30 November 2023

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

Half-Yearly Financial Report for the six months ended 30 September 2023

TCCI was incorporated as a corporation under the Canada Business Corporations Act on 19 February 1990. TCCI's Corporation Number is 257476-4. The registered office of TCCI is located at 80 Micro Court, Suite 200, Markham, Ontario L3R 9Z5, Canada. TCCI is a wholly-owned subsidiary of Toyota Financial Services Corporation ("***TFS***"), which is a wholly-owned subsidiary of Toyota Motor Corporation ("***TMC***").

In fiscal year 2022, TCCI Limited Partnership and TCCI Securitization GP Corp. were created for the purpose of facilitating the securitization of finance receivables. TCCI Securitization GP Corp. is wholly owned by TCCI, whereas TCCI Limited Partnership is owned 99.99% by TCCI and 0.01% by TCCI Securitization GP Corp.

TCCI presents its half-yearly financial report for the six months ended 30 September 2023. References herein to "TCCI" denote Toyota Credit Canada Inc. and, where the context requires, its consolidated subsidiaries.

References herein to "Toyota" means TMC and its consolidated subsidiaries.

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

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

1. Management Report

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

TCCI's net income was CAD $193.1 million for the six months ended 30 September 2023, compared to CAD $208.8 million for the six months ended 30 September 2022. Financing revenues for the six months ended 30 September 2023 were higher than the comparative period last year due to increased yield on new contracts as a result of higher market interest rates. Interest expense for the six months ended 30 September

2023 was higher than the comparative period last year due to higher borrowing costs, contributing to a decrease in gross interest margin. There were 548,262 total contracts outstanding as at 30 September 2023, compared to 580,407 as at 30 September 2022. Operating expenses for the six months ended 30 September 2023 were higher than the comparative period last year due primarily to higher employee salaries and benefits, and higher information technology and communication costs. The recovery for finance receivables in the six months ended 30 September 2023 was CAD $(7.6) million, compared to CAD $(10.2) million in the comparative period last year. TCCI reduced its allowance for retail finance lease residual values by CAD $11.5 million in the current period (compared to a reduction of CAD $11.2 million in the comparative period last year) reflecting primarily improved forecasted used vehicle values as a result of on-going supply chain issues impacting new vehicle availability. TCCI's allowance for credit losses as at 30 September 2023 of CAD $35.8 million was comparable to 31 March 2023 levels as management's estimate and assumptions regarding the impact of the current macroeconomic environment on expected credit losses were largely unchanged. Write-offs of uncollectable customer accounts in the six months ended 30 September 2023 were largely comparable to the prior period. Results for the six months ended 30 September 2023 were positively affected by unrealised gains of CAD $11.5 million on derivatives used to manage interest rate risk, compared to unrealised gains of CAD $13.9 million in the comparative period last year.

In fiscal 2023, TCCI entered into CAD $1.1 billion private retail loan securitization transactions. In the six months ended 30 September 2023, TCCI entered into a CAD $600 million private retail loan securitization.

Medium Term Notes

TCCI maintains its Euro Medium Term Note Programme (the "***EMTN Programme***") together with its affiliates Toyota Motor Finance (Netherlands) B.V., Toyota Finance Australia Limited and Toyota Motor Credit Corporation (TCCI and such affiliates, the "***EMTN Issuers***"), providing for the issuance of debt securities in the international capital markets. In September 2023, the EMTN Issuers renewed the EMTN Programme for a one year period. The maximum aggregate principal amount of debt securities that may be issued by the EMTN Issuers and outstanding under the EMTN Programme at any time is €60 billion, or the equivalent in other currencies.

Back Up Liquidity

On 17 November 2023, TCCI and other Toyota affiliates entered into a U.S.$ 5.0 billion 364 day syndicated bank credit facility pursuant to a 364 Day Credit Agreement, a U.S.$ 5.0 billion three year syndicated bank credit facility pursuant to a Three Year Credit Agreement and a U.S.$ 5.0 billion five year syndicated bank credit facility pursuant to a Five Year Credit Agreement. The ability to make drawdowns under the 364 Day Credit Agreement, the Three Year Credit Agreement and the Five Year Credit Agreement is subject to covenants and conditions customary in transactions of this nature, including negative pledge provisions, cross default provisions and limitations on consolidations, mergers and sales of assets. The 364 Day Credit Agreement, the Three Year Credit Agreement and the Five Year Credit

Agreement may be used for general corporate purposes and were not drawn upon as of 30 November 2023. The 364 Day Credit Agreement, the Three Year Credit Agreement and the Five Year Credit Agreement, each dated as of 18 November 2022, terminated (in the case of the 364 Day Credit Agreement) or were terminated (in the case of the Three Year Credit Agreement and the Five Year Credit Agreement) on 17 November 2023.

Letters of Credit Facilities

In addition, TCCI has uncommitted letters of credit facilities totalling CAD $61 million as at 30 September 2023 and as at 30 September 2022, which were not drawn upon as of these dates.

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

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

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

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

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

Geopolitical conditions and other market events may also impact TCCI's results of operations and financial condition. Restrictive exchange or import controls or other disruptive trade policies, disruption of operations as a result of systemic political or economic instability, adverse changes to tax laws and regulations, social unrest, outbreak of war or expansion of hostilities (including the current conflict in Ukraine), health epidemics and other outbreaks, climate-related risks, and acts of terrorism, could lead to, among other things, declines in market liquidity and activity levels, volatile market conditions, a contraction of available credit, inflation, fluctuations in interest rates, weaker economic growth, and reduced business confidence on an international level, each of which could have a material adverse effect on TCCI's results of operations and financial condition.

Benchmark interest rates and credit spreads are subject to change. When interest rates are high or increasing, TCCI generally expects to earn higher financing revenue from its new originations. However, increasing interest rates have and in the future could continue to have an adverse effect on TCCI's business, financial condition and results of operations by increasing its cost of capital and the rates TCCI charges its customers and dealers, which could, in turn, decrease TCCI's financing volumes and market share, as a result of customers and dealers seeking alternative solutions or increasing the amount of cash purchases, thereby resulting in a decline in TCCI's competitive position. On the other hand, a low or negative interest rate environment may increase TCCI's financing volumes and market share, however it could also have an adverse effect on TCCI's business, financial condition and results of operations by reducing returns on TCCI's investments in marketable securities and compressing TCCI's net interest margin. When credit spreads widen, it becomes more expensive for TCCI to borrow. TCCI's credit spreads may widen or narrow not only in response to events and circumstances that are specific to TCCI but also as a result of general economic and geopolitical events and conditions. Changes in credit spreads will affect, positively or negatively, the value of TCCI's derivatives, which could result in volatility in its results of operations, financial condition, and cash flows.

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

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

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

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

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

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

Climate change or other environmental matters may result in new or increased legal and regulatory requirements and new financial incentives regarding electrified vehicles intended to mitigate factors contributing to, or intended to address the potential impacts of, climate change or other environmental concerns. Such regulations (including laws related to greenhouse gas emitting products or services) and government incentives may require TCCI to alter its proposed business plans, lead to increased compliance costs and changes to its operations and could have an adverse effect on the TCCI's business, results of operations and financial condition.

TCCI's principal risks and uncertainties for the remaining six months of the financial year have not changed since the issuance of TCCI's 2023 Annual Financial Report. The detailed discussion of these risks and uncertainties and TCCI's objectives, policies and processes for managing these risks and uncertainties were disclosed in the Management Report, as well as Note 15 in the Notes to the Financial Statements, in the Annual Financial Report of TCCI for the financial year ended 31 March 2023.

2. Condensed Consolidated Interim Financial Statements as at and for the six-month period ended 30 September 2023

Toyota Credit Canada Inc.

Condensed Consolidated Interim Financial Statements

As at and for the six-month period ended September 30, 2023

(Unaudited)

(in thousands of Canadian dollars)

Toyota Credit Canada Inc.

Condensed Consolidated Interim Statement of Financial Position
(Unaudited)

(in thousands of Canadian dollars)

	September 30, 2023 $	March 31, 2023 $
Assets		
Cash and cash equivalents	963,594	1,058,537
Restricted cash (Note 9)	61,182	47,157
Finance receivables – net (note 4)	13,764,443	13,530,878
Derivative assets (note 7)	266,408	239,495
Other assets (note 4)	15,423	16,772
Collateral assets (note 7)	37,600	52,920
	15,108,650	14,945,759
Liabilities		
Cheques and other items in transit	1,088	2,859
Accounts payable and accrued liabilities	19,745	19,133
Due to affiliated companies	153,771	143,337
Income and other taxes payable	14,477	18,887
Interest payable – net	83,138	77,566
Debt payable (note 5)	10,516,793	10,635,135
Derivative liabilities (note 7)	253,466	209,240
Securitization liabilities (notes 7 and 9)	1,263,224	921,232
Collateral liabilities (note 7)	30,310	61,190
Deferred income taxes	1,218,972	1,173,316
	13,554,984	13,261,895
Shareholder's Equity		
Share capital	60,000	60,000
Retained earnings	1,493,666	1,623,864
	1,553,666	1,683,864
	15,108,650	14,945,759

Approved by the Management

Darren Cooper President Fernando Belfiglio Vice-President, Finance

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

Toyota Credit Canada Inc.

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

(in thousands of Canadian dollars)

	Six-month period ended September 30, 2023 $	Six-month period ended September 30, 2022 $
Financing revenue	454,068	403,858
Interest income on cash and cash equivalents and others	29,760	11,518
	483,828	415,376
Other gains – net	11,542	13,865
Expenses		
Interest on debt payable	181,882	129,606
Interest on securitization liabilities	28,503	2,446
Employee salaries and benefits	12,875	11,000
Recovery of provision of finance receivables	(7,633)	(10,207)
Registration and search costs	385	1,211
IT and communications	10,599	7,078
Occupancy	409	387
Depreciation and amortization	1,954	1,546
Other	2,944	1,972
	231,918	145,039
Income before income taxes	263,452	284,202
Income taxes		
Current	25,122	20,063
Deferred	45,208	55,300
	70,330	75,363
Net income for the period	193,122	208,839
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Actuarial gains on defined benefit pension plans – net of income tax expense of ($448) (2022-$342)	1,233	942
Comprehensive income for the period – attributable to the owner of the parent	194,355	209,781

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

Toyota Credit Canada Inc.

Condensed Consolidated Interim Statement of Changes in Equity

(Unaudited)

(in thousands of Canadian dollars)

For the six-month period ended September 30, 2022

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

For the six-month period ended September 30, 2023

	Share capital $	Retained earnings $	Total shareholder's equity $
Balance – March 31, 2023	60,000	1,623,864	1,683,864
Net income for the period	-	193,122	193,122
Actuarial gains on defined benefit plans – net of tax	-	1,233	1,233
Comprehensive income for the period	-	194,355	194,355
Dividends paid	-	(324,553)	(324,553)
Balance – September 30, 2023	60,000	1,493,666	1,553,666

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

Toyota Credit Canada Inc.

Condensed Consolidated Interim Statement of Cash Flows
(Unaudited)

(in thousands of Canadian dollars)

	Six-month period ended September 30, 2023 $	Six-month period ended September 30, 2022 $
Cash provided by (used in)		
Operating activities		
Net income for the period	193,122	208,839
Items not requiring cash		
Recovery of finance receivables	(7,633)	(10,207)
Amortization of other assets	3,039	3,208
Amortization of bond issue costs	1,952	1,544
Amortization of securitization issue costs	460	125
Amortization of debt issuance costs	2,909	3,161
Amortization of debt premiums/discounts	103	113
Foreign exchange change in unrealized (losses) gains on debt payable	(30,276)	109,531
Deferred income taxes	45,656	55,642
	209,332	371,956
Changes in operating accounts		
(Decrease) Increase in cheques and other items in transit	(1,771)	857
(Increase) in restricted cash	(14,025)	(22,051)
(Decrease) in income and other taxes payable	(4,410)	(9,072)
Decrease in other assets and collateral assets	11,677	26,093
Increase in interest payable – net	5,572	20,507
(Decrease) Increase in accounts payable, accrued liabilities and collateral liabilities	(29,036)	197,391
Increase (Decrease) in due to affiliated company	10,434	(16,854)
Decrease (Increase) in derivative assets – net	17,313	(279,845)
Acquisitions of finance receivables	(6,008,410)	(5,076,160)
Collections and liquidations of finance receivables	5,782,478	5,218,141
	(20,846)	430,963
Financing activities		
Issuance of bonds and loans payable	1,596,267	959,669
Repayment of bonds and loans payable	(1,693,519)	(1,223,313)
Increase (Decrease) in commercial paper – net	6,171	(150,451)
Payment of dividends	(324,553)	(489,865)
Issuance of securitization loans - net	599,528	499,495
Repayment of securitization loans	(257,991)	(37,816)
	(74,097)	(442,281)
Change in cash and cash equivalents during the period	(94,943)	(11,318)
Cash and cash equivalents – Beginning of period	1,058,537	944,235
Cash and cash equivalents – End of period	963,594	932,917
Supplementary cash flow information related to operating activities		
Income taxes paid	21,754	25,711
Interest paid	204,813	111,545

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

(in thousands of Canadian dollars)

1 Nature of operations and Principles of Consolidation

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

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

In fiscal year 2022, TCCI Limited Partnership and TCCI Securitization GP Corp. were created for the purpose of facilitating the securitization of finance receivables. TCCI Securitization GP Corp. is wholly owned by TCCI, whereas TCCI Limited Partnership is owned 99.99% by TCCI and 0.01% by TCCI Securitization GP Corp. The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries TCCI Limited Partnership and TCCI Securitization GP Corp. collectively referred to herein as the Company in accordance with IFRS 10 Consolidated Financial statements. Notwithstanding the presentation of these accounts of the entities collectively referred to as Toyota Credit Canada Inc. on a consolidated basis, each entity is the beneficial owner of, and responsible for only, its own separate assets and liabilities (including any guaranteed liability), which have not been separately itemized in these consolidated financial statements. The Company has one reportable business segment.

2 Basis of preparation

The condensed consolidated interim financial statements are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, using accounting policies consistent with the accounting policies in the March 31, 2023 annual financial statements. The condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements, as the condensed consolidated interim financial statements do not include all the disclosures in the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board (IFRS). The condensed consolidated interim financial statements are presented in Canadian dollars, which is the functional currency of the Company.

Basis of consolidation

The condensed consolidated interim financial statements comprise the financial statements of the Company, TCCI Limited Partnership, and TCCI Securitization GP Corp. as at the six months ended September 30, 2023. The financial results have been consolidated on a basis that is consistent with current reporting standards. The Company has control over TCCI Limited Partnership and TCCI Securitization GP Corp. as it is exposed to and has rights to variable returns from its involvement with TCCI Limited Partnership and TCCI Securitization GP Corp. and it has the ability to affect those returns through its power over their relevant activities.

(in thousands of Canadian dollars)

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

The accounting policies are consistent with those of the previous financial year and corresponding interim reporting period.

These condensed consolidated interim financial statements were approved by management for issue on November 30, 2023.

3 Critical accounting estimates and judgments

The preparation of condensed consolidated interim financial statements in accordance with International Accounting Standard 34, Interim Financial Reporting, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated interim financial statements and the reported amounts of revenue and expenses during the reporting periods. The following discusses the most significant accounting judgments and estimates the Company has made in the preparation of the condensed consolidated interim financial statements.

Allowance for credit losses

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

The Company determined the probability of default (PD) and loss given default (LGD) rate considering a number of forecasted macroeconomic factors including national unemployment rates, annual GDP growth, consumer credit and credit market debt to disposable income. Using regression analysis, the Company determined which factors have a relationship with historical retail loan and retail lease writeoffs.

The macroeconomic factor that exhibited a relationship for retail loans is consumer credit, and this factor was used for the calculation of the PD. The macroeconomic factors that exhibited a relationship for retail leases are national unemployment and consumer credit and these factors were used for the calculation of the PD. The forecasts used by the Company are based on an average of the largest five Canadian banks.

The current macroeconomic environment, categorized by a rapid increase in interest rates and concerns of an economic recession, have increased the estimation uncertainty in preparing the condensed consolidated interim financial statements, in particular the significant accounting estimates related to the allowance for credit losses.

The Company has applied accounting estimates in the condensed consolidated interim financial statements based on economic conditions that reflect expectations and assumptions as at September 30, 2023 about events that management believes are reasonable in the circumstances. There is a considerable degree of judgment involved in preparing the forecasts. The underlying assumptions are also subject to uncertainties that are often

(in thousands of Canadian dollars)

outside the control of the Company. Accordingly, actual economic conditions are likely to be different from those forecasts since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates in the condensed consolidated interim financial statements.

As at September 30, 2023, the Company's allowance for credit losses was largely unchanged compared to March 31, 2023.

Critical estimate for the allowance for retail finance lease residual losses

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

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

The vehicle lease return rate represents the number of end of term leased vehicles returned to the Company for sale as a percentage of lease contracts that were originally scheduled to mature in the same period less certain qualified early terminations. As at September 30, 2023, 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 $1,271 (March 31. 2023 – $2,134) and an increase of $651 (March 31, 2023 – $1,737) to the operating income were the return rate to decrease by 1%.

End of term fair values determine the amount of loss severity at lease maturity. Loss severity is the extent to which the end of term fair value of a leased vehicle is less than the lease end value at inception. The Company incurs losses to the extent the residual value of a leased vehicle is less than the lease end value at inception and the vehicle is returned to the Company. As at September 30, 2023, 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 $4,120 (March 31, 2023 – $5,629) and an increase of $3,230 (March 31, 2023 – $5,032) to the operating income were the fair values for returned units to increase by 1%.

(in thousands of Canadian dollars)

During the six-month period ended September 30, 2023, the Company reduced its allowance for retail finance lease residual value losses by $11,549, primarily as a result of improved forecasted used vehicle values. This resulted in a corresponding increase in net income.

Derecognition of financial assets

A financial asset is derecognized when:

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

TCCI securitizes finance receivables through an amortizing funding structure.

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

Accounting and Reporting Changes

CDOR Reform

On May 16, 2022, Refinitiv Benchmark Services (UK) Limited, the administrator of Canadian Dollar Offered Rate (CDOR), published a cessation notice announcing that the calculation and publication of all tenors of CDOR will permanently cease immediately following a final publication on June 28, 2024. When CDOR is discontinued or otherwise unavailable, the rate of interest on floating rate debt or derivatives will be determined for the relevant period by the fallback provisions applicable to such instruments. As of September 30, 2023, the company had twenty-three CDOR payable financial instruments with a fair value of $3,199 million along with thirty-four CDOR receivable financial instruments with a fair value of $199 million. Interest payments repriced for periods after June 28, 2024 will be based on the new benchmark rates as determined by the fallback provisions of each instrument. The Company will continue to assess the effect of the amendments throughout fiscal 2024.

(in thousands of Canadian dollars)

4 Finance receivables – net

	Six-month period ended September 30, 2023 $	Year ended March 31, 2023 $
Retail financing leases	8,822,748	8,935,683
Unearned income	(1,030,777)	(954,186)
	7,791,971	7,981,497
Retail loans	5,609,845	5,280,072
Unearned income – net of accrued interest	(172,019)	(196,101)
	5,437,826	5,083,971
Dealer financing	600,190	541,647
Add: Accrued interest	2,148	1,849
	602,338	543,496
	13,832,135	13,608,964
Less: Allowances for		
Retail finance lease residual value losses	31,924	43,473
Credit losses	35,768	34,613
	67,692	78,086
	13,764,443	13,530,878

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

The contractual maturities of retail financing leases, retail loans and dealer financing as at September 30, 2023 are summarized as follows:

	Retail financing leases $	Retail loans $	Dealer financing $	Total $
For the 12-month period ending				
September 30, 2024	3,212,110	1,589,016	334,559	5,135,685
September 30, 2025	2,400,180	1,316,856	27,494	3,744,530
September 30, 2026	1,753,169	1,038,241	27,942	2,819,352
September 30, 2027	949,214	770,387	12,699	1,732,300
September 30, 2028	505,862	510,993	11,242	1,028,097
Thereafter	2,213	384,352	186,254	572,819
	8,822,748	5,609,845	600,190	15,032,783

Included in retail financing leases are unguaranteed residual values of $5,521,036 as at September 30, 2023.

(in thousands of Canadian dollars)

The contractual maturities of retail financing leases, retail loans and dealer financing as at March 31, 2023 are summarized as follows:

	Retail financing leases $	Retail loans $	Dealer financing $	Total $
Year ending				
2024	3,084,808	1,542,647	271,389	4,898,844
2025	2,436,664	1,270,941	27,905	3,735,510
2026	1,871,617	981,932	28,622	2,882,171
2027	1,025,838	705,537	13,408	1,744,783
2028	490,255	450,638	12,178	953,071
Thereafter	26,501	328,377	188,145	543,023
	8,935,683	5,280,072	541,647	14,757,402

Included in retail financing leases are unguaranteed residual values of $5,624,449 as at March 31, 2023.

5 Debt payable

	Six-month period ended September 30, 2023 $	Year ended March 31, 2023 $
Commercial paper (net of unamortized discount) – current	1,694,615	1,688,444
Intercompany payable – current	250,000	770,028
Intercompany payable – non-current	1,000,510	703,716
	1,250,510	1,473,744
Bonds payable		
Current	699,656	799,635
Non-current	3,893,280	3,593,551
	4,592,936	4,393,186
Loans payable	873,185	1,152,054
Current	2,105,547	1,927,707
Non-current		
	2,978,732	3,079,761
Securitization loans payable		
Current	606,884	446,787
Non-current	656,340	474,445
	1,263,224	921,232
	11,780,017	11,556,367

(in thousands of Canadian dollars)

6 Financial instruments

Fair value measurement levels of financial instruments

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

- Level 1 – unadjusted quoted prices in active markets for identical financial assets or financial liabilities;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the financial asset or financial liability either directly or indirectly; and
- Level 3 – inputs that are not based on observable market data.

As at September 30, 2023 and March 31, 2023, the Company's derivative assets and derivative liabilities measured at fair value on a recurring basis are within Level 2 of the fair value hierarchy. Debt and interest payable, which are not measured at fair value but for which fair values are disclosed, are within Level 2 of the fair value hierarchy. Finance receivables, which are not measured at fair value but for which fair values are disclosed, are within Level 3 of the fair value hierarchy. Securitization financial assets and financial liability (i.e. securitization liabilities), which are not measured at fair value but for which fair values are disclosed, are within Level 3 of the fair value hierarchy.

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

(in thousands of Canadian dollars)

Carrying and fair values of selected financial instruments

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

		Six-month period ended September 30, 2023		Year ended March 31, 2023	
	Fair value hierarchy	**Carrying value $**	**Estimated fair value $**	**Carrying value $**	**Estimated fair value $**
FVTPL – recurring measurements					
Financial assets					
Cash equivalents	Level 2	960,319	960,319	1,059,731	1,059,731
Derivative assets	Level 2	266,408	266,408	239,495	239,495
Financial liabilities					
Derivative liabilities	Level 2	253,466	253,466	209,240	209,240
Amortized cost – fair values disclosed					
Financial assets					
Loans and receivables at amortized cost					
Finance receivables	Level 3	13,764,443	13,833,210	13,530,878	13,577,699
Financial liabilities					
Financial liabilities at amortized cost					
Debt and interest payable	Level 2	10,599,931	10,468,796	10,712,701	10,561,314
Securitization liabilities	Level 3	1,263,224	1,266,766	921,232	919,657

FVTPL refers to fair value through profit or loss.

The carrying value and fair value of cash and restricted cash are identical.

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

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

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

(in thousands of Canadian dollars)

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

Derivative contracts	Six-month period ended September 30, 2023			
	Maturity date	Interest rate terms	Notional value $	Estimated fair value $
Paying fixed interest rates				
Interest rate swap agreements	2023 – 2028	0.62% – 5.13%	8,330,000	250,832
Paying variable interest rates				
Interest rate swap agreements (CDOR)	2024 – 2028	CDOR +0.09 CDOR +1.56	4,420,000	(227,181)
Interest rate swap agreements (CORRA)	2026 – 2028	CORRA +0.87 CORRA +1.28	600,000	(8,847)
Cross-currency interest rate swap agreements	2024 – 2025	CDOR +0.26 CDOR +0.73	1,454,502	(13,369)
Foreign currency forward contracts	2023	-	884,581	11,507

Derivative contracts	Year ended March 31, 2023			
	Maturity date	Interest rate terms	Notional value $	Estimated fair value $
Paying fixed interest rates				
Interest rate swap agreements	2023 – 2028	0.60% – 4.38%	8,285,000	193,490
Paying variable interest rates				
Interest rate swap agreements (CDOR)	2023 – 2028	CDOR +0.09 CDOR +1.56	4,820,000	(188,045)
Cross-currency interest rate swap agreements	2023 – 2025	CDOR +0.27 CDOR +0.73	2,100,849	19,536
Foreign currency forward contracts	2023	-	1,064,204	5,274

CDOR refers to the Canadian dealer offered rate.

CORRA refers to the Canadian Overnight Repo Rate Average.

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

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

(in thousands of Canadian dollars)

7 Derivative assets and derivative liabilities

The Company's derivative arrangements with other financial institutions contain provisions that may require either the Company or the counterparty to post cash collateral in the event the fair value valuation of the derivative position with that counterparty exceeds certain predetermined thresholds. As at September 30, 2023, $30,310 (March 31, 2023 – $61,190) of cash collateral had been posted by the counterparties and $37,600 (March 31, 2023 – $52,920) of cash collateral had been posted by the Company.

The following table presents the recognized financial instruments that are offset in the condensed consolidated statements of financial position, or subject to enforceable master netting agreements but are not offset in the condensed consolidated statements of financial position, as at September 30, 2023 and March 31, 2023, and shows the net impact on the Company's financial position if all set-off rights were exercised.

	Six-month period ended September 30, 2023	
	Financial assets $	Financial liabilities $
Gross amounts subject to agreements	285,313	272,371
Net settled amounts on the condensed consolidated statement of financial position	(18,905)	(18,905)
Net amount presented in the condensed consolidated statement of financial position	266,408	253,466
Amounts subject to master netting agreements	(23,163)	(23,163)
Cash collateral	(30,310)	(37,600)
Net	212,935	192,703

	Year ended March 31, 2023	
	Financial assets $	Financial liabilities $
Gross amounts subject to agreements	255,551	225,296
Net settled amounts on the condensed consolidated statement of financial position	(16,056)	(16,056)
Net amount presented in the condensed consolidated statement of financial position	239,495	209,240
Amounts subject to master netting agreements	(42,930)	(42,930)
Cash collateral	(61,190)	(52,920)
Net	135,375	113,390

(in thousands of Canadian dollars)

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

	Six-month period ended September 30, 2023 $	**Year ended March 31, 2023 $**
Derivative assets		
Interest rate swap agreements	250,832	203,189
Cross-currency interest rate swap agreements	3,349	27,903
Foreign currency forward contracts	12,227	8,403
	266,408	239,495
Derivative liabilities		
Interest rate swap agreements	236,028	197,744
Cross currency interest rate swap agreements	16,718	8,368
Foreign currency forward contracts	720	3,128
	253,466	209,240

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 $153,771 (March 31, 2023 – $143,337) includes the balance owing to affiliates with respect to vehicles being financed by the Company under dealer wholesale loans (due 15 days after shipment to dealers) and certain administrative expenses (due 30 days after the invoice date).

Debt payable

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

Included in debt payable are total loans of $1,250,510 (March 31, 2023 – $1,473,744) owing to an affiliate. Interest on short-term and long-term debt charged by a Toyota group company during the period ended September 30, 2023 amounted to $30,844 (September 30, 2022 – $12,267).

(in thousands of Canadian dollars)

The Company pays a fee for credit support and guarantees from affiliates for purposes of debt and commercial paper issuance. The total payments made to these affiliates of $4,191 (September 30, 2022 – $4,856) have been included in interest expense in the condensed consolidated statement of income and comprehensive income. Debt and commercial paper guaranteed by affiliates amounts to $6,287,551 (March 31, 2023 – $6,081,630).

Subvention program

As part of its sales promotion arrangements with authorized Toyota and Lexus vehicle dealers and consumers, an affiliate funds various interest rate reduction programs on loans and leases. The affiliate reimburses the Company for the difference between the face amount and the fair value of the retail lease or loan to consumers. Finance receivables – net included in the condensed consolidated statement of financial position as at September 30, 2023 are net of $346,538 (March 31, 2023 – $399,357) related to these reimbursements received from an affiliate. Financing revenue includes $123,103 for the period ended September 30, 2023 (September 30, 2022 – $147,515) related to these reimbursements received from an affiliate.

9 Securitization activity

In the period ended September 30, 2023, the Company entered into a securitization transaction. TCCI securitizes finance receivables through an amortizing funding structure. TCCI's transactions do not meet the transfer or derecognition criteria. Accordingly, the assets continue to be reported on TCCI's consolidated statement of financial position as Finance receivables, net.

The following table presents the activity associated with the principal value of the Company's receivables that serve as collateral for the $1,700,000 securitization transaction.

Transfers of securitized receivables	Six-month period ended September 30, 2023 $	Year ended March 31, 2023 $
Restricted cash	61,182	47,157
Securitized receivables	1,329,390	973,547
Allowance for credit losses	(2,062)	(1,516)
Finance receivables, net (a)	1,327,328	972,031
Related debt	1,263,224	921,232

(in thousands of Canadian dollars)

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

	Liability
1 Year	606,884
2 Years	421,402
3 Years	234,938
Thereafter	-

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

10 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.

11 Events occurring after the condensed consolidated statement of financial position date

No significant events have occurred since September 30, 2023 that would have an impact on the financial position of the Company disclosed in the condensed consolidated statement of financial position or on the results and cash flows of the Company for the interim period as at September 30, 2023.

3. Responsibility Statement

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

(a) the condensed consolidated interim financial statements as at and for the six month period ended 30 September 2023, which have been prepared in accordance with IAS 34 "Interim Financial Reporting" using accounting policies consistent with the accounting policies in the 2023 annual financial statements, give a true and fair view of the assets, liabilities, financial position and profit or loss of Toyota Credit Canada Inc. and the undertakings included in the consolidation taken as a whole as required by DTR 4.2.4; and

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