30 November 2022

Toyota Credit Canada Inc. ("*TCCI*")

Half-Yearly Financial Report for the six months ended 30 September 2022

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 a wholly-owned subsidiary of Toyota Financial Services Corporation ("***TFS***"), which is a wholly-owned subsidiary of Toyota Motor Corporation ("***TMC***").

In fiscal year 2023, TCCI Limited Partnership and TCCI Securitization GP Corp. were created for the purpose of facilitating the securitization of finance receivables. TCCI Securitization GP Corp. is wholly owned by TCCI, whereas TCCI Limited Partnership is owned 99.99% by TCCI and 0.01% by TCCI Securitization GP Corp.

TCCI presents its half-yearly financial report for the six months ended 30 September 2022. References herein to "TCCI" denote Toyota Credit Canada Inc. and its consolidated subsidiaries.

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 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.

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 TCCI has entered into with Subaru Canada, Inc ("***Subaru***").

1. Management Report

(A) Summary of important events that have occurred during the first six months of the financial year and their impact on the condensed consolidated interim financial statements

TCCI's net income was CAD $208.8 million for the six months ended 30 September 2022, compared to CAD $242.6 million for the six months ended 30 September 2021. Financing revenues for the six months ended 30 September 2022 were lower than the comparative period last year due to fewer new contracts booked as a result of the impact of geopolitical conditions on the supply chain of vehicles. Interest expense for the six months ended 30 September 2022 was higher than the comparative period last year due to higher borrowing costs, contributing to a decrease in gross interest margin. There were 580,407 total contracts outstanding as at 30 September 2022, compared to 632,235 as at 30 September 2021. Operating expenses (other than the provision for finance receivables) for the six months ended 30 September 2022 were broadly consistent with the levels of the comparative period last year. The recovery for finance receivables in the six months ended 30 September 2022 was CAD $(10.2) million, compared to CAD $(26.3) million in the comparative period last year. TCCI reduced its allowance for retail finance lease residual values by CAD $11.2 million in the current period (compared to a reduction of CAD $18.8 million in the comparative period last year) reflecting primarily improved forecasted used vehicle values as a result of on-going supply chain issues impacting new vehicle availability. TCCI's allowance for credit losses as at 30 September 2022 of $35,942 was comparable to 31 March 2022 levels as management's estimate and assumptions regarding the impact of the COVID-19 pandemic on expected credit losses were largely unchanged. Write-offs of uncollectable customer accounts in the six months ended 30 September 2022 were lower than the comparative period last year, as the COVID-19 pandemic did not have a material detrimental impact on the credit performance of TCCI's portfolio. Write-off losses continued to be mitigated by strong used vehicle prices. Results for the six months ended 30 September 2022 were positively affected by unrealised gains of CAD $13.9 million on derivatives used to manage interest rate risk, compared to unrealised gains of CAD $8.7 million in the comparative period last year. TCCI entered into a CAD $500 million private retail loan securitization in August 2022.

Medium Term Notes

TCCI maintains its Euro Medium Term Note Programme (the "***EMTN Programme***") together with its affiliates Toyota Motor Finance (Netherlands) B.V., Toyota Finance Australia Limited and Toyota Motor Credit Corporation (TCCI and such affiliates, the "***EMTN Issuers***"), providing for the issuance of debt securities in the international capital markets. In September 2022, 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 €60 billion, or the equivalent in other currencies, of which €29.6 billion was available for issuance at 30 September 2022.

Back Up Liquidity

On 18 November 2022, 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, 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 364 Day Credit Agreement, 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 364 Day Credit Agreement, 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 30 November 2022. The 364 Day Credit Agreement dated as of 5 November 2021, which was extended on 4 November 2022 to 21 November 2022, and the Three Year

Credit Agreement and the Five Year Credit Agreement, each dated as of 5 November 2021, were all terminated on 18 November 2022.

Letters of Credit Facilities

In addition, TCCI has uncommitted letters of credit facilities totalling CAD $61 million as at 30 September 2022 and as at 30 September 2021, which were not drawn upon as of these dates.

(B) Risks and uncertainties for the remaining six months of the financial year

Unless otherwise specified in this section, "TFS group" means TFS and its subsidiaries and affiliates and "Toyota" means TMC and its consolidated subsidiaries.

TCCI, TFS and Toyota may be exposed to certain risks and uncertainties, summarised below, that could have a material adverse impact directly or indirectly on its business, results of operations and financial condition.

TCCI's business, 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 finance industry's regulatory environment in Canada, 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 personnel 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.

The TFS group's business, through its financial subsidiaries and affiliates, including TCCI, is substantially dependent upon the sale of Toyota, Lexus and private label vehicles and its ability to offer competitive financing.

The COVID-19 pandemic has, and may continue to, adversely impact TCCI's business, financial condition, results of operations and cash flows of TCCI and Toyota. 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.

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 (including the current conflict in Ukraine), health epidemics and other outbreaks, climate-related risks, and acts of terrorism, could lead to, among other things, declines in market liquidity and activity levels, volatile market conditions, a contraction of available credit, inflation, 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.

Factors which could affect the volume of sales of Toyota, Lexus and private label vehicles by Toyota distributors, include 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, inflation, 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, decreased or delayed vehicle production due to extreme weather conditions, natural disasters, supply chain interruptions, including shortages of parts, components or raw materials, or other events.

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 whole 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.

Further risks include changes to the credit ratings of TMC and certain of its affiliates (including TCCI) which may result in higher borrowing costs as well as reduced access to the capital markets. Liquidity risk arising from the inability of the TFS group (including TCCI) to maintain the capacity to fund assets and repay liabilities in a timely and cost-effective manner would have a negative impact on TCCI's ability to refinance maturing debt and fund new asset growth. Increases in credit losses could adversely affect TCCI's results of operations and financial condition. There is residual value risk that the estimated residual value at lease origination will not be recoverable at the end of the lease term. Changes in interest rates or foreign currency exchange rates cause volatility in TCCI's results of operations, financial condition and cash flows. 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 materially and adversely affect TCCI’s liquidity, results of operations and financial condition.

Further, inadequate or failed processes or systems or internal controls, models, estimates or assumptions, human error, employee misconduct, catastrophic events, security breaches, acts of vandalism, computer viruses, malware, ransomware, misplaced or lost data or other events could disrupt its normal operating procedures, damage its reputation and have an adverse effect on TCCI’s business, results of operations and financial condition. TCCI’s failure to prevent security breaches or cyber-attacks could subject it to liability, decrease its profitability and damage its reputation.

The worldwide automotive market is highly competitive and volatile, and the worldwide financial services industry is also highly competitive. Toyota’s future success depends on its ability to offer new, innovative and competitively priced products that meet customer demand on a timely basis. Toyota’s ability to market and distribute effectively is an integral part of Toyota’s successful sales. Toyota relies on suppliers for the provision of certain supplies including parts, components and raw materials. High prices of raw materials and strong pressure on Toyota’s suppliers could negatively impact Toyota’s profitability. Toyota may also be adversely affected by natural calamities, political and economic instability, fuel shortages or interruptions in social infrastructure, wars, terrorism and labour strikes.

In addition, changes to the laws, regulations or to the policies of governments (federal, state, 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 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 its processes and procedures, to ensure compliance with those laws, regulations or policies so that it can effectively carry on its business. Toyota may also become subject to various legal proceedings.

Climate change or other environmental matters may result in new or increased legal and regulatory requirements which may require TCCI to alter its proposed business plans, lead to increased compliance costs and changes to its operations and could have an adverse effect on the TCCI’s business, results of operations and financial condition.

TCCI’s principal risks and uncertainties for the remaining six months of the financial year have not changed since the issuance of TCCI’s 2022 Annual Financial Report. The detailed discussion of these risks and uncertainties and TCCI’s objectives, policies and processes for managing these risks and uncertainties were disclosed in the Management Report, as well as Note 15 in the Notes to the Financial Statements, in the Annual Financial Report of TCCI for the financial year ended 31 March 2022.

2. Condensed Consolidated Interim Financial Statements as at and for the six-month period ended 30 September 2022

Toyota Credit Canada Inc.

Condensed Consolidated Interim Financial Statements

As at and for the six-month period ended September 30, 2022

(Unaudited)

(in thousands of Canadian dollars)

Toyota Credit Canada Inc.

Condensed Consolidated Interim Statement of Financial Position
(Unaudited)

(in thousands of Canadian dollars)

	September 30, 2022 $	March 31, 2022 $
Assets		
Cash and cash equivalents	932,917	944,235
Restricted cash (Note 11)	22,051	-
Finance receivables – net (note 4)	13,734,724	13,866,498
Derivative assets (note 7)	468,968	186,693
Other assets (note 4)	13,328	11,883
Collateral assets (note 7)	44,950	77,240
	15,216,938	15,086,549
Liabilities		
Cheques and other items in transit	1,684	827
Accounts payable and accrued liabilities	16,135	17,756
Due to affiliated companies	103,161	120,015
Income and other taxes payable	19,581	28,653
Interest payable – net	56,996	36,489
Debt payable (note 5)	11,845,694	11,685,180
Derivative liabilities (note 7)	231,802	229,372
Collateral liabilities (note 7)	221,290	23,220
Deferred income taxes	1,151,503	1,095,861
	13,647,846	13,237,373
Shareholder's Equity		
Share capital	60,000	60,000
Retained earnings	1,509,092	1,789,176
	1,569,092	1,849,176
	15,216,938	15,086,549

Approved by the Management

Darren Cooper President   Fernando Belfiglio Vice-President, Finance

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

Toyota Credit Canada Inc.

Condensed Consolidated Interim Statement of Income and Comprehensive Income
(Unaudited)

(in thousands of Canadian dollars)

	Six-month period ended September 30, 2022 $	Six-month period ended September 30, 2021 $
Financing revenue	403,858	431,636
Interest income on cash and cash equivalents	11,518	1,892
	415,376	433,528
Other gains – net	13,865	8,671
Expenses		
Interest	132,052	113,518
Employee salaries and benefits	11,000	10,309
Recovery of provision finance receivables	(10,207)	(26,299)
Registration and search costs	1,211	3,223
IT and communications	7,078	7,045
Occupancy	387	444
Depreciation and amortization	1,546	1,138
Other	1,972	2,028
	145,039	111,406
Income before income taxes	284,202	330,793
Income taxes		
Current	20,063	24,141
Deferred	55,300	64,097
	75,363	88,238
Net income for the period	208,839	242,555
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Actuarial gains on defined benefit pension plans – net of income tax expense of ($342) (2021-$784)	942	2,156
Comprehensive income for the period – attributable to the owner of the parent	209,781	244,711

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

Toyota Credit Canada Inc.

Condensed Consolidated Interim Statement of Changes in Equity

(Unaudited)

(in thousands of Canadian dollars)

	Share capital $	Retained earnings $	Total shareholder's equity $
Balance – March 31, 2022	60,000	1,789,176	1,849,176
Net income for the period	-	208,839	208,839
Actuarial gains on defined benefit plans – net of tax	-	942	942
Comprehensive income for the period	-	209,781	209,781
Dividends paid	-	(489,865)	(489,865)
Balance – September 30, 2022	60,000	1,509,092	1,569,092

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

Toyota Credit Canada Inc.

Condensed Consolidated Interim Statement of Cash Flows
(Unaudited)

(in thousands of Canadian dollars)

	Six-month period ended September 30, 2022 $	Six-month period ended September 30, 2021 $
Cash provided by (used in)		
Operating activities		
Net income for the period	208,839	242,555
Items not requiring cash		
Recovery of finance receivables	(10,207)	(26,299)
Amortization of other assets	3,208	3,592
Amortization of bond issue costs	1,544	906
Amortization of securitization issue costs	125	-
Amortization of debt issuance costs	3,161	3,444
Amortization of debt premiums/discounts	113	145
Foreign exchange change in unrealized gains on debt payable	109,531	26,775
Deferred income taxes	55,642	64,881
	371,956	315,999
Changes in operating accounts		
Increase in cheques and other items in transit	857	37,991
(Increase) in restricted cash	(22,051)	-
(Decrease) in income and other taxes payable	(9,072)	(10,441)
Decrease in other assets and collateral assets	26,093	89,860
Increase (decrease) in interest payable – net	20,507	(1,828)
Increase in accounts payable, accrued liabilities and collateral liabilities	197,391	25,872
(Decrease) in due to affiliated company	(16,854)	(56,777)
(Increase) in derivative assets – net	(279,845)	(136,262)
Acquisitions of finance receivables	(5,076,160)	(6,195,073)
Collections and liquidations of finance receivables	5,218,141	6,080,574
	430,963	149,915
Financing activities		
Issuance of bonds and loans payable	959,669	1,071,019
Repayment of bonds and loans payable	(1,223,313)	(1,053,976)
Increase in commercial paper – net	(150,451)	468,413
Issuance of securitization loan – net	461,679	-
Payment of dividends	(489,865)	(471,477)
	(442,281)	13,979
Change in cash and cash equivalents during the period	(11,318)	163,894
Cash and cash equivalents – Beginning of period	944,235	622,786
Cash and cash equivalents – End of period	932,917	786,680
Supplementary cash flow information related to operating activities		
Income taxes paid	25,711	20,816
Interest paid	111,545	115,346

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

(in thousands of Canadian dollars)

1 Nature of operations and Principles of Consolidation

Toyota Credit Canada Inc. (the Company) is a wholly owned subsidiary of Toyota Financial Services Corporation (TFSC), Japan, which is wholly owned by Toyota Motor Corporation (TMC), Japan. 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 and securitization of retail loans.

In fiscal year 2023, TCCI Limited Partnership and TCCI Securitization GP Corp. were created for the purpose of facilitating the securitization of finance receivables. TCCI Securitization GP Corp. is wholly owned by TCCI, whereas TCCI Limited Partnership is owned 99.99% by TCCI and 0.01% by TCCI Securitization GP Corp. The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries TCCI Limited Partnership and TCCI Securitization GP Corp. collectively referred to herein as the Company in accordance with IFRS 10 Consolidated Financial statements. Notwithstanding the presentation of these accounts of the entities collectively referred to as Toyota Credit Canada Inc. on a consolidated basis, each entity is the beneficial owner of, and responsible for only, its own separate assets and liabilities (including any guaranteed liability), which have not been separately itemized in these consolidated financial statements. The Company has one reportable business segment.

2 Basis of preparation

The condensed consolidated interim financial statements are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, using accounting policies consistent with the accounting policies in the March 31, 2022 annual financial statements. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements, as the consolidated interim financial statements do not include all the disclosures in the annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

Basis of consolidation

The condensed consolidated interim financial statements comprise the financial statements of the Company, TCCI Limited Partnership, and TCCI Securitization GP Corp. as at the six months ended September 30, 2022. The financial results have been consolidated on a basis that is consistent with current reporting standards. The Company has control over TCCI Limited Partnership and TCCI Securitization GP Corp. as it is exposed to and has rights to variable returns from its involvement with TCCI Limited Partnership and TCCI Securitization GP Corp. and it has the ability to affect those returns through its power over their relevant activities.

(in thousands of Canadian dollars)

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except adoption of new accounting policies as set out below in Note 3.

These condensed consolidated interim financial statements were approved by management for issue on November 30, 2022.

3 Critical accounting estimates and judgments

The preparation of condensed consolidated interim financial statements in accordance with International Accounting Standard 34, Interim Financial Reporting, 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 date of the condensed consolidated interim financial statements and the reported amounts of revenue 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 condensed consolidated interim 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 probability of default (PD) and loss given default (LGD) rate considering a number of forecasted macroeconomic factors including national unemployment rates, annual GDP growth, 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 factor that exhibited a relationship for retail loans is consumer credit, and this factor was used for the calculation of the PD. The macroeconomic factors that exhibited a relationship for retail leases are national unemployment and consumer credit 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, along with increasing concerns of an economic recession, have increased the estimation uncertainty in preparing the condensed consolidated interim financial statements, in particular the significant accounting estimates related to the allowance for credit losses.

The Company has applied accounting estimates in the condensed consolidated interim financial statements based on economic conditions that reflect expectations and assumptions as at September 30, 2022 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

(in thousands of Canadian dollars)

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 effect of those differences may significantly impact accounting estimates in the condensed consolidated interim financial statements.

As at September 30, 2022, the Company's allowance for credit losses was largely unchanged compared to March 31, 2022 reflecting ongoing uncertainty over the impact of the COVID-19 pandemic.

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. 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 September 30, 2022, 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 $2,343 (March 31. 2022 – $1,413) and an increase of $1,981 (March 31, 2022 – $1,458) 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 September 30, 2022, 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 $5,356 (March 31, 2022 – $5,659) and an increase of $4,229 (March 31, 2022 – $5,199) to the operating income were the fair values for returned units to increase by 1%.

(in thousands of Canadian dollars)

During the six-month period ended September 30, 2022, the Company reduced its allowance for retail finance lease residual value losses by $11,176, primarily as a result of improved forecasted used vehicle values. This resulted in a corresponding increase in net income.

Derecognition of financial assets

A financial asset is derecognized when:

- the contractual rights to cash flows from the financial asset expires; or
- the Company transfers the contractual rights to cash flows from the financial asset; or
- the Company assumes a contractual obligation to pay the cash flow collected from the financial asset where the Company does not retain the risks and rewards and/or control of the financial asset

TCCI securitizes finance receivables through an amortizing funding structure.

TCCI's transaction does not meet the transfer or derecognition criteria. Accordingly, the assets continue to be reported on TCCI's consolidated statement of financial position as Finance receivables, net.

Accounting and Reporting Changes

IBOR Reform

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 were effective April 1, 2021. On assessment of the amendments, there was no immediate effect on the Company's financial statements. As of September 30, 2022, the company had two loans under USD Libor rates that will mature by mid 2023 with a total fair value of $780 million CAD for which the applicable Libor-based interest payments will be established before the scheduled cessation of Libor on June 30, 2023. The company will continue to assess the effect of these amendments.

CDOR Reform

On 16 May 2022, Refinitiv Benchmark Services (UK) Limited, the administrator of Canadian Dollar Offered Rate (CDOR), published a cessation notice announcing that the calculation and publication of all tenors of CDOR will permanently cease immediately following a final publication on 28 June 2024. When CDOR is discontinued or otherwise unavailable, the rate of interest on floating rate debt or derivatives will be determined for the relevant period by the fallback provisions applicable to such instruments. The company will continue to assess the effect of these proposed amendments throughout 2022 and 2023.

(in thousands of Canadian dollars)

4 Finance receivables – net

	Six-month period ended September 30, 2022 $	Year ended March 31, 2022 $
Retail financing leases	9,306,233	9,631,434
Unearned income	(938,886)	(929,147)
	8,367,347	8,702,287
Retail loans	5,170,391	5,026,713
Unearned income – net of accrued interest	(203,082)	(201,165)
	4,967,309	4,825,548
Dealer financing	478,975	429,491
Add: Accrued interest	1,245	517
	480,220	430,008
	13,814,876	13,957,843
Less: Allowances for		
Retail finance lease residual value losses	44,210	55,386
Credit losses	35,942	35,959
	80,152	91,345
	13,734,724	13,866,498

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

The contractual maturities of retail financing leases, retail loans and dealer financing as at September 30, 2022 are summarized as follows:

	Retail financing leases $	Retail loans $	Dealer financing $	Total $
For the 12-month period ending				
September 30, 2023	3,084,317	1,546,407	204,526	4,835,250
September 30, 2024	2,525,727	1,268,809	17,977	3,812,513
September 30, 2025	2,123,169	967,995	27,142	3,118,306
September 30, 2026	1,127,766	680,055	29,001	1,836,822
September 30, 2027	438,723	414,887	13,405	867,015
Thereafter	6,531	292,238	186,924	485,693
	9,306,233	5,170,391	478,975	14,955,599

(in thousands of Canadian dollars)

Included in retail financing leases are unguaranteed residual values of $5,743,553 as at September 30, 2022.

The contractual maturities of retail financing leases, retail loans and dealer financing as at March 31, 2022 are summarized as follows:

	Retail financing leases $	Retail loans $	Dealer financing $	Total $
Year ending				
2023	3,062,786	1,554,086	215,319	4,832,191
2024	2,527,980	1,262,169	16,925	3,807,074
2025	2,237,202	953,820	27,333	3,218,355
2026	1,274,176	655,880	28,871	1,958,927
2027	504,810	380,249	12,646	897,705
Thereafter	24,480	220,509	128,397	373,386
	9,631,434	5,026,713	429,491	15,087,638

Included in retail financing leases are unguaranteed residual values of $5,886,640 as at March 31, 2022.

(in thousands of Canadian dollars)

5 Debt payable

	Six-month period ended September 30, 2022 $	Year ended March 31, 2022 $
Commercial paper (net of unamortized discount) – current	2,464,799	2,615,250
Intercompany payable – current	779,928	124,960
Intercompany payable – non-current	411,210	711,022
	1,191,138	835,982
Bonds payable		
Current	1,199,660	1,199,495
Non-current	3,393,740	3,792,090
	4,593,400	4,991,585
Loans payable	748,083	899,797
Current	2,386,470	2,342,566
Non-current		
	3,134,553	3,242,363
Securitization loans		
Current	229,384	-
Non-current	232,420	-
	461,804	-
	11,845,694	11,685,180

6 Financial instruments

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.

(in thousands of Canadian dollars)

As at September 30, 2022 and March 31, 2022, 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. Securitization financial assets and financial liability (i.e. securitization liabilities), 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 period.

Carrying and fair values of selected financial instruments

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

		Six-month period ended September 30, 2022		Year ended March 31, 2022	
	Fair value hierarchy	Carrying value $	Estimated fair value $	Carrying value $	Estimated fair value $
FVTPL – recurring measurements					
Financial assets					
Cash equivalents	Level 2	928,194	928,194	923,715	923,715
Derivative assets	Level 2	468,968	468,968	186,693	186,693
Financial liabilities					
Derivative liabilities	Level 2	231,802	231,802	229,372	229,372
Amortized cost – fair values disclosed					
Financial assets					
Loans and receivables at amortized cost					
Finance receivables	Level 3	13,734,724	13,792,052	13,866,498	13,932,545
Financial liabilities					
Financial liabilities at amortized cost					
Debt and interest payable	Level 2	11,440,886	11,286,604	11,721,669	11,682,365
Securitization liabilities	Level 2	461,804	461,709	-	-

FVTPL refers to fair value through profit or loss.

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

(in thousands of Canadian dollars)

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

	Six-month period ended September 30, 2022			
Derivative contracts	**Maturity date**	**Interest rate terms**	**Notional value $**	**Estimated fair value $**
Paying fixed interest rates				
Interest rate swap agreements	2022 – 2027	0.59% – 4.07%	8,055,000	276,510
Paying variable interest rates				
Interest rate swap agreements	2022 – 2026	CDOR +0.09 CDOR +1.56	5,020,000	(228,689)
Cross-currency interest rate swap agreements	2023 – 2025	CDOR +0.40 CDOR +0.73	1,661,282	56,196
Foreign currency forward contracts	2022	-	2,047,188	133,149

	Year ended March 31, 2022			
Derivative contracts	**Maturity date**	**Interest rate terms**	**Notional value $**	**Estimated fair value $**
Paying fixed interest rates				
Interest rate swap agreements	2022 – 2025	0.54% – 2.89%	8,655,000	180,687
Paying variable interest rates				
Interest rate swap agreements	2022 – 2026	CDOR +0.09 CDOR +1.56	5,420,000	(147,097)
Cross-currency interest rate swap agreements	2022 – 2024	CDOR +0.02 CDOR +0.63	1,329,367	(62,082)
Foreign currency forward contracts	2022	-	1,985,633	(14,187)

CDOR refers to the Canadian dealer offered rate.

Fair values of derivative contracts have been estimated using industry standard 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.

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.

(in thousands of Canadian dollars)

7 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 September 30,2022, $221,290 (March 31, 2022 – $23,220) of cash collateral had been posted by the counterparties and $44,950 (March 31, 2022 – $77,240) of cash collateral had been posted by the Company.

The following table presents the recognized financial instruments that are offset in the condensed statements of financial position, or subject to enforceable master netting agreements but are not offset in the condensed statements of financial position, as at September 30, 2022 and March 31, 2022, and shows the net impact on the Company's financial position if all set-off rights were exercised.

	Six-month period ended September 30, 2022	
	Financial assets $	**Financial liabilities $**
Gross amounts subject to agreements	488,313	251,147
Net settled amounts on the condensed statement of financial position	(19,345)	(19,345)
Net amount presented in the condensed statement of financial position	468,968	231,802
Amounts subject to master netting agreements	(43,403)	(43,403)
Cash collateral	(221,290)	(44,950)
Net	204,275	143,449

	Year ended March 31, 2022	
	Financial assets $	**Financial liabilities $**
Gross amounts subject to agreements	195,414	283,093
Net settled amounts on the condensed statement of financial position	(8,721)	(8,721)
Net amount presented in the condensed statement of financial position	186,693	229,372
Amounts subject to master netting agreements	(24,164)	(24,164)
Cash collateral	(23,220)	(77,240)
Net	139,309	127,968

(in thousands of Canadian dollars)

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

	Six-month period ended September 30, 2022 $	Year ended March 31, 2022 $
Derivative assets		
Interest rate swap agreements	276,510	180,698
Cross-currency interest rate swap agreements	59,310	1,886
Foreign currency forward contracts	133,148	4,109
	468,968	186,693
Derivative liabilities		
Interest rate swap agreements	228,689	147,059
Cross currency interest rate swap agreements	3,113	63,968
Foreign currency forward contracts	-	18,345
	231,802	229,372

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 $103,161 (March 31, 2022 – $120,015) 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 $1,191,138 (March 31, 2022 – $835,982) owing to an affiliate. Interest on short-term and long-term debt charged by a Toyota group company during the period ended September 30, 2022 amounted to $12,267 (September 30, 2021 – $3,978).

(in thousands of Canadian dollars)

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 $4,856 (September 30, 2021 – $5,080) have been included in interest expense in the condensed statement of income and comprehensive income. Debt and commercial paper guaranteed by affiliates amounts to $7,058,199 (March 31, 2022 – $7,606,834).

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 condensed statement of financial position as at September 30, 2022 are net of $439,957 (March 31, 2022 – $462,190) related to these reimbursements received from an affiliate. Financing revenue includes $147,515 for the period ended September 30, 2022 (September 30, 2021 – $186,803) related to these reimbursements received from an affiliate.

9 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.

10 Events occurring after the consolidated statement of financial position date

No significant events have occurred since September 30, 2022 that would have an impact on the financial position of the Company disclosed in the condensed statement of financial position or on the results and cash flows of the Company for the interim period as at September 30, 2022.

11 Securitization activity

In the period ended September 30, 2022, the Company entered into a securitization transaction. TCCI securitizes finance receivables through an amortizing funding structure. TCCI's transactions do not meet the transfer or derecognition criteria. Accordingly, the assets continue to be reported on TCCI's consolidated statement of financial position as Finance receivables, net.

(in thousands of Canadian dollars)

The following table presents the activity associated with the principal value of the Company's receivables that serve as collateral for the $500,000 securitization transaction.

Transfers of securitized receivables	**Six-month period ended September 30, 2022 $**	**Year ended March 31, 2022 $**
Restricted cash	22,051	-
Securitized receivables	483,152	-
Allowance for credit losses	(676)	-
Finance receivables, net (a)	482,476	-
Related debt	461,804	-

The Company estimates that the principal amount of securitization liabilities will be paid as follows:

	Liability
1 Year	229,384
2 Years	135,858
3 Years	96,562

Restricted cash represents amounts held as collateral in connection with the Company's securitization activities.

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 condensed consolidated interim financial statements as at and for the six month period ended 30 September 2022, which have been prepared in accordance with IAS 34 "Interim Financial Reporting" using accounting policies consistent with the accounting policies in the 2022 annual financial statements, give a true and fair view of the assets, liabilities, financial position and profit or loss of TCCI as required by DTR 4.2.4; and

(b) the interim management report includes a fair review of the information required by DTR 4.2.7.