COMMONWEALTH OF PENNSYLVANIA
DEFERRED COMPENSATION PROGRAM

Financial Statements

December 31, 2011 and 2010

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

Members of the Board
Commonwealth of Pennsylvania
Deferred Compensation Program:

We have audited the accompanying statement of net assets available for benefits of the Commonwealth of Pennsylvania Deferred Compensation Program (the Program) as of and for the year ended December 31, 2011, and the related statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying financial statements of the Program as of December 31, 2010 were audited by another auditor whose report thereon dated May 10, 2011, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 2–4 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

May 24, 2012

COMMONWEALTH OF PENNSYLVANIA
DEFERRED COMPENSATION PROGRAM

Management's Discussion and Analysis

December 31, 2011 and 2010

This section presents management's discussion and analysis of the Commonwealth of Pennsylvania Deferred Compensation Program's (the Program) financial statements and the significant events and conditions that affected the operations and performance of the Program during the years ended December 31, 2011, 2010, and 2009.

Overview of the Financial Statements

1. **Financial Statements**. The Commonwealth of Pennsylvania Deferred Compensation Program presents Statements of Net Assets Available for Benefits as of December 31, 2011 and 2010 and Statements of Changes in Net Assets 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 fund. These portfolios are automatically rebalanced each quarter by the TPA.

Net Assets Available for Benefits

Net plan assets have increased $133 million over the past calendar year, from $2.1 billion in 2010 to $2.2 billion in 2011. In 2009, plan assets were $1.8 billion. Of the three asset classes of equities, bonds, and cash, 41% of the assets were invested in the three core equity funds, representing large-cap, mid and small-cap, and international equities, at year-end 2011. At the end of 2010, those same investment funds accounted for 45% of the net plan assets available for benefits. The fixed income portfolios, the bond and stable value fund assets, showed an increase from 50% of net plan assets in 2010 to 54% in 2011. The short-term money market account balance was $49 million at the end of 2011, which was an increase from $46 million in 2010.

Contributions and Investment Gains

Contributions experienced an increase from $129 million in 2010 to $137 million in 2011. Contributions were $122 million in 2009. The increase in contributions for 2011 can be attributed to the large number of participant retirements in 2011 that used the Program's special catch-up feature.

Net investment gain in 2011 is $60 million as compared to $190 million in 2010. Net investment gain was $231 million in 2009. The lesser net investment gain in 2011 is attributed primarily to the lower broad market equity returns as the S&P 500 and MSCI EAFE returned 2.11% and -12.14% in 2011 respectively, versus gains of 15.1% and 7.8% respectively in 2010. The S&P 500 and MSCI EAFE gained 26.5% and 31.8% respectively in 2009.

Program Benefits and Expenses

Benefits paid to participants increased to $60 million in 2011 from $49 million in 2010. Benefits paid to participants in 2009 were $40 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 these payments increased to 14,578 for 2011 from 14,293 in 2010. Payments in 2009 were 14,721. 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 decreased from $11 million in 2010 to $1 million in 2011. In 2009, net rollovers out of the Program were $17 million.

Plan participants are responsible for all Program fees. The Third Party Administrator (TPA) expenses were $2.5 million and $2.2 million for 2011 and 2010, respectively. In 2009, these expenses were $1.9 million. Since the Program's primary fee is a percentage of plan assets, as the plan asset base changes, a corresponding increase or decrease to the fees is noted.

Investment Manager Change

Periodically, the investment lineup is reviewed by the Pennsylvania State Employees' Retirement System (SERS) and changes are made to better serve the participants of the Program. In January 2012, the manager of the equity funds was changed from BlackRock Trading Company to Mellon Capital Management. The objectives, indices and benchmarks of the three equity funds remained the same relative to their respective funds. The fee structure, which is paid by the participants, did change. The Equity Index Fund fee was reduced to 0.01% of assets, down from 0.02%; the Extended Market Fund fee was reduced to 0.03% of assets, down from 0.05%; and the EAFE Equity Index Fund fee was reduced to 0.02% of assets, down from 0.08%.

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 Section 457 plans to do so through a Roth retirement plan. Those who use Roth Plans 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 plans to implement the Roth option in 2012.

COMMONWEALTH OF PENNSYLVANIA
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Management's Discussion and Analysis

December 31, 2011 and 2010

Deferred Compensation Program
Condensed Financial Information

(Dollars in millions)

	2011	Increase (decrease)	2010	Increase (decrease)	2009
Net assets:					
Assets:					
Total receivables	$ 5	$ —	$ 5	$ (1)	$ 6
Total investments	2,202	131	2,071	256	1,815
Securities lending collateral pool	22	(9)	31	(9)	40
Total assets	2,229	122	2,107	246	1,861
Liabilities:					
Accounts payable	1	(2)	3	—	3
Obligations under securities lending	22	(9)	31	(9)	40
Total liabilities	23	(11)	34	(9)	43
Total net assets	$ 2,206	$ 133	$ 2,073	$ 255	$ 1,818
Changes in net assets:					
Additions:					
Net investment gain	$ 60	$ (130)	$ 190	$ (41)	$ 231
Contributions	137	8	129	7	122
Total additions	197	(122)	319	(34)	353
Deductions:					
Benefit payments	60	11	49	9	40
Plan transfers	1	(10)	11	(6)	17
Third party and administrative expense	3	—	3	1	2
Total deductions	64	1	63	4	59
Increase in net assets	$ 133	$ (123)	$ 256	$ (38)	$ 294

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COMMONWEALTH OF PENNSYLVANIA
DEFERRED COMPENSATION PROGRAM

Statements of Net Assets Available for Benefits

December 31, 2011 and 2010

	2011	2010
Assets:		
Cash and investments:		
Cash and temporary investments	$ 3,754,440	$ 2,315,643
Short-term money market fund	48,650,666	45,890,021
Aggregate bond index fund	220,933,541	212,689,166
Equity index fund	607,160,698	613,998,478
Extended market fund	197,165,906	206,216,842
EAFE equity index fund	100,328,377	110,523,156
Stable value account	971,081,584	829,313,538
Group annuity contract	1,857,594	2,001,964
Self-directed brokerage option	51,279,380	47,979,032
Total cash and investments	2,202,212,186	2,070,927,840
Securities lending collateral pool	21,924,937	30,925,500
Contributions receivable	5,056,734	5,214,939
Accrued investment income receivables	20,179	18,328
Other receivables	2,000	—
Total assets	2,229,216,036	2,107,086,607
Liabilities:		
Participant payables	62,850	94,939
Fees payable and accrued expenses	1,078,549	854,838
Securities lending collateral payable	—	1,656,977
Other payables	95,660	124,475
Obligations under securities lending	21,924,937	30,925,500
Total liabilities	23,161,996	33,656,729
Net assets available for benefits	$ 2,206,054,040	$ 2,073,429,878

See accompanying notes to financial statements.

COMMONWEALTH OF PENNSYLVANIA
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Statements of Changes in Net Assets Available for Benefits

Years ended December 31, 2011 and 2010

	2011	2010
Additions:		
Investment income:		
Net appreciation in fair value of investments	$ 29,828,676	$ 159,482,943
Interest	33,364,024	32,700,469
Total investment gain	63,192,700	192,183,412
Less investment expenses	3,129,219	2,419,907
Investment gain, net	60,063,481	189,763,505
From securities lending activities:		
Securities lending income	18,022	61,330
Securities lending expense	(2,296)	(9,290)
Securities lending activities gain	15,726	52,040
Contributions from participants	136,421,593	128,726,932
Total additions	196,500,800	318,542,477
Deductions:		
Benefits and refunds to participants	59,731,672	49,270,412
Transfers to other plans	1,488,839	11,067,422
Third party expenses	2,473,220	2,209,242
Administrative expenses	182,907	239,711
Total deductions	63,876,638	62,786,787
Increase in net assets	132,624,162	255,755,690
Net assets available for benefits, beginning of year	2,073,429,878	1,817,674,188
Net assets available for benefits, end of year	$ 2,206,054,040	$ 2,073,429,878

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 of the Internal Revenue Code (IRC), the amount of an individual's annual contributions for 2011 and 2010 was limited to an amount not to exceed the lesser of $16,500 or 100% of the individual's gross compensation. Individuals age 50 or over may make an additional "catch-up" contribution. For 2011 and 2010, 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 2011 and 2010, the deferral limit for special catch-up was $33,000. Amounts contributed by employees are deferred for federal income tax purposes until benefits are paid to the employees. 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 Bank.

- *Equity Index Fund*, which invests in publicly traded common stocks included in the S&P 500 Index, is managed by BlackRock Institutional Trust Company (BTC).
- *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 BTC.
- *EAFE Equity Index Fund*, which invests in international stocks in the European, Australian, and Far East markets, is managed by BTC.
- *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.

Net appreciation in fair value of investments and income includes the realized and unrealized gains/losses for each of the funds except the Short-term Money Market Fund. 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 2011 and 2010, the Program paid $183 thousand and $240 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.

(3) Agreement with Program Administrator

Effective with the agreement dated July 1, 2008, the SERB reappointed Great-West Retirement Services (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. 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. 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 contract, the Program currently 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, 2011 and 2010, one fund manager, BTC, managed approximately 41% and 45%, 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, showed a slight increase from 50% of plan assets in 2010 to 54% in 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 Commonwealth's 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.

(Continued)

For securities exposed to credit risk in the fixed income investments of the Program, the following table discloses aggregate fair value, by the least favorable credit rating issued using Moody's, S&P, and Fitch credit ratings at December 31, 2011 and 2010:

Fixed Income Securities Exposed to Credit Risk

Rating	2011 Fair value	2010 Fair value
AAA	$ 37,673,242	$ 476,645,421
AA	472,999,376	41,582,581
A	147,141,690	156,526,657
BAA	53,654,609	46,580,273
BA and below	1,038,002	1,952,133
Short term investments[a/]	53,359,818	53,397,109
Total	$ 765,866,737	$ 776,684,174

[a/] Represents investments in the Commonwealth 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.

Obligations explicitly guaranteed by the U.S. government (Treasuries and GNMA securities) with a fair value of $478,553,494 and $313,524,193 as of December 31, 2011 and 2010, 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, 2011 and 2010:

	2011		2010	
Fixed income sector	**Fair value**	**Option adjusted duration**	**Fair value**	**Option adjusted duration**
Agencies	$ 104,497,042	2.4	$ 18,420,930	3.6
Asset backed securities	28,742,022	1.2	38,032,751	0.9
Corporate	273,165,304	4.6	277,995,320	4.8
Government	410,723,122	4.4	331,002,257	3.5
Mortgage backed securities	360,472,966	2.4	356,734,759	3.0
Sovereign debt	8,942,064	4.7	10,982,612	4.0
Private placements*	2,823,756	1.8	3,642,629	3.1
Short-term investment fund	55,053,955	0.1	53,397,109	0.1
Total	$ 1,244,420,231		$ 1,090,208,367	

* 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, 2011 and 2010, the Program had the following currency exposures:

Currency	2011 Fair value	2010 Fair value
Euro currency	$ 26,723,868	$ 31,010,683
British pound sterling	22,585,222	22,612,751
Japanese yen	20,901,712	23,543,116
Swiss franc	8,357,153	8,519,292
Australian dollar	8,318,226	9,295,788
Swedish krona	2,993,598	3,415,964
Hong Kong dollar	2,712,879	3,039,948
Singapore dollar	1,609,969	1,791,165
Danish krone	1,012,815	1,072,881
Norwegian krone	901,451	886,802
Israeli new shekel	623,842	809,701
New Zealand dollar	111,866	115,627
	$ 96,852,601	$ 106,113,718

In addition to the values stated in the above table, as of December 31, 2011 and 2010, the EAFE Equity Index Fund also held United States dollars totaling $3,475,776 and $4,409,438, respectively.

(5) Derivative Financial Instruments

The Program, through investments in accounts managed by BTC, indirectly holds certain derivative financial instruments. Certain accounts directly participate in futures contracts, which are standardized, exchange-traded contracts to purchase or sell a specific financial instrument at a predetermined price on a future date. The accounts may enter into futures contracts to gain exposure to certain equity markets. In those accounts where the use of futures contracts is permitted, BTC limits the account's positions to a small amount of the account's total assets, subject to each account's investment and credit risk guidelines. The exchange on which the futures are traded assumes the counterparty risk and generally requires margin payments to minimize such risk.

Counterparty credit risk exposure may be controlled through regular credit evaluations and approvals, counterparty credit limits and exposure monitoring procedures undertaken by BTC with respect to accounts it manages.

The BTC managed accounts may also indirectly hold foreign exchange contracts, futures contracts, and certain swap contracts through a securities lending collateral pool. Those instruments may be held to create "synthetic cash transactions." Generally, synthetic cash transactions involve investing in one or more instruments that taken either individually or together have an interest rate, credit or liquidity exposure similar to that of a conventional money market instrument. This may be so even though none of the individual instruments themselves have a money market risk profile. Foreign exchange contracts are agreements to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. Swap agreements provide for periodic payments between parties based on the net difference in the cash flows of underlying assets, indexes, or rates. To reduce the risk of counterparty nonperformance, the collateral pool generally enters into these contracts with institutions regarded as meeting high standards of credit worthiness.

BTC seeks to mitigate its legal risk on derivative financial instruments by using them only in the accounts for which they are authorized. BTC manages its exposure to market risk within risk limits set for the accounts by buying or selling instruments or entering into offsetting positions. The following table discloses the futures contracts held as of December 31, 2011 and 2010:

	2011 Notional value	**2010 Notional value**
Equity Index Fund	$ 4,749,554	$ 4,166,228
Extended Market Fund	3,717,232	3,855,675
EAFE Equity Index Fund	3,381,353	3,284,171

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 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. For 2010, the annualized crediting rates were 4.42% for the first quarter, 4.25% for the second quarter, 4.17% for the third quarter, and 4.01% for the fourth quarter. The fair value of the SGIC at December 31, 2011 is $971,081,584 and the contract or book value is $911,382,349. The fair value of the SGIC at December 31, 2010 was $829,313,538 and the contract or book value was $789,497,907. The following table discloses the fair value of the SGIC at December 31, 2011 and 2010:

SGIC components	**2011 Fair value**	**2010 Fair value**
Underlying investments	$ 971,081,584	$ 829,313,538
Wrap contract	—	—
Total	$ 971,081,584	$ 829,313,538

(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, 2011 and 2010, 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, 2011 and 2010 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, 2011 and 2010 was 3 days and 33 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.

In 2008, certain securities purchased with cash collateral by the lending agent, had values at levels significantly less than the amortized cost reflected on the custodian records. At the time, the loss to the Program was $2.1 million. The outstanding balance of the liability at December 31, 2010 was $1.7 million. The debt was paid in full in 2011.

As of December 31, 2011 and 2010, the fair value of loaned securities was $21 million and $30 million, respectively; the fair value of the associated collateral was $22 million and $31 million, of which $8 million and $31 million was cash, respectively. The $14 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.

(8) Risk 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 assets available for benefits.

(9) Related Parties

Certain members of the SERB are participants in the Program.