

Condensed Interim Consolidated  
Financial Statements of

# Canada Pension Plan Investment Board

December 31, 2016

**Canada Pension Plan Investment Board**  
**Condensed Interim Consolidated Balance Sheet**  
As at December 31, 2016  
(Unaudited)

<i>(CAD millions)</i>	As at December 31, 2016	As at March 31, 2016	As at December 31, 2015
<b>Assets</b>			
Investments (note 2)	\$ 362,361	\$ 345,319	\$ 366,276
Amounts receivable from pending trades	3,680	2,627	592
Premises and equipment	349	356	355
Other assets	158	113	130
<b>Total assets</b>	<b>366,548</b>	348,415	367,353
<b>Liabilities</b>			
Investment liabilities (note 2)	64,052	65,379	81,909
Amounts payable from pending trades	3,831	3,431	2,308
Accounts payable and accrued liabilities	584	664	565
<b>Total liabilities</b>	<b>68,467</b>	69,474	84,782
<b>Net assets</b>	<b>\$ 298,081</b>	\$ 278,941	\$ 282,571
<b>Net assets, represented by:</b>			
Share capital	\$ -	\$ -	\$ -
Accumulated net income from operations	164,832	145,436	152,590
Accumulated net transfers from the Canada Pension Plan	133,249	133,505	129,981
<b>Net assets</b>	<b>\$ 298,081</b>	\$ 278,941	\$ 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 Comprehensive Income

For the three and nine-month periods ended December 31, 2016

(Unaudited)

<i>(CAD millions)</i>	For the three-month period ended		For the nine-month period ended	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
<b>Net investment income</b> (note 6)				
Investment income	\$ 2,289	\$ 12,836	\$ 21,332	\$ 18,257
Investment management fees	(345)	(241)	(955)	(992)
Transaction costs	(67)	(80)	(310)	(345)
	<b>1,877</b>	<b>12,515</b>	<b>20,067</b>	<b>16,920</b>
<b>Operating expenses</b>				
Personnel costs	157	155	463	437
General operating expenses	61	59	176	163
Professional services	12	12	32	35
	<b>230</b>	<b>226</b>	<b>671</b>	<b>635</b>
<b>Net income from operations</b>	\$ <b>1,647</b>	\$ 12,289	\$ <b>19,396</b>	\$ 16,285

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, 2016

(Unaudited)

<i>(CAD millions)</i>	For the three-month period ended December 31, 2016				
	Number of shares outstanding	Share capital	Accumulated net transfers from the Canada Pension Plan	Accumulated net income from operations	Total net assets
<b>As at October 1, 2015</b>	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)
<b>Balance at December 31, 2015</b>	10	\$ -	\$ 129,981	\$ 152,590	\$ 282,571
<b>As at October 1, 2016</b>	10	\$ -	\$ 137,363	\$ 163,185	\$ 300,548
Total net income for the period			-	1,647	1,647
Canada Pension Plan transfers:					
Transfers from the Canada Pension Plan		-	5,044	-	5,044
Transfers to the Canada Pension Plan		-	(9,158)	-	(9,158)
<b>Balance at December 31, 2016</b>	10	\$ -	\$ 133,249	\$ 164,832	\$ 298,081

  

<i>(CAD millions)</i>	For the nine-month period ended December 31, 2016				
	Number of shares outstanding	Share capital	Accumulated net transfers from the Canada Pension Plan	Accumulated net income from operations	Total net assets
<b>As at April 1, 2015</b>	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)
<b>Balance at December 31, 2015</b>	10	\$ -	\$ 129,981	\$ 152,590	\$ 282,571
<b>As at April 1, 2016</b>	10	\$ -	\$ 133,505	\$ 145,436	\$ 278,941
Total net income for the period			-	19,396	19,396
Canada Pension Plan transfers:					
Transfers from the Canada Pension Plan		-	25,751	-	25,751
Transfers to the Canada Pension Plan		-	(26,007)	-	(26,007)
<b>Balance at December 31, 2016</b>	10	\$ -	\$ 133,249	\$ 164,832	\$ 298,081

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, 2016

(Unaudited)

(CAD millions)	For the three-month period ended December 31		For the nine-month period ended December 31	
	2016	2015	2016	2015
<b>Cash flows from operating activities</b>				
Net income from operations	\$ 1,647	\$ 12,289	\$ 19,396	\$ 16,285
Adjustments for non-cash items:				
Amortization of premises and equipment	8	7	23	22
Effect of exchange rate changes on cash and cash equivalents	2	(47)	(3)	(10)
Unrealized losses on debt financing liabilities	51	160	755	297
Adjustments for net changes in operating assets and liabilities:				
(Increase) decrease in investments	8,509	(34,696)	(14,304)	(50,357)
(Increase) decrease in pending trades receivable	1,539	3,835	(1,053)	2,316
(Increase) in other assets	(1)	(2)	(6)	(20)
Increase (decrease) in investment-related liabilities	(7,367)	23,562	(3,110)	26,155
Increase in debt financing liabilities	1,441	226	1,007	4,904
Increase (decrease) in pending trades payable	(4,870)	(3,853)	400	(3,779)
Increase (decrease) in accounts payable and accrued liabilities	114	84	(59)	4
<b>Net cash flows provided by (used in) operating activities</b>	<b>1,073</b>	<b>1,565</b>	<b>3,046</b>	<b>(4,183)</b>
<b>Cash flows from financing activities</b>				
Transfers from the Canada Pension Plan	5,044	6,139	25,751	26,890
Transfers to the Canada Pension Plan	(9,158)	(8,793)	(26,007)	(25,227)
<b>Net cash flows provided by (used in) financing activities</b>	<b>(4,114)</b>	<b>(2,654)</b>	<b>(256)</b>	<b>1,663</b>
<b>Cash flows from investing activities</b>				
Acquisitions of premises and equipment	(7)	(9)	(16)	(36)
<b>Net cash flows provided by (used in) investing activities</b>	<b>(7)</b>	<b>(9)</b>	<b>(16)</b>	<b>(36)</b>
Net increase (decrease) in cash and cash equivalents	(3,048)	(1,098)	2,774	(2,556)
Effect of exchange rate changes on cash and cash equivalents	(2)	47	3	10
Cash and cash equivalents at the beginning of the period	11,421	6,700	5,594	8,195
<b>Cash and cash equivalents at the end of the period</b>	<b>8,371</b>	<b>5,649</b>	<b>8,371</b>	<b>5,649</b>
<b>Cash and cash equivalents at the end of the period are comprised of:</b>				
Cash held for operating purposes <sup>1</sup>	100	81	100	81
Cash and cash equivalents held for investment purposes <sup>2</sup>	8,271	5,568	8,271	5,568
<b>Total</b>	<b>\$ 8,371</b>	<b>\$ 5,649</b>	<b>\$ 8,371</b>	<b>\$ 5,649</b>

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

<sup>2</sup> 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, 2016

(Unaudited)

The schedule below provides information on CPP Investment Board's investment assets and investment liabilities:

<i>(CAD millions)</i>	As at December 31, 2016	As at March 31, 2016	As at December 31, 2015 <sup>2</sup>
<b>Equities (note 2a)</b>			
<b>Canada</b>			
Public equities	\$ 4,797	\$ 4,413	\$ 4,141
Private equities	3,845	2,687	2,796
	<b>8,642</b>	7,100	6,937
<b>Foreign developed markets</b>			
Public equities	81,028	64,461	79,429
Private equities	52,617	49,019	49,694
	<b>133,645</b>	113,480	129,123
<b>Emerging markets</b>			
Public equities	15,460	12,612	11,761
Private equities	5,370	5,341	5,297
	<b>20,830</b>	17,953	17,058
<b>Total equities</b>	<b>163,117</b>	138,533	153,118
<b>Fixed income (note 2b)</b>			
Bonds	60,279	73,061	74,409
Other debt	26,331	26,144	26,452
Money market securities	16,933	16,732	16,837
<b>Total fixed income</b>	<b>103,543</b>	115,937	117,698
<b>Absolute return strategies<sup>1</sup> (note 2c)</b>	<b>19,118</b>	17,034	18,571
<b>Real assets (note 2d)</b>			
Real estate	36,432	35,857	36,364
Infrastructure	26,791	20,373	20,023
<b>Total real assets</b>	<b>63,223</b>	56,230	56,387
<b>Investment receivables</b>			
Securities purchased under reverse repurchase agreements (note 2e)	9,591	12,199	17,024
Accrued interest	1,443	1,161	1,065
Derivative receivables (note 2f)	2,159	4,060	2,332
Dividends receivable	167	165	81
<b>Total investment receivables</b>	<b>13,360</b>	17,585	20,502
<b>Total investments</b>	\$ <b>362,361</b>	\$ 345,319	\$ 366,276
<b>Investment liabilities</b>			
Securities sold under repurchase agreements (note 2e)	(16,100)	(19,926)	(38,032)
Securities sold short (note 2a and 2b)	(28,168)	(27,371)	(25,549)
Debt financing liabilities (note 2g)	(17,351)	(15,568)	(15,162)
Derivative liabilities (note 2f)	(2,433)	(2,514)	(3,166)
<b>Total investment liabilities</b>	<b>(64,052)</b>	(65,379)	(81,909)
Amounts receivable from pending trades	3,680	2,627	592
Amounts payable from pending trades	(3,831)	(3,431)	(2,308)
<b>Net investments</b>	\$ <b>298,158</b>	\$ 279,136	\$ 282,651

<sup>1</sup> Includes only investments in funds.

<sup>2</sup> Certain figures have been reclassified to conform to current period's financial statement presentation (see note 11a).

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

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#### Corporate information

Canada Pension Plan Investment Board (CPP Investment Board) was established in December 1997 pursuant to the *Canada Pension Plan Investment Board Act* (the Act). 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. CPP Investment Board is responsible for assisting the Canada Pension Plan (the CPP) in meeting its obligations to contributors and beneficiaries under the legislation *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. CPP Investment Board received its first funds for investing purposes from the CPP in March 1999. 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.

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 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 CPP Investment Board and do not include the assets and liabilities of the CPP. CPP Investment Board has a fiscal year end of March 31.

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, 2017.

#### 1. Summary of significant accounting policies

##### a) Basis of presentation

The Consolidated Financial Statements of 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 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 99 to 127 in CPP Investment Board's 2016 Annual Report. These Consolidated Financial Statements follow the same accounting policies and methods as the most recent annual Consolidated Financial Statements.

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 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 CPP Investment Board meets the definition of an investment entity as defined in IFRS 10.

Certain comparative figures have been reclassified to conform to the current period's financial statement presentation (see note 11).

**b) Subsidiaries**

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 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 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 and investment liabilities**

Investments 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. Fair value determination**

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, including hedge 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 or discounted cash flows. Significant inputs for these valuation methods include company specific earnings before interest, taxes, depreciation and amortization (EBITDA), earnings multiples of comparable publicly traded companies, projected cash flows and discount rates using current market yields of instruments with similar characteristics. Recent market transactions, where available, are also used. In the case of investments held through a limited partnership fund, fair value is generally

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine-month periods ended December 31, 2016

(Unaudited)

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determined based on relevant information reported by the general partner using similar accepted industry valuation methods.

**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. In the case of marketable bonds, including bond short positions, fair value is based on quoted prices or calculated using discounted cash flow based on 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, private debt funds and hedge 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, commercial paper and floating rate notes. Fair value is determined using cost, which, together with accrued interest income, approximates fair value due to the short-term or floating rate nature of these securities.

**c) Absolute return strategies**

Absolute return strategies consist of investments in hedge 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.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine-month periods ended December 31, 2016

(Unaudited)

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**d) Real assets**

- (i) CPP Investment Board obtains exposure to real estate through direct investments in privately held real estate and real estate funds. 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 are generally based on the net asset value as reported by the external managers of the funds.

- (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.

**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.

**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.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine-month periods ended December 31, 2016

(Unaudited)

## 3. Derivative instruments

## Fair value of derivative contracts

The fair value of derivative contracts is as follows:

## Fair value of derivative contracts

(CAD millions)	As at December 31, 2016		As at March 31, 2016		As at December 31, 2015	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value	Positive fair value	Negative fair value
<b>Equity contracts</b>						
Swaps	\$ 1,025	\$ (787)	\$ 1,292	\$ (730)	\$ 1,138	\$ (772)
Options:						
Exchange-traded – purchased	-	-	8	-	-	-
Exchange-traded – written	-	-	-	-	-	-
Over-the-counter – purchased	-	-	2	-	3	-
Over-the-counter – written	-	-	-	(2)	-	(11)
Warrants	-	-	2	-	1	-
<b>Total equity contracts</b>	<b>1,025</b>	<b>(787)</b>	<b>1,304</b>	<b>(732)</b>	<b>1,142</b>	<b>(783)</b>
<b>Foreign exchange contracts</b>						
Forwards	257	(558)	2,353	(793)	433	(1,513)
Options:						
Over-the-counter – purchased	4	-	24	-	2	-
Over-the-counter – written	-	(4)	-	(6)	-	(1)
<b>Total foreign exchange contracts</b>	<b>261</b>	<b>(562)</b>	<b>2,377</b>	<b>(799)</b>	<b>435</b>	<b>(1,514)</b>
<b>Interest rate contracts</b>						
Futures	-	-	-	-	-	-
Forwards	-	-	-	-	-	-
Swaps	320	(384)	341	(404)	211	(265)
<b>Total interest rate contracts</b>	<b>320</b>	<b>(384)</b>	<b>341</b>	<b>(404)</b>	<b>211</b>	<b>(265)</b>
<b>Credit contracts</b>						
Purchased credit default swaps	15	(689)	86	(485)	115	(490)
Written credit default swaps	680	(10)	454	(73)	448	(92)
Options:						
Over-the-counter – purchased	4	-	13	-	5	-
Over-the-counter – written	-	(1)	-	(16)	-	(3)
<b>Total credit contracts</b>	<b>699</b>	<b>(700)</b>	<b>553</b>	<b>(574)</b>	<b>568</b>	<b>(585)</b>
<b>Commodity contracts</b>						
Futures	-	-	9	(5)	19	(19)
Options:						
Exchange-traded – purchased	-	-	-	-	-	-
Exchange-traded – written	-	-	-	-	-	-
<b>Total commodity contracts</b>	<b>-</b>	<b>-</b>	<b>9</b>	<b>(5)</b>	<b>19</b>	<b>(19)</b>
<b>Subtotal</b>	<b>2,305</b>	<b>(2,433)</b>	<b>4,584</b>	<b>(2,514)</b>	<b>2,375</b>	<b>(3,166)</b>
Less: Cash collateral received under derivative contracts	(146)	-	(524)	-	(43)	-
<b>Total</b>	<b>\$ 2,159</b>	<b>\$ (2,433)</b>	<b>\$ 4,060</b>	<b>\$ (2,514)</b>	<b>\$ 2,332</b>	<b>\$ (3,166)</b>

#### 4. Fair value measurement

##### 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, 2016

(Unaudited)

#### Fair value hierarchy

(CAD millions)	As at December 31, 2016			
	Level 1	Level 2	Level 3	Total
<b>Investments</b>				
<b>Equities</b>				
<b>Canada</b>				
Public equities	\$ 4,797	\$ -	\$ -	\$ 4,797
Private equities	-	-	3,845	3,845
	4,797	-	3,845	8,642
<b>Foreign developed markets</b>				
Public equities <sup>1</sup>	73,519	7,436	73	81,028
Private equities	-	1,223	51,394	52,617
	73,519	8,659	51,467	133,645
<b>Emerging markets</b>				
Public equities <sup>1</sup>	13,799	1,482	179	15,460
Private equities	-	-	5,370	5,370
	13,799	1,482	5,549	20,830
<b>Total equities</b>	<b>92,115</b>	<b>10,141</b>	<b>60,861</b>	<b>163,117</b>
<b>Fixed income</b>				
Bonds	33,713	26,566	-	60,279
Other debt	-	8,789	17,542	26,331
Money market securities	-	16,933	-	16,933
<b>Total fixed income</b>	<b>33,713</b>	<b>52,288</b>	<b>17,542</b>	<b>103,543</b>
<b>Absolute return strategies<sup>1</sup></b>	<b>-</b>	<b>17,620</b>	<b>1,498</b>	<b>19,118</b>
<b>Real assets</b>				
Real estate	-	-	36,432	36,432
Infrastructure	-	-	26,791	26,791
<b>Total real assets</b>	<b>-</b>	<b>-</b>	<b>63,223</b>	<b>63,223</b>
<b>Investment receivables</b>				
Securities purchased under reverse repurchase agreements	-	9,591	-	9,591
Accrued interest	-	1,443	-	1,443
Derivative receivables	-	2,159	-	2,159
Dividends receivable	-	167	-	167
<b>Total investment receivables</b>	<b>-</b>	<b>13,360</b>	<b>-</b>	<b>13,360</b>
<b>Total investments</b>	<b>\$ 125,828</b>	<b>\$ 93,409</b>	<b>\$ 143,124</b>	<b>\$ 362,361</b>
<b>Investment liabilities</b>				
Securities sold under repurchase agreements	-	(16,100)	-	(16,100)
Securities sold short	(28,168)	-	-	(28,168)
Debt financing liabilities	(6,093)	(11,258)	-	(17,351)
Derivative liabilities	-	(2,433)	-	(2,433)
<b>Total investment liabilities</b>	<b>(34,261)</b>	<b>(29,791)</b>	<b>-</b>	<b>(64,052)</b>
Amounts receivable from pending trades	-	3,680	-	3,680
Amounts payable from pending trades	-	(3,831)	-	(3,831)
<b>Net investments</b>	<b>\$ 91,567</b>	<b>\$ 63,467</b>	<b>\$ 143,124</b>	<b>\$ 298,158</b>

# Canada Pension Plan Investment Board

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine-month periods ended December 31, 2016

(Unaudited)

<i>(CAD millions)</i>	As at March 31, 2016			
	Level 1	Level 2	Level 3	Total
<b>Investments</b>				
<b>Equities</b>				
<b>Canada</b>				
Public equities	\$ 4,413	\$ -	\$ -	\$ 4,413
Private equities	-	-	2,687	2,687
	4,413	-	2,687	7,100
<b>Foreign developed markets</b>				
Public equities <sup>1</sup>	57,808	6,653	-	64,461
Private equities	-	-	49,019	49,019
	57,808	6,653	49,019	113,480
<b>Emerging markets</b>				
Public equities <sup>1</sup>	10,683	1,759	170	12,612
Private equities	-	-	5,341	5,341
	10,683	1,759	5,511	17,953
<b>Total equities</b>	<b>72,904</b>	<b>8,412</b>	<b>57,217</b>	<b>138,533</b>
<b>Fixed income</b>				
Bonds	44,749	28,312	-	73,061
Other debt	-	8,110	18,034	26,144
Money market securities	-	16,732	-	16,732
<b>Total fixed income</b>	<b>44,749</b>	<b>53,154</b>	<b>18,034</b>	<b>115,937</b>
<b>Absolute return strategies<sup>1</sup></b>	<b>-</b>	<b>15,720</b>	<b>1,314</b>	<b>17,034</b>
<b>Real assets</b>				
Real estate	-	-	35,857	35,857
Infrastructure	-	-	20,373	20,373
<b>Total real assets</b>	<b>-</b>	<b>-</b>	<b>56,230</b>	<b>56,230</b>
<b>Investment receivables</b>				
Securities purchased under reverse repurchase agreements	-	12,199	-	12,199
Accrued interest	-	1,161	-	1,161
Derivative receivables	17	4,041	2	4,060
Dividends receivable	-	165	-	165
<b>Total investment receivables</b>	<b>17</b>	<b>17,566</b>	<b>2</b>	<b>17,585</b>
<b>Total investments</b>	<b>\$ 117,670</b>	<b>\$ 94,852</b>	<b>\$ 132,797</b>	<b>\$ 345,319</b>
<b>Investment liabilities</b>				
Securities sold under repurchase agreements	-	(19,926)	-	(19,926)
Securities sold short	(27,371)	-	-	(27,371)
Debt financing liabilities	(2,148)	(13,420)	-	(15,568)
Derivative liabilities	(4)	(2,510)	-	(2,514)
<b>Total investment liabilities</b>	<b>(29,523)</b>	<b>(35,856)</b>	<b>-</b>	<b>(65,379)</b>
Amounts receivable from pending trades	-	2,627	-	2,627
Amounts payable from pending trades	-	(3,431)	-	(3,431)
<b>Net investments</b>	<b>\$ 88,147</b>	<b>\$ 58,192</b>	<b>\$ 132,797</b>	<b>\$ 279,136</b>

# Canada Pension Plan Investment Board

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine-month periods ended December 31, 2016

(Unaudited)

(CAD millions)	As at December 31, 2015 <sup>2</sup>			
	Level 1	Level 2	Level 3	Total
<b>Investments</b>				
<b>Equities</b>				
<b>Canada</b>				
Public equities	\$ 4,141	\$ -	\$ -	\$ 4,141
Private equities	-	60	2,736	2,796
	4,141	60	2,736	6,937
<b>Foreign developed markets</b>				
Public equities <sup>1</sup>	72,073	7,356	-	79,429
Private equities	-	276	49,418	49,694
	72,073	7,632	49,418	129,123
<b>Emerging markets</b>				
Public equities <sup>1</sup>	9,687	2,074	-	11,761
Private equities	-	-	5,297	5,297
	9,687	2,074	5,297	17,058
<b>Total equities</b>	<b>85,901</b>	<b>9,766</b>	<b>57,451</b>	<b>153,118</b>
<b>Fixed income</b>				
Bonds	45,760	28,649	-	74,409
Other debt	-	8,354	18,098	26,452
Money market securities	-	16,837	-	16,837
<b>Total fixed income</b>	<b>45,760</b>	<b>53,840</b>	<b>18,098</b>	<b>117,698</b>
<b>Absolute return strategies<sup>1</sup></b>	<b>-</b>	<b>17,175</b>	<b>1,396</b>	<b>18,571</b>
<b>Real assets</b>				
Real estate	-	1	36,363	36,364
Infrastructure	-	-	20,023	20,023
<b>Total real assets</b>	<b>-</b>	<b>1</b>	<b>56,386</b>	<b>56,387</b>
<b>Investment receivables</b>				
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
<b>Total investment receivables</b>	<b>19</b>	<b>20,482</b>	<b>1</b>	<b>20,502</b>
<b>Total investments</b>	<b>\$ 131,680</b>	<b>\$ 101,264</b>	<b>\$ 133,332</b>	<b>\$ 366,276</b>
<b>Investment liabilities</b>				
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)
<b>Total investment liabilities</b>	<b>(26,426)</b>	<b>(55,483)</b>	<b>-</b>	<b>(81,909)</b>
Amounts receivable from pending trades	-	592	-	592
Amounts payable from pending trades	-	(2,308)	-	(2,308)
<b>Net investments</b>	<b>\$ 105,254</b>	<b>\$ 44,065</b>	<b>\$ 133,332</b>	<b>\$ 282,651</b>

<sup>1</sup> Includes investments in funds.

<sup>2</sup> Certain figures have been reclassified to conform to current period's financial statement presentation (see note 11a).

## Canada Pension Plan Investment Board

### Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine-month periods ended December 31, 2016

(Unaudited)

#### a) Transfers between Level 1 and Level 2

During the nine-month period ended December 31, 2016, there were \$2 million of transfers from Level 1 to Level 2 (December 31, 2015 - \$658 million) and \$139 million of transfers from Level 2 to Level 1 (December 31, 2015 - \$56 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.

#### b) 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, 2016:

#### Reconciliation of changes in fair value for Level 3 investments

For the nine-month period ended December 31, 2016								
(CAD millions)	Fair value as at April 1, 2016	Gain (loss) included in net investment income (loss) <sup>1</sup>	Purchases	Sales <sup>2</sup>	Transfers into level 3 <sup>3</sup>	Transfers out of level 3 <sup>3</sup>	Fair value as at December 31, 2016	Change in unrealized gains (losses) on investments still held at December 31, 2016 <sup>1,4</sup>
<b>Investments</b>								
<b>Equities</b>								
<b>Canada</b>								
Private equities	\$ 2,687	\$ 134	\$ 1,180	\$ (86)	\$ 164	\$ (234)	\$ 3,845	\$ 100
	2,687	134	1,180	(86)	164	(234)	3,845	100
<b>Foreign developed markets</b>								
Public equities	-	(8)	98	(17)	-	-	73	(8)
Private equities	49,019	4,133	8,800	(8,182)	79	(2,455)	51,394	839
	49,019	4,125	8,898	(8,199)	79	(2,455)	51,467	831
<b>Emerging markets</b>								
Public equities	170	19	170	(180)	-	-	179	18
Private equities	5,341	630	966	(798)	5	(774)	5,370	288
	5,511	649	1,136	(978)	5	(774)	5,549	306
<b>Total equities</b>	<b>57,217</b>	<b>4,908</b>	<b>11,214</b>	<b>(9,263)</b>	<b>248</b>	<b>(3,463)</b>	<b>60,861</b>	<b>1,237</b>
<b>Fixed income</b>								
Other debt	18,034	1,419	5,652	(7,189)	-	(374)	17,542	936
<b>Total fixed income</b>	<b>18,034</b>	<b>1,419</b>	<b>5,652</b>	<b>(7,189)</b>	<b>-</b>	<b>(374)</b>	<b>17,542</b>	<b>936</b>
<b>Absolute return strategies</b>								
	1,314	184	-	-	-	-	1,498	184
<b>Real assets</b>								
Real estate	35,857	1,196	3,058	(3,679)	-	-	36,432	122
Infrastructure	20,373	(560)	4,528	(276)	2,726	-	26,791	(119)
<b>Total real assets</b>	<b>56,230</b>	<b>636</b>	<b>7,586</b>	<b>(3,955)</b>	<b>2,726</b>	<b>-</b>	<b>63,223</b>	<b>3</b>
<b>Investment receivables</b>								
Derivative receivables	2	(2)	-	-	-	-	-	-
<b>Total investment receivables</b>	<b>2</b>	<b>(2)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>\$ 132,797</b>	<b>\$ 7,145</b>	<b>\$ 24,452</b>	<b>\$ (20,407)</b>	<b>\$ 2,974</b>	<b>\$ (3,837)</b>	<b>\$ 143,124</b>	<b>\$ 2,360</b>

## Canada Pension Plan Investment Board

### Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine-month periods ended December 31, 2016

(Unaudited)

For the nine-month period ended December 31, 2015 <sup>5</sup>									
(CAD millions)	Fair value as at April 1, 2015	Gain (loss) included in net investment income (loss) <sup>1</sup>	Purchases	Sales <sup>2</sup>	Transfers into level 3 <sup>3</sup>	Transfers out of level 3 <sup>3</sup>	Fair value as at December 31, 2015	Change in unrealized gains (losses) on investments still held at December 31, 2015 <sup>1,4</sup>	
<b>Investments</b>									
<b>Equities</b>									
<b>Canada</b>									
Private equities	\$ 2,601	\$ (195)	\$ 611	\$ (221)	\$ -	\$ (60)	\$ 2,736	\$ (292)	
	2,601	(195)	611	(221)	-	(60)	2,736	(292)	
<b>Foreign developed markets</b>									
Private equities	39,637	5,533	13,107	(8,815)	-	(44)	49,418	1,101	
	39,637	5,533	13,107	(8,815)	-	(44)	49,418	1,101	
<b>Emerging markets</b>									
Private equities	3,263	920	1,802	(688)	-	-	5,297	484	
	3,263	920	1,802	(688)	-	-	5,297	484	
<b>Total equities</b>	<b>45,501</b>	<b>6,258</b>	<b>15,520</b>	<b>(9,724)</b>	<b>-</b>	<b>(104)</b>	<b>57,451</b>	<b>1,293</b>	
<b>Fixed income</b>									
Other debt	13,316	1,318	7,533	(3,966)	-	(103)	18,098	1,280	
<b>Total fixed income</b>	<b>13,316</b>	<b>1,318</b>	<b>7,533</b>	<b>(3,966)</b>	<b>-</b>	<b>(103)</b>	<b>18,098</b>	<b>1,280</b>	
<b>Absolute return strategies</b>									
	1,198	155	49	(6)	-	-	1,396	154	
<b>Real assets</b>									
Real estate	29,656	3,468	4,894	(1,654)	-	(1)	36,363	3,176	
Infrastructure	15,013	722	4,406	(118)	-	-	20,023	942	
<b>Total real assets</b>	<b>44,669</b>	<b>4,190</b>	<b>9,300</b>	<b>(1,772)</b>	<b>-</b>	<b>(1)</b>	<b>56,386</b>	<b>4,118</b>	
<b>Investment receivables</b>									
Derivative receivables	-	(4)	5	-	-	-	1	(4)	
<b>Total investment receivables</b>	<b>-</b>	<b>(4)</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>(4)</b>	
<b>Total</b>	<b>\$ 104,684</b>	<b>\$ 11,917</b>	<b>\$ 32,407</b>	<b>\$ (15,468)</b>	<b>\$ -</b>	<b>\$ (208)</b>	<b>\$ 133,332</b>	<b>\$ 6,841</b>	

<sup>1</sup> Presented as a component of investment income (see note 6).

<sup>2</sup> Includes return of capital.

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

<sup>4</sup> 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.

<sup>5</sup> Certain figures have been reclassified to conform to current period's financial statement presentation (see note 11a).

During the nine-month periods ended December 31, 2016 and December 31, 2015, transfers into and out of Level 3 were primarily due to changes in the availability of market observable inputs used to determine fair value.

## Canada Pension Plan Investment Board

### Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine-month periods ended December 31, 2016

(Unaudited)

#### c) 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, 2016					
(CAD millions)	Fair value	Primary valuation techniques used	Significant unobservable inputs	Range of input values <sup>3</sup>	Weighted average <sup>3</sup>
<b>Public equities</b>					
Fund investments <sup>2</sup>	\$ 252	Net asset value provided by Investment Manager	-	-	-
<b>Private equities</b>					
Direct <sup>1,2</sup>	27,118	Earnings multiples of comparable companies	EBITDA multiple	6.8x-14.0x	11.0x
		Discounted cash flow	Discount rate	9.5%-14.0%	9.6%
Fund investments <sup>2</sup>	33,491	Net asset value provided by Investment Manager	-	-	-
<b>Other debt</b>					
Direct private debt <sup>1</sup>	9,685	Discounted cash flow	Discount rate	5.1%-26.1%	11.4%
Asset-backed securities <sup>2</sup>	5,815	Valuation model by third-party pricing vendor	-	-	-
Fund investments <sup>2</sup>	2,042	Net asset value provided by Investment Manager	-	-	-
<b>Absolute return strategies</b>					
Fund investments <sup>2</sup>	1,498	Net asset value provided by Investment Manager	-	-	-
<b>Real estate</b>					
Direct <sup>1,2</sup>	22,990	Discounted cash flow	Discount rate	3.3%-14.3%	6.3%
			Terminal capitalization rate	3.5%-14.6%	5.2%
	10,054	Net asset value provided by Investment Manager	-	-	-
Fund investments <sup>2</sup>	3,388	Net asset value provided by Investment Manager	-	-	-
<b>Infrastructure</b>					
Direct <sup>1</sup>	26,758	Discounted cash flow	Discount rate	7.5%-15.8%	10.1%
Fund investments <sup>2</sup>	33	Net asset value provided by Investment Manager	-	-	-
<b>Derivative receivables</b>					
Warrants	-	Option model	Market volatility	30.0%	30.0%
<b>Total</b>	<b>\$ 143,124</b>				

## Canada Pension Plan Investment Board

### Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine-month periods ended December 31, 2016

(Unaudited)

As at March 31, 2016					
(CAD millions)	Fair value	Primary valuation techniques used	Significant unobservable inputs	Range of input values <sup>3</sup>	Weighted average <sup>3</sup>
<b>Public equities</b>					
Fund investments <sup>2</sup>	\$ 170	Net asset value provided by Investment Manager	-	-	-
<b>Private equities</b>					
Direct <sup>1,2</sup>	25,162	Earnings multiples of comparable companies	EBITDA multiple	6.8X-13.2X	10.7X
		Discounted cash flow	Discount rate	9.5%-23.4%	11.9%
Fund investments <sup>2</sup>	31,885	Net asset value provided by Investment Manager	-	-	-
<b>Other debt</b>					
Direct private debt <sup>1</sup>	9,062	Discounted cash flow	Discount rate	6.7%-36.6%	12.1%
Asset-backed securities <sup>2</sup>	7,071	Valuation model by third-party pricing vendor	-	-	-
Fund investments <sup>2</sup>	1,901	Net asset value provided by Investment Manager	-	-	-
<b>Absolute return strategies</b>					
Fund investments <sup>2</sup>	1,314	Net asset value provided by Investment Manager	-	-	-
<b>Real estate</b>					
Direct <sup>1,2</sup>	23,472	Discounted cash flow	Discount rate	3.6%-14.8%	6.4%
			Terminal capitalization rate	3.5%-9.5%	5.3%
	8,389	Net asset value provided by Investment Manager	-	-	-
Fund investments <sup>2</sup>	3,996	Net asset value provided by Investment Manager	-	-	-
<b>Infrastructure</b>					
Direct <sup>1</sup>	20,335	Discounted cash flow	Discount rate	7.5%-15.8%	10.1%
Fund investments <sup>2</sup>	38	Net asset value provided by Investment Manager	-	-	-
<b>Derivative receivables</b>					
Warrants	2	Option model	Market volatility	30.0%	30.0%
<b>Total</b>	\$ 132,797				

## Canada Pension Plan Investment Board

### Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine-month periods ended December 31, 2016

(Unaudited)

As at December 31, 2015 <sup>4</sup>					
(CAD millions)	Fair value	Primary valuation techniques used	Significant unobservable inputs	Range of input values <sup>3</sup>	Weighted average <sup>3</sup>
<b>Private equities</b>					
Direct <sup>1,2</sup>	\$ 24,045	Earnings multiples of comparable companies	EBITDA multiple	8.6X-13.8X	11.2X
		Discounted cash flow	Discount rate	7.7%-24.0%	10.7%
Fund investments <sup>2</sup>	33,406	Net asset value provided by Investment Manager	-	-	-
<b>Other debt</b>					
Direct private debt <sup>1</sup>	8,408	Discounted cash flow	Discount rate	5.8%-72.6%	12.4%
Asset-backed securities <sup>2</sup>	7,691	Broker quotes	-	-	-
Fund investments <sup>2</sup>	1,999	Net asset value provided by Investment Manager	-	-	-
<b>Absolute return strategies</b>					
Fund investments <sup>2</sup>	1,396	Net asset value provided by Investment Manager	-	-	-
<b>Real estate</b>					
Direct <sup>1,2</sup>	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 <sup>2</sup>	4,342	Net asset value provided by Investment Manager	-	-	-
<b>Infrastructure</b>					
Direct <sup>1</sup>	19,978	Discounted cash flow	Discount rate	7.7%-12.1%	10.3%
Fund investments <sup>2</sup>	45	Net asset value provided by Investment Manager	-	-	-
<b>Derivative receivables</b>					
Warrants	1	Option model	Market volatility	30.0%	30.0%
<b>Total</b>	\$ 133,332				

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

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

<sup>3</sup> 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.

<sup>4</sup> Certain figures have been reclassified to conform to current period's financial statement presentation (see note 11a).

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.

## 5. Investment risk management

CPP Investment Board and its unconsolidated investment holding companies manage the investment portfolio on behalf of the Canada Pension Plan (CPP Investment Portfolio). The CPP Investment Portfolio is exposed to a variety of financial risks. These risks include market risk, credit risk and liquidity risk. 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 CPP Investment Board also include those of its unconsolidated investment holding companies.

CPP Investment Board manages and mitigates financial risks through the Risk/Return Accountability Framework that is contained within the Risk Policy approved by the Board of Directors at least once every fiscal year. This policy contains risk limits and risk management provisions that govern investment decisions. It has been designed to achieve the mandate of 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.

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 investment risk that CPP Investment Board can take in the long term CPP Investment Portfolio. 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 33 of the 2016 Annual Report.

### a) Market risk

Market 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, 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.

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(Unaudited)

Market risk comprises the following:

**Equity risk**

The CPP Investment Portfolio invests in both publicly traded and private equities. Equity risk, which is the risk that the fair value or future cash flows will fluctuate because of changes in equity prices or volatilities, is a significant source of risk of the investment portfolio. The risk and returns of private equities are generally considered higher than those of public equities and this is reflected in CPPIB's risk modelling.

**Currency risk**

The CPP Investment Portfolio 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:

**Currency risk exposures**

<i>(CAD millions)</i>	As at December 31, 2016		As at March 31, 2016 <sup>1</sup>		As at December 31, 2015 <sup>1</sup>	
	Net exposure	% of total	Net exposure	% of total	Net exposure	% of total
Currency						
United States dollar	\$ 118,811	52	\$ 102,128	52 %	\$ 99,091	50 %
Euro	31,955	14	30,364	16	34,117	17
Japanese yen	23,944	11	16,007	8	21,359	11
British pound sterling	17,019	7	14,959	8	13,976	7
Australian dollar	9,190	4	8,368	4	6,727	3
Hong Kong dollar	3,461	2	2,704	1	2,790	1
Swiss franc	3,419	2	1,305	1	1,011	1
Brazilian real	3,321	1	1,320	1	1,162	1
Chinese yuan	3,119	1	3,356	1	3,778	2
Indian rupee	2,386	1	2,239	1	2,478	1
Chilean peso	2,283	1	2,370	1	2,325	1
South Korean won	2,250	1	1,292	1	937	1
Other	6,933	3	8,880	5	7,013	4
<b>Total</b>	<b>\$ 228,091</b>	<b>100</b>	<b>\$ 195,292</b>	<b>100 %</b>	<b>\$ 196,764</b>	<b>100 %</b>

<sup>1</sup> Certain figures have been updated to conform to current period's financial statement presentation as described in note 11b.

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(Unaudited)

**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 Portfolio 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 investments exposed to interest rate risk as at December 31, 2016 are as follows:

**Investments terms to maturity**

	Terms to maturity										
	As at December 31, 2016					As at March 31, 2016					
(CAD millions)	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	
<b>Non-marketable bonds</b>											
Canadian provincial government	\$ 242	\$ 4,840	\$ 6,946	\$ 11,795	\$ 23,823	2.9 %	\$ 24,450	2.7 %	\$ 24,353	2.8 %	
<b>Marketable bonds</b>											
Government of Canada	-	3,405	1,075	812	5,292	1.6	6,387	1.4	6,143	1.5	
Canadian provincial government	-	2,349	1,227	2,624	6,200	2.8	5,572	2.6	5,555	2.7	
Canadian government corporations	-	702	452	680	1,834	2.7	1,983	2.3	2,058	2.4	
Foreign government	-	9,470	7,311	3,606	20,387	2.4	30,807	1.6	31,995	2.2	
Corporate bonds	844	1,422	365	112	2,743	1.2	3,862	2.2	4,305	2.5	
<b>Other debt</b>											
Private debt <sup>1</sup>	601	4,345	3,028	812	8,786	9.7	8,793	10.6	8,777	9.6	
Real estate private debt <sup>1</sup>	417	2,059	1,413	-	3,889	7.0	3,467	6.8	3,203	6.4	
Asset-backed securities	11	1,049	3,033	1,722	5,815	1.8	7,071	1.7	7,728	1.6	
<b>Securities purchased under reverse repurchase agreements</b>	9,591	-	-	-	9,591	0.3	12,199	0.0	17,024	0.4	
<b>Total</b>	\$ 11,706	\$ 29,641	\$ 24,850	\$ 22,163	\$ 88,360	3.0 %	\$ 104,591	2.5 %	\$ 111,141	2.0 %	

<sup>1</sup> Represents direct investments.

<sup>2</sup> Certain figures have been reclassified to conform to current period's financial statement presentation (see note 11a).

**Credit spread risk**

Credit spread is the difference in yield on certain securities compared to a comparable risk free security (i.e. government issued) with the same maturity date. Credit spread risk is the risk that the fair value of these securities will fluctuate because of changes in credit spread.

**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 from other risk factors such as commodity price 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 Portfolio is indirectly exposed to market risk on the underlying securities of fund investments.

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(Unaudited)

**b) 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 Portfolio'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, 2016						% of total	As at	
	Bonds <sup>1</sup>	Money market securities <sup>1</sup>	Reverse repurchase agreements <sup>1</sup>	Over-the-counter derivatives	Other <sup>1,2</sup>	Total		March 31, 2016	December 31, 2015 <sup>3</sup>
<i>(CAD millions)</i>									
AAA	\$ 12,617	\$ 34	\$ -	\$ -	\$ 3,922	\$ 16,573	16 %	\$ 19,916	\$ 19,825
AA	25,319	6,519	270	54	847	33,009	31	35,554	41,005
A	20,936	8,115	2,754	1,318	951	34,074	32	43,275	45,206
BBB	1,444	11	6,568	901	842	9,766	10	13,046	11,591
BB	321	-	-	-	3,192	3,513	3	4,577	4,634
B	29	-	-	-	6,466	6,495	6	5,491	4,902
CCC/D	-	-	-	-	2,006	2,006	2	1,930	2,248
<b>Total</b>	<b>\$ 60,666</b>	<b>\$ 14,679</b>	<b>\$ 9,592</b>	<b>\$ 2,273</b>	<b>\$ 18,226</b>	<b>\$ 105,436</b>	<b>100 %</b>	<b>\$ 123,789</b>	<b>\$ 129,411</b>

<sup>1</sup> Includes accrued interest.

<sup>2</sup> Includes direct investments in private debt and asset-backed securities.

<sup>3</sup> Certain figures have been reclassified to conform to current period's financial statement presentation (see note 11a).

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

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 7). 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.

**c) Risk measurement**

**Value at Risk**

CPP Investment Board primarily uses a Value at Risk (VaR) methodology to monitor market risk exposure and credit risk exposure (see note 5b above) 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

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from those estimated. The VaR measure provides an estimate of a single value in a distribution of potential losses that CPP Investment Portfolio could experience. It is not an estimate of the worst-case scenario.

Market VaR calculated by 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 assumptions are reasonable for estimating 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 empirically-based default and loss rates.

The Risk/Return Accountability Framework governs investment risk using total risk in absolute terms. 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).

Risk is expressed using annual 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**

	As at December 31, 2016		As at March 31, 2016		As at December 31, 2015	
<i>(CAD millions)</i>	VaR	% of CPP Investment Portfolio <sup>1</sup>	VaR	% of CPP Investment Portfolio <sup>1</sup>	VaR	% of CPP Investment Portfolio <sup>1</sup>
CPP Reference Portfolio Total Absolute Risk <sup>2</sup>	\$ 35,078	11.8 %	\$ 29,990	10.8 %	\$ 29,267	10.4 %
CPP Investment Portfolio Total Absolute Risk <sup>1,2</sup>	\$ 35,791	12.1 %	\$ 31,338	11.2 %	\$ 30,201	10.7 %
CPP Investment Portfolio Absolute Market Risk <sup>1</sup>	\$ 34,986	11.8 %	\$ 30,610	11.0 %	\$ 29,538	10.5 %
CPP Investment Portfolio Absolute Credit Risk <sup>1</sup>	\$ 1,742	0.6 %	\$ 1,756	0.6 %	\$ 1,683	0.6 %

<sup>1</sup> 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 CPP.

<sup>2</sup> Market and Credit Risk are combined using an assumed positive correlation under normal market conditions.

## Canada Pension Plan Investment Board

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#### 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. 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.

CPP Investment Board also maintains \$1.5 billion (March 31, 2016 - \$1.5 billion, December 31, 2015 - \$1.5 billion) of unsecured credit facilities to meet potential liquidity requirements. As at December 31, 2016, the total amount drawn on the credit facilities is \$nil (March 31, 2016 - \$nil, December 31, 2015 - \$nil).

The terms to maturity of investment liabilities as at December 31, 2016 are as follows:

#### Investment liabilities terms to maturity

(CAD millions)	Terms to maturity												
	As at December 31, 2016					As at March 31, 2016					As at December 31, 2015		
	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total	Fair value	Weighted average interest rate	Total	Fair value	Weighted average interest rate	Total	Fair value	Weighted average interest rate
Securities sold under repurchase agreements	\$ 16,115	\$ -	\$ -	\$ -	\$ 16,115	\$ 16,100	0.7 %	\$ 19,919	\$ 19,926	0.5 %	\$ 38,044	\$ 38,032	0.5 %
Securities sold short <sup>1,2</sup>	28,168	-	-	-	28,168	28,168	n/a	27,371	27,371	n/a	25,549	25,549	n/a
Debt financing liabilities													
Commercial paper payable	11,272	-	-	-	11,272	11,258	0.9	13,425	13,409	0.7	14,313	14,300	0.6
Term debt	-	6,121	-	-	6,121	6,093	1.5	2,149	2,159	1.2	859	862	1.3
<b>Total</b>	<b>\$ 55,555</b>	<b>\$ 6,121</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 61,676</b>	<b>\$ 61,619</b>	<b>n/a</b>	<b>\$ 62,864</b>	<b>\$ 62,865</b>	<b>n/a</b>	<b>\$ 78,765</b>	<b>\$ 78,743</b>	<b>n/a</b>

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

<sup>2</sup> Includes equities sold short for which the average interest rate is not applicable.

## 6. 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

(CAD millions)	For the three-month period ended December 31, 2016			
	Investment income (loss) <sup>1</sup>	Investment management fees <sup>2</sup>	Transaction costs	Net investment income (loss)
Equities	\$ 4,166	\$ (219)	\$ (19)	\$ 3,928
Fixed income	(2,007)	(83)	(29)	(2,119)
Real assets	130	(43)	(19)	68
<b>Total</b>	<b>\$ 2,289</b>	<b>\$ (345)</b>	<b>\$ (67)</b>	<b>\$ 1,877</b>

## Canada Pension Plan Investment Board

### Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine-month periods ended December 31, 2016

(Unaudited)

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

For the nine-month period ended December 31, 2016						
<i>(CAD millions)</i>	Investment income <sup>1</sup>	Investment management fees <sup>3</sup>	Transaction costs	Net investment income		
Equities	\$ 10,914	\$ (482)	\$ (136)	\$ 10,296		
Fixed income	8,516	(358)	(108)	8,050		
Real assets	1,902	(115)	(66)	1,721		
<b>Total</b>	<b>\$ 21,332</b>	<b>\$ (955)</b>	<b>\$ (310)</b>	<b>\$ 20,067</b>		

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

<sup>1</sup> 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.

<sup>2</sup> Includes hedge fund performance fees of \$91 million (December 31, 2015 - \$17 million).

<sup>3</sup> Includes hedge fund performance fees of \$225 million (December 31, 2015 - \$294 million).

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For the three and nine-month periods ended December 31, 2016

(Unaudited)

**7. 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>	<b>As at December 31, 2016</b>	<b>As at March 31, 2016</b>	<b>As at December 31, 2015</b>
<b>Assets held as collateral on:</b>			
Reverse repurchase agreements <sup>1</sup>	\$ 9,600	\$ 10,289	\$ 17,049
Over-the-counter derivative transactions <sup>1</sup>	186	1,653	411
Other debt <sup>1</sup>	947	887	1,209
<b>Assets pledged as collateral on:</b>			
Repurchase agreements	(16,142)	(18,858)	(37,782)
Securities sold short	(29,431)	(23,508)	(21,431)
Over-the-counter derivative transactions	(354)	(50)	(446)
Debt on private real estate properties	(3,844)	(3,624)	(3,739)
<b>Total</b>	<b>\$ (39,038)</b>	<b>\$ (33,211)</b>	<b>\$ (44,729)</b>

<sup>1</sup> The fair value of the collateral held that may be sold or repledged as at December 31, 2016 is \$10,587 million (March 31, 2016 - \$12,302 million, December 31, 2015 - \$18,626 million). The fair value of collateral sold or repledged as at December 31, 2016 is \$4,681 million (March 31, 2016 - \$7,900 million, December 31, 2015 - \$10,523 million).

**8. Commitments**

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, 2016, these commitments totalled \$39.1 billion (March 31, 2016 - \$34.7 billion, December 31, 2015 - \$34.5 billion).

As at December 31, 2016, CPP Investment Board made lease and other commitments, which require future annual payments as follows:

**Lease and other commitments**

<i>(CAD millions)</i>	<b>As at December 31, 2016</b>	<b>As at March 31, 2016</b>	<b>As at December 31, 2015</b>
Within one year	\$ 36	\$ 34	\$ 41
After one year but not more than five years	125	115	157
More than five years	51	67	58
<b>Total</b>	<b>\$ 212</b>	<b>\$ 216</b>	<b>\$ 256</b>

**9. Related party transactions**

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

Related party transactions consist of investments and investment income primarily in private equities, debt, real estate and infrastructure and are presented in detail in the Condensed Interim 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 as those investment transactions with unrelated parties.

Related party transactions with consolidated subsidiaries are eliminated upon consolidation.

## 10. Guarantees

As part of certain investment transactions, CPP Investment Board agreed to guarantee, as at December 31, 2016, up to \$3.0 billion (March 31, 2016 - \$2.5 billion, December 31, 2015 - \$2.6 billion) to other counterparties in the event certain investee entities default under the terms of loan and other related agreements.

## 11. Comparative figures

### a) Condensed Interim Consolidated Schedule of Investment Portfolio

In the Condensed Interim Consolidated Schedule of Investment Portfolio, CPP Investment Board's investments were previously grouped by asset class based on the risk/return characteristics of the investment strategies of the underlying portfolios. Effective as at March 31, 2016, the investments were no longer classified based on investment strategies, but based on the nature of the investments. The reclassification of comparative figures as at December 31, 2015 resulted in an increase of \$1,928 million in equities, as well as a decrease of \$1,236 million in fixed income and \$692 million in real assets. The reclassifications are within the Condensed Interim Consolidated Schedule of Investment Portfolio and have no impact to the Condensed Interim Consolidated Balance Sheet, Condensed Interim Consolidated Statement of Comprehensive Income, Condensed Interim Consolidated Statement of Changes in Net Assets and Condensed Interim Consolidated Statement of Cash Flows. Certain comparative figures have been reclassified to conform to the current period's financial statement presentation.

Certain comparative figures in notes 4, 5a and 5b have also been reclassified to conform to current period's financial statement presentation.

### b) Currency risk exposures

Effective April 1, 2016 currency exposure relating to foreign exchange forward contracts are reflected based on the gross pay and receive amounts in their respective currencies, to reflect the underlying exposures to each currency (see note 5a). These were previously presented based on the fair value of the contract in its settlement currency. This change in presentation of the currency exposure has been reflected in the comparative figures. Changes to the comparative figures resulted in an overall decrease in net foreign currency exposure of \$32,978 million as at March 31, 2016 and \$41,363 million as at December 31, 2015, with the main changes in exposures to the United States dollar, Euro, British pound sterling and Japanese yen.