30 July 2018

Toyota Credit Canada Inc.
("TCCI" or the "Company")

Annual Financial Report for the financial year ended 31 March 2018

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 2018. References herein to "TCCI" or the "Company" or "we", "our" or "us" denote Toyota Credit Canada Inc.

References herein to "TFS group" means TFS and its subsidiaries and affiliates and "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 2018" denote the year ended 31 March 2018 and references herein to "fiscal 2017" denote the year ended 31 March 2017.

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

Our net income was C$272.2 million during fiscal 2018, compared to C$270.8 million during fiscal 2017. Financing revenues for fiscal 2018 were higher than in fiscal 2017 due to a higher balance of finance receivables in fiscal 2018, which contributed to an increase in gross interest margin. Interest expense in fiscal 2018 was higher compared to fiscal 2017 levels due to higher outstanding debt balances and higher cost of funds. Total contracts purchased in fiscal 2018 were 182,497 compared to 173,335 in fiscal 2017. Operating expenses in fiscal 2018 were broadly consistent with fiscal 2017 levels. The provision for finance receivables was C$35.4 million, which includes an increase of the allowance for retail finance lease residual value losses of C$20.1 million reflecting higher outstanding retail lease receivables. This compares to a provision for finance receivables in fiscal 2017 of C$14.3 million, including a reduction of C$3.5million of the allowance for retail finance lease residual value. Actual lease termination losses incurred in fiscal 2018 were C$1.7 million compared to C$4.7 million in fiscal 2017. Credit loss provisioning levels and write-offs of uncollectable customer accounts in fiscal 2018 were slightly higher than fiscal year 2017 levels, reflecting higher outstanding finance receivables. Results in fiscal 2018 were positively affected by unrealised gains on our derivatives used to manage interest rate risk. Overall, our capital position increased by C$26 million bringing total equity to C$1,507 million as at 31 March 2018.

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 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	
	2018	2017
Commercial paper and other short-term debt	2,425	2,369
Unsecured term debt	9,451	8,322
Total debt	11,876	10,691
Total funding	11,876	10,691

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 and Other Short-term Debt

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$1,970 million to C$2,653 million

during fiscal 2018, with an average outstanding balance of C$2,255 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):

	Euro MTNs (“EMTNs”)	Domestic Bonds	Other term debt	Total unsecured term debt
Balance at 31 March 2017	0	4,688	3,634	8,322
Issuances during fiscal 2018	0	1,800	700	2,500
Payments during fiscal 2018	0	(500)	(850)	(1,350)
Change in foreign exchange revaluation and issuance costs during fiscal 2018	0	0	(21)	(21)
Balance at 31 March 2018	0	5,988	3,463	9,451

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 2017, 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 €23.3 billion was available for issuance at 31 March 2018. 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 13 November 2017, 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 31 March 2018. The 364 Day Credit Agreement, the Three Year Credit Agreement and the Five Year Credit Agreement, each dated as of 15 November 2016, were terminated on 13 November 2017.

Letters of Credit Facilities

In addition, TCCI has uncommitted letters of credit facilities totalling C$61 million at 31 March 2018 and as at 31 March 2017. Of the total credit facilities, C$nil of the uncommitted letters of credit facilities was used at 31 March 2018 and 2017.

(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 2018, the Company had 119 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 results of operations and financial condition:

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 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 operating expenses and general and administrative expenses (including, but not limited to, labour costs, technology costs and premises costs), general economic conditions, inflation, 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 may 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 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 economic slowdowns which, in turn, increase the risk of default of certain dealers within TCCI's dealer portfolio.

Market conditions are subject to periods of volatility which can have the effect of reducing activity in a range of consumer and industry sectors which can adversely impact the financial performance of TCCI. 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 it charges its customers and dealers, TCCI's competitive position could be negatively affected. Challenging market conditions 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 the prior several years;
- 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, outbreak of war or expansion of hostilities, and acts of terrorism or other events, such as the uncertainty caused by the result of the referendum on the United Kingdom's membership of the European Union, could each have a material adverse effect on TCCI's results of operations and financial condition.

Sales of Toyota and Lexus Vehicles

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

Toyota Canada Inc. (the "**Distributor**") is the primary distributor of Toyota and Lexus vehicles in Canada.

Changes in the volume of Distributor sales may result from:

- governmental action;

- changes in regulation or trade policies;
- changes in consumer demand;
- new vehicle incentive programmes;
- recalls;
- the actual or perceived quality, safety or reliability of Toyota and Lexus 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 due to changes to, or withdrawals from, trade agreements;
- currency fluctuations;
- fluctuations in interest rates;
- a significant and sustained increase in fuel prices; and
- decreased or delayed vehicle production due to natural disasters, supply chain interruptions or other events.

In addition, many manufacturers have increased their level of incentive programmes on new vehicles in an attempt to maintain and grow market share; these incentives historically have included a combination of subsidy, price rebates as well as other incentives. Any negative impact on the volume of Distributor 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 and other 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 and other 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, 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 and TMC, and could in turn have an impact on TCCI's business, results of operations and financial condition.

Recalls and Other Related Announcements

Toyota Motor Sales, USA., Inc. and Toyota Canada Inc. periodically conduct vehicle recalls which could include temporary suspensions of sales and production of certain Toyota and Lexus models. Because TCCI's business is substantially dependent upon the sale of Toyota and Lexus vehicles, such events could adversely affect TCCI.

A decrease in the level of sales, including as a result of the actual or perceived quality, safety or reliability of Toyota and Lexus 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 and Lexus 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 of Toyota Motor Credit Corporation's affiliated entities and 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 and Lexus vehicles and, accordingly, could have a negative effect on TCCI's business, results of operations and financial condition.

Competition Risk

The worldwide financial services industry is highly competitive and neither TCCI nor TFS has control over how Toyota dealers source financing for their customers. Competitors of the TFS group (including those of TCCI) include commercial banks, credit unions and other financial institutions. To a lesser extent, the TFS group 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 the TFS group may have an impact on the financial services industry in which TCCI operates, resulting in changes in demand for its products and services. This could have an adverse impact on TCCI's results of operations and financial condition.

Controlling Shareholder – Credit Ratings and Credit Support

All of the outstanding capital stock and voting stock of TCCI is owned directly by TFS. TFS is a wholly-owned holding company subsidiary of TMC.

As a result, TFS effectively controls TCCI and is able to directly control the composition of TCCI's Board of Directors and direct the management and policies of TCCI.

TCCI raises most of the funding it requires to support its business from the domestic and international capital markets. The availability and cost of that funding is influenced by credit ratings. Lower credit 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.

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 and other geopolitical factors may directly or indirectly affect such ratings. Any downgrade in the sovereign credit ratings of 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 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.

The credit support arrangements may be amended, provided that such amendment does not have any adverse effects upon any holder of any notes, bonds, commercial paper or certain other securities issued by TCCI outstanding at the time of such amendment, and does not require the acceptance of the rating agencies. If TCCI for any reason does not have the benefit of these arrangements, TCCI would expect the credit ratings of notes, bonds and commercial paper issued by it to be substantially less than the current ratings of notes, bonds and commercial paper issued by it, leading to either significantly constrained access, or no access, to the domestic or international capital markets, substantially higher borrowing costs and potentially an inability to raise the volume of funding necessary for it to operate its business.

Liquidity Risk

Liquidity risk is the risk arising from the inability to meet obligations in a timely manner when they become due. The TFS group's liquidity strategy (including that of TCCI) is to maintain the capacity to fund assets and repay liabilities in a timely and cost-effective manner even in adverse market conditions. 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 future credit losses. Increases in credit losses could adversely affect TCCI's 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 are different from TCCI's estimates or assumptions, it may adversely affect its 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 its business, results of operations and financial condition.

TCCI's assumptions and estimates often involve matters that are inherently difficult to predict and are beyond TCCI's control (for example, macro-economic conditions). In addition, such estimates and assumptions 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.

Impact of Changes to Accounting Standards

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. In particular, the IASB and the Financial Accounting Standards Board in the United States continue to work together to harmonise the accounting standards of the United States and International Financial Reporting Standards ("**IFRS**"). Any future change in IFRS adopted by the IASB may have a beneficial or detrimental impact on the reported earnings of TCCI.

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, competitive actions and behaviour, product attributes of popular vehicles, the mix of used vehicle supply, current and projected used vehicle values, inventory levels and fuel prices. Differences between the actual sale price realised on returned 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 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 assets 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 or dealer 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 require a provision, or 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, the taking and perfection of collateral 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, the level of manufacturer incentives on new vehicles, 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, the quality and perfection of collateral 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.

A downturn in economic conditions in Canada, natural disasters and other factors would increase the risk that a customer or dealer may not meet the terms of a retail, lease or

dealer financing contract with TCCI or may otherwise fail to perform as agreed. A weaker 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, foreign currency exchange rates and other relevant market parameters or prices 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 the 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. Changes in the fair value of derivatives, to the extent that they are not offset by the translation of the items economically hedged, may introduce volatility in TCCI's income statement and produce anomalous results.

Operational Risk

Operational risk is the risk of loss resulting from, among other factors, inadequate or failed processes, systems or internal controls, the failure to perfect collateral, theft, fraud, natural disasters or other catastrophes (including without limitation, explosions, fires, floods, earthquakes, terrorist attacks, riots, civil disturbances and epidemics) 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. TCCI is also exposed to the risk of inappropriate or inadequate documentation of contractual relationships. These events can potentially result in financial losses or other damages to TCCI, including damage to reputation.

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,

problems may be identified in the future that could have a material effect on TCCI's results of operations and financial condition.

Risk of Failure or Interruption of the Information Systems

TCCI relies on internal and third party information and technological 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, external or internal 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.

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 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 TCCI's service providers, could expose TCCI to a risk of loss of personally identifiable information of customers, employees and third parties or other 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, its 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, the systems or facilities of TCCI 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. 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.

Counterparty Credit Risk

TCCI has exposure to many different financial institutions and 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 materially and adversely affect TCCI's liquidity, results of operations and financial condition.

Risk Relating to Non-Toyota Dealers

TCCI provides financing for some dealerships which sell products not distributed by the Distributor (or one of its affiliates). A significant adverse change, such as the closure, a restructuring or bankruptcy of automobile manufacturers other than Toyota may increase the risk that these dealers may be impacted financially and default on their loans with TCCI.

TCCI's Assets are Subject to Prepayment Risk

Customers may terminate their finance and lease contracts early. As a result, TCCI estimates the rate of early termination of finance contracts in its interest rate hedging activities. Consequently, changes in customer behaviour contrary to TCCI's estimates may affect its results of operations and financial condition.

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 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 it, 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.

Compliance with applicable law is costly and can 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 regulation 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 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.

Taxation

TCCI is subject to numerous tax laws and is required to remit many different types of tax revenues based on self-assessment and regulation. TCCI interprets the tax legislation and accounts to the authorities based on its knowledge of the tax laws at the time of its assessment. Tax laws, or the interpretation thereof, are subject to change through legislation, tax rulings or court interpretation. Changes to the application or interpretation of tax laws may adversely impact TCCI's results of operations and financial condition.

TCCI may also be subject to an audit by tax authorities after its self-assessment. If TCCI has not accounted correctly for its tax liabilities, this may adversely impact TCCI's results of operations and 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.

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 31 March 2018, the world economy has continued its moderate recovery due to the global expansion of trade and production and solid domestic demand. The Japanese economy has been on a moderate recovery due to improvements in employment and income conditions. For the automotive industry, although markets have progressed in a steady manner in the developed countries and expanded in China, markets in some resource-rich countries have slowed down.

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 or shutdowns due to 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. Such incidents 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

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. Many governments also impose tariffs and other trade barriers, taxes and levies, or enact price or exchange controls. Toyota has incurred, and expects to incur in the future, significant costs in complying with these regulations. If

Toyota launches products that result in safety measures such as recalls, Toyota may incur various costs including significant costs for free repairs. Furthermore, new legislation or changes in existing legislation may also subject Toyota to additional expenses in the future. If Toyota incurs significant costs related to implementing safety measures or meeting laws and governmental regulations, 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, 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, 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 2018 and 31 March 2017 and Auditor's Report

Toyota Credit Canada Inc.

Financial Statements
March 31, 2018 and March 31, 2017
(in thousands of Canadian dollars)

June 29, 2018

Independent Auditor's Report

To the Shareholder of
Toyota Credit Canada Inc.

We have audited the accompanying financial statements of Toyota Credit Canada Inc., which comprise the statements of financial position as at March 31, 2018 and March 31, 2017 and the statements of income and comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Toyota Credit Canada Inc. as at March 31, 2018 and March 31, 2017 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toyota Credit Canada Inc.

Statements of Financial Position

As at March 31, 2018 and 2017

(in thousands of Canadian dollars)

	2018 $	2017 $
Assets		
Cash and cash equivalents	413,785	230,536
Finance receivables - net (notes 5 and 8)	13,934,028	12,721,463
Income and other taxes receivable	-	2,633
Derivative assets (note 6)	192,725	128,157
Other assets (note 5)	9,854	11,254
Collateral asset (note 6)	2,150	-
	14,552,542	13,094,043
Liabilities		
Cheques and other items in transit	9,298	15,254
Accounts payable and accrued liabilities (note 9)	62,084	24,740
Due to affiliated companies (note 8)	165,290	163,420
Income and other taxes payable (note 10)	3,012	-
Interest payable - net (note 7)	44,923	31,551
Debt payable (notes 7 and 8)	11,876,326	10,691,494
Derivative liabilities (note 6)	97,355	51,958
Collateral liabilities (note 6)	83,040	-
Deferred taxes (note 10)	704,426	634,616
	13,045,754	11,613,033
Shareholder's Equity		
Share capital (note 11)	60,000	60,000
Retained earnings	1,446,788	1,421,010
	1,506,788	1,481,010
	14,552,542	13,094,043

Approved by the 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, 2018 and 2017

(in thousands of Canadian dollars)

	2018 $	2017 $
Financing revenue (notes 8 and 16)	652,296	607,973
Interest income on cash equivalents	5,417	1,889
	657,713	609,862
Other gains -net (note 13)	19,359	13,165
Expenses		
Interest (note 8)	228,470	202,870
Employee salaries and benefits (notes 8 and 9)	17,552	17,998
Provision for finance receivables	35,373	14,274
Registration and search costs	6,156	6,506
IT and communications	6,697	6,446
Occupancy	1,030	1,127
Depreciation and amortization	1,031	845
Other	4,294	4,920
	300,603	254,986
Income before income taxes	376,469	368,041
Income taxes (note 10)		
Current	33,836	34,518
Deferred	70,432	62,746
	104,268	97,264
Net income for the year	272,201	270,777
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 $622 (2017 - $442) (notes 9 and 10)	(1,654)	1,189
Comprehensive income for the year - attributable to the owner of the parent	270,547	271,966

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, 2018 and 2017

(in thousands of Canadian dollars)

	Share capital $	Retained earnings $	Total shareholder's equity $
Balance - March 31, 2016	60,000	1,206,041	1,266,041
Net income for the year	-	270,777	270,777
Actuarial gains on defined benefit plans - net of tax	-	1,189	1,189
Comprehensive income for the year	-	271,966	271,966
Dividends paid (note 11)	-	(56,997)	(56,997)
Balance - March 31, 2017	60,000	1,421,010	1,481,010
Net income for the year	-	272,201	272,201
Actuarial gains on defined benefit plans - net of tax	-	(1,654)	(1,654)
Comprehensive income for the year	-	270,547	270,547
Dividends paid (note 11)	-	(244,769)	(244,769)
Balance - March 31, 2018	60,000	1,446,788	1,506,788

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, 2018 and 2017

(in thousands of Canadian dollars)

	2018 $	2017 $
Cash provided by (used in)		
Operating activities		
Net income for the year	272,201	270,777
Items not requiring cash		
Provision for finance receivables	35,373	14,274
Amortization of other assets	7,447	6,754
Amortization of debt issuance costs	5,571	5,429
Amortization of debt premiums/discounts	4,009	581
Foreign exchange change in unrealized gains on debt payable	(20,250)	(188,056)
Deferred income taxes	69,810	63,188
	374,161	172,947
Changes in operating accounts		
(Decrease) increase in cheques and other items in transit	(5,956)	15,059
Increase (decrease) in income and other taxes payable	5,645	(7,597)
Increase in other assets and collateral asset	(8,197)	(8,136)
Increase in interest payable - net	13,372	668
Increase (decrease) in accounts payable, accrued liabilities and collateral liabilities	118,730	(36,977)
Increase in due to affiliated company	1,870	27,752
(Decrease) increase in derivative assets - net	(19,171)	78,858
Acquisitions of finance receivables	(10,895,087)	(10,120,381)
Collections and liquidations of finance receivables	9,647,149	9,013,736
	(767,484)	(864,071)
Financing activities		
Issuance of bonds and loans payable	2,493,951	1,694,921
Repayment of bonds and loans payable	(1,350,652)	(1,426,805)
Increase in commercial paper - net	52,203	222,893
Payment of dividends	(244,769)	(56,997)
	950,733	434,012
Change in cash and cash equivalents during the year	183,249	(430,059)
Cash and cash equivalents - Beginning of year	230,536	660,595
Cash and cash equivalents - End of year	413,785	230,536
Supplementary cash flow information related to operating activities		
Income taxes paid	34,394	37,221
Interest paid	215,098	202,201

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). The financial statements have been prepared under the historical cost convention, 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.

These financial statements were approved by Management for issue on June 29, 2018.

3 Summary of significant accounting policies

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.

(in thousands of Canadian dollars)

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 makes allowances 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 vehicles to the customer at the inception of the lease.

Impairment of finance receivables

- Allowance for credit losses

For finance receivables, an account balance is designated impaired when there is objective evidence there has been a deterioration of credit quality subsequent to initial recognition, to the extent the Company no longer has reasonable assurance as to the timely collection of the full amount of principal and interest. Factors such as payment history, compliance with terms and conditions of the underlying finance receivable agreement, and other subjective factors related to the financial stability of the borrower are considered when determining whether a finance receivable is impaired. Judgment is required in determining the timing of designating a finance receivable as impaired and the amount impaired. If a finance receivable is determined to be impaired, a specific allowance is set up. Impairment losses for individually assessed finance receivables are calculated by discounting the expected future cash flows of a finance receivable at its original effective interest rate, and comparing the resulting present value with the current carrying amount. The impairment allowances on individually significant accounts are reviewed regularly.

If there is no objective evidence of impairment for an individual finance receivable, the finance receivable is included in a group of assets with similar credit risk characteristics and collectively assessed for impairment for losses incurred but not identified. Management's judgment is used to determine the best estimate of losses, based on an assessment of business and economic conditions, historical loss experience, and other relevant indicators. Changes in these assumptions would have a direct impact on the collective allowance for credit losses.

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognized, the excess is recovered by reducing the allowance for credit loss account accordingly. The reversal is recognized in the statements of income and comprehensive income as part of the provision for finance receivables.

(in thousands of Canadian dollars)

- Allowance for retail finance lease residual losses

  Retail finance leases include a lease-end purchase option. The Company is exposed to the risk of loss in the event the customer returns the leased vehicle to the Company and the residual value set at origination is not recoverable. The Company's management periodically reviews the estimated end of term fair values of leased vehicles to assess the appropriateness of the Company's carrying values. To the extent the estimated end of term fair value of a leased vehicle is lower than the residual value established at lease inception, management records an allowance for the anticipated shortfall. Changes in the amount management expects to recover would have a direct impact on the provision for financial losses and may result in a change in the related allowance for retail finance lease residual losses.

Financial instruments

- Financial assets and financial liabilities

  Financial assets and financial liabilities are initially recognized at fair value. Subsequent measurement is dependent on the classification of each instrument. All financial assets are classified as fair value through profit or loss (FVTPL), available-for-sale (AFS), held-to-maturity (HTM), or loans and receivables and all financial liabilities are classified as FVTPL or other financial liabilities. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Company's designation of such instruments.

  The Company has not classified any financial assets as HTM or AFS.

- Fair value through profit or loss

  Financial assets at FVTPL are financial assets typically acquired for resale prior to maturity or designated as such by management. They are measured at fair value at the statements of financial position dates and changes in fair value are recorded in the statements of income and comprehensive income as other gains (losses).

  All derivative assets and liabilities are classified as held-for-trading and FVTPL by default.

  Financial liabilities classified as FVTPL are measured at fair value and are accounted for in the same manner as financial assets at FVTPL.

- Loans and receivables

  - Loans and receivables and short-term investments are initially recognized at fair value and subsequently are measured at amortized cost using the effective interest rate method.

  - The Company has classified finance receivables as loans and receivables.

(in thousands of Canadian dollars)

- Other financial liabilities

  Other financial liabilities are recorded at amortized cost using the effective interest rate method.

  The Company has classified due to affiliated company, debt payable, accounts payable and accrued liabilities, interest payable - net, cheques and other items in transit and cash collateral as other financial liabilities.

- Transaction costs

  Transaction costs are expensed on the statements of income and comprehensive income for financial instruments classified or designated as FVTPL. For other financial instruments, transaction costs are capitalized on initial recognition.

- Effective interest rate method

  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.

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 measured at fair value 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 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.

(in thousands of Canadian dollars)

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 is closed to all new hires for both associates' and executives' pension plan. All new hires will join 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, 2017. The dates of the next required funding valuations are 2020 for pension benefit plans and 2020 for the post-retirement benefit plan.

Actuarial gains and losses, net of income taxes, are recognized in full in the period in which they occur in other comprehensive income. Amounts recognized in other comprehensive income 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.

Other assets

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

(in thousands of Canadian dollars)

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 (losses) gains 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, in which case the income tax is also recognized directly in other comprehensive income.

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 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.

Future accounting and reporting changes

In January 2016, the IASB published the new standard IFRS 16 - Leases. IFRS 16 supersedes 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

(in thousands of Canadian dollars)

incidental to ownership of the relevant asset, in the future, all lease arrangements will be required as a general rule to be accounted for by the lessee in a similar way to finance leases.

By contrast, the accounting requirements for lessors, particularly in relation to the requirement to classify leases, will remain largely unchanged. The new standard is mandatory for annual periods beginning on or after January 1, 2019.

The Company is in the process of assessing the impact of this standard on the financial statements.

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee (IFRIC), which apply to the Company for periods beginning after April 1, 2018. The standards that are applicable to the Company are as follows:

IFRS 9, Financial Instruments - In July 2014, the IASB issued IFRS 9, Financial Instruments, incorporating a new expected loss impairment model and providing certain amendments to the classification and measurement requirements for financial assets. The Company will adopt the new expected loss impairment model effective April 1, 2018 by recognizing the cumulative effect of initially applying the new standard as an adjustment to the opening balance of retained earnings. There will be no changes to the classification or measurement of the Company's financial assets or financial liabilities as a result of these changes in accounting policy. The Company expects this adjustment to be an increase of approximately $14 million (net of tax) to retained earnings, with no significant impact to the Company's net income on an ongoing basis. The new standard also requires additional disclosures.

IFRS 15, Revenue from Contracts with Customers - In May 2014, the IASB issued IFRS 15, which requires recognition of revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company is expected to be entitled in exchange for those goods or services. The new standard supersedes virtually all present IFRS guidance on revenue recognition and requires the use of more estimates and judgments than the present standards as well as additional disclosures. The new accounting standard is effective for years beginning on or after January 1, 2018. The impact of the standard on the financial statements is not significant.

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.

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

(in thousands of Canadian dollars)

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, 2018, 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 $3,789 (2017 - $3,612) and an increase of $3,528 (2017 - $3,569) 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, 2018, 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 $1,983 (2017 - $1,455) and an increase of $2,183 (2017 - $1,525) 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

	2018 $	2017 $
Retail finance leases	9,008,242	7,930,886
Unearned income	(793,845)	(689,219)
	8,214,397	7,241,667
Retail loans	4,915,687	4,842,490
Unearned income - net of accrued interest	(232,647)	(214,278)
	4,683,040	4,628,212
Dealer financing	1,209,593	1,001,450
Add: Accrued interest	2,378	1,540
	1,211,971	1,002,990
	14,109,408	12,872,869
Less: Allowances for		
Retail finance lease residual value losses	132,467	112,317
Credit losses	42,913	39,089
	175,380	151,406
	13,934,028	12,721,463

Inventoried vehicles have been classified as other assets, which also includes prepaid expenses 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:

				2018
	Retail finance leases $	**Retail loans $**	**Dealer financing $**	**Total $**
Year ending				
2019	2,437,433	1,594,220	976,433	5,008,086
2020	2,287,741	1,268,199	18,924	3,574,864
2021	2,182,062	935,639	17,857	3,135,558
2022	1,455,594	611,435	17,456	2,084,495
2023	612,813	330,890	20,116	963,819
Thereafter	32,599	175,304	158,797	366,700
	9,008,242	4,915,687	1,209,593	15,133,522

				2017
	Retail finance leases $	**Retail loans $**	**Dealer financing $**	**Total $**
Year ending				
2018	2,102,565	1,562,438	804,554	4,469,557
2019	1,968,199	1,269,828	18,756	3,256,783
2020	1,936,095	921,901	17,230	2,875,226
2021	1,340,897	599,269	15,317	1,955,483
2022	546,781	318,671	23,231	888,683
Thereafter	36,349	170,383	122,362	329,094
	7,930,886	4,842,490	1,001,450	13,774,826

Included in retail finance leases are unguaranteed residual values of $5,101,675 (2017 - $4,464,091).

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 net investment 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)

	2018 $	2017 $
Present value of minimum lease payments		
Not later than 1 year	2,402,535	2,067,463
Later than 1 year and not later than 5 years	6,273,858	5,565,691
Later than 5 years	32,599	36,349
Unearned finance income on finance leases		
Not later than 1 year	34,898	35,102
Later than 1 year and not later than 5 years	264,352	226,281
Later than 5 years		-
Gross investment in finance lease receivables		
Not later than 1 year	2,437,433	2,102,565
Later than 1 year and not later than 5 years	6,538,210	5,791,972
Later than 5 years	32,599	36,349
Total	9,008,242	7,930,886

The following table is an analysis of financial assets that are past due as at the statements of financial position dates but not impaired:

	2018 $	2017 $
Finance receivables		
1 - 30 days	92,551	67,666
31 - 60 days	13,594	10,881
61 - 90 days	2,059	2,157
90+ days	1,283	1,419
Finance receivables past due but not impaired	109,487	82,123

Allowance for credit losses is the Company's estimate of the incurred credit losses 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.

On March 31, 2018, impaired finance receivables amount to $3,065 (2017 - $3,268). A portion of the finance receivables is expected to be recovered and $1,161 (2017 - $1,285) has been provided for in the allowance for credit losses.

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

	2018 $	2017 $
Retail finance leases	32,710	28,907
Retail loans	9,399	9,371
Dealer financing	804	811
	42,913	39,089

(in thousands of Canadian dollars)

The following table represents the reconciliation of the changes in the allowance for credit losses for 2018 and 2017:

	2018 $	2017 $
Balance - Beginning of year	39,089	34,813
Writeoffs	(7,554)	(6,966)
Net provision for current year	11,378	11,242
Balance - End of year	42,913	39,089

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, 2018, $83,040 (2017 - $nil) of cash collateral had been posted by the counterparties and $2,150 (2017 - $nil) 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, 2018 and 2017, and shows the net impact on the Company's financial position if all set-off rights were exercised.

		2018
	Financial assets $	Financial liabilities $
Gross amounts subject to agreements	195,268	99,898
Net settled amounts on the statements of financial position	(2,543)	(2,543)
Net amount presented in the statements of financial position	192,725	97,355
Amounts subject to master netting agreements	(87,992)	(7,101)
Cash collateral	(2,150)	(83,040)
Net	102,583	7,214

(in thousands of Canadian dollars)

	2017	
	Financial assets $	**Financial liabilities $**
Gross amounts subject to agreements	129,816	53,617
Net settled amounts on the statements of financial position	(1,659)	(1,659)
Net amount presented in the statements of financial position	128,157	51,958
Amounts subject to master netting agreements	(49,408)	(49,408)
Net	78,749	2,550

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:

	2018 $	**2017 $**
Derivative assets		
Interest rate swap agreements	124,195	53,154
Cross-currency interest rate swap agreements	42,939	59,734
Foreign currency forward contracts	25,591	15,269
	192,725	128,157
Derivative liabilities		
Interest rate swap agreements	77,554	34,762
Cross-currency interest rate swap agreements	17,786	13,309
Foreign currency forward contracts	2,015	3,887
	97,355	51,958

(in thousands of Canadian dollars)

7 Debt payable

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

	Effective interest rates			
	2018 %	**2017 %**	**2018 $**	**2017 $**
Total debt payable				
Commercial paper	1.40	0.82	2,425,398	2,369,838
Bonds payable	2.28	2.19	5,987,734	4,688,897
Loans payable	2.27	1.60	3,463,194	3,632,759
			11,876,326	10,691,494
Less: Debt payable due within one year				
Commercial paper			2,425,398	2,369,838
Bonds payable			1,199,452	499,277
Loans payable			374,823	849,679
			3,999,673	3,718,794
Total long-term debt payable due after one year			7,876,653	6,972,700

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

	2018 $	**2017 $**
US$2,037,500 (2017 - US$1,845,000)	2,627,153	2,453,666

As at March 31, 2018, the Company held cross-currency interest rate swap agreements and interest rate swap agreements with a notional principal of $5,815,450 (2017 - $4,915,450) and floating interest rates, with maturity dates from July 2018 to January 2023 (2017 - October 2017 to January 2022) and interest rate swap agreements with a notional principal of $8,005,000 (2017 - $7,265,000) and fixed rates, ranging from 0.70% to 2.44% (2017 - 0.70% to 2.17%), with maturity dates from May 2018 to December 2022 (2017 - April 2017 to March 2022). The Company also held foreign exchange forward contract agreements with notional principal of $1,954,702 (2017 - $1,777,690), with maturity dates from April 2018 to November 2018 (2017 - April 2017 to October 2017).

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:

	2018 $	2017 $
Interest payable - net		
Debt payable	45,445	30,144
Interest swap agreements	(620)	1,407
Interest - collateral and other	98	-
	44,923	31,551

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 $165,290 (2017 - $163,420) 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 $nil (2017 - $nil) owing to an affiliate. Interest on short-term debt charged by a Toyota group company during the year ended March 31, 2018 amounts to $7,631 (2017 - $196).

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 $10,158 (2017 - $8,859) have been included in interest expense in the statements of income and comprehensive income. Debt and commercial paper guaranteed by affiliates amounts to $8,413,132 (2017 - $7,058,735).

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 $2,790 (2017 - $2,639) 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, 2018 are net of $597,312 (2017 - $533,067) related to these reimbursements received from an affiliate. Financing revenue includes $333,769 (2017 - $317,828) related to these reimbursements received from an affiliate.

Included within finance receivables - net is $25,656 (2017 - $15,002) 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 $13,465 (2017 - $12,055) and have been included in operating expenses in 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 $2,930 (2017 - $2,022), which includes salaries and bonuses payable within one year.

(in thousands of Canadian dollars)

9 Pension and post-employment benefit plans

Defined benefit pension plan obligations

	Pension benefit plans		Other future benefit plans	
	2018 **$**	**2017** **$**	**2018** **$**	**2017** **$**
Accrued benefit obligation				
Balance - Beginning of year	40,578	36,265	1,138	1,029
Current service cost	2,148	2,002	65	60
Interest cost	1,526	1,371	37	37
Benefits paid	(1,101)	(427)	(17)	(10)
Transfers	-	1,140	-	-
Remeasurements				
Actuarial gains and losses arising from changes in demographic assumptions	452	-	-	-
Actuarial gains and losses arising from changes in financial assumptions	2,512	125	2	45
Actuarial gains and losses arising from experience adjustments	354	103	(88)	(23)
Balance - End of year	46,469	40,579	1,137	1,138

Defined benefit pension plan assets

	Pension benefit plans		Other future benefit plans	
	2018 **$**	**2017** **$**	**2018** **$**	**2017** **$**
Balance - Beginning of year	29,309	23,855	-	-
Non-investment expenses	(221)	(177)	-	-
Interest income	1,134	935	-	-
Return on plan assets, excluding amounts included in net interest expense	957	1,990	-	-
Company's contributions	2,178	2,029	17	10
Employees' contributions	73	74	-	-
Transfers	-	1,030	-	-
Benefits paid	(1,101)	(427)	(17)	(10)
Balance - End of year	32,329	29,309	-	-

(in thousands of Canadian dollars)

Asset allocation

	Pension benefit plans		Other future benefit plans	
	2018 %	**2017** %	**2018** %	**2017** %
Asset category				
Canadian equity	32.23	33.95	-	-
Foreign equity	27.46	25.71	-	-
Canadian bonds	36.06	35.42	-	-
Foreign bonds	0.65	0.59	-	-
Cash and other	3.61	4.34	-	-
	100.00	100.00	-	-

Pension assets 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	
	2018 $	**2017** $	**2018** $	**2017** $
Fair value of plan assets	32,329	29,309	-	-
Accrued benefit obligations	(46,469)	(40,578)	(1,137)	(1,138)
Funded status - plan deficit	(14,140)	(11,269)	(1,137)	(1,138)
Accrued benefit liability - net	(14,140)	(11,269)	(1,137)	(1,138)

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	
	2018 **$**	**2017** **$**	**2018** **$**	**2017** **$**
Current service cost, net of employees' contributions	2,075	1,928	65	60
Interest cost	392	436	37	37
Non-investment expenses	221	177	-	-
	2,688	2,541	102	97

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	
	2018 %	**2017 %**	**2018 %**	**2017 %**
Accrued benefit obligation as at March 31				
Discount rate	3.47	3.77	3.30	3.30
Rate of compensation increase	3.25	3.25	-	-
Benefit costs for year ended March 31				
Discount rate	3.50	3.80	-	-
Rate of compensation increase	3.25	3.25	-	-
Other assumptions				
Rate of inflation	2.00	2.00	-	-
Mortality rates	Canadian Pensioners Mortality 2018 Private Sector Mortality Table (sex distinct) with CPM-B improvement scale	Canadian Pensioners Mortality 2017 Private Sector Mortality Table (sex distinct) with CPM-B improvement scale	Canadian Pensioners Mortality 2018 Private Sector Mortality Table (sex distinct) with CPM-B improvement scale	Canadian Pensioners Mortality 2017 Private Sector Mortality Table (sex distinct) with CPM-B improvement scale

The Company expects to make a contribution of $2,732 to the defined benefit plans during the next financial year. The weighted average duration of the benefit obligations as at March 31, 2018 is 16.9 years (2017 - 16.4 years).

Assumed health-care cost trend rates as at March 31

	2018	**2017**
Initial health-care cost trend rate	7.0%	6.9%
Cost trend rate declines to	4.5%	4.5%
Year the rate reaches the rate it is assumed to remain at	March 31, 2028	March 31, 2025

(in thousands of Canadian dollars)

Sensitivity analysis

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:

	2018		2017	
	Increase $	Decrease $	Increase $	Decrease $
Total of service and interest cost	1	2	1	2
Accrued benefit obligation	5	8	15	24

- Sensitivity to change in discount rate

  An increase of 1% in the discount rate assumption would decrease the March 31, 2018 accrued benefit obligation by $7,835 (2017 - $6,639) for the pension plans.

  An increase of 1% in the discount rate assumption would decrease the March 31, 2018 accrued benefit obligation by $106 (2017 - $129) 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, 2018 accrued benefit obligation by $878 (2017 - $716) for the defined benefit plan.

  A decrease of the probability of death of 10% in the mortality assumption would increase the March 31, 2018 accrued benefit obligation by $3 (2017 - $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, 2018 accrued benefit obligation by $1,777 (2017 - $1,908) 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:

	2018 $	2017 $
Current income taxes		
Provision for current year	38,773	39,381
Adjustment to prior years' income taxes	(4,937)	(4,863)
	33,836	34,518
Deferred taxes		
Origination and reversal of temporary differences	62,118	59,138
Change in tax rates	3,030	(1,564)
Adjustment to prior years' income taxes	5,284	5,172
	70,432	62,746
Provision for income taxes	104,268	97,264

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:

	2018 $	2017 $
Reconciliation of income taxes		
Income taxes at the Canadian statutory rate	100,873	98,511
Prior year adjustment for rate difference	347	309
Change in tax rates for deferred tax	3,030	(1,564)
Other	18	8
	104,268	97,264

The change in accrued pension liability resulted in an OCI tax of $622 (2017 - OCI tax expense of $442).

The Canadian statutory rate was 26.8% (2017 - 26.8%) as at March 31, 2018.

Income taxes payable were $1,092 within income and other taxes payable as at March 31, 2018 and was $1,675 within income and other taxes recoverable at March 31, 2017 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, 2016	573,590	(3,416)	8,349	(7,095)	571,428
Charged (credited) to statements of income and comprehensive income	59,483	(206)	(10,644)	14,113	62,746
Credited to other comprehensive income	-	442	-	-	442
As at March 31, 2017	633,073	(3,180)	(2,295)	7,018	634,616
Charged (credited) to statements of income and comprehensive income	64,492	(73)	(4,372)	10,385	70,432
Credited to other comprehensive income	-	(622)	-	-	(622)
As at March 31, 2018	697,565	(3,875)	(6,667)	17,403	704,426

Deferred tax liability

	2018 $	2017 $
Deferred tax liability to be realized within 12 months	175,609	153,277
Deferred tax liability to be realized after more than 12 months	528,817	481,339
	704,426	634,616

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, 2018, there are 6,000 common shares (2017 - 6,000) issued and outstanding, having a par value of $10 each.

A dividend of $244,769 (2017 - $56,997) 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, 2018 and 2017, 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 is 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 selected financial instruments

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

		2018		2017	
	Fair value hierarchy	**Carrying value $**	**Estimated fair value $**	**Carrying value $**	**Estimated fair value $**
FVTPL - recurring measurements					
Financial assets					
Cash equivalents	Level 2	412,350	412,350	229,234	229,234
Derivative assets	Level 2	192,725	192,725	128,157	128,157
Financial liabilities					
Derivative liabilities	Level 2	97,355	97,355	51,958	51,958
Amortized cost - fair values disclosed					
Financial assets					
Loans and receivables					
Finance receivables	Level 3	13,934,028	13,958,243	12,721,463	12,586,883
Financial liabilities					
Financial liabilities at amortized cost					
Debt and interest payable	Level 2	11,921,249	12,000,779	10,723,045	10,906,665

(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 discount rates used to fair value the finance receivables are 4.56% and 5.12% for March 31, 2018 and 2017, respectively.

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

				2018
Derivative contracts	**Maturity date**	**Interest rate terms**	**Notional value $**	**Estimated fair value $**
Paying fixed interest rates				
Interest rate swap agreements	2018 - 2022	0.70% - 2.44%	8,005,000	124,005
Paying variable interest rates				
Interest rate swap agreements	2018 - 2023	CDOR +0.32 CDOR +1.34	5,200,000	(77,390)
Cross-currency interest rate swap agreements	2019 - 2022	CDOR +0.50 - CDOR +0.87	615,450	25,153
Foreign currency forward contracts	2018	-	1,954,702	23,602

CDOR refers to the Canadian dealer offered rate.

				2017
Derivative contracts	**Maturity date**	**Interest rate terms**	**Notional value $**	**Estimated fair value $**
Paying fixed interest rates				
Interest rate swap agreements	2017 - 2022	0.70% - 2.17%	7,265,000	(9)
Paying variable interest rates				
Interest rate swap agreements	2017 - 2022	CDOR +0.37 CDOR +1.34	4,300,000	18,401
Cross-currency interest rate swap agreements	2019 - 2022	CDOR +0.53 CDOR +0.87	615,450	46,425
Foreign currency forward contracts	2017	-	1,777,670	11,381

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.

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.

(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

	2018 $	2017 $
Net realized and change in unrealized gains (losses) on derivative assets and liabilities	15,814	(78,849)
Net foreign exchange change in unrealized and realized gains	3,545	92,014
	19,359	13,165

14 Commitments and contingencies

Commitments

Minimum annual rental payments for premises are as follows:

	$
2019	352
2020	352
Thereafter	1,326
	2,030

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 $1,311,334 as at March 31, 2018 (2017 - $1,143,282).

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. The amount of the loss cannot be estimated at this time.

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.

(in thousands of Canadian dollars)

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.

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, 2018 and 2017. 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 loan. Management continuously monitors the collectability of the loan throughout its 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.

Credit quality of financial assets

The credit quality of derivative and cash equivalents is included in the table below. Credit ratings for individuals and dealers is not available.

Standard & Poor's rating	2018 $	2017 $
Derivative assets		
AA-	45,400	30,310
A+	119,591	93,691
A	27,734	4,156
	192,725	128,157
Short-term investment - cash equivalents		
A-1+	411,017	229,005
A-1+	1,333	229
	412,350	229,234

(in thousands of Canadian dollars)

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 statement of financial position liquidity ratios against internal requirements, and maintaining debt financing plans.

					2018
	Less than 1 year $	**Between 1 and 2 years $**	**Between 2 and 5 years $**	**Over 5 years $**	**Total $**
Debt payable	3,999,673	1,984,508	5,892,145	-	11,876,326
Derivative liabilities	2,248	9,572	85,535	-	97,355
Accounts payable and accrued liabilities	62,084	-	-	-	62,084
Due to affiliate	165,290	-	-	-	165,290
Interest payable	14,614	7,817	22,492	-	44,923
Collateral liabilities	83,040	-	-		83,040
Cheques and other items in transit	9,298	-	-	-	9,298
	4,336,247	2,001,897	6,000,172	-	12,338,316

					2017
	Less than 1 year $	**Between 1 and 2 years $**	**Between 2 and 5 years $**	**Over 5 years $**	**Total $**
Debt payable	3,718,794	1,573,020	5,399,680	-	10,691,494
Derivative liabilities	8,098	10,944	32,916	-	51,958
Accounts payable and accrued liabilities	24,740	-	-	-	24,740
Due to affiliate	163,420	-	-	-	163,420
Interest payable	8,077	7,257	16,217	-	31,551
Cheques and other items in transit	15,254	-	-	-	15,254
	3,938,383	1,591,221	5,448,813	-	10,978,417

(in thousands of Canadian dollars)

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.

- 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.

  The Company uses various economic hedging strategies to manage currency risk and maintains no realized foreign 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 risks 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, 2018, 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 $100,000 (2017 - $91,000) lower/higher.

(in thousands of Canadian dollars)

16 Segment reporting

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

	2018 $	2017 $
Retail loans	218,161	224,042
Retail leases	411,323	366,403
Dealer floor plan	13,475	8,785
Wholesale leases	554	622
Mortgages	8,783	8,121
Total revenue	652,296	607,973

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:

	2018 $	2017 $
Commercial paper and other short-term debt	2,425,398	2,369,838
Bond payable	5,987,734	4,688,897
Loans payable	3,463,194	3,632,759
Total debt payable	11,876,326	10,691,494
Share capital	60,000	60,000
Retained earnings	1,446,788	1,421,010
	13,383,114	12,172,504

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.