

A MESSAGE FROM JOE

Thousands of times each day the Palmetto GBA team meets the complicated task of servicing the nation's health.

Shoulder-to-shoulder with our customers, we listen to their needs and anticipate what comes next – developing ideas and creating technology solutions that innovate. When aligned with our uncompromising commitment to process improvement, laser-sharp attention to detail, and deeply held belief that it is the millions of Americans affected by each transaction that truly matter, that innovation drives unparalleled progress.

2016 was a shining example of just that. Thank you to all our associates who make such success possible every day. Our victories are yours. I am proud to stand beside you.

Water Johnson

Best Regards,

WALTER J. JOHNSON
President & COO

OUR PHILOSOPHY

We believe technical and administrative solutions have the power to enhance service and quality. And we are constantly striving to reach new heights of performance to improve the quality of life for our customers, employees and communities.



Palmetto GBA is a leading provider of high-volume claims and transaction processing, contact center operations and technology services to the federal government. Our core business is to provide support to the Centers for Medicare & Medicaid Services (CMS), Medicare beneficiaries and Medicare providers.



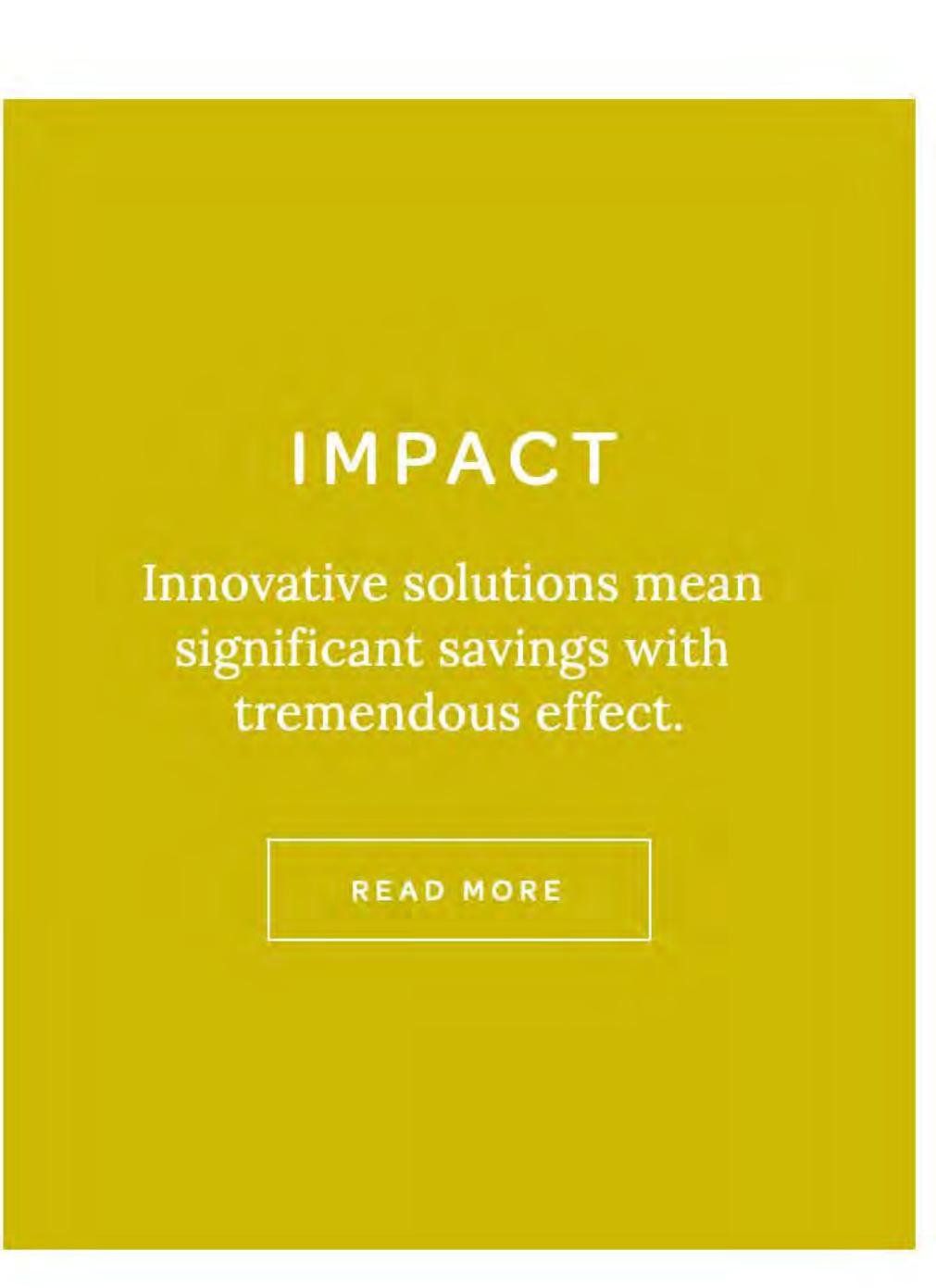


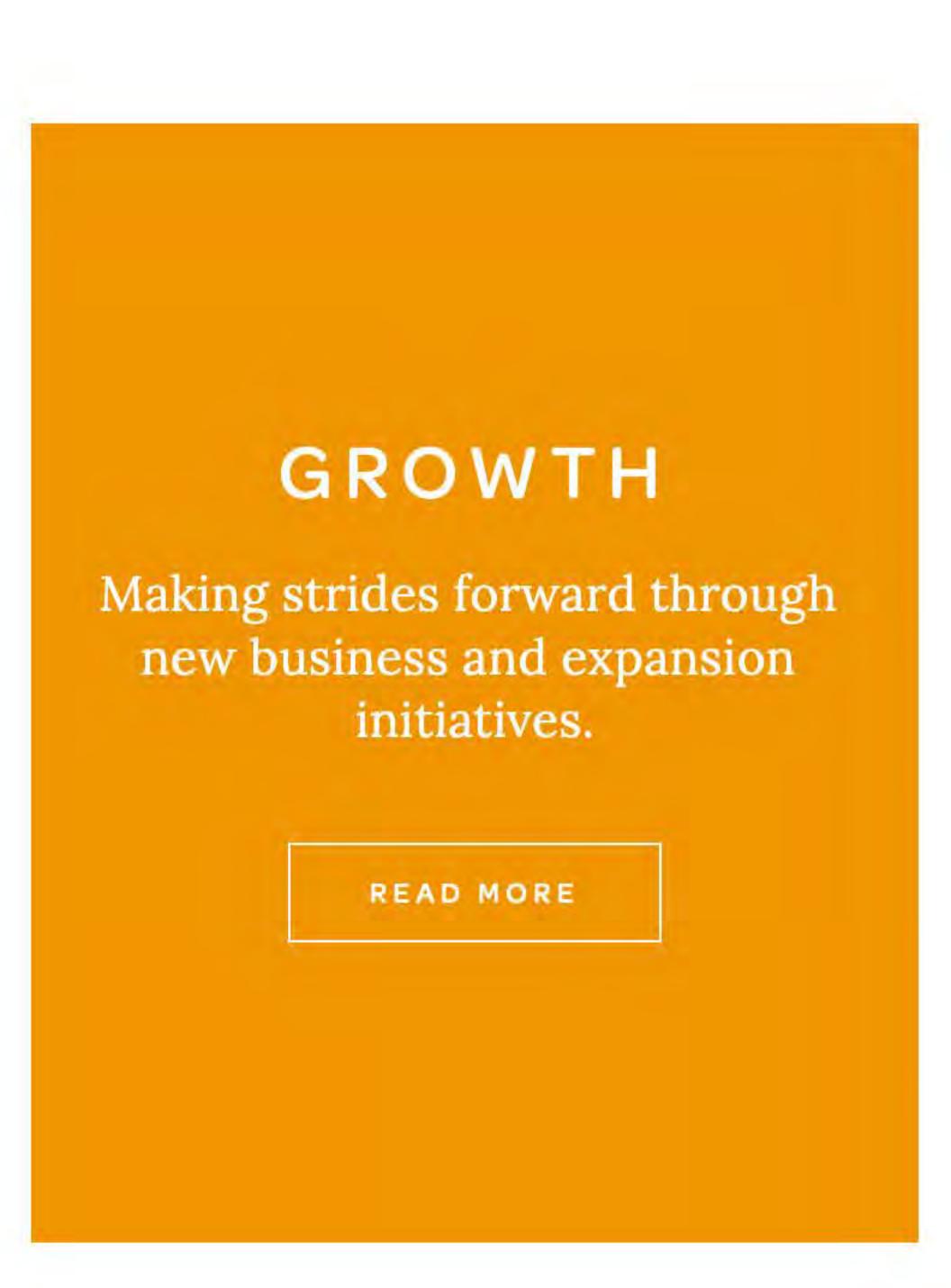
PROGRESS

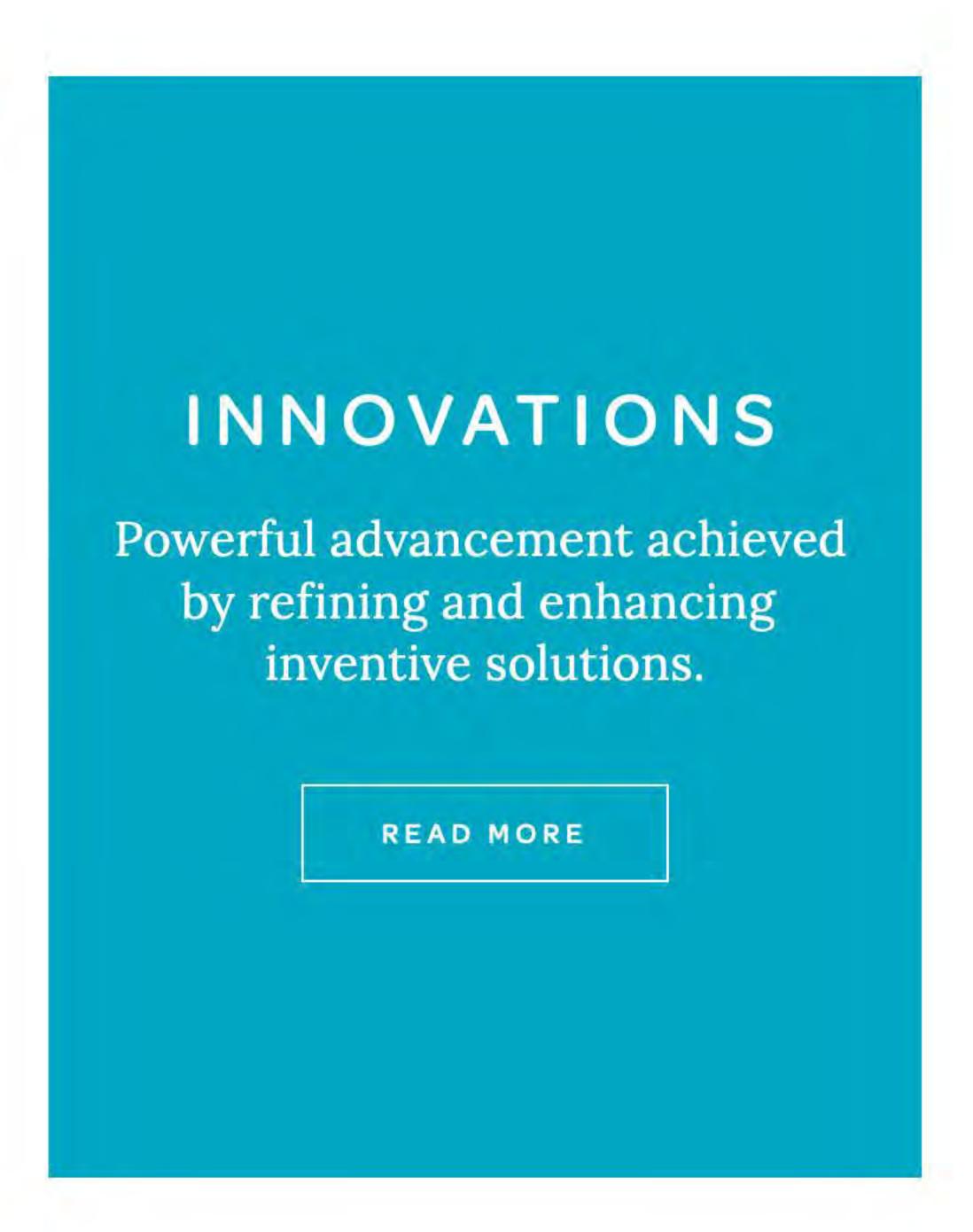
Advancements Across the Board

We leverage innovations to foster efficiencies, refine business methodologies, enhance service quality and drive improvements. It's momentum that matters. And it can be seen in four distinct areas of our performance.









2016 FINANCIALS

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VISIT OUR CORPORATE WEBSITE

2016 FINANCIALS



PROGRESS | METRICS

Grasping Perfection

Palmetto GBA's performance across all contract metrics in 2016 was 99.7 percent, achieving 100 percent performance in four months.

99.7% metrics met

CONTRACTOR PERFORMANCE ASSESSMENT RATING RESULTS

Palmetto GBA was rated Very Good or Exceptional on 44 out of 56 assessed elements.

2016 SCALE

\$41.7 bil

Benefits Paid

7.5 mil

Beneficiaries Served

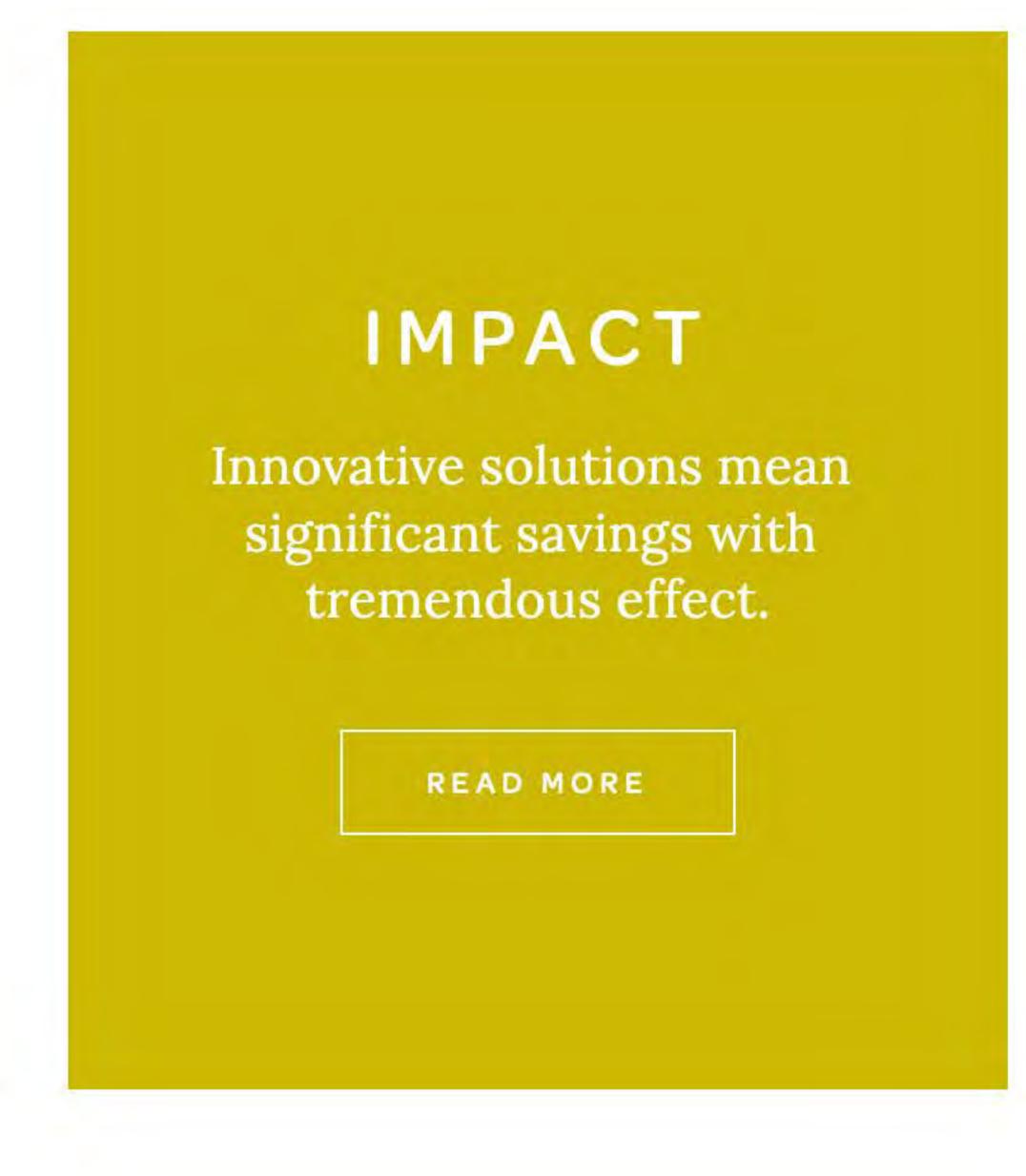
112.8 mil

Claims Processed

1.4 mil

Inquiries Answered

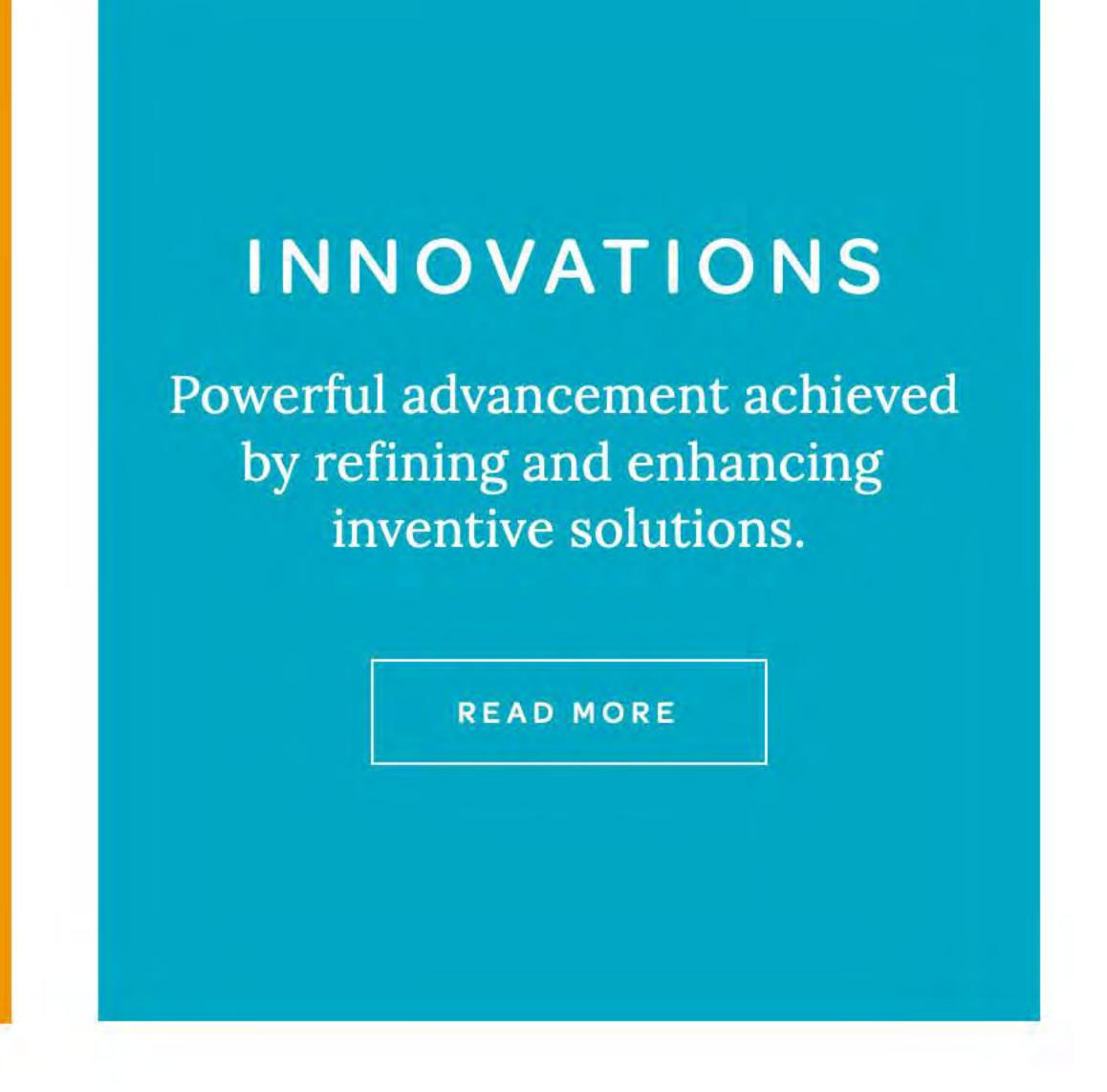
METRICS



GROWTH

Making strides forward through new business and expansion initiatives.

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PHILANTHROPY



PROGRESS | IMPACT

Stand Out & Deliver

In May 2016, CMS approved Palmetto GBA to pilot a Home Health Pre-Claim Review demonstration project to conduct pre-claim medical review of all home health claims in Illinois, Texas and Florida as an augmentation to Palmetto's Jurisdiction M A/B MAC contract.

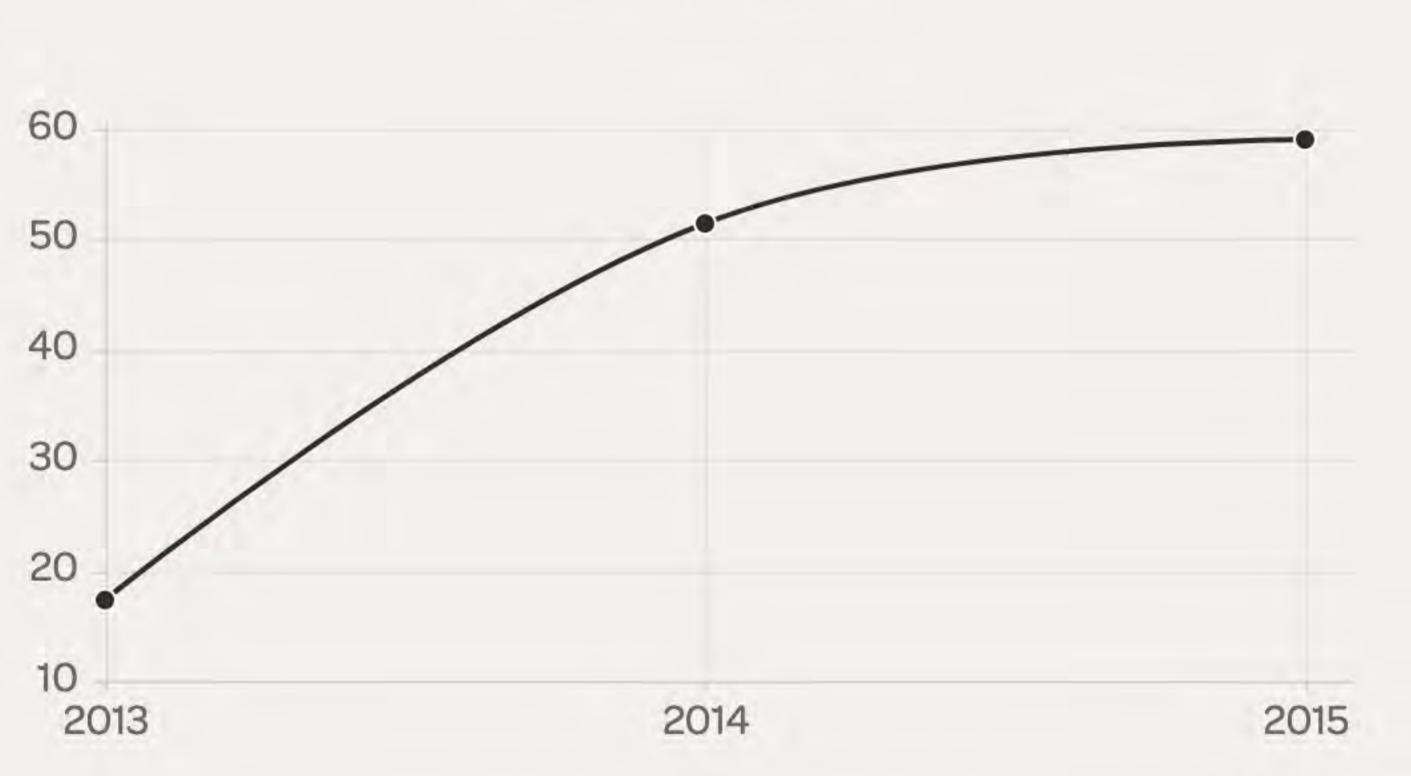
THE CHALLENGE

Given extensive evidence of fraud and abuse in the Medicare home health program, we needed a process by which to achieve the following goals:

- Ensure that applicable coverage and coding rules are met before the final claim is submitted.
- Reduce the current program's reliance on the practice of "pay and chase" for inappropriate billing.
- Test improved methods for identifying, investigating, and prosecuting Medicare fraud occurring in the home health program while maintaining or improving the quality of care provided to Medicare beneficiaries.

MEDICARE IMPROPER PAYMENT RATE FOR HOME HEALTH SERVICES

PERCENTAGES



The Medicare improper payment rate for home health services increased from 17.3 percent in 2013 to 51.4 percent in 2014. The fiscal year 2015 HHS Agency Financial Report reported a further increase to 59 percent in 2015.

OUR SOLUTION

Palmetto GBA successfully:

- Completed program start up in 73 days, including recruitment and staffing of more than 430 employees, developing necessary work processes, and implementing innovative technology to support the initiative
- · Conducted extensive provider outreach and education
- Developed innovative approach to the submission of medical documentation via eServices portal



THE IMPACT

The HH Pre-Claim Review demonstration effectively educated providers to properly submit home health claims. The result was a steady increase in fully approved PCR requests. In week 22, which ended on December 31, 2016, the majority (87.2 percent) of pre-claim review requests received a fully approved decision. Overall in week 22, 90.8 percent of pre-claim review requests received a provisionally approved or partially approved decision.

PERCENTAGE RATE OF APPROVED REQUESTS - ILLINOIS PERCENTAGE / WEEK 100 90 80 70 60 50 40

Fully Approved Partially Approved Combined

Wk 15

Wk 19

Wk 22

Wk 11

20

Wk3

Wk7

MEDICARE INTEGRITY PROGRAM

Our program safeguard activities resulted in significant savings for Medicare.

HOVER OVER ACRONYMS TO REVEAL FULL NAMES	JM A/B MAC	RRB SMAC
BI	n/a	\$1,389,033
MSP	\$551,252,796	\$5,796,496
MR	\$501,732,833	\$14,088,135
MR Ambulance Prior Auth	\$59,156,846	n/a
Total	\$1,112,142,475	\$21,273,664

\$1.1 bil 2016 Medicare Program Savings

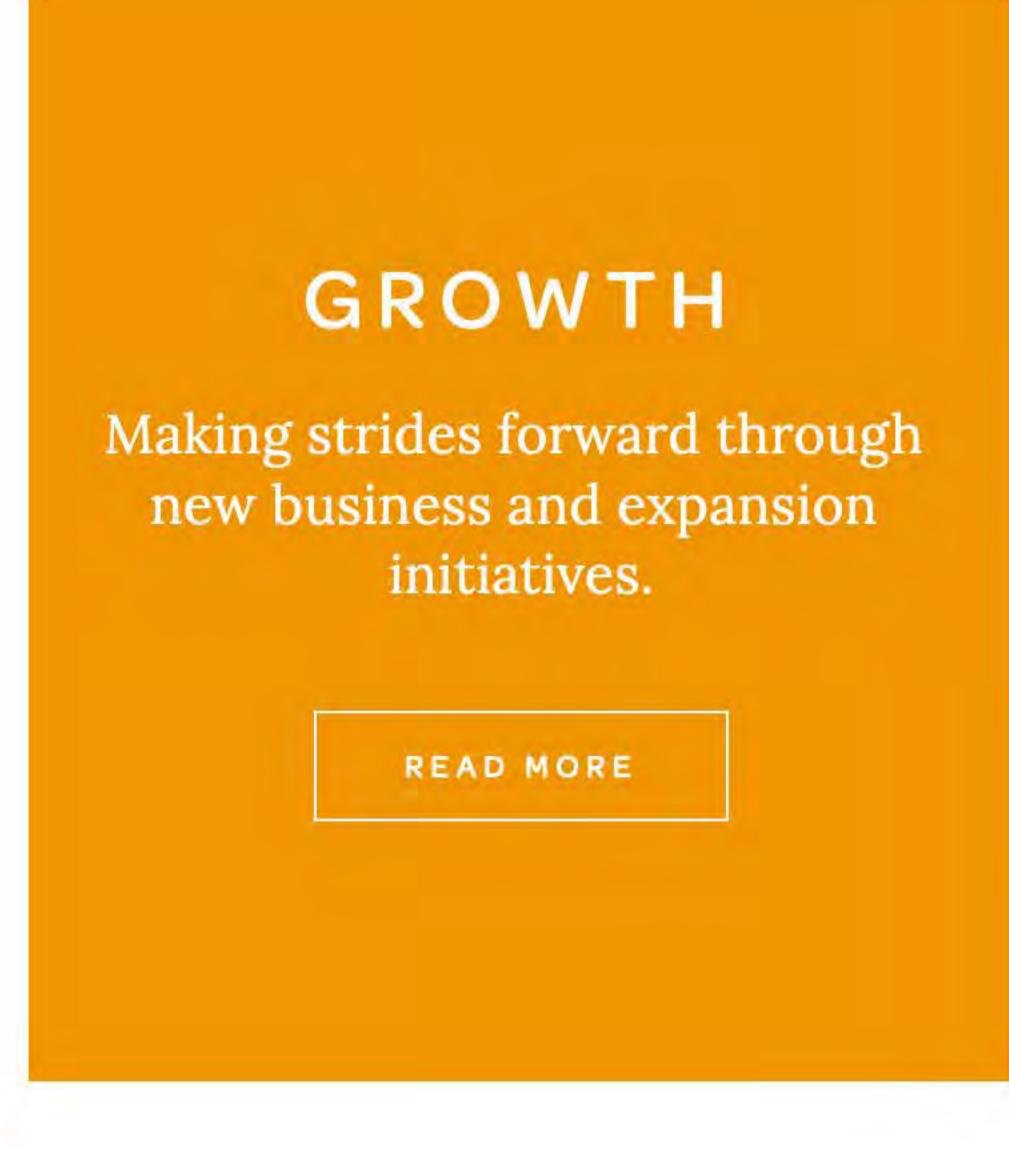
REQUEST FOR ADVANCE PAYMENT SUPPRESSION PROCESS

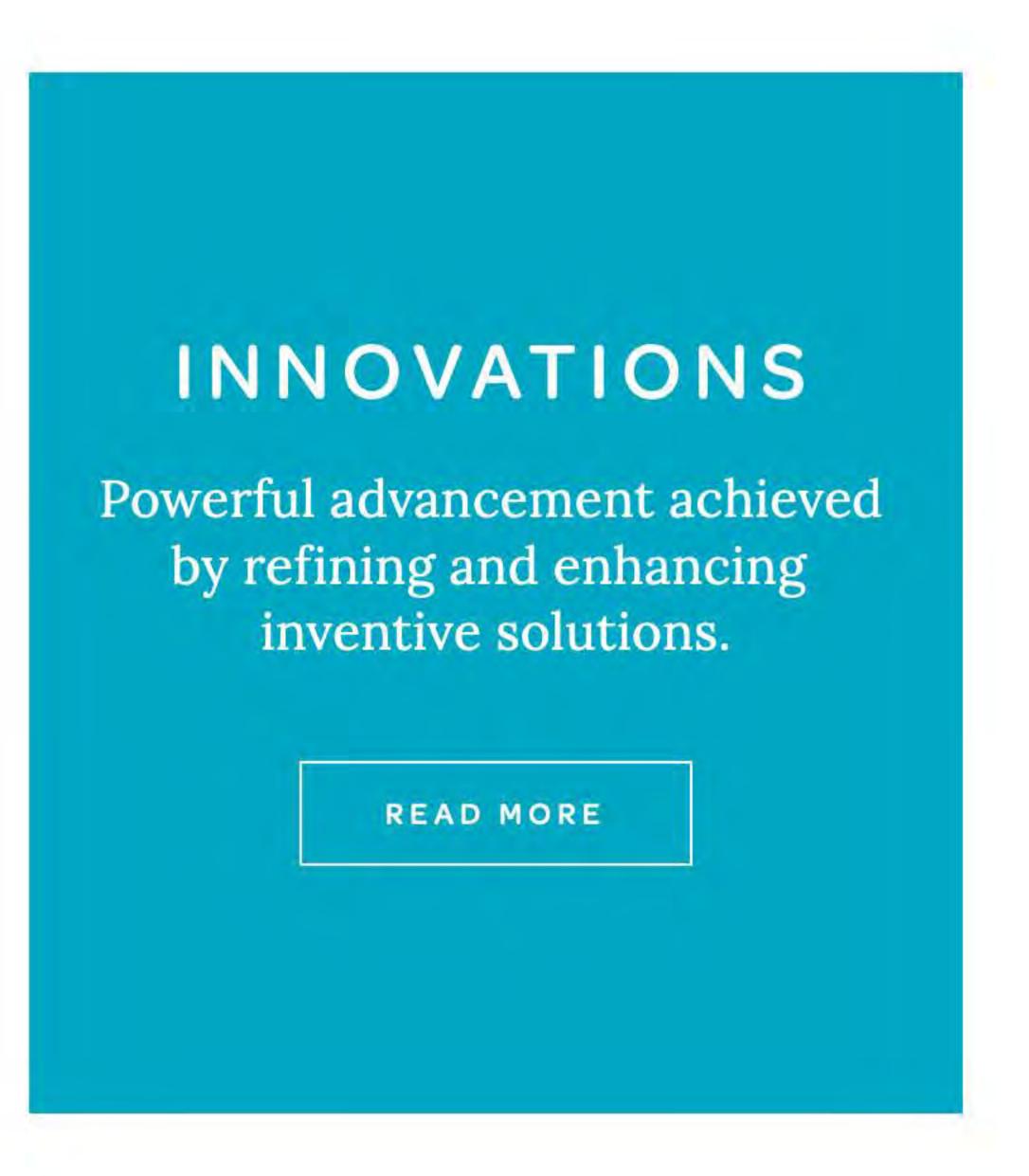
Palmetto GBA's innovative Request for Advance Payment (RAP) suppression process continues to produce savings for the Medicare Program. In 2016, this innovation produced suppression of 27,063 RAPs for which final claims were never submitted. Using an average RAP of \$1,650.70, the RAP suppression innovation resulted in \$44.6 million in savings for the Medicare program in 2016.

\$44.6 mil 2016 Savings









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Palmetto GBA is a leading provider of high-volume claims and transaction processing, contact center

2016 FINANCIALS



PROGRESS | GROWTH

Expanding Horizons

GROWTH INITIATIVES

Government IT Services

Palmetto GBA began work to establish a practice that could competitively bid on the abundance of government IT opportunities. Under this practice, we're working to hone expertise in:

TRADITIONAL IT SERVICES

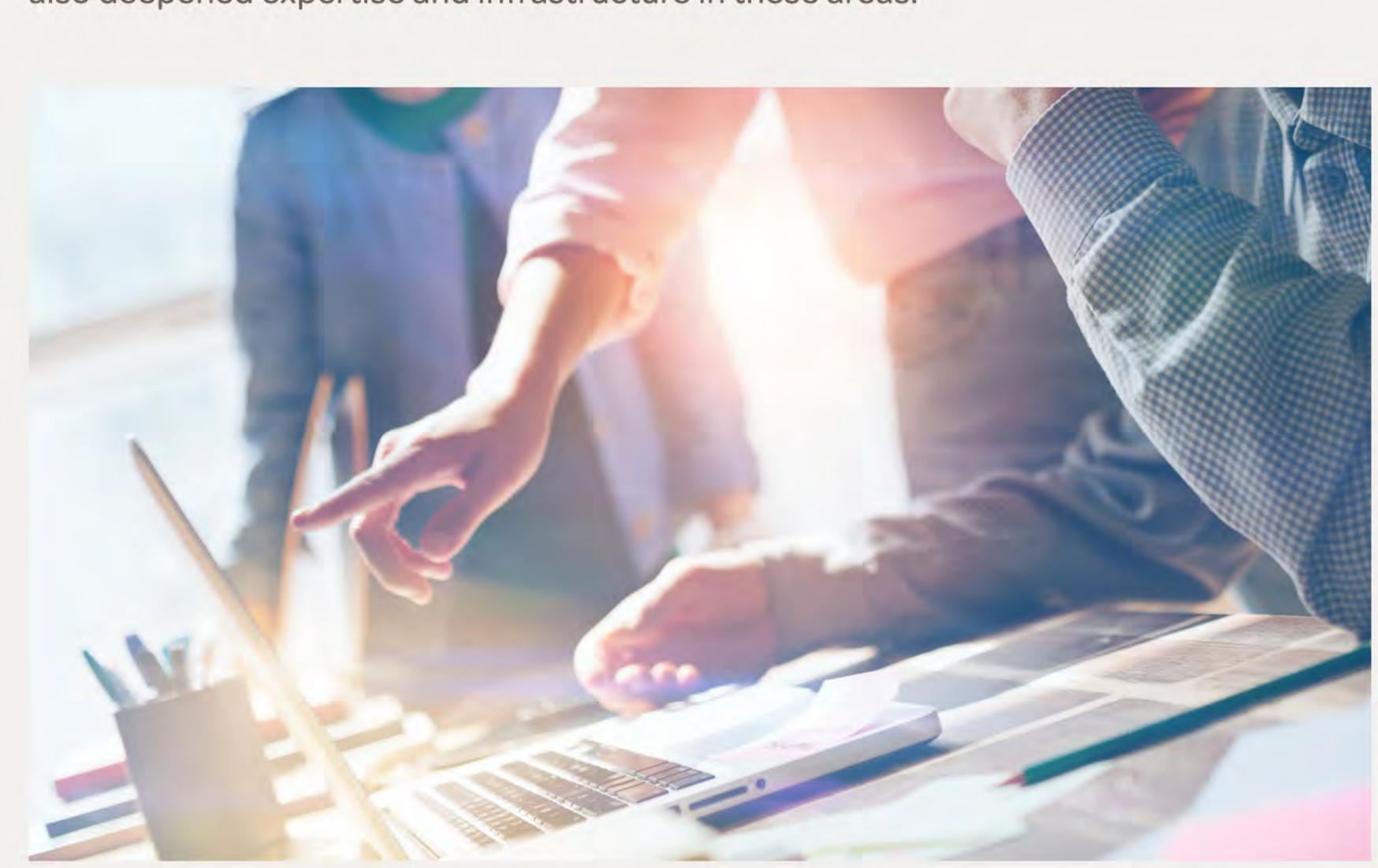
- business rules and requirements management
- applications/software design and development
- systems integration
- software/applications operations and maintenance
 software testing

NICHE IT SERVICES

- cybersecurity
- data availability/interoperability/integration
- telehealth/telemedicine technology platforms

Data Analytics Services and Technology

To meet the expanding data analytics and technology needs of federal and state government agencies, as well as those of employers, health plans, and providers, we also deepened expertise and infrastructure in these areas.





NEW BUSINESS

QIC Demonstration Evaluation Contractor (QDEC)

Palmetto GBA acquired tasks on the QDEC contract as a subcontractor to IMPAQ International. The purpose of the QDEC is to determine whether further engagement between suppliers and Qualified Independent Contractors (QICs) will improve understanding of claim denial reasons and ultimately result in more proper claims submission at the A/B Medicare Administrative Contractor level. Under the contract, Palmetto GBA performs reviews of reconsideration decisions for quality and accuracy and assists with data analytics. The five-year demonstration began in January and will continue through December 31, 2020.

Transformation Twenty-One Total Technology Next Generation (T4NG)
Program

Palmetto GBA, as a subcontractor to Leidos, was awarded the T4NG Program contract vehicle. Under the vehicle, the U.S Department of Veterans Affairs sought to acquire IT services to integrate systems, networks, and software including computer systems, program planning and management, systems and software engineering, cyber security, operations and maintenance, and facility support.





Strategic Partner Acquisition of Resources Contract (SPARC)

Palmetto GBA, as a subcontractor to QSSI, was awarded a SPARC large contract. The purpose of this contract is to provide a wide range of IT professional services to the federal government. Palmetto GBA also was awarded SPARC small contracts with three primes – DCCA, Liberty and Strategi.

RENEWED CONTRACTS

COMPETITIVE BIDDING IMPLEMENTATION CONTRACTOR (CBIC)

Palmetto GBA again was selected as the Competitive Bidding Implementation Contractor to continue operations and maintenance of the durable medical equipment competitive bidding program.

THIRD PARTY ADMINISTRATOR (TPA) FOR MEDICARE PART D

Palmetto GBA, the incumbent, was selected as the TPA for Medicare Part D. The TPA of the Medicare Coverage Gap Discount Program is the single point of contact between the pharmaceutical manufacturers, including their third-party vendors, and the Part D sponsors participating in the discount program.

FEDERAL EMPLOYEE PROGRAM (FEP) FOR BLUE CROSS ASSOCIATION

Palmetto GBA again was awarded a contract to provide pricing for FEP claims to the Blue Cross Association on August 29, 2016. The contract requires that FEP claims be priced the same as Medicare Fee-for-Service claims.

METRICS Performance excellence and near-flawless contract ratings drive scale. READ MORE

IMPACT

Innovative solutions mean significant savings with tremendous effect.

READ MORE

GROWTH

INNOVATIONS

Powerful advancement achieved by refining and enhancing inventive solutions.

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VISIT OUR CORPORATE WEBSITE

PROGRESS PHILANTHROPY LEADERSHIP



PROGRESS | INNOVATIONS

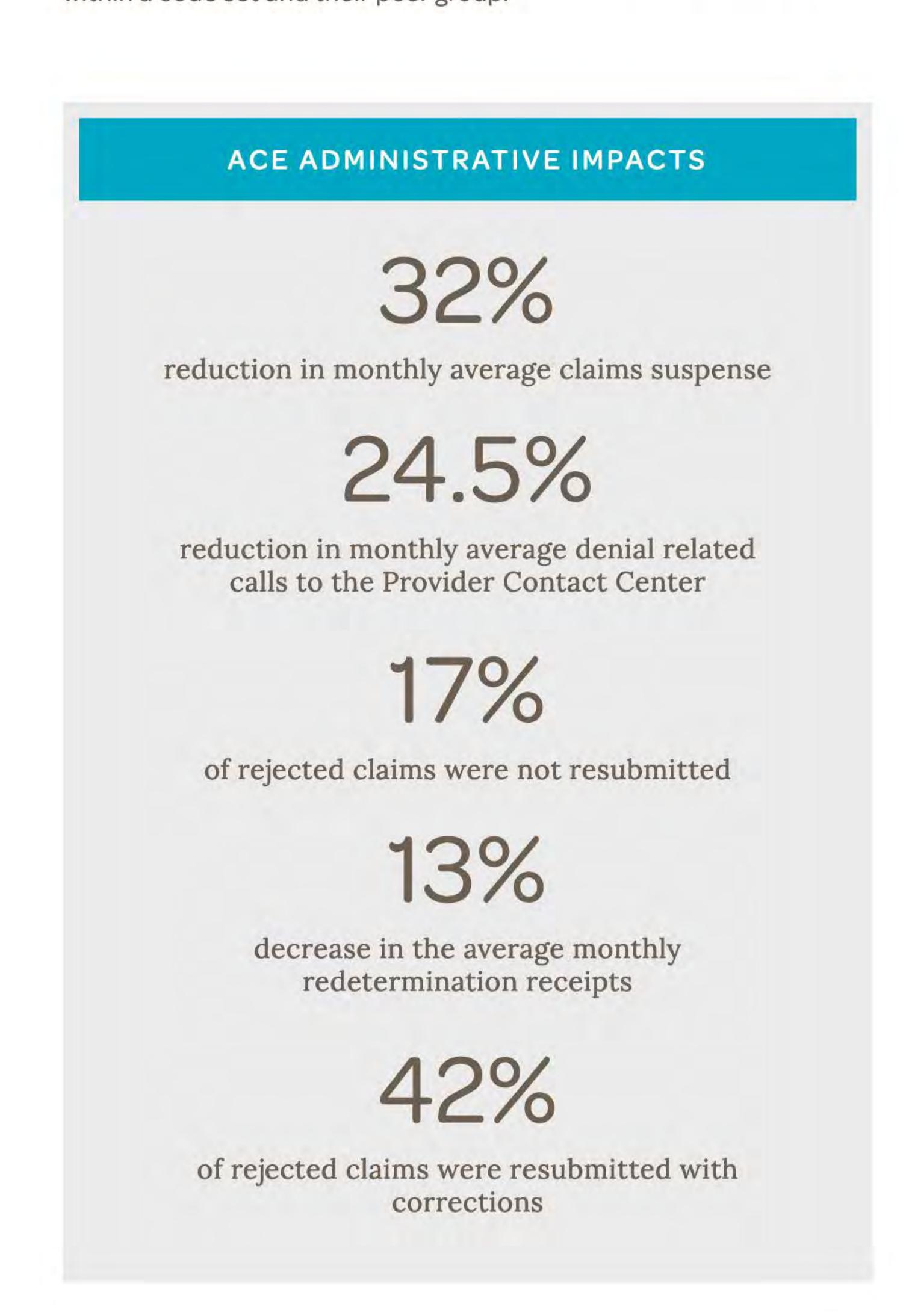
Strengthening Foundations

REFINED INNOVATIONS



Advanced Communication Engine (ACE)

As enhancement to ACE, our software that performs complex clinical claim editing within the EDI front-end process and before adjudication, Palmetto GBA developed a series of customized edits called eCompare. These provide real-time utilization alerts to providers whose billing pattern suggests potential over-utilization within a code set and their peer group.





Suite of eServices

Palmetto GBA is further developing its online provider service enhancements – feature-rich tools on our portal that allow the provider community to self-educate and compare themselves to peers. Critical in the process is utilizing our new eCompare messaging to drive providers to the specific tools on the portal. We're working closely with CMS to define requirements and conduct focus groups, and have completed much of the technical work to integrate and optimally package the components to drive adoption and utilization by the provider community.

NEW TOOLS INCLUDE:

- eCBR (Comparative Billing Reports): Allows provider access
 to a user interface to select and review data comparing their
 billing behavior to that of their peers. eCBR offers multiple
 graphic options for viewing the comparison data, allowing the
 providers to view their billing in relation to national, jurisdiction
 or state peers.
- eUtilization: Allows providers to access and review data where their individual NPI has been listed as the ordering, referring or rendering provider on a claim. Physicians will be able to identify potential misuse of their NPI in these scenarios and will have tools to report these claims for further investigation.
- eAudit: Gives providers insight into which claims are being audited by the A/B MAC. While denial and education letters originating from completed Prepay Medical Reviews are currently available, this feature will extend our claim status function and allow providers to view more robust audit information for their claims.



Debt Management System (DMS)

Palmetto GBA seeks to modernize Medicare debt management activities. The first phase of our initiative to accomplish this was the implementation of the Health Insurance General Ledger Accounting System (HIGLAS) Automator, a web- and server-based application processing routine and repeatable data entry requests and updating HIGLAS. In addition to an annualized cost savings of \$1,123,380, the DMS application has realized increased workflow control, workload productivity tracking, and audit trail reporting.

\$1,123,380

DMS Annualized Cost Savings

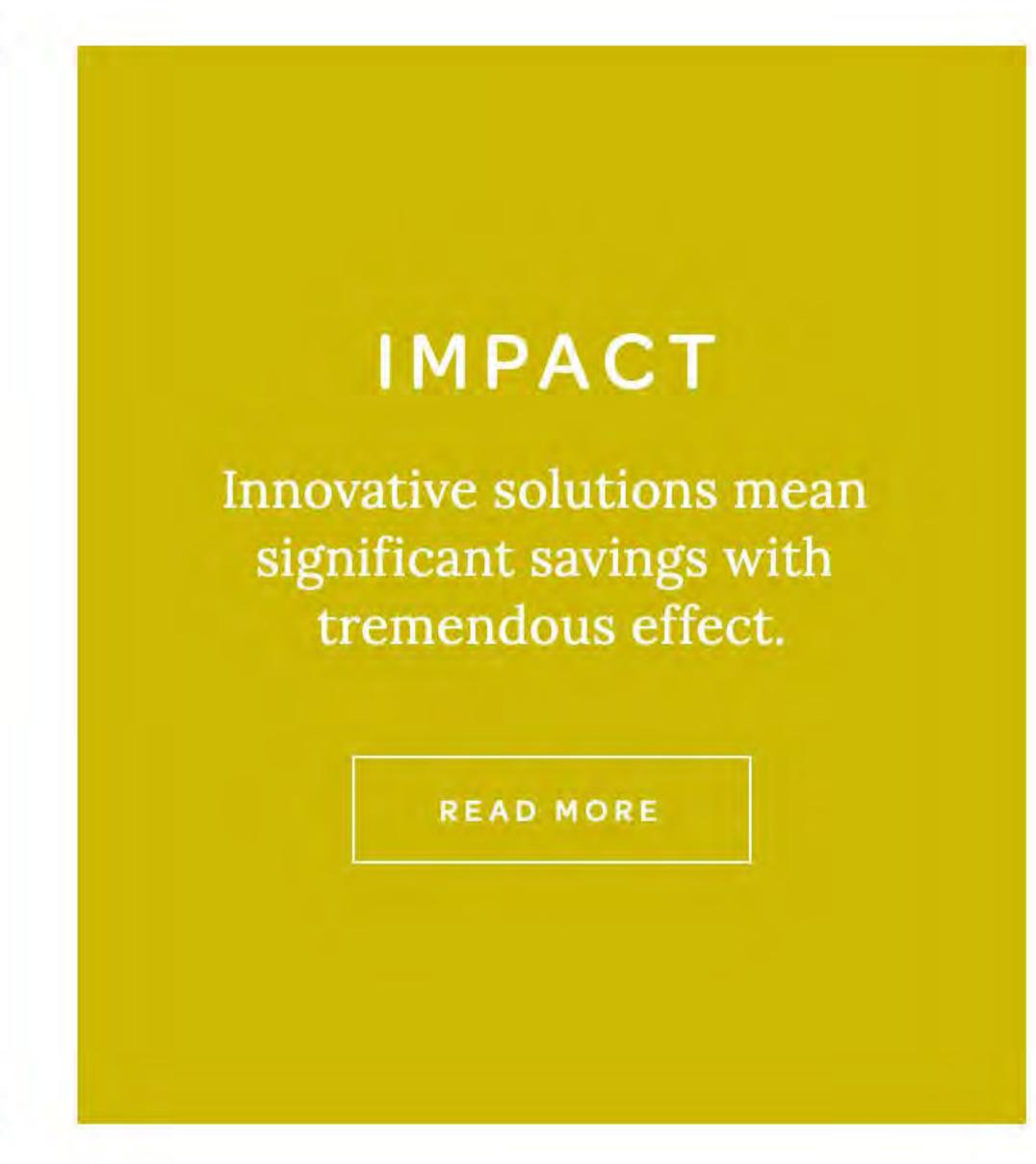
ENHANCED SECURITY SYSTEMS

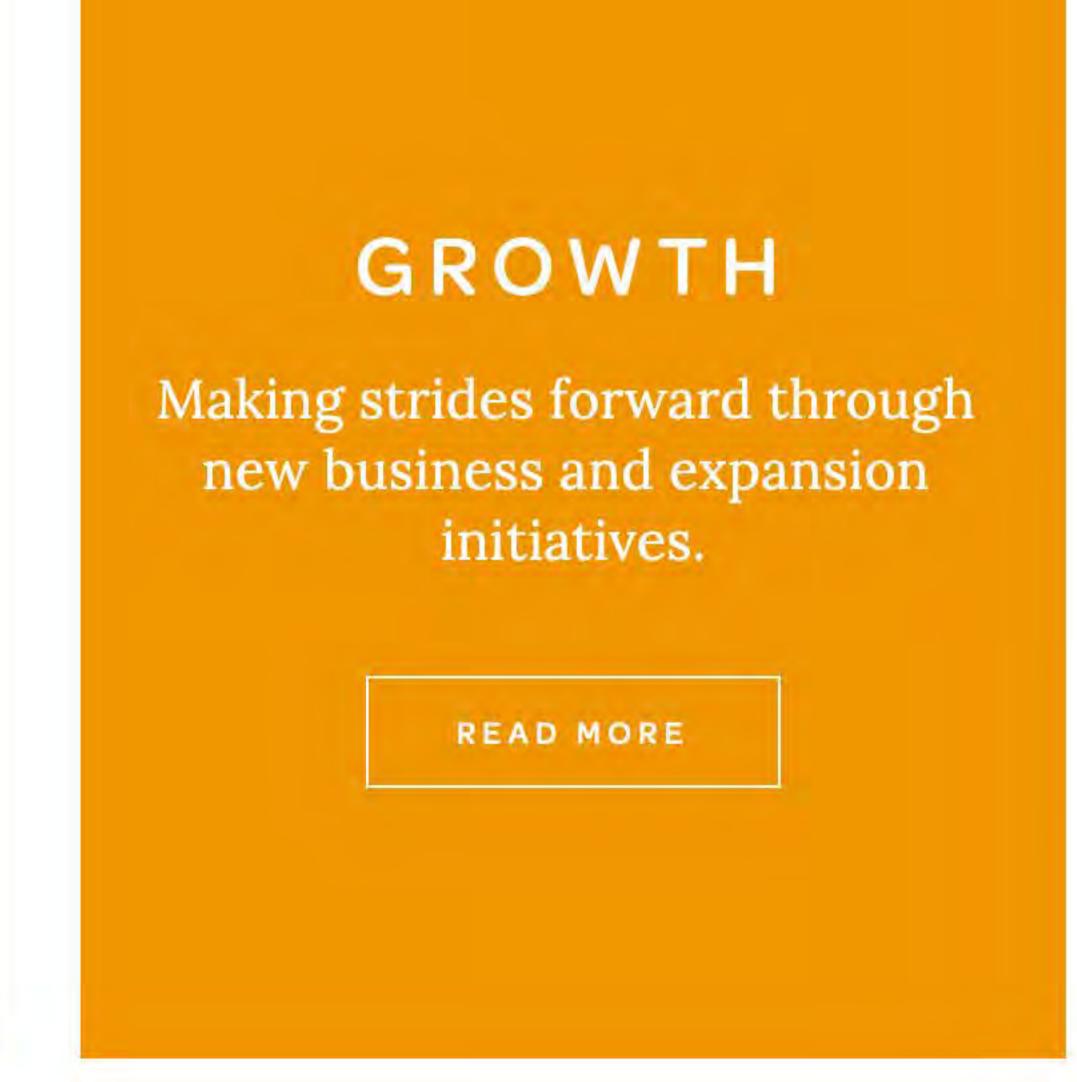
Since 2013, the Centers for Medicare & Medicaid Services (CMS) has increased its focus on systems security and heightened its number of security requirements by 50 percent. To meet – and exceed – these expectations, Palmetto GBA remains committed to improved overall system security.

In the last year, we've made more than 25 enhancements to the Security Manager Application, which continues to automate security and compliance requirements and reviews. Continued automation has reduced audit issues, errors and costs associated with several controls.

IP-360 System Security
maintained an "A" rating
for the past 39
consecutive months.

METRICS Performance excellence and near-flawless contract ratings drive scale. READ MORE





INNOVATIONS

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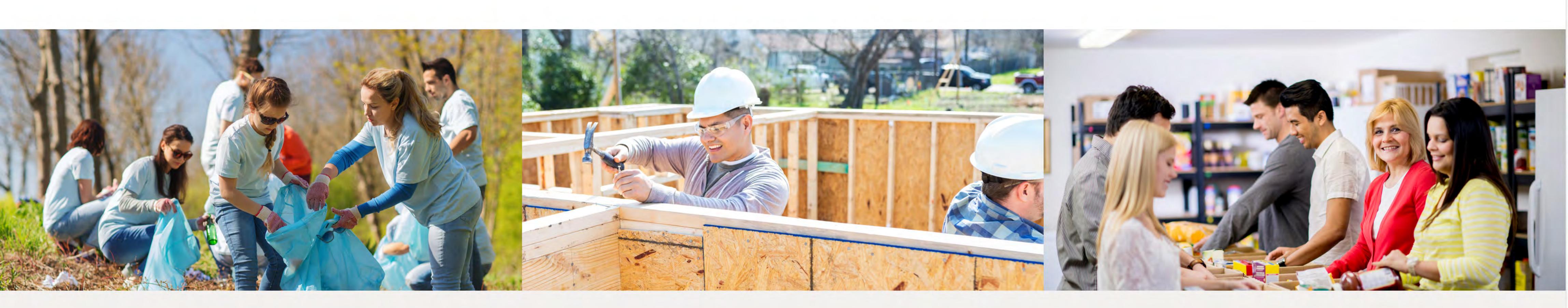




PHILANTHROPY

Unparalleled Purpose

Corporate social responsibility is more than an ideal. For more than 50 years, the desire to improve lives has been fundamental to what sets our associates apart and has guided Palmetto GBA's deep investment in the communities we call home. Our employees' generosity is humbling.



In 2016, the Palmetto GBA team collectively reached out to almost 60 organizations. We met a variety of needs, from collecting items for the homeless to volunteering for organizations like Ronald McDonald House Charities, Habitat for Humanity and the Columbia International Festival.

1700+ students provided with school supplies & mentoring

\$10,000+

raised for Head Start centers, American Heart Association, American Cancer Society, Catholic Social Services, Meals on Wheels and more

families adopted during the holidays

2016 BEST OF PHILANTHROPY AWARD

To honor and recognize associates' exemplary commitment to community service, Palmetto GBA chartered a new award that allows winners to grant \$3,000 to

Understanding of community needs and assets

the charities of their choice. Award criteria include:

- Creative approaches towards solving community needs or enhancing community assets
- Community collaboration
- Team participation/collaboration
- Engagement volunteer and fundraising support
- Ongoing support vs. 'one and done'



Division 10 - Support Operations was the 2016 inaugural Best of Philanthropy Award winner. This team was recognized for its long-term commitment and positive impact through its monthly reading program at Joseph Keels Elementary School in Columbia, South Carolina. The winners shared the grant money amongst the following charities, all in Columbia:

- Joseph Keels Elementary
- John P Thomas Elementary School
- Senior Resources Inc.'s Pet Pals program
- Ronald McDonald House Charities of Columbia



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Board of Directors



David Pankau
CHAIRMAN, BOARD OF
DIRECTORS

Palmetto GBA, LLC

PRESIDENT & CEO

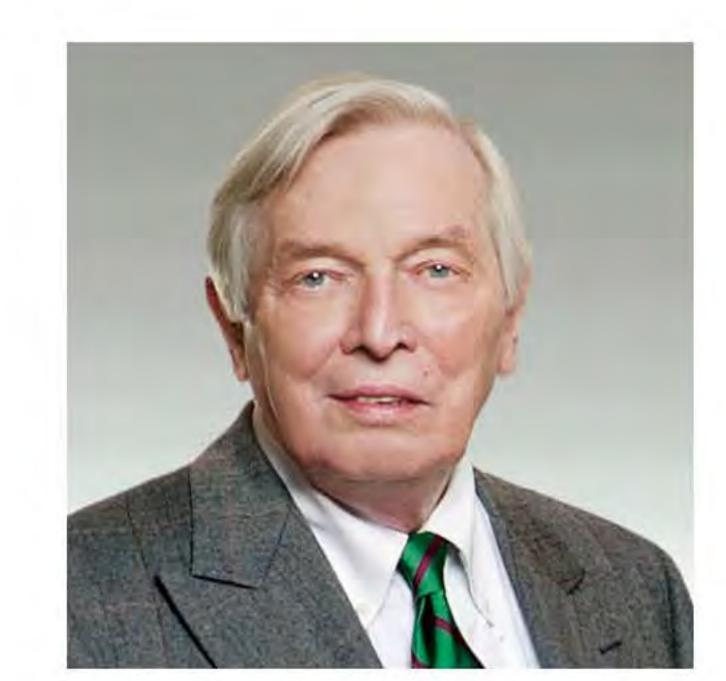
BlueCross BlueShield of South

Carolina



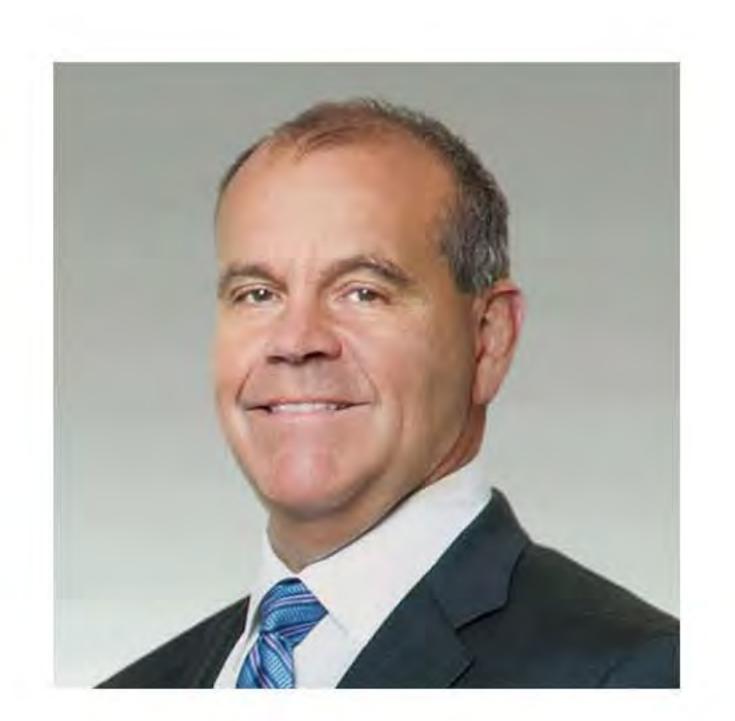
M. Edward Sellers
CHAIRMAN, BOARD OF
DIRECTORS

BlueCross BlueShield of South
Carolina



Joseph Sullivan
CHAIRMAN EMERITUS, BOARD
OF DIRECTORS

BlueCross BlueShield of South
Carolina



Bruce W. Hughes

PRESIDENT & COO

Celerian Group, BlueCross
BlueShield of South Carolina

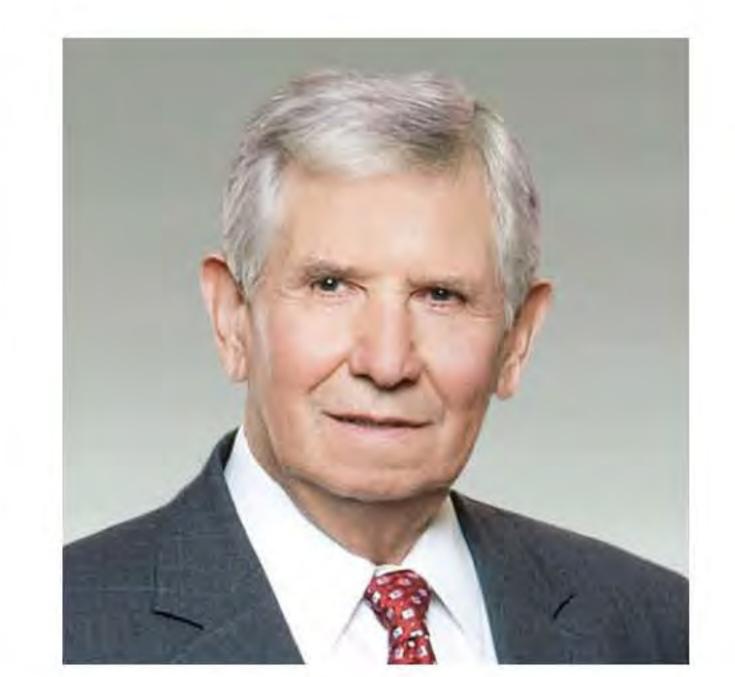


Joe Johnson
PRESIDENT & COO
Palmetto GBA, LLC



Brian Rubin
RETIRED

Department of Defense TRICARE
Management Activity



Martin Kappert
RETIRED DEPUTY ASSISTANT
SECRETARY

Health Affairs, Department of
Defense

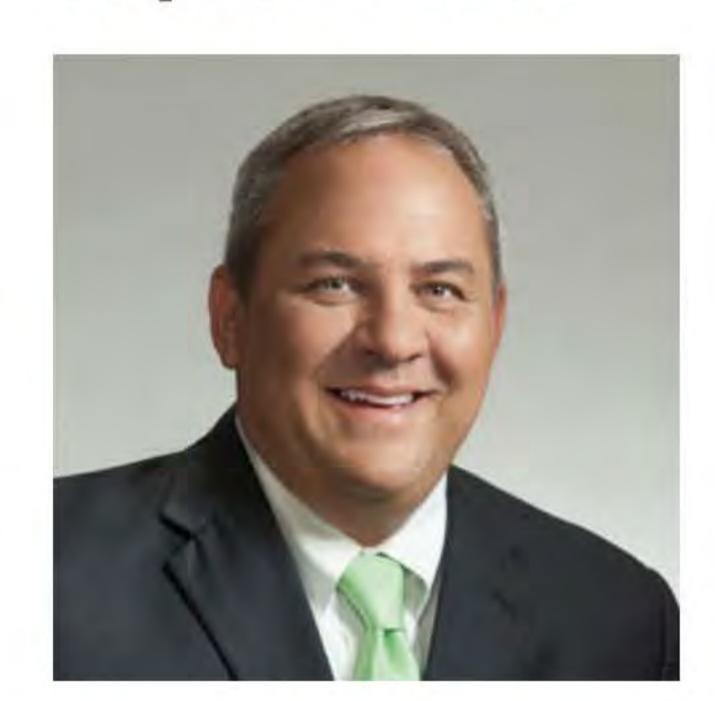


Ilene H. Nagel
MANAGING DIRECTOR
Russell Reynolds Associates



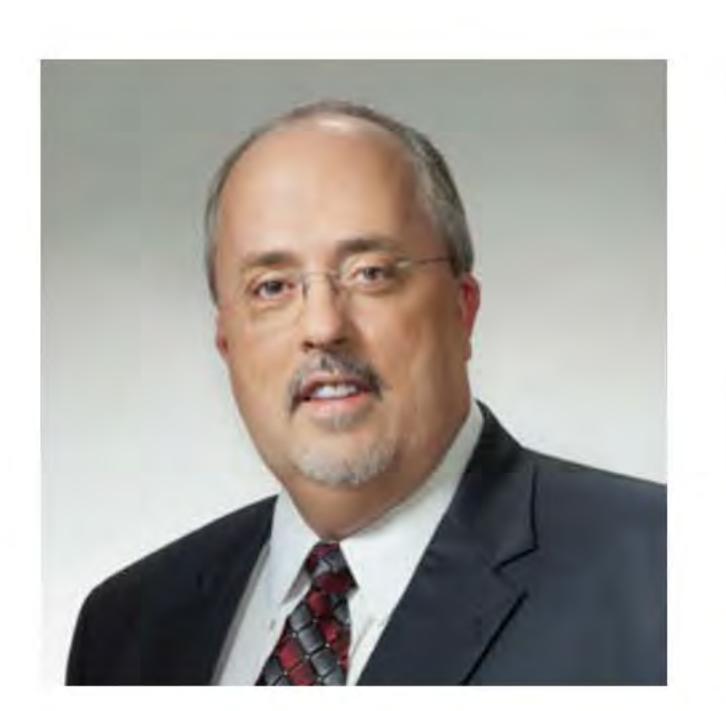
David Butler
RETIRED COO
Strategic Management Systems,
Inc.

Corporate Officers



Joe Johnson

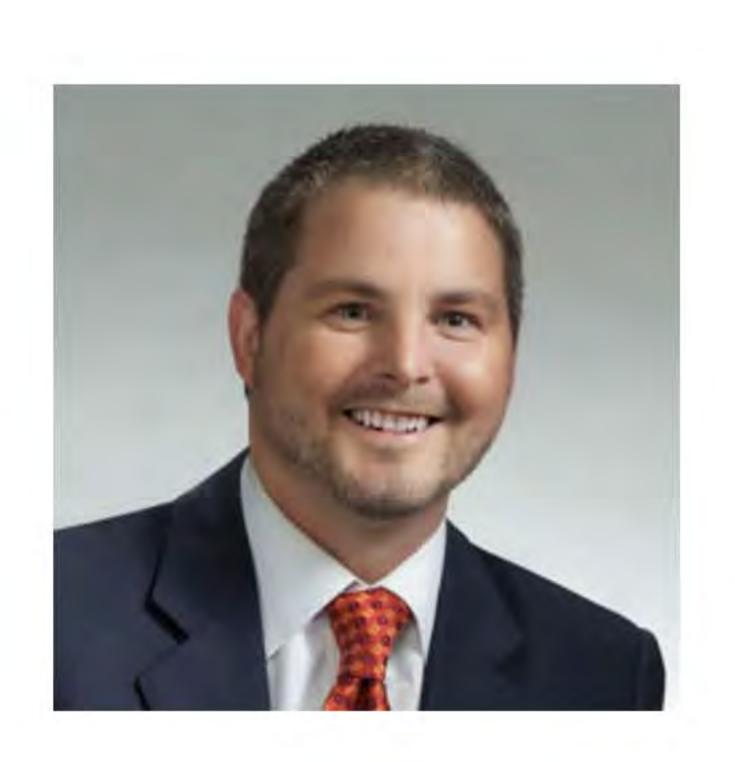
PRESIDENT & COO



Mike Barlow
VICE PRESIDENT
Operations, Specialty Contracts



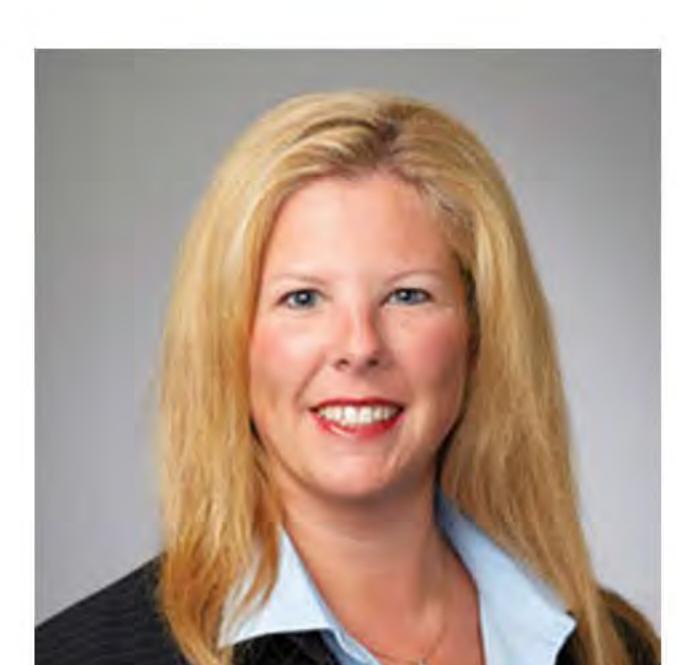
Nella Bishop
CIO & VICE PRESIDENT
Systems & Support



Neal Burkhead
VICE PRESIDENT
Shared Services



Elaine Garrick
VICE PRESIDENT
Support Operations



Robin Free
ASSISTANT VICE PRESIDENT
Pre-Claim Review



Ken Lewis
VICE PRESIDENT & CFO



Tim Masheck
VICE PRESIDENT
Information Technology Services



Lee McElveen
VICE PRESIDENT
Compliance & Privacy



Margaret Price
VICE PRESIDENT & CTO



Ed Sanchez
VICE PRESIDENT

Jurisdiction M A/B MAC Operations



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PALMETTO GBA

2016 Financial Report

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- 02 Balance Sheets
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- o3 Statements of Comprehensive Income
- 03 Statements of Changes in Member's Equity
- 04 Statements of Cash Flows
- 05 Notes to Financials Statements



2016 ANNUAL REPORT | THE PURSUIT OF PERFECTION

INDEPENDENT AUDITORS' REPORT

BOARD OF DIRECTORS PALMETTO GBA, LLC



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Report on the Financial Statements

We have audited the accompanying financial statements of Palmetto GBA, LLC which are comprised of the balance sheets as of December 31, 2016 and 2015, and the related statements of operations, comprehensive income, changes in member's equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of

material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Palmetto GBA, LLC at December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Derick, Stubbs & Stith, LLP

March 2, 2017

BALANCE SHEETS (IN THOUSANDS)	December 31,					
DALANCE STILLIS (IN THOUSANDS)	2016	2015				
400570						
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 37,827	\$ 46,078				
Restricted Medicare Funds	3,649	744				
Accounts receivable	29,509	28,187				
Accounts receivable from affiliates	1,107	1,658				
Accrued revenue	44,819	41,361				
Prepaid expenses	685	686				
Deferred income taxes	3,412	2,826				
Total current assets	121,008	121,540				
Long-term assets:						
Fixed assets, net of accumulated depreciation						
of \$30,842 and \$30,439 in 2016 and 2015, respectively	3,627	3,794				
Long-term investments	28,533	13,080				
Investments in affiliates	1,871	1,831				
Deferred income taxes	35	30				
Total long-term assets	34,066	18,735				
TOTAL ASSETS	\$ 155,074	\$ 140,275				
LIABILITIES AND MEMBER'S EQUITY						
Current liabilities:						
Accrued payroll, taxes and benefits	\$ 15,942	\$ 13,489				
Payable to parent	9,023	7,460				
Restricted Medicare Funds	3,649	744				
Other liabilities	12,318	12,962				
Deferred income taxes	46	117				
Total current liabilities	40,978	34,772				
Long-term liabilities:						
Deferred income taxes	1,127	1,175				
Total long-term liabilities	1,127	1,175				
Member's equity:						
Contributed capital	34,961	34,961				
Retained earnings	78,073	69,424				
Accumulated other comprehensive income	(65)	(57)				
Total member's equity	112,969	104,328				
TOTAL LIABILITIES AND MEMBER'S EQUITY	\$ 155,074	\$ 140,275				

STATEMENTS OF OPERATIONS (IN THOUSANDS)

STATEMENTS OF COMPREHENSIVE INCOME (IN THOUSANDS)

	Years ended	December 31,		Years ended	December	r 31,
	2016	2015		 2016		2015
REVENUES						
Total revenues	\$ 215,763	\$ 213,118	NET INCOME	\$ 8,649	\$	11,426
EXPENSES			Other comprehensive income (OCI), net of tax			
Total expenses	203,431	195,755	Unrealized loss on investments:			
Operating income	12,332	17,363	Unrealized holding (loss) arising during period, net of			
Investment income	932	167	(\$4) tax benefit and (\$61) tax benefit in 2016 & 2015	 (8)		(115)
Income before income taxes	13,264	17,530	Total unrealized gains on investments	 (8)		(115)
Provision for income taxes	4,615	6,104	Other comprehensive (loss)	(8)		(115)
NET INCOME	\$ 8,649	\$ 11,426	COMPREHENSIVE INCOME	\$ 8,641	\$	11,311

STATEMENTS OF CHANGES IN MEMBER'S EQUITY (IN THOUSANDS)

 Contributed Capital		Accumulated Other Retained Comprehensive Earnings Income (Loss)		ther rehensive		Total
\$ 34,961	\$	57,998	\$	58	\$	93,017
_		11,426		_		11,426
 				(115)		(115)
34,961		69,424		(57)		104,328
-		8,649		_		8,649
-		-		(8)		(8)
\$ 34,961	\$	78,073	\$	(65)	\$	112,969
	Capital \$ 34,961 34,961	Capital E \$ 34,961 \$ - 34,961	Capital Earnings \$ 34,961 \$ 57,998 - 11,426 - - 34,961 69,424 - 8,649 - -	Contributed Capital Retained Earnings Comp Income \$ 34,961 \$ 57,998 \$ - 11,426 - - - - 34,961 69,424 - - 8,649 -	Contributed Capital Retained Earnings Other Comprehensive Income (Loss) \$ 34,961 \$ 57,998 \$ 58 - 11,426 - - - (115) 34,961 69,424 (57) - 8,649 - - (8)	Contributed Capital Retained Earnings Other Comprehensive Income (Loss) \$ 34,961 \$ 57,998 \$ 58 \$ - 11,426 - - - - (115) - 34,961 69,424 (57) - - 8,649 - - - - (8)

STATEMENTS OF CASH FLOWS (IN THOUSANDS)	Years ended	Decembe	er 31,	
	 2016	2015		
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	\$ 8,649	\$	11,426	
Adjustments to reconcile net income to net cash				
provided by (used in) operating activities:				
Depreciation	531		618	
Amortization on bonds	107		21	
Loss on fixed asset disposals	15		13	
Realized (gain)/loss on investments	(149)		100	
Unrealized loss on investments	12		176	
Change in other comprehensive (loss)	(8)		(115)	
Equity in income of affiliates	(4O)		(46)	
Deferred income tax provision	(710)		(63)	
Changes in operating assets and liabilities:				
(Increase) decrease in accounts receivable	(4,780)		11,732	
Decrease (increase) in receivables from affiliates	551		(423)	
Decrease in prepaid expense	1		1,273	
Increase in accrued payroll, taxes and benefits	2,453		523	
Increase in payable to parent	1,563		544	
(Decrease) in other liabilities	(644)		(1,374)	
Net cash provided by operating activities	 7,551		24,405	
CASH FLOWS FROM INVESTING ACTIVITIES				
Fixed assets purchased	(379)		(272)	
Investments redeemed - held-to-maturity	2,685		564	
Investments sold - available-for-sale	5,681		1,136	
Investments purchased - held-to-maturity	(22,232)		(2,654)	
Investments purchased - available-for-sale	(1,557)		(4,302)	
Net cash (used in) investing activities	 (15,802)		(5,528)	
Net (decrease) increase in cash and cash equivalents	(8,251)		18,877	
Cash and cash equivalents beginning of year	 46,078	-	27,201	
CASH AND CASH EQUIVALENTS END OF YEAR	\$ 37,827	\$	46,078	
Supplemental disclosures of cash paid during the year for:				
Income taxes	\$ 6,124	\$	6,260	

NOTES TO FINANCIAL STATEMENTS DECEMBER 31 2016 & 2015

NOTE 1 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Palmetto GBA, LLC (the Company) is a single-member limited liability company organized on January 1, 1998. The Company's sole member is Blue Cross and Blue Shield of South Carolina (BCBSSC). The Company is engaged in the business of providing Medicare Administrative Contractor (MAC) and Specialty Medicare Administrative Contractor (SMAC) services in various states. These services include health insurance claims processing and payment, customer service for health care providers, and payment safeguard functions designed to detect and prevent fraud and abuse in the Medicare program. The Company provides services to Medicare beneficiaries residing in various states and territories. The Company's major customer is the Centers for Medicare and Medicaid Services (CMS), the federal agency with fiduciary responsibility for the Medicare program.

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant accounting policies and the methods of applying those policies are summarized below:

Cash, cash equivalents and credit risk

Restricted cash and the related restricted cash liability includes funds held for processing Medicare benefits paid to providers and beneficiaries of \$3,649,000 and \$744,000 at December 31, 2016 and 2015, respectively.

Cash equivalents represent certificates of deposit that have maturities of less than three months at date of purchase and money market fund investments. Market risk for cash and cash equivalents is limited to any one institution when deposits exceed federally

insured limits. The Company had cash deposits in excess of federally insured limits in the approximate amount of \$40,538,000 and \$46,279,000 at December 31, 2016 and 2015, respectively.

Financial instruments

The Company holds certain financial instruments including cash and accounts receivable. Management believes that the carrying values of financial instruments approximate fair value as required by Financial Accounting Standards Board (FASB) rules.

Subsequent events

Subsequent events have been evaluated through March 2, 2017, which is the date the financial statements were available to be issued. No events have occurred through that date that would require recognition or disclosure in the financial statements.

Fixed assets

Fixed assets are stated at amortized cost. Depreciation on new assets purchased is computed using the straight-line method over the estimated useful lives of the respective assets: four to eight years for furniture and fixtures, three to five years for data processing equipment and software, and four years for automobiles. Leasehold improvements are depreciated over the lesser of the remaining lease term or estimated useful life of the asset. Depreciation on used assets purchased is computed by using the straight-line method over the estimated remaining useful lives at the time of purchase of the respective assets.

Investment in affiliates

The Company has a 25% interest in TriCenturion, Inc. that is accounted for using the equity method. The Company's proportionate share of earnings or losses of this affiliate are reflected in income as earned and dividends or distributions are credited against investment in affiliate when received. The Company has not received any dividends as of December 31, 2016 and 2015.

ASSETS, LIABILITIES & RESULTS OF OPERATIONS FOR TRICENTURION, INC. (IN THOUSANDS)

		Years ended December 31,							
	2016			2015					
Assets	\$	14,069	\$	12,931					
Liabilities	\$	6,561	\$	5,639					
Net Income	\$	218	\$	155					

Investments are comprised of common stocks, mutual funds, bonds, and United States Government mortgage-backed securities. These assets are accounted for in accordance with FASB guidance which requires that fixed maturities are to be classified as either "held to maturity", "available for sale", or "trading".

Management determines the appropriate classification of its fixed maturity securities at the time of purchase and reevaluates such designation as of each balance sheet date. Fixed maturity securities are classified as held to maturity as the Company has the positive intent and ability to hold them to maturity. Held-to-maturity securities are stated at amortized cost, adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization as well as interest earned is included in investment income.

Fixed maturity and equity securities not classified as held-to-maturity are classified as available for sale. Available-for-sale securities are carried at fair value based on published prices, with the unrealized gains and losses reported in member's equity. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and interest earned is included in investment income. The cost of securities sold is based on the specific identification method.

Revenue recognition policies

The Company recognizes revenue on the Jurisdiction M A/B MAC, Data Computer Corporation of America (DCCA), National Supplier Clearinghouse (NSC) MAC and Railroad Retirement Board SMAC contracts on cost plus a fixed fee basis. Award fees, if applicable, for these contracts are recognized based upon historical performance or management estimates if no historical data is available.

The Company recognizes revenue on the Competitive Bidding Implementation Contractor (CBIC), Customer Support and Front End System (CSFES), Provider Education Support Service (PESS) and various other contracts when services are performed and hillable

Income taxes

The Company adopted the authoritative guidance on accounting for and disclosure of uncertainty in tax positions on January 1, 2009, which required the Company to determine whether a tax position of the Company is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. For tax positions meeting the more likely than not threshold, the tax amount recognized in the financial statements is the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant taxing authority. The tax position determination did not have a material effect on the Company's financial statements.

The Company files tax returns as prescribed by the tax laws of the jurisdictions in which it operates. In the normal course of business, the Company is subject to examination by federal and state jurisdictions, where applicable. As of December 31, 2016, the tax years 2013 forward remain subject to examination by the federal tax jurisdiction under the statute of limitations.

If applicable, the Company accrues interest and penalties that may be assessed by the taxing authorities on any underpayment of tax. As of December 31, 2016 and 2015, the Company had not accrued any interest and penalties related to income tax accruals.

Fair value measurements

The Company adopted the provision of Accounting Standards Codification (ASC) 820 effective 2009. ASC 820 establishes a framework for measuring the fair value of assets and liabilities recognized in the financial statements in periods subsequent to initial recognition.

NOTE 2 FIXED ASSETS

FIXED ASSETS (IN THOUSANDS)

	 Years ended 2016	December 31, 2015			
Leasehold improvements	\$ 232	\$	231		
Equipment, furniture & fixtures	25,183		25,294		
Software	9,054		8,708		
	34,469		34,233		
Accumulated depreciation	(30,842)		(30,439)		
	\$ 3,627	\$	3,794		

Depreciation expense was \$531,000 and \$618,000 for the years ended December 31, 2016 and 2015, respectively.

NOTE 3 INVESTMENTS

LONG-TERM INVESTMENTS (IN THOUSANDS)

	Amortized Cost or Cost		Gross Unrealized Gains		Unrealized Unrealized		Cost or Unrealized Unreali		Fa	air Value
DECEMBER 31, 2016		_								
Held-to-maturity securities: Corporate bonds Total held-to-maturity securities	\$	23,456 23,456	\$	156 156	\$	453 453	\$	23,159 23,15 9		
Available-for-sale securities: Common stocks Mutual funds Total long-term investments DECEMBER 31, 2015	\$	5,132 28,588	\$	- - 156	\$	55 508	\$	5,077 28,23 6		
Held-to-maturity securities: Corporate bonds Total held-to-maturity securities	\$	4,017 4,017	\$	15 15	\$	71 71	\$	3,961 3,961		
Available-for-sale securities: Common stocks Mutual funds TOTAL LONG-TERM INVESTMENTS	_ \$	4,036 5,071		205		224	_	4,017 5,046		
INVESTMENTS	>	13,124	<u> </u>	220	<u> </u>	320	\$	13,024		

The fair value of available-for-sale securities with unrealized losses was \$5,077,000 and \$7,167,000 at December 31, 2016 and 2015, respectively. The Company monitors investment securities for other than temporary declines in fair value. In determining whether a decline in fair value is other than temporary, consideration is given to the extent of the decline, the length of time fair value has been below cost, and other relevant factors including estimated future cash flows. None of the unrealized losses at December 31, 2016 or 2015 were considered other than temporary.

AMORTIZED COST & ESTIMATED FAIR VALUES OF HELD-TO-MATURITY DEBT SECURITIES. BY CONTRACTUAL MATURITY (IN THOUSANDS)

DECEMBER 31, 2016	Amortized Cost or Cost		<u>F</u>	air Value
Held-to-maturity securities:				
Due in one year or less	\$	51	\$	52
Due in one year through				
five years		1,463		1,513
Due in five years or more	2	21,942		21,594
Total held-to-maturity	\$ 2	3,456	\$	23,159

There were gross realized gains of \$443,000 and \$46,000 for the years ended December 31, 2016 and 2015, respectively, that were included in net investment income. There were gross realized losses of \$294,000 and \$146,000 for the years ended December 31, 2016 and 2015, respectively. Gross unrealized holding gains and losses on securities classified as available-for-sale are reported in accumulated other comprehensive income in the accompanying balance sheets. No cash or assets are pledged or restricted for any purpose.

There were no available for-sale-investments that had been in an unrealized loss position for less than twelve months at December 31, 2016. For available-for-sale investments in an unrealized loss position at December 31, 2016, the aggregate amount of unrealized loss that had been in an unrealized loss position for more than twelve months was \$55,000 and the aggregate estimated fair value was \$5,077,000. For available-for-sale investments in an unrealized loss position at December 31, 2015, the aggregate amount of unrealized loss that had been in an unrealized loss position for less than twelve months was \$206,000 and the aggregate estimated fair value was \$2,070,000. For available-for-sale investments in an unrealized loss position at December 31, 2015, the aggregate amount of

unrealized loss that had been in an unrealized loss position for more than twelve months was \$43,000 and the aggregate estimated fair value was \$5,097,000.

For held-to-maturity investments in an unrealized loss position at December 31, 2016, the aggregate amount of unrealized loss that had been in an unrealized loss position for less than twelve months was \$453,000 and the aggregate estimated fair value was \$15,538,000. There were no held-to-maturity investments in an unrealized loss position for more than twelve months at December 31, 2016. For held-to-maturity investments in an unrealized loss position at December 31, 2015, the aggregate amount of unrealized loss that had been in an unrealized loss position for less than twelve months was \$114,000 and the aggregate estimated fair value was \$2,383,000. There were no held-to-maturity investments in an unrealized loss position for more than twelve months at December 31, 2015.

Fair value measurements

The Company's financial assets carried at fair value have been classified, for disclosure purposes, based on a hierarchy defined by FASB. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). The levels of the fair value hierarchy are as follows:

Level 1 - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2 - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Company's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

FAIR VALUE OF ASSETS & LIABILITIES MEASURED ON A RECURRING BASIS (IN THOUSANDS)

	Level 1		Level 1		Level 1 Level 2		Level 2		Level 3		Total	
DECEMBER 31, 2016												
Available-for-sale securities:												
Common stocks	\$	_	\$	_	\$	_	\$	_				
Total common stocks		_	\$	_	\$ \$	_		_				
Mutual funds												
U.S. Treasury obligations		_		1,066		_		1,066				
Commercial mortgage-backed securities		_		355		_		355				
Asset-backed securities		_		1,371		_		1,371				
Agency obligations		_		508		_		508				
Corporate bonds		_		1,624		_		1,624				
Corporate International Sovereign		_		51		_		51				
Registered investment company		102		_		_		102				
Total mutual funds		102		4,975		_		5,077				
Total investments	\$	102	\$	4,975	\$		\$	5,077				
DECEMBER 31, 2015												
Available-for-sale securities:												
Common stocks	\$	4,017	\$	_	\$	_	\$	4,017				
Total common stocks		4,017	\$		\$			4,017				
Mutual funds												
U.S. Treasury obligations		_		858		_		858				
Commercial mortgage-backed securities		_		606		_		606				
Asset-backed securities		_		1,665		-		1,665				
Agency obligations		_		404		_		404				
Corporate bonds		_		1,463		-		1,463				
Registered investment company		50		_		_		50				
Total mutual funds		50		4,996				5,046				
Total investments	\$	4,067	\$	4,996	\$		\$	9,063				

The Company measures certain assets at fair value on a nonrecurring basis. These assets are recognized at fair value when they are deemed to be other-than-temporarily impaired. The Company recorded \$0 during the years ended December 31, 2016 and 2015, for other-than-temporary impairments on those assets required to be measured at fair value on a nonrecurring basis.

NOTE 4 INCOME TAXES

The Company's operations are included in the consolidated federal income tax return of BCBSSC. Under a written tax-sharing agreement, BCBSSC allocates the tax provision to each company within the consolidated group based upon the company's proportionate share of the consolidated federal income tax liability computed on a stand-alone basis, multiplied by the total consolidated federal income tax return liability.

The Company had income tax payables to BCBSSC of \$2,205,000 and \$1,473,000 at December 31, 2016 and 2015, respectively, which are included in net receivables and payables to the parent. The Company made payments to BCBSSC for income taxes of \$6,124,000 and \$6,260,000 during the years ended December 31, 2016 and 2015, respectively.

RECOGNIZED PROVISION FOR INCOME TAXES (IN THOUSANDS)

	Year ended December 31,						
	2016		2015				
Current	\$	5,320	\$	6,106			
Deferred		(705)		(2)			
Total income taxes incurred	\$	4,615	\$	6,104			

Unrealized losses on investments charged directly to equity have been reduced by deferred income tax benefit of \$4,000 and \$61,000 for the years ended December 31, 2016 and 2015, respectively.

The provision for income taxes differs from the amount computed by applying the federal statutory tax rate of 35% to income before income taxes primarily due to changes in the tax contingency reserve, investment in subsidiaries, and the dividends received deduction allowed for tax purposes. The temporary differences that give rise to deferred tax assets and liabilities are primarily related to accrued expenses, fixed assets, and prepaid expenses. There was no valuation allowance at December 31, 2016 and 2015.

DEFERRED TAX ASSETS & LIABILITIES (IN THOUSANDS)

	December 31,				
	2016		2015		
Deferred tax assets:					
Current	\$ 3,412	\$	2,826		
Long-term	35		30		
	\$ 3,447		2,856		
Deferred tax liabilities:					
Current	\$ 46	\$	117		
Long-term	\$ 1,127	\$	1,175		
	 1,173		1,292		
Net deferred tax asset	\$ 2,274	\$	1,564		

NOTE 5 RELATED PARTIES

The Company is a single-member limited liability company owned by BCBSSC. Certain offices, other facilities and services are provided by BCBSSC pursuant to an administrative services agreement. Expenses associated with the administrative services agreement allocated from BCBSSC to the Company totaled \$57,981,000 and \$53,780,000 for the years ended December 31, 2016 and 2015, respectively. The Company paid \$67,480,000 and \$66,406,000 during the years ended December 31, 2016 and 2015, respectively, to BCBSSC for expenses paid on behalf of the Company.

There are certain administrative services provided by the Company to BCBSSC and its subsidiaries. The Company received \$14,866,000 and \$10,827,000 for these services during the years ended December 31, 2016 and 2015, respectively.

The Company pays Companion Data Services (CDS, a wholly owned subsidiary of BCBSSC) fees for data analysis and data storage functions through usage of the Enterprise Data Center. The Company paid \$1,404,000 and \$1,757,000 for these services during the years ended December 31, 2016 and 2015, respectively.

NOTE 6 COMMITMENTS AND CONTINGENCIES

A financial guarantee has been issued by BCBSSC, which equals the Company's estimated annual net operating expenses multiplied by 8.33%, less current capitalization. This guarantee is estimated to be \$0 at December 31, 2016. BCBSSC has also executed an indemnification agreement, pursuant to minimum reserve and other requirements established by the Blue Cross and Blue Shield Association (BCBSA). BCBSSC is, therefore, liable to the Company to the extent of its financial guarantee and to the BCBSA to the full extent of its assets for any claims asserted against the BCBSA resulting from the contractual and financial obligations of the Company arising out of its Medicare Part A subcontract with the BCBSA.

In consideration of the novation of the fiscal intermediary and carrier contracts from BCBSSC to the Company, BCBSSC has issued a financial guarantee which equals 20% of the administrative costs of the contracts contained in the Notice of Budget Approval, less current capitalization. This guarantee is estimated to be \$0 at December 31, 2016. The financial guarantee agreement remains in effect until

both the contracts and intermediary agreement expire, are non-renewed or are terminated, and closing agreements are executed.

In addition, BCBSSC has executed a statutorily required financial guarantee of \$75,000 on behalf of the Company in order for the Company to obtain a Third Party Administrator's license pursuant to the South Carolina insurance laws.

The Company recorded an estimated contingent liability for potential repayments of costs claimed on its contracts with CMS. The liability was \$5,348,000 and \$5,300,000 at December 31, 2016 and 2015, respectively.

In the ordinary course of business, there are various legal proceedings pending against the Company. Management believes the aggregate liabilities, if any, arising from legal actions would not have a material adverse effect on the financial position of the Company.

NOTE 7 EMPLOYEE BENEFIT PLANS

The Company's employees are part of the 401(k) plan sponsored by BCBSSC. Eligible employees may defer up to 50% of their salary and the Company matched 50% of the first 6% deferred in 2016 and 2015. For employees hired after January 1, 2003, there is a 2-year cliff-vesting schedule on the match contribution. Employees hired after April 1, 2014, are not covered by the BCBSSC defined benefit pension plan. For those employees, the Company makes a discretionary contribution to the 401(k) plan which is 50% vested for employees with one year of service and fully vested for employees with two years of service. Employees must be employed on the last day of the year to be eligible for the discretionary contribution, unless terminated during the year due to retirement (age 55 and 5 years of service), death or disability. The discretionary Enhanced 401(k) contribution was 4% of salary for both years ended December 31, 2016 and 2015.

The cost of providing the 401(k) contribution was \$2,726,000 and \$2,440,000 for the years ended December 31, 2016 and 2015, respectively. The pension expense allocated to the Company under the BCBSSC defined benefit pension plan was \$4,382,000 and \$4,839,000 for the years ended December 31, 2016 and 2015, respectively.

NOTE 8 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Restricted cash and cash equivalents and restricted cash liability increased by \$2,905,000 in 2016 and \$204,000 in 2015.

NOTE 9 OPERATING LEASES

Lease expense under the operating leases was approximately \$923,000 and \$1,030,000 for the years ended December 31, 2016 and 2015, respectively.

FUTURE ANNUAL MINIMUM LEASE

PAYMENTS (IN THOUSANDS)

Years ended December 31,	A	Amount	
2017		782	
2018		782	
2019		522	
Total	\$	2,086	

As of December 31, 2016, under non-cancelable operating building leases, expiring in 2019.