

**Public Employees' Individual
Retirement Account Fund**

(A Component Unit of the State of Alabama)

FINANCIAL STATEMENTS

For the Fiscal Year Ended September 30, 2014

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Public Employees' Individual Retirement Account Fund
Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2014

C. Securities Lending Program, Continued

As of September 30, 2014, the average term of the loans was 73 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, 2014, the fair value of the securities on loan was \$16,539,018. The fair value of the collateral pledged by the borrowers was \$17,098,598. 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, 2014. 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.

The following table provides information as of September 30, 2014, concerning securities lent:

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

| Type of Investment Lent | Amounts |
|--|----------------------|
| <i>For Cash Collateral</i> | |
| Domestic Fixed Maturities | \$ 9,418,500 |
| Domestic Equity | - |
| Total Lent for Cash Collateral | 9,418,500 |
| <i>For Non-cash Collateral</i> | |
| Domestic Fixed Maturities | 7,120,518 |
| Total Lent for Non-cash Collateral | 7,120,518 |
| Total Securities Lent | \$ 16,539,018 |
| | |
| Type of Collateral Received | |
| <i>Cash Collateral - Invested in State Street Quality D Fund</i> | |
| | \$ 9,615,050 |
| <i>Non-cash Collateral</i> | |
| Domestic Fixed Securities | |
| U.S. Dollar | 4,724,517 |
| GBP | 2,084,890 |
| Domestic Equity Securities | 674,141 |
| Total Non-Cash Collateral | 7,483,548 |
| Total Collateral Received | \$ 17,098,598 |

D. Mortgage-backed Securities

As of September 30, 2014, 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.