

## Notes to the Consolidated Financial Statements

### 24. CAPITAL MANAGEMENT

The Company defines capital as net debt (excluding Exchangeable Debentures), capital securities and shareholders' equity.

The Company's objectives when managing capital are to:

- ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans;
- maintain financial capacity and access to capital to support future development of the business;
- minimize the cost of its capital while taking into consideration current and future industry, market and economic risks and conditions; and
- utilize short term funding sources to manage its working capital requirements and long term funding sources to match the long term nature of the fixed assets of the business.

The following ratios are used by the Company to monitor its capital:

	Dec. 31, 2008	Dec. 31, 2007
Interest coverage	<b>3.1</b>	4.4
Net debt (excluding Exchangeable Debentures) to equity	<b>0.58:1</b>	0.96:1

The Company manages debt on a net basis, excluding capital securities, calculated as outlined below. The Company's internal guideline targets a net debt (excluding Exchangeable Debentures) to equity ratio of less than 1:1. Equity for the purpose of calculating the net debt (excluding Exchangeable Debentures) to equity ratio is defined by the Company as GWL's capital securities of \$264 (2007 – \$260) as at year end 2008 and shareholders' equity. This ratio is useful in assessing the amount of leverage employed. These ratios are also calculated from time to time on an alternative basis by management to approximate the methodology of debt rating agencies and other market participants.

#### Net Debt

The components of net debt (excluding Exchangeable Debentures) are as follows:

	Dec. 31, 2008	Dec. 31, 2007
Bank indebtedness	<b>\$ 112</b>	\$ 60
Commercial paper		609
Short term bank loans	<b>453</b>	250
Long term debt due within one year	<b>415</b>	432
Long term debt	<b>5,308</b>	5,494
Less: Cash and cash equivalents	<b>1,465</b>	1,076
Short term investments	<b>694</b>	461
Security deposits included in other assets	<b>560</b>	419
Net debt	<b>3,569</b>	4,889
Less: Exchangeable Debentures		157
Net debt (excluding Exchangeable Debentures)	<b>\$ 3,569</b>	\$ 4,732

The Company monitors its credit ratings as it seeks access to capital as part of the Company's goal to maintain financial capacity and access to capital markets. The Company's ability to obtain funding from external sources may be restricted by a downgrade in the Company's credit ratings, should the Company's financial performance and condition deteriorate. 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 requirements. The Company mitigates these risks by maintaining appropriate levels of cash and cash equivalents and short term investments, actively monitoring market conditions and diversifying its capital sources and maturity profile.

During 2008, Loblaw filed a Short Form Base Shelf Prospectus ("Prospectus") allowing for the potential issue of up to \$1 billion of unsecured debentures and/or preferred shares subject to the availability of funding by capital markets. During 2008, Loblaw issued preferred shares under the Prospectus (see note 22).

## Dividends

The declaration and payment of dividends and the amount thereof are at the discretion of the Board of Directors, which takes into account the Company's financial results, capital requirements, available cash flow and other factors the Board of Directors considers relevant from time to time. Over the long term, GWL's objective is for its common dividend payment ratio to be in the range of 20% to 25% of the prior year's basic net earnings per common share from continuing operations, adjusted as appropriate for items which are not regarded to be reflective of ongoing operations, giving consideration to the year end cash position, future cash flow requirements and investment opportunities. During 2008, the Board of Directors declared quarterly dividends as follows:

(\$)	Declared per Share
Common shares	\$ 0.36
Preferred shares – Series I	\$ 0.36
– Series II	\$ 0.32
– Series III	\$ 0.32
– Series IV	\$ 0.32
– Series V	\$ 0.30

Dividends on the Preferred Shares, Series II are presented in interest expense and other financing charges in the consolidated statement of earnings (see note 5).

## Covenants and Regulatory Requirements

The committed credit facility which Loblaw entered into during 2008 is subject to certain covenants (see note 18). Under the USD \$300 private placement notes, Loblaw is also subject to certain financial covenants (see note 19). As at year end 2008, Loblaw was in compliance with these covenants.

Loblaw is also subject to externally imposed capital requirements from the Office of the Superintendent of Financial Institutions ("OSFI"), as the primary regulator of *PC Bank*, and the Central Bank of Barbados, as the primary regulator of *Glenhuron*, both wholly owned subsidiaries of the Company. *PC Bank's* capital management objectives are to maintain a consistently strong capital position while considering the Bank's economic risks and to meet all regulatory capital requirements as defined by OSFI. A new regulatory capital management framework, Basel II, has been implemented in Canada that establishes regulatory capital requirements that are more sensitive to a bank's risk profile. *PC Bank* met all applicable capital targets as at year end 2008. *Glenhuron* is currently regulated under Basel I. Under Basel I, *Glenhuron's* assets are risk weighted and the minimum ratio of capital to risk weighted assets is 8.0%. *Glenhuron's* ratio of capital to risk weighted assets met the minimum requirements under Basel I as at year end 2008.

In addition, a wholly owned subsidiary of the Company that engages in insurance related activities exceeded the minimum regulatory capital and surplus requirements as at year end 2008.