

CALIFORNIA WATER SERVICE GROUP

Form 10-Q

May 07, 2007

Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2007

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 1-13883

CALIFORNIA WATER SERVICE GROUP

(Exact name of registrant as specified in its charter)

Delaware

77-0448994

(State or other jurisdiction
of incorporation or organization)

(I.R.S. Employer identification No.)

1720 North First Street, San Jose, CA.

95112

(Address of principal executive offices)

(Zip Code)

408-367-8200

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by checkmark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 or the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act) Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common shares outstanding as of May 1, 2007 20,666,469.

TABLE OF CONTENTS

	Page
<u>PART I Financial Information</u>	
<u>Item 1 Financial Statements</u>	3
<u>Condensed Consolidated Balance Sheets (unaudited) March 31, 2007 and December 31, 2006</u>	4
<u>Condensed Consolidated Statements of Income (unaudited) For the Three Months Ended March 31, 2007 and 2006</u>	5
<u>Condensed Consolidated Statements of Cash Flows (unaudited) For the Three Months Ended March 31, 2007 and 2006</u>	6
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	7
<u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
<u>Item 3 Quantitative and Qualitative Disclosure about Market Risk</u>	25
<u>Item 4 Controls and Procedures</u>	26
<u>PART II Other Information</u>	
<u>Item 1 Legal Proceedings</u>	26
<u>Item 4 Submission of Matters to a Vote of Security Holders</u>	27
<u>Item 6 Exhibits</u>	29
<u>Signatures</u>	30
<u>Index to Exhibits</u>	31
<u>EXHIBIT 31.1</u>	
<u>EXHIBIT 31.2</u>	
<u>EXHIBIT 32</u>	

Table of Contents

PART I FINANCIAL INFORMATION

Item 1.

FINANCIAL STATEMENTS

The condensed consolidated financial statements presented in this filing on Form 10-Q have been prepared by management and are unaudited.

Table of Contents**CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATED BALANCE SHEETS**

Unaudited

(In thousands, except per share data)

	March 31, 2007	December 31, 2006
ASSETS		
Utility plant:		
Utility plant	\$ 1,363,764	\$ 1,344,415
Less accumulated depreciation and amortization	411,724	402,940
Net utility plant	952,040	941,475
Current assets:		
Cash and cash equivalents	43,095	60,313
Receivables:		
Customers	17,375	19,526
Other	5,675	6,700
Unbilled revenue	10,468	11,341
Materials and supplies at average cost	4,469	4,515
Prepaid pension expense		1,696
Taxes and other prepaid expenses	7,086	5,534
Total current assets	88,168	109,625
Other assets		
Regulatory assets	93,844	93,785
Other assets	21,900	20,134
Total other assets	115,744	113,919
	\$ 1,155,952	\$ 1,165,019
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock, \$.01 par value	\$ 207	\$ 207
Additional paid-in capital	211,588	211,513
Retained earnings	162,135	166,582
Total common stockholders' equity	373,930	378,302
Preferred stock	3,475	3,475
Long-term debt, less current maturities	291,379	291,814
Total capitalization	668,784	673,591
Current liabilities:		
Current maturities of long-term debt	1,778	1,778
Accounts payable	32,151	33,130
Accrued expenses and other liabilities	28,941	35,317
Total current liabilities	62,870	70,225

Unamortized investment tax credits	2,541	2,541
Deferred income taxes, net	69,670	69,503
Pension and postretirement benefits other than pensions	48,584	48,584
Regulatory and other liabilities	33,545	33,411
Advances for construction	160,378	157,660
Contributions in aid of construction	109,580	109,504
Commitments and contingencies		
	\$ 1,155,952	\$ 1,165,019

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

4

Table of Contents**CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

Unaudited

(In thousands, except per share data)

	March 31, 2007	March 31, 2006
For the three months ended:		
Operating revenue	\$ 71,570	\$ 65,216
Operating expenses:		
Water production costs	25,814	21,428
Other operations	23,655	23,789
Maintenance	4,509	3,899
Depreciation and amortization	8,401	7,709
Income taxes	543	287
Property and other taxes	3,406	3,176
Total operating expenses	66,328	60,288
Net operating income	5,242	4,928
Other income and expenses:		
Non-regulated revenue	3,042	2,149
Non-regulated expenses	(1,751)	(1,539)
Gain on sale of non-utility property		25
Less: income taxes on other income and expenses	(526)	(259)
Total other income and expenses	765	376
Interest expense:		
Interest expense	4,926	4,697
Less: capitalized interest	(500)	(225)
Total interest expense	4,426	4,472
Net income	\$ 1,581	\$ 832
Earnings per share		
Basic	\$ 0.07	\$ 0.04
Diluted	\$ 0.07	\$ 0.04
Weighted average shares outstanding		
Basic	20,659	18,403

Diluted	20,681	18,427
Dividends per share of common stock	\$ 0.2900	\$ 0.2875

See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements

5

Table of Contents**CALIFORNIA WATER SERVICE GROUP
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

Unaudited

(In thousands)

	March 31, 2007	March 31, 2006
For the three months ended:		
Operating activities		
Net income	\$ 1,581	\$ 832
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,401	7,709
Deferred income taxes, investment tax credits regulatory assets and liabilities, net	214	265
Gain on sale of non-utility property		(25)
Changes in operating assets and liabilities:		
Receivables	3,178	2,265
Unbilled revenue	873	1,510
Taxes and other prepaid expenses	(1,413)	(206)
Accounts payable	3,187	(603)
Other current assets	46	(267)
Other current liabilities	(6,376)	5,191
Other changes, net	(1,487)	(763)
Net adjustments	6,623	15,076
Net cash provided by operating activities	8,204	15,908
Investing activities:		
Utility plant expenditures:		
Company funded	(19,434)	(22,745)
Developer funded	(3,100)	(5,289)
Acquisition	(23)	(13)
Proceeds from sale of non-utility property		25
Net cash used in investing activities	(22,557)	(28,022)
Financing activities:		
Net short-term borrowings		7,500
Net repayment of long-term debt	(435)	(374)
Advances for construction	4,082	4,512
Refunds of advances for construction	(1,364)	(1,205)
Contributions in aid of construction	805	2,232
Issuance of common stock	76	305
Dividends paid	(6,029)	(5,328)
Net cash (used in) provided by financing activities	(2,865)	7,642

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Change in cash and cash equivalents	(17,218)	(4,472)
Cash and cash equivalents at beginning of period	60,313	9,533
Cash and cash equivalents at end of period	\$ 43,095	\$ 5,061

Supplemental disclosure of non-cash activities:

Accrued payables for investments in utility plant	\$ 6,314	\$ 5,984
See Accompanying Notes to Unaudited Condensed Consolidated Financial Statements		

6

Table of Contents

CALIFORNIA WATER SERVICE GROUP

Notes to Unaudited Condensed Consolidated Financial Statements

March 31, 2007

(Amounts in thousands, except share and per share amounts)

Note 1. Organization and Operations

California Water Service Group (the Company) is a holding company with five wholly owned subsidiaries that provide water utility and other related services in California, Washington, New Mexico and Hawaii. California Water Service Company (Cal Water), Washington Water Service Company (Washington Water), New Mexico Water Service Company (New Mexico Water), and Hawaii Water Service Company, Inc. (Hawaii Water) provide regulated utility services under the rules and regulations of their respective state's regulatory commissions (Commissions). In addition, these entities and CWS Utility Services provide non-regulated water utility and utility-related services. The Company operates primarily in one business segment providing water utility services.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The interim financial information is unaudited. The condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2006, included in its Form 10-K as filed with the Securities and Exchange Commission (SEC) on March 14, 2007.

In the opinion of management, the accompanying condensed consolidated financial statements reflect all adjustments that are necessary to provide a fair presentation of the results for the periods covered. The adjustments consist only of normal recurring adjustments. The results for interim periods are not necessarily indicative of the results for any future period.

The preparation of the Company's condensed consolidated financial statements necessarily requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the condensed consolidated balance sheet dates and the reported amounts of revenues and expenses for the periods presented.

Certain prior year's amounts have been reclassified, where necessary, to conform to the current presentation. On the income statement, non-regulated income and non-regulated expenses which were previously netted in the income statement have been presented separately. Also, prior year amounts for income taxes associated with other income and expenses were reclassified from income taxes included in operating expenses. On the statements of cash flows, prior year amounts for company-funded utility plant expenditures and accounts payable have been reduced for non-cash activities.

Table of Contents**Revenue**

Revenue consists of monthly cycle billings for regulated water and wastewater services at rates authorized by the Commissions and billings to certain non-regulated customers. Billings include a fee that is paid to the Commission. This amount is recorded in revenue and other operations expense. Fees paid to the Commission for the three months ending March 31, 2007, and March 31, 2006, were \$928 and \$865, respectively.

Other Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157 Fair Value Measurements. The statement defines fair value, establishes a framework for measuring fair values in generally accepted accounting principles, and expands disclosures about fair value measurements. The statement is effective for years beginning after November 15, 2007. The adoption of this statement is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Note 3. Seasonal Business

Due to the seasonal nature of the water business, the results for interim periods are not indicative of the results for a twelve-month period. Revenue and income are generally higher in the warm, dry summer months when water usage and sales are greater. Revenue and income are lower in the winter months when cooler temperatures and rainfall curtail water usage and sales.

Note 4. Stock-based Compensation**Long-Term Incentive Plan**

The Company had a stockholder-approved Long-Term Incentive Plan (which was replaced on April 27, 2005, by a stockholder-approved Equity Incentive Plan) that allowed granting of non-qualified stock options. The Company accounted for options issued under the Long-Term Incentive Plan using the intrinsic value method under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. All outstanding options have an exercise price equal to the market price on the date they were granted. All options granted under the Long-Term Incentive Plan are fully vested. No compensation expense was recorded for the three-month periods ended March 31, 2007 and 2006 related to stock options issued under the Long-Term Incentive Plan.

The table below reflects the stock options granted under the Long-Term Incentive Plan.

	Shares	Weighted Average Exercise Price
Stock Options:		
Outstanding at December 31, 2006	90,500	\$ 24.94
Granted	- 0 -	- 0 -
Exercised	- 0 -	- 0 -
Forfeited	- 0 -	- 0 -
Outstanding at March 31, 2007	90,500	\$ 24.94
Exercisable at March 31, 2007	90,500	\$ 24.94

Table of Contents**Equity Incentive Plan**

The Equity Incentive Plan, which was approved by shareholders in April 2005, is authorized to issue up to 1,000,000 shares of common stock. In the first quarter of 2007 and 2006, the Company granted Restricted Stock Awards (RSAs) of 9,770 and 9,142 shares, respectively, of common stock both to employees and to directors of the Company. Employee options vest ratably over 48 months, while director options generally vest at the end of 12 months. The shares were valued at \$38.11 and \$38.51 per share, respectively, based upon the fair market value of the Company's common stock on the date of grant. In addition, Stock Appreciation Rights (SARs) equivalent to 22,140 and 37,500 shares, respectively, were granted to employees, which vest ratably over 48 months and expire at the end of 10 years. The grant-date fair value for SARs was determined using the Black Scholes model, which arrived at a fair value of \$10.36 and \$7.73 per share, respectively. Upon exercise of a SAR, the appreciation is payable in common shares of the Company.

The assumptions utilized in calculation of the SAR fair value were:

	2007	2006
Expected dividend yield	2.99%	2.99%
Expected volatility	32.79%	21.90%
Risk-free interest rate	4.48%	4.19%
Expected holding period in years	5.2	6.0

The Company did not apply a forfeiture rate in the expense computation relating to RSAs and SARs issued to employees as they vest monthly and, as a result, the expense is recorded for actual vesting during the period. For outside directors the Company did not apply a forfeiture rate in the expense computation relating to RSAs, as the Company expects 100% to vest at the end of twelve months.

The table below reflects SARs granted under the Equity Incentive Plan.

	Shares		Weighted Average Exercise Price
Stock Appreciation Rights			
Outstanding at December 31, 2006	37,969	\$	38.77
Granted	22,140		38.11
Exercised	- 0 -		
Forfeited	(469)		38.51
Outstanding at March 31, 2007	59,640	\$	38.53
Exercisable at March 31, 2007	10,308	\$	38.67

The Company has recorded compensation costs for the RSAs and SARs in Operating Expense, net of related tax effects, in the amount of \$45 and \$34 for the quarter ending March 31, 2007, and March 31, 2006, respectively.

Table of Contents

Note 5. Earnings Per Share Calculations

The computations of basic and diluted earnings per share are noted below. RSAs are included in the weighted stock outstanding as the shares have all voting and dividend rights as issued and unrestricted common stock. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. RSAs are included in the weighted stock outstanding as the shares have all voting and dividend rights as issued and unrestricted common stock.

All options and all of the SARs other than 2,500 shares are dilutive and the dilutive effect is shown in the table below.

(In thousands, except per share data)	Three Months Ended March 31	
	2007	2006
Net income	\$ 1,581	\$ 832
Less preferred dividends	38	38
Net income available to common stockholders	\$ 1,543	\$ 794
Weighted average common shares, basic	20,659	18,403
Dilutive common stock options and SARs (treasury method)	22	24
Shares used for dilutive computation	20,681	18,427
Net income per share basic	\$ 0.07	\$ 0.04
Net income per share diluted	\$ 0.07	\$ 0.04

Note 6. Pension Plan and Other Postretirement Benefits

The Company provides a qualified, defined-benefit, non-contributory pension plan for substantially all employees. The Company makes annual contributions to fund the amounts accrued for the qualified pension plan. The Company also maintains an unfunded, non-qualified, supplemental executive retirement plan. The costs of the plans are charged to expense are capitalized in utility plant as appropriate.

The Company offers medical, dental, vision, and life insurance benefits for retirees and their spouses and dependents. Participants are required to pay a premium, which offsets a portion of the cost.

Cash payments by the Company related to pension plans and other postretirement benefits were \$221 for the three months ended March 31, 2007. The estimated cash contribution to the pension plans for 2007 is \$7,913. The estimated contribution to the other benefits plan for 2007 is \$2,400.

Table of Contents

The following table lists components of the pension plans and other postretirement benefits. The data listed under pension plan includes the qualified pension plan and the non-qualified executive supplemental retirement plan. The data listed under other benefits is for all other postretirement benefits.

	Three Months Ended March 31			
	Pension Plan		Other Benefits	
	2007	2006	2007	2006
Service cost	\$ 1,399	\$ 1,336	\$ 307	\$ 303
Interest cost	1,578	1,505	304	314
Expected return on plan assets	(1,421)	(1,571)	(117)	(105)
Recognized net initial APBO ⁽¹⁾	N/A	N/A	69	69
Amortization of prior service cost	468	476	19	19
Recognized net actuarial loss	195	205	45	33
Net periodic benefit cost	\$ 2,219	\$ 1,951	\$ 627	\$ 633

(1) APBO
Accumulated
postretirement
benefit
obligation

Note 7. Income Taxes

We adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48), on January 1, 2007. This interpretation prescribes a recognition threshold and measurement attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods and disclosure and transition. At the adoption date and as of March 31, 2007, we had no material unrecognized tax benefits and no adjustments to liabilities or operations were required.

In connection with the adoption of FIN 48, the Company will include interest and penalties related to uncertain tax positions as a component of income taxes, which were zero for the three months ended March 31, 2007.

Tax years 2003 through 2006 and 2002 through 2006 are subject to examination by the federal and state taxing authorities, respectively. There are no income tax examinations currently in progress.

Note 8. Short-term Borrowings

The Company and Cal Water maintain bank lines of credit of \$10 million and \$45 million, respectively. The lines of credit agreements, which were scheduled to expire on April 30, 2007, were extended to May 31, 2007. The Company and the bank have reached an agreement in principle and the new agreements are currently being drafted. The Company anticipates it will execute the new agreements prior to May 31, 2007, pending legal review.

Table of Contents

Item 2

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

(Dollar amounts in thousands, except where otherwise noted and per share amounts)

FORWARD LOOKING STATEMENTS

This quarterly report, including all documents incorporated by reference, contains forward-looking statements within the meaning established by the Private Securities Litigation Reform Act of 1995 (Act). Forward-looking statements in this quarterly report are based on currently available information, expectations, estimates, assumptions and projections, and our management's beliefs, assumptions, judgments and expectations about us, the water utility industry and general economic conditions. These statements are not statements of historical fact. When used in our documents, statements that are not historical in nature, including words like expects, intends, plans, believes, may, estimates, assumes, anticipates, projects, predicts, forecasts, should, seeks, or variations of these words or expressions are intended to identify forward-looking statements. The forward-looking statements are not guarantees of future performance. They are based on numerous assumptions that we believe are reasonable, but they are open to a wide range of uncertainties and business risks. Consequently, actual results may vary materially from what is contained in a forward-looking statement.

Factors which may cause actual results to be different than those expected or anticipated include, but are not limited to:

- governmental and regulatory commissions' decisions, including decisions on proper disposition of property;
- changes in regulatory commissions' policies and procedures;
- the timeliness of regulatory commissions' actions concerning rate relief;
- new legislation;
- changes in accounting valuations and estimates;
- the ability to satisfy requirements related to the Sarbanes-Oxley Act and other regulations on internal controls;
- electric power interruptions;
- increases in suppliers' prices and the availability of supplies including water and power;
- fluctuations in interest rates;
- changes in environmental compliance and water quality requirements;
- acquisitions and the ability to successfully integrate acquired companies;
- the ability to successfully implement business plans;
- changes in customer water use patterns;
- the impact of weather on water sales and operating results;
- changes in the capital markets and access to sufficient capital on satisfactory terms;

civil disturbances or terrorist threats or acts, or apprehension about the possible future occurrences of acts of this type;

the involvement of the United States in war or other hostilities;

our ability to attract and retain qualified employees;

Table of Contents

labor relations matters as we negotiate with the unions;

restrictive covenants in or changes to the credit ratings on current or future debt that could increase financing costs or affect the ability to borrow, make payments on debt, or pay dividends; and

the risks set forth in Risk Factors included elsewhere in this quarterly report.

In light of these risks, uncertainties and assumptions, investors are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this quarterly report or as of the date of any document incorporated by reference in this report, as applicable. When considering forward-looking statements, investors should keep in mind the cautionary statements in this quarterly report and the documents incorporated by reference. We are not under any obligation, and we expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

CRITICAL ACCOUNTING POLICIES

We maintain our accounting records in accordance with accounting principles generally accepted in the United States and as directed by the regulatory commissions to which we are subject. The process of preparing financial statements requires the use of estimates on the part of management. The estimates used by management are based on historical experience and an understanding of current facts and circumstances. Management believes that the following accounting policies are critical because they involve a higher degree of complexity and judgment, and can have a material impact on our results of operations and financial condition.

Revenue Recognition

Our revenue consists of monthly cycle customer billings for regulated water and wastewater services at rates authorized by the governmental and regulatory commissions and billings to certain non-regulated customers. Revenue from metered customers includes billings to customers based on monthly meter readings plus an estimate for water used between the customer's last meter reading and the end of the accounting period. At March 31, 2007, our unbilled revenue amount was \$10,468 and at December 31, 2006, the amount was \$11,341. The unbilled revenue amount is generally higher during the summer months when water sales are higher. The amount recorded as unbilled revenue varies depending on:

water usage in the preceding period;

the number of days between meter reads for each billing cycle; and

the number of days between each cycle's meter reading and the end of the accounting cycle.

Flat rate customers are billed in advance at the beginning of the service period. The revenue is prorated so that the portion of revenue applicable to the current accounting period is included in that period's revenue. The portion related to a subsequent accounting period is recorded as unearned revenue on the balance sheet and recognized as revenue when earned in the subsequent accounting period. Our unearned revenue liability was \$2,224 as of March 31, 2007, and \$2,164 as of December 31, 2006. This liability is included in accrued expenses and other liabilities on our accompanying condensed consolidated balance sheets.

Table of Contents

Expense-Balancing and Memorandum Accounts

We use expense-balancing accounts and memorandum accounts to track suppliers' rate changes for purchased water, purchased power, and pump taxes that are not included in customer water rates. The cost changes are referred to as offsetable expenses, because under certain circumstances, they are refundable from customers (or refunded to customers) in future rates designed to offset cost changes from suppliers. We do not record the balancing and memorandum accounts until the commission has authorized a change in customer rates and the customer has been billed. The cumulative net amount in the expense balancing accounts and memorandum accounts as of March 31, 2007, was approximately \$2,000. This amount includes certain amounts that have been filed for recovery but have not yet been authorized, and amounts that have not yet been filed for recovery. See Regulatory Matters below for a description of cumulative net balances of expense balancing and memorandum accounts that have been authorized for recovery.

Regulated Utility Accounting

Because we operate extensively in a regulated business, we are subject to the provisions of SFAS No. 71, Accounting for the Effects of Certain Types of Regulation. Regulators establish rates that are expected to permit the recovery of the cost of service and a return on investment. If a portion of our operations were no longer subject to the provisions of SFAS No. 71, we would be required to write off related regulatory assets and liabilities that are not specifically recoverable and determine if other assets might be impaired. If a regulatory commission determined that a portion of our assets were not recoverable in customer rates, we would be required to determine if we had suffered an asset impairment that would require a write-down in the assets' valuation. There have been no such asset impairments as of March 31, 2007 and December 31, 2006.

Income Taxes

We account for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. We measure deferred tax assets and liabilities at enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We recognize the effect on the deferred tax assets and liabilities of a change in tax rate in the period that includes the enactment date. We must also assess the likelihood that deferred tax assets will be recovered in future taxable income and, to the extent recovery is unlikely, a valuation allowance would be recorded. If a valuation allowance were required, it could significantly increase income tax expense. In our management's view, a valuation allowance was not required at March 31, 2007 or December 31, 2006.

We anticipate that future rate action by the regulatory commissions will reflect revenue requirements for the tax effects of temporary differences recognized, which have previously been passed through to customers. The regulatory commissions have granted us rate increases to reflect the normalization of the tax benefits of the federal accelerated methods and available Investment Tax Credits (ITCs) for all assets placed in service after 1980. ITCs are deferred and amortized over the lives of the related properties for book purposes.

Table of Contents

Pension Benefits

We incur costs associated with our pension and postretirement health care benefits plans. To measure the expense of these benefits, our management must estimate compensation increases, mortality rates, future health cost increases and discount rates used to value related liabilities and to determine appropriate funding. Different estimates used by our management could result in significant variances in the cost recognized for pension benefit plans. The estimates used are based on historical experience, current facts, future expectations, and recommendations from independent advisors and actuaries. We use an investment advisor to provide advice in managing the plan's investments. We anticipate any increase in funding for the pension and postretirement health care benefits plans will be recovered in future rate filings, thereby mitigating the financial impact.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158 Employers Accounting for Defined Benefit Pension and Other Post Retirement Plans An Amendment of FASB Statements 87, 88, 106 and 132(R). We adopted SFAS No.158 as of December 31, 2006 which required the full recognition of the projected benefit obligation over the fair value of plan assets, reflecting the funded status of the benefit plans, on the balance sheet.

Table of ContentsRESULTS OF FIRST QUARTER 2007 OPERATIONS COMPARED TO FIRST QUARTER 2006
OPERATIONSOverview

First quarter net income was \$1.6 million equivalent to \$0.07 per common share on a diluted basis, compared to net income of \$832 or \$0.04 common per share on a diluted basis in the first quarter of 2006. These positive results were due to increased water usage by our customers due to drier weather when compared with the prior year. In addition, we earned higher investment income from the cash proceeds from the equity offering in the fall of 2006. The effect of the higher number of common stock outstanding did not have a significant influence on the earnings per share.

We filed in early May, our proposed application to file the largest General Rate Case (GRC) for Cal Water in the history of the Company. The formal filing is expected to be completed in July 2007 and will include General Office (which covers the significant corporate costs) and at least 8 of our districts. We are working with the California Public Utilities Commission (CPUC) as they implement their Water Action Plan.

Operating Revenue

Operating revenue increased \$6.4 million or 9.7% to \$71.6 million in the first quarter of 2007. As disclosed in the following table, the increase was due to increases in rates, increased usage by existing customers and in usage by new customers.

The factors that impacted the operating revenue for the first quarter of 2007 compared to 2006 are presented in the following table:

Increase in usage by existing customers	\$ 3,163
Rate increases	2,590
Usage by new customers	602
Net operating revenue increase	\$ 6,355

The components of the rate increases are listed in the following table:

Purchased Water Offset Increases	\$ 502
Balance Acct Adjustments	(129)
General Rate Case (GRC) Increases	933
Step Rate Increases	1,240
Other	44
Total Increase in Rates	\$ 2,590

Table of Contents**Total Operating Expenses**

Total operating expenses were \$66.3 million for the three months ended March 31, 2007, versus \$60.3 million for the same period in 2006, a 10.0% increase.

Water production expense consists of purchased water, purchased power, and pump taxes. It represents the largest component of total operating expenses, accounting for approximately 39% of total operating expenses. Water production expenses increased 20.5% compared to the same period last year.

Sources of water as a percent of total water production are listed in the following table:

	Three Months Ended March	
	2007	2006
Well production	42%	50%
Purchased	54%	45%
Surface	4%	5%
Total	100%	100%

Washington Water, New Mexico Water and Hawaii Water obtain all of their water supply from wells. The components of water production costs are shown in the table below:

	Three Months Ended March 31		
	2007	2006	Change
Purchased water	\$ 20,897	\$ 17,279	\$ 3,618
Purchased power	3,696	2,882	814
Pump taxes	1,221	1,267	(46)
Total	\$ 25,814	\$ 21,428	\$ 4,386

Purchased water costs increased primarily due to higher wholesale water prices. Total water production measured in acre feet increased by 9.9% during the first quarter of 2007 as compared with the first quarter of 2006 due to the warmer weather and lack of precipitation, as compared to the same period in 2006.

Other operations expense decreased 0.6% to \$23.7 million. There were decreases to other operating expenses in a number of categories. Offsetting these decreases, payroll charged to operations increased 7.5%, including wage increases and an increase in the number of employees. At March 31, 2007, there were 873 employees and at March 31, 2006, there were 850 employees.

Maintenance expenses increased by \$610 to \$4.5 million in the first quarter of 2007 compared to \$3.9 million in the first quarter of 2006, due to the repair of mains, hydrants, and structures. Depreciation and amortization expense increased \$692, or 9.0%, because of 2006 capital additions.

Federal and state income taxes increased \$523, or 95.8%, from \$546 in the first quarter of 2006 to \$1.1 million in the first quarter of 2007, due to increased pretax income compared to the same quarter

Table of Contents

as last year. The effective tax rate was 40.3% in the current quarter and 39.6% for the same quarter last year. We expect the effective tax rate to be between 40% and 41% for 2007

Other Income and Expense

Non-regulated income, net of related expenses, was \$1.3 million for the quarter ended March 31, 2007, compared to \$610 in the same period last year, which is an increase of \$681, or 111.6%, driven primarily by an increase in interest income of \$0.5 million. Gains from property sales for the quarter were minimal for both the current and the prior quarters.

Interest Expense

Total interest expense decreased \$46K to \$4.4 million. This decrease of interest expense was primarily due to an increase in capitalized interest expense, resulting from an increase in capital expenditure activity and changes in interest rates.

REGULATORY MATTERS

Rates and Regulations

The state regulatory commissions have plenary powers setting rates and operating standards. As such, state commission decisions significantly impact our revenues, earnings, and cash flow. The amounts discussed are generally annual amounts, unless specifically stated, and the financial impact to recorded revenue is expected to occur over a 12-month period from the effective date of the decision. In California, water utilities are required to make several different types of filings. Most filings result in rate changes that remain in place until the next GRC. As explained below, surcharges and surcredits to recover balancing and memorandum accounts as well as the catch-up are temporary rate changes, which have specific time frames for recovery.

GRCs, step rate increase filings, and offset filings change rates to amounts that will remain in effect until the next GRC. The CPUC follows a rate case plan, which requires Cal Water to file a GRC for each of its 24 regulated operating districts every three years. In a GRC proceeding, the CPUC not only considers the utility's rate setting requests, but may consider other issues that affect the utility's rates and operations. Effective in 2004, Cal Water's GRC schedule was shifted from a calendar year to a fiscal year with test years commencing on July 1st of each year. The CPUC is generally required to issue its GRC decision prior to the first day of the test year or authorize interim rates. As such, Cal Water's GRC decisions, prior to 2005, were generally issued in the fourth quarter, but now are expected to be issued in the second quarter of each year. Cal Water expects decisions on the eight GRCs filed in July of 2006 to be issued in the second quarter of 2007. If a decision is not granted before July 1, 2007, Cal Water expects the Commission to authorize interim rates as of that date.

Between GRC filings, utilities may file step rate increases, which allow the utility to recover cost increases, primarily from inflation and incremental investment, during the second and third years of the rate case cycle. However, step rate increases are subject to a weather-normalized earnings test. Under the earnings test, the CPUC may reduce the step rate increase to prevent the utility from earning in excess of the authorized rate of return for that district. Step rate increases, which were previously approved in January, should be approved in July under the new rate case schedule.

Table of Contents

In addition, utilities are entitled to file offset filings. Offset filings may be filed to adjust revenues for construction projects authorized in GRCs when the plant is placed in service or for rate changes charged to Cal Water for purchased water, purchased power, and pump taxes (referred to as "offsettable expenses"). Such rate changes approved in offset filings remain in effect until a GRC is approved.

Surcharges and surcredits, which are usually effective for a twelve-month period, are authorized by the CPUC to recover the memorandum and balancing accounts under- and over- collections usually due to changes in offsettable expenses. However, significant under-collection may be authorized over multiple years. Typically, an expense difference occurs during the time period from when an offsettable expense rate changes and we are allowed to adjust its water rates. Expense changes for this regulatory lag period, which is approximately two months, are booked into memorandum and balancing accounts for later recovery. These accounts are subject to reasonableness review. Future recovery of balancing account balances will be addressed in general rate cases or by advice letter filings if the account balance is greater than 2% of revenues. As of December 31, 2006 and March 31, 2007, the amount in the balancing accounts was \$1.5 million and \$2.0 million, respectively.

Cal Water does not record an asset (or liability) for the recovery (or refund) of expense balancing or memorandum accounts in its financial statements as revenue (refunds), nor as a receivable (or payable), until the CPUC and other regulators have authorized recovery and the customer is billed. Therefore, a timing difference may occur between the time when costs are recorded as an expense and when the associated revenues are received (or refunds are made) and booked.

Rate Case Plan

In December 2005, the CPUC issued the California Water Action Plan. The plan focuses on four key principles, among other things, including safe, high quality water; highly reliable water supplies; efficient use of water; and reasonable rates and viable utilities. In accordance with the Water Action Plan's objective to streamline regulatory decision-making the Commission issued R.06-12-016 in December 2006, to address streamlining of its water rate case plan. As proposed, Cal Water and other multi-district water companies would file a company-wide general rate case once every three years. This would reduce the number of rate filings and reduce the regulatory lag associated with implementing general office cost increases, including health care, insurance, and other allocated costs. In May 2007, Cal Water filed its Notice of Intent and will be the first multi-district to file a company-wide general rate case.

Pending Filings as of March 31, 2007

Cal Water has pending its 2006 GRC filings covering eight districts. Cal Water expects decisions regarding its 2006 GRCs to be issued in the second quarter of 2007. The amount requested in the 2006 GRCs is approximately \$19.1 million in 2007/2008, \$3.8 million in 2008/2009, and \$3.8 million in 2009/2010. The amounts granted may vary due to a variety of factors. Over the past few years, the amount approved by the CPUC has been substantially less than the requested amount. The GRCs also requested the CPUC to consider several modifications to CPUC rate-setting procedures. The GRCs request a water revenue adjustment mechanism that would allow us to recover (refund) water revenues when actual water sales are below (above) adopted water sales in the GRCs. This proposal would decouple our revenues from conservation efforts and inaccurate

Table of Contents

weather forecasts, putting in place a mechanism similar to that employed by California's investor-owned electric utilities. The GRCs also request a full-cost balancing account that would allow us to recover changes in source of supply mix as well as price changes under current procedures. Finally, we requested that the Commission adjust our authorized rate of return if modifications are not adopted to change certain rate-setting procedures. We are unable to predict the timing and final outcome of the filings at this time.

Additionally, Decision 06-08-011 directed Cal Water to file an application to implement conservation rates and a sales decoupling mechanism. On October 23, 2006, Cal Water filed Application 06-10-026 requesting a water revenue balancing account, a conservation memorandum account, and conservation rates. This request was consolidated with applications filed by other water companies in the Commission's Order Instituting Investigation 07-01-022. A decision is expected during the third quarter of 2007.

2007 Regulatory Activity

In accordance with the CPUC's Order Instituting Rulemaking (R.) 06-12-016, which proposes changes to the rate case plan, Cal Water expects to file a GRC for its General Office and at least 8 districts in July 2007. The Commission issued a proposed decision in the rulemaking on March 29, 2007. A final decision is expected in the second quarter. At this time, Cal Water does not know the amounts it will request or the scope of the filing, which will be defined by the final decision in the Rulemaking.

In January 2007, Cal Water requested step rate increases for seven districts and was authorized an increase of \$1.8 million.

Cal Water intends to file for step rate increases in July 2007 for sixteen districts. The Commission's current practice on approving step rate increases is based partly on inflation through March 2007. Inputs to the weather-adjusted earnings test include recorded information through March 2007. Therefore, Cal Water does not know the amount of its request at this time.

In December 2006, Cal Water filed six advice letters to offset purchased water and pump tax increases of \$3.4 million from wholesale suppliers effective January 1, 2007. These advice letters were approved in January and February 2007. In December 2006, Cal Water filed an application to allow it to recover additional funding associated with its postretirement benefit other than pensions (PBOP) or retiree healthcare plan. Currently, Cal Water funds and recognizes expenses associated with the plan on a pay-as-you-go basis. The excess expense between pay-as-you-go and accrual during the employees' expected service period has been recognized as a regulatory asset. As of December 31, 2006, the regulatory asset was approximately \$9.8 million. In February 2007, the Division of Rate Payer Advocates (DRA) filed its protest to our PBOP application. In their protest, the DRA requested to dismiss the application with prejudice. The DRA further noted that prior to their protest, the parties met several times to discuss our application. During the discussions it became apparent to the DRA that negotiations would extend beyond the deadline for filing their protest. The DRA further noted that subsequent to this filing, the parties will continue their discussions to achieve a settlement that is reasonable, consistent with the law, and in the public interest. Cal Water

Table of Contents

intends to increase its funding so the plan is funded during the employee's service period. Cal Water has established two Voluntary Employee Beneficiary Associations (VEBAs) to allow for increased funding and a current period income tax deduction. While the DRA has filed its protest, the ultimate outcome will be determined by the CPUC. Cal Water believes that the CPUC will recognize in rates the recovery of the regulatory asset and the additional funding of the plan. If the CPUC does not permit us to recover the full amount of our regulatory asset, the regulatory asset, to the extent not allowed in recovery, will be written off.

LIQUIDITY

Cash flow from Operations

Cash flow from operations were \$8.2 million for the three months ended March 31, 2007. Cash flow from operations is primarily generated by net income, non-cash expenses for depreciation and amortization, and changes in our operating assets and liabilities. Cash generated by operations varies during the year.

The water business is seasonal. Revenue is lower in the cool, wet winter months when less water is used compared to the warm, dry summer months when water use is highest. This seasonality results in the possible need for short-term borrowings under the bank lines of credit in the event cash is not available during the winter period. The increase in cash flow during the summer allows short-term borrowings to be paid down. Customer water usage can be lower than normal in years when more than normal precipitation falls in our service areas or temperatures are lower than normal, especially in the summer months. The reduction in water usage reduces cash flow from operations and increases the need for short-term bank borrowings. In addition, short-term borrowings are used to finance capital expenditures until long-term financing is arranged.

Investing Activities

During the quarter ended March 31, 2007, we had company-funded capital expenditures of \$19.4 million. For 2007, our capital budget is approximately \$85 million.

Financing Activities

During the quarter ended March 31, 2007, there were no debt or equity offerings, as we had adequate funds from the equity offering of 2006. Dividend payments were higher than the prior year due to additional shares outstanding and a higher dividend rate in the current year.

Short-Term and Long-Term Debt

Short-term liquidity is provided by bank lines of credit funds extended to us and certain of our subsidiaries and by internally generated funds. Long-term financing is accomplished through the use of both debt and equity. There were no short-term bank borrowings at March 31, 2007 and at December 31, 2006. Cash and cash equivalents were \$43.1 million at March 31, 2007, and \$5.1 million at March 31, 2006. Cal Water has a \$45 million credit facility agreement that has been extended to May 31, 2007. The agreement requires an out-of-debt period of 30 consecutive days during any consecutive 24-month period and outstanding balances below \$10 million for a period of 30 consecutive days during any

Table of Contents

consecutive 12-month period. Additionally, the agreement requires debt as a percent of total capitalization to be less than 67%. To date, we have met all covenant requirements and are eligible to use the full amount of the commitment. In addition to borrowings, the credit facility allows for letters of credit up to \$10 million, which reduces the available amount to borrow when utilized. One letter of credit was outstanding at March 31, 2007, for \$0.5 million related to an insurance policy. Interest is charged on a variable basis and fees are charged for unused amounts. We have reached an agreement in principle with the bank on terms for a new line of credit agreement. We anticipate a new agreement will be executed prior to May 31, 2007, pending legal review.

A separate credit facility for \$10 million also exists for use by us and our subsidiaries, including Washington Water, New Mexico Water, and Hawaii Water. The term of the current agreement has been extended to May 31, 2007. The agreement requires an out-of-debt period of 30 consecutive days during any consecutive 24-month period and outstanding balances below \$10 million for a period of 30 consecutive days during any consecutive 12-month period. Additionally, the agreement requires debt as a percent of total capitalization to be less than 67%. To date, we have met all covenant requirements and are eligible to use the full amount of the commitment. In addition to borrowings, the credit facility allows for letters of credit up to \$5 million, which would reduce the amount available to borrow. No letters of credit were outstanding at March 31, 2007. Interest is charged on a variable basis and fees are charged for unused amounts. We have reached an agreement in principle with the bank on terms for a new line of credit agreement. We anticipate a new agreement will be executed prior to May 31, 2007, pending legal review.

There were no additions to long-term debt in the three-month period ended March 31, 2007, and we made principal payments on our first mortgage bonds and other long-term debt payments of \$435 during the three-month period ended March 31, 2007.

Long-term financing, which includes senior notes, other debt securities, and common stock, has been used to replace short-term borrowings and fund capital expenditures. Internally generated funds, after making dividend payments, provide positive cash flow, but have not been at a level to meet the needs of our capital expenditure requirements. Management expects this trend to continue given our capital expenditures plan for the next 5 years. Some capital expenditures are funded by payments received from developers for contributions in aid of construction or advances for construction. Funds received for contributions in aid of construction are non-refundable, whereas funds classified as advances in construction are refundable. Management believes long-term financing is available to meet our cash flow needs through issuances in both debt and equity markets.

In September 2004, the CPUC issued a decision granting Cal Water authority to complete up to \$250 million of equity and debt financing through 2010, subject to certain restrictions.

During 2006, we raised approximately \$103 million of capital. Of this amount, \$20 million was raised through privately placed senior unsecured notes. The remaining approximately \$83 million was raised through the issuance of 2,250,000 shares of common stock. We anticipate that the majority of our 2007 capital needs will be covered by the \$103 million raised in 2006. In future periods, management anticipates funding our capital needs through a relatively balanced approach between long term debt and equity.

Table of Contents

In September 2006, we filed a shelf registration statement with the SEC for up to \$150 million in preferred stock and common stock in addition to our prior shelf permitting up to \$35.6 million in preferred stock and common stock. On October 12, 2006, we completed an underwritten public offering of 2,250,000 shares of our common stock (including 250,000 shares pursuant to the exercise, in part, by the underwriters of their over-allotment option) at a price per share of \$36.75 to the public, raising approximately \$83 million in gross proceeds. For additional information please reference our Form 8-K, dated October 12, 2006 on file with the SEC. After issuance of these shares, we had approximately \$101 million in remaining securities available for future issuance under our shelf registration. We do not utilize off-balance-sheet financing or utilize special purpose entity arrangements for financing. We do not have equity ownership through joint ventures or partnership arrangements.

Credit Ratings

Cal Water's first mortgage bonds are rated by Moody's Investors Service (Moody's) and Standard & Poor's (S&P). Previously, the two major credit facility agreements contained covenants related to these debt ratings. The current agreements do not contain such covenants. Since 2004, the two credit rating agencies maintained their ratings of A2 for Moody's and A+ for S & P. Both agencies characterized us as stable. In the past, the agencies have been concerned over the rate-setting process and decisions by the CPUC. Also, concerns were raised about our present level of capital expenditures, which will need to be partially financed through long-term borrowings or equity offerings. Management believes we would be able to meet financing needs even if ratings were downgraded, but a rating change could result in a higher interest rate on new debt.

Dividends, Book Value and Shareholders

The first quarter common stock dividend of \$0.2900 per share was paid on February 16, 2007, compared to a quarterly dividend in the first quarter of 2006 of \$0.2875. This was Cal Water's 24th consecutive quarterly dividend.

Annualized, the 2007 dividend rate is \$1.16 per common share, compared to \$1.15 in 2006. Based on the previous 12-month earnings per share at March 31, 2007, the dividend payout ratio is 86%. For the full year 2006, the payout ratio was 86% of net income. On a long-term basis, our goal is to achieve a dividend payout ratio of 60% of net income accomplished through future earnings growth.

At its April 25, 2007 meeting, the Board declared the second quarter dividend of \$0.2900 per share payable on May 19, 2007, to stockholders of record on May 8, 2007. This will be our 250th consecutive quarterly dividend.

2007 Financing Plan

Cal Water is currently reviewing its financing needs for 2007 and 2008. We may consider issuing equity or long-term debt to meet our financing needs. We intend to fund our capital needs in future periods through a relatively balanced approach between long-term debt and equity.

Book Value and Stockholders of Record

Book value per common share was \$18.09 at March 31, 2007 compared to \$18.31 at December 31, 2006.

Table of Contents

There are approximately 2,537 stockholders of record for our common stock, as of our record date, February 26, 2007.

Utility Plant Expenditures

During the three months ended March 31, 2007, capital expenditures totaled \$22.5 million; \$19.4 million was from company-funded projects and \$3.1 million was from third-party-funded projects. The planned 2007 company-funded capital expenditure budget is approximately \$85 million. The actual amount may vary from the budget number due to timing of actual payments related to current year projects and prior year projects. We do not control third-party-funded capital expenditures and therefore is unable to estimate the amount of such projects for 2007.

At March 31, 2007, construction work in progress was \$50.0 million compared to \$35.7 million at December 31, 2006. Work in progress includes projects that are under construction but not yet complete and in service.

WATER SUPPLY

Based on information from water management agencies and internally developed data, we believe that our various sources of water supply are sufficient to meet customer demand for the remainder of the year. Historically, about half of the water is purchased from wholesale suppliers with the other half pumped from underground wells. A small portion is developed through three local surface treatment plants.

CONTRACTUAL OBLIGATIONS

During the three-months ended March 31, 2007, there were no material changes in contractual obligations outside the normal course of business.

Item 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

We do not hold, trade in or issue derivative financial instruments and therefore is not exposed to risks these instruments present. Our market risk to interest rate exposure is limited because the cost of long-term financing and short-term bank borrowings, including interest costs, is covered in consumer water rates as approved by the commissions. We do not have foreign operations; therefore, we do not have a foreign currency exchange risk. Our business is sensitive to commodity prices and is most affected by changes in purchased water and purchased power costs.

Historically, the CPUC's balancing account or offsetable expense procedures allowed for increases in purchased water and purchased power costs to be passed on to consumers. Traditionally, a significant percentage of our net income and cash flows comes from California regulated operations; therefore the CPUC's actions have a significant impact on our business. See Item 2, Management's

Table of Contents

Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Expense
Balancing and Memorandum Accounts and Regulatory Matters .

Item 4.

CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

We carried out an evaluation, under the supervision of and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report, pursuant to Rule 13a-15(e) under the Securities Exchange Act of 1934. Based on their review of our disclosure controls and procedures, the principal executive officer and principal financial officer have concluded that our disclosure controls and procedures are functioning effectively to provide reasonable assurance that the information required to be disclosed in periodic SEC filings is reported within the time periods specified by SEC rules and regulations.

(b) Changes to Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1.

LEGAL PROCEEDINGS

On October 26, 2006, we were served with a complaint in Superior Court County of Los Angeles Case No. BC360406 for personal injury, along with other defendants, due to exposure to asbestos. The plaintiff claims to have worked for three of our contractors on pipeline projects for the period 1958-1999 and Palos Verdes Water Company, a water utility acquired by us in 1970. The plaintiff alleges that we and other defendants are responsible for his asbestos related injuries. A trial date has been set for May 14, 2007. The plaintiff is seeking damages in the amount of \$27.5 million. Our insurance carrier has accepted the defense of the claim, reserving certain rights along with one of the contractor's insurance company. On April 20, 2007, the Court sustained the Company's demur without leave to amend all Plaintiff's claims alleging products liability and intentional torts. The only remaining claim is for premise owner contractor liability, a negligence claim, alleging misconduct that may allow for punitive damages. The Company believes that Plaintiff has failed to state any legal claim against the Company and intends to file all necessary motions and aggressively defend itself. The Plaintiff has offered the Company a full release from all claims and damages for \$1,200,000. The

Table of Contents

Company does not believe that such offer is reasonable. We do not believe that the Company has any liability regarding this claim and has not recorded any liability associated with the claim.

From time to time, we are involved in various disputes and litigation matters that arise in the ordinary course of business. Periodically, we review the status of each significant matter and assess its potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount or the range of loss can be estimated, we accrue a liability for the estimated loss in accordance with SFAS No 5, Accounting for Contingencies. Legal proceedings are subject to uncertainties, and the outcomes are difficult to predict. Because of such uncertainties, accruals are based only on the best information available at the time. As additional information becomes available, we reassess the potential liability related to pending claims and litigation matters and may revise estimates.

While the outcome of these disputes and litigation matters cannot be predicted with any certainty, management does not believe that the ultimate resolution of these matters will materially affect our financial position, results of operations, or cash flows.

Item 4.

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The annual meeting of stockholders of California Water Service Group was held on April 25, 2007 at the headquarters office in San Jose, California.

- (a) At the annual stockholders meeting, a Board of Directors to serve for the ensuing year was elected.

The following directors were elected as nominated:

Douglas M. Brown

Robert W. Foy

Edward D. Harris, Jr. M.D.

Richard P. Magnuson

Linda R. Meier

Peter C. Nelson

George A. Vera

David N. Kennedy

Bonnie G. Hill

- (b) One other proposal was voted on and approved by our stockholders at the meeting; the ratification of the selection of KPMG LLP as independent auditors for 2007.

Table of Contents

(1) Tabulation of the votes for the election of directors was:

	For	Abstain
Douglas M. Brown	17,769,292	143,536
Robert W. Foy *	17,592,199	320,628
Edward D. Harris, Jr. M.D.	17,596,875	315,952
Bonnie G. Hill	17,717,682	195,145
David N. Kennedy	17,760,559	152,269
Richard P. Magnuson	17,627,429	285,398
Linda R. Meier	17,566,209	346,618
Peter C. Nelson	17,626,813	286,014
George A. Vera	17,777,454	135,373

* Mr. Foy, who retired as an employee, as required by California Water Service Company by-laws, will continue in his capacity as Chairman of the Board.

(2) The stockholders ratified the Audit Committee's selection of KPMG LLP to serve as independent auditors for 2007. There were 17,746,009 votes in favor, 90,754 against and 76,057 abstentions.

Table of Contents

Item 6.

EXHIBITS

Exhibit	Description
31.1	Chief Executive Officer certification of financial statements pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Chief Financial Officer certification of financial statements pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.	Chief Executive Officer and Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Table of Contents

SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CALIFORNIA WATER SERVICE GROUP

Registrant

May 7, 2007

By: /s/ Martin A. Kropelnicki

Martin A. Kropelnicki
Vice President, Chief Financial Officer
and Treasurer

30

Table of Contents

Exhibit Index

Exhibit	Description
31.1	Chief Executive Officer certification of financial statements pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Chief Financial Officer certification of financial statements pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Chief Executive Officer and Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes- Oxley Act of 2002

31

icable, any fees payable to the Investment Dealers. The offerings are subject to approval of certain legal matters by the Bank's counsel.

The head office of the Bank is located at 1709 Hollis Street, Halifax, Nova Scotia, B3J 3B7 and its executive offices are located at Scotia Plaza, 44 King Street West, Toronto, Ontario, M5H 1H1.

Unless otherwise indicated, all dollar amounts appearing in this Prospectus are stated in Canadian dollars.

There is currently no market through which the Debt Securities offered hereunder may be sold and purchasers may not be able to resell such Debt Securities purchased under this Prospectus. This may affect the pricing of such Debt Securities in the secondary market, the transparency and availability of trading prices, the liquidity of such Debt Securities, and the extent of issuer regulation. See the Risk Factors sections of this Prospectus and the applicable Prospectus Supplement.

The Debt Securities will not constitute deposits that are insured under the *Canada Deposit Insurance Corporation Act* (Canada) or by the United States Federal Deposit Insurance Corporation or any other Canadian or U.S. government agency or instrumentality.

TABLE OF CONTENTS

	Page
<u>FORWARD-LOOKING STATEMENTS</u>	2
<u>AVAILABLE INFORMATION</u>	3
<u>DOCUMENTS INCORPORATED BY REFERENCE</u>	3
<u>PRESENTATION OF FINANCIAL INFORMATION</u>	4
<u>BUSINESS OF THE BANK</u>	5
<u>EARNINGS COVERAGE</u>	5
<u>DESCRIPTION OF THE DEBT SECURITIES</u>	5
<u>LEGAL OWNERSHIP AND BOOK-ENTRY ISSUANCE</u>	15
<u>PLAN OF DISTRIBUTION (CONFLICTS OF INTEREST)</u>	19
<u>TRADING PRICE AND VOLUME OF BANK'S SECURITIES</u>	21
<u>PRIOR SALES</u>	22
<u>RISK FACTORS</u>	22
<u>USE OF PROCEEDS</u>	22
<u>LIMITATIONS ON ENFORCEMENT OF U.S. LAWS AGAINST THE BANK, ITS MANAGEMENT AND OTHERS</u>	22
<u>INDEPENDENT AUDITORS</u>	22
<u>DOCUMENTS FILED AS PART OF THE REGISTRATION STATEMENT</u>	23

FORWARD-LOOKING STATEMENTS

The Bank's public communications often include oral or written forward-looking statements. Statements of this type are included in this document, and may be included in other filings with Canadian securities regulators or the SEC, or in other communications. All such statements are made pursuant to the "safe harbour" provisions of the United States Private Securities Litigation Reform Act of 1995 and any applicable Canadian securities legislation. Forward-looking statements may include comments with respect to the Bank's objectives, strategies to achieve those objectives, expected financial results (including those in the area of risk management), and the outlook for the Bank's businesses and for the Canadian, United States and global economies. Such statements are typically identified by words or phrases such as "believe," "expect," "anticipate," "intent," "estimate," "plan," "may increase," "may fluctuate," and similar of future or conditional verbs, such as "will," "should," "would" and "could."

By their very nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, and the risk that predictions and other forward-looking statements will not prove to be accurate. Do not unduly rely on forward-looking statements, as a number of important factors, many of which are beyond the Bank's control, could cause actual results to differ materially from the estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to: the economic and financial conditions in Canada and globally; fluctuations in interest rates and currency values; liquidity; significant market volatility and interruptions; the failure of third parties to comply with their obligations to the Bank and its affiliates; the effect of changes in monetary policy; legislative and regulatory developments in Canada and elsewhere, including changes in tax laws; the effect of changes to the Bank's credit ratings; amendments to, and interpretations of, risk-based capital guidelines and reporting instructions and liquidity regulatory guidance; operational and reputational risks; the risk that the Bank's risk management models may not take into account all relevant factors; the accuracy and completeness of information the Bank receives on customers and counterparties; the timely development and introduction of new

products and services in receptive markets; the Bank's ability to expand existing distribution channels and to develop and realize revenues from new distribution channels; the Bank's ability to complete and integrate acquisitions and its other growth strategies; changes in accounting policies and methods the Bank uses to report its financial condition and the results of its operations, including uncertainties associated with critical accounting assumptions and estimates; the effect of applying future accounting changes; global capital markets activity; the Bank's ability to attract and retain key executives; reliance on third parties to provide components of the Bank's business infrastructure; unexpected changes in consumer spending and saving habits; technological developments; fraud by internal or external parties, including the use of new technologies in unprecedented ways to defraud the Bank or its customers; consolidation in the Canadian financial services sector; competition, both from new entrants and established competitors; judicial and regulatory proceedings; acts of God, such

Table of Contents

as earthquakes and hurricanes; the possible impact of international conflicts and other developments, including terrorist acts and war on terrorism; the effects of disease or illness on local, national or international economies; disruptions to public infrastructure, including transportation, communication, power and water; and the Bank's anticipation of and success in managing the risks implied by the foregoing. A substantial amount of the Bank's business involves making loans or otherwise committing resources to specific companies, industries or countries. Unforeseen events affecting such borrowers, industries or countries could have a material adverse effect on the Bank's financial results, businesses, financial condition or liquidity. These and other factors may cause the Bank's actual performance to differ materially from that contemplated by forward-looking statements. For more information, see the discussion in the Bank's Annual MD&A (as defined below), which is incorporated by reference herein and which outlines in detail certain key factors that may affect the Bank's future results.

The preceding list of important factors is not exhaustive. When relying on forward-looking statements to make decisions with respect to the Bank and its securities, investors and others should carefully consider the preceding factors, other uncertainties and potential events. The Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by or on its behalf.

AVAILABLE INFORMATION

In addition to the continuous disclosure obligations under the securities laws of the provinces and territories of Canada, the Bank is subject to the informational reporting requirements of the U.S. Securities Exchange Act of 1934, as amended (the Exchange Act), and in accordance therewith files reports and other information with the SEC. Under a multi-jurisdictional disclosure system adopted by the United States and Canada, such reports and other information may be prepared in accordance with the disclosure requirements of the provincial and territorial securities regulatory authorities of Canada, which requirements are different from those of the United States. As a foreign private issuer, the Bank is exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements, and the Bank's officers and directors are exempt from the reporting and short swing profit recovery provisions contained in Section 16 of the Exchange Act. The Bank's reports and other information filed with or furnished to the SEC since November 2000 are available, and reports and other information filed or furnished in the future with or to the SEC will be available, from the SEC's Electronic Document Gathering and Retrieval System (<http://www.sec.gov>), which is commonly known by the acronym EDGAR, as well as from commercial document retrieval services. Any document the Bank files with or furnishes to the SEC may be inspected and, by paying a fee, copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. Prospective investors may call the SEC at 1-800-SEC-0330 for further information regarding the public reference facilities. The Bank's common shares are listed on the New York Stock Exchange and reports and other information concerning the Bank may be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

The Bank has filed with the SEC, under the U.S. Securities Act of 1933, as amended (the U.S. Securities Act), a registration statement on Form F-9 with respect to the Debt Securities and of which this Prospectus forms a part. This Prospectus does not contain all of the information that is set forth in the registration statement, certain parts of which are omitted in accordance with the rules and regulations of the SEC. Statements made in this Prospectus as to the contents of any contract, agreement or other document referred to are not necessarily complete, and in each instance, reference is made to an exhibit, if applicable, for a more complete description of the matter, each such statement being qualified in its entirety by such reference. For further information with respect to the Bank and the Debt Securities, reference is made to the registration statement and the exhibits thereto, which will be publicly available as described in the preceding paragraph.

DOCUMENTS INCORPORATED BY REFERENCE

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The following documents have been filed with the Ontario Securities Commission and filed with or furnished to the SEC and are specifically incorporated by reference into, and form an integral part of, this Prospectus:

- (a) the Bank's annual information form (the Annual Information Form) dated December 8, 2009, for the year ended October 31, 2009;
- (b) the Bank's management proxy circular attached to the Notice of Meeting dated January 12, 2009, prepared in connection with the Bank's annual meeting of shareholders held on March 3, 2009;
- (c) the Bank's consolidated financial statements for the years ended October 31, 2009 and 2008, together with the auditors' report thereon; and

Table of Contents

- (d) the Bank's management's discussion and analysis of financial condition and results of operations for the year ended October 31, 2009 (the "Annual MD&A").

Any documents of the type referred to in the preceding paragraph (excluding confidential material change reports) and any unaudited interim financial statements for the three, six or nine month financial periods filed by the Bank with the Ontario Securities Commission after the date of this Prospectus and prior to the completion or withdrawal of any offering hereunder, shall be deemed to be incorporated by reference in this Prospectus. In addition, any documents filed on Form 40-F or furnished on Form 6-K by the Bank with the SEC, after the date of this Prospectus and prior to the completion or withdrawal of any offering hereunder, shall be deemed to be incorporated by reference in this Prospectus and the registration statement of which this Prospectus forms a part.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein or contemplated in this Prospectus will be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement will not be deemed an admission for any purpose that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

A Prospectus Supplement containing the specific terms of an offering of Debt Securities will be delivered to purchasers of such Debt Securities together with this Prospectus and will be deemed to be incorporated by reference into this Prospectus as of the date of the Prospectus Supplement solely for the purposes of the offering of the Debt Securities covered by that Prospectus Supplement unless otherwise expressly provided therein.

Upon a new management proxy circular, annual information form or new annual financial statements, together with the auditors' report thereon and management's discussion and analysis contained therein, being filed by the Bank with the Ontario Securities Commission during the currency of this Prospectus, the previous annual information form, management proxy circular, or annual financial statements, as applicable and all interim financial statements, material change reports, and information circulars, as applicable filed prior to the commencement of the Bank's financial year in which the new management proxy circular, annual information form or annual financial statements are filed shall be deemed no longer to be incorporated into this Prospectus for purposes of future offers and sales of Debt Securities hereunder.

Copies of the documents incorporated by reference (other than exhibits to such documents, unless such exhibits are specifically incorporated by reference in such document) may be obtained on request without charge, by writing to or telephoning the Bank at the following address:

The Bank of Nova Scotia
Scotia Plaza
44 King Street West
Toronto, Ontario
Canada M5H 1H1
Attention: Secretary
Telephone: (416) 866-3672

PRESENTATION OF FINANCIAL INFORMATION

The Bank prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles (GAAP), which differ in certain respects from U.S. GAAP. For a discussion of significant differences between Canadian and U.S. GAAP and a reconciliation of the consolidated balance sheet and statement of income, you should read the section titled Note 29: Reconciliation of Canadian and United States Generally Accepted Accounting Principles (GAAP) in the Bank s Annual MD&A on Form 40-F for the fiscal year ended October 31, 2009.

Table of Contents

Additionally, the Bank publishes its consolidated financial statements in Canadian dollars. In this Prospectus and any applicable Prospectus Supplement, currency amounts are stated in Canadian dollars, unless specified otherwise. References to \$, Cdn\$ and dollars are to Canadian dollars, and references to US\$ are to U.S. dollars.

BUSINESS OF THE BANK

The Bank is a Canadian chartered bank under the Bank Act. The Bank Act is the charter of the Bank and governs its operations.

The Bank is one of North America's premier financial institutions and Canada's most international bank. Through its team of close to 68,000 employees, the Bank and its affiliates offer a broad range of products and services, including retail, commercial, corporate and investment banking to almost 14.6 million customers in some 50 countries around the world.

A list of the principal subsidiaries directly or indirectly owned or controlled by the Bank as at October 31, 2009 is incorporated by reference from the Bank's Annual Information Form dated December 8, 2009.

EARNINGS COVERAGE

The following earnings coverage ratios reflect the repurchase by the Bank, on December 15, 2009, of its floating rate subordinated debentures due August 2085 in an aggregate principal amount of US\$10.05 million, but do not reflect the issuance of any Debt Securities under this Prospectus.

The Bank's interest requirements for subordinated debentures, capital instrument liabilities and those instruments that were reclassified as deposits from capital instrument liabilities in accordance with the pronouncements issued by the Canadian Institute of Chartered Accountants amounted to \$603 million for the 12 months ended October 31, 2009. The Bank's earnings before interest and income tax for the 12 months ended October 31, 2009 were \$5,246 million, which was 8.7 times the Bank's aggregate interest requirements for this period.

All amounts appearing under this heading, Earnings Coverage, are derived from the Bank's consolidated financial statements which have been audited and which are incorporated herein by reference.

DESCRIPTION OF THE DEBT SECURITIES

References to the Bank, us, we or our in this section mean The Bank of Nova Scotia, and do not include the subsidiaries of The Bank of Nova Scotia. Also, in this section, references to holders mean those who own Debt Securities registered in their own names, on the books that we or the applicable trustees maintain for this purpose, and not those who own beneficial interests in Debt Securities registered in street name or in Debt Securities issued in book-entry form through one or more depositaries. When we refer to you in this Prospectus, we mean all purchasers of the Debt Securities being offered by this Prospectus, whether they are the holders or only indirect owners of those Debt Securities. Owners of beneficial interests in the Debt Securities should read the section below entitled Legal Ownership and Book-Entry Issuance.

The following description sets forth certain general terms and provisions of the Debt Securities. We will provide particular terms and provisions of a series of Debt Securities and a description of how the general terms and provisions described below may apply to that series in a Prospectus Supplement. Prospective investors should rely on information in the applicable Prospectus Supplement if it is different from the following information.

Securities May Be Senior or Subordinated

We may issue Debt Securities which may be senior or subordinated in right of payment. Neither the Senior Debt Securities nor the Subordinated Debt Securities will be secured by any of our property or assets or the property or assets of our subsidiaries. Thus, by owning a Debt Security, you are one of our unsecured creditors.

The Senior Debt Securities will be issued under our senior debt indenture described below and will be unsubordinated obligations that rank equally with all of our other unsecured and unsubordinated debt, including deposit liabilities, other than certain governmental claims in accordance with applicable law.

The Subordinated Debt Securities will be issued under our subordinated debt indenture described below and will be subordinate in right of payment to all of our senior indebtedness, as defined in the subordinated debt indenture. Neither indenture limits our ability to incur additional indebtedness.

Table of Contents

In the event we become insolvent, our governing legislation provides that priorities among payments of our deposit liabilities (including payments in respect of the Senior Debt Securities) and payments of all of our other liabilities (including payments in respect of the Subordinated Debt Securities) are to be determined in accordance with the laws governing priorities and, where applicable, by the terms of the indebtedness and liabilities. In addition, our right to participate in any distribution of the assets of our banking or non-banking subsidiaries, upon a subsidiary's dissolution, winding-up, liquidation or reorganization or otherwise, and thus your ability to benefit indirectly from such distribution, is subject to the prior claims of creditors of that subsidiary, except to the extent that we may be a creditor of that subsidiary and our claims are recognized. There are legal limitations on the extent to which some of our subsidiaries may extend credit, pay dividends or otherwise supply funds to, or engage in transactions with, us or some of our other subsidiaries. Accordingly, the Debt Securities will be structurally subordinated to all existing and future liabilities of our subsidiaries, and holders of Debt Securities should look only to our assets for payments on the Debt Securities.

Neither the Senior Debt Securities nor the Subordinated Debt Securities will constitute deposits insured under the *Canada Deposit Insurance Corporation Act (Canada)* or by the United States Federal Deposit Insurance Corporation or any other Canadian or United States governmental agency or instrumentality.

When we refer to Debt Securities or Debt Security in this section, we mean both the Senior Debt Securities and the Subordinated Debt Securities.

The Senior and Subordinated Debt Indentures

The Senior Debt Securities and the Subordinated Debt Securities are each governed by an indenture—the senior debt indenture, in the case of the Senior Debt Securities, and the subordinated debt indenture, in the case of the Subordinated Debt Securities. When we refer to the indentures, we mean both the senior debt indenture and the subordinated debt indenture, and when we refer to the indenture, we mean either the senior debt indenture or the subordinated debt indenture, as applicable. Each indenture is a contract between us, Computershare Trust Company, N.A., as U.S. trustee, and Computershare Trust Company of Canada, as Canadian trustee, which act as trustees. When we refer to the trustees, we mean both the U.S. trustee and the Canadian trustee, and when we refer to the trustee, we mean either the U.S. trustee or the Canadian trustee, as applicable. The indentures are subject to and governed by the U.S. Trust Indenture Act of 1939, as amended, and applicable Canadian trust indenture legislation. The indentures are substantially identical, except for the provisions relating to:

the events of default, which are more limited in the subordinated debt indenture; and

subordination, which are included only in the subordinated debt indenture.

Reference to the indenture or the trustees, with respect to any Debt Securities, means the indenture under which those Debt Securities are issued and the trustees under that indenture.

The trustees have two main roles:

The trustees can enforce the rights of holders against us if we default on our obligations under the terms of the indenture or the Debt Securities. There are some limitations on the extent to which the trustees act on behalf of holders, described below under Events of Default Remedies If an Event of Default Occurs.

The trustees perform administrative duties for us, such as sending interest payments and notices to holders and transferring a holder's Debt Securities to a new buyer if a holder sells.

The indentures and their associated documents contain the full legal text of the matters described in this section. The indentures and the Debt Securities will be governed by New York law, except that the subordination provisions in the subordinated debt indenture and certain provisions relating to the status of the Senior Debt Securities under Canadian law in the senior debt indenture will be governed by the laws of the Province of Ontario and the laws of Canada applicable therein. A copy of each of the senior debt indenture and the subordinated debt indenture is an exhibit to the registration statement of which this Prospectus forms a part. See Available Information above for information on how to obtain a copy.

General

We may issue as many distinct series of Debt Securities under either indenture as we wish. The provisions of the senior debt indenture and the subordinated debt indenture allow us not only to issue Debt Securities with terms different from those previously issued under the applicable indenture, but also to re-open a previous issue of a series of Debt Securities and issue additional Debt Securities of that series. We may issue Debt Securities in amounts that exceed the

Table of Contents

total amount specified on the cover of your applicable Prospectus Supplement at any time without your consent and without notifying you. In addition, we may issue additional Debt Securities of any series at any time without your consent and without notifying you. We may also issue other securities at any time without your consent and without notifying you. The indentures do not limit our ability to incur other indebtedness or to issue other securities, and we are not subject to financial or similar restrictions under the indentures.

This section summarizes the material terms of the Debt Securities that are common to all series, subject to any modifications contained in an applicable Prospectus Supplement. Most of the specific terms of your series will be described in the applicable Prospectus Supplements accompanying this Prospectus. As you read this section, please remember that the specific terms of your Debt Security as described in the applicable Prospectus Supplements will supplement and, if applicable, may modify or replace the general terms described in this section. If there are any differences between the information in the applicable Prospectus Supplements and this Prospectus, the information in the most recent applicable Prospectus Supplement will control. Accordingly, the statements we make in this section may not apply to your Debt Securities. Because this section is a summary, it does not describe every aspect of the Debt Securities. This summary is subject to and qualified in its entirety by reference to all the provisions of the indentures and the applicable series of Debt Securities, including definitions of certain terms used in the indentures and the applicable series of Debt Securities. In this summary, we describe the meaning of only some of the more important terms. You must look to the indentures or the applicable series of Debt Securities for the most complete description of what we describe in summary form in this Prospectus.

We may issue the Debt Securities as original issue discount securities, which will be offered and sold at a substantial discount below their stated principal amount. An applicable Prospectus Supplement relating to the original issue discount securities will describe U.S. federal income tax consequences and other special considerations applicable to them. An applicable Prospectus Supplement relating to specific Debt Securities will also describe any special considerations and any material tax considerations applicable to such Debt Securities.

When we refer to a series of Debt Securities, we mean a series issued under the indenture pursuant to which the Debt Securities will be issued. Each series is a single distinct series under the indenture pursuant to which they will be issued and we may issue Debt Securities of each series in such amounts, at such times and on such terms as we wish. The Debt Securities of each series will differ from one another, and from any other series, in their terms, but all Debt Securities of a series together will constitute a single series for all purposes under the indenture pursuant to which they will be issued.

We may issue Debt Securities up to an aggregate principal amount as we may authorize from time to time. The applicable Prospectus Supplements will describe the terms of any Debt Securities being offered, including:

the title of the series of Debt Securities;

whether it is a series of Senior Debt Securities or a series of Subordinated Debt Securities;

any limit on the aggregate principal amount of the series of Debt Securities;

the person to whom interest on a Debt Security is payable, if other than the holder on the regular record date;

the date or dates on which the series of Debt Securities will mature;

the rate or rates (which may be fixed or variable) per annum, at which the series of Debt Securities will bear interest, if any, and the date or dates from which that interest, if any, will accrue;

the dates on which such interest, if any, will be payable and the regular record dates for such interest payment dates;

the place or places where the principal of, premium, if any, and interest on the Debt Securities is payable;

any mandatory or optional sinking funds or similar provisions or provisions for redemption at our option or the option of the holder;

if applicable, the date after which, the price at which, the periods within which and the terms and conditions upon which the Debt Securities may, pursuant to any optional or mandatory redemption provisions, be redeemed and other detailed terms and provisions of those optional or mandatory redemption provisions, if any;

if applicable, the terms and conditions upon which the Debt Securities may be repayable prior to final maturity at the option of the holder thereof (which option may be conditional);

the portion of the principal amount of the Debt Securities, if other than the entire principal amount thereof, payable upon acceleration of maturity thereof;

Table of Contents

if the Debt Securities may be converted into or exercised or exchanged for other of our securities, the terms on which conversion, exercise or exchange may occur, including whether conversion, exercise or exchange is mandatory, at the option of the holder or at our option, the period during which conversion, exercise or exchange may occur, the initial conversion, exercise or exchange price or rate and the circumstances or manner in which the amount of our securities issuable upon conversion, exercise or exchange may be adjusted;

if other than denominations of US\$2,000 and integral multiples of US\$1,000 in excess thereof, the denominations in which the series of Debt Securities will be issuable;

the currency of payment of principal, premium, if any, and interest on the series of Debt Securities;

if the currency of payment for principal, premium, if any, and interest on the series of Debt Securities is subject to our election or that of a holder, the currency or currencies in which payment can be made and the period within which, and the terms and conditions upon which, the election can be made;

the applicability of the provisions described under **Defeasance** below;

any event of default under the series of Debt Securities if different from those described under **Events of Default** below;

if the series of Debt Securities will be issuable only in the form of a global Debt Security, the depositary or its nominee with respect to the series of Debt Securities and the circumstances under which the global Debt Security may be registered for transfer or exchange in the name of a person other than the depositary or the nominee; and

any other special feature of the series of Debt Securities.

Market-Making Transactions

One or more of our subsidiaries may purchase and resell Debt Securities in market-making transactions after their initial issuance. We may also, subject to applicable law and any required regulatory approval, purchase Debt Securities in the open market or in private transactions to be held by us or cancelled.

Covenants

Except as described in this sub-section or as otherwise provided in an applicable Prospectus Supplement with respect to any series of Debt Securities, we are not restricted by the indentures from incurring, assuming or becoming liable for any type of debt or other obligations, from paying dividends or making distributions on our capital stock or purchasing or redeeming our capital stock. The indentures do not require the maintenance of any financial ratios or specified levels of net worth or liquidity, nor do they contain any covenants or other provisions that would limit our or our subsidiaries' right to incur additional indebtedness, enter into any sale and leaseback transaction or grant liens on our or our subsidiaries' assets. The indentures do not contain any provisions that would require us to repurchase or redeem or otherwise modify the terms of any of the Debt Securities upon a change in control or other events that may adversely affect the creditworthiness of the Debt Securities, for example, a highly leveraged transaction, except as otherwise specified in this Prospectus or any applicable Prospectus Supplement.

Mergers and Similar Events

Each of the indentures provide that we are permitted to merge, amalgamate, consolidate or otherwise combine with another entity, or to sell or lease substantially all of our assets to another entity, as long as the following conditions are met:

When we merge, amalgamate, consolidate or otherwise are combined with another entity, or sell or lease substantially all of our assets, the surviving, resulting or acquiring entity is a duly organized entity and is legally responsible for and assumes, either by agreement, operation of law or otherwise, our obligations under such indenture and the Debt Securities issued thereunder.

The merger, amalgamation, consolidation, other combination, or sale or lease of assets, must not result in an event of default under such indenture. A default for this purpose would include any event that would be an event of default if the requirements for giving us default notice or our default having to exist for a specified period of time were disregarded.

If the conditions described above are satisfied, we will not need to obtain the consent of the holders of the Debt Securities in order to merge, amalgamate, consolidate or otherwise combine with another entity or to sell or lease substantially all of our assets.

Table of Contents

We will not need to satisfy the conditions described above if we enter into other types of transactions, including:

any transaction in which we acquire the stock or assets of another entity but in which we do not merge, amalgamate, consolidate or otherwise combine;

any transaction that involves a change of control but in which we do not merge, amalgamate, consolidate or otherwise combine; and

any transaction in which we sell less than substantially all of our assets.

It is possible that this type of transaction may result in a reduction in our credit rating, may reduce our operating results or may impair our financial condition. Holders of Debt Securities, however, will have no approval right with respect to any transaction of this type.

Modification and Waiver of the Debt Securities

There are four types of changes we can make to the indenture and the Debt Securities issued under that indenture.

Changes Requiring Consent of All Holders. First, there are changes that cannot be made to the indenture or the Debt Securities without the consent of each holder of a series of Debt Securities affected in any material respect by the change under a particular indenture. Following is a list of those types of changes:

change the stated maturity of the principal or reduce the interest on a Debt Security;

reduce any amounts due on a Debt Security;

reduce the amount of principal payable upon acceleration of the maturity of a Debt Security (including the amount payable on an original issue discount security) following a default;

change the currency of payment on a Debt Security;

change the place of payment for a Debt Security;

impair a holder's right to sue for payment;

impair a holder's right to require repurchase on the original terms of those Debt Securities that provide a right of repurchase;

reduce the percentage of holders of Debt Securities whose consent is needed to modify or amend the indenture;

reduce the percentage of holders of Debt Securities whose consent is needed to waive compliance with certain provisions of the indenture or to waive certain defaults; or

modify any other aspect of the provisions dealing with modification and waiver of the indenture.

Changes Requiring a Majority Consent. The second type of change to the indenture and the Debt Securities is the kind that requires the consent of holders of Debt Securities owning not less than a majority of the principal amount of

the particular series affected. Most changes fall into this category, except for clarifying changes and certain other changes that would not adversely affect in any material respect holders of the Debt Securities. We may also obtain a waiver of a past default from the holders of Debt Securities owning a majority of the principal amount of the particular series affected. However, we cannot obtain a waiver of a payment default or any other aspect of the indenture or the Debt Securities listed in the first category described above under **Changes Requiring Consent of All Holders** unless we obtain the individual consent of each holder to the waiver.

Changes Not Requiring Consent. The third type of change to the indenture and the Debt Securities does not require the consent by holders of Debt Securities. This type is limited to the issuance of new series of Debt Securities under the indenture, clarifications and certain other changes that would not adversely affect in any material respect the interests of the holders of the Debt Securities of any series.

We may also make changes or obtain waivers that do not adversely affect in any material respect a particular Debt Security, even if they affect other Debt Securities. In those cases, we do not need to obtain the consent of the holder of the unaffected Debt Security; we need only obtain any required approvals from the holders of the affected Debt Securities.

Modification of Subordination Provisions. The fourth type of change to the indenture and the Debt Securities is the kind that requires the consent of the holders of a majority of the principal amount of all affected series of Subordinated Debt Securities, voting together as one class. We may not modify the subordination provisions of the subordinated debt indenture in a manner that would adversely affect in any material respect the outstanding Subordinated Debt Securities of

Table of Contents

any one or more series without the consent of the holders of a majority of the principal amount of all affected series of Subordinated Debt Securities, voting together as one class.

Further Details Concerning Voting. When seeking consent, we will use the following rules to decide how much principal amount to attribute to a Debt Security:

For original issue discount securities, we will use the principal amount that would be due and payable on the voting date if the maturity of the Debt Securities were accelerated to that date because of a default.

For Debt Securities whose principal amount is not known, we will use a special rule for that Debt Security described in the applicable Prospectus Supplement.

For Debt Securities denominated in one or more non-U.S. currencies or currency units, we will use the U.S. dollar equivalent.

Debt Securities will not be considered outstanding, and therefore not eligible to vote or take other action under the applicable indenture, if we have given a notice of redemption and deposited or set aside in trust for the holders money for the payment or redemption of those Debt Securities. Debt Securities will also not be considered outstanding, and therefore not eligible to vote or take other action under the applicable indenture, if they have been fully defeased as described below under **Defeasance** **Full Defeasance** or if we or one of our affiliates is the beneficial owner of the Debt Securities.

We will generally be entitled to set any day as a record date for the purpose of determining the holders of outstanding Debt Securities that are entitled to vote or take other action under the applicable indenture. In certain limited circumstances, the trustees will be entitled to set a record date for action by holders. If the trustees or we set a record date for a vote or other action to be taken by holders of a particular series, that vote or action may be taken only by persons who are holders of outstanding Debt Securities of that series on the record date. We or the trustees, as applicable, may shorten or lengthen this period from time to time. This period, however, may not extend beyond the 180th day after the record date for the action.

Book-entry and other indirect holders should consult their banks, brokers or other financial institutions for information on how approval may be granted or denied if we seek to change the indenture or the Debt Securities or request a waiver.

Special Provisions Related to the Subordinated Debt Securities

The Subordinated Debt Securities issued under the subordinated debt indenture will be our direct unsecured obligations constituting subordinated indebtedness for the purpose of the Bank Act and will therefore rank subordinate to our deposits. Holders of Subordinated Debt Securities should recognize that contractual provisions in the subordinated debt indenture may prohibit us from making payments on these Debt Securities.

If we become insolvent or are wound-up, the Subordinated Debt Securities issued and outstanding under the subordinated debt indenture will rank equally with, but not prior to, all other subordinated indebtedness and subordinate in right of payment to the prior payment in full of all other indebtedness of the Bank then outstanding, other than liabilities which, by their terms, rank in right of payment equally with or subordinate to the subordinated indebtedness, and in accordance with the terms of such liabilities or such other indebtedness under certain circumstances.

For these purposes, **indebtedness** at any time means:

1. the deposit liabilities of the Bank at such time; and
2. all other liabilities and obligations of the Bank which in accordance with the accounting rules established for Canadian chartered banks issued under the authority of the Superintendent of Financial Institutions (Canada) or with generally accepted accounting principles (the primary source of which is the Handbook of the Canadian Institute of Chartered Accountants), as the case may be, would be included in determining the total liabilities of the Bank, other than liabilities for paid-up capital, contributed surplus, retained earnings and general reserves of the Bank.

Subordinated indebtedness at any time means:

1. the liability of the Bank in respect of the principal of and premium, if any, and interest on its outstanding subordinated indebtedness outlined above;
2. any indebtedness which ranks equally with and not prior to the outstanding subordinated indebtedness, in right of payment in the event of the insolvency or winding-up of the Bank and which, pursuant to the terms of the

Table of Contents

instrument evidencing or creating the same, is expressed to be subordinate in right of payment to all indebtedness to which the outstanding subordinated indebtedness is subordinate in right of payment to at least the same extent as the outstanding subordinated indebtedness is subordinated thereto pursuant to the terms of the instrument evidencing or creating the same;

3. any indebtedness which ranks subordinate to and not equally with or prior to the outstanding subordinated indebtedness, in right of payment in the event of the insolvency or winding-up of the Bank and which, pursuant to the terms of the instrument evidencing or creating the same, is expressed to be subordinate in right of payment to all indebtedness to which the outstanding subordinated indebtedness is subordinate in right of payment to at least the same extent as the outstanding subordinated indebtedness is subordinate pursuant to the terms of the instrument evidencing or creating the same; and
4. the Subordinated Debt Securities, which will rank equally to the Bank's outstanding subordinated indebtedness.

The subordination provisions of the subordinated debt indenture are governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein.

Conversion or Exchange of Debt Securities

If and to the extent mentioned in the applicable Prospectus Supplements, any Debt Securities may be optionally or mandatorily convertible or exchangeable for other securities of the Bank, into the cash value therefor or into any combination of the above. The specific terms on which any Debt Securities may be so converted or exchanged will be described in the applicable Prospectus Supplements. These terms may include provisions for conversion or exchange, either mandatory, at the holder's option or at our option, in which case the amount or number of securities the holders of the Debt Securities would receive would be calculated at the time and manner described in the applicable Prospectus Supplements.

Defeasance

The following discussion of full defeasance and covenant defeasance will be applicable to each series of Debt Securities that is denominated in U.S. dollars and has a fixed rate of interest and will apply to other series of Debt Securities if we so specify in the applicable Prospectus Supplements.

Full Defeasance. If there is a change in U.S. federal income tax law, as described below, we can legally release ourselves from any payment or other obligations on the Debt Securities of a series, called full defeasance, if we put in place the following other arrangements for holders to be repaid:

We must deposit in trust for the benefit of all holders of the Debt Securities of that series a combination of money and notes or bonds of (i) the U.S. government or (ii) a U.S. government agency or U.S. government-sponsored entity, the obligations of which, in each case, are backed by the full faith and credit of the U.S. government, that will generate enough cash to make interest, principal and any other payments on the Debt Securities of that series on their various due dates.

There must be a change in current U.S. federal income tax law or a ruling by the United States Internal Revenue Service that lets us make the above deposit without causing the holders to be taxed on the Debt Securities of that series any differently than if we did not make the deposit and just repaid the Debt Securities of that series ourselves. (Under current U.S. federal income tax law, the deposit and our legal release from the obligations pursuant to the Debt Securities would be treated as though we took back your Debt Securities and

gave you your share of the cash and notes or bonds deposited in trust. In that event, you could recognize gain or loss on the Debt Securities you give back to us.)

We must deliver to the trustees a legal opinion of our counsel confirming the tax-law change described above and that the holders of the Debt Securities of that series will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such deposit, defeasance and discharge and will be subject to U.S. federal income tax on the same amounts and in the same manner and at the same times as would be the case if such deposit, defeasance and discharge had not occurred.

In the case of the Subordinated Debt Securities, the following requirement must also be met:

No event or condition may exist that, under the provisions described under Special Provisions Related to the Subordinated Debt Securities above, would prevent us from making payments of principal, premium or interest

Table of Contents

on those Subordinated Debt Securities on the date of the deposit referred to above or during the 90 days after that date.

If we ever did accomplish full defeasance, as described above, you would have to rely solely on the trust deposit for repayment on the Debt Securities. You could not look to us for repayment in the event of any shortfall.

Covenant Defeasance. Even without a change in current U.S. federal income tax law, we can make the same type of deposit as described above, and we will be released from the restrictive covenants under the Debt Securities of a series that may be described in the applicable Prospectus Supplements. This is called covenant defeasance. In that event, you would lose the protection of these covenants but would gain the protection of having money and U.S. government, U.S. government agency or U.S. government-sponsored entity notes or bonds set aside in trust to repay the Debt Securities. In order to achieve covenant defeasance, we must do the following:

Deposit in trust for the benefit of all holders of the Debt Securities of that series a combination of money and notes or bonds of (i) the U.S. government or (ii) a U.S. government agency or U.S. government-sponsored entity, the obligations of which, in each case, are backed by the full faith and credit of the U.S. government, that will generate enough cash to make interest, principal and any other payments on the Debt Securities of that series on their various due dates.

Deliver to the trustees a legal opinion of our counsel confirming that the holders of the Debt Securities of that series will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such deposit and covenant defeasance and will be subject to U.S. federal income tax on the same amounts and in the same manner and at the same times as would be the case if such deposit and covenant defeasance had not occurred.

If we accomplish covenant defeasance, certain provisions of the indentures and the Debt Securities would no longer apply:

Covenants applicable to the series of Debt Securities and described in the applicable Prospectus Supplements.

Any events of default relating to breach of those covenants.

If we accomplish covenant defeasance, you can still look to us for repayment of the Debt Securities if there were a shortfall in the trust deposit. In fact, if one of the remaining events of default occurs (such as a bankruptcy) and the Debt Securities become immediately due and payable, there may be such a shortfall.

Events of Default

You will have special rights if an event of default occurs and is not cured, as described later in this subsection.

What is an Event of Default?

Under the senior debt indenture, the term event of default means in respect of any series of Debt Securities any of the following:

We do not pay the principal of or any premium on a Debt Security of that series within five days of its due date.

We do not pay interest on a Debt Security of that series for more than 30 days after its due date.

We file for bankruptcy or certain other events of bankruptcy, insolvency or reorganization occur.

Any other event of default described in an applicable Prospectus Supplement occurs.

Under the subordinated debt indenture, the term "event of default" in respect of any series of Debt Securities means any of the following:

We file for bankruptcy or certain other events of bankruptcy, insolvency or reorganization occur.

Any other event of default described in an applicable Prospectus Supplement occurs.

Remedies If an Event of Default Occurs. If an event of default occurs, the trustees will have special duties. In that situation, the trustees will be obligated to use those of their rights and powers under the applicable indenture, and to use the same degree of care and skill in doing so, that a prudent person would use in that situation in conducting his or her own affairs. If an event of default has occurred and has not been cured, the trustees or the holders of at least 25% in principal amount of the Debt Securities of the affected series may declare the entire principal amount of (or, in the case of original issue discount securities, the portion of the principal amount that is specified in the terms of the affected Debt Security) and interest on all of the Debt Securities of that series to be due and immediately payable. This is called a declaration of acceleration of maturity. The declaration of acceleration of maturity is not, however, an automatic right upon the

Table of Contents

occurrence of an event of default, and for such acceleration to be effective, the trustees must take the aforementioned action or the holders must direct the trustees to act as described in this section below. Furthermore, a declaration of acceleration of maturity may be cancelled, but only before a judgment or decree based on the acceleration has been obtained, by the holders of at least a majority in principal amount of the Debt Securities of the affected series. If you are the holder of a Subordinated Debt Security, the principal amount of the Subordinated Debt Security will not be paid and may not be required to be paid at any time prior to the relevant maturity date, except in the event of our insolvency or winding-up. If any provisions of applicable Canadian banking law prohibit the payment of any amounts due under the Debt Securities before a specified time, then the Bank's ability to make such payment could be adversely affected.

You should read carefully the applicable Prospectus Supplements relating to any series of Debt Securities which are original issue discount securities for the particular provisions relating to acceleration of the maturity of a portion of the principal amount of original issue discount securities upon the occurrence of an event of default and its continuation.

Except in cases of default in which the trustees have the special duties described above, the trustees are not required to take any action under the indenture at the request of any holders unless the holders offer the trustees reasonable protection from expenses and liability called an indemnity reasonably satisfactory to the trustees. If such an indemnity is provided, the holders of a majority in principal amount of the outstanding Debt Securities of the relevant series may direct the time, method and place of conducting any lawsuit or other formal legal action seeking any remedy available to the trustees. These majority holders may also direct the trustees in performing any other action under the applicable indenture with respect to the Debt Securities of that series.

Before you bypass the trustees and bring your own lawsuit or other formal legal action or take other steps to enforce your rights or protect your interests relating to the Debt Securities the following must occur:

the holder of the Debt Security must give the trustees written notice that an event of default has occurred and remains uncured;

the holders of not less than 25% in principal amount of all outstanding Debt Securities of the relevant series must make a written request that the trustees take action because of such event of default;

such holder or holders must offer reasonable indemnity to the trustees against the cost and other liabilities of taking that action;

the trustees must have not taken action for 90 days after receipt of the above notice and offer of indemnity; and

the trustees have not received any direction from a majority in principal amount of all outstanding Debt Securities that is inconsistent with such written request during such 90-day period.

However, you are entitled at any time to bring a lawsuit for the payment of money due on your Debt Security on or after its due date.

BOOK-ENTRY AND OTHER INDIRECT HOLDERS SHOULD CONSULT THEIR BANKS, BROKERS OR OTHER FINANCIAL INSTITUTIONS FOR INFORMATION ON HOW TO GIVE NOTICE OR DIRECTION TO OR MAKE A REQUEST OF THE TRUSTEES AND TO MAKE OR CANCEL A DECLARATION OF ACCELERATION.

We will give to the trustees every year a written statement of certain of our officers certifying that to their knowledge we are in compliance with the applicable indenture and the Debt Securities issued under it, or else specifying any default.

Form, Exchange and Transfer

Unless we specify otherwise in an applicable Prospectus Supplement, the Debt Securities will be issued:

only in fully-registered form;

without interest coupons; and

in denominations of US\$2,000 and integral multiples of US\$1,000 in excess thereof.

If a Debt Security is issued as a registered global Debt Security, only the depository such as DTC, Euroclear and Clearstream, each as defined below under Legal Ownership and Book-Entry Issuance will be entitled to transfer and exchange the Debt Security as described in this subsection because the depository will be the sole registered holder of the Debt Security and is referred to below as the holder. Those who own beneficial interests in a global Debt Security do so through participants in the depository's securities clearance system, and the rights of these indirect owners will be

Table of Contents

governed by the applicable procedures of the depository and its participants. We describe book-entry procedures below under Legal Ownership and Book-Entry Issuance.

Holders of Debt Securities issued in fully-registered form may have their Debt Securities broken into more Debt Securities of smaller denominations of not less than US\$2,000, or combined into fewer Debt Securities of larger denominations, as long as the total principal amount is not changed. This is called an exchange.

Holders may exchange or register the transfer of Debt Securities at the office of the applicable trustee. Debt Securities may be transferred by endorsement. Holders may also replace lost, stolen or mutilated Debt Securities at that office. The trustees act as our agents for registering Debt Securities in the names of holders and registering the transfer of Debt Securities. We may change this appointment to another entity or perform it ourselves. The entity performing the role of maintaining the list of registered holders is called the security registrar. It will also record transfers. The applicable trustee may require an indemnity before replacing any Debt Securities.

Holders will not be required to pay a service charge to register the transfer or exchange of Debt Securities, but holders may be required to pay for any tax or other governmental charge associated with the exchange or transfer. The registration of a transfer or exchange will only be made if the security registrar is satisfied with your proof of ownership.

If we designate additional agents, they will be named in the applicable Prospectus Supplements. We may cancel the designation of any particular agent. We may also approve a change in the office through which any agent acts.

If the Debt Securities are redeemable and we redeem less than all of the Debt Securities of a particular series, we may block the registration of transfer or exchange of Debt Securities during the period beginning 15 days before the day we mail the notice of redemption and ending on the day of that mailing, in order to freeze the list of holders entitled to receive the mailing. We may also refuse to register transfers or exchanges of Debt Securities selected for redemption, except that we will continue to permit registration of transfers and exchanges of the unredeemed portion of any Debt Security being partially redeemed.

The Trustees

Computershare Trust Company, N.A. and Computershare Trust Company of Canada serve as the trustees for our Senior Debt Securities. Computershare Trust Company, N.A. and Computershare Trust Company of Canada also serve as the trustees for the Subordinated Debt Securities.

The trustees make no representation or warranty, whether express or implied, with respect to the Bank or the Debt Securities and other matters described in this Prospectus. The trustees have not prepared or reviewed any of the information included in this Prospectus, except the trustees have consented to the use of their names. Such approval does not constitute a representation or approval by the trustees of the accuracy or sufficiency of any information contained in this Prospectus.

Payment and Paying Agents

We will pay interest to the person listed in the trustees' records at the close of business on a particular day in advance of each due date for interest, even if that person no longer owns the Debt Security on the interest due date. That particular day, usually about two weeks in advance of the interest due date, is called the regular record date and will be stated in an applicable Prospectus Supplement. Holders buying and selling Debt Securities must work out between them how to compensate for the fact that we will pay all the interest for an interest period to the one who is the registered holder on the regular record date. The most common manner is to adjust the sale price of the Debt

Securities to prorate interest fairly between buyer and seller. This prorated interest amount is called accrued interest.

We will pay interest, principal and any other money due on the Debt Securities at the corporate trust office of Computershare Trust Company, N.A. or such other office as may be agreed upon. Holders must make arrangements to have their payments picked up at or wired from that office or such other office as may be agreed upon. We may also choose to pay interest by mailing checks.

BOOK-ENTRY AND OTHER INDIRECT HOLDERS SHOULD CONSULT THEIR BANKS, BROKERS OR OTHER FINANCIAL INSTITUTIONS FOR INFORMATION ON HOW THEY WILL RECEIVE PAYMENTS.

We may also arrange for additional payment offices and may cancel or change these offices, including our use of the trustees' corporate trust offices. These offices are called paying agents. We may also choose to act as our own paying agent.

Table of Contents

or choose one of our subsidiaries to do so. We must notify holders of changes in the paying agents for any particular series of Debt Securities.

Notices

We and the trustees will send notices regarding the Debt Securities only to registered holders, using their addresses as listed in the trustees' records. With respect to who is a registered holder for this purpose, see *Legal Ownership and Book-Entry Issuance*.

Regardless of who acts as paying agent, all money paid by us to a paying agent that remains unclaimed at the end of two years after the amount is due to holders will be repaid to us. After that two-year period, holders may look to us for payment and not to the trustees or any other paying agent.

LEGAL OWNERSHIP AND BOOK-ENTRY ISSUANCE

In this section, we describe special considerations that will apply to registered Debt Securities issued in global *i.e.*, book-entry, form. First we describe the difference between registered ownership and indirect ownership of registered Debt Securities. Then we describe special provisions that apply to global Debt Securities.

Who is the Legal Owner of a Registered Security?

Each Debt Security will be represented either by a certificate issued in definitive form to a particular investor or by one or more global Debt Securities representing Debt Securities. We refer to those who have Debt Securities registered in their own names, on the books that we or the trustees maintain for this purpose, as the registered holders of those Debt Securities. Subject to limited exceptions, we and the trustees are entitled to treat the registered holder of a Debt Security as the person exclusively entitled to vote, to receive notices, to receive any interest or other payment in respect of the Debt Security and to exercise all the rights and power as an owner of the Debt Security. We refer to those who own beneficial interests in Debt Securities that are not registered in their own names as indirect owners of those Debt Securities. As we discuss below, indirect owners are not registered holders, and investors in Debt Securities issued in book-entry form or in street name will be indirect owners.

Book-Entry Owners. Unless otherwise noted in an applicable Prospectus Supplement, we will issue each Debt Security in book-entry form only. This means Debt Securities will be represented by one or more global Debt Securities registered in the name of a financial institution that holds them as depository on behalf of other financial institutions that participate in the depository's book-entry system. These participating institutions, in turn, hold beneficial interests in the Debt Securities on behalf of themselves or their customers.

Under each indenture (and the Bank Act in the case of subordinated indebtedness), subject to limited exceptions and applicable law, only the person in whose name a Debt Security is registered is recognized as the holder of that Debt Security. Consequently, for Debt Securities issued in global form, we will recognize only the depository as the holder of the Debt Securities and we will make all payments on the Debt Securities, including deliveries of any property other than cash, to the depository. The depository passes along the payments it receives to its participants, which in turn pass the payments along to their customers who are the beneficial owners. The depository and its participants do so under agreements they have made with one another or with their customers; they are not obligated to do so under the terms of the Debt Securities.

As a result, investors will not own Debt Securities directly. Instead, they will own beneficial interests in a global Debt Security, through a bank, broker or other financial institution that participates in the depository's book-entry system or holds an interest through a participant. As long as the Debt Securities are issued in global form, investors will be

indirect owners, and not registered holders, of the Debt Securities.

Street Name Owners. We may issue Debt Securities initially in non-global form or we may terminate an existing global Debt Security, as described below under *Holder's Option to Obtain a Non-Global Security; Special Situations When a Global Security Will Be Terminated*. In these cases, investors may choose to hold their Debt Securities in their own names or in street name. Debt Securities held by an investor in street name would be registered in the name of a bank, broker or other financial institution that the investor chooses, and the investor would hold only a beneficial interest in those Debt Securities through an account he or she maintains at that institution.

For Debt Securities held in street name, we will, subject to limited exceptions and applicable law, recognize only the intermediary banks, brokers and other financial institutions in whose names the Debt Securities are registered as the holders of those Debt Securities, and we will make all payments on those Debt Securities, including deliveries of any

Table of Contents

property other than cash, to them. These institutions pass along the payments they receive to their customers who are the beneficial owners, but only because they agree to do so in their customer agreements or because they are legally required to do so. Investors who hold Debt Securities in street name will be indirect owners, not registered holders, of those Debt Securities.

Registered Holders. Subject to limited exceptions, our obligations, as well as the obligations of the trustees under any indenture and the obligations, if any, of any other third parties employed by us, run only to the registered holders of the Debt Securities. We do not have obligations to investors who hold beneficial interests in global Debt Securities, in street name or by any other indirect means. This will be the case whether an investor chooses to be an indirect owner of a Debt Security or has no choice because we are issuing the Debt Securities only in global form.

For example, once we make a payment or give a notice to the registered holder, we have no further responsibility for that payment or notice even if that holder is required, under agreements with depository participants or customers or by law, to pass it along to the indirect owners but does not do so. Similarly, if we want to obtain the approval of the holders for any purpose—for example, to amend the indenture for a series of Debt Securities or to relieve us of the consequences of a default or of our obligation to comply with a particular provision of an indenture—we would seek the approval only from the registered holders, and not the indirect owners, of the relevant Debt Securities. Whether and how the registered holders contact the indirect owners is up to the registered holders.

When we refer to *you* in this Prospectus, we mean all purchasers of the Debt Securities being offered by this Prospectus and the applicable Prospectus Supplements, whether they are the registered holders or only indirect owners of those Debt Securities. When we refer to *your Debt Securities* in this Prospectus, we mean the Debt Securities in which you will hold a direct or indirect interest.

Special Considerations for Indirect Owners. If you hold Debt Securities through a bank, broker or other financial institution, either in book-entry form or in street name, you should check with your own institution to find out:

how it handles securities payments and notices;

whether it imposes fees or charges;

how it would handle a request for the holders' consent, if ever required;

how it would exercise rights under the Debt Securities if there were a default or other event triggering the need for holders to act to protect their interests; and

if the Debt Securities are in book-entry form, how the depository's rules and procedures will affect these matters.

What is a Global Security?

Unless otherwise noted in the applicable Prospectus Supplement, we will issue each Debt Security in book-entry form only. Each Debt Security issued in book-entry form will be represented by a global Debt Security that we deposit with and register in the name of one or more financial institutions or clearing systems, or their nominees, which we select. A financial institution or clearing system that we select for any Debt Security for this purpose is called the depository for that Debt Security. A Debt Security will usually have only one depository but it may have more. Each series of Debt Securities will have one or more of the following as the depositaries:

The Depository Trust Company, New York, New York, which is known as *DTC* ;

Euroclear Bank S.A./N.V., as operator of the Euroclear System, which is known as Euroclear ;

Clearstream Banking, société anonyme, which is known as Clearstream ; or

any other clearing system or financial institution named in the applicable Prospectus Supplements.

The depositaries named above may also be participants in one another's systems. Thus, for example, if DTC is the depository for a global Debt Security, investors may hold beneficial interests in that Debt Security through Euroclear or Clearstream, as DTC participants. The depository or depositaries for your Debt Securities will be named in the applicable Prospectus Supplements; if none is named, the depository will be DTC.

A global Debt Security may represent one or any other number of individual Debt Securities. Generally, all Debt Securities represented by the same global Debt Security will have the same terms. We may, however, issue a global Debt Security that represents multiple Debt Securities of the same kind, such as debt securities that have different terms and are issued at different times. We call this kind of global Debt Security a master global Debt Security. The applicable Prospectus Supplements will not indicate whether your Debt Securities are represented by a master global Debt Security.

Table of Contents

A global Debt Security may not be transferred to or registered in the name of anyone other than the depositary or its nominee, unless special termination situations arise. We describe those situations below under **Holder's Option to Obtain a Non-Global Security; Special Situations When a Global Security Will Be Terminated**. As a result of these arrangements, the depositary, or its nominee, will be the sole registered owner and holder of all Debt Securities represented by a global Debt Security, and investors will be permitted to own only indirect interests in a global Debt Security. Indirect interests must be held by means of an account with a broker, bank or other financial institution that in turn has an account with the depositary or with another institution that does. Thus, an investor whose Debt Security is represented by a global Debt Security will not be a holder of the Debt Security, but only an indirect owner of an interest in the global Debt Security.

If an applicable Prospectus Supplement for a particular Debt Security indicates that the Debt Security will be issued in global form only, then the Debt Security will be represented by a global Debt Security at all times unless and until the global Debt Security is terminated. We describe the situations in which this can occur below under **Holder's Option to Obtain a Non-Global Security; Special Situations When a Global Security Will Be Terminated**. If termination occurs, we may issue the Debt Securities through another book-entry clearing system or decide that the Debt Securities may no longer be held through any book-entry clearing system.

Special Considerations for Global Securities. As an indirect owner, an investor's rights relating to a global Debt Security will be governed by the account rules of the depositary and those of the investor's bank, broker, financial institution or other intermediary through which it holds its interest (such as Euroclear or Clearstream, if DTC is the depositary), as well as general laws relating to securities transfers. We do not recognize this type of investor or any intermediary as a holder of Debt Securities and instead deal only with the depositary that holds the global Debt Security.

If Debt Securities are issued only in the form of a global Debt Security, an investor should be aware of the following:

an investor cannot cause the Debt Securities to be registered in his or her own name, and cannot obtain non-global certificates for his or her interest in the Debt Securities, except in the special situations we describe below;

an investor will be an indirect holder and must look to his or her own bank, broker or other financial institution for payments on the Debt Securities and protection of his or her legal rights relating to the Debt Securities, as we describe above under **Who is the Legal Owner of a Registered Security?** ;

an investor may not be able to sell interests in the Debt Securities to some insurance companies and other institutions that are required by law to own their Debt Securities in non-book-entry form;

an investor may not be able to pledge his or her interest in a global Debt Security in circumstances in which certificates representing the Debt Securities must be delivered to the lender or other beneficiary of the pledge in order for the pledge to be effective;

the depositary's policies will govern payments, deliveries, transfers, exchanges, notices and other matters relating to an investor's interest in a global Debt Security, and those policies may change from time to time. We and the trustees will have no responsibility for any aspect of the depositary's policies, actions or records of ownership interests in a global Debt Security. We and the trustees also do not supervise the depositary in any way;

the depositary may require that those who purchase and sell interests in a global Debt Security within its book-entry system use immediately available funds and your bank, broker or other financial institution may require you to do so as well; and

financial institutions that participate in the depositary's book-entry system and through which an investor holds its interest in the global Debt Securities, directly or indirectly, may also have their own policies affecting payments, deliveries, transfers, exchanges, notices and other matters relating to the Debt Securities, and those policies may change from time to time. For example, if you hold an interest in a global Debt Security through Euroclear or Clearstream, when DTC is the depositary, Euroclear or Clearstream, as applicable, may require those who purchase and sell interests in that Debt Security through them to use immediately available funds and comply with other policies and procedures, including deadlines for giving instructions as to transactions that are to be effected on a particular day. There may be more than one financial intermediary in the chain of ownership for an investor. We and the trustees do not monitor and are not responsible for the policies or actions or records of ownership interests of any of those intermediaries.

Holder's Option to Obtain a Non-Global Security; Special Situations When a Global Security Will Be Terminated. If we issue any series of Debt Securities in book-entry form but we choose to give the beneficial owners of that series the

Table of Contents

right to obtain non-global Debt Securities, any beneficial owner entitled to obtain non-global Debt Securities may do so by following the applicable procedures of the depository, any transfer agent or registrar for that series and that owner's bank, broker or other financial institution through which that owner holds its beneficial interest in the Debt Securities. If you are entitled to request a non-global certificate and wish to do so, you will need to allow sufficient lead time to enable us or our agent to prepare the requested certificate.

In addition, in a few special situations described below, a global Debt Security will be terminated and interests in it will be exchanged for certificates in non-global form representing the Debt Securities it represented. After that exchange, the choice of whether to hold the Debt Securities directly or in street name will be up to the investor. Investors must consult their own banks, brokers or other financial institutions, to find out how to have their interests in a global Debt Security transferred on termination to their own names, so that they will be holders. We have described the rights of holders and street name investors above under **Who is the Legal Owner of a Registered Security?**

The special situations for termination of a global Debt Security are as follows:

if the depository notifies us that it is unwilling, unable or no longer qualified to continue as depository for that global Debt Security and we do not appoint another institution to act as depository within 60 days;

if we notify the trustees that we wish to terminate that global Debt Security; or

if an event of default has occurred with regard to these Debt Securities and has not been cured or waived.

If a global Debt Security is terminated, only the depository, and neither we nor the trustees for any Debt Securities, is responsible for deciding the names of the institutions in whose names the Debt Securities represented by the global Debt Security will be registered and, therefore, who will be the registered holders of those Debt Securities.

Considerations Relating to DTC

DTC has informed us that it is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code, and a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that DTC participants deposit with DTC. DTC also facilitates the settlement among DTC participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in DTC participants' accounts, thereby eliminating the need for physical movement of certificates. DTC participants include securities brokers and dealers, banks, trust companies and clearing corporations, and may include other organizations. DTC is owned by a number of its direct participants and by the New York Stock Exchange, Inc. and the Financial Industry Regulatory Authority, Inc. Indirect access to the DTC system also is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly. The rules applicable to DTC and DTC participants are on file with the SEC.

Purchases of Debt Securities within the DTC system must be made by or through DTC participants, who will receive a credit for the Debt Securities on DTC's records. Transfers of ownership interests in the Debt Securities are accomplished by entries made on the books of participants acting on behalf of beneficial owners.

Redemption notices will be sent to DTC's nominee, Cede & Co., as the registered holder of the Debt Securities. If less than all of the Debt Securities are being redeemed, DTC will determine the amount of the interest of each direct participant to be redeemed in accordance with its then-current procedures.

In instances in which a vote is required, neither DTC nor Cede & Co. will itself consent or vote with respect to the Debt Securities. Under its usual procedures, DTC would mail an omnibus proxy to the relevant trustee as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those direct participants to whose accounts such Debt Securities are credited on the record date (identified in a listing attached to the omnibus proxy).

Distribution payments on the Debt Securities will be made by the relevant trustee to DTC. DTC's usual practice is to credit direct participants' accounts on the relevant payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payments on such payment date. Payments by participants to beneficial owners will be governed by standing instructions and customary practices and will be the responsibility of such participants and not of DTC, the relevant trustee or us, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of distributions to DTC is the responsibility of the relevant trustee, and disbursements of such payments to the beneficial owners are the responsibility of direct and indirect participants.

Table of Contents

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that we believe to be accurate, but we assume no responsibility for the accuracy thereof. We do not have any responsibility for the performance by DTC or its participants of their respective obligations as described herein or under the rules and procedures governing their respective operations.

Considerations Relating to Clearstream and Euroclear

Clearstream and Euroclear are securities clearance systems in Europe. Clearstream and Euroclear have respectively informed us that Clearstream and Euroclear each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Clearstream and Euroclear provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream and Euroclear also deal with domestic securities markets in several countries through established depository and custodial relationships. Clearstream and Euroclear have established an electronic bridge between their two systems across which their respective participants may settle trades with each other. Clearstream and Euroclear customers are world-wide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Clearstream and Euroclear is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Euroclear and Clearstream may be depositories for a global Debt Security. In addition, if DTC is the depository for a global Debt Security, Euroclear and Clearstream may hold interests in the global Debt Security as participants in DTC.

As long as any global Debt Security is held by Euroclear or Clearstream, as depository, you may hold an interest in the global Debt Security only through an organization that participates, directly or indirectly, in Euroclear or Clearstream. If Euroclear or Clearstream is the depository for a global Debt Security and there is no depository in the United States, you will not be able to hold interests in that global Debt Security through any securities clearance system in the United States.

Payments, deliveries, transfers, exchanges, notices and other matters relating to the Debt Securities made through Euroclear or Clearstream must comply with the rules and procedures of those systems. Those systems could change their rules and procedures at any time. We have no control over those systems or their participants and we take no responsibility for their activities. Transactions between participants in Euroclear or Clearstream, on one hand, and participants in DTC, on the other hand, when DTC is the depository, would also be subject to DTC's rules and procedures.

Special Timing Considerations Relating to Transactions in Euroclear and Clearstream. Investors will be able to make and receive through Euroclear and Clearstream payments, deliveries, transfers, exchanges, notices and other transactions involving any Debt Securities held through those systems only on days when those systems are open for business. Those systems may not be open for business on days when banks, brokers and other financial institutions are open for business in the United States.

In addition, because of time-zone differences, U.S. investors who hold their interests in the Debt Securities through these systems and wish to transfer their interests, or to receive or make a payment or delivery or exercise any other right with respect to their interests, on a particular day may find that the transaction will not be effected until the next business day in Luxembourg or Brussels, as applicable. Thus, investors who wish to exercise rights that expire on a particular day may need to act before the expiration date. In addition, investors who hold their interests through both DTC and Euroclear or Clearstream may need to make special arrangements to finance any purchases or sales of their

interests between the U.S. and European clearing systems, and those transactions may settle later than would be the case for transactions within one clearing system.

PLAN OF DISTRIBUTION

The Bank may sell Debt Securities to or through underwriters or dealers purchasing as principal, and also may sell Debt Securities to one or more purchasers directly or through agents. Debt Securities may be sold from time to time in one or more transactions at a fixed price or prices which may be changed, at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at prices to be negotiated with purchasers.

A Prospectus Supplement will set forth the terms of any offering of Debt Securities, including the name or names of any Investment Dealers, the initial public offering price, the proceeds to the Bank, any underwriting discount or commission to be paid to any Investment Dealers and any discounts, concessions or commissions allowed or re-allowed or paid by any Investment Dealers to other Investment Dealers.

Table of Contents

The Debt Securities may be sold directly by the Bank at such prices and upon such terms as agreed to by the Bank and the purchaser or through agents designated by the Bank from time to time. Any agent involved in the offering and sale of the Debt Securities in respect of which this Prospectus is delivered will be named, and any commissions payable by the Bank to such agent will be set forth, in the applicable Prospectus Supplement. Unless otherwise indicated in the applicable Prospectus Supplement, any agent is acting on a best efforts basis for the period of its appointment.

If underwriters are used in the sale, the Debt Securities will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale, at market prices prevailing at the time of sale or at prices related to such prevailing market prices. The obligations of the underwriters to purchase such Debt Securities will be subject to certain conditions precedent, and the underwriters will be obligated to purchase all the Debt Securities offered by the Prospectus Supplement if any of such Debt Securities are purchased.

In compliance with guidelines of the Financial Industry Regulatory Authority (FINRA), the maximum commission or discount to be received by any FINRA member or independent broker-dealer may not exceed 8% of the aggregate amount of the Debt Securities offered by this prospectus; however, it is anticipated that the maximum commission or discount to be received in any particular offering of securities will be significantly less than this amount.

Any public offering price and any discounts or concessions allowed or re-allowed or paid to Investment Dealers may be changed from time to time. The Bank may agree to pay the Investment Dealers a commission for various services relating to the issue and sale of any Debt Securities offered hereby. Any such commission will be paid out of the general corporate funds of the Bank. Investment Dealers who participate in the distribution of the Debt Securities may be entitled under agreements to be entered into with the Bank to indemnification by the Bank against certain liabilities, including liabilities under Canadian and U.S. securities legislation, or to contribution with respect to payments which such Investment Dealers may be required to make in respect thereof.

In connection with any offering of the Debt Securities (unless otherwise specified in a Prospectus Supplement), the Investment Dealers may over-allot or effect transactions which stabilize or maintain the market price of the Debt Securities offered at a higher level than that which might exist in the open market. These transactions may be commenced, interrupted or discontinued at any time.

The Debt Securities offered under this Prospectus have not been qualified for sale under the securities laws of any province or territory of Canada (other than the Province of Ontario) and, unless otherwise provided in the Prospectus Supplement relating to a particular issue of Debt Securities, will not be offered or sold, directly or indirectly, in Canada or to any resident of Canada except in the Province of Ontario.

Conflicts of Interest

Our affiliates, Scotia Capital Inc. and Scotia Capital (USA) Inc., may participate in the distribution of the debt Securities as an underwriter, dealer or agent. Any offering of Debt Securities in which Scotia Capital Inc. or Scotia Capital (USA) Inc. participates will be conducted in compliance with the applicable requirements of NASD Rule 2720, a rule of FINRA, and applicable Canadian securities laws. None of Scotia Capital Inc., Scotia Capital (USA) Inc., or any other FINRA member participating in an offering of these Debt Securities that has a conflict of interest will confirm initial sales to any discretionary accounts over which it has authority without prior specific written approval of the customer.

Table of Contents**TRADING PRICE AND VOLUME OF BANK'S SECURITIES**

The following table sets out the price range and trading volume of the Bank's securities on the Toronto Stock Exchange (as reported by Bloomberg) for the periods indicated.

	Common Shares	Series 12	Series 13	Series 14	Series 15	Preferred Shares					
					Series 16	Series 17	Series 18	Series 20	Series 22	Series 24⁽¹⁾	Series 26⁽²⁾
2009											
Price (\$)	34.00	20.61	19.53	18.40	17.85	20.98	22.00	23.90	22.75	23.24	25.35
Price (\$)	27.35	19.43	17.53	17.06	16.57	19.60	20.35	22.00	20.80	21.15	24.90
Volume ('000)	80,310	162	299	260	301	180	243	371	179	195	1,489
2009											
Price (\$)	31.55	20.40	18.90	18.47	17.98	20.30	21.87	23.00	23.00	22.74	25.40
Price (\$)	23.99	19.55	17.73	17.20	16.45	19.32	20.41	22.00	21.00	21.15	24.80
Volume ('000)	73,869	138	122	213	186	144	151	200	109	103	597
2009											
Price (\$)	33.18	20.00	18.37	17.47	17.00	20.05	21.74	23.64	22.35	22.00	25.59
Price (\$)	25.28	18.82	17.26	16.05	15.81	18.13	19.85	22.00	19.20	19.60	25.00
Volume ('000)	97,572	164	199	263	348	180	105	184	228	138	763
2009											
Price (\$)	35.85	21.18	19.05	18.00	17.92	21.45	22.28	24.10	24.43	23.70	26.96
Price (\$)	30.30	19.41	17.57	16.66	16.61	19.25	20.95	22.83	21.75	22.00	25.33
Volume ('000)	103,382	120	151	188	457	189	130	291	235	175	680
2009											
Price (\$)	39.00	21.96	19.90	18.71	18.91	22.29	23.99	25.00	24.70	24.75	26.99
Price (\$)	25.09	21.00	19.06	17.81	17.80	21.37	22.32	23.91	23.90	23.70	26.35
Volume ('000)	77,234	241	204	350	253	339	117	605	314	381	392
2009											
Price (\$)	44.51	22.15	20.24	19.45	19.26	21.95	23.69	25.70	25.28	25.45	27.50
Price (\$)	38.61	21.50	19.53	18.52	18.49	21.01	22.97	24.90	24.40	24.41	26.80
Volume ('000)	75,551	202	211	196	330	316	183	494	506	331	422
2009											
Price (\$)	46.51	22.97	21.23	19.85	19.93	22.68	24.20	26.20	26.00	26.19	28.00
Price (\$)	39.60	21.53	19.80	18.60	18.52	21.16	23.13	25.08	24.90	25.08	27.20
Volume ('000)	71,182	222	232	228	235	720	152	698	411	323	456
2009											
Price (\$)	48.62	24.36	22.31	21.20	21.16	24.23	25.40	26.15	26.00	26.00	27.82
Price (\$)	43.16	22.66	20.80	19.76	19.76	22.50	24.31	25.84	25.56	25.59	27.40
Volume ('000)	74,645	151	562	306	289	319	299	265	478	270	692
2009											
Price (\$)	49.19	24.45	21.99	20.79	20.85	23.97	25.30	26.39	26.15	26.21	28.18
Price (\$)	42.95	23.44	21.46	20.42	20.40	23.50	24.92	26.00	25.76	25.66	27.71
Volume ('000)	84,570	121	188	334	473	265	336	405	317	283	537

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e (\$)	49.14	24.25	21.99	20.60	20.63	23.91	25.19	26.28	26.18	25.98	28.00
e (\$)	43.48	22.78	20.66	19.30	19.40	22.57	23.71	25.60	25.28	25.20	27.10
000)	64,995	167	221	316	307	203	156	215	282	431	444
2009											
e (\$)	49.00	23.77	21.83	20.44	20.39	23.60	24.90	26.44	26.35	26.38	27.95
e (\$)	44.84	22.81	20.70	19.50	19.50	22.76	24.38	25.72	25.65	25.67	27.14
000)	57,660	190	148	254	213	262	173	426	303	252	360
2009											
e (\$)	49.93	24.10	22.34	21.12	20.79	24.11	25.39	26.75	26.83	26.72	28.25
e (\$)	46.55	23.54	21.60	20.05	20.10	23.50	24.54	26.35	26.04	26.10	27.50
000)	69,768	174	218	363	361	185	122	157	121	217	345
10 (to											
2010)											
e (\$)	49.53	23.96	21.99	20.83	20.70	23.99	24.96	26.61	26.92	26.68	28.05
e (\$)	48.81	23.70	21.72	20.33	20.33	23.61	24.60	26.05	26.31	26.30	27.66
000)	15,999	96	17	173	71	82	86	63	40	96	58

- 1 The Preferred Shares, Series 24 were issued on December 12, 2008 by the Bank to Sun Life Financial Inc. as partial consideration for the acquisition by the Bank of trust units of CI Financial Income Fund (now CI Financial Corp.).
- 2 The Preferred Shares, Series 26 were issued on January 21, 2009.
- 3 The Preferred Shares, Series 28 were issued on January 30, 2009.

Table of Contents**PRIOR SALES**

In the 12-month period ending on January 11, 2010, the Bank issued the following debt securities which are not listed on any exchange or quoted in any marketplace:

Security	Date Issued	Issue Price to Public per \$1,000 Principal Amount	Number of Securities Issued
\$1.0 Billion 6.65% Debentures due 2021	January 22, 2009	\$ 999.83	1,000,000
\$1.0 Billion 4.94% Debentures due 2019	April 15, 2009	\$ 999.69	1,000,000

RISK FACTORS

Investment in the Debt Securities is subject to various risks including those risks inherent in conducting the business of a diversified financial institution. Before deciding whether to invest in any Debt Securities, investors should consider carefully the risks set out herein and incorporated by reference in this Prospectus (including subsequently filed documents incorporated by reference) and, if applicable, those described in a Prospectus Supplement relating to a specific offering of Debt Securities. Prospective investors should consider the categories of risks identified and discussed in the Bank's Annual Information Form and the Annual MD&A, each of which is incorporated herein by reference, including credit risk, market risk, liquidity risk, operational risk, reputational risk and environmental risk.

USE OF PROCEEDS

Unless otherwise specified in a Prospectus Supplement, the net proceeds to the Bank from the sale of the Debt Securities will be added to the general funds of the Bank and utilized for general banking purposes. The application of the proceeds will depend upon the funding requirements of the Bank at the time.

**LIMITATIONS ON ENFORCEMENT OF U.S. LAWS AGAINST
THE BANK, ITS MANAGEMENT AND OTHERS**

The Bank is incorporated under the laws of Canada pursuant to the Bank Act. Many of its directors and executive officers, including many of the persons who will sign the registration statement on Form F-9, of which this Prospectus forms a part, and some of the experts named in this Prospectus, reside outside the United States, and a substantial portion of the Bank's assets and all or a substantial portion of the assets of such persons are located outside the United States. As a result, it may be difficult for United States investors to effect service of process within the United States upon those directors, officers or experts who are not residents of the United States, or to realize in the United States upon judgments of courts of the United States predicated upon civil liability of such directors, officers or experts under United States federal securities laws.

The Bank has been advised by Osler, Hoskin & Harcourt LLP, its Canadian counsel, that a judgment of a U.S. court predicated solely upon civil liability under such laws would probably be enforceable in Canada if the U.S. court in which the judgment was obtained had a basis for jurisdiction in the matter that was recognized by a Canadian court for such purposes. The Bank has also been advised by such counsel, however, that there is substantial doubt whether an

action could be brought in Canada in the first instance on the basis of liability predicated solely upon such laws.

INDEPENDENT AUDITORS

KPMG LLP, Chartered Accountants, Toronto, Ontario, is the external auditor who prepared the Auditors' Report to Shareholders with respect to the consolidated balance sheet of the Bank as at October 31, 2009 and 2008 and the consolidated statements of income, changes in shareholders' equity, comprehensive income and cash flows for the years then ended. KPMG LLP is independent with respect to the Bank within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario and within the meaning of the U.S. Securities Act of 1933, as amended, and the applicable rules and regulations thereunder. The audited consolidated financial statements of the Bank for each of the two years in the period ended October 31, 2009 incorporated by reference in this Prospectus have been so incorporated in reliance on the report of KPMG LLP, independent accountants.

Table of Contents

DOCUMENTS FILED AS PART OF THE REGISTRATION STATEMENT

The following documents have been filed with the SEC either separately or as exhibits to the registration statement of which this Prospectus forms a part: the documents referred to under Documents Incorporated by Reference ; the consent of KPMG LLP; the consent of Osler, Hoskin & Harcourt LLP; powers of attorney from directors and officers of the Bank; the forms of indentures relating to the Debt Securities; and the statement of eligibility of the trustee on Form T-1.

Table of Contents

The Bank of Nova Scotia
US\$ Senior Notes due

PROSPECTUS SUPPLEMENT
, 2010

Citi
BofA Merrill Lynch
Barclays Capital
Morgan Stanley
Scotia Capital

HSBC