers. UPMC's investment portfolio has a long-term perspective and has generated annualized returns of (1.2%), 5.7% and 5.7% for the trailing one-, three- and five-year periods. As of December 31, 2015, 60% of UPMC's investment portfolio could be liquidated within three days.

UPMC's annualized cost of capital during the period was 3.65%. 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 December 31, 2015, the interest rates on UPMC's long-term debt were approximately 81% fixed and 19% variable after giving effect to derivative contracts. Annualized interest cost for the variable rate debt for the period averaged 0.77%. The annualized interest cost for the fixed rate debt was 4.24%. UPMC has a revolving credit facility which expires in July 2019 and has a borrowing limit of \$500 million. As of December 31, 2015, UPMC had approximately \$63 million of Letters of Credit outstanding under the credit facility leaving \$437 million available to fund operating and capital needs, of which none was drawn.

The table below compares reported Investing and Financing Activity for the six months ended December 31, 2015 and 2014 by type.

Investing and Financing Activity by Type

Six Months Ended December 31	2015	2014
<i>(in thousands)</i>		
Realized gains	\$ 80,401	\$ 108,380
Interest and dividends, net of fees	16,574	25,335
Realized investment revenue	\$ 96,975	\$ 133,715
Unrealized gains on derivative contracts	3,892	893
Other unrealized losses	(302,181)	(99,804)
Impairment on cost basis investments	(4,600)	(7,700)
Investment (expense) revenue	\$ (205,914)	\$ 27,104
Gain on extinguishment of debt	-	189
Interest expense	(56,743)	(58,124)
UPMC Enterprises activity	(29,125)	(15,377)
Loss from investing and financing activities	\$ (291,782)	\$ (46,208)

MANAGEMENT'S DISCUSSION & ANALYSIS

PERIOD ENDED DECEMBER 31, 2015

Sources and Uses of Cash

UPMC's primary source of operating cash is the collection of revenues and related accounts receivable. As of December 31, 2015, UPMC had approximately \$340 million of cash and cash equivalents on hand to fund operations and capital expenditures, and borrowing availability under the credit facility was \$437 million available to fund operating and capital needs, of which none was drawn.

Operating EBIDA was \$431 million for the six months ended December 31, 2015, compared to \$424 million for the six months ended December 31, 2014. Net cash provided by operating activities was \$218 million in the six months ended December 31, 2015 compared to \$193 million provided by operating activities in the six months ended December 31, 2014.

Key sources and uses of cash from investing activities for the six month period ended December 31, 2015 include capital expenditures of \$177 million, as well as \$13 million to acquire ownership interests in and fund businesses. Major capital projects included construction of the UPMC Outpatient Center in Wexford, renovations to the Presbyterian South Tower, and construction of the UPMC Lemieux Sports Complex in Cranberry Township. 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.

Additionally, in the six month period ended December 31, 2015, contributions to the defined benefit pension plan of \$89 million were made to maintain its funded status and to avoid paying variable premiums to the Pension Benefit Guaranty Corporation ("PBGC").

UTILIZATION STATISTICS

PERIOD ENDED DECEMBER 31, 2015

The following table, presents selected consolidated statistical indicators of medical-surgical, psychiatric, sub-acute and rehabilitation patient activity for the six months ended December 31, 2015 and 2014.

	Six Months Ended December 31	
	2015	2014
Licensed Beds	5,082	5,114
BEDS IN SERVICE		
Medical-Surgical	3,696	3,738
Psychiatric	418	417
Rehabilitation	200	180
Skilled Nursing	90	94
Total Beds in Service	4,404	4,429
PATIENT DAYS		
Medical-Surgical	475,040	487,512
Psychiatric	64,251	66,611
Rehabilitation	31,393	30,892
Skilled Nursing	11,744	13,094
Total Patient Days	582,428	598,109
Observation Days	47,751	49,712
Average Daily Census	3,165	3,251
ADMISSIONS AND OBSERVATION CASES		
Medical-Surgical	93,131	96,796
Observation Cases	38,003	38,035
Subtotal	131,134	134,831
Psychiatric	5,271	5,195
Rehabilitation	2,159	2,174
Skilled Nursing	1,023	1,049
Total Admissions and Observation Cases	139,587	143,249
Overall Occupancy	78%	79%
AVERAGE LENGTH OF STAY		
Medical-Surgical	5.1	5.0
Psychiatric	12.2	12.8
Rehabilitation	14.5	14.2
Skilled Nursing	11.5	12.5
Overall Average Length of Stay	5.7	5.7
Emergency Room Visits	358,849	356,274
TRANSPLANTS (PITTSBURGH)		
Liver	60	44
Kidney	117	101
All Other	182	179
Total	359	324
TRANSPLANTS (ISMETT)		
Liver	41	41
Other	31	25
Total	72	66

OUTSTANDING DEBT

PERIOD ENDED DECEMBER 31, 2015

(IN THOUSANDS)

Issuer	Original Borrower	Series	Amount Outstanding
Allegheny County Hospital Development Authority	UPMC Health System	1997B	\$ 43,843
	UPMC	2007A	86,590
	UPMC	2007B	65,000
	UPMC	2008A	92,275
	UPMC	2008B	128,192
	UPMC	2008 Notes	87,115
	UPMC	2009A	342,911
	UPMC	2010A	205,485
	UPMC	2010B	100,000
	UPMC	2010C	50,000
	UPMC	2010D	150,000
	UPMC	2010F	95,000
	UPMC	2011A	91,515
Monroeville Finance Authority	UPMC	2012	363,691
	UPMC	2013B	69,915
	UPMC	2014B	52,279
	UPMC	2015A Note	71,235
Pennsylvania Economic Development Financing Authority	UPMC	2013A	123,100
	UPMC	2014A	336,331
	UPMC	2015B	131,621
Erie County Hospital Authority	Hamot Health Foundation	2006	23,568
	Hamot Health Foundation	2007	30,096
	Hamot Health Foundation	2010A	13,820
	Hamot Health Foundation	2010C	1,845
Pennsylvania Higher Educational Facilities Authority	UPMC	2010E	258,276
Blair County Hospital Authority	Altoona	1998A	2,167
None	UPMC	2011B	100,000
	UPMC	Swap liabilities	15,457
	Various - Capital Leases and Loans		76,707
Total			\$ 3,208,034

Includes original issue discount and premium and other.

Source: UPMC Records

DEBT COVENANT CALCULATIONS

PERIOD ENDED DECEMBER 31, 2015

DEBT SERVICE COVERAGE RATIO

(Dollars in Thousands)

	Trailing Twelve-Month Period Ended December 31, 2015
Net Income	\$ 180,964
ADJUSTED BY:	
Net Unrealized Losses from Period ¹	288,246
Depreciation and Amortization ¹	463,592
Loss on Defeasance of Debt ¹	57
Inherent Contribution ¹	(915)
Realized Investment Impairments ²	(14,450)
Interest Expense	114,484
Revenues Available for Debt Service	\$ 1,031,978
Historical Debt Service Requirements - 2007 MTI	\$ 247,743
Debt Service Coverage Ratio - 2007 MTI	4.17X
Historical Debt Service Requirements - All Debt and Leases	\$ 279,111
Debt Service Coverage Ratio - All Debt and Leases	3.70X

LIQUIDITY RATIO AS OF DECEMBER 31, 2015

Unrestricted Cash and Investments	\$ 4,053,658
Master Trust Indenture Debt	\$ 3,030,020
Unrestricted Cash to MTI Debt	1.34

⁽¹⁾ Non-Cash.

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

I hereby certify to the best of my knowledge that, as of December 31, 2015, 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 CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED DECEMBER 31, 2015

REVIEW REPORT OF INDEPENDENT AUDITORS

The Board of Directors
UPMC
Pittsburgh, Pennsylvania

We have reviewed the consolidated financial information of UPMC and subsidiaries, which comprise the consolidated balance sheet as of December 31, 2015, and the related consolidated statements of operations and changes in net assets for the three-month and six-month periods ended December 31, 2015 and 2014 and cash flows for the six-month periods ended December 31, 2015 and 2014.

Management's Responsibility for the Financial Information

Management is responsible for the preparation and fair presentation of the 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

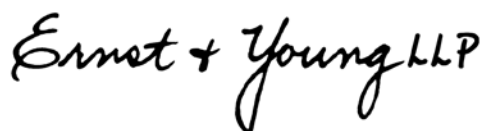
Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons 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 consolidated financial information referred to above for it to be in conformity with U.S. generally accepted accounting principles.

Report on Consolidated Balance Sheet as of June 30, 2015

We have previously audited, in accordance with auditing standards of the Public Company Oversight Board (United States) and in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of UPMC and subsidiaries as of June 30, 2015, and the related consolidated statements of operations, changes in net assets and cash flows for the year then ended (not presented herein); and we expressed an unqualified audit opinion on those consolidated financial statements in our report dated August 27, 2015. In our opinion, the accompanying consolidated balance sheet of UPMC and subsidiaries as of June 30, 2015, is consistent, in all material respects, with the consolidated balance sheet from which it has been derived.

The logo for Ernst & Young LLP is written in a black, cursive script font. The letters are fluid and connected, with a prominent 'E' and 'Y'.

Pittsburgh, Pennsylvania
February 18, 2016

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(IN THOUSANDS)

	December 31 2015	June 30 2015
CURRENT ASSETS		
Cash and cash equivalents	\$ 340,082	\$ 290,291
Accounts receivable, net of allowance for uncollectable accounts of \$118,454 at December 31, 2015 and \$100,249 at June 30, 2015	886,109	837,251
Other receivables	684,565	840,719
Other current assets	162,205	155,018
Total current assets	2,072,961	2,123,279
Board-designated, restricted, trustee and other investments	4,488,066	4,573,337
Beneficial interests in foundations and trusts	445,360	456,404
Net property, buildings and equipment	3,606,691	3,660,792
Other assets	319,149	279,794
Total assets	\$ 10,932,227	\$ 11,093,606
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 480,573	\$ 420,766
Accrued salaries and related benefits	485,645	623,557
Current portion of insurance reserves	415,482	478,069
Current portion of long-term obligations	314,980	160,114
Other current liabilities	345,724	336,808
Total current liabilities	2,042,404	2,019,314
Long-term obligations	2,893,054	2,975,573
Pension liability	164,103	216,846
Long-term insurance reserves	282,356	277,855
Other noncurrent liabilities	206,649	162,922
Total liabilities	5,588,566	5,652,510
Unrestricted net assets	4,711,501	4,789,288
Restricted net assets	632,160	651,808
Total net assets	5,343,661	5,441,096
Total liabilities and net assets	\$ 10,932,227	\$ 11,093,606

See accompanying notes

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

(IN THOUSANDS)

	Six Months Ended December 31		Three Months Ended December 31	
	2015	2014	2015	2014
UNRESTRICTED NET ASSETS				
Net patient service revenue:				
Patient service revenue (net of contractual allowances and discounts)	\$2,962,760	\$3,062,188	\$1,479,599	\$1,541,966
Provision for bad debts	(126,046)	(116,380)	(46,638)	(58,845)
Net patient service revenue less provision for bad debts	2,836,714	2,945,808	1,432,961	1,483,121
Insurance enrollment revenue	2,919,416	2,490,158	1,473,098	1,244,456
Other revenue	504,034	456,204	257,139	230,300
Total operating revenues	6,260,164	5,892,170	3,163,198	2,957,877
Expenses:				
Salaries, professional fees and employee benefits	2,249,672	2,216,600	1,129,444	1,108,289
Supplies, purchased services and general	3,579,409	3,251,976	1,788,822	1,633,060
Depreciation and amortization	229,640	231,332	115,248	117,170
Total operating expenses	6,058,721	5,699,908	3,033,514	2,858,519
Operating income (excluding inherent contribution and income tax expense)	201,443	192,262	129,684	99,358
Inherent contribution	85	(101)	-	(101)
Income tax expense	(4,812)	(5,346)	(1,973)	(3,592)
After-tax operating income	\$196,716	\$186,815	\$127,711	\$95,665
Investing and financing activities:				
Investment (loss) revenue	(205,914)	27,104	39,931	38,039
Interest expense	(56,743)	(58,124)	(28,753)	(29,582)
Gain on extinguishment of debt	-	189	-	368
UPMC Enterprises activity	(29,125)	(15,377)	(12,235)	(13,145)
Loss from investing and financing activities	(291,782)	(46,208)	(1,057)	(4,320)
Excess of (expenses over revenues) revenues over expenses	(95,066)	140,607	126,654	91,345
Other changes in unrestricted net assets	17,279	(37,601)	15,328	(10,842)
Change in unrestricted net assets	(77,787)	103,006	141,982	80,503
RESTRICTED NET ASSETS				
Contributions and other changes	1,961	1,630	3,863	1,441
Net realized and unrealized (losses) gains on restricted investments	(2,411)	1,101	1,554	(407)
Assets released from restriction for operations and capital purchases	(8,154)	(5,936)	(4,989)	(3,104)
Net change in beneficial interests in foundations	(11,044)	(4,209)	6,810	(6,913)
Change in restricted net assets	(19,648)	(7,414)	7,238	(8,983)
Change in net assets	(97,435)	95,592	149,220	71,520
Net assets, beginning of period	5,441,096	5,185,555	5,194,441	5,209,627
Net assets, end of period	\$5,343,661	\$5,281,147	\$5,343,661	\$5,281,147

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(IN THOUSANDS)

	Six Months Ended December 31	
	2015	2014
OPERATING ACTIVITIES		
Change in net assets	\$ (97,435)	\$ 95,592
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	229,640	231,332
Provision for bad debts	126,046	116,380
Change in beneficial interest in foundations	11,044	4,209
Change in pension liability	(52,743)	(21,525)
Restricted contributions and investment revenue	450	(2,731)
Unrealized losses (gains) on investments	302,181	99,804
Realized gains on investments	(80,401)	(108,380)
Net change in non-alternative investments	(113,787)	(1,188)
Changes in operating assets and liabilities:		
Accounts receivable	(18,750)	(173,841)
Other current assets	(7,187)	(4,000)
Accounts payable and accrued liabilities	(78,105)	(42,610)
Insurance reserves	(58,086)	(7,785)
Other current liabilities	8,916	25,159
Other noncurrent liabilities	43,727	12,701
Other operating changes	2,390	(29,850)
Net cash provided by operating activities	217,900	193,267
INVESTING ACTIVITIES		
Purchase of property and equipment (net of disposals)	(172,653)	(178,860)
Investments in joint ventures	(13,000)	(10,000)
Net change in investments designated as nontrading	8,852	3,002
Net change in alternative investments	(27,682)	(22,050)
Net change in other assets	(33,892)	(35,964)
Net cash used in investing activities	(238,375)	(243,872)
FINANCING ACTIVITIES		
Repayments of long-term obligations	(57,194)	(584,137)
Borrowings of long-term obligations	127,910	687,315
Restricted contributions and investment income	(450)	2,731
Net cash provided by financing activities	70,266	105,909
Net change in cash and cash equivalents	49,791	55,304
Cash and cash equivalents, beginning of period	290,291	449,539
Cash and cash equivalents, end of period	\$ 340,082	\$ 504,843
SUPPLEMENTAL INFORMATION		
Capital lease obligations incurred to acquire assets	\$ 2,588	\$ 11,226

NOTES TO UNAUDITED 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 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 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 year ended June 30, 2015.

2. RECLASSIFICATIONS

UPMC Enterprises conducts research, development and innovation activities on behalf of UPMC primarily focused on technologies for use in the healthcare industry to lower costs and improve care; such activities are expensed as incurred. From time to time, UPMC also invests in companies who are developing technologies that align with its strategic imperatives, including arrangements that provide UPMC with a controlling and non-controlling ownership interest. As the impact to the consolidated statement of operations and changes in net assets of this investment activity is not considered material, the aggregate of the associated investment revenue and expense has been classified as UPMC Enterprises activity in the investing and financing activities section in the consolidated statement of operations and changes in net assets. To conform with the current period presentation, the December 31, 2014 aggregate amount of \$15,377 has been reclassified from operating income to UPMC Enterprises activity presented within investing and financing in the consolidated statement of operations and changes in net assets.

For the six month period ended December 30, 2014, supplies, purchased services and general expenses of approximately \$49,000 were reclassified from other revenues to supplies, purchased services and general expenses within the consolidated statement of operations and changes in net assets to correct the classification of these expenses within the consolidated statement of operations and changes in net assets. The reclassification had no impact on the changes in net assets or excess of revenues over expenses previously reported and is not considered material to the financial statements of UPMC.

3. NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, which will replace most existing revenue recognition guidance in U.S. GAAP and is intended to improve and converge with international standards the financial reporting requirements for revenue from contracts with customers. The core principle of ASU 2014-09 is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. ASU 2014-09 also requires additional disclosures about the nature, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. ASU 2014-09 allows for both retrospective and prospective methods of adoption and is effective for periods beginning after December 15, 2017, upon the FASB's decision to delay the effective date by one year. UPMC is currently evaluating the impact that the adoption of ASU 2014-09 will have on its consolidated financial statements.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

In April 2015, the FASB issued ASU 2015-03, Interest – Imputation of Interest. ASU 2015-03 requires entities to present debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt liability. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. The requirements of ASU 2015-03 are effective for reporting periods beginning after December 15, 2015, with early adoption permitted for financial statements that have not been previously issued. A reporting entity should apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period specific effects of applying the new guidance. The adoption of this update is not expected to have a material effect on the financial statements, results of operations or liquidity of UPMC.

In May 2015, the FASB issued ASU 2015-07, Fair Value Measurement, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient and limits the disclosure requirements. ASU 2015-07 is effective for annual and interim periods beginning after December 15, 2015. Early adoption is permitted. The adoption of this update is not expected to have a material effect on the financial statements, results of operations or liquidity of UPMC.

In May 2015, the FASB issued ASU 2015-09, Disclosures about Short-Duration Contracts, that require entities to make additional disclosures about short-duration contracts for health insurance. The disclosures focus on the liability for unpaid claims and claim adjustment expenses. The guidance is effective for annual periods beginning after December 15, 2015 and interim periods within annual periods beginning after December 15, 2016. The adoption of this update is not expected to have a material effect on the financial statements, results of operations or liquidity of UPMC.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments, that will require entities to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net income unless the investments qualify for the new practicability exception. The guidance is effective for periods beginning in 2018. The adoption of this update is not expected to have a material effect on the financial statements, results of operations or liquidity of UPMC.

4. NET PATIENT SERVICE REVENUE AND ACCOUNTS RECEIVABLE

The provision for bad debts is based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in health care coverage, and other collection indicators. UPMC records a significant provision for bad debts in the period services are provided related to self-pay patients, including both uninsured patients and patients with deductible and copayment balances due for which third-party coverage exists for a portion of their balance. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience. The results of this review are then used to make any modifications to the provision for bad debts to establish an appropriate allowance for uncollectible accounts. Accounts receivable are written off after collection efforts have been followed in accordance with internal policies.

Net patient service revenue is reported at estimated net realizable amounts in the period in which services are provided. The majority of UPMC's services are rendered to patients under Medicare and Medical Assistance programs. Reimbursement under these programs is based on a combination of prospectively determined rates and actual costs. Amounts received under Medicare and Medical Assistance programs are subject to review and final determination by program intermediaries or their agents.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

For the six months ended December 31, 2015 and 2014, the percentage of patient service revenue, net of contractual allowances, derived from third party payers and self-pay patients is as follows:

Six Months Ended December 31	2015	2014
Third party	94%	94%
Self-pay	6%	6%
	100%	100%

Laws and regulations governing the Medicare and Medical Assistance programs are extremely complex and subject to interpretation. Compliance with such laws and regulations are subject to government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medical Assistance programs. As a result, there is at least a reasonable possibility that the recorded estimates may change.

5. FAIR VALUE MEASUREMENTS

As of December 31, 2015, 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. UPMC's alternative investments are measured using either the cost or 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 December 31, 2015 and June 30, 2015. 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. The net asset value has been derived using quoted market prices for the underlying securities.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

FAIR VALUE MEASUREMENTS AS OF DECEMBER 31, 2015

	Level 1	Level 2	Level 3	Total Carrying Amount
ASSETS				
Fixed income	\$ 466,729	\$ 859,021	\$ -	\$ 1,325,750
Domestic equity	617,367	2,179	-	619,546
International equity	556,959	105,387	-	662,346
Public real estate	64,638	-	-	64,638
Commodities	2,603	-	-	2,603
Long/short equity	48,817	84,412	-	133,229
Absolute return	14,715	84,090	-	98,805
Derivative instruments (interest rate swap)	-	2,321	-	2,321
Total assets	\$ 1,771,828	\$ 1,137,410	\$ -	\$ 2,909,238
LIABILITIES				
Derivative instruments (interest rate swap)	-	(15,457)	-	(15,457)
Total liabilities	\$ -	\$ (15,457)	\$ -	\$ (15,457)

FAIR VALUE MEASUREMENTS AS OF JUNE 30, 2015

	Level 1	Level 2	Level 3	Total Carrying Amount
ASSETS				
Fixed income	\$ 403,431	\$ 760,060	\$ -	\$ 1,163,491
Domestic equity	749,942	2,050	-	751,992
International equity	640,298	120,791	-	761,089
Public real estate	56,484	-	-	56,484
Commodities	2,754	-	-	2,754
Long/short equity	48,292	89,633	-	137,925
Absolute return	303	69,804	-	70,107
Derivative instruments	-	657	-	657
Total assets reported at fair value	\$ 1,901,504	\$ 1,042,995	\$ -	\$ 2,944,499
LIABILITIES				
Derivative instruments	-	(17,685)	-	(17,685)
Total liabilities reported at fair value	\$ -	\$ (17,685)	\$ -	\$ (17,685)

6. FINANCIAL INSTRUMENTS

Substantially all of UPMC's investments in debt and equity securities are classified as trading. This classification requires UPMC to recognize unrealized gains and losses on substantially all of its investments in debt and equity securities as investment income in the 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 restricted net assets in the 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 consolidated statements of operations and changes in net assets.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

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 \$3,246,999 and \$3,234,133 at December 31, 2015 and June 30, 2015, respectively.

Investments in limited partnerships that invest in nonmarketable securities are primarily recorded at cost 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%. These investments are periodically evaluated for impairment. At December 31, 2015 and June 30, 2015, UPMC had \$1,581,149 and \$1,629,495, respectively, of alternative investments valued at cost or equity.

The fair value of long-term debt at December 31, 2015 and June 30, 2015, was \$3,352,947 and \$3,241,452 respectively, based on market prices as estimated using model-driven valuations that would be representative of a Level 2 classification within the fair value hierarchy.

7. DERIVATIVE INSTRUMENTS

UPMC uses derivative financial instruments to manage exposures on its debt and investments. 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 interest rate swap agreement is reduced over the term of the respective agreement to correspond with reductions in various outstanding bond series.

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

Swap	Maturity Date	UPMC Pays	UPMC Receives	Notional Amount at	
				December 31, 2015	June 30, 2015
Floating to fixed	2025	3.6%	68% one-month LIBOR	\$ 105,920	\$ 113,710
Basis	2021	SIFMA Index ¹	67% three-month LIBOR plus .2077%	40,495	40,495
Basis	2037	SIFMA Index ¹	67% three-month LIBOR plus .3217%	46,095	46,095
				\$ 192,510	\$ 200,300

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

UPMC has also entered into equity-related derivative instruments to manage the asset allocation in its investment portfolio. Under the equity index swap agreements UPMC pays a fixed income-like return and receives an equity-like return. The notional amount of these swaps is based upon UPMC's target asset allocation.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS)

The following table summarizes UPMC's equity swap agreements:

Maturity Date	UPMC Pays	UPMC Receives	Notional Amount at	
			December 31, 2015	June 30, 2015
2016	Three-month LIBOR plus .3200%	S&P 500 Total Return Index	\$ 100,000	\$ 100,000
2016	One-month LIBOR plus .1200%	MSCI All Country World Daily Total Return ¹	75,000	75,000
2016	Three-month LIBOR plus .1500%	MSCI EAFE Daily Total Return ²	99,998	-
			\$ 274,998	\$ 175,000

¹ The MSCI All Country World Index is a free-float adjusted market capitalization index that is designed to measure the equity market performance of developed and emerging markets.

² The MSCI EAFE Index is a free-float adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US and Canada.

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 the Company's derivative financial instruments are presented below, representing the gross amounts recognized as of December 31, 2015 and June 30, 2015 which are not offset by counterparty or by type of item hedged:

	December 31, 2015	June 30, 2015
Other assets	\$ 2,321	\$ 657
Long-term obligations	(15,457)	(17,685)
	\$ (13,136)	\$ (17,028)

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 December 31, 2015 and June 30, 2015 are designated as hedging instruments and as such, changes in fair value are recognized in investing and financing activities as investment gain (loss) in the consolidated statements of operations and changes in net assets.

The effects of changes in the fair value of the derivatives on the consolidated statements of operations and changes in net assets for the three and six months ended December 31, 2015 and 2014 are as follows:

Type of Derivative	Classification of Unrealized Gain (Loss) in Excess of Revenues over Expenses	Six Months Ended December 31		Three Months Ended December 31	
		2015	2014	2015	2014
Interest rate contracts	Investment gain (loss)	\$ 684	\$ 873	\$ 1,646	\$ (382)
Equity index contracts	Investment gain	3,208	20	4,615	8,934
		\$ 3,892	\$ 893	\$ 6,261	\$ 8,552

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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. The aggregate fair value of all derivatives with credit-risk-related contingent features that are in a liability position at December 31, 2015 and June 30, 2015 is \$14,078 and \$14,429, respectively, for which UPMC has posted collateral of \$0. If the credit-risk-related contingent features underlying these agreements were triggered to the fullest extent on December 31, 2015, UPMC would be required to post \$14,376 of collateral to its counterparties.

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 for the Plans are as follows:

	Six Months Ended December 31		Three Months Ended December 31	
	2015	2014	2015	2014
Service cost	\$ 47,538	\$ 45,400	\$ 23,769	\$ 22,700
Interest cost	39,828	33,832	19,914	16,916
Expected return on plan assets	(66,878)	(63,769)	(33,439)	(31,885)
Recognized net actuarial loss	18,396	11,689	9,198	5,845
Amortization of prior service (credit) cost	(2,514)	228	(1,257)	114
Net periodic pension cost	\$ 36,370	\$ 27,380	\$ 18,185	\$ 13,690

During the six months ended December 31, 2015 and 2014, UPMC made contributions to the Plans of \$89,000 and \$68,500, respectively.

9. CONTINGENCIES

In December 2010, a proposed class action was filed in United States District Court for the Western District of Pennsylvania by Royal Mile Company, Inc., and certain related entities and persons against UPMC and Highmark. In that action, which has seen the plaintiffs amend their Complaint multiple times, the plaintiffs alleged that UPMC and Highmark had conspired to allow Highmark to charge excessive, above-market premiums for health insurance. In January 2016, UPMC and Royal Mile Company, Inc. agreed to settle the claims against UPMC for \$12,500 pending court approval of the settlement terms.

In March and April 2009, 4 related class action lawsuits were filed against UPMC and certain of its affiliates in the Federal District Court for the Western District of Pennsylvania ("District Court") and the Court of Common Pleas for Allegheny County, Pennsylvania. The Federal District Court cases allege violations of The Fair Labor Standards Act ("FLSA") on the basis that certain employees were not paid for all hours that they worked and were not properly paid overtime and, further, that these actions also violated the Employee Retirement Income Security Act ("ERISA") and the Racketeer Influenced and Corrupt Organizations Act ("RICO"). The state court actions allege violations of the Pennsylvania Minimum Wage Act, The Wage Payment and Collection Act and common law on the same factual basis noted above. The lawsuits seek recovery of alleged unpaid wages and benefits and other monetary damages and costs. In 2012, the Court in two of the federal class action lawsuits entered an Order granting UPMC's motion to decertify the collective action that had been conditionally entered at an earlier date. The Plaintiffs filed an unopposed Motion for Voluntary Dismissal with Prejudice for the purposes of appeal in both cases. The District Court signed a generic "Order of Dismissal

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with Prejudice” in both cases which includes the named Plaintiffs. The case was appealed to the Third Circuit, which dismissed based on lack of jurisdiction. Regarding the two open state court cases, recently, the court has attempted to move both cases. As a result, one case settled for \$35. The remaining case is scheduled for a status conference. Plaintiffs’ counsel has re-filed a similar collective action case in the Western District of Pennsylvania, against various UPMC affiliates and executives using different named plaintiffs. However, the Plaintiffs continue to allege that they were not paid for work performed during unpaid meal breaks in violation of the Fair Labor Standards Act. UPMC and certain of its affiliates filed a Motion to dismiss the action based on collateral estoppel. Plaintiffs’ counsel filed a Motion for Partial Summary Judgment relying on representations made during a deposition conducted in the earlier case. The Western District denied the collective action but allowed the claims from the six (6) named plaintiffs to proceed. All parties were ordered to mediation. Instead, all plaintiffs accepted defendants’ Presbyterian Shadyside, Horizon and McKeesport’s offer of judgment in the amount of \$22 with limited attorneys’ fees and costs to be established.

In January 2012, UPMC Hamot was served with a Complaint in federal court naming it as a defendant in a qui tam action, along with a private physician practice. UPMC Hamot moved to dismiss the Complaint in April 2012. The Relator opposed UPMC Hamot’s motion to dismiss in June 2012. In November 2012, the Court granted UPMC Hamot’s motion in part and denied it in part. The Relator filed an Amended Complaint. UPMC Hamot moved to dismiss the Amended Complaint in January 2013. In July 2013, the Court denied UPMC Hamot’s motion to dismiss. UPMC Hamot answered the Complaint on September 18, 2013. Discovery is ongoing. The outcome and ultimate effect on UPMC’s financial statements cannot be determined at this time.

In July 2012, a class action suit was filed against UPMC and other defendants in the Allegheny County Court of Common Pleas alleging Pennsylvania wage and hour violations. The Complaint alleges that RN staff members with a BSN were not credited the pay differential to which they were entitled and seeks damages for that differential as well as liquidated damages and interest. UPMC filed preliminary objections that were sustained in part and overruled in part, resulting in the dismissal of all named defendants except UPMC. UPMC also filed an Answer with New Matter, denying all material allegations. Plaintiffs have filed an Amended Complaint naming each UPMC hospital as a defendant. The plaintiffs also filed a Motion to Certify the class. The Motion to Certify a UPMC-wide class of current and former BSNs from February 2006 to present was granted. Approximately 405 potential class members have been identified. The outcome and ultimate effect on UPMC’s financial statements cannot be determined at this time.

In September 2012, a suit was filed against UPMC, Maxim Staffing Solutions, Inc. (“Maxim”) and Medical Solutions, LLC, in the Allegheny County Court of Common Pleas (“Common Pleas Court”) at GD 12 016165, alleging the defendants acted negligently in failing to prevent a Maxim employee, staffed at UPMC between March 2008 and May 2008, from spreading the Hepatitis C virus (“HCV”). UPMC notified the Pennsylvania Attorney General that this employee was terminated from UPMC for violations related to attempts to switch syringes. Additionally, in September 2012, a Pennsylvania resident filed a putative class action suit against UPMC and Maxim in the Common Pleas Court at GD 12-016636, alleging that the defendants negligently failed to properly hire, investigate, and retain and/or supervise the employee. This case, which does not allege contraction of HCV, brought the action on behalf of a putative class consisting of persons who “were potentially and unwittingly exposed to the blood borne illnesses” of the employee while he worked at UPMC. In October 2012, others who have allegedly contracted HCV filed a putative class action against UPMC and Maxim in Common Pleas Court at GD 12-020264, alleging that UPMC acted negligently in failing to prevent approximately 2,000 former patients and their spouses and significant others from being exposed to HCV. These two class actions have been limited to only physical injury from the needlestick for HCV testing. In December 2012, a Kansas husband and wife and other plaintiffs filed three putative actions in Common Pleas Court, at GD 12-024324, against UPMC, Maxim and a third defendant also alleging that UPMC acted negligently in failing to prevent former patients and their spouses and significant others from being exposed to HCV. UPMC has filed preliminary objections to all of these actions. These cases have been dismissed, but the plaintiffs filed a motion to reconsider. A fourth case, at GD 14-000899, has been filed by the estate of a Kansas patient similar to the three

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that have already been dismissed. UPMC filed preliminary objections to this new case and expects that it too will be dismissed. A tentative settlement of the class action has been reached with some details to be determined which include timing of payment and whether each claimant will be entitled to receive settlement proceeds or whether only claimants who affirmatively file a claim form will receive payment of the agreed upon amount of \$750 per person. Maxim has agreed to pay 50% of any settlement amount. The range of payment attributable to UPMC is anticipated to be from approximately \$150 to \$350.

In September 2013, a Complaint was filed with the National Labor Relations Board, Region 6 against UPMC Presbyterian Shadyside (PUH). The Complaint was amended in January 2014 to add UPMC as another defendant. The Amended Complaint, stemming from multiple unfair labor practice charges filed by the Service Employees International Union ("SEIU") Healthcare Pennsylvania alleges that UPMC PUH engaged in various activities that violate the National Labor Relations Act. In response, the National Labor Relations Board ("NLRB") is seeking relief in the form of: a workplace posting, to be displayed for 120 days, as determined by the proceedings; a public reading of the posting to UPMC employees; an Order granting the SEIU full access to public areas at PUH during non-working hours for the purpose of speaking to employees; an Order granting the SEIU permission to post its notices and distribute literature at PUH; the repayment of various taxes related to the termination of four employees identified in the complaint; and other undefined relief as deemed appropriate. UPMC anticipates that the "undefined relief" will include back pay and reinstatement for the four terminated employees. A five-week hearing was conducted before an administrative law judge. In his opinion, the ALJ recommended reinstatement for all of the terminated employees, plus full back pay, one hundred and twenty (120) day notice posting and a public reading of the posting. The matter is currently on appeal to the National Labor Relations Board. One of the reinstated individuals has expressed an interest in resolving his claim, with no reinstatement. The ultimate outcome and effect on UPMC's financial statements are unknown.

In February 2014, a putative class action against UPMC and UPMC McKeesport was filed in the Court of Common Pleas of Allegheny County, Pennsylvania, at GD 14-003285, asserting claims for negligence, breach of privacy, and breach of implied contract in connection with a data breach at UPMC involving the personally identifiable information of certain UPMC employees. The purported class consists of former, current, and future UPMC employees. On May 28, 2015, the Court sustained UPMC's preliminary objections and dismissed Plaintiff's claims. Plaintiffs have appealed the Court's order. The ultimate outcome and effect on UPMC's financial statements are unknown.

On October 9, 2012, UPMC received a Civil Investigative Demand ("CID") from the Department of Justice ("DOJ") that sought records relating to forty (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 DOJ's investigation of allegations asserted by a Relator in a federal qui tam lawsuit filed under seal. Subsequent to that disclosure, DOJ provided UPMC's counsel with a redacted copy of the Relator's complaint but insisted that even this limited information remained subject to the seal order and could not be disseminated further. On February 27, 2014, DOJ served a second CID that sought additional records. UPMC has been responding to that second CID and otherwise cooperating with DOJ, which has not to date decided whether to intervene in the qui tam lawsuit. Meanwhile, the lawsuit remains under seal by order of court. Given the limitations on information available at this time, UPMC is unable to offer any prediction as to the outcome or financial impact of the DOJ's civil inquiry or the associated qui tam action.

On September 3, 2014, Highmark Inc. and Keystone Health Plan West, Inc. sued UPMC and various UPMC hospitals and physician practices in the Court of Common Pleas of Allegheny County, Pennsylvania, at GD 14-15441, asserting claims for breach of contract and declaratory judgment related to oncology billing. On March 24, 2015, the Court denied UPMC's preliminary objections to that Complaint. On April 2, 2015, UPMC filed a Notice of Appeal of the Court's March 24, 2015 Order. The ultimate outcome and effect on UPMC's financial statements are unknown.

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On November 6, 2015, a three-member panel appointed by the American Arbitration Association issued its ruling in favor of UPMC and against Highmark related to billings to Highmark for the provision of certain oncology services covered under the Highmark contracts. The panel awarded UPMC a total of \$23,942, constituting underpayment from April 1, 2014 through October 28, 2015, and interest at the rate of 6 percent. Although the ruling only addressed amounts Highmark owed for oncology services provided by UPMC Presbyterian Shadyside during such period, UPMC and Highmark agreed that this result determined the amount owed for all other oncology services provided at UPMC facilities from April 1, 2014 through the date of the award. UPMC received payment for the UPMC Presbyterian Shadyside award in December 2015 and a second payment totaling \$206,969 for all other UPMC facilities, including awarded interest, in January 2016, satisfying amounts recorded as of December 31, 2015.

10. SUBSEQUENT EVENTS

Management evaluated events occurring subsequent to December 31, 2015 through February 18, 2016, the date the unaudited interim consolidated financial statements of UPMC were issued. During this period, there were no subsequent events requiring recognition or disclosure in the consolidated financial statements that have not been recorded except as noted below.

In January 2016, UPMC received \$206,969 from Highmark related to disputed oncology billings. This was included as accounts receivables at December 31, 2015.