

Quarterly Consolidated Financial Statements of

**CANADA PENSION PLAN
INVESTMENT BOARD**

September 30, 2010

(unaudited)

CANADA PENSION PLAN INVESTMENT BOARD

Consolidated Balance Sheet

As at September 30, 2010

(Unaudited)

(\$ millions)	<u>September 30, 2010</u>	<u>March 31, 2010</u>	<u>September 30, 2009</u>
ASSETS			
Investments (note 3)	\$ 140,726	\$ 130,477	\$ 126,693
Amounts receivable from pending trades	2,901	1,118	1,141
Premises and equipment	34	21	26
Other assets	11	25	15
TOTAL ASSETS	143,672	131,641	127,875
LIABILITIES			
Investment liabilities (note 3)	3,511	2,519	2,865
Amounts payable from pending trades	1,465	1,391	1,098
Accounts payable and accrued liabilities	74	101	86
TOTAL LIABILITIES	5,050	4,011	4,049
NET ASSETS	\$ 138,622	\$ 127,630	\$ 123,826
NET ASSETS, REPRESENTED BY			
Share capital (note 5)	\$ -	\$ -	\$ -
Accumulated net income from operations	31,205	24,561	21,461
Accumulated net transfers from the Canada Pension Plan (note 6)	107,417	103,069	102,365
NET ASSETS	\$ 138,622	\$ 127,630	\$ 123,826

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

CANADA PENSION PLAN INVESTMENT BOARD
Consolidated Statement of Net Income and Accumulated Net Income from
Operations
For the three and six-month periods ended September 30, 2010
(Unaudited)

(\$ millions)	Three-months ended		Six-months ended	
	September 30		September 30	
	2010	2009	2010	2009
NET INVESTMENT INCOME (note 7)	\$ 8,467	\$ 5,365	\$ 6,775	\$ 13,006
OPERATING EXPENSES				
Personnel costs	41	41	83	82
General operating expenses	19	18	38	35
Professional services	6	5	10	7
	66	64	131	124
NET INCOME FROM OPERATIONS	8,401	5,301	6,644	12,882
ACCUMULATED NET INCOME FROM OPERATIONS, BEGINNING OF PERIOD	22,804	16,160	24,561	8,579
ACCUMULATED NET INCOME FROM OPERATIONS, END OF PERIOD	\$ 31,205	\$ 21,461	\$ 31,205	\$ 21,461

Consolidated Statement of Changes in Net Assets
For the three and six-month periods ended September 30, 2010
(Unaudited)

(\$ millions)	Three-months ended		Six-months ended	
	September 30		September 30	
	2010	2009	2010	2009
NET ASSETS, BEGINNING OF PERIOD	\$ 129,680	\$ 116,603	\$ 127,630	\$ 105,501
CHANGES IN NET ASSETS				
Canada Pension Plan transfers (note 6)				
Transfers from the Canada Pension Plan	7,562	8,286	17,417	17,188
Transfers to the Canada Pension Plan	(7,021)	(6,364)	(13,069)	(11,745)
Net income from operations	8,401	5,301	6,644	12,882
INCREASE IN NET ASSETS FOR THE PERIOD	8,942	7,223	10,992	18,325
NET ASSETS, END OF PERIOD	\$ 138,622	\$ 123,826	\$ 138,622	\$ 123,826

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

CANADA PENSION PLAN INVESTMENT BOARD
Consolidated Statement of Investment Portfolio
As at September 30, 2010
(Unaudited)

The CPP Investment Board's investments are grouped by asset class based on the intent of the investment strategies of the underlying portfolios. The 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:

(\$ millions)	Fair Value		
	September 30, 2010	March 31, 2010	September 30, 2009
EQUITIES (note 3a)			
Canada			
Public equities	\$ 7,406	\$ 8,553	\$ 9,256
Private equities	1,401	985	784
	8,807	9,538	10,040
Foreign developed markets			
Public equities	22,487	24,614	26,514
Private equities	18,260	14,565	12,768
	40,747	39,179	39,282
Emerging markets			
Public equities	5,221	4,895	5,194
Private equities	641	512	365
	5,862	5,407	5,559
TOTAL EQUITIES	55,416	54,124	54,881
FIXED INCOME (note 3b)			
Bonds	36,061	35,649	32,929
Other debt	4,902	3,526	2,823
Money market securities	17,831	14,068	14,486
TOTAL FIXED INCOME	58,794	53,243	50,238
ABSOLUTE RETURN STRATEGIES (note 3c)	3,686	2,871	2,061
INFLATION-SENSITIVE ASSETS (note 3d)			
Public real estate	-	-	296
Private real estate	10,262	7,982	7,484
Infrastructure	6,137	5,821	5,925
Inflation-linked bonds	487	904	503
TOTAL INFLATION-SENSITIVE ASSETS	16,886	14,707	14,208
INVESTMENT RECEIVABLES			
Securities purchased under reverse repurchase agreements (note 3e)	4,000	4,000	4,000
Accrued interest	644	594	574
Derivative receivables (note 3f)	1,194	760	611
Dividends receivable	106	178	120
TOTAL INVESTMENT RECEIVABLES	5,944	5,532	5,305
TOTAL INVESTMENTS	\$ 140,726	\$ 130,477	\$ 126,693
INVESTMENT LIABILITIES			
Debt financing liabilities (note 3g)	(1,302)	(1,303)	(1,303)
Debt on private real estate properties (note 3d)	(1,215)	(947)	(889)
Derivative liabilities (note 3f)	(994)	(269)	(673)
TOTAL INVESTMENT LIABILITIES	(3,511)	(2,519)	(2,865)
Amounts receivable from pending trades	2,901	1,118	1,141
Amounts payable from pending trades	(1,465)	(1,391)	(1,098)
NET INVESTMENTS	\$ 138,651	\$ 127,685	\$ 123,871

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

CANADA PENSION PLAN INVESTMENT BOARD

Consolidated Statement of Investment Asset Mix

As at September 30, 2010

(Unaudited)

This Consolidated Statement of Investment Asset Mix is grouped by asset class based on the intent of the investment strategies of the underlying portfolios. The 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:

(\$ millions)	September 30, 2010		March 31, 2010		September 30, 2009	
	Fair Value	(%)	Fair Value	(%)	Fair Value	(%)
EQUITIES						
Canada	\$ 19,613	14.1 %	\$ 18,503	14.5 %	\$ 17,927	14.5 %
Foreign developed markets	47,505	34.3	46,221	36.2	44,614	36.0
Emerging markets	6,657	4.8	6,465	5.0	6,605	5.3
	73,775	53.2	71,189	55.7	69,146	55.8
FIXED INCOME						
Bonds	36,028	26.0	35,418	27.7	32,801	26.5
Other debt	4,945	3.6	3,532	2.8	2,838	2.3
Money market securities ¹	5,623	4.0	1,654	1.3	3,751	3.0
Debt financing liabilities	(1,302)	(0.9)	(1,303)	(1.0)	(1,303)	(1.1)
	45,294	32.7	39,301	30.8	38,087	30.7
INFLATION-SENSITIVE ASSETS						
Real estate ²	9,046	6.5	7,035	5.5	6,891	5.6
Infrastructure	6,201	4.5	5,821	4.6	5,925	4.8
Inflation-linked bonds	4,335	3.1	4,339	3.4	3,822	3.1
	19,582	14.1	17,195	13.5	16,638	13.5
NET INVESTMENTS	\$ 138,651	100 %	\$ 127,685	100 %	\$ 123,871	100 %

¹Includes absolute return strategies.

²Net of debt on private real estate properties, as described more fully in note 3d.

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

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

For the three and six-month periods ended September 30, 2010

(Unaudited)

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, 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’s legislated mandate, the overall benchmark that provides context for investing decisions and the investment strategy employed to support the long-term sustainability of the *Canada Pension Plan* are fully described in Management’s Discussion and Analysis on pages 16 to 29 of the 2010 annual report.

The CPP Investment Board and its wholly-owned subsidiaries are 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 and its subsidiaries 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 Consolidated Financial Statements provide information on the net assets managed by the CPP Investment Board and do not include the pension liabilities of the CPP. The CPP Investment Board has a fiscal year end of March 31.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The interim Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and the requirements of the Act and the accompanying regulations. These interim financial statements follow the same accounting policies and methods of computation as the March 31, 2010 annual Consolidated Financial Statements. These interim Consolidated Financial Statements do not include all of the information and note disclosures required by GAAP for annual financial statements and therefore should be read in conjunction with the March 31, 2010 annual Consolidated Financial Statements. These interim Consolidated Financial Statements include all adjustments which are, in the opinion of management, necessary for a fair presentation of the results of the interim period presented.

These interim Consolidated Financial Statements present the consolidated financial position and results of operations of the CPP Investment Board, its wholly-owned subsidiaries and the proportionate share of the fair value of assets, liabilities and operations of privately held real estate investments in joint ventures. The CPP Investment Board qualifies as an Investment Company in accordance with Canadian Institute of Chartered Accountants Accounting Guideline 18, *Investment Companies*, and accordingly, the CPP Investment Board reports its investments at fair value. Inter-company transactions and balances have been eliminated in preparing these interim Consolidated Financial Statements.

Certain comparative figures have been reclassified to conform with the current period financial statement presentation.

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

For the three and six-month periods ended September 30, 2010

(Unaudited)

(b) Valuation of Investments, Investment Receivables and Investment Liabilities

Investments, investment receivables and investment liabilities are recorded on a trade date basis and are stated at fair value. Fair value is an estimate of the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

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. These valuation techniques include using recent arm's length market transactions, if available, or current fair value of another investment that is substantially the same, discounted cash flow analysis, option pricing models and other accepted industry valuation methods.

Fair value is determined as follows:

- (i) Fair value for publicly-traded equities is based on quoted market prices. Where market prices are not available or reliable, such as for those securities that are not sufficiently liquid, fair value is determined using accepted industry valuation methods.
- (ii) Fair value for fund investments is generally based on the net asset value as reported by the external managers of the funds or other accepted industry valuation methods.
- (iii) Private equity and infrastructure investments are either held directly or through ownership in limited partnership arrangements. The fair value for investments held directly is determined using accepted industry valuation methods. These methods include considerations such as earnings multiples of comparable publicly-traded companies, discounted cash flows using current market yields of instruments with similar characteristics and third party transactions, or other events which would suggest a change in the value of the investment. In the case of investments held through a limited partnership, fair value is generally determined based on relevant information reported by the General Partner using similar accepted industry valuation methods.
- (iv) Fair value for marketable bonds is based on quoted market prices. Where the market price is not available, fair value is calculated using discounted cash flows based on current market yields of instruments with similar characteristics.
- (v) Fair value for non-marketable Canadian government bonds is calculated using discounted cash flows based on current market yields of instruments with similar characteristics, adjusted for the non-marketability and rollover provisions of the bonds.
- (vi) Fair value for direct investments in private debt is calculated using quoted market prices or accepted industry valuation methods such as discounted cash flows based on current market yields of instruments with similar characteristics.
- (vii) Money market securities are recorded at cost, which, together with accrued interest income, approximates fair value due to the short-term nature of these securities.
- (viii) Fair value for public real estate investments is based on quoted market prices.
- (ix) Fair value for private real estate investments is determined using accepted industry valuation methods, such as discounted cash flows and comparable purchase and sales transactions. Debt on private real estate investments is valued using discounted cash flows based on current market yields for instruments with similar characteristics.
- (x) Fair value for inflation-linked bonds is based on quoted market prices.

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

For the three and six-month periods ended September 30, 2010

(Unaudited)

(xi) 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 the quoted market prices of the underlying instruments where available. Otherwise, fair value is based on other accepted industry valuation methods using inputs such as equity prices and indices, broker quotations, market volatilities, currency exchange rates, current market interest rate yields, credit spreads and other market-based pricing factors. In determining fair value, consideration is also given to liquidity risk and the credit risk of the counterparty.

(xii) Debt financing liabilities are recorded at the amount originally issued, which, together with accrued interest expense, approximates fair value due to the short-term nature of these liabilities.

(c) *Securities Purchased under Reverse Repurchase Agreements*

Securities purchased under reverse repurchase agreements represent the purchase of securities effected with a simultaneous agreement to sell them back at a specified price at a specified future date and are accounted for as an investment receivable. These securities are not recognized as an investment of the CPP Investment Board. The fair value of securities to be resold under these reverse repurchase agreements is monitored and additional collateral is obtained when appropriate to protect against credit exposure. In the event of counterparty default, the CPP Investment Board has the right to liquidate the collateral held. Reverse repurchase agreements are carried on the Consolidated Statement of Investment Portfolio at the amounts at which the securities were initially acquired. Interest earned on reverse repurchase agreements is included in investment income (see note 7).

(d) *Future Accounting Policy Change*

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board (“AcSB”) confirmed that Canadian GAAP for publicly accountable enterprises will be replaced with International Financial Reporting Standards (“IFRS”) effective for interim and annual periods commencing April 1, 2011. In September 2010, the AcSB approved a one-year deferral for investment companies to adopt IFRS. The CPP Investment Board will defer the adoption of IFRS until April 1, 2012.

The CPP Investment Board has developed an IFRS conversion plan and has identified the major differences between existing Canadian GAAP and IFRS. As IFRS is still not finalized, the CPP Investment Board cannot definitively comment on the impact these differences could have on its operations, financial position and results of operations. We continue to monitor developments and changes to IFRS and are on schedule to meet the timelines established in the IFRS conversion plan.

2. FAIR VALUE MEASUREMENT

(a) The following table 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 Consolidated Financial Statements

For the three and six-month periods ended September 30, 2010

(Unaudited)

(\$ millions)	Basis of Fair Value Determination			Total
	As at September 30, 2010			
	Level 1	Level 2	Level 3	
INVESTMENTS				
EQUITIES				
Canada				
Public equities	\$ 7,404	\$ -	\$ 2	\$ 7,406
Private equities	-	-	1,401	1,401
	7,404	-	1,403	8,807
Foreign developed markets				
Public equities ¹	20,272	1,761	454	22,487
Private equities	734	-	17,526	18,260
	21,006	1,761	17,980	40,747
Emerging markets				
Public equities ¹	5,062	159	-	5,221
Private equities	-	-	641	641
	5,062	159	641	5,862
TOTAL EQUITIES	33,472	1,920	20,024	55,416
FIXED INCOME				
Bonds	13,542	22,519	-	36,061
Other debt	-	1,957	2,945	4,902
Money market securities	-	17,831	-	17,831
TOTAL FIXED INCOME	13,542	42,307	2,945	58,794
ABSOLUTE RETURN STRATEGIES	-	1,058	2,628	3,686
INFLATION-SENSITIVE ASSETS				
Private real estate	-	-	10,262	10,262
Infrastructure	1,067	-	5,070	6,137
Inflation-linked bonds	487	-	-	487
TOTAL INFLATION-SENSITIVE ASSETS	1,554	-	15,332	16,886
INVESTMENT RECEIVABLES				
Securities purchased under reverse repurchase agreements	-	4,000	-	4,000
Accrued interest	-	644	-	644
Derivative receivables	195	963	36	1,194
Dividends receivable	-	106	-	106
TOTAL INVESTMENT RECEIVABLES	195	5,713	36	5,944
TOTAL INVESTMENTS	48,763	50,998	40,965	140,726
INVESTMENT LIABILITIES				
Debt financing liabilities	-	(1,302)	-	(1,302)
Debt on private real estate properties	-	(1,215)	-	(1,215)
Derivative liabilities	(39)	(955)	-	(994)
TOTAL INVESTMENT LIABILITIES	(39)	(3,472)	-	(3,511)
Amounts receivable from pending trades	-	2,901	-	2,901
Amounts payable from pending trades	-	(1,465)	-	(1,465)
NET INVESTMENTS	\$ 48,724	\$ 48,962	\$ 40,965	\$ 138,651

Transfers Between Level 1, Level 2 and Level 3

There were no significant transfers between Level 1, Level 2 and 3 during the six-month period ended September 30, 2010.

CANADA PENSION PLAN INVESTMENT BOARD
Notes to the Consolidated Financial Statements
For the three and six-month periods ended September 30, 2010
(Unaudited)

(\$ millions)	Basis of Fair Value Determination			Total
	As at March 31, 2010			
	Level 1	Level 2	Level 3	
INVESTMENTS				
EQUITIES				
Canada				
Public equities	\$ 8,551	\$ -	\$ 2	\$ 8,553
Private equities	-	-	985	985
	8,551	-	987	9,538
Foreign developed markets				
Public equities ¹	22,623	1,509	482	24,614
Private equities	688	-	13,877	14,565
	23,311	1,509	14,359	39,179
Emerging markets				
Public equities ¹	4,254	641	-	4,895
Private equities	-	-	512	512
	4,254	641	512	5,407
TOTAL EQUITIES	36,116	2,150	15,858	54,124
FIXED INCOME				
Bonds	13,436	22,213	-	35,649
Other debt	-	671	2,855	3,526
Money market securities	-	14,068	-	14,068
TOTAL FIXED INCOME	13,436	36,952	2,855	53,243
ABSOLUTE RETURN STRATEGIES	-	638	2,233	2,871
INFLATION-SENSITIVE ASSETS				
Private real estate	-	-	7,982	7,982
Infrastructure	981	-	4,840	5,821
Inflation-linked bonds	904	-	-	904
TOTAL INFLATION-SENSITIVE ASSETS	1,885	-	12,822	14,707
INVESTMENT RECEIVABLES				
Securities purchased under reverse repurchase agreements	-	4,000	-	4,000
Accrued interest	-	594	-	594
Derivative receivables	161	594	5	760
Dividends receivable	-	178	-	178
TOTAL INVESTMENT RECEIVABLES	161	5,366	5	5,532
TOTAL INVESTMENTS	51,598	45,106	33,773	130,477
INVESTMENT LIABILITIES				
Debt financing liabilities	-	(1,303)	-	(1,303)
Debt on private real estate properties	-	(947)	-	(947)
Derivative liabilities	(20)	(249)	-	(269)
TOTAL INVESTMENT LIABILITIES	(20)	(2,499)	-	(2,519)
Amounts receivable from pending trades	-	1,118	-	1,118
Amounts payable from pending trades	-	(1,391)	-	(1,391)
NET INVESTMENTS	\$ 51,578	\$ 42,334	\$ 33,773	\$ 127,685

¹Includes investments in funds.

Transfers Between Level 1, Level 2 and Level 3

There was \$1.5 billion transferred into Level 3 from Level 2, \$0.7 billion transferred out of Level 3 into Level 1, and no significant transfers between Level 1 and Level 2 during the year ended March 31, 2010.

3. INVESTMENTS AND INVESTMENT LIABILITIES

The CPP Investment Board manages the following types of investments and investment liabilities as described below:

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

For the three and six-month periods ended September 30, 2010

(Unaudited)

(a) Equities

- (i) Public equity investments are made directly or through funds. As at September 30, 2010, public equities include fund investments with a fair value of \$2,373 million (March 31, 2010 - \$2,631 million; September 30, 2009 - \$2,387 million).
- (ii) Private equity investments are generally made directly or through ownership in limited partnership arrangements which have a typical term of 10 years. The private equity investments represent equity ownerships or investments with the risk and return characteristics of equity. As at September 30, 2010, private equities include direct investments with a fair value of \$5,193 million (March 31, 2010 - \$3,997 million; September 30, 2009 - \$3,083 million).

(b) Fixed Income

- (i) Bonds consist of non-marketable and marketable bonds.

The non-marketable bonds issued by the provinces prior to 1998 have rollover provisions attached to them by the Act which permit each issuer, at its option, to roll over the bonds on maturity for a further 20-year term at a rate based on capital markets borrowing rates for that province existing at the time of rollover. The non-marketable bonds are also redeemable before maturity at the option of the issuers.

In lieu of exercising its statutory rollover right described in the preceding paragraph, agreements between the CPP Investment Board and the provinces permit each province to repay the bond and concurrently cause the CPP Investment Board to purchase a replacement bond or bonds in a total principal amount not exceeding the principal amount of the maturing security for a term of not less than five years and not greater than 30 years. Such replacement bonds contain rollover provisions that permit the issuer, at its option, to roll over the bond for successive terms of not less than five years and subject in all cases to the maximum 30 years outside maturity date. The replacement bonds are also redeemable before maturity at the option of the issuers.

The terms to maturity of the non-marketable and marketable bonds, not including any rollover options or accrued interest, as at September 30, 2010, are as follows:

(\$ millions)	Terms to Maturity				Total	Average Effective Yield
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years		
Non-marketable bonds						
Government of Canada	\$ 52	\$ 13	\$ -	\$ -	65	1.3 %
Canadian provincial government	2,278	2,856	3,536	13,785	22,455	4.1
Marketable bonds						
Government of Canada	-	1,960	702	807	3,469	2.7
Canadian provincial government	-	853	749	1,407	3,009	3.8
Canadian government corporations	-	2,290	674	442	3,406	3.0
Corporate bonds	-	494	584	34	1,112	4.2
Foreign government	65	1,123	856	501	2,545	2.0
Total	\$ 2,395	\$ 9,589	\$ 7,101	\$ 16,976	\$ 36,061	3.7 %

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

For the three and six-month periods ended September 30, 2010

(Unaudited)

- (ii) Other debt consists of investments in distressed mortgage and private debt funds and direct investments in private debt. The terms to maturity of the direct investments in private debt, as at September 30, 2010, are as follows:

(\$ millions)	Terms to Maturity					Total	Average Effective Yield
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years			
Leveraged loans	\$ -	\$ 1,281	\$ 434	\$ 165	\$ -	\$ 1,880	5.1 %
High-yield debt	-	78	11	-	-	89	9.8
Total	\$ -	\$ 1,359	\$ 445	\$ 165	\$ -	\$ 1,969	5.3 %

(c) *Absolute Return Strategies*

Absolute return strategies consist of investments in funds 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 could include, but are not limited to, equities, fixed income securities and derivatives.

(d) *Inflation-Sensitive Assets*

- (i) The CPP Investment Board obtains exposure to real estate through investments in publicly-traded securities, funds and privately held real estate.

Private real estate investments are held by wholly-owned subsidiaries and are managed on behalf of the CPP Investment Board by investment managers primarily through co-ownership arrangements. As at September 30, 2010, the subsidiary's share of these investments includes assets of \$10,262 million (March 31, 2010 - \$7,982 million; September 30, 2009 - \$7,484 million) and \$1,215 million of secured debt (March 31, 2010 - \$947 million; September 30, 2009 - \$889 million). The terms to maturity of the undiscounted principal repayments of the secured debt, as at September 30, 2010, are as follows:

(\$ millions)	Terms to Maturity					Total	Fair Value	Weighted Average Interest Rate
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years				
Debt on private real estate properties	\$ 646	\$ 302	\$ 216	\$ 165	\$ -	\$ 1,329	\$ 1,215	5.7 %

Included in private real estate are investments in joint ventures. The CPP Investment Board's proportionate interest in joint ventures is summarized as follows:

Proportionate Share of Net Assets

(\$ millions)	As at September 30, 2010		As at March 31, 2010	As at September 30, 2009	
Assets	\$	5,848	\$	5,259	\$ 4,909
Liabilities		(1,000)		(947)	(889)
	\$	4,848	\$	4,312	\$ 4,020

Proportionate Share of Net Income

(\$ millions)	Three-months ended September 30		Six-months ended September 30	
	2010	2009	2010	2009
Revenue	\$ 182	\$ 139	\$ 345	\$ 284
Expenses	(110)	(83)	(205)	(171)
	\$ 72	\$ 56	\$ 140	\$ 113

- (ii) Infrastructure investments are generally made directly, but can also occur through limited partnership arrangements that have a typical term of 10 years. As at September 30, 2010, infrastructure includes

CANADA PENSION PLAN INVESTMENT BOARD

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direct investments with a fair value of \$4,541 million (March 31, 2010 - \$4,395 million; September 30, 2009 - \$4,618 million).

(iii) The terms to maturity of the inflation-linked bonds, as at September 30, 2010, are as follows:

(\$ millions)	Terms to Maturity				Total	Average Effective Yield
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years		
Inflation-linked bonds	\$ -	\$ 44	\$ 40	\$ 403	\$ 487	1.1%

(e) *Securities Purchased under Reverse Repurchase Agreements*

The terms to maturity of the securities purchased under reverse repurchase agreements, as at September 30, 2010, are as follows:

(\$ millions)	Terms to Maturity				Total	Average Effective Yield
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years		
Securities purchased under reverse repurchase agreements	\$ 3,500	\$ 500	\$ -	\$ -	\$ 4,000	2.6%

(f) *Derivative Contracts*

A derivative contract is a financial contract, the value of which is derived from the value of underlying assets, indices, interest rates, currency exchange rates or other market based factors. Derivatives are transacted through regulated exchanges or are negotiated in over-the-counter markets.

Notional amounts of derivative contracts represent the contractual amounts to which a rate or price is applied for computing the cash flows to be exchanged. The notional amounts are used to determine the gains/losses and fair value of the contracts. They are not recorded as assets or liabilities on the Consolidated Balance Sheet. Notional amounts do not necessarily represent the amount of potential market risk or credit risk arising from a derivative contract.

The fair value of these contracts is reported as derivative receivables and derivative liabilities on the Consolidated Statement of Investment Portfolio. In the Consolidated Statement of Investment Asset Mix, the derivative contracts are allocated to the asset class to which each contract relates.

The CPP Investment Board uses derivatives to generate value-added investment returns and to limit or adjust market, credit, interest rate, currency, and other financial exposures without directly purchasing or selling the underlying instrument.

(i) The CPP Investment Board uses the following types of derivative instruments as described below:

Equity Contracts

Equity futures are standardized contracts transacted on an exchange to purchase or sell a specified quantity of an equity index, a basket of stocks, or a single stock at a predetermined price and date in the future. Futures contracts may be cash-settled or require physical delivery of the underlying asset.

Equity swaps are over-the-counter contracts in which one counterparty agrees to pay or receive from the other, cash flows based on changes in the value of an equity index, a basket of stocks, or a single stock in exchange for a return based on a fixed or floating interest rate or the return on another instrument.

Variance swaps are over-the-counter contracts where cash flows are exchanged based on the realized variance of an equity index, a basket of stocks, or a single stock compared to the fixed strike level specified in the contract.

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Equity options are contractual agreements where the seller (writer) gives the purchaser the right, but not the obligation, to buy or sell a specified quantity of an equity index, a basket of stocks, or a single stock at or before a specified future date at a predetermined price. The seller receives a premium from the purchaser for this right. The CPP Investment Board purchases (buys) and writes (sells) equity options. Equity options may be transacted in standardized amounts on regulated exchanges or customized in over-the-counter markets.

Written put options may require the CPP Investment Board to purchase the underlying asset at any time at a fixed date or within a fixed future period. The maximum amount payable under the terms of the written put options is equal to their notional amount.

Warrants are transacted both over-the-counter and through exchanges where the issuer gives the purchaser the right, but not the obligation, to buy a specified quantity of stock of the issuer at or before a specified future date at a predetermined price.

Foreign Exchange Contracts

Foreign exchange forwards are customized over-the-counter contracts negotiated between counterparties to either purchase or sell a specified amount of foreign currencies at a predetermined price and date in the future. These contracts result in a fixed future foreign exchange rate for a period of time.

Interest Rate Contracts

Bond futures are standardized contracts transacted on an exchange to purchase or sell a specified quantity of a bond index, a basket of bonds, or a single bond at a predetermined price and date in the future. Futures contracts may be cash-settled or require physical delivery of the underlying asset.

Interest rate forwards are customized over-the-counter contracts negotiated between counterparties to either purchase or sell a specified amount of an interest rate sensitive financial instrument at a predetermined price and date in the future. These contracts result in a fixed future interest rate for a period of time.

Bond and inflation-linked bond swaps are over-the-counter contracts in which counterparties exchange the return on a bond, inflation-linked bond or group of such instruments for the return on a fixed or floating interest rate or the return on another instrument.

Interest rate swaps are over-the-counter contracts where counterparties exchange cash flows based on different interest rates applied to a notional amount in a single currency. A typical interest rate swap would require one counterparty to pay a fixed market interest rate in exchange for a variable market interest rate on a specified notional amount. No exchange of notional amount takes place. Cross-currency interest rate swaps involve the exchange of both interest and notional amounts in two different currencies.

Credit Contracts

Credit default swaps are over-the-counter contracts that transfer the credit risk of an underlying financial instrument (referenced asset) from one counterparty to another. The CPP Investment Board purchases (buys) and writes (sells) credit default swaps that provide protection against the decline in value of an underlying financial instrument (referenced asset) as a result of a specified credit event such as default or bankruptcy. The purchaser (buyer) pays a premium to the writer (seller) in return for payment contingent on a credit event affecting the referenced asset.

Written credit default swaps require the CPP Investment Board to compensate counterparties for the decline in value of an underlying financial instrument (referenced asset) as a result of the occurrence of a

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specified credit event such as default or bankruptcy. The maximum amount payable to these counterparties under these written credit default swaps is equal to their notional amount.

Commodity Contracts

Commodity futures contracts are standardized contracts transacted on an exchange to purchase or sell a specified quantity of a commodity, such as precious metals and energy related products at a predetermined price and date in the future. Futures contracts may be cash-settled or require physical delivery of the underlying commodity.

(ii) Derivative-Related Risk

The primary risks associated with derivatives are:

Market Risk

Derivatives generate value, positive or negative, as the value of underlying assets, indices, interest rates, currency exchange rates, or other market-based factors change such that the previously contracted terms of the derivative transactions have become more or less favourable than what can be negotiated under current market conditions for contracts with the same terms and remaining period to expiry. The potential for derivatives to increase or decrease in value as a result of the foregoing factors is generally referred to as market risk.

The derivative-related market risk is a component of the total portfolio market risk which is managed through the Risk/Return Accountability Framework as described in note 8.

Credit Risk

Credit risk is the risk of a financial loss occurring as a result of the failure of a counterparty to meet its obligations to the CPP Investment Board. The maximum exposure to credit risk is represented by the positive fair value of the derivative instrument and is normally a small fraction of the contract's notional amount. Negotiated over-the-counter derivatives generally present greater credit exposure than exchange-traded contracts. Credit risk on exchange-traded contracts is limited, as these transactions are executed on regulated exchanges, each of which is associated with a well-capitalized clearing house that assumes the obligation of the writer of a contract and guarantees their performance.

The CPP Investment Board limits credit risk on over-the-counter contracts through a variety of means including dealing only with authorized counterparties of a minimum credit rating and limiting the maximum exposures to any individual counterparty, the use of master netting agreements and collateral as discussed in note 8.

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(iii) The fair value of derivative contracts held is as follows:

	As at September 30, 2010			As at March 31, 2010		As at September 30, 2009	
(\$ millions)	Positive Fair Value	Negative Fair Value	Net Fair Value	Net Fair Value	Net Fair Value	Net Fair Value	Net Fair Value
Equity contracts							
Equity futures	\$ 5	\$ (36)	\$ (31)	\$ (18)	\$ (6)		
Equity swaps	451	(211)	240	254	178		
Variance swaps	7	(129)	(122)	19	(66)		
Exchange-traded purchased options	1	(1)	-	-	4		
Over-the-counter written options	-	(107)	(107)	(57)	(122)		
Warrants	219	-	219	164	187		
Total equity contracts	683	(484)	199	362	175		
Foreign exchange contracts							
Forwards	367	(356)	11	103	77		
Total foreign exchange contracts	367	(356)	11	103	77		
Interest rate contracts							
Bond futures	5	(2)	3	-	-		
Interest rate forwards	-	-	-	-	-		
Bond swaps	18	(6)	12	2	6		
Inflation-linked bond swaps	90	(6)	84	78	30		
Interest rate swaps	8	(107)	(99)	8	23		
Cross-currency interest rate swaps	7	-	7	10	(134)		
Total interest rate contracts	128	(121)	7	98	(75)		
Credit contracts							
Purchased credit default swaps	31	(27)	4	(4)	(1)		
Written credit default swaps	2	(6)	(4)	-	-		
Total credit contracts	33	(33)	-	(4)	(1)		
Commodity contracts							
Commodity futures	-	-	-	-	-		
Total commodity contracts	-	-	-	-	-		
Subtotal	1,211	(994)	217	559	176		
Less: Cash collateral received under derivative contracts	(17)	-	(17)	(68)	(238)		
Total	\$ 1,194	\$ (994)	\$ 200	\$ 491	\$ (62)		

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(iv) The terms to maturity of the notional amounts for derivative contracts held are as follows:

(\$ millions)	As at September 30, 2010					Total	As at	As at
	Within 1 year	1 to 5 years	6-10 years	Over 10 years	Total		March 31, 2010	September 30, 2009
Equity contracts								
Equity futures	\$ 7,705	\$ -	\$ -	\$ -	\$ 7,705	\$ 5,353	\$ 3,409	
Equity swaps	23,936	29	-	-	23,965	19,119	17,596	
Variance swaps	98	616	4,722	-	5,436	5,049	5,106	
Exchange-traded purchased options	80	-	-	-	80	40	186	
Over-the-counter written options	237	-	-	-	237	214	229	
Warrants	24	420	4	-	448	489	460	
Total equity contracts	32,080	1,065	4,726	-	37,871	30,264	26,986	
Foreign exchange contracts								
Forwards	38,907	-	-	-	38,907	32,747	30,441	
Total foreign exchange contracts	38,907	-	-	-	38,907	32,747	30,441	
Interest rate contracts								
Bond futures	3,932	3	-	-	3,935	270	218	
Interest rate forwards	-	-	-	-	-	-	155	
Bond swaps	1,016	-	-	-	1,016	338	818	
Inflation-linked bond swaps	3,842	-	-	97	3,939	3,373	3,282	
Interest rate swaps	200	1,219	1,003	154	2,576	1,451	922	
Cross-currency interest rate swaps	-	-	133	-	133	133	1,477	
Total interest rate contracts	8,990	1,222	1,136	251	11,599	5,565	6,872	
Credit contracts								
Purchased credit default swaps	-	687	512	10	1,209	784	244	
Written credit default swaps	-	185	26	-	211	-	-	
Total credit contracts	-	872	538	10	1,420	784	244	
Commodity contracts								
Commodity futures	2	-	-	-	2	-	-	
Total commodity contracts	2	-	-	-	2	-	-	
Total	\$ 79,979	\$ 3,159	\$ 6,400	\$ 261	\$ 89,799	\$ 69,360	\$ 64,543	

(g) *Debt Financing Liabilities*

The terms to maturity of the undiscounted principal repayments of the debt financing liabilities as at September 30, 2010 are as follows:

(\$ millions)	Terms to Maturity					Total	Fair Value	Weighted Average Interest Rate
	Within 1 Month	1 to 3 Months	3 to 6 Months	Total	Total			
Commercial paper payable	\$ 774	\$ 430	\$ 98	\$ 1,302	\$ 1,302	\$ 1,302	1.0 %	

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(h) Collateral

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

(\$ millions)	As at September 30, 2010	As at March 31, 2010	As at September 30, 2009
Fixed income securities held as collateral on reverse repurchase agreements ¹	\$ 4,097	\$ 4,088	\$ 4,086
Securities held as collateral on over-the-counter derivative transactions ¹	109	-	-
Cash held as collateral on over-the-counter derivative transactions	17	68	238
Securities pledged as collateral on over-the-counter derivative transactions	(41)	-	-
Securities pledged as collateral on guarantees (see note 10)	(120)	(120)	-
Total	\$ 4,062	\$ 4,036	\$ 4,324

¹ The fair value of the collateral held that may be sold or repledged as at September 30, 2010 is \$4,034 million (March 31, 2010 - \$3,923 million; September 30, 2009 - \$3,923 million). The fair value of securities collateral sold or repledged as at September 30, 2010 is \$nil (March 31, 2010 - \$nil; September 30, 2009 - \$nil).

4. CREDIT FACILITIES

The CPP Investment Board maintains \$1.5 billion (March 31, 2010 - \$1.5 billion; September 30, 2009 - \$1.5 billion) of unsecured credit facilities to meet potential liquidity requirements. As at September 30, 2010, the total amount drawn on the credit facilities is \$nil (March 31, 2010 - \$nil; September 30, 2009 - \$nil).

5. SHARE CAPITAL

The issued and authorized share capital of the CPP Investment Board is \$100 divided into 10 shares having a par value of \$10 each. The shares are owned by Her Majesty the Queen in right of Canada.

6. CANADA PENSION PLAN TRANSFERS

Pursuant to Section 108.1 of the *Canada Pension Plan*, the Act and an administrative agreement between Her Majesty the Queen in right of Canada and the CPP Investment Board, amounts not required to meet specified obligations of the CPP are transferred weekly to the CPP Investment Board. The funds originate from employer and employee contributions to the CPP.

The CPP Investment Board is also responsible for providing cash management services to the CPP, including the periodic return, on at least a monthly basis, of funds required to meet CPP benefits and expenses.

The accumulated transfers from the CPP since inception are as follows:

(\$ millions)	As at September 30, 2010	As at March 31, 2010	As at September 30, 2009
Accumulated transfers from the Canada Pension Plan	\$ 229,929	\$ 212,512	\$ 199,392
Accumulated transfers to the Canada Pension Plan	(122,512)	(109,443)	(97,027)
Accumulated net transfers from the Canada Pension Plan	\$ 107,417	\$ 103,069	\$ 102,365

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7. NET INVESTMENT INCOME (LOSS)

Net investment income (loss) is reported net of transaction costs and investment management fees.

Net investment income (loss) is grouped by asset class based on the intent of the investment strategies of the underlying portfolios. Net investment income (loss), after giving effect to derivative contracts and investment receivables and liabilities, is as follows:

(\$ millions)		For the three-month period ended September 30, 2010									
	Investment Income ¹		Net Gain on Investments ²		Total Investment Income		Investment Management Fees		Transaction Costs		Net Investment Income
Equities	\$ 323	\$	5,599	\$	5,922	\$	(74)	\$	(6)	\$	5,842
Fixed income ³	436		1,451		1,887		(25)		(10)		1,852
Inflation-sensitive assets	194		618		812		(17)		(22)		773
Total	\$ 953	\$	7,668	\$	8,621	\$	(116)	\$	(38)	\$	8,467

(\$ millions)		For the three-month period ended September 30, 2009									
	Investment Income ¹		Net Gain (Loss) on Investments ²		Total Investment Income (Loss)		Investment Management Fees		Transaction Costs		Net Investment Income (Loss)
Equities	\$ 258	\$	4,356	\$	4,614	\$	(77)	\$	(20)	\$	4,517
Fixed income ³	351		1,117		1,468		(37)		(7)		1,424
Inflation-sensitive assets	103		(635)		(532)		(18)		(26)		(576)
Total	\$ 712	\$	4,838	\$	5,550	\$	(132)	\$	(53)	\$	5,365

(\$ millions)		For the six-month period ended September 30, 2010									
	Investment Income ¹		Net Gain on Investments ²		Total Investment Income		Investment Management Fees		Transaction Costs		Net Investment Income
Equities	\$ 737	\$	2,250	\$	2,987	\$	(144)	\$	(20)	\$	2,823
Fixed income ³	852		2,043		2,895		(46)		(21)		2,828
Inflation-sensitive assets	465		731		1,196		(30)		(42)		1,124
Total	\$ 2,054	\$	5,024	\$	7,078	\$	(220)	\$	(83)	\$	6,775

(\$ millions)		For the six-month period ended September 30, 2009									
	Investment Income ¹		Net Gain (Loss) on Investments ²		Total Investment Income (Loss)		Investment Management Fees		Transaction Costs		Net Investment Income (Loss)
Equities	\$ 660	\$	10,568	\$	11,228	\$	(142)	\$	(44)	\$	11,042
Fixed income ³	693		2,105		2,798		(55)		(7)		2,736
Inflation-sensitive assets	252		(964)		(712)		(29)		(31)		(772)
Total	\$ 1,605	\$	11,709	\$	13,314	\$	(226)	\$	(82)	\$	13,006

¹ Includes interest income, dividends, private real estate operating income (net of interest expense), and interest expense on the debt financing liabilities.

² Includes realized gains and losses from investments, unrealized gains and losses on investments held at the end of the period, and other investment-related expenses.

³ Includes absolute return strategies.

8. INVESTMENT RISK MANAGEMENT

The CPP Investment Board is 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 manages and mitigates financial risks through the Risk/Return Accountability Framework that is contained within the investment policies 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 and 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

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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.

Included within the Risk/Return Accountability Framework is an active risk limit which represents a limit on the amount of investment risk that the CPP Investment Board can take relative to the CPP Reference Portfolio. The CPP Reference Portfolio is approved by the board of directors and serves as a performance benchmark against which the CPP Investment Board's value-added activities are measured. It represents a low-cost strategic alternative to the CPP Investment Portfolio. The objective of the CPP Investment Board is to create value-added investment returns greater than the returns that would be generated by the CPP Reference Portfolio. The CPP Investment Board monitors the active risk in the CPP Investment Portfolio daily and reports active risk exposures to the board of directors on at least a quarterly basis. Financial risk management is discussed in greater detail on page 23 in the Risk/Return Accountability Framework section of Management's Discussion and Analysis in the 2010 annual report.

- (i) **Market Risk:** Market risk (including currency risk, interest rate risk and equity 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 risk premium at the total fund level, based on risk limits established in the investment policies. In addition, derivatives are used, where appropriate, to manage certain market 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:

(\$ millions)	As at September 30, 2010			As at March 31, 2010			As at September 30, 2009		
Currency	Net Exposure	% of Total		Net Exposure	% of Total		Net Exposure	% of Total	
United States Dollar	\$ 40,044	54 %		\$ 35,121	55 %		\$ 32,823	52 %	
Euro	12,253	16		9,936	15		10,645	17	
British Pound Sterling	6,766	9		4,430	7		3,903	6	
Japanese Yen	5,019	7		5,365	8		6,026	10	
Australian Dollar	3,660	5		2,345	4		2,771	4	
Hong Kong Dollar	1,538	2		1,537	2		1,558	2	
Swiss Franc	1,031	1		1,432	2		1,608	3	
Other	4,334	6		4,292	7		3,678	6	
Total	\$ 74,645	100 %		\$ 64,458	100 %		\$ 63,012	100 %	

Interest Rate Risk: Interest rate risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market interest rates. The CPP Investment Board's interest-bearing investments are exposed to interest rate risk.

Equity Price Risk: Equity price risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market.

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

Value at Risk

CPP Investment Board uses Value at Risk (“VaR”) methodology to monitor market and credit risk exposure 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 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 per cent confidence level and scaled to a one-year holding period. The significant assumption used in this method is the incorporation of the most recent ten years of weekly market returns.

Credit VaR is estimated using a Monte Carlo simulation incorporating a one-year investment horizon. Significant assumptions under this method include using the most recent two-years’ market factor indices to determine ratings based correlations between defaults and downgrades of credit exposures, and using at least 25 years of downgrade and default transition history. In order to estimate credit risk, it is necessary to generate scenarios in sufficient numbers to simulate low probability credit events.

Under the historical and Monte Carlo simulation method for estimating VaR, it is also assumed that the public market proxies used to represent private market investment returns (e.g. those for private real estate and private equities) are reasonable for estimating their contribution to the VaR.

Market and credit VaR are estimated at the same confidence level and are combined using an appropriate positive correlation approved by the Investment Planning Committee (“IPC”) to provide an Integrated Active Risk number.

The CPP Investment Board monitors the active risk of the CPP Investment Portfolio relative to the CPP Reference Portfolio. Changes in active risk are largely independent of changes in VaR in the CPP Reference Portfolio and CPP Investment Portfolio.

VaR, at a 90 per cent confidence level, indicates that one year in ten the portfolio can be expected to lose at least the following amounts:

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(\$ millions)	As at September 30, 2010			As at March 31, 2010			As at September 30, 2009		
	VaR	% of CPP Investment Portfolio ¹		VaR	% of CPP Investment Portfolio ¹		VaR	% of CPP Investment Portfolio ¹	
CPP Reference Portfolio	\$ 13,697	10.2 %		\$ 12,998	10.2 %		\$ 12,410	10.2 %	
CPP Investment Portfolio									
Active Market Risk	\$ 2,127	1.6 %		\$ 1,583	1.2 %		\$ 1,565	1.3 %	
CPP Investment Portfolio ²	\$ 14,832	11.0 %		\$ 13,487	10.6 %		\$ 12,573	10.3 %	
CPP Investment Portfolio									
Credit VaR	\$ 383	0.3 %		\$ 334	0.3 %		\$ 308	0.3 %	
CPP Investment Portfolio									
Integrated Active Market & Credit VaR ³	\$ 2,236	1.7 %		\$ 1,682	1.3 %		\$ 1,654	1.4 %	

¹ 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.

² CPP Investment Portfolio VaR is less than the sum of the CPP Reference Portfolio VaR and CPP Investment Portfolio Active Market Risk due to the beneficial impact of risk diversification.

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

- (ii) **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 its investment in debt securities and over-the-counter derivatives (as discussed in note 3f). The carrying amounts of these investments as presented in the Consolidated Statement of Investment Portfolio represent the maximum credit risk exposure at the balance sheet date.

The Credit Committee, a sub-committee of the IPC, which is chaired by the Chief Operations Officer, is accountable for ensuring that credit risks and credit exposures are identified, measured and monitored regularly, independently of the investment departments, and communicated at least monthly to the IPC and at least quarterly to the board of directors. The IPC, chaired by the Chief Investment Strategist, is accountable for monitoring and managing the total portfolio strategic risk exposures and providing strategic direction to the investment departments. The Credit Committee's primary focus is on emerging risks that may impact the credit exposures of the CPP Investment Board, including analysis of credit risks that may not be adequately captured within current credit risk models or credit exposure calculations. Such risks include correlation risk, market risk related to credit spread movements, and funding and liquidity risks from a credit point of view. Credit risk measurement and reporting are performed by professional risk managers within the Investment Risk Management group ("IRM"). IRM provides qualitative and quantitative analysis and oversight of credit risk, monitoring exposure limits, augmented by detailed analysis of single-name and sector exposures. Credit VaR is the common measure of credit risk across all investment strategies. IRM works closely with the investment departments to provide an evaluation of the credit risk created by significant transactions. Detailed reports of credit risk and counterparty exposures are provided weekly to management and at least monthly to the Credit Committee and the IPC.

The CPP Investment Board manages credit risk by setting overall credit exposure limits by credit rating category. The board of directors approves the credit exposure limits at least once every fiscal year. Counterparties are assigned a credit rating as determined by a recognized credit rating agency, where available, and/or as determined through an internal credit rating process. Where the internal credit rating is lower than the rating determined by a recognized credit rating agency, the internal credit rating will prevail. Credit exposure to any single counterparty is limited to maximum amounts as specified in the investment policies. The Credit Committee has also established single-name sub-limits within the credit exposure limits to mitigate risks arising from concentrated exposures to certain counterparties. IRM

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measures and monitors sub-limits and credit exposure limits daily for compliance and reports to the Credit Committee and IPC at least monthly, or more frequently as necessary.

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:

(\$ millions)	As at September 30, 2010					As at March 31, 2010		As at September 30, 2009	
	Credit Rating	Bonds ^{1,2}	Money Market Securities ¹	Reverse Repurchase Agreements ^{1,3}	Over-the-Counter Derivatives	Direct Investments in Private Debt ¹	Total	% of Total	Total
AAA/R-1 (high)	\$ 16,115	\$ 16,221	\$ 3,504	\$ 735	\$ -	\$ 36,575	60.0 %	\$ 29,950	\$ 24,234
AA/R-1 (mid)	16,430	733	-	203	-	17,366	28.5	18,642	19,073
A/R-1 (low)	3,487	-	501	38	-	4,026	6.6	5,792	8,829
BBB/R-2 (low)	748	-	-	-	264	1,012	1.7	500	519
BB/R-3	295	-	-	-	683	978	1.5	503	-
B	8	-	-	-	1,024	1,032	1.7	667	-
CCC	-	-	-	-	8	8	-	5	-
Total	\$ 37,083	\$ 16,954	\$ 4,005	\$ 976	\$ 1,979	\$ 60,997	100 %	\$ 56,059	\$ 52,655

¹ Includes accrued interest.

² Includes inflation-linked bonds.

³ As at September 30, 2010, fixed income securities with a fair value of \$4,097 million (March 31, 2010 - \$4,088 million; September 30, 2009 - \$4,086 million) and a AAA credit rating were received as collateral which mitigates the credit risk exposure on the reverse repurchase agreements (see note 3h).

Credit risk exposure on over-the-counter derivatives is mitigated through the use of master netting arrangements and collateral. Master netting arrangements are entered into with all counterparties so that, if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. Credit support annexes are negotiated with certain counterparties and require that collateral, in the form of cash or fixed income securities, be provided to the CPP Investment Board when the positive fair value of the derivative contract exceeds certain threshold amounts. As at September 30, 2010, master netting arrangements and collateral held reduce the credit risk exposure to over-the-counter derivatives from \$976 million to \$252 million (March 31, 2010 - \$662 million to \$455 million; September 30, 2009 - \$623 million to \$405 million).

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

- (iii) **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 mitigates liquidity risk through its unsecured credit facilities (see note 4) available in the amount of \$1.5 billion (March 31, 2010 - \$1.5 billion; September 30, 2009 - \$1.5 billion) and the ability to readily dispose of certain investments that are traded in an active market. These include a liquid portfolio of publicly-traded equities, money market securities, marketable bonds and inflation-linked bonds.

The CPP Investment Board is also exposed to liquidity risk through its responsibility for providing cash management services to the CPP (see note 6). In order to manage liquidity risk associated with this short-term cash management program, the assets required for this purpose are segregated from the investment portfolio and separately managed as the Cash for Benefits Portfolio. Liquidity risk is also managed by investing these assets in liquid money market instruments with the primary objective of ensuring the CPP has the necessary liquidity to meet benefit payment obligations on any business day.

CANADA PENSION PLAN INVESTMENT BOARD

Notes to the Consolidated Financial Statements

For the three and six-month periods ended September 30, 2010

(Unaudited)

9. COMMITMENTS

The CPP Investment Board has committed to enter into investment transactions, which will be funded over the next several years in accordance with the agreed terms and conditions. As at September 30, 2010, the commitments total \$17.6 billion (March 31, 2010 - \$18.0 billion; September 30, 2009 - \$21.1 billion).

As at September 30, 2010, the CPP Investment Board is also committed to provide loan facilities to certain related entities for up to \$nil (March 31, 2010 - \$0.6 billion; September 30, 2009 - \$0.6 billion).

As at September 30, 2010, the CPP Investment Board has made lease and other commitments of \$40.2 million (March 31, 2010 - \$39.5 million; September 30, 2009 - \$47.0 million) that will be paid over the next 8 years.

10. GUARANTEES AND INDEMNIFICATIONS

Guarantees

As part of certain investment transactions, the CPP Investment Board has agreed to guarantee, as at September 30, 2010, up to \$0.7 billion (March 31, 2010 - \$0.6 billion; September 30, 2009 - \$nil) to other counterparties in the event certain subsidiaries and other entities default under the terms of loan and other related agreements.

Indemnifications

The CPP Investment Board provides indemnifications to its officers, directors, certain others and, in certain circumstances, to various counterparties and other entities. The CPP Investment Board may be required to compensate these indemnified parties for costs incurred as a result of various contingencies such as changes in laws and regulations and litigation claims. The contingent nature of these indemnification agreements prevents the CPP Investment Board from making a reasonable estimate of the maximum potential payments the CPP Investment Board could be required to make. To date, the CPP Investment Board has not received any claims nor made any payments pursuant to such indemnifications.