STATE OF ALASKA
DEFERRED COMPENSATION PLAN
(A Component Unit of the State of Alaska)

Financial Statements

December 31, 2012 and 2011

(With Independent Auditors' Report Thereon)

STATE OF ALASKA
DEFERRED COMPENSATION PLAN
(A Component Unit of the State of Alaska)

Table of Contents

KPMG LLP
Suite 600
701 West Eighth Avenue
Anchorage, AK 99501

Independent Auditors' Report

The Division of Retirement and Benefits and
Members of the Alaska Retirement Management Board
State of Alaska Deferred Compensation Plan:

We have audited the accompanying statements of fiduciary net assets of the State of Alaska Deferred Compensation Plan (the Plan), a component unit of the State of Alaska, as of December 31, 2012 and 2011, and the related statements of changes in fiduciary net assets for the years then ended, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

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 audit. 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 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 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 basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the State of Alaska Deferred Compensation Plan as of December 31, 2012 and 2011, and the changes in fiduciary net assets for the years then ended, in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis, on pages 3-7 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

October 18, 2013

This section presents management's discussion and analysis (MD&A) of the State of Alaska Deferred Compensation Plan's (the Plan) financial position and performance for the fiscal years ended December 31, 2012 and 2011. This section is presented as a narrative overview and analysis. Please read the MD&A in conjunction with the financial statements and notes to financial statements to better understand the financial condition and performance of the Plan during the fiscal years ended December 31, 2012 and 2011.

Financial Highlights

- Plan net assets held in trust for benefits increased by $59.4 million during fiscal year 2012.
- Plan participant contributions and transfers into the plan increased by $0.9 million during fiscal year 2012.
- The Plan earned net investment income of $59.8 million in fiscal year 2012.
- Benefits paid to participants and purchases of annuity contracts increased by $4.1 million in fiscal year 2012.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Plan's financial statements. The Plan's financial statements are composed of three components: (1) statement of fiduciary net assets, (2) statement of changes in fiduciary net assets, and (3) notes to financial statements.

Statement of Fiduciary Net Assets – This statement presents information regarding the Plan's assets, liabilities, and resulting net assets held in trust for individuals. This statement reflect the Plan's investments at fair market value and receivables less liabilities at December 31, 2012 and 2011.

Statement of Changes in Fiduciary Net Assets – This statement presents how the Plan's net assets held in trust for individuals changed during the fiscal years ended December 31, 2012 and 2011. This statement presents contributions by participants along with net investment income during the period from individual participant-directed investing activities. Deductions for benefits paid, purchases of annuity contracts, and administrative expenses are also presented.

The above statements represent resources available for investment and payment of benefits and expenses as of fiscal year-end, and the sources and uses of those funds during the fiscal years 2012 and 2011.

Notes to Financial Statements – The notes to financial statements are an integral part of the financial statements and provide additional detailed information and schedules that are essential to a full understanding of the Plan's financial statements.

Condensed Financial Information (In thousands)

Net assets

Description		2012	2011	Increase Amount	Increase Percentage		2010
Assets:							
Participant contributions receivable	$	3,020	1,857	1,163	62.6%	$	3,016
Investments, at fair value:		657,897	599,602	58,295	9.7		580,451
Total assets		660,917	601,459	59,458	9.9		583,467
Liabilities:							
Accrued expenses		188	149	39	26.2		119
Total liabilities		188	149	39	26.2		119
Net assets	$	660,729	601,310	59,419	9.9%	$	583,348

Changes in net assets

Description		2012	2011	Increase Amount	Increase Percentage		2010
Net assets, beginning of year	$	601,310	583,348	17,962	3.1%	$	521,692
Additions:							
Contributions and transfers in		40,550	39,707	843	2.1		38,850
Net investment income		59,857	15,066	44,791	297.3		59,471
Total additions		100,407	54,773	45,634	83.3		98,321
Deductions:							
Benefits paid to participants and purchases of annuity contracts		37,996	33,916	4,080	12.0		33,883
Administrative expenses		2,992	2,895	97	3.4		2,782
Total deductions		40,988	36,811	4,177	11.3		36,665
Increase in net assets		59,419	17,962	41,457	230.8		61,656
Net assets, end of year	$	660,729	601,310	59,419	9.9%	$	583,348

Financial Analysis of the Plan

The statement of fiduciary net assets as of December 31, 2012 and 2011 show net assets held in trust for individuals of $660,729,000 and $601,310,000, respectively. The entire amount is available to pay benefits to participants and their beneficiaries, as well as administrative costs.

These amounts represent an increase in plan net assets held in trust for individuals of $59,419,000 or 9.9% from fiscal year 2011 to 2012 and an increase of $17,962,000 or 3.1% from fiscal year 2010 to 2011.

Contributions and Investment Income

Additions to the Plan are accumulated through a combination of plan participant contributions and investment income as follows (In thousands):

	Additions				
			Increase (decrease)		
	2012	2011	Amount	Percentage	2010
Participant contributions	$ 40,537	39,568	969	2.4%	$ 38,850
Transfers in contributions	13	139	(126)	(90.6)	—
Net investment income	59,857	15,066	44,791	297.3	59,471
Total	$ 100,407	54,773	45,634	83.3%	$ 98,321

The Plan's participant contributions increased from $39,568,000 in fiscal year 2011 to $40,537,000 in fiscal year 2012, an increase of $969,000 or 2.4%. The Plan's participant contributions increased from $38,850,000 in fiscal year 2010 to $39,568,000 in fiscal year 2011, an increase of $718,000 or 1.8%. Changes in contributions are attributable to changes in elected deferrals per employee in the Plan.

The Plan's net investment income increased from $15,066,000 in fiscal year 2011 to $59,857,000 in fiscal year 2012, an increase of $44,791,000 or 297.3% from amounts recorded in fiscal year 2011. Net investment income was down in fiscal year 2011 by $44,405,000 when compared to amounts recorded in fiscal year 2010.

The Plan's investment rate of returns at December 31, are as follows:

	2012 1-Year actual	2011 1-Year actual
Alaska Balanced Trust	8.99%	4.43%
Alaska Long-Term Balanced Trust	12.11	2.18
Alaska Target Date Retirement 2010 Trust	10.31	2.40
Alaska Target Date Retirement 2015 Trust	11.71	1.78
Alaska Target Date Retirement 2020 Trust	12.98	1.23
Alaska Target Date Retirement 2025 Trust	13.94	0.68
Alaska Target Date Retirement 2030 Trust	14.82	0.13
Alaska Target Date Retirement 2035 Trust	15.48	(0.46)
Alaska Target Date Retirement 2040 Trust	15.65	(0.52)
Alaska Target Date Retirement 2045 Trust	15.66	(0.55)
Alaska Target Date Retirement 2050 Trust	15.60	(0.47)
Alaska Target Date Retirement 2055 Trust	15.61	(0.48)
Brandes International Equity Fund	11.77	(10.87)
Government/Credit Bond Index Fund	4.70	8.55
Interest Income Fund	3.30	3.67
Intermediate Bond Fund	1.58	5.92

	2012 1-Year actual	2011 1-Year actual
Long U.S. Treasury Bond Index Fund	3.57%	29.85%
RCM Socially Responsible Investment Fund	10.68	(0.95)
Russell 3000 Index Fund	16.38	1.14
S&P 500 Index Fund	16.01	2.19
SSgA Global Balanced Fund	11.75	(0.89)
State Street Money Market Fund	—	0.01
T. Rowe Price U.S. Small Cap Trust	18.64	0.06
U.S. Real Estate Investment Trust Index Fund	16.81	9.17
U.S. TIPS Index Fund	6.83	13.42
World Equity Ex-U.S. Index Fund	17.78	(13.66)
World Government Bond Ex-U.S. Index Fund	1.58	5.19

The Hartford Equity Fund and Hartford Bond Fund have both been closed to participant use since 1986. Because of the closed nature of the funds, a rate of return on a fully comparable basis is not provided. However, both funds closely mirror funds generally of the same asset composition description that are actively available.

Benefits and Other Deductions

The primary deductions to the Plan are the payment of benefits and purchases of annuity contracts. Benefit payments and administrative expenses were as follows (In thousands):

	Deductions				
			Increase		
	2012	2011	Amount	Percentage	2010
Benefits paid to participants and purchases of annuity contracts	$ 37,996	33,916	4,080	12.0%	$ 33,883
Administrative expenses	2,992	2,895	97	3.4	2,782
Total	$ 40,988	36,811	4,177	11.3%	$ 36,665

The Plan's benefits paid to participants and purchases of annuity contracts in fiscal year 2012 increased $4,080,000 or 12.0% from fiscal year 2011. The Plan's benefits paid in fiscal year 2011 increased $33,000 or 0.1% from fiscal year 2010.

The Plan had administrative expenses of $2,992,000 in 2012 compared to $2,895,000 in 2011, an increase of $97 thousand or 3.4%. The Plan's administrative expenses in fiscal year 2011 increased by $113,000 or 4.1% from fiscal year 2010.

Fiduciary Responsibilities

The Alaska Retirement Management Board, the plan administrator, and the Commissioner of Administration are cofiduciaries of the Plan.

The Plan's assets can only be used for the exclusive benefit of the Plan's participants, beneficiaries, and alternate payees.

Request for Information

This financial report is designed to provide a general overview for those parties interested in the Plan's finances. Questions concerning any of the information provided in this financial report or requests for additional information should be addressed to:

State of Alaska Deferred Compensation Plan
Division of Retirement and Benefits, Finance Section
PO Box 110203
Juneau, Alaska 99811-0203

STATE OF ALASKA
DEFERRED COMPENSATION PLAN
(A Component Unit of the State of Alaska)

Statements of Fiduciary Net Assets

December 31, 2012 and 2011

(In thousands)

		2012	2011
Assets:			
Participant contributions receivable	$	3,020	1,857
Investments:			
Collective investment funds, at fair value:			
Participant directed		397,449	358,742
Money market fund – nonparticipant directed		319	367
		397,768	359,109
Interest income fund, participant directed:			
Synthetic investment contracts, at fair value		179,031	173,276
Cash and cash equivalents, at fair value		10,769	14,173
		189,800	187,449
Ownership of pooled investment funds, participant directed, at fair value		70,329	53,044
Total investments		657,897	599,602
Total assets		660,917	601,459
Accrued expenses		188	149
Fiduciary net assets	$	660,729	601,310

See accompanying notes to financial statements.

STATE OF ALASKA
DEFERRED COMPENSATION PLAN
(A Component Unit of the State of Alaska)

Statements of Changes in Fiduciary Net Assets

Years ended December 31, 2012 and 2011

(In thousands)

		2012	2011
Additions:			
Participant contributions	$	40,537	39,568
Transfers In		13	139
Total contributions		40,550	39,707
Investment income:			
Net appreciation in fair value of investments		54,377	9,164
Interest income		5,480	5,902
Net investment income		59,857	15,066
Total additions		100,407	54,773
Deductions:			
Benefits paid to participants and purchases of annuity contracts		37,996	33,916
Administrative expenses		2,992	2,895
Total deductions		40,988	36,811
Net increase in fiduciary net assets		59,419	17,962
Net assets, beginning of year		601,310	583,348
Net assets, end of year	$	660,729	601,310

See accompanying notes to financial statements.

(1) Description

The following description of the State of Alaska Deferred Compensation Plan (the Plan), a defined contribution plan, is provided for general information purposes only. Participants should refer to the plan document for more complete information.

(a) General

The Plan was created by State of Alaska (the State) Statutes issued May 31, 1974, and was most recently amended effective March 1, 2006. It is a deferred compensation plan under Section 457 of the Internal Revenue Code and is available to all permanent and long-term nonpermanent employees and elected officials of the State and, with the March 1, 2006 amendment, members of State boards and commissions. Participants in the Plan authorize the State to reduce their current salary or compensation so that they can receive the amount deferred at a later date. The deferred compensation is not available to participants until termination, retirement, death, or an unforeseeable emergency, within the definition allowed by the applicable Internal Revenue Code. As of December 31, 2012 and 2011, the Plan had approximately 10,100 and 9,800 participants, respectively.

As a result of the passage of The Small Business Job Protection Act of 1996 (SBJPA), all amounts deferred, including amounts deferred before the effective date of the new law under an eligible 457 plan must be held in a trust for the exclusive benefit of employees and beneficiaries. This law repealed the requirement that a Section 457 plan sponsored by a government be solely the property of the employer, subject only to the claims of the employer’s general creditors. The trust requirement generally applies to assets and income held by a plan on and after the date of enactment of the SBJPA. For any plan in existence on the date of enactment of the SBJPA, a trust need not be established before January 1, 2000.

As to the Plan, the plan document was amended effective January 1, 1997 to recognize and establish the trust requirement for the Plan. The formal trust documents were completed by December 31, 1998.

The plan document was completely restated effective January 1, 2002 for compliance with the Economic Growth and Tax Relief Reconciliation Act of 2001 and most recently amended March 1, 2006.

The Division of Retirement and Benefits is responsible for plan administration and record-keeping. The Alaska Retirement Management Board (the Board) is responsible for the specific investment of moneys in the Plan.

(b) Contributions

During 2012 and 2011, plan participants could contribute a minimum of $50 a month ($600 per year). In 2012, the maximum amount that could be deferred in a year was $17,000 for participants under age 50 and $22,500 for participants who are age 50 and greater. In 2011, the maximum amount that could be deferred in a year was $16,500 for participants under age 50 and $22,000 for participants who are age 50 and greater. However, for each of the participant’s last three calendar

(Continued)

(1) Description (cont.)

years ending prior to normal retirement age, a "catch-up limitation" applies, which allows larger contributions (up to $34,000 in 2012 and $33,000 in 2011). Participants vest automatically in all of their contributions and earnings on those contributions.

(c) Participant Accounts

Participant accounts are self-directed with respect to investment options. Each participant designates how his or her contribution is to be allocated among the investment options. Each participant's account is credited with the participant's contributions and the appreciation or depreciation in unit value for the investment funds.

A record-keeping/administrative fee is deducted monthly from each participant's account, applied pro rata to all the funds the member participates in. This fee is for all costs incurred by the record-keeper and by the State. The investment management fees are netted out of the funds' performance.

At December 31, 2012, participants had the following investment options:

Collective Investment Funds

Equity Fund – this fund invests in diversified common stocks of high-quality growth companies for long-term capital growth with income a secondary consideration. This investment option is only available to participants whose contributions were originally invested with the Hartford Life Insurance Company and have since remained with Hartford Life Insurance Company.

Bond Fund – this fund invests in investment grade corporate and government bonds and other debt securities. This investment option is only available to participants whose contributions were originally invested with the Hartford Life Insurance Company and have since remained with Hartford.

Brandes International Equity Fund – this fund invests primarily in the equity securities of non-U.S. issuers whose equity market capitalizations exceed $5 billion at the time of purchase. The fund is managed using a value investment process based on Graham & Dodd fundamental analysis of individual securities to identify those that are priced below their intrinsic value.

Government/Credit Bond Index Fund – this fund invests in a highly diversified portfolio of high quality U.S. fixed income securities. The fund buys and holds portfolios of the securities included in the Barclays Capital Government/Credit Bond Index. The fund seeks to closely match the Index's total rate of return.

Intermediate Bond Fund – this fund buys and holds representative securities included in the Barclays Capital Intermediate Bond Index. The fund seeks to closely match the Index's total rate of return.

(1) Description (cont.)

Long U.S. Treasury Bond Index Fund – this fund invests in one or more commingled funds managed by SSgA, which, in combination, are designed to replicate the return of the Barclays Capital Long Treasury Bond Index while providing for daily liquidity for plan participants. The fund seeks to match the return of Barclays Capital Long Treasury Bond Index by investing in a well-diversified portfolio of treasury securities with maturities longer than ten years.

RCM Socially Responsible Investment Fund – this fund is actively managed and only invests in companies contained within the MSCI USA environmental, social, and governance (ESG) Index (LMSI). The LMSI holds approximately 600 companies with the ESG rankings in each sector of the 1,000 largest U.S. stocks.

Russell 3000 Index Fund – this fund invests in one or more commingled funds managed by SSgA, which, in combination, are designed to replicate the returns and characteristics of the Russell 3000 Index. The fund measures the performance of the largest 3,000 U.S. companies representing approximately 98.0% of the investable U.S. equity market.

S&P 500 Stock Index Fund – this fund offers diversified investment in the U.S. equity market and to replicate the returns and characteristics of the Standard & Poor’s 500 Composite Stock Price Index. The fund owns all 500 of the securities in the S&P 500 Index in proportion to each security’s size as measured by its total market value.

SSgA Global Balanced Fund – this fund has a target asset allocation of 60.0% equities and 40.0% fixed income and is invested in a mix of passively managed index commingled funds, which, in combination, are designed to replicate the returns and characteristics of the fund benchmark.

State Street Institutional Treasury Money Market Fund – this money market fund seeks to achieve its investment objective by investing substantially all of its investable assets in the State Street Money Market Portfolio of State Street Master Funds, which has the same investment objective as, and investment policies that are substantially similar to those of the fund. The fund attempts to achieve its investment objective by investing exclusively in direct obligations of the U.S. Treasury, such as U.S. Treasury bills, notes, and bonds. The fund may also invest in other mutual funds, subject to regulatory limitations, that invest exclusively in such obligations.

U.S. Real Estate Investment Trust Index Fund – this fund seeks to replicate the returns and characteristics of the Dow Jones U.S. Select REIT Index by purchasing each security in the same capitalization weight as it appears in the Index.

U.S. Small Cap Trust – this fund invests primarily in common stocks of small companies that appear undervalued or offer the potential for superior earnings growth. This fund invests at least 76.0% of its total assets in the stocks of small companies.

(1) Description (cont.)

U.S. Treasury Inflation Protected Securities (TIPS) Index Fund – this fund invests in the SSgA TIPS Index NL Series (Class A) and is intended to replicate the return of the index while providing for daily liquidity for the plan participants. The fund seeks to match the returns of the index by investing in a portfolio of U.S. Treasury inflation protected securities.

World Equity Ex-U.S. Index Fund – this fund invests in one or more commingled funds managed by SSgA, which, in combination, are designed to replicate the returns and characteristics of the MSCI ACWI Ex-U.S. Index and provide a broad based, low cost exposure to both the developed and emerging markets. The index consists of approximately 2,000 securities across 47 markets.

World Government Bond Ex-U.S. Index Fund – this fund seeks an investment return that approximates as closely as practicable, before expenses, the performance of the Citigroup World Government Ex-U.S. Index over the long term. The fund is managed using a passive or indexing investment approach, by which SSgA attempts to replicate, before expenses, the performance of the index.

Money Market Fund – consists of nonparticipant-directed funds used to pay administrative costs of the Plan.

Interest Income Fund

Interest Income Fund – the purpose of this fund is to maximize current income while maintaining principal stability by investing in a diversified portfolio of primarily synthetic investment contracts (SICs) issued by banks and insurance companies that meet specified credit standards. Supporting securities for SICs typically include U.S. Treasury/agency obligations, mortgage and asset-backed securities, as well as investment grade corporate bonds.

Pooled Investment Funds

The Board contracts with an external investment manager who is given authority to invest in a wholly owned pooled environment to accommodate 13 participant-directed funds.

Alaska Balanced Trust – the purpose of this fund is to provide exposure to a diversified mix of stocks, bonds, and money market securities for investors with a higher tolerance for risk and a medium investment horizon. The trust invests in up to four underlying common trust funds, each one emphasizing a different market sector: U.S. stocks, non-U.S. stocks, U.S. investment grade-bonds, and money market securities.

Alaska Long-Term Balanced Trust – the purpose of this fund is to provide exposure to a diversified mix of stocks, bonds, and money market securities for investors with a higher tolerance for risk and a medium to long investment horizon. The trust invests in up to four underlying common trust funds, each one emphasizing a different market sector: U.S. stocks, non-U.S. stocks, U.S. investment grade-bonds, and money market securities.

(1) Description (cont.)

Alaska Target Date Retirement 2010 – 2055 Trusts – the purpose of these funds are to provide a diverse mix of stocks, bonds, and money market securities for long-term investors with a higher tolerance for risk. The Trusts are designed to gradually invest more conservatively as the target retirement date approaches. The trusts invest in four underlying common trust funds, each one emphasizing a different market sector: U.S. stocks, non-U.S. stocks, U.S. investment-grade bonds, and money market securities. Over time, the allocations become more conservative, systematically decreasing exposure to stocks and increasing exposure to bonds and money market securities on a quarterly basis. At the target date, the trusts maintain a substantial exposure to stocks (approximately 55.0%). The most conservative allocation to stocks (approximately 20.0%) occurs 30 years after the target date is reached.

(d) Payment of Benefits

Participants are eligible to withdraw their account balance upon termination in the form of a lump sum, one of various annuities, or a periodic payment option, unless the participant elects to defer commencement of benefits. Account balances of $1,000 or less are automatically paid in the form of a lump-sum distribution. The deferred benefit commencement date can be no later than April 1 of the year after the participant would have turned age 70½. Payment of benefits to a participant commences 60 days after termination or the deferred benefit commencement date, as applicable.

Participants may request a hardship withdrawal for an unforeseeable emergency, within the definition allowed by the applicable Internal Revenue Code. Hardship withdrawals are received as lump-sum distributions and must be approved by the plan administrator.

The Plan purchases annuity contracts from an insurance company. The annuity contracts are excluded from the plan assets.

(e) Income Taxes

The Plan is exempt from federal income taxes under the provisions of Section 501(a) of the Internal Revenue Code.

(f) Termination, Partial Termination, or Complete Discontinuance of Contributions

Although the State has established the Plan with the bona fide intention and expectation that it will continue the Plan indefinitely, the State may in its sole and absolute discretion terminate the Plan in whole or in part at any time without liability whatsoever for such termination. If the Plan shall be terminated, the participants in the Plan will be deemed to have withdrawn from the Plan as of the date of such termination. Deferred compensation shall thereupon cease. Upon plan termination, each participant or beneficiary shall be given the opportunity to elect a benefit commencement date and form of payment.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The Plan utilizes the economic resources measurement focus and the accrual method of accounting. In preparing the financial statements, the plan administrator is required to make estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements, and additions and deductions for the reporting period. Actual results could differ from those estimates.

(b) Valuation of Collective Investment Funds

The Plan's investments in collective investment funds (note 3), held in trust are stated at fair value based on the unit value as reported by the trustees multiplied by the number of units held by the Plan. The unit value is determined by the trustees based on the fair value of the underlying assets. Purchases and sales of securities are recorded on a trade-date basis.

(c) Valuation of Synthetic Investment Contracts

The Plan's investments in fully benefit-responsive synthetic investment contracts (note 4) are stated at fair value as they are affected by the market factors and credit standing.

(d) Contributions Receivable

Contributions applicable to wages earned through the Plan's year-end are accrued. These contributions are considered fully collectible, and accordingly, no allowance for doubtful accounts is considered necessary.

(3) Investments

The Plan is participant directed, which means that the Plan's participants decide in which options to invest. Of total plan fiduciary net assets of $660,729,000 at December 31, 2012, 99.5%, or $657,578,000, are specifically allocated to individual participant accounts. Of total plan fiduciary net assets of $601,310,000 at December 31, 2011, 99.7%, or $599,235,000, were specifically allocated to individual participant accounts.

Each participant designates how their contribution is to be allocated among the investment options. Each participant's account is credited with the participant's contributions, adjusted for the appreciation or depreciation in unit value for the investment funds, and reduced for administrative fees.

(Continued)

(3) Investments (cont.)

Participant-Directed Investments at December 31 Year-End *(In thousands)*

		Market value	
		2012	**2011**
Interest Income Fund	$	189,800	187,449
S&P 500 Index Fund		131,068	117,091
U.S. Small Cap Trust		73,142	65,253
Alaska Long-Term Balanced Trust		38,720	33,828
SSgA Global Balanced Fund		38,354	36,342
Brandes International Equity Fund		37,072	36,279
Government/Credit Bond Index Fund		33,946	32,800
Intermediate Bond Fund		16,547	16,383
U.S. TIPS Index Fund		12,178	9,529
RCM Socially Responsible Investment Fund		11,086	10,432
U.S. Real Estate Investment Trust Index Fund		11,073	7,787
Alaska Balanced Trust		10,500	5,767
State Street Money Market Fund		9,757	7,823
Russell 3000 Index Fund		7,437	5,200
World Equity Ex-U.S. Index Fund		6,341	3,644
Long U.S. Treasury Bond Index Fund		5,491	6,482
Alaska Target Date Retirement 2020 Trust		5,440	2,951
Alaska Target Date Retirement 2015 Trust		5,356	3,321
Alaska Target Date Retirement 2025 Trust		2,642	1,630
World Government Bond Ex-U.S. Index Fund		2,263	1,950
Alaska Target Date Retirement 2010 Trust		2,086	1,669
Alaska Target Date Retirement 2030 Trust		1,828	1,096
Hartford Stock – Equity Fund		1,620	1,625
Alaska Target Date Retirement 2035 Trust		1,330	973
Alaska Target Date Retirement 2040 Trust		918	508
Alaska Target Date Retirement 2045 Trust		689	227
Alaska Target Date Retirement 2055 Trust		444	884
Alaska Target Date Retirement 2050 Trust		376	191
Hartford Bond Fund		74	122
Total	$	657,578	599,236

(3) Investments (cont.)

The Plan's investments at December 31, 2012 include the following collective investment funds (in thousands):

	Units owned	Unit value	Balance
Equity funds:			
S & P 500 Index Fund	2,592,834	50.550	$ 131,068
U.S. Small Cap Trust	1,182,376	61.860	73,142
Brandes International Equity Fund	3,517,307	10.540	37,072
RCM Socially Responsible Investment Fund	731,633	15.153	11,086
U.S. Real Estate Investment Trust Index Fund	912,918	12.130	11,073
Russell 3000 Index Fund	565,309	13.156	7,437
World Equity Ex-U.S. Index Fund	493,278	12.854	6,341
Equity Fund, actively managed*	84,545	19.160	1,620
			278,839
Bond and debt securities funds:			
Government/Credit Bond Fund	1,018,420	33.330	33,946
Intermediate Bond Fund	622,989	26.560	16,547
U.S. TIPS Index Fund	907,127	13.425	12,178
Long U.S. Treasury Bond Index Fund	364,695	15.056	5,491
World Government Bond Ex-U.S. Index Fund	183,529	12.332	2,263
Bond Fund, actively managed*	7,600	9.743	74
			70,499
Bond and equity fund:			
SSgA Global Balanced Fund	2,805,126	13.673	38,354
Money market funds:			
Participant directed – State Street Institutional Treasury Money Market Fund	9,757,101	1.000	9,757
Nonparticipant directed	18,947	16.826	319
			10,076
Total collective investment funds			$ 397,768

* Actively managed by the Division of Treasury

(3) Investments (cont.)

The Plan's investments at December 31, 2011 include the following collective investment funds (in thousands):

	Units owned	Unit value	Balance
Equity funds:			
S & P 500 Index Fund	2,686,180	43.590	$ 117,091
U.S. Small Cap Trust	1,251,498	52.140	65,253
Brandes International Equity Fund	3,847,229	9.430	36,279
RCM Socially Responsible Investment Fund	761,592	13.697	10,432
U.S. Real Estate Investment Trust Index Fund	749,889	10.384	7,787
Russell 3000 Index Fund	459,979	11.304	5,200
World Equity Ex-U.S. Index Fund	333,942	10.913	3,644
Equity Fund, actively managed*	96,227	16.889	1,625
			247,311
Bond and debt securities funds:			
Government/Credit Bond Fund	1,030,347	31.834	32,800
U.S. TIPS Index Fund	758,260	12.567	9,529
Intermediate Bond Fund	626,566	26.147	16,383
Long U.S. Treasury Bond Index Fund	445,877	14.538	6,482
World Government Bond Ex-U.S. Index Fund	160,668	12.140	1,950
Bond Fund, actively managed*	13,315	9.151	122
			67,266
Bond and equity fund:			
SSgA Global Balanced Fund	2,967,736	12.245	36,342
Money market funds:			
Participant directed – State Street Institutional Treasury Money Market Fund	7,822,606	1.000	7,823
Nonparticipant directed	21,786	16.826	366
			8,189
Total collective investment funds			$ 359,108

* Actively managed by the Division of Treasury

(4) Synthetic Investment Contracts

Accounts and terms of synthetic investment contracts in effect at December 31 are as follows:

(a) NATIXIS Financial Products Inc.

In 1999, the Plan's investment manager entered into an investment contract, on behalf of the Plan, with NATIXIS Financial Products Inc. This financial institution provides a wrap contract that covers a separately managed structured payout synthetic investment portfolio. The account is credited with earnings and investment deposits, less administrative expenses charged by the financial institution and investment withdrawals. The contract is included in the Plan's financial statements at market value. It is fully benefit responsive. There are no reserves against contract value for the credit risk of the contract issuer or otherwise. The contract value of the investment contract at December 31, 2012 and 2011 was $33,374,000 and $32,253,000, respectively, as reported by NATIXIS Financial Products Inc., and the market value of the portfolio at December 31, 2012 and 2011 was $35,781,000 and $34,639,000, respectively. The average crediting rates for 2012 and 2011 were approximately 3.48% and 3.88%, respectively. The crediting interest rates are based on the approximate rate of interest that will amortize differences between book and market value over the portfolio's average duration.

(b) Bank of America

In 2003, the Plan's investment manager entered into an investment contract, on behalf of the Plan, with Bank of America. This financial institution provides a wrap contract that covers a separately managed structured payout synthetic investment portfolio. The account is credited with earnings and investment deposits, less administrative expenses charged by the financial institution and investment withdrawals. The contract is included in the Plan's financial statements at market value. It is fully benefit responsive. There are no reserves against contract value for the credit risk of the contract issuer or otherwise. The contract value of the investment contract at December 31, 2012 and 2011 was $33,382,000 and $32,257,000, respectively, as reported by Bank of America, and the market value of the portfolio at December 31, 2012 and 2011 was $35,789,000 and $34,643,000, respectively. The average yield and crediting interest rates for 2012 and 2011 were approximately 3.48% and 3.88%, respectively. The crediting interest rate is based on the approximate rate of interest that will amortize differences between book and market value over the portfolio's average duration.

(c) Rabobank Nederland

In 2003, the Plan's investment manager entered into an investment contract, on behalf of the Plan, with Rabobank Nederland. This financial institution provides a wrap contract that covers a separately managed structured payout synthetic investment portfolio. The account is credited with earnings and investment deposits, less administrative expenses charged by the financial institution and investment withdrawals. The contract is included in the Plan's financial statements at market value. It is fully benefit responsive. There are no reserves against contract value for the credit risk of the contract issuer or otherwise. The contract value of the investment contract at December 31, 2012 and 2011

(4) Synthetic Investment Contracts (cont.)

was $33,393,000 and $32,201,000, respectively, as reported by Rabobank Nederland, and the market value of the portfolio at December 31, 2012 and 2011 was $35,884,000 and $34,712,000, respectively. The average yield and crediting interest rates for 2012 and 2011 were approximately 3.69% and 3.99%, respectively. The crediting interest rate is based on the approximate rate of interest that will amortize differences between book and market value over the portfolio's average duration.

(d) State Street Bank

In 2000, the Plan's investment manager entered into an investment contract, on behalf of the Plan, with State Street Bank. This financial institution provides a wrap contract that covers a separately managed constant duration synthetic investment portfolio. The account is credited with earnings and investment deposits, less administrative expenses charged by the financial institution and investment withdrawals. The contract is included in the Plan's financial statements at market value. It is fully benefit responsive. There are no reserves against contract value for the credit risk of the contract issuer or otherwise. The contract value of the investment contract at December 31, 2012 and 2011 was $33,379,000 and $32,254,000, respectively, as reported by State Street Bank, and the market value of the portfolio at December 31, 2012 and 2011 was $35,787,000 and $34,640,000, respectively. The average crediting rates for 2012 and 2011 were approximately 3.48% and 3.88%, respectively. The crediting interest rates are based on the approximate rate of interest that will amortize differences between book and market value over the portfolio's average duration.

(e) Pacific Life Insurance Co.

In 2004, the Plan's investment manager entered into an investment contract, on behalf of the Plan, with Pacific Life Insurance Co. This financial institution provides a wrap contract that covers a separately managed structured payout synthetic investment portfolio. The account is credited with earnings and investment deposits, less administrative expenses charged by the financial institution and investment withdrawals. The contract is included in the Plan's financial statements at market value. It is fully benefit responsive. There are no reserves against contract value for the credit risk of the contract issuer or otherwise. The contract value of the investment contract at December 31, 2012 and 2011 was $33,382,000 and $32,257,000, respectively, as reported by Pacific Life Insurance Co., and the market value of the portfolio at December 31, 2012 and 2011 was $35,789,000 and $34,643,000, respectively. The average crediting rate for 2012 and 2011 were approximately 3.48% and 3.88%, respectively. The crediting interest rates are based on the approximate rate of interest that will amortize differences between book and market value over the portfolio's average duration.

(5) Deposit and Investment Risk

(a) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

(5) Deposit and Investment Risk (cont.)

Collective Investment and Money Market Funds

The Alaska Retirement Management (Board) contracts with external investment managers who maintain collective investment funds. Managers selected to manage investments for the Plan are subject to the provisions of the collective investment funds the Board has selected. In addition, the Plan maintains a balance in a commingled money market portfolio.

The Board does not have a policy to limit interest rate risk for the collective investment funds or the institutional treasury commingled money market fund portfolio. These investments with their related weighted average maturities at December 31, 2012 are as follows (in thousands):

	Fair value	Weighted average maturity
Bond Fund	$ 74	4.45 years
Government/Credit Bond Index Fund	33,946	7.79 years
State Street Money Market Fund	9,757	51 days
Intermediate Bond Fund	16,547	3.77 years
Long U.S. Treasury Bond Index Fund	5,491	17.01 years
U.S. TIPS Index Fund	12,178	5.52 years
World Government Bond ex-U.S. Index Fund	2,263	7.28 years

Interest Income Fund

The Board contracts with an external investment manager who is given the authority to invest in synthetic investment contracts and a reserve. This external manager also manages the securities underlying the synthetic investment contracts.

Through the Board's investment policy, exposure to fair value losses arising from increasing interest rates is managed by limiting the duration on synthetic investment contracts as follows:

> For constant duration synthetic investment contracts, duration cannot exceed the longer of 6 years or the duration of the Barclays Capital Intermediate Aggregate Index plus one-half year. The aggregate duration of the constant duration synthetic investment contracts was 3.24 years at December 31, 2012. The duration of the Barclays Capital Intermediate Aggregate Index was 3.53 years at December 31, 2012.
>
> Duration is a measure of interest rate risk. In the case of the Plan's constant duration synthetic investment contracts, duration is the fair value weighted average term to maturity using all fixed income securities underlying the contracts and their related cash flows.

(5) Deposit and Investment Risk (cont.)

The Board does not have a policy to limit interest rate risk for the reserve. The balance in the reserve is invested in the custodian's institutional treasury money market fund, which had a weighted average maturity of 51 days at December 31, 2012.

Pooled Investment Funds

Duration is a measure of a security's sensitivity to a 100-basis point change in interest rates. Duration, for the securities in the pooled investment funds, is the fair value weighted average term to maturity for each security taking into account all related cash flows.

The Board contracts with an external investment manager who is given the authority to invest funds in a wholly owned pooled environment to accommodate 13 participant-directed funds. Through the Board's investment policy, exposure to fair value losses arising from increasing interest rates is managed by limiting the duration as follows:

For government and corporate debt securities, duration is limited to ± 0.2 years of the Barclays Aggregate Bond Index. At December 31, 2012, the duration of the Barclays Aggregate Bond Index was 5.06 years, and the duration of the Aggregate Bond Trust was 5.10 years.

The weighted average maturity of the money market portfolio was 19.33 days at December 31, 2012.

The Board does not have a policy to limit interest rate risk for funds held in foreign currency, the custodian's short-term investment fund, or commercial paper.

(b) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The Board does not have a policy to limit credit risk for the Plan's collective investment funds and the commingled money market portfolio. These investments are not rated.

The Board's investment policy has the following limitations with regard to credit risk for synthetic investment contracts, investments underlying the synthetic investment contracts and the reserve:

Synthetic investment contract issuers must have an investment grade rating

Supranational Agency and Foreign Government entity investments must have a minimum rating of A or equivalent

Corporate debt securities must have a minimum rating of BBB or equivalent

Asset-backed securities must have a minimum rating of AAA or equivalent

(5) Deposit and Investment Risk (cont.)

The ratings assigned to issuers of money market instruments must have the highest rating of any nationally recognized statistical rating organization. This limitation does not apply to the investment funds maintained by the custodian

The Board's investment policy has the following limitations with regard to credit risk for wholly owned pooled investments:

All government and corporate fixed income securities must be rated BBB or better at time of purchase

GNMA, FNMA, and FHLMC mortgage-backed securities may be purchased even if they are not rated by all or any of these rating agencies as long as they are rated investment grade by T. Rowe's internal credit evaluation

Commercial paper and other short-term debt obligations must be rated A1 or equivalent

(5) Deposit and Investment Risk (cont.)

At December 31, 2012, Plan investments consisted of securities with credit quality ratings issued by a nationally recognized statistical rating organization as follows (using the Standard and Poor's rating scale) (in thousands):

		Fair value		
Investment type	**Rating**	**Underlying synthetic investment contracts**	**Other**	**Total**
Investments with credit exposure:				
Money market fund	Not Rated	$ —	319	319
Short-term investment fund	Not Rated	3,449	—	3,449
U.S. government agency	AA	10,505	—	10,505
Mortgage-backed	AAA	3,047	—	3,047
Mortgage-backed	AA	29	—	29
Mortgage-backed	A	1,558	—	1,558
Mortgage-backed	Not Rated	61,455	—	61,455
Other asset-backed	AAA	1,539	—	1,539
Other asset-backed	AA	200	—	200
Other asset-backed	Not Rated	1,129	—	1,129
Corporate bonds	AAA	55	—	55
Corporate bonds	AA	3,717	—	3,717
Corporate bonds	A	16,493	—	16,493
Corporate bonds	BBB	12,568	—	12,568
Yankees:				
Corporate	AA	1,761	—	1,761
Corporate	A	2,838	—	2,838
Corporate	BBB	1,845	—	1,845
Government	AAA	3,574	—	3,574
Government	AA	1,214	—	1,214
Government	A	1,027	—	1,027
Government	BBB	27	—	27

(5) Deposit and Investment Risk (cont.)

Investment type	Rating	Fair value: Underlying synthetic investment contracts	Other	Total
Deposits and investments with no credit exposure:				
Deposits		$ (2,780)	—	(2,780)
U.S. Treasury notes	AAA	53,781	—	53,781
Collective investment funds		—	311,527	311,527
Pooled Investment Funds		—	70,329	70,329
Domestic equity		—	84,228	84,228
Total invested assets		$ 179,031	466,403	645,434

(c) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

The Board does not have a policy to limit concentration of credit risk in the collective investment and money market funds.

The Board's policy with regard to concentration of credit risk for synthetic investment contracts, investments underlying the synthetic investment contracts and the reserve is as follows:

> No investment will be made if, at the time of purchase, total investment in any single issuer of investment contracts would exceed 35.0% of the interest income fund's total value.

(5) Deposit and Investment Risk (cont.)

No investment will be made if, at the time of purchase, total investment in any single issuer or in all issuers of the securities held as supporting investments under synthetic investment contracts in the table below would exceed the respective percentages of all investments underlying the synthetic investment contracts.

Investment type	Issuer	All issuers
U.S. Treasury and Agencies	100.0%	100.0%
U.S. Agency Securities	100.0	100.0
Agency Mortgage-Backed Securities	50.0	50.0
Non-Agency Mortgage-Backed Securities	5.0	50.0
Asset-Backed Securities	5.0	50.0
Domestic and Foreign Corporate Debt Securities	5.0	50.0
Supranational Agency and Foreign Government Entity Securities	5.0	50.0
Money Market Instruments – Nongovernmental/Agency	5.0	100.0
Custodian Short-term Investment Fund	100.0	100.0

The maximum exposure to securities rated BBB is limited to 20.0% of the total value underlying synthetic investment contracts.

For the reserve, the total investment of any single issuer of money market instruments may not exceed 5.0% of the total value underlying synthetic investment contracts. This limitation does not apply to the investment funds maintained by the custodian.

The Board's policy with regard to concentration of credit risk for wholly owned pooled investments is as follows:

Equity holdings will be limited to 5.0% per issuer of the equity portfolio at the time of purchase

With the exception of the U.S. government or its agencies, fixed income holdings of any single issuer is limited to 2.0% of the total portfolio at the time of purchase

With the exception of the U.S. government or its agencies, money market holdings of any single issuer are limited to no more than 5.0% of the portfolio at the time of purchase. This limitation does not apply to the investment funds maintained by the custodian

At December 31, 2012, the Plan had no exposure to a single issuer in excess of 5% of total invested assets.

(5) Deposit and Investment Risk (cont.)

(d) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit.

The Board does not have a policy to limit foreign currency risk associated with collective investment funds. The Plan has exposure to foreign currency risk in the international equity and global balanced collective investment funds.

The Board's policy with regard to the interest income fund is to require that all investments underlying a synthetic investment contract be denominated in U.S. dollars.

The Board's policy with regard to pooled investments requires that all money market holdings be made in entities domiciled in the United States. The Board has no policy with regard to other pooled investments.

(e) Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the deposits may not be returned. The Board does not have a policy for custodial credit risk. At December 31, 2012, the Plan's deposits were uncollateralized and uninsured.

(6) Risk and Uncertainty

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statements of fiduciary net assets.

The Plan may invest in pooled separate accounts, which include securities with contractual cash flows, which may include asset-backed securities, collateralized mortgage obligations, and commercial mortgage-backed securities. The value, liquidity, and related income of these securities are sensitive to changes in economic conditions, including real estate value, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.