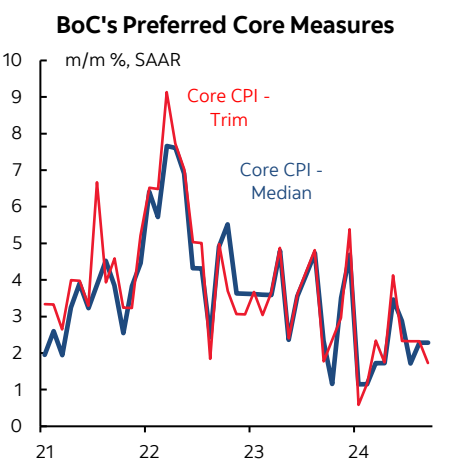


Contributors

Derek Holt

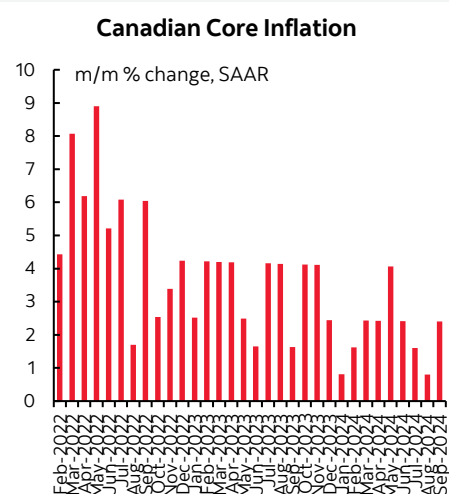
VP & Head of Capital Markets Economics
 Scotiabank Economics
 416.863.7707
derek.holt@scotiabank.com

Chart 1



Sources: Scotiabank Economics, Statistics Canada.

Chart 2



Sources: Scotiabank Economics, Statistics Canada.

The Bank of Canada Has the Green Light to Cut 50bps

- BoC's preferred 'core' gauges are on the 2% target at the margin
- Services inflation vapourizes as core goods inflation remains subdued
- Shelter CPI was an ongoing BoC concern and is waning
- BoC to cut 50bps, but is at strong risk of reigniting inflationary pressures

Canadian CPI, m/m %, September, NSA:

Actual: -0.4 / 1.6
 Scotia: -0.1 / 2.0
 Consensus: -0.3 / 1.8
 Prior: -0.2 / 2.0

'Core' gauges, m/m % SAAR:

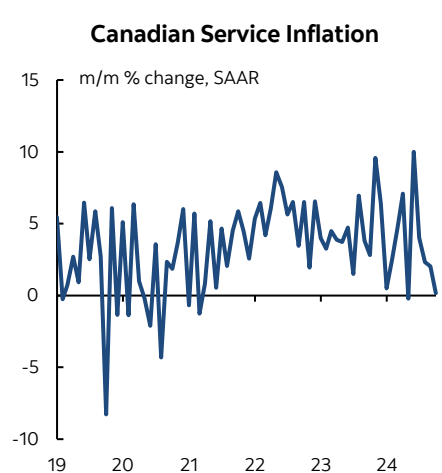
Trimmed mean CPI: 2.3%
 Weighted median CPI: 1.7%
 Traditional core CPI: 2.4%

There has been a lot of baseless on- and off-speculation around the Bank of Canada's next move but it needed data to justify a call. We now have that. The Bank of Canada is likely to cut 50bps next Wednesday on the heels of a report that shows that the Bank's preferred core measures are on target. That was our instant reaction with our traders and clients seconds after seeing the core gauges. There is still the risk that the BoC—that has surprised markets many times in the past—could opt for -25bps, but the hurdle to doing so is set rather high now. I'll also argue that while it's our call, we disagree with upsizeing.

Key is that the average of the trimmed mean and weighted median measures of core inflation slowed to an average of 2% m/m SAAR in September (chart 1). Weighted median CPI was the higher of the two at 2.3% m/m SAAR but trimmed mean CPI at 1.7% balances that out and the BoC tends to take an average. Traditional core (ex-food and energy) was up 2.4% m/m SAAR but this is on the heels of just 0.8% the prior month (chart 2).

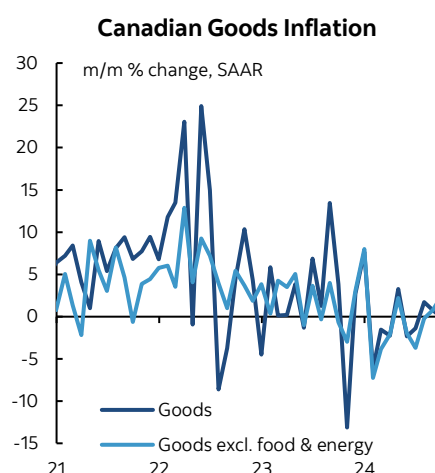
On a three-month moving average basis, traditional core CPI (ex-food and energy) is up by just 1.6% m/m SAAR, and both the weighted median and trimmed mean CPI gauges are up 2.1%.

Chart 3



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 4



Sources: Scotiabank Economics, Statistics Canada, Haver.

So why 50bps?

- Symmetry around the 2% inflation target amidst readings like these would be taken by the BoC as a need to focus more upon the risk of undershooting the 2% inflation target.
- The output gap is estimated to be significantly negative which adds to this concern.
- The BoC is likely to downgrade Q3 GDP growth from 2.8% in their prior forecast to around half that next week, thus advancing a narrative that their forecast rebound is being stymied at least for now.
- Population growth is not yet slowing given the LFS reading that indicated another gain of over 100k in September which means—rightly or wrongly—the BoC can point to ongoing concerns about per capita numbers (partly still wrongly imo).
- The BoC has surprised markets in the past, but it would need strong arguments to negatively surprise markets priced by 50. They would also need steely resolve to go against markets, most economists, and heavy pressure from the business community and politicians.
- Macklem is unlikely to be that person who goes against such pressure given his naturally dovish instincts and so the BoC's reaction function has to get a high weight in the forecast call.
- With the policy rate presently at 4.25% and hence somewhere around 150bps above neutral, the BoC is significantly restrictive and still has room after cutting to 3.75% so say that they need to be careful going forward.
- Services inflation has recently disappeared (chart 3) to go alongside weak core goods inflation (chart 4).
- Furthermore, the one main area where the BoC has been concerned about inflation risk in the short-term is shelter cost and that too waned sharply last month (chart 5). While the small roughly 3% weight in the basket on mortgage interest continues to wane, the BoC will place more emphasis upon charts 6 and 7 showing that perhaps rent and replacement cost of housing are more subdued on a trend basis.

Chart 5

Shelter Cost in Canada

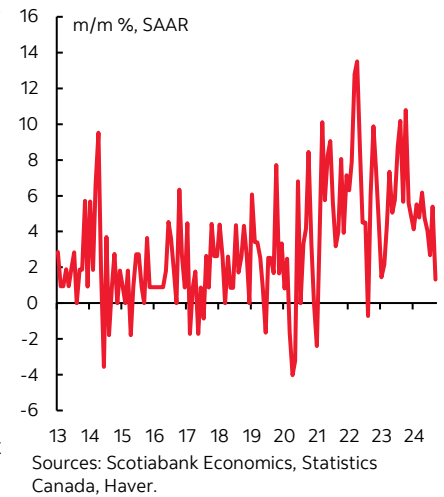


Chart 6

Rents in Canada

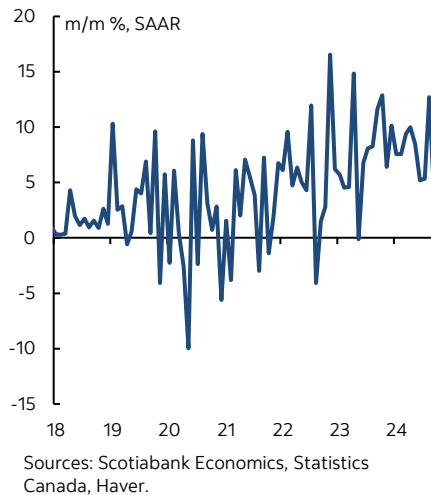
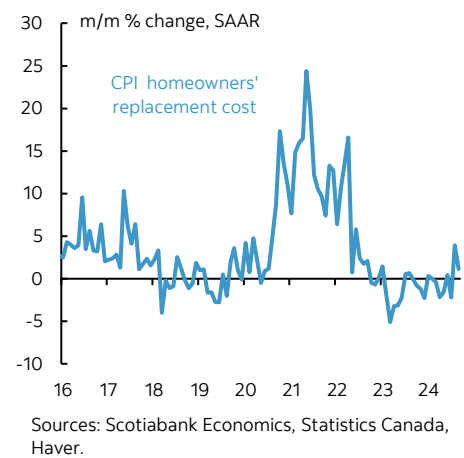


Chart 7

Canada CPI: Homeowners' Replacement Cost



Opting to cut 50bps and the aggressive market easing around the expected path forward are likely to ignite growth faster over 2025–26 than otherwise, closing the output gap quicker than estimated along ongoing other sources of inflation risk from real wage gains alongside terrible productivity, severe housing shortages and ongoing immigration, likely fiscal pump-priming into an election year, and our work on the pent-up demand and pent-up savings that exist in the household sector. The BoC is at significant risk of unleashing inflationary forces.

Across other components, the transportation sector is driving disinflationary momentum (chart 8) as vehicle price changes are subdued (chart 9), airfare fell (chart 10) and gasoline prices fell (chart 11).

Food prices were up but the low weight on the noisy trend did not have much impact on headline CPI (chart 12).

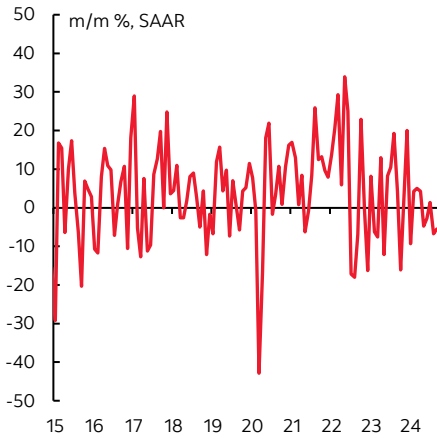
Clothing prices fell (chart 13).

The 0.1% m//m SA rise and the roughly 10% weight on the recreation/education/reading leisure categories drove little impact on overall inflation notwithstanding significant variation within the category (chart 14).

Please see more charts in the following pages that break out more of the components, as well as the detailed table at the back of this publication including measures of dispersion and micro-charts.

Chart 8

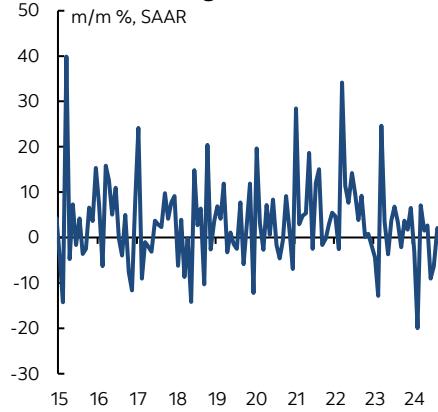
Canada CPI: Transportation



Sources: Scotiabank Economics, Statistics Canada.

Chart 9

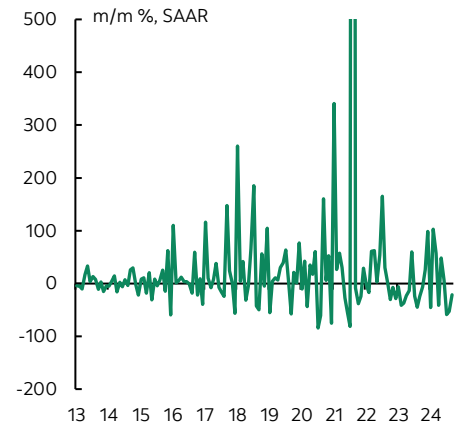
Canada CPI: Private Purchase of Passenger Vehicles



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 10

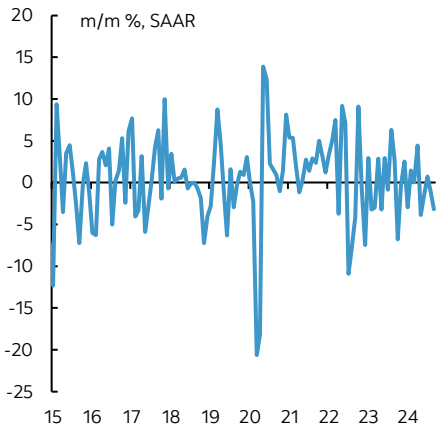
Canada CPI: Air Transportation



Sources: Scotiabank Economics, Statistics Canada.

Chart 11

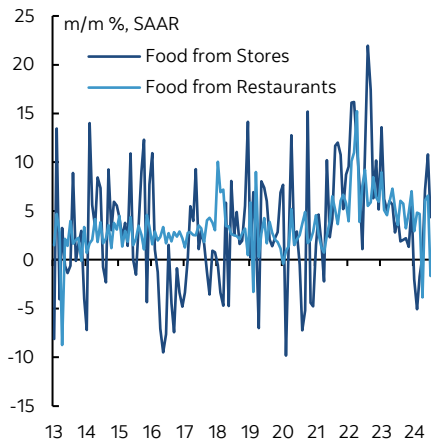
Canada CPI: Gasoline



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 12

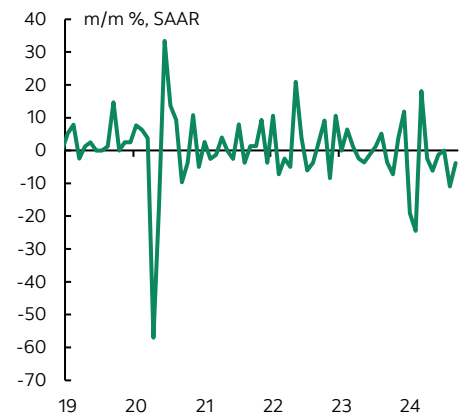
Canada CPI: Food Prices



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 13

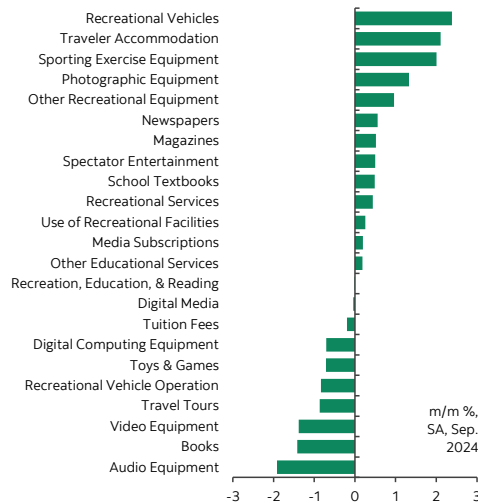
Canada CPI: Clothing & Footwear



Sources: Scotiabank Economics, Statistics Canada.

Chart 14

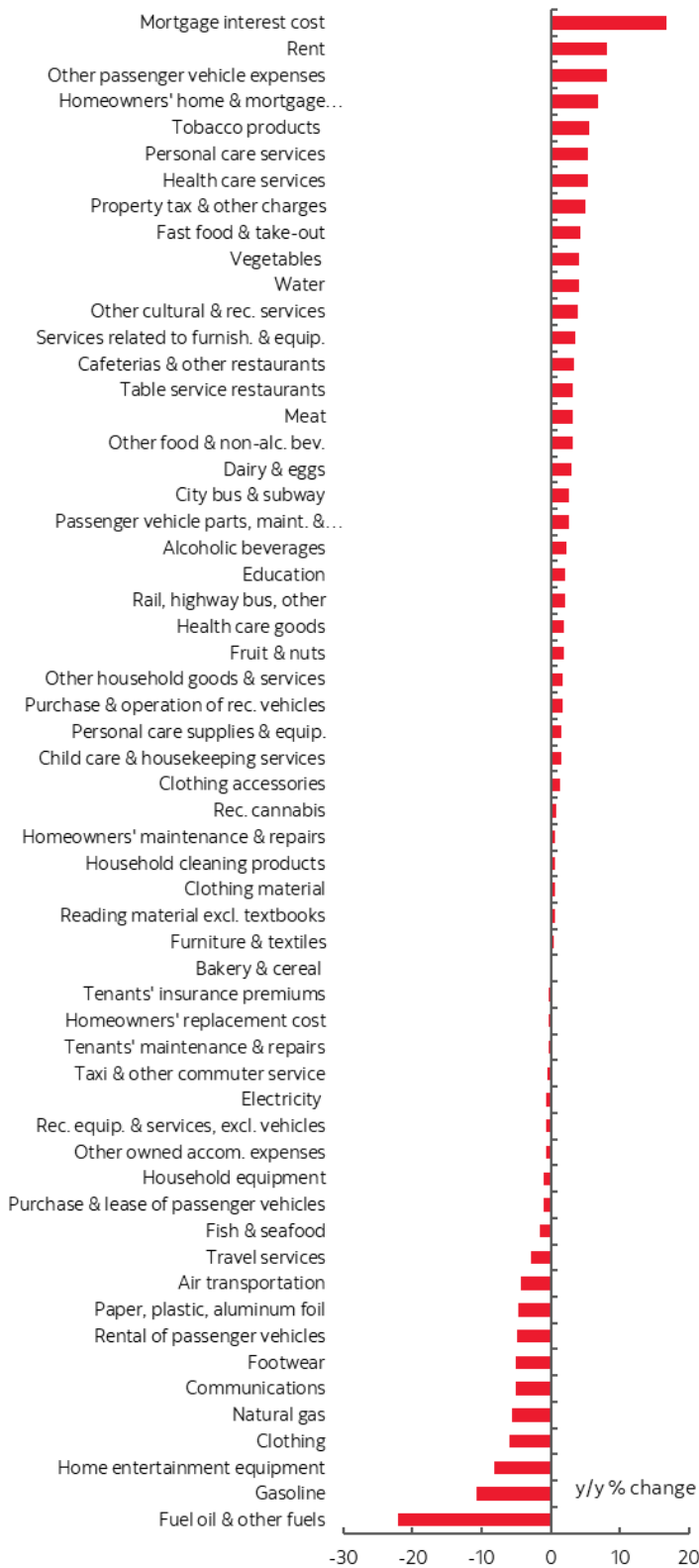
Breakdown of Monthly Changes within Recreation Education and Reading CPI Category



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 15

September Detailed Category 12-Month Change in Canadian CPI



Sources: Scotiabank Economics, Statistics Canada.

Chart 16

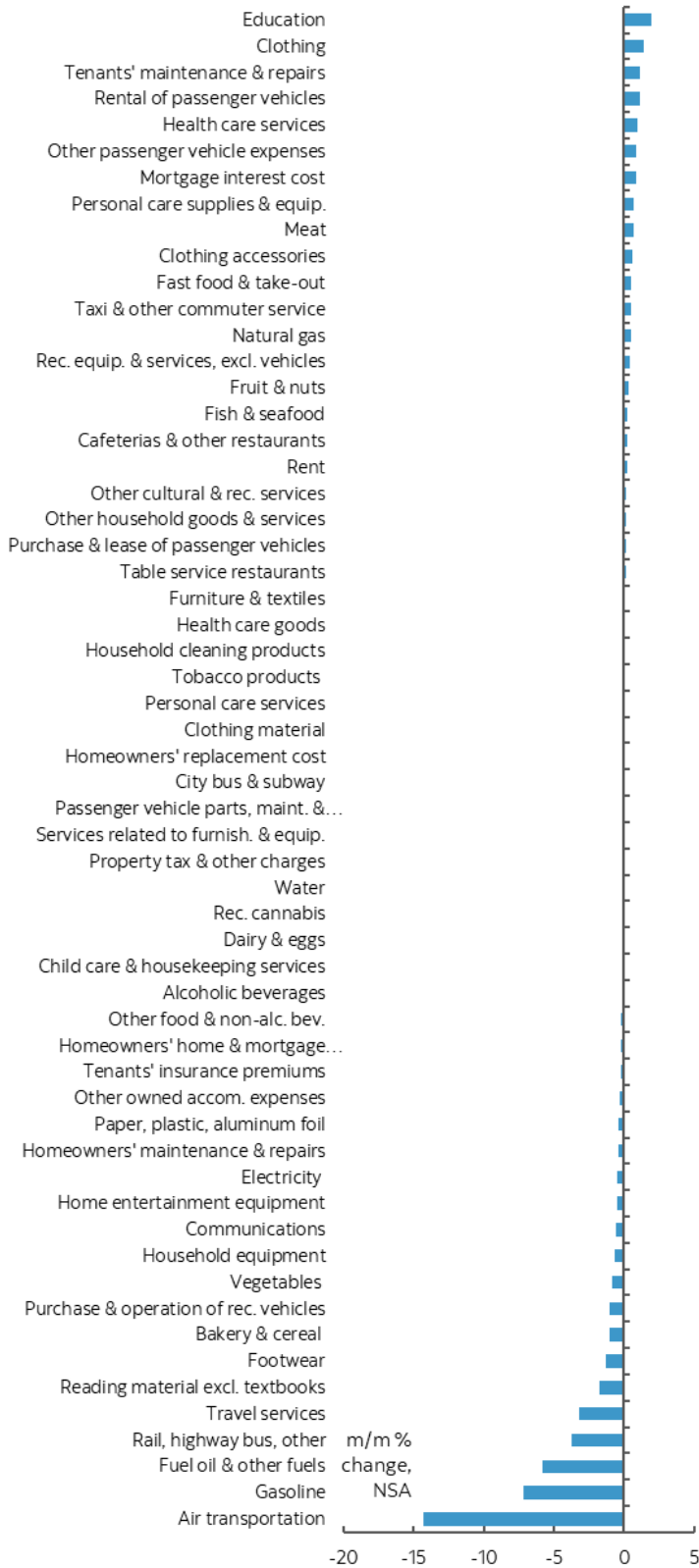
September Detailed Category Contributions to 12-Month Change in Canadian CPI



Sources: Scotiabank Economics, Statistics Canada.

Chart 17

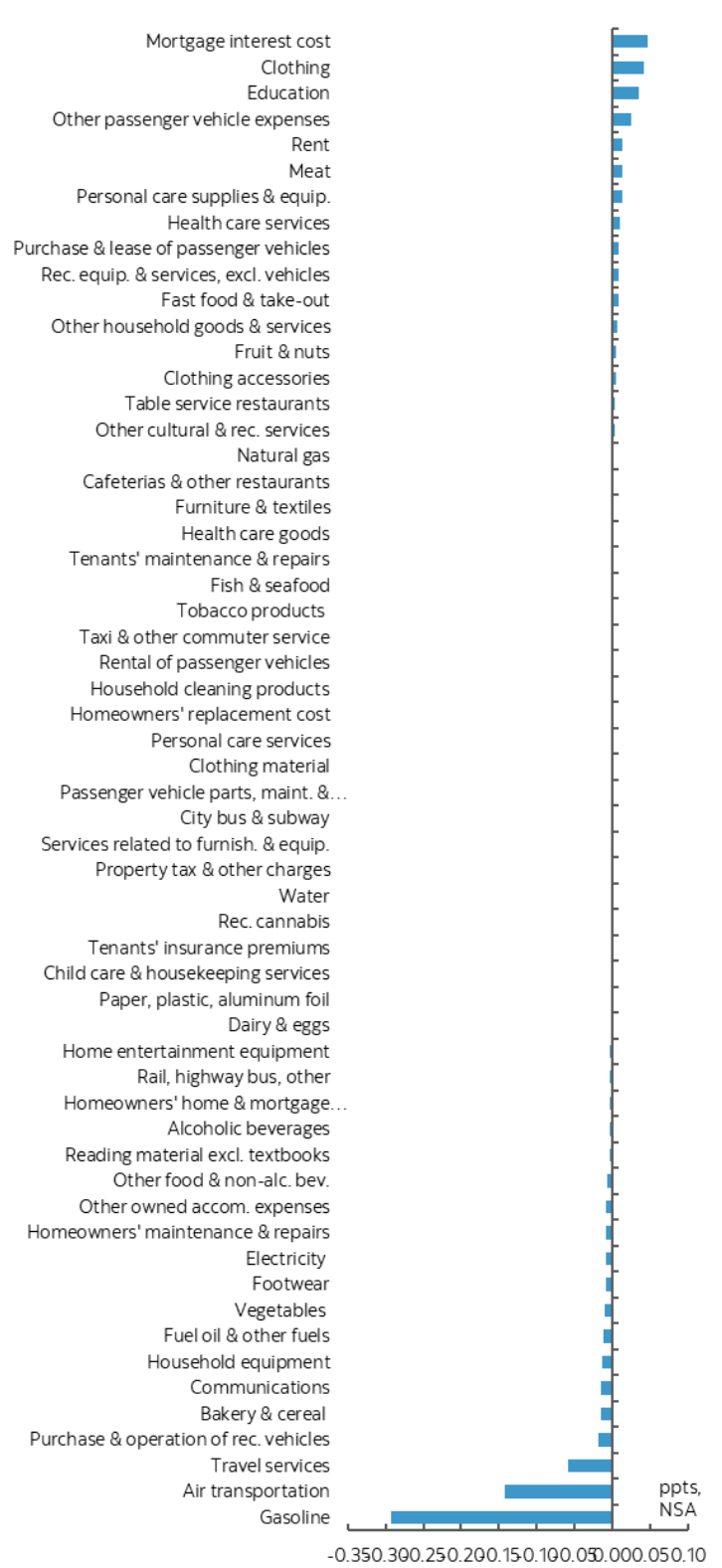
September Detailed Category Monthly Change in Canadian CPI



Sources: Scotiabank Economics, Statistics Canada.

Chart 18

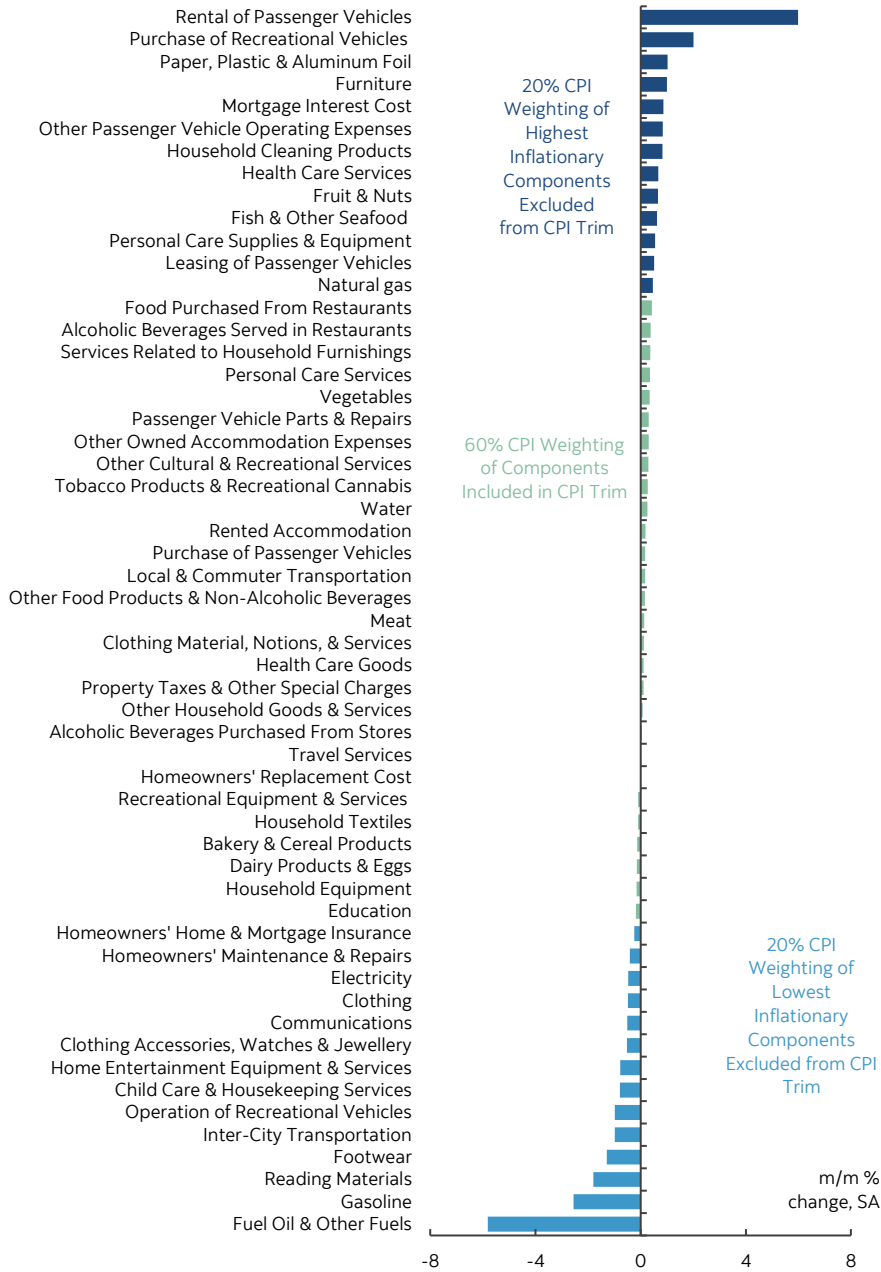
September Detailed Category Contributions to Monthly Change in Canadian CPI



Sources: Scotiabank Economics, Statistics Canada.

Chart 19

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



Sources: Scotiabank Economics, Statistics Canada.

October 15, 2024

Sep 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	2.8			0.0	0.0	16.69	0.46	0.00	2.1	1.7	0.4	2.2	1.5	0.4
Food, stores	2.4			-0.1		10.72	0.26	-0.01	1.7	2.4	0.3	2.0	2.0	0.2
Meat	3.1			0.7	0.1	1.94	0.06	0.01	2.5	3.6	0.2	3.4	3.6	-0.1
Fish & seafood	-1.6			0.2	0.6	0.37	-0.01	0.00	2.9	1.4	-3.1	2.8	2.5	-1.7
Dairy products & eggs	3.0			-0.1	-0.1	1.47	0.04	0.00	0.2	1.5	1.8	0.6	1.5	1.6
Bakery & cereal products	-0.2			-1.0	-0.1	1.51	0.00	-0.02	0.5	2.1	-0.3	1.2	2.3	-0.6
Fruit, fruit prep. & nuts	1.8			0.4	0.7	1.25	0.02	0.00	1.8	4.4	0.0	2.0	3.5	-0.1
Vegetables & vegetable prep.	4.0			-0.8	0.3	1.25	0.05	-0.01	4.9	6.4	-0.1	3.6	5.8	0.1
Other food & non-alcoholic beverages	3.1			-0.2	0.2	2.93	0.09	-0.01	1.0	1.5	1.4	1.3	1.7	1.1
Food, restaurants	3.5			0.3		5.97	0.21	0.02	3.0	0.7	0.8	2.6	0.7	1.3
Table service restaurants	3.2			0.1		3.49	0.11	0.00	2.9	0.6	0.6	2.6	0.6	1.0
Fast food & take-out	4.3			0.5		1.63	0.07	0.01	3.2	1.2	0.8	2.6	1.2	1.4
Cafeterias & other restaurants	3.4			0.2		0.85	0.03	0.00	3.0	0.6	0.7	2.6	0.7	1.2
Shelter	5.0			0.1	0.0	29.15	1.45	0.03	1.8	0.6	5.4	1.7	0.8	4.1
Rented accommodation	8.0			0.2	0.2	7.37	0.59	0.01	1.3	0.8	8.4	1.3	0.6	11.3
Rent	8.2			0.2		7.18	0.59	0.01	1.3	0.8	8.4	1.3	0.6	11.5
Tenants' insurance premiums	-0.2			-0.2		0.12	0.00	0.00	1.1	1.6	-0.8	0.3	1.6	-0.3
Tenants' maintenance & repairs	-0.4			1.2		0.08	0.00	0.00	2.2	1.0	-2.5	2.6	2.2	-1.4
Owned accommodation	5.1			0.2		18.55	0.94	0.03	2.3	0.4	6.5	1.7	0.8	4.0
Mortgage interest cost	16.7			0.9	0.9	5.58	0.93	0.05	2.1	3.6	4.1	-0.1	3.6	4.7
Homeowners' replacement cost	-0.4			0.0	0.0	4.61	-0.02	0.00	1.9	1.7	-1.4	2.1	1.5	-1.7
Property tax & other charges	4.9			0.0	0.1	2.43	0.12	0.00	2.4	0.6	4.4	2.8	0.7	3.1
Homeowners' home & mortgage insurance	6.8			-0.2	-0.2	1.50	0.10	0.00	5.2	2.3	0.7	4.5	2.6	0.9
Homeowners' maintenance & repairs	0.7			-0.4	-0.4	1.85	0.01	-0.01	2.0	1.1	-1.2	2.0	1.4	-1.0
Other owned accommodation expenses	-0.6			-0.3	0.3	2.58	-0.02	-0.01	2.0	1.2	-2.1	2.4	2.0	-1.6
Water, fuel, & elec.	-2.2			-0.5		3.22	-0.07	-0.02	0.8	2.1	-1.4	2.5	3.4	-1.4
Electricity	-0.6			-0.5	-0.5	1.68	-0.01	-0.01	1.2	4.4	-0.4	2.5	3.8	-0.8
Water	4.0			0.0	0.3	0.74	0.03	0.00	3.7	0.9	0.3	4.9	1.4	-0.6
Natural gas	-5.6			0.5	0.5	0.59	-0.03	0.00	-1.3	9.0	-0.5	0.4	10.6	-0.6
Fuel oil & other fuels	-22.0			-5.8	-5.8	0.21	-0.05	-0.01	-0.1	15.5	-1.4	5.1	14.2	-1.9
Household operations, furniture & equipment	-0.2			-0.2	0.0	13.01	-0.03	-0.02	1.2	1.0	-1.4	1.4	0.9	-1.9
Household ops.	-0.5			-0.1		8.74	-0.04	-0.01	1.3	1.1	-1.6	2.1	1.3	-2.0
Communications	-5.1			-0.6	-0.5	2.58	-0.13	-0.01	0.0	2.8	-1.8	1.5	2.9	-2.3
Child care & housekeeping services	1.4			-0.1	-0.8	0.75	0.01	0.00	3.4	1.4	-1.5	3.3	1.3	-1.4
Household cleaning products	0.6			0.1	0.8	0.42	0.00	0.00	1.3	1.9	-0.3	0.8	1.9	-0.1
Paper, plastic, aluminum foil	-4.7			-0.4	1.0	0.39	-0.02	0.00	2.2	2.2	-3.1	2.0	2.0	-3.4
Other household goods & services	1.7			0.2	0.1	4.61	0.08	0.01	1.8	0.5	-0.2	2.4	1.1	-0.7
Household furnishings & equip.	0.1			-0.3		4.27	0.00	-0.01	0.8	1.7	-0.4	0.1	1.6	0.0
Furniture & textiles	0.4			0.1		1.79	0.01	0.00	0.4	2.1	0.0	-0.3	2.1	0.4
Household equipment	-1.0			-0.7	-0.2	1.96	-0.02	-0.01	0.9	1.7	-1.2	0.0	1.8	-0.6
Services related to furnishings & equipment	3.5			0.0	0.4	0.35	0.01	0.00	2.4	1.8	0.6	2.7	2.9	0.2
Clothing & footwear	-4.4			0.9	0.0	4.6	-0.20	0.04	0.6	1.2	-4.2	0.3	1.4	-3.3
Clothing	-6.0			1.4	-0.5	2.98	-0.18	0.04	0.5	1.6	-4.0	-0.3	2.1	-2.7
Footwear	-5.0			-1.3	-1.3	0.64	-0.03	-0.01	0.4	1.2	-4.7	0.1	1.4	-3.6
Clothing accessories	1.4			0.6		0.71	0.01	0.00	1.0	1.8	0.2	2.3	2.6	-0.4
Clothing material	0.6			0.0		0.23	0.00	0.00	2.2	0.7	-2.4	2.7	1.2	-1.8

October 15, 2024

Sep 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	-1.5			-2.4	0.0	16.9	-0.26	-0.41	1.7	3.1	-1.0	2.3	3.0	-1.3
Private trans.	-1.4			-1.6		15.3	-0.21	-0.24	1.3	3.2	-0.8	2.2	3.2	-1.1
Purchase, lease, rental of passenger vehicles	-1.0			0.2		5.76	-0.06	0.01	2.3	1.5	-2.2	1.9	1.6	-1.8
<u>Purchase & lease of passenger vehicles</u>	<u>-1.0</u>			<u>0.2</u>		<u>5.73</u>	<u>-0.06</u>	<u>0.01</u>	<u>2.3</u>	<u>1.5</u>	<u>-2.3</u>	<u>1.9</u>	<u>1.6</u>	<u>-1.8</u>
<u>Rental of passenger vehicles</u>	<u>-4.9</u>			<u>1.2</u>	<u>6.0</u>	<u>0.03</u>	<u>0.00</u>	<u>0.00</u>	<u>1.4</u>	<u>5.2</u>	<u>-1.2</u>	<u>1.2</u>	<u>4.1</u>	<u>-1.5</u>
Operation of passenger vehicles	-1.6			-2.7		9.52	-0.15	-0.25	0.7	5.7	-0.4	2.4	5.4	-0.7
<u>Gasoline</u>	<u>-10.7</u>			<u>-7.1</u>	<u>-2.5</u>	<u>4.09</u>	<u>-0.44</u>	<u>-0.29</u>	<u>-0.6</u>	<u>13.5</u>	<u>-0.8</u>	<u>3.0</u>	<u>12.2</u>	<u>-1.1</u>
<u>Passenger vehicle parts, maintenance & repairs</u>	<u>2.7</u>			<u>0.0</u>	<u>0.3</u>	<u>2.50</u>	<u>0.07</u>	<u>0.00</u>	<u>1.9</u>	<u>0.3</u>	<u>2.1</u>	<u>1.6</u>	<u>0.8</u>	<u>1.3</u>
<u>Other passenger vehicle expenses</u>	<u>8.0</u>			<u>0.9</u>	<u>0.8</u>	<u>2.93</u>	<u>0.24</u>	<u>0.03</u>	<u>2.4</u>	<u>2.2</u>	<u>2.6</u>	<u>2.6</u>	<u>2.0</u>	<u>2.7</u>
Public trans.	-2.5			-9.7		1.62	-0.04	-0.16	4.8	3.9	-1.9	3.4	3.7	-1.6
Local & commuter transportation	1.7			0.1	0.2	0.43	0.01	0.00	1.5	0.5	0.4	2.2	1.2	-0.5
<u>City bus & subway</u>	<u>2.7</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>0.8</u>	<u>2.8</u>	<u>1.4</u>	<u>-0.1</u>
<u>Taxi & other commuter service</u>	<u>-0.5</u>			<u>0.5</u>		<u>0.12</u>	<u>0.00</u>	<u>0.00</u>	<u>0.1</u>	<u>0.8</u>	<u>-0.8</u>	<u>0.9</u>	<u>1.2</u>	<u>-1.2</u>
Inter-city transportation	-4.0			-13.4	-1.0	1.08	-0.04	-0.14	6.2	5.7	-1.8	3.9	5.8	-1.3
<u>Air transportation</u>	<u>-4.4</u>			<u>-14.3</u>		<u>1.00</u>	<u>-0.04</u>	<u>-0.14</u>	<u>6.5</u>	<u>6.2</u>	<u>-1.8</u>	<u>4.0</u>	<u>6.4</u>	<u>-1.3</u>
<u>Rail, highway bus, other</u>	<u>2.1</u>			<u>-3.7</u>		<u>0.09</u>	<u>0.00</u>	<u>0.00</u>	<u>2.7</u>	<u>1.8</u>	<u>-0.3</u>	<u>2.0</u>	<u>4.2</u>	<u>0.0</u>
Health & personal care	3.1			0.5	0.0	5.23	0.2	0.03	1.4	0.4	4.2	1.3	0.9	2.1
Health care	3.3			0.5		2.56	0.1	0.01	1.3	0.6	3.4	1.1	0.8	2.7
Health care goods	1.9			0.1	0.1	1.44	0.0	0.00	0.5	0.7	1.9	-0.1	1.1	1.8
Health care services	5.3			1.0	0.7	1.12	0.1	0.01	2.5	0.6	5.1	2.9	0.8	3.1
Personal Care	2.7			0.5		2.67	0.1	0.01	1.5	0.5	2.3	1.5	1.2	1.1
Personal care supplies & equipment	1.6			0.7	0.5	1.84	0.0	0.01	0.4	0.9	1.3	0.5	1.6	0.7
Personal care services	5.4			0.0	0.4	0.83	0.0	0.00	2.9	0.7	3.4	2.7	1.4	1.9
Recreation, education & reading	0.0			-0.4	0.0	10.27	0.0	-0.04	1.7	0.8	-2.2	1.3	0.9	-1.5
Recreation	-0.4			-0.80		8.22	-0.03	-0.07	1.4	1.0	-1.7	0.6	1.2	-0.8
Recreational equipment & services, excl. vehicles	-0.6			0.4	-0.1	2.10	0.0	0.01	-0.8	1.6	0.1	-2.2	2.0	0.8
Purchase & operation of recreational vehicles	1.7			-1.0	2.0	1.77	0.0	-0.02	2.6	1.8	-0.5	1.9	2.0	-0.1
Home entertainment equipment	-8.2			-0.5	-0.8	0.66	-0.1	0.00	-3.8	2.0	-2.2	-4.9	2.2	-1.5
Travel services	-2.8			-3.2	0.0	1.79	-0.1	-0.06	0.8	2.9	-1.2	0.4	2.8	-1.1
Other cultural & rec. services	3.8			0.2	0.3	1.91	0.1	0.00	3.5	1.1	0.4	3.4	1.4	0.3
Educ. & reading	1.9			1.55		2.05	0.04	0.03	2.5	1.4	-0.4	3.0	1.1	-0.9
Education	2.1			1.9	-0.2	1.83	0.0	0.03	2.4	1.4	-0.2	3.0	1.2	-0.7
Reading material excl. textbooks	0.6			-1.8	-1.8	0.22	0.0	0.00	3.8	2.8	-1.2	3.2	2.9	-0.9
Alcoholic beverages, tobacco & rec. cannabis	3.0			-0.1	0.0	4.20	0.1	0.00	3.2	1.2	-0.1	2.7	1.3	0.2
Alcoholic beverages	2.2			-0.13		2.69	0.06	0.00	1.7	0.5	1.0	1.4	0.7	1.2
Alc. beverages served in licensed establishments	2.3			0.2	0.4	0.77	0.0	0.00	1.8	0.6	0.7	2.0	0.7	0.4
Alc. beverages purchased from stores	2.2			-0.3	0.0	1.92	0.0	-0.01	1.7	0.7	0.8	1.1	1.1	1.1
Tobacco products	5.6			0.06		1.11	0.06	0.00	5.6	2.1	0.0	4.8	2.8	0.3
Cigarettes	6.1			0.1		0.94	0.1	0.00	5.6	2.1	0.2	4.8	2.8	0.5
Other tobacco products & supplies	1.6			-0.4		0.16	0.0	0.00	5.6	2.0	-2.0	4.9	2.6	-1.3
Rec. cannabis	0.7			0.00		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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