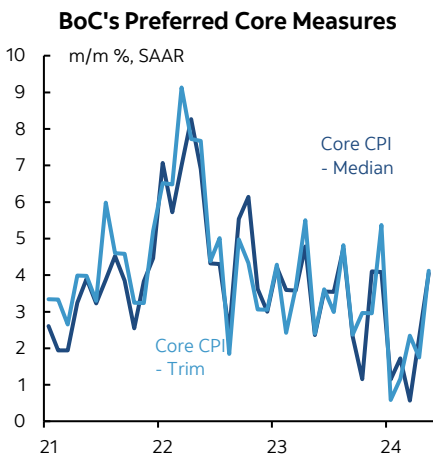


Contributors

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Chart 1



Tiff Should've Whiffed

- The BoC's preferred core inflation gauges soared
- Multiple categories that previously weighed on core inflation reversed higher
- Core services inflation led the way higher
- Shelter inflation remains hot and broadening
- Canada is not out of the woods on inflation risk...
- ...while the BoC's damaged forward guidance tool will amplify volatility

Canadian CPI m/m % // y/y %, May, NSA

Actual: 0.6 / 2.9
 Scotia: 0.2 / 2.5
 Consensus: 0.3 / 2.6
 Prior: 0.5 / 2.7
Trimmed mean CPI: 4.1% m/m SAAR
Weighted median CPI: 4.1% m/m SAAR

Did haste make waste at the Bank of Canada? One strong inflation report on its own doesn't toss up in the air what may be the appropriate path going forward. Having said that, the combination of choosing to rush a cut in June against his prior guidance, Governor Macklem's rather strident claim that the BoC is "not close to those limits" of how much the policy rate spread can undershoot the US, and his total indifference to CAD weakness seem to have been missteps given the clear signal that Canada is not out of the woods on inflation risk yet.

Key is that the BoC's preferred core inflation readings reaccelerated in May (chart 1). Trimmed mean and weighted median CPI were both up by 4.1% m/m SAAR. There were no meaningful revisions to this calculation applied to prior months.

Traditional core inflation (ex-food and energy) was up by 4.9% m/m SAAR, providing a third validation of the acceleration in underlying inflationary pressures (chart 2).

Another key is that services inflation remains very hot (chart 3) as an offset to still soft core goods inflation (chart 4). That hot services reading includes shelter, but services ex-shelter was also hot at 7.3% m/m SAAR (chart 5). Yes, 7.3% folks.

Another key remains the fact that shelter cost inflation is far too hot (chart 6). Rents continue to soar (chart 7). The way CPI captures house prices is at a potential inflection

Chart 2

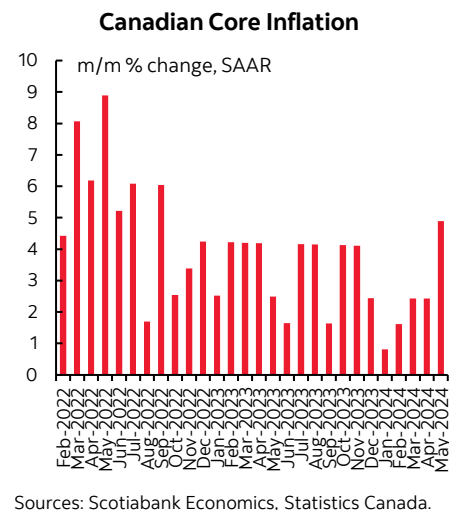


Chart 3

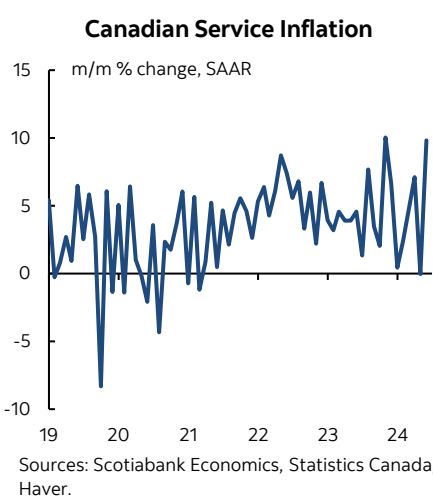
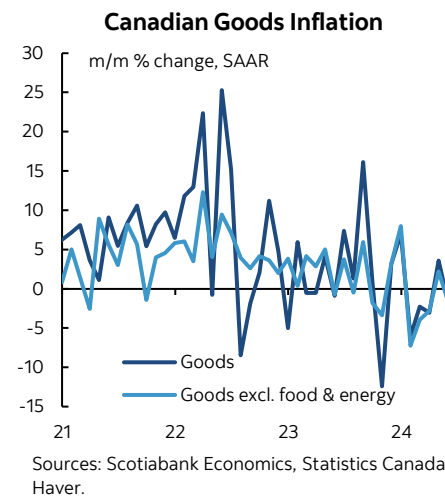


Chart 4



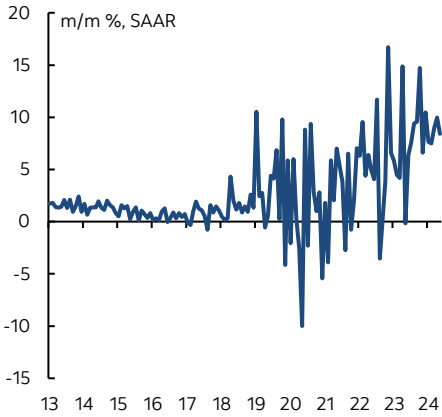
point higher (chart 8). This combination suggests that the drivers of shelter inflation are entering a new phase marked by higher breadth to the drivers.

The next key is that other drivers of the pick-up in inflation included reversals in many of the categories that drove disinflation in prior reports this year and that we warned all along were probably temporary factors. The list is so long that it offers compelling evidence that Canada's disinflation over prior months may well have been temporary.

- Travel tours and accommodation prices spiked higher and were a leading cause of the large 0.6% m/m SA gain in the recreation, education and reading category (chart 9).
- Food from stores (aka grocery prices) reaccelerated, possibly coinciding with the passing of key policy risks in Ottawa (chart 10).
- So did communications prices and for similar reasons (chart 11). Previously big cuts to internet and cellular services reversed (chart 12).
- So did airfare (chart 13).

Chart 6

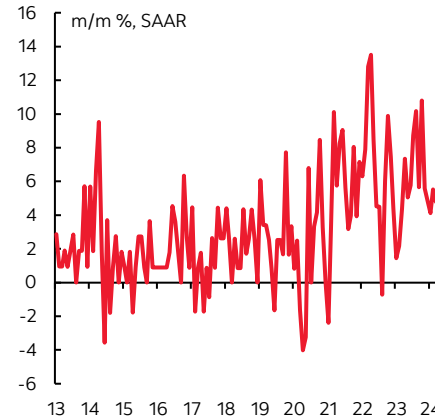
Rents Soaring in Canada



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 7

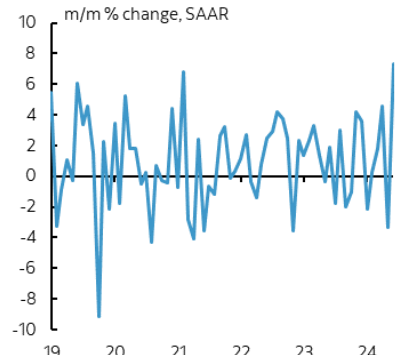
Shelter Cost Soaring High in Canada



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 5

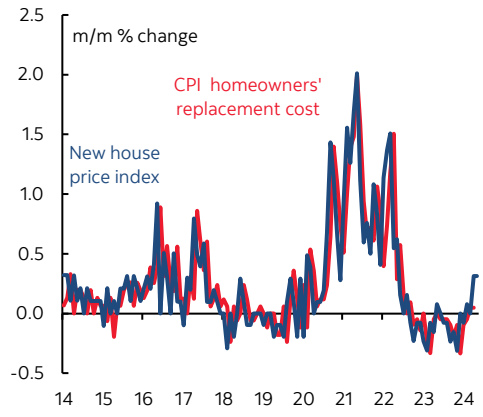
Canadian Services ex Shelter Inflation



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 8

Housing's Inflation Factor



Sources: Scotiabank Economics, Statistics Canada.

For several months I had been arguing that inflation was artificially low because of temporary weights on these categories. A warmer and drier than usual winter motivated less demand for southbound air travel and tourism. Political pressure on grocers and telecommunications companies drove their prices weaker as they attempted to avoid punitive measures in the Budget that could have included industry-specific levies. With the air cleared at least for now, price cuts ended.

An exception is that clothing prices remained soft (chart 14). We'll see if extreme heat and general weather in June changes that.

Gasoline prices were a modest drag on headline CPI (chart 15). Vehicle prices edged up as unusual earlier softness abated (chart 16).

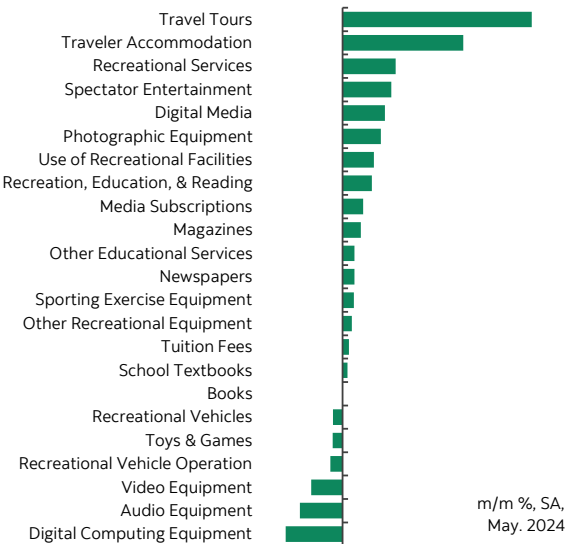
Charts 17 and 18 show a breakdown of the CPI basket in y/y terms and in terms of weighted contributions to the y/y inflation rate.

Charts 19 and 20 do likewise for the m/m inflation breakdown.

Chart 21 shows what was included and excluded in this month's trimmed mean m/m CPI calculation. Chart 22 shows the weighted contributions to trimmed mean CPI by category that was included.

Chart 9

Breakdown of Monthly Changes within Recreation Education and Reading CPI Category



Sources: Scotiabank Economics, Statistics Canada, Haver.

Finally the appendix includes more detail on component and micro-charts plus z-score measures of deviations from recent norms.

Bank of Canada Implications

Key will be the next inflation report on July 16th. Regular readers probably know that I would not have cut in June if I were Macklem. I listened to him when he said he wanted “months” of additional evidence. I view that cut as policy error because it violated forward guidance and prematurely reacted to only four months of soft core inflation after blowing it for four years and with the economy outperforming the BoC’s expectations over 2024H1 compared to their gloomy bias at the start of the year. Wages, productivity, fiscal stimulus, more coming fiscal stimulus, housing shortages, excessive immigration, and the no-rush FOMC are among the sources of inflation risk and reasons for continued caution as opposed to guiding several cuts.

The prime reason we are forecasting three more cuts over the duration of this year—conditional upon the data—is the BoC’s reaction function—and specifically Governor Macklem’s. He clearly has a bias to cut and keep cutting by guiding that it’s reasonable to expect a series. There is a strong case for staying on hold going forward and having stayed on hold last month.

We’re all dealing with enormous uncertainty about the path forward and in that context reliable communications and forward guidance are important. In their absence, markets will be more unstable and the implications for confidence in the economy are damaging.

Chart 10

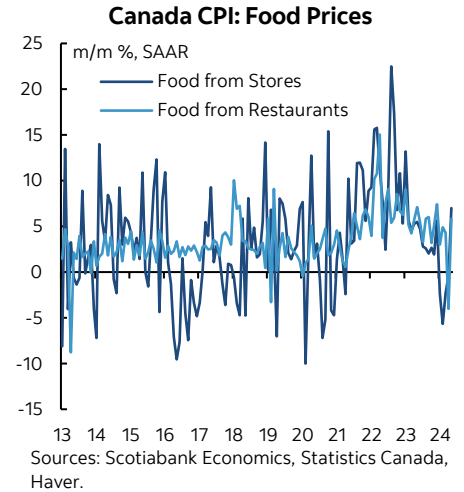
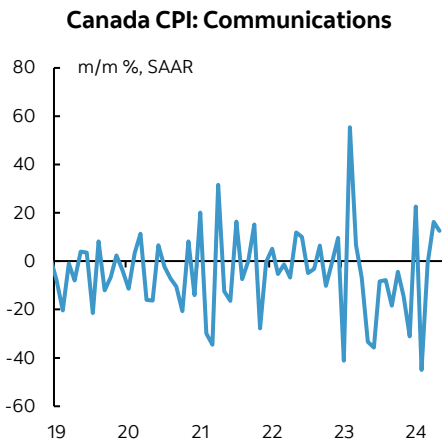
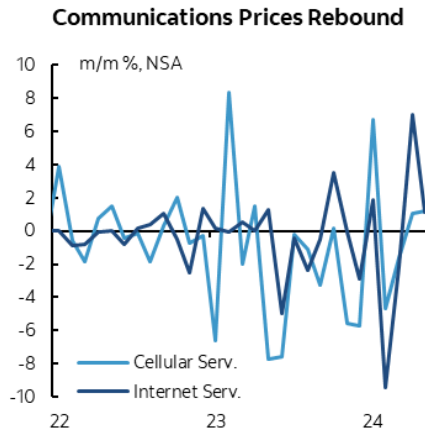


Chart 11



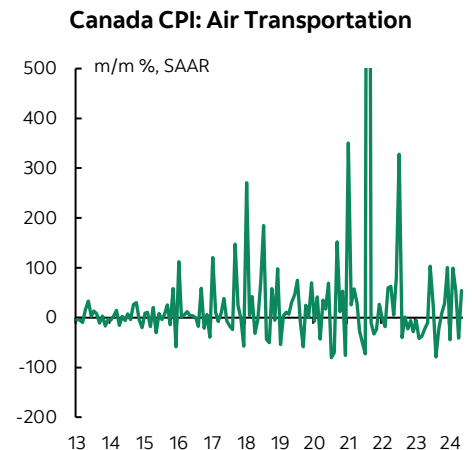
Sources: Scotiabank Economics, Statistics Canada.

Chart 12



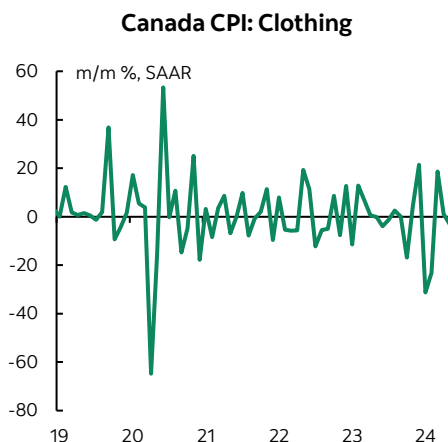
Sources: Scotiabank Economics, Statistics Canada.

Chart 13



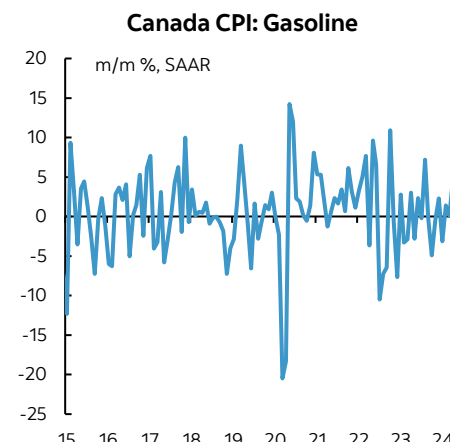
Sources: Scotiabank Economics, Statistics Canada.

Chart 14



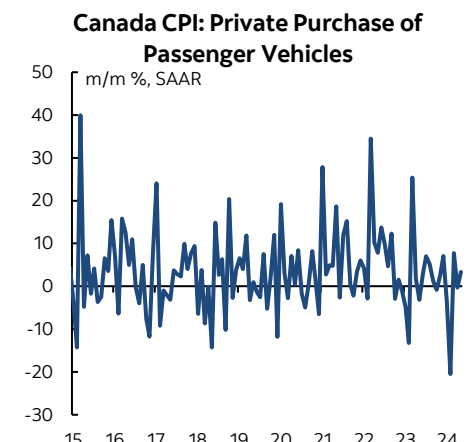
Sources: Scotiabank Economics, Statistics Canada.

Chart 15



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 16



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 17

May Detailed Category 12-Month Change in Canadian CPI

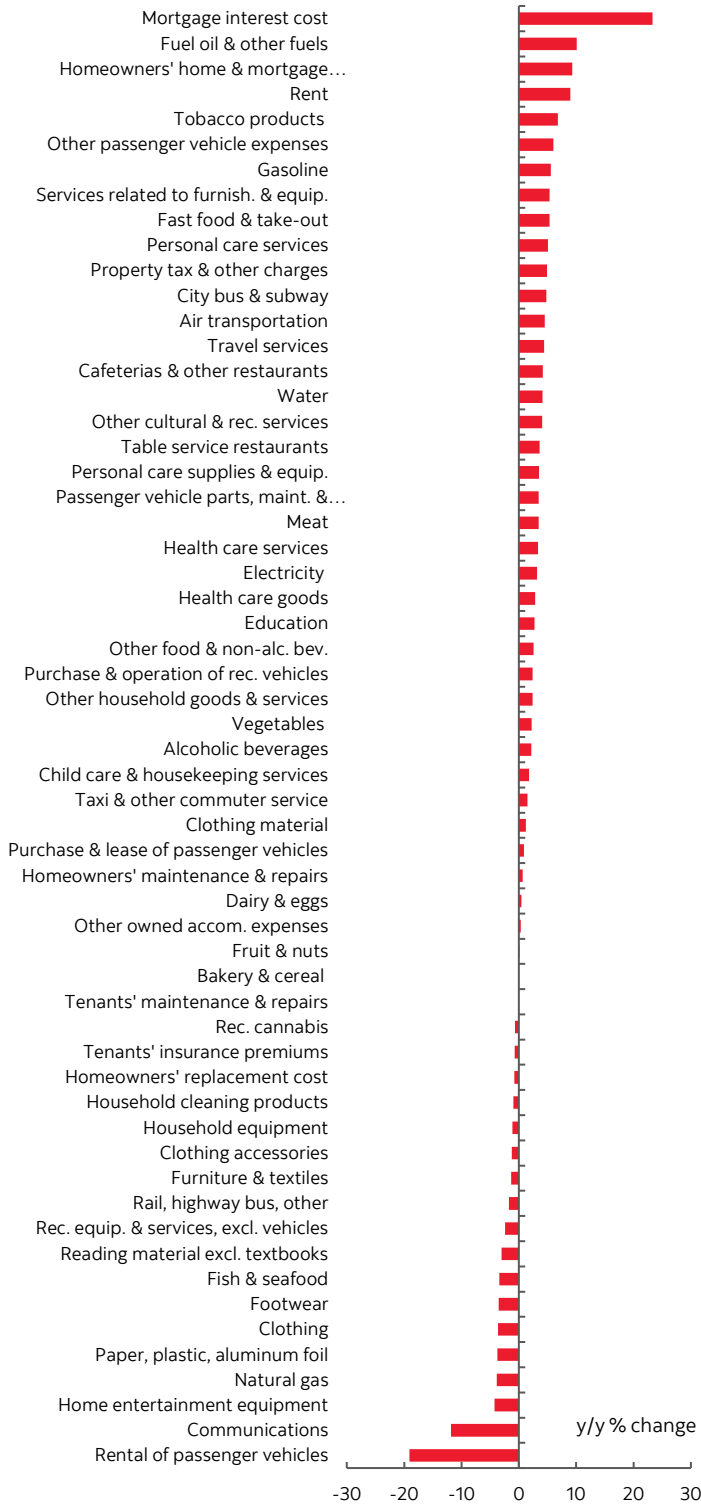


Chart 18

May Detailed Category Contributions to 12-Month Change in Canadian CPI



Chart 19

May Detailed Category Monthly Change in Canadian CPI

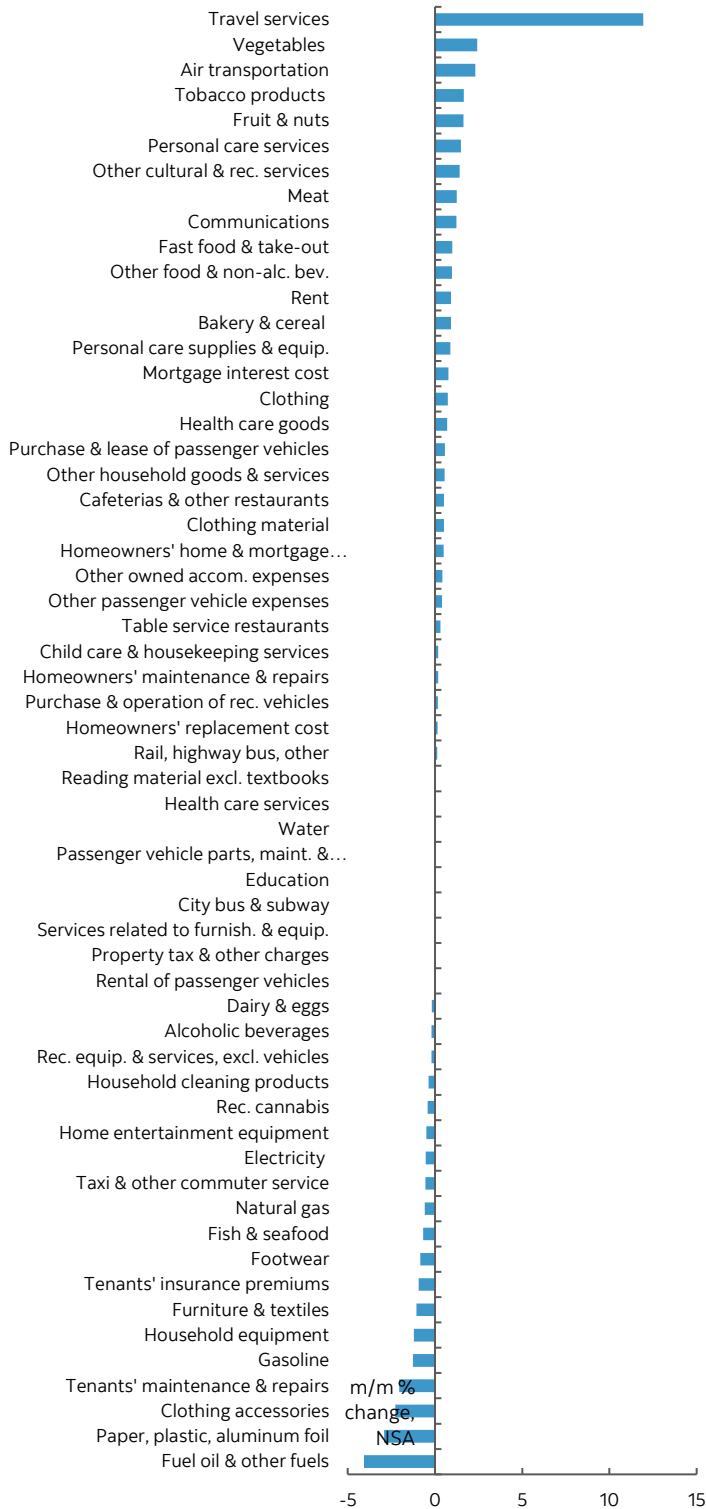


Chart 20

May Detailed Category Contributions to Monthly Change in Canadian CPI

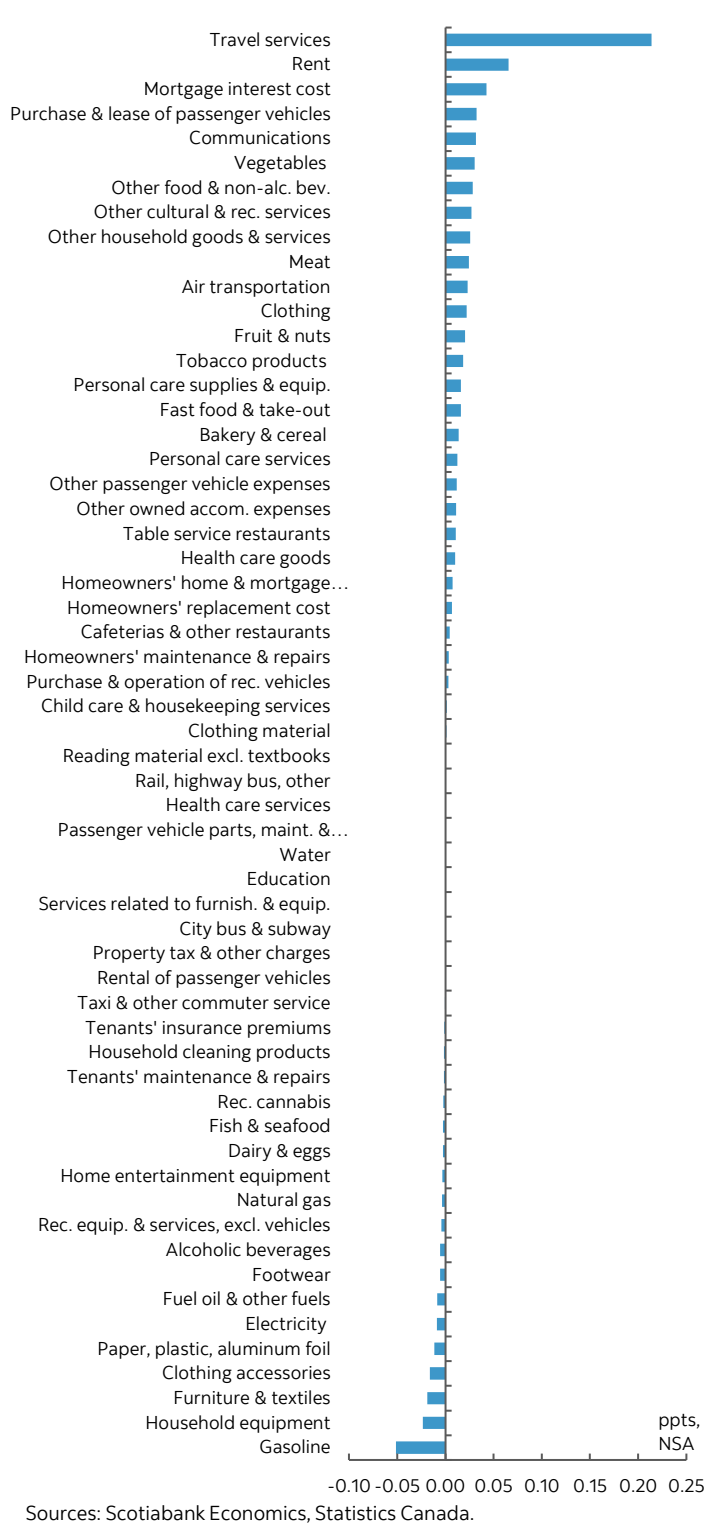
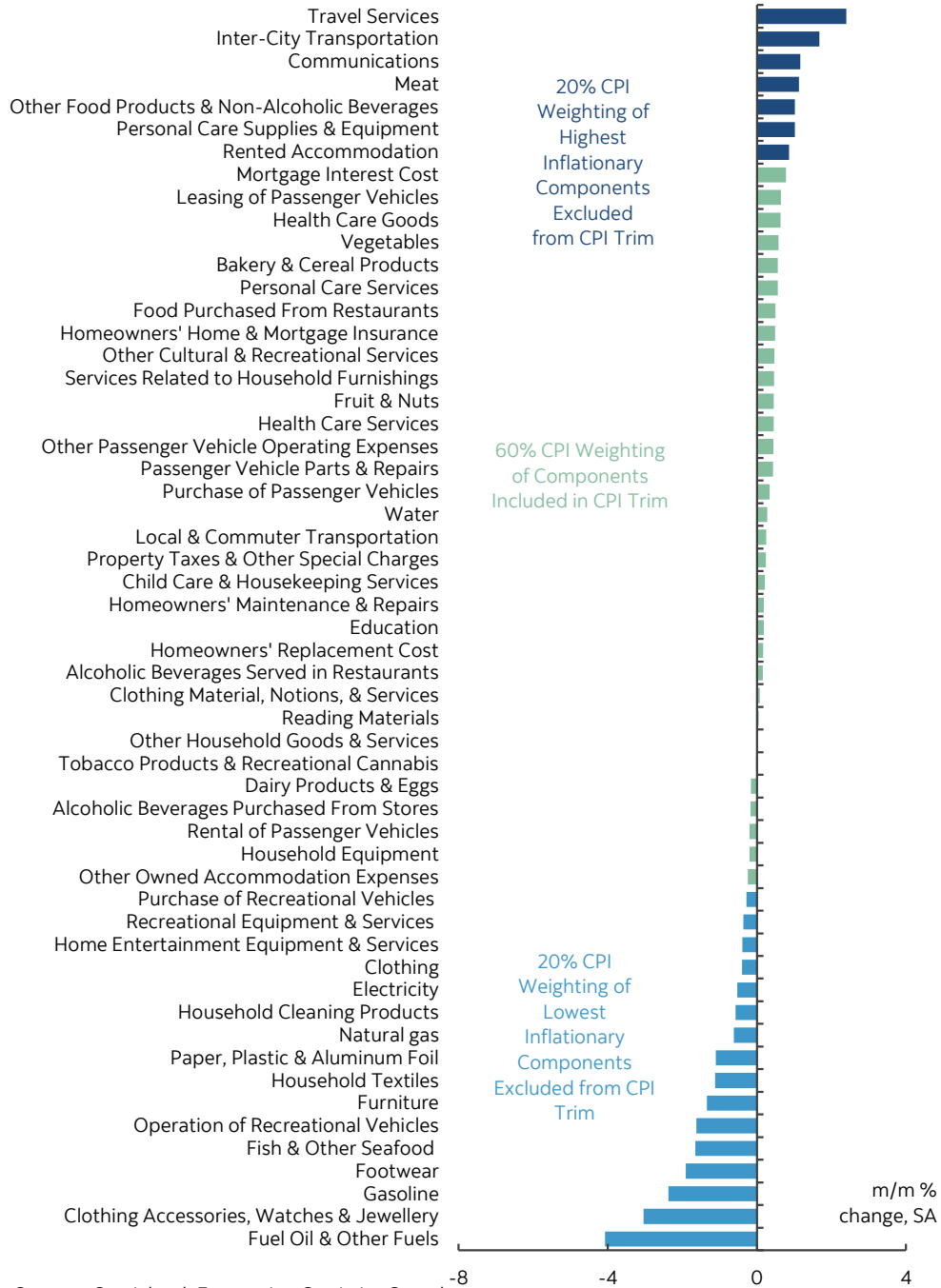


Chart 21

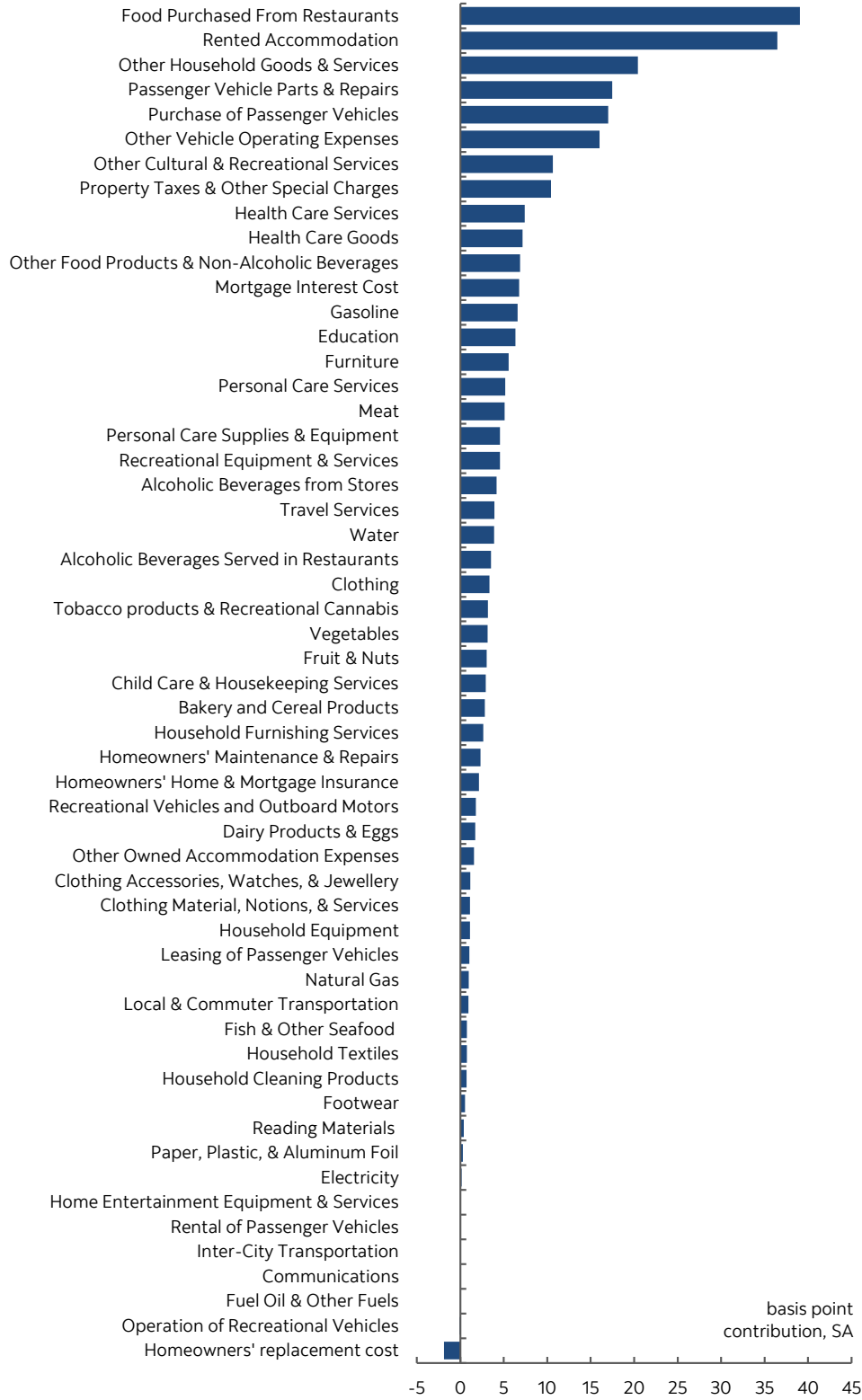
May Single-Month Components Included and Excluded from Bank of Canada Trim Core CPI Measure



Sources: Scotiabank Economics, Statistics Canada.

Chart 22

**Weighted Component Contributions
to the May Trimmed Mean Core CPI Measure**



Sources: Scotiabank Economics, Statistics Canada.

June 25, 2024

May 2024					Weighted Contributions (ppts)*			5-Year Pre-Pandemic			10-Year Pre-Pandemic			
CA INFLATION COMPONENT BREAKDOWN	y/y % change	10-year trend	Pandemic trend (Jan 2019–Present)	m/m % change, NSA	m/m % change, SA**	Weights (%)	y/y	m/m	2015–2019 avg. y/y	Std. Dev.	Z-Score	2011–2019 avg. y/y	Std. Dev.	Z-Score
Food	2.4			0.9	0.5	16.69	0.40	0.14	2.1	1.7	0.2	2.2	1.5	0.2
Food, stores	1.5			1.1		10.72	0.16	0.12	1.7	2.4	-0.1	2.0	2.0	-0.2
Meat	3.4			1.3	1.1	1.94	0.07	0.02	2.5	3.6	0.3	3.4	3.6	0.0
Fish & seafood	-3.4			-0.7	-1.7	0.37	-0.01	0.00	2.9	1.4	-4.4	2.8	2.5	-2.5
Dairy products & eggs	0.5			-0.2	-0.2	1.47	0.01	0.00	0.2	1.5	0.1	0.6	1.5	-0.1
Bakery & cereal products	-0.1			0.9	0.6	1.51	0.00	0.01	0.5	2.1	-0.3	1.2	2.3	-0.5
Fruit, fruit prep. & nuts	0.1			1.6	0.4	1.25	0.00	0.02	1.8	4.4	-0.4	2.0	3.5	-0.5
Vegetables & vegetable prep.	2.2			2.4	0.6	1.25	0.03	0.03	4.9	6.4	-0.4	3.6	5.8	-0.2
Other food & non-alcoholic beverages	2.5			1.0	1.0	2.93	0.07	0.03	1.0	1.5	1.0	1.3	1.7	0.7
Food, restaurants	4.2			0.6		5.97	0.25	0.03	3.0	0.7	1.8	2.6	0.7	2.2
Table service restaurants	3.6			0.3		3.49	0.13	0.01	2.9	0.6	1.4	2.6	0.6	1.6
Fast food & take-out	5.3			1.0		1.63	0.09	0.02	3.2	1.2	1.8	2.6	1.2	2.3
Cafeterias & other restaurants	4.2			0.5		0.85	0.04	0.00	3.0	0.6	1.9	2.6	0.7	2.2
Shelter	6.4			0.4	0.4	29.15	1.86	0.11	1.8	0.6	7.8	1.7	0.8	5.9
Rented accommodation	8.6			0.8	0.9	7.37	0.63	0.06	1.3	0.8	9.1	1.3	0.6	12.3
Rent	8.9			0.9		7.18	0.64	0.07	1.3	0.8	9.3	1.3	0.6	12.7
Tenants' insurance premiums	-0.7			-0.9		0.12	0.00	0.00	1.1	1.6	-1.1	0.3	1.6	-0.6
Tenants' maintenance & repairs	-0.1			-2.0		0.08	0.00	0.00	2.2	1.0	-2.2	2.6	2.2	-1.3
Owned accommodation	6.2			0.4		18.55	1.16	0.07	2.3	0.4	9.3	1.7	0.8	5.5
Mortgage interest cost	23.3			0.8	0.8	5.58	1.30	0.04	2.1	3.6	5.9	-0.1	3.6	6.5
Homeowners' replacement cost	-0.8			0.1	0.2	4.61	-0.04	0.01	1.9	1.7	-1.6	2.1	1.5	-2.0
Property tax & other charges	4.9			0.0	0.2	2.43	0.12	0.00	2.4	0.6	4.4	2.8	0.7	3.1
Homeowners' home & mortgage insurance	9.3			0.5	0.5	1.50	0.14	0.01	5.2	2.3	1.8	4.5	2.6	1.8
Homeowners' maintenance & repairs	0.7			0.2	0.2	1.85	0.01	0.00	2.0	1.1	-1.2	2.0	1.4	-0.9
Other owned accommodation expenses	0.3			0.4	-0.2	2.58	0.01	0.01	2.0	1.2	-1.4	2.4	2.0	-1.1
Water, fuel, & elec.	2.3			-0.7		3.22	0.07	-0.02	0.8	2.1	0.7	2.5	3.4	-0.1
Electricity	3.2			-0.5	-0.5	1.68	0.05	-0.01	1.2	4.4	0.5	2.5	3.8	0.2
Water	4.1			0.0	0.3	0.74	0.03	0.00	3.7	0.9	0.4	4.9	1.4	-0.6
Natural gas	-3.8			-0.6	-0.6	0.59	-0.02	0.00	-1.3	9.0	-0.3	0.4	10.6	-0.4
Fuel oil & other fuels	10.1			-4.1	-4.1	0.21	0.02	-0.01	-0.1	15.5	0.7	5.1	14.2	0.3
Household operations, furniture & equipment	-1.5			0.1	0.0	13.01	-0.20	0.01	1.2	1.0	-2.6	1.4	0.9	-3.3
Household ops.	-2.0			0.6		8.74	-0.18	0.05	1.3	1.1	-3.0	2.1	1.3	-3.3
Communications	-11.8			1.2	1.2	2.58	-0.31	0.03	0.0	2.8	-4.2	1.5	2.9	-4.7
Child care & housekeeping services	1.8			0.2	0.2	0.75	0.01	0.00	3.4	1.4	-1.2	3.3	1.3	-1.2
Household cleaning products	-0.9			-0.4	-0.6	0.42	0.00	0.00	1.3	1.9	-1.2	0.8	1.9	-0.9
Paper, plastic, aluminum foil	-3.7			-2.9	-1.1	0.39	-0.01	-0.01	2.2	2.2	-2.6	2.0	2.0	-2.9
Other household goods & services	2.4			0.6	0.0	4.61	0.11	0.03	1.8	0.5	1.2	2.4	1.1	0.0
Household furnishings & equip.	-0.6			-1.0		4.27	-0.03	-0.04	0.8	1.7	-0.9	0.1	1.6	-0.4
Furniture & textiles	-1.3			-1.1		1.79	-0.02	-0.02	0.4	2.1	-0.8	-0.3	2.1	-0.5
Household equipment	-1.1			-1.2	-0.2	1.96	-0.02	-0.02	0.9	1.7	-1.2	0.0	1.8	-0.6
Services related to furnishings & equipment	5.4			0.0	0.5	0.35	0.02	0.00	2.4	1.8	1.6	2.7	2.9	0.9
Clothing & footwear	-3.0			0.0	-0.4	4.6	-0.13	0.00	0.6	1.2	-2.9	0.3	1.4	-2.3
Clothing	-3.6			0.7	-0.4	2.98	-0.11	0.02	0.5	1.6	-2.5	-0.3	2.1	-1.6
Footwear	-3.5			-0.8	-1.9	0.64	-0.02	-0.01	0.4	1.2	-3.4	0.1	1.4	-2.5
Clothing accessories	-1.2			-2.3		0.71	-0.01	-0.02	1.0	1.8	-1.2	2.3	2.6	-1.4
Clothing material	1.2			0.5		0.23	0.00	0.00	2.2	0.7	-1.5	2.7	1.2	-1.3

June 25, 2024

May 2024			Weighted Contributions (ppts)*			5-Year Pre-Pandemic			10-Year Pre-Pandemic				
CA INFLATION COMPONENT BREAKDOWN	y/y % change	10-year trend Pandemic trend (Jan 2019–Present)	m/m % change, NSA	m/m % change, SA**	Weights (%)	y/y	m/m	2015–2019 avg. y/y	Std. Dev.	Z-Score	2011–2019 avg. y/y	Std. Dev.	Z-Score
Transportation	3.5		0.1	-0.2	16.9	0.58	0.01	1.7	3.1	0.6	2.3	3.0	0.4
Private trans.	3.4		-0.1		15.3	0.52	-0.01	1.3	3.2	0.6	2.2	3.2	0.4
Purchase, lease, rental of passenger vehicles	0.7		0.5		5.76	0.04	0.03	2.3	1.5	-1.1	1.9	1.6	-0.7
<u>Purchase & lease of passenger vehicles</u>	<u>0.9</u>		<u>0.6</u>		<u>5.73</u>	<u>0.05</u>	<u>0.03</u>	<u>2.3</u>	<u>1.5</u>	<u>-1.0</u>	<u>1.9</u>	<u>1.6</u>	<u>-0.6</u>
Rental of passenger vehicles	-19.1		0.0	-0.2	0.03	-0.01	0.00	1.4	5.2	-3.9	1.2	4.1	-5.0
Operation of passenger vehicles	5.1		-0.4		9.52	0.49	-0.04	0.7	5.7	0.8	2.4	5.4	0.5
<u>Gasoline</u>	<u>5.6</u>		<u>-1.3</u>	<u>-2.4</u>	<u>4.09</u>	<u>0.23</u>	<u>-0.05</u>	<u>-0.6</u>	<u>13.5</u>	<u>0.5</u>	<u>3.0</u>	<u>12.2</u>	<u>0.2</u>
<u>Passenger vehicle parts, maintenance & repairs</u>	<u>3.5</u>		<u>0.0</u>	<u>0.4</u>	<u>2.50</u>	<u>0.09</u>	<u>0.00</u>	<u>1.9</u>	<u>0.3</u>	<u>4.4</u>	<u>1.6</u>	<u>0.8</u>	<u>2.4</u>
<u>Other passenger vehicle expenses</u>	<u>6.0</u>		<u>0.4</u>	<u>0.4</u>	<u>2.93</u>	<u>0.18</u>	<u>0.01</u>	<u>2.4</u>	<u>2.2</u>	<u>1.7</u>	<u>2.6</u>	<u>2.0</u>	<u>1.7</u>
Public trans.	3.8		1.5		1.62	0.06	0.02	4.8	3.9	-0.2	3.4	3.7	0.1
Local & commuter transportation	3.7		-0.2	0.2	0.43	0.02	0.00	1.5	0.5	4.5	2.2	1.2	1.3
<u>City bus & subway</u>	<u>4.8</u>		<u>0.0</u>		<u>0.31</u>	<u>0.01</u>	<u>0.00</u>	<u>2.1</u>	<u>0.7</u>	<u>3.6</u>	<u>2.8</u>	<u>1.4</u>	<u>1.4</u>
<u>Taxi & other commuter service</u>	<u>1.5</u>		<u>-0.6</u>		<u>0.12</u>	<u>0.00</u>	<u>0.00</u>	<u>0.1</u>	<u>0.8</u>	<u>1.7</u>	<u>0.9</u>	<u>1.2</u>	<u>0.5</u>
Inter-city transportation	3.7		2.1	1.7	1.08	0.04	0.02	6.2	5.7	-0.4	3.9	5.8	0.0
<u>Air transportation</u>	<u>4.5</u>		<u>2.3</u>		<u>1.00</u>	<u>0.05</u>	<u>0.02</u>	<u>6.5</u>	<u>6.2</u>	<u>-0.3</u>	<u>4.0</u>	<u>6.4</u>	<u>0.1</u>
<u>Rail, highway bus, other</u>	<u>-1.7</u>		<u>0.1</u>		<u>0.09</u>	<u>0.00</u>	<u>0.00</u>	<u>2.7</u>	<u>1.8</u>	<u>-2.5</u>	<u>2.0</u>	<u>4.2</u>	<u>-0.9</u>
Health & personal care	3.6		0.8	0.7	5.23	0.2	0.04	1.4	0.4	5.5	1.3	0.9	2.7
Health care	3.0		0.4		2.56	0.1	0.01	1.3	0.6	3.0	1.1	0.8	2.4
Health care goods	2.9		0.7	0.6	1.44	0.0	0.01	0.5	0.7	3.3	-0.1	1.1	2.7
Health care services	3.3		0.0	0.4	1.12	0.0	0.00	2.5	0.6	1.5	2.9	0.8	0.6
Personal Care	4.1		1.1		2.67	0.1	0.03	1.5	0.5	4.8	1.5	1.2	2.2
Personal care supplies & equipment	3.5		0.9	1.0	1.84	0.1	0.02	0.4	0.9	3.3	0.5	1.6	1.8
Personal care services	5.1		1.5	0.6	0.83	0.0	0.01	2.9	0.7	2.9	2.7	1.4	1.6
Recreation, education & reading	1.3		2.3	0.6	10.27	0.1	0.24	1.7	0.8	-0.5	1.3	0.9	0.1
Recreation	1.3		2.88		8.22	0.11	0.24	1.4	1.0	0.0	0.6	1.2	0.6
Recreational equipment & services, excl. vehicles	-2.4		-0.2	-0.4	2.10	-0.1	0.00	-0.8	1.6	-1.0	-2.2	2.0	-0.1
Purchase & operation of recreational vehicles	2.4		0.2	-0.3	1.77	0.0	0.00	2.6	1.8	-0.1	1.9	2.0	0.3
Home entertainment equipment	-4.2		-0.5	-0.4	0.66	0.0	0.00	-3.8	2.0	-0.2	-4.9	2.2	0.3
Travel services	4.4		11.9	2.4	1.79	0.1	0.21	0.8	2.9	1.2	0.4	2.8	1.4
Other cultural & rec. services	4.1		1.4	0.5	1.91	0.1	0.03	3.5	1.1	0.5	3.4	1.4	0.5
Educ. & reading	1.8		0.00		2.05	0.04	0.00	2.5	1.4	-0.5	3.0	1.1	-1.1
Education	2.7		0.0	0.2	1.83	0.1	0.00	2.4	1.4	0.2	3.0	1.2	-0.2
Reading material excl. textbooks	-3.0		0.1	0.0	0.22	0.0	0.00	3.8	2.8	-2.5	3.2	2.9	-2.2
Alcoholic beverages, tobacco & rec. cannabis	3.2		0.3	0.2	4.20	0.1	0.01	3.2	1.2	0.0	2.7	1.3	0.4
Alcoholic beverages	2.2		-0.20		2.69	0.06	-0.01	1.7	0.5	0.9	1.4	0.7	1.1
Alc. beverages served in licensed establishments	3.6		0.5	0.2	0.77	0.0	0.00	1.8	0.6	2.9	2.0	0.7	2.3
Alc. beverages purchased from stores	1.6		-0.5	-0.2	1.92	0.0	-0.01	1.7	0.7	-0.2	1.1	1.1	0.5
Tobacco products	6.8		1.66		1.11	0.08	0.02	5.6	2.1	0.6	4.8	2.8	0.7
Cigarettes	7.6		2.0		0.94	0.1	0.02	5.6	2.1	1.0	4.8	2.8	1.0
Other tobacco products & supplies	-0.3		-0.3		0.16	0.0	0.00	5.6	2.0	-2.9	4.9	2.6	-2.0
Rec. cannabis	-0.7		-0.42		0.50	0.00	0.00						

*Number may not add due to rounding

** Only available for components that are tracked on a seasonally adjusted basis.

Sources: Scotiabank Economics, Statistics Canada.

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