12. ENTERPRISE RISKS AND RISK MANAGEMENT

Each year, the Company performs an Enterprise Risk Assessment ("ERA"), which identifies the key risks facing the Company and evaluates the risk management effectiveness for each of these risks. The assessment is primarily carried out through interviews with senior management, who assess the potential impact of risks and the likelihood that a negative impact will occur. The results of the ERA and other business planning processes are used to prioritize risk management activities, allocate resources effectively and develop a risk-based internal audit plan. The identified risks are presented and discussed with the Audit Committee.

In the normal course of business, the Company is exposed to financial and market risks that have the potential to negatively affect its financial performance. As such, the Company operates with policies and guidelines approved by the Board covering funding, investing, equity, commodity, foreign currency exchange and interest rate management. The Company's policies and guidelines prohibit the use of any financial derivative instrument for trading or speculative purposes.

The operating and financial risks and risk management strategies identified by management are discussed below. Any of these risks has the potential to negatively affect financial performance. The Company has operating and financial risk management strategies including insurance programs, which help to mitigate the potential financial impact of these operating and financial risks. While the Company employs strategies to minimize these risks, these strategies do not guarantee that events or circumstances will not occur which could negatively affect the Company's financial condition and performance.

12.1 OPERATING RISKS AND RISK MANAGEMENT

Industry and Competitive Environment

The North American food processing and retail industries are evolving and operate in increasingly competitive markets. The Company completed the sale of its Canadian dairy and bottling operations in 2008 and its U.S. fresh bakery business in the first quarter of 2009, reducing its investment in the food processing industry. Consumers' needs drive changes in the industries, and are impacted by changing demographic and economic trends such as changes in disposable income, ethnic diversity, health and environmental awareness and time availability. Customer satisfaction is central to the Company's business. Over the past several years, consumers have demanded more choice, value and convenience. If the Company is ineffective in responding to these trends or ineffective in executing its strategies, its financial performance could be negatively impacted.

The Company reviews and monitors operating plans and results, including market share in its reportable operating segments. When necessary, the segments will modify their operating strategies, including, but not limited to, relocating production facilities or stores, closing underperforming stores, relocating stores or reformatting them under a different banner, reviewing pricing and adjusting product offerings, brand positioning and/or marketing programs to take into account competitive activity. A significant competitive advantage the Company has developed is its brands. Both segments focus on brand development and building upon their core brand equity. Weston Foods' premium and mainstream brands provide Weston Foods with strong core brands and product lines that enhance consumer loyalty, trusted as they are for quality, great taste and freshness. Loblaw's control label program represents a competitive advantage because it enhances customer loyalty by offering superior value and provides some protection against national brand pricing strategies.

As a result of the continuing and accelerating cost pressures being experienced by the food processing industry and the difficult sales environment being experienced by many food retailers, Weston Foods anticipates that industry restructurings are likely. Although the outcome and the impact, if any, on the Company's consolidated financial results from this anticipated restructuring are uncertain, Weston Foods will closely monitor developments in the food processing industry and food retail market and, if required, adjust its strategies and programs as necessary.

Loblaw's competitors include traditional supermarket operators, as well as mass merchandisers, warehouse clubs, drugstores, limited assortment stores, discount stores, convenience stores and specialty stores. Many of these competitors now offer a selection of food, drugstore and general merchandise. Others remain focused on supermarket-type merchandise. Loblaw is also subject to competitive pressures from new entrants into the marketplace and from the expansion of existing competitors, particularly those expanding into the grocery market. These competitors may have extensive resources which will allow them to compete effectively with Loblaw in the long term. Increased competition could adversely affect Loblaw's ability to achieve its objectives. Loblaw's inability to compete effectively with its current or any future competitors could result in, among other things, reduced market share and lower pricing in response to its competitors' pricing activities. Accordingly, Loblaw's competitive position and financial performance could be negatively impacted.

Economic Environment

In the last six months of 2008 and continuing into 2009, economic conditions in Canada and the United States deteriorated, which may impact the Company's operations negatively in the future as increased unemployment levels, changes in interest rates, reduced access to credit or changes in inflation could severely impact consumer spending and ultimately negatively impact sales and margins. The challenging economic conditions may also increase the risks associated with any deployment of the Company's significant holdings of cash and short term investments resulting from the sale of the Canadian dairy and bottling operations and the U.S. fresh bakery business. Management regularly monitors economic conditions and their impact on the Company's operations, and actively considers these factors in making short term operating and longer term strategic decisions.

Change Management and Execution

Significant initiatives in support of Loblaw's multi-year turnaround plan are underway or planned. These initiatives include the restructuring of Loblaw's supply chain and execution of its information technology strategic plan. While these changes are expected to bring benefits to Loblaw in the form of a more agile and consumer-focused business, success is dependent on management effectively realizing the intended benefits.

Ineffective change management may result in disruptions to the operations of the business or affect the ability of the Company to implement and achieve its strategic objectives due to a lack of clear accountabilities or lack of requisite knowledge, which may cause employees to act in a manner which is inconsistent with Company objectives. Any of these events could negatively impact the Company's performance. The Company may not always achieve the expected cost savings and other benefits of its initiatives.

Distribution and Supply Chain

The need to invest in and improve the Company's supply chain may adversely affect the Company's capacity to effectively and efficiently access current and potential customers. A significant restructuring of Loblaw's supply chain will continue for the next several years. Although this initiative is expected to result in improved service levels for Loblaw's stores, the scale of the change and the implementation of new processes could cause disruption in the flow of goods to stores, which would negatively affect sales.

Information Technology

To support the current and future requirements of the business in an efficient, cost-effective and well-controlled manner, the Company is reliant on information technology ("IT") systems. These systems are essential in providing management with the appropriate information for decision making, including its key performance indicators. Any significant failure or disruption of these systems could negatively affect the Company's reputation, revenues and financial performance.

IT systems have been assessed by Loblaw management as needing significant upgrading in certain areas in order to act as an enabler for the businesses. These systems may not properly support the required business processes of Loblaw. An IT strategic plan was developed to guide the new systems environment that Loblaw requires. Implementation of this plan was initiated in 2008 and will continue throughout 2009, 2010 and 2011. Change management risk and other associated risks will arise from the various projects which will be undertaken to upgrade existing systems and introduce new systems to effectively manage the business going forward.

Failure by the Company to appropriately invest in IT or failure to implement IT infrastructure in a timely or effective manner may negatively impact the Company's financial performance.

Failure or disruption in the Company's IT systems may result in a lack of relevant and reliable information that enables management to effectively prioritize its products or balance its businesses in a strategic context, which may preclude the Company from optimizing its overall performance.

Any failures in the Company's information security systems or non-compliance with information security standards, including those in relation to personal information belonging to the Company's customers, could result in harm to the reputation or competitive position of the Company and could negatively affect financial performance.

Employee Development and Retention

The degree to which the Company is not effective in developing its employees and establishing appropriate succession planning processes and retention strategies could lead to a lack of requisite knowledge, skills and experience which could, in turn, affect the Company's ability to execute its strategies, efficiently run its operations and meet its goals for financial performance. The Company continues to focus on the development of employees at all levels and across all regions. Effective employee development and succession planning are essential to sustaining the growth and success of the Company. Although progress was made in 2008, these areas are not yet fully developed and efforts are ongoing.

Food Safety and Public Health

The Company is subject to risks associated with product defects, food safety and product handling. Such liabilities may arise in relation to the manufacturing, preparation, storage, distribution and display of products and, with respect to the Company's control label or branded products and contract manufactured products, in relation to the production, packaging and design of products. Any event related to these matters has the potential to adversely affect the Company's reputation and its financial performance.

A majority of the Company's sales are generated from food products and the Company could be vulnerable in the event of a significant outbreak of food-borne illness or increased public health concerns in connection with certain food products. Such an event could negatively affect the Company's financial performance. Procedures are in place to manage such events, should they occur. These procedures identify risks, provide clear communication to employees and consumers and are aimed at ensuring that potentially harmful products are expeditiously removed from inventory. The Company has food safety procedures and programs, which address safe food handling and preparation standards. The Company endeavors to employ best practices for the storage and distribution of food products and also actively supports consumer awareness of safe food handling and consumption. The ability of these procedures to address such events is dependent on their successful execution. The existence of these procedures does not mean that the Company will in all circumstances be able to mitigate these risks.

The Company strives to ensure its brands and Loblaw's control label products meet all applicable regulatory requirements including having nutritional labelling so that today's health conscious consumer can make informed choices.

Environmental, Health and Safety

Adverse environmental and health and safety events could negatively affect the Company's reputation and financial performance. The Company has environmental, health and workplace safety programs and has established policies and procedures aimed at ensuring compliance with applicable environmental legislative requirements. To this end, the Company employs environmental risk assessments and audits using internal and external resources together with employee awareness programs throughout its operating locations.

The Company endeavors to be socially and environmentally responsible, and recognizes that the competitive pressures for economic growth and cost efficiency must be integrated with sound environmental stewardship and ecological considerations.

Loblaw participates in industry and government-led environmental initiatives aimed at reducing the environmental impact of its operations. Loblaw maintains a large portfolio of real estate and is subject to environmental risks associated with the contamination of such properties, whether by previous owners or occupants, neighbouring properties or from its own operations. Loblaw could be subject to increased or unexpected costs associated with the related remediation activities. In recent years, provincial and municipal governments have introduced legislation that imposes liabilities on retailers for costs associated with recycling and disposal of consumer goods packaging. This is a growing trend and Loblaw expects to be subject to increased costs associated with these laws.

The Environmental, Health and Safety Committee of the Board receives regular reporting from management addressing current and potential future issues, identifying new regulatory concerns and related communication efforts. The Company's dedicated Environmental Affairs staff work closely with the operations to help ensure corporate requirements are met.

Labour Relations

A significant portion of the Company's workforce is unionized. Renegotiating collective agreements may result in work stoppages or slowdowns, which could negatively affect the Company's financial performance, depending on their nature and duration. The Company is willing to accept the short term costs of labour disruption in order to negotiate competitive labour costs and operating conditions for the longer term. In 2008, 85 collective agreements affecting approximately 14,000 employees expired, with the single largest agreement covering approximately 3,100 employees. The Company also negotiated 78 collective agreements in 2008, which represented a combination of agreements expired in 2008, carried over from prior years and those negotiated early.

Several of the Company's competitors operate in a non-union environment. These competitors may benefit from lower labour costs and more favourable operating efficiencies, making it more difficult for the Company to compete.

Trademark or Brand Erosion

Erosion of a trademark or brand over time may threaten the demand for the Company's products or services and impair its ability to grow future revenue streams. Loblaw offers a strong control label program, including the *President's Choice*, *no name* and *Joe Fresh Style* brands, and Weston Foods has a strong branded product offering, including *Wonder*, *D'Italiano* and *Country Harvest*. The Company endeavors to have the appropriate contractual protections in Loblaw's arrangements with control label vendors and Weston Foods' arrangements with contract manufacturers, distributors and customers.

Commodity Prices
Weston Foods costs are directly impacted by fluctuations in the price of commodities such as wheat, flour, sugar, vegetable oil, cocoa, natural gas and fuel. Increases in the price of these commodities could adversely affect the Company's financial performance. In order to minimize the economic effect of these price fluctuations on current operating results and to lessen the resulting uncertainty of future financial results, Weston Foods hedges a portion of its anticipated commodity purchases. As at year end 2008, Weston Foods had entered into commodity future contracts that mitigate price fluctuations on some commodities for approximately 6 months, on average. There can be no assurance that the Company's hedging arrangements will continue to minimize the short term impact on the Company's financial results, particularly if commodity prices continue to be volatile.

Legal, Taxation and Accounting
Changes to any of the laws, rules, regulations or policies related to the Company's business, including the production, processing, preparation, distribution, packaging and labelling of its products, could have an adverse impact on its financial and operational performance. In the course of complying with such changes, the Company may incur significant costs. Failure by the Company to fully comply with applicable laws, rules, regulations and policies may subject it to civil or regulatory actions or proceedings, including fines, assessments, injunctions, recalls or seizures, which may have an adverse effect on the Company's financial results.

The Company is subject to various laws regarding the protection of personal information and has adopted a Privacy Code setting out guidelines for the handling of personal information. Any failure of the Company to comply with these laws may result in damage to its reputation and negatively affect financial performance.

There can be no assurance that the tax laws and regulations in the jurisdictions affecting the Company will not be changed in a manner which could adversely affect the Company. New accounting pronouncements introduced by appropriate authoritative bodies may also impact the Company's financial results.

Merchandising and Excess Inventory
Loblaw's merchandising processes may create inventory that customers don't want or need, is not reflective of current trends in consumer tastes or habits, is priced at a level customers are not willing to pay, or meets a need, but is late in reaching the market that a competitor reached first. This may result from pervasive changes to customers' needs and wants without Loblaw's awareness or without Loblaw adequately adapting (e.g. increased demand for faster delivery or turnaround on products). Recent consumer trends that dominate the retail industry include customers' concerns for their own and their family's health, lack of time, increasing demand for value and premium products in one location, a willingness to buy certain general merchandise on food-focused shopping trips and an increasing demand that retailers source ethically and in a way that demonstrates care for the environment and the community.

It is also possible that a number of Loblaw's general merchandising programs will result in excess inventory that cannot be sold profitably through Loblaw's stores. Excess inventory may result in mark downs, shrink or the need to liquidate the inventory, all of which may negatively impact the Company's financial performance. In addition, Loblaw's current inventory management infrastructure, including its information technology systems, is not efficient in its tracking of inventory through all stages of the supply chain. Loblaw has implemented procedures and information technology workarounds which provide management with the ability to adequately detect and quantify excess and obsolete inventory.

Business Continuity
The Company's ability to continue critical operations and processes could be negatively impacted by a weather disaster, prolonged IT failure, food pandemic or other national/international catastrophe.

Vendor Management
Inefficient, ineffective or incomplete vendor management strategies, policies and/or procedures may impact the Company's ability to optimize financial performance, meet customer needs and/or control costs and quality. Loblaw has recently implemented practices and performance expectations with its vendor base, where vendors have been asked to support sales plans and cost reduction initiatives and to align with major program changes. Delays with the implementation of this program will have an impact on Loblaw's ability to realize the expected benefits.

Franchise Independence

A substantial portion of Loblaw's revenues and earnings come from amounts paid by franchisees. Franchisees are independent businesses and, as a result, their operations may be negatively affected by factors beyond Loblaw's control, which in turn may damage Loblaw's reputation and potentially affect revenues and earnings. Revenues and earnings would also be negatively affected and Loblaw's reputation could be harmed if a significant number of franchisees were to: experience operational failures, including health and safety exposures; experience financial difficulty; be unwilling or unable to pay Loblaw for products, rent or other fees; or fail to enter into renewals of franchise agreements. Loblaw's franchise system is also subject to franchise laws and regulations enacted by a number of provinces. Any new legislation or failure to comply with existing legislation may negatively affect operations, and could add administrative costs and burdens associated with these regulations, all of which could affect Loblaw's relationship with its franchisees.

Employee Future Benefit Contributions

The Company manages the assets in its defined benefit pensions plans by engaging professional investment managers who operate under prescribed investment policies and procedures in respect of permitted investments and asset allocations. The performance of the Company's pension plans will be negatively impacted where the plan assets underperform. If capital market returns continue to be negative, the Company will be required to make contributions to its funded defined benefit pension plans in excess of those currently contemplated, which in turn may have a negative effect on the Company's financial performance and cash flow.

During 2008, the Company contributed $148 million (2007 – $83 million) to its funded defined benefit pension plans, including an additional voluntary contribution of $64 million in the fourth quarter of 2008 which partially offset the impact of the negative returns experienced by the plans during the year. In 2009, the Company expects to contribute approximately $118 million to these plans. This estimate may vary subject to actuarial valuations being completed, market performance and regulatory requirements. The Company regularly monitors and assesses plan experience and the impact of changes in participant demographics, capital markets and other economic factors on its funding requirements, employee future benefit costs and actuarial assumptions. The Company also expects to make contributions in 2009 to defined contribution pension plans and multi-employer pension plans, as well as benefit payments to the beneficiaries of the unfunded defined benefit pension and other benefit plans.

Multi-Employer Pension Plans

In addition to the Company-sponsored pension plans, the Company participates in various multi-employer pension plans, providing pension benefits in which approximately 39% (2007 – 40%) of employees of the Company and of its independent franchisees participate. The administration of these plans and the investment of their assets are legally controlled by boards of independent trustees generally consisting of an equal number of union and employer representatives. In some circumstances, the Company may have a representative on the board of trustees of these multi-employer pension plans. The Company's responsibility to make contributions to these plans is limited by the amounts established pursuant to its collective agreements; however, poor performance of these plans could have an adverse impact on the Company's employees and former employees who are members of these plans. Pension cost for these plans is recognized as contributions are due.

The trustees of a multi-employer pension plan in which employees of Loblaw and those of its independent franchisees participate are involved in proceedings brought by Financial Services Commission of Ontario whereby it has been alleged that the trustees violated certain provisions of the Pension Benefits Act (Ontario) in their management of the plan's funds. One of the trustees, an officer of Loblaw, is entitled to indemnification from Loblaw.

Third-Party Providers

Certain aspects of the Company's business are significantly affected by third-party providers. Although appropriate contractual arrangements are put in place with these third parties, the Company has no direct influence over how such third parties are managed. It is possible that negative events affecting these third parties could in turn negatively impact the Company's operations and its financial performance.

A large portion of Loblaw's case-ready meat products are produced by a third party which operates facilities currently dedicated to Loblaw.

In addition, certain of Weston Foods products and Loblaw's control label products are manufactured under contract by third-party vendors. To preserve the brands' equity, these vendors are held to high standards of quality but there is no assurance that these standards will be achieved. The Company also uses third-party logistic services including those in connection with a dedicated warehouse and distribution centre in Pickering, Ontario, a warehouse and distribution centre in Ajax, Ontario, and third-party common carriers. Any disruption in these services could interrupt the flow of goods and therefore could negatively impact sales.

President's Choice Financial banking services are provided by a major Canadian chartered bank. *PC* Bank uses third-party service providers to process credit card transactions, operate call centres and monitor a portion of credit and fraud for the *President's Choice Financial MasterCard*. To minimize operating risk, *PC* Bank and Loblaw actively manage and monitor their relationship with all third-party service providers. *PC* Bank has developed a vendor management policy, approved by its Board of Directors, and has established a vendor management team that provides its Board with regular reports on vendor management and risk assessment. *PC Financial* ceased soliciting for new home and automobile insurance business effective February 21, 2009; however, it will continue to provide customer service (including claims service) and renewal policies to existing customers.

The Company relies on third parties for investment management, custody and other services for its cash equivalents, short term investments, security deposits and pension assets. Any disruption in the services provided by these suppliers could affect the return on these assets or the liquidity of the Company.

Real Estate and Store Renovations
Real estate development plans may be contingent on successful negotiation of labour agreements with respect to same-site expansion or redevelopment. Loblaw maintains a significant portfolio of owned retail real estate and, whenever practical, pursues a strategy of purchasing sites for future store locations. This enhances Loblaw's operating flexibility by enabling it to introduce new departments and services that could be precluded under third-party operating leases. At year end 2008, Loblaw owned 74% (2007 – 73%) of its corporate store square footage and owned 48% (2007 – 46%) of its franchise square footage. As part of ongoing review of performance of, and customer satisfaction with, Loblaw's stores, Loblaw from time to time undertakes store renovations and remodeling. In doing so, Loblaw could be negatively impacted if such renovations and remodeling are carried out in a manner that is disruptive to the ongoing store operations or results in a poor customer experience.

Seasonality
The Company's operations as they relate to food, specifically inventory levels, sales volumes and product mix, are impacted to some degree by certain holiday periods throughout the year. Both of the Company's reportable operating segments continuously monitor the impact holidays may have on their operations and adjust inventory levels and production and delivery schedules as required. Sales of certain general merchandise items at Loblaw are subject to more seasonal fluctuations.

Utility and Fuel Prices
The Company is a significant consumer of electricity, other utilities and fuel. The Company has entered into contracts to fix the price of a portion of its future variable costs associated with electricity, natural gas and fuel, and financial contracts to fix a portion of variable costs associated with heating oil requirements for 2009. Despite these arrangements, cost increases in these items could still negatively affect the Company's financial performance.

Ethical Business Conduct
The Company has adopted a Code of Business Conduct which employees and directors of the Company are required to acknowledge and agree to on a regular basis. The Company has in place an Ethics and Business Conduct Committee, comprised of senior management, which monitors compliance with the Code of Business Conduct and determines how the Company can best ensure it is conducting its business in an ethical manner. The Company encourages reporting of unethical conduct and has established a toll-free anonymous response line, which can be used by employees to report suspected accounting, internal control or auditing irregularities and unethical behaviour impacting the Company. Loblaw has also adopted a Vendor Code of Conduct, which outlines its ethical expectations to its vendor community in a number of areas, including social responsibility. Any failure of the Company or its vendors to adhere to these policies, the law or ethical business practices could significantly affect the Company's reputation and brands and could, therefore, negatively impact the Company's financial performance.

Insurance
The Company attempts to limit its exposure to certain risks through a combination of appropriate levels of self-insurance and the purchase of various insurance coverages, including an integrated insurance program. The Company's insurance program is based on various lines and limits of coverage. Insurance is arranged on a multi-year basis with reliable, financially stable insurance companies as rated by A.M. Best Company, Inc. The Company combines comprehensive risk management programs and the active management of claims handling and litigation processes by using internal professionals and external technical expertise. These programs do not guarantee that any given risk will be mitigated in all circumstances.

Holding Company Structure

GWL is a holding company. As such, it does not carry on all of its business directly but does so through its subsidiaries. It has no major source of income or assets of its own, other than the interests it has in its subsidiaries, which are all separate legal entities. GWL is therefore financially dependent on dividends and other distributions it receives from its subsidiaries.

12.2. FINANCIAL RISKS AND RISK MANAGEMENT

Foreign Currency Exchange Rate

Following the sale of Weston Foods' U.S. fresh bakery business in January 2009 and the subsequent conversion of a portion of the proceeds into Canadian dollars, Dunedin Holdings S.à r.l. retains approximately USD $1.1 billion of cash and short term investments. The future net earnings of the Company will reflect translation gains and losses associated with these balances. A portion of Weston Foods' remaining business will continue to be in United States dollars, through its net investment in self-sustaining foreign operations, the assets and liabilities of which are translated into Canadian dollars at the foreign currency exchange rate in effect at the balance sheet date. As a result, the Company is exposed to exchange rate gains and losses which are recorded in other comprehensive income (loss). In addition, revenues and expenses of these self-sustaining foreign operations are translated into Canadian dollars at the foreign currency exchange rates that approximate the rate in effect at the date when such items are recognized. An appreciating Canadian dollar relative to the United States dollar will negatively impact year-over-year changes in reported sales, operating income and net earnings, while a depreciating Canadian dollar relative to the United States dollar will have the opposite impact.

Loblaw enters into cross currency swaps to manage its current and anticipated exposure to fluctuations in foreign currency exchange rates. Loblaw's cross currency swaps are transactions in which interest payments and principal amounts in United States dollars are exchanged against the receipt of interest payments and principal amounts in Canadian dollars. Loblaw is exposed to foreign currency exchange rate variability, primarily on its United States dollar denominated cash and cash equivalents, short term investments, security deposits included in other assets, foreign denominated purchases in accounts payable and accrued liabilities, and USD private placement notes included in long term debt.

Credit

The Company is exposed to credit risk resulting from the possibility that counterparties may default on their financial obligations. Exposure to credit risk relates to derivative instruments, cash equivalents, short term investments, security deposits included in other assets, pension assets held in the Company's defined benefit plans, amounts receivable from Weston Foods customers and suppliers, *PC* Bank's credit card receivables and other Loblaw receivables from independent franchisees, associated stores and independent accounts.

The Company may be exposed to losses if a counterparty to the Company's financial or non-financial derivative agreements fails to fulfill its obligations. The Company has sought to minimize potential counterparty risk and losses by conducting transactions for its derivative agreements with counterparties that have at minimum a long term "A" credit rating from a recognized credit rating agency and by placing risk adjusted limits on its exposure to any single counterparty for its financial derivative agreements. The Company has internal policies, controls and reporting processes, which require ongoing assessment and corrective action, if necessary, with respect to its derivative transactions. In addition, net obligations and asset amounts on cross currency swaps and equity swaps and forwards are each netted by agreement with counterparties.

Credit risk associated with the Company's cash equivalents, short term investments and security deposits included in other assets results from the possibility that a counterparty may default on the repayment of a security. The Company attempts to mitigate this risk through policies and guidelines that require issuers of permissible investments to have at minimum a long term "A" credit rating from a recognized credit rating agency and that specify minimum and maximum exposures to specific industries, issuers and types of investment instruments. The Company purchases and holds these investments directly in custody accounts, and has limited exposure to any third-party money market portfolios and funds.

Credit risk associated with investments in the Company's defined benefit pension plans is described in the Employee Future Benefits Contributions discussion in Section 12.1 of this MD&A.

Weston Foods performs ongoing credit evaluations to assess the financial condition of its new and existing suppliers and customers for amounts receivable from these counterparties.

Loblaw's exposure to credit risk from *PC* Bank's credit card receivables and receivables from independent franchisees, associated stores and independent accounts results from the possibility that customers may default on their payment obligation. *PC* Bank manages the credit card receivable risk by employing stringent credit scoring techniques, actively monitoring the credit card portfolio and reviewing techniques and technology that can improve the effectiveness of the collection process. In addition, these receivables are dispersed among a large, diversified group of credit card customers. Loblaw accounts receivable from independent franchisees, associated stores and independent accounts are actively monitored on an ongoing basis and settled on a frequent basis in accordance with the terms specified in the applicable agreements.

Interest Rate
The Company is exposed to interest rate risk which it manages through the use of interest rate swaps. Interest rate swaps are transactions in which the Company exchanges interest flows with a counterparty on a specified notional amount for a predetermined period based on agreed-upon fixed and floating interest rates. Notional amounts are not exchanged. The Company's interest rate risk arises from the issuance of short term debt and equity derivatives, net of its cash and cash equivalents, short term investments and security deposits included in other assets. The Company manages fluctuations in its interest expense through its exposure to a mix of fixed and floating interest rates, by managing the duration of its financial instruments and by entering into interest rate swaps.

Commodity Price
Weston Foods costs are directly impacted by fluctuations in the price of commodities such as wheat, flour, sugar, vegetable oil, cocoa, natural gas and fuel. Loblaw is exposed to increases in the prices of commodities in operating its stores and distribution centres, as well as the indirect link of commodities to consumer products. To manage this exposure, Loblaw uses purchase commitments for a portion of its needs for certain consumer products that may be commodities based and Loblaw expects to take delivery of these consumer products in the normal course of business. In addition, both Weston Foods and Loblaw use financial and non-financial derivative instruments in the form of future contracts, option contracts and forward contracts to manage their current and anticipated exposure to fluctuations in commodity prices.

Common Share Market Price
GWL and Loblaw enter into equity derivatives to manage exposure to fluctuations in stock-based compensation cost as a result of changes in the market prices of the respective underlying common shares. The equity derivatives allow for settlement in cash, common shares or net settlement. These derivatives change in value as the market prices of the respective underlying common shares change and provide a partial offset to fluctuations in stock-based compensation cost, including restricted share unit ("RSU") plan expense. The partial offset between stock-based compensation costs, including RSU plan expense, and the equity derivatives is effective when the market price of the respective underlying common shares exceeds the exercise price of the related employee stock options. When the market price of the respective underlying common shares is lower than the exercise price of the related employee stock options, these equity derivatives will provide a partial offset only to the RSU plan expense. The amount of net stock-based compensation cost recorded in operating income is mainly dependent upon the number of unexercised stock options and RSUs and their vesting schedules relative to the number of respective underlying common shares on the equity derivatives and the level of and fluctuations in the market price of the respective underlying common shares.

Changes in the Loblaw common share price impact the Company's interest and other financing charges. In 2001, GWL entered into an equity forward sale agreement based on 9.6 million Loblaw common shares at an original forward price of $48.50 per Loblaw common share which, under the terms of the agreement, had increased to a forward price of $76.52 (2007 – $72.06) per Loblaw common share as at December 31, 2008. The forward matures in 2031 and will be settled in cash as follows: GWL will receive the forward price and will pay the market value of the underlying Loblaw common shares at maturity. The obligation of GWL under this forward is secured by the underlying Loblaw common shares. GWL entered into this forward to partially offset any repayment risk associated with its Series A, 7.00% and Series B Debentures. GWL recognizes a non-cash charge or income, which is included in consolidated interest expense and other financing charges, representing the fair value adjustment of GWL's forward sale agreement for 9.6 million shares. The fair value adjustment in the forward contract is a non-cash item resulting from fluctuations in the market price of the underlying Loblaw shares that GWL owns. GWL does not record any change in the market price associated with the Loblaw shares it owns. At maturity, if the forward price is greater than the market price, GWL will receive a cash amount equal to the difference. If the forward price is less than the market price, GWL will pay a cash amount equal to the difference. Any cash paid under the forward contract could be offset by the sale of Loblaw shares.

Derivative Instruments

As discussed above, the Company uses over-the-counter derivative instruments to manage certain risks and costs. The fair value of derivative instruments is subject to changing market conditions which could negatively impact earnings. The Company's policies and guidelines prohibit the use of any derivative instrument for trading or speculative purposes. See notes 1 and 27 to the consolidated financial statements for additional information about the Company's financial derivative instruments.

Liquidity

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price.

Should the Company's financial performance and condition deteriorate or downgrades in the Company's credit ratings occur, the Company's ability to obtain funding from external sources may be restricted. In addition, credit and capital markets are subject to inherent global risks that may negatively affect the Company's access and ability to fund its short term and long term debt maturities. The Company mitigates these risks by maintaining appropriate levels of cash and cash equivalents and short term investments, by actively monitoring market conditions and by diversifying its sources of funding and maturity profile.