

Public Employees' Individual Retirement
Account Fund/Deferred Compensation Plan
(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

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
<i>For Cash Collateral</i>	
Domestic Fixed Maturities	\$ 73,631,294
Domestic Equity	22,820,859
Total Lent for Cash Collateral	96,452,153
<i>For Non-cash Collateral</i>	
Domestic Fixed Maturities	282,125,095
Domestic Equity	5,384,017
Total Lent for Non-cash Collateral	287,509,112
Total Securities Lent	\$ 383,961,265
 Type of Collateral Received	
<i>Cash Collateral - Invested in State Street Quality D Fund</i>	\$ 98,584,116
<i>Non-cash Collateral</i>	
For Lent Domestic Fixed Securities	306,934,939
For Lent Domestic Equity Securities	6,655,718
Total Non-Cash Collateral	313,590,657
Total Collateral Received	\$ 412,174,773

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D. Mortgage-backed Securities

As of September 30, 2012, the PEIRAF/DCP had investments in mortgage-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.