COMMONWEALTH OF PENNSYLVANIA
DEFERRED COMPENSATION PROGRAM

Financial Statements

December 31, 2012 and 2011

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

Members of the Board
Commonwealth of Pennsylvania
Deferred Compensation Program:

Report on the Financial Statements

We have audited the accompanying statements of net position available for benefits of the Commonwealth of Pennsylvania Deferred Compensation Program (the Program) as of and for the years ended December 31, 2012 and 2011, and the statements of changes in net position available for benefits and the related notes to the financial statements for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; 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.

Auditors' Responsibility

Our responsibility is to express opinions 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 from 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 auditors' 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 Program'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 Program'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 basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position available for benefits of the Commonwealth of Pennsylvania Deferred Compensation Program as of December 31, 2012 and 2011, and the changes in net position available for benefits for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG

Other Matters

Required Supplemental Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 3–5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

Harrisburg, Pennsylvania
May 15, 2013

This section presents management's discussion and analysis of the Commonwealth of Pennsylvania Deferred Compensation Program's (Program) financial statements and the significant events and conditions that affected the operations and performance of the Program during the years ended December 31, 2012, 2011, and 2010.

Overview of the Financial Statements

1. **Financial Statements**. The Commonwealth of Pennsylvania Deferred Compensation Program presents Statements of Net Position Available for Benefits as of December 31, 2012 and 2011 and Statements of Changes in Net Position Available for Benefits for the years then ended. These statements reflect resources available for the payment of benefits as of year-end, and the sources and uses of those funds during the year.

2. **Notes to Financial Statements**. The notes to financial statements are an integral part of the financial statements and provide additional detailed information to provide a better understanding of the financial statements. The notes discuss, among other things, the Program's organization, contributions, and how asset values are determined.

Background

The Pennsylvania State Employees' Retirement Board (SERB) is the trustee for the Program, an Internal Revenue Code Section 457(b) retirement plan for eligible government employees and officers. The Program is a voluntary tax-deferred supplemental retirement plan. The participants may direct their deferrals among the Program's 11 investment options. A Third Party Administrator (TPA) maintains individual participant records. Investment advisors selected by the SERB manage the Program's investment options. The Program began accepting initial deferrals in 1988.

The investments are composed of primarily three core equity index funds – an S&P 500 index of large cap equities, an extended market index of domestic mid and small-cap companies and a European, Australian and Far East markets (EAFE) international index fund. The Program also offers a bond index fund, a stable value fund (actively managed bond fund with an insurance contract that, through a crediting formula, smoothes the portfolio returns by providing a 'stable' quarterly rate), a short-term money market account, and a self-directed brokerage option. Three 'Profile Funds' are available to the participants. These funds are composed of a mix of the equity, cash, and bond core index funds, tailored to a participant's risk profile that allows them to invest in a conservative, moderate, or aggressive portfolio. The Program also offers a 60/40 balanced fund which uses a mix of the S&P 500 index and the aggregate bond index funds. These portfolios are automatically rebalanced each quarter by the TPA.

Net Position Available for Benefits

Net plan position has increased $226 million over the past calendar year, from $2.2 billion in 2011 to $2.4 billion in 2012. In 2010, net plan position was $2.1 billion. Of the three asset classes of equities, bonds, and cash, 42% of the net plan position were invested in the three core equity funds (large-cap; mid- and small-cap; and international equities) at year-end 2012. At the end of 2011, those same investment funds accounted for 41% of the net plan position available for benefits. The fixed income portfolios, bond and stable value fund, accounted

(Continued)

for 54% of net plan position in both 2011 and 2012. The short-term money market account balance was $49 million at the end of both 2011 and 2012.

Contributions and Investment Gains

Contributions experienced a decrease from approximately $137 million in 2011 to $122 million in 2012. Contributions were $129 million in 2010. Higher retirements in 2011 resulted in greater use of the Program's special catch-up feature, hence the larger contributions.

Net investment gain in 2012 was $193 million as compared to $60 million in 2011. Net investment gain was $190 million in 2010. The greater net investment gain in 2012 is attributed primarily to the higher broad market equity returns as the S&P 500 and MSCI EAFE returned 16.0% and 17.3% in 2012 respectively, versus returns of 2.1% and -12.1% respectively in 2011. The S&P 500 and MSCI EAFE gained 15.1% and 7.8% respectively in 2010.

Program Benefits and Expenses

Benefits paid to participants increased to $62 million in 2012 from $60 million in 2011. Benefits paid to participants in 2010 were $49 million. The election to select a payment is voluntary up to age 70½ and is dependent upon the participant's separation from service. The Program offers a variety of payout methods. A vast majority of participants select a periodic payment either annually, semi-annually, quarterly, or monthly. The number of participants receiving payments remained essentially the same, with 6,010 for 2012 and 6,015 in 2011. The number of participants receiving payments in 2010 was 5,230. 457(b) plans are permitted to accept rollovers from other retirement plans, and to permit rollovers out of the Program into Individual Retirement Accounts (IRAs), 401(k) plans, or other qualified plans. Net rollovers out of the Program increased from $1 million in 2011 to $24 million in 2012. In 2010, net rollovers out of the Program were $11 million.

Plan participants are responsible for all Program fees. The Third Party Administrator (TPA) expenses were $2.7 million and $2.5 million for 2012 and 2011, respectively. In 2010, these expenses were $2.2 million. Since the Program's primary fee is based on a percentage of plan assets, as the plan asset base changes, a corresponding change to the fees occurs.

Roth 457(b) Provision

The Small Business Jobs Act of 2010 was signed into law on September 27, 2010. It includes a provision to allow those participating in 457(b) plans to contribute through a Roth option. Those who contribute using the Roth option do not receive a deduction from their current income for a contribution to the plan, but they do earn returns within the plan tax free and the withdrawals from the plan are tax free. The SERB passed a motion at the December 2010 meeting to allow the Program to implement a Roth 457(b) provision. The Program began accepting Roth contributions in August 2012.

COMMONWEALTH OF PENNSYLVANIA
DEFERRED COMPENSATION PROGRAM

Management's Discussion and Analysis

December 31, 2012 and 2011

(Unaudited)

Deferred Compensation Program
Condensed Financial Information

(Dollars in millions)

	2012	Increase (decrease)	2011	Increase (decrease)	2010
Net position:					
Assets:					
Total receivables	$ 5	$ —	$ 5	$ —	$ 5
Total investments	2,428	226	2,202	131	2,071
Securities lending collateral pool	11	(11)	22	(9)	31
Total assets	2,444	215	2,229	122	2,107
Liabilities:					
Accounts payable	1	—	1	(2)	3
Obligations under securities lending	11	(11)	22	(9)	31
Total liabilities	12	(11)	23	(11)	34
Total net position	$ 2,432	$ 226	$ 2,206	$ 133	$ 2,073
Changes in net position:					
Additions:					
Net investment gain	$ 193	$ 133	$ 60	$ (130)	$ 190
Contributions	122	(15)	137	8	129
Total additions	315	118	197	(122)	319
Deductions:					
Benefit payments	62	2	60	11	49
Plan transfers	24	23	1	(10)	11
Third party and administrative expense	3	—	3	—	3
Total deductions	89	25	64	1	63
Increase in net position	$ 226	$ 93	$ 133	$ (123)	$ 256

FINANCIAL STATEMENTS

COMMONWEALTH OF PENNSYLVANIA
DEFERRED COMPENSATION PROGRAM

Statements of Net Position Available for Benefits

December 31, 2012 and 2011

		2012		2011
Assets:				
Cash and investments:				
Cash and temporary investments	$	2,305,870	$	3,754,440
Short-term money market fund		49,369,075		48,650,666
Aggregate bond index fund		259,633,820		220,933,541
Equity index fund		668,174,455		607,160,698
Extended market fund		222,042,094		197,165,906
EAFE equity index fund		119,940,068		100,328,377
Stable value account		1,041,461,145		971,081,584
Group annuity contract		1,757,214		1,857,594
Self-directed brokerage option		63,151,549		51,279,380
Total cash and investments		2,427,835,290		2,202,212,186
Securities lending collateral pool		10,824,896		21,924,937
Contributions receivable		5,099,325		5,056,734
Accrued investment income receivables		12,212		20,179
Other receivables		101,794		2,000
Total assets		2,443,873,517		2,229,216,036
Liabilities:				
Participant payables		100,780		62,850
Fees payable and accrued expenses		1,103,887		1,078,549
Other payables		130,845		95,660
Obligations under securities lending		10,824,896		21,924,937
Total liabilities		12,160,408		23,161,996
Net position available for benefits	$	2,431,713,109	$	2,206,054,040

See accompanying notes to financial statements.

COMMONWEALTH OF PENNSYLVANIA
DEFERRED COMPENSATION PROGRAM

Statements of Changes in Net Position Available for Benefits

Years ended December 31, 2012 and 2011

	2012	2011
Additions:		
Investment income:		
Net appreciation in fair value of investments	$ 164,263,029	$ 29,828,676
Interest	31,943,931	33,364,024
Total investment gain	196,206,960	63,192,700
Less investment expenses	3,251,522	3,129,219
Investment gain, net	192,955,438	60,063,481
From securities lending activities:		
Securities lending income	11,050	18,022
Securities lending expense	(976)	(2,296)
Securities lending activities gain	10,074	15,726
Contributions from participants	122,250,615	136,421,593
Total additions	315,216,127	196,500,800
Deductions:		
Benefits and refunds to participants	61,871,986	59,731,672
Transfers to other plans	24,787,806	1,488,839
Third party expenses	2,660,502	2,473,220
Administrative expenses	236,764	182,907
Total deductions	89,557,058	63,876,638
Increase in net position	225,659,069	132,624,162
Net position available for benefits, beginning of year	2,206,054,040	2,073,429,878
Net position available for benefits, end of year	$ 2,431,713,109	$ 2,206,054,040

See accompanying notes to financial statements.

(1) Organization and Description of the Plan

(a) Program Summary

The following description of the Commonwealth of Pennsylvania Deferred Compensation Program (the Program) provides only general information. Participants should refer to the Plan Document for a more complete description of the Program's provisions.

The Program was established by the Commonwealth of Pennsylvania General Assembly on November 6, 1987, through Act 81 and in accordance with Section 457(b) of the Internal Revenue Code of 1986, as amended. Under Program provisions, eligible employees of the Commonwealth of Pennsylvania (Commonwealth) may voluntarily elect to contribute a portion of their compensation into the Program through payroll deductions. The Commonwealth does not make any contributions to the Program. The Program is included in the Commonwealth's financial reporting entity and in the financial statements as a pension trust fund.

(b) Contributions

Under the Program's provisions, eligible employees may contribute to the Program through payroll deductions. In accordance with Section 457(b) of the Internal Revenue Code (IRC), the amount of an individual's annual contributions for 2012 is limited to an amount not to exceed the lesser of $17,000 or 100% of the individual's gross compensation. In 2011, the annual contribution level was $16,500. Individuals age 50 or over may make an additional "catch-up" contribution. For both 2012 and 2011, the additional "catch-up" contribution was $5,500. A special catch-up is allowed for previously missed contributions for participants within three years of normal retirement age. In 2012 and 2011, the deferral limit for special catch-up was $34,000 and $33,000, respectively. Contributions can be made to the Program using either the before-tax method in which amounts are deferred for federal tax purposes or the Roth option in which contributions are made on an after-tax basis. There are no employer contributions to the Program.

Contributions receivable represent amounts withheld from employees' pay but not remitted to the investment managers at December 31. Contributions are credited by the applicable investment managers upon receipt from the Commonwealth.

(c) Participant Accounts

Participants electing to contribute to the Program have the option of investing their contributions in any of the following core investments:

- *Short-term Money Market Fund*, which invests in a variety of securities including those issued by the United States Treasury, agency securities, short-term corporate debt instruments such as commercial paper, repurchase agreements, and certificates of deposit, is managed by the Commonwealth of Pennsylvania State Treasury Department (Treasury Department).
- *Aggregate Bond Index Fund*, which invests in investment grade corporate and government issues, mortgage-backed securities, asset-backed securities and commercial mortgage-backed securities, is managed by BNY Mellon.

- *Equity Index Fund*, which invests in publicly traded common stocks included in the S&P 500 Index, is managed by Mellon Capital Management Corporation (MCM).
- *Extended Market Fund*, which invests in medium and small capitalization components of the U.S. equity market (primarily the portion not covered by the S&P 500 Index), is managed by MCM.
- *EAFE Equity Index Fund*, which invests in international stocks in the European, Australian, and Far East markets, is managed by MCM.
- *The Stable Value Account* is comprised of two investment accounts, managed by separate investment advisors. An active bond account is managed by Weaver C. Barksdale & Associates. The return on the active bond account is insured through a contract with Monumental Life Insurance Company. This contract insures a crediting rate on the active bond account as determined by a formula established by the insurer. This crediting rate is adjusted quarterly, based on the actual returns of the active bond account. The temporary investment account is managed by the Treasury Department and contains short-term securities which are purchased when payments or pay downs are received for the active bond account investments.

In addition to the core funds, the Program also offers:

- *Self-Directed Brokerage Option*, which is a mutual fund window whereby a participant may choose to invest in a variety of mutual funds offered through the Charles Schwab Corporation.

Investment income includes the realized and unrealized gains/losses and interest for each of the funds. These funds do not distribute dividends to shareholders. Earnings and dividends on securities held are reinvested. Purchases and sales of securities are recorded on a trade-date basis.

The Pennsylvania State Employees' Retirement System provides certain management and administrative services to the Program on an ongoing basis. During 2012 and 2011, the Program paid $237 and $183 thousand for those services, respectively.

(d) Payment of Benefits

Participants may withdraw the current value of funds contributed to the Program upon termination of employment, death, disability, retirement or approved unforeseeable emergencies within Program guidelines. Accounts that have no activity in a two year period and a balance under $5,000 may also be voluntarily distributed.

Upon retirement or termination of service, participants may elect various payout options including lump-sum, equal annual payments, or elect to defer receipt of funds until some future date. Minimum distributions as required by Internal Revenue Service (IRS) guidelines must commence no later than age 70½. Rollovers to other qualified retirement plans or IRA's are permitted. All investments are for the exclusive benefit of participants and their beneficiaries.

Upon a participant's death, with certain exceptions, any amount due under the participant's account is paid to the beneficiary or the estate. Distributions to participants are recorded at the time withdrawals are made from participant accounts.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting in Preparing Financial Statements

The financial statements of the Program are prepared on the accrual basis of accounting under which expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of their trade date.

(b) Use of Estimates

Management of the Program has made certain estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

(c) Valuation of Investments

The short-term money market fund and temporary investment portion of the stable value account are valued at cost, which approximates fair value. The aggregate bond index, equity index, extended market, EAFE equity index, stable value account – active bond account, and self-directed brokerage option are valued based on quoted redemption values, which represent fair value, on the last business day of the calendar year.

The group annuity contract, which is no longer offered to participants as an investment option is valued at contract value, which approximates fair value. Contract value for the group annuity contract represents contributions made under the contract, plus earnings, less payments made to retirees and terminated participants.

(d) New Accounting Pronouncements – Adopted

The GASB issued Statement No. 63 "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position" in June 2011. This statement provides accounting and financial reporting requirements to address the presentation issues associated with the new financial position elements created in GASB's Concepts Statement No. 4, "Elements of Financial Statements". This Statement amends the net asset reporting requirements in Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments".

(3) Agreement with Program Administrator

Effective with the agreement dated July 1, 2008, the SERB reappointed Great-West Financial (Great-West) as the Program's Third Party Administrator (TPA) for a term of four years, with the option to renew for one year. At the July 20, 2011 meeting, the SERB voted to exercise the option to extend the TPA contract for the optional fifth year. In 2012, the SERB issued a request for proposal and at the December 2012 board meeting voted to reappoint Great-West as the TPA for another four year contract with an optional one year extension. Great-West receives the following compensation for program administration services:

- Program Administration Charge – A $12.50 annual fee is charged to each participant in the Program for record-keeping services. The full fee is due to Great-West. This charge is assessed monthly.
- Program Asset Fee – This charge is assessed monthly on the value of all accounts under the Program. The fee varies depending on the type of investment. The fee ranges from 0.08% to 0.405%. This includes 0.08% payable to Great-West for TPA services and manager fees ranging from zero to 0.325%. The plan asset fee is assessed against the account of each participant proportionately according to the value of each individual account. Under the terms of the current contract, the Program does not receive any fees.
- Investment Advice Fee – Great-West, through a subsidiary Advised Assets Group LLC, provides participants with online advisory tools and services based upon the level of involvement desired in managing their accounts. Guidance is offered at no additional cost. Advice is offered for an annual fee of $25.00. All advice fees are assessed quarterly. Managed accounts provide ongoing professional asset management at the individual participant level. Plan participants receive a personalized and strategically designed retirement portfolio that is automatically managed quarterly. The managed account fee structure is asset based and ranges from 0.30% to 0.60% based on the participant account balance.

(4) Investments

The Program's core investments are managed by four fund managers. At December 31, 2012 and 2011, one fund manager, MCM, managed approximately 42% and 41%, respectively, of the Program's total investment portfolio. The fixed income portfolios consisting of the bond and stable value funds, which are managed by BNY Mellon and Weaver C. Barksdale, was 54% of plan assets in both 2012 and 2011. These concentrations are solely determined by the participants' elections to invest in the available investment options selected by the SERB.

The Program's cash and temporary investments, short-term money market fund, stable value account and aggregate bond index fund are subject to various risks. Among these risks are: custodial credit risk, credit risk, and interest rate risk. Each of these risks is discussed below.

Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the Program would not be able to recover the value of investment or collateral securities that are in the possession of an outside party. In accordance with the contractual relationship between the Treasury Department and its custodial agent, where securities are used as evidence of the investment, these securities are held by the custodian in book-entry form. These securities are defined as insured or registered investments for which the securities are held by the agent in the Program's name, and therefore have a minimal level of custodial credit risk losses. The other remaining investments do not have securities that are used as evidence of the investments.

Credit risk is the risk that an issuer or the counterparty to an investment will not fulfill its obligations. The credit risk of a debt instrument is measured by nationally recognized statistical rating agencies such as Moody’s Investor Services (Moody’s), Standard & Poor’s (S&P), and Fitch Ratings (Fitch). The Program manages the overall credit risk of the active bond account by requiring the manager to invest in accordance with the SERB approved Investment Strategy Statement specifically designed for the stable value account. This statement lists the primary goal of the fund to maintain safety of principal, while recognizing that liquidity is an important element due to participant market expectations and/or investment selection. A secondary goal is to provide the participants with a steady, long-term growth of principal. The manager is expected to exercise due care and diligence in making investment decisions.

For securities exposed to credit risk in the fixed income investments of the Program, the table on the following page discloses aggregate fair value, by the least favorable credit rating issued using Moody’s, S&P, and Fitch credit ratings at December 31, 2012 and 2011:

Fixed Income Securities Exposed to Credit Risk

Rating	2012 Fair value	2011 Fair value
AAA	$ 73,176,621	$ 37,673,242
AA	451,987,723	472,999,376
A	175,486,289	147,141,690
BAA	54,042,067	53,654,609
BA and below	1,042,139	1,038,002
Short term investments[a/]	60,318,295	53,359,818
NA[b/]	620,678	—
Total	$ 816,673,812	$ 765,866,737

[a/] Represents investments in the Treasury Department’s short-term investment fund (STIF). This fund is comprised of short-term, investment-grade securities, which are mainly U.S. Treasuries, agencies, or repurchase agreements.

[b/] NA represents securities that are either not rated or had a withdrawn rating.

Obligations explicitly guaranteed by the U.S. government (treasuries and GNMA securities) with a fair value of $536,096,098 and $478,553,494 as of December 31, 2012 and 2011, respectively, were not included in the preceding table because they are not considered to have credit risk.

Interest rate risk is the risk that will adversely affect the fair value of an investment, should market interest rates rise or fall. Option adjusted duration is the measure of the portfolio's exposure to changes in interest rates. The following table discloses the interest rate types and durations of the fixed income investments of the Program as of December 31, 2012 and 2011:

	2012		2011	
Fixed income sector	**Fair value**	**Option adjusted duration**	**Fair value**	**Option adjusted duration**
Sovereign debt	$ 12,454,172	5.2	$ 8,942,064	4.7
Corporate	294,792,155	4.9	273,165,304	4.6
Government	438,457,775	4.2	410,723,122	4.4
Agencies	114,244,938	3.5	104,497,042	2.4
Mortgage backed securities	368,460,471	2.8	360,472,966	2.4
Private placements*	3,269,166	2.2	2,823,756	1.8
Asset backed securities	60,772,938	1.7	28,742,022	1.2
Short-term investment fund	60,318,295	0.1	55,053,955	0.1
Total	$ 1,352,769,910		$ 1,244,420,231	

* Private placements raise capital via offerings directly to qualified investors rather than through public offerings. Private placements do not have to register with the Securities and Exchange Commission if the securities are purchased for investment as opposed to resale. These private placements have exposure to various fixed income securities.

The Program prohibits investments in the active bond portfolio in the following categories: real estate, REIT issues, mortgages (mortgage pass-throughs are exempt), secured term loans, oil and gas production properties, convertible or preferred stock, private placements, loaning of money or securities, hypothecating of any assets in the portfolio, interest and principal only strips, inverse floaters, and inverse interest only securities.

Foreign currency risk is the risk that changes in the exchange rates will adversely affect the fair value of an investment. The EAFE Equity Index Fund seeks to track more than 1,000 foreign stocks representing established companies in 21 countries located in Western Europe and the Pacific Rim. At December 31, 2012 and 2011, the Program had the following currency exposures:

Currency	2012 Fair value	2011 Fair value
European euro	$ 34,857,923	$ 26,723,868
British pound sterling	27,136,186	22,585,222
Japanese yen	23,987,494	20,901,712
Australian dollar	10,593,654	8,318,226
Swiss franc	10,423,119	8,357,153
Swedish krona	3,725,658	2,993,598
Hong Kong dollar	3,280,765	2,712,879
Singapore dollar	2,196,304	1,609,969
Danish krone	1,388,206	1,012,815
Norwegian krone	882,616	901,451
New Israeli sheqel	655,851	623,842
Bermudian dollar	471,606	—
Cayman Islands dollar	192,879	—
New Zealand dollar	146,273	111,866
Total	$ 119,938,534	$ 96,852,601

In addition to the values stated in the above table, as of December 31, 2012 and 2011, the EAFE Equity Index Fund also held United States dollars totaling $1,534 and $3,475,776, respectively.

(5) Derivative Financial Instruments

The Program, through investments in collective funds managed by MCM, indirectly holds certain derivative financial instruments. A derivative is a risk-shifting agreement, the value of which is derived from the value of an underlying asset. The underlying asset could be a physical commodity, an interest rate, a company's stock, a stock index, a currency, or virtually any other tradable instrument upon which two parties can agree. The derivatives most commonly used by MCM include forwards, futures, options, and swaps. The notional value of these instruments is not significant as of December 31, 2012 and 2011.

Certain collective funds may utilize exchange-traded and over-the-counter ("OTC") derivative instruments including but not limited to fixed income, equity, currency and commodity futures, exchange-traded and OTC options, swaps, and currency forwards. These instruments may be used in the investment management of the collective funds to the extent that their use is consistent with the specific collective fund's objective. Derivatives are viewed within the context of the collective fund's total portfolio. MCM has instituted policies and procedures designed to ensure that derivative transactions are in keeping with the overall strategy and that such transactions are properly reviewed and monitored.

MCM may take long or short positions in derivative instruments for, but not limited to, the following purposes: to create or hedge required exposure; to create or hedge model-driven recommended exposure; as an adjustment to asset exposures within the parameters set in the collective fund's investment instructions and guidelines; to achieve transactional efficiency; to adjust the duration of a fixed income portfolio; if applicable, to achieve the appropriate degree of leverage, as stated in the collective fund's investment instructions and guidelines; and to facilitate meeting the collective fund's objectives.

Market Risk: Market risk represents the risk of adverse movements in markets (including asset prices, volatility, changes in yield curve, implied volatility or other market variables) for the derivatives or the underlying assets, reference rate or index to which the derivative instrument relates. Such risk is created by holding any security, physical or derivative which creates exposure to movements in process of a security or market. Additionally, some derivatives involve economic leverage, which could increase the volatility of these investments as they may fluctuate in value more than the underlying instrument. MCM assesses the risk associated with derivatives in the context of the collective fund's total portfolio, taking into account the effective exposure of derivative instruments.

Liquidity Risk: Two types of liquidity risk are generally faced in derivative activities. The first is market liquidity risk, which applies to all investments. This is the risk that positions cannot easily be sold or unwound due to inadequate market depth or disruptions in the marketplace. The second is portfolio liquidity risk, which is the risk that there are insufficient funds in the portfolio to meet margin calls and other financial obligations resulting from derivative activities. MCM has established restrictions and processes to assist with minimizing the impact of liquidity risk on the collective fund's portfolio.

Counterparty Risk: Counterparty risk is the risk that a counterparty (the party with whom a derivatives contract is made) will fail to perform contractual obligations under a contract. This is also sometimes referred to as credit risk. MCM has established guidelines and procedures designed to limit the impact of counterparty risk. The creditworthiness or counterparties is evaluated prior to approval and counterparty exposure is reviewed regularly.

The Program offers participants the ability to invest in a Stable Value Fund, which is a Synthetic Guaranteed Investment Contract (SGIC). The SGIC provides a guaranteed crediting rate based on the underlying bond portfolio and is adjusted quarterly. For 2012, the annualized crediting rates were 3.60% for the first quarter, 3.44% for the second quarter, 3.35% for the third quarter, and 3.27% for the fourth quarter. For 2011, the annualized crediting rates were 3.84% for the first quarter, 3.75% for the second quarter, 3.71% for the third quarter, and 3.67% for the fourth quarter. The fair value of the SGIC at December 31, 2012 is $1,041,461,145 and the contract or book value is $981,809,557. The fair value of the SGIC at December 31, 2011 was $971,081,584 and the contract or book value was $911,382,349. The following table discloses the fair value of the SGIC at December 31, 2012 and 2011:

SGIC components	2012 Fair value	2011 Fair value
Underlying investments	$ 1,041,461,145	$ 971,081,584
Wrap contract	—	—
Total	$ 1,041,461,145	$ 971,081,584

(6) Securities Lending

In accordance with a contract between the Commonwealth’s Treasurer and its custodian, the Program participates in a securities lending program.

The custodian, acting as lending agent, is able to loan securities from the Program’s actively managed bond account for cash, securities, or letter-of-credit collateral. Collateral is required at 102% of the fair value of the securities. Collateral is marked-to-market daily. If the collateral falls below guidelines for the fair value of the securities loaned, additional collateral is obtained. Cash collateral is invested by the lending agent in accordance with investment guidelines approved by the Board. The lending agent cannot pledge or sell securities collateral unless the borrower defaults.

As of December 31, 2012 and 2011, the Program’s credit exposure to individual borrowers was limited because the amounts the Program owed the borrowers exceeded the amounts the borrowers owed the Program. The Treasurer’s contract with the lending agent requires the agent to indemnify the Program if the borrowers fail to return the underlying securities and the collateral is inadequate to replace the loaned securities or if the borrowers fail to pay income distributions on the loaned securities.

All loaned securities at December 31, 2012 and 2011 could be terminated on demand by either the lending agent or the borrower. Cash collateral is invested, together with the cash collateral on loaned securities of other Commonwealth entities, in a short-term collective investment pool. The duration of the investments in the pool at December 31, 2012 and 2011 was two days and three days, respectively. The relationship between the average maturities of the investment pool and the Program’s loans is affected by the maturities of the loans made by other entities in the investment pool. In addition, the interest rate risk posed by mismatched maturities is affected by other program features, such as the lending agent’s ability to reallocate loaned securities among all of its lending customers.

As of December 31, 2012 and 2011, the fair value of loaned securities was $11 million and $21 million, respectively; the fair value of the associated collateral was $11 million and $22 million, of which $6 million and $8 million was cash, respectively. The $5 million noncash collateral is invested in U.S. Government guaranteed securities and is not subject to credit risk.

(7) Tax Qualification Status

The Program was notified by the United States Treasury Department on September 29, 2000, that it is an eligible deferred compensation plan pursuant to Internal Revenue Code Section 457(b). Therefore, compensation deferred under the Program, including income attributable to the deferred compensation, will be includible in gross income for the taxable year or years in which amounts are paid or otherwise made available to a participant or a participant's beneficiary in accordance with the terms of the Program.

The Small Business Jobs Act of 2010 was signed into law on September 27, 2010. It includes a provision to allow those participating in 457(b) plans to do so through a Roth option. Those participants who use designated Roth accounts do not receive a deduction from their current income for a contribution to the plan, but their plan earnings and qualified withdrawals from the plan are tax-free. The SERB passed a motion at the December 2010 meeting to allow the Program to implement a Roth 457(b) provision. The Program implemented the Roth option in 2012.

(8) Risks and Uncertainties

The Program, as directed by participants, may invest in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities, it is possible that changes in the values of investment securities may occur in the near term and that such change could materially affect the amounts reported in the statements of net position available for benefits.

(9) Related Parties

Certain members of the SERB are participants in the Program.