TOYOTA FINANCE AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES
ABN 48 002 435 181
INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED 30 SEPTEMBER 2023

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Interim Financial Report

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DIRECTORS' REPORT

The directors present this report on the consolidated entity consisting of Toyota Finance Australia Limited ("the company") and the entities it controlled at the end of, or during, the half year ended 30 September 2023.

1. DIRECTORS

The directors of the company at any time during or since the end of the financial year are:

Current Directors
E. Tsirogiannis, a director since 2017; Managing Director since 2020
B. I. Knight, a director since 2014
G. McGrath, a director since 2016
M. J. Callachor, a director since 2017
M. Templin, a director since 2018
J. Pappas, a director since 2022
H. Ito, a director since 1 January 2023

2. REVIEW OF OPERATIONS

The net profit of the consolidated entity for the half year ended 30 September 2023 was $141,035,000 (30 September 2022: $31,330,000) after deducting income tax expense of $57,851,000 (30 September 2022: $10,979,000).

The Reserve Bank of Australia (RBA) has undertaken monetary tightening measures with increased focus on curtailing inflation by means of interest rate rises. Resultantly, there has been an increase in the overall cost of funds in the first half of the current financial year, however there is renewed vehicle take up as supplies begin to normalise after the resolution of supply chain disruptions which impacted previous periods. The RBA paused cash rate increases between July and November 2023, resulting in renewed consumer and business confidence which has had a positive impact on new finance volumes.

Underlying profitability has been impacted by the change in the fair value of derivatives used to manage exposure to foreign currency and interest rate risks. As the consolidated entity does not apply hedge accounting, changes in the fair value of derivatives are recognised immediately in the statements of comprehensive income as interest expense and similar charges. This introduces volatility in the consolidated entity's statement of comprehensive income and produces anomalous results through the lifecycle of the derivatives. The impact of changes in the fair value of derivatives is shown in the segment operating profit reconciliation contained in Note 6.

3. AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration is set out on page 3.

4. ROUNDING OF AMOUNTS

The company and its controlled entities are of a kind referred to in ASIC Legislative Instrument 2016/191, relating to "rounding off" of amounts in the directors' report. Amounts in the directors' report and condensed consolidated interim financial report have been rounded off in accordance with that Instrument to the nearest thousand dollars or, in certain cases, to the nearest dollar.

This report is made in accordance with a resolution of the directors.
For and on behalf of the Board

E. Tsirogiannis	H. Ito
Director	Director
Sydney	Sydney
5 December 2023	5 December 2023

Auditor's Independence Declaration

As lead auditor for the review of Toyota Finance Australia Limited for the half-year ended 30 September 2023, I declare that to the best of my knowledge and belief, there have been no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Toyota Finance Australia Limited and the entities it controlled during the period.

David R Cox
Partner
PricewaterhouseCoopers

Sydney
5 December 2023

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CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	30 September 2023 $'000	30 September 2022 $'000
Interest revenue	2a	687,800	436,061
Rental income on motor vehicles under operating lease		247,629	213,679
Fee income	2b	29,091	26,450
Financing and similar revenue		**964,520**	**676,190**
Interest expense and similar charges	2a	(445,577)	(398,994)
Depreciation expense on motor vehicles under operating lease		(202,655)	(181,998)
Financing expense and similar charges		**(648,232)**	**(580,992)**
Net financing and similar revenue		**316,288**	**95,198**
Other revenue	3	53,295	50,387
Net operating income		**369,583**	**145,585**
Credit impairment (loss)/reversal	4b	(22,058)	25,506
Non-credit impairment reversal	7b	63	8,941
Employee benefits expense		(95,779)	(91,509)
Depreciation, write-off and amortisation	5	(14,313)	(11,914)
IT and communication expense		(23,511)	(21,323)
Sales and marketing expense		(4,278)	(3,396)
Other expenses		(16,872)	(15,293)
Share of net profits of associates accounted for using the equity method		6,051	5,712
Profit before income tax		**198,886**	**42,309**
Income tax expense		(57,851)	(10,979)
Profit attributable to owners of Toyota Finance Australia Limited		**141,035**	**31,330**
Other comprehensive income			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		(634)	(5,126)
Total comprehensive income attributable to owners of Toyota Finance Australia Limited		**140,401**	**26,204**

The above condensed consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 September 2023 $'000	31 March 2023 $'000
Assets			
Cash and cash equivalents		1,974,948	2,104,066
Loans and receivables	7a	24,601,064	22,252,676
Motor vehicles under operating lease	7b	2,063,638	1,864,213
Derivative financial instruments	10	514,837	515,314
Investment accounted for using the equity method		108,389	102,972
Intangible assets		62,708	55,156
Property, plant and equipment		16,819	17,532
Right-of-use assets		19,210	21,865
Deferred tax assets		-	5,723
Other assets		81,332	128,112
Total assets		**29,442,945**	**27,067,629**
Liabilities			
Due to banks and other financial institutions	8	7,276,865	7,140,674
Bonds and commercial paper	9	18,649,137	16,788,751
Derivative financial instruments	10	564,699	623,947
Deferred tax liabilities		29,126	-
Other liabilities		714,456	449,212
Contract liabilities		131,455	125,300
Lease liabilities		26,095	29,034
Total liabilities		**27,391,833**	**25,156,918**
Net assets		**2,051,112**	**1,910,711**
Equity			
Contributed equity		120,000	120,000
Reserves		4,323	4,957
Retained earnings		1,926,789	1,785,754
Total equity		**2,051,112**	**1,910,711**

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 April 2022	120,000	4,129	1,872,356	1,996,485
Profit for the period	-	-	31,330	31,330
Other comprehensive income	-	(5,126)	-	(5,126)
Total comprehensive income for the period	-	(5,126)	31,330	26,204
Dividend paid	-	-	(101,492)	(101,492)
Balance at 30 September 2022	**120,000**	**(997)**	**1,802,194**	**1,921,197**
Balance at 1 April 2023	120,000	4,957	1,785,754	1,910,711
Profit for the period	-	-	141,035	141,035
Other comprehensive income	-	(634)	-	(634)
Total comprehensive income for the period	-	(634)	141,035	140,401
Dividend paid	-	-	-	-
Balance at 30 September 2023	**120,000**	**4,323**	**1,926,789**	**2,051,112**

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	30 September 2023 $'000	30 September 2022 $'000
Cash flows from operating activities		
Net cash outflow from lending and other operating activities	(2,379,397)	(923,253)
Interest received	773,108	523,778
Short term lease payments	-	(140)
Rental income received	247,633	213,679
Interest paid	(442,562)	(203,679)
Income taxes refunded/(paid)	45,337	(106,069)
Net cash outflow from operating activities	**(1,755,881)**	**(495,684)**
Cash flows from investing activities		
Payments for intangible assets	(12,912)	(12,957)
Payments for property, plant and equipment	(3,137)	(3,116)
Proceeds from sale of non-leased property, plant and equipment	1,928	2,610
Dividends received from associate	-	10,228
Net cash outflow from investing activities	**(14,121)**	**(3,235)**
Cash flows from financing activities		
Proceeds from borrowings	11,772,443	13,796,964
Repayments of borrowings	(10,127,710)	(13,361,607)
Principal lease payments	(3,849)	(3,871)
Dividends paid to parent	-	(101,492)
Net cash inflow from financing activities	**1,640,884**	**329,994**
Net decrease in cash and cash equivalents	(129,118)	(168,925)
Cash and cash equivalents at beginning of period	2,104,066	2,197,444
Cash and cash equivalents at end of period	**1,974,948**	**2,028,519**

The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1. Basis of preparation of interim financial report

The condensed consolidated interim financial report for the half year ended 30 September 2023 has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting.*

The condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 March 2023.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, with the exception of new and amended standards and interpretations, commencing 1 April 2023 that have been adopted where applicable.

Going Concern

The directors consider the consolidated entity has sufficient resources to meet all its obligations as and when they fall due. Therefore, the financial statements have been prepared on a going concern basis, which assumes that the consolidated entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Prior Year comparatives

Where relevant, comparatives in the condensed consolidated interim financial report have been restated to conform to the current half year presentation.

2. Financing revenue, expense and similar charges

	30 September 2023 $'000	30 September 2022 $'000
(a) Interest revenue and expense		
Interest revenue		
Interest revenue	773,204	526,127
Fee income recognised using the effective interest rate method	48,364	45,137
Fee expense recognised using the effective interest rate method	(133,768)	(135,203)
Total interest revenue	**687,800**	**436,061**
Interest expense and similar charges		
Interest expense	452,832	177,538
Net loss on translation of foreign currency debt	228,527	759,630
Fair value gain on derivative financial instruments at fair value through profit or loss	(250,826)	(551,905)
Transaction costs	14,605	13,244
Interest on lease liabilities	439	487
Total interest expense and similar charges	**445,577**	**398,994**
(b) Fee income earned on originated assets		
Administration and management fee	27,932	25,428
Other fees	1,159	1,022
Total fee income	**29,091**	**26,450**

3. Other revenue

	30 September 2023 $'000	30 September 2022 $'000
Net gain on disposal of leased and fixed assets	28,832	35,044
Net insurance distribution revenue	12,247	6,521
Net maintenance revenue	9,121	7,312
Other income	3,095	1,510
Total other revenue	**53,295**	**50,387**

4. Impairment of financing assets

	30 September 2023 $'000	31 March 2023 $'000
(a) Provision for credit impairment of loans and receivables		
Opening balance	140,967	161,450
Decrease in impairment loss provision	-	(20,483)
Closing balance*	**140,967**	**140,967**

	30 September 2023 $'000	30 September 2022 $'000
(b) Credit impairment loss		
Bad debts written off	34,111	32,104
Recovery of bad debts written off	(12,053)	(11,660)
Decrease in impairment loss provision	-	(45,950)
Total impairment loss/(reversal)	**22,058**	**(25,506)**

* The balance as at 30 September 2023 includes provision on guaranteed future value of $2,200,000 (31 March 2023: $2,200,000) which is calculated under AASB 16 Leases.

Significant accounting estimate and judgement

The consolidated entity assesses, on a forward-looking basis, the expected credit loss (ECL) associated with its loan and receivable assets carried at amortised cost and recognises a loss allowance for such losses at each reporting date. The consolidated entity uses complex models and significant assumptions on future economic conditions and credit behaviour (e.g., the likelihood of customers defaulting and resulting losses).

A number of significant judgements are applied in the accounting requirements for measuring ECL, such as:

- determining the criteria for a significant increase in credit risk;
- choosing appropriate models and assumptions for the measurement of ECL; and
- establishing the number and relative weightings of forward-looking scenarios for each type of portfolio and the associated ECL.

Incorporation of forward-looking factors and macroeconomic factors considered in the measurement of ECL

The consolidated entity has considered a range of relevant forward-looking Australian macroeconomic scenarios and assumptions, for the determination of unbiased economic forecasts and industry adjustment, that support the calculation of probability weighted expected loss.

The measurement of ECL reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions, forecasts of future economic conditions, including the continued Ukraine crisis.

4. Impairment of financing assets (continued)

The consolidated entity engages Moody's Analytics to obtain forecasts of the Australian macroeconomic variables, which are applied in the Z-score model. Inputs considered in the Z-score model are:

- real gross domestic product (GDP) growth rate;
- unemployment rate;
- cash rate;
- house price index;
- AUD/USD exchange rate; and
- stock market index.

These inputs reflect reasonable and supportable forecasts of future macroeconomic conditions that includes, but are not limited to, unemployment, interest rates, gross domestic product, house price index, and require evaluations of both the current and forecast direction of the macroeconomic cycle.

Incorporation of forward-looking information increases the degree of judgement required as to how changes in these macroeconomic factors will affect expected credit losses. For the half year reporting period, the consolidated entity has considered three forward-looking scenarios in the calculation of ECL:

Upside scenario at 5% weighting: Under this scenario, the acceleration in global activity will help push Australian output above its potential level. Faster growth in employment and rising productivity will boost wages and lift household incomes and spending more than expected. The cash rate will peak at 4.4% in the December 2023 quarter and remain constant until mid-2024. Macroeconomic factors incorporated in this scenario includes:

- Real GDP will expand by 1.93% in calendar year "CY" 2023 and 2.98% in CY2024;
- Unemployment rate to drop to 3.41% on average in CY2023; and
- Consumer Price Index (CPI) to rise by 5.9% on average in CY2023.

Base scenario at 50% weighting: Under this scenario, Australia's economy is making progress against inflation, and is on track to expand by 1.5% in CY2023. As inflation retreats towards the Reserve Bank of Australia's target band of 2% to 3%, the central bank will start cutting rates in the middle of CY2024. Macroeconomic factors incorporated in this scenario includes:

- Full-year GDP growth is estimated at 1.47% in CY2023, followed by a 1.12% growth in CY2024;
- Unemployment rate to remain at 3.7% on average in CY2023; and
- CPI estimated to rise by 5.53% on average in CY2023.

Recession scenario at 45% weighting: Under this scenario, supply chains deteriorate on the back of an escalation in the Russia-Ukraine wars. In addition, worsening policy disagreements between the U.S. and China will lead to a month-long disruption to shipping in the Taiwan Strait. Macroeconomic factors incorporated in this scenario includes:

- Real GDP will expand by 0.82% in CY2023 and decline by 1.92% in CY2024;
- Unemployment rate will reach 4.06% on average in CY2023 and climb to 6.51% in CY2024; and
- CPI to rise by 4.81% on average in CY2023.

As at 30 September 2023, the ECL under the Base, Upside and Recession scenarios would be $105,850,000, $84,520,000 and $158,320,000 (31 March 2023: $99,901,000, $79,844,000 and $144,736,000) respectively. The consolidated entity has applied overlays of approximately $10,400,000 (31 March 2023: $19,667,000).

The ECL recognised as at 30 September 2023 is $138,767,000 (31 March 2023: $138,767,000).

5. Depreciation, write-off and amortisation

	30 September 2023 $'000	30 September 2022 $'000
Depreciation on property, plant and equipment		
Right-of-use assets	3,453	3,579
Leasehold improvements	1,152	1,164
Plant and equipment	204	368
Motor vehicles	1,068	1,037
Write-off property, plant and equipment	17	-
Total depreciation and write-off	**5,894**	**6,148**
Amortisation of intangible assets		
Computer software development*	8,419	5,766
Total amortisation and write-off	**8,419**	**5,766**
Total depreciation, write-off and amortisation	**14,313**	**11,914**

** The amortisation of computer software development as at 30 September 2023 includes amortisation of software as a service arrangements amounting to $3,109,000 (2022: nil).*

6. Segment results

Management has determined the operating segments based on reports reviewed by the board of directors that are used to make strategic decisions. It categorises the operations of the business into two main business streams, Retail and Fleet. Retail segment comprises of loans and leases to personal and commercial customers, including wholesale finance consisting of loans and bailment facilities to motor vehicle dealerships. Fleet segment comprises of loans and leases to small business and Fleet customers. Fleet customers include medium to large commercial clients and government bodies. The company's business segments operate in Australia.

	30 September 2023			
	Retail	**Fleet**	**Unallocated***	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Net financing revenue (excluding fee income)	192,551	45,741	48,905	287,197
Fee income				
Fee income recognised over a period of time	19,599	8,333	-	27,932
Fee income/(expense) recognised at a point in time	1,874	(685)	(30)	1,159
Other revenue				
Other revenue recognised at a point in time	7,464	10,107	6,892	24,463
Net gain on disposal of leased and fixed assets	-	28,662	170	28,832
Net operating income	221,488	92,158	55,937	369,583
Total reporting segment operating profit	71,016	39,447	-	110,463

	30 September 2022			
	Retail	**Fleet**	**Unallocated***	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Net financing revenue (excluding fee income)	168,036	40,606	(139,894)	68,748
Fee income				
Fee income recognised over a period of time	18,131	7,297	-	25,428
Fee income/(expense) recognised at a point in time	1,809	(727)	(60)	1,022
Other revenue				
Other revenue recognised at a point in time	6,545	7,605	1,193	15,343
Net gain on disposal of leased and fixed assets	-	34,461	583	35,044
Net operating income	194,521	89,242	(138,178)	145,585
Total reporting segment operating profit	118,858	64,798	-	183,656

	30 September 2023			
Assets	**Retail**	**Fleet**	**Unallocated**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Segment assets	21,692,936	4,971,766	2,778,243	29,442,945

	31 March 2023			
Assets	**Retail**	**Fleet**	**Unallocated**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Segment assets	19,530,926	4,585,962	2,950,741	27,067,629

** Unallocated includes the activities undertaken by the centralised treasury and ancillary support functions.*

6. Segment results (continued)

The consolidated entity's segment operating profit reconciles to consolidated profit attributable to owners as presented in the condensed consolidated interim financial statement as follows:

	30 September 2023 $'000	30 September 2022 $'000
Total reporting segment operating profit	110,463	183,656
Share of net profits of associates accounted for using the equity method	6,051	5,712
Fair value gain/(loss)	36,220	(173,010)
Other unallocated net income	46,152	25,951
Profit before income tax	**198,886**	**42,309**
Income tax expense	(57,851)	(10,979)
Profit attributable to owners of Toyota Finance Australia Limited	**141,035**	**31,330**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker who is responsible for allocating resources and assessing performance of the operating segments has been identified as the board of directors.

7. Financing assets and motor vehicles under operating lease

(a) Loans and receivables

	Note	30 September 2023 $'000	31 March 2023 $'000
Finance leases		1,255,136	1,113,333
Unearned income on finance leases		(100,952)	(73,228)
Finance leases - net		**1,154,184**	**1,040,105**
Bailment stock		4,147,379	2,921,785
Term loans - net		18,840,145	17,816,838
Term purchase - net		600,323	614,915
Net loans and receivables (net of unearned income)		**24,742,031**	**22,393,643**
Provision for impairment of loans and receivables	4a	(140,967)	(140,967)
Net loans and receivables		**24,601,064**	**22,252,676**
Maturity analysis (net of unearned income)			
Current			
Net loans and receivables maturing within 12 months		9,547,655	8,014,206
Non-current			
Net loans and receivables maturing beyond 12 months		15,194,376	14,379,437
		24,742,031	**22,393,643**

7. Financing assets and motor vehicles under operating lease (continued)

Future minimum lease receipts under finance leases

	30 September 2023			31 March 2023		
	Gross investment in finance lease receivables $'000	Unearned income $'000	Present value of minimum lease payment receivables $'000	Gross investment in finance lease receivables $'000	Unearned income $'000	Present value of minimum lease payment receivables $'000
Not later than one year	370,205	(39,691)	330,514	331,748	(29,151)	302,597
One to two years	324,783	(28,384)	296,399	286,792	(20,602)	266,190
Two to three years	258,385	(18,339)	240,046	231,792	(13,059)	218,733
Three to four years	189,903	(9,549)	180,354	164,312	(6,762)	157,550
Four to five years	76,138	(3,568)	72,570	66,208	(2,586)	63,622
Over five years	35,722	(1,421)	34,301	32,481	(1,068)	31,413
Total	**1,255,136**	**(100,952)**	**1,154,184**	**1,113,333**	**(73,228)**	**1,040,105**

(b) Motor vehicles under operating lease

	30 September 2023 $'000	31 March 2023 $'000
Operating lease - at cost	3,339,960	3,069,879
Impairment loss	(8,750)	(8,750)
Accumulated depreciation	(1,267,572)	(1,196,916)
Total motor vehicles under operating lease	**2,063,638**	**1,864,213**
Provision for non-credit impairment loss on motor vehicle under operating lease		
Opening balance	8,750	30,350
Decrease in impairment loss provision	-	(21,600)
Closing balance	**8,750**	**8,750**

	30 September 2023 $'000	30 September 2022 $'000
Non-credit Impairment loss		
Impairment (reversal)/loss	(63)	9
Decrease in impairment loss provision	-	(8,950)
Total impairment reversal	**(63)**	**(8,941)**

	30 September 2023 $'000	31 March 2023 $'000
Future minimum lease receipts		
Not later than one year	376,471	338,226
One to two years	225,829	213,162
Two to three years	153,152	138,755
Three to four years	76,513	70,169
Four to five years	30,728	26,348
Over five years	11,582	13,105
	874,275	**799,765**
Movements in cost, accumulated depreciation and reserves		
Balance at beginning of period, net of residual value	1,864,213	1,686,331
Additions	531,598	752,007
Disposals	(129,518)	(227,443)
Depreciation expense	(202,655)	(368,282)
Impairment reversal	-	21,600
Balance at end of period, net of residual value	**2,063,638**	**1,864,213**

8. Due to banks and other financial institutions

	30 September 2023 $'000	31 March 2023 $'000
Banks and other financial institutions	7,276,865	7,140,674
Total due to banks and other financial institutions	**7,276,865**	**7,140,674**
Maturity analysis		
Current		
Banks and other financial institutions	3,207,246	3,112,508
Non-current		
Banks and other financial institutions	4,069,619	4,028,166
	7,276,865	**7,140,674**

9. Bonds and commercial paper

	30 September 2023 $'000	31 March 2023 $'000
Commercial paper	5,169,104	4,566,655
Medium term note	13,480,033	12,222,096
Total bonds and commercial paper	**18,649,137**	**16,788,751**
Maturity analysis		
Current		
Bonds and commercial paper	9,547,480	7,494,918
Non-current		
Bonds and commercial paper	9,101,657	9,293,833
	18,649,137	**16,788,751**

Holders of any outstanding bonds, debentures, notes and other investment securities and commercial paper summarised in the tables above have the benefit of Credit Support Agreements governed by Japanese law. These agreements are between Toyota Motor Corporation (“TMC”) and Toyota Financial Services Corporation (“TFSC”) dated 14 July 2000, and between TFSC and the company dated 7 August 2000.

As at 30 September 2023, the company has access to $3,285,000,000 (31 March 2023: $2,735,000,000) of uncommitted facilities and nil committed facilities (31 March 2023: $200,000,000) from various banks. The company also has a $1,539,527,000 (31 March 2023: $1,494,657,000) facility available with Toyota Motor Credit Corporation and a $3,676,391,000 (31 March 2023: $3,512,443,000) committed facility available as part of the Toyota Group Master Credit Facility.

10. Fair value measurement of financial instruments

Fair value measurements

The consolidated entity uses derivatives not designated in a qualifying hedging relationship, to manage its exposure to foreign currency and interest rate risks. Derivative financial assets and liabilities are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The derivatives have not been designated as hedging instruments. Consequently, changes in the fair value of derivatives are recognised immediately in the condensed consolidated statement of comprehensive income as "interest expense and similar charges". This may, to the extent that they are not offset by the translation of the items economically hedged, introduce volatility in the condensed consolidated entity's statement of comprehensive income and produce anomalous results.

Fair value estimation

The fair value of the financial instruments that are not traded in an active market (over-the-counter derivatives) is determined using valuation techniques. The fair value of interest rate swaps and cross currency swaps is calculated as the present value of the estimated future cash flows. The fair value of foreign exchange contracts is determined using the forward exchange rates at the end of the reporting period.

The following market inputs and methods are used to determine the fair value of financial instruments:

- Market mid rates, being the average of bid and ask prices, for interest and foreign exchange rates;
- Market rates are captured at Tokyo close on the last business day of the preceding month;
- Cash flows for interest rate and cross currency swaps are discounted at risk free rates, known as overnight index swaps rates;
- For variable interest rate instruments, future interest rate sets are estimated from interest rate swap curve of the same currency and interest rate period; and
- Forward revaluation approach is used for foreign exchange contracts, whereby;
  - Forward exchange rates are determined by combining spot exchange rates and forward points; and
  - Forward exchange rates are used to convert foreign currency cash flows to the reporting currency, to determine the value on settlement date, without discounting back to the valuation date.

Bilateral credit valuation adjustments

The credit valuation adjustment is an adjustment to the fair value of the derivative instruments to account for the counterparty credit risk. It is the credit spreads of both the consolidated entity and the counterparty, together with market factors, that drive the bilateral credit valuation adjustments.

Accounting estimates

The consolidated entity applies accounting estimates and assumptions to make reasonable judgements on carrying amounts of assets and liabilities. An area involving levels of estimates or complexity of assumptions is derivative financial instruments.

Fair value hierarchy

The table below analyses financial instruments carried at fair values, by valuation method. The different levels are defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
Level 3: Inputs for the asset or liability that are not based on observable market data.

The consolidated entity's financial instruments that are measured and recognised at fair value are derivative assets and derivative liabilities used for hedging (i.e., interest rate swaps, cross currency swaps and forward exchange contracts). While these instruments are used for economic hedging, the consolidated entity does not apply hedge accounting.

10. Fair value measurement of financial instruments (continued)

30 September 2023	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Derivative financial assets through profit or loss				
Derivatives used for economic hedging				
Foreign exchange contracts	-	62,917	-	62,917
Interest rate swap contracts	-	400,662	-	400,662
Cross currency swap contracts	-	52,902	-	52,902
Less: Bilateral credit valuation adjustments	-	(1,644)	-	(1,644)
Total financial assets	**-**	**514,837**	**-**	**514,837**
Derivative financial liabilities through profit or loss				
Derivatives used for economic hedging				
Foreign exchange contracts	-	29,595	-	29,595
Interest rate swap contracts	-	84,093	-	84,093
Cross currency swap contracts	-	451,011	-	451,011
Total financial liabilities	**-**	**564,699**	**-**	**564,699**

31 March 2023	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Derivative financial assets through profit or loss				
Derivatives used for economic hedging				
Foreign exchange contracts	-	113,899	-	113,899
Interest rate swap contracts	-	356,163	-	356,163
Cross currency swap contracts	-	46,781	-	46,781
Less: Bilateral credit valuation adjustments	-	(1,529)	-	(1,529)
Total financial assets	**-**	**515,314**	**-**	**515,314**
Derivative financial liabilities through profit or loss				
Derivatives used for economic hedging				
Foreign exchange contracts	-	10,054	-	10,054
Interest rate swap contracts	-	101,949	-	101,949
Cross currency swap contracts	-	511,944	-	511,944
Total financial liabilities	**-**	**623,947**	**-**	**623,947**

The consolidated entity did not measure any financial assets and financial liabilities at fair value on a non-recurring basis as at 30 September 2023.

10. Fair value measurement of financial instruments (continued)

	30 September 2023		31 March 2023	
	Carrying amount	Fair value	Carrying amount	Fair value
	$'000	$'000	$'000	$'000
Financial assets				
Loans and receivables	24,601,064	26,622,486	22,252,676	23,845,099
	24,601,064	**26,622,486**	**22,252,676**	**23,845,099**
Financial liabilities				
Due to banks and other financial institutions	7,276,865	7,372,221	7,140,674	7,222,893
Bonds and commercial paper	18,649,137	18,620,122	16,788,751	16,573,094
	25,926,002	**25,992,343**	**23,929,425**	**23,795,987**

The carrying amounts of cash and cash equivalents, trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of the loans and receivables is estimated at portfolio level by discounting the contractual cash flows using current lending rates. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the consolidated entity for similar financial instruments. All the non-derivative financial assets and liabilities are level 2 as per the valuation hierarchy, with the exception of securitised debt under “due to banks and other financial institutions” which is classified as level 3.

11. Cash flow information

Reconciliation of profit for the half year to net cash outflow from operating activities

	30 September 2023 $'000	30 September 2022 $'000
Profit attributable to owners of the parent	141,035	31,330
Share of profit of associates	(6,051)	(5,712)
Depreciation, write-off and amortisation	11,237	11,914
Amortisation - upfront receipts	335	978
Amortisation - prepaid expenses	12,350	8,977
Net gain on sale or derecognition of non-current assets	(28,815)	(35,044)
Net loss on translation of foreign currency transactions	287,138	1,391,833
Changes in fair value of financial instruments	(95,074)	(455,739)
Movements in operating assets and liabilities:		
Decrease in provision for impairment of receivable	-	(45,950)
Decrease in provision for impairment on residual value	-	(8,950)
Increase in loans and receivables	(2,348,388)	(710,271)
Increase in assets under net operating lease (net of accumulated depreciation)	(171,112)	(27,697)
Decrease/(increase) in deferred tax asset	5,723	(5,904)
Increase in deferred tax liability	29,126	-
Increase in other contract and lease liabilities	203,175	173,599
Decrease in other assets	46,777	106,531
Increase/(decrease) in income tax payable	68,339	(106,069)
Increase/(decrease) in derivative financial instruments at fair value through profit or loss	88,324	(819,510)
Net cash outflow from operating activities	**(1,755,881)**	**(495,684)**

12. Events occurring after the balance sheet date

Inflation and rising interest rates present a challenge to the Australian households, with impacts felt across various sectors of the economy. As a result of the macroeconomic environment, management continues to monitor bad debts, loans and lease delinquencies, and to date, have not observed any material escalation in the default trends.

No significant events have occurred since the balance sheet date, which would have an impact on the financial position of the consolidated entity disclosed in the condensed consolidated statement of financial position as at 30 September 2023 or on the results and cash flows of the consolidated entity for the half year period ended as at that date.

13. Contingent liabilities

The company, as a member of the Toyota Motor Corporation Australia Limited GST Group (GST Group), is jointly and severally liable for 100% of the goods and services tax (GST) payable by the GST Group. The GST Group had a net GST payable of $69,723,000 as at 30 September 2023 (31 March 2023: $47,373,000). The company had recorded a liability of $60,527,000 for it's share of GST payable as at 30 September 2023 (31 March 2023: $43,042,000).

The company, in association with other Australian incorporated entities with a common owner, implemented the Income Tax Consolidation legislation from 1 April 2003 with Toyota Motor Corporation Australia Limited as the head entity of the income tax consolidated group. Under the Income Tax Consolidation legislation, income tax consolidation entities are jointly and severally liable for the income tax liability of the consolidated income tax group, unless an income tax sharing agreement has been entered into by member entities. At the date of signing this condensed consolidated interim financial report, an income tax sharing agreement has been executed.

From time to time, there may be litigation or regulatory proceedings against the consolidated entity. The board continues to monitor each of these actions or investigations. The board is not aware of any pending litigation, proceedings, hearings or claims negotiations which may result in significant loss to the consolidated entity.

DIRECTORS' DECLARATION

In the directors' opinion:

(a) the condensed consolidated interim financial statements and notes set out on pages 4 to 22:

 (i) comply with Accounting Standards and other mandatory professional reporting requirements; and

 (ii) give a true and fair view of the consolidated entity's financial position as at 30 September 2023 and of its performance for the half year ended on that date; and

(b) there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

For and on behalf of the Board

E. Tsirogiannis	H. Ito
Director	Director
Sydney	Sydney
5 December 2023	5 December 2023

Independent auditor's review report to the members of Toyota Finance Australia Limited

Report on the interim financial report

Conclusion

We have reviewed the interim financial report of Toyota Finance Australia Limited (the Company) and the entities it controlled during the half-year (together the Consolidated Entity), which comprises the Condensed consolidated statement of financial position as at 30 September 2023, the Condensed consolidated statement of comprehensive income, Condensed consolidated statement of changes in equity and Condensed consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies and explanatory notes and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the accompanying interim financial report of Toyota Finance Australia Limited does not present fairly, in all material respects, the Consolidated Entity's financial position as at 30 September 2023 and its financial performance and its cash flows for the half-year ended on that date, in accordance with the accounting policies as described in Note 1 to the financial statements.

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the interim financial report* section of our report.

We are independent of the Consolidated Entity in accordance with the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to the audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Responsibilities of the directors for the interim financial report

The directors of the Company are responsible for the preparation and fair presentation of the interim financial report in accordance with the accounting policies as described in Note 1 to the financial statements and for such internal control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the review of the interim financial report

Our responsibility is to express a conclusion on the interim financial report based on our review. ASRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial report does not present fairly, in all material respects, the financial position of the Consolidated Entity as at 30 September 2023 and of its financial performance and its cash flows for the half-year ended on that date in accordance with the accounting policies as described in Note 1 to the financial statements.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

PricewaterhouseCoopers

David R Cox
Partner

Sydney
5 December 2023