

Condensed Interim Consolidated
Financial Statements of

Canada Pension Plan Investment Board

December 31, 2015

Canada Pension Plan Investment Board
Condensed Interim Consolidated Balance Sheet
As at December 31, 2015
(Unaudited)

<i>(CAD millions)</i>	As at December 31, 2015	As at March 31, 2015	As at December 31, 2014
Assets			
Investments (note 2)	\$ 366,276	\$ 318,481	\$ 287,478
Amounts receivable from pending trades	592	2,908	1,712
Premises and equipment	355	340	326
Other assets	130	89	64
Total assets	367,353	321,818	289,580
Liabilities			
Investment liabilities (note 2)	81,909	50,547	49,471
Amounts payable from pending trades	2,308	6,087	960
Accounts payable and accrued liabilities	565	561	361
Total liabilities	84,782	57,195	50,792
Net assets	\$ 282,571	\$ 264,623	\$ 238,788
Net assets, represented by:			
Share capital	\$ -	\$ -	-
Accumulated net income from operations	152,590	136,305	113,924
Accumulated net transfers from the Canada Pension Plan	129,981	128,318	124,864
Net assets	\$ 282,571	\$ 264,623	\$ 238,788

The accompanying notes are an integral part of these Condensed Interim Consolidated Financial Statements.

Canada Pension Plan Investment Board

Condensed Interim Consolidated Statement of Comprehensive Income

For the three and nine-month periods ended December 31, 2015

(Unaudited)

<i>(CAD millions)</i>	For the three-month period ended		For the nine-month period ended	
	<u>December 31, 2015</u>	<u>December 31, 2014</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Net investment income (note 5)				
Investment income	\$ 12,836	\$ 7,770	\$ 18,257	\$ 19,696
Investment management fees	(241)	(277)	(992)	(809)
Transaction costs	(80)	(27)	(345)	(133)
	\$ 12,515	\$ 7,466	\$ 16,920	\$ 18,754
Operating expenses				
Personnel costs	155	123	437	334
General operating expenses	59	41	163	121
Professional services	12	17	35	42
	226	181	635	497
Net income from operations	\$ 12,289	\$ 7,285	\$ 16,285	\$ 18,257

The accompanying notes are an integral part of these Condensed Interim Consolidated Financial Statements.

Canada Pension Plan Investment Board

Condensed Interim Consolidated Statement of Changes in Net Assets

For the three and nine-month periods ended December 31, 2015

(Unaudited)

<i>(CAD millions)</i>	For the three-month period ended December 31, 2015				
	Number of shares outstanding	Share capital	Accumulated net transfers from the Canada Pension Plan	Accumulated net income from operations	Total net assets
As at October 1, 2014	10	\$ -	\$ 127,787	\$ 106,639	\$ 234,426
Total net income for the period		-	-	7,285	7,285
Canada Pension Plan transfers:					
Transfers from the Canada Pension Plan		-	5,558	-	5,558
Transfers to the Canada Pension Plan		-	(8,481)	-	(8,481)
Balance at December 31, 2014	10	\$ -	\$ 124,864	\$ 113,924	\$ 238,788
As at October 1, 2015	10	\$ -	\$ 132,635	\$ 140,301	\$ 272,936
Total net income for the period		-	-	12,289	12,289
Canada Pension Plan transfers:					
Transfers from the Canada Pension Plan		-	6,139	-	6,139
Transfers to the Canada Pension Plan		-	(8,793)	-	(8,793)
Balance at December 31, 2015	10	\$ -	\$ 129,981	\$ 152,590	\$ 282,571

<i>(CAD millions)</i>	For the nine-month period ended December 31, 2015				
	Number of shares outstanding	Share capital	Accumulated net transfers from the Canada Pension Plan	Accumulated net income from operations	Total net assets
As at April 1, 2014	10	\$ -	\$ 123,425	\$ 95,667	\$ 219,092
Total net income for the period		-	-	18,257	18,257
Canada Pension Plan transfers:					
Transfers from the Canada Pension Plan		-	25,013	-	25,013
Transfers to the Canada Pension Plan		-	(23,574)	-	(23,574)
Balance at December 31, 2014	10	\$ -	\$ 124,864	\$ 113,924	\$ 238,788
As at April 1, 2015	10	\$ -	\$ 128,318	\$ 136,305	\$ 264,623
Total net income for the period		-	-	16,285	16,285
Canada Pension Plan transfers:					
Transfers from the Canada Pension Plan		-	26,890	-	26,890
Transfers to the Canada Pension Plan		-	(25,227)	-	(25,227)
Balance at December 31, 2015	10	\$ -	\$ 129,981	\$ 152,590	\$ 282,571

The accompanying notes are an integral part of these Condensed Interim Consolidated Financial Statements.

Canada Pension Plan Investment Board

Condensed Interim Consolidated Statement of Cash Flows

For the three and nine-month periods ended December 31, 2015

(Unaudited)

(CAD millions)	For the three-month period ended December 31		For the nine-month period ended December 31	
	2015	2014	2015	2014
Cash flows from operating activities				
Net income from operations	\$ 12,289	\$ 7,285	\$ 16,285	\$ 18,257
Adjustments for non-cash items:				
Amortization of premises and equipment	7	6	22	18
Effect of exchange rate changes on cash and cash equivalents	(47)	2	(10)	4
Unrealized (gains) losses on debt financing liabilities	160	72	297	241
Adjustments for net changes in operating assets and liabilities:				
(Increase) decrease in investments	(34,696)	(22,122)	(50,357)	(44,950)
(Increase) decrease in pending trades receivable	3,835	718	2,316	539
(Increase) decrease in other assets	(2)	(3)	(20)	(4)
Increase (decrease) in investment-related liabilities	23,562	14,046	26,155	18,619
Increase (decrease) in debt financing liabilities	226	(357)	4,904	(213)
Increase (decrease) in pending trades payable	(3,853)	(2,210)	(3,779)	(1,019)
Increase (decrease) in accounts payable and accrued liabilities	84	60	4	(24)
Net cash flows provided by (used in) operating activities	1,565	(2,503)	(4,183)	(8,532)
Cash flows from financing activities				
Transfers from the Canada Pension Plan	6,139	5,558	26,890	25,013
Transfers to the Canada Pension Plan	(8,793)	(8,481)	(25,227)	(23,574)
Net cash flows provided by (used in) financing activities	(2,654)	(2,923)	1,663	1,439
Cash flows from investing activities				
Acquisitions of premises and equipment	(9)	(7)	(36)	(24)
Net cash flows provided by (used in) investing activities	(9)	(7)	(36)	(24)
Net increase (decrease) in cash and cash equivalents	(1,098)	(5,433)	(2,556)	(7,117)
Effect of exchange rate changes on cash and cash equivalents	47	(2)	10	(4)
Cash and cash equivalents at the beginning of the period	6,700	10,077	8,195	11,763
Cash and cash equivalents at the end of the period	5,649	4,642	5,649	4,642
Cash and cash equivalents at the end of the period are comprised of:				
Cash held for operating purposes ¹	81	53	81	53
Cash and cash equivalents held for investment purposes ²	5,568	4,589	5,568	4,589
Total	\$ 5,649	\$ 4,642	\$ 5,649	\$ 4,642

¹ Presented as a component of Other assets on the Condensed Interim Consolidated Balance Sheet.

² Presented as a component of Investments on the Condensed Interim Consolidated Balance Sheet and Money market securities on the Condensed Interim Consolidated Schedule of Investment Portfolio.

The accompanying notes are an integral part of these Condensed Interim Consolidated Financial Statements.

Canada Pension Plan Investment Board

Condensed Interim Consolidated Schedule of Investment Portfolio

As at December 31, 2015

(Unaudited)

The CPP Investment Board's investments are grouped by asset class based on the risk/return characteristics of the investment strategies of the underlying portfolios. These investments, before allocating derivative contracts, associated money market securities and other investment receivables and liabilities to the asset classes to which they relate, are as follows:

<i>(CAD millions)</i>	As at December 31, 2015	As at March 31, 2015	As at December 31, 2014
Equities (note 2a)			
Canada			
Public equities	\$ 3,897	\$ 5,803	\$ 6,092
Private equities	3,064	2,995	2,969
	6,961	8,798	9,061
Foreign developed markets			
Public equities	76,776	72,501	72,141
Private equities	50,604	41,773	37,228
	127,380	114,274	109,369
Emerging markets			
Public equities	10,498	9,736	8,508
Private equities	6,351	4,481	4,071
	16,849	14,217	12,579
Total equities	151,190	137,289	131,009
Fixed income (note 2b)			
Bonds	74,418	65,642	59,018
Other debt	27,772	22,428	19,247
Money market securities	16,744	17,740	14,535
Total fixed income	118,934	105,810	92,800
Absolute return strategies¹ (note 2c)	18,571	16,185	14,977
Real assets (note 2d)			
Real estate	37,056	30,375	26,277
Infrastructure	20,023	15,013	13,008
Total real assets	57,079	45,388	39,285
Investment receivables			
Securities purchased under reverse repurchase agreements (note 2e)	17,024	10,817	6,376
Accrued interest	1,065	928	701
Derivative receivables (note 2f)	2,332	1,882	2,232
Dividends receivable	81	182	98
Total investment receivables	20,502	13,809	9,407
Total investments	\$ 366,276	\$ 318,481	\$ 287,478
Investment liabilities			
Securities sold under repurchase agreements (note 2e)	(38,032)	(15,779)	(19,549)
Securities sold short	(25,549)	(22,385)	(18,082)
Debt financing liabilities (note 2g)	(15,162)	(9,955)	(9,686)
Derivative liabilities (note 2f)	(3,166)	(2,428)	(2,154)
Total investment liabilities	(81,909)	(50,547)	(49,471)
Amounts receivable from pending trades	592	2,908	1,712
Amounts payable from pending trades	(2,308)	(6,087)	(960)
Net investments	\$ 282,651	\$ 264,755	\$ 238,759

¹ Includes only investments in funds.

The accompanying notes are an integral part of these Condensed Interim Consolidated Financial Statements.

Canada Pension Plan Investment Board

Condensed Interim Consolidated Schedule of Investment Asset Mix

As at December 31, 2015

(Unaudited)

This Consolidated Schedule of Investment Asset Mix is grouped by asset class based on the risk/return characteristics of the investment strategies of the underlying portfolios. These investments, after allocating derivative contracts, associated money market securities and other investment receivables and liabilities to the asset classes to which they relate, are as follows:

<i>(CAD millions)</i>	As at December 31, 2015		As at March 31, 2015		As at December 31, 2014	
Equities						
Canada	\$	16,265	5.8 %	\$	19,446	7.3 %
Foreign developed markets		114,306	40.4		98,060	37.0
Emerging markets		16,409	5.8		15,501	5.9
		146,980	52.0		133,007	50.2
Fixed income						
Bonds		65,822	23.3		60,229	22.8
Other debt		20,083	7.1		17,160	6.5
Money market securities ¹		7,429	2.6		18,799	7.1
Debt financing liabilities		(15,162)	(5.3)		(9,955)	(3.8)
		78,172	27.7		86,233	32.6
Real assets						
Real estate		37,045	13.1		30,323	11.5
Infrastructure		20,454	7.2		15,192	5.7
		57,499	20.3		45,515	17.2
Net investments	\$	282,651	100 %	\$	264,755	100 %

¹ Includes absolute return strategies' investments in funds and internally managed portfolios, as described in note 2c.

The accompanying notes are an integral part of these Condensed Interim Consolidated Financial Statements.

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Corporate information

The Canada Pension Plan Investment Board (the CPP Investment Board) was established in December 1997 pursuant to the *Canada Pension Plan Investment Board Act* (the Act). The CPP Investment Board is a federal Crown corporation, all of the shares of which are owned by Her Majesty the Queen in right of Canada. The CPP Investment Board is responsible for assisting the Canada Pension Plan (the CPP) in meeting its obligations to contributors and beneficiaries under the *Canada Pension Plan*. It is responsible for managing amounts that are transferred to it under Section 108.1 of the *Canada Pension Plan* in the best interests of CPP beneficiaries and contributors. The CPP Investment Board received its first funds for investing purposes from the CPP in March 1999. The CPP Investment Board's assets are to be invested in accordance with the Act, the regulations and the investment policies with a view to achieving a maximum rate of return without undue risk of loss, having regard to the factors that may affect the funding of the CPP and the ability of the CPP to meet its financial obligations on any given business day.

The CPP Investment Board is exempt from Part I tax under paragraphs 149(1) (d) and 149(1) (d.2) of the *Income Tax Act (Canada)* on the basis that all of the shares of the CPP Investment Board are owned by Her Majesty the Queen in right of Canada or by a corporation whose shares are owned by Her Majesty the Queen in right of Canada, respectively.

The Condensed Interim Consolidated Financial Statements (Consolidated Financial Statements) provide information on the net assets managed by the CPP Investment Board and do not include the assets and liabilities of the CPP. The CPP Investment Board has a fiscal year end of March 31.

The CPP Investment Board's registered office is at One Queen Street East, Toronto, Ontario, Canada.

The Consolidated Financial Statements were approved by the Board of Directors and authorized for issue on February 9, 2016.

1. Summary of significant accounting policies

a) Basis of presentation

The Consolidated Financial Statements of the CPP Investment Board have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and the requirements of the Act and the regulations of the CPP Investment Board. These Consolidated Financial Statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* (IAS 34) and do not include all of the information and disclosures required in the annual consolidated financial statements. These Consolidated Financial Statements should be read in conjunction with CPP Investment Board's annual Consolidated Financial Statements and the accompanying note disclosures included on pages 93 to 127 in the CPP Investment Board's 2015 Annual Report. These Consolidated Financial Statements follow the same accounting policies and methods as the most recent annual Consolidated Financial Statements.

The CPP Investment Board qualifies as an investment entity as it meets the following definition of an investment entity outlined in IFRS 10, *Consolidated Financial Statements* (IFRS 10):

- Obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services. In the case of the CPP Investment Board, we have one investor (CPP), but we invest the funds for a wide group of investors being the beneficiaries of the CPP.
- Commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both.
- Measures and evaluates the performance of substantially all of its investments on a fair value basis.

No significant judgments or assumptions were made in determining that the CPP Investment Board meets the definition of an investment entity as defined in IFRS 10.

b) Subsidiaries

The CPP Investment Board is required to report the results of operations in accordance with IFRS 10. As a consequence, the Consolidated Financial Statements represent the results of operations of the CPP Investment Board and its wholly-owned subsidiaries that were created to provide investment-related services to support its operations. Operating subsidiaries of this nature include those that provide investment advisory services or subsidiaries that were created to provide financing to the CPP Investment Board.

Subsidiaries that were created to structure and hold investments are investment holding companies and are not consolidated in these Consolidated Financial Statements but instead are measured and reported at fair value. Fair value for unconsolidated investment holding companies is based on the fair value of the underlying investments and investment liabilities held by the investment holding company together with its accumulated net income from operations. The determination of the fair value of the underlying investments and investment liabilities are based on the valuation techniques and related inputs outlined in note 2.

c) Valuation of investments, investment receivables and investment liabilities

Investments, investment receivables and investment liabilities are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In an active market, fair value is best evidenced by an independent quoted market price. In the absence of an active market, fair value is determined by valuation techniques that make maximum use of inputs observed from markets. See note 2 for more details about the determination of fair value.

2. Investments and investment liabilities

The CPP Investment Board manages the following types of investments and investment liabilities and determines fair value as follows:

a) Equities

- (i) Public equity investments are made directly or through funds. Fair value for publicly traded equities, including equity short positions, is based on quoted market prices. Fair value for fund investments is generally based on the net asset value as reported by the external administrators or managers of the funds.
- (ii) Private equity investments are generally made directly or through ownership in limited partnership funds. The fair value for investments held directly is primarily determined using earnings multiples of comparable publicly traded companies. Significant inputs include company specific earnings before interest, taxes, depreciation and amortization (EBITDA) and earnings multiples of comparable publicly traded companies. Recent market transactions, where available, are also used. In the case of investments held through a limited partnership fund, fair value is generally determined based on relevant information reported by the general partner using similar accepted industry valuation methods.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine-month periods ended December 31, 2015

(Unaudited)

b) Fixed income

- (i) Bonds consist of non-marketable and marketable bonds. Fair value for non-marketable Canadian provincial government bonds is calculated using discounted cash flows based on current market yields of instruments with similar characteristics, and adjusted for rollover provisions of the bonds. In the case of marketable bonds, including bond short positions, fair value is based on quoted market prices. Where the market price is not available, fair value is calculated using discounted cash flows based on relevant benchmark yield curves and credit spreads pertaining to the issuer.
- (ii) Other debt consists of investments in direct private debt, asset-backed securities, intellectual property, royalties, distressed mortgage funds and private debt funds.

Fair value for direct investments in private debt and asset-backed securities is based on quoted market prices or broker quotes or recent market transactions, if available. Where the market price is not available, fair value is calculated using discounted cash flows based on significant inputs such as projected cash flows and discount rates using current market yields of instruments with similar characteristics.

In the case of intellectual property investments and royalty investments, fair value is primarily determined using discounted cash flows based on projected cash flows and discount rates using current market yields of instruments with similar characteristics.

Fair value for fund investments is generally based on the net asset value as reported by the external administrators or managers of the funds.

- (iii) Money market securities consist of cash, term deposits, treasury bills and commercial paper. Fair value is determined using cost, which, together with accrued interest income, approximates fair value due to the short-term nature of these securities.

c) Absolute return strategies

Absolute return strategies consist of investments in funds and internally managed portfolios whose objective is to generate positive returns regardless of market conditions, that is, returns with a low correlation to broad market indices. The underlying securities of the funds and the internally managed portfolios could include, but are not limited to, equities, fixed income securities and derivatives. Fair value for fund investments is generally based on the net asset value as reported by the external administrators or managers of the funds.

d) Real assets

- (i) The CPP Investment Board obtains exposure to real estate through direct investments in privately held real estate, real estate funds and publicly-traded securities. Private real estate investments are managed by investment managers primarily through co-ownership arrangements.

Fair value for private real estate investments is primarily determined using discounted cash flows based on various factors such as net operating income, discount rate and terminal capitalization rate.

Fair value for real estate funds and publicly-traded securities are generally based on the net asset value as reported by the external managers of the funds and quoted market prices respectively.

- (ii) Infrastructure investments are generally made directly, but can also occur through limited partnership funds.

Fair value for infrastructure investments is primarily determined using discounted cash flows based on significant inputs including projected cash flows and discount rates.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine-month periods ended December 31, 2015

(Unaudited)

e) Securities purchased under reverse repurchase agreements and sold under repurchase agreements

Reverse repurchase and repurchase agreements are carried at the amounts at which the securities were initially acquired or sold, which, together with accrued interest income or expense, approximates fair value due to the short-term nature of these securities.

f) Derivative contracts

Fair value for exchange-traded derivatives, which includes futures, options and warrants, is based on quoted market prices. Fair value for over-the-counter derivatives, which includes swaps, options, forward contracts and warrants, is determined based on valuation techniques such as option pricing models, discounted cash flows and consensus pricing from independent brokers and/or third-party vendors. Inputs used in these valuation techniques can include, but are not limited to, spot prices, price volatilities, currency exchange rates, interest rate curves and credit spreads. In determining fair value, consideration is also given to the credit risk of the counterparty.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine-month periods ended December 31, 2015

(Unaudited)

The fair value of derivative contracts is as follows:

Fair value of derivative contracts

<i>(CAD millions)</i>	As at December 31, 2015		As at March 31, 2015		As at December 31, 2014	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Equity contracts						
Futures	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Swaps	1,138	(772)	885	(738)	1,437	(694)
Options:						
Exchange-traded – purchased	-	-	-	-	8	-
Exchange-traded – written	-	-	-	(2)	-	(11)
Over-the-counter – purchased	3	-	7	-	1	-
Over-the-counter – written	-	(11)	-	-	-	(1)
Warrants	1	-	-	-	-	-
Total equity contracts	1,142	(783)	892	(740)	1,446	(706)
Foreign exchange contracts						
Forwards	433	(1,513)	382	(828)	384	(797)
Options:						
Over-the-counter – purchased	2	-	2	-	4	-
Over-the-counter – written	-	(1)	-	(2)	-	(2)
Total foreign exchange contracts	435	(1,514)	384	(830)	388	(799)
Interest rate contracts						
Futures	-	-	-	-	-	-
Swaps	211	(265)	219	(318)	146	(200)
Options:						
Exchange-traded – written	-	-	-	-	-	-
Over-the-counter – purchased	-	-	-	-	-	-
Over-the-counter – written	-	-	-	-	-	-
Total interest rate contracts	211	(265)	219	(318)	146	(200)
Credit contracts						
Purchased credit default swaps	115	(490)	18	(513)	20	(412)
Written credit default swaps	448	(92)	394	(21)	282	(24)
Options:						
Over-the-counter – purchased	5	-	-	-	-	-
Over-the-counter – written	-	(3)	-	-	-	-
Total credit contracts	568	(585)	412	(534)	302	(436)
Commodity contracts						
Futures	19	(19)	5	(2)	11	(10)
Options:						
Exchange-traded – purchased	-	-	-	-	-	-
Exchange-traded – written	-	-	-	(4)	-	(3)
Total commodity contracts	19	(19)	5	(6)	11	(13)
Subtotal	2,375	(3,166)	1,912	(2,428)	2,293	(2,154)
Less: Cash collateral received under derivative contracts	(43)	-	(30)	-	(61)	-
Total	\$ 2,332	\$ (3,166)	\$ 1,882	\$ (2,428)	\$ 2,232	\$ (2,154)

g) Debt financing liabilities

Debt financing liabilities consist of commercial paper payable and term debt. Commercial paper payable is recorded at the amount originally issued, which, together with accrued interest expense, approximates fair value due to the short-term nature of these liabilities. Fair value for term debt is based on quoted market prices.

3. Fair value measurement

a) Fair value hierarchy

The following shows investments and investment liabilities recognized at fair value, analyzed between those whose fair value is based on:

- Quoted prices in active markets for identical assets or liabilities (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Those with inputs for the asset or liability that are not based on observable market data (non-observable inputs) (Level 3).

Canada Pension Plan Investment Board

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine-month periods ended December 31, 2015

(Unaudited)

Fair value hierarchy

(CAD millions)	As at December 31, 2015			
	Level 1	Level 2	Level 3	Total
Investments				
Equities				
Canada				
Public equities	\$ 3,897	\$ -	\$ -	\$ 3,897
Private equities	329	-	2,735	3,064
	4,226	-	2,735	6,961
Foreign developed markets				
Public equities ¹	68,863	7,115	798	76,776
Private equities	2,707	907	46,990	50,604
	71,570	8,022	47,788	127,380
Emerging markets				
Public equities ¹	8,622	1,876	-	10,498
Private equities	857	197	5,297	6,351
	9,479	2,073	5,297	16,849
Total equities	85,275	10,095	55,820	151,190
Fixed income				
Bonds	45,760	28,658	-	74,418
Other debt	-	8,393	19,379	27,772
Money market securities	-	16,744	-	16,744
Total fixed income	45,760	53,795	19,379	118,934
Absolute return strategies	-	17,175	1,396	18,571
Real assets				
Real estate	692	1	36,363	37,056
Infrastructure	-	-	20,023	20,023
Total real assets	692	1	56,386	57,079
Investment receivables				
Securities purchased under reverse repurchase agreements	-	17,024	-	17,024
Accrued interest	-	1,065	-	1,065
Derivative receivables	19	2,312	1	2,332
Dividends receivable	-	81	-	81
Total investment receivables	19	20,482	1	20,502
Total investments	\$ 131,746	\$ 101,548	\$ 132,982	\$ 366,276
Investment liabilities				
Securities sold under repurchase agreements	-	(38,032)	-	(38,032)
Securities sold short	(25,549)	-	-	(25,549)
Debt financing liabilities	(858)	(14,304)	-	(15,162)
Derivative liabilities	(19)	(3,147)	-	(3,166)
Total investment liabilities	(26,426)	(55,483)	-	(81,909)
Amounts receivable from pending trades	-	592	-	592
Amounts payable from pending trades	-	(2,308)	-	(2,308)
Net investments	\$ 105,320	\$ 44,349	\$ 132,982	\$ 282,651

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For the three and nine-month periods ended December 31, 2015

(Unaudited)

(CAD millions)	As at March 31, 2015			
	Level 1	Level 2	Level 3	Total
Investments				
Equities				
Canada				
Public equities	\$ 5,803	\$ -	\$ -	\$ 5,803
Private equities	394	-	2,601	2,995
	6,197	-	2,601	8,798
Foreign developed markets				
Public equities ¹	64,977	6,894	630	72,501
Private equities	3,781	385	37,607	41,773
	68,758	7,279	38,237	114,274
Emerging markets				
Public equities ¹	8,001	1,735	-	9,736
Private equities	1,218	-	3,263	4,481
	9,219	1,735	3,263	14,217
Total equities	84,174	9,014	44,101	137,289
Fixed income				
Bonds	36,040	29,602	-	65,642
Other debt	-	7,712	14,716	22,428
Money market securities	-	17,740	-	17,740
Total fixed income	36,040	55,054	14,716	105,810
Absolute return strategies	-	14,987	1,198	16,185
Real assets				
Real estate	719	-	29,656	30,375
Infrastructure	-	-	15,013	15,013
Total real assets	719	-	44,669	45,388
Investment receivables				
Securities purchased under reverse repurchase agreements	-	10,817	-	10,817
Accrued interest	-	928	-	928
Derivative receivables	5	1,877	-	1,882
Dividends receivable	-	182	-	182
Total investment receivables	5	13,804	-	13,809
Total investments	\$ 120,938	\$ 92,859	\$ 104,684	\$ 318,481
Investment liabilities				
Securities sold under repurchase agreements	-	(15,779)	-	(15,779)
Securities sold short	(22,385)	-	-	(22,385)
Debt financing liabilities	-	(9,955)	-	(9,955)
Derivative liabilities	(8)	(2,420)	-	(2,428)
Total investment liabilities	(22,393)	(28,154)	-	(50,547)
Amounts receivable from pending trades	-	2,908	-	2,908
Amounts payable from pending trades	-	(6,087)	-	(6,087)
Net investments	\$ 98,545	\$ 61,526	\$ 104,684	\$ 264,755

Canada Pension Plan Investment Board

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For the three and nine-month periods ended December 31, 2015

(Unaudited)

<i>(CAD millions)</i>	As at December 31, 2014			
	Level 1	Level 2	Level 3	Total
Investments				
Equities				
Canada				
Public equities	\$ 6,092	\$ -	\$ -	\$ 6,092
Private equities	426	858	1,685	2,969
	6,518	858	1,685	9,061
Foreign developed markets				
Public equities ¹	65,689	5,888	564	72,141
Private equities	2,454	1,050	33,724	37,228
	68,143	6,938	34,288	109,369
Emerging markets				
Public equities ¹	7,044	1,464	-	8,508
Private equities	1,247	-	2,824	4,071
	8,291	1,464	2,824	12,579
Total equities	82,952	9,260	38,797	131,009
Fixed income				
Bonds	31,455	27,563	-	59,018
Other debt	-	6,113	13,134	19,247
Money market securities	-	14,535	-	14,535
Total fixed income	31,455	48,211	13,134	92,800
Absolute return strategies	-	13,877	1,100	14,977
Real assets				
Real estate	691	-	25,586	26,277
Infrastructure	-	-	13,008	13,008
Total real assets	691	-	38,594	39,285
Investment receivables				
Securities purchased under reverse repurchase agreements	-	6,376	-	6,376
Accrued interest	-	701	-	701
Derivative receivables	19	2,213	-	2,232
Dividends receivable	-	98	-	98
Total investment receivables	19	9,388	-	9,407
Total investments	\$ 115,117	\$ 80,736	\$ 91,625	\$ 287,478
Investment liabilities				
Securities sold under repurchase agreements	-	(19,549)	-	(19,549)
Securities sold short	(18,082)	-	-	(18,082)
Debt financing liabilities	-	(9,686)	-	(9,686)
Derivative liabilities	(24)	(2,130)	-	(2,154)
Total investment liabilities	(18,106)	(31,365)	-	(49,471)
Amounts receivable from pending trades	-	1,712	-	1,712
Amounts payable from pending trades	-	(960)	-	(960)
Net investments	\$ 97,011	\$ 50,123	\$ 91,625	\$ 238,759

¹ Includes investments in funds.

Canada Pension Plan Investment Board

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(Unaudited)

b) Transfers between Level 1 and Level 2

During the nine-month period ended December 31, 2015, there were \$658 million of transfers from Level 1 to Level 2 (December 31, 2014 - \$15 million) and \$56 million of transfers from Level 2 to Level 1 (December 31, 2014 - \$426 million). Transfers between Level 1 and Level 2 depend on the availability of quoted market prices in active markets and valuations using inputs other than quoted prices that are observable. These transfers are deemed to occur at the end of period values.

c) Level 3 reconciliation

The following presents the reconciliations for investments included in Level 3 of the fair value hierarchy for the nine-month period ended December 31, 2015:

Reconciliation of changes in fair value for Level 3 investments

For the nine-month period ended December 31, 2015										
(CAD millions)	Fair value as at April 1, 2015	Gain (loss) included in net investment income (loss) ¹	Purchases	Sales ²	Transfers into level 3 ³	Transfers out of level 3 ³	Fair value as at December 31, 2015	Change in unrealized gains (losses) on investments still held at December 31, 2015 ^{1,4}		
Investments										
Equities										
Canada										
Private equities	\$ 2,601	\$ (196)	\$ 551	\$ (221)	\$ -	\$ -	\$ 2,735	\$ (292)		
	2,601	(196)	551	(221)	-	-	2,735	(292)		
Foreign developed markets										
Public equities	630	154	55	(41)	-	-	798	158		
Private equities	37,607	5,294	13,145	(8,663)	-	(393)	46,990	1,516		
	38,237	5,448	13,200	(8,704)	-	(393)	47,788	1,674		
Emerging markets										
Private equities	3,263	919	1,802	(687)	-	-	5,297	484		
	3,263	919	1,802	(687)	-	-	5,297	484		
Total equities	44,101	6,171	15,553	(9,612)	-	(393)	55,820	1,866		
Fixed income										
Other debt	14,716	1,406	7,500	(4,080)	-	(163)	19,379	1,316		
Total fixed income	14,716	1,406	7,500	(4,080)	-	(163)	19,379	1,316		
Absolute return strategies										
	1,198	155	49	(6)	-	-	1,396	154		
Real assets										
Real estate	29,656	3,468	4,894	(1,654)	-	(1)	36,363	3,176		
Infrastructure	15,013	722	4,406	(118)	-	-	20,023	685		
Total real assets	44,669	4,190	9,300	(1,772)	-	(1)	56,386	3,861		
Investment receivables										
Derivative receivables	-	(4)	5	-	-	-	1	(4)		
Total investment receivables	-	(4)	5	-	-	-	1	(4)		
Total	\$ 104,684	\$ 11,918	\$ 32,407	\$ (15,470)	\$ -	\$ (557)	\$ 132,982	\$ 7,193		

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(Unaudited)

For the nine-month period ended December 31, 2014									
(CAD millions)	Fair value as at April 1, 2014	Gain (loss) included in net investment income (loss) ¹	Purchases	Sales ²	Transfers into level 3 ³	Transfers out of level 3 ³	Fair value as at December 31, 2014	Change in unrealized gains (losses) on investments still held at December 31, 2014 ^{1,4}	
Investments									
Equities									
Canada									
Private equities	\$ 2,447	\$ 97	\$ 165	\$ (165)	\$ -	\$ (859)	\$ 1,685	\$ (63)	
	2,447	97	165	(165)	-	(859)	1,685	(63)	
Foreign developed markets									
Public equities	36	39	489	-	-	-	564	38	
Private equities	30,544	3,702	5,863	(5,363)	4	(1,026)	33,724	900	
	30,580	3,741	6,352	(5,363)	4	(1,026)	34,288	938	
Emerging markets									
Private equities	2,755	950	704	(495)	-	(1,090)	2,824	150	
	2,755	950	704	(495)	-	(1,090)	2,824	150	
Total equities	35,782	4,788	7,221	(6,023)	4	(2,975)	38,797	1,025	
Fixed income									
Other debt	9,352	93	5,522	(1,833)	-	-	13,134	140	
Total fixed income	9,352	93	5,522	(1,833)	-	-	13,134	140	
Absolute return strategies									
	1,468	118	16	(1)	-	(501)	1,100	118	
Real assets									
Real estate	23,543	365	2,263	(2,048)	1,522	(59)	25,586	364	
Infrastructure	12,852	(350)	910	(404)	-	-	13,008	(386)	
Total real assets	36,395	15	3,173	(2,452)	1,522	(59)	38,594	(22)	
Investment receivables									
Derivative receivables	13	(9)	-	(4)	-	-	-	(3)	
Total investment receivables	13	(9)	-	(4)	-	-	-	(3)	
Total	\$ 83,010	\$ 5,005	\$ 15,932	\$ (10,313)	\$ 1,526	\$ (3,535)	\$ 91,625	\$ 1,258	

¹ Presented as a component of investment income (see note 5).

² Includes return of capital.

³ Transfers into and out of Level 3 are deemed to occur at the end of period values.

⁴ Includes the entire change in fair value for the period for those investments that were transferred into Level 3 during the period, and excludes the entire change in fair value for the period for those investments that were transferred out of Level 3 during the period.

During the nine-month periods ended December 31, 2015 and December 31, 2014, transfers into and out of Level 3 were primarily due to changes in the availability of market observable inputs used to determine fair value.

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(Unaudited)

d) Level 3 – Significant unobservable inputs

The following presents fair values of the investments categorized within Level 3 of the fair value hierarchy, valuation techniques used to determine their fair values, ranges and weighted averages of unobservable inputs:

Valuation techniques and inputs used in the fair value measurement of Level 3 investments

As at December 31, 2015					
(CAD millions)	Fair value	Primary valuation techniques used	Significant unobservable inputs	Range of input values ³	Weighted average ³
Public equities					
Direct ^{1,2}	\$ 798	Discounted cash flows	Discount rate	22.9%-23.9%	23.4%
Private equities					
Direct ^{1,2}	20,913	Earnings multiples of comparable companies	EBITDA multiple	8.6x-13.8x	11.2x
Fund investments ²	34,109	Net asset value provided by Investment Manager	-	-	-
Other debt					
Direct private debt ^{1,4}	9,689	Discounted cash flow	Discount rate	5.8%-72.6%	12.4%
Asset-backed securities ²	7,691	Valuation model by third-party pricing vendor	-	-	-
Fund investments ²	1,999	Net asset value provided by Investment Manager	-	-	-
Absolute return strategies					
Fund investments ²	1,396	Net asset value provided by Investment Manager	-	-	-
Real estate					
Direct ^{1,2}	25,026	Discounted cash flow	Discount rate	3.6%-14.8%	6.7%
			Terminal capitalization rate	3.5%-9.5%	5.3%
	6,995	Net asset value provided by Investment Manager	-	-	-
Fund investments ²	4,342	Net asset value provided by Investment Manager	-	-	-
Infrastructure					
Direct ¹	19,978	Discounted cash flow	Discount rate	7.7%-12.1%	10.3%
Fund investments ²	45	Net asset value provided by Investment Manager	-	-	-
Derivative receivables					
Warrants	1	Option model	Market volatility	30.0%	30.0%
Total	\$ 132,982				

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(Unaudited)

As at March 31, 2015						
(CAD millions)	Fair value	Primary valuation techniques used	Significant unobservable inputs	Range of input values ³	Weighted average ³	
Public equities						
Direct ^{1,2}	\$ 630	Discounted cash flows	Discount rate	23.2%-23.7%	23.4%	
Private equities						
Direct ^{1,2}	12,694	Earnings multiples of comparable companies	EBITDA multiple	8.6x-13.5x	10.6x	
Fund investments ²	30,777	Net asset value provided by Investment Manager	-	-	-	
Other debt						
Direct private debt ^{1,4}	7,636	Discounted cash flow	Discount rate	6.4%-30.4%	12.6%	
Asset-backed securities ²	5,342	Broker quotes	-	-	-	
Fund investments ²	1,738	Net asset value provided by Investment Manager	-	-	-	
Absolute return strategies						
Fund investments ²	1,198	Net asset value provided by Investment Manager	-	-	-	
Real estate						
Direct ^{1,2}	19,776	Discounted cash flow	Discount rate	3.8%-13.5%	6.6%	
			Terminal capitalization rate	3.9%-9.5%	5.4%	
	5,274	Net asset value provided by Investment Manager	-	-	-	
Fund investments ²	4,606	Net asset value provided by Investment Manager	-	-	-	
Infrastructure						
Direct ¹	14,956	Discounted cash flow	Discount rate	7.7%-12.1%	10.3%	
Fund investments ²	57	Net asset value provided by Investment Manager	-	-	-	
Derivative receivables						
Warrants	-	Option model	Market volatility	-	-	
Total	\$ 104,684					

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(Unaudited)

As at December 31, 2014						
(CAD millions)	Fair value	Primary valuation techniques used	Significant unobservable inputs	Range of input values ³	Weighted average ³	
Public equities						
Direct ^{1,2}	\$ 564	Discounted cash flows	Discount rate	23.3%-24.3%	23.8%	
Private equities						
Direct ^{1,2}	9,663	Earnings multiples of comparable companies	EBITDA multiple	7.6x - 12.0x	9.9x	
Fund investments ²	28,570	Net asset value provided by Investment Manager	-	-	-	
Other debt						
Direct private debt ^{1,4}	7,162	Discounted cash flow	Discount rate	7.0% - 30.0%	12.4%	
Asset-backed securities ²	3,888	Broker quotes	-	-	-	
Fund investments ²	2,084	Net asset value provided by Investment Manager	-	-	-	
Absolute return strategies						
Fund investments ²	1,100	Net asset value provided by Investment Manager	-	-	-	
Real estate						
Direct ^{1,2}	15,062	Discounted cash flow	Discount rate	4.0%-12.3%	6.6%	
			Terminal capitalization rate	4.3%-10.0%	5.5%	
	6,045	Net asset value provided by Investment Manager	-	-	-	
Fund investments ²	4,479	Net asset value provided by Investment Manager	-	-	-	
Infrastructure						
Direct ¹	12,936	Discounted cash flow	Discount rate	8.3% - 13.0%	11.2%	
Fund investments ²	72	Net asset value provided by Investment Manager	-	-	-	
Derivative receivables						
Warrants	-	Option model	Market volatility	-	-	
Total	\$ 91,625					

¹ May include certain recently acquired investments held at cost, which approximates fair value.

² In certain cases, external valuations are prepared by a third-party and hence, valuation information is not available.

³ The range of input values represents the highest and lowest inputs used to value the investments in a particular asset class. The weighted average of the input values is calculated based on the relative fair values of the investments within the asset class. The diversity of investments reported within each asset class, such as the geographic location and industry sector of the investments, may result in certain ranges of inputs being wide and unevenly distributed across the range.

⁴ Includes preferred shares.

Significant increases (decreases) in any of the above unobservable inputs would result in a significantly higher or lower fair value measurement. The interrelationship of significant unobservable inputs and fair value measurement for the most significant key inputs identified in the table above are as follows:

- An increase (decrease) in the EBITDA multiple will result in a higher (lower) fair value.
- An increase (decrease) in the discount rate and terminal capitalization rate will result in a lower (higher) fair value.

The fair value of these direct investments classified within Level 3 of the fair value hierarchy above are based on accepted industry valuation methods that may include the use of estimates made by management, appraisers or both where significant judgment is required. By using valuation methods

based on reasonable alternative assumptions, different fair values could result. Management has determined that the potential impact on fair values using these reasonable alternative assumptions would not be significant.

4. Investment risk management

The CPP Investment Board and its unconsolidated investment holding companies are exposed to a variety of financial risks as a result of its investment activities. These risks include market risk, credit risk and liquidity risk. The CPP Investment Board utilizes a total portfolio approach to risk management which considers all of the investment activities taken together, including those made through its unconsolidated investment holding companies. In the discussion that follows, any references to the investment activities and exposures to risk of the CPP Investment Board also include those of its unconsolidated investment holding companies.

The CPP Investment Board manages and mitigates financial risks through the Risk/Return Accountability Framework that is contained within the risk policies and approved by the Board of Directors at least once every fiscal year. This framework contains risk limits and risk management provisions that govern investment decisions. It has been designed to achieve the mandate of the CPP Investment Board, which is to invest its assets with a view to achieving a maximum rate of return, without undue risk of loss, having regard to the factors that may affect the funding of the CPP and the ability of the CPP to meet its financial obligations on any given business day.

Effective April 1, 2015, changes were made to the Risk/Return Accountability Framework. Upper and Lower Absolute Risk Limits and the Absolute Risk Operating Range are included within the Risk/Return Accountability Framework, and these govern the amount of total absolute investment risk that the CPP Investment Board can take in the CPP Investment Portfolio. The CPP Investment Board monitors the absolute risk, the possible loss of value expressed in absolute dollar or percentage terms, in the CPP Investment Portfolio daily and reports risk exposures to the Board of Directors on at least a quarterly basis. Financial risk management, as well as the latest Risk/Return Accountability Framework, is discussed in greater detail on page 36 of the 2015 Annual Report.

a) Market risk

Market risk (including currency risk, interest rate risk and other price risk) is the risk that the fair value or future cash flows of an investment or investment liability will fluctuate because of changes in market prices and rates. As discussed previously, the CPP Investment Board manages market risk through the Risk/Return Accountability Framework. This includes investing across a wide spectrum of asset classes and investment strategies to earn a diversified set of risk premiums at the total fund level, based on risk limits established in the risk policies. In addition, derivatives are used, where appropriate, to manage certain risk exposures.

Market risk is comprised of the following:

Currency risk

The CPP Investment Board is exposed to currency risk through holdings of investments or investment liabilities in various currencies. Fluctuations in the relative value of foreign currencies against the Canadian dollar can result in a positive or negative effect on the fair value or future cash flows of these investments and investment liabilities.

In Canadian dollars, the net underlying currency exposures, after allocating foreign currency derivatives are as follows:

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Currency risk exposures

(CAD millions)	As at December 31, 2015		As at March 31, 2015		As at December 31, 2014	
	Net exposure	% of total	Net exposure	% of total	Net exposure	% of total
United States dollar	\$ 137,450	58 %	\$ 116,292	59 %	\$ 102,470	57 %
Euro	36,456	15	30,955	16	28,468	16
Japanese yen	20,119	8	11,879	6	15,613	9
British pound sterling	17,306	7	12,595	6	9,585	5
Australian dollar	6,913	3	6,499	3	6,369	4
Chinese yuan	3,778	1	2,614	1	1,508	1
Hong Kong dollar	2,756	1	2,425	1	2,477	1
Chilean peso	1,842	1	1,855	1	1,396	1
South Korean won	1,839	1	1,792	1	1,534	1
Swiss franc	1,527	1	2,045	1	1,391	1
Brazilian real	1,127	1	1,404	1	1,410	1
Other	7,014	3	7,001	4	6,084	3
Total	\$ 238,127	100 %	\$ 197,356	100 %	\$ 178,305	100 %

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of an investment or investment-related liability will fluctuate because of changes in market interest rates. The CPP Investment Board is exposed to interest rate risk primarily through holdings of fixed income securities, certain investment liabilities and interest rate derivative instruments.

The terms to maturity of fixed income securities, as at December 31, 2015, are as follows:

Investments terms to maturity

(CAD millions)	Terms to maturity						As at March 31, 2015		As at December 31, 2014	
	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total	Average effective yield	Total	Average effective yield	Total	Average effective yield
Non-marketable bonds										
Canadian provincial government	\$ 287	\$ 3,890	\$ 8,016	\$ 12,160	\$ 24,353	2.8 %	\$ 25,538	2.5 %	\$ 24,375	2.9 %
Marketable bonds										
Government of Canada	9	2,980	1,286	1,877	6,152	1.5	4,949	1.7	5,216	2.2
Canadian provincial government	-	1,932	1,585	2,038	5,555	2.7	15,009	2.4	13,658	2.8
Canadian government corporations	-	599	739	720	2,058	2.4	4,886	2.1	5,578	2.4
Foreign government	-	19,312	7,074	5,609	31,995	2.2	11,196	1.6	7,004	1.8
Corporate bonds	911	2,637	517	240	4,305	2.5	4,064	1.7	3,187	2.4
Other debt										
Private debt ¹	68	4,288	3,650	354	8,360	9.6	6,231	10.1	5,733	10.0
Real estate private debt ¹	1,442	362	1,399	-	3,203	6.4	3,228	5.7	2,907	5.7
Asset-backed securities	54	879	2,962	3,833	7,728	1.6	5,380	1.0	3,927	1.0
Securities purchased under reverse repurchase agreements	17,024	-	-	-	17,024	0.4	10,817	0.3	6,376	0.5
Total	\$ 19,795	\$ 36,879	\$ 27,228	\$ 26,831	\$ 110,733	2.7 %	\$ 91,298	2.4 %	\$ 77,961	2.9 %

¹ Represents direct investments.

The terms to maturity of investment liabilities are disclosed in note 4d below.

Other price risk

Other price risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market prices arising primarily from equity price risk, commodity price risk and credit spread risk, whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market.

In addition to the above, the CPP Investment Board is indirectly exposed to market risk on the underlying securities of fund investments.

b) Value at Risk

The CPP Investment Board primarily uses a Value at Risk (VaR) methodology to monitor market risk exposure and credit risk exposure (see note 4c below) in the CPP Investment Portfolio. VaR is a statistical technique that is used to estimate the potential loss in value of an investment as a result of movements in market rates and prices over a specified time period and for a specified confidence level.

VaR is valid under normal market conditions and does not specifically consider losses arising from severe market events. It also assumes that historical market data is a sound basis for estimating potential future losses. If future market conditions and interrelationships of interest rates, foreign exchange rates and other market prices differ significantly from those of the past, then the actual losses could materially differ from those estimated. The VaR measure provides an estimate of a single value in a distribution of potential losses that the CPP Investment Portfolio could experience. It is not an estimate of the worst-case scenario.

Market VaR calculated by the CPP Investment Board is estimated using a historical simulation method, evaluated at a 90% confidence level and scaled to a one-year holding period. The significant assumptions used in this method are the incorporation of the most recent 10 years of weekly market returns and the use of public market proxies to represent investment returns on those investments, that are valued with inputs based on non-observable market data (e.g., those for private real estate and private equities), both of which are reasonable for estimating their contribution to the VaR.

Credit VaR is estimated using a Monte Carlo simulation with a sufficient number of scenarios to simulate low probability credit events over a one-year investment horizon. Significant assumptions under this method include using a statistical process to determine asset correlations and using empirical based default and loss rates.

Effective April 1, 2015, the Risk/Return Accountability Framework began to govern investment risk using absolute risk, instead of active risk relative to the CPP Reference Portfolio. In order to estimate Total Absolute Risk, both Market and Credit VaR are estimated using a similar confidence level and combined using an appropriate correlation factor approved by the Investment Planning Committee (IPC).

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The CPP Investment Board monitors the absolute risk of the CPP Investment Portfolio. Absolute Risk is expressed using VaR, at a 90% confidence level, which indicates that one year in 10 the portfolio can be expected to lose at least the following amounts:

Value at Risk

(CAD millions)	As at December 31, 2015			As at March 31, 2015			As at December 31, 2014		
	VaR	% of CPP Investment Portfolio ²		VaR	% of CPP Investment Portfolio ²		VaR	% of CPP Investment Portfolio ²	
CPP Reference Portfolio Total Absolute Risk ^{1,3}	\$ 29,267	10.4 %		\$ 23,435	8.9 %		\$ 21,379	9.0 %	
CPP Investment Portfolio Total Absolute Risk ^{1,2,3}	\$ 30,201	10.7 %		\$ 26,296	10.0 %		\$ 24,121	10.1 %	
CPP Investment Portfolio Absolute Market Risk ^{1,2}	\$ 29,538	10.5 %		\$ -	- %		\$ -	- %	
CPP Investment Portfolio Absolute Credit Risk ^{1,2}	\$ 1,683	0.6 %		\$ -	- %		\$ -	- %	

¹ Effective April 1, 2015, the Board-approved Risk Policy began to govern investment risk using absolute risk, instead of active risk relative to the CPP Reference Portfolio. This change in methodology is being reported prospectively.

² Excludes certain assets where the market risk exposure is not monitored using VaR, such as the assets of the Cash for Benefits Portfolio, which is a separately managed short-term cash management program designed to facilitate monthly benefit payments by the CPP.

³ Market and Credit Risk are combined using an assumed positive correlation under normal market conditions.

c) Credit risk

Credit risk is the risk of financial loss due to a counterparty failing to meet its contractual obligations, or a reduction in the value of the assets due to a decline in the credit quality of the borrower, counterparty, guarantor or the assets (collateral) supporting the credit exposure. The CPP Investment Board's most significant exposure to credit risk is through its investment in debt securities and over-the-counter derivatives. The carrying amounts of these investments as presented in the Consolidated Schedule of Investment Portfolio represent the maximum credit risk exposure at the Balance Sheet date.

The fair value of debt securities and over-the-counter derivatives exposed to credit risk, by credit rating category and without taking account of any collateral held or other credit enhancements are as follows:

Credit risk exposures

Credit rating	As at December 31, 2015						Total	% of total	As at	
	Bonds ¹	Money market securities ¹	Reverse repurchase agreements ¹	Over-the-counter derivatives	Other ^{1,2}	March 31, 2015			December 31, 2014	
AAA	\$ 14,293	\$ 14	\$ -	\$ -	\$ 5,434	\$ 19,741	15 %	\$ 24,166	\$ 23,890	
AA	33,735	3,911	2,281	49	1,029	41,005	32	36,707	28,861	
A	23,833	11,254	7,071	1,497	1,551	45,206	35	35,621	30,347	
BBB	2,084	14	7,673	815	1,005	11,591	9	4,060	2,442	
BB	842	-	-	-	3,792	4,634	4	3,656	3,217	
B	84	-	-	-	4,818	4,902	4	4,271	4,091	
CCC/D	-	-	-	-	1,954	1,954	1	1,335	1,188	
Total	\$ 74,871	\$ 15,193	\$ 17,025	\$ 2,361	\$ 19,583	\$ 129,033	100 %	\$ 109,816	\$ 94,036	

¹ Includes accrued interest.

² Includes direct investments in private debt and asset-backed securities.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine-month periods ended December 31, 2015

(Unaudited)

Credit risk exposure is mitigated on certain financial assets and financial liabilities, which have conditional offset rights in the event of default, insolvency or bankruptcy. For securities purchased under reverse repurchase agreements, securities sold under repurchase agreements and over-the-counter derivatives, collateral is collected from or pledged to counterparties to manage credit exposure (see note 6). In addition, in the event of default, amounts with a specific counterparty are settled on a net basis under master netting or similar arrangements, such as the Global Master Repurchase Agreement and the International Swaps and Derivatives Association Netting Agreements.

In addition to the above, the CPP Investment Board is indirectly exposed to credit risk on the underlying securities of fund investments.

d) Liquidity risk

Liquidity risk is the risk of being unable to generate sufficient cash or its equivalent in a timely and cost-effective manner to meet investment commitments and investment liabilities as they come due. The CPP Investment Board supplements its management of liquidity risk through its ability to raise funds through the issuance of commercial paper and term debt and transacting in securities sold under repurchase agreements.

The CPP Investment Board also maintains \$1.5 billion (March 31, 2015 - \$1.5 billion, December 31, 2014 - \$1.5 billion) of unsecured credit facilities to meet potential liquidity requirements. As at December 31, 2015, the total amount drawn on the credit facilities is \$nil (March 31, 2015 - \$nil, December 31, 2014 - \$nil).

The terms to maturity of investment liabilities, as at December 31, 2015, are as follows:

Investment liabilities terms to maturity

	Terms to maturity							As at March 31, 2015			As at December 31, 2014		
	As at December 31, 2015				Total	Fair value	Weighted average interest rate	Total	Fair value	Weighted average interest rate	Total	Fair value	Weighted average interest rate
(CAD millions)	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years									
Securities sold under repurchase agreements	\$ 38,044	\$ -	\$ -	\$ -	\$ 38,044	\$ 38,032	0.5 %	\$ 15,780	\$ 15,779	0.5 %	\$ 19,551	\$ 19,549	0.9 %
Securities sold short ^{1,2}	25,549	-	-	-	25,549	25,549	n/a	22,385	22,385	n/a	18,082	18,082	n/a
Debt financing liabilities													
Commercial paper payable	14,313	-	-	-	14,313	14,300	0.6	9,959	9,955	0.3	9,691	9,686	0.4
Term debt	-	859	-	-	859	862	1.3	-	-	-	-	-	-
Total	\$ 77,906	\$ 859	\$ -	\$ -	\$ 78,765	\$ 78,743	n/a	\$ 48,124	\$ 48,119	n/a	\$ 47,324	\$ 47,317	n/a

¹ Considered repayable within one year based on the earliest period in which the counterparty could request payment under certain conditions.

² Includes equities sold short for which the average interest rate is not applicable.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine-month periods ended December 31, 2015

(Unaudited)

5. Net investment income

Net investment income is reported net of transaction costs and investment management fees, and is grouped by asset class based on the risk/return characteristics of the investment strategies of the underlying portfolios.

Net investment income, after giving effect to derivative contracts and investment receivables and liabilities are as follows:

Net investment income

For the three-month period ended December 31, 2015					
(CAD millions)	Investment income ¹	Investment management fees	Transaction costs	Net investment income	
Equities	\$ 8,469	\$ (65)	\$ (37)	\$ 8,367	
Fixed income ²	1,607	(156)	(25)	1,426	
Real assets	2,760	(20)	(18)	2,722	
Total	\$ 12,836	\$ (241)	\$ (80)	\$ 12,515	

For the three-month period ended December 31, 2014					
(CAD millions)	Investment income ¹	Investment management fees	Transaction costs	Net investment income	
Equities	\$ 4,543	\$ (109)	\$ 3	\$ 4,437	
Fixed income ²	2,634	(153)	(16)	2,465	
Real assets	593	(15)	(14)	564	
Total	\$ 7,770	\$ (277)	\$ (27)	\$ 7,466	

For the nine-month period ended December 31, 2015					
(CAD millions)	Investment income ¹	Investment management fees	Transaction costs	Net investment income	
Equities	\$ 8,991	\$ (466)	\$ (216)	\$ 8,309	
Fixed income ²	3,276	(438)	(68)	2,770	
Real assets	5,990	(88)	(61)	5,841	
Total	\$ 18,257	\$ (992)	\$ (345)	\$ 16,920	

For the nine-month period ended December 31, 2014					
(CAD millions)	Investment income ¹	Investment management fees	Transaction costs	Net investment income	
Equities	\$ 12,008	\$ (360)	\$ (39)	\$ 11,609	
Fixed income ²	6,449	(396)	(50)	6,003	
Real assets	1,239	(53)	(44)	1,142	
Total	\$ 19,696	\$ (809)	\$ (133)	\$ 18,754	

¹ Includes realized gains and losses from investments, changes in unrealized gains and losses on investments, interest income, dividends, private real estate operating income (net of interest expense), interest expense on the debt financing liabilities and other investment-related income and expenses.

² Includes absolute return strategies, consisting of investments in funds and internally managed portfolios.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine-month periods ended December 31, 2015

(Unaudited)

6. Collateral

Collateral transactions are conducted to support investment activities under terms and conditions that are common and customary to collateral arrangements. The net fair value of collateral held and pledged are as follows:

Collateral held and pledged

<i>(CAD millions)</i>	As at December 31, 2015	As at March 31, 2015	As at December 31, 2014
Assets held as collateral on:			
Reverse repurchase agreements ¹	\$ 17,049	\$ 10,812	\$ 6,387
Over-the-counter derivative transactions ¹	411	33	124
Other debt ¹	1,209	1,195	1,093
Assets pledged as collateral on:			
Repurchase agreements	(37,782)	(15,792)	(19,615)
Securities sold short	(21,431)	(14,938)	(14,161)
Over-the-counter derivative	(446)	(266)	(101)
Debt on private real estate	(3,739)	(3,266)	(2,809)
Total	\$ (44,729)	\$ (22,222)	\$ (29,082)

¹ The fair value of the collateral held that may be sold or repledged as at December 31, 2015 is \$18,626 million (March 31, 2015 - \$12,009 million, December 31, 2014 - \$7,543 million). The fair value of collateral sold or repledged as at December 31, 2015 is \$10,523 million (March 31, 2015 - \$10,368 million, December 31, 2014 - \$6,228 million).

7. Commitments

The CPP Investment Board has entered into commitments related to the funding of investments. These commitments are generally payable on demand based on the funding needs of the investment subject to the terms and conditions of each agreement. As at December 31, 2015, the commitments totalled \$34.5 billion (March 31, 2015 - \$30.7 billion, December 31, 2014 - \$30.0 billion).

As at December 31, 2015, the CPP Investment Board made lease and other commitments, which require future annual payments as follows:

Lease and other commitments

<i>(CAD millions)</i>	As at December 31, 2015	As at March 31, 2015	As at December 31, 2014
Within one year	\$ 41	\$ 36	\$ 34
After one year but not more than five years	157	114	118
More than five years	58	40	40
Total	\$ 256	\$ 190	\$ 192

8. Related party transactions

Related parties of the CPP Investment Board consist of investments in unconsolidated subsidiaries, joint ventures and associates, all of which are measured at fair value. Investments in joint ventures are those arrangements where the CPP Investment Board has joint control. An associate is an entity which the CPP Investment Board has the ability to exercise significant influence over decision making.

Related party transactions consist of investments primarily in private equities, debt, real estate and infrastructure and are presented in detail in the Consolidated Schedule of Investment Portfolio. Related party transactions are measured at fair value and will therefore have the same impact on net assets and net investment income (loss) as those investment transactions with unrelated parties.

Related party transactions with consolidated subsidiaries are eliminated upon consolidation.

9. Guarantees

As part of certain investment transactions, the CPP Investment Board agreed to guarantee, as at December 31, 2015, up to \$2.6 billion (March 31, 2015 - \$1.9 billion, December 31, 2014 - \$1.7 billion) to other counterparties in the event certain investee entities default under the terms of loan and other related agreements.