30 July 2021

Toyota Credit Canada Inc.
(“TCCI” or the “Company”)

Annual Financial Report for the financial year ended 31 March 2021

TCCI was incorporated as a corporation under the Canada Business Corporations Act on 19 February 1990. TCCI’s Corporation Number is 257476-4. The registered office of TCCI is located at 80 Micro Court, Suite 200, Markham, Ontario L3R 9Z5, Canada. TCCI is wholly-owned by Toyota Financial Services Corporation (“**TFS**”), which is a wholly-owned subsidiary of Toyota Motor Corporation (“**TMC**”). TCCI presents its annual financial report for the financial year ended 31 March 2021. References herein to “TCCI” or the “Company” or “we”, “our” or “us” denote Toyota Credit Canada Inc.

References herein to “Toyota” means TMC and its consolidated subsidiaries.

1. Management Report

(A) Review of the development and performance of the Company’s business during the financial year and the position of the Company at the end of the financial year

The principal business of TCCI, which is an integral part of the Toyota group’s presence in Canada, is to provide financing services for authorised Toyota dealers and users of Toyota products. Financial products offered: (i) to customers, include lease and loan financing (i.e. financing through Toyota dealers to assist customers to acquire Toyota and/or Lexus vehicles); and (ii) to Toyota dealers, include floor plan financing (i.e. financing of dealer inventory), wholesale lease financing (i.e. financing of dealer lease portfolios) and dealership financing (i.e. financing of the construction, acquisition or renovation of dealership facilities). Such financing programmes are offered in all provinces and territories of Canada.

Our financial results are affected by a variety of economic and industry factors, including but not limited to, new and used vehicle markets, new vehicle incentives, consumer behaviour, employment growth, our ability to respond to changes in interest rates with respect to both contract pricing and funding, and the level of competitive pressure. Changes in these factors can influence the demand for new and used vehicles, the number of contracts that default and the loss per occurrence, the realisability of residual values on our lease earning assets, and our gross margins on financing volume. Additionally, our funding programmes and related costs are influenced by changes in the capital markets and prevailing interest rates, which may affect our ability to obtain cost-effective funding to support earning asset growth.

We measure the performance of our finance operations using the following metrics: financing volume, market share related to Toyota and Lexus vehicle sales, return on assets, financing margins, operating efficiency, and loss metrics.

Our primary competitors are other financial institutions including national commercial banks, credit unions, savings and loan associations, finance companies and, to a lesser extent, other automobile manufacturers' affiliated finance companies.

References herein to "fiscal 2021" denote the year ended 31 March 2021 and references herein to "fiscal 2020" denote the year ended 31 March 2020.

Unless otherwise indicated in this document, all references to "Canadian dollars", "C$" or "$" are to the lawful currency of Canada.

TCCI's net income was C$471.5 million during fiscal 2021, compared to C$284.1 million during fiscal 2020. Financing revenues for fiscal 2021 were largely comparable to fiscal 2020, as the impact of higher portfolio yield was offset by lower outstanding finance receivables. Interest expense in fiscal 2021 was lower compared to fiscal 2020 levels due to lower outstanding debt balances and lower cost of funds. Total contracts purchased in fiscal 2021 were 151,173 compared to 181,040 in fiscal 2020, as industry sales and contracts purchased were negatively impacted by the outbreak of the coronavirus ("**COVID-19**"). Operating expenses in fiscal 2021 were broadly consistent with fiscal 2020 levels. The provision (recovery) for finance receivables was C$(37) million, compared to a provision of C$47.9 million in fiscal 2020. The main factor behind the provision reversal in fiscal 2021 was a decrease in the allowance for retail finance lease residual reserve, which reflected a significant improvement in the used vehicle market in Canada. Following the significant increase in provision for credit loss, in fiscal 2020 due to the uncertainty associated with the global outbreak of COVID-19, in fiscal 2021 TCCI's provision for credit loss slightly decreased reflecting improving economic conditions. The credit performance of TCCI's finance receivables also improved in fiscal 2021 compared to the prior fiscal year, with write-offs incurred of C$14.9 million compared to C$20.1 million in fiscal 2020. In fiscal 2021, TCCI experienced net gains on its lease terminations, compared to termination losses in fiscal 2020. Results in fiscal 2021 were positively affected by unrealised profits on our derivatives used to manage interest rate risk. Overall, TCCI's capital position increased by C$182.8 million bringing total equity to C$1,830.8 million as at 31 March 2021.

Derivatives and Hedging Activities

We manage our exposure to market risks such as interest rate and foreign exchange risks with derivative instruments. These instruments include interest rate swaps and currency swaps. Our use of derivatives is limited to the management of interest rate and foreign exchange risks.

Management determines the application of derivative accounting through the identification of hedging instruments, hedged items, and the nature of the risk being hedged, as well as the methodology used to assess the hedging instrument's effectiveness. The fair values of derivative assets and liabilities traded in the over-the-counter market are determined using quantitative models that require the use of multiple market inputs including interest rates, prices and indices to generate continuous yield or pricing curves and volatility factors, which are used to value the position. The predominance of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services. Estimation risk is greater for derivative asset and liability positions that are either option-based or have longer maturity dates where observable market inputs are less readily available or are unobservable, in which case quantitative based extrapolations of rate, price or index scenarios are used in determining fair values.

Liquidity and Capital Resources

Liquidity risk is the risk arising from the inability to meet obligations when they come due. Our liquidity strategy is to maintain the capacity to fund assets and repay liabilities in a timely and cost-effective manner even in the event of adverse market conditions. This capacity primarily arises from our ability to raise funds in the domestic and international capital markets as well as our ability to generate liquidity from our balance sheet. This strategy has led us to develop a borrowing base that is diversified by market and geographic distribution, type of security, and investor type, among other factors. Credit support provided by our parent TFS provides an additional source of liquidity to us, although it is not relied upon in our liquidity planning and capital and risk management.

The following table summarises the outstanding components of our funding sources (C$ in millions):

	31 March	
	2021	2020
Commercial paper	2,750	2,983
Unsecured term debt	9,419	10,327
Total debt	12,169	13,310
Total funding	12,169	13,310

We do not rely on any single source of funding and may choose to realign our funding activities depending upon market conditions, relative costs, and other factors. We believe that our funding sources, combined with operating and investing activities, provide sufficient liquidity to meet future funding requirements and business growth. Our funding volume is based on asset growth and debt maturities.

(a) Commercial Paper

Short-term funding needs are met through the issuance of commercial paper in Canada and the United States of America. Commercial paper outstanding under our commercial paper programmes ranged from approximately C$2,667 million to C$3,096 million during fiscal 2021, with an average outstanding balance of C$2,887 million. Our commercial paper programmes are supported by the liquidity facilities discussed later in this section. We believe there is ample capacity to meet our short-term funding requirements.

(b) Unsecured Term Debt

Term funding requirements are met through the issuance of a variety of debt securities in both the Canadian and international capital markets. To diversify our funding sources, we have issued in a variety of markets, currencies, and maturities, and to a variety of investors, which allows us to broaden our distribution of securities and further enhance liquidity.

The following table summarises our components of unsecured term debt (C$ in millions):

	Domestic Bonds	Other term debt	Total unsecured term debt
Balance at 31 March 2020	4,891	5,436	10,327
Issuances during fiscal 2021	1,400	814	2,214
Payments during fiscal 2021	1,300	1,588	2,888
Change in foreign exchange revaluation and issuance costs during fiscal 2021	-	(234)	(234)
Balance at 31 March 2021	4,991	4,428	9,419

Our Euro Medium Term Note ("**EMTN**") programme, together with our affiliates Toyota Motor Finance (Netherlands) B.V., Toyota Finance Australia Limited and Toyota Motor Credit Corporation (TCCI and such affiliates, the "**EMTN Issuers**"), provides for the issuance of debt securities in the international capital markets. In September 2020, the EMTN Issuers renewed the EMTN programme for a one-year period. The maximum aggregate principal amount of debt securities that may be issued by the EMTN Issuers and outstanding under the EMTN programme at any time is €50 billion, or the equivalent in other currencies, of which €16.9 billion was available for issuance at 31 March 2021. The maximum aggregate principal amount of the EMTN programme may be increased from time to time to allow for the continued use of this source of funding. In addition, we may issue bonds or enter into other unsecured financing arrangements through the international capital markets that are not issued under our EMTN programme. Debt securities issued under the EMTN programme are issued pursuant to the terms of an agency agreement, which contains customary terms and conditions.

(c) Liquidity Facilities and Letters of Credit

For additional liquidity purposes, we maintain syndicated bank credit facilities with certain banks.

364 Day, Three Year and Five Year Credit Agreements

On 6 November 2020, TCCI and other Toyota affiliates entered into a U.S.$ 5.0 billion 364 day syndicated bank credit facility pursuant to a 364 Day Credit Agreement. The ability to make drawdowns under the 364 Day Credit Agreement is subject to covenants and conditions customary in transactions of this nature, including negative pledge provisions, cross default provisions and limitations on consolidations, mergers and sales of assets. The 364 Day Credit Agreement may be used for general corporate purposes and was not drawn upon as of 31 March 2021. The 364 Day Credit Agreement dated as of 8 November 2019 was terminated on 6 November 2020.

On 8 November 2019, TCCI and other Toyota affiliates entered into a U.S.$ 5.0 billion three year syndicated bank credit facility pursuant to a Three Year Credit Agreement and a U.S.$ 5.0 billion five year syndicated bank credit facility pursuant to a Five Year Credit Agreement. The ability to make drawdowns under the Three Year Credit Agreement and the Five Year Credit Agreement is subject to covenants and conditions customary in transactions of this nature, including negative pledge provisions, cross default provisions and limitations on consolidations, mergers and sales of assets. The Three Year Credit Agreement and the Five Year Credit Agreement may be used for general corporate purposes and were not drawn upon as of 31 March 2021.

Letters of Credit Facilities

In addition, TCCI has uncommitted letters of credit facilities totalling C$61 million at 31 March 2021 and as at 31 March 2020. Of the total credit facilities, C$nil of the uncommitted letters of credit facilities was used at 31 March 2021 and 2020.

(d) Credit Support Agreements

Under the terms of a credit support agreement between TMC and TFS ("**TMC Credit Support Agreement"**), TMC agreed to: 1) maintain 100 percent ownership of TFS; 2) cause TFS and its subsidiaries to have a net worth of at least ¥10 million; and 3) make sufficient funds available to TFS so that TFS will be able to (i) service the obligations arising out of its own bonds, debentures, notes and other investment securities and commercial paper (collectively "**TFS Securities**") and (ii) honour its obligations incurred as a result of guarantees or credit support agreements that it has extended. The TMC Credit Support Agreement is not a guarantee by TMC of any securities or obligations of TFS. TMC's obligations under the TMC Credit Support Agreement rank *pari passu* with its senior unsecured debt obligations. The TMC Credit Support Agreement is governed by, and construed in accordance with, the laws of Japan.

Under the terms of a similar credit support agreement between TFS and TCCI ("**TFS Credit Support Agreement"**), TFS agreed to: 1) maintain 100 percent ownership of TCCI; 2) cause TCCI and its subsidiaries, if any, to have a net worth of at least C$150,000; and 3) make sufficient funds available to TCCI so that TCCI will be able to service the obligations arising out of its own bonds, debentures, notes and other investment securities and commercial paper (collectively, "**TCCI Securities"**). The TFS Credit Support Agreement is not a guarantee by TFS of any TCCI Securities or other obligations of TCCI. TFS's obligations under the TFS Credit Support Agreement rank *pari passu* with its senior unsecured debt obligations. The TFS Credit Support Agreement is governed by, and construed in accordance with, the laws of Japan.

Holders of TCCI Securities have the right to claim directly against TFS and TMC to perform their respective obligations under the TFS Credit Support Agreement and the TMC Credit Support Agreement by making a written claim together with a declaration to the effect that the holder will have recourse to the rights given under the TFS Credit Support Agreement and/or the TMC Credit Support Agreement, as the case may be. If TFS and/or TMC receives such a claim from any holder of TCCI Securities, TFS and/or TMC shall indemnify, without any further action or formality, the holder against any loss or damage resulting from the failure of TFS and/or TMC to perform any of their respective obligations under the TFS Credit Support Agreement and/or the TMC Credit Support Agreement, as the case may be. The holder of TCCI Securities who made the claim may then enforce the indemnity directly against TFS and/or TMC.

The TMC Credit Support Agreement and the TFS Credit Support Agreement each provide for termination by either party upon 30 days written notice to the other party. Such termination will not take effect until or unless all TFS Securities or all TCCI Securities, respectively, have been repaid or each relevant rating agency has confirmed to TFS or TCCI, respectively, that the debt ratings of all such TFS Securities or all such TCCI Securities, respectively, will be unaffected by such termination.

In connection with the TFS Credit Support Agreement, TCCI and TFS are parties to a credit support fee agreement ("**Credit Support Fee Agreement"**). The Credit Support Fee Agreement requires TCCI to pay to TFS a semi-annual fee which is based upon the weighted average outstanding amount of TCCI Securities entitled to credit support.

(e) Credit Ratings

The cost and availability of unsecured financing is influenced by credit ratings. Lower ratings generally result in higher borrowing costs as well as reduced access to capital markets. Credit ratings are not recommendations to buy, sell, or hold securities and are subject to revision or withdrawal at any time by the assigning nationally recognised statistical rating organisation ("**NRSRO**"). Each NRSRO may have different criteria for evaluating risk, and therefore ratings should be evaluated independently for each

NRSRO. TCCI's credit ratings depend in part on the existence of the credit support agreements of TFS and TMC.

(f) Employee Relations

At 31 March 2021, the Company had 121 full-time employees. There has been no significant change in staff numbers over the last 12 months. We consider our employee relations to be satisfactory. We are not subject to any collective bargaining agreements with our employees.

(B) Risks and Uncertainties facing TCCI

Each of TCCI, TFS and Toyota may be exposed to certain risks and uncertainties that could have a material adverse impact directly or indirectly on its business, results of operations and financial condition. There may be additional risks and uncertainties not presently known to each of TCCI, TFS and Toyota or that it currently considers immaterial that may also have a material adverse impact on its business, results of operations and financial condition.

INDUSTRY AND BUSINESS RISKS

Health Epidemics and Other Outbreaks

TCCI faces various risks related to health epidemics and other outbreaks, including COVID-19. The COVID-19 pandemic has led, and will likely continue to lead, to disruption and volatility in the global capital markets and in the economies of many countries. In Canada, the COVID-19 pandemic has caused an unprecedented level of unemployment claims, resulted in a decline in consumer confidence and spending, and economic volatility.

The negative economic conditions arising from the COVID-19 pandemic impacted certain financial results of TCCI during the financial year ended 31 March 2021, including higher funding costs during the first quarter of the financial year ended 31 March 2021 for TCCI. In addition, the COVID-19 pandemic and restrictions intended to slow the spread of COVID-19 have adversely affected TCCI's business, and the business of Toyota, in a number of ways, including a decrease in new inventory resulting from production closures and supply shortages.

The long-term and ultimate impacts of the social, economic and financial disruptions caused by the COVID-19 pandemic are unknown. The ultimate duration or possible resurgence of the COVID-19 pandemic or similar public health issues is also uncertain. Further, if new strains of COVID-19 develop or sufficient amounts of vaccines are not available, not widely administered for a significant period of time, not used by consumers, or otherwise prove ineffective, the impact of COVID-19 on the global economy, and, in turn, on TCCI's financial condition, liquidity and results of operations could be material. The extension of curtailed economic activities as a result of further outbreaks of COVID-19, extended or additional government restrictions intended to slow the spread of the virus, delayed consumer response once restrictions have been lifted, or permanent behaviour changes in consumer spending, could have further negative impacts on consumer economics, dealerships and auction sites, which could have a material adverse impact on Toyota's, including TCCI's, future results of operations. In addition, a possible resurgence of COVID-19 may subject Toyota, including TCCI's to, among several other things, increased delinquencies and defaults by its customers and dealers, the reinstatement of certain payment relief options, closures of manufacturing plants by Toyota, and disruption among the supply chain and with other third-party vendors.

General Business, Economic, Geopolitical and Market Conditions

TCCI's results of operations and financial condition are affected by a variety of factors, including changes in the overall market for retail contracts, wholesale motor vehicle financing, leasing or dealer financing, the new and used vehicle market, changes in the level of sales of Toyota, Lexus, private label vehicles or other vehicles in Canada, the rate of growth in the number and average balance of customer accounts, the Canadian finance industry's regulatory environment, competition from other financiers, rate of default by its customers, the interest rates it is required to pay on the funding it requires to support its business, amounts of funding available to it, changes in the funding markets, its credit ratings, the success of efforts to expand its product lines, levels of its operating and administrative expenses (including, but not limited to, labour costs, technology costs and premises costs), general economic conditions, inflation, consequences from changes in tax laws, fiscal and monetary policies in Canada, the United States, as well as Europe and other countries in which TCCI issues debt. Further, a significant and sustained increase in fuel prices could lead to lower new and used vehicle purchases. This could reduce the demand for motor vehicle retail, lease and wholesale financing. In turn, lower used vehicle values could affect return rates, amounts written off and lease residual value provisions.

Adverse economic conditions in Canada have generally led, and may continue to lead, to diminished consumer and business confidence, lower household incomes, increases in unemployment rates, higher consumer debt levels as well as higher consumer and commercial bankruptcy filings, any of which could adversely affect vehicle sales and discretionary consumer spending. These conditions may decrease the demand for TCCI's financing products, as well as increase defaults and credit losses. In addition, as credit exposures of TCCI are generally collateralised by vehicles, the severity of losses can be particularly affected by the decline in used vehicle values. Dealers are also affected by an economic slowdown and recession which increases the risk of default of certain dealers within TCCI's dealer portfolio.

Elevated levels of market disruption and volatility, such as in the United States, Europe and Asia, could increase TCCI's cost of capital and adversely affect its ability to access the international capital markets and fund its business in a similar manner, and at a similar cost, to the funding raised in the past. These market conditions could also have an adverse effect on the results of operations and financial condition of TCCI by increasing

TCCI's cost of funding. If, as a result, TCCI increases the rates TCCI charges its customers and dealers, TCCI's competitive position could be negatively affected. Challenging market conditions, such as those that were seen during the beginning of the COVID-19 pandemic, may result in less liquidity, greater volatility, widening of credit spreads and lack of price transparency in credit markets. Changes in investment markets, including changes in interest rates, exchange rates and returns from equity, property and other investments, will affect (directly or indirectly) the financial performance of TCCI.

If there is a continued and sustained period of market disruption and volatility:

- there can be no assurance that TCCI will continue to have access to the capital markets in a similar manner and at a similar cost as it has had in the past;

- issues of debt securities by TCCI may be undertaken at spreads above benchmark rates that are greater than those on similar issuances undertaken during prior periods;

- TCCI may be subject to over-reliance on a particular funding source or a simultaneous increase in funding costs across a broad range of sources; and

- the ratio of TCCI's short-term debt outstanding to total debt outstanding may increase if negative conditions in the debt markets lead TCCI to replace some maturing long-term liabilities with short-term liabilities (for example, commercial paper).

Any of these developments could have an adverse effect on TCCI's results of operations and financial condition.

Geopolitical conditions and other market events may also impact TCCI's results of operations and financial condition. Restrictive exchange or import controls or other disruptive trade policies, disruption of operations as a result of systemic political or economic instability, adverse changes to tax laws and regulations, social unrest, outbreak of war or expansion of hostilities, health epidemics and other outbreaks, climate-related risks, and acts of terrorism, could each have a material adverse effect on TCCI's results of operations and financial condition. For example, while TCCI does not operate in the United Kingdom, the global financial, trade, and legal implications of the United Kingdom's withdrawal from the European Union ("*Brexit*") could lead to declines in market liquidity and activity levels, volatile market conditions, a contraction of available credit, fluctuations in interest rates, weaker economic growth, and reduced business confidence on an international level, each of which could have a material adverse effect on TCCI's results of operations and financial condition.

Sales of Toyota, Lexus and Private Label Vehicles

The principal business of TCCI is to provide a variety of finance products to authorised Toyota, Lexus and private label dealers and their customers in Canada. Accordingly, TCCI's business is substantially dependent upon the sale of Toyota, Lexus and private label vehicles in Canada.

TCCI's business depends on its relationships with various vehicle distributors (each a "**Distributor**") including Toyota Canada Inc., the primary distributor of Toyota and Lexus vehicles in Canada.

Changes in the volume of Distributor sales may result from:

- governmental action;
- changes in governmental regulation or trade policies;
- changes in consumer demand;
- new vehicle incentive programmes;
- recalls;
- the actual or perceived quality, safety or reliability of Toyota, Lexus and private label vehicles;
- changes in economic conditions;
- increased competition;
- increases in the price of vehicles due to increased raw material costs, changes in import fees or tariffs on raw materials or imported vehicles, changes to, or withdrawals from, trade agreements;
- currency fluctuations;
- fluctuations in interest rates; and
- decreased or delayed vehicle production due to natural disasters, supply chain interruptions, including shortages of parts, components or raw materials, or other events.

Any negative impact on the volume of Toyota, Lexus and private label vehicle sales could have a material adverse effect on TCCI's business, results of operations and financial condition.

While the Distributor conducts extensive market research before launching new or refreshed vehicles and introducing new services, many factors both within and outside the control of the Distributor affect the success of new or existing products and services in the market-place. Offering vehicles and services that customers want and value can mitigate the risks of increasing price competition and declining demand, but products and services that are perceived to be less desirable (whether in terms of product mix, price, quality, styling, safety, overall value, fuel efficiency, or other attributes) and the level of availability of products and services that are desirable can exacerbate these risks. With increased consumer interconnectedness through the internet, social media, and other media, mere allegations relating to quality, safety, fuel efficiency, corporate social responsibility, or other key attributes can negatively impact the reputation of the Distributor or market acceptance of its products or services, even where such allegations prove to be inaccurate or unfounded.

In addition, the volume of Distributor sales may also be affected by Toyota's ability to successfully grow through investments in the area of emerging opportunities such as mobility and connected services, vehicle electrification, fuel cell technology and autonomy, which depends on many factors, including advancements in technology, regulatory changes and other factors that are difficult to predict.

TCCI operates in a highly competitive environment and competes with other financial institutions and, to a lesser extent, other motor vehicle manufacturers' affiliated finance companies primarily through service, quality, TCCI's relationship with the Distributor and financing rates.

Certain financing products offered by TCCI may be subsidised by the Distributor. The Distributor sponsors special subsidies and incentives on certain new and used Toyota and Lexus vehicles that result in reduced monthly payments by qualified customers for finance products. Support amounts received from the Distributor in connection with these programmes approximate the amounts required by TCCI to maintain yields and product profitability at levels consistent with standard products.

TCCI's ability to offer competitive financing products in Canada depends in part on the level of the Distributor's sponsored subsidy, cash, and contractual residual value support incentive programme activity, which varies based on the Distributor's marketing strategies, economic conditions, and the volume of vehicle sales, among other factors. Any negative impact on the level of Distributor sponsored subsidy, cash, and contractual residual value support incentive programmes could in turn have a material adverse effect on TCCI's business, results of operations and financial condition.

Changes in Consumer Behaviour

A number of trends are affecting the automotive industry. These include a market shift from cars to sport utility vehicles (SUVs) and trucks, high demand for incentives, the rise of mobility services such as vehicle sharing and ride hailing, the development of autonomous and alternative-energy vehicles, the impact of demographic shifts in attitudes and behaviours toward vehicle ownership and use, the development of flexible alternatives to traditional financing and leasing such as subscription service offerings, changing expectations around the vehicle buying experience, increased focus on climate-related initiatives and regulation, adjustments in the geographic distribution of new and used vehicle sales, and advancements in communications and technology. Any one or more of these trends could adversely affect the automotive industry, the Distributor and

Toyota, and could in turn have an adverse impact on TCCI's business, results of operations and financial condition.

Recalls and Other Related Announcements

Certain members of the Toyota group of companies around the world, or other manufacturers of the vehicles TCCI finances, including the Distributor, periodically conduct vehicle recalls, which could include temporary suspensions of sales and production of certain Toyota, Lexus and private label vehicle models. Because TCCI's business is substantially dependent upon the sale of Toyota and Lexus vehicles, such events could adversely affect TCCI's business, results of operations and financial condition.

A decrease in the level of sales, including as a result of the actual or perceived quality, safety or reliability of Toyota, Lexus and private label vehicles or a change in standards of regulatory bodies, will have a negative impact on the level of TCCI's financing volume, earning assets and net financing revenues. The credit performance of TCCI's dealer and consumer portfolios may also be adversely affected. In addition, a decline in the values of used Toyota, Lexus and private label vehicles would have a negative effect on residual values and return rates, which, in turn, could increase TCCI's lease residual value provisions and credit losses. Further, certain Toyota affiliated entities, including Toyota Canada Inc., are or may become subject to litigation and governmental investigations, and have been or may become subject to fines or other penalties. These factors could affect sales of Toyota, Lexus and private label vehicles and, accordingly, could have a negative effect on TCCI's business, results of operations and financial condition.

Competition Risk

TCCI operates in a highly competitive environment and TCCI has no control over how Toyota dealers source financing for their customers. Competitors of TCCI include commercial banks, credit unions and other financial institutions. To a lesser extent, TCCI competes with other motor vehicle manufacturers' affiliated finance companies. In addition, online financing options provide consumers with alternative financing sources. Increases in competitive pressures could have an adverse impact on contract volume, market share, net financing revenues and margins. Further, the financial condition and viability of competitors and peers of TCCI may have an adverse impact on the financial services industry in which TCCI operates, resulting in a decrease in demand for its products and services. This could have an adverse impact on the volume of TCCI's business and its results of operations.

Operational Risk

Operational risk is the risk of loss resulting from, among other factors, lack of established processes, inadequate or failed processes, systems or internal controls, theft, fraud, natural disasters or other catastrophes (including without limitation, explosions, fires, floods, earthquakes, terrorist attacks, riots, civil disturbances, health epidemics and other outbreaks) that could affect TCCI.

Operational risk can occur in many forms including, but not limited to, errors, business interruptions, failure of controls, failure of systems or other technology, deficiencies in TCCI's insurance risk management programme, inappropriate behaviour or misconduct by employees of, or those contracted to perform services for, TCCI and vendors that do not perform in accordance with their contractual agreements. These events can potentially result in financial losses or other damages to TCCI, including damage to reputation.

TCCI has established business recovery plans to address interruptions in its operations, but can give no assurance that these plans will be adequate to remedy all events that TCCI may face. A catastrophic event that results in the destruction or disruption of any of TCCI's critical business or information technology systems could harm its ability to conduct normal business operations.

TCCI relies on a framework of internal controls designed to provide a sound and well-controlled operating environment. Due to the complex nature of TCCI's business and the challenges inherent in implementing control structures across large organisations, control issues may be identified in the future that could have an adverse effect on TCCI's operations.

Sales of Subaru Vehicles

In addition to TCCI's principal business of providing finance products to authorised Toyota and Lexus dealers and their customers in Canada, TCCI also provides finance products to authorised Subaru dealers and their customers pursuant to an arrangement that TCCI has entered into with Subaru Canada, Inc ("**Subaru**").

The provision of retail and wholesale financing to Subaru dealers and customers may result in additional credit risk exposure, which if TCCI is unable to appropriately monitor and mitigate, may result in an adverse effect on TCCI's results of operations and financial condition. The provision of retail and wholesale financing to Subaru dealers and customers may also expose TCCI to additional operating risks related to consumer demand for Subaru vehicles, the profitability and financial condition of Subaru, the level of Subaru's incentivised retail financing, recalls announced by Subaru and the perceived quality, safety or reliability of Subaru vehicles, and changes in prices of Subaru used vehicles and their effect on residual values of Subaru off-lease vehicles and return rates, each of which may adversely affect TCCI's business, results of operations and financial condition.

FINANCIAL MARKET AND ECONOMIC RISKS

Credit Ratings and Credit Support

The credit ratings for notes, bonds and commercial paper issued by TCCI depend, in large part, on the existence of the credit support arrangements with TFS and TMC and on the results of operations and financial condition of TMC and its consolidated subsidiaries. If these arrangements (or replacement arrangements acceptable to the rating agencies) are not available to TCCI, or if the credit ratings of TMC and TFS as credit support providers were lowered, the credit ratings for notes, bonds and commercial paper issued by TCCI would be adversely impacted.

Credit rating agencies which rate the credit of TMC and its affiliates, including TFS and TCCI, may qualify or alter ratings at any time. Global economic conditions, including the impact of COVID-19 and other geopolitical factors may directly or indirectly affect such ratings. Any downgrade in the sovereign credit ratings of Canada, the United States or Japan may directly or indirectly have a negative effect on the ratings of TMC, TFS and TCCI. Downgrades or placement on review for possible downgrades could result in an increase in TCCI's borrowing costs as well as reduced access to the domestic and international capital markets. These factors would have a negative impact on TCCI's competitive position, results of operations, liquidity and financial condition.

Liquidity Risk

Liquidity risk is the risk arising from the inability to meet obligations in a timely manner when they become due. TCCI's liquidity strategy is to maintain the capacity to fund assets and repay liabilities in a timely and cost-effective manner even in adverse market conditions. A disruption in TCCI's funding sources may adversely affect its ability to meet its obligations as they become due. An inability to meet obligations in a timely manner would have a negative impact on TCCI's ability to refinance maturing debt and fund new asset growth and would have an adverse effect on its results of operations and financial condition.

Allowances for Credit Losses

TCCI cannot assure that its allowance for credit losses will be adequate to cover actual losses which may adversely affect TCCI's results of operations and financial condition.

TCCI maintains an allowance for credit losses to cover expected credit losses as of the balance sheet date resulting from the non-performance of its customers and dealers under their contractual obligations. The determination of the allowance involves significant assumptions, complex analyses, and management judgment and requires TCCI to make significant estimates of current credit risks using existing qualitative and quantitative information. Actual results may differ from TCCI's estimates or assumptions. For example, TCCI reviews and analyses external factors, including changes in economic conditions, actual or perceived quality, safety and reliability of Toyota, Lexus and private label vehicles, unemployment levels, the used vehicle market, customer debt levels and consumer behaviour, among other factors. Internal factors, such as purchase quality mix and operational changes are also considered. A change in any of these factors would cause a change in estimated expected credit losses. As a result, TCCI's allowance for credit losses may not be adequate to cover its actual losses. In addition, changes in accounting rules and related guidance, new information regarding existing portfolios, and other factors, both within and outside of TCCI's control, may require changes to the allowance for credit losses. A material increase in TCCI's allowance for credit losses may adversely affect its results of operations and financial condition.

Use of Models, Estimates and Assumptions

TCCI uses quantitative models, estimates and assumptions to price products and services, measure risk, estimate asset and liability values, assess liquidity, manage its balance sheet and otherwise conduct its business and operations. If the design, implementation, or use of any of these models is flawed or if actual results differ from TCCI's estimates or assumptions, it may adversely affect TCCI's results of operations and financial condition. In addition, to the extent that any inaccurate model outputs are used in reports to regulatory agencies or the public, TCCI could be subjected to supervisory actions, litigation, and other proceedings that may adversely affect TCCI's business, results of operations and financial condition.

TCCI's assumptions and estimates often involve matters that require the exercise of its management's judgment, are inherently difficult to predict and are beyond TCCI's control (for example, macro-economic conditions). In addition, such assumptions and estimates often involve complex interactions between a number of dependent and independent variables, factors, and other assumptions. As a result, TCCI's actual experience may differ materially from these estimates and assumptions. A material difference between the estimates and assumptions and the actual experience may adversely affect TCCI's results of operations and financial condition.

Residual Value Risk

Residual value represents an estimate of the end of term market value of a leased asset. Residual value risk is the risk that the estimated residual value at lease origination will not be recoverable at the end of the lease term. TCCI is subject to residual value risk on lease products, where the customer may return the financed vehicle on termination of the lease agreement. The risk increases if the number of returned lease assets is higher than anticipated and/or the loss per unit is higher than anticipated. Fluctuations in the market value of leased assets subsequent to lease origination may introduce volatility in TCCI's profitability, through residual value provisions, gains or losses on disposal of returned assets.

Factors which can impact the market value of vehicle assets include local, regional and national economic conditions, new vehicle pricing, new vehicle incentive programmes, new vehicle sales, the actual or perceived quality, safety or reliability of Toyota and

Lexus vehicles, future plans for new Toyota, Lexus and private label product introductions, competitive actions and behaviour, product attributes of popular vehicles, the mix of used vehicle supply, the level of current used vehicle values, inventory levels and fuel prices heavily influence used vehicle values and thus the actual residual value of off-lease vehicles. Differences between the actual residual values realised on leased vehicles and TCCI's estimates of such values at lease origination could have a negative impact on its results of operations and financial condition. Actual return volumes may be higher than expected which can be impacted by higher contractual lease-end residual values relative to market values, a higher market supply of certain models of used vehicles, new vehicle incentive programmes and general economic conditions. The return of a higher number of leased vehicles could also adversely affect TCCI's results of operations and financial condition.

Credit Risk

Credit risk is the risk of loss arising from the failure of a customer, dealer or other party to meet the terms of any retail, lease or dealer financing contract or other contract with TCCI or otherwise fail to perform as agreed. An increase in credit risk would increase TCCI's provision, for credit losses, which would have a negative impact on its results of operations and financial condition. There can be no assurance that TCCI's monitoring of credit risk and its efforts to mitigate credit risk are, or will be, sufficient to prevent an adverse effect on its results of operations and financial condition.

The level of credit risk on TCCI's consumer portfolio is influenced primarily by two factors: the total number of contracts that default and the amount of loss per occurrence, which in turn are influenced by various economic factors, the used vehicle market, purchase quality mix, contract term length and operational changes. The used vehicle market is impacted by the supply of, and demand for, used vehicles, interest rates, inflation, new vehicle incentive programmes, the manufacturer's actual or perceived reputation for quality, safety and reliability and the general economic outlook.

The level of credit risk on TCCI's dealer portfolio is influenced primarily by the financial strength of dealers within that portfolio, dealer concentration, collateral quality and other economic factors. The financial strength of dealers within TCCI's dealer portfolio is influenced by general macroeconomic conditions, the overall demand for new and used vehicles and the financial condition of motor vehicle manufacturers, among other factors.

An economic slowdown and recession in Canada, natural disasters, health epidemics, such as the COVID-19 pandemic, and other factors increase the risk that a customer or dealer may not meet the terms of a retail, lease or dealer financing or other contract with TCCI or may otherwise fail to perform as agreed. A weak economic environment evidenced by, among other things, unemployment, underemployment and consumer bankruptcy filings, may affect some of TCCI's customers' or dealers' ability to make their scheduled payments.

Market Risk

Market risk is the risk that changes in interest rates and foreign currency exchange rates cause volatility in TCCI's results of operations, financial condition and cash flows. An increase in interest rates could have an adverse effect on TCCI's business, results of operations and financial condition by increasing TCCI's cost of capital and the rates it may charge its customers and dealers, which could, in turn, decrease financing volumes and market share, thereby resulting in a decline in TCCI's competitive position.

Derivative financial instruments are entered into by TCCI to economically hedge or manage its exposure to market risk. However, changes in interest rates, foreign currency exchange rates and market prices cannot always be predicted or hedged.

Changes in interest rates or foreign currency exchange rates could affect TCCI's interest expense and the value of its derivative financial instruments, which could result in volatility in its results of operations, financial condition and cash flows.

Transition away from the London Interbank Offered Rate ("LIBOR") and the adoption of alternative reference rates

TCCI is exposed to LIBOR-based financial instruments, including through TCCI's financing activities.

The United Kingdom Financial Conduct Authority (the "***FCA***") has indicated through a series of announcements that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. On 5 March 2021, ICE Benchmark Administration Limited ("***IBA***"), the administrator of LIBOR, published a statement confirming its intention to cease publication of all LIBOR settings, together with the dates on which this will occur, subject to the FCA exercising its powers to require IBA to continue publishing such LIBOR settings using a changed methodology (the "***IBA announcement***"). Concurrently, the FCA published a statement on the future cessation and loss of representativeness of all LIBOR currencies and tenors, following the dates on which IBA has indicated it will cease publication (the "***FCA announcement***"). Permanent cessation will occur immediately after 31 December 2021 for all Euro and Swiss Franc LIBOR tenors and certain Sterling, Japanese Yen and U.S. dollar LIBOR settings and immediately after 30 June 2023 for certain other USD LIBOR settings. In relation to the remaining LIBOR settings (1-month, 3-month and 6-month Sterling, U.S. dollar and Japanese Yen LIBOR settings), the FCA will consult on, or continue to consider the case for, using its powers to require IBA to continue their publication under a changed methodology for a further period after end-2021 (end-June 2023 in the case of U.S. dollar LIBOR). The FCA announcement states that consequently, these LIBOR settings will no longer be representative of the underlying market that such settings are intended to measure immediately after 31 December 2021, in the case of the Sterling and Japanese Yen LIBOR settings and immediately after 30 June 2023, in the case of the USD LIBOR settings. Any continued publication of the Japanese Yen LIBOR settings will also cease permanently at the end of 2022. It is impossible to predict the impact of these announcements on LIBOR rates, whether and to what extent banks will continue to provide LIBOR submissions to the administrator of LIBOR or whether any additional reforms to LIBOR may be enacted.

In June 2017, the New York Federal Reserve's Alternative Reference Rates Committee announced the Secured Overnight Financing Rate ("***SOFR***") as its recommended alternative to U.S. dollar LIBOR. The composition and characteristics of SOFR are not the same as those of LIBOR. SOFR is a broad U.S. Treasury repurchase agreement market financing rate that represents overnight secured funding transactions. This means that SOFR is fundamentally different from LIBOR for two key reasons. First, SOFR is a secured rate, while LIBOR is an unsecured rate. Second, SOFR is an overnight rate, while LIBOR represents interbank funding over different maturities. As a result, there can be no assurance that SOFR or any alternative reference rate will perform in the same way as LIBOR would have at any time, including, without limitation, as a result of changes in interest and yield rates in the market, market volatility or global or regional economic, financial, political, regulatory, judicial or other events. For example, since publication of SOFR began on 3 April 2018, daily changes in SOFR have, on occasion, been more volatile than daily changes in comparable benchmark or other market rates. With limited operating history, it remains unknown whether SOFR will be broadly accepted, whether it will continue to evolve, and what the effects of its implementation may be on the markets for financial instruments. If SOFR or another rate does not achieve wide acceptance as the alternative to LIBOR, there likely will be disruption to the markets relying on the availability of a broadly accepted reference rate.

On 29 November 2017, the Bank of England and the FCA announced that, as of January 2018, its Working Group on Sterling Risk-Free Rates has been mandated with implementing a broad-based transition to the Sterling Overnight Index Average ("***SONIA***") over the next four years across sterling bond, loan and derivative markets, so that SONIA is established as the primary sterling interest rate benchmark by the end of 2021.

SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors and in relation to Euro medium term notes is determined by reference to a compounded daily rate or a compounded index rate. In each case such rate will differ from sterling LIBOR in a number of material respects, including (without limitation) that compounded daily rate is a risk-free overnight non-term rate, whereas sterling LIBOR is expressed on the basis of a forward-looking term and includes a credit risk-element based on inter-bank lending. Sterling LIBOR and SONIA may behave materially differently as interest reference rates. The use of SONIA as a reference rate is nascent, and is subject to change and development, both in terms of the substance of the calculation and in the development and adoption of market infrastructure for financial instruments referencing SONIA.

To facilitate an orderly transition from LIBOR to alternative reference rates, TCCI has established an initiative led by senior management. TCCI is evaluating SOFR, Prime, SONIA and other possible alternatives as alternative reference rates and working to assess and mitigate risks associated with the discontinuation of LIBOR. Even if an alternative reference rate becomes widely accepted, TCCI may continue to be subject to risk on outstanding instruments which rely on LIBOR. For example, if a contract or instrument is not transitioned to a new reference rate and LIBOR ceases to exist, TCCI may experience increased interest rate risk. In addition, TCCI may be dependent on third parties to upgrade their systems, software, and other critical functions to assist in its orderly transition from LIBOR. A failure to properly transition away from LIBOR could expose TCCI to various financial, operational, and regulatory risks, which could have a significant impact on TCCI's financial condition and results of operations.

Counterparty Credit Risk

TCCI has exposure to many different financial institutions and TCCI routinely executes transactions with counterparties in the financial industry. TCCI's debt, derivative and investment transactions, and its ability to borrow under committed and uncommitted credit facilities, could be adversely affected by the actions and commercial soundness of other financial institutions. TCCI cannot guarantee that its ability to borrow under committed and uncommitted credit facilities will continue to be available on reasonable terms or at all. Deterioration of social, political employment or economic conditions in a specific country or region may also adversely affect the ability of financial institutions, including TCCI's derivative counterparties and lenders, to perform their contractual obligations. Financial institutions are interrelated as a result of trading, clearing, lending or other relationships and, as a result, financial and political difficulties in one country or region may adversely affect financial institutions in other jurisdictions, including those with which TCCI has relationships. The failure of any of the financial institutions and other counterparties to which TCCI has exposure, directly or indirectly, to perform their contractual obligations, and any losses resulting from that failure, may adversely affect TCCI's liquidity, results of operations and financial condition.

REGULATORY, LEGAL AND OTHER RISKS

Impact of Changes to Accounting Standards

The audited financial statements of TCCI for the financial year ended 31 March 2021 have been prepared in accordance with International Financial Reporting Standards ("**IFRS**").

The International Accounting Standards Board ("**IASB**") is continuing its programme to develop new accounting standards where it perceives they are required and to rewrite existing standards where it perceives they can be improved. Any future change in IFRS adopted by the IASB may have a beneficial or detrimental impact on the reported earnings of TCCI.

Accounting Standards are periodically revised and/or expanded. The application of accounting principles is also subject to varying interpretations over time. Accordingly, TCCI is required to adopt new or revised accounting standards, or comply with revised interpretations that are issued from time to time by various parties, including accounting standard setters and those who interpret the standards, such as the IASB. Those changes could adversely affect TCCI's results of operations and financial condition.

Risk of Failure or Interruption of the Information Systems

TCCI relies on its own information systems and third-party information systems to manage its operations which creates meaningful operational risk for TCCI. Any failure or interruption of TCCI's information systems or the third-party information systems on which it relies as a result of inadequate or failed processes or systems, human error, employee misconduct, catastrophic events, security breaches, acts of vandalism, computer viruses, malware, ransomware, misplaced or lost data, or other events could disrupt TCCI's normal operating procedures, damage its reputation and have an adverse effect on its business, results of operations and financial condition. These operational risks may be increased as a result of remote work arrangements due to the COVID-19 pandemic.

In addition, any upgrade or replacement of TCCI's existing transaction systems and treasury systems could have a significant impact on its ability to conduct its core business operations and increase the risk of loss resulting from disruptions of normal operating processes and procedures that may occur during and after the implementation of new systems. For example, the development and implementation of new systems and any future upgrades related thereto may require significant expenditure and divert management attention and other resources from TCCI's core business operations. There are no assurances that such new systems will provide TCCI with any of the anticipated benefits and efficiencies. There can also be no assurance that the time and resources management will need to devote to implementation and upgrades, potential delays in the implementation or upgrade or any resulting service interruptions, or any impact on the reliability of TCCI's data from any upgrade of its legacy system, will not have a material adverse effect on its business, results of operations and financial condition.

Risk of a Security Breach or a Cyber-attack

TCCI collects and stores certain personal and financial information from customers, employees and other third parties. Security breaches or cyber-attacks involving TCCI's systems or facilities, or the systems or facilities of third-party providers, could expose TCCI to a risk of loss of personal information of customers, employees and third parties or other confidential, proprietary or competitively sensitive information, business interruptions, regulatory scrutiny, actions and penalties, litigation, reputational harm, a loss of confidence and other financial and non-financial costs, all of which could potentially have an adverse impact on TCCI's future business with current and potential customers, results of operations and financial condition.

TCCI relies on encryption and other information security technologies licensed from third parties to provide security controls necessary to help in securing online transmission of confidential information pertaining to customers, employees and other aspects of TCCI's business. Advances in information system capabilities, new discoveries in the field of cryptography or other events or developments may result in a compromise or breach of the technology that TCCI uses to protect sensitive data. A party who is able to circumvent these security measures by methods such as hacking, fraud, trickery or other forms of deception could misappropriate proprietary information or cause interruption to the operations of TCCI. TCCI may be required to expend capital and other resources to protect against such security breaches or cyber-attacks or to remedy problems caused by such breaches or attacks. TCCI's security measures are designed to protect against security breaches and cyber-attacks, but TCCI's failure to prevent such security breaches and cyber-attacks could subject it to liability, decrease its profitability and damage its reputation. Even if a failure of, or interruption in, TCCI's systems or facilities is resolved in a timely manner or an attempted cyber incident or other security breach is successfully avoided or thwarted, it may require TCCI to expend substantial resources or to take actions that could adversely affect customer satisfaction or behaviour and expose TCCI to reputational harm.

TCCI could also be subjected to cyber-attacks that could result in slow performance and loss or temporary unavailability of its information systems. Information security risks have increased because of new technologies, the use of the internet and telecommunications technologies (including mobile devices) to conduct financial and other business transactions, and the increased sophistication and activities of organised crime, perpetrators of fraud, hackers, terrorists, and others. In addition, TCCI may face increased cyber-security risks and increased vulnerability to security breaches and other information technology disruptions as a result of the COVID-19 pandemic and increased remote work among its workforce. TCCI may not be able to anticipate or implement effective preventative measures against all security breaches of these types, especially because the techniques used change frequently and because attacks can originate from a wide variety of sources. The occurrence of any of these events could have a material adverse effect on TCCI's business, results of operations and financial condition.

Changes to Data Protection Regulations

TCCI's enterprise data practices, including the collection, use, sharing, disposal and security of personal and financial information of its customers, employees and third-party individuals, are subject to increasingly complex, restrictive, and punitive laws and regulations which could adversely affect TCCI's business, results of operations and financial condition. Under these laws and regulations, the failure to maintain compliant data practices could result in consumer complaints, lawsuits and regulatory inquiry, resulting in civil or criminal penalties, as well as brand impact or other harm to TCCI's business. In addition, increased consumer sensitivity to real or perceived failures in maintaining acceptable data practices could damage TCCI's reputation and deter current and potential customers from using its products and services. For example, well-publicised allegations involving the misuse or inappropriate sharing of personal information have led to expanded governmental scrutiny of practices relating to the safeguarding of personal information and the use or sharing of personal data by companies in Canada and other countries. That scrutiny has in some cases resulted in, and could in the future lead to, the adoption of stricter laws and regulations relating to the use and sharing of personal information, which if applicable to TCCI, could impact its business. These types of laws and regulations could prohibit or significantly restrict financial services providers such as TCCI from sharing information among affiliates or with third parties such as vendors, and thereby increase compliance costs, or could restrict TCCI's use of personal data when developing or offering products or services to its customers. These restrictions could inhibit TCCI's development or marketing of certain products or services, or increase the costs of offering them to customers. Because many of these laws and regulations are new, there is little clarity as to their interpretation, as well as a lack of precedent for the scope of enforcement. The cost of compliance with these laws and regulations will be high and is likely to increase in the future. Any failure or perceived failure of TCCI to comply with applicable privacy or data protection laws and regulations could, for TCCI, result in requirements to modify or cease certain of its operations or practices, significant liabilities or fines, penalties or other sanctions.

Regulatory Risk

Regulatory risk is the risk to TCCI arising from the failure or alleged failure to comply with applicable regulatory requirements and the risk of liability and other costs imposed under various laws and regulations, including changes in applicable law, regulation and regulatory guidance.

Changes to Laws, Regulations or Government Policies

Changes to the laws, regulations or to the policies of governments (federal, provincial or local) of Canada or of any other national governments (federal, state, provincial or local) of any other jurisdiction in which TCCI conducts its business or of any other national governments (federal, state or local) or international organisations (and the actions flowing from such changes to policies) may have a negative impact on TCCI's business or require significant expenditure by TCCI, or significant changes to TCCI's processes and procedures, to ensure compliance with those laws, regulations or policies so that it can effectively carry on its business.

Compliance with applicable laws and regulations is costly and such costs can adversely affect TCCI's results of operations. Compliance requires forms, processes, procedures, controls and the infrastructure to support these requirements. Compliance may create operational constraints and place limits on pricing, as the laws and regulations in the financial services industry are designed primarily for the protection of consumers. Changes in laws and regulations could restrict TCCI's ability to operate its business as currently operated, could impose substantial additional costs or require TCCI to implement new processes, which could adversely affect its business, prospects, financial performance or financial condition. The failure to comply with applicable laws and regulations could result in significant statutory civil and criminal fines, penalties, monetary damages, attorney or legal fees and costs, restrictions on TCCI's ability to operate its business, possible revocation of licenses and damage to TCCI's reputation, brand and valued customer relationships. Any such costs, restrictions, revocations or damage could adversely affect TCCI's business, prospects, results of operations or financial condition.

Legal Proceedings

TCCI is, and may be, subject to various legal actions, governmental proceedings and other claims arising in the ordinary course of business. A negative outcome in one or more of these legal proceedings may adversely affect TCCI's results of operations and financial condition.

COVID-19 Risks - Toyota

Toyota has been, and is expected to continue to be, adversely affected by the spread of COVID-19

The global spread of COVID-19 and the responses to it by governments and other stakeholders have adversely affected Toyota in a number of ways. For reasons such as government directives as well as anticipated reduced demand for its vehicles, Toyota temporarily suspended, or there may be a possibility that Toyota will temporarily suspend, production of automobiles and components at selected plants in Japan and overseas. COVID-19 has also affected, and is expected to continue to affect, the businesses of Toyota dealers and distributors, as well as certain of Toyota's third-party suppliers and business partners. In addition, the global spread of COVID-19 and related matters have adversely affected businesses in a wide variety of industries, as well as consumers, all of which negatively impacted demand for Toyota's vehicles and related financial services.

The duration of the global spread of COVID-19 and the resulting future effects are uncertain, and the foregoing impacts and other effects not referenced above, as well as the ultimate impact of COVID-19, are difficult to predict and could have an adverse effect on Toyota's financial condition and results of operations.

Industry and Business Risks - Toyota

The worldwide automotive market is highly competitive

The worldwide automotive market is highly competitive. Toyota faces intense competition from automotive manufacturers in the markets in which it operates. Competition in the automotive industry has further intensified amidst difficult overall market conditions. In addition, competition is likely to further intensify in light of further continuing globalisation in the worldwide automotive industry, possibly resulting in industry reorganisations. Factors affecting competition include product quality and features, safety, reliability, fuel economy, the amount of time required for innovation and development, pricing, customer service and financing terms. Increased competition may lead to lower vehicle unit sales, which may result in further downward price pressure and adversely affect Toyota's financial condition and results of operations. Toyota's ability to adequately respond to the recent rapid changes in the automotive market and to maintain its competitiveness will be fundamental to its future success in existing and new markets and to maintain its market share. There can be no assurances that Toyota will be able to compete successfully in the future.

The worldwide automotive industry is highly volatile

Each of the markets in which Toyota competes has been subject to considerable volatility in demand. Demand for vehicles depends to a large extent on economic, social and political conditions in a given market and the introduction of new vehicles and technologies. As Toyota's revenues are derived from sales in markets worldwide, economic conditions in such markets are particularly important to Toyota.

Reviewing the general economic environment for the fiscal year ended March 2021, due to the impact of COVID-19 continuing from the previous fiscal year, the economy faced a sharp slowdown and hit a bottom from April to June 2020. Due to economic activities resuming and stimulus measures taken in many countries, from July 2020, the economy gradually recovered, but growth remained low throughout fiscal 2021. Many automotive markets, other than China and certain other regions where the impact of COVID-19 was limited, recorded significantly lower results than that of the previous fiscal year, due partly to the impact of the suspension of operations at factories and business at dealers worldwide.

The changes in demand for automobiles are continuing, and it is unclear how this situation will transition in the future. Toyota's financial condition and results of operations may be adversely affected if the changes in demand for automobiles continue or progress further. Demand may also be affected by factors directly impacting vehicle price or the cost of purchasing and operating vehicles such as sales and financing incentives, prices of raw materials and parts and components, cost of fuel and governmental regulations (including tariffs, import regulation and other taxes). Volatility in demand may lead to lower vehicle unit sales, which may result in downward price pressure and adversely affect Toyota's financial condition and results of operations.

Toyota's future success depends on its ability to offer new, innovative and competitively priced products that meet customer demand on a timely basis

Meeting customer demand by introducing attractive new vehicles and reducing the amount of time required for product development are critical to automotive manufacturers. In particular, it is critical to meet customer demand with respect to quality, safety and reliability. The timely introduction of new vehicle models, at competitive prices, meeting rapidly changing customer preferences and demand is more fundamental to Toyota's success than ever, as the automotive market is rapidly transforming in light of the changing global economy.

There is no assurance, however, that Toyota will adequately and appropriately respond to changing customer preferences and demand with respect to quality, safety, reliability, styling and other features in a timely manner. Even if Toyota succeeds in perceiving customer preferences and demand, there is no assurance that Toyota will be capable of developing and manufacturing new, price competitive products in a timely manner with its available technology, intellectual property, sources of raw materials and parts and components, and production capacity, including cost reduction capacity. Further, there is no assurance that Toyota will be able to implement capital expenditures at the level and times planned by management. Toyota's inability to develop and offer products that meet customers' preferences and demand with respect to quality, safety, reliability, styling and other features in a timely manner could result in a lower market share and reduced sales volumes and margins, and may adversely affect Toyota's financial condition and results of operations.

Toyota's ability to market and distribute effectively is an integral part of Toyota's successful sales

Toyota's success in the sale of vehicles depends on its ability to market and distribute effectively based on distribution networks and sales techniques tailored to the needs of its customers. There is no assurance that Toyota will be able to develop sales techniques and distribution networks that effectively adapt to changing customer preferences or changes in the regulatory environment in the major markets in which it operates. Toyota's inability to maintain well-developed sales techniques and distribution networks may result in decreased sales and market share and may adversely affect its financial condition and results of operations.

Toyota's success is significantly impacted by its ability to maintain and develop its brand image

In the highly competitive automotive industry, it is critical to maintain and develop a brand image. In order to maintain and develop a brand image, it is necessary to further increase customers' confidence by providing safe, high quality products that meet customer preferences and demand. If Toyota is unable to effectively maintain and develop its brand image as a result of its inability to provide safe, high quality products or as a result of the failure to promptly implement safety measures such as recalls when necessary, vehicle unit sales and/or sale prices may decrease, and as a result revenues and profits may not increase as expected or may decrease, adversely affecting its financial condition and results of operations.

Toyota relies on suppliers for the provision of certain supplies including parts, components and raw materials

Toyota purchases supplies including parts, components and raw materials from a number of external suppliers located around the world. For some supplies, Toyota relies on a single supplier or a limited number of suppliers, whose replacement with another supplier may be difficult. Inability to obtain supplies from a single or limited source supplier may result in difficulty obtaining supplies and may restrict Toyota's ability to produce vehicles. Furthermore, even if Toyota were to rely on a large number of suppliers, first-tier suppliers with whom Toyota directly transacts may in turn rely on a single second-tier supplier or limited second-tier suppliers. Toyota's ability to continue to obtain supplies from its suppliers in a timely and cost-effective manner is subject to a number of factors, some of which are not within Toyota's control. These factors include the ability of Toyota's suppliers to provide a continued source of supply, and Toyota's ability to effectively compete and obtain competitive prices from suppliers. A loss of any single or limited source supplier or inability to obtain supplies from suppliers in a timely and cost-effective manner could lead to increased costs or delays or suspensions in Toyota's production and deliveries, which could have an adverse effect on Toyota's financial condition and results of operations.

The worldwide financial services industry is highly competitive

The worldwide financial services industry is highly competitive. Increased competition in automobile financing may lead to decreased margins. A decline in Toyota's vehicle unit sales, an increase in residual value risk due to lower used vehicle prices, an increase in the ratio of credit losses and increased funding costs are additional factors which may impact Toyota's financial services operations. If Toyota is unable to adequately respond to the changes and competition in automobile financing, Toyota's financial services operations may adversely affect its financial condition and results of operations.

Toyota's operations and vehicles rely on various digital and information technologies

Toyota depends on various information technology networks and systems, some of which are managed by third parties, to process, transmit and store electronic information, including sensitive data, and to manage or support a variety of business processes and activities, including manufacturing, research and development, supply chain management, sales and accounting. In addition, Toyota's vehicles may rely on various digital and information technologies, including information service and driving assistance functions. Despite security measures, Toyota's digital and information technology networks and systems may be vulnerable to damage, disruptions, shutdowns due to unauthorised access or attacks by hackers, computer viruses, breaches due to unauthorised use, errors or malfeasance by employees and others who have or gain access to the networks and systems Toyota depends on, service failures or bankruptcy of third parties such as software development or cloud computing vendors, power shortages and outages, and utility failures or other catastrophic events like natural disasters. In particular, cyber-attacks or other intentional malfeasance are increasing in terms of intensity, sophistication and frequency, and Toyota may be the subject of such attacks. Such attacks could materially disrupt critical operations, disclose sensitive data, interfere with information services and driving assistance functions in Toyota's vehicles, and/or give rise to legal claims or proceedings, liability or regulatory penalties under applicable laws, which could have an adverse effect on Toyota's brand image and its financial condition and results of operations.

Financial Market and Economic Risks – Toyota

Toyota's operations are subject to currency and interest rate fluctuations

Toyota is sensitive to fluctuations in foreign currency exchange rates and is principally exposed to fluctuations in the value of the Japanese yen, the U.S. dollar and the euro and, to a lesser extent, the Australian dollar, the Russian ruble, the Canadian dollar and the British pound. Toyota's consolidated financial statements, which are presented in Japanese yen, are affected by foreign currency exchange fluctuations through translation risk, and changes in foreign currency exchange rates may also affect the price of products sold and materials purchased by Toyota in foreign currencies through transaction risk. In particular, strengthening of the Japanese yen against the U.S. dollar can have an adverse effect on Toyota's operating results.

Toyota believes that its use of certain derivative financial instruments including foreign exchange forward contracts and interest rate swaps and increased localised production of its products have reduced, but not eliminated, the effects of interest rate and foreign currency exchange rate fluctuations. Nonetheless, a negative impact resulting from fluctuations in foreign currency exchange rates and changes in interest rates may adversely affect Toyota's financial condition and results of operations.

High prices of raw materials and strong pressure on Toyota's suppliers could negatively impact Toyota's profitability

Increases in prices for raw materials that Toyota and Toyota's suppliers use in manufacturing their products or parts and components such as steel, precious metals, non-ferrous alloys including aluminium, and plastic parts, may lead to higher production costs for parts and components. This could, in turn, negatively impact Toyota's future profitability because Toyota may not be able to pass all those costs on to its customers or require its suppliers to absorb such costs.

A downturn in the financial markets could adversely affect Toyota's ability to raise capital

Should the world economy suddenly deteriorate, a number of financial institutions and investors will face difficulties in providing capital to the financial markets at levels corresponding to their own financial capacity, and, as a result, there is a risk that companies may not be able to raise capital under terms that they would expect to receive with their creditworthiness. If Toyota is unable to raise the necessary capital under appropriate conditions on a timely basis, Toyota's financial condition and results of operations may be adversely affected.

Regulatory, Legal, Political and Other Risks – Toyota

The automotive industry is subject to various governmental regulations and actions

The worldwide automotive industry is subject to various laws and governmental regulations including those related to vehicle safety and environmental matters such as emission levels, fuel economy, noise and pollution. In particular, automotive manufacturers such as Toyota are required to implement safety measures such as recalls for vehicles that do not or may not comply with the safety standards of laws and governmental regulations. In addition, Toyota may, in order to reassure its customers of the safety of Toyota's vehicles, decide to voluntarily implement recalls or other safety measures even if the vehicle complies with the safety standards of relevant laws and governmental regulations. If Toyota launches products that result in safety measures such as recalls (including where parts related to recalls or other measures were procured by Toyota from a third party), Toyota may incur various costs including significant costs for free repairs. Many governments also impose tariffs and other trade barriers, taxes and levies, or enact price or exchange controls. Toyota has incurred significant costs in response to governmental regulations and actions, including costs relating to changes in global trade dynamics and policies, and expects to incur such costs in the future. Furthermore, new legislation or regulations or changes in existing legislation or regulations may also subject Toyota to additional costs in the future. If Toyota incurs significant costs related to implementing safety measures or responding to laws, regulations and governmental actions, Toyota's financial condition and results of operations may be adversely affected.

Toyota may become subject to various legal proceedings

As an automotive manufacturer, Toyota may become subject to legal proceedings in respect of various issues, including product liability and infringement of intellectual property. Toyota may also be subject to legal proceedings brought by its shareholders and governmental proceedings and investigations. Toyota is in fact currently subject to a number of pending legal proceedings and government investigations. A negative outcome in one or more of these pending legal proceedings could adversely affect Toyota's financial condition and results of operations.

Toyota may be adversely affected by natural calamities, epidemics, political and economic instability, fuel shortages or interruptions in social infrastructure, wars, terrorism and labour strikes

Toyota is subject to various risks associated with conducting business worldwide. These risks include natural calamities, epidemics, political and economic instability, fuel shortages, interruption in social infrastructure including energy supply, transportation systems, gas, water or communication systems resulting from natural hazards or technological hazards, wars, terrorism, labour strikes and work stoppages. Should the major markets in which Toyota purchases materials, parts and components and supplies for the manufacture of Toyota products or in which Toyota's products are produced, distributed or sold be affected by any of these events, it may result in disruptions and delays in the operations of Toyota’s business. Should significant or prolonged disruptions or delays related to Toyota’s business operations occur, it may adversely affect Toyota’s financial condition and results of operations.

2. Financial Statements for the financial years ended 31 March 2021 and 31 March 2020 and Auditor's Report

Toyota Credit Canada Inc.

Financial Statements
March 31, 2021 and March 31, 2020
(in thousands of Canadian dollars)

Independent auditor's report

To the Shareholder of Toyota Credit Canada Inc.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Toyota Credit Canada Inc. (the Company) as at March 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's financial statements comprise:

- the statements of financial position as at March 31, 2021 and 2020;
- the statements of income and comprehensive income for the years then ended;
- the statements of changes in equity for the years then ended;
- the statements of cash flows for the years then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the information, other than the financial statements and our auditor's report thereon, included in the Annual Financial Report.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Jonathan Willis.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
July 29, 2021

Toyota Credit Canada Inc.

Statements of Financial Position

As at March 31, 2021 and 2020

(in thousands of Canadian dollars)

	2021 $	2020 $
Assets		
Cash and cash equivalents	622,786	576,318
Finance receivables – net (notes 5 and 8)	14,560,284	15,467,773
Derivative assets (note 6)	96,106	416,908
Other assets (note 5)	13,646	18,456
Collateral assets (note 6)	172,820	22,760
	15,465,642	16,502,215
Liabilities		
Cheques and other items in transit	731	13,314
Accounts payable and accrued liabilities (note 9)	30,551	25,903
Due to affiliated companies (note 8)	131,783	145,838
Income and other taxes payable (note 10)	24,889	16,592
Interest payable – net (note 7)	40,899	55,490
Debt payable (notes 7 and 8)	12,169,004	13,309,661
Derivative liabilities (note 6)	257,817	181,507
Collateral liabilities (note 6)	16,770	269,580
Deferred income taxes (note 10)	962,410	836,345
	13,634,854	14,854,230
Shareholder's Equity		
Share capital (note 11)	60,000	60,000
Retained earnings	1,770,788	1,587,985
	1,830,788	1,647,985
	15,465,642	16,502,215

Approved by Management

_______________________________ President _______________________________ Vice-President, Finance

The accompanying notes are an integral part of these financial statements.

Toyota Credit Canada Inc.

Statements of Income and Comprehensive Income

For the years ended March 31, 2021 and 2020

(in thousands of Canadian dollars)

	2021 $	2020 $
Financing revenue (notes 8 and 16)	855,682	850,657
Interest income on cash and cash equivalents, other	5,304	10,788
	860,986	861,445
Other gains (losses) – net (note 13)	66,430	(66,197)
Expenses		
Interest (note 8)	276,014	316,751
Employee salaries and benefits (notes 8 and 9)	20,698	19,287
Provision for (recovery of) finance receivables (note 5)	(37,001)	47,979
Registration and search costs	8,159	7,118
IT and communications	13,374	10,358
Occupancy	1,045	1,111
Depreciation and amortization	1,636	1,211
Other	4,986	5,073
	288,911	408,888
Income before income taxes	638,505	386,360
Income taxes (note 10)		
Current	40,909	39,250
Deferred	126,072	62,964
	166,981	102,214
Net income for the year	471,524	284,146
Other comprehensive (loss) income		
Item that will not be reclassified to profit or loss		
Actuarial (losses) gains on defined benefit pension plans – net of income tax (expense) recovery of ($7) (2020 – $1,662) (notes 9 and 10)	(47)	4,528
Comprehensive income for the year – attributable to the owner of the parent	471,477	288,674

The accompanying notes are an integral part of these financial statements.

Toyota Credit Canada Inc.

Statements of Changes in Equity

For the years ended March 31, 2021 and 2020

(in thousands of Canadian dollars)

	Share capital $	Retained earnings $	Total shareholder's equity $
Balance – March 31, 2019	60,000	1,550,337	1,610,337
Net income for the year	-	284,146	284,146
Actuarial gains on defined benefit plans – net of tax	-	4,528	4,528
Comprehensive income for the year	-	288,674	288,674
Dividends paid (note 11)	-	(251,026)	(251,026)
Balance – March 31, 2020	60,000	1,587,985	1,647,985
Net income for the year	-	471,524	471,524
Actuarial losses on defined benefit plans – net of tax	-	(47)	(47)
Comprehensive income for the year	-	471,477	471,477
Dividends paid (note 11)	-	(288,674)	(288,674)
Balance – March 31, 2021	60,000	1,770,788	1,830,788

The accompanying notes are an integral part of these financial statements.

Toyota Credit Canada Inc.

Statements of Cash Flows

For the years ended March 31, 2021 and 2020

(in thousands of Canadian dollars)

	2021 $	2020 $
Cash provided by (used in)		
Operating activities		
Net income for the year	471,524	284,146
Items not requiring cash		
Provision for (recovery of) finance receivables	(37,001)	47,979
Amortization of other assets	8,132	6,885
Amortization of debt issuance costs	4,702	5,547
Amortization of debt premiums/discounts	(96)	494
Foreign exchange change in unrealized losses on debt payable	(231,033)	74,246
Deferred income taxes	126,065	64,626
	342,293	483,923
Changes in operating accounts		
(Decrease) increase in cheques and other items in transit	(12,583)	5,767
Increase in income and other taxes payable	8,297	2,836
Increase in other assets and collateral assets	(153,382)	(24,456)
(Decrease) increase in interest payable – net	(14,591)	26
(Decrease) increase in accounts payable, accrued liabilities and collateral liabilities	(248,209)	166,236
Decrease in due to affiliated company	(14,055)	(21,683)
(Decrease) increase in derivative assets – net	397,112	(150,023)
Acquisitions of finance receivables	(9,348,639)	(10,989,551)
Collections and liquidations of finance receivables	10,293,129	10,445,276
	1,249,372	(81,649)
Financing activities		
Issuance of bonds and loans payable	2,205,733	2,031,388
Repayment of bonds and loans payable	(2,888,059)	(1,948,039)
Decrease in commercial paper – net	(231,904)	(80,480)
Payment of dividends	(288,674)	(251,026)
	(1,202,904)	(248,157)
Change in cash and cash equivalents during the year	46,468	(329,806)
Cash and cash equivalents – Beginning of year	576,318	906,124
Cash and cash equivalents – End of year	622,786	576,318
Supplementary cash flow information related to operating activities		
Income taxes paid	38,427	43,205
Interest paid	290,605	316,725

The accompanying notes are an integral part of these financial statements.

(in thousands of Canadian dollars)

1 Nature of operations

Toyota Credit Canada Inc. (the Company) is a wholly owned subsidiary of Toyota Financial Services Corporation, Japan (TFSC), which is wholly owned by Toyota Motor Corporation, Japan (TMC). The Company is incorporated and domiciled in Canada. Its registered office and principal place of business is 80 Micro Court, Suite 200, Markham, Ontario L3R 9Z5.

The Company operates in the auto finance industry throughout Canada. Its principal business is to provide financing services for authorized Toyota dealers and users of Toyota products. The operations consist of providing the following financing products: retail loans and leases to consumers and wholesale financing and mortgage loans to Toyota, Lexus and other vehicle dealers. The Company has one reportable segment.

2 Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared under the historical cost basis, as modified by financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. Actual results could differ from those estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4. Comparative information presented in note 5 has been revised to conform with the current year's presentation.

These financial statements were approved by management for issue on July 29, 2021.

3 Summary of significant accounting policies

Classification and measurement of financial assets and liabilities

Financial assets are classified as either fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVTOCI) or amortized cost. The classification and measurement of financial assets is based on the type of financial asset, the business model to which it belongs and its contractual cash flow characteristics. Lease receivables are outside the scope of IFRS 9 classification and measurement requirements and are not subject to the policies outlined below.

- Debt instruments

  The classification and subsequent measurement of financial assets that are debt instruments, such as finance receivables, depend on: (i) the Company's business model for managing the asset; and (ii) the cash flow characteristics of the asset.

(in thousands of Canadian dollars)

Business model: the business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, the financial assets are measured at FVTPL. The Company's business model for managing financial assets is to hold and collect the associated contractual cash flows.

Cash flow characteristics: Following the assessment of the business model, the Company assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the SPPI test). In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement. Where the contract terms introduce exposure to risk or volatility that are inconsistent with basic lending arrangements, the related financial asset is classified and measured at FVTPL.

Based on these factors, the Company classifies its financial assets into one of the following three measurement categories:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (SPPI), and that are not designated at FVTPL, are measured at amortized cost. The carrying amount of these assets is adjusted by an expected credit loss allowance recognized. Interest income from these financial assets is included in profit or loss using the effective interest rate method. The Company has classified its cash, short-term investment and finance receivables at amortized cost.

- FVTOCI: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at FVTOCI. The Company has not classified any financial assets at FVTOCI.

- FVTPL: Assets that do not meet the criteria for amortized cost or FVTOCI are measured at FVTPL. The Company has classified its derivative assets at FVTPL.

Financial liabilities are classified and subsequently measured at amortized cost, except for derivative liabilities that are financial liabilities held for trading and are classified at FVTPL. The Company has classified due to affiliated companies, debt payable, interest payable and accounts payable and accrued liabilities at amortized cost.

The Company uses the effective interest rate method of calculating the amortized cost of financial instruments and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument. When calculating the effective interest rate, the Company estimates the cash flows considering all contractual terms of the financial instrument.

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired. Financial liabilities are derecognized when they are extinguished, discharged, cancelled or expired.

(in thousands of Canadian dollars)

Under certain circumstances, the Company may permit a payment extension for a short time frame. These modifications do not lead to derecognition. Given the short-term frame of the permitted payment extensions or delays, the impact of any modification gain or loss is considered insignificant. Modifications will be tracked, on an annual basis, to continue to confirm that the number (level) of modifications continue to be insignificant.

Impairment of financial assets

At initial recognition, the Company recognizes allowances for expected credit losses (ECL) on all financial assets measured at amortized cost. ECL are also recognized for lease receivables.

At each reporting date, the Company is required to assess and group the financial assets measured at amortized cost into one of three stages (general approach):

- financially healthy with no sign of increased credit risk (Stage 1);
- increased credit risk when compared to origination but not credit-impaired (Stage 2). Full lifetime ECL is recognized at this stage; and
- credit-impaired (Stage 3).

The Company has applied the simplified approach to its retail lease receivables to apply lifetime ECL at all times (Stages 2 and 3).

Stage 1 represents financial assets which have not experienced a significant increase in credit risk since the time of origination. The credit loss provision on financial assets in Stage 1 is measured as the ECL in the 12 months following the reporting date. In addition, interest revenue is calculated on the gross carrying amount of these Stage 1 financial assets.

If there is a significant increase in credit risk (SICR) since initial recognition, the financial asset is moved into Stage 2 and lifetime ECL is recorded. Interest revenue continues to be calculated on the gross carrying amount of the Stage 2 financial assets. SICR is deemed to have occurred when the contractual payment is 30 days past due.

When the financial asset becomes credit-impaired (Stage 3), the effective interest rate in subsequent reporting periods is applied to the net carrying amount after deduction of the loss allowance (i.e. the amortized cost). A financial asset is credit-impaired when one or more events that have a detrimental impact on the expected future cash flows of that financial asset have occurred. Evidence of credit-impairment includes observable data about the following events:

- significant life event of the borrower, such as death or job loss;
- a breach of contract, such as a default or past due event; and
- cancellation of insurance.

(in thousands of Canadian dollars)

The Company generally considers 90 days past due status or a repossession event, whichever is earlier, to be an indicator of credit impairments.

The Company directly reduces the gross carrying amount of a financial asset, along with the associated impairment allowance, when it has no reasonable expectations of recovering the financial asset either partly or in full.

The Company's measurement of ECL incorporates an assessment of the following parameters: probability of default (PD), exposure at default (EAD) and loss given default (LGD). ECL are calculated based on a range of scenarios (with a base case, along with sensitivity analysis). Forward-looking macroeconomic information such as changes in interest rates, gross domestic product and unemployment rate are factored into PD. The forward-looking macroeconomic information on used vehicles and other collateral is incorporated into LGD.

Revenue recognition

- Retail loans, dealer financing and mortgages

  Revenues associated with retail loans, dealer financing and mortgages are recognized under the effective interest rate method over the expected contract life. Incremental direct costs incurred in connection with the acquisition of retail loans and dealer financing receivables are capitalized and amortized as part of effective interest. Payments received on affiliate sponsored special rate programs (subvention) are deferred and recognized to approximate a level rate of return over the term of the related contracts.

- Retail financing leases

  At lease inception, the Company records the aggregate future minimum lease payments and contractual residual value of the leased vehicle less unearned income as finance receivables. Unearned income includes deferred subvention payments received from its affiliate. Revenue is recognized over the lease term to approximate an equal rate of return on the outstanding net investment. Incremental direct costs incurred in connection with the acquisition of retail leases are capitalized and amortized as part of effective interest.

  Contractual residual values of finance leases represent an estimate of the values of the vehicles at the end of the lease contracts. During the term of each lease, management evaluates the adequacy of its estimate of the residual value and adjusts the related provision to the extent the fair value at lease maturity is estimated to be less than the contractual lease residual value.

Classification of leases

All of the Company's leases are classified as finance leases and are reported in finance receivables – net. The leases transfer substantially all risks and rewards of ownership of the vehicle to the customer at the inception of the lease.

(in thousands of Canadian dollars)

Fair value

The Company's financial statements reflect certain financial assets and financial liabilities measured at fair value. Financial assets and financial liabilities measured at fair value on a recurring basis on the statements of financial position include derivative financial instruments. Financial assets and financial liabilities of which fair value is on a recurring basis for disclosure include finance receivables and debt payable.

Fair value is the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction between market participants at the measurement date. The estimation of fair value should be based on assumptions that market participants would use, including consideration of non-performance risk.

In determining fair value, the Company uses valuation models and prioritizes the use of observable inputs for certain financial instruments. The availability of observable inputs varies by financial instrument and depends on a variety of factors including the type of financial instrument, whether the financial instrument is actively traded and other characteristics particular to the transaction. For many financial instruments, pricing inputs are readily observable in the market, the valuation methodology used is widely accepted by market participants and the valuation does not require significant management judgment.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

Pension and other post-employment benefit plans

The Company provides defined benefit pension plans and an optional group registered retirement savings plan (RRSP), administered by an affiliated company, to cover substantially all of its employees and executives.

The cost of the defined benefit pension plans is determined by the Company's actuary using the projected unit credit method, based on pro-rated service and estimates of long-term discount rates, long-term rates of return on plan assets and expected inflationary rates of compensation increases.

Effective September 1, 2016, the defined benefit component of the plan was closed to all new hires for both associates' and executives' pension plan. All new hires joined the new defined contribution component of the plans.

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at March 31 (measurement date) of each year. The most recent actuarial valuation of the defined benefit pension plans for funding purposes for the associates' and executives' pension plan was as at June 30, 2019. The dates of the next required funding valuations are 2022 for the pension benefit plans and 2022 for the post-retirement benefit plan.

(in thousands of Canadian dollars)

Actuarial gains and losses, net of income taxes, are recognized in full in the period in which they occur in other comprehensive income (loss). Amounts recognized in other comprehensive income (loss) are recognized immediately in retained earnings. Current service costs, the recognized element of any past service cost, the expected return on plan assets and the interest expense arising on the pension liability are included in the same line item in the statements of income and comprehensive income as the related employee benefits expense.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and other short-term highly liquid investments readily convertible into cash with minimal risk of a change in fair value.

Other assets

Other assets consist of prepaid expenses, right-of-use assets, property, plant and equipment and inventoried units.

Collateral

The Company enters into derivative contracts with counterparties that require collateral to be pledged or received when the Company's derivative portfolio exceeds certain predetermined thresholds. Any cash collateral pledged or received by the Company is identified in the statements of financial position as a separate asset or liability.

Foreign currency translation

The financial statements are presented in Canadian dollars, which is the functional currency of the Company. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates prevailing at the statements of financial position dates. Foreign currency income and expenses are translated at average exchange rates prevailing throughout the year. Unrealized translation gains and losses and all realized gains and losses are included in other gains (losses) in the statements of income and comprehensive income.

Income taxes

Income tax comprises current and deferred taxes. Income tax is recognized in net income except to the extent that it relates to items recognized directly in other comprehensive income (loss), in which case the income tax is also recognized directly in other comprehensive income (loss).

Current tax is the expected income tax payable on the taxable income for the year, using tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

(in thousands of Canadian dollars)

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the statements of financial position dates and are expected to apply when the deferred tax asset is realized or the liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which these temporary differences can be utilized.

The Company presents deferred taxes on a net basis when appropriate. The Company meets the criteria for offsetting deferred tax liabilities against deferred tax assets when it has the legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to income taxes levied by the same taxation authority.

Accounting and reporting changes

New accounting standard adopted

In January 2016, the International Accounting Standards Board (IASB) published the new standard IFRS 16, Leases. IFRS 16 supersedes International Accounting Standard (IAS) 17 and the related interpretations (IFRIC 4, Determining Whether an Arrangement Contains a Lease, SIC-15, Operating Leases – Incentives and SIC-27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease). The new standard stipulates a completely new approach to accounting for leases by lessees. Whereas under IAS 17, the accounting treatment of a lease was determined on the basis of the transfer of risks and rewards incidental to ownership of the relevant asset, under IFRS 16, all lease arrangements are required as a general rule to be accounted for by the lessee in a similar way to finance leases.

The Company has adopted IFRS 16 for interim and annual reporting periods beginning on or after April 1, 2019. The Company applied the modified retrospective approach. The Company recognized a right-of-use asset at the date of initial application in respect of leases previously classified as operating leases.

New accounting standards not yet adopted

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform – Phase 2 In August 2020, the IASB issued amendments to IFRS 9, Financial Instruments (IFRS 9), IAS 39, Financial Instruments: Recognition and Measurement (IAS 39), IFRS 7, Financial Instruments: Disclosures (IFRS 7), IFRS 4, Insurance Contracts (IFRS 4), and IFRS 16, Leases (IFRS 16) as a result of Phase 2 of the IASB's Interest Rate Benchmark Reform project. The amendments address issues arising during the reform of benchmark interest rates including the replacement of one benchmark rate with an alternative one. The amendments are effective April 1, 2021. On adoption of the amendments, there will be no immediate effect on the Company's financial statements as it will not be replacing any of the benchmark interest rates in the Company's agreements on the adoption date. The Company will continue to assess the effect of these amendments throughout 2021. Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Interest Rate Benchmark Reform – Phase 2, In August 2020, the IASB issued amendments to IFRS 9, Financial Instruments (IFRS 9), IAS 39, Financial Instruments: Recognition and Measurement (IAS 39), IFRS 7, Financial Instruments: Disclosures (IFRS 7), IFRS 4, Insurance Contracts (IFRS 4), and IFRS 16, Leases (IFRS 16) as a result of Phase 2 of the IASB's Interest Rate Benchmark Reform project. The amendments address issues arising during the reform of benchmark interest rates including the replacement of one benchmark rate with an alternative one. The amendments are effective April 1, 2021.

(in thousands of Canadian dollars)

On adoption of the amendments, there will be no immediate effect on the Company's financial statements as it will not be replacing any of the benchmark interest rates in the Company's agreements on the adoption date. The Company will continue to assess the effect of these amendments throughout 2021.

4 Critical accounting estimates and judgments

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The following discusses the most significant accounting judgments and estimates the Company has made in the preparation of the financial statements.

Allowance for credit losses

There is significant estimation uncertainty in regard to establishing the amount of the allowance for credit losses, taking into consideration counterparty credit risk, the criteria for establishing a significant increase in credit risk, the fair value of underlying collateral, the expected residual value of the underlying leased assets, current economic trends and past experience.

The Company determined the PD and LGD rate considering a number of forecasted macroeconomic factors including national unemployment rates, Canadian interest rates (prime), annual GDP growth, used car values, consumer credit and credit market debt to disposable income. Using regression analysis, the Company determined which factors have a relationship with historical Retail Loan and Retail Lease writeoffs.

The macroeconomic factors that exhibited a relationship for Retail Loans are GDP growth, consumer credit and credit market debt to disposable income, and these factors were used for the calculation of the PD. The macroeconomic factors that exhibited a relationship for Retail Leases are prime rate, national unemployment, consumer credit and credit market debt to disposable income, and these factors were used for the calculation of the PD. The forecasts used by the Company are based on an average of the largest five Canadian banks.

The COVID-19 pandemic has increased the estimation uncertainty in preparing the financial statements, in particular the significant accounting estimates related to the allowance for credit losses.

The Company has applied accounting estimates in the financial statements based on economic conditions that reflect expectations and assumptions as at March 31, 2021 about events that management believes are reasonable in the circumstances. There is a considerable degree of judgment involved in preparing the forecasts. The underlying assumptions are also subject to uncertainties that are often outside the control of the Company. Accordingly, actual economic conditions are likely to be different from those forecasts since anticipated events frequently do not occur as expected, and the affect of those differences may significantly impact accounting estimates in the financial statements.

The impact of the COVID-19 pandemic on the accounting estimates is discussed in note 15.

(in thousands of Canadian dollars)

Critical estimate for the allowance for retail finance lease residual losses

Residual value risk is the risk the estimated residual value will not be recoverable at the end of the lease term. Residual value represents an estimate of the end of the term fair value of a leased asset. When the fair value of a leased vehicle at contract maturity is less than its contractual lease end value, there is a higher probability the vehicle will be returned to the Company. A higher rate of vehicle returns exposes the Company to a greater risk of loss at the end of the lease term. Residual values are updated on a quarterly basis using a regression analysis considering key inputs including vehicle lease return rates.

Lease end values are estimated at lease inception by examining external industry data and the Company's own experience. Factors considered in this evaluation include, but are not limited to, expected economic conditions, new vehicle pricing, new vehicle sales, used vehicle supply, the level of current used vehicle values and other economic factors. The Company's management periodically reviews the estimated residual values of leased vehicles to assess the appropriateness of the Company's carrying values. To the extent the estimated residual of a leased vehicle is lower than the lease end value established at lease inception, management records a lease market reserve for the anticipated shortfall. This provision is represented by the allowance for retail finance lease residual value losses disclosed in note 5. Factors affecting the estimated end of term fair value are similar to those considered in the evaluation of the lease end value at lease inception. These factors are evaluated in the context of their historical trends to anticipate potential changes in the relationship among those factors in the future.

The vehicle lease return rate represents the number of end of term leased vehicles returned to the Company for sale as a percentage of lease contracts that were originally scheduled to mature in the same period less certain qualified early terminations. As at March 31, 2021, holding other estimates constant, if the return rate for the Company's existing portfolio of leased vehicles were to increase by 1% from the Company's present estimates, the effect would be to decrease the operating income by approximately $3,297 (2020 – $2,627) and an increase of $2,088 (2020 – $2,748) to the operating income were the return rate to decrease by 1%.

End of term fair values determine the amount of loss severity at lease maturity. Loss severity is the extent to which the end of term fair value of a leased vehicle is less than the lease end value at inception. The Company incurs losses to the extent the residual value of a leased vehicle is less than the lease end value at inception and the vehicle is returned to the Company. As at March 31, 2021, holding other estimates constant, if end of term fair values for returned units of leased vehicles were to decrease by 1% from the Company's present estimates, the effect would be to decrease the operating income by approximately $9,075 (2020 – $7,880) and an increase of $8,082 (2020 – $7,845) to the operating income were the fair values for returned units to increase by 1%.

Critical judgment for lease accounting

In applying its accounting policy for classification of retail leases, the Company must determine at lease inception whether the substance of the transaction results in the classification of an operating or finance lease. Central to this determination is an evaluation of the extent to which risks and rewards incidental to ownership of a leased vehicle lie with the Company or the customer. The Company classifies the entire retail lease portfolio as finance leases on the premise that the leases, at lease inception, contain an option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable (bargain purchase option).

(in thousands of Canadian dollars)

The Company estimates its residual values at lease inception by examining external industry data and the Company's historical experience. Factors considered in this evaluation include, but are not limited to, expected economic conditions, new vehicle pricing, new vehicle sales, used vehicle supply, the level of current used vehicle values and other economic factors. The Company also reviews the history of vehicle lease return rates; a higher rate of vehicle returns suggests that a bargain purchase option has not been included in the lease. Management's stated objective in setting initial lease end value is to minimize returned vehicles. Management monitors its lease classification on an ongoing basis and considers all appropriate facts and circumstances in making this assessment.

5 Finance receivables – net

	2021 $	2020 $
Retail finance leases	9,997,967	10,627,867
Unearned income	(991,521)	(1,068,202)
	9,006,446	9,559,665
Retail loans	5,211,530	5,235,054
Unearned income – net of accrued interest	(258,135)	(254,959)
	4,953,395	4,980,095
Dealer financing	725,142	1,102,489
Add: Accrued interest	841	2,036
	725,983	1,104,525
	14,685,824	15,644,285
Less: Allowances for		
Retail finance lease residual value losses	73,818	119,775
Credit losses	51,722	56,737
	125,540	176,512
	14,560,284	15,467,773

Inventoried vehicles have been classified as other assets, which also includes prepaid expenses, right-of-use assets and property, plant and equipment.

(in thousands of Canadian dollars)

The contractual maturities of retail finance leases, retail loans and dealer financing as at March 31 are summarized as follows:

				2021
	Retail finance leases $	**Retail loans $**	**Dealer financing $**	**Total $**
Year ending				
2022	3,121,510	1,615,803	500,629	5,237,942
2023	2,604,537	1,312,374	17,745	3,934,656
2024	2,297,978	994,760	16,124	3,308,862
2025	1,423,380	680,001	27,207	2,130,588
2026	521,138	386,662	27,615	935,415
Thereafter	29,424	221,930	135,822	387,176
	9,997,967	5,211,530	725,142	15,934,639

				2020
	Retail finance leases $	**Retail loans $**	**Dealer financing $**	**Total $**
Year ending				
2021	3,117,430	1,653,081	873,916	5,644,427
2022	2,736,170	1,339,990	20,259	4,096,419
2023	2,433,425	997,465	22,803	3,453,693
2024	1,647,959	673,433	15,552	2,336,944
2025	656,862	376,068	42,566	1,075,496
Thereafter	36,021	195,017	127,393	358,431
	10,627,867	5,235,054	1,102,489	16,965,410

Included in retail finance leases are unguaranteed residual values of $5,911,699 (2020 – $6,110,476).

When assets are leased to customers under finance leases, the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using the effective rate of return method, which reflects a constant periodic rate of return. The present value of minimum lease payments may be analyzed as follows, along with a reconciliation to the gross investment in finance lease receivables.

(in thousands of Canadian dollars)

	2021 $	2020 $
Present value of minimum lease payments		
Not later than 1 year	3,068,520	3,072,708
Later than 1 year and not later than 5 years	6,417,436	7,050,019
Later than 5 years	29,424	36,021
Unearned finance income on finance leases		
Not later than 1 year	52,990	44,722
Later than 1 year and not later than 5 years	429,597	424,397
Later than 5 years	-	-
Gross investment in finance lease receivables		
Not later than 1 year	3,121,510	3,117,430
Later than 1 year and not later than 5 years	6,847,033	7,474,416
Later than 5 years	29,424	36,021
Total	9,997,967	10,627,867

Allowance for credit losses is the Company's estimate of the ECL inherent in finance receivables as at the statements of financial position dates. Consistent with the Company's normal practices and policies, the Company assesses the adequacy of the allowance for credit losses semi-annually and regularly evaluates the assumptions and models used in establishing the allowance.

The following table represents the breakdown of the allowance for credit losses by category as at March 31:

	2021 $	2020 $
Retail finance leases	39,343	43,741
Retail loans	10,834	11,136
Dealer financing	1,545	1,860
	51,722	56,737

The following table represents the reconciliation of the changes in the allowance for credit losses for 2021 and 2020:

	2021 $	2020 $
Balance – Beginning of year	56,737	26,919
Writeoffs	(13,013)	(17,026)
Net provision for current year	7,998	46,844
Balance – End of year	51,722	56,737

(in thousands of Canadian dollars)

The following table explains the changes in the allowances for credit losses for 2021, which are due to the factors below:

- Retail Loans (general approach)

	12-month ECL $	Lifetime ECL not credit-impaired $	Lifetime ECL credit-impaired $	Total $
Balance as at April 1, 2020	5,870	2,250	3,016	11,136
Transfers				
Transfer from Stage 1 to Stage 2	(2,071)	2,071	-	-
Transfer from Stage 1 to Stage 3	(227)	-	227	-
Transfer from Stage 2 to Stage 1	1,326	(1,326)	-	-
Transfer from Stage 2 to Stage 3	-	(309)	309	-
Transfer from Stage 3 to Stage 1	33	-	(33)	-
Transfer from Stage 3 to Stage 2	-	803	(803)	-
New financial assets originated/remeasurement	2,687	758	409	3,854
Finance receivables derecognized during the year	(1,023)	(2,387)	-	(3,410)
Writeoffs	-	-	(746)	(746)
Balance as at March 31, 2021	6,595	1,860	2,379	10,834

	12-month ECL $	Lifetime ECL not credit-impaired $	Lifetime ECL credit-impaired $	Total $
Balance as at April 1, 2019	3,428	7	1,207	4,642
Transfers				
Transfer from Stage 1 to Stage 2	(2,131)	2,131	-	-
Transfer from Stage 1 to Stage 3	(3,125)	-	3,125	-
Transfer from Stage 2 to Stage 1	915	(915)	-	-
Transfer from Stage 2 to Stage 3	-	(215)	215	-
Transfer from Stage 3 to Stage 1	10	-	(10)	-
New financial assets originated/remeasurement	7,212	2,765	950	10,927
Finance receivables derecognized during the year	(439)	(1,523)	-	(1,962)
Writeoffs	-	-	(2,471)	(2,471)
Balance as at March 31, 2020	5,870	2,250	3,016	11,136

(in thousands of Canadian dollars)

- Retail Leases (simplified approach)

	Lifetime ECL not credit-impaired $	Lifetime ECL credit-impaired $	Total $
Balance as at April 1, 2020	42,401	1,340	43,741
Transfers between stages	(2,348)	2,348	-
New financial assets originated/remeasurement	12,154	178	12,332
Finance receivables derecognized during the year	(13,777)	-	(13,777)
Writeoffs	-	(2,953)	(2,953)
Balance as at March 31, 2021	38,430	913	39,343

	Lifetime ECL not credit-impaired $	Lifetime ECL credit-impaired $	Total $
Balance as at April 1, 2019	20,796	675	21,471
Transfers between stages	(5,133)	5,133	-
New financial assets originated/remeasurement	37,472	211	37,683
Finance receivables derecognized during the year	(10,734)	-	(10,734)
Writeoffs	-	(4,679)	(4,679)
Balance as at March 31, 2020	42,401	1,340	43,741

The following table contains an analysis of the credit risk exposure of finance receivables. The gross carrying amount of finance receivables below also represents the Company's maximum exposure to credit risk on these finance receivables for 2021. The Company has not purchased any credit-impaired finance receivables.

- Retail Loans (general approach)

	12-month ECL $	Lifetime ECL not credit-impaired $	Lifetime ECL credit-impaired $	2021 Total $
Gross carrying amount	5,200,316	8,835	2,379	5,211,530
Loss allowance	(6,595)	(1,860)	(2,379)	(10,834)
Carrying amount – End of year	5,193,721	6,975	-	5,200,696

(in thousands of Canadian dollars)

The following table contains an analysis of the credit risk exposure of finance receivables. The gross carrying amount of finance receivables below also represents the Company's maximum exposure to credit risk on these finance receivables for 2020. The Company has not purchased any credit-impaired finance receivables.

	12-month ECL $	Lifetime ECL not credit-impaired $	Lifetime ECL credit-impaired $	2020 Total $
Gross carrying amount	5,218,704	13,334	3,016	5,235,054
Loss allowance	(5,870)	(2,250)	(3,016)	(11,136)
Carrying amount – End of year	5,212,834	11,084	-	5,223,918

6 Derivative assets and derivative liabilities

The Company's derivative arrangements with other financial institutions contain provisions that may require either the Company or the counterparty to post cash collateral in the event the fair value valuation of the derivative position with that counterparty exceeds certain predetermined thresholds. As at March 31, 2021, $16,770 (2020 – $269,580) of cash collateral had been posted by the counterparties and $172,820 (2020 – $22,760) of cash collateral had been posted by the Company.

The following table presents the recognized financial instruments that are offset in the statements of financial position, or subject to enforceable master netting agreements but are not offset in the statements of financial position, as at March 31, 2021 and 2020, and shows the net impact on the Company's financial position if all set-off rights were exercised.

	2021	
	Financial assets $	Financial liabilities $
Gross amounts subject to agreements	96,106	257,817
Net settled amounts on the statements of financial position	-	-
Net amount presented in the statements of financial position	96,106	257,817
Amounts subject to master netting agreements	8,462	8,462
Cash collateral	(16,770)	(172,820)
Net	87,798	93,459

(in thousands of Canadian dollars)

	2020	
	Financial assets $	**Financial liabilities $**
Gross amounts subject to agreements	416,926	181,525
Net settled amounts on the statements of financial position	(18)	(18)
Net amount presented in the statements of financial position	416,908	181,507
Amounts subject to master netting agreements	19,538	19,538
Cash collateral	(269,580)	(22,760)
Net	166,866	178,285

The following table represents a breakdown of the estimated fair values of derivative assets and derivative liabilities, excluding any related accrued interest, as at March 31:

	2021 $	**2020 $**
Derivative assets		
Interest rate swap agreements	92,295	104,844
Cross-currency interest rate swap agreements	3,537	265,240
Foreign currency forward contracts	274	46,824
	96,106	416,908
Derivative liabilities		
Interest rate swap agreements	123,517	174,998
Cross-currency interest rate swap agreements	83,602	5,041
Foreign currency forward contracts	50,698	1,468
	257,817	181,507

(in thousands of Canadian dollars)

7 Debt payable

Interest rates and debt outstanding as at March 31 were as follows:

	Effective interest rates			
	2021 %	**2020 %**	**2021 $**	**2020 $**
Total debt payable				
Commercial paper	0.20	1.73	2,750,006	2,982,466
Bonds payable	2.21	2.30	4,990,845	4,891,475
Loans payable	1.17	2.36	4,428,153	5,435,720
			12,169,004	13,309,661
Less: Debt payable due within one year				
Commercial paper			2,750,006	2,982,466
Bonds payable			1,099,408	1,299,416
Loans payable			1,428,305	1,608,812
			5,277,719	5,890,694
Total long-term debt payable due after one year			6,891,285	7,418,967

Debt payable includes debt denominated in foreign currencies translated at the statements of financial position dates exchange rate as follows:

	2021 $	**2020 $**
US$3,130,000 (2020 – US$3,481,500)	3,935,975	4,939,204

As at March 31, 2021, the Company held cross-currency interest rate swap agreements and interest rate swap agreements with a notional principal of $6,866,998 (2020 – $7,769,417) and floating interest rates, with maturity dates from April 2021 to February 2026 (2020 – May 2020 to February 2025) and interest rate swap agreements with a notional principal of $9,060,000 (2020 – $9,730,000) and fixed rates, ranging from 0.54% to 2.74% (2020 – 0.86% to 2.74%), with maturity dates from April 2021 to September 2025 (2020 – April 2020 to November 2024). The Company also held foreign exchange forward contract agreements with a notional principal of $2,008,690 (2020 –$1,150,970), with maturity dates from April 2021 to December 2021 (2020 – April 2020 to November 2020).

The Company is not in default with respect to any outstanding obligation.

(in thousands of Canadian dollars)

Included in interest payable are the following amounts:

	2021 $	2020 $
Interest payable – net		
Debt payable	30,056	36,239
Interest swap agreements	10,843	19,111
Interest – collateral and other	-	140
	40,899	55,490

8 Related party transactions

TFSC, the immediate parent of the Company, directly owns 100% of the shares of the Company. TMC is the ultimate controlling party of the Company.

Due to affiliated companies

The due to affiliated companies balance totalling $131,783 (2020 – $145,838) includes the balance owing to affiliates with respect to vehicles being financed by the Company under dealer wholesale loans (due 15 days after shipment to dealers) and certain administrative expenses (due 30 days after the invoice date).

Debt payable

The Company and an affiliate are party to an uncommitted loan finance agreement under which the affiliate may make loans to the Company in amounts not exceeding $2,500,000. The terms are determined at the time of each loan based on business factors and market conditions.

Included in debt payable are total loans of $1,092,768 (2020 – $1,658,460) owing to an affiliate. Interest on short-term debt charged by a Toyota group company during the year ended March 31, 2021 amounts to $17,611 (2020 – $25,148).

The Company pays a fee for credit support and guarantees from affiliates for purposes of debt and commercial paper issuance. The total payments made to these affiliates of $10,733 (2020 – $10,889) have been included in interest expense in the statements of income and comprehensive income. Debt and commercial paper guaranteed by affiliates amounts to $7,740,851 (2020 – $7,873,941).

Post-employment benefits

The Company provides defined benefit pension plans and an optional group RRSP, administered by an affiliated company, to cover substantially all of its associates and executives.

Related expenses amounting to $2,489 (2020 – $3,161) have been included in employee benefits.

(in thousands of Canadian dollars)

Subvention program

As part of its sales promotion arrangements with authorized Toyota and Lexus vehicle dealers and consumers, an affiliate funds various interest rate reduction programs on loans and leases. The affiliate reimburses the Company for the difference between the face amount and the fair value of the retail lease or loan to consumers. Finance receivables – net included in the statements of financial position as at March 31, 2021 and 2020, are net of $590,128 (2020 – $686,477) related to these reimbursements received from an affiliate. Financing revenue includes $388,830 (2020 – $410,742) related to these reimbursements received from an affiliate.

Included within finance receivables – net is $7,618 (2020 – $12,995) owed by an affiliate in respect of certain sales promotion arrangements with Toyota dealers.

Administrative expenses

The Company has shared service agreements with affiliates under which the affiliates provide treasury, administrative services and credit support services.

Services from affiliates amounted to $18,214 (2020 – $16,083) and have been included in operating expenses in the statements of income and comprehensive income.

The transactions with affiliates are considered to have taken place in the normal course of business.

Key management compensation

The key management personnel comprise the President, Executive Vice-President and Vice Presidents. Key management personnel compensation during the year consisted only of short-term employee benefits of $2,573 (2020 – $2,500), which includes salaries and bonuses payable within one year.

(in thousands of Canadian dollars)

9 Pension and post-employment benefit plans

Defined benefit plan obligations

	Pension benefit plans		Other future benefit plans	
	2021 **$**	**2020** **$**	**2021** **$**	**2020** **$**
Accrued benefit obligation				
Balance – Beginning of year	47,277	52,193	1,201	1,230
Current service cost	1,827	2,430	54	57
Interest cost	1,856	1,653	42	36
Benefits paid	(1,097)	(1,065)	(35)	(30)
Transfers	-	-	-	-
Remeasurements				
Actuarial gains and losses arising from changes in demographic assumptions	-	-	(35)	(11)
Actuarial gains and losses arising from changes in financial assumptions	6,469	(7,140)	87	(67)
Actuarial gains and losses arising from experience adjustments	-	(794)	(85)	(14)
Balance – End of year	56,332	47,277	1,229	1,201

Defined pension plan assets

	Pension benefit plans		Other future benefit plans	
	2021 **$**	**2020** **$**	**2021** **$**	**2020** **$**
Balance – Beginning of year	35,985	35,070	-	-
Non-investment expenses	(210)	(196)	-	-
Interest income	1,440	1,148	-	-
Return on plan assets, excluding amounts included in net interest expense	6,381	(1,837)	-	-
Company's contributions	1,840	2,802	35	30
Employees' contributions	60	63	-	-
Transfers	-	-	-	-
Benefits paid	(1,097)	(1,065)	(35)	(30)
Balance – End of year	44,399	35,985	-	-

(in thousands of Canadian dollars)

Asset allocation

	Pension benefit plans		Other future benefit plans	
	2021 %	**2020** %	**2021** %	**2020** %
Asset category				
Canadian equity	23.89	21.50	-	-
Foreign equity	40.16	37.58	-	-
Canadian bonds	35.20	40.09	-	-
Foreign bonds	-	-	-	-
Cash and other	0.75	0.83	-	-
	100.00	100.00	-	-

Pension assets' values are based on observable inputs other than quoted prices in an active market and are classified as Level 2 within the fair value hierarchy (note 12).

The expected long-term rate of return on assets from the defined benefit pension plan is determined as the mean return resulting from a Monte Carlo simulation applied to the actuary's proprietary multi-variable asset model using the plan's target asset mix.

Reconciliation of the funded status of the defined benefit pension plans to the amounts recorded in the statements of financial position

	Pension benefit plans		Other future benefit plans	
	2021 $	**2020** $	**2021** $	**2020** $
Fair value of plan assets	44,399	35,985	-	-
Accrued benefit obligations	(56,332)	(47,277)	(1,229)	(1,201)
Funded status – plan deficit	(11,933)	(11,292)	(1,229)	(1,201)
Accrued benefit liability – net	(11,933)	(11,292)	(1,229)	(1,201)

The net accrued benefit liability is included in accounts payable and accrued liabilities.

(in thousands of Canadian dollars)

Elements of defined benefit costs recognized during the year

	Pension benefit plans		Other future benefit plans	
	2021 $	2020 $	2021 $	2020 $
Current service cost, net of employees' contributions	1,767	2,367	54	57
Interest cost	416	505	42	36
Non-investment expenses	210	196	-	-
	2,393	3,068	96	93

These costs are included in employee salaries and benefits in the statements of income and comprehensive income.

Risks

Through its defined benefit pension plans, the Company is exposed to a number of risks, the most significant of which are detailed below:

- Investment risk

  The defined benefit obligation is calculated with a discount rate. If the return on assets is lower than the discount rate, it will create a deficit.

- Interest rate risk

  A variation in bond rates will affect the value of the defined benefit obligations and expense.

- Longevity risk

  A greater increase in life expectancy than the one predicted by the mortality table used will increase the defined benefit obligations and expense.

- Inflation risk

  The defined benefit obligation is calculated taking into account an increase in level of salary and cost of living adjustment. If actual inflation is greater than expected, that would result in an increase in the defined benefit obligations and expense. The amount of inflationary adjustment shall be increased annually by 75% of the increase in the consumer price index to a maximum benefit increase of 8%.

(in thousands of Canadian dollars)

- Trend

  The benefit obligation and expense is calculated taking into account an increase in the cost of medical and dental coverage over time. If actual trend rates are greater than expected, this would result in an increase in the benefit obligations and expense.

- Government plan design

  The delisting of certain government services could result in increased benefit obligations and expense.

Significant assumptions

The significant assumptions used are as follows (weighted average):

	Pension benefit plans		Other future benefit plans	
	2021 %	**2020 %**	**2021 %**	**2020 %**
Accrued benefit obligation as at March 31				
Discount rate	3.27	3.97	2.80	3.60
Rate of compensation increase	3.25	3.25	-	-
Benefit costs for year ended March 31				
Discount rate	3.27	3.97	-	-
Rate of compensation increase	3.25	3.25	-	-
Other assumptions				
Rate of inflation	2.00	2.00	-	-
Mortality rates	Canadian Pensioners Mortality 2014 Private Sector Mortality Table (sex distinct) with MI-2017 improvement scale	Canadian Pensioners Mortality 2014 Private Sector Mortality Table (sex distinct) with CPM-B improvement scale	Canadian Pensioners Mortality 2014 Private Sector Mortality Table (sex distinct) with MI-2017 improvement scale	Canadian Pensioners Mortality 2014 Private Sector Mortality Table (sex distinct) with CPM-B improvement scale

The Company expects to make a contribution of $2,123 to the defined benefit plans during the next financial year. The weighted average duration of the benefit obligations as at March 31, 2021 is 17.5 years (2020 – 16.7 years).

Assumed health-care cost trend rates as at March 31

	2021	**2020**
Initial health-care cost trend rate	4.26%	4.04%
Cost trend rate increases/declines to	4.05%	4.05%
Year the rate reaches the rate it is assumed to remain at	March 31, 2040	March 31, 2040

(in thousands of Canadian dollars)

Sensitivity analyses

The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

Assumed health-care cost trend rates have a significant effect on the amounts reported for post-retirement liabilities. A 1% change in assumed health-care cost trend rates would have the following effects:

	2021		2020	
	Increase $	Decrease $	Increase $	Decrease $
Total of service and interest cost	-	(1)	-	(1)
Accrued benefit obligation	9	(12)	8	(13)

- Sensitivity to change in discount rate

  An increase of 1% in the discount rate assumption would decrease the March 31, 2021 accrued benefit obligation by $8,569 (2020 – $7,065) for the pension plans.

  An increase of 1% in the discount rate assumption would decrease the March 31, 2021 accrued benefit obligation by $107 (2020 – $111) for the other future benefit plans.

- Sensitivity to change in mortality assumption

  A decrease of the probability of death of 10% in the mortality assumption would increase the March 31, 2021 accrued benefit obligation by $1,196 (2020 – $1,004) for the defined benefit plan.

  A decrease of the probability of death of 10% in the mortality assumption would increase the March 31, 2021 accrued benefit obligation by $3 (2020 – $4) for the other future benefit plans. The overall sensitivity to mortality rate may be less than a typical other future benefit plan because benefits are limited to age 65.

- Sensitivity to change in rate of compensation increase

  An increase of 1% in salary scale assumption would increase the March 31, 2021 accrued benefit obligation by $1,906 (2020 – $1,600) for the pension plans. There is no impact to the other future benefit plans.

  The sensitivity analyses presented above may not be representative for the actual change in the defined benefit obligation as it is unlikely the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

(in thousands of Canadian dollars)

10 Income taxes

The Company's provision for income taxes for the years ended March 31 is as follows:

	2021 $	2020 $
Current income taxes		
Provision for current year	48,498	45,862
Adjustment to prior years' income taxes	(7,589)	(6,612)
	40,909	39,250
Deferred taxes		
Origination and reversal of temporary differences	121,666	57,716
Change in tax rates	(349)	(1,433)
Adjustment to prior years' income taxes	4,755	6,681
	126,072	62,964
Provision for income taxes	166,981	102,214

A reconciliation of income tax calculated at the statutory rate to the income tax provision at the effective tax rate in the financial statements for the years ended March 31 is summarized in the following table:

	2021 $	2020 $
Reconciliation of income taxes		
Income taxes at the Canadian statutory rate	170,199	103,451
Prior year adjustment for rate difference	(2,833)	171
Change in tax rates for deferred tax	(349)	(1,433)
Other	(36)	25
	166,981	102,214

The change in accrued pension liability resulted in an other comprehensive income tax of $7 (2020 – $1,662).

The Canadian statutory rate was 26.7% (2020 – 26.8%) as at March 31, 2021. Income taxes payable were $10,286 within income and other taxes payable as at March 31, 2021 and $7,803 within income and other taxes payable as at March 31, 2020 on the statements of financial position.

(in thousands of Canadian dollars)

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	Finance receivables $	Other $	Debt payable $	Derivative assets and liabilities $	Total $
As at March 31, 2019	781,996	(4,667)	(2,151)	(3,459)	771,719
Charged (credited) to statements of income and comprehensive income	80,603	(167)	(19,175)	1,703	62,964
Credited to other comprehensive income	-	1,662	-	-	1,662
As at March 31, 2020	862,599	(3,172)	(21,326)	(1,756)	836,345
Charged (credited) to statements of income and comprehensive income	107,921	539	47,926	(30,314)	126,072
Credited to other comprehensive income	-	(7)	-		(7)
As at March 31, 2021	970,520	(2,640)	26,600	(32,070)	962,410

Deferred tax liability

	2021 $	2020 $
Deferred tax liability to be realized within 12 months	259,107	208,727
Deferred tax liability to be realized after more than 12 months	703,303	627,618
	962,410	836,345

Management expects the recorded deferred income tax liabilities will be realized in the normal course of operations.

11 Share capital

The Company is authorized to issue an unlimited number of common shares. As at March 31, 2021, there are 6,000 common shares (2020 – 6,000) issued and outstanding, having a par value of $10 each.

A dividend of $288,674 (2020 – $251,026) was paid to TFSC.

(in thousands of Canadian dollars)

12 Financial instruments

a) Fair value measurement levels of financial instruments

Fair value measurements are categorized within a hierarchy that prioritizes based on the degree to which the inputs to fair value measurement are observable and the significance of the inputs to the fair value measurement in its entirety. The three levels of the fair value hierarchy are:

- Level 1 – unadjusted quoted prices in active markets for identical financial assets or financial liabilities;

- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the financial asset or financial liability either directly or indirectly; and

- Level 3 – inputs that are not based on observable market data.

As at March 31, 2021 and 2020, the Company's derivative assets and derivative liabilities measured at fair value on a recurring basis are within Level 2 of the fair value hierarchy. Debt and interest payable, which are not measured at fair value but for which fair values are disclosed, are within Level 2 of the fair value hierarchy. Finance receivables, which are not measured at fair value but for which fair values are disclosed, are within Level 3 of the fair value hierarchy.

There were no transfers between Levels 1 and 2 or Levels 2 and 3 during the year.

b) Carrying and fair value of financial instruments

The following table represents the carrying values and estimated fair values of the Company's financial instruments:

		2021		2020	
	Fair value hierarchy	**Carrying value $**	**Estimated fair value $**	**Carrying value $**	**Estimated fair value $**
FVTPL – recurring measurements					
Financial assets					
Cash equivalents	Level 2	603,456	603,456	575,354	575,354
Derivative assets	Level 2	96,106	96,106	416,908	416,908
Financial liabilities					
Derivative liabilities	Level 2	257,817	257,817	181,507	181,507
Amortized cost – fair values disclosed					
Financial assets					
Loans and receivables					
Finance receivables	Level 3	14,560,284	14,625,471	15,467,773	15,523,360
Financial liabilities					
Financial liabilities at amortized cost					
Debt and interest payable	Level 2	12,209,903	12,425,160	13,365,151	13,581,532

(in thousands of Canadian dollars)

The fair values of accounts payable approximate their carrying values due to their short-term nature.

The Company does not have any assets or liabilities measured at fair value on a non-recurring basis.

The weighted average discount rates used to fair value the finance receivables are 5.41% and 5.33% for March 31, 2021 and 2020, respectively.

The estimated fair values for finance receivables, debt and interest payable, accounts payable and accrued liabilities are based on discounted cash flow calculations that use market interest rates currently applicable to financial instruments with similar terms and conditions.

The following tables reflect the terms, notional values and estimated fair values of the Company's derivative contracts:

				2021
Derivative contracts	**Maturity date**	**Interest rate terms**	**Notional value $**	**Estimated fair value $**
Paying fixed interest rates				
Interest rate swap agreements	2021 – 2025	0.54% – 2.74%	9,060,000	(85,627)
Paying variable interest rates				
Interest rate swap agreements	2021 – 2026	CDOR +0.14 CDOR +1.56	4,800,000	54,405
Cross-currency interest rate swap agreements	2021 – 2024	CDOR - 0.08 CDOR +0.87	2,066,998	(80,065)
Foreign currency forward contracts	2021	-	2,008,690	(50,424)

CDOR refers to the Canadian dealer offered rate.

				2020
Derivative contracts	**Maturity date**	**Interest rate terms**	**Notional value $**	**Estimated fair value $**
Paying fixed interest rates				
Interest rate swap agreements	2020 – 2024	0.86% – 2.74%	9,730,000	(174,021)
Paying variable interest rates				
Interest rate swap agreements	2020 – 2025	CDOR +0.32 CDOR +1.34	4,300,000	103,849
Cross-currency interest rate swap agreements	2020 – 2024	CDOR +0.64 CDOR +0.87	3,469,417	260,200
Foreign currency forward contracts	2020	-	1,150,970	45,374

Fair values of derivative contracts have been estimated using valuation models. These models project future cash flows and discount the future amounts to a present value using market-based expectations for interest rates, foreign currency exchange rates and the contractual terms of the derivative instruments.

(in thousands of Canadian dollars)

The calculation of estimated fair values is based on market conditions at a specific point in time and should not be interpreted as being realizable in the event of immediate settlement or as being reflective of future fair values.

13 Other gains (losses)

	2021 $	2020 $
Net realized and change in unrealized gains (losses) on derivative assets and liabilities	(396,556)	150,038
Net foreign exchange change in unrealized and realized losses	462,986	(216,235)
	66,430	(66,197)

14 Commitments and contingencies

Commitments

In the normal course of business, the Company enters into commitments to provide financing to various franchised vehicle dealers in relation to dealer financing. The amount of these commitments was $1,266,015 as at March 31, 2021 (2020 – $1,278,463).

Contingencies

From time to time, in the ordinary course of business, the Company is a defendant or party to a number of pending or threatened legal actions and proceedings. It is not possible to determine the ultimate outcome of such matters; however, based on current knowledge, management believes that liabilities, if any, arising from pending litigation will not have a material adverse effect on the financial position or financial performance of the Company.

15 Financial risk management objectives and policies

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including currency risk, interest rate risk and other price risk). The Company uses different methods to measure and manage the various types of risk to which it is exposed; these methods are explained below.

Credit risk

Credit risk is the risk of loss arising from the failure of a customer or dealer to meet the terms of any contract with the Company or otherwise fail to perform as agreed. The level of credit risk on the Company's wholesale, retail and fleet portfolios is influenced primarily by two factors: the total number of contracts that default and the amount of loss per occurrence, which in turn are influenced by various economic factors: the used vehicle market, purchase quality mix, contract term length and operations changes. The Company is also subject to the risk a counterparty may fail to perform on its contractual obligations in a derivative or money market contract. The Company actively limits the total exposure to individual counterparties to mitigate the credit risk.

(in thousands of Canadian dollars)

Whereas the credit risk associated with finance receivables is generally represented by their carrying values, the credit risk related to swap agreements and all other derivatives is normally a small fraction of the notional amount of the contract and only exposes the Company to potential risk if the counterparty defaults on payment. Credit risk on finance receivables is somewhat mitigated by the fair value of the Company's security interest in the underlying assets. Maximum credit exposure of financial assets is the carrying values of such assets as at March 31, 2021 and 2020. Management mitigates the credit risk associated with each finance receivable by assessing the creditworthiness of each retail customer or wholesale dealer at the inception of the finance receivables. Management continuously monitors the collectibility of the finance receivables throughout their contractual term. Credit risk on derivative financial instruments is mitigated by adherence to investment policy limits on credit ratings and exposure to individual derivative counterparties. Management regularly monitors the creditworthiness of counterparties throughout the contractual term.

Measurement of ECL

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together to project ECL over either the next 12 months or the entire lifetime of the financial asset. This is then discounted back to the reporting period using a discount rate based on the instrument's original effective interest rate.

The PD represents the likelihood of a contract defaulting on its financial obligation, either over the next 12 months or the remaining lifetime (depending on the stage to which the financial asset belongs). The EAD is based on the amounts the Company expects to be owed at the time of default, over the next 12 months or the remaining lifetime. The LGD represents the Company's expectation of the extent of a loss on a defaulted contract.

The Company's dealer financing products are secured by collateral and as such, the LGD on these products is low. Therefore, the ECL on dealer financing is low.

In determining the cash flows the Company expects to receive, an assessment of historical prepayment and the impact of prepayments to ECL provisioning has been performed and is considered insignificant.

The assumptions underlying the ECL calculation are monitored and reviewed semi-annually.

The Company considers forward-looking macroeconomic factors, historical writeoff experience and qualitative macroeconomic overlay in its ECL model to understand whether there could be a relationship between these macroeconomic factors. The factors considered include:

- national unemployment rates;
- Canadian interest rates (prime);
- annual GDP growth;
- used car values;
- consumer credit; and
- credit market debt to disposable income.

(in thousands of Canadian dollars)

The Company considers historical default and loss experience as inputs for its Retail Leases and Retail Loans in order to develop its ECL. In addition, the Company considers forward-looking information, and updates its historical information for current economic conditions as well as reasonable and supportable forecasts of future economic conditions, by overlaying a management adjustment to the historical rates as needed. The determination of any management overlay adjustment is based on a review of multiple forecasts of future economic scenarios. The lifetime ECL is calculated using the loss rate that reflects the Company's expectation of LGD and PD as a percentage over the remaining expected life of the loan.

The impact of forward-looking information is reassessed semi-annually to identify whether there has been a significant increase in credit risk on a loan by loan basis, as well as to consider when measuring ECL. Adjustments to the measurement of ECL, if applicable in future periods, will be made through an adjustment to the ECL calculation.

Following this assessment, the forward-looking loss rate was higher compared to the historical loss rates as at March 31, 2021 for both Retail Loans and Retail Leases. The increase in the forward-looking loss rate as compared to the March 31, 2021 historical loss rate is a direct impact of COVID-19.

The forward-looking macroeconomic information used in arriving at the ECL Retail Loans and Retail Leases included unemployment at 7.7% by the end of calendar 2021, consumer credit at $645,819 million and the ratio of credit market debt to disposable income at 172%. The forward-looking macroeconomic information for Retail Leases also included a prime rate of 2.45% throughout calendar 2021.

In cases where customers have opted to participate in payment deferral programs the Company offered as a result of the COVID-19 pandemic, deferred payments are not considered to be part of past due accounts and do not on their own indicate a significant increase in credit risk.

In fiscal 2021, the broader economy did not experience a significant deterioration in the macroeconomic environment driven by the COVID-19 pandemic. Accordingly, the Company reduced its provisions for credit losses by $3.9 million from the provision levels established at the start of the pandemic.

Credit quality of financial assets

The credit rating for dealers is included in the table below.

	2021 $	2020 $
Dealer Financing		
Grade 1-7 Normal Risk	725,978	1,069,097
Grade 8-11 Watchlist	5	33,392
Grade 12 Default (credit impaired)	-	-
	725,983	1,102,489

(in thousands of Canadian dollars)

The credit quality of derivative and cash equivalents is included in the table below.

Standard & Poor's rating	2021 $	2020 $
Derivative assets		
AA-	17,256	120,057
A+	78,850	290,014
A	-	6,837
	96,106	416,908
Short-term investment – cash equivalents		
A-1+	602,655	573,944
A-1	801	1,410
	603,456	575,354

Liquidity risk

Liquidity risk is the risk an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company has a liquidity strategy to maintain the capacity to fund assets and repay liabilities in a timely and cost-effective manner under adverse market conditions.

The table below analyzes the financial liabilities and net-settled derivative liabilities into relevant maturity groupings based on the remaining period at the statements of financial position dates to the contractual maturity date.

Management monitors rolling forecasts of the Company's liquidity position based on expected maturities and expected cash flows. The liquidity management policy involves projecting undiscounted contractual cash flows and considering the level of liquid assets necessary to meet the requirement, monitoring the statements of financial position liquidity ratios against internal requirements and maintaining debt financing plans.

(in thousands of Canadian dollars)

					2021
	Less than 1 year $	Between 1 and 2 years $	Between 2 and 5 years $	Over 5 years $	Total $
Debt payable	5,277,719	2,097,804	4,793,481	-	12,169,004
Derivative liabilities	115,000	53,319	89,498	-	257,817
Accounts payable and accrued liabilities	30,551	-	-	-	30,551
Due to affiliates	131,783	-	-	-	131,783
Interest payable	40,899	-	-	-	40,899
Collateral liabilities	16,770	-	-	-	16,770
Cheques and other items in transit	731	-	-	-	731
	5,613,453	2,151,123	4,882,979	-	12,647,555

					2020
	Less than 1 year $	Between 1 and 2 years $	Between 2 and 5 years $	Over 5 years $	Total $
Debt payable	5,890,694	2,322,982	5,095,985	-	13,309,661
Derivative liabilities	15,622	51,833	114,052	-	181,507
Accounts payable and accrued liabilities	25,903	-	-	-	25,903
Due to affiliates	145,838	-	-	-	145,838
Interest payable	55,490	-	-	-	55,490
Collateral liabilities	269,580	-	-	-	269,580
Cheques and other items in transit	13,314	-	-	-	13,314
	6,416,441	2,374,815	5,210,037	-	14,001,293

Market risk

Market risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. These changes could possibly negatively affect the Company's income, capital and value. Policies governing market risk exposure are established and periodically reviewed by the Company's senior management, as conditions warrant. The Company uses derivative financial instruments and other tools and strategies to manage its market risk and has established procedures to ensure its risk management, including its use of derivatives, is in accordance with its policy framework. As at March 31, 2021 and 2020, the Company is not exposed to other price risk.

- Currency risk

  Currency risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company is exposed to currency risk through foreign currency derivatives and foreign currency debt payable. Changes in foreign currency values against the Canadian dollar can result in a change in the fair values and future cash flows of these financial instruments.

(in thousands of Canadian dollars)

The Company uses various economic hedging strategies to manage currency risk and maintains no realized foreign currency exposure. As at March 31, 2021 and 2020, the Company has no net currency exposure.

- Interest rate risk

Interest rate risk is the risk the fair value of future cash flows of a financial instrument will fluctuate because of changes in market rates. The Company's finance receivables and the related debt payable have different pricing terms and maturities, and consequently, respond differently to changes in interest rates. As the Company's financial assets consist primarily of fixed rate contracts, it is not able to re-price its existing contracts. The Company's debt consists of short and long-term borrowings at both fixed and floating interest rates.

The Company's objective is to mitigate volatility in its cash flows and financial condition from changes in interest rates based on an established risk tolerance. The Company has a match funding policy whereby the interest rate profile (fixed or floating rate) of the debt portfolio is matched, within certain parameters, to the interest rate profile of the earning asset portfolio. The Company's management meets to proactively and collaboratively manage and monitor the interest rate risk of the Company. The Company uses a combination of interest rate risk swaps and other hedging instruments to mitigate interest rate risk. The Company maintains risk management control systems to monitor interest rates and their related hedge positions. Positions are monitored using a variety of analytical techniques including fair value, sensitivity analysis and value at risk models.

As at March 31, 2021, if interest rates had been 100 basis points higher/lower with all other variables held constant, the impact on other gains (losses) in the statements of income and comprehensive income of the Company's interest rate sensitivity positions would have been $96,000 (2020 – $113,000) lower/higher.

16 Segment reporting

The Company has one operating segment that earns revenues through the following products offered to external customers: retail loans, retail leases, dealer floor plan, wholesale leases and mortgages.

	2021 **$**	**2020** **$**
Retail loans	273,959	260,272
Retail leases	566,462	563,398
Dealer floor plan	7,367	16,382
Wholesale leases	597	712
Mortgages	7,297	9,893
Total revenue	855,682	850,657

(in thousands of Canadian dollars)

17 Capital management

The Company considers capital to comprise debt and shareholder's equity, which consists of share capital and retained earnings. The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns to its shareholder and to maintain its desired capital structure. The Company is not subject to any regulatory imposed capital requirements.

The following table provides a summary with respect to the Company's capital structure and financial position as at March 31:

	2021 $	2020 $
Commercial paper and other short-term debt	3,001,506	3,549,946
Bond payable	4,990,845	4,891,475
Loans payable	4,176,653	4,868,240
Total debt payable	12,169,004	13,309,661
Share capital	60,000	60,000
Retained earnings	1,770,788	1,587,985
	13,999,792	14,957,646

3. Responsibility Statement

Mr. Darren Cooper – President & CEO and Mr. Fernando Belfiglio – Vice President, Finance confirm that to the best of their knowledge:

(a) the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and

(b) the management report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.