Public Employees' Individual Retirement Account Fund

(A Component Unit of the State of Alabama)

FINANCIAL STATEMENTS

For the Fiscal Year Ended September 30, 2012

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C. Securities Lending Program, Continued

Additionally, all eligible securities with maturities in excess of 13 months shall be rated at least A, A3, or A- by at least two of the following nationally recognized statistical rating organizations: S&P, Moody's, or Fitch or be determined by the Investment Manager to be of comparable quality. The QDF may invest up to 10% of its assets at the time of purchase in commingled vehicles managed by the Trustee or its affiliates that conform to the Investment Policy Guidelines.

The following describes the QDF guidelines for the duration pool: The QDF duration pool includes all asset-backed securities (regardless of maturity) and securities of any type with a remaining maturity of 91 days or greater. Each QDF investor owns a specified percentage interest in the duration pool which is redeemable only in kind, not in cash. The QDF duration pool will not make additional investments.

As of September 30, 2012, the average term of the loans was 96 days. Cash collateral investments in the QDF are matured as needed to fulfill loan obligations. There is no direct matching of the maturities of the loans with the investments made with cash collateral.

At September 30, 2012, the fair value of the securities on loan was $21,574,415. The fair value of the collateral pledged by the borrowers was $22,986,942. Since the amounts owed by the PEIRAF exceeded the amounts the borrowers owed to the PEIRAF, there was no credit risk exposure as of September 30, 2012. Additionally, there were no significant violations of legal or contractual provisions, no borrower or lending agent default losses, and no recoveries of prior period losses during the fiscal year.

Investments purchased with cash collateral are held by the custodial agent, but not in the name of the PEIRAF. Securities pledged as collateral are held by the custodial agent, but not in the name of the PEIRAF. Letters of credit pledged as collateral are issued by the borrower's bank and are irrevocable. Tri party collateral is held by a third party bank in the name of the custodial agent. State Street, as custodial agent, is authorized to request a third party bank to undertake certain custodial functions in connection with holding of the collateral provided by a borrower.

C. Securities Lending Program, Continued

The following table provides information as of September 30, 2012, concerning securities lent:

SECURITIES LENDING - INVESTMENTS LENT AND COLLATERAL RECEIVED
(at Fair Value)

Type of Investment Lent		Amounts
For Cash Collateral		
Domestic Fixed Maturities	$	4,158,326
Total Lent for Cash Collateral		4,158,326
For Non-cash Collateral		
Domestic Fixed Maturities		17,416,089
Total Lent for Non-cash Collateral		17,416,089
Total Securities Lent	**$**	**21,574,415**
Type of Collateral Received		
Cash Collateral - Invested in State Street Quality D Fund	$	4,239,451
Non-cash Collateral		
For Lent Domestic Fixed Securities		18,747,491
Total Non-Cash Collateral		18,747,491
Total Collateral Received	**$**	**22,986,942**

D. Mortgage-backed Securities

As of September 30, 2012, the PEIRAF had investments in mortgaged-backed securities. Embedded prepayment options cause these investments to be highly sensitive to changes in interest rates. Prepayments by the obligors of the underlying assets reduce the total interest payments to be received. Generally, when interest rates fall, obligors tend to prepay the mortgages thus eliminating the stream of interest payments that would have been received under the original amortization schedule. The resulting reduction in cash flow diminishes the fair value of the mortgage-backed securities.